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FREEPORT MCMORAN COPPER & GOLD INC

Form 10-K405/A

March 11, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

(MARK ONE)

AMENDMENT NO. 1 TO

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 1-9916

FREEPORT-MCMORAN COPPER & GOLD INC.
(Exact name of registrant as specified in its charter)

DELAWARE 74-2480931
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

1615 POYDRAS STREET 70112
NEW ORLEANS, LOUISIANA (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (504) 582-4000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON
Class A Common Stock, par value \$0.10 per share	New York Stock Ex
Class B Common Stock, par value \$0.10 per share	New York Stock Ex
Depository Shares representing 0.05 shares of Step-Up Convertible Preferred Stock, par value \$0.10 per share	New York Stock Ex
Depository Shares representing 0.05 shares of Gold-Denominated Preferred Stock, par value \$0.10 per share	New York Stock Ex
Depository Shares, Series II, representing 0.05 shares of Gold-Denominated Preferred Stock, Series II, par value \$0.10 per share	New York Stock Ex
Depository Shares representing 0.015625 shares of Silver-Denominated Preferred Stock, par value \$0.10 per share	New York Stock Ex
8-1/4% Convertible Senior Notes due 2006 of the registrant and FCX Investment Ltd.	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the

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registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

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

The aggregate market value of classes of common stock held by non-affiliates of the registrant on February 26, 2002 was approximately \$1,079,000,000.

On February 26, 2002, there were issued and outstanding 55,567,714 shares of Class A Common Stock and 88,584,099 shares of Class B Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Annual Report for the year ended December 31, 2000 are incorporated by reference into Parts II and IV of this report and portions of the Proxy Statement for our 2001 Annual Meeting held on May 3, 2001 are incorporated by reference into Part III of this report.

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PART I

Except as otherwise specifically noted, this Amendment No. 1 to Annual Report on Form 10-K of Freeport-McMoRan Copper & Gold Inc. for the fiscal year ended December 31, 2000 reflects information as of March 23, 2001, the date of the original filing of the Form 10-K with the Securities and Exchange Commission.

ITEMS 1. AND 2. BUSINESS AND PROPERTIES.

GENERAL

We are one of the world's largest copper and gold mining companies in terms of reserves and production. We believe we are the lowest cost copper producer in the world, after taking into account customary credits for related gold and silver production.

Our principal operating subsidiary is PT Freeport Indonesia, a limited liability company organized under the laws of the Republic of Indonesia and domesticated in Delaware. PT Freeport Indonesia explores for, develops, mines and processes ore containing copper, gold and silver. Our operations are located in the remote rugged highlands of the Sudirman Mountain Range in the province of Irian Jaya (Papua), Indonesia, which is located on the western half of the island of New Guinea. PT Freeport Indonesia markets its concentrates containing copper, gold and silver worldwide. We have an 85.86 percent ownership interest in this subsidiary and the Government of Indonesia has a 9.36 percent interest. PT Nusamba Mineral Industri (Nusamba), an Indonesian company, has most of the remaining ownership interest in PT Freeport Indonesia. See the discussion under "Risk Factors" about our guarantee of certain Nusamba debt.

PT Freeport Indonesia's operations are conducted pursuant to an agreement, called a Contract of Work, with the Government of Indonesia. The Contract of Work allows us to conduct exploration, mining and production activities in a 24,700-acre area that we call Block A. In 1988, we discovered

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our largest mine, Grasberg, in Block A. Grasberg contains the largest single gold reserve and one of the largest copper reserves of any mine in the world. The Contract of Work also allows us to explore for minerals in a 0.5 million-acre area that we call Block B. All of our current proven and probable reserves are located in Block A (see "Ore Reserves").

PT Freeport Indonesia's Contract of Work governs our rights and obligations relating to taxes, exchange controls, royalties, repatriation and other matters (see "Contracts of Work"). The Contract of Work provides a 35 percent corporate income tax rate for PT Freeport Indonesia and a withholding tax rate of 10 percent (based on the tax treaty between Indonesia and the United States) on dividends and interest paid to us by PT Freeport Indonesia. The Contract of Work also provides for royalties on the metals PT Freeport Indonesia sells.

Another of our operating subsidiaries, PT Irja Eastern Minerals, which we refer to as Eastern Minerals, holds an additional Contract of Work in Irian Jaya (Papua) covering approximately 1.25 million acres and is conducting exploration activities under this Contract of Work. We have a 94.9 percent ownership interest in Eastern Minerals.

In 1996, we established joint ventures with Rio Tinto plc, an international mining company with headquarters in London, England. One joint venture covers PT Freeport Indonesia's mining operations in Block A. This joint venture gives Rio Tinto, through 2021, a 40 percent interest in certain assets and in production above specified levels from operations in Block A and, after 2021, a 40 percent interest in all production in Block A. Under our joint venture arrangements, Rio Tinto also has a 40 percent interest in PT Freeport Indonesia's Contract of Work and Eastern Minerals' Contract of Work. In addition, Rio Tinto has the option to participate in 40 percent of any of our other future exploration projects in Irian Jaya (Papua).

Under another joint venture agreement through PT Nabire Bakti Mining, we conduct exploration activities in an area covering approximately 0.5 million acres in five parcels contiguous to PT Freeport Indonesia's Block B and one of Eastern Minerals' blocks. Rio Tinto has elected to participate in 40 percent of our interest and cost in the venture.

Field exploration activities outside of our current mining operations in Block A have been temporarily suspended due to safety and security issues and uncertainty relating to a possible conflict between our mining and

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exploration rights in forest areas covered by the Contracts of Work and an Indonesian law enacted in 1999 prohibiting open-pit mining in forest preservation areas.

We also smelt and refine copper concentrates in Spain and market the refined copper products through our wholly owned subsidiary, Atlantic Copper, S.A. In addition, PT Freeport Indonesia has a 25 percent interest in PT

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Smelting, an Indonesian company that operates a copper smelter and refinery in Gresik, Indonesia.

The following maps indicate the location of the Irian Jaya (Papua) province in which we operate; the location of our Contracts of Work areas within the Irian Jaya (Papua) province; and the infrastructure of our Contracts of Work project area.

[MAP APPEARS HERE]

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[MAP APPEARS HERE]

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[MAP APPEARS HERE]

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REPUBLIC OF INDONESIA

The Republic of Indonesia consists of more than 17,000 islands stretching 3,000 miles along the equator from Malaysia to Australia and is the fourth most populous nation in the world with over 200 million people. Following many years of Dutch colonial rule, Indonesia gained independence in 1945 and now has a presidential republic system of government.

Maintaining a good working relationship with the Government of Indonesia is of particular importance to us because all of our mining operations are located in Indonesia. Our mining complex was Indonesia's first copper mining project and was the first major foreign investment in Indonesia following the economic development program instituted by the Government of Indonesia in 1967. We work closely with the central, provincial and local governments in development efforts in the area surrounding our operations.

In May 1998, President Suharto, Indonesia's political leader for more than 30 years, resigned in the wake of an economic crisis in Indonesia and other parts of Southeast Asia and in the face of growing social unrest. Vice President B.J. Habibie succeeded Suharto. In June 1999, Indonesia held a new parliamentary election on a generally peaceful basis as the first step in the process of electing a new president. In October 1999, in accordance with the Indonesian constitution, the country's highest political body, composed of the newly

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elected national parliament along with additional provincial and other representatives, elected Abdurrahman Wahid as president and Megawati Sukarnoputri as vice president.

Economic and political conditions remain challenging in Indonesia. The Indonesian economy grew by an estimated 5 percent in 2000 after remaining flat in 1999 and contracting by 13 percent in 1998. Indonesia is Asia's second largest exporter of oil and continues to benefit from higher oil prices. While the economy has exceeded growth projections, progress on reforming the nation's failed banking system and raising capital from bank-related assets has been slow. As a result, the country remains heavily reliant on foreign aid to balance its budget and the national currency, the rupiah, declined approximately 32 percent in value during 2000.

Despite gradual improvements on the economic front, Indonesia's recovery remains vulnerable to ongoing political and social tensions. There have been repeated challenges to the political leadership of President Wahid. Incidents of violence and separatist pressures continue to add to political instability within the country as the Wahid administration struggles to address the country's economic and social issues. No incidents of violence were reported in PT Freeport Indonesia's area of operations, where the local community leaders continue to support peaceful solutions to the complex issue of regional autonomy.

President Wahid and his administration have focused in recent months on issues involving regional autonomy. The program to shift a greater share of revenues and greater control of economic, regulatory and social affairs to Indonesia's 31 provinces and over 300 regencies is one of the government's most important initiatives. Although new autonomy laws became effective January 1, 2001, there will be a transition period to allow the provinces to prepare for the assumption and administration of these new responsibilities.

While the uncertainties of the autonomy process have created concern among foreign investors, the Indonesian government has repeatedly assured investors that existing contracts would be honored. The president of Indonesia and several cabinet members have publicly stated that the Government of Indonesia will honor previously existing contracts and that they have no intention of revoking or unilaterally amending such contracts, specifically including PT Freeport Indonesia's Contract of Work. Our belief that our Contracts of Work will continue to be honored is further supported by U.S. laws, which prohibit U.S. aid to countries that nationalize property owned by, or take steps to nullify a contract with, a U.S. citizen or company at least 50 percent owned by U.S. citizens if the foreign country does not within a reasonable time take appropriate steps to provide full value compensation or other relief under international law.

