



**PT FREEPORT INDONESIA**

*Affiliate of Freeport-McMoRan Copper & Gold*

# Shared Commitments Shared Opportunities



## Working Toward Sustainable Development

**PT FREEPORT INDONESIA**

**2007 Working Toward Sustainable Development Report**

# *Shared Commitments— Shared Opportunities*

*Our sustainable development programs are based on our commitments designed to provide the foundation for strong and enduring communities and opportunities for the future.*



*Cover photo: An overhead look at a coniferous forest established in the tailings deposition area in the lowlands portion of the PT Freeport Indonesia project area.*

*Photo on this page: A ground level view of the same reclamation project showing legume cover crops planted for use as biomass to accelerate the formation of soils for future productive agriculture.*

The individuals pictured on this page are among those featured in this report who participate in our progressive sustainable development programs.



*Semmy Yapsawakei, pg 13*



*Kerry Yarangga, pg 15*



*Sipriana Tawer, pg 19*

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*Items in italics indicate profiles or case studies.*



*Sekinus Murib, pg 21*



*Herman Apoka, pg 36*



*Yosep Operawiri, pg 36*

A group of children are running across a suspension bridge in a village. The bridge is made of wooden planks and has a net railing. The children are smiling and appear to be in a hurry. In the background, there are wooden houses and lush greenery.

## ***Working Toward Sustainable Development***

*As one of the world's leading producers of copper and gold, we recognize the importance of providing these essential metals to today's economies. We have an obligation to do so in balance with our corporate and social responsibilities in order to safeguard future generations.*

*Photo: Tsinga village, Mimika Regency*

## To Our Stakeholders

### We are committed to providing opportunities for social, educational and economic development, while minimizing and mitigating our impact on the environment.

Through our commitments to the governments of Indonesia, Papua Province and Mimika Regency, PT Freeport Indonesia is able to provide substantial economic benefits and opportunities for the people of Indonesia, Papua and Mimika. This report, titled “Shared Commitments; Shared Opportunities,” is the 2007 PT Freeport Indonesia Working Toward Sustainable Development Report. In the following pages, you will find considerable information detailing our commitments and the economic benefits and opportunities that derive from our operations.

The taxes, royalties, dividends and fees we paid to the Government of Indonesia in 2007 alone totaled approximately \$1.8 billion. Since our current contract with the Indonesian government began in 1992, these direct government benefits to Indonesia have totaled nearly \$7 billion. The benefits provided by our contract generally exceed those received by other countries with substantial mining operations. Our corporate tax rate is fixed at 35% by our contract, which is significantly higher than other businesses in Indonesia and the royalty rate on copper produced from our operations at current prices is 3.5%, which is among the highest royalty rates of any mineral producing country.

PT Freeport Indonesia’s operations have contributed to Indonesia and Papua in many other ways since 1992 as well. Our voluntary support for community development and recognition for local community land rights and our expenditures on our comprehensive environmental management programs are substantial.

The large investment required to develop the world-class Grasberg Mine, which has produced these benefits, would not be possible without the certainty of our long-term contract with the Government of Indonesia. Under our current Contract of Work, PT Freeport Indonesia:

- Invested over \$5 billion to build company infrastructure in Papua, including towns, electricity generation facilities, seaports and airports, roads, bridges, tunnels, waste disposal facilities, modern communications systems and other infrastructure, most of which will revert to the Indonesian government at the end of our contract term.
- Directly employed almost 9,800 people in 2007. Of these, 98 percent are Indonesian and almost 28 percent are from the Indonesian province of Papua. The payroll for our employees has totaled approximately \$1.4 billion since 1992.
- Provided indirect employment through contractors, privatized companies and others serving our operations, which totaled 10,800 workers in 2007, meaning that the total of those employed by or serving our operations in Indonesia at the end of 2007 was approximately 20,600.
- Purchased more than \$5 billion of domestically sourced goods and services.
- Accounted for 2.4 percent, 45 percent and 96 percent of the gross domestic product (GDP) for the country of Indonesia, Papua Province and Kabupaten Mimika respectively in 2007.
- Contributed over \$54 billion to national GDP in total since 1992.
- Paid taxes that accounted for 2.34 percent of the Indonesian national budget.
- Accounted for 1.3 percent of all household income in Indonesia and 25 percent of the household income in the Papua Province.

- Contributed \$53 million attributable to 2007 and nearly \$300 million since 1996 to the Freeport Partnership Fund for Community Development, which is managed by a board of local Papuan leaders and has helped build schools and dormitories, hospitals, places of worship, housing and community facilities in Papua.

Throughout the world, developing nations are bringing modernity to their citizens and this creates tremendous demand for the copper we produce at our Grasberg mining operations, which contain the largest single reserves of both copper and gold in the world. We are proud to serve in this important role in the global economy and both humbled and honored to be managing these important natural resources, which have been declared a vital national asset in Indonesia.

At the same time, we recognize that as responsible stewards of these important assets, we must balance the economic need for our products with social and environmental considerations, so that, in meeting the demands of the present generation, we do not impair the lives of future generations. This is the core concept of sustainable development. We embrace this responsibility both as one of our principal duties as a corporate citizen and as a sound and prudent business practice. Working toward sustainable development in our business operations and programs helps ensure healthy environments for our workforce and vibrant communities in our areas of operation, which are vital to our ongoing success.

At PT Freeport Indonesia, we have a strong Environmental Policy and a Social, Employment and Human Rights Policy which guide us on the path toward sustainable development. We recognize the significant challenges we must overcome to stay on that path and are cognizant that our mining operations have impacts on the surrounding environment and neighboring communities. Our responsibility and commitment is to minimize and mitigate environmental impacts and to maximize the beneficial economic and social results of our operations.

This is not a static commitment expressed through rigid programs. We are committed to continuous improvement in our sustainable development performance and review our environmental management and social development programs annually in a constant search for better ways of achieving our sustainable development goals. In this regard, we do not rely solely on our own judgment, having learned from experience the value of looking at our

programs through periodic independent audits, the results of which are made publicly available to our stakeholders. Our stakeholders include the Government of Indonesia, the Province of Papua, Kabupaten Mimika and neighboring communities — who all have a stake in seeing that our contributions result in a sustainable future that benefits all. We maintain a regular dialogue with our stakeholders to ensure mutual success.

Our commitment to sustainable development is significant. We invested over \$140 million in sustainable development programs during 2007 in Papua, including \$36 million on environmental management and \$106 million on social development. But monetary amounts fail to convey the significance of our environmental programs or the beneficial impacts of our educational, healthcare, social and economic development programs on neighboring communities in Papua. This Working Toward Sustainable Development Report documents these efforts.

Most importantly, this report puts human faces on these efforts — introducing you to some of the individuals who work to implement these progressive programs leading to sustainable development. They share our commitment and together we are working for a bright future for all our stakeholders.

Sincerely,

President Director and CEO  
PT Freeport Indonesia



*Photo: The company-supported Penjunan Dormitory and School near Timika.*



# Sustainability Policies and Commitments

**Strong policies guide us on the path toward sustainable development.**

**A commitment to transparency enables our stakeholders to track our performance.**

As the Indonesian mining affiliate of Freeport-McMoRan Copper & Gold Inc., PT Freeport Indonesia has adopted and abides by the ethical, social and environmental policies of Freeport-McMoRan Copper & Gold Inc. Freeport-McMoRan Copper & Gold Inc. has adopted the principles of the Sustainable Development Framework of the International Council on Mining and Metals (ICMM), of which we are a member. We are reporting our company-wide performance related to these principles according to the Global Reporting Initiative (GRI) for the reporting year 2007. Our full reporting of GRI indicators, including performance data, is available on our web site at [www.fcx.com](http://www.fcx.com).

Our 2006 report is available on our web site and our 2007 GRI Report will be posted during the second half of 2008. The 2006 report includes reporting detail prior to Freeport-McMoRan Copper & Gold Inc.'s 2007 acquisition of Phelps Dodge and contains information for PT Freeport Indonesia's operations. This Working Toward Sustainable Development report is designed to complement the GRI data by providing discussion, context and illustrations of our commitment to sustainable development and responsible mining practices in our Indonesian operations carried out by PT Freeport Indonesia.

Freeport-McMoRan Copper & Gold Inc. has recently endorsed the Extractive Industries Transparency Initiative (EITI), making a company-wide commitment to disclose all revenues and payments in the countries in which we operate. Our commitments and policies also assure that we manage our operations in accordance with the Equator Principles and the International Finance Corporation's Performance Standards on Social and Environmental Sustainability.

We have formally adopted new environmental, health and safety policies and are updating our Social, Employment & Human Rights Policy, which was originally written for PT Freeport Indonesia's operations, to apply across the entire Freeport-McMoRan Copper & Gold Inc. organization. The current text of all these policies is available on our web site at [www.fcx.com](http://www.fcx.com).

## **ENVIRONMENTAL POLICY**

*Updated July 2007*

This policy outlines our guidelines to minimize and mitigate environmental impacts, to protect and enhance the quality of the environment wherever we operate, to comply with all applicable regulations and to seek continuous improvement in environmental performance. The policy also includes commitments to achieve ISO 14001 certification at all operating facilities, recognize and protect biodiversity, and protect and remediate sites for which we are responsible. ISO 14001 is an international standard which signifies that a facility or company has systems in place to monitor and minimize environmental impacts and to drive continuous improvement in protecting the environment.

## **ENVIRONMENTAL AUDITING POLICY**

*Updated July 2007*

An effective corporate environmental auditing program increases environmental management effectiveness and our confidence that the risks of potential exposure to adverse environmental issues are being addressed. Our Environmental Auditing Policy requires all major properties worldwide to be audited at least every two years and provides additional details on auditing procedures.

## **CORPORATE SAFETY & HEALTH POLICY**

*Updated July 2007*

This policy lays out our objective of zero workplace injuries and occupational illnesses and provides for the establishment of benchmarks to evaluate our performance in achieving that objective. The policy also strengthens and re-emphasizes the implementation of safety and industrial health audits at all facilities.

## **SOCIAL, EMPLOYMENT & HUMAN RIGHTS POLICY**

As part of the integration of Phelps Dodge operations into the new Freeport-McMoRan Copper & Gold Inc., we are updating our Social, Employment & Human Rights Policy to be applicable to our increased global scope of operations. In the meantime, all of our sites, including the PT Freeport Indonesia's operations in Indonesia, will adhere to the commitments that existed before the merger, which commit us to being a responsible corporate citizen by fostering positive social and employment relationships, as well as ensuring that operations are conducted in a manner consistent with the Universal Declaration of Human Rights.

## **PRINCIPLES OF BUSINESS CONDUCT**

The cornerstone of our commitment to integrity is our Principles of Business Conduct. They are designed to be a tool to reinforce what is important in our everyday work life – hard work, honesty, treating people fairly and working safely. Our commitment to these principles is the bond that binds us all in pursuing our common vision, from top-level management to entry-level employees. More discussion of the Principles of Business Conduct is included in the Corporate Governance and Business Ethics portion of this report on page 23, or visit our web site at [www.fcx.com](http://www.fcx.com).



## *An Engine for Economic Growth*

*With a growth rate of 11-16 percent per annum, Papua's Mimika Regency, including the city of Timika (pictured), is one of the fastest-growing areas in Indonesia. PT Freeport Indonesia's operations accounted for 2.4 percent, 45 percent and 96 percent of the gross domestic product (GDP) for the nation, the province and the regency, respectively, in 2007.*

## Economic Impacts

**We have been part of Indonesia for more than three decades and are a significant part of the national, regional and local economies. Our direct economic impact in 2007 in taxes, royalties, dividends and fees totaled approximately \$1.8 billion.**

PT Freeport Indonesia provides substantial direct and indirect economic benefits for the central, provincial and local governments of Indonesia, and for the economies of Papua and the Indonesian nation as a whole. Direct benefits are the traditional contribution by a company to the Republic of Indonesia and include taxes, royalties, dividends, fees and other direct support. We are the largest private employer in Papua and one of the largest taxpayers in Indonesia. During 2007, PT Freeport Indonesia's results benefited from record high commodity prices. As a result, the taxes, royalties, dividends and fees we paid to the Government of Indonesia in 2007 totaled approximately \$1.8 billion. Since our current contract with the Indonesian government began in 1992, these direct benefits to Indonesia have totaled nearly \$7 billion.

PT Freeport Indonesia's indirect contributions to Indonesia are much larger and include the following since 1992:

- Investment of nearly \$5 billion to build company infrastructure in Papua, including towns, electricity generation facilities, seaports and airports, roads, bridges, tunnels, waste disposal facilities, modern communications systems and other infrastructure, most of which will revert to the Indonesian government at the end of our contract term.
  - Investment of over \$600 million in social infrastructure directly benefiting the local people, such as schools, student dormitories, hospitals, health clinics, offices, places of worship, recreational facilities and the development of small and medium-sized businesses.
- Direct employment by PT Freeport Indonesia of almost 9,800 people in 2007. Of these, 98% are Indonesian and approximately 2,700, or almost 28 percent, are from the Indonesian Province of Papua. PT Freeport Indonesia's payroll for its employees has totaled approximately \$1.4 billion since 1992.
  - Employment of contract employees, privatized companies and others serving PT Freeport Indonesia, which totaled 10,800 workers in 2007, meaning that the total of those employed by or serving our operations in Indonesia at the end of 2007 was approximately 20,600 people.
  - Purchase of more than \$5 billion of domestically sourced goods and services.

