

FREEPORT MCMORAN COPPER & GOLD INC

Form DEF 14A

March 22, 2005

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Freeport-McMoRan Copper & Gold Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

SEC 1913 (01-05)

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**Notice of Annual Meeting of Stockholders
May 5, 2005**

March 22, 2005

Date: Thursday, May 5, 2005

Time: 1:00 p.m., Eastern Time

Place: Hotel du Pont
11th and Market Streets
Wilmington, Delaware 19801

Purpose: To elect nine directors

To ratify the appointment of our independent auditors

To vote on a new annual incentive plan

To vote on two stockholder proposals, if presented at the meeting, and

To transact such other business as may properly come before the meeting

Record Date: Close of business on March 9, 2005

Your vote is important. Whether or not you plan to attend the meeting, please complete, sign and date the enclosed proxy card and return it promptly in the enclosed envelope. Your cooperation will be appreciated.

By Order of the Board of Directors.

William H. Hines
Secretary

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Information about Attending the Annual Meeting

If you plan to attend the meeting, please bring the following:

1. Proper identification.
2. Acceptable Proof of Ownership if your shares are held in Street Name.

Street Name means your shares are held of record by brokers, banks or other institutions.

Acceptable Proof of Ownership is (a) a letter from your broker stating that you owned Freeport-McMoRan Copper & Gold Inc. stock on the record date or (b) an account statement showing that you owned Freeport-McMoRan Copper & Gold Inc. stock on the record date.

Only stockholders of record on the record date may attend or vote at the annual meeting.

Post-Meeting Report of the Annual Meeting

A post-meeting report summarizing the proceedings of the meeting will be available on our web site at www.fcx.com within 10 days following the meeting. A copy of the report will be mailed at no charge to any stockholder requesting it.

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FREEPORT-McMoRan COPPER & GOLD INC.
1615 Poydras Street
New Orleans, Louisiana 70112

The 2004 Annual Report to Stockholders, including financial statements, is being mailed to stockholders together with these proxy materials on or about March 22, 2005.

This proxy statement is furnished in connection with the solicitation of proxies by the board of directors of Freeport-McMoRan Copper & Gold Inc. for use at our Annual Meeting of Stockholders to be held on May 5, 2005, and at any adjournments (the meeting).

Who Can Vote

If you held any Company Stock on the record date then you will be entitled to vote at the meeting. Company Stock refers to our common stock and voting preferred stock described below. Our voting preferred stock is represented by depositary shares, each of which represents a fraction of a share of our preferred stock.

Common Stock Outstanding on Record Date

| Name of Security | No. of Shares Outstanding |
|----------------------|------------------------------|
| Class B Common Stock | 179,647,096 |

Preferred Stock Outstanding on Record Date

| Name of Security | No. of Depositary Shares Outstanding | No. of Preferred Shares Outstanding |
|---|--|--|
| Gold-Denominated Preferred Stock, Series II | 4,305,580* | 215,279 |
| Silver-Denominated Preferred Stock | 4,760,000** | 29,750 |
| Total Shares Eligible to be Voted at the Meeting | | 179,892,125 |

* Each depositary share represents 0.05 shares of our preferred stock, thereby giving all such shares an aggregate of 215,279 votes.

** Each depositary share represents 0.006250 shares of our preferred stock thereby giving all such shares an aggregate of 29,750 votes.

Voting Rights

Each share of Company Stock that you hold entitles you to one vote on each matter on which holders of such stock are entitled to vote. At the meeting, holders of common stock may vote on all matters and holders of depositary shares may only vote on the election of directors. As a holder of depositary shares, you vote by instructing the depositary either to vote the preferred stock represented by your depositary shares for director nominees or to withhold votes from director nominees. Inspectors of election will count votes cast at the meeting.

Our directors are elected by a plurality of shares voted, with the holders of our common stock and voting preferred stock voting together as a single class. Under our by-laws, all other matters require the affirmative vote of the holders of a majority of our common stock present at the meeting, except as otherwise provided by statute, our certificate of incorporation or our by-laws.

Brokers holding shares of record for customers generally are not entitled to vote on certain matters unless they receive voting instructions from their customers. When brokers do not receive voting instructions from their customers, they notify the company on the proxy form that they lack voting

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authority. The votes that could have been cast on the matter in question by brokers who did not receive voting instructions are called broker non-votes.

Abstentions and broker non-votes will have no effect on the election of directors. Abstentions as to all other matters to come before the meeting will be counted as votes against those matters. Broker non-votes as to all other matters will not be counted as votes for or against and will not be included in calculating the number of votes necessary for approval of those matters.

Quorum

A quorum at the meeting is a majority of the Company Stock entitled to vote, present in person or represented by proxy. The persons whom we appoint to act as inspectors of election will determine whether a quorum exists. Shares of Company Stock represented by properly executed and returned proxies will be treated as present. Shares of Company Stock present at the meeting that abstain from voting or that are the subject of broker non-votes will be counted as present for purposes of determining a quorum.

How Your Proxy Will Be Voted

The board of directors is soliciting a proxy in the enclosed form to provide you with an opportunity to vote on all matters scheduled to come before the meeting, whether or not you attend in person.

Granting Your Proxy. If you properly execute and return a proxy in the enclosed form, your stock will be voted as you specify. If you make no specifications, your proxy representing

(1) our common stock will be voted:

in favor of the proposed director nominees,

for the ratification of the appointment of the independent auditors,

for the adoption of the 2005 Annual Incentive Plan,

against both stockholder proposals, if presented at the meeting, and

(2) depositary shares representing our voting preferred stock will be voted in favor of the proposed director nominees.

We expect no matters to be presented for action at the meeting other than the items described in this proxy statement. By signing and returning the enclosed proxy, however, you will give to the persons named as proxies therein discretionary voting authority with respect to any other matter that may properly come before the meeting, and they intend to vote on any such other matter in accordance with their best judgment.

Revoking Your Proxy. If you submit a proxy, you may subsequently revoke it or submit a revised proxy at any time before it is voted. You may also attend the meeting in person and vote by ballot, which would cancel any proxy that you previously submitted. If you wish to vote in person at the meeting but hold your stock in street name (that is, in the name of a broker, bank or other institution), then you must have a proxy from the broker, bank or institution in order to vote at the meeting.

Proxy Solicitation

We will pay all expenses of soliciting proxies for the meeting. In addition to solicitations by mail, arrangements have been made for brokers and nominees to send proxy materials to their principals, and we will reimburse them for their reasonable expenses. We have retained Georgeson Shareholder Communications Inc., 17 State Street, New York, New York, to assist with the solicitation of proxies from brokers and nominees. It is estimated that the fees for Georgeson's services will be \$9,000 plus its reasonable out-of-pocket expenses. We may have our employees or other representatives (who will receive no

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additional compensation for their services) solicit proxies by telephone, telecopy, personal interview or other means.

Stockholder Proposals

If you want us to consider including a proposal in next year's proxy statement, you must deliver it in writing to our Corporate Secretary, Freeport-McMoRan Copper & Gold Inc., 1615 Poydras St., New Orleans, Louisiana 70112 by November 22, 2005.

If you want to present a proposal at next year's annual meeting but do not wish to have it included in our proxy statement, you must submit it in writing to our Corporate Secretary, at the above address, by January 6, 2006, in accordance with the specific procedural requirements in our by-laws. If you would like a copy of these procedures, please contact our Corporate Secretary, or access our by-laws on our web site at <http://www.fcx.com/aboutus/bylaws.htm>. Failure to comply with our by-law procedures and deadlines may preclude presentation of the matter at the meeting.

Corporate Governance**Corporate Governance Guidelines; Ethics and Business Conduct Policy**

Our Corporate Governance Guidelines are available at <http://www.fcx.com/aboutus/corpgov-guide.htm>, and our Ethics and Business Conduct Policy is available at <http://www.fcx.com/aboutus/ethics.htm>. We intend to post promptly on that web site amendments to or waivers, if any, from our Ethics and Business Conduct Policy made with respect to any of our directors and executive officers.