Pro-independence movements in certain areas also have become more prominent, especially in the province of Aceh, and to a lesser extent in Irian Jaya (Papua). The area surrounding our mining development is sparsely populated by local people and former residents of more populous areas of Indonesia, some of whom have resettled in

Irian Jaya (Papua) under the Government of Indonesia's transmigration program. A segment of the local population is opposing Indonesian rule over Irian Jaya (Papua), and several separatist groups have sought political independence for the province. Moreover, in Irian Jaya (Papua), there have been sporadic attacks on civilians by separatists and sporadic but highly publicized conflicts between separatists and the Indonesian military.

We have a board-approved policy statement on social and human rights, and have comprehensive and extensive social, cultural and community development programs, to which we have committed significant financial and managerial resources. These policies and programs are designed to address the impact of our operations on the local villages and people and to provide assistance for the development of the local people. While we believe these efforts should serve to avoid damage to and disruptions of our mining operations, our operations could be damaged or disrupted by social, economic and political forces beyond our control. For example, in March 1996, local people engaged in acts of vandalism that caused approximately \$3 million in damages to our property and caused us to close the Grasberg mine and mill for three days as a precautionary measure, although our concentrate shipments were not interrupted. See "Risk Factors."

CONTRACTS OF WORK

PT Freeport Indonesia and Eastern Minerals conduct their current exploration operations and PT Freeport Indonesia conducts its mining operations in Indonesia by virtue of their Contracts of Work. Both Contracts of Work govern our rights and obligations relating to taxes, exchange controls, royalties, repatriation and other matters. Both Contracts of Work were concluded pursuant to the 1967 Foreign Capital Investment Law, which expresses Indonesia's foreign investment policy and provides basic guarantees of remittance rights and protection against nationalization, a framework for economic incentives and basic rules regarding other rights and obligations of foreign investors. Any disputes regarding the provisions of the Contracts of Work are subject to international arbitration.

PT Freeport Indonesia's Contract of Work covers both Block A, which was first included in a 1967 Contract of Work that was replaced by a new Contract of Work in 1991, and Block B, to which we gained rights in 1991. The initial term of our Contract of Work expires in December 2021 but we can extend it for two 10-year periods subject to Indonesian government approval, which cannot be withheld or delayed unreasonably. We originally had the rights to explore 6.5 million acres in Block B, but pursuant to the Contract of Work we have only retained the rights to 0.5 million acres, which we believe, following significant geological assessment, contain the most promising exploration opportunities.

Eastern Minerals signed its Contract of Work in August 1994. The Contract of Work originally covered approximately 2.5 million acres. Eastern Minerals' Contract of Work provides for a four-to-seven year exploratory term and a 30-year term for mining operations, which we can extend for two 10-year periods subject to Indonesian government approval which cannot be withheld or

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delayed unreasonably.

Because of safety and security issues and uncertainty relating to a possible conflict between our mining and exploration rights in forest areas covered by the Contracts of Work and an Indonesian law enacted in 1999 prohibiting open-pit mining in forest preservation areas, we have requested and received from the Government of Indonesia formal temporary suspensions of our obligations under the Contracts of Work in all areas outside of Block A. These suspensions are granted for one-year periods and we may seek renewals for one or more additional one-year periods by written request to the Government of Indonesia.

Like the PT Freeport Indonesia contract, the Eastern Minerals Contract of Work requires us to relinquish our rights to 25 percent of the original 2.5 million-acre Contract of Work area at the end of each of three specified periods. As of December 31, 2000, we had relinquished approximately 1.25 million acres, and within three months of resuming exploratory activity under the Contract of Work we must relinquish an approximate 0.6 million additional acres.

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

A large part of the mineral royalties under Government of Indonesia regulations are designated to the provinces from which the minerals are extracted. In connection with our "fourth concentrator mill expansion," PT

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Freeport Indonesia agreed to pay the Government of Indonesia voluntary additional royalties, that is, royalties not required by our Contract of Work, to provide further support to the local governments and the people of Irian Jaya (Papua). The additional royalties are paid on metal from production above 200,000 metric tons of ore per day. The additional royalty for copper equals the Contract of Work royalty rate and for gold and silver equals twice the Contract of Work royalty rates. Therefore, our royalty rate on copper net revenues from production above 200,000 metric tons of ore per day is double the Contract of Work royalty rate, and our royalty rates on gold and silver sales from production above 200,000 metric tons of ore per day are triple the Contract of Work royalty rates.

The combined royalties, including the voluntary additional royalties which became effective January 1, 1999, totaled \$20.2 million in 2000, \$23.0 million in 1999 and \$16.2 million in 1998.

ORE RESERVES

During 2000, additions to the aggregate proven and probable reserves at the Grasberg mining complex totaled approximately 202 million metric tons of ore representing increases of 2.7 billion recoverable pounds of copper and 4.5

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million recoverable ounces of gold. Year-end aggregate proven and probable recoverable reserves, net of 2000 production, were 2.51 billion metric tons of ore averaging 1.10 percent copper, 1.04 grams of gold per metric ton and 3.40 grams of silver per metric ton representing 50.9 billion pounds of copper, 63.7 million ounces of gold and 139.6 million ounces of silver. Approximately one-half of the reserve additions are in the Ertsberg Stockwork Zone, an underground deposit contiguous to our existing Deep Ore Zone ore body, with the remainder of the reserve additions being in the Grasberg open pit and underground ore bodies.

Pursuant to joint venture arrangements between PT Freeport Indonesia and Rio Tinto, Rio Tinto has a 40 percent interest in future production from reserves above those reported at December 31, 1994. Net of Rio Tinto's share, PT Freeport Indonesia's share of proven and probable recoverable copper, gold and silver reserves was 38.9 billion pounds of copper, 50.3 million ounces of gold and 108.5 million ounces of silver as of December 31, 2000. FCX's equity interest in proven and probable recoverable reserves as of December 31, 2000 was 33.4 billion pounds of copper, 43.2 million ounces of gold and 93.2 million ounces of silver. We estimated recoverable reserves using a copper price of \$0.90 per pound and a gold price of \$300 per ounce. Using a copper price of \$0.75 per pound and a gold price of \$270 per ounce would have resulted in less than a one percent reduction in our estimated recoverable copper and gold reserves.

All of our proven and probable reserves lie within Block A. The Grasberg deposit contains the largest single gold reserve and is one of the largest copper reserves of any mine in the world. Aggregate Grasberg open pit and underground proven and probable ore reserves, as of December 31, 2000, are shown below along with those of our other deposits. Reserve calculations were prepared by our employees under the supervision of George MacDonald, Vice President of Exploration for FCX, and were verified by Independent Mining Consultants, Inc., experts in mining, geology and reserve determination. See "Risk Factors." Our current mine plan has been developed and our operations are based on completing the mining of all of our currently designated recoverable reserves before 2041, which would be the expiration of our Contract of Work including two 10-year extensions. Based on proven and probable reserves as of December 31, 2001 and our mine plan as of February 2002, we expect to mine approximately 63 percent of the aggregate proven and probable ore, representing approximately 71 percent of PT Freeport Indonesia's share of recoverable copper reserves and approximately 77 percent of PT Freeport Indonesia's share of recoverable gold reserves, prior to the expiration of the initial term of our Contract of Work in December 2021.

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	Proven			
	Average Ore Grade			
Metric Tons of Ore (000s) (a)	Copper	Gold	Silver	Metric Tons of Ore (000s) (b)
	(%)	(g/t)	(g/t)	

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Developed and producing reserves:					
Grasberg open pit	309,681	1.10	1.56	2.32	771,124
Deep Ore Zone	80,759	1.29	0.87	6.77	104,717
Intermediate Ore Zone	11,237	1.11	0.43	8.32	4,552
Undeveloped reserves:					
Grasberg underground	113,107	1.17	1.06	2.78	629,926
Kucing Liar	29,309	1.39	1.00	4.31	291,148
Big Gossan	--	--	--	--	37,349
Ertzberg Stockwork Zone	21,469	0.58	0.84	1.84	79,262
Dom	--	--	--	--	30,892
	-----				-----
Total	565,562	1.12	1.21	3.00	1,948,970
	=====				=====

Total

Metric Tons
of Ore (000s) (a)

Developed and producing reserves:	
Grasberg open pit	1,080,805
Deep Ore Zone	185,476
Intermediate Ore Zone	15,789

Undeveloped reserves:	
Grasberg underground	743,033
Kucing Liar	320,457
Big Gossan	37,349
Ertzberg Stockwork Zone	100,731
Dom	30,892

Total	2,514,532
	=====

	Mill Recoveries (%)			Proven and Probable Recoverable Reserves	
	Copper	Gold	Silver	Copper (Billions of Lbs.)	Gold (Millions of Ozs.)
	-----	-----	-----	-----	-----
Developed and producing reserves:					
Grasberg open pit	85.0	79.1	63.8	19.3	32.0
Deep Ore Zone	90.0	83.7	67.5	4.2	4.0
Intermediate Ore Zone	90.0	83.7	67.5	0.3	0.1
Undeveloped reserves:					
Grasberg underground	87.4	76.9	68.3	15.1	14.1
Kucing Liar	85.0	73.1	59.5	8.2	10.3
Big Gossan	85.0	79.1	63.8	1.8	0.9
Ertzberg Stockwork Zone	89.0	78.0	71.0	1.1	2.0
Dom	82.6	75.2	62.0	0.9	0.3

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Total	50.9	63.7
PT Freeport Indonesia's share	38.9	50.3
FCX's equity share	33.4	43.2

- a. Ore reserve tonnage estimates are after application of applicable mining recovery factors.
- b. Recoverable reserves represent estimated payable metal after application of estimated mill recovery rates and smelter recovery rates of 96.5 percent for copper, 97.0 percent for gold and 78.5 percent for silver. The term "recoverable reserve" means that part of a mineral deposit which we estimate can be economically and legally extracted or produced at the time of the reserve determination.