*The product we produce at the Grasberg operation is copper and gold concentrate, which is shipped from the Port of Amamapare (pictured) to smelters in Indonesia and around the world.*





*The Penjunan dormitory and school near Timika was constructed with company support through the community development organization LPMK. The dormitory houses Amungme and Kamoro youth from remote villages where basic education is not available.*

In 2003, we commissioned the Institute for Economics and Social Research, Faculty of Economics, University of Indonesia to conduct an economic impact analysis on the multiplier effect impact on Papua and Indonesia from PT Freeport Indonesia's operations since 1992. The study was last updated in 2007. The University's economists found that PT Freeport Indonesia:

- Accounted for 2.4 percent, 45 percent and 96 percent of the gross domestic product (GDP) for the country of Indonesia, Papua Province and Kabupaten Mimika respectively in 2007;
- Contributed more than 95 trillion rupiah to the national GDP in 2007, or approximately \$10 billion at current exchange rates;
- Contributed over \$54 billion to national GDP in total since 1992;

- Paid taxes that accounted for 2.34 percent of the Indonesian national budget;
- Funded approximately 65 percent of all community development contributions by the mining sector in Indonesia through the company's social programs;
- Accounted for 1.3 percent of all household income in Indonesia and 25 percent of the household income in Papua Province.

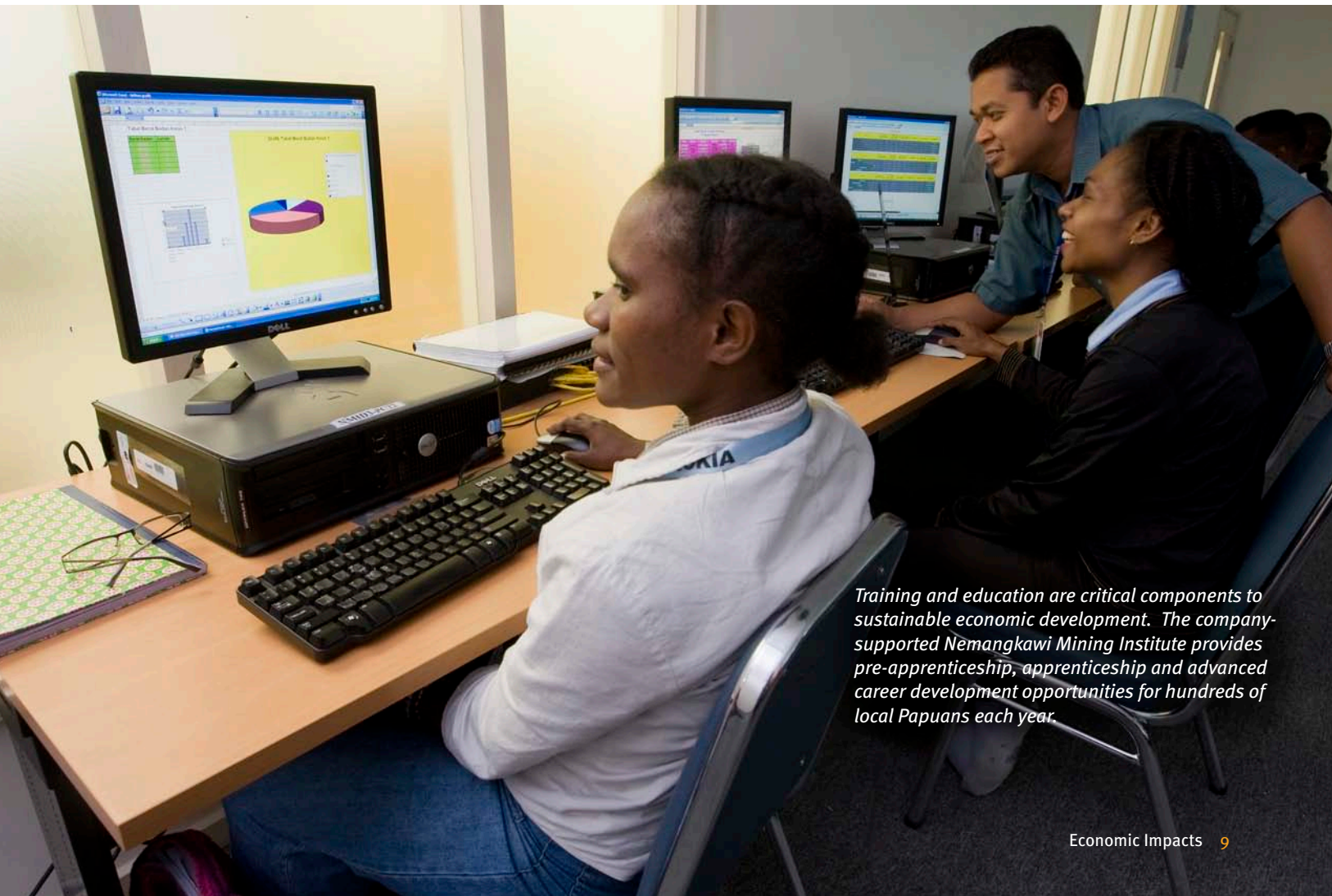
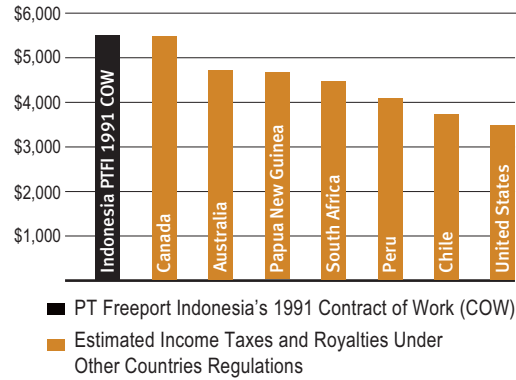
In addition, since 1996, PT Freeport Indonesia's operations have committed a portion of its revenues for the benefit of the local community through the Freeport Partnership Fund for Community Development. This fund, which is administered and disbursed by an organization called the Lembaga Pembangunan Masyarakat Amungme dan Kamoro (LPMK), has helped to build schools and dormitories, hospitals, places of worship, housing and community facilities in our area of operations in Papua. The fund also supports a comprehensive series

#### Financial Benefits to Indonesia (in billions)

	2007	1992-2007
Cash Basis	\$1.8	\$ 6.9
Attributable Basis	\$1.7	\$ 7.0

of health and educational programs and training and income generation initiatives so that Papuans benefit from the economic development taking place in the area. Contributions to the Partnership Fund attributable to our operations in 2007, including the share of our joint venture partner, Rio Tinto plc, totaled \$53 million, and the total contributions to the fund since inception approximate \$300 million. *BusinessWeek* magazine, which surveys the philanthropic activities of American companies every other year, named Freeport-McMoRan Copper & Gold Inc. as America's most philanthropic company twice in recent years in terms of cash contributed as a percentage of revenues. This was largely attributable to the Partnership Fund for Community Development.

### Royalty and Income-based Tax Comparison From 1992-2007 by Country in millions of dollars



*Training and education are critical components to sustainable economic development. The company-supported Nemangkawi Mining Institute provides pre-apprenticeship, apprenticeship and advanced career development opportunities for hundreds of local Papuans each year.*

# A Strong Foundation

*Photo: A child from the Amungme community of Banti studies in the company-sponsored Tomawin dormitory in Tembagapura.*



# Social Change and Development

**We continually strive to learn more about our Papuan neighbors, their histories and changing circumstances, to build more constructive relationships and to enhance our outreach efforts.**

## **SOCIAL AND CULTURAL COMMITMENTS**

We are committed to building and maintaining positive relationships with our Papuan neighbors, in particular the indigenous communities closest to our area of operation. We have in place a strong Social, Employment & Human Rights Policy, which is available on our web site at [www.fcx.com](http://www.fcx.com). We are committed to providing opportunities for social, educational and economic development, including special efforts to train and hire those indigenous to the area. We also continually strive to learn more about the Papuan people, their histories, culture and changing circumstances, to build more constructive relationships and to enhance our outreach efforts. Most important is our commitment to extend respect to indigenous Papuans and their cultures and to engage with them in an ongoing dialogue on issues of mutual interest.

We understand the desire of the unique people of Papua to preserve their unique cultural traditions and are dedicated to helping them accomplish this goal. We have long supported the Asmat and Kamoro Art and Cultural Festivals. We have also sponsored social, artistic, cultural, language and economic studies of the Amungme and Kamoro people, the traditional inhabitants of our area of operations. These studies have improved mutual

communication with and understanding of our neighbors and contributed significantly to international knowledge of their unique cultures. We have also sponsored two books about the Kamoro and Amungme to help us and others throughout the world understand and appreciate their societies.

## **BUILDING MUTUALLY BENEFICIAL RELATIONSHIPS**

In furtherance of our commitment to build and maintain constructive and positive relationships with our Papuan neighbors, we engage in continual dialogue with local leaders. These dialogues have led to important agreements with the Amungme and Kamoro people.

PT Freeport Indonesia has established voluntary trust funds for the Amungme and Kamoro to which the company has contributed approximately \$26 million through 2007 and, in conformance with the applicable land rights agreement, will continue to make contributions of \$1 million annually. These funds are in addition to the social development fund (see Freeport Partnership Fund for Community Development on page 15) established by PT Freeport Indonesia, which has received approximately \$300 million from our operations since 1996 for investments in projects selected by a board of local stakeholders.

A Memorandum of Understanding consummated in 2000 by Amungme and Kamoro local community organizations and PT Freeport Indonesia focuses on socioeconomic resources, human rights, land rights and environmental issues. This landmark agreement, achieved after five years of negotiations, fosters continuous dialogue to improve mutual understanding and respect, to enable the local people to achieve their aspirations and to continue harmonious relationships.

As part of the 2000 agreement, the MOU Forum was created — consisting of representatives of LEMASA, the Amungme tribal agency; LEMASKO, the Kamoro tribal agency; YAHAMAK, a nonprofit advocacy group for Papuan women and children; the regional government and PT Freeport Indonesia. The MOU Forum meets regularly to discuss issues related to implementation of the 2000 Memorandum of Understanding. This continual dialogue has led to further agreements and mutually beneficial projects and has instilled a sense of partnership and community between us and our Papuan neighbors aligning our shared interests in a sustainable and more promising future.



During 2007 we conducted training on the company's Social, Employment and Human Rights Policy for more than 7,000 employees.

*Photo: Human Rights Compliance team member Rona Rumsarwir leads a human rights training session for senior staff members of PT Freeport Indonesia's Security Risk Management department.*

## HUMAN RIGHTS COMMITMENT AND INITIATIVES

Freeport-McMoRan Copper & Gold Inc. and PT Freeport Indonesia have made strong, unequivocal commitments to human rights. This commitment is expressed in the company's Social, Employment & Human Rights Policy — formally adopted by both the Board of Directors of Freeport-McMoRan Copper & Gold Inc. and the Board of Commissioners of PT Freeport Indonesia — which requires us to conduct our operations in a manner consistent with the Universal Declaration of Human Rights, to educate our employees about human rights, and to protect any employee who reports suspected human rights violations. This policy may be found on our web site at [www.fcx.com](http://www.fcx.com). We require selected personnel to certify annually that they have neither participated in nor are aware of any human rights violation. The company has established a standard operating procedure to properly and transparently

document and investigate reports of human rights violations, including providing details of alleged violations to the Indonesian Human Rights Commission. Contractors and privatized companies serving PT Freeport Indonesia must also comply with this policy or implement their own similar policy.

We have assigned a senior Papuan as our Human Rights Compliance Officer. In this important role, Mr. Semmy Yapsawaki is responsible for the implementation of our Social, Employment and Human Rights Policy and for educating our employees and contract partners in the areas of social responsibility and human rights. The Human Rights Compliance Officer reports to an executive vice president within PT Freeport Indonesia. During 2007, we conducted training on the company's Social, Employment & Human Rights Policy for more than 7,000 employees, and an expanded educational program is being carried out in 2008.

Freeport-McMoRan Copper & Gold Inc. joined other mining and oil and gas companies and human rights organizations in endorsing the joint U.S. Department of State-British Foreign Office Voluntary Principles on Human Rights and Security. These principles are available on our web site at [www.fcx.com](http://www.fcx.com). Participants in the voluntary principles program meet annually to review their implementation and to seek better ways to provide security for extractive industry operations around the world to protect employees and investments while assuring the highest level of human rights compliance. Freeport-McMoRan Copper & Gold Inc. representatives regularly participate in these meetings.

Overseeing the development and implementation of our policy on human rights is an internationally recognized expert, Judge Gabrielle Kirk McDonald. Judge McDonald has been a distinguished civil rights attorney and U.S. federal judge and most recently served as President of

the International Criminal Tribunal for the former Yugoslavia. She serves as Special Counsel on Human Rights to Freeport-McMoRan Copper & Gold Inc. As a member of the company's Board of Directors, Judge McDonald reports regularly to the Board on human rights issues and developments.

## **SOCIAL AND HUMAN RIGHTS PERFORMANCE AUDIT—2007 UPDATE**

Transparency is an essential element of being a good corporate citizen. Freeport-McMoRan Copper & Gold Inc. seeks to achieve transparency by publishing this report and by opening our operations to be examined by external auditors.

In 2004, PT Freeport Indonesia engaged the International Center for Corporate Accountability (ICCA) to perform an independent audit of our Indonesian operations, focusing on key components of our Social, Employment & Human Rights Policy.

A followup ICCA audit in 2006 also broadened the scope of the original review, to include an evaluation of five of PT Freeport Indonesia's contract companies that provide specialty drilling, hospitality and dining, and other services at the Grasberg mine site. As third parties operating under contract to PT Freeport Indonesia, these companies are also bound by our Social, Employment & Human Rights Policy. Overall, these audits concluded that each company needed to improve their compliance, and we are committed to working with these companies to help address these concerns.

The 2006 audit further covered the healthcare programs funded through the Freeport Partnership Fund. Over the past 10 years, PT Freeport Indonesia has provided over \$100 million for the medical care of the Papuan people. ICCA found that these healthcare programs and public health initiatives were well designed, staffed by committed medical professionals and competently run. PT Freeport Indonesia

will work with the local organization that administers the funds to address the ICCA recommendations, which include moving resources from curative care to primary and preventative public health education and wellness initiatives.