Board Structure and Committee Composition

As of the date of this proxy statement, our board consists of nine members. We also have two advisory directors and one director emeritus. Advisory and emeritus directors do not vote. Our board held five regularly-scheduled meetings and two special meetings during 2004. In accordance with our Corporate Governance Guidelines, non-employee directors met in executive session at the end of each regularly-scheduled board meeting. The chair of executive session meetings rotates among the chairpersons of the four standing committees (discussed below), except as the non-management directors may otherwise determine for a specific meeting.

Our board has four standing committees: an audit committee, a corporate personnel committee, a nominating and corporate governance committee, and a public policy committee. Each committee operates under a written charter adopted by the board. All of the committee charters are available on our web site at www.fcx.com. During 2004, each of our directors attended at least 75% of the aggregate number of board and applicable committee meetings. Directors are invited but not required to attend annual meetings of our stockholders. None of the directors attended the last annual meeting of stockholders.

| Audit | | Meetings in 2004 |
|---|--|-----------------------------|
| Committee Members | Functions of the Committee | |
| Robert A. Day, Chairman Gerald J. Ford H. Devon Graham, Jr. | please refer to the Audit Committee Report | 4 |

| Corporate Personnel | | Meetings in 2004 |
|---|--|-----------------------------|
| Committee Members | Functions of the Committee | |
| H. Devon Graham, Jr., Chairman Robert J. Allison, Jr. Bobby Lee Lackey J. Taylor Wharton | please refer to the Corporate Personnel Committee Report on Executive Compensation | 4 |

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| Nominating and Corporate Governance Committee Members | Functions of the Committee | Meetings in 2004 |
|---|--|---------------------------------|
| Robert J. Allison, Jr., Chairman Robert A. Day Gerald J. Ford | nominates individuals to stand for election or re-election as directors considers recommendations by our stockholders of potential nominees for election as directors conducts annual board and committee evaluations makes recommendations to our board concerning the structure of our board and corporate governance matters | 2 |
| Public Policy Committee Members | Functions of the Committee | Meetings in 2004 |
| J. Taylor Wharton, Chairman Robert J. Allison, Jr. J. Bennett Johnston Bobby Lee Lackey B. M. Rankin, Jr. | oversees our compliance programs relating to our social, employment and human rights policies oversees our governmental and community relationships and information programs oversees our safety and environmental programs oversees our charitable and philanthropic contributions | 3 |

Board and Committee Independence and Audit Committee Financial Experts

On the basis of information solicited from each director, and upon the advice and recommendation of the Nominating and Corporate Governance Committee, the board has affirmatively determined that each of Messrs. Allison, Day, Ford, Graham, Lackey and Wharton has no material relationship with the company and is independent within the meaning of our Corporate Governance Guidelines, which comply with the New York Stock Exchange (NYSE) director independence standards, as currently in effect. In making this determination, the Nominating and Corporate Governance Committee, with assistance from the company's legal counsel, evaluated responses to a questionnaire completed annually by each director regarding relationships and possible conflicts of interest between each director, the company and management. In its review of director independence, the Committee considered all commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships any director may have with the company or management. The Nominating and Corporate Governance Committee made a recommendation to the board that six directors be considered independent, which the board approved.

Further, the board has determined that each of the members of the Audit, Corporate Personnel, and Nominating and Corporate Governance Committees has no material relationship with the company and is independent within the meaning of our Corporate Governance Guidelines, which adopt the heightened statutory and NYSE independence standards applicable to audit committee members. In addition, the board has determined that each member of the Audit Committee Messrs. Day, Ford and Graham qualifies as an audit committee financial expert, as such term is

defined by the rules of the Securities and Exchange Commission (the SEC).

Consideration of Director Nominees

In evaluating nominees for membership on the board, the Nominating and Corporate Governance Committee applies the board membership criteria set forth in our Corporate Governance Guidelines. Under these criteria, the committee will take into account many factors, including personal and professional integrity, general understanding of our industry, corporate finance and other matters relevant to the successful management of a large publicly traded company in today's business environment, educational and professional background, independence, and the ability and willingness to work cooperatively with other members of the board and with senior management. The committee evaluates each individual in the context of the board as a whole, with the objective of recommending nominees who can best perpetuate the success of the business, be an effective director in conjunction with the full board,

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and represent stockholder interests through the exercise of sound judgment using their diversity of experience in these various areas.

Our Nominating and Corporate Governance Committee regularly assesses the appropriate size of the board, and whether any vacancies on the board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the committee will consider various potential candidates who may come to the attention of the committee through current board members, professional search firms, stockholders or other persons. Each candidate brought to the attention of the committee, regardless of who recommended such candidate, is considered on the basis of the criteria set forth in our Corporate Governance Guidelines.

As stated above, the Nominating and Corporate Governance Committee will consider candidates proposed for nomination by our stockholders. Stockholders may propose candidates by submitting the names and supporting information to: Secretary, Freeport-McMoRan Copper & Gold Inc., 1615 Poydras Street, New Orleans, Louisiana 70112. Supporting information should include (a) the name and address of the candidate and the proposing stockholder, (b) a comprehensive biography of the candidate and an explanation of why the candidate is qualified to serve as a director taking into account the criteria identified in our Corporate Governance Guidelines, (c) proof of ownership, the class and number of shares, and the length of time that the shares of our voting securities have been beneficially owned by each of the candidate and the proposing stockholder, and (d) a letter signed by the candidate stating his or her willingness to serve, if elected.

In addition, our by-laws permit stockholders to nominate candidates directly for consideration at next year's annual stockholder meeting. Any nomination must be in writing and received by our corporate secretary at our principal executive offices no later than January 6, 2006. If the date of next year's annual meeting is moved to a date more than 90 days after or 30 days before the anniversary of this year's annual meeting, the nomination must be received no later than 90 days prior to the date of the 2006 annual meeting or 10 days following the public announcement of the date of the 2006 annual meeting. Any stockholder submitting a nomination under our by-law procedures must include (a) all information relating to the nominee that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), and (b) the name and address (as they appear on the company's books) of the nominating stockholder and the class and number of shares beneficially owned by such stockholder. Nominations should be addressed to: Secretary, Freeport-McMoRan Copper & Gold Inc., 1615 Poydras Street, New Orleans, Louisiana 70112.

Communications with the Board

Individuals may communicate directly with our board (or any individual director) by writing to the director or the Chairman of the Board at Freeport-McMoRan Copper & Gold Inc., 1615 Poydras Street, New Orleans, Louisiana 70112. The company or the Chairman will forward the stockholder's communication to the appropriate director.

Director Compensation

Cash Compensation

Each non-employee director and advisory director receives an annual fee of \$40,000. Committee chairs receive an additional annual fee as follows: Audit Committee, \$15,000; Corporate Personnel Committee and Public Policy Committee, \$10,000; Nominating and Corporate Governance Committee, \$5,000. Each non-employee director and each advisory director receives a fee of \$1,500 for attending each board and committee meeting (for which he or she is a member) and is reimbursed for reasonable out-of-pocket expenses incurred in attending such meetings. Each employee director receives a fee of \$1,500 for attending each board meeting.

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2004 Director Compensation Plan

The 2004 Director Compensation Plan, which was approved by the stockholders at the 2004 annual meeting, is an equity-based compensation plan for non-employee directors and advisory directors. Pursuant to the plan, on June 1st of each year, each non-employee director and advisory director receives a grant of options to acquire 10,000 shares of our common stock and 2,000 restricted stock units. The options are granted at fair market value on the grant date, vest ratably over the first four anniversaries of the grant date and expire on the tenth anniversary of the grant date. The restricted stock units also vest ratably over the first four anniversaries of the grant date.

In addition, the plan provides that participants may elect to exchange all or a portion of their annual fee for an equivalent number of shares of our common stock on the payment date, based on the fair market value of our common stock on such date. The plan further provides that participants may elect to defer all or a portion of their annual fee and meeting fees, and that such deferred amounts will accrue interest at a rate equal to the prime commercial lending rate announced from time to time by JP Morgan Chase (compounded quarterly), and shall be paid out at such time or times as directed by the participant.

Accordingly, on June 1, 2004, each non-employee director and advisory director was granted an option to purchase 10,000 shares of our Class B common stock at a grant price of \$33.47 and 2,000 restricted stock units.

