

FREEPORT MCMORAN COPPER & GOLD INC

Form 424B2

March 23, 2007

**Table of Contents**

**CALCULATION OF REGISTRATION FEE**

<b>Title of each class of securities offered</b>	<b>Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee(1)</b>
63/4% Mandatory Convertible Preferred Stock	\$ 2,500,000,000	\$ 76,750

(1) Calculated in accordance with Rule 457(r).

**Filed Pursuant to Rule 424(b)(2)  
Registration Statement File No. 333-140997**

**PROSPECTUS SUPPLEMENT**

**(To prospectus dated March 1, 2007)**

**25,000,000 Shares**

**Freeport-McMoRan Copper & Gold Inc.  
63/4% Mandatory Convertible Preferred Stock**

We are offering 25,000,000 shares of our 63/4% mandatory convertible preferred stock.

We will pay annual dividends on each share of our mandatory convertible preferred stock at a rate of 63/4% per share on the liquidation preference thereof of \$100 per share. Dividends will accrue and cumulate from the date of issuance and, to the extent that we are legally permitted to pay dividends and our board of directors declares a dividend payable, we will pay dividends in cash, common stock or a combination thereof, on February 1, May 1, August 1 and November 1 of each year prior to May 1, 2010, and on May 1, 2010. The first dividend payment will be made on August 1, 2007, in the expected amount of \$2.30625 per share of our mandatory convertible preferred stock, which reflects the time period from the date of issuance to August 1, 2007.

Each share of our mandatory convertible preferred stock has a liquidation preference of \$100.00, plus accrued, cumulated and unpaid dividends. Each share of our mandatory convertible preferred stock will automatically convert on May 1, 2010, into between 1.3605 and 1.6327 shares of our common stock, subject to anti-dilution adjustments, depending on the average daily closing price per share of our common stock over the 20 trading day period ending on the third trading day prior to such date. At any time prior to May 1, 2010, holders may elect to convert each share of our mandatory convertible preferred stock into 1.3605 shares of common stock, subject to anti-dilution adjustments.

Prior to this offering, there has been no public market for our mandatory convertible preferred stock. The mandatory convertible preferred stock has been approved for listing on the New York Stock Exchange under the symbol FCXprM, subject to official notice of issuance. Our common stock is listed on the New York Stock Exchange under the symbol FCX. On March 22, 2007, the last reported sale price of our common stock was \$61.91 per share.

Concurrently with this offering of mandatory convertible stock, we are offering 41,000,000 shares of our common stock (47,150,000 shares if the underwriters exercise their overallotment option in full). The common stock will be offered pursuant to a separate prospectus supplement. This prospectus supplement shall not be deemed an offer to sell or a solicitation of an offer to buy any of our common stock. This offering is not conditioned upon the successful completion of the common stock offering.

**Investing in our mandatory convertible preferred stock involves risks. See Risk Factors beginning on page S-19 of this prospectus supplement for more information.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$100.00	\$2,500,000,000
Underwriting discount	\$2.50	\$62,500,000
Proceeds, before expenses, to Freeport-McMoRan Copper & Gold Inc.	\$97.50	\$2,437,500,000

We have granted the underwriters an option for a period of 30 days to purchase up to 3,750,000 additional shares of our mandatory convertible preferred stock at the public offering price less the underwriting discount to cover overallotments.

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

The mandatory convertible preferred stock will be ready for delivery on or about March 28, 2007.

*Joint Book-Running Managers*

**Merrill Lynch & Co.**

**JPMorgan**

**Morgan Stanley**

**UBS Investment Bank**

**HSBC**

**Scotia Capital**

The date of this prospectus supplement is March 22, 2007.

---

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Prospectus Supplement</b>	
<u>Prospectus Supplement Summary</u>	S-1
<u>Risk Factors</u>	S-19
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	S-36
<u>Use of Proceeds</u>	S-38
<u>Capitalization</u>	S-39
<u>Price Range of Common Stock</u>	S-40
<u>Dividend Policy</u>	S-41
<u>Unaudited Pro Forma Condensed Combined Financial Statements</u>	S-42
<u>Selected Consolidated Historical Financial and Operating Data of Freeport-McMoRan</u>	S-51
<u>Selected Consolidated Historical Financial and Operating Data of Phelps Dodge</u>	S-54
<u>Ratio of Earnings to Fixed Charges</u>	S-57
<u>Overview of Financial Condition, Liquidity and Capital Resources of the Combined Company</u>	S-58
<u>Business of the Combined Company</u>	S-61
<u>Description of Mandatory Convertible Preferred Stock</u>	S-63
<u>Certain U.S. Federal Tax Considerations</u>	S-77
<u>Underwriters</u>	S-83
<u>Legal Matters</u>	S-87
<u>Experts</u>	S-87
<u>Reserves</u>	S-87
<u>Where You Can Find More Information</u>	S-87
<b>Prospectus</b>	
About this Prospectus	1
Freeport-McMoRan Copper & Gold Inc.	1
Use of Proceeds	1
Ratio of Earnings to Fixed Charges	2
Description of Securities	2
Description of Freeport-McMoRan Capital Stock	2
Description of Debt Securities	6
Description of Warrants	6
Description of Purchase Contracts	6
Description of Units	7
Forms of Securities	7
Plan of Distribution	9
Where You Can Find More Information	10
Information Concerning Forward-Looking Statements	11
Legal Opinions	12
Experts	12
Reserves	13

S-i

---

## **Table of Contents**

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement is accurate only as of the date on the front cover of this prospectus supplement and that the information contained or incorporated by reference in the accompanying prospectus is accurate only as of the date on the front cover of the accompanying prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

### **ABOUT THIS PROSPECTUS SUPPLEMENT**

This document contains two parts. The first part consists of this prospectus supplement, which describes the specific terms of this offering and the securities offered. The second part, the accompanying prospectus, provides more general information, some of which may not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

Before purchasing any securities, you should carefully read both this prospectus supplement and the accompanying prospectus, together with the additional information described under the heading **Where You Can Find More Information**.

Unless otherwise noted, the information in this prospectus supplement assumes that the underwriters' overallotment option to purchase up to an additional 3,750,000 shares of mandatory convertible preferred stock will not be exercised.

### **INDUSTRY AND OTHER INFORMATION**

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

**Table of Contents**

**PROSPECTUS SUPPLEMENT SUMMARY**

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

*On March 19, 2007, Freeport-McMoRan Copper & Gold Inc. acquired Phelps Dodge Corporation (the acquisition). In this prospectus supplement, we refer to the issuance of the 8.25% senior notes due 2015, the 8.375% senior notes due 2017 and the senior floating rate notes due 2015 (the notes) and the borrowings under the new senior credit facilities as the financing and the acquisition and the related transactions, including the financing, as the transactions.*

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

**Overview**

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

On March 19, 2007, Freeport-McMoRan acquired Phelps Dodge for approximately \$26 billion in cash and stock, based on Freeport-McMoRan's closing stock price on November 17, 2006, creating one of the world's largest publicly-traded copper companies and one of North America's largest mining companies. Freeport-McMoRan will use the proceeds from this offering to repay outstanding indebtedness incurred in connection with the acquisition.

**Acquisition Rationale**

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

our increased scale of operations, management depth and strengthened cash flows will provide an improved platform from which to capitalize on growth opportunities in the global market;

we will be well-positioned to benefit from the positive copper market at a time when there is a scarcity of large-scale copper development projects combined with strong global demand for copper;

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

we expect to generate strong cash flows, which will strengthen our financial profile;

S-1

---



**Table of Contents**

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

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

**Our Business**

The combined company will be a new industry leader with large, long-lived, geographically diverse assets and significant proven and probable reserves of copper, gold and molybdenum. For the year ended December 31, 2006, on a pro forma basis giving effect to the transactions, the combined company's revenues totaled \$17.7 billion.

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

Freeport-McMoRan conducts its operations primarily through its principal operating subsidiaries, PT Freeport Indonesia and Atlantic Copper, S.A., which operates a copper smelter and refinery in Huelva, Spain. In addition, Freeport-McMoRan holds exploration rights covering approximately 2.2 million acres in Papua, Indonesia. PT Freeport Indonesia's operations in Papua, Indonesia, involve mineral exploration and development, mining and milling of ore containing copper, gold and silver and the worldwide marketing of concentrates containing those metals. PT Freeport Indonesia's principal asset is the world-class Grasberg mine discovered in 1988. The Grasberg minerals district contains the world's largest single copper reserve and world's largest single gold reserve. PT Freeport Indonesia is also a 25 percent owner of PT Smelting, which operates a copper smelter and refinery in Gresik, Indonesia.

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

**Table of Contents****Competitive Strengths**

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

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

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

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

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

*Attractive project pipeline.* We believe that the combined company will have significant potential for growth through the development of its existing asset base, including replacing production at existing mines that would otherwise be

depleted. The combined company has a number of projects that we believe will add nearly one billion pounds of copper production capacity on a consolidated basis by the end of 2009.

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

S-3

---

## **Table of Contents**

construction and is expected to be in production during the first half of 2008 and to initially produce approximately 240 million pounds of copper per year on a consolidated basis.

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

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

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

## **Strategy**

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

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

*Strengthen our financial profile.* Strong cash flows have allowed both Freeport-McMoRan and Phelps Dodge to significantly reduce indebtedness over the past several years. We plan to continue to use available cash flows to reduce indebtedness of the combined company. In addition, we will consider possible opportunities to reduce debt of the combined company through potential asset sales. While copper, gold and molybdenum prices will play a significant role in determining the extent of the combined company's free cash flows, we will continue to strengthen our financial profile as well as maximize the cash flows from our ore bodies through initiatives to increase production and aggressively manage costs.

## **Industry Overview**

### ***Copper***

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

S-4

---

## **Table of Contents**

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

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

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

Copper consumption is closely associated with industrial production and, therefore, tends to follow economic cycles. During an expansion, demand for copper tends to increase thereby driving up the price. As a result, copper prices are volatile and cyclical. During the past 15 years, the LME price of copper averaged \$1.13 per pound and ranged from a high annual average price of \$3.05 per pound in 2006 to a low annual average price of \$0.71 per pound in 2002. In addition, during the past 15 years, the COMEX price of copper averaged \$1.14 per pound, and has ranged from a high annual average price of \$3.09 per pound in 2006 to a low annual average price of \$0.72 per pound in 2002. The closing 3-month LME and active-month COMEX copper prices on March 15, 2007 were \$2.98 per pound and \$2.99 per pound, respectively.

## ***Gold***

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

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

Gold supply is comprised of mine production, gold scrap and central bank sales. According to World Gold Council data, global mine production, net of producer hedging, accounted for approximately 60 percent of total gold supply. Gold scrap is the second-largest source of gold, providing approximately 30 percent of 2006 supply. The remainder of gold supply comes from central bank sales. The total gold supply in terms of volume declined by 13 percent in 2006 according to the World Gold Council. A decrease in central banks

S-5

---

## **Table of Contents**

sales accounted for a majority of the supply decrease. Mine supply fell approximately 2 percent in 2006, and has remained flat over the past three years due to a lack of new large-scale gold mining projects.

Investment demand and record gold jewelry and industrial demand, combined with constrained supply, created a favorable gold price environment in 2006. The average gold price of \$604 per ounce in the 2006 London spot market represents a 36 percent increase over the 2005 average price of \$444 per ounce. Gold hit a 26-year high of \$726 per ounce in mid-May 2006. The closing London PM Fix gold spot price on March 15, 2007 was \$648.50 per ounce.

## ***Molybdenum***

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

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

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

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

During the past 15 years, *Metals Week* molybdenum Dealer Oxide prices have ranged from a high of \$40.00 per pound to a low of \$1.82 per pound. In 2006, the *Metals Week* molybdenum Dealer Oxide mean price decreased 22 percent from the 2005 mean price of \$31.73 per pound to \$24.75 per pound. Although price levels were lower than those experienced in 2005, 2006 molybdenum prices remained at historically high levels. Strong demand, which has outpaced supply over the past several years, has continued and inventory levels throughout the industry remain low. The *Metals Week* molybdenum Dealer Oxide price on March 12, 2007 was \$28.00 per pound.

## **The Transactions**



Freeport-McMoRan acquired Phelps Dodge on March 19, 2007. At the effective time of the acquisition, each issued and outstanding Phelps Dodge common share was converted into the right to receive a combination of 0.67 of a share of Freeport-McMoRan common stock and \$88.00 in cash, without interest. At the effective time of the acquisition, Freeport-McMoRan shareholders owned approximately 59 percent of the

S-6

---

**Table of Contents**

combined company (62 percent on a fully diluted basis) and former Phelps Dodge shareholders owned approximately 41 percent of the combined company (38 percent on a fully diluted basis). Following the acquisition, Phelps Dodge continued as a surviving corporation and became a wholly owned subsidiary of Freeport-McMoRan; accordingly, Phelps Dodge shares are no longer publicly traded.

Freeport-McMoRan had cash requirements of approximately \$18,500 million in connection with the acquisition, including the cash consideration of the acquisition and transaction costs. In order to finance a portion of these cash requirements, the following financing transactions occurred in connection with the closing of the acquisition:

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

the issuance of \$6.0 billion in aggregate principal amount of the notes offered by our prospectus supplement dated March 14, 2007.

The remainder of the cash requirements were met from cash available at Freeport-McMoRan and Phelps Dodge.

**Sources and Uses**

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

<b>Sources of Funds</b>	<b>Amount (Dollars in millions)</b>
Cash	\$ 2,500.0
New revolving credit facility <sup>(a)</sup>	
New Tranche A term loan facility	2,500.0
New Tranche B term loan facility	7,500.0
8.375% senior notes due 2017	3,500.0
8.25% senior notes due 2015	1,500.0
Senior floating rate notes due 2015	1,000.0
Additional common equity <sup>(b)</sup>	7,791.0
Total sources	\$ 26,291.0

<b>Uses of Funds</b>	<b>Amount (Dollars in millions)</b>
Equity purchased <sup>(c)</sup>	\$ 25,791.0
Estimated fees and expenses <sup>(d)</sup>	500.0

Total uses	\$	26,291.0
------------	----	----------

- (a) Our availability under our revolving credit facility is approximately \$1,400.0 million as of the closing of the transactions after giving effect to outstanding letters of credit. Going forward, we may be required to issue additional letters of credit in connection with financial assurances with respect to our reclamation obligations. See Risk Factors Risks Related to Phelps Dodge s Business Mine closure regulations may impose substantial costs.
- (b) Reflects the fair value of Freeport-McMoRan common stock issued to Phelps Dodge shareholders as a result of the acquisition calculated by using the weighted average market price of Freeport-McMoRan common stock from November 16, 2006 to November 21, 2006 multiplied by the estimated shares of Freeport-McMoRan stock issued to Phelps Dodge shareholders.
- (c) Based on the weighted average market price of Freeport-McMoRan common stock from November 16, 2006 to November 21, 2006, the cash consideration paid in the acquisition, and the estimated Phelps Dodge common shares outstanding and issuable at December 31, 2006.
- (d) Reflects our estimate of fees and expenses associated with the transactions, including financing fees, estimated change of control costs and related employee benefits and other transaction costs and professional fees.

S-7

---

## **Table of Contents**

### **Corporate Structure**

Under the terms of the transactions, a wholly owned subsidiary of Freeport-McMoRan merged into Phelps Dodge. Phelps Dodge was the surviving corporation and became a wholly owned subsidiary of Freeport-McMoRan. The diagram below shows a summary of the corporate structure of the combined company.

### **Recent Developments**

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

On March 9, 2007, Freeport-McMoRan and Phelps Dodge announced that they had reached an agreement in principle to settle the class actions filed on behalf of Phelps Dodge shareholders. Pursuant to the terms of the settlement agreement, Freeport-McMoRan has agreed that if, within 12 months after the closing of the acquisition, it sells all or substantially all of the capital stock or assets of Phelps Dodge, Freeport-McMoRan will pay \$125 million in additional pro rata consideration (less any fees awarded to plaintiffs' counsel with respect to such consideration) to the shareholders of Phelps Dodge who receive the acquisition consideration. In addition, pursuant to the terms of the settlement agreement, Phelps Dodge agreed to make additional disclosures beyond the information provided in the definitive joint proxy statement/prospectus of Freeport-McMoRan and Phelps Dodge, dated February 12, 2007, which should be read in conjunction with the disclosure in the definitive joint proxy statement/prospectus. The settlement is subject to court approval. If the settlement agreement is not approved by the court, Phelps Dodge, Freeport-McMoRan and the other named defendants intend to vigorously defend the actions.

*Concurrent public offering.* Concurrently with this offering of mandatory convertible preferred stock, we are offering 41,000,000 shares of our common stock (47,150,000 shares if the underwriters exercise their

**Table of Contents**

overallotment option in full). The common stock will be offered pursuant to a separate prospectus supplement. This prospectus supplement shall not be deemed an offer to sell or a solicitation of an offer to buy any of our common stock. There is no assurance that our concurrent public offering of common stock will be completed or, if completed, that it will be completed for the amounts contemplated. The completion of this offering is not conditioned on the completion of our concurrent public offering of common stock.

Freeport-McMoRan Copper & Gold Inc. is a Delaware corporation. Our principal executive offices are located at One North Central Avenue, Phoenix, Arizona 85004, and our telephone number at that address is (602) 366-8100. Our website is located at [www.fcx.com](http://www.fcx.com). The information on our website is not part of this prospectus supplement or the accompanying prospectus.

S-9

---

**Table of Contents**

**THE OFFERING**

Issuer	Freeport-McMoRan Copper & Gold Inc.
Securities offered	25,000,000 shares of 63/4% mandatory convertible preferred stock (28,750,000 shares if the underwriters exercise their over-allotment option in full), which we refer to in this prospectus supplement as the mandatory convertible preferred stock.
Initial offering price	\$100.00 per share of mandatory convertible preferred stock.
Option to purchase additional shares of mandatory convertible preferred stock	To the extent the underwriters sell more than 25,000,000 shares of our mandatory convertible preferred stock, the underwriters have the option to purchase up to 3,750,000 additional shares of our mandatory convertible preferred stock from us at the initial offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus supplement.
Dividends	63/4% per share on the liquidation preference thereof of \$100.00 for each share of our mandatory convertible preferred stock per year. Dividends will accrue and cumulate from the date of issuance and, to the extent that we are legally permitted to pay dividends and our board of directors, or an authorized committee of our board of directors, declares a dividend payable, we will pay dividends in cash or, subject to certain limitations in common stock on each dividend payment date. The expected dividend payable on the first dividend payment date is \$2.30625 per share and on each subsequent dividend payment date is expected to be \$1.6875 per share. See Description of Mandatory Convertible Preferred Stock Dividends.
Dividend payment dates	February 1, May 1, August 1 and November 1 of each year prior to the mandatory conversion date (as defined below), and on the mandatory conversion date, commencing on August 1, 2007.
Redemption	Our mandatory convertible preferred stock is not redeemable.
Mandatory conversion date	May 1, 2010.
Mandatory conversion	<p>On the mandatory conversion date, each share of our mandatory convertible preferred stock will automatically convert into shares of our common stock, based on the conversion rate as described below.</p> <p>Holder of mandatory convertible preferred stock on the mandatory conversion date will have the right to receive the dividend due on such date (including any accrued, cumulated and unpaid dividends on the mandatory convertible preferred stock as of the mandatory conversion date), whether or not declared (other than previously declared dividends</p>

on the mandatory convertible preferred stock payable to holders of record as of a prior date), to the extent we are legally permitted to pay such dividends at such time.

Conversion rate

The conversion rate for each share of our mandatory convertible preferred stock will be not more than 1.6327 shares of common stock and not less than 1.3605 shares of common stock, depending on the applicable market value of our common stock, as described below.

S-10

---

**Table of Contents**

The applicable market value of our common stock is the average of the daily closing price per share of our common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the mandatory conversion date. It will be calculated as described under Description of Mandatory Convertible Preferred Stock Mandatory Conversion.

The conversion rate is subject to certain adjustments, as described under Description of Mandatory Convertible Preferred Stock Anti-dilution Adjustments.

The following table illustrates the conversion rate per share of our mandatory convertible preferred stock subject to certain anti-dilution adjustments described under Description of Mandatory Convertible Preferred Stock Anti-dilution Adjustments.

<b>Applicable Market Value on</b>	<b>Conversion Rate</b>
less than or equal to \$61.25	1.6327
between \$61.25 and \$73.50	\$100.00 divided by the applicable market value
equal to or greater than \$73.50	1.3605

Optional conversion

At any time prior to May 1, 2010, you may elect to convert each of your shares of our mandatory convertible preferred stock at the minimum conversion rate of 1.3605 shares of common stock for each share of mandatory convertible preferred stock. This conversion rate is subject to certain adjustments as described under Description of Mandatory Convertible Preferred Stock Anti-dilution Adjustments.

Conversion upon cash acquisition; cash acquisition make-whole amount

If we are the subject of specified cash acquisitions on or prior to May 1, 2010, under certain circumstances we will (i) permit conversion of our mandatory convertible preferred stock during the period beginning on the effective date of the cash acquisition and ending on the date that is 15 days after the effective date at a specified conversion rate determined by reference to the price per share of our common stock paid in such cash acquisition and (ii) pay converting holders an amount equal to the sum of any accumulated and unpaid dividends on shares of our mandatory convertible preferred stock that are converted plus the present value of all remaining dividend payments on such shares through and including May 1, 2010, as described under Description of Mandatory Convertible Preferred Stock Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount. The applicable conversion rate will be determined based on the effective date and the price paid per share of our common stock in such transaction.

Anti-dilution adjustments

The formula for determining the conversion rate and the number of shares of common stock to be delivered upon conversion may be adjusted in the



event of, among other things, stock dividends or distributions in shares of common stock or subdivisions, splits and combinations of our common shares. See Description of Mandatory Convertible Preferred Stock Anti-dilution Adjustments.

S-11

---

**Table of Contents**

Liquidation preference	<p>\$100.00 per share of mandatory convertible preferred stock, plus an amount equal to the sum of all accrued, cumulated and unpaid dividends.</p>
Voting rights	<p>Except as required by Delaware law and our amended and restated certificate of incorporation, which will include the certificate of designation for the mandatory convertible preferred stock, the holders of mandatory convertible preferred stock will have no voting rights. If dividends payable on the mandatory convertible preferred stock are in arrears for six or more quarterly periods, the holders of the mandatory convertible preferred stock, voting as a single class with the shares of any other preferred stock or securities having similar voting rights (including our Series A Participating Cumulative Preferred Stock, if any, and our outstanding 5 1/2% Convertible Perpetual Preferred Stock) in proportion to their respective liquidation preferences, will be entitled at the next regular or special meeting of our shareholders to elect two directors and the number of directors that comprise our board will be increased by the number of directors so elected. These voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the mandatory convertible preferred stock has been paid in full.</p> <p>The affirmative consent of holders of at least 66 2/3% of the outstanding mandatory convertible preferred stock and all other preferred stock or securities having similar voting rights (including our Series A Participating Cumulative Preferred Stock, if any, and our outstanding 5 1/2% Convertible Perpetual Preferred Stock) voting in proportion to the respective liquidation preferences will be required for the issuance of any class or series of stock ranking senior to the mandatory convertible preferred stock as to dividend rights or rights upon liquidation, winding-up or dissolution and for amendments to our amended and restated certificate of incorporation that would adversely affect the rights of holders of the mandatory convertible preferred stock. See Description of Mandatory Convertible Preferred Stock Voting Rights.</p>
Ranking	<p>The mandatory convertible preferred stock will rank with respect to dividend rights and rights upon our liquidation, winding-up or dissolution:</p> <ul style="list-style-type: none"><li>senior to all of our common stock and to all of our other capital stock issued in the future unless the terms of that stock expressly provide that it ranks senior to, or on a parity with, the mandatory convertible preferred stock;</li><li>on a parity with our Series A Participating Cumulative Preferred Stock, if any, and our outstanding 5 1/2% Convertible Perpetual Preferred Stock, and with any of our capital stock issued in the future, the terms of which expressly provide that it will rank on a parity with the mandatory convertible preferred stock; and</li><li>junior to all of our capital stock issued in the future, the terms of which expressly provide that such stock will rank senior to the mandatory</li></ul>

convertible preferred stock.

S-12

---

**Table of Contents**

Use of proceeds	We intend to use the net proceeds from the offering to repay outstanding indebtedness under our Tranche A term loan facility and Tranche B term loan facility. See Use of Proceeds.
U.S. federal income tax consequences	The material U.S. federal income tax consequences of purchasing, owning and disposing of the mandatory convertible preferred stock and any common stock received upon its conversion are described in Certain U.S. Federal Tax Considerations.
Listing	The mandatory convertible preferred stock has been approved for listing on the New York Stock Exchange.
Book-entry, delivery and form	Initially, the mandatory convertible preferred stock will be represented by one or more permanent global certificates in definitive, fully registered form deposited with a custodian for, and registered in the name of, a nominee of DTC.
Common stock	Our common stock is listed for trading on the NYSE under the symbol FCX.
Risk Factors	Investing in our mandatory convertible preferred stock involves substantial risks. You should carefully consider all the information in this prospectus supplement prior to investing in our mandatory convertible preferred stock. In particular, we urge you to carefully consider the factors set forth under Risk Factors.