Moving forward, we will continue to assess our social development, employment and human rights programs and will undertake independent professional audits on a periodic or as-needed basis. We will provide regular updates in our annual sustainable development reports as part of our ongoing commitment to transparent operations that respect the rights of individuals and communities.

The full text of the ICCA audit reports and PT Freeport Indonesia's responses are available on the Freeport-McMoRan Copper & Gold Inc. web site [www.fcx.com](http://www.fcx.com) or ICCA's web site [www.icca-corporateaccountability.org](http://www.icca-corporateaccountability.org).

## **Long-time Freeport Staffer Leads Human Rights Compliance Initiative**

Semmy Yapsawaki has been around the PT Freeport Indonesia operations site in Papua for just about as long as anyone. The 30-year veteran with the company joined the workforce when production at the original Ertsberg copper deposit was relatively low and underground development was just getting under way. The local population was comprised only of a few thousand individuals and the Mimika Regency did not exist.

Originally from Wasior, Teluk Wondama Regency, Manokwari, in the province that is now called West Papua, "Semmy Yap," as he is known to his friends on the job, has risen through the ranks to take on the critical responsibility of managing the company's human rights compliance and education program.

Yapsawaki considers his role in the organization the most important of his long career, and acknowledges what he considers a high level of support from senior management, saying, "It is clear that PT Freeport Indonesia has shown great support and commitment to human rights compliance and that it is serious about handling these issues in a clear and transparent manner."



*Semmy Yapsawaki  
Senior Human Rights Compliance Officer*

## HEALTHY COMMUNITY INITIATIVES

One of the most important positive impacts from PT Freeport Indonesia's presence in Papua has been the provision of medical services and support for health initiatives carried out through partnerships with the Health Bureau of the Amungme and Kamoro Community Development Organization (LPMK) and the government health agency. PT Freeport Indonesia is a leading partner in curative and preventive health care services in the Mimika Regency. The company supplements government health services for the whole population of Mimika with financing, infrastructure and personnel support.

We fund two fully operational hospitals and seven primary health centers, which provide outpatient care and consultations totaling between 150,000 and 200,000 patient visits and inpatient care to more than 10,000 hospital patients every year. Additionally, we provide maternal and child health education programs, free X-ray and laboratory services at the local government clinic in Timika, and clean water supply for a number of sponsored communities.

Mimika is one of the fastest-growing regencies in all of Indonesia. The area that only three decades ago supported a few thousand individuals in scattered, isolated villages is now home to more than 200,000 people. As new residents arrive from around the province and across the Indonesian archipelago in search of employment and opportunity, the battle against

diseases such as malaria, tuberculosis and sexually-transmitted infections including HIV/AIDS becomes more complex. PT Freeport Indonesia is addressing these challenges by supporting quality health care programs. We have also supported major international malaria drug studies in the local area.

PT Freeport Indonesia's Public Health and Malaria Control (PHMC) program provides primary health care to the members of seven Papuan ethnolinguistic groups residing in the communities that neighbor the mining operations. The program has continuously implemented for nearly two decades an internationally recognized malaria control program within the PT Freeport Indonesia Contract of Work area and its surroundings. The four pillars of this program involve prompt diagnosis and

*Photo: Staff members at the Banti Hospital in the Waa Valley Amungme community, one of two fully operational hospitals and seven primary health centers funded by PT Freeport Indonesia.*



## Public Health Education Bridges an Ocean

For 30-year old Kerry Yarangga, a classroom can be in a large building in downtown New Orleans, Louisiana, U.S.A., or a small village in Papua. A recipient of a Freeport-McMoRan Copper & Gold Inc. scholarship to pursue a Masters Degree at the prestigious Tulane University School of Public Health and Tropical Medicine, Kerry is spending the summer of 2008 in his native Papua performing an educational practicum, which includes field work on participatory health research in partnership with the Freeport Public Health and Malaria Control program and local Amungme villagers in the Waa Valley, and Kamoro residents in Nayaro and Nawaripi Baru – both adjacent to the PT Freeport Indonesia operations area. The former lecturer from Cenderawasih University in Jayapura aspires to use the knowledge and experience he gains at Tulane, including his field research in Papua, to implement educational programs at home to battle diseases including malaria, tuberculosis, HIV/AIDS, malnutrition and parasitic infections. Born in Wamena in the Papuan central highlands, Yarangga sees many similarities in the cultures of Papua and New Orleans, admitting, “I have a dream that one day that Papua will be like New Orleans – a place with a unique culture that shares its treasures with the world, while working toward a high standard of education, health and democracy.”



Kerry Yarangga

treatment; indoor residual spraying; and environmental management, mosquito monitoring and larval control. Health education, community awareness and personal protection complete the integrated program.

During 2007, PHMC provided indoor residual spraying of insecticides for more than 7,000 households, distributed approximately 5,000 long-lasting insecticide treated bed-nets, maintained and cleaned 200 kilometers of drainage, and detected and treated more than 50,000 malaria cases.

Our comprehensive tuberculosis control program, which is free to all Mimika residents, provides diagnoses and treatment for approximately 400 TB cases annually

in the Timika area. The program cure rate of more than 93 percent exceeds the World Health Organization (WHO) standard of 85 percent.

With cases of HIV/AIDS on the rise globally, we work to protect our employees and communities from this devastating disease. The HIV prevention program that we have developed for the area provides free diagnosis and treatment of sexually transmitted infections; voluntary counseling and testing for HIV; free care, support and treatment programs in two hospitals; the monthly distribution of 14,000 condoms; and health education to employees, communities, schools and government institutions.

## FREEPORT PARTNERSHIP FUND FOR COMMUNITY DEVELOPMENT

PT Freeport Indonesia and our joint venture partner have since 1996 committed a portion of revenues for the benefit of the local community through the Freeport Partnership Fund for Community Development. The partnership fund is administered and disbursed by an organization called the Lembaga Pembangunan Masyarakat Amungme dan Kamoro (LPMK), or, in English, the Amungme and Kamoro Community Development Organization. LPMK is managed by a Board of Commissioners consisting of representatives from the local government, Papuan regional leaders, leaders from the local Amungme and Kamoro communities and PT Freeport Indonesia.

LPMK's Board of Commissioners establishes annual budgets for three main development program areas — health, education and economic development — as well as funding for programs supporting cultural and religious activities. The budgets are based on development priorities determined by LPMK's Board of Directors. The projects supported by LPMK directly benefit the Amungme and Kamoro people and five other indigenous communities in the Mimika Regency — the Dani, Moni, Ekari/Mee, Damal and Nduga peoples. These groups are represented on the LPMK Board of Directors through their community, church and government leaders. LPMK's secretariat office and program bureaus, which handle the daily activity of the organization, at the end of December 2007 consisted of 117 employees, 75 percent of whom are Papuan.

LPMK has made a significant impact on the lives of the local people by funding projects benefiting residents in villages throughout the Mimika area. Examples include hospitals in Timika and Banti that treat thousands of patients each year; the LPMK education program, which has provided scholarships or educational assistance to thousands of Papuan students; and economic and village development programs that have provided rural income generation projects, clean water, church facilities, and other infrastructure to remote villages in the highlands of Papua. LPMK is an accountable, professionally managed and successful development program. It is one of the largest privately funded social development programs in Asia.

During 2007, highlights of activities supported by LPMK included:

- Funding for two community hospitals that treated more than 10,000 in-

patient visits and more than 150,000 out-patient visits. The hospitals provide health care for the entire community, but services are provided for nominal administrative fees or free of charge to members of the seven Papuan tribal groups indigenous to the area.

- Partnership programs with the local government for mother and child health, and the prevention and treatment of malaria and HIV/AIDS, as well as the training of nurses and the operation of two clinics built by LPMK in the remote highlands.
- Clean water projects at local government health clinics, including construction of wells and toilets for families in the remote Agimuga District.
- Scholarships for over 680 students from middle school to university levels, with almost 100 post-secondary students graduating in 2007.
- Improved quality of student dormitories through construction of new boys' and girls' dormitories and funding for four other dormitories so that students from remote areas have the opportunity to attend middle and high school.
- In partnership with local church education foundations, construction of new classrooms and school facilities and hiring of additional teachers to improve the quality of education in coastal areas.
- While continuing to support and provide technical training for more than 1,300 agriculture, animal husbandry, fishing, trade and services projects within the seven main tribal communities in the area, LPMK also focused on defining their development concept by developing an Economic Development Strategic Plan in cooperation with the University of Indonesia.

- Capacity building activities for local Amungme and Kamoro tribal councils, including support to local church organizations for training, HIV/AIDS education, education support, and construction of church facilities.

Contributions to the partnership fund attributable to 2007 were \$53 million for 2007, with total contributions to the fund nearly \$300 million since inception. The activities of the LPMK are conducted through program bureaus, consisting of expert facilitators and community leaders, who also cooperate with local government agencies and other non-governmental organizations. These teams review project proposals submitted in accordance with guidelines and budgets established by LPMK. These proposals are then reviewed by LPMK's Board of Directors. LPMK programs are closely coordinated with the local government to ensure maximum impact in improving the quality of life for residents in the Mimika area. Funds in excess of LPMK's approved annual program budget are placed in a provident fund for future program funding. As of December 2007, LPMK had \$53 million invested in the provident fund.

The LPMK charter stipulates that project proposals must reflect the charitable and development objectives of LPMK and are subject to financial and audit guidelines. Certain types of activities are strictly prohibited and are not funded, including political activities and projects that do not have a wide impact on the community. Each year an independent auditor issues a report on the LPMK activities, and LPMK publishes an annual report, a monthly newsletter, and regular local news articles detailing its programs to ensure transparency to the local communities.

## ***Building Coalitions to Build Communities***

### ***LPMAK Partners with Papua Province on RESPEK***

The Amungme and Kamoro Community Development Organization (LPMAK) and the Papua Provincial Government signed a Memorandum of Understanding (MOU) on a financial grant from LPMAK as part of the Papuan provincial government's Village Development Strategic Plan (RESPEK) in Mimika Regency, Papua on January 16, 2008. The grant by LPMAK will be especially allocated for indigenous village residents in Mimika Regency and several other villages with traditional ties to villages within Mimika Regency.

Papua Governor Barnabas Suebu in his remarks said, "Today we start from the villages, to enable them to develop themselves. We are teaching the people to plan, implement, monitor, and be accountable for themselves." Suebu added, "Today's signing is the synchronizing of the provincial community development program with the national program. This is not the beginning, this is not the end, it is only the beginning of new beginnings."

LPMAK is a nonprofit organization that aims to assist in the improvement of quality of life and human resources for those who belong to the 7 Tribes (Amungme, Kamoro, Nduga, Dani, Damal, Moni, Ekari/Mee) of Mimika Regency through development programs in the areas of education, health, economic development, and also support of activities implemented by traditional and religious organizations. A partner of PT Freeport Indonesia, LPMAK manages and monitors the PT Freeport Indonesia community development partnership fund, which is used to develop and support the local community.



*LPMAK Board of Directors Chairman Pastor Matheus Adadikam (left) and Head of Papua Province Dr. Alex Rumasep (right) signing the Memorandum of Understanding (MOU) for funding the Village Development Strategic Plan (RESPEK).*



*Attendees of the RESPEK Memorandum of Understanding signing included representatives from various levels of government, LPMAK, PT Freeport Indonesia and mass media.*



*John Nakiaya (left) and Dr. Renwarin of the University of Papua (right) signing the University of Papua agreement.*

### ***LPMAK Signs Agreement with University of Papua (UNIPA)***

The Amungme and Kamoro Community Development Organization (LPMAK) signed an educational cooperative agreement with the Universitas Negeri Papua (UNIPA) in 2007. The agreement was signed by Executive Secretary LPMAK John Nakiaya and First Deputy Rector UNIPA Dr. Ir. Yan Renwarin.

Dr. Ir. Yan Renwarin explained at the ceremonial signing event that the educational cooperation between these two institutions is a new chapter in strategic endeavors to encourage the acceleration of development in Papua, particularly in Timika. Streamlining and coordination of the educational systems starting with the elementary level up to the higher education level is highly necessary, he added. Renwarin further stated that education is our collective responsibility, which is why UNIPA is cooperating with other institutions to enhance the Papuan manpower as part of UNIPA's strategic plan and overall mission. Dr. Renwarin said, "By building a strong cooperation it is expected that it will enhance the education in Papua, starting from the elementary level up to higher education, and thereby providing quality knowledge and manpower that is competitive to others."

## TRAINING, EDUCATION & PAPUAN DEVELOPMENT

Training, continuing education and development are critical components to ensuring long-term operating efficiency in any business. These matters become even more important when operating in a developing region without a long history of advanced educational programs. Job training programs in Papua must offer more than technical skills development. PT Freeport Indonesia offers more classroom and on-the-job training hours than many universities. Training programs range from basic literacy and mathematics to “pre-apprenticeship” programs for individuals with no prior career training, advanced technical apprenticeships, career and leadership development, and business management programs that provide world-class skills to our workers.

At the end of 2007, PT Freeport Indonesia and its direct contractors had 3,040 Papuan employees, including about 374 Papuan management staff employees, compared to 600 Papuan employees in 1996, of which fewer than 50 were management staff. Another 1,532 Papuans were employed by privatized companies serving PT Freeport Indonesia. These numbers reflect a substantial increase since the end of 2006 in the number of Papuans employed directly and indirectly by PT Freeport Indonesia — a trend that the Company is committed to continuing.

In 2003, with a view toward long-term development of Papuans in the workforce, PT Freeport Indonesia formed the Nemangkawi Mining Institute. The Institute’s goal is to provide pre-apprentice, apprenticeship and advanced career development opportunities for hundreds of Papuans each year. In 2006, the Institute made significant advances. Over 1,450 Papuans are enrolled in the Institute’s apprentice and pre-apprentice programs. These students receive on- and off-the-job training in welding, heavy duty mechanics, equipment operations, electrical and instrumentation work, clerical and administration duties and numerous other trades. It is expected that most of these students will be hired by PT Freeport Indonesia and its associated partners. Since Nemangkawi’s opening, more than 600 apprentices have been hired as employees of PT Freeport Indonesia or one of our partner companies. Further, 440 pre-apprentices, all from the seven local ethnolinguistic groups, have graduated to the full apprentice program.