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The following table sets forth the average drill hole spacing for each of our ore bodies. The average drill hole spacing within each ore body has been calculated using the distance from the center of each block in the resource model to the nearest drill hole composite. The averages of these values were calculated within the volume of each ore body and are reported under the column entitled "Average Distance: To Nearest Sample." This value represents at least one-half of the average drill hole spacing within each deposit. The value under the column entitled "Average Distance: Between Drill Holes" was calculated by multiplying the average minimum distance value by two, and represents the maximum average drill hole spacing.

Deposit	Mining Unit	Spacing (in meters)		Drilling Method	To Nearest Sample
		Surface Drilling Grids	Underground (& Surface) Drill Fans		
Grasberg	Open Pit	50	75	core	45
Grasberg	Block Cave	-	100	core	46
Deep Ore Zone	Block Cave	-	50	core	13
Intermediate Ore Zone	Block Cave	-	50	core	13
Ertzberg Stockwork Zone	Block Cave	100	50	core	26
Mill Level Zone	Sublevel Cave	-	50	core	20
Kucing Liar	Block Cave	-	75	core	36
Big Gossan	Open Stope	100	50	core	22
Dom	Open Pit	-	50	core	25
Dom	Block Cave	-	50	core	26

MINING OPERATIONS

We and our predecessors have conducted exploration and mining operations in Block A since 1967 and have been the only operator of those operations. Following are descriptions of ore mines in production, ore mines in development and our ore bodies.

Mines in Production. We currently have three mines in operation: the Grasberg open pit, the Intermediate Ore Zone and the Deep Ore Zone. As of December 31, 2000, our capital expenditures incurred to date for our mining operations in Indonesia totaled \$4.4 billion. Our mine development, expansion and infrastructure capital expenditures totaled \$61.0 million in 2000, \$56.8 million in 1999 and \$131.4 million in 1998. Expenditures in 1998 primarily related to our fourth concentrator mill expansion and expenditures in 1999 and 2000 primarily related to development of the Deep Ore Zone ore body. We began open-pit mining of the Grasberg ore body in January 1990. Production is at the 3,600- to 4,250-meter elevation level and totaled 76.8 million metric tons of ore in 2000, which provided 91 percent of our mill feed. The underground Grasberg reserves will be mined near the end of open-pit mining, which is expected to continue until approximately 2015.

The Intermediate Ore Zone is an underground block-cave operation that began production in the first half of 1994. Production is at the 3,475-meter elevation level and totaled 6.7 million metric tons of ore in 2000. We expect to fully deplete the Intermediate Ore Zone by 2003.

The Deep Ore Zone ore body lies vertically below the Intermediate Ore Zone. We began production from the Deep Ore Zone ore body in 1989, but we suspended production in 1991 in favor of production from the Grasberg deposit. Production using the block-cave method at the Deep Ore Zone officially restarted in September 2000. Production is at the 3,150-meter elevation level and totaled 0.6 million metric tons of ore in 2000. The Deep Ore Zone will ramp up from its approximately 3,000 metric tons of ore per day rate at December 31, 2000 to approximately 14,000 metric tons of ore per day by the end of 2001 and a full production rate of 25,000 metric tons of ore per day by 2004. We are conducting a feasibility study to assess increasing the Deep Ore Zone mine production rate to 35,000 metric tons of ore per day.

Our principal source of power for all our operations is a coal-fired power plant that was built in conjunction with our fourth concentrator expansion (see "Infrastructure Improvements"). Peaking and backup power is supplied by medium-speed diesel generators. Water for our operations is provided by a combination of naturally occurring mountain streams and water derived from our underground operations. The average annual rainfall in the project area is 180 inches.

Mines in Development. Four other significant ore bodies, referred to as

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the Dom, Big Gossan, Kucing Liar and the newly discovered Ertsberg Stockwork Zone are located in Block A. These ore bodies are at various stages of development, and are included in our proven and probable reserves. We incurred less than \$10 million for mine development, expansion and infrastructure capital expenditures related to these ore bodies during the last three years. See "Risk Factors."

The Dom ore body lies approximately 1,500 meters southeast of the depleted Ertsberg open-pit deposit. We completed pre-production development at the Dom, including all maintenance, warehouse and service facilities, just as Grasberg began open-pit production in 1990. We have deferred production at the Dom ore body and may not begin until after completion of open-pit mining.

The Big Gossan ore body is located approximately 1,000 meters southwest of the original Ertsberg open-pit deposit. We began the initial underground development of the ore body in 1993 when we drove tunnels from the mill area into the ore zone at the 2,900-meter elevation level. As of February 2002, we expected to use a variety of stoping methods to mine the deposit, and planned to complete a detailed feasibility study in 2002 to determine when to begin production.

The Kucing Liar ore body lies on the southern flank of and underneath the southern portion of the Grasberg open pit at the 2,500- to 3,100-meter elevation level. We are reviewing development plans for Kucing Liar.

The Ertsberg Stockwork Zone ore body extends off the southwest side of the Deep Ore Zone ore body at the 3,150- to 3,750-meter elevation level. Drilling efforts continue to determine the extent of this ore body, which we expect to mine using a block-cave method after we complete mining at the Deep Ore Zone ore body.

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

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

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

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[MAP APPEARS HERE]

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

[DIAGRAM APPEARS HERE INDICATING THE RELATIVE ELEVATIONS OF RESERVE ORE BODIES]

The following chart illustrates our plans as of February 2002 for sequencing and producing each of our ore bodies and the years in which production of each ore body will begin and end, based on proven and probable reserves as of December 31, 2001. Our mine plan is subject to change based on a number of factors, including the results of our exploration efforts.

[CHART APPEARS HERE WITH THE FOLLOWING DATA POINTS]

PRODUCTION SEQUENCING
Reserves as of December 31, 2001

	YEAR START -----	YEAR END -----
Grasberg open pit	2002	2014
Intermediate Ore Zone	2002	2002
Deep Ore Zone	2002	2015
Big Gossan	2004	2021
Kucing Liar	2009	2033
Grasberg block cave	2010	2036
Dom open pit	2014	2016
Mill Level Zone	2015	2035
Ertsberg Stockwork Zone	2015	2031
Dom block cave	2016	2026
Contract of Work Term (including extensions)	2002	2041

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During 2000, we mined an average of 671,000 metric tons of material per day, including ore and overburden. We expected to mine approximately 685,000 metric tons of material per day in 2001 and, in fact, did mine an average of 684,800 metric tons of material per day in 2001. We do not require any additional approvals for higher rates. The following chart illustrates our aggregate mill capacity, aggregate permitted mill capacity and projected milling rates as of February 2002, based on proven and probable reserves as of December 31, 2001. The decline in milling rates in 2015 reflects the expected completion date of open-pit mining at the Grasberg ore body. We are continuing to develop our mine plans to optimize production levels and to offset the anticipated decline in 2015.

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[CHART APPEARS HERE WITH THE FOLLOWING DATA POINTS]

PROJECTED MILL RATES & Mill Capacities
December 31, 2001 Reserves--Production Plan
Mill Rate (000S OF METRIC TONS PER DAY)

	YEAR					
	2002	2003	2004	2005	2006	2007
	----	----	----	----	----	----
PERMITTED MILL CAPACITY	300.0	300.0	300.0	300.0	300.0	300.0
CURRENT MILL CAPACITY	245.0	245.0	245.0	245.0	245.0	245.0
PROJECTED MILL RATE	237.2	233.8	243.2	242.3	243.0	245.0

	YEAR					
	2011	2012	2013	2014	2015	2016
	----	----	----	----	----	----
PERMITTED MILL CAPACITY	300.0	300.0	300.0	300.0	300.0	300.0
CURRENT MILL CAPACITY	245.0	245.0	245.0	245.0	245.0	245.0
PROJECTED MILL RATE	245.0	245.7	244.3	253.7	129.5	154.9

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	YEAR					
	2020	2021	2022	2023	2024	2025
	----	----	----	----	----	----
PERMITTED MILL CAPACITY	300.0	300.0	300.0	300.0	300.0	300.0
CURRENT MILL CAPACITY	245.0	245.0	245.0	245.0	245.0	245.0
PROJECTED MILL RATE	218.0	221.4	217.5	215.3	210.5	206.6

	YEAR					
	2029	2030	2031	2032	2033	2034
	----	----	----	----	----	----
PERMITTED MILL CAPACITY	300.0	300.0	300.0	300.0	300.0	300.0
CURRENT MILL CAPACITY	245.0	245.0	245.0	245.0	245.0	245.0
PROJECTED MILL RATE	199.5	200.0	186.7	180.0	159.5	120.3

The following is the projected aggregate capital expenditures (in millions) required to reach full production capacity for each of our undeveloped ore bodies based on our mine plan as of February 2002 and proven and probable reserves as of December 31, 2001. Actual costs could differ materially from these estimates as most of the expenditures will not be incurred for several years. In addition, these costs will be shared with Rio Tinto in accordance with our joint venture agreement.

Grasberg block cave	\$950
Kucing Liar block cave	700
Dom block cave	200
Big Gossan	150
Ertzberg Stockwork Zone block cave	100
Dom open pit	40
Mill Level Zone sublevel cave	30

Total	\$2,170
	=====

EXPLORATION

As a result of our joint venture arrangements, Rio Tinto pays for 40 percent of our exploration and drilling costs in Irian Jaya (Papua). The joint

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ventures' 2001 exploration budget totaled approximately \$10 million and, in 2001, the joint ventures incurred total exploration costs of \$14.4 million. We continue drilling in Block A to better define the ore bodies at Kucing Liar (as discussed above), Grasberg Underground, the underground Ertsberg Stockwork Zone and a newly defined surface target called Guru Ridge. One rig continues to drill between the Kucing Liar reserve and the Grasberg Underground reserve and indicates positive results for continuity of mineralization. Several rigs drilled from the Deep Ore Zone mine into the Ertsberg Stockwork Zone to define its extent. Several more rigs conducted drilling on the Guru Ridge surface target which lies 2,000 meters east of the original Ertsberg open-pit mine.