**Table of Contents****SUMMARY CONSOLIDATED HISTORICAL FINANCIAL  
AND OPERATING DATA OF FREEPORT-MCMORAN**

The following summary consolidated historical financial data as of and for the years ended December 31, 2004, 2005 and 2006, have been derived from the audited consolidated financial statements of Freeport-McMoRan incorporated by reference herein. The historical results presented below are not necessarily indicative of results that you can expect for any future period. You should read the table in conjunction with the sections entitled Use of Proceeds, Capitalization, Unaudited Pro Forma Condensed Combined Financial Statements, Selected Consolidated Historical Financial and Operating Data of Freeport-McMoRan and the consolidated financial statements of Freeport-McMoRan and the related notes incorporated by reference herein. See Where You Can Find More Information.

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(Amounts in millions, except per share amounts)</b>		
<b>Statement of income data:</b>			
Revenues	\$ 2,371.9	\$ 4,179.1	\$ 5,790.5
Costs and expenses	1,668.3	2,001.8	2,921.8
Operating income	703.6	2,177.3	2,868.7
Interest expense, net	148.1	131.6	75.6
Net income applicable to common stock	156.8	934.6	1,396.0
Basic net income per common share	0.86	5.18	7.32
Diluted net income per common share	0.85	4.67	6.63
Basic average shares outstanding	182.3	180.3	190.7
Diluted average shares outstanding	184.9	220.5	221.5
<b>Balance sheet data at end of period:</b>			
Cash and cash equivalents	\$ 552.0	\$ 763.6	\$ 907.5
Working capital <sup>(a)</sup>	762.4	673.8	1,178.6
Total assets	5,087.0	5,550.2	5,389.8
Total debt <sup>(b)</sup>	1,951.9	1,255.9	680.1
Stockholders' equity	1,163.6	1,843.0	2,445.1
<b>Other financial data:</b>			
Capital expenditures and investments in subsidiaries	142.9	143.0	257.1 <sup>(c)</sup>
Depreciation and amortization	206.4	251.5	227.6
Cash flow from operating activities <sup>(d)</sup>	341.4	1,552.5	1,866.4
Cash flow used in investing activities	64.0	134.3	223.5
Cash flow used in financing activities	189.6	1,206.1	1,499.1

**Table of Contents**

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

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

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

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

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

(e) For a description of Rio Tinto's interests, see Freeport-McMoRan's annual report on Form 10-K incorporated by reference herein. See [Where You Can Find More Information](#).

(f) For a reconciliation of unit net cash costs to production and delivery costs applicable to sales reported in Freeport-McMoRan's consolidated financial statements, see Freeport-McMoRan's annual report on Form 10-K incorporated by reference herein. See [Where You Can Find More Information](#).

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

S-15

---

**Table of Contents****SUMMARY CONSOLIDATED HISTORICAL FINANCIAL  
AND OPERATING DATA OF PHELPS DODGE**

The following summary consolidated historical financial data as of and for the years ended December 31, 2004, 2005 and 2006, have been derived from the audited consolidated financial statements of Phelps Dodge incorporated by reference herein. The historical results presented below are not necessarily indicative of results that you can expect for any future period. You should read the table below in conjunction with the sections entitled Use of Proceeds, Capitalization, Unaudited Pro Forma Condensed Combined Financial Statements, Selected Consolidated Historical Financial and Operating Data of Phelps Dodge and the consolidated financial statements of Phelps Dodge and the related notes incorporated by reference herein. See Where You Can Find More Information.

	<b>Years Ended December 31,</b>		
	<b>2004<sup>(a)</sup></b>	<b>2005<sup>(b)</sup></b>	<b>2006<sup>(c)</sup></b>
	<b>(Amounts in millions, except per share and per pound amounts)</b>		
<b>Statement of income data:</b>			
Sales and other operating revenues	\$ 6,415.2	\$ 8,287.1	\$ 11,910.4
Operating costs and expenses	4,940.3	6,522.2	7,683.5
Operating income	1,474.9	1,764.9	4,226.9
Interest expense, net of capitalized interest	122.9	62.3	19.0
Net income applicable to common shares	1,032.8	1,549.6	3,017.8
Basic earning per common share	5.53	7.92	14.91
Diluted earnings per common share	5.29	7.69	14.83
Basic weighted average number of common shares outstanding	186.7	195.7	202.4
Diluted weighted average number of common shares outstanding	197.7	202.5	203.5
<b>Balance sheet data at end of period:</b>			
Cash and cash equivalents	\$ 1,200.1	\$ 1,916.7	\$ 4,947.4
Working capital <sup>(d)</sup>	1,493.7	2,461.4	4,338.0
Total assets	8,594.1	10,358.0	14,632.3
Total debt	1,096.9	694.5	891.9
Shareholders' equity	4,343.1	5,601.6	7,690.4
<b>Other financial data:</b>			
Capital expenditures and investments, net	317.3	698.2	1,187.8
Depreciation, depletion and amortization	455.5	441.8	448.7
Net cash provided by operating activities	1,700.1	1,769.7	5,079.2
Net cash used in investing activities	291.0	368.0	844.2
Net cash used in financing activities	947.2	685.8	1,213.2



**Table of Contents**

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Operating data:</b>			
Copper production (million pounds consolidated basis)(e)	2,521.2	2,456.0	2,437.4
Copper production (million pounds pro rata basis)(f)	2,163.4	2,084.6	2,012.6
Copper sales from Phelps Dodge s mines (million pounds consolidated basis)(g)	2,537.8	2,476.8	2,429.0
Copper sales from Phelps Dodge s mines (million pounds pro rata basis)(h)	2,178.2	2,103.2	2,006.2
COMEX copper price per pound(i)	\$ 1.29	\$ 1.68	\$ 3.09
LME copper price per pound(j)	\$ 1.30	\$ 1.67	\$ 3.05
Molybdenum production (million pounds)	57.5	62.3	68.2
Molybdenum sales from Phelps Dodge s mines (million pounds)	63.1	59.9	68.8
Purchased molybdenum (million pounds)	12.9	12.9	8.3
Total molybdenum sales (million pounds)	76.0	72.8	77.1
<i>Metals Week</i> molybdenum Dealer Oxide mean price per pound(j)	\$ 16.41	\$ 31.73	\$ 24.75

- (a) Reported amounts for 2004 included after-tax, net special charges of \$50.4 million, including \$44.7 million for environmental provisions; \$30.9 million (net of minority interests) for early debt extinguishment costs; \$9.9 million for the write-down of two cost-basis investments; \$9.6 million for taxes on anticipated foreign dividends; \$9.0 million for a deferred tax asset valuation allowance at Phelps Dodge s Brazilian wire and cable operation; \$7.6 million for Phelps Dodge Magnet Wire restructuring activities; \$5.9 million for asset impairment charges (included \$4.5 million for discontinued operations); and \$0.7 million for interest on a Texas franchise tax matter; partially offset by after-tax net special gains of \$30.0 million for the reversal of a U.S. deferred tax asset valuation allowance; \$15.7 million (net of minority interest) for the reversal of an El Abra deferred tax asset valuation allowance; \$10.1 million for the gain on the sale of uranium royalty rights; \$7.4 million for environmental insurance recoveries; and \$4.7 million for the settlement of historical legal matters.
- (b) Reported amounts for 2005 included after-tax, net special charges of \$54.1 million, including \$331.8 million for asset impairment charges; tax expense of \$88.1 million for foreign dividend taxes; \$86.4 million for environmental provisions; \$42.6 million associated with discontinued operations in connection with the sale of Columbian Chemicals Company, which is referred to in this document as Columbian, previously disclosed as PDI s Specialty Chemicals Segment; \$41.3 million for early debt extinguishment costs; \$34.5 million (net of minority interest) for tax on unremitted foreign earnings; \$23.6 million for a tax charge associated with minimum pension liability reversal; \$10.1 million for cumulative effect of accounting change; \$5.9 million for transaction and employee-related costs associated with the sale of substantially all of Phelps Dodge s North American magnet wire assets; partially offset by after-tax, net special gains of \$388.0 million for the sale of a cost-basis investment; \$181.7 million for change in interest gains at Cerro Verde and Ojos del Salado; \$15.6 million for legal matters; \$11.9 million for the reversal of Phelps Dodge Brazil s deferred tax asset valuation allowance; \$8.5 million for the sale of non-core real estate; \$4.0 million for the reversal of U.S. deferred tax asset valuation allowance; \$0.4 million for environmental insurance recoveries; and \$0.1 million for Phelps Dodge Magnet Wire restructuring activities. The after-tax, net special charges of \$42.6 million associated with discontinued operations consisted of \$67.0 million (net of minority interests) for a goodwill impairment charge; taxes of \$7.6 million associated with the sale and dividends paid in 2005; and \$5.0 million for a loss on disposal of Columbian associated with transactions and employee-related costs, partially offset by a deferred income tax effect of \$37.0 million.

- (c) Reported amounts for 2006 included after-tax, net special gains of \$344.2 million, including \$330.7 million for the Inco termination fee; \$127.5 million for the reversal of U.S. deferred tax asset valuation allowance; \$2.0 million for legal matters; \$0.4 million for sale of non-core real estate; and \$0.2 million for the reversal of Minera PD Peru deferred tax asset valuation allowance; partially offset by after-tax, net special charges of \$54.5 million for environmental provisions; \$30.9 million for charges associated with discontinued operations in connection with the sale of Columbian; \$9.6 million for asset impairment charges; \$7.6 million (net of minority interest) for tax on unremitted foreign earnings; \$5.1 million for transaction and employee-related charges and loss on disposal in connection with the sale of North American magnet wire assets; \$4.7 million for transaction and employee-related charges and loss on the disposal in connection with the sale of HPC; \$3.0 million for a lease termination settlement; and \$1.2 million associated with the dissolution of an international wire and cable entity.
- (d) Working capital represents current assets less current liabilities.
- (e) Consolidated basis excludes 15 percent undivided interest in the Morenci, Arizona copper mining complex held by Sumitomo Metal Mining Arizona, Inc.
- (f) Pro rata basis reflects Phelps Dodge's ownership interests in El Abra (51%), Candelaria (80%), and Morenci (85%) for all periods, Cerro Verde (82.5% through May 2005 and 53.56% thereafter) and Ojos del Salado (100% through December 2005 and 80% thereafter).
- (g) New York Commodity Exchange average spot price per pound cathodes.
- (h) London Metal Exchange average spot price per pound cathodes.
- (i) Annual *Metals Week* molybdenum Dealer Oxide mean price per pound as quoted in Platts *Metals Week*.

S-17

---

**Table of Contents**

**SUMMARY UNAUDITED PRO FORMA  
CONDENSED COMBINED FINANCIAL INFORMATION**

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

The pro forma condensed combined balance sheet information gives effect to the transactions, the issuance of our mandatory convertible preferred stock offered hereby, the concurrent common stock offering and the use of proceeds from the common stock and mandatory convertible preferred stock offerings to reduce total debt as if they occurred on December 31, 2006. The pro forma condensed combined statements of income information gives effect to the transactions, the issuance of the mandatory convertible preferred stock offered hereby, the concurrent common stock offering and the use of proceeds from the common stock and mandatory convertible preferred stock offerings to reduce total debt as if they occurred on January 1, 2006. The summary unaudited pro forma condensed combined financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Freeport-McMoRan would have been had the transactions occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

	<b>Pro Forma Year Ended December 31, 2006 (Dollars in millions)</b>
<b>Statement of income data:</b>	
Revenues <sup>(a)</sup>	\$ 17,700.9
Costs and expenses	11,167.3
Operating income	6,533.6
Interest expense, net <sup>(b)</sup>	1,036.9
Income from continuing operations applicable to common stock <sup>(a)</sup>	3,021.1
<b>Balance sheet data at end of year:</b>	
Cash and cash equivalents <sup>(c)</sup>	\$ 3,383.4
Working capital <sup>(d)</sup>	5,749.6
Total assets	40,619.2
Total debt <sup>(e)</sup>	12,722.4
Stockholders' equity	15,082.6
<b>Other financial data:</b>	
Capital expenditures and investments in subsidiaries	\$ 1,499.3
Depreciation, depletion and amortization	1,268.2

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

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

\$3.1 million in interest expense. A 0.125% variance in the interest rate on the Tranche B term loan portion of the new senior credit facilities would cause an increase or decrease of \$9.4 million in interest expense. A 0.125% variance on the weighted average interest rate on the senior floating rate notes due 2015 would cause an increase or decrease of \$1.3 million in interest expense.

- (c) At December 31, 2006, Freeport-McMoRan and Phelps Dodge had \$5,854.9 million of combined unrestricted cash on hand.
- (d) Working capital represents current assets less current liabilities.
- (e) Based on fair value of Phelps Dodge's debt and includes current portion of debt and short-term borrowings. Pro forma total debt based on book values as of December 31, 2006 was \$12,687.0 million.

**Table of Contents**

**RISK FACTORS**

*In addition to the other information included or incorporated by reference in this prospectus supplement, including the matters addressed in Cautionary statement regarding forward-looking statements, you should carefully consider the risk factors set forth below before making an investment in our mandatory convertible preferred stock offered by this prospectus supplement. In addition, you should read and consider the risk factors associated with each of the businesses of Freeport-McMoRan and Phelps Dodge because these risk factors may also affect the operations and financial results reported by the combined company. See Where You Can Find More Information.*

**Risks Related to our Mandatory Convertible Preferred Stock**

**Our holding company structure may impact your ability to receive dividends or payments on the mandatory convertible preferred stock.**

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

**We may not be able to pay cash dividends on the mandatory convertible preferred stock.**

Some of our existing indentures and our new senior credit facilities limit, and any indentures and other financing agreements that we enter into in the future will likely limit, our ability to pay cash dividends on our capital stock, including the mandatory convertible preferred stock. Specifically, under certain of our existing indentures, we may pay cash dividends and make other distributions on or in respect of our capital stock, including the mandatory convertible preferred stock, only if certain financial tests are met. In the event that any of our indentures or other financing agreements in the future restrict our ability to pay cash dividends on the mandatory convertible preferred stock, we will be unable to pay cash dividends on the mandatory convertible preferred stock unless we can refinance amounts outstanding under those agreements. In addition, to the extent we make dividend payments in shares of our common stock in connection with certain conversions, the amount of such dividend payments in stock could be capped if our stock price is lower than \$20.42. See Description of the Mandatory Convertible Preferred Stock Method of Payment of Dividends and Description of Mandatory Convertible Preferred Stock Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount.

Under Delaware law, cash dividends on capital stock may only be paid from surplus or, if there is no surplus, from the corporation's net profits for the then current or the preceding fiscal year. Unless we continue to operate profitably, our ability to pay cash dividends on the mandatory convertible preferred stock would require the availability of adequate surplus, which is defined as the excess, if any, of our net assets (total assets less total liabilities) over our capital. Further, even if adequate surplus is available to pay cash dividends on the mandatory convertible preferred stock, we may not have sufficient cash to pay dividends on the mandatory convertible preferred stock.

**A holder of our mandatory convertible preferred stock may realize some or all of a decline in the market value of our common shares.**

The market value of our common shares on the mandatory conversion date may be less than the market price corresponding to the maximum conversion rate, which we call the initial price, in which case

S-19

---

## **Table of Contents**

holders of our mandatory convertible preferred stock will receive shares of our common stock on the mandatory conversion date with a market value per share that is less than the initial price. Accordingly, a holder of mandatory convertible preferred stock assumes the entire risk that the market value of our common stock may decline. Any decline in the market price of shares of our common stock and related decline in value of the mandatory convertible preferred stock may be substantial.

### **Purchasers of our mandatory convertible preferred stock may not realize any or all of the benefit of an increase in the market price of shares of our common stock.**

The market value of our common stock that you will receive upon mandatory conversion of our mandatory convertible preferred stock on the mandatory conversion date will exceed the stated amount of \$100.00 per mandatory convertible preferred stock only if the applicable market value of our common stock as defined under Description of Mandatory Convertible Preferred Stock Mandatory Conversion equals or exceeds the threshold appreciation price of \$73.50. The threshold appreciation price represents an appreciation of approximately 20% over the initial price. This means that the opportunity for equity appreciation provided by an investment in our mandatory convertible preferred stock is less than that provided by a direct investment in shares of our common stock.

If the applicable market value of our common stock exceeds the initial price but is less than the threshold appreciation price, a holder of our mandatory convertible preferred stock will realize no equity appreciation on our common stock. Furthermore, if the applicable market value of our common stock exceeds the threshold appreciation price, the value of the common stock received upon conversion will be approximately 83% of the value of the common stock that could be purchased with \$100.00 at the time of this offering.

### **The opportunity for equity appreciation provided by an investment in our mandatory convertible preferred stock is less than that provided by a direct investment in our common stock.**

The adjusted applicable market value of our common stock on May 1, 2010, must exceed the threshold appreciation price of \$73.50 before a holder of our mandatory convertible preferred stock will realize any equity appreciation in connection with a mandatory conversion. Therefore, the opportunity for equity appreciation provided by an investment in our mandatory convertible preferred stock is less than that provided by a direct investment in our common stock.

### **The trading price of our common stock will directly affect the trading price for our mandatory convertible preferred stock.**

The trading price of our common stock will directly affect the trading price of our mandatory convertible preferred stock. It is impossible to predict whether the price of our common stock will rise or fall. This may result in greater volatility in the market price of the mandatory convertible preferred stock than would be expected for nonconvertible preferred stock. From December 31, 2005 to December 31, 2006, the reported high and low closing sales prices for our common stock ranged from a low of \$31.52 per share to a high of \$72.20 per share. The market price of our common stock will likely continue to fluctuate in response to a number of factors including the following, many of which are beyond our control:

actual or anticipated fluctuations in operating results;

declines in the market prices of copper, gold and molybdenum;

changes in expectations as to future financial performance or buy/sell recommendations of securities analysts;

acquisitions, strategic alliances or joint ventures involving us or our competitors;

actions of our current shareholders, including sales of common stock by our directors and executive officers;

the arrival or departure of key personnel;

S-20

---



**Table of Contents**

our, or a competitor's, announcement of new products, services or innovations; and

the operating and stock price performance of other comparable companies.

Market conditions can also affect the capital markets generally, including the New York Stock Exchange, and the price of our common stock. These conditions may result in volatility in the level of, and fluctuations in, the trading prices of stocks generally and sales of substantial amounts of our common stock in the market that could be unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of our mandatory convertible preferred stock and our common stock.

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

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

authorize our board of directors to issue preferred stock without stockholder approval and to designate the rights, preferences and privileges of each class; if issued, such preferred stock would increase the number of outstanding shares of our capital stock and could include terms that may deter an acquisition of us;

establish advanced notice requirements for nominations to the board of directors or for proposals that can be acted on at stockholder meetings; and

limit who may call stockholder meetings.

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

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

**You may suffer dilution of the shares of our common stock issuable upon conversion of our mandatory convertible preferred stock.**

The number of shares of our common stock issuable upon conversion of our mandatory convertible preferred stock is subject to adjustment only for share splits and combinations, share dividends and specified other transactions. The number of shares of our common stock issuable upon conversion is not subject to adjustment for other events, such as employee stock option grants, offerings of our common stock for cash or in connection with acquisitions, or other transactions which may reduce the price of our common stock. The terms of our mandatory convertible preferred stock do not restrict our ability to offer common stock in the future or to engage in other transactions that could dilute our common stock. We have no obligation to consider the interests of the holders of our mandatory convertible preferred stock in engaging in any such offering or transaction.

**Purchasers of our mandatory convertible preferred stock may suffer dilution of our mandatory convertible preferred stock upon the issuance of a new series of preferred stock ranking equally with the mandatory convertible preferred stock sold in this offering.**

The terms of our mandatory convertible preferred stock will not restrict our ability to offer a new series of preferred stock that ranks equally with our mandatory convertible preferred stock in the future or to engage in other transactions that could dilute our mandatory convertible preferred stock. We have no obligation to consider the interests of the holders of our mandatory convertible preferred stock in engaging in any such offering or transaction.

S-21

---

**Table of Contents**

**Holders of convertible preferred stock will have no rights as a common shareholder until they acquire our common stock.**

Until you acquire shares of our common stock upon conversion, you will have no rights with respect to our common stock, including voting rights (except as required by applicable state law and as described under [Description of Mandatory Convertible Preferred Stock](#) [Voting Rights](#) ), rights to respond to tender offers and rights to receive any dividends or other distributions on our common stock. To exercise any voting rights described under [Description of Mandatory Convertible Preferred Stock](#) [Voting Rights](#) , you may only request that we call a special meeting of the holders of our preferred stock and you may not call a meeting directly. Upon conversion, you will be entitled to exercise the rights of a holder of common stock only as to matters for which the record date occurs after the conversion date. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring stockholder approval, and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to the conversion date, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

**Our mandatory convertible preferred stock will rank junior to all of our and our subsidiaries' liabilities in the event of a bankruptcy, liquidation or winding up of our assets.**

In the event of bankruptcy, liquidation or winding up, our assets will be available to pay obligations on our mandatory convertible preferred stock only after all of our liabilities have been paid. In addition, our mandatory convertible preferred stock will effectively rank junior to all existing and future liabilities of our subsidiaries and the capital stock (other than common stock) of our subsidiaries held by third parties. The rights of holders of our mandatory convertible preferred stock to participate in the assets of our subsidiaries upon any liquidation or reorganization of any subsidiary will rank junior to the prior claims of that subsidiary's creditors and preferred and minority equity holders. In the event of bankruptcy, liquidation or winding up, there may not be sufficient assets remaining, after paying our and our subsidiaries' liabilities, to pay amounts due on any or all of our mandatory convertible preferred stock then outstanding. At December 31, 2006, we had total outstanding debt of \$680.1 million.

**You may be subject to tax upon an adjustment to the conversion rate of the mandatory convertible preferred stock even though you do not receive a corresponding cash distribution.**

The conversion rate of the mandatory convertible preferred stock is subject to adjustment in certain circumstances, including the payment of certain cash dividends. If the conversion rate is adjusted as a result of a distribution that is taxable to our common stockholders, such as a cash dividend, you will be deemed to have received for U.S. federal income tax purposes a taxable dividend to the extent of our earnings and profits without the receipt of any cash. If you are a non-U.S. holder (as defined in [Certain U.S. Federal Tax Considerations](#) ), such deemed dividend may be subject to U.S. federal withholding tax (currently at a 30% rate, or such lower rate as may be specified by an applicable treaty), which may be set off against subsequent payments on the mandatory convertible preferred stock. See [Certain U.S. Federal Tax Considerations](#).

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

As of February 28, 2007, Freeport-McMoRan had 197,375,324 shares of common stock outstanding, 23,506,613 shares authorized for issuance upon conversion of preferred stock and convertible notes, and 7,087,689 shares authorized for issuance upon the exercise of outstanding options or the vesting of restricted stock units. In connection with the closing of the acquisition, Freeport-McMoRan issued 137,042,000 shares of common

stock and assumed options exercisable for approximately 1.0 million shares. The issuance of those new shares, our mandatory convertible preferred stock offered hereby (including approximately 40.8 million shares issuable upon conversion of such shares (assuming no exercise of the underwriters' overallotment option)), the concurrent common stock offering, and the sale of additional shares that may become eligible for sale in the public market from time to time upon the exercise of options (including Freeport-McMoRan

## **Table of Contents**

options that have replaced Phelps Dodge options) could have the effect of depressing the market price for shares of Freeport-McMoRan common stock. Also, because many former Phelps Dodge shareholders are also shareholders of Freeport-McMoRan, some may decide to sell rather than hold the additional shares of Freeport-McMoRan common stock they will receive in the transactions. The sale of those shares could also have the effect of depressing the market price for shares of Freeport-McMoRan common stock.

## **Risks Related to the Combined Company**

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

The combined company incurred significant debt to fund a portion of the cash consideration payable to the Phelps Dodge shareholders in the acquisition. As of December 31, 2006, on a pro forma basis giving effect to the transactions, the issuance of the mandatory convertible preferred stock offered hereby, the concurrent common stock offering and the use of proceeds from the issuance of mandatory convertible preferred stock and common stock to reduce outstanding debt, the outstanding principal amount of our indebtedness would have been approximately \$12.7 billion (excluding unused availability under our revolving credit facility of approximately \$1.4 billion after giving effect to outstanding letters of credit). Our level of indebtedness could have important consequences. For example, it could:

make it difficult for us to satisfy our obligations with respect to our indebtedness;

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations and proceeds of any equity issuances to payments on our indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;

make it difficult for us to optimally capitalize and manage the cash flow for our businesses;

limit our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate;

place us at a competitive disadvantage to our competitors that have less debt;

limit our ability to borrow money or sell stock to fund our working capital, capital expenditures, acquisitions and debt service requirements and other financing needs; and

increase our interest expense if interest rates in general increase because a substantial portion of our indebtedness bears interest at floating rates.

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

downgraded below investment grade.

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

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

incur additional indebtedness;

engage in transactions with affiliates;

S-23

---

**Table of Contents**

create liens on our assets;

make payments in respect of, or redeem or acquire, debt or equity issued by us or our subsidiaries, including the payment of dividends on our common stock;

make acquisitions of new subsidiaries;

make investments in or loans to entities that we do not control, including joint ventures;

use assets as security in other transactions;

sell assets, subject to certain exceptions;

merge with or into other companies;

enter into sale and leaseback transactions;

enter into unrelated businesses;

enter into agreements or arrangements that restrict the ability of certain of our subsidiaries to pay dividends or other distributions;

prepay indebtedness; and

enter into certain new hedging transactions other than in the ordinary course of business.

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

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

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

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

**negatively impacted.**

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

S-24

---



**Table of Contents**

indebtedness or be in default under the agreements governing our indebtedness. Such refinancing may not be available on favorable terms or at all. The inability to service, repay and/or refinance our indebtedness could negatively impact our financial condition and results of operations.