Matching Gifts Program

The Freeport-McMoRan Foundation (the Foundation) administers a matching gifts program that is available to our directors, officers, employees, full-time consultants and retirees. Under the program, the Foundation will match a participant's gifts to eligible institutions, including educational institutions, educational associations, educational funds, cultural institutions, social service community organizations, hospital organizations and environmental organizations. The Foundation provides the gifts directly to the institution. The Foundation double matches gifts by a director not in excess of \$1,000 and gifts by any other participant not in excess of \$500. The annual amount of our matching gifts for any director may not exceed \$40,000, and generally for any other participant may not exceed \$20,000. The matching gifts made by the Foundation in 2004 for each of the participating directors and director nominees were as follows: \$36,000 for Mr. Allison, \$40,000 for Mr. Ford, \$2,000 for Mr. Graham, \$7,260 for Mr. Lackey, \$11,000 for Ms. McDonald, \$40,000 for Mr. Moffett, \$40,000 for Mr. Rankin, \$23,000 for Mr. Roy and \$3,000 for Mr. Wharton.

Retirement Plan for Non-Employee Directors

We have a retirement plan for the benefit of our non-employee directors who reach age 65. Under the retirement plan, an eligible director will be entitled to an annual benefit equal to a percentage of the standard portion of our annual directors' fee at the time of his or her retirement. The percentage, which is at least 50% but not greater than 100%, will depend on the number of years the retiree served as a non-employee director for us or our predecessors. The benefit is payable from the date of retirement until the retiree's death. Each eligible director who was also a director of Freeport-McMoRan Inc., our former parent, and who did not retire from that board of directors, will receive upon retirement from our board an additional annual benefit of \$20,000, which is also payable from the date of retirement until the retiree's death.

Election of Directors

Our board of directors has fixed the number of directors at 11. We amended our certificate of incorporation in May 2003 to phase out the classified structure of the board under which one of three classes of directors was elected each year to serve three-year staggered terms, and provide instead for the annual election of directors, which commenced with the class of directors standing for election at the 2004 annual meeting of stockholders. The amendment did not shorten the terms of directors currently serving

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three-year terms. The one-year term applies to all directors as their current terms expire and to any directors appointed to fill any future vacancies on the board.

The terms of Messrs. Allison, Day, Graham, Lackey, Moffett, Rankin and Wharton will expire at the 2005 Annual Meeting of Stockholders. The terms of Messrs. Ford and Johnston will expire at the 2006 Annual Meeting of Stockholders.

Our board has nominated each of Messrs. Allison, Day, Graham, Lackey, Moffett, Rankin, and Wharton to serve a one-year term. Our board has also nominated each of our two advisory directors, Ms. McDonald and Mr. Roy, to serve as a director for a one-year term. The persons named as proxies in the enclosed form of proxy intend to vote your proxy for the election of each such director, unless otherwise directed. If, contrary to our expectations, a nominee should become unavailable for any reason, your proxy will be voted for a substitute nominee designated by our board, unless otherwise directed.

Information About Nominees and Directors

The table below provides certain information as of March 9, 2005, with respect to each director nominee and each other director. Unless otherwise indicated, each person has been engaged in the principal occupation shown for the past five years.

| Name of Nominee or Director | Age | Principal Occupations, Other Public Directorships and Positions with the Company | Year First Elected a Director |
|------------------------------------|------------|--|--------------------------------------|
| Robert J. Allison, Jr. | 66 | Chairman of the Board of Anadarko Petroleum Corporation. Chief Executive Officer of Anadarko Petroleum Corporation from 1979 to 2002, and Chairman, President and Chief Executive Officer in 2003. | 2001 |
| Robert A. Day | 61 | Chairman of the Board and Chief Executive Officer of Trust Company of the West, an investment management company. Chairman, President and Chief Executive Officer of W. M. Keck Foundation, a national philanthropic organization. Director of Syntroleum Corporation, Société Générale and McMoRan Exploration Co. (McMoRan). | 1995 |
| Gerald J. Ford | 60 | Chairman of the Board of First Acceptance Corporation (formerly Liberté Investors Inc.). Former Chairman of the Board and Chief Executive Officer of California Federal Bank, A Federal Savings Bank, which merged with Citigroup Inc. in November 2002. Director of McMoRan. | 2000 |
| H. Devon Graham, Jr. | 70 | President of R.E. Smith Interests, an asset management company. Director of McMoRan. | 2000 |
| J. Bennett Johnston | 72 | Chairman of Johnston & Associates, LLC, a business consulting firm. Chairman of Johnston Development Co. LLC, a project development firm. United States Senator until 1997. Director of ChevronTexaco Corporation. | 1997 |
| Bobby Lee Lackey | 67 | Consultant. President and Chief Executive Officer of McManus-Wyatt-Hidalgo Produce Marketing Co., shipper of | 1995 |

fruits and vegetables, until 2000.

| | | | |
|-----------------------|----|---|------|
| Gabrielle K. McDonald | 62 | Judge, Iran-United States Claims Tribunal, The Hague, The Netherlands since November 2001. Special Counsel on Human Rights to the Company since 1999. Judge, International Criminal Tribunal for the Former Yugoslavia from 1993 until 1999. Advisory Director of the Company and McMoRan since 2004. | 1995 |
|-----------------------|----|---|------|

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| Name of Nominee or Director | Age | Principal Occupations, Other Public Directorships and Positions with the Company | Year First Elected a Director |
|------------------------------------|------------|--|--------------------------------------|
| James R. Moffett | 66 | Chairman of the Board of the Company, and President Commissioner of PT Freeport Indonesia. Chief Executive Officer of the Company until 2003. Also serves as Co-Chairman of the Board of McMoRan. | 1992 |
| B. M. Rankin, Jr. | 75 | Private investor. Vice Chairman of the Board of the Company since January 2001. Vice Chairman of the Board of McMoRan since 2001. | 1995 |
| J. Stapleton Roy | 69 | Managing Director of Kissinger Associates, Inc., international consultants and consultants to the Company, since January 2001. Assistant Secretary of State for Intelligence and Research from November 1999 until December 2000. United States Ambassador to Indonesia from 1996 until 1999. Director of ConocoPhillips. Advisory Director of the Company since 2004. | 2001 |
| J. Taylor Wharton | 66 | Special Assistant to the President for Patient Affairs, Professor, Gynecologic Oncology, The University of Texas M. D. Anderson Cancer Center. Director of McMoRan. | 1995 |

Stock Ownership of Directors and Executive Officers

Except as otherwise indicated below, this table shows the amount of our common stock each of our directors, director nominees and named executive officers owned on March 9, 2005. Unless otherwise indicated, (a) the persons shown below do not beneficially own any of our preferred stock, and (b) all shares shown are held with sole voting and investment power and include, if applicable, shares held in our Employee Capital Accumulation Program (ECAP).

| Name of Beneficial Owner | Number of Shares Not Subject to Options | Number of Shares Subject to Exercisable Options(1) | Total Number of Shares Beneficially Owned | Percent of Class |
|---------------------------------|--|---|--|-------------------------|
| Richard C. Adkerson(2) | 436,503 | 849,480 | 1,285,983 | * |
| Robert J. Allison, Jr. | 5,915 | 15,000 | 20,915 | * |
| Michael J. Arnold(3) | 43,031 | 18,750 | 61,781 | * |
| Robert A. Day | 105,954 | 75,000 | 180,954 | * |
| Gerald J. Ford | 10,814 | 25,000 | 35,814 | * |
| H. Devon Graham, Jr. | 2,000 | 25,000 | 27,000 | * |
| Mark J. Johnson | 3,680 | 29,990 | 33,670 | * |
| J. Bennett Johnston | 56,514 | 0 | 56,514 | * |

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| Bobby Lee Lackey | 921 | 0 | 921 | * |
| Adrianto Machribie | 0 | 21,250 | 21,250 | * |
| Gabrielle K. McDonald | 1,538 | 64,517 | 66,055 | * |
| James R. Moffett(4) | 1,543,169 | 930,000 | 2,473,169 | 1.4% |
| B. M. Rankin, Jr.(5) | 458,492 | 10,000 | 468,492 | * |
| J. Stapleton Roy | 11,906 | 7,500 | 19,406 | * |
| J. Taylor Wharton(6) | 43,234 | 25,000 | 68,234 | * |
| Directors, director nominees, and executive officers as a group (16 persons) | 2,741,101 | 2,160,211 | 4,901,312 | 2.7% |

* Ownership is less than 1%

- (1) Our common stock that could be acquired as of May 8, 2005, upon the exercise of options granted pursuant to our stock incentive plans.
- (2) Does not include 232,921 restricted stock units. Includes (a) 8,777 shares of our common stock held in his Individual Retirement Account (IRA) and (b) 10,000 shares of our common stock held in a

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foundation with respect to which Mr. Adkerson, as a member of the board of trustees, shares voting and investment power, but as to which he disclaims beneficial ownership.