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In June 1998, we entered into a joint venture agreement to conduct exploration activities in PT Nabire Bakti Mining's Contract of Work area covering approximately 1.0 million acres in several blocks contiguous to PT Freeport Indonesia's Block B and one of Eastern Minerals' blocks in Irian Jaya (Papua). Rio Tinto shares in 40 percent of our interest and costs in this exploration joint venture. We and Rio Tinto can earn up to a 62 percent interest in the PT Nabire Bakti Mining Contract of Work by spending up to \$21 million on exploration and other activities in the joint venture areas. We have spent \$15.2 million through December 31, 2000.

Field exploration activities in Block B, which includes the Wabu Ridge gold prospect, as well as in the other Contract of Work areas of Eastern Minerals and PT Nabire Bakti Mining have been temporarily suspended. The suspension is due to safety and security issues and uncertainty relating to a possible conflict between our mining and exploration rights in forest areas covered by the Contracts of Work and an Indonesian law enacted in 1999 prohibiting open-pit mining in forest preservation areas. All of these areas are outside of our current mining operations area.

MILLING AND PRODUCTION

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

In early 1998, PT Freeport Indonesia completed construction on the fourth concentrator mill expansion. Pursuant to the expansion joint venture agreement, in addition to funding its 40 percent share of all expansion costs including the fourth concentrator mill expansion, Rio Tinto provided a \$450 million nonrecourse loan to PT Freeport Indonesia for PT Freeport Indonesia's share of the cost of the expansion. In less than two and one-half years, PT Freeport Indonesia repaid the \$450 million loan, plus interest, from its share of incremental cash flow attributable to the expansion. Operating, nonexpansion capital and administrative costs are shared proportionately between PT Freeport Indonesia and Rio Tinto based on the ratio of (a) the incremental revenues from

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production from the expansion and (b) total revenues from production from Block A, including production from PT Freeport Indonesia's previously existing reserves. PT Freeport Indonesia receives 100 percent of the cash flow from specified annual amounts of copper, gold and silver production through 2021 and will receive 60 percent of all remaining cash flow thereafter.

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

	Years Ended December 31,			Percentage Ch
	2000	1999	1998	1999 to 2000
Mill throughput (metric tons of ore per day)	223,500	220,700	196,400	1%
Copper production, net to PT Freeport Indonesia (000 pounds)	1,388,100	1,428,100	1,427,300	(3)%
Gold production, net to PT Freeport Indonesia (ounces)	1,899,500	2,379,100	2,227,700	(20)%
Average net cash production costs per pound of copper	\$ 0.23	\$ 0.09	\$ 0.11	156%

-
- a. Includes site production and delivery costs, smelting and refining costs, and royalties, less credits for gold and silver sales.

In May 2000, PT Freeport Indonesia, in consultation with the Government of Indonesia, voluntarily agreed to temporarily limit Grasberg open-pit production because of an incident at its Wanagon overburden stockpile. Normal

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overburden placement at the Wanagon overburden stockpile resumed and the restriction on production from the Grasberg open pit was lifted at the end of 2000 (see "Wanagon Overburden Stockpile Slippage").

Gold production in 2000 declined primarily because of lower ore grades. We expected gold production to improve in 2001 and, in fact, gold production did increase 39% in 2001 primarily because of higher ore grades. Average net cash production costs per pound of copper were higher in 2000 because of lower credits from gold sales and because of higher mine maintenance and energy costs. For more information regarding our operating and financial results, see our Annual Report incorporated herein by reference as part of "Item 6. Selected Financial Data" and "Items 7. and 7A. Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk."

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INFRASTRUCTURE IMPROVEMENTS

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

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

From December 1993 to March 1997, PT Freeport Indonesia sold \$270.0 million of infrastructure assets to joint ventures owned one-third by PT Freeport Indonesia and two-thirds by PT ALatieF Nusakarya Corporation (ALatieF), an Indonesian investor. Funding for the purchases consisted of \$90.0 million in equity contributions by the joint venture partners, a \$60.0 million bank loan and FCX's 9 3/4% Senior Notes. PT Freeport Indonesia subsequently sold its one-third interest in the joint ventures to ALatieF in March 1997. In September 1998, PT Freeport Indonesia reacquired for \$30 million an aggregate one-third interest in the joint ventures. During 2000, PT Freeport Indonesia purchased the remaining interest in the joint ventures for \$25.9 million cash and the assumption of \$34.1 million of bank debt.

In December 1997, we sold the new coal-fired power plant facilities associated with the fourth concentrator mill expansion for \$366.4 million to the joint venture that owns the power plants that already provided electricity to us. The purchase price included \$123.2 million for Rio Tinto's share of the new power plant facilities. Asset sales to the power joint venture totaled \$581.4 million through 1997, including \$458.2 million of assets we owned. We subsequently sold our 30 percent interest in the joint venture to the other partners and we purchase power under infrastructure asset financing arrangements pursuant to a power sales agreement.

MARKETING

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

Revenues from concentrate sales are recorded net of royalties (see "Contracts of Work"), treatment and all refining charges (including participation charges, if applicable, based on the market prices of metals), and the impact of derivative financial instruments, if any, used to hedge against risks from metals price fluctuations. Moreover, because a portion of the metals

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contained in copper concentrates is unrecoverable as a result of the smelting process,

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our revenues from concentrate sales are also recorded net of allowances based on the quantity and value of these unrecoverable metals. These allowances are a negotiated term of our contracts and vary by customer. Treatment and refining charges represent payments to smelters and refiners and are either fixed or in certain cases vary with the price of copper. We sell some copper concentrates in the spot market. See "Risk Factors."

We had commitments, including commitments from Atlantic Copper and PT Smelting, for essentially all of our estimated 2001 production at market prices. We expected our share of sales for 2001 to approximate 1.4 billion pounds of copper and 2.4 million ounces of gold and, in fact, our share of sales approximated 1.4 billion pounds of copper and 2.6 million ounces of gold in 2001. Our projected share of 2001 copper and gold sales reflected the expectation of higher average mill throughput rates than in 2000 and higher gold grades and, in fact, our average mill throughput rates and gold grades were higher than in 2000. See "Risk Factors."

PT Freeport Indonesia has a long-term contract through 2007 to provide Atlantic Copper with approximately 60 percent of its copper concentrate requirements at market prices. PT Freeport Indonesia's agreement with PT Smelting provides for the supply of 100 percent of the copper concentrate requirements necessary to reach the Gresik smelter's design capacity and substantially all of any incremental copper concentrate requirements that may be needed in excess of that amount. For the first 15 years of PT Smelting's operations, the treatment and refining charges on the majority of the concentrate PT Freeport Indonesia supplies will not fall below a specified minimum rate, currently \$0.23 per pound, the rate for 2000. We expected the specified minimum rate for 2001 to be \$0.23 per pound and, in fact, this rate was \$0.23 per pound in 2001. We anticipate that PT Freeport Indonesia will sell approximately 50 percent of its annual concentrate production to Atlantic Copper and PT Smelting. A recap of PT Freeport Indonesia's aggregate percentage concentrate sales to its affiliates and to other parties for the last three years are as follows:

	2001	2000	1999
	----	----	----
PT Smelting	28%	25%	17%
Atlantic Copper	23%	22%	23%
Other parties	49%	53%	60%
	---	---	---
	100%	100%	100%
	===	===	===

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INVESTMENT IN SMELTERS

Our investment in smelters (Atlantic Copper and PT Smelting) serves an important role in our concentrate marketing strategy. Approximately one-half of PT Freeport Indonesia's concentrate production is sold to its affiliated smelters, Atlantic Copper and PT Smelting, and the remainder is sold to other customers.

Treatment charges for smelting and refining copper concentrates represent a cost to PT Freeport Indonesia and income to Atlantic Copper and PT Smelting. However, because we have integrated our upstream (mining and milling) and downstream (smelting and refining) operations, we are able to achieve operating hedges which substantially offset the effect of changes in treatment charges for smelting and refining PT Freeport Indonesia's copper concentrates. For example, while low smelting and refining charges will adversely affect the operating results of Atlantic Copper and PT Smelting, low charges will benefit the operating results of PT Freeport Indonesia's mining operations.

As a result, changes in smelting and refining charges do not have a significant impact on our consolidated operating results. Taking into account taxes and minority ownership interests, an equivalent change in the charges PT Freeport Indonesia pays and the charges Atlantic Copper and PT Smelting receive would essentially offset in our consolidated operating results.

ATLANTIC COPPER, S.A.

We own 100 percent of Atlantic Copper. Atlantic Copper completed the last expansion of its production capacity in 1997 and its smelter currently has a design capacity of 290,000 metric tons of copper per year. During 2000, Atlantic Copper treated 916,300 metric tons of concentrate and produced 289,900 metric tons of new copper anodes. Atlantic Copper purchased approximately 64 percent of its 2000 concentrate requirements from PT Freeport Indonesia at market prices. We have no present plans to expand Atlantic Copper's production capacity. Atlantic Copper has experienced no material operating problems, and we are not aware of any potential material environmental liabilities at Atlantic Copper.