**Declines in the market prices of copper, gold and molybdenum could adversely affect the combined company's earnings and cash flows.**

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

World copper prices have historically fluctuated widely. During the two years ended December 31, 2006, the daily closing prices on the London spot market ranged from \$1.39 to \$3.99 per pound for copper. World copper prices are affected by numerous factors beyond our control, including:

- the strength of the U.S. economy and the economies of other industrialized and developing nations, including China, which has become the largest consumer of refined copper in the world;

- available supplies of copper from mine production and inventories;

- sales by holders and producers of copper;

- demand for industrial products containing copper;

- investment activity, including speculation, in copper as a commodity;

- the availability and cost of substitute materials; and

- currency exchange fluctuations, including the relative strength of the U.S. dollar.

World gold prices have historically fluctuated widely. During the two years ended December 31, 2006, the daily closing prices on the London spot market ranged from \$411 to \$726 per ounce for gold. World gold prices are affected by numerous factors beyond our control, including:

- the strength of the U.S. economy and the economies of other industrialized and developing nations, including China;

- global or regional political or economic crises;

- the relative strength of the U.S. dollar and other currencies;

- expectations with respect to the rate of inflation;

- interest rates;

purchases and sales of gold by central banks and other holders;

demand for jewelry containing gold; and

investment activity, including speculation, in gold as a commodity.

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

S-25

---

**Table of Contents**

pound have ranged from a high of \$40.00 to a low of \$1.82. During the two years ended December 31, 2006, *Platts Metals Week* molybdenum Dealer Oxide price ranged from \$20.50 to \$40.00 per pound. Molybdenum prices are affected by numerous factors beyond our control, including:

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

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

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

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

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

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

The combined company's ore reserve amounts are determined in accordance with established mining industry practices and standards, but are estimates of the mineral deposits that can be recovered economically and legally based on currently available data. Ore bodies may not conform to standard geological expectations, and estimates may change as new data becomes available. Because ore bodies do not contain uniform grades of minerals, the combined company's metal recovery rates will vary from time to time. There are also uncertainties inherent in estimating quantities of ore reserves and copper recovered from stockpiles. The quantity of copper contained in mill and leach stockpiles is based upon surveyed volumes of mined material and daily production records. The volume and grade of ore reserves recovered, rates of production and recovered copper from stockpiles may be less than anticipated.

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

S-26

---

**Table of Contents**

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

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

**The combined company's business is subject to operational risks.**

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

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

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

Freeport-McMoRan's primary operating assets are located in Indonesia. Accordingly, the business of the combined company may be adversely affected by Indonesian political, economic and social uncertainties, in addition to the usual risks associated with conducting business in a foreign country. Because Phelps Dodge does not have any significant operations in Indonesia, these risks are different from and in addition to those to which the business of Phelps Dodge has historically been exposed. See Risk Factors Risks Related to Freeport-McMoRan's Business below.

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

S-27

---

## **Table of Contents**

risks are different from and in addition to those to which the business of Freeport-McMoRan has historically been exposed. See Risk Factors Risks Related to Phelps Dodge s Business below.

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

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

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

Achieving the anticipated benefits of the transactions will depend in part upon whether our two companies integrate our businesses in an efficient and effective manner. We may not be able to accomplish this integration process smoothly or successfully. The difficulties of combining the two companies businesses potentially will include, among other things:

the necessity of coordinating geographically separated organizations and addressing possible differences in corporate cultures and management philosophies, and the integration of certain operations following the transaction will require the dedication of significant management resources, which may temporarily distract management s attention from the day-to-day business of the combined company;

any inability of our management to integrate successfully the operations of our two companies or to adapt to the addition of lines of business in which Freeport-McMoRan has not historically engaged; and

any inability of our management to cause best practices to be applied to the combined company s businesses.

An inability to realize the full extent of the anticipated benefits of the acquisition, as well as any delays encountered in the transition process, could have an adverse effect upon the revenues, level of expenses and operating results of the combined company.

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

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

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

Purchase accounting will require the combined company to allocate the price paid in the transaction to Phelps Dodge's assets on the basis of their fair values at the time the transaction closed. Those adjustments are expected to result in significant increases in the carrying values of certain acquired assets, including, based

S-28

---



## **Table of Contents**

on preliminary estimates, increases of \$3.4 billion in metal inventories and \$11.6 billion in property, plant, equipment and development costs, as reflected in the unaudited pro forma condensed combined balance sheet contained elsewhere in this document. The increased value of property, plant, equipment and development costs will increase the combined company's depreciation expense, which will reduce reported earnings but have no effect on cash flows.

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

In addition, the preliminary estimate of goodwill associated with the transaction is approximately \$7.8 billion, as reflected in the unaudited pro forma condensed combined balance sheet contained elsewhere in this document. The combined company will annually assess this amount for impairment. If the combined company concludes that the goodwill associated with the transaction is impaired, the amount of the impairment would reduce the combined company's reported earnings but would have no effect on cash flows.

## **Risks Related to Freeport-McMoRan's Business**

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

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

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

In February 2006, a group of illegal gold panners engaged in conflict with Indonesian police and PT Freeport Indonesia security personnel when they were requested to leave an area near Freeport-McMoRan's milling facilities. Following the incident, the illegal panners blocked the road leading to the Grasberg mine and mill in protest and Freeport-McMoRan temporarily suspended mining and milling operations as a precautionary measure. The panners

also vandalized some of Freeport-McMoRan's light vehicles and offices near this area, causing approximately \$2 million in damages. Freeport-McMoRan's port facilities continued to operate during the disruption and concentrate shipments were not affected. The panners, mostly Papuans from outside Freeport-McMoRan's area of operations, presented a list of aspirations, primarily relating to their

S-29

---

## **Table of Contents**

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

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

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

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

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

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

### **The terrorist attacks in the United States on September 11, 2001, subsequent attacks in Indonesia and the potential for additional future terrorist acts and other recent events have created economic and political uncertainties that could materially and adversely affect Freeport-McMoRan's business.**

On August 31, 2002, three people were killed and 11 others were wounded in an ambush by a group of unidentified assailants. The assailants shot at several vehicles transporting international contract teachers from Freeport-McMoRan's school in Tembagapura, their family members, and other contractors to PT Freeport Indonesia on the road near Tembagapura, the mining town where the majority of PT Freeport Indonesia's personnel reside. Freeport-McMoRan, along with the U.S. government, the central Indonesian government, the Papuan provincial and

local governments, and leaders of the local people residing in the area of Freeport-McMoRan's operations condemned the attack. Indonesian authorities and the U.S. FBI investigated the incident, which resulted in the U.S. indictment of an alleged operational commander of the Free Papua

S-30

---

## Table of Contents

Movement/National Freedom Force. In January 2006, Indonesian Police, accompanied by FBI agents, arrested the alleged operational commander in the Free Papua Movement/National Freedom Force and 11 other Papuans. In November 2006, verdicts and sentencing were announced for seven of the accused in the August 2002 shooting, including a life sentence for the confessed leader of the attack.

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

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

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

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

**Freeport-McMoRan's Contracts of Work are subject to termination if Freeport-McMoRan does not comply with its contractual obligations, and if a dispute arises, Freeport-McMoRan may have to submit to the jurisdiction of a foreign court or arbitration panel.**

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

At times, certain government officials and others in Indonesia have questioned the validity of contracts entered into by the Government of Indonesia prior to May 1998 (i.e., during the Suharto regime, which lasted over 30 years), including PT Freeport Indonesia's Contract of Work, which was signed in December 1991. Freeport-McMoRan cannot

assure you that the validity of, or their compliance with, the Contracts of Work will not be challenged for political or other reasons. PT Freeport Indonesia's Contract of Work and Freeport-McMoRan's other Contracts of Work require that disputes with the Indonesian government be submitted to international arbitration. Notwithstanding that provision, if a dispute arises under the Contracts of Work, Freeport-McMoRan faces the risk of having to submit to the jurisdiction of a foreign court or

S-31

---

## **Table of Contents**

arbitration panel, and if Freeport-McMoRan prevails in such a dispute, Freeport-McMoRan will face the additional risk of having to enforce the judgment of a foreign court or arbitration panel against Indonesia within its own territory.

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

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

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

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

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

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





## **Table of Contents**

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

Certain Indonesian governmental officials have from time to time raised issues with respect to Freeport-McMoRan's tailings and overburden management plans, including a suggestion that Freeport-McMoRan implement a pipeline system rather than its river deposition system for tailings disposal. Because Freeport-McMoRan's mining operations are remotely located in steep mountainous terrain and in an active seismic area, a pipeline system would be costly, difficult to construct and maintain, more prone to catastrophic failure and involve significant potentially adverse environmental issues. An external panel of qualified experts, as directed in Freeport-McMoRan's 300K ANDAL (the Environmental Impact Assessment document submitted to the Indonesian government and approved in 1997), conducted detailed reviews and analyses of a number of technical studies. They concluded that all significant impacts identified were in line with the 300K ANDAL predictions, and that the current system of riverine tailings management was appropriate considering all site-specific factors. For these reasons, Freeport-McMoRan does not believe that a pipeline system is necessary or practical.

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

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

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

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

### **Risks Related to Phelps Dodge's Business**

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

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

S-33

---

## **Table of Contents**

copper put options for approximately 730 million pounds of its expected 2007 copper sales, with an annual average LME put strike price (floor) of \$0.95 per pound for 2007. In accordance with generally accepted accounting principles in the United States, transactions under these copper price protection programs do not qualify for hedge accounting treatment and are adjusted to fair market value based on the forward-curve price and implied volatility as of the last day of the reporting period, with the gain or loss recorded in revenues. These adjustments represent non-cash events as the contracts are settled in cash only after the end of the relevant year based on the annual average LME copper price. For the year ended December 31, 2006, the pre-tax charges arising from Phelps Dodge's 2006 and 2007 copper price protection programs reduced operating income by approximately \$1,009 million.

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

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

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

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

### **Mine closure regulations may impose substantial costs.**

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

The amount of financial assurance that has been provided for our Chino, Tyrone and Cobre mines, pursuant to an agreement Phelps Dodge reached with two New Mexico state agencies, totaled approximately \$495 million at December 31, 2006. Up to 70 percent of such financial assurance is in the form of third-party guarantees issued by Phelps Dodge on behalf of its operating subsidiaries and the balance, or approximately 30 percent, is provided in the form of trust funds, real property collateral and letters of credit. The actual

S-34

---

## **Table of Contents**

amount required for financial assurance is subject to the completion of additional permitting procedures, final agency determinations and the results of administrative appeals, all of which could result in some changes to the closure and reclamation plans and further increases in the cost estimates and its related financial assurance obligations. In addition, Phelps Dodge's Arizona mining operations have obtained approval of reclamation plans for its mined land and approval of financial assurance totaling approximately \$174 million, but applications for approval of closure plans for groundwater quality protection are pending for some portions of its mines. Phelps Dodge also has approved mined-land reclamation plans and financial assurance in place for its two Colorado mines totaling approximately \$81 million.

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

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

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

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

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

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

- political instability and civil strife;

- changes in foreign laws and regulations, including those relating to the environment, labor, tax, royalties on mining activities and dividends or repatriation of cash and other property to the United States;

- foreign currency fluctuations;

expropriation or nationalization of property;

exchange controls; and

import, export and trade regulations.

S-35

---

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

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

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

risks related to our substantial indebtedness;

our holding company structure and its potential effect on your ability to receive dividends or payments on the mandatory convertible preferred stock;

macroeconomic conditions and general industry conditions, such as the competitive environment of the mining industry;

unanticipated mining, milling and other processing problems;

accidents that lead to personal injury or property damage;

persistent commodity price reductions;

changes in political, social or economic circumstances in areas where Freeport-McMoRan and Phelps Dodge operate or plan to operate;

expropriation;

variances in ore grades;

labor relations;

adverse weather conditions and natural disasters, such as earthquakes;

the speculative nature of mineral exploration;

increases in energy and production costs;

fluctuations in interest rates or foreign currency exchange rates and other adverse financial market conditions;

regulatory and litigation matters and risks; and

changes in tax and other laws.

S-36

---



**Table of Contents**

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

S-37

---

**Table of Contents**

**USE OF PROCEEDS**

We estimate the net proceeds from the issuance and sale of the 63/4% mandatory convertible preferred stock, after deducting underwriting discounts and estimated offering expenses, will be approximately \$2,437.0 million (\$2,802.6 million if the underwriters exercise their overallotment option in full). We intend to use the net proceeds to repay outstanding indebtedness under (i) our Tranche A term loan facility due March 2012 with an interest rate currently of LIBOR plus 1.50% and (ii) our Tranche B term loan facility due March 2014 with an interest rate of LIBOR plus 1.75%. The Tranche A term loan facility and the Tranche B term loan facility were used to fund a portion of the acquisition and related transaction costs. See Prospectus Supplement Summary Sources and Uses. Under our new senior secured credit facilities, JP Morgan Chase Bank, N.A. is administrative agent and collateral agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated is syndication agent, and J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are joint bookrunners and joint lead arrangers. Affiliates of J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are also lenders under the new senior secured credit facilities.

S-38

---

**Table of Contents****CAPITALIZATION**

The following table shows Freeport-McMoRan's cash and cash equivalents and capitalization as of December 31, 2006, on an as reported basis, and cash and cash equivalents and capitalization on a pro forma basis to reflect the transactions, the issuance of the mandatory convertible preferred stock offered hereby, our concurrent public offering of 41,000,000 shares of common stock (assuming no exercise of the underwriters' overallotment option) and the use of net proceeds from the mandatory convertible preferred stock and common stock offerings to reduce outstanding indebtedness under the Tranche A term loan facility and the Tranche B term loan facility on a pro rata basis. This table is unaudited and should be read in conjunction with Unaudited Pro Forma Condensed Combined Financial Statements, Selected Consolidated Historical Financial and Operating Data of Freeport-McMoRan, Selected Consolidated Historical Financial and Operating Data of Phelps Dodge, and the financial statements and related notes of Freeport-McMoRan and Phelps Dodge, which are included elsewhere or incorporated by reference in this prospectus supplement.

	<b>As of December 31, 2006</b>	
	<b>Actual</b>	<b>Pro Forma</b>
	<b>(Dollars in millions)</b>	
Cash and cash equivalents <sup>(a)</sup>	\$ 907.5	\$ 3,383.4
Debt:		
Existing indebtedness of Freeport-McMoRan		
8.375% senior notes due 2017	\$	\$ 3,500.0
8.25% senior notes due 2015		1,500.0
Senior floating rate notes due 2015		1,000.0
101/8% senior notes due 2010	272.4	272.4
7% convertible notes due 2011	7.1	7.1
67/8% notes due 2014	340.3	340.3
Existing indebtedness of Phelps Dodge <sup>(b)</sup>		
7.375% notes due 2007	\$	\$ 60.6
8.75% notes due 2011		108.8
7.125% debentures due 2027		115.0
9.50% notes due 2031		196.8
6.125% notes due 2034		149.8
New senior credit facilities		
Revolving credit facility <sup>(a)</sup>	\$	\$
Tranche A term loan facility		1,278.7
Tranche B term loan facility		3,836.3
Other debt <sup>(c)</sup>	60.3	321.2
Total debt <sup>(b)</sup>	\$ 680.1	\$ 12,687.0
Stockholders' equity:		
Preferred stock, \$0.10 par value:		
51/2% convertible perpetual preferred stock	1,100.0	1,100.0
63/4% mandatory convertible preferred stock:		2,500.0
	31.0	48.8

Common stock, \$0.10 par value: Authorized 700,000,000 shares; issued and outstanding 196,964,996 shares, actual, and 375,417,324 shares as adjusted <sup>(d)</sup>		
Capital in excess of par value	2,668.1	12,826.1
Retained earnings	1,414.8	1,376.5
Accumulated other comprehensive loss	(19.9)	(19.9)
Treasury stock	(2,748.9)	(2,748.9)
Total stockholders equity	2,445.1	15,082.6
Total capitalization	\$ 3,125.2	\$ 27,769.6

- (a) Our availability under our revolving credit facility is approximately \$1,400.0 million as of the closing of the transactions after giving effect to outstanding letters of credit. Going forward, we may be required to issue additional letters of credit in connection with financial assurances with respect to our reclamation obligations. See Risk Factors Risks Related to Phelps Dodge s Business Mine closure regulations may impose substantial costs.
- (b) Pro forma total debt as of December 31, 2006 shown above is based on Phelps Dodge s book values. Total debt as reflected in the pro forma financial statements is based on the December 31, 2006 fair value of Phelps Dodge s debt.
- (c) Actual amounts include equipment capital leases and other (\$54.5 million), Atlantic Copper debt (\$5.6 million) and other Freeport-McMoRan debt (\$0.2 million). Pro forma amounts include, in addition, certain project financing and subsidiary debt financing (\$202.2 million), various pollution control and industrial development revenue bonds (\$25.0 million) and short-term debt (\$33.7 million) of Phelps Dodge.
- (d) Based on shares outstanding as of February 28, 2007, approximately 137,042,000 shares issued in connection with the closing of the acquisition and 41,000,000 shares offered in the concurrent common stock offering (assuming no exercise of the underwriters overallotment option). This number excludes 234,450 shares issuable upon conversion of our 7% convertible senior notes and 23,272,163 shares issuable upon conversion of our 5.5% perpetual convertible preferred stock. This number also excludes an aggregate of 8,087,689 shares issuable upon exercise of outstanding stock options and restricted stock units or the vesting of restricted stock awards, approximately 1,000,000 of which were assumed as part of the acquisition. Our outstanding stock options as of February 28, 2007 had a weighted average exercise price of \$43.03 per share. This number also excludes approximately 40.8 million shares of common stock (approximately 46.9 million if the underwriters exercise their overallotment option in full) issuable upon conversion of our 63/4% mandatory convertible preferred stock offered hereby.

**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock is listed and traded on the New York Stock Exchange under the symbol FCX. The following table sets forth, for the periods indicated, the high and low prices per share of the common stock on the New York Stock Exchange.

	<b>High</b>	<b>Low</b>
<b>2005</b>		
First quarter	\$ 43.90	\$ 35.12
Second quarter	40.31	31.52
Third quarter	49.48	37.12
Fourth quarter	56.35	43.41
<b>2006</b>		
First quarter	\$ 65.00	\$ 47.11
Second quarter	72.20	43.10
Third quarter	62.29	47.58
Fourth quarter	63.70	47.60
<b>2007</b>		
First quarter (through March 22, 2007)	\$ 63.67	\$ 48.85

On March 22, 2007, the last reported sale price of our common stock on the New York Stock Exchange was \$61.91 per share. As of February 28, 2007, there were approximately 8,100 holders of record of our common stock.

**Table of Contents****DIVIDEND POLICY**

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 2006, the Board authorized four supplemental dividends totaling \$3.50 per share. Freeport-McMoRan expects to continue its regular annual common stock dividend of \$1.25 per share and to discontinue its practice of paying supplemental dividends for the foreseeable future.

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

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

Freeport-McMoRan paid the first quarterly payment of its annual dividend of \$0.3125 per share on February 1, 2007. 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. 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 upon many factors, including, but not limited to, our cash flows and financial position, future prospects, copper and gold prices, general economic and market conditions, and other factors deemed relevant by our Board of Directors. In addition, since we are a holding company, our ability to pay cash dividends depends in large measure on our subsidiaries' ability to make distributions of cash or property to us. Payment of dividends on our common stock and purchases of common stock are also subject to limitations under our 101/8% senior notes due 2010, 67/8% senior notes due 2014, 8.25% senior notes due 2015, 8.375% senior notes due 2017, senior floating rate notes due 2015, and, in certain circumstances, our new senior credit facilities. Further, we are restricted by certain of our borrowing arrangements from paying cash dividends in certain circumstances without the prior written consent of the lenders.

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

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

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

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

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

The unaudited pro forma condensed combined financial statements should be read in conjunction with the separate historical consolidated financial statements and accompanying notes of Freeport-McMoRan and Phelps Dodge incorporated by reference into this prospectus supplement. See [Where You Can Find More Information](#).

S-42

---



**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Historical</b>		<b>Pro Forma</b>	
	<b>Freeport-</b>		<b>Adjustments</b>	<b>Pro Forma</b>
	<b>McMoRan</b>	<b>Phelps Dodge</b>	<b>(Note 3)</b>	<b>Combined</b>
	<b>(Dollars in millions, except per share data)</b>			
Revenues	\$ 5,790.5	\$ 11,910.4 <sup>(Note 4)</sup>	\$	\$ 17,700.9 <sup>(Note 4)</sup>
Cost of sales:				
Production and delivery	2,524.9	6,807.2	74.4 <sup>(A)</sup> (19.0) <sup>(M)</sup>	9,387.5
Depreciation, depletion and amortization	227.6	448.7	581.0 <sup>(J)</sup> 10.9 <sup>(A)</sup>	1,268.2
Total cost of sales	2,752.5	7,255.9	647.3	10,655.7
Selling, general and administrative expenses	157.1	207.0	8.3 <sup>(A)</sup>	372.4
Exploration and research expenses	12.2	127.0		139.2
Special items and provisions, net		93.6	(93.6) <sup>(A)</sup>	
Total costs and expenses	2,921.8	7,683.5	562.0	11,167.3
Operating income	2,868.7	4,226.9	(562.0)	6,533.6
Interest expense, net	(75.6)	(73.0)	54.0 <sup>(A)</sup> (1,245.3) <sup>(N)</sup> 303.0 <sup>(O)</sup> (54.0) <sup>(A)</sup>	(1,036.9)
Capitalized interest		54.0		
Equity in PT Smelting and affiliated companies earnings	6.5		4.6 <sup>(A)</sup>	11.1
Losses on early extinguishment and conversion of debt	(32.0)			(32.0)
Gains on sales of assets	30.6			30.6
Inco termination fee, net of expenses		435.1		435.1
Other income, net	27.7	190.9		218.6
Income from continuing operations before taxes and minority interests in consolidated subsidiaries	2,825.9	4,833.9	(1,499.7)	6,160.1
Provision for income taxes	(1,201.2)	(1,010.2)	262.3 <sup>(F)</sup>	(1,949.1)
Minority interests in net income of consolidated subsidiaries	(168.2)	(792.4)		(960.6)
Equity in net earnings of affiliated companies		4.6	(4.6) <sup>(A)</sup>	

Edgar Filing: FREEPORT MCMORAN COPPER & GOLD INC - Form 424B2

Income from continuing operations	1,456.5	3,035.9 <sup>(Note 4)</sup>	(1,242.0)	3,250.4 <sup>(Note 4)</sup>
Preferred dividends	(60.5)		(168.8) <sup>(O)</sup>	(229.3)
Income from continuing operations applicable to common stock	\$ 1,396.0	\$ 3,035.9	\$ (1,440.7)	\$ 3,021.1
Income per share from continuing operations applicable to common stock:				
Basic	\$ 7.32	\$ 15.00		\$ 8.19
Diluted	\$ 6.63	\$ 14.92		\$ 7.48
Weighted average shares outstanding:				
Basic	190.7			368.8 <sup>(L)</sup>
Diluted	221.5			440.4 <sup>(L)</sup>

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

S-43

---

**Table of Contents****UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET  
AS OF DECEMBER 31, 2006**

	<b>Historical</b>		<b>Pro Forma</b>	<b>Pro Forma</b>
	<b>Freeport-</b>	<b>Phelps</b>	<b>Adjustments</b>	<b>Combined</b>
	<b>McMoRan</b>	<b>Dodge</b>	<b>(Note 3)</b>	<b>Combined</b>
	<b>(Dollars in millions)</b>			
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 907.5	\$ 4,947.4	\$ 16,000.0 <sup>(K)</sup> (330.0) <sup>(C)</sup> (100.0) <sup>(C)</sup> 25.0 <sup>(H)</sup> (66.5) <sup>(E)</sup> (18,000.0) <sup>(B)</sup>	\$ 3,383.4
Restricted cash		25.4		25.4
Accounts receivable, less allowance	485.7	1,264.8		1,750.5
Mill and leach stockpiles		90.8	1,412.0 <sup>(D)</sup>	1,502.8
Product inventories	384.2	356.0	1,293.0 <sup>(D)</sup>	2,033.2
Materials and supplies	340.1	247.9		588.0
Prepaid expenses and other current assets	33.5	116.3		149.8
Deferred income taxes		552.3		552.3
Total current assets	2,151.0	7,600.9	233.5	9,985.4
Investments and long-term receivables		193.1		193.1
Property, plant, equipment and development costs, net	3,098.5	5,873.5	11,620.4 <sup>(D)</sup>	20,592.4
Long-term mill and leach stockpiles		181.8	723.6 <sup>(D)</sup>	905.4
Goodwill		12.5	7,754.9 <sup>(D)</sup>	7,767.4
Trust assets		588.3		588.3
Other assets and deferred charges	140.3	182.2	330.0 <sup>(C)</sup> (27.0) <sup>(D)</sup> (38.3) <sup>(O)</sup>	587.2
Total assets	\$ 5,389.8	\$ 14,632.3	\$ 20,597.1	\$ 40,619.2
<b>Liabilities and stockholders equity:</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 789.0	\$ 2,705.8	\$	\$ 3,494.8
Current portion of long-term debt and short-term borrowings	19.1	121.8	0.4 <sup>(D)</sup>	141.3
Accrued income taxes	164.4	435.3		599.7
Total current liabilities	972.5	3,262.9	0.4	4,235.8
Long-term debt, less current portion	661.0	770.1	35.0 <sup>(D)</sup>	12,581.1

Edgar Filing: FREEPORT MCMORAN COPPER & GOLD INC - Form 424B2

			16,000.0 <sup>(K)</sup> (4,885.0) <sup>(O)</sup>	
Deferred income taxes	800.3	768.6	4,499.6 <sup>(F)</sup>	6,068.5
Accrued postretirement benefits and other liabilities	297.9	890.7		1,188.6
Minority interests	213.0	1,249.6		1,462.6
Stockholders' equity:				
51/2% Convertible perpetual preferred stock	1,100.0			1,100.0
63/4% Mandatory convertible preferred stock			2,500.0 <sup>(O)</sup>	2,500.0
Common stock	31.0	1,275.1	13.7 <sup>(G)</sup> (1,275.1) <sup>(I)</sup>	48.8
Capital in excess of par value of common stock	2,668.1	1,372.7	4.1 <sup>(O)</sup> 7,777.1 <sup>(G)</sup> (1,372.7) <sup>(I)</sup>	12,826.1
Retained earnings	1,414.8	5,221.4	2,380.9 <sup>(O)</sup> (5,221.4) <sup>(I)</sup> (38.3) <sup>(O)</sup>	1,376.5
Accumulated other comprehensive income (loss)	(19.9)	(178.8)	178.8 <sup>(I)</sup>	(19.9)
Common stock held in treasury	(2,748.9)			(2,748.9)
Total stockholders' equity	2,445.1	7,690.4	4,947.1	15,082.6
Total liabilities and stockholders' equity	\$ 5,389.8	\$ 14,632.3	\$ 20,597.1	\$ 40,619.2

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

S-44

---

**Table of Contents**

**NOTES TO THE UNAUDITED PRO FORMA  
CONDENSED COMBINED FINANCIAL STATEMENTS**

**1. Basis of presentation**

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

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

**2. The acquisition**

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

The acquisition will be accounted for under the purchase method of accounting. The pro forma adjustments reflect Freeport-McMoRan's acquisition of 100 percent of Phelps Dodge's net reported assets at their fair values at December 31, 2006 for the pro forma condensed combined balance sheet, and at January 1, 2006, for the pro forma condensed combined statement of income, and the subsequent accounting for Phelps Dodge as a wholly owned subsidiary. The pro forma adjustments also reflect the application of the net proceeds from the issuance of mandatory convertible preferred stock offered hereby and the concurrent common stock offering to reduce long-term debt.