- (3) Does not include 11,902 restricted stock units.
- (4) Includes (a) 1,479,007 shares of our common stock held by a limited liability company with respect to which Mr. Moffett, as a member, shares voting and investment power, (b) 7,552 shares of our common stock held by his spouse, as to which he disclaims beneficial ownership, and (c) 35,100 shares of our common stock held by a foundation with respect to which Mr. Moffett, as president and a director, shares voting and investment power, but as to which he disclaims beneficial ownership. The limited liability company through which Mr. Moffett owns his shares entered into two forward sale contracts with a securities broker pursuant to which the limited liability company agreed to sell 300,000 shares of common stock on October 26, 2009, and 150,000 shares of common stock on August 11, 2010, with the sale price to be determined and paid on the respective maturity date. Under both contracts, the limited liability company may elect to settle the contract in cash and retain ownership of the shares. The limited liability company has pledged a total of 450,000 shares to secure its obligations under these contracts but continues to hold beneficial ownership, voting power and the right to receive quarterly dividend payments of \$0.25 per share with respect to the 450,000 shares.
- (5) All shares shown are held by a limited partnership in which Mr. Rankin is the sole shareholder of the sole general partner.
- (6) Includes (a) 26,937 shares of our common stock held by Mr. Wharton's spouse, (b) 160 shares of our common stock held in an IRA for Mr. Wharton's spouse, (c) 420 shares of our common stock held in his IRA, and (d) 5,089 shares of our common stock held by Mr. Wharton as custodian for his daughter.

Stock Ownership of Certain Beneficial Owners

This table shows the owners of more than 5% of our outstanding common stock based on filings with the SEC. Unless otherwise indicated, all information is presented as of December 31, 2004, and all shares beneficially owned are held with sole voting and investment power.

| Name and Address of Person | Number of Shares Beneficially Owned | Percent of Outstanding Shares(1) |
|---|---|--|
| FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109 | 19,308,739(2) | 10.8% |
| Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071 | 22,096,190(3) | 12.1% |
| Pioneer Global Asset Management S.p.A. Galleria San Carlo 6 20122 Milan, Italy | 11,584,874(4) | 6.2% |

(1) Based on 178,989,972 shares of our common stock outstanding as of December 31, 2004.

(2) Based on an amended Schedule 13G filed with the SEC on February 14, 2005, FMR Corp. has no voting power with respect to 18,022,327 of these shares. Fidelity Management & Research Company is the beneficial owner of

17,923,007 shares as a result of acting as investment adviser to various investment companies and Fidelity Management Trust Company is the beneficial owner of 1,385,432 shares as a result of serving as investment manager of the institutional accounts. FMR Corp. is the parent company of each of Fidelity Management & Research Company and Fidelity Management Trust Company. FMR Corp. has no voting power over any of the shares owned by the Fidelity Funds, which power resides with the Funds' Board of Trustees. The total number of shares beneficially owned includes 669,235 shares of our common stock issuable upon conversion of 35,550 shares of our 5^{1/2}% convertible perpetual preferred stock.

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(3) Based on an amended Schedule 13G filed with the SEC on February 14, 2005, Capital Research and Management Company has no voting power with respect to any of these shares and disclaims beneficial ownership with respect to all shares shown. One of the funds advised by Capital Research and Management Company, the Growth Fund of America, Inc., has sole voting power over 9,596,000 of these shares. The total number of shares reported includes 3,496,890 shares of our common stock issuable upon conversion of 186,000 shares of our 5¹/₂% convertible perpetual preferred stock.

(4) Based on an amended Schedule 13G filed with the SEC on February 10, 2005.

Executive Officer Compensation

This table shows the compensation paid to our chief executive officer, and each of our four most highly compensated executive officers (with respect to salary and bonus only) other than the chief executive officer (the named executive officers). During 2004, Messrs. Moffett and Adkerson also provided services to and received compensation from McMoRan. Messrs. Arnold and Johnson were elected executive officers in December 2003.

Summary Compensation Table

| Name and Principal Position(1) | Year | Annual Compensation | | Long-Term Compensation Awards | | | | | |
|---|------|---------------------|--------------|-------------------------------|----------------------------|------------------------------------|--------------|--------------|---------------------------|
| | | Salary | Bonus | Other Annual Compensation(2) | Awards | | Payout | | All Other Compensation(4) |
| | | | | | Restricted Stock Awards(3) | Securities Underlying Options/SARs | LTIP Payouts | | |
| James R. Moffett Chairman of the Board | 2004 | \$ 2,500,000 | \$ 4,267,000 | \$ 474,920(5) | | | | \$ 1,352,500 | \$ 914,763 |
| | 2003 | 2,500,000 | 8,580,000 | 612,413(5) | | | | 865,800 | 622,413 |
| | 2002 | 2,500,000 | 2,750,000 | 570,161(5) | | 1,598,614 | | 784,800 | 604,666 |
| Richard C. Adkerson President and Chief Executive Officer | 2004 | 1,250,000 | | (3) 238,257(5) | \$ 3,968,243 | | | 1,082,000 | 425,276 |
| | 2003 | 1,250,000 | | (3) 171,543(5) | 6,435,015 | | | 649,350 | 276,418 |
| | 2002 | 1,250,000 | 1,031,250 | 224,435(5) | 517,938 | 799,307 | | 588,600 | 271,784 |
| Adrianto Machribe President Director PT Freeport Indonesia | 2004 | 433,333 | 470,000 | 386,844(6) | | 85,000 | | 351,650 | |
| | 2003 | 433,333 | 786,500 | 386,692(6) | | 85,000 | | 216,450 | |
| | 2002 | 433,333 | 725,000 | 392,694(6) | | 84,857 | | 196,200 | |
| Michael J. Arnold Chief Administrative Officer | 2004 | 375,000 | 400,500(3) | 496,275(7) | 143,974 | 75,000 | | 270,500 | 69,910 |
| | 2003 | 375,000 | 595,125 | 373,269(7) | 241,325 | 75,000 | | 192,400 | 69,560 |
| Mark J. Johnson | 2004 | 375,000 | 384,000 | 11,370 | | 75,000 | | | 45,184 |

| | | | | | | |
|---|------|---------|---------|-------|--------|--------|
| Senior Vice President and Chief Operating Officer | 2003 | 184,167 | 300,000 | 6,554 | 25,000 | 25,509 |
|---|------|---------|---------|-------|--------|--------|

- (1) Mr. Moffett served as Chairman of the Board and Chief Executive Officer until December 2003, when Mr. Adkerson was elected President and Chief Executive Officer.

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- (2) In addition to items disclosed in notes 5, 6 and 7, amounts include our payment of taxes in connection with certain benefits we provided to the named executive officers as follows:

| Name | Year | Taxes Paid |
|---------------|------|------------|
| Mr. Moffett | 2004 | \$ 112,522 |
| | 2003 | 129,508 |
| | 2002 | 115,917 |
| Mr. Adkerson | 2004 | \$ 39,731 |
| | 2003 | 26,737 |
| | 2002 | 31,457 |
| Mr. Machribie | 2004 | \$ 102,587 |
| | 2003 | 108,312 |
| | 2002 | 63,076 |
| Mr. Arnold | 2004 | \$ 316,903 |
| | 2003 | 163,302 |
| Mr. Johnson | 2004 | \$ 11,370 |
| | 2003 | 6,554 |

Does not include perquisites that we provided to each named executive officer unless the aggregate amount in any year exceeded the threshold for disclosure under the SEC rules.