We contributed \$40.0 million to Atlantic Copper in December 1999 and an additional \$32.4 million during 2000. The funds are intended to strengthen Atlantic Copper's financial structure during this period of extremely low treatment and refining charge rates. Our total investment in Atlantic Copper through December 31, 2000 totaled \$212.3 million.

PT SMELTING

PT Freeport Indonesia owns 25 percent of PT Smelting. PT Smelting temporarily shut down its smelter, as planned, at the end of March 2000 for the

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tie-in of a new third anode furnace as well as for planned maintenance. The smelter restarted at the end of April and during the third quarter of 2000 achieved its goal of reaching full design capacity of 200,000 metric tons of copper per year. During 2000, PT Smelting treated 582,200 metric tons of concentrate and produced 173,800 metric tons of new copper anodes. PT Smelting has no present plans to expand its treatment capacity and has experienced no material operating problems. We are not aware of any potential material environmental liabilities at PT Smelting.

In 1999, its first full year of operations, PT Smelting treated 436,000 metric tons of concentrate and produced 126.7 metric tons of new copper anodes. PT Smelting is a joint venture among PT Freeport Indonesia, Mitsubishi Materials Corporation, Mitsubishi Corporation and Nippon Mining & Metals Co., Ltd., which own 25 percent, 60.5 percent, 9.5 percent and 5 percent, respectively, of the outstanding PT Smelting common stock. PT Freeport Indonesia is providing nearly all of PT Smelting's copper concentrate requirements. PT Freeport Indonesia agreed to assign its earnings in PT Smelting to support a 13 percent cumulative annual return to the other owners for the first 20 years of operations. PT Freeport Indonesia's total investment in PT Smelting through December 31, 2000 totaled \$96.4 million.

COMPETITION

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

SOCIAL DEVELOPMENT AND HUMAN RIGHTS

We have a social and human rights policy to ensure that we operate in compliance with the laws in the areas of our operations, and in a manner that respects basic human rights and the culture of the people who are indigenous to the area. We continue to incur significant costs on social and cultural activities, primarily in Irian Jaya (Papua). These activities include:

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

In 1996, PT Freeport Indonesia agreed to commit at least one percent of its revenues for the following 10 years to the Freeport Fund for Irian Jaya

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Development to support village-based health, education, economic and social development programs in its area of operations. This commitment replaced our community development programs in which we spent a similar amount of money each year. We contributed \$14.1 million in 2000, \$14.7 million in 1999 and \$13.5 million in 1998 to the Freeport Fund for Irian Jaya Development.

Lembaga Pengembangan Masyarakat-Irian Jaya, or the People's Development Foundation-Irian Jaya, oversees disbursement of the funds we contribute to the Freeport Fund for Irian Jaya Development. The foundation's board of directors is made up of the head of the local government, currently a Kamoro; a leader of the Amungme people; a leader of the Kamoro people and leaders of the three local churches.

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

In December 2000, we endorsed the joint U.S. State Department-British Foreign Office Voluntary Principles on Human Rights and Security. The Voluntary Principles were endorsed by several major natural resources companies and by important human rights organizations. We participated in drafting these principles with all of the parties involved and added them to our social and human rights policy.

ENVIRONMENTAL MATTERS

We have an environmental policy that commits us not only to compliance with applicable federal, state and local environmental statutes and regulations, but also to continuous improvement of our environmental performance at every operational site. We believe that we conduct our Indonesian operations pursuant to all necessary permits and are in compliance in all material respects with applicable Indonesian environmental laws, rules and regulations.

Mining operations on the scale of our operations in Papua involve significant environmental challenges, primarily related to the disposition of tailings, which are the crushed and ground rock material resulting from the physical separation of commercially valuable minerals from the ore. We have comprehensive, ongoing environmental monitoring and management plans for the disposal of tailings resulting from our milling operations, which have been approved by the Government of Indonesia. Pursuant to these plans, we manage and monitor the impact of our tailings disposal on the ecosystem of the Ajkwa River and the ecosystems of adjoining water bodies and the surrounding coastal areas. In 1997, we completed an engineered levee system to minimize the impact of the tailings through a controlled deposition area located on a portion of the flood plain of the Ajkwa River. We will revegetate and reclaim the deposition area when our mining operations are completed.

In furtherance of our commitments to the Indonesian government pursuant to our tailings plan, we monitor the acid-neutralizing capacity of tailings on a daily basis to ensure the discharge of non-acid generating tailings into our tailings deposition area. The net acid-neutralizing capacity of our tailings discharge is maintained through a managed program of blending underground ore with ore from the open pit, the addition of supplemental limestone (or lime) to the ore blend, and the addition of lime for control of the pH levels in the

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flotation system. Daily samples are collected and tested and this data is communicated to our mill operations so that adjustments in ore blending and lime/limestone addition can be made as appropriate.

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

We have made significant capital expenditures with respect to the capture and treatment of acid rock drainage and additional capital expenditures are currently in progress. In addition, we are in the process of developing and implementing technology for the treatment of captured acid rock drainage. In the interim, acid rock drainage collected by boreholes near the base of the stockpile is neutralized.

We have committed to independent external environmental audits of our Papua operations by qualified experts every three years, with the results to be made public. The second such audit was completed in 1999. The second audit reported that we continue to be in material compliance with Indonesian environmental laws and regulations and that we had fulfilled the recommendations in the 1996 audit report. The 1999 external audit report made some additional environmental management recommendations that are being implemented. The report concluded that our environmental management systems achieve the standard of practice for world-class mines. The auditors also found our environmental management systems to be exemplary and a showcase for the mining industry. We also are continuing our annual internal audits, through the life of our mining operations, so that our environmental management and monitoring programs will remain sound and our operations will remain in material compliance with local laws.

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We have environmental approvals from the Government of Indonesia to expand our milling rate up to a maximum of 300,000 metric tons of ore per day. In 2000, we averaged 223,500 metric tons of ore per day. We expected to average 235,000 metric tons of ore per day in 2001 and, in fact, we averaged 237,800 metric tons of ore per day in 2001.

The cost of complying with environmental laws is a fundamental cost of our business. We incurred environmental capital expenditures and other environmental costs totaling \$106.1 million in 2000, \$73.3 million in 1999 and \$111.5 million in 1998, including tailings management levee maintenance and mine reclamation. We expected to incur approximately \$47 million of environmental capital expenditures in 2001 and, in fact, we incurred \$78.2 million in environmental capital expenditures and other environmental costs in 2001. These environmental capital expenditures were part of our \$190.0 million overall 2001

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capital expenditure budget.

Upon the completion of our mining operations, we will fulfill the remaining commitments we made to the Indonesian government in connection with our tailings management plan. Our options for revegetation of affected areas of the deposition area will include forage crops and grasses, fruits, grains and vegetables, and other traditional food and medicinal crops. Decisions on these options will be made after consultation with local and regional government and local residents. In addition to the revegetation and reclamation of the deposition area, we will continue to operate our wastewater treatment plants as long as necessary. We will also monitor and test the water discharged from our mine and the pH, sulfate and electrical conductivity levels of ground water in the deposition area. In addition, we will provide flood protection to surrounding areas by diverting the Ajkwa and Otomona Rivers and enhancing levee embankments. The stability of our levees will be ensured through periodic visual inspection, revegetation of the levee embankments, and the transfer of our levee roads for public use. Moreover, we will submit an annual written report to the Indonesian government regarding our reclamation activities.

Our ultimate reclamation and closure activities will be determined after consultation with the Indonesian government, affected local residents and other affected parties. Thus, we cannot currently project with precision the ultimate amount of reclamation and closure costs we will incur. Our best estimate at this time is that PT Freeport Indonesia's total reclamation and closure costs may require in excess of \$100 million but are not expected to exceed \$150 million. Estimates of reclamation and closure costs involve complex issues requiring integrated assessments over a period of many years and are subject to revision over time as we perform more complete studies. Some reclamation costs will be incurred during mining activities, while most closure costs and the remaining reclamation costs will be incurred at the end of our mining activities, which are currently estimated to continue for more than 30 years. We had \$19.2 million accrued on a unit-of-production basis at December 31, 2000 for mine closure and reclamation costs.

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

In 1996, we began contributing approximately \$0.6 million annually to a cash fund (\$2.5 million balance at December 31, 2000) designed to accumulate at least \$100 million by the end of our Indonesian mining activities. The amount of our annual contribution to the cash fund is adjusted once every five years. We plan to use this fund, including accrued interest, to pay for mine closure and reclamation costs. Any incremental costs in excess of the \$100 million fund are expected to be incurred throughout the life of the mine and would be funded by operational cash flow or the sale of assets, as needed. An increasing emphasis on environmental issues and future changes in regulations could require us to incur additional costs that would be charged against future operations. Estimates involving environmental matters are by their nature imprecise and

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changes in government regulations, operations, technology and inflation could require us to revise them over time.

In 1998, a court in Huelva, Spain found an employee of Atlantic Copper guilty of a criminal offense against the environment in connection with Atlantic Copper's transportation and use of weak acid and spent electrolyte at a

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facility owned and operated by Minas de Rio Tinto, S.A.L. The court fined the employee approximately \$48,000. The Huelva court ruling did not prohibit Atlantic Copper's Huelva complex from continuing to engage in these operations. Moreover, Atlantic Copper's weak acid and spent electrolyte transport and use operations have been authorized by Spanish environmental regulators. In response to the Huelva court decision, Atlantic Copper has voluntarily constructed an on-site plant for the treatment of weak acid and recycling of spent electrolyte.

We believe that Atlantic Copper's facilities and operations are in compliance in all material respects with all applicable Spanish environmental laws, rules and regulations. During 1999, Atlantic Copper achieved ISO 14001 certification for its two remaining uncertified facilities. In addition, environmental management systems at all of Atlantic Copper's facilities have been validated as being in compliance with the European Union Regulation on Environmental Eco-Management and Eco-Auditing.