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

	<b>(In millions, except per share amount)</b>
Freeport-McMoRan's acquisition of Phelps Dodge:	
Common shares outstanding and issuable	204.540
Exchange offer ratio of Freeport-McMoRan common stock for each Phelps Dodge common share	0.67
Approximate shares of Freeport-McMoRan common stock issued	137.042
Weighted average market price of each share of Freeport-McMoRan common stock from November 16-21, 2006	\$ 56.85
Cash consideration for each Phelps Dodge common share	\$ 88.00

Fair value of Freeport-McMoRan common stock issued, comprising par value of \$13.7 (\$0.10 per share) and capital in excess of par of \$7,777.1	\$	7,791
Cash consideration of \$88.00 for each Phelps Dodge common share		18,000
Estimated change of control costs and related employee benefits		67
Estimated transaction costs		100
Purchase price	\$	25,958

S-45

---

## **Table of Contents**

### **3. Pro forma assumptions and adjustments**

The following assumptions and related pro forma adjustments give effect to the business combination of Freeport-McMoRan and Phelps Dodge, the issuance of our mandatory convertible preferred stock offered hereby, the concurrent common stock offering and the use of proceeds from the issuance of common stock and mandatory convertible preferred stock to reduce outstanding debt as if such transactions occurred on January 1, 2006, in the unaudited pro forma condensed combined statement of income for the year ended December 31, 2006, and on December 31, 2006, for the unaudited pro forma condensed combined balance sheet.

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

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

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

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

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

(A) Reclassifications have been made to the Phelps Dodge historical consolidated financial information to conform to Freeport-McMoRan's presentation. This included reclassifying amounts described by Phelps Dodge on a single line

item as Special items and provisions, net into production and delivery costs, into depreciation, depletion and amortization and into selling, general and administrative expenses based on Freeport-McMoRan's reporting for these items. The reclassifications also reflect the reporting of Phelps Dodge's Capitalized interest as a component of Interest expense, net and Phelps Dodge's Equity in net earnings of affiliated companies as a component of

S-46

---



**Table of Contents**

Equity in PT Smelting and affiliated companies' earnings to conform to Freeport-McMoRan's reporting.

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

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

(D) The pro forma adjustments to reflect fair value of Phelps Dodge's net reported assets and other purchase accounting adjustments were based on available data as of December 31, 2006. On this basis, the pro forma adjustments to reflect the fair value of Phelps Dodge's net reported assets and other purchase accounting adjustments are estimated as follows:

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

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

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

The allocation of the purchase price is based upon management's preliminary estimates and certain assumptions with respect to the fair value increment associated with the assets to be acquired and the liabilities to be assumed. The actual fair values of the assets and liabilities will be determined as of the date of acquisition and may differ materially from the amounts disclosed above in the assumed pro forma purchase price allocation because of changes in fair values of the assets and liabilities between December 31, 2006 and the date of the acquisition, and as further analysis

(including of identifiable intangible assets, for which no amounts have been estimated and included in the preliminary amounts shown above) is completed. Consequently, the actual allocation of the purchase price may result in different adjustments in the unaudited pro forma condensed combined statement of income. Going forward, the earnings of the combined company will reflect the impact of purchase accounting adjustments, including the effect of changes in the cost bases of both tangible and identifiable intangible assets and liabilities on production costs and depreciation, depletion and amortization expense. The unaudited pro forma condensed combined statement of income reflects Phelps Dodge's metal inventories on its historical accounting method of last-in, first-out. Inventories

S-47

---

**Table of Contents**

are subject to a lower of cost or market assessment and a decline in metal prices could result in a write down of metal inventory values and a corresponding charge to future earnings of the combined company.

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

(F) The estimated income tax effect of the pro forma adjustments has been recorded based upon statutory tax rates in effect in the various tax jurisdictions in which Phelps Dodge operates, resulting in an estimated tax rate of approximately 10 percent for interest costs and 30 percent for all other items. The statutory tax rates range from 20 percent to 35 percent. The estimated tax rates are a weighted calculation of the various statutory tax rates and consider tax credits, exempt income and non-deductible expenses. The estimated tax rate for interest costs of 10 percent has been derived from a preliminary analysis of the applicable rules for interest cost allocation required by U.S. tax regulations and considers their associated limitation on the utilization of foreign tax credits. These rates will vary depending on the mix of income derived in the respective countries of operation and the allocation of interest and other expenses. The actual tax rates will also be affected by any tax planning opportunities that may result from the combination of the companies after the transaction. The business combination is expected to be non-taxable to the respective companies, with Phelps Dodge's historical tax bases surviving for income tax reporting purposes. Additional deferred income taxes have been recognized based on the pro forma fair value adjustments to assets and liabilities.

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

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

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

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

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



**Table of Contents**

factors. Our preliminary adjustments to property, plant, equipment and development costs do not include adjustments attributable to inferred mineral resources or exploration potential referred to in the EITF 04-3 Working Group Report No. 1. We intend to allocate a portion of the purchase price to all VBPP, including inferred mineral resources and exploration potential, in accordance with EITF 04-3 after performing a more thorough analysis to determine the fair value of these assets.

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

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

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

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

	<b>Year Ended</b>	
	<b>December 31, 2006</b>	
	<b>Basic</b>	<b>Diluted</b>
	<b>(In millions)</b>	
Average number of shares of historical Freeport-McMoRan common stock outstanding	190.7	221.5
Shares of Freeport-McMoRan common stock issued in connection with the business combination (Note 2)	137.0	137.0
Shares to be issued or issuable in connection with the issuance of our mandatory convertible preferred stock offered hereby and the concurrent common stock offering	41.0	81.8
<b>Total</b>	<b>368.8*</b>	<b>440.4*</b>

\* Represents the sum of the numbers before rounding.

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

S-49

---

**Table of Contents**

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

(N) This pro forma adjustment recognizes imputed interest expense for the year ended December 31, 2006, resulting from the fair value adjustment of Phelps Dodge's long-term debt and acquisition-related debt discussed in Note (K) above at an assumed weighted average annual interest rate of approximately 7.5 percent. A 0.125% variance in the interest rate on the Tranche A term loan portion of the new senior credit facilities would cause an increase or decrease of \$3.1 million in interest expense. A 0.125% variance in the interest rate on the Tranche B term loan portion of the new senior credit facilities would cause an increase or decrease of \$9.4 million in interest expense. A 0.125% variance in the weighted average effective interest rate on the notes would cause an increase or decrease of \$1.3 million in interest expense.

(O) This pro forma adjustment recognizes the issuance of our mandatory convertible preferred stock offered hereby and the concurrent common stock offering and assumes that the net proceeds are used to reduce the Tranche A term loan by \$1,221.3 million and the Tranche B term loan by \$3,663.7 million. The prepayment of long-term debt also results in the acceleration of \$38.3 million of amortization of deferred financing costs which is recorded as part of the pro forma adjustment to interest expense.

**4. Other**

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

**Table of Contents****SELECTED CONSOLIDATED HISTORICAL FINANCIAL  
AND OPERATING DATA OF FREEPORT-MCMORAN**

The following selected historical consolidated financial data, as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, have been derived from the audited consolidated financial statements of Freeport-McMoRan for those periods. The historical results presented below are not necessarily indicative of results that you can expect for any future period. You should read the table in conjunction with the sections entitled Use of Proceeds, Capitalization, Unaudited Pro Forma Condensed Combined Financial Statements, Summary Historical Financial and Operating Data of Freeport-McMoRan, and the consolidated financial statements of Freeport-McMoRan and the related notes incorporated by reference herein. See Where You Can Find More Information.

	<b>Years ended December 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(In dollars, except average shares, and in millions, except per share amounts)</b>				
<b>Statement of operations data:</b>					
Revenues	\$ 1,910.5	\$ 2,212.2	\$ 2,371.9	\$ 4,179.1	\$ 5,790.5
Operating income	640.1	823.3	703.6 <sup>(d)</sup>	2,177.3	2,868.7 <sup>(g)</sup>
Net income before cumulative effect of changes in accounting principles	130.1	169.8 <sup>(b)</sup>	156.8 <sup>(d)(e)</sup>	934.6 <sup>(f)</sup>	1,396.0 <sup>(g)(h)</sup>
Cumulative effect of changes in accounting principles, net	(3.0) <sup>(a)</sup>	(15.6) <sup>(c)</sup>			
Net income applicable to common stock	127.1	154.2 <sup>(b)</sup>	156.8 <sup>(d)(e)</sup>	934.6 <sup>(f)</sup>	1,396.0 <sup>(g)(h)</sup>
Basic net income per common share	0.88	0.99	0.86	5.18	7.32
Diluted net income per common share	0.87	0.97 <sup>(b)(c)</sup>	0.85 <sup>(d)(e)</sup>	4.67 <sup>(f)</sup>	6.63 <sup>(g)(h)</sup>
Dividends paid per common share		0.27	1.10	2.50	4.75
Basic average shares outstanding	144.6	155.8	182.3	180.3	190.7
Diluted average shares outstanding	146.4	159.1	184.9	220.5	221.5
<b>Balance sheet data at end of year:</b>					
Cash and cash equivalents <sup>(i)</sup>	\$ 115.8	\$ 498.6	\$ 552.0	\$ 763.6	\$ 907.5



Edgar Filing: FREEPORT MCMORAN COPPER & GOLD INC - Form 424B2

Total assets	4,192.2	4,718.4	5,087.0	5,550.2 <sub>(g)</sub>	5,389.8 <sub>(g)</sub>
Total debt <sup>(j)</sup>	2,038.4	2,228.3 <sub>(c)</sub>	1,951.9	1,255.9	680.1
Redeemable preferred stock	450.0	(c)			
Stockholders equity	266.8	776.0	1,163.6	1,843.0	2,445.1 <sub>(g)</sub>

S-51

---

**Table of Contents**

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

- (a) Effective January 1, 2002, Freeport-McMoRan changed the methodology used in the determination of depreciation associated with PT Freeport Indonesia's mining and milling life-of-mine assets.
- (b) Includes losses on early extinguishment and conversion of debt totaling \$31.9 million (\$0.20 per share), net of related reduction of interest expense.
- (c) Effective January 1, 2003, Freeport-McMoRan adopted Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, and recorded a \$9.1 million (\$0.06 per share) cumulative effect gain. Effective July 1, 2003, Freeport-McMoRan adopted SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, and recorded a \$24.7 million (\$0.16 per share) cumulative effect charge. Freeport-McMoRan's mandatorily redeemable preferred stock was

classified as debt effective July 1, 2003. SFAS No. 150 does not allow restatement of prior periods.

- (d) Includes a \$95.0 million (\$48.8 million to net income or \$0.26 per share) gain on insurance settlement related to the fourth-quarter 2003 slippage and debris flow events at the Grasberg open pit and a \$12.0 million (\$12.0 million to net income or \$0.06 per share) charge related to Atlantic Copper's workforce reduction plan.
- (e) Includes a \$20.4 million (\$0.11 per share) gain from the sale of a parcel of land in Arizona held by a Freeport-McMoRan joint venture, a \$7.5 million (\$0.04 per share) gain from Atlantic Copper's sale of its wire rod and wire assets, and \$7.4 million (\$0.04 per share) of losses on early extinguishment and conversion of debt, net of related reduction of interest expense.
- (f) Includes \$40.2 million (\$0.18 per share) of losses on early extinguishment and conversion of debt, net of related reduction of interest expense, and a \$4.9 million (\$0.02 per share) gain from the sale of a parcel of land in Arizona held by a Freeport-McMoRan joint venture.
- (g) Effective January 1, 2006, Freeport-McMoRan adopted Emerging Issues Task Force Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry (EITF 04-6) and recorded its deferred mining costs asset (\$285.4 million) at December 31, 2005, net of taxes, minority interest share and inventory effects (\$135.9 million), as a cumulative effect adjustment to reduce retained earnings on January 1, 2006. As a result of adopting EITF 04-6, income before income taxes and minority interests for 2006 was \$35.4 million lower and net income was \$18.8 million (\$0.08 per share) lower than if Freeport-McMoRan had not adopted EITF 04-6. Effective January 1, 2006, Freeport-McMoRan adopted Statement of Financial Accounting Standards No. 123

**Table of Contents**

(revised 2004), Share-Based Payment or SFAS No. 123R. As a result of adopting SFAS No. 123R, income before income taxes and minority interests for 2006 was \$27.8 million lower and net income was \$16.1 million (\$0.07 per share) lower than if Freeport-McMoRan had not adopted SFAS No. 123R. Results for prior years have not been restated.

- (h) Includes \$30.3 million (\$0.14 per share) of losses on early extinguishment and conversion of debt, net of related reduction of interest expense, and gains of \$29.7 million (\$0.13 per share) at Atlantic Copper from the disposition of land and certain royalty rights.
- (i) For 2002 and 2003, values include \$107.9 million and \$35.0 million, respectively, of restricted cash and investments.
- (j) Includes current portion and short-term borrowings.
- (k) Amount was \$357.61 before a gain resulting from redemption of Freeport-McMoRan's Gold-Denominated Preferred Stock.
- (l) Amount was \$606.36 before a loss resulting from redemption of Freeport-McMoRan's Gold-Denominated Preferred Stock, Series II.

**Table of Contents****SELECTED CONSOLIDATED HISTORICAL FINANCIAL  
AND OPERATING DATA OF PHELPS DODGE**

The following selected historical consolidated financial data, as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, have been derived from the audited consolidated financial statements of Phelps Dodge for those periods. The historical results presented below are not necessarily indicative of results that you can expect for any future period. You should read the table below in conjunction with the sections entitled Use of Proceeds, Capitalization, Unaudited Pro Forma Condensed Combined Financial Statements, Summary Historical Financial and Operating Data of Phelps Dodge and the consolidated financial statements of Phelps Dodge and the related notes contained in Phelps Dodge's annual report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission and incorporated by reference herein. See Where You Can Find More Information.

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

Edgar Filing: FREEPORT MCMORAN COPPER & GOLD INC - Form 424B2

Current assets (including cash)	1,428.2	1,790.0	2,661.7	4,070.7	7,600.9
Total assets	7,029.0	7,272.9	8,594.1	10,358.0	14,632.3
Total debt	2,110.6	1,959.0	1,096.9	694.5	891.9
Long-term debt	1,948.4	1,703.9	972.2	677.7	770.1
Shareholders equity	2,813.6	3,063.8	4,343.1	5,601.6	7,690.4

S-54

---

**Table of Contents**

	Years Ended December 31, <sup>(f)</sup>				
	2002 <sup>(a)</sup>	2003 <sup>(b)</sup>	2004 <sup>(c)</sup>	2005 <sup>(d)</sup>	2006 <sup>(e)</sup>
<b>Operating data:</b>					
Copper production (thousand short tons) <sup>(j)</sup>	1,012.1	1,042.5	1,260.6	1,228.0	1,218.7
Copper sales from own mines (thousand short tons) <sup>(j)</sup>	1,034.5	1,052.6	1,268.9	1,238.4	1,214.5
COMEX copper price (per pound) <sup>(k)</sup>	\$ 0.72	\$ 0.81	\$ 1.29	\$ 1.68	\$ 3.09
LME copper price (per pound) <sup>(l)</sup>	\$ 0.71	\$ 0.81	\$ 1.30	\$ 1.67	\$ 3.05

- (a) Reported amounts for 2002 included after-tax, net special charges of \$153.5 million, or 91 cents per common share, for PDMC asset impairment charges and closure provisions; \$53.0 million, or 31 cents per common share, for historical lawsuit settlements; \$45.0 million, or 27 cents per common share, for a historical arbitration award; \$26.6 million, or 16 cents per common share, for early debt extinguishment costs; \$23.0 million, or 14 cents per common share, for restructuring activities; \$22.9 million, or 13 cents per common share, for the cumulative effect of an accounting change; \$14.0 million, or 8 cents per common share, for environmental provisions (included a gain of \$0.6 million for discontinued operations); \$1.2 million, or 1 cent per common share, for the write-off of two cost-basis investments; and \$1.0 million, or 1 cent per common share, for the settlement of legal matters; partially offset by after-tax, net special gains of \$66.6 million, or 40 cents per common share, for the tax benefit relating to the net operating loss carryback prior to 2002 resulting from a change in U.S. tax legislation; \$29.1 million, or 17 cents per common share, for environmental insurance recoveries; \$22.6 million, or 13 cents per common share, for the gain on the sale of a non-core parcel of real estate; and \$13.0 million, or 8 cents per common share, for the release of deferred taxes previously provided with regard to Plateau Mining Corporation.
- (b) Reported amounts for 2003 included after-tax, net special gains of \$68.3 million, or 38 cents per common share, for an extraordinary gain associated with the acquisition of Phelps Dodge's partner's one-third interest in Chino Mines Company; \$8.4 million, or 5 cents per common share, for the cumulative effect of an accounting change; \$6.4 million, or 4 cents per common share, for the sale of a cost-basis investment; \$2.4 million, or 1 cent per common share, for the termination of a foreign postretirement benefit plan associated with discontinued operations; \$1.0 million, or 1 cent per common share, for the tax benefit relating to additional 2001 net operating loss carryback; \$0.5 million for environmental insurance recoveries; and \$0.2 million for the reassessment of prior restructuring programs; partially offset by after-tax, net special charges of \$27.0 million, or 16 cents per common share, for environmental provisions (included a gain of \$0.5 million for discontinued operations); \$8.0 million or 4 cents per common share, for a potential Texas franchise tax matter; \$2.9 million, or 2 cents per common share, for the settlement of historical legal matters; and \$2.6 million, or 1 cent per common share, for asset and goodwill impairments.
- (c) Reported amounts for 2004 included after-tax, net special charges of \$44.7 million, or 23 cents per common share, for environmental provisions; \$30.9 million (net of minority interests), or 15 cents per common share, for early debt extinguishment costs; \$9.9 million, or 5 cents per common share, for the write-down of two cost-basis investments; \$9.6 million, or 5 cents per common share, for taxes on anticipated foreign dividends; \$9.0 million, or 5 cents per common share, for a deferred tax asset valuation allowance at Phelps Dodge's Brazilian wire and cable operation; \$7.6 million, or 4 cents per common share, for Phelps Dodge Magnet Wire restructuring activities; \$5.9 million, or 3 cents per common share, for asset impairments (included \$4.5 million, or 2 cents per common share, for discontinued operations); and \$0.7 million for interest on a Texas franchise tax matter; partially offset by after-tax, net special gains of \$30.0 million, or 15 cents per common share, for the reversal of a U.S. deferred tax asset valuation allowance; \$15.7 million (net of minority interest), or 8 cents per common

share, for the reversal of an El Abra deferred tax asset valuation allowance; \$10.1 million, or 5 cents per common share, for the gain on the sale of uranium royalty rights; \$7.4 million, or 4 cents per common share, for environmental insurance recoveries; and \$4.7 million, or 3 cents per common share, for the settlement of historical legal matters.

- (d) Reported amounts for 2005 included after-tax, net special charges of \$331.8 million, or \$1.64 per common share, for asset impairments; tax expense of \$88.1 million, or 44 cents per common share, for foreign dividend taxes; \$86.4 million, or 42 cents per common share, for environmental provisions; \$42.6 million, or 21 cents per common share, associated with discontinued operations in connection with the sale of Columbian; \$41.3 million, or 20 cents per common share, for early debt extinguishment costs; \$34.5 million (net of minority interest), or 17 cents per common share, for tax on unremitted foreign earnings; \$23.6 million, or 12 cents per common share, for a tax charge associated with minimum pension liability reversal; \$10.1 million, or 5 cents per common share, for cumulative effect of accounting change; \$5.9 million, or 3 cents per common share, for transaction and employee-related costs associated with the sale of substantially all of Phelps Dodge's North American magnet wire assets; partially offset by after-tax, net special gains of \$388.0 million, or \$1.92 per common share, for the sale of a cost-basis investment; \$181.7 million, or 89 cents per common share, for change in interest gains at Cerro Verde and Ojos del Salado; \$15.6 million, or 8 cents per common share, for legal matters; \$11.9 million, or 6 cents per common share, for the reversal of Phelps Dodge Brazil's deferred tax asset valuation allowance; \$8.5 million, or 4 cents per common share, for the sale of non-core real estate; \$4.0 million, or 2 cents per common share, for the reversal of U.S. deferred tax asset valuation allowance; \$0.4 million for environmental insurance recoveries; and \$0.1 million for Phelps Dodge Magnet Wire restructuring activities. The after-tax, net special charges of \$42.6 million associated with discontinued operations consisted of \$67.0 million (net of minority interests), or 33 cents per common share, for a goodwill impairment charge; taxes of \$7.6 million, or 4 cents per common share, associated with the sale and dividends paid in 2005; and \$5.0 million, or 2 cents per common share, for a loss on disposal of Columbian associated with transaction and employee-related costs; partially offset by a deferred income tax effect of \$37.0 million, or 18 cents per common share.



**Table of Contents**

- (e) Reported amounts for 2006 included after-tax, net special gains of \$330.7 million, or \$1.62 per common share, for the Inco termination fee; \$127.5 million, or 63 cents per common share, for the reversal of U.S. deferred tax asset valuation allowance; \$2.0 million, or 1 cent per common share, for legal matters; \$0.4 million for sale of non-core real estate; and \$0.2 million for the reversal of Minera PD Peru deferred tax asset valuation allowance; partially offset by after-tax, net special charges of \$54.5 million, or 27 cents per common share, for environmental provisions; \$30.9 million, or 15 cents per common share, for charges associated with discontinued operations in connection with the sale of Columbian; \$9.6 million, or 5 cents per common share, for asset impairment charges; \$7.6 million (net of minority interest), or 4 cents per common share, for tax on unremitted foreign earnings; \$5.1 million, or 3 cents per common share, for transaction and employee-related charges and loss on disposal in connection with the sale of substantially all of Phelps Dodge's North American magnet wire assets; \$4.7 million, or 2 cents per common share, for transaction and employee-related charges and loss on the disposal in connection with the sale of Phelps Dodge's HPC; \$3.0 million, or 1 cent per common share, for a lease termination settlement; and \$1.2 million associated with dissolution of an international wire and cable entity.
- (f) 2004, 2005 and 2006 reflected full consolidation of El Abra and Candelaria; 2002 and 2003 reflected El Abra and Candelaria on a pro rata basis (51 percent and 80 percent, respectively).
- (g) As a result of Phelps Dodge's sale of Columbian, the operating results for Columbian have been reported separately from continuing operations and shown as discontinued operations for all periods presented in the consolidated statement of income data.
- (h) Basic and diluted earnings per common share have been adjusted to reflect the March 10, 2006, two-for-one stock split for all periods presented.
- (i) All periods presented reflect dividends per common share on a post-March 10, 2006, two-for-one stock split basis.
- (j) 2004, 2005 and 2006 reflected copper production and copper sales on a consolidated basis; 2002 and 2003 reflected that information on a pro rata basis.
- (k) New York Commodity Exchange average spot price per pound cathodes.
- (l) London Metal Exchange average spot price per pound cathodes.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

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

	<b>Years Ended December 31,</b>					<b>2006</b>
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Pro Forma</b>
Ratio of earnings to fixed charges	3.4x	3.9x	4.7x	15.7x	32.8x	5.7x
Ratio of earnings to fixed charges and preferred stock dividends	2.5x	3.0x	2.8x	8.1x	14.2x	4.4x

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.