- (3) In December 1999, we adopted a restricted stock units program. This program provides our executives with the opportunity to receive a grant of restricted stock units (RSU) in lieu of all or part of their cash bonus for a given year. The RSUs will ratably convert into shares of our common stock over a three-year period on each grant date anniversary. The RSUs are awarded at a premium in order to compensate for risk. Dividend equivalents are accrued on the RSUs on the same basis as dividends are paid on our common stock and include market rate interest. The dividend equivalents are only paid upon vesting of the shares of our common stock. Mr. Adkerson and Mr. Arnold elected to participate in the program with respect to their 2004 cash bonus awards payable under the annual incentive plan, which were paid in February 2005, as follows:

| Name | RSUs | Percentage of Cash Bonus taken in RSUs | Grant Date Market Value |
|--------------|---------|--|-------------------------|
| Mr. Adkerson | 107,134 | 100% | \$ 3,968,243 |
| Mr. Arnold | 3,887 | 25% | 143,974 |

As of December 31, 2004, based on the \$38.23 market value per share of our common stock as of such date,

(a) Mr. Adkerson held 205,531 restricted stock units, the aggregate value of which was \$7,857,450, and

(b) Mr. Arnold held 18,762 restricted stock units, the aggregate value of which was \$717,271.

- (4) Except for Mr. Machribie, includes (a) our contributions to defined contribution plans, (b) our premium payments for universal life and personal excess liability insurance policies, and (c) director fees as follows:

| Name | Year | Plan Contributions | Insurance Premiums | Director Fees | Total |
|-------------|------|--------------------|--------------------|---------------|------------|
| Mr. Moffett | 2004 | \$ 832,340 | \$ 71,923 | \$ 10,500 | \$ 914,763 |

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| | | | | | |
|--------------|------|---------|--------|--------|---------|
| | 2003 | 537,990 | 71,923 | 12,500 | 622,413 |
| | 2002 | 536,314 | 61,352 | 7,000 | 604,666 |
| Mr. Adkerson | 2004 | 414,018 | 11,258 | | 425,276 |
| | 2003 | 265,160 | 11,258 | | 276,418 |
| | 2002 | 262,870 | 8,914 | | 271,784 |
| Mr. Arnold | 2004 | 67,931 | 1,979 | | 69,910 |
| | 2003 | 67,660 | 1,900 | | 69,560 |
| Mr. Johnson | 2004 | 44,409 | 775 | | 45,184 |
| | 2003 | 24,734 | 775 | | 25,509 |

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- (5) Includes the following perquisites that we provided to Mr. Moffett and Mr. Adkerson: (a) matching gifts under the matching gifts program, (b) financial and tax counseling services, (c) personal use of fractionally owned company aircraft, which the company requires for business availability and security reasons, (d) personal use of company facilities and cars, including drivers, and (e) other perquisites.

| Name | Year | Matching Gifts | Financial and Tax Counseling | Aircraft Usage | Facility and Car Usage | Other Perquisites | Total |
|--------------|------|----------------|------------------------------|----------------|------------------------|-------------------|------------|
| Mr. Moffett | 2004 | \$ 40,000 | \$ 20,000 | \$ 181,807 | \$ 96,238 | \$ 24,353 | \$ 362,398 |
| | 2003 | 40,000 | 20,000 | 295,138 | 108,947 | 18,820 | 482,905 |
| | 2002 | 40,000 | 19,980 | 268,965 | 104,987 | 20,312 | 454,244 |
| Mr. Adkerson | 2004 | 40,000 | 27,020 | 91,196 | 37,886 | 2,424 | 198,526 |
| | 2003 | 40,000 | 4,900 | 75,604 | 16,015 | 8,287 | 144,806 |
| | 2002 | 40,000 | 6,800 | 132,097 | | 14,081 | 192,978 |

- (6) Includes \$42,218 of an annual retirement benefit in each of 2004, 2003 and 2002 (see Retirement Benefit Programs), and includes \$242,039, \$236,162, and \$287,400 of perquisites that we provided to Mr. Machribe in 2004, 2003 and 2002, consisting of (a) \$231,951, \$228,751, and \$251,575 for use of a company owned residence in Indonesia in 2004, 2003 and 2002; (b) \$26,667 of principal payments on non-interest bearing loans to Mr. Machribe from us that were forgiven in 2002; (c) \$739 of imputed interest in 2002 on these loans; and (d) \$10,088, \$7,411 and \$8,419 for other perquisites in 2004, 2003 and 2002.
- (7) Includes \$179,372 and \$209,967 of perquisites that we provided to Mr. Arnold in 2004 and 2003, consisting of (a) \$26,516 and \$76,568 in annual leave reimbursements under our compensation program for expatriate employees living overseas, (b) \$74,081 and \$63,402 for relocation expenses, (c) \$42,500 and \$35,000 for an overseas premium, and (d) \$36,275 and \$34,997 in other perquisites provided to Mr. Arnold.

This table shows all stock options that we granted to named executive officers in 2004. For information regarding our stock option grant policy, see the Corporate Personnel Committee Report on Executive Compensation.

Option Grants in 2004

| Name | Number of Securities Underlying Options Granted(1) | Percent of Options Granted to Employees in 2004 | Exercise or Base Price | Expiration Date | Grant Date Present Value(2) |
|-------------------|--|---|------------------------|------------------|-----------------------------|
| Adrianto Machribe | 85,000 | 7.1% | \$ 36.7650 | February 3, 2014 | \$ 1,295,400 |
| Michael J. Arnold | 75,000 | 6.2% | 36.7650 | February 3, 2014 | 1,143,000 |
| Mark J. Johnson | 75,000 | 6.2% | 36.7650 | February 3, 2014 | 1,143,000 |

(1)

25% of the stock options become exercisable on each of the first four anniversaries of the grant date. All of the stock options will become immediately exercisable in their entirety if (a) any person or group of persons acquires beneficial ownership of shares representing 20% or more of the company's total voting power or (b) under certain circumstances, the composition of the board of directors is changed after a tender offer, exchange offer, merger, consolidation, sale of assets or contested election or any combination thereof.

- (2) The Black-Scholes option pricing model was used to determine the grant date present value of the stock options that we granted to the listed officers. The grant date present value was calculated to be \$15.24 per option. The following facts and assumptions were used in making this calculation: (a) an exercise price for each option as set forth under the column labeled "Exercise or Base Price"; (b) a fair market value of \$36.7650 for one share of our common stock on the grant date; (c) an annual

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dividend of \$0.80 per share, the dividend rate at the time of the grant; (d) a term of 6 years based on an analysis of the average historical term for such stock options; (e) a stock volatility of 49%, based on an analysis of weekly closing prices of our common stock over the 6-year period prior to the grant date; and (f) an assumed risk-free interest rate of 3.6%, this rate being equivalent to the yield on the grant date on a zero-coupon U.S. Treasury note with a maturity date comparable to the expected term of the options. No other discounts or restrictions related to vesting or the likelihood of vesting of the options were applied.

This table shows the option exercises in 2004 and all outstanding stock options held by each of the named executive officers as of December 31, 2004. All of these options relate to our common stock.

Aggregated Option Exercises in 2004 and Options at December 31, 2004

| Name | Shares Acquired on Exercise | Value Realized | Number of Securities Underlying Unexercised Options/SARs at December 31, 2004 | Value of Unexercised In-the-Money Options/SARs at December 31, 2004 |
|---------------------|-----------------------------|----------------|---|---|
| | | | Exercisable/Unexercisable | Exercisable/Unexercisable |
| James R. Moffett | 2,149,653 | \$ 42,991,865 | 930,000/799,308 | \$ 2,599,350/\$19,131,767 |
| Richard C. Adkerson | 875,000 | 18,542,872 | 899,653/399,654 | 15,603,984/ 9,565,883 |
| Adrianto Machribie | 107,464 | 2,526,638 | 0/209,929 | 0/ 2,905,347 |
| Michael J. Arnold | 69,968 | 1,714,910 | 0/184,938 | 0/ 2,555,621 |
| Mark J. Johnson | 24,364 | 578,609 | 0/112,480 | 0/ 950,877 |

This table shows all long-term incentive plan awards that we made in 2004 to each of the named executive officers.