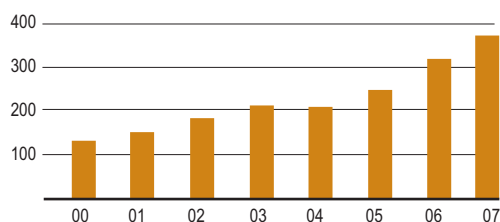
The Nemangkawi Foundation was formally established when a groundbreaking for the Institute’s new facility took place in November 2004. The new facility, which was constructed entirely by apprentices, opened in 2006. Also in 2006, Nemangkawi and PT Freeport Indonesia management began a partnership with the prestigious Institut Teknologi Institute of Technology (ITB) to offer a Master of Business Administration from ITB through Nemangkawi.

Nemangkawi, through a partnership with Polytechnic State Semarang, now offers a Diploma in Business Administration Apprenticeship program. The Class of 2007’s second intake commenced in July 2007 and included 44 Papuans participating in the program.

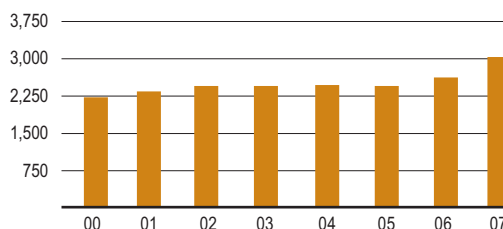
At the end of 2007, Nemangkawi commenced a program to provide training for apprentice students from BHP Billiton’s Kalimantan operations in various trades.

Training is a vital part of PT Freeport Indonesia’s employee development programs. During 2007, the company’s Quality Management Services Department provided over eight million hours of training to over 20,000 participants — a 14-percent increase over 2006. A state-of-the-art classroom and workshop facility accommodates some 300 employees per day, providing development opportunities in trades and management areas. In partnership with Caterpillar and Trakindo, this development center operates two computer-based training facilities and three equipment simulators — two at the Grasberg training facility and one at Nemangkawi. These simulators allow trainees to experience simulated pit conditions while operating haul trucks, dozers, or shovels in a safe environment. A new resource center, constructed entirely by local Papuan students enrolled in an adult education program, began operations in 2006.

**PT Freeport Indonesia Professional Papuan Employees**



**PT Freeport Indonesia Papuan Employees**



## Young Drivers Take the High Road to Success



*Ancelina Pinimet  
Agimuga, Papua – Amungme*



*Paskalina Ufnia  
Miyoko, Papua – Kamoro*



*Bernadeta Magal  
Tsinga, Papua – Amungme*



*Sipriana Tawer  
Kokonao, Papua - Kamoro*

In 2007, the Nemangkawi Mining Institute graduated its first 20 female heavy equipment operators who are now on the job at the Grasberg operations. The Institute's Pre-Apprentice, Apprentice and Adult Education Program objective is to provide world-class education, competency training, and employment priority to qualified indigenous Papuans. Enrollment priority is weighted toward individuals from the Amungme and Kamoro ethnolinguistic communities nearest to the highlands and lowlands portions of the PT Freeport Indonesia project area, and those from five other indigenous communities in the Mimika Regency. Women from these traditional communities have not historically participated in non-domestic employment, which makes their program achievements and rapid adjustment to life on the road at Grasberg all the more remarkable, because work with heavy industrial equipment is a male-dominated career field worldwide. We are pleased to introduce four of our newest Grasberg haul truck operators pictured above and left.

## BUSINESS DEVELOPMENT

We support local business development to promote local economic growth, to enhance the standard of living and opportunities for the local population. Local economic growth is critical to achieving sustainable development. As local businesses grow and expand, they create more jobs, more wages, more spending and, ultimately, more revenue to support more new enterprises — building an economic system capable of sustained growth and increased opportunities for generations to come. Substantial recent growth in the economic output of the Papua province apart from PT Freeport Indonesia indicates the emergence of a diversifying, sustainable economy.

Economic survey data from the Mimika Regency, the local governmental district in which we operate, indicates that nearly 600 of 726 small and medium-sized enterprises (SMEs) created in the district were directly associated with our operations.

These SMEs will serve as the foundation for a vibrant and flexible business sector. This growth of the Mimika economy, however, will increasingly attract outside businesses and products that will compete with local entrepreneurs.

To meet this challenge, PT Freeport Indonesia supports human capital development through apprentice programs, technical training schools and higher education assistance. Encouraging the application of appropriate technologies, providing business skills education and supplying access to working capital promotes sustained local economic growth and aids the viability of existing and future SMEs.

There was an increase of more than 27% in the number of assisted local entrepreneurs from 2006 (66) to 2007 (84) and Freeport expects that number to double in three years. Most of the entrepreneurs in the program are from the Amungme and Kamoro tribes, traditional residents of the area of our operations. In 2007 the local

enterprises provided employment to 1,726 local residents, an increase of more than 7 percent over the previous year. More than 52 percent of the workers are Papuan, compared to 48 percent the previous year. The aggregate revenue from those assisted local entrepreneurs increased by Rp. 8.4 billion or about 14 percent — from Rp. 57.7 billion in 2006 to Rp. 66.1 billion in 2007.

One method of support provided to local entrepreneurs is a micro-credit program offering loans at very low interest rates. As of December 2007, the micro-credit loan foundation has given more than 100 lines of credit to 93 local entrepreneurs involving a total of Rp. 17.7 billion in revolving funds.

One successful local enterprise that began with company backing is the Amungme Agroforestry Program, which now provides income for some 40 Amungme families who grow, roast, and package the internationally known Arabica Coffee under the label Amungme Gold. In 2007, the program included approximately 11,500 trees producing beans in four separate villages.

A photograph showing four individuals standing in front of a construction site. They are all wearing white hard hats and high-visibility safety vests. From left to right: a man in a grey shirt and orange vest, a man in a dark jacket and orange vest, a man in an orange shirt and orange vest, and a woman in a green and orange vest. They are all smiling and looking towards the camera. The background shows a building under construction with scaffolding.

*PT Freeport Indonesia's Small and Medium Enterprise Development Program is helping to build a local economic system capable of sustained growth and increased opportunities for generations to come.*

*Photo: (from left) Eksa Santika, PT Freeport Indonesia SME Business Consultant; Sekinus Murib, owner - PT Yawiraya Scaffolding and Painting; Hendri Patulung, PT Yawiraya Supervisor; and Jerry Sizz, PT Freeport Indonesia SME Senior Liaison Officer.*

## ***Entrepreneurial Spirit—Building a New Mimika***

Business is booming in Mimika – one of the fastest-growing regencies in all of Indonesia. Local entrepreneurs are meeting the growing demand for products and services by establishing hundreds of new businesses annually. As part of our commitment to communities in which we operate, we support local business development because local economic growth increases the standard of living and opportunities for our neighbors. We recognize that local economic growth and entrepreneurship is critical to achieving sustainable development.

Our support of local businesses is not limited to providing capital and business skills. PT Freeport Indonesia is committed to engaging local Small and Medium Enterprises (SMEs) by increasingly integrating these burgeoning companies into our supply chain, while providing mentoring to help the business owners work their way into the broader marketplace in Timika.

Sekinus Murib is one local businessman who started out providing a product for Freeport and adapted to the growth and evolving needs of the community by adjusting his business model. The 39-year old native of the Dani community of Illaga was one of the original participants of Freeport’s Business Incubator program in 1992, providing geological sample bags for Freeport’s exploration program as a way to hone his business skills. A decade later, Murib realized a growing need for professional scaffolding and painting services in the community. He invested in equipment and hired skilled workers. Today, Murib’s company, PT Yawiraya, employs 92 individuals at work both inside the Freeport project area and in the local communities.

Another group of local contractors has found a niche providing drainage systems using cement made from tailings – the non-toxic crushed rock left over after the milling of the ore from the mine. Anton Beanal, manager of CV Bulbuk and a native Amungme, said, “We are glad that Freeport has entrusted us as a local contractor to implement this project so that we can add to our capacity by using new technology.” CV Bulbuk, along with CV Cahaya Putra Papua and CV Yawapu are engaged in building a 1.4 kilometer drainage system to improve water flow and flood control at the Mozes Kilangin Airport in Timika.

Other business development projects aimed at promoting business skills are also improving quality of life in some of the outlying villages along the southern Papua coast. An Ice manufacture and cold storage facility in the coastal community of Kokonao is the result of a partnership between the Kamoro community, PT Freeport Indonesia and the United States Agency for International Development (USAID). The facility will assist area fishermen to keep their yields fresh for supply to the fast-growing local markets. Bricks for the facility were provided by a local entrepreneur who also uses tailings sediment in his product.



*PT Yawiraya Activities  
Tembagapura*



*CV Bulbuk Activities  
Mozes Kilangin Airport*



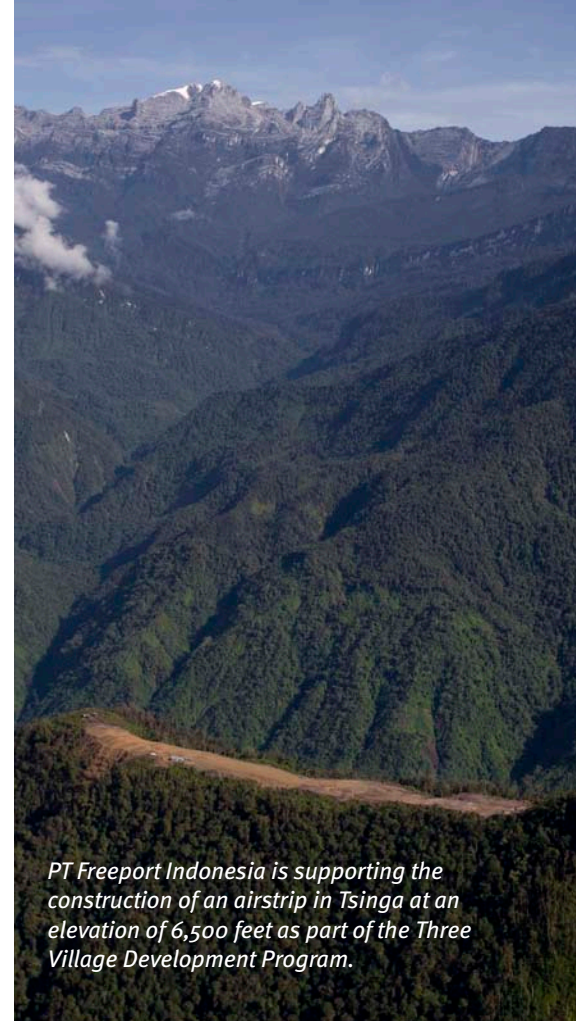
*Ice & Cold Storage Facility  
Kokonao, Papua*

## LAND RIGHTS RECOGNITION

Under the Indonesian constitution, all unimproved land is, by law, owned by the Government of Indonesia and all minerals belong to the Government of Indonesia. PT Freeport Indonesia's "January Agreement" of 1974 with the Amungme was the first recognition in Indonesia of *hak ulayat*, or the right of traditional people to land used for hunting and gathering. Subsequent to that agreement, the Government of Indonesia formally recognized the right to compensation for *hak ulayat* land rights. Compensation in the form of *rekognisi*, or recognition, is paid to communities for a release of *hak ulayat* rights, as *hak ulayat* is a communal property right. Such payments are made in the form of mutually agreed projects or programs benefiting the community. PT Freeport Indonesia has paid *rekognisi* in several instances over the years through programs mutually agreed upon with the local Papuans and the Government of Indonesia.

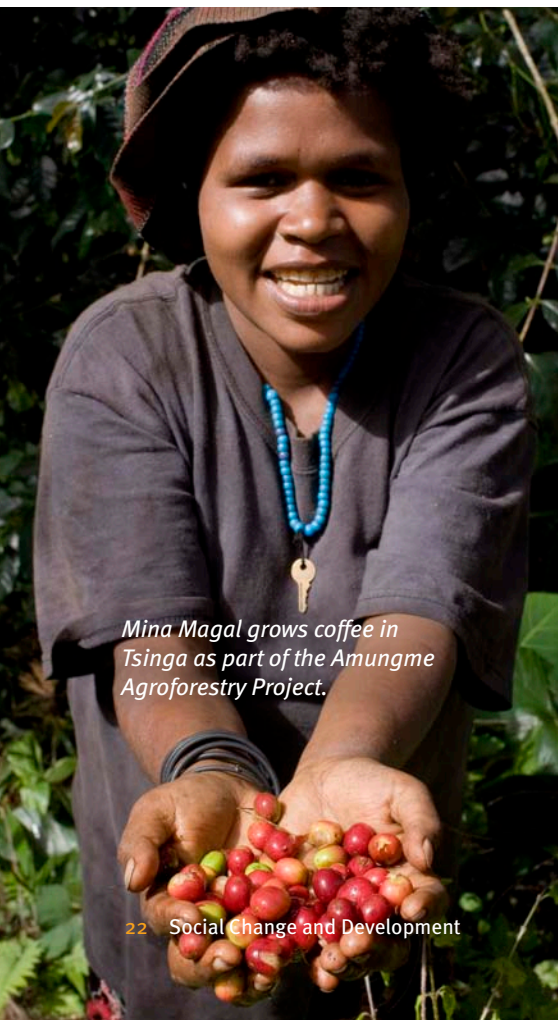
Two such multi-year *rekognisi* programs are currently ongoing in the highland and lowland areas of our operations. These two programs are providing millions of dollars worth of infrastructure, social and economic development projects including housing, school buildings and student dormitories, medical clinics, places of worship, community buildings, office buildings, roads, bridges, water tanks, electrical power, motorboats for transportation and fishing, sports facilities and feasibility studies for business opportunities.