The pro forma ratio of earnings to fixed charges and the pro forma ratio of earnings to fixed charges and preferred stock dividends were calculated on a pro forma basis after giving effect to the transactions, the issuance of the mandatory convertible preferred stock offered hereby and the use of proceeds therefrom to reduce outstanding debt.

**Table of Contents**

**OVERVIEW OF FINANCIAL CONDITION, LIQUIDITY AND  
CAPITAL RESOURCES OF THE COMBINED COMPANY**

Our financial policy has been to reduce debt and return cash to shareholders through dividends and share purchases. Our acquisition of Phelps Dodge required us to incur significant debt. As of December 31, 2006, on a pro forma basis after giving effect to the transactions, the issuance of the mandatory convertible preferred stock offered hereby, the concurrent common stock offering and the use of proceeds from the issuance of the mandatory convertible preferred stock and common stock to reduce outstanding debt, the combined company had approximately \$12.7 billion in total debt, including \$5.1 billion of debt under its new senior credit facilities, and \$6.0 billion in aggregate principal amount of the 8.25% senior fixed rate notes due 2015, the 8.375% senior fixed rate notes due 2017 and the senior floating rate notes due 2015. In addition, approximately \$1.6 billion of existing Freeport-McMoRan and Phelps Dodge debt remains outstanding following the transactions. The combined company has a new \$1.5 billion senior secured revolving credit facility. Our availability under our revolving credit facility is approximately \$1,400.0 million after giving effect to outstanding letters of credit. We may be required to issue additional letters of credit in connection with financial assurances with respect to our reclamation obligations. See Risk Factors Risks Related to Phelps Dodge's Business Mine closure regulations may impose substantial costs. The combined company's cash and cash equivalents, on a pro forma basis, after giving effect to the transactions, totaled approximately \$3.4 billion at December 31, 2006. The combined company expects to have capital expenditures of approximately \$1.9 billion in 2007.

This debt could limit the combined company's financial and operating flexibility, including by requiring the combined company to dedicate a substantial portion of its cash flows from operations and the proceeds of any equity issuances to the repayment of its debt and the interest on its debt, making it more difficult for the combined company to obtain additional financing on favorable terms, limiting the combined company's ability to capitalize on significant business opportunities and making the combined company more vulnerable to economic downturns. Additionally, the combined company's ability to satisfy financial tests or utilize third-party guarantees for financial assurance with respect to reclamation obligations may be adversely impacted. See Risk Factors Risks Related to the Combined Company Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under our outstanding indebtedness.

The combined company is required to comply with various covenants contained in the agreements governing its indebtedness. These covenants will limit our discretion in the operation of our business. See Risk Factors Risks Related to the Combined Company for further discussion of these factors.

The combined company's business strategy will be focused on continuing to maximize free cash flow and strengthen our financial profile through continued pursuit of active programs to maximize production volumes, aggressively manage costs and use available cash flow to reduce debt. At the same time, we will continue to focus on maximizing the long-term value of our mineral deposits through development programs to grow our production and ore reserves. In addition, we will consider possible opportunities to reduce debt of the combined company through potential asset sales.

**Table of Contents**

*Combined company debt maturities.* Below is a summary of long-term debt maturities for the combined company based on loan balances as of December 31, 2006, on a pro forma basis after giving effect to the transactions, the issuance of mandatory convertible preferred stock offered hereby and the concurrent common stock offering and assuming the net proceeds therefrom are used to reduce outstanding indebtedness under the Tranche A term loan facility and the Tranche B term loan facility on a pro rata basis.

	2007	2008	2009	2010	2011	2012	Thereafter
	(Dollars in millions)						
<b>Existing debt of</b>							
<b>Freeport-McMoRan:</b>							
Equipment loans and other	\$ 13.5	\$ 13.5	\$ 13.5	\$ 10.2	\$ 3.8	\$	\$
Atlantic Copper debt	5.6						
101/8% senior notes due 2010				272.4			
7% convertible senior notes due 2011					7.1		
67/8% senior notes due 2014							340.3
7.20% senior notes due 2026							0.2
<b>Total Freeport-McMoRan</b>	<b>\$ 19.1</b>	<b>\$ 13.5</b>	<b>\$ 13.5</b>	<b>\$ 282.6</b>	<b>\$ 10.9</b>	<b>\$</b>	<b>\$ 340.5</b>
<b>Existing debt of Phelps</b>							
<b>Dodge:</b>							
7.375% notes due 2007	\$ 60.6	\$	\$	\$	\$	\$	\$
8.75% notes due 2011	0.1	0.3	0.2	0.2	108.0		
9.50% notes due 2031		0.1	0.1	0.1			196.5
6.125% notes due 2034							149.8
7.125% debentures due 2027							115.0
Cerro Verde project financing and subsidiary debt financing	25.4	25.3	25.2	25.2	25.2	25.3	50.6
Various pollution control and industrial development revenue bonds due through 2009	2.0		23.0				
Short-term debt	33.7						
<b>Total Phelps Dodge</b>	<b>\$ 121.8</b>	<b>\$ 25.7</b>	<b>\$ 48.5</b>	<b>\$ 25.5</b>	<b>\$ 133.2</b>	<b>\$ 25.3</b>	<b>\$ 511.9</b>
<b>New debt:</b>							
Revolving credit facility	\$	\$	\$	\$	\$	\$	\$
Tranche A term loan facility						1,278.7	
Tranche B term loan facility							3,836.3
8.25% senior notes due 2015							1,500.0
8.375% senior notes due 2017							3,500.0
Senior floating rate notes due 2015							1,000.0
<b>Total new debt</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1,278.7</b>	<b>\$ 9,836.3</b>
<b>Total debt</b>	<b>\$ 140.9</b>	<b>\$ 39.2</b>	<b>\$ 62.0</b>	<b>\$ 308.1</b>	<b>\$ 144.1</b>	<b>\$ 1,304.0</b>	<b>\$ 10,688.7</b>



**Table of Contents**

*Combined company other contractual obligations.* In addition to the debt maturities shown above, the combined company will have other contractual obligations and commitments, which it expects to fund with projected operating cash flows, available credit facilities or future financing transactions, if necessary. These obligations and commitments for each company are more fully described in Phelps Dodge's Annual Report on Form 10-K for the year ended December 31, 2006 and in Freeport McMoRan's Annual Report on Form 10-K for the year ended December 31, 2006, each of which is filed with the Securities and Exchange Commission and incorporated by reference herein. See

Where You Can Find More Information. The following table summarizes these obligations and commitments as of December 31, 2006:

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

S-60

**Table of Contents**

**BUSINESS OF THE COMBINED COMPANY**

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

On November 19, 2006, Freeport-McMoRan and Phelps Dodge announced that they signed a merger agreement pursuant to which Freeport-McMoRan acquired Phelps Dodge on March 19, 2007 for approximately \$25.9 billion in cash and stock, based on Freeport-McMoRan's closing stock price on November 17, 2006, creating one of the world's largest publicly-traded copper companies and one of North America's largest mining companies. Freeport-McMoRan will use the proceeds from this offering to repay outstanding indebtedness under our Tranche A term loan facility and Tranche B term loan facility.

**Acquisition Rationale**

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

our increased scale of operations, management depth and strengthened cash flows will provide an improved platform from which to capitalize on growth opportunities in the global market;

we will be well-positioned to benefit from the positive copper market at a time when there is a scarcity of large-scale copper development projects combined with strong global demand for copper;

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

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

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

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

**Our Business**

The combined company will be a new industry leader with large, long-lived, geographically diverse assets and significant proven and probable reserves of copper, gold and molybdenum. The combined company will have significant, geographically diverse ore reserves. At December 31, 2006, on a pro forma basis after giving effect to the transactions, the combined company's ore reserves on a consolidated basis totaled 93.6 billion pounds of copper,

42.4 million ounces of gold and 2.0 billion pounds of molybdenum, and the combined company's equity share of those ore reserves, net of the interests of all joint venture partners and minority owners, of those reserves totaled 77.2 billion pounds of copper, 38.3 million ounces of gold and 1.8 billion pounds of molybdenum. The combined company's mines will have lives ranging from 6 years to 37 years based on current ore reserves and mine plans. The combined company's consolidated implied reserve lives, calculated by dividing reserves by estimated production rates, will be 21 years for copper, 22 years for

S-61

---



**Table of Contents**

gold and 25 years for molybdenum. The charts below illustrate the composition and diversity of the combined company's portfolio by geography and commodity:

Freeport-McMoRan conducts its operations primarily through its principal operating subsidiaries, PT Freeport Indonesia and Atlantic Copper, S.A., which operates a copper smelter and refinery in Huelva, Spain. In addition, Freeport-McMoRan holds exploration rights covering approximately 2.2 million acres in Papua, Indonesia. PT Freeport Indonesia's operations in Papua, Indonesia, involve mineral exploration and development, mining and milling of ore containing copper, gold and silver and the worldwide marketing of concentrates containing those metals. PT Freeport Indonesia's principal asset is the world-class Grasberg mine discovered in 1988. The Grasberg minerals district contains the world's largest single copper reserve and world's largest single gold reserve. PT Freeport Indonesia is also a 25 percent owner of PT Smelting, which operates a copper smelter and refinery in Gresik, Indonesia.

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

**Table of Contents**

**DESCRIPTION OF MANDATORY CONVERTIBLE PREFERRED STOCK**

The following is a summary of certain provisions of the certificate of designation for our 63/4% mandatory convertible preferred stock (which we will refer to for purposes of this section as the Convertible Preferred Stock ). A copy of the certificate of designation and the form of Convertible Preferred Stock share certificate are available upon request from us at the address set forth under Where You Can Find More Information. The following summary of the terms of Convertible Preferred Stock does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the certificate of designation. As used in this section, the terms the Company, us, we or our refer to Freeport-McMoRan Copper & Gold, Inc. and not any of its subsidiaries.

**General**

Under our amended and restated certificate of incorporation, our board of directors is authorized, without further shareholder action, to issue up to 50,000,000 shares of preferred stock, par value \$0.10 per share, in one or more series, with such voting powers or without voting powers, and with such designations, and relative preferences, participating, optional or other special rights, and qualifications, limitations or restrictions, as shall be set forth in the resolutions providing therefor. We have 46,400,000 shares of authorized preferred stock which are undesignated. We have 2,500,000 shares of preferred stock which are designated as Series A Participating Cumulative Preferred Stock, none of which are currently outstanding, and 1,099,985 shares of preferred stock which are designated as 51/2% Convertible Perpetual Preferred Stock, all of which are currently outstanding. At the consummation of this offering, we will issue 25,000,000 shares of Convertible Preferred Stock. In addition, we have granted the underwriters an option to purchase up to 3,750,000 additional shares in accordance with the procedures set forth in Underwriters. Please read Description of Freeport-McMoRan Capital Stock in the accompanying prospectus.

When issued, the Convertible Preferred Stock and any common stock issued upon the conversion of the Convertible Preferred Stock will be fully paid and nonassessable. The holders of the Convertible Preferred Stock will have no preemptive or preferential right to purchase or subscribe to stock, obligations, warrants or other securities of the Company of any class. The transfer agent, registrar, redemption, conversion and dividend disbursing agent for shares of both the Convertible Preferred Stock and common stock is Mellon Investor Services LLC.

**Ranking**

The Convertible Preferred Stock, with respect to dividend rights or rights upon our liquidation, winding-up or dissolution, ranks:

senior to our common stock and to each other class of capital stock or series of preferred stock established after the original issue date of the Convertible Preferred Stock (which we will refer to as the Issue Date ), the terms of which do not expressly provide that such class or series ranks senior to or on a parity with the Convertible Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution (which we will refer to collectively as Junior Stock );

on parity with our Series A Participating Cumulative Preferred Stock, if any, and our outstanding 51/2% Convertible Perpetual Preferred Stock and with any class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank on a parity with the Convertible Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution (which we will refer to collectively as Parity Stock ); and

junior to each class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank senior to the Convertible Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution (which we will refer to collectively as Senior Stock ).

S-63

---

## **Table of Contents**

### **Dividends**

Holders of shares of Convertible Preferred Stock will be entitled to receive, when, as and if declared by our board of directors out of funds legally available for payment, cumulative dividends at the rate per annum of 6.75% per share on the liquidation preference thereof of \$100.00 per share of Convertible Preferred Stock (equivalent to \$6.75 per annum per share), payable in cash, by delivery of shares of our common stock or through any combination of cash and our common stock. See **Method of Payment of Dividends** below. Dividends on the Convertible Preferred Stock will be payable quarterly on February 1, May 1, August 1 and November 1 of each year up to and including the mandatory conversion date (as defined below), commencing August 1, 2007 (each, a **Dividend Payment Date** ) at such annual rate, and shall accumulate from the most recent date as to which dividends shall have been paid or, if no dividends have been paid, from the Issue Date of the Convertible Preferred Stock, whether or not in any dividend period or periods there have been funds legally available for the payment of such dividends. Dividends will be payable to holders of record as they appear on our stock register on the immediately preceding January 15, April 15, July 15 and October 15 (each, a **Record Date** ). Accumulations of dividends on shares of Convertible Preferred Stock do not bear interest. Dividends payable on the Convertible Preferred Stock for any period other than a full dividend period (based upon the number of days elapsed during the period) are computed on the basis of a 360-day year consisting of twelve 30-day months. The initial dividend on the Convertible Preferred Stock for the first dividend period, assuming the issue date is March 28, 2007, is expected to be \$2.30625 per share (based on the annual dividend rate of 6.75% and a liquidation preference of \$100.00 per share) and will be payable, when and if declared on August 1, 2007. Each subsequent quarterly dividend on the Convertible Preferred Stock, when and if declared, will be \$1.6875 per share (based on the annual dividend rate of 6.75% and a liquidation preference of \$100.00 per share), subject to adjustments for stock splits, contributions, reclassifications or other similar events involving our Convertible Preferred Stock.

No dividend will be declared or paid upon, or any sum set apart for the payment of dividends upon, any outstanding share of the Convertible Preferred Stock with respect to any dividend period unless all dividends for all preceding dividend periods have been declared and paid or declared and a sufficient sum or number of shares of common stock have been set apart for the payment of such dividend, upon all outstanding shares of Convertible Preferred Stock.

Our ability to declare and pay cash dividends and make other distributions with respect to our capital stock, including the Convertible Preferred Stock, is limited by the terms of our outstanding indebtedness. In addition, our ability to declare and pay dividends may be limited by applicable Delaware law. See **Risk Factors** **Risks Related to our Mandatory Convertible Preferred Stock** We may not be able to pay cash dividends on the mandatory convertible preferred stock.

### **Method of Payment of Dividends**

Subject to the dividend cap described below, we may pay any dividend (or any portion of any dividend) on the Convertible Preferred Stock (whether or not for a current dividend period or any prior dividend period, and including in connection with the payment of accrued, accumulated and unpaid dividends pursuant to the provisions described under **Mandatory Conversion**, **Conversion at the Option of the Holder** and **Conversion Upon Cash Acquisition; C Acquisition Dividend Make-Whole Amount** ), determined in our sole discretion:

in cash;

by delivery of shares of our common stock; or

through any combination of cash and our common stock.

If we elect to make any such payment, or any portion thereof, in shares of our common stock, such shares shall be valued for such purpose, in the case of any dividend payment, or portion thereof, at 97% of the average of the daily closing price per share of our common stock on each of the five consecutive trading days ending on the second trading day immediately preceding the payment date for such dividend.

S-64

---

**Table of Contents**

We will make each dividend payment on the Convertible Preferred Stock in cash, except to the extent we elect to make all or any portion of such payment in shares of our common stock. We will give the holders of the Convertible Preferred Stock notice of any such election and the portion of such payment that will be made in cash and the portion that will be made in common stock 10 trading days prior to the payment date for such dividend.

No fractional shares of common stock will be delivered to the holders of the Convertible Preferred Stock, but we will instead pay a cash adjustment to each holder that would otherwise be entitled to a fraction of a share of common stock. Any portion of any such payment that is declared and not paid through the delivery of shares of common stock will be paid in cash.

Notwithstanding the foregoing, in no event will the number of shares of our common stock delivered in connection with any dividend payment made in connection with a conversion exceed an amount equal to the total dividend payment divided by \$20.42 (representing approximately 33% of the initial price, as defined below), subject to adjustment in the same manner as each fixed conversion rate as set forth under Anti-dilution Adjustments. We refer to this provision as the dividend cap. To the extent we do not deliver shares as a result of this dividend cap, we may, notwithstanding any notice by us to the contrary, pay the remaining declared and unpaid dividend in cash.

To the extent a shelf registration statement is required in connection with the issuance of or for resales of common stock issued as payment of a dividend, including dividends paid in connection with a conversion, we will, to the extent such a registration statement is not currently filed and effective, use our reasonable best efforts to file and maintain the effectiveness of such a shelf registration statement until the earlier of such time as all such shares of common stock have been resold thereunder and such time as all such shares are freely tradeable without registration.

Unless all accrued, cumulated and unpaid dividends on the Convertible Preferred Stock for all past quarterly dividend periods shall have been paid in full, we will not:

declare or pay any dividend or make any distribution of assets on any Junior Stock, other than dividends or distributions in the form of Junior Stock and cash solely in lieu of fractional shares in connection with any such dividend or distribution;

redeem, purchase or otherwise acquire any shares of Junior Stock or pay or make any monies available for a sinking fund for such shares of Junior Stock, other than (A) upon conversion or exchange for other Junior Stock or (B) the purchase of fractional interests in shares of any Junior Stock pursuant to the conversion or exchange provisions of such shares of Junior Stock;

declare or pay any dividend or make any distribution of assets on any shares of Parity Stock, other than dividends or distributions in the form of Parity Stock or Junior Stock and cash solely in lieu of fractional shares in connection with any such dividend or distribution; or

redeem, purchase or otherwise acquire any shares of Parity Stock, except upon conversion into or exchange for other Parity Stock or Junior Stock and cash solely in lieu of fractional shares in connection with any such conversion or exchange.

When dividends are not paid in full upon the shares of Convertible Preferred Stock, as discussed above, all dividends declared on the Convertible Preferred Stock and any other Parity Stock shall be paid either (a) pro rata so that the amount of dividends so declared on the shares of Convertible Preferred Stock and each such other class or series of Parity Stock shall in all cases bear to each other the same ratio as accumulated dividends on the shares of Convertible Preferred Stock and such class or series of Parity Stock bear to each other or (b) on another basis that is at least as

favorable to the holders of the Convertible Preferred Stock entitled to receive such dividends.

**Redemption**

The Convertible Preferred Stock will not be redeemable.

S-65

---

## **Table of Contents**

### **Liquidation Preference**

In the event of our voluntary or involuntary liquidation, winding-up or dissolution, each holder of Convertible Preferred Stock will be entitled to receive and to be paid out of our assets available for distribution to our shareholders, before any payment or distribution is made to holders of Junior Stock (including our common stock), a liquidation preference in the amount of \$100.00 per share of the Convertible Preferred Stock, plus accumulated and unpaid dividends on the shares to the date fixed for liquidation, winding-up or dissolution. If, upon our voluntary or involuntary liquidation, winding-up or dissolution, the amounts payable with respect to the liquidation preference of the Convertible Preferred Stock and all Parity Stock are not paid in full, the holders of the Convertible Preferred Stock and the Parity Stock will share equally and ratably in any distribution of our assets in proportion to the full liquidation preference and accumulated and unpaid dividends to which they are entitled. After payment of the full amount of the liquidation preference and accumulated and unpaid dividends to which they are entitled, the holders of the Convertible Preferred Stock will have no right or claim to any of our remaining assets. Neither the sale of all or substantially all our assets or business (other than in connection with our liquidation, winding-up or dissolution), nor our merger or consolidation into or with any other person, will be deemed to be our voluntary or involuntary liquidation, winding-up or dissolution.

The certificate of designation will not contain any provision requiring funds to be set aside to protect the liquidation preference of the Convertible Preferred Stock even though it is substantially in excess of the par value thereof.

### **Voting Rights**

The holders of the Convertible Preferred Stock will have no voting rights except as set forth below or as otherwise required by Delaware law from time to time.

If dividends on the Convertible Preferred Stock are in arrears and unpaid for six or more quarterly periods (whether or not consecutive), the holders of the Convertible Preferred Stock, voting as a single class with any Parity Stock having similar voting rights that are exercisable (including our Series A Participating Cumulative Preferred Stock, if any, and our outstanding 51/2% Convertible Perpetual Preferred Stock), will be entitled at our next regular or special meeting of shareholders to elect two additional directors to our board of directors. Upon the election of any additional directors, the number of directors that comprise our board shall be increased by such number of additional directors. Such voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the Convertible Preferred Stock has been paid in full. At any time after voting power to elect directors shall have become vested and be continuing in the holders of the Convertible Preferred Stock, or if a vacancy shall exist in the office of any such additional director, our board of directors may, and upon written request of the holders of record of at least 25% of the outstanding Convertible Preferred Stock addressed to the chairman of our board shall, call a special meeting of the holders of the Convertible Preferred Stock (voting separately as a class with all other series of Parity Stock upon which like voting rights have been conferred and are exercisable) for the purpose of electing the directors that such holders are entitled to elect. At any meeting held for the purpose of electing such a director, the presence in person or by proxy of the holders of at least a majority of the Convertible Preferred Stock shall be required to constitute a quorum of such Convertible Preferred Stock.

In addition, the affirmative vote or consent of the holders of at least 662/3% of the outstanding shares of Convertible Preferred Stock and all other Parity Stock having similar voting rights that are exercisable (including our Series A Participating Cumulative Preferred Stock, if any, and our outstanding 51/2% Convertible Perpetual Preferred Stock), voting as a single class, in person or by proxy, at an annual meeting of our stockholders or at a special meeting called for such purpose, or by written consent in lieu of such meeting, will be required to alter, repeal or amend, whether by merger, consolidation, combination, reclassification or otherwise, any provisions of our amended and restated



certificate of incorporation or the certificate of designation if the amendment would amend, alter or affect the powers, preferences or rights of the Convertible Preferred Stock so as to adversely affect the holders thereof, including, without limitation, the creation of, increase in the authorized number of, or issuance of, shares of any class or series of Senior Stock. The

S-66

---

## **Table of Contents**

certificate of designation will provide that the authorization of, the increase in the authorized amount of, or the issuance of any shares of any class or series of Parity Stock or Junior Stock will not require the consent of the holders of the Convertible Preferred Stock, and will not be deemed to adversely affect the powers, preferences or rights of the holders of the Convertible Preferred Stock.

The number of votes that each share of Convertible Preferred Stock and any Parity Stock participating in the votes described above shall have shall be in proportion to the liquidation preference of such share. In all cases in which the holders of Convertible Preferred Stock shall be entitled to vote as a single class with holders of Parity Stock with a liquidation preference of \$1,000, each share of Convertible Preferred Stock shall be entitled to one-tenth of one vote (which shall be aggregated among all votes cast by holders of Convertible Preferred Stock).

## **Mandatory Conversion**

Each share of the Convertible Preferred Stock, unless previously converted, will automatically convert on May 1, 2010 (the mandatory conversion date), into a number of shares of common stock equal to the conversion rate described below. In addition to the common stock issuable upon conversion of each share of Convertible Preferred Stock on the mandatory conversion date, holders will have the right to receive an amount equal to all accrued, cumulated and unpaid dividends on the Convertible Preferred Stock, whether or not declared prior to that date, for the then-current dividend period ending on the mandatory conversion date and all prior dividend periods (other than previously declared dividends on the Convertible Preferred Stock payable to holders of record as of a prior date), *provided* that we are legally permitted to pay such dividends at such time.

The conversion rate, which is the number of shares of common stock issuable upon conversion of each share of Convertible Preferred Stock on the applicable conversion date, will, subject to adjustment as described under Anti-dilution Adjustments below, be as follows:

if the applicable market value (as defined below) of our common stock is equal to or greater than \$73.50, which we call the threshold appreciation price, then the conversion rate will be 1.3605 shares of common stock per share of Convertible Preferred Stock (the minimum conversion rate), which is equal to \$100.00 (appropriately adjusted for stock splits, contributions, reclassifications or other similar events involving our Convertible Preferred Stock) divided by the threshold appreciation price;

if the applicable market value of our common stock is less than the threshold appreciation price but greater than \$61.25, which we call the initial price, then the conversion rate will be equal to \$100.00 (appropriately adjusted for stock splits, contributions, reclassifications or other similar events involving our Convertible Preferred Stock) divided by the applicable market value of our common stock; or

if the applicable market value of our common stock is less than or equal to the initial price, then the conversion rate will be 1.6327 shares of common stock per share of Convertible Preferred Stock (the maximum conversion rate), which is equal to \$100.00 (appropriately adjusted for stock splits, contributions, reclassifications or other similar events involving our Convertible Preferred Stock) divided by the initial price.

We refer to the minimum conversion rate and the maximum conversion rate collectively as the fixed conversion rates. The fixed conversion rates, the initial price and the threshold appreciation price are each subject to adjustment as described under Anti-dilution Adjustments below.

Accordingly, assuming that the market price of our common stock on the mandatory conversion date is the same as the applicable market value, the aggregate market value of the shares of common stock you receive upon conversion

will be:

greater than the liquidation preference of the Convertible Preferred Stock, if the applicable market value is greater than the threshold appreciation price,

S-67

---

## **Table of Contents**

equal to the liquidation preference, if the applicable market value is less than or equal to the threshold appreciation price and greater than or equal to the initial price, and

less than the liquidation preference, if the applicable market value is less than the initial price.