Long-Term Incentive Plans Awards in 2004

| Name | Number of Shares, Units or Other Rights(1) | Performance or Other Period Until Maturation or Payout | Estimated Future Payouts Under Non-Stock Price-Based Plans(2) |
|---------------------|--|--|---|
| | | | |
| James R. Moffett | 250,000 | 12/31/07 | \$ 1,340,000 |
| Richard C. Adkerson | 200,000 | 12/31/07 | 1,072,000 |
| Adrianto Machribie | 70,000 | 12/31/07 | 375,200 |
| Michael J. Arnold | 60,000 | 12/31/07 | 321,600 |
| Mark J. Johnson | 60,000 | 12/31/07 | 321,600 |

- (1) Represents the number of performance units covered by performance awards we granted in 2004 under our Long-Term Performance Incentive Plan (Long-Term Plan). As of December 31 of each year, each named officer's performance award account will be credited with an amount equal to the annual earnings per share or net loss per share (as defined in the Long-Term Plan) for that year multiplied by the number of performance units then credited to such performance award account. Annual earnings per share or net loss per share includes the net income or net loss of each of our majority-owned subsidiaries that are attributable to equity interests that we do not own. The Corporate Personnel Committee may, however, in the exercise of its discretion, prior to crediting the named executive officers' performance award accounts with respect to a particular year, reduce or eliminate the amount of the annual earnings per share that otherwise would be credited to any performance award account for the year. The balance in the performance award account is generally

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paid as soon as practicable after December 31 of the year in which the third anniversary of the award occurs.

- (2) These amounts were calculated using the 2004 annual earnings per share (as defined in the Long-Term Plan) applied over a four-year period. Future payments attributable to these awards will be determined based on actual earnings over this period, which can be expected to differ from the 2004 annual earnings per share.

Employment Agreements and Change of Control Agreements

Overview Messrs. Moffett and Adkerson. In April 2001, we entered into employment agreements and change of control agreements with Messrs. Moffett and Adkerson. The Corporate Personnel Committee, advised by an independent compensation consultant retained by the committee, established the terms of these agreements, which were then approved by our board. In December 2003, we amended certain terms of the employment agreements and change of control agreements with Messrs. Moffett and Adkerson. The amendments were approved by the Corporate Personnel Committee, which was advised by an independent compensation consultant and independent legal counsel, and were then recommended to and approved by our board.

Employment Agreements Messrs. Moffett and Adkerson. The employment agreement with Mr. Moffett, as amended, provides for a base salary of \$2,500,000 per year and eligibility for a bonus under our annual incentive plan. Mr. Moffett continues to be eligible for all other benefits and compensation, including stock options and long-term performance units, generally provided to our most senior executives. The agreement will continue through December 31, 2008, with automatic one-year extensions unless a change of control occurs or our Corporate Personnel Committee notifies Mr. Moffett of its intent not to extend the agreement.

The employment agreement with Mr. Adkerson, as amended, provides for a base salary of \$1,250,000 per year and eligibility for a bonus under our annual incentive plan. Mr. Adkerson also continues to be eligible for all other benefits and compensation, including stock options and long-term performance units, generally provided to our most senior executives. The agreement will continue through December 31, 2008, with automatic one-year extensions unless a change of control occurs or our Corporate Personnel Committee notifies Mr. Adkerson of its intent not to extend the agreement.

The employment agreements also provide that if we terminate the executive's employment without cause (as defined in the agreement) or the executive terminates employment for good reason (as defined in the agreement), we will make certain payments and provide certain benefits to the executive, including:

payment of a pro rata bonus for the year in which the termination of employment occurs,

a cash payment equal to three times the sum of (a) the executive's base salary plus (b) the highest bonus paid to the executive for any of the preceding three years,

continuation of insurance and welfare benefits for three years or until the executive accepts new employment, if earlier, and

acceleration of the vesting and payout of all stock options, restricted stock units and long-term performance incentive plan units.

If the executive's employment terminates as a result of death, disability or retirement, benefits to the executive or his estate include the payment of a pro rata bonus for the year of termination, a cash payment (\$1.8 million for Mr. Moffett and \$900,000 for Mr. Adkerson) and, in the case of retirement, the continuation of insurance and welfare benefits for three years or until the executive accepts new employment, if earlier.

As a condition to receipt of these severance benefits, the executive must retain in confidence all confidential information known to him concerning our business and us so long as the information is not

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otherwise publicly disclosed. Further, Messrs. Moffett and Adkerson have each agreed not to compete with us for a period of two years after termination of employment.

Change of Control Agreements Messrs. Moffett and Adkerson. The change of control agreements for Messrs. Moffett and Adkerson, as amended, will replace the employment agreements if a change of control of our company (as defined in the change of control agreements) occurs. If the change of control occurs prior to December 31, 2008, the agreements provide generally that the executive's terms and conditions of employment (including position, location, compensation and benefits) will not be adversely changed until the later of the third anniversary of the change of control or December 31, 2008.

If the executive is terminated without cause or if the executive terminates for good reason during the covered period after a change of control, the executive is generally entitled to receive the same payments and benefits that he would receive in the event of a similar termination under the employment agreements, described above. The term good reason includes the failure of the acquiror to provide the executive with substantially the same position, authority, duties and responsibilities in the ultimate parent company of the entity resulting from the transaction.

If employment terminates as a result of death, disability or retirement following a change of control, the executive will receive the same benefits described above under Employment Agreements in the event of death, disability or retirement, except for the cash payment.

In addition, the change of control agreements provide that the executives are entitled to receive a payment in an amount sufficient to make the executives whole for any excise tax on amounts payable under the agreements that are considered to be excess parachute payments under Section 4999 of the Internal Revenue Code.

The confidentiality and non-competition provisions of the executives' employment agreements continue to apply after a change of control.

Change of Control Agreements Messrs. Arnold and Johnson. In February 2004, we entered into change of control agreements with Messrs. Arnold and Johnson. These agreements were approved by our Corporate Personnel Committee, which was advised by an independent compensation consultant and independent legal counsel, and were then recommended to and approved by our board. If a change of control (as defined in the change of control agreements) occurs prior to December 31, 2008, the agreements provide generally that the executive's terms and conditions of employment (including position, location, compensation and benefits) will not be adversely changed until the later of the third anniversary of the change of control or December 31, 2008.

If the executive is terminated without cause or if the executive terminates for good reason during the covered period after a change of control, the executive is generally entitled to receive the following:

payment of a pro rata bonus for the year in which the termination of employment occurs,

a cash payment equal to three times the sum of (a) the executive's base salary plus (b) the highest bonus paid to the executive for any of the preceding three years,

continuation of insurance and welfare benefits for three years or until the executive accepts new employment, if earlier, and

acceleration of the vesting and payout of all stock options, restricted stock units and long-term performance incentive plan units.

The term good reason includes the failure of the acquiror to provide the executive with substantially the same position, authority, duties and responsibilities in the ultimate parent company of the entity resulting from the transaction. In addition, the change of control agreements provide that the executives are entitled to receive a payment in an amount sufficient to make the executives whole for any excise tax on amounts payable under the agreements that are considered to be excess parachute payments under Section 4999 of the Internal Revenue Code.

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Executive Change of Control Severance Plan – Mr. Machribe. Certain executives, including Mr. Machribe, are subject to our executive change of control severance plan. Under the plan, if a change of control (as defined in the plan change of control agreements) occurs, and an executive is terminated without cause or if he terminates for good reason during the covered period after a change of control, he is generally entitled to receive the following:

payment of a pro rata bonus for the year in which the termination of employment occurs,

a cash payment equal to the sum of (a) the executive's base salary plus (b) the highest bonus paid to the executive for any of the preceding three years,

continuation of insurance and welfare benefits for three years or until the executive accepts new employment, if earlier, and

acceleration of the vesting and payout of all stock options, restricted stock units and long-term performance incentive plan units.

The term "good reason" includes the failure of the acquiror to provide the executive with substantially the same position, authority, duties and responsibilities in the ultimate parent company of the entity resulting from the transaction. In addition, the plan provides that the executives are entitled to receive a payment in an amount sufficient to make the executives whole for any excise tax on amounts payable under the agreements that are considered to be excess parachute payments under Section 4999 of the Internal Revenue Code.