The Kamoro Village Recognition Program is compensating for the release of land to the Government of Indonesia by five Kamoro villages in the lowlands, including land used for the tailings deposition area, cargo dock facilities, the port and electrical transmission line corridor. The program initially focused on physical infrastructure, including housing and community facilities, but now targets ongoing needs such as economic development and income generation, health education and access to health facilities, nutritional instruction, continuing education for post-secondary students, village and social institution development and preservation of the Kamoro culture. Included are programs to develop sago and coconut plantations and to foster commercialization of the local fishing industry. Activities in 2007 included: Providing upgraded plumbing and electrical power systems to homes in lowland villages; facilitating road improvement and maintenance to more than 25 kilometers of roads in and around remote villages; implementing women's health programs in community health clinics, including the training of 20 midwives; sponsoring cooking contests focusing on healthy choices; increasing the scope of a fisheries project, where 46 fishermen from six villages participated in catching more than 62 tons of fish (a four-fold increase over 2006);



*PT Freeport Indonesia is supporting the construction of an airstrip in Tsinga at an elevation of 6,500 feet as part of the Three Village Development Program.*

providing bus and light vehicle transportation to Kamoro villages, providing mobility and access to markets; enhancing the company's partnership with the local Catholic Diocese, including coordination with the Church on several village-based social projects, including the opening of markets, facilitating improvements in sago plantations, assisting the U.S. Agency for International Development (USAID) economic programs including an ice factory in the community of Kokona, and the purchase of fish and agricultural products from the company-assisted entrepreneurs.



*Mina Magal grows coffee in Tsinga as part of the Amungme Agroforestry Project.*

The Tiga Desa (Three Village) Development Program is a similar program for three Amungme villages in the highlands. This program provided additional *rekognisi* to the Amungme living nearest the mine who had been compensated in the 1974 agreement, but who have been affected by the expanded scope and continuing success of our operations. This program focused on infrastructure through 2005 and includes construction of bridges, roads, protective levees, housing, water and sewer service, and hydroelectric development. During 2007, 16 new homes were built and five existing homes were renovated to include indoor plumbing. Two suspension bridges were built, and construction was under way on two remote area landing strips. Comprehensive clean water facilities were constructed in two highland villages, including installation of more than 100 individual septic systems.

An important development was the 2005 signing of a Memorandum of Understanding between the people of the three villages and PT Freeport Indonesia outlining the scope of work for the recognition program through 2010.

In addition, land rights trust funds for the Amungme and Kamoro tribes were created in 2001 to provide voluntary special recognition for the holders of the *hak ulayat* in the mining area and for the expanded scope and continuing success of the mining operations. The company has contributed approximately \$26 million to the fund through 2007 and, in conformance with the applicable land rights agreement, will continue to make contributions of \$1 million annually. These funds are in addition to the social development fund (see Freeport Partnership Fund for Community Development) established by PT Freeport Indonesia, which has received nearly \$300 million from our operations since 1996 for investments in projects selected by a board of local stakeholders.

## CORPORATE GOVERNANCE AND BUSINESS ETHICS

Freeport-McMoRan Copper & Gold Inc.'s employees and officers conduct the company's business under the direction of our Chairman of the Board and our Chief Executive Officer, with oversight by our Board of Directors. Our shareholders elect our Board to oversee management and to assure that the long-term interests of our shareholders are being served. Both the Board of Directors and our management team recognize that the long-term interests of our shareholders are advanced by addressing corporate governance appropriately and responsibly.

Our Board consists of 16 members, the majority of whom are independent. We also have one director emeritus. In accordance with our Corporate Governance Guidelines, non-employee directors meet in executive session at the end of each regularly scheduled Board meeting. Each of the members of our Audit, Corporate Personnel, and Nominating and Corporate Governance Committees is independent within the meaning of our Corporate Governance Guidelines. In addition, our Board has determined that four members

of our Audit Committee qualify as "audit committee financial experts," as such term is defined by the rules of the U.S. Securities and Exchange Commission. Each Board committee operates under a written charter adopted by our Board. Our Corporate Governance Guidelines and all of the committee charters are available on our web site at [www.fcx.com](http://www.fcx.com).

Freeport-McMoRan Copper & Gold Inc. has adopted Principles of Business Conduct, which require all employees, including employees of PT Freeport Indonesia, to adhere to ethical standards established by the company and consistent with applicable laws, including the U.S. Foreign Corrupt Practices Act (FCPA) and the Sarbanes-Oxley Act. All appropriate company personnel are required to self-certify their understanding and compliance with this policy on an annual basis. Employees are required to notify the company compliance officer of any activity, transaction or other information involving a suspected violation of the policy. Any reported incidents or concerns about violations or potential violations are investigated and resolved appropriately. See our Principles of Business Conduct on our web site [www.fcx.com](http://www.fcx.com).



*The Banti Hospital in the Waa Valley is one of two hospitals funded by the Freeport Partnership Fund and operated by LPMMAK.*



*Freeport's unarmed civilian security employees perform internal security roles including manning vehicular check points in the PT Freeport Indonesia project area.*

## PROVISION OF SECURITY

Consistent with our Contract of Work in Indonesia, our responsibility as a corporate citizen and the Voluntary Principles on Human Rights and Security as well as our company's duty to protect its employees and property, PT Freeport Indonesia has taken appropriate steps to provide a safe and secure working environment. As part of our security program, the company maintains its own internal security department, which performs functions such as protecting company facilities, monitoring the shipment of company goods through the airport and terminal, assisting in traffic control and aiding in rescue operations.

PT Freeport Indonesia's civilian security employees (numbering approximately 680) are unarmed and perform duties consistent with their internal security role. For 2007, the total costs for our internal civilian security department were \$18.8 million (\$17.2 million net to PT Freeport Indonesia). All security department employees participate in ongoing human rights training and each is required to certify annually his or her compliance with our human rights policy.

PT Freeport Indonesia, on the same basis as all businesses and residents of Indonesia, relies on the Government of Indonesia for the provision of public order, upholding the rule of law and protection of personnel and property. The Grasberg mine has been designated by the government as one of Indonesia's national vital assets. This designation as a national vital asset results in the Indonesian security institutions playing a significant role in protecting the area of company operations. The Government of Indonesia is responsible for employing police and military personnel and funding and directing their operations. From the outset of PT Freeport Indonesia's operations, because of the limited resources of the Government of Indonesia and the remote location and lack of development in Papua, the Government of Indonesia has looked to the company to provide logistical and infrastructure support as well as supplemental funding for these necessary services.

The government security personnel serving in the area and receiving support from the company currently number approximately 2,100, including, among other units, Coast Guard at the port site, Air Force at the airport, riot control personnel to deal with

civil disturbances, and both perimeter and on-site security at the mine and the mill.

In addition to establishing separate infrastructure (such as offices and housing), the support for the government-provided security in Papua includes in-kind assistance and monetary allowances to mitigate living costs and the hardship elements of posting in Papua. This provision of support is consistent with the company's obligations under the Contract of Work, our philosophy of responsible corporate citizenship, the joint U.S. State Department-British Foreign Office Voluntary Principles on Human Rights and Security, and is in keeping with our commitment to pursue practices to promote human rights. The company periodically reviews its support practices to ensure that they are appropriate, lawful, and properly controlled.

For 2007, the expenses associated with support for government-provided security for the operations were approximately \$9.4 million (\$8.6 million net to PT Freeport Indonesia). The support consisted of costs incurred and allocated by the company for infrastructure, food, housing, fuel, travel, vehicle repairs and allowances to cover incidental and administrative costs. The capital costs for associated infrastructure for 2007 were \$0.3 million.

# Freeport Cares: Encouraging Employee Engagement with Local Communities

1



Throughout 2007, PT Freeport Indonesia's "Freeport Peduli" (translated in English-*Freeport Cares*) Program focused on conducting various social outreach activities in the areas of health, education, environment, and natural disasters. From assisting Jakarta flood victims to completing renovations at two earthquake damaged elementary schools in Bantul, Yogyakarta, as well as participating in the National Women's Tree Planting Movement, Freeport Cares is one aspect of PT Freeport Indonesia's corporate social responsibility arm.

4



2



The Freeport Cares team, in partnership with the National Search and Rescue Agency (Basarnas) and Department of Energy and Mineral Resources (DEMRR), provided health and medical services to several hundred Jakarta flood victims.<sup>1</sup>

5



PT Freeport Indonesia Jakarta employees' interfaith prayer group sent Christmas donations to students at Penjunan Dormitory, one of the dormitories funded by the Amungme and Kamoro Community Development Organization (LPMK).<sup>2</sup>

The greater Freeport family participated in the AIDS Walk 2007 in order to help raise awareness of HIV/AIDS.<sup>3</sup>

3



The ladies of Freeport from Tembagapura and Kuala Kencana planted seedlings at the MP21 Maurupaw Reclamation Center, as part of the 2007 National Women's Tree Planting Movement.<sup>4</sup>

6



PT Freeport Indonesia completed the renovation of Mangunan Public Elementary School and Banyakan Public Elementary School in Bantul, Yogyakarta, which was heavily damaged by the earthquake that hit Yogyakarta and Central Java May 27, 2006.<sup>5</sup>

The greater Freeport family participated in the Malaria Walk and Health Fair 2007 in order to help raise awareness of Malaria control and prevention.<sup>6</sup>

# Working Toward Continuous Improvement

*While our safety performance in 2007 was better than industry benchmarks, we strive toward the goal of zero injuries and illnesses.*



## In March 2008, PT Freeport Indonesia achieved the five-star rating for excellent safety performance, the highest rating available, awarded by the National Occupational Safety Association (NOSA), a leading global supplier of occupational risk management services.

The Freeport-McMoRan Copper & Gold Inc. and PT Freeport Indonesia Safety and Industrial Health Policy is the foundation for a strong emphasis on safety throughout our operations. This policy is put into practice through the Freeport Safety and Health Management System, which also applies to all contractors and privatized companies serving our operations in Indonesia's Papua province. This policy is available at [www.fcx.com](http://www.fcx.com).

Implementing an effective safety program for such a large and diverse operation — involving more than 20,000 employees and contractors engaged in mining and milling, ore flow and processing, power plants, ground transportation, aviation, port and marine vessel operation, residential towns, dormitories and a hotel — is a complex undertaking. It involves management and supervisory focus; a comprehensive safety management system for every aspect of operations; introductory, fundamental, specific skill and supervisory training — including annual refresher courses; and a system to track results and progress in achieving safety goals.

Our Safety, Health & Environment (SHE) Steering Committee is chaired by the Senior Vice President of Operations and comprised of all PT Freeport Division Heads and representatives of major contractors. PT Freeport also has SHE Steering Committees at each division and department level. The hourly workforce is represented on each SHE Steering Committee.

The Collective Labor Agreement between PT Freeport and the labor union, which represents all non-staff (hourly) workers, addresses industrial health and safety. It states that:

1. The company is obliged to comply with mining safety and health regulations and laws of the Republic of Indonesia and commits to prevent work accidents and maintain employees work health by conducting safety training and meetings as well as providing work safety equipment.
2. Employees shall abide by the safety and health regulations in the implementation of duties, prevent unsafe acts or conditions, and report them immediately to the supervisor to prevent employee injury or damage to Company property.

The Industrial Relations Guidebook, which applies to all employees, both staff and non-staff (hourly), also addresses industrial health and safety. Specifically, it stipulates that the Company:

1. Shall conduct Occupational Safety and Health (OSH) education and training for employees;
2. Shall ensure that employees obtain periodic health examinations;
3. Shall provide all tools, equipment, personal protective equipment, and facilities required by employees in order to work safely and securely;
4. Shall install, provide, and maintain adequate traffic signs and other OSH signs in the workplace, according to prevailing regulations and legislation;

5. Shall provide adequate emergency equipment and emergency system;
6. Shall develop safe work procedures, socialize the procedures, and conduct sufficient training to create a safe and secure work atmosphere in company operations;
7. Shall provide a company manual on "Procedural Regulations to Prevent Accidents."

Employees also have roles and responsibilities, including the obligations to:

1. Understand and comply with company policies and all occupational safety and health regulations;
2. Undergo health examinations scheduled by the company;
3. Work according to OSH procedures to prevent injuries and accidents;
4. Perform a pre-operation inspection of equipment, tools and work area, and make repairs or report unsafe conditions to the supervisor for immediate rectification;
5. Not perform particular work, including operating equipment, if they have not been trained and/or have no license for the equipment in question;
6. Wear and maintain personal protective equipment assigned to them, according to the area and type of work done, for their own safety;
7. Stop unsafe acts in the workplace and report them to the supervisor;
8. Immediately report all accidents or incidents (including near-miss incidents) to the supervisor;
9. Attend safety meetings and safety training as required.

The organization measures its progress using the international NOSA (National Occupational Safety Association) Five Star Rating System and a Supervisory Safety Accountability Program to measure supervisory safety performance. In 2007, the operation achieved the highest possible rating of Five Stars from NOSA.