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

For additional information on our environmental and social efforts, see our annual report incorporated herein by reference as part of "Items 7. and 7A. Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk."

WANAGON OVERBURDEN STOCKPILE SLIPPAGE

On May 4, 2000, a slippage occurred in the overburden waste stockpile at the Wanagon basin following a period of excessive rainfall, causing a wave of water and material to overflow from the basin. Four employees of a contractor to PT Freeport Indonesia were working in the area and perished. Contained within the mud were the treatment solids from the lime precipitation of acid rock drainage, which then entered the tailings river system near the village of Banti. PT Freeport Indonesia charged \$2.9 million to its second-quarter 2000 production costs, primarily for assets lost as a result of the incident. In addition, we incurred environmental costs for overburden disposition, stockpile stabilization, laboratory testing and consulting studies relating to the Wanagon overburden waste stockpile.

Sampling and monitoring were initiated at a number of stations covering the entire tailings system between the mine and estuary for a period of several months. A specific risk analysis was conducted as a result of this event and was based on the monitoring program. No long-term environmental effects were found from the direct monitoring nor predicted by the risk assessment. The slippage caused a flow of sediments containing slightly elevated levels of precipitated copper. As a result, water quality in the river was temporarily diminished due to higher levels of total suspended solids. According to water quality tests, the pre-slippage water quality in the river was substantially reestablished by the following day and was fully reestablished within 22 days after the incident.

PT Freeport Indonesia engaged international experts and outside consultants led by a team from the Institute of Technology of Bandung (Indonesia) to conduct a comprehensive study of the cause of the slippage and to recommend a future course of action. Working with the close cooperation of the Indonesian Department of Energy and Natural Resources and also BAPEDAL (the Indonesian environmental protection agency), the company initiated a stockpile stabilization program and voluntarily agreed to a temporary limitation on production from the Grasberg open pit of 200,000 tons per day average. Underground ore production was not affected. A safe-zone based on engineering calculations was subsequently identified along the Wanagon River and within the village of Banti. The residents within this zone were temporarily moved to Tembapapura, our original mining town site, and the houses were removed. These families are being relocated to new housing designed according to their wishes and located on higher ground in Banti.

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After successful completion of the stabilization program and consultation with affected local residents, and with the approval of the Indonesian government, normal overburden placement at the Wanagon stockpile resumed and the restriction on production from the Grasberg open pit was lifted at the end of 2000.

EMPLOYEES AND RELATIONSHIP WITH FM SERVICES COMPANY

As of December 31, 2000, PT Freeport Indonesia had 6,934 employees (approximately 98 percent Indonesian). In addition, as of December 31, 2000, PT Freeport Indonesia had 1,953 contract workers, the vast majority of whom were Indonesian. Approximately 50 percent of our Indonesian employees are members of the All Indonesia Workers' Union, which operates under Government of Indonesia supervision. During 1999, PT Freeport Indonesia and the union agreed to a new labor agreement that expires September 30, 2001. PT Freeport Indonesia's relations with the workers' union have generally been positive.

As of December 31, 2000, Atlantic Copper had 739 employees, of which approximately 78 percent are covered by a union contract that expires December 31, 2002. Atlantic Copper experienced no work stoppages in 2000 and relations with these unions have also generally been good.

FM Services Company, a Delaware corporation 45 percent owned by us as of December 31, 2000, has furnished executive, administrative, financial, accounting, legal, tax and similar services to us. We reimburse FM Services at its cost, including allocated overhead, for these services on a monthly basis. As of December 31, 2000, FCX had 17 employees and FM Services had 134 employees.

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

RISK FACTORS

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

BECAUSE OUR PRIMARY OPERATING ASSETS ARE LOCATED IN THE REPUBLIC OF INDONESIA, OUR BUSINESS MAY BE ADVERSELY AFFECTED BY INDONESIAN POLITICAL, ECONOMIC AND SOCIAL UNCERTAINTIES BEYOND OUR CONTROL, IN ADDITION TO THE USUAL RISKS ASSOCIATED WITH CONDUCTING BUSINESS IN A FOREIGN COUNTRY.

Maintaining a good working relationship with the Indonesian government is important to us because all of our mining operations are located in Indonesia and are conducted pursuant to Contracts of Work with the Indonesian government. For a discussion of the risks relating to our Contracts of Work, see the risk factor below.

Indonesia continues to face political and economic uncertainties, including separatist movements and civil and religious strife in a number of provinces. In particular, social, economic and political instability in the province of Irian Jaya (Papua), where our mining operations are located, could have a material adverse impact on us if this instability results in damage to our property or interruption of our activities.

With the approval of the Indonesian government, we have temporarily suspended our field exploration activities outside of Block A due to safety and security issues and uncertainty relating to a possible conflict between our mining and exploration rights in forest areas covered by the Contracts of Work and an Indonesian law enacted in 1999 prohibiting open-pit mining in forest preservation areas.

In August 1998, we suspended operations for three days at our Grasberg mine in response to a wildcat work stoppage (not authorized by the workers'

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union) by a group of workers, a majority of whom were employees of our contractors. The workers cited employment issues as the reasons for their work stoppage. In March 1996, local people engaged in acts of vandalism that caused approximately \$3.0 million of damages to our property and caused us to close the Grasberg mine and mill for three days as a precautionary measure.

Several separatist groups are opposing Indonesian rule over Irian Jaya (Papua) and have sought political independence for the province. In response to the demands for political independence from Indonesia, new regional autonomy laws became effective January 1, 2001. However, the manner in which these new autonomy laws will be implemented and the degree of political and economic autonomy that is being provided to individual provinces, including Irian Jaya (Papua), is uncertain and is a current issue in Indonesian politics. Moreover, in Irian Jaya (Papua), there have been sporadic attacks on civilians by separatists and sporadic but highly publicized conflicts between separatists and the Indonesian military.

We are also subject to the usual risks associated with conducting business in a foreign country, including the risk of forced modification of existing contracts, changes in the country's laws or policies, including laws or policies relating to taxation, royalties, imports, exports and currency, and the risk of having to submit to the jurisdiction of a foreign court or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory. In addition, we are subject to the risk of expropriation and our insurance policies do not provide coverage for losses caused by expropriation.

OUR CONTRACTS OF WORK ARE SUBJECT TO TERMINATION IF WE DO NOT COMPLY WITH OUR CONTRACTUAL OBLIGATIONS AND, IF A DISPUTE ARISES, WE MAY HAVE TO SUBMIT TO THE JURISDICTION OF A FOREIGN COURT OR PANEL. IN ADDITION, UNLESS THE INDONESIAN GOVERNMENT PERMITS US TO SUSPEND ACTIVITIES UNDER OUR CONTRACTS OF WORK, WE ARE REQUIRED TO CONTINUE THOSE ACTIVITIES OR POTENTIALLY BE DECLARED IN DEFAULT.

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

Moreover, in recent years, certain government officials and others in Indonesia have called into question the validity of contracts entered into by

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the Government of Indonesia prior to October 1999, including PT Freeport Indonesia's Contract of Work, which was signed in December 1991. We cannot assure you that the validity of, or our compliance with the terms of, the Contracts of Work will not be challenged for political or other reasons. PT Freeport Indonesia's and Eastern Minerals' Contracts of Work require that disputes with the Indonesian government be submitted to international arbitration. Notwithstanding the international arbitration provision, if a dispute arises under the Contracts of Work, we face the risk of having to submit to the jurisdiction of a foreign court or having to enforce the judgment of a foreign court or arbitration panel against Indonesia within its own territory.

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

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WE HAVE SIGNIFICANT SCHEDULED DEBT AND REDEEMABLE PREFERRED STOCK MATURITIES IN 2002 AND 2003 THAT WILL BE DIFFICULT TO REFINANCE.

Our scheduled debt and redeemable preferred stock maturities total approximately \$200 million in 2001, \$1 billion in 2002 and \$500 million in 2003, based on year-end 2000 gold and silver prices. Our \$1 billion bank facility matures in December 2002. The outstanding balance at December 31, 2000 was \$760.0 million, and \$162.0 million was available under PT Freeport Indonesia's \$550 million facility and \$78.0 million was available under the FCX/PT Freeport Indonesia \$450 million facility. We have begun discussions with the banks in our credit facility regarding extending its maturity and revising its terms. If the banks agree to an extension and revision of terms it would result in scheduled maturity requirements, higher financing costs and certain restrictions on our financial management.

Our guarantee of a \$253.4 million bank loan to Nusamba, which is discussed below, also matures in 2002. We are working on a plan to coordinate any payment that might be required as a result of our guarantee with the extension of the maturity of amounts due under the \$1 billion bank facility. In addition, we have maturities of senior notes and redeemable preferred stock in 2003 totaling approximately \$400 million, based on year-end 2000 gold and silver prices. Because of the economic and political issues affecting Indonesia, our current ability to obtain capital is limited.

WE HAVE GUARANTEED AN OBLIGATION OF AN INDONESIAN ENTITY, AND HAVE LENT FUNDS TO THE ENTITY, AND THE ENTITY MAY NOT BE ABLE TO PAY ITS DEBTS.

