

FREEPORT MCMORAN COPPER & GOLD INC

Form 424B2

March 15, 2007

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*Filed Pursuant to Rule 424(b)(2).  
A filing fee of \$184,200, calculated in accordance with  
Rule 457(r), has been transmitted to the SEC in connection  
with the securities offered from the registration statement  
(File No. 333-140997) by means of this prospectus supplement.*

**Prospectus supplement**  
*(To Prospectus dated March 1, 2007)*

**Freeport-McMoRan Copper & Gold Inc.**  
**\$6,000,000,000**  
**\$1,500,000,000 8.25% Senior Notes due 2015**  
**\$3,500,000,000 8.375% Senior Notes due 2017**  
**\$1,000,000,000 Senior Floating Rate Notes due 2015**

*Interest payable April 1 and October 1*

**Issue price: 100%, 100% and 100%, respectively**

The 8.25% Senior Notes due 2015 (the 2015 fixed rate notes ) will mature on April 1, 2015, the 8.375% Senior Notes due 2017 (the 2017 fixed rate notes ) will mature on April 1, 2017 and the Senior Floating Rate Notes due 2015 (the 2015 floating rate notes ) will mature on April 1, 2015. Interest on the 2015 floating rate notes will accrue at a rate per annum of six-month LIBOR (as defined) plus 3.25%. Interest will accrue from March 19, 2007, and the first interest payment date will be October 1, 2007.

We may redeem some or all of the 2015 fixed rate notes at any time prior to April 1, 2011, at a price equal to 100% of the principal amount of the 2015 fixed rate notes plus a make-whole premium. In addition, we may redeem some or all of the 2015 fixed rate notes at any time on or after April 1, 2011, at the redemption prices set forth in this prospectus supplement. We may redeem some or all of the 2017 fixed rate notes at any time prior to April 1, 2012 at a price equal to 100% of the principal amount of the 2017 fixed rate notes plus a make-whole premium. In addition, we may redeem some or all of the 2017 fixed rate notes at any time on or after April 1, 2012, at the redemption prices set forth in this prospectus supplement. We may redeem some or all of the 2015 floating rate notes at any time prior to April 1, 2009, at a price equal to 100% of the principal amount of the 2015 floating rate notes plus a make-whole premium. In addition, we may redeem some or all of the 2015 floating rate notes at any time on or after April 1, 2009, at the redemption prices set forth in this prospectus supplement. Prior to April 1, 2010, in the case of the 2015 fixed rate notes and the 2017 fixed rate notes, and prior to April 1, 2009, in the case of the 2015 floating rate notes, we may also redeem up to 35% of each series of the notes using the proceeds of certain equity offerings at the redemption prices set forth in this prospectus supplement. If we sell certain of our assets or experience specific kinds of changes in control, we must offer to purchase the notes of each series.

The notes will be unsecured, will rank equally with all our existing and future unsecured senior debt and rank senior to all our future subordinated debt. The notes will be effectively subordinated to all of our existing and future secured debt to the extent of the collateral securing that debt, including our new senior credit facilities and certain of our outstanding debt securities. The notes will be effectively subordinated to all indebtedness and other obligations, including trade payables, of our subsidiaries. The notes will not be guaranteed by any of our subsidiaries.

**See Risk factors beginning on page S-24 for a discussion of certain risks that you should consider in connection with an investment in the notes.**

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

	<b>Per 2015 fixed rate note</b>		<b>Total</b>	<b>Per 2017 fixed rate note</b>		<b>Total</b>	<b>Per 2015 floating rate note</b>		<b>Total</b>
Public offering price <sup>(1)</sup>	100%	\$	1,500,000,000	100%	\$	3,500,000,000	100%	\$	1,000,000,000
Underwriting discounts and commissions	2.0%	\$	30,000,000	2.0%	\$	70,000,000	2.0%	\$	20,000,000
Proceeds to us before expenses	98.0%	\$	1,470,000,000	98.0%	\$	3,430,000,000	98.0%	\$	980,000,000

(1) Plus accrued interest from March 19, 2007, if settlement occurs after that date.

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

We expect that delivery of the notes will be made to investors in book-entry form through The Depository Trust Company, Euroclear or Clearstream on or about March 19, 2007.

*Joint book-running managers*

**JPMorgan**

**Merrill Lynch & Co.**

*Co-managers*

**HSBC**

**Scotia Capital**

**UBS Investment Bank**

March 14, 2007

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**In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We and the underwriters have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it. You should not assume that the information contained or incorporated by reference in this prospectus supplement is accurate as of any date other than the date on the front cover of this prospectus supplement or that the information contained or incorporated by reference in the accompanying prospectus is accurate as of any date other than the date on the front cover of the accompanying prospectus. We and the underwriters are offering to sell the notes only in places where offers and sales are permitted.**

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### Prospectus

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

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**Cautionary statement regarding forward-looking statements**

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

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

risks related to our substantial indebtedness and ability to service the notes;

our holding company structure and its potential effect on your ability to receive dividends or payments on the notes;

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

unanticipated mining, milling and other processing problems;

accidents that lead to personal injury or property damage;

persistent commodity price reductions;

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

expropriation;

variances in ore grades;

labor relations;

adverse weather conditions and natural disasters, such as earthquakes;



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the speculative nature of mineral exploration;

increases in energy and production costs;

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

regulatory and litigation matters and risks;

changes in tax and other laws;

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

other risks to consummation of the transactions.