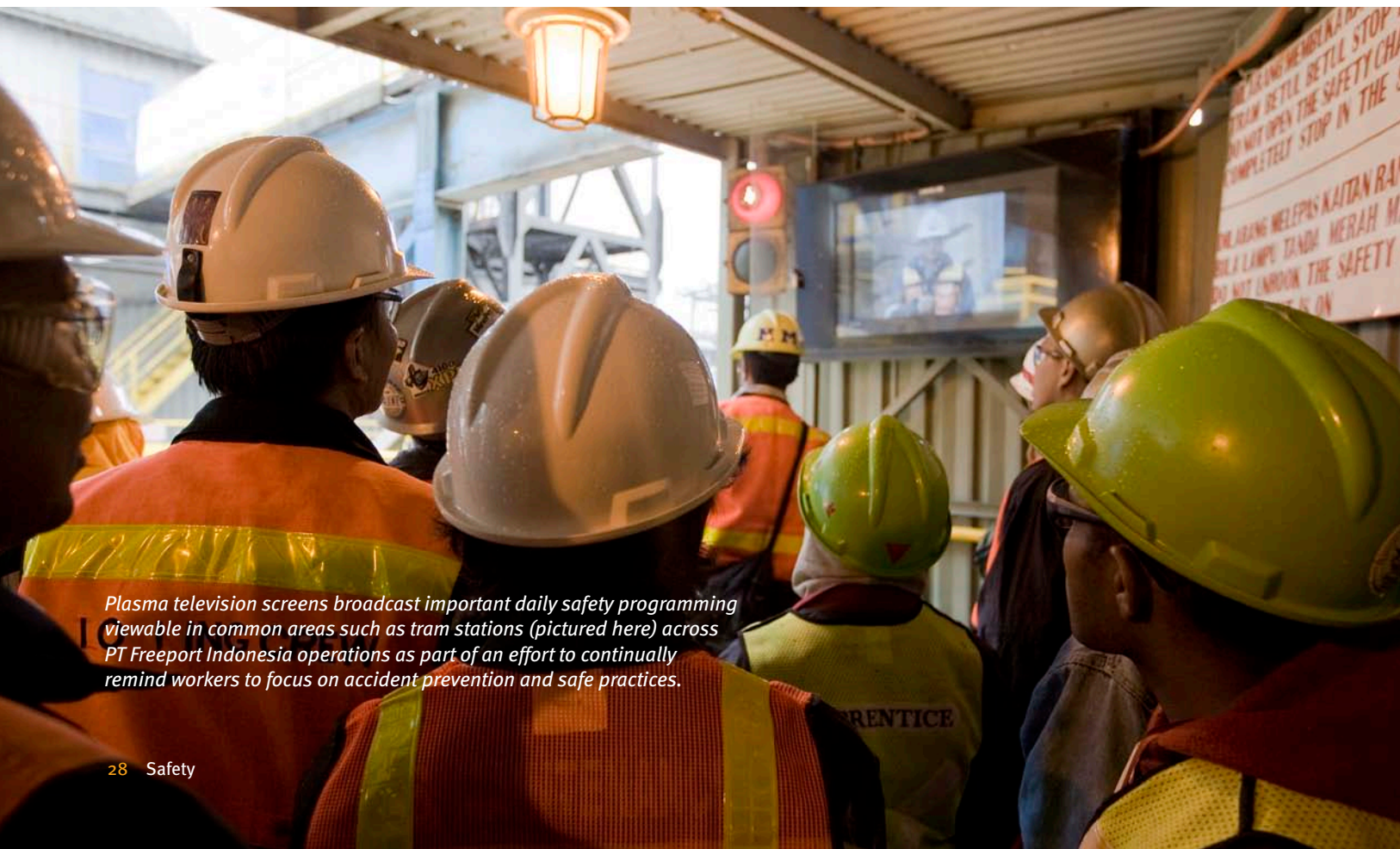
Annual safety goals are established by the organization, and management is held accountable for the results. Safety performance is a key indicator in the annual performance review of each supervisor and manager.

During 2007, the lost time and reportable injury rates per 200,000 working hours of 0.14 and 0.37 compared very favorably with the 2006 US mining rates (the most recent available at this writing) of 1.97 and 3.11. However, and very unfortunately, there were three work related fatalities during

the year. PT Freeport Indonesia is focusing on a risk assessment approach to accident prevention, to mitigate any future fatality events, and has also undertaken a significant emphasis on non-staff involvement in the safety management process.

PT Freeport Indonesia's recording and notification of occupational accidents and diseases conforms to the International Labor Organization. Code of Practice on Recording and Notification of Occupational Accidents and Diseases. All incidents are reported (including near-misses, dangerous occurrences, and property damage) and classified according to Mine Safety and Health Administration (MSHA) standards. Incident rates are calculated and reported routinely to all levels of management and to the Public Policy Committee of the Freeport-McMoRan Copper & Gold Inc. Board of Directors, and all serious accidents or potentially serious incidents are fully investigated.

We are aware of and concerned about the incidence and prevalence of HIV and AIDS, particularly in the community within PT Freeport Indonesia's Contract of Work area. The company recognizes that HIV and AIDS are medical illnesses and must be addressed with standard medical approaches and cognizance of the social aspects of the problem. PT Freeport Indonesia recognizes the serious implications of HIV and AIDS to the workforce and to the local community and endeavors to control the transmission of the diseases in accordance with regulations of the Government of Indonesia (GOI) and recommendations of the World Health Organization (WHO), the International Labor Organization (ILO), the Center for Communicable Diseases (CDC), and other relevant international health organizations. In accordance with the Company policies of non-discrimination, government regulations regarding HIV and AIDS, and the tenets of the ILO, PT Freeport Indonesia maintains a non-discriminatory and fair approach to people with HIV or AIDS.



*Plasma television screens broadcast important daily safety programming viewable in common areas such as tram stations (pictured here) across PT Freeport Indonesia operations as part of an effort to continually remind workers to focus on accident prevention and safe practices.*

## State of the Art Technology Offers New Eyes on Safe Production

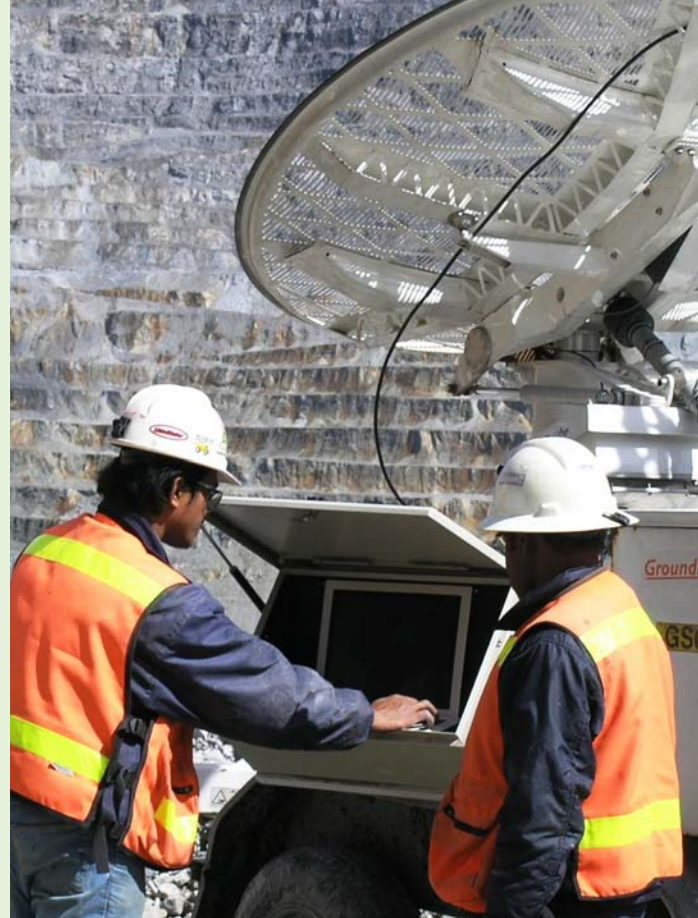
PT Freeport Indonesia is committed to continuous improvement in its safety performance. This commitment includes not only workplace programs to ensure safe work habits, but also to utilizing technology to achieve safe production.

An example of this technology is the Slope Stability Radar (SSR) tool used to monitor slope stability in the Grasberg mine open pit. The SSR monitoring unit is mounted on a trailer and towed by a light vehicle to monitoring locations throughout the mine. PT Freeport Indonesia has used SSR to support mining operations at the Grasberg open pit since the beginning of 2004.

“One significant advantage of SSR compared to other slope monitoring systems is that SSR is not affected by weather conditions; rain, fog, and dust do not impact data produced by the radar, which has high measuring capability, down to the millimeter,” explained PT Freeport Indonesia Superintendent - Grasberg Geotech Pit Engineering & Stability Loran Budiyo.

Currently, there are four SSR units in operation 24 hours a day, 7 days a week. Technicians monitor the data from the radar around the clock. Data monitoring is crucial in supporting safe and reliable mining operation, and as such the data relayed by the technician to the field engineer must be done quickly, precisely, and accurately.

In our underground operations, we utilize a microseismic monitoring system. This system was also installed in our Deep Ore Zone (DOZ) underground mine in 2004 and is one of the tools used to monitor stress distribution in order to ensure a safe working environment for underground employees. The monitoring system focuses on detecting seismic hazards on a continuous basis. This information is used to manage the block cave propagation to ensure safe and efficient production.



*Geotechnical engineers review data from the Slope Stability Radar in the Grasberg open pit.*



*A machine measures blast vibration in the underground mine.*

*A microseismic monitoring system was installed in the Deep Ore Zone (DOZ) underground mine to monitor stress distribution and seismic hazards to ensure a safe working environment.*



## ***Our Commitment to Environmental Stewardship***

*PT Freeport Indonesia is committed to sound environmental management and practices as we strive to be good stewards of the nation's natural resources.*

*Photo: The brilliant Ulysses butterfly (*Papilio Ulysses autolytus*) is among the local species that are part of a butterfly sanctuary in the Maurujaya Tailings Reclamation Center near Timika.*



# Environmental Management

**We are committed to managing the impact of our operations on the surrounding environment, to reclaiming and revegetating affected land, and to comprehensive monitoring to determine the effectiveness of our management practices.**

## OUR ENVIRONMENTAL COMMITMENTS

PT Freeport Indonesia is committed to managing and minimizing the impact of our operations on the surrounding environment and to reclaiming and revegetating affected land. Through our Environmental Policy, we commit to sound environmental management and practices, to providing adequate resources to fulfill that responsibility and to continuous improvement of our environmental performance. Certification of our Environmental Management System to ISO 14001 is evidence of this. We are also committed to our continued support of scientific research to further understand the environments in which we operate, and to comprehensive monitoring and auditing to determine our impact on those environments and the effectiveness of our management practices. We work with governmental agencies, academic institutions, recognized national and international experts, the local population and responsible nongovernmental organizations to enhance our environmental performance and adopt international best practices.

We have also adopted the Principles of the Sustainable Development Framework of the International Council on Mining and Metals (ICMM), of which our parent, Freeport McMoRan Copper & Gold Inc., is a founding member. Since 2005, Freeport-McMoRan Copper & Gold Inc. has reported performance related to these principles and the Global Reporting Initiative on its web site at [www.fcx.com](http://www.fcx.com).

We have also reviewed our environmental monitoring and performance related to the World Bank/International Finance Corporation Performance Standards and we are in agreement with these internationally recognized guidelines as confirmed by a third party.

Our environmental program is guided by the requirements of our Environmental Management Plan (RKL) and Environmental Monitoring Plan (RPL) which are submitted to the government annually in accordance with the requirements of our Environmental Impact Assessment (AMDAL), and by regulatory requirements and related permits issued by the government.

## ENVIRONMENTAL AUDITS

In our Environmental Policy, we commit our company to routine internal and external environmental audits to assess our environmental compliance, management systems and practices. PT Freeport Indonesia's environmental audits provide our managers with information on current environmental performance and help identify opportunities for improvement. PT Freeport Indonesia responds to the audits with action plans to implement suggestions made by the auditors. In 2007, two formal environmental audits were conducted:

- Representatives from Crescent Technology Inc., representing the Freeport-McMoRan Copper & Gold Inc. Board of Directors and senior management, audited PT Freeport Indonesia's operations as part of the annual corporate internal auditing program. These

annual audits have been taking place since 1994.

- The International Certification Services Division of Société Générale de Surveillance (SGS), an International Standardization Organization (ISO) 14001 registration and certification organization based in Geneva, Switzerland, with offices in Indonesia, performed a recertification audit on PT Freeport Indonesia's environmental management system, a requirement for maintaining our ISO 14001 certification. Annual follow-up reviews by the certification agency are required by ISO 14001 protocols to determine the status of conformance and to assess continued certification. Our environmental management system has been certified since 2001.

PT Freeport Indonesia participates in the environmental management performance rating program, known as PROPER, which is administered by the Indonesian Ministry of Environment. The rating evaluation is mainly based on the performance of companies in managing effluent discharges, air emissions, and hazardous wastes. We have dedicated significant resources and ongoing efforts to ensure successful follow up on recommendations made by the PROPER audit team.

Our environmental management system also includes an in-house environmental inspection program that is conducted continually throughout the year. These inspections take place at over 300 facilities, in-

*A PT Freeport Indonesia environmental monitoring team surveys the water quality in the Aikwa Estuary along the south coast of Papua.*



cluding those of contractors and privatized companies, from the Grasberg mine to the port. The purpose is to assess conformance by all facilities to our environmental management system. The results from these inspections serve as a measurement of our environmental performance and a basis for determining continual improvement. The results are also taken into account in the determination of employee bonuses, providing an added incentive for our work force to maintain high environmental performance. Standard operating procedures require that all contracts for work done locally include PT Freeport Indonesia's environmental requirements.

In December 2007, the Minister of Energy and Minerals Resources presented PT Freeport Indonesia with the Silver Environmental Award in recognition of reclamation work at the Grasberg open pit.

In 2005, our triennial independent external environmental audit was conducted by Montgomery Watson Harza to fulfill one of PT Freeport Indonesia's commitments included in its Environmental Impact Assessment (AMDAL) approved by the Government of Indonesia in 1997. The auditors made a number of specific recommen-

dations for improvements in PT Freeport Indonesia's environmental management practices and these have been addressed. The audit findings and the PT Freeport Indonesia responses are available to the public on our web site at [www.fcx.com](http://www.fcx.com).