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In 1997, we guaranteed a \$253.4 million loan from a syndicate of commercial banks, including JPMorgan Chase Bank as agent, to PT Nusamba Mineral Industri. Nusamba, an Indonesian company, used the loan proceeds plus \$61.6 million of cash, for a total of \$315.0 million, to purchase stock in PT Indocopper Investama, a company whose only significant assets are 9.36 percent of PT Freeport Indonesia's stock and 10.0 percent of Eastern Minerals' stock. Nusamba owns approximately 51 percent of PT Indocopper Investama's stock and we own approximately 49 percent. We guaranteed the Nusamba loan for the purpose of continuing minority Indonesian ownership in our principal operating subsidiary, PT Freeport Indonesia. Nusamba acquired the ownership interest from our previous Indonesian partner to whom we sold the interest in 1991 to satisfy the Indonesian ownership requirements in our Contract of Work. Those requirements were relaxed in 1997, but, at the time of the Nusamba transaction, we believed that it was prudent and in our best interests to facilitate the continuation of Indonesian ownership, although no longer legally required. Except for Nusamba's indirect ownership of PT Freeport Indonesia stock, we have no ownership interest in, or contractual relationships with, Nusamba.

The loan is secured by a pledge of the PT Indocopper Investama stock owned by Nusamba and is due in March 2002. We also agreed to lend Nusamba any amounts necessary to cover shortfalls between the interest payments on the loan and dividends received by Nusamba on the PT Indocopper Investama stock. At December 31, 2000, we had loaned Nusamba \$56.1 million, also due in March 2002, for this purpose.

If Nusamba does not pay the loans when due, and we are obligated to pay the loan to the commercial bank, we will seek to recover the PT Indocopper Investama stock as provided by the financing documents, which are governed by Indonesian law.

SERVICING OUR DEBT WILL REQUIRE A SIGNIFICANT AMOUNT OF CASH, AND OUR ABILITY TO GENERATE SUFFICIENT CASH DEPENDS ON MANY FACTORS, SOME OF WHICH ARE BEYOND OUR CONTROL.

Our ability to make payments on and to refinance our debt depends on our ability to generate sufficient cash flow. This, to a significant extent, is subject to commodity prices and general economic, financial, regulatory, political and other factors that are beyond our control. In addition, our ability to borrow funds in the future to service our debt will depend on our meeting the financial covenants in our bank credit facilities and other debt agreements we may have in the future. Future borrowings may not be available to us under our bank credit facilities or otherwise in amounts sufficient to enable us to pay our debt or to fund other liquidity needs. As a result, we may need to

refinance all or a portion of our debt on or before maturity. Any inability to generate sufficient cash flow or refinance our debt on favorable terms could have a material adverse effect on our financial condition.

Political and economic conditions in Indonesia have had a negative effect on our credit ratings. The major credit rating agencies have generally had a policy of limiting the credit ratings of companies with operations limited to a particular country to the credit rating for the sovereign debt of that country. As of February 2002, the sovereign credit ratings of Indonesia were B3 by Moody's Investors Service and CCC by Standard & Poor's and our credit ratings on our senior unsecured debt were B3 by Moody's Investors Service and CCC by Standard & Poor's. Our current credit ratings have an impact on the availability and cost of capital to us.

OUR MINING OPERATIONS CREATE DIFFICULT AND COSTLY ENVIRONMENTAL CHALLENGES, AND FUTURE CHANGES IN ENVIRONMENTAL LAWS, OR UNANTICIPATED ENVIRONMENTAL IMPACTS FROM OUR OPERATIONS, COULD REQUIRE US TO INCUR INCREASED COSTS.

Mining operations on the scale of our operations in Irian Jaya (Papua) involve significant environmental challenges. Our primary challenge is to dispose of the large amount of crushed and ground rock material, called tailings, that results from the process by which we physically separate the copper, gold and silver from the ore that we mine. Under our tailings management plan, the river system near our mine transports the tailings to the lowlands where deposits of the tailings and natural sediments are controlled through a levee system for future revegetation and reclamation. We incurred costs of \$8.2 million in 2000, \$11.7 million in 1999 and \$8.0 million in 1998 for our tailings management plan.

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

Certain Indonesian governmental officials have from time to time raised issues with respect to our tailings management plan and overburden management plan, including a suggestion that a pipeline system rather than our current system be implemented for tailings disposal. Our ongoing assessment of tailings management has identified significant unresolved technical, environmental and economic issues associated with a pipeline system. Because our mining operations are remotely located in steep mountainous terrain and in an active seismic area, a pipeline system would be costly, difficult to construct and maintain, and more prone to catastrophic failure. For these reasons, we do not believe that a pipeline system is practical.

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

THE VOLUME AND GRADE OF THE RESERVES WE RECOVER AND OUR RATES OF PRODUCTION MAY BE MORE OR LESS THAN ANTICIPATED. IN ADDITION, WE MAY BE UNABLE TO COMPLETE THE MINING OF ALL OF OUR RESERVES PRIOR TO THE EXPIRATION OF THE INITIAL TERM OF OUR CONTRACT OF WORK.

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

All of our current proven and probable reserves, including the Grasberg deposit, are located in Block A. The initial term of our Contract of Work covering Block A expires at the end of 2021. We can extend this term for

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two successive 10-year periods, subject to the approval of the Indonesian government, which cannot be withheld or delayed unreasonably. Our reserve amounts reflect our estimates of the reserves that can be recovered before 2041 (i.e., before the expiration of the two 10-year extensions) and our current mine plan has been developed and our operations are based on our receiving the two 10-year extensions. As a result, we do not anticipate the mining of all of our reserves prior to the end of 2021 based on our current mine plan, and there can be no assurance that the Indonesian government will approve the extensions. Based on proven and probable reserves as of December 31, 2001 and our mine plan as of February 2002, we expect to mine approximately 63 percent of the aggregate proven and probable ore, representing approximately 71 percent of PT Freeport Indonesia's share of recoverable copper reserves and approximately 77 percent of PT Freeport Indonesia's share of recoverable gold reserves, prior to the expiration of the initial term of our Contract of Work in December 2021.

OUR NET INCOME CAN VARY SIGNIFICANTLY WITH FLUCTUATIONS IN THE MARKET PRICES OF COPPER AND GOLD.

Our revenues are derived primarily from the sale of copper concentrates, which also contain significant amounts of gold, and from the sale of copper cathodes, copper wire rod and copper wire. Most of our copper concentrates are sold under long-term contracts, but the selling price is based on world metal prices at or near the time of shipment and delivery.

Copper and gold prices fluctuated widely in 2001, primarily due to the slowdown in global economic activity and the economic and political

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uncertainties created by the terrorist attacks in the United States on September 11, 2001. During 2001, the daily closing price for copper on the London spot market ranged from 60 cents per pound to 83 cents per pound and the daily closing price for gold on the London spot market ranged from \$256 per ounce to \$293 per ounce.

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

- o the strength of the United States economy and the economies of other industrialized and developing nations;
- o available supplies of copper from mine production and inventories;
- o sales by holders and producers of copper;
- o demand for industrial products containing copper; and
- o speculation.

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

- o the strength of the United States economy and the economies of other industrialized and developing nations;
- o global or regional political or economic crises;
- o the relative strength of the United States dollar and other currencies;
- o expectations with respect to the rate of inflation;
- o interest rates;
- o sales of gold by central banks and other holders;

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- o demand for jewelry containing gold; and
- o speculation.

Any material decrease in market prices of copper or gold would have a material adverse impact on our results of operations and financial condition.

IN ADDITION TO THE USUAL RISKS ENCOUNTERED IN THE MINING INDUSTRY, WE FACE ADDITIONAL RISKS BECAUSE OUR OPERATIONS ARE LOCATED AN DIFFICULT TERRAIN IN A VERY REMOTE AREA OF THE WORLD.

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Our mining operations are located in steeply mountainous terrain in a very remote area in Indonesia. These conditions have required us to overcome special engineering difficulties and to develop extensive infrastructure facilities. In addition, the area receives considerable rainfall, which has led to periodic floods and mud slides. The mine site is also in an active seismic area and has experienced earth tremors from time to time. In addition to these special risks, we are also subject to the usual risks associated with the mining industry, such as the risk of encountering unexpected geological conditions that may result in cave-ins and flooding of mine areas. Our insurance coverages may not be sufficient to cover an unexpected natural or operating disaster. Moreover, our insurance policies do not provide coverage for damages and losses caused by war.

MOVEMENTS IN FOREIGN CURRENCY EXCHANGE RATES OR INTEREST RATES COULD HAVE A NEGATIVE EFFECT ON OUR OPERATING RESULTS.

All of our revenues are denominated in U.S. dollars. However, some of our costs and some of our asset and liability accounts are denominated in Indonesian rupiah, Australian dollars or Spanish pesetas/euros. As a result, our profitability is generally adversely affected when the U.S. dollar weakens against these foreign currencies.

The Indonesian rupiah/U.S. dollar exchange rate was volatile during 2001. The rupiah/U.S. dollar daily closing exchange rate ranged from 8,470 rupiahs per U.S. dollar to 11,980 rupiahs per U.S. dollar during 2001, and on December 31, 2001, the closing exchange rate was 10,160 rupiahs per U.S. dollar. The Australian dollar/U.S. dollar and euro/U.S. dollar exchange rates also fluctuated substantially in 2001. During 2001, the Australian dollar/U.S. dollar daily closing exchange rate ranged from \$0.48 per Australian dollar to \$0.57 per Australian dollar and the euro/U.S. dollar daily closing exchange rate ranged from \$0.84 per euro to \$0.96 per euro. On December 31, 2001, the closing exchange rates were \$0.51 per Australian dollar and \$0.88 per euro.