Applicable market value means the average of the daily closing price per share of our common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the mandatory conversion date.

The initial price is \$61.25. The threshold appreciation price represents an approximately 20% appreciation over the initial price.

The daily closing price of our common stock or any securities distributed in a spin-off, as the case may be, on any date of determination means the closing sale price or, if no closing sale price is reported, the last reported sale price of shares of our common stock or such other securities on the New York Stock Exchange on that date. If our common stock or such other securities are not traded on the New York Stock Exchange on any date of determination, the closing price of our common stock or such other securities on any date of determination means the closing sale price as reported in the composite transactions for the principal U.S. national or regional securities exchange on which our common stock or such other securities are so listed or quoted, or if our common stock or such other securities not so listed or quoted on a U.S. national or regional securities exchange, as reported by the Nasdaq stock market, or, if no closing price for our common stock or such other securities are so reported, the last quoted bid price for our common stock or such other securities are in the over-the-counter market as reported by the National Quotation Bureau or similar organization, or, if that bid price is not available, the market price of our common stock or such other securities are on that date as determined by a nationally recognized independent investment banking firm retained by us for this purpose.

A trading day is a day on which shares of our common stock:

are not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business; and

has traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of our common stock.

All references herein to the daily closing price of our common stock on the New York Stock Exchange shall be such daily closing price as reflected on the website of the New York Stock Exchange ([www.nyse.com](http://www.nyse.com)) and as reported by Bloomberg Professional Service; *provided that* in the event that there is a discrepancy between the daily closing sale price as reflected on the website of the New York Stock Exchange and as reported by Bloomberg Professional Service, the daily closing sale price on the website of the New York Stock Exchange shall govern.

## **Conversion**

Conversion into shares of common stock will occur on the mandatory conversion date, unless you have converted your shares of Convertible Preferred Stock prior to the mandatory conversion date, in the manner described in

Conversion at the Option of the Holder or Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount.

On the mandatory conversion date, if shares of Convertible Preferred Stock are held in certificated form and you have complied with some additional procedures set forth in the certificate of designation, certificates representing shares of our common stock will be issued and delivered to you or your designee upon presentation and surrender of the

certificate evidencing the Convertible Preferred Stock.

The person or persons entitled to receive the shares of common stock issuable upon conversion of the Convertible Preferred Stock will be treated as the record holder(s) of such shares as of the close of business on the applicable conversion date. Prior to the close of business on the applicable conversion date, the shares

S-68

---

## **Table of Contents**

of common stock issuable upon conversion of the Convertible Preferred Stock will not be deemed to be outstanding for any purpose and you will have no rights with respect to such shares of common stock, including voting rights, rights to respond to tender offers and rights to receive any dividends or other distributions on the common stock, by virtue of holding the Convertible Preferred Stock.

### **Conversion at the Option of the Holder**

Other than during the cash acquisition conversion period (as defined below), holders of the Convertible Preferred Stock have the right to convert the Convertible Preferred Stock, in whole or in part, at any time prior to the mandatory conversion date, into shares of our common stock at the minimum conversion rate of 1.3605 shares of common stock per share of Convertible Preferred Stock, subject to adjustment as described under **Anti-dilution Adjustments** below.

In addition to the number of shares of common stock issuable upon conversion of each share of Convertible Preferred Stock at the option of the holder on the effective date of any early conversion (herein referred to as the **early conversion date**), each converting holder will have the right to receive an amount equal to all accrued, cumulated and unpaid dividends on such converted share(s) of Convertible Preferred Stock, whether or not declared prior to that date, for all prior dividend periods ending on or prior to the dividend payment date immediately preceding the early conversion date (other than previously declared dividends on our Convertible Preferred Stock payable to holders of record as of a prior date), *provided that* we are then legally permitted to pay such dividends. Except as described above, upon any optional conversion of our Convertible Preferred Stock, we will make no payment or allowance for unpaid dividends on our Convertible Preferred Stock.

### **Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount**

*General.* If a cash acquisition (as defined below) occurs, we will provide for the conversion of shares of the Convertible Preferred Stock and a cash acquisition dividend make-whole amount (as defined below) by:

permitting holders to submit their shares of the Convertible Preferred Stock for conversion at any time during the period (the **cash acquisition conversion period**) beginning on the effective date of such cash acquisition (the **effective date**) and ending on the date that is 15 days after the effective date at the conversion rate (the **cash acquisition conversion rate**) specified in the table below; and

paying converting holders an amount equal to the sum of (a) any accumulated and unpaid dividends on their shares of the Convertible Preferred Stock plus (b) the present value of all remaining dividend payments on their shares of Convertible Preferred Stock through and including the mandatory conversion date, calculated as set forth below (subject to our ability to satisfy the make-whole amount by increasing the number of shares to be issued on conversion).

We will notify holders, at least 20 days prior to the anticipated effective date of such cash acquisition, of the anticipated effective date of such transaction. In addition, if we elect to deliver some or all of the amount of cumulated and unpaid dividends and the present value of all remaining dividend payments on your Convertible Preferred Stock through and including the mandatory conversion date, in shares of our common stock (as described below), such notice will indicate whether such amount will be payable in full in shares of our common stock or any combination of cash and shares of our common stock, and we will specify the combination in the notice.

**Table of Contents**

*Cash Acquisition Conversion Rate.* The following table sets forth the cash acquisition conversion rate per share of Convertible Preferred Stock for each hypothetical stock price and effective date set forth below:

	<b>Stock Price on Effective Date</b>										
	<b>\$30.00</b>	<b>\$40.00</b>	<b>\$50.00</b>	<b>\$61.25</b>	<b>\$67.38</b>	<b>\$73.50</b>	<b>\$80.00</b>	<b>\$90.00</b>	<b>\$100.00</b>	<b>\$125.00</b>	<b>\$150.00</b>
3050	1.3652	1.3726	1.3658	1.3554	1.3502	1.3457	1.3416	1.3368	1.3334	1.3291	1.3250
4252	1.4606	1.4508	1.4281	1.4026	1.3907	1.3806	1.3717	1.3611	1.3536	1.3436	1.3344
5291	1.5508	1.5363	1.4993	1.4529	1.4306	1.4117	1.3954	1.3772	1.3653	1.3520	1.3400
6327	1.6327	1.6327	1.6327	1.6327	1.4842	1.3605	1.3605	1.3605	1.3605	1.3605	1.3605

A cash acquisition will be deemed to have occurred at such time after the original issuance of the Convertible Preferred Stock upon the consummation of any acquisition (whether by means of a liquidation, share exchange, tender offer, consolidation, recapitalization, reclassification, merger of us or any sale, lease or other transfer of the consolidated assets of ours and our subsidiaries) or a series of related transactions or events pursuant to which 90% or more of our common stock is exchanged for, converted into or constitutes solely the right to receive cash, securities or other property more than 10% of which consists of cash, securities or other property that are not, or upon issuance will not be, traded on the New York Stock Exchange or quoted on the Nasdaq National Market.

The cash acquisition conversion rate will be determined by reference to the table above and is based on the effective date and the price (the stock price) paid per share of our common stock in such transaction. If the holders of our common stock receive only cash in the cash acquisition, the stock price shall be the cash amount paid per share. Otherwise the stock price shall be the average of the daily closing price per share of our common stock on each of the 10 consecutive trading days up to but not including the effective date.

The stock prices set forth in the first row of the table (*i.e.*, the column headers) will be adjusted as of any date on which the fixed conversion rates of our Convertible Preferred Stock are adjusted. The adjusted stock prices will equal the stock prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the minimum conversion rate immediately prior to the adjustment giving rise to the stock price adjustment and the denominator of which is the minimum conversion rate as so adjusted. Each of the conversion rates in the table will be subject to adjustment in the same manner as each fixed conversion rate as set forth under Anti-dilution Adjustments.

The exact stock price and effective dates may not be set forth on the table, in which case:

if the stock price is between two stock price amounts on the table or the effective date is between two dates on the table, the cash acquisition conversion rate will be determined by straight-line interpolation between the cash acquisition conversion rates set forth for the higher and lower stock price amounts and the two dates, as applicable, based on a 365-day year;

if the stock price is in excess of \$300.00 per share (subject to adjustment as described above), then the cash acquisition conversion rate will be the minimum conversion rate, subject to adjustment; and

if the stock price is less than \$20.00 per share (subject to adjustment as described above), then the cash acquisition conversion rate will be the maximum conversion rate, subject to adjustment.

*Cash Acquisition Dividend Make-Whole Payment.* For any shares of Convertible Preferred Stock that are converted during the cash acquisition conversion period, in addition to the shares of common stock issued upon conversion, we must, in our sole discretion, either (a) pay you in cash, to the extent we are legally permitted to do so, the sum of (which we refer to as the cash acquisition dividend make-whole amount ) (1) an amount equal to any accumulated and unpaid dividends on your shares of our Convertible Preferred Stock, whether or not declared, and (2) the present value of all remaining dividend payments on your shares of Convertible Preferred Stock through and including the mandatory conversion date, in each case, out of legally available assets, or (b) increase the number of shares of our common stock to be issued on conversion by an amount equal to the cash acquisition dividend make-whole amount, divided by the stock price (as defined

S-70

---



## **Table of Contents**

above) of shares of our common stock; *provided that*, in no event shall we increase the number of shares of our common stock to be issued in excess of the amount equal to the cash acquisition dividend make-whole amount divided by \$20.42, subject to adjustments in the same manner as each fixed conversion rate as set forth under

Anti-dilution Adjustments. We may make the election to pay cash or increase the conversion rate, in whole or in part, as set forth in our cash acquisition notice described above. The present value of the remaining dividend payments will be computed using a discount rate equal to 7.00%.

Our obligation to deliver shares at the cash acquisition conversion rate and pay the cash acquisition dividend make-whole amount could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

## **Fractional Shares**

No fractional common shares will be issued to holders of our Convertible Preferred Stock upon conversion. In lieu of any fractional common share otherwise issuable in respect of the aggregate number of shares of our Convertible Preferred Stock of any holder that are converted, that holder will be entitled to receive an amount in cash (computed to the nearest cent) equal to the same fraction of:

in the case of mandatory conversion or a merger early conversion, the average of the daily closing price per common share on each of the five consecutive trading days preceding the trading day immediately preceding the date of conversion; or

in the case of each early conversion at the option of a holder, the closing price per common share determined as of the second trading day immediately preceding the effective date of conversion.

If more than one share of our Convertible Preferred Stock is surrendered for conversion at one time by or for the same holder, the number of full common shares issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of our Convertible Preferred Stock so surrendered.

## **Anti-dilution Adjustments**

Each fixed conversion rate will be adjusted if:

(1) We pay dividends (or other distributions) on our common stock in shares of common stock.

(2) We issue to all holders of our common stock rights or warrants (other than rights or warrants issued pursuant to a dividend reinvestment plan or share purchase plan or other similar plans) entitling them, for a period of up to 45 days from the date of issuance of such rights or warrants, to subscribe for or purchase our shares of common stock at less than the current market price, as defined below, of our common stock on the date fixed for the determination of shareholders entitled to receive such rights or warrants.

(3) We subdivide, split or combine our common stock.

(4) We distribute to all holders of our common stock evidences of our indebtedness, shares of capital stock, securities, cash or other assets (excluding any dividend or distribution covered by clauses (1) or (3) above, any rights or warrants referred to in (2) above, any dividend or distribution paid exclusively in cash, any consideration payable in connection with a tender or exchange offer made by us or any of our subsidiaries, and any dividend of shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit in the case of certain spin-off transactions as described below), in which event each fixed conversion rate in effect immediately prior to the

close of business on the date fixed for the determination of shareholders entitled to receive such distribution will be multiplied by a fraction,

the numerator of which is the current market price per share of our common stock on the date fixed for determination, and

S-71

---

**Table of Contents**

the denominator of which is the current market price per share of our common stock minus the fair market value, as determined by our board of directors, except as described in the following paragraph, of the portion of the evidences of indebtedness, shares, securities, cash or other assets so distributed applicable to one share of common stock.

In the event that we make a distribution to all holders of our common shares consisting of capital stock of, or similar equity interests in, or relating to a subsidiary or other business unit of ours (herein referred to as a spin-off), each fixed conversion rate will be adjusted by multiplying such fixed conversion rate in effect immediately prior to the close of business on the date fixed for the determination of shareholders entitled to receive such distribution by a fraction, the numerator of which is the current market price per share of our common stock as of the fifteenth trading day after the ex-date for such distribution, plus the fair market value of the portion of those shares of capital stock or similar equity interests so distributed applicable to one share of common stock as of the fifteenth trading day after the ex-date for such distribution (or, if such shares of capital stock or equity interests are listed on a national or regional securities exchange, the average of the daily closing price of such securities on each of the five consecutive trading days ending on such fifteenth trading day), and the denominator of which is the current market price per share of our common stock, in each case as of the fifteenth trading day after the ex-date for such distribution.

(5) We make a distribution consisting exclusively of cash to all holders of our common stock, excluding (a) any cash dividend on our common stock to the extent that the aggregate cash dividend per share of our common stock does not exceed \$0.3125 in any fiscal quarter (the dividend threshold amount), (b) any cash that is distributed in a reorganization event (as described below) or as part of a distribution referred to in clause (4) above, (c) any dividend or distribution in connection with our liquidation, dissolution or winding up, and (d) any consideration payable in connection with a tender or exchange offer made by us or any of our subsidiaries, in which event, each fixed conversion rate in effect immediately prior to the close of business on the date fixed for determination of the holders of our common stock entitled to receive such distribution will be multiplied by a fraction:

the numerator of which will be the current market price of our common stock on the date fixed for such determination; and

the denominator of which will be the current market price of our common stock on the date fixed for such determination less the amount per share of such dividend or distribution.

If an adjustment is required to be made as set forth in this clause as a result of a distribution (1) that is a regularly scheduled quarterly dividend, the amount per share of such dividend or distribution for purposes of the second bullet point above will be deemed to be the amount by which such dividend exceeds the applicable dividend threshold amount or (2) that is not a regularly scheduled quarterly dividend, the amount per share of such dividend or distribution for purposes of the second bullet point above will be deemed to be the full amount of such distribution.

The dividend threshold amount is subject to adjustment on an inversely proportional basis whenever fixed conversion rates are adjusted; *provided that* no adjustment will be made to the dividend threshold amount for adjustments made to the fixed conversion rates pursuant to this clause (5).

(6) We or any of our subsidiaries successfully complete a tender or exchange offer for our common stock that involves an aggregate consideration that, together with (a) any cash and other consideration payable in a tender or exchange offer by us or any of our subsidiaries for shares of common stock expiring within the then-preceding 12 months in respect of which no adjustment has been made and (b) the aggregate amount of any such all-cash distributions referred to in clause (5) above to all holders of shares of common stock within the then-preceding 12 months in respect of which no adjustments have been made, exceeds 15% of our market capitalization on the expiration of



**Table of Contents**

such tender offer, in which event each fixed conversion rate in effect immediately prior to the opening of business on the eighth trading day after the date of expiration of the tender or exchange offer will be divided by a fraction:

the numerator of which shall be equal to (A) the product of (I) the current market price per share of our common stock on the seventh trading day after the date of expiration of the tender or exchange offer multiplied by (II) the number of shares of common stock outstanding (including any shares validly tendered and not withdrawn) at such time less (B) the amount of cash plus the fair market value, as determined by our board of directors, of the aggregate consideration payable for all the shares of common stock purchased in such tender or exchange offer, and

the denominator of which will be the product of the number of shares of common stock outstanding (including any shares validly tendered and not withdrawn) less the number of all shares validly tendered and not withdrawn as of the expiration time and the current market price per common share on the seventh trading day next succeeding the expiration of the tender or exchange offer.

(7) To the extent that we have a rights plan in effect with respect to our common stock on any conversion date, upon conversion of any shares of the Convertible Preferred Stock, you will receive, in addition to our common stock, the rights under the rights plan, unless, prior to such conversion date, the rights have separated from our common stock, in which case each fixed conversion rate will be adjusted at the time of separation as if we made a distribution to all holders of our common stock as described in clause (4) above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

The current market price is the average of the daily closing price per share of our common stock on each of the five consecutive trading days preceding the earlier of the day preceding the date in question and the day before the ex-date with respect to the issuance or distribution requiring such computation. For purposes of this paragraph, the term ex-date, when used with respect to any such issuance or distribution, means the first date on which shares of our common stock trade without the right to receive such issuance or distribution. For the purposes of determining the adjustment to the fixed conversion rate for the purposes of clause (4) in the event of a spin-off, the current market price per share of our common stock means the average of the daily closing price on each of the first ten consecutive trading days commencing on and including the fifth trading day following the ex-date for such distribution.

In the event of (a) any consolidation or merger of us with or into another person (other than a merger or consolidation in which we are the continuing corporation and in which the shares of our common stock outstanding immediately prior to the merger or consolidation are not exchanged for cash, securities or other property of us or another person), (b) any sale, transfer, lease or conveyance to another person of all or substantially all of our property and assets, (c) any reclassification of our common stock into securities including securities other than our common stock, or (d) any statutory exchange of our securities with another person (other than in connection with a merger or acquisition) (herein referred to as reorganization events), each share of Convertible Preferred Stock outstanding immediately prior to such reorganization event shall, without the consent of the holders of the Convertible Preferred Stock, become convertible into the kind of securities, cash and other property that such holder would have been entitled to receive if such holder had converted its Convertible Preferred Stock into common stock immediately prior to such reorganization event. For purposes of the foregoing, the type and amount of consideration that a holder of Convertible Preferred Stock would have been entitled to receive as a holder of our common stock in the case of any reorganization event or other transaction that causes our common stock to be converted into the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election) will be deemed to be the weighted average of the types and amounts of consideration received by the holders of our common stock that affirmatively make such an election. In such event, on the applicable conversion date, the applicable conversion rate then in effect will be applied to determine the amount and value of securities, cash or property a holder of one share of

common stock would have received in such transaction (without interest thereon and

S-73

---

**Table of Contents**

without any right to dividends or distributions thereon which have a record date prior to the date such shares of Convertible Preferred Stock are actually converted). The applicable conversion rate shall be (a) the minimum conversion rate, in the case of an early conversion date, and (b) determined based upon the definition of the conversion rate in the case of the mandatory conversion date, in each case, determined using the applicable market value of the exchanged property. Holders have the right to convert their shares of Convertible Preferred Stock early in the event of certain cash mergers as described under Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount.

In addition, we may make such increases in each fixed conversion rate as we deem advisable in order to avoid or diminish any income tax to holders of our common stock resulting from any dividend or distribution of our shares (or issuance of rights or warrants to acquire our shares) or from any event treated as such for income tax purposes or for any other reason. We may only make such a discretionary adjustment if we make the same proportionate adjustment to each fixed conversion rate.

In the event of a taxable distribution to holders of our common shares that results in an adjustment of each fixed conversion rate or an increase in each fixed conversion rate in our discretion, holders of Convertible Preferred Stock may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend. In addition, non-U.S. holders of Convertible Preferred Stock may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal withholding tax requirements. See Certain U.S. Federal Tax Considerations Tax Consequences to U.S. Holders Constructive Dividends in this prospectus supplement.

Adjustments to the conversion rate will be calculated to the nearest 1/10,000th of a share. Prior to May 1, 2010, no adjustment in the conversion rate will be required unless the adjustment would require an increase or decrease of at least one percent in the conversion rate. If any adjustment is not required to be made because it would not change the conversion rate by at least one percent, then the adjustment will be carried forward and taken into account in any subsequent adjustment; *provided, however*, that with respect to adjustments to be made to the conversion rate in connection with cash dividends paid by us, we will make such adjustments, regardless of whether such aggregate adjustments amount to one percent or more of the conversion rate no later than August 1 of each calendar year; *provided further* that on May 1, 2010, adjustments to the conversion rate will be made with respect to any such adjustment carried forward and which has not been taken into account before such date.

No adjustment to the conversion rate need be made if holders may participate in the transaction that would otherwise give rise to such adjustment, so long as the distributed assets or securities the holders would receive upon conversion of the Convertible Preferred Stock if such assets or securities are convertible, exchangeable, or exercisable are convertible, exchangeable or exercisable, as applicable, without any loss of rights or privileges for a period of at least 45 days following conversion of the Convertible Preferred Stock.

The applicable conversion rate will not be adjusted:

(a) upon the issuance of any common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in common stock under any plan;

(b) upon the issuance of any common stock or rights or warrants to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries;

(c) upon the issuance of any common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the date the Convertible Preferred Stock were first issued;

(d) for a change in the par value or no par value of our common stock; or

(e) for accrued, cumulated and unpaid dividends.

S-74

---



## **Table of Contents**

We will be required, as soon as practicable after the conversion rate is adjusted, to provide or cause to be provided written notice of the adjustment to the holders of shares of Convertible Preferred Stock. We will also be required to deliver a statement setting forth in reasonable detail the method by which the adjustment to each fixed conversion rate was determined and setting forth each revised fixed conversion rate.

If an adjustment is made to the fixed conversion rates, an inversely proportional adjustment also will be made to the threshold appreciation price and the initial price solely for the purposes of determining which clauses of the definition of the conversion rate will apply on the conversion date.

## **Book-Entry, Delivery and Form**

The certificates representing the Convertible Preferred Stock will be issued in fully registered form. Ownership of beneficial interests in a Global Security will be limited to persons who have accounts with the Depository Trust Company ( DTC ) ( participants ) or persons who hold interests through such participants. Ownership of beneficial interests in a Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered owner or holder of a Global Security, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Convertible Preferred Stock represented by such Global Security for all purposes under the certificate of designations and the securities. No beneficial owner of an interest in a Global Security will be able to transfer that interest except in accordance with the applicable procedures of DTC in addition to those provided for under the certificate of designations.

Payments of dividends on the Global Security will be made to DTC or its nominee, as the case may be, as the registered owner thereof. None of the Company, the transfer agent, registrar, redemption, conversion or dividend disbursing agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of dividends in respect of a Global Security, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Security as shown on the records of DTC or its nominee, as the case may be. The Company also expects that payments by participants to owners of beneficial interests in such Global Security held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds.

The Company understands that DTC is:

- a limited purpose trust company organized under the laws of the State of New York;
- a banking organization within the meaning of New York Banking Law;
- a member of the Federal Reserve System;

- a clearing corporation within the meaning of the Uniform Commercial Code; and
- a Clearing Agency registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include:

securities brokers and dealers;

S-75

---

**Table of Contents**

banks, trust companies; and

clearing corporations and certain other organizations.

Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly (indirect participants).

Although DTC is expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Security among its participants, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the transfer agent, registrar, redemption, conversion or dividend disbursing agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depository for the Global Security and a successor depository is not appointed by the Company within 90 days, the Company will issue certificated shares in exchange for the Global Securities. Holders of an interest in a Global Security may receive certificated shares, at the option of the Company, in accordance with the rules and procedures of DTC in addition to those provided for under the certificate of designations. Beneficial interests in Global Securities held by any direct or indirect participant may also be exchanged for certificated shares upon request to DTC by such direct participant (for itself or on behalf of an indirect participant), to the transfer agent in accordance with their respective customary procedures.

The information in this section concerning DTC and its book-entry system has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof.

S-76

---

**Table of Contents**

**CERTAIN U.S. FEDERAL TAX CONSIDERATIONS**

The following is a general discussion of the material U.S. federal income tax consequences and certain estate tax consequences of the ownership and disposition of our mandatory convertible preferred stock and our common stock received in respect thereof. This discussion only applies to mandatory convertible preferred stock or common stock that is held as a capital asset for U.S. federal income tax purposes.

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, such as:

certain financial institutions;

insurance companies;

dealers in securities;

persons holding the mandatory convertible preferred stock or common stock as part of a hedge, straddle, integrated transaction or similar transaction;

U.S. holders (as defined below) whose functional currency is not the U.S. dollar;

partnerships or other entities classified as partnerships for U.S. federal income tax purposes;

tax-exempt entities;

persons subject to the alternative minimum tax; or

non-U.S. holders (as defined below) that own, or are deemed to own, more than 5% of our common stock or more than 5% of the mandatory convertible preferred stock.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds mandatory convertible preferred stock or common stock, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Partnerships holding mandatory convertible preferred stock or common stock and partners in such partnerships should consult their tax advisors as to the particular U.S. federal income tax consequences of holding and disposing of the mandatory convertible preferred stock or the common stock.

This summary is based on the Internal Revenue Code of 1986, as amended (the Code), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction. Prospective holders are urged to consult their tax advisors with respect to the particular tax consequences to them of owning and disposing of the mandatory convertible preferred stock and the common stock, including the consequences under the laws of any state, local or foreign jurisdiction.

**Tax Consequences to U.S. Holders**

As used herein, the term "U.S. holder" means a beneficial owner of a share of mandatory convertible preferred stock or common stock that is, for U.S. federal income tax purposes:

a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or of any political subdivision thereof; or

an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

The term "U.S. holder" also includes certain former citizens and residents of the United States.

S-77

---

**Table of Contents**

***Taxation of distributions***

Distributions paid on our mandatory convertible preferred stock or common stock, other than certain pro rata distributions of common shares paid on our common stock, will be treated as a dividend to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles) and will be includible in income by the U.S. holder and taxable as ordinary income when received. If a distribution exceeds our current and accumulated earnings and profits, the excess will be first treated as a tax-free return of the U.S. holder's investment, up to the U.S. holder's tax basis in our mandatory convertible preferred stock or common stock. Any remaining excess will be treated as capital gain.