## TAILINGS MANAGEMENT PROGRAM

Tailings are finely ground natural rock residue from the processing of mineralized ore. PT Freeport Indonesia uses a physical flotation process to separate the copper and gold-bearing minerals from the host rock. Due to the topography, seismic activity and annual rainfall in excess of 30 feet, impounding the tailings near the milling operations is not feasible. A dedicated river system transports the sediment to a designated deposition area in the lowlands and coastal zone, engineered and managed for the deposition and control of tailings. The tailings deposition system is operated under PT Freeport Indonesia's comprehensive tailings management plan, approved by the Government of Indonesia during the 1997 AMDAL process.

As a condition of this approval, it was agreed that the approved tailings management option would be studied in further detail. A Tailings Review Committee comprising members of the Environmen-

tal Risk Assessment Review Panel Team, the PT Freeport Indonesia Environmental Advisory Council, and PT Freeport Indonesia management was established to review this issue. After a series of detailed studies were completed, including analysis of remote sensing information, evaluation of potential pipeline options, a review of geotechnical considerations, flood and hydrogeological impacts and comprehensive risk assessments, the Tailings Review Committee concluded that the approved tailings management system is the best option available. Independent environmental audits of PT Freeport Indonesia's environmental management systems have reached the same conclusion. An interesting paper available on the web at [www.infomine.com/publications/docs/Murray.pdf](http://www.infomine.com/publications/docs/Murray.pdf) addresses tailings management issues at mines on the island of New Guinea (which includes the area of the PT Freeport Indonesia mine) and concludes that the area is unique and not suitable for tailings management best practices developed elsewhere.

PT Freeport Indonesia continues to work with various national and international experts to ensure that its tailings management represents best practice, considering the applicable geotechnical, topographic, climatological, seismic, and rainfall conditions. A technical group including international experts and representatives of the Institute of Technology at Bandung, PT Puri and PT Freeport Indonesia has reviewed our tailings management practices and developed recommendations to enhance the effectiveness of tailings retention program techniques. PT Freeport Indonesia is committed to maintaining a proactive management team solely dedicated to ensuring the implementation of tailings retention plans and reclamation plans executed each year. Much of the work implementing these plans is handled by local contractors, putting money into the local community and developing local business skills.

During the past several years, PT Freeport Indonesia has been collaborating with scientists from Indonesia's leading

*Civil engineering projects, including the construction of gabion groundsills (pictured) are part of the active, ongoing program designed to continuously improve the retention of tailings in the Modified Ajkwa Deposition Area.*



technological research university, Institute Teknologi Bandung (ITB) — the Bandung Institute of Technology’s Research and Industrial Affiliation Institute — on tailings’ use as a raw material for the construction and manufacturing of concrete, bricks, pipes and other infrastructure products. The joint Freeport/ITB team has completed several construction projects using tailings as a primary component of concrete. Projects include roads, structural shapes, public buildings and bridges in the Mimika Regency, and roads, buildings, process equipment, and drainage improvements in the Freeport project area. Additionally, we have successfully demonstrated the use of tailings as a backfill material at the Timika Airport departure terminal.

## RECLAMATION AND REVEGETATION

PT Freeport Indonesia is committed to reclaiming or revegetating disturbed land when it is no longer used for our operations. We have conducted comprehensive scientific reclamation studies and programs for many years in both the highlands and the lowlands areas to provide sound data on the options for land reclamation.

### HIGHLANDS

The highland ecosystem is shaped by environmental extremes that include very low nocturnal temperatures, high solar radiation during the day but with short periods of photosynthesis, heavy fog, high rainfalls and nutrient-poor soils. Plants growing there are highly specialized,

having evolved to survive in these harsh conditions. Many of these have been found suitable for overburden stockpile reclamation, including local grasses, and several species of rhododendron and mosses.

We also commissioned an independent study, published in 2007, on the potential use of sterile non-native species in the early stages of revegetation to stabilize slopes and improve habitat more quickly than by only utilizing native plants. Transplanting and natural succession of native species can then take place with no risk of non-indigenous propagation. At our mining area’s altitudes, native species tend to be slow growers. The report concluded there are no technical reasons that would preclude use of sterile non-native species in this application.

## *Tailings Pave the Way for Regional Development*

Following years of collaboration with scientists from the Bandung Institute of Technology’s Research and Industrial Affiliation Institute (LAPI-ITB) and local businesses, construction materials made from tailings – the finely ground natural rock residue from the processing of mineralized ore – are making their way across the province of Papua, where new roads are leading to progress in Merauke Province.

Merauke Regent Johannes Gluba Gebze recently witnessed the arrival of one of the first major shipments of 4,000 tons of tailings in Serapu Village. Gebze remarked that tailings are part of a solution toward Merauke’s scarce resource of raw material for construction development. According to the researchers from LAPI-ITB, the properties of the material are conducive to construction applications, especially concrete, and the crushed rock from the ore milling process offers cost advantages over other basic material. The Merauke project is the first outside of Mimika Regency to use the tailings material in road construction.



*4,000 tons of tailings arrives in Serapu in the Merauke Regency*



*A portion of a new road paved with tailings in Papua*



*Merauke Regent Johannes Gebze tests the strength of the new road*

**Independent audits have concluded that our overburden/waste rock management programs are “well integrated” and “consistent with international practice.”**

*Photo: A reclamation plot at an overburden site at the Grasberg mine.*



## Local Entrepreneurs Establish Roots in Reclamation Project

The area designated for the retention of tailings in the lowlands portion of the PT Freeport Indonesia project area is open for business. Local entrepreneurs are seizing opportunities by getting involved in large-scale engineering and construction projects, and reclamation activities including colonization of native plants and agricultural production.

Herman Apoka and his wife Paola Perayafe (top photo) own the business CV Yawapu Jaya, which is involved in a civil engineering construction project to erect a gabion groundsill to improve the retention of tailings sediment.

Yosep Operawiri (lower photo-center) directs CV Putra Nawaripi, a group involved in establishing phragmites grass on deposited tailings, as well as planting mangrove seedlings in the estuarine portion of the Modified Ajkwa Deposition Area. Operawiri's team helped to establish more than 60,000 mangrove seedlings and more than 100,000 clumps of phragmites grass in the project area during the past two years.



Although many of the overburden stockpiles around the surface mine will be active until the transition to all underground mining (approximately 2015), we are committed to reclaiming areas of overburden each year when the areas are no longer necessary for operations. Through 2007, more than 50 hectares of disturbed land at the mine in the highlands had been revegetated.

### LOWLANDS

Our studies of tailings reclamation and establishment of demonstration plots on deposited tailings are designed to show that tailings are not toxic to native forestry and agricultural plants and to learn how various plants thrive when grown in tailings media.

The tailings area between the Twin Levees where our Lowlands Reclamation research and demonstration work takes place continued to be an area of intense activity in 2007. The activities include the Natural Succession Discovery Park, plantations

and food crops, a butterfly sanctuary, an ornamental plant nursery, and cattle husbandry. Much of the work in this area is performed by local contractors, who are improving their business skills and their knowledge of the environment. These activities are sampled for monitoring purposes and the areas are used as part of our Environmental Public Education and Awareness programs.

Through the end of 2007, more than 160 plant species had been successfully grown on soils containing tailings. Plant species that have been especially successful include legume cover crops for fodder; local trees such as casuarina, matoa, eucalyptus and coconut; agricultural crop plants such as pineapple, melon, sugar cane, sago, and banana; and vegetables and grains such as chili peppers, cucumbers, tomatoes, rice, corn, string beans and pumpkins. Similar to previous years, edible plants and fruit from many of these species were harvested in 2007.

A fraction of the tailings pass through the tailings deposition area. The new estuary areas formed from these sediments are being naturally colonized by mangroves. Seven mangrove species, 45 species of crabs and shrimp, and several species of snails, clams, fish, and marine polychaetes (worms) have been identified in these new estuary areas. To accelerate the primary succession processes, we have planted over 200,000 mangroves in the area. Survival and growth rates of these seedlings compares favorably with rates for similar programs reported in the literature. Mangrove swamplands are part of the native ecosystem, and also provide a protective barrier for inland residents.

When mining is completed, the tailings deposition area will be reclaimed in a manner consistent with the appropriate technique established through consultation with various stakeholders, taking into account appropriate consideration of environmental and social impacts.

*Hundreds of thousands of mangroves have been planted as part of an assisted mangrove colonization initiative in the Ajkwa Estuary as part of the tailings management program.*



## OVERBURDEN AND ACID ROCK DRAINAGE MANAGEMENT

Overburden is rock that must be moved aside to gain access to ore that is mined and processed to recover metals for commercial purposes. PT Freeport Indonesia handles overburden under a comprehensive Overburden Management Plan approved by the Government of Indonesia. Many metals occur in nature as sulphide minerals. When ore is mined and overburden containing sulphides is exposed to the elements, the action of water, oxygen and naturally occurring bacteria has the potential to create dilute sulphuric acid. This acidic water can dissolve metals contained in overburden rock and cause adverse environmental impacts in water drainage systems if not properly managed. This process is known as acid rock drainage (ARD).

The company employs formal risk assessments focused on overburden and tailings management. Standard Operating Procedures are developed and implemented based on these risk assessments.

Under the Government-approved Overburden Management Plan, PT Freeport Indonesia places overburden in managed areas around the Grasberg open pit. Acid rock drainage is captured and treated or neutralized in conjunction with limestone blending and capping in the overburden stockpiles.

*An overburden reclamation plot planted with endemic grasses and shrubs at the Grasberg mine complex.*



## LONG-TERM ENVIRONMENTAL MONITORING PROGRAM

Potential environmental impacts related to tailings transport and deposition which were identified in the AMDAL are:

- Modification of river topography and geomorphology
- Potential levee failure
- Shift in river flows and drainage patterns
- Increased river bed height
- Increased total suspended solids (TSS) concentrations
- Potential of generating acid drainage and metal leaching
- Reduced water quality
- Increased estuarine turbidity and metals content

- Change in mangrove community
- Estuary sedimentation
- Increased turbidity and sedimentation in marine environment
- Changes in flora and fauna in the deposition affected area

PT Freeport Indonesia's Long-Term Environmental Monitoring Program is designed to monitor for these potential impacts by routinely measuring water quality, biology, hydrology, sediments, air quality and meteorology in our area of operations. In a typical year, over 7,000 samples resulting in over 50,000 separate analyses are utilized to develop the scientific information necessary to make management decisions about our operations so that we can minimize and mitigate environmental impacts.

PT Freeport Indonesia has an on-site Environmental Laboratory which generates the analytical data used in the monitoring program. This laboratory is certified to the ISO 17025 quality standard for analytical laboratories. In 2007, the laboratory was recertified for another four years by assessors from the National Accreditation Committee of Indonesia. As part of routine environmental audits by the Government of Indonesia regulators, Sarpedal (the government's environmental laboratory) annually samples water, sediment, fish, ambient air and stack emissions. Results routinely confirm PT Freeport Indonesia's results which have been reported to the government.

*Tens of thousands of analyses on aquatic biology, aquatic tissue, plant tissue, mine water, surface water, ground water, sanitary wastewater, river sediments and tailings are conducted at on-site laboratories as part of the Long-Term Environmental Monitoring Program.*



*Environmental monitoring staff prepare to collect a sediment sample from the Ajkwa Estuary downstream of the tailings deposition area.*



PT Freeport Indonesia does not use mercury or cyanide in its processes, relying instead on a flotation process that physically separates the copper- and gold-bearing minerals from the ore. Comprehensive monitoring conducted over many years continues to show there is no significant elevated level of mercury or arsenic in the water, sediment, fish or plants from our operations area relative to background samples from the east and west of our project. However, the recent high price of gold has enabled the profitable recovery of gold from the tailings stream by panners not licensed by the Government of Indonesia, who have moved into the area by the thousands, straining resources (particularly medical resources) and pressuring the local population. As a result of this activity, we have developed a concern about the possible use of mercury in refining this illegally taken gold. In 2006, at

our request, the United Nations Industrial Development Organization/Global Mercury Project inspected the area and confirmed that mercury was not yet being used in the area. To date, our environmental water monitoring programs have not detected mercury, despite indications of mercury arriving in the area. We plan to install an ambient air monitor for mercury in the area in 2008.

PT Freeport Indonesia also submitted in 2002 to the Government of Indonesia a detailed Environmental Risk Assessment (ERA) of the tailings management system which evaluated potential pathways that could affect flora, fauna, and human health. This detailed assessment confirmed the basis for the tailings management system approvals of the AMDAL. We commissioned a review of critical conclusions of that study in 2007, which is still in progress.

Our biological program monitors more than 200 sampling locations for nekton, benthos, and plankton. In the last 5 years, more than 2,000 samples of aquatic fauna were analyzed for trace elements with the total number of analyses exceeding 15,000. Results of current monitoring have shown that fish and shrimp flesh samples from tailings areas are suitable for consumption as regulated by Indonesian food standards.

Data from biological sampling continue to demonstrate that the estuary downstream of the tailings deposition area is a functioning ecosystem based both on the number of species and the number of specimens collected of nektonic, or free-swimming, organisms such as fish and shrimp.

The monitoring of benthos, or bottom-dwelling organisms, is done at 16 sites in the estuaries and 40 sites in the Arafura Sea. Studies during our approved 300K AMDAL (environmental and social impact study) identified these organisms as being at risk from sedimentation. The results of this monitoring indicated that tailings sites, while generally lower in the number of species than reference sites because of the sedimentation, have high densities of very small polychaetes, or marine worms, which are pioneer species to disturbed areas. Benthos diversity is now increasing in the Minajerwi estuary, an area that received tailings prior to design and construction of the tailings deposition area, indicating no long-term impacts once mining operations are completed. The monitoring also indicates no impact of tailings on the marine benthos in the Arafura Sea outside of the tailings management area.