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

BECAUSE WE ARE PRIMARILY A HOLDING COMPANY, OUR ABILITY TO PAY OUR DEBTS DEPENDS UPON THE ABILITY OF OUR SUBSIDIARIES TO PAY US DIVIDENDS AND TO ADVANCE US FUNDS. IN ADDITION, OUR ABILITY TO PARTICIPATE IN ANY DISTRIBUTION OF OUR SUBSIDIARIES' ASSETS IS GENERALLY SUBJECT TO THE PRIOR CLAIMS OF THE SUBSIDIARIES' CREDITORS.

Because we conduct business primarily through PT Freeport Indonesia, our major subsidiary, and other subsidiaries, our ability to pay our debts depends upon the earnings and cash flow of PT Freeport Indonesia and our other subsidiaries and their ability to pay us dividends and to advance us funds. Contractual and legal restrictions applicable to our subsidiaries could also

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limit our ability to obtain cash from them. Our rights to participate in any distribution of our subsidiaries' assets upon their liquidation, reorganization or insolvency would generally be subject to the prior claims of the subsidiaries' creditors, including trade creditors and preferred stockholders, if any.

ITEM 3. LEGAL PROCEEDINGS.

Yosefa Alomang v. Freeport-McMoRan Inc. and Freeport-McMoRan Copper & Gold Inc., Civ. No. 96-9962 (Orleans Civ. Dist. Ct. La. filed June 19, 1996). The plaintiff alleges environmental, human rights and social/cultural violations

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in Indonesia and seeks unspecified monetary damages and other equitable relief. In March 2000, the Civil District Court for the Parish of Orleans, State of Louisiana, granted our exception of no cause of action and dismissed the entire case with prejudice. The plaintiff has appealed to the Louisiana Fourth Circuit Court of Appeal, which is expected to hear oral arguments in second quarter of 2001. We will continue to defend this action vigorously.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT.

Certain information as of March 1, 2001 about our executive officers, including their position or office with Freeport-McMoRan Copper & Gold Inc. (FCX), PT Freeport Indonesia and Atlantic Copper, is set forth in the following table and accompanying text:

Name	Age	Position or Office
----	---	-----
Richard C. Adkerson	54	President and Chief Financial Officer of FCX. Director Vice President of PT Freeport Indonesia. Chairman Copper.
W. Russell King	51	Senior Vice President of FCX.
Adrianto Machribie	59	President Director of PT Freeport Indonesia.

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James R. Moffett

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Director, Chairman of the Board and Chief Executive Of
President Commissioner of PT Freeport Indonesia.

Richard C. Adkerson has served as FCX's President since April 1997 and Chief Financial Officer since October 2000. Mr. Adkerson is also Executive Vice President and a director of PT Freeport Indonesia, Chairman of Atlantic Copper, and Co-Chairman of the Board, President and Chief Executive Officer of McMoRan Exploration Co. (McMoRan). From April 1994 to November 1998 he was Co-Chairman of the Board and Chief Executive Officer of McMoRan Oil & Gas Co. (McMoRan Oil & Gas), and from November 1997 to November 1998 he was Vice Chairman of the Board of Freeport-McMoRan Sulphur Inc. (Freeport Sulphur). Mr. Adkerson served as Executive Vice President of FCX from July 1995 to April 1997, as Senior Vice President from February 1994 to July 1995 and as Chief Financial Officer from July 1995 to November 1998. He also served as Chairman of the Board of Stratus Properties Inc., a real estate development company, from March 1992 to August 1998, as President from August 1995 to May 1996 and as Chief Executive Officer from August 1995 to May 1998. Mr. Adkerson served as Vice Chairman of the Board of Freeport-McMoRan Inc. until December 1997 and as Senior Vice President and Chief Financial Officer of Freeport-McMoRan Inc. from May 1992 to August 1995.

W. Russell King has served as Senior Vice President of FCX since July 1994. Mr. King served as Senior Vice President of Freeport-McMoRan Inc. from November 1993 to December 1997.

Adrianto Machribie has served as President Director of PT Freeport Indonesia since March 1996. From September 1992 to March 1996, Mr. Machribie was a director and Executive Vice President of PT Freeport Indonesia.

James R. Moffett has served as Chairman of the Board and Chief Executive Officer of FCX since July 1995 and has served as Chairman of the Board of FCX since May 1992. He is also President Commissioner of PT Freeport Indonesia

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and Co-Chairman of the Board of McMoRan. From November 1994 to November 1998 he was Co-Chairman of the Board of McMoRan Oil & Gas and from November 1997 to November 1998 he was Co-Chairman of the Board of Freeport Sulphur. Mr. Moffett served as Chairman of the Board of Freeport-McMoRan Inc. from September 1982 to December 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information set forth under the captions "FCX Class A Common Shares," "FCX Class B Common Shares" and "Common Share Dividends," on the inside back cover of our 2000 Annual Report is incorporated herein by reference. As of March 15, 2001, there were 6,253 and 10,457 holders of record of our Class A and Class B common stock, respectively.

ITEM 6. SELECTED FINANCIAL DATA.

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

	Years Ended December 31,				
	1996	1997	1998	1999	2000
	----	----	----	----	----
Ratio of earnings to fixed charges	4.5x	3.8x	2.5x	2.9x	2.3
Ratio of earnings to fixed charges and preferred stock dividends	2.6x	2.8x	1.9x	2.2x	1.7

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

ITEMS 7. AND 7A. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information set forth under the caption "Management's Discussion and Analysis" of our 2000 Annual Report as well as the "Working Toward Sustainable Development" report set forth in our 2000 Annual Report are incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our financial statements and the notes thereto, the report thereon of Arthur Andersen LLP, and the report of management, each as set forth in our 2000 Annual Report, are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEMS 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information set forth under the caption "Information About Nominees and Directors" of our Proxy Statement submitted to our stockholders in connection with our 2001 Annual Meeting held on May 3, 2001 is incorporated herein by reference.

ITEMS 11. EXECUTIVE COMPENSATION.

The information set forth under the captions "Director Compensation" and "Executive Officer Compensation" of our Proxy Statement submitted to our stockholders in connection with our 2001 Annual Meeting held on May 3, 2001 is incorporated herein by reference.

ITEMS 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information set forth under the captions "Stock Ownership of Directors and Executive Officers" and "Stock Ownership of Certain Beneficial Owners" of our Proxy Statement submitted to our stockholders in connection with our 2001 Annual Meeting held on May 3, 2001 is incorporated herein by reference.

ITEMS 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information set forth under the caption "Certain Transactions" of our Proxy Statement submitted to our stockholders in connection with our 2001 Annual Meeting held on May 3, 2001 is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) (1). Financial Statements.

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

(a) (2). Financial Statement Schedules.

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

(a) (3). Exhibits.

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

(b). Reports on Form 8-K.

During the last quarter of the period covered by this report, we did not file any Current Reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange

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Act of 1934, the registrant has duly caused this Amendment No. 1 to be signed on its behalf by the undersigned, thereunto duly authorized, on March 8, 2002.

FREEPORT-MCMORAN COPPER & GOLD INC.

By: /s/Richard C. Adkerson

Richard C. Adkerson
President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 1 has been signed by the following persons on behalf of the registrant in the capacities indicated on March 8, 2002.

* ----- James R. Moffett	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
* ----- B. M. Rankin, Jr.	Vice Chairman of the Board and Director
/s/Richard C. Adkerson ----- Richard C. Adkerson	President and Chief Financial Officer (Principal Financial Officer)
* ----- C. Donald Whitmire, Jr.	Vice President and Controller-Financial Reporting (Principal Accounting Officer)
* ----- Robert J. Allison, Jr.	Director
* ----- Robert W. Bruce III	Director
* ----- R. Leigh Clifford	Director
* ----- Robert A. Day	Director
* -----	Director

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Gerald J. Ford

*

Director

H. Devon Graham, Jr.

Director

Steven Green

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Director

Oscar Y. L. Groeneveld

*

Director

J. Bennett Johnston

*

Director

Bobby Lee Lackey

*

Director

Gabrielle K. McDonald

Director

J. Stapleton Roy

*

Director

J. Taylor Wharton

*By: /s/Richard C. Adkerson

Richard C. Adkerson
Attorney-in-Fact

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Our financial statements and the notes thereto and the report of Arthur Andersen LLP appearing in our 2000 Annual Report to stockholders are incorporated herein by reference.

The financial statements in schedule I listed below should be read in conjunction with our financial statements in our 2000 Annual Report to stockholders.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements as of December 31, 2000 and 1999 and for each of the three years in the period ended December 31, 2000 included in Freeport-McMoRan Copper & Gold Inc.'s Annual Report to stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 18, 2001. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedules listed in the index above are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

New Orleans, Louisiana,
January 18, 2001

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

December 31,

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	----- 2000 -----	----- 1999 -----
	(In Thousands)	
Assets:		
Cash and cash equivalents	\$ 1,161	\$ 832
Interest receivable	4,968	7,746
Due from affiliates	20,147	16,862
Notes receivable from PT Freeport Indonesia	602,306	779,991
Note receivable from Nusamba	56,081	43,702
Investment in PT Freeport Indonesia and PT Indocopper Investama	742,832	824,513
Investment in Atlantic Copper	123,124 (a)	97,518 (b)
Other assets	43,821	41,616
Total assets	\$1,594,440 =====	\$1,812,780 =====
Liabilities and Stockholders' Equity:		
Accounts payable and accrued liabilities	\$ 20,016	\$ 23,173
Long-term debt, including current portion	999,694	1,060,411
Other long-term liabilities	26,419	--
Deferred income taxes	35,375	44,809
Redeemable preferred stock	475,005	487,507
Stockholders' equity	37,931	196,880
Total liabilities and stockholders' equity	\$1,594,440 =====	\$1,812,780 =====

STATEMENTS OF INCOME

	Years Ended December 31	
	----- 2000 -----	----- 1999 -----