If we make a distribution on the mandatory convertible preferred stock in the form of common stock, such distribution will be taxable for U.S. federal income tax purposes in the same manner as distributions described above. The amount of such distribution will be equal to the fair market value of our common stock on the date of the distribution. A U.S. holder's tax basis in such common stock will also be equal to the fair market value of such common stock on the distribution date, and such U.S. holder's holding period for such common stock will begin on the day following the distribution date.

Provided certain holding period requirements are satisfied, non-corporate U.S. holders generally will be subject to U.S. federal income tax at a maximum rate of 15% on distributions treated as dividends for taxable years beginning before January 1, 2011.

Distributions taxable as dividends received by corporate U.S. holders will be eligible for the dividends-received deduction, subject to various limitations. The benefits of the dividends-received deduction to a corporate U.S. holder may be reduced or eliminated by many exceptions and restrictions, including restrictions relating to the corporate U.S. holder's taxable income, holding period of our mandatory convertible preferred stock or common stock and debt financing.

A dividend that exceeds certain thresholds in relation to a U.S. holder's tax basis in our mandatory convertible preferred stock or common stock could be characterized as an extraordinary dividend (as defined in Section 1059 of the Code). Generally, a corporate U.S. holder that receives an extraordinary dividend is required to reduce its stock basis by the portion of such dividend that is not taxed because of the dividends-received deduction. If the amount of the reduction exceeds such U.S. holder's tax basis in our mandatory convertible preferred stock or common stock, the excess is treated as taxable gain. Non-corporate U.S. holders who receive an extraordinary dividend would be required to treat any losses on the sale of our mandatory convertible preferred stock or common stock as long-term capital losses to the extent of the dividends received by them that qualify for the 15% tax rate.

U.S. holders should consult their own tax advisors regarding the availability of the reduced dividend tax rate or the dividends-received deduction, and the potential applicability of the extraordinary dividend rules, in light of their particular circumstances.

***Constructive dividends***

The conversion rate of the mandatory convertible preferred stock will be adjusted in certain circumstances as described above under *Description of Mandatory Convertible Preferred Stock* *Anti-dilution Adjustments*. Under the Code and applicable Treasury Regulations, adjustments that have the effect of increasing a holder's interest in our assets or earnings and profits may, in some circumstances, result in a deemed distribution to the holder.

If we were to make a distribution of cash or property to holders of our common stock (for example, distributions of indebtedness or assets, but generally not dividends of stock or rights to subscribe for our common stock) and the conversion rate of the mandatory convertible preferred stock were increased pursuant to the anti-dilution provisions, such increase would be deemed to be a distribution to the U.S. holders of the mandatory convertible preferred stock. In addition, any other increase in the conversion rate of the mandatory convertible preferred stock may, depending on the circumstances, be deemed to be a distribution to the U.S. holders of the mandatory convertible preferred stock. However, a reasonable increase in the conversion

S-78

---

## **Table of Contents**

rate in the event of stock dividends or distributions of rights to subscribe for our common stock generally will not give rise to a taxable constructive dividend.

In addition, in certain circumstances, the failure to make an adjustment of the conversion rate may result in a taxable distribution to holders of our mandatory convertible preferred stock or common stock, if as a result of such failure, the proportionate interests of the holders of our mandatory convertible preferred stock or common stock, as applicable, in our assets or earnings and profits is increased.

Any deemed distribution will be taxed in the same manner as an actual distribution. See [Taxation of distributions](#) above.

### ***Conversion of mandatory convertible preferred stock into common stock***

A U.S. holder's conversion of mandatory convertible preferred stock into common stock generally will not be a taxable event, except that the receipt of cash or shares of common stock in respect of accrued and unpaid dividends will be taxable as described under [Taxation of distributions](#) above and except that the receipt of cash in lieu of a fractional share of common stock will result in capital gain or loss (measured by the difference between the cash received in lieu of the fractional share and the U.S. holder's tax basis in the fractional share).

A U.S. holder's tax basis in the common stock received upon a conversion of mandatory convertible preferred stock (other than common stock received with respect to accrued and unpaid dividends, but including any basis allocable to a fractional share) will generally equal the tax basis of the mandatory convertible preferred stock that was converted. A U.S. holder's tax basis in a fractional share will be determined by allocating the holder's tax basis in the common stock between the common stock received upon conversion and the fractional share, in accordance with their respective fair market values.

The U.S. holder's holding period for the common stock received (other than common stock received with respect to accrued and unpaid dividends) will include such holder's holding period for the mandatory convertible preferred stock converted.

If a U.S. holder elects to convert such holder's mandatory convertible preferred stock in the event of a cash acquisition and, in respect of such conversion, we pay the U.S. holder a cash acquisition dividend make-whole amount or satisfy the make-whole amount by adjusting the conversion rate (as described under [Description of Mandatory Convertible Preferred Stock - Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount](#)), the tax treatment of the receipt of cash or shares of our common stock attributable to the present value of future dividends is uncertain. It is possible that the payment of shares of our common stock or cash attributable to the present value of future dividends will be treated as a distribution on the mandatory convertible preferred (with the resulting tax consequences described above under [Taxation of distributions](#)).

Alternatively, the payment of shares of our common stock attributable to the present value of future dividends may be treated as an adjustment to the conversion rate (as described above under [Constructive dividends](#)) and a U.S. holder may be required to recognize gain, but not loss, with respect to the payment of cash attributable to the present value of future dividends. In such circumstance, a U.S. holder's gain with respect to the payment of cash attributable to the present value of future dividends would be equal to the excess of the sum of the fair market value of the common stock and cash received (other than amounts attributable to accrued and unpaid dividends, which will be taxable as described above under [Taxation of distributions](#)) over the holder's tax basis in the mandatory convertible preferred stock, but in no event would the gain recognized exceed the amount of cash received that is attributable to the present value of future dividends. It is unclear whether such gain would be treated as capital gains or as dividend income. A U.S. holder's tax basis in the common stock received (other than common stock received with respect to accrued and



unpaid dividends but including any basis allocable to a fractional share) will equal the tax basis of the mandatory convertible preferred stock that was converted, reduced by the amount of cash received with respect to the present value of future dividends and increased by the amount of gain, if any, recognized (other than with respect to a fractional share, but including any gain treated as dividend income). Any capital gain

S-79

---

## **Table of Contents**

will be long-term capital gain if at the time of conversion the mandatory convertible preferred stock has been held for more than one year. Long-term capital gains recognized in tax years beginning prior to January 1, 2011 by non-corporate U.S. holders will be subject to reduced tax rates. U.S. holders should consult their own tax advisors regarding the tax treatment of the receipt of a cash acquisition dividend make-whole amount or additional shares of common stock upon a cash acquisition.

In the event a U.S. holder's mandatory convertible preferred stock is converted pursuant to certain other transactions, including our consolidation or merger into another person, the tax treatment of such a conversion will depend upon the facts underlying the particular transaction triggering such a conversion. U.S. holders should consult their own tax advisors to determine the specific tax treatment of a conversion under such circumstances.

### ***Sale or exchange***

Upon the sale or exchange of a U.S. holder's shares of mandatory convertible preferred stock (other than a conversion into common stock) or common stock, a U.S. holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale or exchange and the U.S. holder's adjusted tax basis in the mandatory convertible preferred stock or common stock.

Gain or loss realized on the sale or exchange of mandatory convertible preferred stock or common stock will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale or exchange the mandatory convertible preferred stock or common stock has been held for more than one year. Long-term capital gains recognized in tax years beginning prior to January 1, 2011 by non-corporate U.S. holders will be subject to reduced tax rates. The deductibility of capital losses may be subject to limitations.

### ***Information reporting and backup withholding***

Information returns will be filed with the Internal Revenue Service in connection with payments of dividends and the proceeds from a sale or other disposition of our mandatory convertible preferred stock or common stock. A U.S. holder will be subject to U.S. backup withholding on these payments if the U.S. holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against such U.S. holder's U.S. federal income tax liability and may entitle such holder to a refund, *provided* that the required information is furnished to the Internal Revenue Service.

### **Tax Consequences to Non-U.S. Holders**

As used herein, the term "non-U.S. holder" means a beneficial owner of mandatory convertible preferred stock or common stock that is, for U.S. federal income tax purposes:

- a nonresident alien individual;
- a foreign corporation; or
- a foreign estate or trust.

Non-U.S. holder does not include a holder who is an individual present in the United States for 183 days or more in the taxable year of disposition of the mandatory convertible preferred stock or common stock and who is not otherwise a resident of the United States for U.S. federal income tax purposes. Such a holder is urged to consult his or her own tax advisor regarding the U.S. federal income tax consequences of the sale, exchange or other disposition of

the mandatory convertible preferred stock or common stock.

***Taxation of distributions***

Dividends (including constructive dividends, dividends of common stock on mandatory convertible preferred stock and any amounts received on conversion attributable to accrued and unpaid dividends) paid to

S-80

---

## **Table of Contents**

a non-U.S. holder of mandatory convertible preferred stock or common stock generally will be subject to withholding tax at a 30% rate or a reduced rate specified by an applicable income tax treaty (except in the circumstances described in the following paragraphs). In order to obtain a reduced rate of withholding, a non-U.S. holder will be required to provide an Internal Revenue Service Form W-8BEN certifying its entitlement to benefits under a treaty.

In the case of any constructive dividend, it is possible that the U.S. federal tax on the constructive dividend would be withheld from cash dividends, shares of common stock or sales proceeds subsequently paid or credited to a non-U.S. holder. A non-U.S. holder who is subject to withholding tax under such circumstances should consult its own tax advisor as to whether it can obtain a refund for all or a portion of the withholding tax.

If at least 80% of our gross income for the relevant period (described below) is foreign source income attributable to non-U.S. active business operations, as determined under applicable tax rules, payments of dividends on mandatory convertible preferred stock and on the common stock will be subject to withholding tax only to the extent of that portion of the dividend which corresponds to the portion of our total gross income for the relevant period that is derived from U.S. sources. The relevant period is the three-year period ending with the close of our taxable year preceding our taxable year in which the dividend is paid. We have determined that this special exception to dividend withholding will apply to any dividends paid in the 2007 taxable year, and significantly less than 20% of our dividend distributions to non-U.S. holders in the 2007 taxable year will be subject to withholding tax. However, there can be no assurances that this special exception will apply to dividends paid after the 2007 taxable year.

The withholding tax does not apply to dividends paid to a non-U.S. holder who provides an Internal Revenue Service Form W-8ECI, certifying that the dividends are effectively connected with the non-U.S. holder's conduct of a trade or business within the United States. Instead, the effectively connected dividends will be subject to regular U.S. income tax as if the non-U.S. holder were a U.S. resident, subject to an applicable income tax treaty providing otherwise. A non-U.S. corporation receiving effectively connected dividends may also be subject to an additional branch profits tax imposed at a rate of 30% (or a lower treaty rate).

### ***Gain on disposition***

A non-U.S. holder generally will not be subject to U.S. federal income tax on gain realized on a sale or other disposition of mandatory convertible preferred stock (except, on conversion, to the extent amounts are received with respect to accrued and unpaid dividends, which will be treated in the manner described under Taxation of distributions above) or common stock unless:

the gain is effectively connected with a trade or business of the non-U.S. holder in the United States, subject to an applicable treaty providing otherwise, or

we are or have been a U.S. real property holding corporation, as described below, at any time within the five-year period preceding the disposition or the non-U.S. holder's holding period, whichever period is shorter, and our mandatory convertible preferred stock or common stock (as applicable) has ceased to be traded on an established securities market prior to the beginning of the calendar year in which the sale or disposition occurs.

Generally, a corporation is a U.S. real property holding corporation if the fair market value of its U.S. real property interests, as defined in the Code and applicable regulations, equals or exceeds 50% of the aggregate fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. We believe that we are not currently a U.S. real property holding corporation; however, we cannot assure holders that we will not become a U.S. real property holding corporation prior to a non-U.S. holder's disposition of common stock.

If a non-U.S. holder is engaged in a trade or business in the United States and gain recognized by the non-U.S. holder on a sale or other disposition of mandatory convertible preferred stock or common stock is effectively connected with the conduct of such trade or business, the non-U.S. holder will generally be taxed in the same manner as a U.S. holder, subject to an applicable income tax treaty providing otherwise.

S-81

---

**Table of Contents**

Non-U.S. holders whose gain from dispositions of mandatory convertible preferred stock or common stock may be effectively connected with the conduct of a trade or business in the United States are urged to consult their own tax advisors with respect to the U.S. tax consequences of the ownership and disposition of mandatory convertible preferred stock and common stock, including the possible imposition of a branch profits tax.

***Information reporting and backup withholding***

Information returns will be filed with the Internal Revenue Service in connection with payments of dividends and the proceeds from a sale or other disposition of mandatory convertible preferred stock or common stock. A non-U.S. holder may have to comply with certification procedures to establish that it is not a United States person in order to avoid information reporting and backup withholding tax requirements. The certification procedures required to claim a reduced rate of withholding under a treaty will satisfy the certification requirements necessary to avoid the backup withholding tax as well. The amount of any backup withholding from a payment to a non-U.S. holder will be allowed as a credit against such holder's United States federal income tax liability and may entitle such holder to a refund, *provided* that the required information is furnished to the Internal Revenue Service.

***Federal estate tax***

An individual non-U.S. holder who is treated as the owner of, or has made certain lifetime transfers of, an interest in the mandatory convertible preferred stock or common stock will be required to include the value of the stock in his or her gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

**Table of Contents****UNDERWRITERS**

We are offering the shares of mandatory convertible preferred stock described in this prospectus supplement through a number of underwriters. Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc. are acting as joint book-running managers of the offering and as representatives of the underwriters. We have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus supplement, the number of shares of mandatory convertible preferred stock listed next to its name in the following table:

<b>Underwriter</b>	<b>Number of Shares</b>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	10,000,000
J.P. Morgan Securities Inc.	10,000,000
Morgan Stanley & Co. Incorporated	2,500,000
UBS Securities LLC	2,000,000
HSBC Securities (USA) Inc.	250,000
Scotia Capital (USA) Inc.	250,000
<b>Total</b>	<b>25,000,000</b>

The underwriters are committed to purchase all the preferred shares offered by us if they purchase any shares. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

Pursuant to written instructions of the Company, the underwriters allocated 30,000 shares of mandatory convertible preferred stock to one of our directors, Stephen Siegele.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

**Overallotment Option**

The underwriters have an option to buy up to 3,750,000 additional shares of mandatory convertible preferred stock from us to cover sales of shares by the underwriters which exceed the number of shares specified in the table above. The underwriters have 30 days from the date of this prospectus supplement to exercise this overallotment option. If any shares are purchased with this overallotment option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of mandatory convertible preferred stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

**Commissions and Discounts**

The underwriters propose to offer the preferred shares directly to the public at the initial public offering price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of \$1.35 per share. After the public offering of the shares, the offering price and other selling terms may be changed by the underwriters. Sales of shares made outside of the United States may be made by affiliates of the underwriters.

S-83

---



**Table of Contents**

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	<b>Per Share</b>	<b>Without Option</b>	<b>With Option</b>
Public offering price	\$100.00	\$2,500,000,000	\$2,875,000,000
Underwriting discount	\$2.50	\$62,500,000	\$71,875,000
Proceeds, before expenses, to us	\$97.50	\$2,437,500,000	\$2,803,125,000

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately \$500,000.

**Electronic Distribution**

A prospectus supplement in electronic format may be made available on the web sites maintained by one or more underwriters, or selling group members, if any, participating in the offering. The underwriters may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

**No Sales of Similar Securities**

Other than our concurrent offering of common stock, we have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of our mandatory convertible preferred stock or common stock or securities convertible into or exchangeable or exercisable for any shares of our mandatory convertible preferred stock or common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc. for a period of 90 days after the date of this prospectus supplement, except that we may issue shares of our common stock upon the exercise of an option or the conversion of a securities outstanding on the date hereof (in addition to our mandatory convertible preferred stock) or issued pursuant to any employee stock option plan, non-employee director stock plan or dividend reinvestment plan.

The Chairman of our Board of Directors, our Chief Executive Officer and our Chief Financial Officer have entered into lock-up agreements with the underwriters prior to the commencement of this offering pursuant to which each of these persons, with limited exceptions, for a period of 90 days after the date of this prospectus supplement, may not, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc., (1) offer, pledge, announce the intention to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our mandatory convertible preferred stock or common stock (including, without limitation, mandatory convertible preferred stock or common stock which may be deemed to be beneficially owned by such persons in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant) or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the mandatory convertible preferred stock or common stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of mandatory convertible preferred stock or common stock or such other securities, in cash or otherwise. Such persons are permitted to sell up to one million shares of our common stock in the aggregate during this 90-day period.

The mandatory convertible preferred stock has been approved for listing on The New York Stock Exchange under the symbol FCXprM.

S-84

---

## **Table of Contents**

### **Price Stabilization and Short Position**

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling shares of mandatory convertible preferred stock in the open market for the purpose of preventing or retarding a decline in the market price of the mandatory convertible preferred stock while this offering is in progress. These stabilizing transactions may include making short sales of the mandatory convertible preferred stock, which involves the sale by the underwriters of a greater number of shares of mandatory convertible preferred stock than they are required to purchase in this offering, and purchasing shares of mandatory convertible preferred stock on the open market to cover positions created by short sales. Short sales may be covered shorts, which are short positions in an amount not greater than the underwriters' overallotment option referred to above, or may be naked shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their overallotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the overallotment option. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the mandatory convertible preferred stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act of 1933, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the mandatory convertible preferred stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase mandatory convertible preferred stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the mandatory convertible preferred stock or preventing or retarding a decline in the market price of the mandatory convertible preferred stock, and, as a result, the price of the mandatory convertible preferred stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on The New York Stock Exchange, in the over-the-counter market or otherwise.

Each underwriter has represented that (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any mandatory convertible preferred stock in circumstances in which Section 21(1) of the FSMA does not apply to us and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the European Union Prospectus Directive (the EU Prospectus Directive) is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of mandatory convertible preferred stock to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the EU Prospectus Directive, except that it may, with effect from and including

the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

S-85

---

**Table of Contents**

to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

to fewer than 100 natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive) subject to obtaining the prior consent of the book-running managers for any such offer; or

in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of shares to the public in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State and the expression EU Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

**Other Relationships**

Certain of the underwriters and their affiliates perform various financial advisory, investment banking and commercial banking services from time to time for us and our affiliates. Under our new senior credit facilities, JPMorgan Chase Bank, N.A. is administrative agent and collateral agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated is syndication agent, and J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are joint bookrunners and joint lead arrangers. Affiliates of J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are also lenders under our new senior secured credit facilities, and we intend to use the net proceeds we receive from this offering to repay outstanding indebtedness under our new senior secured credit facilities by repaying a portion of the Tranche A term loan facility and the Tranche B term loan facility. In addition, Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc. acted as financial advisors to us in connection with the acquisition, and acted as underwriters in connection with our offerings of 8.25% senior notes due 2015, senior floating rate notes due 2015 and 8.375% senior notes due 2017, as well as our offering of 41,000,000 shares of common stock occurring concurrently with this offering, for which they will receive customary fees.

**Table of Contents**

**LEGAL MATTERS**

The validity of the mandatory convertible preferred stock being offered by Freeport-McMoRan will be passed upon by Davis Polk & Wardwell, New York, New York. Certain other legal matters will be passed upon for Freeport-McMoRan by Jones, Walker, Waechter, Poitevent, Carrère & Denègre, L.L.P., New Orleans, Louisiana. Certain legal matters will be passed upon for the underwriters by Cravath, Swaine & Moore LLP, New York, New York.

**EXPERTS**

**Freeport-McMoRan**

The consolidated financial statements of Freeport-McMoRan incorporated by reference in Freeport-McMoRan's annual report on Form 10-K for the year ended December 31, 2006 (including schedules appearing therein), and Freeport-McMoRan management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, incorporated by reference therein, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, incorporated by reference therein, and incorporated herein by reference. Such consolidated financial statements and management's assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

**Phelps Dodge**

The audited financial statements of Phelps Dodge and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to Phelps Dodge's annual report on Form 10-K for the year ended December 31, 2006 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

**RESERVES**

The information regarding Freeport-McMoRan's ore reserves as of December 31, 2006, that is either in this document or incorporated by reference to Freeport-McMoRan's annual report on Form 10-K for the year ended December 31, 2006, has been verified by Independent Mining Consultants, Inc. This reserve information has been included in this prospectus supplement and incorporated by reference upon the authority of Independent Mining Consultants, Inc. as experts in mining, geology and reserve determination.

**WHERE YOU CAN FIND MORE INFORMATION**

Freeport-McMoRan and Phelps Dodge file reports, proxy statements and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the following location of the Securities and Exchange Commission:

Public Reference Room  
100 F Street, N.E.  
Room 1580

Washington, D.C. 20549

You may also obtain copies of this information by mail from the Public Reference Section of the Securities and Exchange Commission, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Securities and Exchange Commission's Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains an Internet worldwide web site that contains reports, proxy statements

S-87

---

**Table of Contents**

and other information about issuers, like Freeport-McMoRan, who file electronically with the Securities and Exchange Commission. The address of the site is <http://www.sec.gov>.

The Securities and Exchange Commission allows Freeport-McMoRan to incorporate by reference information into this document. This means that Freeport-McMoRan can disclose important information to you by referring you to another document filed separately with the Securities and Exchange Commission. The information incorporated by reference is considered to be a part of this document, except for any information superseded by information that is included directly in this document or incorporated by reference subsequent to the date of this document.

This prospectus supplement incorporates by reference the documents listed below and any future filings that Phelps Dodge or Freeport-McMoRan make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (other than information in the documents or filings that is deemed to have been furnished and not filed) until all the securities offered under this prospectus supplement are sold.

**Freeport-McMoRan Securities and Exchange Commission Filings**

**Period or Date Filed**

Annual Report on Form 10-K	Fiscal year ended December 31, 2006
Current Reports on Form 8-K	February 5, 2007, March 1, 2007, March 2, 2007, March 9, 2007 and March 19, 2007
Proxy Statement on Schedule 14A Form 425	Filed on March 22, 2006 Filed on March 14, 2007

**Phelps Dodge Securities and Exchange Commission Filings**

**Period or Date Filed**

Annual Report on Form 10-K	Fiscal year ended December 31, 2006
----------------------------	-------------------------------------

Documents incorporated by reference are available from Freeport-McMoRan without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this document. You can obtain documents incorporated by reference in this document by requesting them in writing or by telephone from the appropriate company at the following addresses:

Freeport-McMoRan Copper & Gold Inc.  
1615 Poydras Street  
New Orleans, Louisiana 70112  
Attention: Investor Relations  
Telephone: (504) 582-4000

You will not be charged for any of these documents that you request. If you request any documents that have been incorporated by reference from Freeport-McMoRan or Phelps Dodge, Freeport-McMoRan or Phelps Dodge will mail them to you by first class mail, or another equally prompt means, as soon as practicable after it receives your request.

Neither Freeport-McMoRan nor Phelps Dodge has authorized anyone to give any information or make any representation about the transactions or our companies that is different from, or in addition to, that contained in this document or in any of the materials that have been incorporated into this document. Therefore, if anyone gives you



information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.

S-88

---

**Table of Contents**

**Prospectus**

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

***Common stock, Preferred stock, Debt securities,  
Warrants, Purchase contracts and units***

We may offer from time to time common stock, preferred stock, debt securities, warrants, purchase contracts or units. In addition, certain selling securityholders to be identified in a prospectus supplement may offer and sell these securities from time to time, in amounts, at prices and on terms that will be determined at the time the securities are offered. We urge you to read this prospectus and the accompanying prospectus supplement, together with the documents we incorporate by reference, which will describe the specific terms of these securities, carefully before you make your investment decision.

Our common stock is listed on the New York Stock Exchange under the trading symbol FCX.

**Investing in these securities involves certain risks. See Risk Factors in the applicable Prospectus Supplement and in our most recent annual report on Form 10-K, which is incorporated by reference herein.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.**

The date of this prospectus is March 1, 2007

---

You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus is accurate as of any date other than the date on the front of this prospectus. The terms

Freeport-McMoRan, we, us and our refer to Freeport-McMoRan Copper & Gold Inc. and all entities owned or controlled by Freeport-McMoRan Copper & Gold Inc.

## Table of contents

	<b>Page</b>
<u>About this prospectus</u>	1
<u>Freeport-McMoRan Copper &amp; Gold Inc.</u>	1
<u>Use of proceeds</u>	1
<u>Ratio of earnings to fixed charges</u>	2
<u>Description of securities</u>	2
<u>Description of Freeport-McMoRan capital stock</u>	2
<u>Description of debt securities</u>	6
<u>Description of warrants</u>	6
<u>Description of purchase contracts</u>	6
<u>Description of units</u>	7
<u>Forms of securities</u>	7
<u>Plan of distribution</u>	9
<u>Where you can find more information</u>	10
<u>Information concerning forward-looking statements</u>	11
<u>Legal opinions</u>	12
<u>Experts</u>	12
<u>Reserves</u>	13

---

**Table of Contents**

**About this prospectus**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, utilizing a shelf registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading "Where you can find more information."

We have filed or incorporated by reference exhibits to the registration statement of which this prospectus forms a part. You should read the exhibits carefully for provisions that may be important to you.