Retirement Benefit Programs

Discontinued Cash-Balance Program. Until June 30, 2000, both our company and FM Services Company, one of our wholly owned subsidiaries (the Services Company), had a traditional defined-benefit program (prior plan) paying benefits determined primarily by the individual's final average earnings and years of service. In 1996, the prior plan was converted to a cash-balance program. The starting account balance was equal to the value of the participant's accrued benefit as of June 30, 1996, under the prior plan. Until June 30, 2000, each account balance was increased by annual benefit credits and annual interest credits. The amount of the annual benefit credits depended on the participant's age and service. If a participant's age plus service equaled 65 or more as of December 31, 1996, and as of that date the participant had both attained age 50 and had at least 10 years of service, the participant was grandfathered into a benefit under the cash-balance program of no less than the benefit under the prior plan's formula. Each of the named executive officers, other than Mr. Machribe, participates in the program. Upon retirement, a participant's account balance is payable either in a lump sum or an annuity, as selected by the participant.

Annual benefit credits (and benefit accruals under the prior plan formula for grandfathered participants) ceased effective June 30, 2000. Annual interest credits continue for each participant under the program until the end of the year in which the participant reaches age 60. The interest credit is equal to the account balance at the end of the prior year multiplied by the annual yield on 10-year U.S. Treasury securities on the last day of the preceding year. The annual yield on 10-year U.S. Treasury securities for 2004 was 4.27%.

The cash-balance program consisted of two plans: a funded qualified plan and an unfunded non-qualified plan. The present value of the benefit earned by each participant under the non-qualified plan was transferred, effective June 30, 2000, to our unfunded non-qualified defined contribution plan. Our non-qualified defined contribution plan allows participants who earn over the qualified plan limits to contribute to such plan and to receive company contributions. The company contributes a percentage of eligible compensation (base salary plus 50% of bonus) in excess of qualified plan limits for Messrs. Moffett, Adkerson, Arnold and Johnson in place of the former cash-balance plan credits. Participants also may elect to contribute up to 50% of their base salary in excess of the qualified plan limits. The company makes a matching contribution equal to 100%, of the employee's contribution, but not to exceed 5% of the participant's compensation above the qualified plan limit. As of December 31, 2004, the unfunded balances

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under our non-qualified defined contribution plan for each named executive officer (other than Mr. Machribe, who does not participate in this plan), were as follows: \$8.8 million for Mr. Moffett, \$3.1 million for Mr. Adkerson, \$0.6 million for Mr. Arnold, and approximately \$36,000 for Mr. Johnson.

We have formally terminated the qualified cash-balance plan and will distribute all assets upon receiving IRS approval of the termination. Approval has been delayed while the IRS develops a national policy regarding plans that have converted to the account balance type of design. We will contribute to the plan any amount needed to complete the funding of benefits. When IRS approval is received, a participant will be able to elect to receive his or her benefit under the plan in the form of either an annuity contract issued by an insurance company, or in a single lump sum that can be transferred into another qualified plan (such as our ECAP) or an IRA, or received in cash subject to applicable tax withholdings. If paid in a single lump sum as of December 31, 2004, the amount paid to each of the named executive officers (other than Mr. Machribe) would have been as follows: \$136,704 for Mr. Moffett, \$102,952 for Mr. Adkerson, \$150,608 for Mr. Arnold, and \$137,833 for Mr. Johnson.

Supplemental Executive Retirement Plan Messrs. Moffett and Adkerson. In February 2004, we established a Supplemental Executive Retirement Plan (SERP) for Messrs. Moffett and Adkerson. The Corporate Personnel Committee, advised by an independent compensation consultant, approved the SERP, which was then recommended to and approved by our board. The SERP provides for benefits payable in the form of a 100% joint and survivor annuity or an equivalent lump sum. The annuity will equal a percentage of the executive's highest average compensation for any consecutive three-year period during the five years immediately preceding the earlier of the executive's retirement or completion of 25 years of credited service. For this calculation, the percentage will equal 2% for each year of credited service up to 25 years, or a maximum of 50%, and the compensation will equal the sum of base salary (see Salary in the Summary Compensation Table above) and bonus (see Bonus in the Summary Compensation Table above), with bonus limited to 200% of base salary.

The SERP benefit will be reduced by the value of all benefits received under the cash-balance program and any other defined-benefit plan or defined-contribution plan (qualified and non-qualified), sponsored by the company, the Services Company, or by any predecessor employer (including Freeport-McMoRan Inc.). In addition, the SERP benefit will be reduced by 3% per year if early retirement precedes age 65. Both Messrs. Moffett and Adkerson are 100% vested under the SERP due to the length of their credited service, which as of December 31, 2004, was 23.5 years for Mr. Moffett and 15.8 years for Mr. Adkerson. Using their current compensation and assuming both continue in their current positions and retire on December 31, 2008, the termination date of their current employment agreements, the estimated annual amounts that would be paid in accordance with the SERP would be \$1.3 million, or an equivalent lump sum of \$14.2 million, for Mr. Moffett, and \$0.7 million, or an equivalent lump sum of \$9.3 million, for Mr. Adkerson.

PT Freeport Indonesia's Retirement Plan Mr. Machribe. Under PT Freeport Indonesia's retirement plan for Indonesian employees, each participant, including Mr. Machribe, is entitled to benefits based upon the participant's years of service and monthly base salary at the time of retirement. All benefits under the retirement plan are payable in rupiah, Indonesia's currency. A participant's retirement benefit is calculated by multiplying 1.5 by the participant's years of service by the participant's monthly base salary at the time of retirement. Under Indonesian law and the retirement plan, Mr. Machribe was deemed retired upon reaching the age of 60 on July 1, 2001. Mr. Machribe's annual retirement benefit is an accrued lump sum benefit of U.S. \$67,500, which he received in 2001 (paid in rupiah), and an annual annuity payment of U.S. \$42,218 for life, which commenced in 2002 (payable in rupiah, translated at an exchange rate of approximately 9,838 rupiah per U.S. \$1.00).

Because Mr. Machribe is no longer eligible to participate in PT Freeport Indonesia's retirement plan but he continues to work for us, PT Freeport Indonesia has agreed to pay Mr. Machribe a one-time, lump sum cash payment upon conclusion of his employment with us. This payment will be determined by PT Freeport Indonesia in its sole discretion but in no event will be less than U.S. \$50,000 for each full year of service rendered by Mr. Machribe beginning from July 1, 2001.

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Corporate Personnel Committee Report on Executive Compensation

Overview of Compensation Philosophy

The corporate personnel committee, which is composed of four independent directors, determines the compensation of our executive officers and administers our annual incentive, long-term incentive, and stock option plans. The committee met four times during 2004, including one meeting at which no company employees were present.

The committee's executive compensation philosophy is to:

emphasize performance-based compensation that balances rewards for both short- and long-term results and provide high reward opportunities for high performing individuals,

tie compensation to the interests of stockholders, and

provide a competitive level of total compensation that will attract and retain talented executives.

A primary goal of the committee is to position us to attract and retain the highest level of executive talent. To accomplish this goal, the committee has traditionally targeted our total executive compensation levels in the top quartile of comparable companies, including companies in other industries whose operational, corporate financing, and other activities are considered comparable to those activities in which we have engaged in recent years.

The committee has engaged the services of Mercer Human Resource Consulting, an independent compensation consultant, to advise the committee on matters related to executive compensation. The committee initially engaged Mercer in 2000 after interviewing several firms. Since 2000, Mercer has also advised the company's management with respect to compensation matters. During 2004, the committee determined that it would be in the company's best interest for the committee and the company's management to engage separate compensation advisors. As a result, the committee has continued to engage Mercer and the company retained a separate compensation advisor to assist the company's management with compensation matters other than executive compensation.

During 2004, at the committee's request, Mercer conducted an extensive review of our executive compensation practices, comparing our company's programs with those of a peer group consisting of 15 publicly traded natural resource companies similar in size to our company. Mercer reported that the total compensation (which includes base salary, bonus, and long-term incentives) of our executive officers is either at the 75th percentile (the company's target competitive position), or between the median and 75th percentile, except for our executive chairman, whose total compensation is at the top of the range. For reasons discussed below, we believe the total compensation packages of our executive officers, including our executive chairman and our chief executive officer, are reasonable in light of the value each brings to our company.