Intensive mangrove monitoring programs are carried out by PT Freeport Indonesia. During the five years of the long-term monitoring of mangrove area (2000-2005) 15 new species of crabs obtained from the PT Freeport Indonesia area were described. Conclusions to these studies include successful natural colonization, implementation of a successful assisted colonization program, numbers and species of mangroves comparable to natural ecosystems, number and species of crustaceans and mollusks comparable to natural ecosystems.

**Our comprehensive monitoring program ensures that we have the scientific information necessary to make management decisions about our operations, and to minimize and mitigate environmental impacts.**

*Photo: A sample collection in the Ajkwa Estuary.*



## WASTE MANAGEMENT AND RECYCLING

PT Freeport Indonesia's environmental management programs encompass all aspects of its operations, not just those related to mining. We have a comprehensive waste management system using the principles of reuse, recycling and reduction. Our waste minimization programs involve waste reduction and substitution with environmentally friendly products. Bulk containers, used oil, used papers and tires are all reused locally in an environmentally acceptable manner. Other recyclable materials such as scrap metals and used batteries are collected and stored in a temporary storage area for subsequent recycling in accordance with the requirements of the Indonesian government.

Wastes, including small amounts of hazardous waste, are segregated at the point of origin. Collection, packaging and storage of hazardous wastes generated by assay work on ore samples, analytical laboratories, medical facilities and other processes are managed in compliance with Indonesian government regulations. Hazardous Waste does not enter the boundaries of the PT Freeport Indonesia operations. Transported hazardous waste goes to licensed Indonesian processors and does not cross international boundaries.

PT Freeport Indonesia's non-hazardous wastes are handled in three designated locations, including landfills for inert wastes and a landfill for biodegradable and other wastes, which is lined and equipped with a leachate collection and treatment system. Our 10 sewage treatment plants

are managed in accordance with Government of Indonesia regulations. The effluent quality from all sewage treatment plants is monitored regularly for the parameters of pH, biological oxygen demand, chemical oxygen demand, total suspended solids (TSS) and oil and grease in accordance with the standard.

We have developed a plan and have Ministerial Approval from the Ministry of Environment to utilize boiler ash produced in our coal-fired power plant for infill projects in the operating areas. This will put the material in our ash stockpile to productive use. Over 50,000 cubic meters of ash was utilized in 2007.

*Collection of household solid waste in our employee communities is conducted by local Papuan-owned businesses supported by Freeport's Small and Medium Enterprises Development unit.*



## A New Generation of Ideas on Climate Change



Hundreds of young students from all corners of Indonesia and abroad joined in Surabaya, Indonesia in November 2007 to share their ideas and experiences on ways to address climate change. PT Freeport Indonesia was the lead supporter of the Children's Conference on Climate Change, a program organized by the Tunas Hijau (*Green Future or Green Buds*) Foundation.

The five-day program included field trips to a landfill to study how compost is produced from organic waste, and to a village which has successfully recycled inorganic waste into products of value. The youth also engaged in discussions on a range of environmental issues.

Among the hundreds of participants were ten students from the Jayawijaya Education Foundation (YPJ) School, which serves children of PT Freeport Indonesia employees in Papua and other local students. After returning home, the YPJ students were excited to share their experiences with hundreds of their classmates in Papua.

### MINE CLOSURE

PT Freeport Indonesia maintains a closure management plan, representing the company's latest analyses and strategies on closure management.

Because of the long life of the mine — approximately 70 years in total and extending over 30 years into the future — the scope of the closure management plan remains broad. The plan is consistent with existing Indonesian laws and regulations, current commitments (Contract of Work, AMDAL, and operational management plans), international mine closure principles and practices and the current allocation of financial provisions to fund mine closure costs. PT Freeport Indonesia's overall closure strategy is to identify, monitor and mitigate impacts, both environmental and social, through ongoing management programs during the operations phase. This will ensure that decommissioning, reclamation and environmental monitoring activities required at closure and during

the post-closure phase can be managed effectively; the effects of mine closure on the local economy and communities can be managed and the transfer of any remaining assets and the responsibility for the mining area to the Government of Indonesia can be achieved smoothly and efficiently.

Funds are being set aside to implement the closure plan as detailed in the Annual Reports of Freeport-McMoRan Copper & Gold Inc.

### PUBLIC EDUCATION AND AWARENESS

PT Freeport Indonesia supports an active program of public outreach to help make employees and local inhabitants more aware of the environment and their relation to it. The program makes use of the Twin Levees Reclamation Demonstration Area, the surrounding natural ecosystems and operations related to the environment such as the Environmental Laboratory and our waste handling facilities. The program

focuses on schoolchildren and teachers, but also includes local stakeholders, employees, government officials, local non-governmental organizations, media, police and army units. Earth Day, Environmental Day and Clean Town Day activities in area towns are parts of the program that are very well attended.

During 2007, we participated in forming an Environmental Partnership Awareness Forum in Mimika District with local entrepreneurs, non-governmental organizations, religious leaders, and university representatives to promote knowledge of and care for the environment.

For several years, we have been helping to run an Environmental Education Program at schools within the PT Freeport Indonesia area. Bapedalda Papua (provincial environmental regulators) now has plans to adopt this program for schools in Papua. PT Freeport Indonesia has assisted them in developing this curriculum.



*Local students plant mangrove seedlings at Wai Island in the Ajkwa Estuary.*

## ***Planting Seedlings – Sowing Inspiration***

PT Freeport Indonesia’s Environmental Department team places high priority on promoting environmental awareness among local youth. One of the group’s outreach programs involves a hands-on approach away from the classroom. It is not uncommon to see the company’s environmental monitoring vessels filled with eager students. Program coordinator Robert Sarwom explains that field trips where students get their hands dirty planting mangroves in the Arafura estuary creates a strong impression in younger children that helps to shape their perceptions as they grow older. “We feel events such as this can be more effective than efforts to raise awareness in those who are older,” explained Sarwom.

Forty children of Freeport employees recently planted some 2,000 mangroves (*Rhizophora mucronata*) at Wai Island, Ajkwa Estuary. Since 2004, approximately 200,000 mangrove seedlings of different varieties have been planted on this island, covering some 6.5 hectares. This project is in addition to the overall mangrove colonization project in the Modified Ajkwa Deposition Area that has introduced more than one million seedlings since 2006 to improve tailings retention. Monitoring programs indicate a very successful survival rate of seedlings.

Two of the junior high students, Nana and Desi, described their experience, saying, “We had fun planting the mangroves and seeing the beautiful nature around us, and we also liked making new friends. We hope that the plants will grow well and that more people will love the environment.”

## **BIODIVERSITY**

The PT Freeport Indonesia 292,900 hectare project area leased from the Government of Indonesia is located in the Indonesian Province of Papua. Approximately 26,000 hectares (9% of the contract area) are utilized for production activities and extractive use. The entire region of southern Papua exhibits a high level of endemism and one of the highest levels of biodiversity in Southeast Asia. Long term monitoring indicates our activities produce localized disruptions, but (except for topographical changes) recovery is rapid when activity ceases. Our mine closure plan directs restoration of disturbed areas as they become

available. The first large scale restoration will be triggered by the transition from the Grasberg open pit to all underground mining in approximately 2015.

The average rainfall in the area is almost 6 meters, and our extraction of surface and ground water for use in our operations does not significantly affect area ecosystems or habitat. Sedimentation resulting from discharges to the estuary is building new land and wetland which is being naturally colonized by local flora and fauna as soon as it emerges.

We have conducted numerous ecological and biodiversity studies to facilitate

effective biodiversity management. These biodiversity studies, done in conjunction with Indonesian and international experts, include surveys of vegetation (from the Lowland, Montane, Sub-alpine, Alpine and Nival Zones), ethno-botany, medicinal plants, mammals, birds, butterflies, amphibians, reptiles, fish, soil fauna, and both aquatic and terrestrial insects. Available information indicates a possibility of 50 area species that are on the International Union for Conservation of Nature (IUCN) Red List of Threatened Species, most of them for lack of data.

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Data from biological sampling in the estuary downstream of the tailings deposition area indicate a functioning ecosystem. Numerous species of crabs, including the young Mound Crabs (*Sarmatium germaini*) pictured here, are found in large numbers in the area.





*Australian pelicans (Pelecanus conspicillatus) are often seen basking and feeding in the waters in the southern portion of the Modified Ajkwa Deposition Area. The regular appearance of these fish-preying birds signals the presence of abundant aquatic life in the tailings deposition zone. The migratory birds breed only in Australia, but ordinarily fly to Eastern Indonesia, the Solomon Islands and New Zealand.*

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From the scientific point of view, PT Freeport Indonesia's biodiversity programs have significantly contributed to the knowledge of natural science in Papua through the discovery of new species, reference collections, and the publication of papers, books and posters. PT Freeport Indonesia has published books in its biodiversity series including: *The Freshwater Fish of the Timika Region, New Guinea; The Birds of Mimika; The Butterflies of Mimika; and Subalpine and Alpine Fauna of Mimika, Papua Indonesia.*

Extensive botanical and taxonomy surveys within the PT Freeport Indonesia project area (from the Coastal to Nival Zones) were also carried out over a six-year period by staff from the Royal Botanical Gardens at Kew, England, in conjunction with assistance from Indonesian institutions. More than 5,000 flowering and fruiting plant species were identified and prepared for herbariums. Posters of the vegetation zones and taxonomy of the plants were produced and numerous scientific publications in peer-reviewed journals have resulted from these studies. In 2006, the Royal Botanic Gardens at Kew published a book documenting these surveys, *A Guide to the Alpine and Subalpine Flora of Mount Jaya.*

Additionally, we have supported numerous scientific biodiversity studies in coordination with international non-governmental organizations and the Indonesian government throughout the province of Papua. One mission that PT Freeport Indonesia supported in 2005 was a widely reported Conservation International expedition to the Foja Mountains region of Papua that resulted in the discovery of many new species of plants, birds, frogs, insects and mammals.

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## *A Jump-Start to a Journey Home*

Animal rescue missions are becoming quite routine for the Environmental Department team at PT Freeport Indonesia. One of the latest was in June 2007, involving the repatriation of 17 Dusky Pademelons (*Thylogale brunii*), a small kangaroo species. Working in partnership with the Cikananga Wildlife Rescue Center in Java, the Forestry Department Directorate General of Forest Protection and Nature Conservation, and the local Kamoro community, the Freeport team transported the animals from Java, where they were seized during an operation against illegal trafficking of wildlife, to their native habitat near Nayaro. The animals are the smallest of three kangaroo species in Australasia and one that is endemic to Papua.

The repatriation process began in Halim Perdanakusuma Airport in Jakarta, from which the 17 kangaroos were flown to Timika on an Airfast Indonesia jet, to be released into the Nayaro forest. The community members of Nayaro were proud partners involved in the process from the outset, ensuring the kangaroos' adaptation and survival. Nayaro community leader and local businessman Herman Apoka (featured on page 36 of this report) became one of the proud "foster fathers" of the group of ground-foraging marsupials who experienced a small population boom while in the village.

Following the rehabilitation period in Nayaro village, the still-growing extended family of 21 kangaroos with 3 infants still nursing in their mothers' pouches were flown to Merauke in December 2007. The marsupials' arrival was met with a formal ceremony by the Merauke local government led by Regent John Gluba Gebze. Dozens of Marin tribespeople, the local traditional landowners, also celebrated the arrival with traditional dancing.

Merauke Regent Gebze said, "Today we see the return of the Dusky Padamelon or Waleb, in the language of the Wasur people of the Marin tribe. These kangaroos are part of the assets of the people of Merauke Regency. To those who have given of themselves to ensure the return of the Waleb we express our thanks for their assistance in caring for these kangaroos, the emblem of our regency."

PT Freeport Indonesia Environmental Manager Andi Mukhsia explains that Papua is rich in biodiversity of its flora and fauna and as a contractor of the government, PT Freeport Indonesia realizes the importance of conserving that level of biodiversity. "PT Freeport Indonesia endeavors to continuously contribute to the conservation and preservation efforts of biodiversity in Papua," he said.

This latest PT Freeport Indonesia rescue and repatriation effort follows the 2006 program to transport some 3,000 threatened pig-nosed turtles confiscated from international animal traders in Java back to their native habitat in Mimika.



*The hand-over to "Foster Parents" in Nayaro*



*The Dusky Pademelons (Thylogale brunii)*



*Preparing for the release in Nayaro*

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In 2006, an expedition to identify frog species in the Contract of Work area identified at least 20 and as many as 25 previously undescribed (i.e., new) species. More than 40 different species of frogs were identified in lowland forests around Timika and Kuala Kencana. This is the most diverse assemblage documented to date on the island of New Guinea. Major range extensions were documented for several species, including the first records for Indonesia of at least three species.

In 2006, PT Freeport Indonesia worked in cooperation with the Indonesian Animal Rescue Center to return to their natural habitats in Papua nearly 3,000 pig-nosed turtles.

This was truly a cooperative effort with representatives of government, non-governmental groups, Indonesian military and police and tribal chiefs participating.

In 2007, a memorandum of understanding was signed with UNIPA (State University of Papua) for research related to biodiversity in the area. Projects include surveys and studies related to sago plants, vegetation in the Twin Levee Area, freshwater fauna, cattle management, environmental monitoring data, and collection and display of biological specimens. The results of these studies will be documented over a period of several years.

The large majority of our work in biodiversity is directly applicable and available to researchers charged with developing management plans for the Lorentz National Park, a 2.5 million hectare area named a United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage Site in 1999. Similar to the PT Freeport Indonesia project area (which it is located nearby), the park encompasses a continuous, intact transect from high mountains to tropical marine environment, including extensive wetlands near and along the coast. PT Freeport Indonesia has no operations in Lorentz National Park.



**PT Freeport Indonesia's biodiversity programs have significantly contributed to the knowledge of natural science in the province of Papua through the discovery of new species, establishment of reference collections, and the publication of books, papers and educational materials.**



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*Photo: An employee family gathering in Timika.*



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