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

Freeport-McMoRan Copper & Gold Inc., or Freeport-McMoRan, is one of the world's largest producers of copper and gold. Freeport-McMoRan's Grasberg minerals district in Papua, Indonesia, contains the world's single largest copper reserve and the world's single largest gold reserve. On November 19, 2006, Freeport-McMoRan and Phelps Dodge Corporation, or Phelps Dodge, announced that they had signed a merger agreement pursuant to which Freeport-McMoRan will acquire Phelps Dodge for approximately \$25.9 billion in cash and stock, based on Freeport-McMoRan's closing stock price on November 17, 2006 (the transaction), creating one of the world's largest publicly traded copper companies and one of North America's largest mining companies. Phelps Dodge is one of the world's leading producers of copper and molybdenum. Phelps Dodge has mines in operation or under development in North and South America, and Africa, including the Tenke Fungurume development project in the Democratic Republic of Congo.

Freeport-McMoRan's principal executive offices are located at 1615 Poydras Street, New Orleans, Louisiana, and our telephone number at that address is (504) 582-4000. We maintain a website at <http://www.fcx.com>, where general information about us is available. We are not incorporating the contents of our website into this prospectus.

**Use of proceeds**

Unless otherwise indicated in a prospectus supplement, the net proceeds from the sale of the securities will be used for general corporate purposes, including working capital, acquisitions, retirement of debt and other business opportunities. In the case of a sale by a selling securityholder, we will not receive any of the proceeds from such sale.

**Table of Contents****Ratio of earnings to fixed charges**

The following table sets forth our ratio of earnings to fixed charges for the periods indicated.

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

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.

**Description of securities**

This prospectus contains a summary of the securities that Freeport-McMoRan or certain selling securityholders to be identified in a prospectus supplement may sell. These summaries are not meant to be a complete description of each security. However, this prospectus and the accompanying prospectus supplement contain the material terms of the securities being offered.

**Description of Freeport-McMoRan capital stock**

The following summary of the terms of the capital stock of Freeport-McMoRan is not meant to be complete and is qualified by reference to the relevant provisions of the General Corporation Law of the State of Delaware and the Freeport-McMoRan certificate of incorporation and bylaws. Copies of the Freeport-McMoRan certificate of incorporation and bylaws are incorporated herein by reference and will be sent to you at no charge upon request. See [Where you can find more information](#) below.

**Authorized capital stock**

*Prior to completion of the transaction.* Under the Freeport-McMoRan certificate of incorporation, Freeport-McMoRan authorized capital stock consists of 423,600,000 shares of Class B common stock, \$0.10 par value per share, and 50,000,000 shares of preferred stock, \$0.10 par value per share. As of December 31, 2006, 23,222,782 shares of the Class B common stock, were authorized for issuance upon conversion of the preferred shares, 229,068 shares were authorized for issuance upon conversion of the 7% Convertible Senior Notes due 2011, 5,659,123 shares were authorized for issuance upon exercise of employee stock options (of which 466,935 were exercisable) and 531,573 shares were authorized for issuance upon the vesting of employee restricted stock units. In addition, as of December 31, 2006, Freeport-McMoRan also had 142,593 stock appreciation rights outstanding (of which 126,203

were exercisable) that will be settled in cash upon exercise and 67,180 shares of phantom stock outstanding that will be settled in cash. As of December 31, 2006, there were issued and outstanding:

196,964,996 shares of Class B common stock (not counting the 112,961,136 shares held in Freeport-McMoRan's treasury); and

1,099,985 shares of 5 1/2% Convertible Perpetual Preferred Stock.

## **Table of Contents**

If approved by the shareholders at a special meeting on March 14, 2007, the Freeport-McMoRan certificate of incorporation will be amended to increase the authorized number of shares of Freeport-McMoRan capital stock to 750,000,000 and to increase the authorized number of shares of Class B common stock to 700,000,000. If the proposal to amend the Freeport-McMoRan certificate of incorporation is approved by the shareholders, the Class B common stock will be renamed common stock and the provisions and references to the previously designated classes of preferred stock (other than the Series A Participating Cumulative Preferred Stock and the 51/2% Convertible Perpetual Preferred Stock), of which no shares are outstanding, will be deleted.

In 2002, Freeport-McMoRan amended its certificate of incorporation to reclassify its Class A common stock and Class B common stock into a single class designated as Class B common stock. As a result, Freeport-McMoRan does not have any Class A common stock. If the proposal to amend the Freeport-McMoRan certificate of incorporation is approved by the shareholders, all references to Class B common stock in the Freeport-McMoRan certificate of incorporation will be amended to refer only to common stock and, in addition, the provisions and references to the previously designated classes of preferred stock (other than the Series A Participating Cumulative Preferred Stock as discussed below in The Freeport-McMoRan rights agreement and the 51/2% Convertible Perpetual Preferred Stock), of which no shares are outstanding, will be deleted.

### **Description of common stock**

*Common stock outstanding.* The issued and outstanding shares of common stock are, and the shares of common stock that we may issue in the future will be, validly issued, fully paid and nonassessable. The outstanding shares of common stock are, and the shares of common stock issued and delivered pursuant to the merger agreement will be, duly authorized, validly issued, fully paid and nonassessable, and not subject to any preemptive or other similar right.

*Voting rights.* Holders of common stock are entitled to elect all of the authorized number of members of the Freeport-McMoRan board of directors, excluding those directors that holders of the 51/2% Convertible Perpetual Preferred Stock have the exclusive right to elect if Freeport-McMoRan fails to make specified dividend payments and the rights of holders of any subsequently issued shares of preferred stock. Each share of common stock has one vote. With respect to all other matters submitted to a vote of Freeport-McMoRan shareholders, except as required by law, the holders of the common stock vote together as a single class, and record holders have one vote per share.

*Dividend rights; rights upon liquidation.* Holders of the common stock will share ratably in any cash dividend that may from time to time be declared with respect to the common stock by the Freeport-McMoRan board of directors. In the event of a voluntary or involuntary liquidation, dissolution or winding up of Freeport-McMoRan, prior to any distributions to the holders of the common stock, the holders of the Freeport-McMoRan preferred stock will receive any payments to which they are entitled. Subsequent to those payments, the holders of the common stock will share ratably, according to the number of shares held by them, in Freeport-McMoRan's remaining assets, if any.

*Other rights.* Shares of common stock are not redeemable and have no subscription, conversion or preemptive rights.

*Transfer agent.* The transfer agent and registrar for the common stock is Mellon Investor Services LLC.

*NYSE.* Our common stock is listed on the New York Stock Exchange under the symbol FCX.

**Table of Contents**

**Preferred stock**

We may issue shares of preferred stock in series and may, at the time of issuance, determine the rights, preferences and limitations of each series. Satisfaction of any dividend preferences of outstanding shares of preferred stock would reduce the amount of funds available for the payment of dividends on shares of common stock. Holders of shares of preferred stock may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of our company before any payment is made to the holders of shares of common stock. In some circumstances, the issuance of shares of preferred stock may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of our securities or the removal of incumbent management. Upon the affirmative vote of a majority of the total number of directors then in office, our board of directors, without stockholder approval, may issue shares of preferred stock with voting and conversion rights which could adversely affect the holders of shares of common stock. The issuance of any shares of preferred stock in the future could adversely affect the rights of the holders of common stock.

**The Freeport-McMoRan rights agreement**

The Freeport-McMoRan Rights Agreement is designed to deter abusive takeover tactics and to encourage prospective acquirors to negotiate with the Freeport-McMoRan board of directors rather than attempt to acquire the company in a manner or on terms that the board deems unacceptable. Under the Freeport-McMoRan Rights Agreement, each outstanding share of common stock includes an associated preferred stock purchase right. If the rights become exercisable, each right will entitle its holder to purchase one one-hundredth (1/100) of a share of Freeport-McMoRan Series A Participating Cumulative Preferred Stock at an exercise price of \$60 per unit, subject to adjustment. The rights trade with all outstanding shares of the common stock. The rights will separate from the common stock and become exercisable upon the earlier of:

the tenth day following a public announcement that a person or group of affiliated or associated persons has acquired beneficial ownership of 20 percent or more of outstanding Freeport-McMoRan common stock, referred to as an acquiring person; or

the tenth business day, or any later date as determined by the Freeport-McMoRan board of directors prior to the time that any person or group becomes an acquiring person, following the commencement of or announcement of an intention to make a tender offer or exchange offer that, if consummated, would result in the person or group becoming an acquiring person.

*Term of rights.* The rights will expire on May 16, 2010, unless Freeport-McMoRan extends this date or redeems or exchanges the rights as described below.

*Exercise after someone becomes an acquiring person.* After any person or group becomes an acquiring person, each holder of a right will be entitled to receive upon exercise that number of shares of the common stock having a market value of two times the exercise price of the right. However, this right will not apply to an acquiring person, whose rights will be void.

Upon the occurrence of certain events after someone becomes an acquiring person, each holder of a right, other than the acquiring person, will be entitled to receive, upon exercise of the right, common stock of the acquiring company having a market value equal to two times the



**Table of Contents**

exercise price of the right. These rights will arise only if after a person or group becomes an acquiring person:

Freeport-McMoRan is acquired in a merger or other business combination; or

Freeport-McMoRan sells or otherwise transfers 50 percent or more of its assets or earning power.

*Adjustment.* The exercise price, the number of rights outstanding and the number of preferred shares issuable upon exercise of the rights are subject to adjustment from time to time to prevent certain types of dilution.

Freeport-McMoRan will not issue fractional preferred stock shares. Instead, Freeport-McMoRan will make a cash adjustment based on the market price of the preferred stock prior to the date of exercise.

*Rights, preferences and limitations of rights.* Preferred stock purchasable upon exercise of the rights will not be redeemable. Each share of preferred stock will entitle the holder to receive a preferential quarterly dividend payment of the greater of \$1.00 or 100 times the dividend declared per share of the common stock. In the event of liquidation, the holders of each share of preferred stock will be entitled to a preferential liquidation payment of the greater of \$0.10 per share or 100 times the payment made per share of the common stock. Each share of Freeport-McMoRan preferred stock will entitle the holder to 100 votes and will vote together with the common stock. Finally, in the event of any merger, consolidation or other transaction in which the common stock is exchanged, each share of the preferred stock will entitle the holder to receive 100 times the amount received per share of the common stock. These rights are protected by customary antidilution provisions. Because of the nature of the Freeport-McMoRan preferred stock's dividend, liquidation and voting rights, the value of each one one-hundredth interest in a share of preferred stock should approximate the value of one share of the common stock.

*Exchange and redemption.* After a person or group becomes an acquiring person, Freeport-McMoRan may exchange the rights, in whole or in part, at an exchange ratio, subject to adjustment, of one share of common stock, or one one-hundredth of a share of preferred stock, per right. Freeport-McMoRan generally may not make an exchange after any person or group becomes the beneficial owner of 50 percent or more of the common stock.

Freeport-McMoRan may redeem the rights in whole, but not in part, at a price of \$0.01 per right, subject to adjustment, at any time prior to any person or group becoming an acquiring person. The redemption of the rights may be made effective at such time, on such basis and with such conditions as the Freeport-McMoRan board of directors in its sole discretion may establish. Once redeemed, the rights will terminate immediately, and the only right of the rights holders will be to receive the cash redemption price.

*Amendments.* Freeport-McMoRan may amend the terms of the rights without the consent of the rights holders, including an amendment to lower the thresholds described above. However, after any person or group becomes an acquiring person, Freeport-McMoRan may not amend the terms of the rights in any way that adversely affects the interests of the rights holders.

**Table of Contents**

**Description of debt securities**

The debt securities will be our direct unsecured general obligations. The debt securities will be either senior debt securities or subordinated debt securities. The debt securities will be issued under one or more separate indentures between us and The Bank of New York, as trustee. Senior debt securities will be issued under senior indentures. Subordinated debt securities will be issued under a subordinated indenture. Each of the senior indentures and the subordinated indenture is referred to as an indenture. The material terms of any indenture will be set forth in the applicable prospectus supplement.

**Description of warrants**

We may issue warrants to purchase our debt or equity securities or securities of third parties or other rights, including rights to receive payment in cash or securities based on the value, rate or price of one or more specified commodities, currencies, securities or indices, or any combination of the foregoing. Warrants may be issued independently or together with any other securities and may be attached to, or separate from, such securities. Each series of warrants will be issued under a separate warrant agreement to be entered into between us and a warrant agent. The terms of any warrants to be issued and a description of the material provisions of the applicable warrant agreement will be set forth in the applicable prospectus supplement.

**Description of purchase contracts**

We may issue purchase contracts for the purchase or sale of:

debt or equity securities issued by us or securities of third parties, a basket of such securities, an index or indices of such securities or any combination of the above as specified in the applicable prospectus supplement;

currencies; or

commodities.

Each purchase contract will entitle the holder thereof to purchase or sell, and obligate us to sell or purchase, on specified dates, such securities, currencies or commodities at a specified purchase price, which may be based on a formula, all as set forth in the applicable prospectus supplement. We may, however, satisfy our obligations, if any, with respect to any purchase contract by delivering the cash value of such purchase contract or the cash value of the property otherwise deliverable or, in the case of purchase contracts on underlying currencies, by delivering the underlying currencies, as set forth in the applicable prospectus supplement. The applicable prospectus supplement will also specify the methods by which the holders may purchase or sell such securities, currencies or commodities and any acceleration, cancellation or termination provisions or other provisions relating to the settlement of a purchase contract.

The purchase contracts may require us to make periodic payments to the holders thereof or vice versa, which payments may be deferred to the extent set forth in the applicable prospectus supplement, and those payments may be unsecured or prefunded on some basis. The purchase contracts may require the holders thereof to secure their obligations in a specified manner to be described in the applicable prospectus supplement. Alternatively, purchase contracts may require holders to satisfy their obligations thereunder when the purchase contracts are issued. Our obligation to settle such pre-paid purchase contracts on the relevant settlement date may



## **Table of Contents**

constitute indebtedness. Accordingly, pre-paid purchase contracts will be issued under either the senior indenture or the subordinated indenture.

### **Description of units**

As specified in the applicable prospectus supplement, we may issue units consisting of one or more purchase contracts, warrants, debt securities, shares of preferred stock, shares of common stock or any combination of such securities.

### **Forms of securities**

Each debt security, warrant and unit will be represented either by a certificate issued in definitive form to a particular investor or by one or more global securities representing the entire issuance of securities. Certificated securities in definitive form and global securities will be issued in registered form. Definitive securities name you or your nominee as the owner of the security, and in order to transfer or exchange these securities or to receive payments other than interest or other interim payments, you or your nominee must physically deliver the securities to the trustee, registrar, paying agent or other agent, as applicable. Global securities name a depository or its nominee as the owner of the debt securities, warrants or units represented by these global securities. The depository maintains a computerized system that will reflect each investor's beneficial ownership of the securities through an account maintained by the investor with its broker/dealer, bank, trust company or other representative, as we explain more fully below.

### **Registered global securities**

We may issue the registered debt securities, warrants and units in the form of one or more fully registered global securities that will be deposited with a depository or its nominee identified in the applicable prospectus supplement and registered in the name of that depository or nominee. In those cases, one or more registered global securities will be issued in a denomination or aggregate denominations equal to the portion of the aggregate principal or face amount of the securities to be represented by registered global securities. Unless and until it is exchanged in whole for securities in definitive registered form, a registered global security may not be transferred except as a whole by and among the depository for the registered global security, the nominees of the depository or any successors of the depository or those nominees.

If not described below, any specific terms of the depository arrangement with respect to any securities to be represented by a registered global security will be described in the prospectus supplement relating to those securities. We anticipate that the following provisions will apply to all depository arrangements.

Ownership of beneficial interests in a registered global security will be limited to persons, called participants, that have accounts with the depository or persons that may hold interests through participants. Upon the issuance of a registered global security, the depository will credit, on its book-entry registration and transfer system, the participants accounts with the respective principal or face amounts of the securities beneficially owned by the participants. Any dealers, underwriters or agents participating in the distribution of the securities will designate the accounts to be credited. Ownership of beneficial interests in a registered global security will be shown on, and the transfer of ownership interests will be effected only through, records maintained by the depository, with respect to interests of participants, and on the records of

**Table of Contents**

participants, with respect to interests of persons holding through participants. The laws of some states may require that some purchasers of securities take physical delivery of these securities in definitive form. These laws may impair your ability to own, transfer or pledge beneficial interests in registered global securities.

So long as the depository, or its nominee, is the registered owner of a registered global security, that depository or its nominee, as the case may be, will be considered the sole owner or holder of the securities represented by the registered global security for all purposes under the applicable indenture, warrant agreement or unit agreement. Except as described below, owners of beneficial interests in a registered global security will not be entitled to have the securities represented by the registered global security registered in their names, will not receive or be entitled to receive physical delivery of the securities in definitive form and will not be considered the owners or holders of the securities under the applicable indenture, warrant agreement or unit agreement. Accordingly, each person owning a beneficial interest in a registered global security must rely on the procedures of the depository for that registered global security and, if that person is not a participant, on the procedures of the participant through which the person owns its interest, to exercise any rights of a holder under the applicable indenture, warrant agreement or unit agreement. We understand that under existing industry practices, if we request any action of holders or if an owner of a beneficial interest in a registered global security desires to give or take any action that a holder is entitled to give or take under the applicable indenture, warrant agreement or unit agreement, the depository for the registered global security would authorize the participants holding the relevant beneficial interests to give or take that action, and the participants would authorize beneficial owners owning through them to give or take that action or would otherwise act upon the instructions of beneficial owners holding through them.

Principal, premium, if any, and interest payments on debt securities, and any payments to holders with respect to warrants or units, represented by a registered global security registered in the name of a depository or its nominee will be made to the depository or its nominee, as the case may be, as the registered owner of the registered global security. None of Freeport-McMoRan, the trustees, the warrant agents, the unit agents or any other agent of Freeport-McMoRan, agent of the trustees or agent of the warrant agents or unit agents will have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial ownership interests in the registered global security or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

We expect that the depository for any of the securities represented by a registered global security, upon receipt of any payment of principal, premium, interest or other distribution of underlying securities or other property to holders on that registered global security, will immediately credit participants' accounts in amounts proportionate to their respective beneficial interests in that registered global security as shown on the records of the depository. We also expect that payments by participants to owners of beneficial interests in a registered global security held through participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of those participants.

If the depository for any of these securities represented by a registered global security is at any time unwilling or unable to continue as depository or ceases to be a clearing agency registered under the Securities Exchange Act of 1934, and a successor depository registered as a clearing agency under the Securities Exchange Act of 1934 is not appointed by us within 90 days, we will issue securities in definitive form in exchange for the registered global security that had been

**Table of Contents**

held by the depositary. Any securities issued in definitive form in exchange for a registered global security will be registered in the name or names that the depositary gives to the relevant trustee, warrant agent, unit agent or other relevant agent of ours or theirs. It is expected that the depositary's instructions will be based upon directions received by the depositary from participants with respect to ownership of beneficial interests in the registered global security that had been held by the depositary.

**Plan of distribution**

Freeport-McMoRan and/or the selling securityholders, if applicable, may sell the securities in one or more of the following ways (or in any combination) from time to time:

through underwriters or dealers;

directly to a limited number of purchasers or to a single purchaser; or

through agents.

The prospectus supplement will state the terms of the offering of the securities, including:

the name or names of any underwriters, dealers or agents;

the purchase price of such securities and the proceeds to be received by Freeport-McMoRan, if any;

any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation;

any initial public offering price;

any discounts or concessions allowed or reallocated or paid to dealers; and

any securities exchanges on which the securities may be listed.

Any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

If we and/or the selling securityholders, if applicable, use underwriters in the sale, the securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including:

negotiated transactions;

at a fixed public offering price or prices, which may be changed;

at market prices prevailing at the time of sale;

at prices related to prevailing market prices; or

at negotiated prices.

Unless otherwise stated in a prospectus supplement, the obligations of the underwriters to purchase any securities will be conditioned on customary closing conditions and the underwriters will be obligated to purchase all of such series of

securities, if any are purchased.

We and/or the selling securityholders, if applicable, may sell the securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

## **Table of Contents**

We and/or the selling securityholders, if applicable, may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase the securities from Freeport-McMoRan at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. The contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth any commissions we pay for solicitation of these contracts.

Underwriters and agents may be entitled under agreements entered into with Freeport-McMoRan and/or the selling securityholders, if applicable, to indemnification by Freeport-McMoRan and/or the selling securityholders, if applicable, against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments which the underwriters or agents may be required to make. Underwriters and agents may be customers of, engage in transactions with, or perform services for Freeport-McMoRan and its affiliates in the ordinary course of business.

Each series of securities will be a new issue of securities and will have no established trading market other than the common stock, which is listed on the New York Stock Exchange. Any underwriters to whom securities are sold for public offering and sale may make a market in the securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The securities, other than the common stock, may or may not be listed on a national securities exchange.

### **Where you can find more information**

Freeport-McMoRan files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the following location of the Securities and Exchange Commission:

Public Reference Room  
100 F Street, N.E.  
Room 1580  
Washington, D.C. 20549

You may also obtain copies of this information by mail from the Public Reference Section of the Securities and Exchange Commission, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Securities and Exchange Commission's Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains an Internet worldwide web site that contains reports, proxy statements and other information about issuers like Freeport-McMoRan who file electronically with the Securities and Exchange Commission. The address of the site is <http://www.sec.gov>.

The Securities and Exchange Commission allows Freeport-McMoRan to incorporate by reference information into this document. This means that Freeport-McMoRan can disclose important information to you by referring you to another document filed separately with the Securities and Exchange Commission. The information incorporated by reference is considered to be a part of this document, except for any information superseded by information that is included directly in this document or incorporated by reference subsequent to the date of this document.

This prospectus incorporates by reference the documents listed below and any future filings that Freeport-McMoRan makes with the Securities and Exchange Commission under Section 13(a),



**Table of Contents**

13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (other than information in the documents or filings that is deemed to have been furnished and not filed) until all the securities offered under this prospectus are sold.

**Freeport-McMoRan Securities and Exchange Commission Filings**

Annual Report on Form 10-K  
Current Reports on Form 8-K  
Proxy Statement on Schedule 14A  
Registration Statements on Form 8-A

**Period or date filed**

Fiscal year ended December 31, 2006  
February 5, 2007 and March 1, 2007  
Filed on March 22, 2006  
Filed on June 29, 1995 and May 16, 2000

**Phelps Dodge Securities and Exchange Commission Filing**

Annual Report on Form 10-K

**Period or date filed**

Fiscal year ended December 31, 2006

Documents incorporated by reference are available from Freeport-McMoRan without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this document. You can obtain documents incorporated by reference in this document by requesting them in writing or by telephone at the following address:

Freeport-McMoRan Copper & Gold Inc.  
1615 Poydras Street  
New Orleans, Louisiana 70112  
Attention: Investor Relations  
Telephone: (504) 582-4000

**Information concerning forward-looking statements**

This prospectus and Freeport-McMoRan's financial statements and other documents incorporated by reference in this prospectus contain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Act of 1995. When used in this document, the words anticipates, may, can, plans, feels, believes, estimates, expects, projects, intends, likely, will, should, to be and any similar expressions, other statements that are not historical facts, in each case as they relate to Freeport-McMoRan or Phelps Dodge, the management of either such company or the transaction are intended to identify those assertions as forward-looking statements. In making any of those statements, the person making them believes that its expectations are based on reasonable assumptions. However, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected or anticipated. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

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

macroeconomic conditions and general industry conditions, such as the competitive environment of the mining industry;

unanticipated mining, milling and other processing problems;

**Table of Contents**

accidents that lead to personal injury or property damage;

persistent commodity price reductions;

changes in political, social or economic circumstances in areas where we operate or plan to operate;

expropriation;

variances in ore grades;

labor relations;

adverse weather conditions and natural disasters, such as earthquakes;

the speculative nature of mineral exploration;

fluctuations in interest rates and other adverse financial market conditions;

regulatory and litigation matters and risks;

changes in tax and other laws;

the risk that a condition to closing of the transaction may not be satisfied;

the risk that a regulatory approval that may be required for the transaction is not obtained or is obtained subject to conditions that are not anticipated; and

other risks to consummation of the transaction.

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

**Legal opinions**

The validity of the securities in respect of which this prospectus is being delivered will be passed on for us by Davis Polk & Wardwell, New York, New York.

**Experts**

**Freeport-McMoRan**

The consolidated financial statements of Freeport-McMoRan incorporated by reference in Freeport-McMoRan's annual report on Form 10-K for the year ended December 31, 2006 (including schedules appearing therein), and

Freeport-McMoRan management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, incorporated by reference therein, have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their reports thereon, incorporated by reference therein, and incorporated herein by reference. Such consolidated financial statements and management's

**Table of Contents**

assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

**Phelps Dodge**

The financial statements of Phelps Dodge and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this document by reference to Phelps Dodge's Annual Report on Form 10-K for the year ended December 31, 2006, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

**Reserves**

The information regarding Freeport-McMoRan's reserves as of December 31, 2006, that is either in this document or incorporated by reference to Freeport-McMoRan's annual report on Form 10-K for the year ended December 31, 2006, has been verified by Independent Mining Consultants, Inc. This reserve information has been included in this document and incorporated by reference upon the authority of Independent Mining Consultants, Inc. as experts in mining, geology and reserve determination.

**Table of Contents**

**25,000,000 Shares**

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

**63/4% Mandatory Convertible Preferred Stock**

**PROSPECTUS SUPPLEMENT**

**Merrill Lynch & Co.  
JPMorgan  
Morgan Stanley  
UBS Investment Bank  
HSBC  
Scotia Capital**

**March 22, 2007**