Compensation Philosophy - Executive Chairman and Chief Executive Officer

Since December 2003 when we separated the roles of the chairman and the chief executive officer, our company has been managed jointly by Mr. Moffett, serving as executive chairman of the board, and by Mr. Adkerson, serving as president and chief executive officer. Each brings extraordinary skills to our company, and we believe their respective compensation arrangements recognize those skills and their contributions to our company's continued growth and development.

Through his leadership and skill as a geologist, Mr. Moffett, who has been at the helm of our company since its formation, has guided our company's growth through significant discoveries of metal reserves and the development of our mines, milling facilities and infrastructure. Mr. Moffett also has been and continues to be instrumental in fostering our company's relationship with the government of Indonesia, where our mining operations are located. As executive chairman, Mr. Moffett continues to further our company's business strategy by applying his exceptional talents and experience as a geologist, as well as his understanding of Indonesian culture, its political and business environment and the important issues

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pertaining to our work with the local people in Papua where our business operations are conducted. Accordingly, the committee believes that Mr. Moffett is a valuable asset to our organization and that his compensation package is appropriate.

Mr. Adkerson, as chief executive officer, is responsible for the executive management of our company. Mr. Adkerson has demonstrated exceptional leadership abilities in developing and executing a financial strategy that has benefited our stockholders, and in building an operational, financial and administrative organization that efficiently supports our business. Based on Mercer's analysis of comparable companies, the committee concluded that Mr. Adkerson's compensation package is appropriate.

Finally, the committee recognizes that the annual compensation paid to Messrs. Moffett and Adkerson is weighted towards current compensation, but the committee believes this is appropriate for several reasons. The committee believes that our emphasis on annual cash compensation supports our company's business strategy of maximizing annual operating performance, which leads to the creation of shareholder value. In addition, each of Messrs. Moffett and Adkerson currently holds a significant ownership stake in the company. Since January 2003, Mr. Moffett increased his common stock holdings in the company by over 140%, from approximately 620,000 shares to over 1.5 million shares, and Mr. Adkerson increased his ownership stake in the company by over 105%, from approximately 205,000 shares to over 425,000 shares. Both increased their ownership through the exercise of stock options and Mr. Adkerson also increased his stock ownership through the vesting of restricted stock units that he elected to receive in lieu of some or all of his annual cash incentive bonus. For more information regarding the current stock holdings of Messrs. Moffett and Adkerson, please see the section above entitled "Stock Ownership of Directors and Executive Officers."

Components of Executive Compensation

Executive officer compensation for 2004 included base salaries, annual incentive awards (which in some cases included restricted stock units), long-term incentive awards, and stock options.

Base Salaries

For 2004, we established the base salaries of the executive officers at appropriate levels after consideration of each executive officer's responsibilities, except for Messrs. Moffett and Adkerson, whose salaries have been contractually set since October 2000 by the terms of employment agreements entered into with them at that time. Pursuant to their respective agreements, Mr. Moffett's annual base salary is \$2.5 million and Mr. Adkerson's annual base salary is \$1.25 million. In December 2003, in connection with the management reorganization, we amended the employment agreements with Messrs. Moffett and Adkerson to provide that their base salaries will remain at the current levels through December 31, 2008. See "Executive Officer Compensation - Employment Agreements and Change of Control Agreements."

Annual Cash Incentive Awards

We provide annual cash incentives to our officers through our annual incentive plan and our performance incentive awards program. Awards paid to our executive officers in 2004 were based on a return on investment threshold, the level of cash flow from operations, and operational and strategic accomplishments during 2004, including accomplishments in the areas of exploration, production, management, and strategic planning. The committee believes that operating cash flow is an accurate measure of our company's success and appropriate for determining annual cash incentives. This program promotes entrepreneurial efforts and reflects our belief that executives should be rewarded for optimizing operating cash flow.

The annual cash incentives paid to our executive officers for 2004 were significantly lower than those paid for 2003 as a result of the Grasberg open-pit wall slippage events in the fourth quarter of 2003. During 2004, our company deferred production from the higher-grade areas in the lower section of the mine and focused on mining waste material in the higher areas of the mine to ensure the safety of our operations. These actions produced lower operating cash flows in 2004, resulting in lower annual cash

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awards, although we expect to yield high operating cash flows in 2005, absent a change in commodity prices. After consideration, the committee approved annual cash incentives for 2004 in accordance with the incentive plan and consistent with the results-oriented philosophy, despite the significant reduction compared with 2003 and the significant increase that is likely to occur in 2005.

After consulting with Mercer, the committee determined that the company's safety performance should be a factor in awarding bonuses. Accordingly, the committee revised the performance incentive awards program to include a quantifiable safety component effective for fiscal year 2005 bonuses. The committee has recommended that a new annual incentive plan be adopted to include a similar quantifiable safety component effective for fiscal year 2006 bonuses. Please see the section of this proxy statement entitled "Proposal to Adopt the 2005 Annual Incentive Plan." The committee will also expressly incorporate safety as a factor in its 2005 bonus determinations under the annual incentive plan through its discretion to reduce the aggregate incentive pool under that plan.

Annual Incentive Plan. The annual incentive plan is designed to provide performance-based awards to executive officers whose performance can have a significant impact on our profitability and future growth. All six of our executive officers participated in the annual incentive plan for 2004. At the beginning of 2004, each participant was assigned a percentage share of the aggregate award pool for 2004 based on that person's position and level of responsibility. We assigned 50% of the aggregate award pool to Mr. Moffett, and 31% to Mr. Adkerson, reflecting the significant impact we believe these executives have on our company's success. Under the terms of the annual incentive plan, no awards will be made for any year if our five-year average return on investment (generally, consolidated net income divided by consolidated stockholders' equity and long-term debt, including the minority interests' share of subsidiaries' income and stockholders' equity) is less than 6%. During the five-year period ending in 2004, the average return on investment was 11.3%. When determining the aggregate awards granted under the annual incentive plan for 2004, the committee used 2.5% of net cash flow from operations in 2004, which is the maximum amount that may be awarded under the annual incentive plan to executive officers whose compensation is subject to the limitation on deductible compensation imposed by Section 162(m) of the Internal Revenue Code.

After reviewing the performance factors and accomplishments described above, the committee approved an incentive pool for 2004 of 2.5% of the net operating cash flow.

Performance Incentive Awards Program. Our performance incentive awards program is designed to provide performance-based annual cash awards to certain officers and managers who do not participate in the annual incentive plan. In 2004, each participant in the performance incentive awards program was assigned a target award based upon level of responsibility. After a review of the performance measures and accomplishments described above, the committee established an award pool for 2004 that totaled 1.25% of net operating cash flow. Individual performance is an important factor considered in determining the actual awards paid under the performance incentive awards program.

Restricted Stock Unit Program

In 1999, as part of our efforts to conserve cash and to further align the interests of the executives with those of the stockholders, the committee approved a program that allowed certain officers and managers the opportunity to receive a grant of restricted stock units with respect to shares of our common stock in lieu of all or part of their cash incentive bonus for a given year. The restricted stock units will vest ratably over a three-year period. To compensate for the restrictions and risk of forfeiture, the restricted stock units were awarded at a 50% premium to the market value on the grant date. The program was not intended to increase the overall compensation of the officers and managers. Mercer has reviewed the program and concluded that its design is appropriate and in line with the company's compensation philosophy. For 2004, nine of our officers participated in the program, including Mr. Adkerson who elected to receive his entire cash incentive bonus in restricted stock units. The nine officers received a total of 123,000 restricted stock units resulting in a cash savings to our company of more than \$3.0 million.

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Stock Options and Long-Term Incentives

Stock option and long-term incentive award guidelines are intended to provide a significant incentive to reinforce the importance of creating stockholder value. The committee does not mandate specific stock ownership requirements, but encourages executive officers to accumulate significant equity ownership in our company by granting stock options. The exercise price of each stock option is equal to the fair market value of a share of our common stock on the grant date.