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

**Industry and other information**

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



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**Prospectus supplement summary**

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

*On November 18, 2006, Freeport-McMoRan Copper & Gold Inc. executed a definitive merger agreement pursuant to which, subject to the terms and conditions set forth therein, it expects to acquire all outstanding shares of Phelps Dodge Corporation (the acquisition). In this prospectus supplement, we refer to the issuance of the notes offered hereby and the borrowings under the new senior credit facilities as the financing and the acquisition and the related transactions, including the financing, as the transactions. The transactions are more fully described below under The transactions.*

**Overview**

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

On November 19, 2006, Freeport-McMoRan and Phelps Dodge announced that they had signed a merger agreement pursuant to which Freeport-McMoRan will acquire Phelps Dodge for approximately \$25.9 billion in cash and stock, based on Freeport-McMoRan's closing stock price on November 17, 2006, creating one of the world's largest publicly-traded copper companies and one of North America's largest mining companies. Freeport-McMoRan will use the proceeds from this offering to fund a portion of the cash consideration of the acquisition and to pay all transaction costs. This offering is conditioned upon the consummation of the acquisition.

**Acquisition rationale**

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

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

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

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

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

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

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

**Our business**

The combined company will be a new industry leader with large, long-lived, geographically diverse assets and significant proven and probable reserves of copper, gold and molybdenum. For the year ended December 31, 2006, on a pro forma basis giving effect to the transactions, the combined company's revenues and Adjusted EBITDA (as defined under "Summary unaudited pro forma condensed combined financial information") totaled \$17.7 billion and \$7.8 billion, respectively.

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

Freeport-McMoRan conducts its operations primarily through its principal operating subsidiaries, PT Freeport Indonesia and Atlantic Copper, S.A., which operates a copper smelter and refinery in Huelva, Spain. In addition, Freeport-McMoRan holds exploration rights covering approximately 2.2 million acres in Papua, Indonesia. PT Freeport Indonesia's operations in Papua, Indonesia, involve mineral exploration and development, mining and milling of ore containing copper,

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gold and silver and the worldwide marketing of concentrates containing those metals. PT Freeport Indonesia's principal asset is the world-class Grasberg mine discovered in 1988. The Grasberg minerals district contains the world's largest single copper reserve and world's largest single gold reserve. PT Freeport Indonesia is also a 25 percent owner of PT Smelting, which operates a copper smelter and refinery in Gresik, Indonesia.

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

## **Competitive strengths**

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

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

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

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

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

*Attractive project pipeline.* We believe that the combined company will have significant potential for growth through the development of its existing asset base, including replacing production at existing mines that would otherwise be depleted. The combined company has a number of projects that we believe will add nearly one billion pounds of copper production capacity on a consolidated basis by the end of 2009.

The Tenke Fungurume development project is considered to be one of the largest, highest grade, undeveloped copper/cobalt concessions in the world today, which we expect will commence production by early 2009. Initial production rates are expected to be approximately 250 million pounds of copper and 18 million pounds of cobalt on a consolidated basis. The Safford, Arizona project is currently under construction and is expected to be in production during the first half of 2008 and to initially produce approximately 240 million pounds of copper per year on a consolidated basis.

In South America, the combined company will have two mines with significant development potential: Cerro Verde and El Abra. Cerro Verde, in Peru, has recently been expanded and has the capacity to initially produce approximately 430 million pounds of additional copper per year on a consolidated basis. El Abra, in Chile, has completed a

feasibility study for developing its sulfide ore reserves to produce approximately 325 million pounds of copper per year on a consolidated basis for approximately 10 years beginning as early as 2010.

*Significant exploration potential.* The combined company will have exploration rights with significant potential in copper regions around the world. Two of the key exploration areas are Freeport-McMoRan's 2.2 million acres in Papua, Indonesia, and Phelps Dodge's opportunities at

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its Tenke Fungurume development project in the Democratic Republic of Congo. The Papua acreage is located in highly prospective areas that we believe have the potential for major mine developments in the future. In recent years, exploration in Papua was suspended, but Freeport-McMoRan plans to resume exploration activities in certain prospective areas during 2007. See *Risk factors* Risks related to Freeport-McMoRan's business Any suspension of required activities under Freeport-McMoRan's Contracts of Work requires the consent of the Indonesian government. The Tenke Fungurume copper/cobalt deposits are located within four concessions totaling approximately 394,000 acres of mining claims. Substantial portions of these concessions have had only limited historical exploration and a major target definition and drilling program is now under way in this high potential copper/cobalt region.

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

## **Strategy**

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

*Strengthen our financial profile.* Strong cash flows have historically allowed both Freeport-McMoRan and Phelps Dodge to significantly reduce indebtedness. We plan to continue to use available cash flows to reduce indebtedness of the combined company. In addition, we will consider opportunities to reduce debt of the combined company shortly following the closing of the transactions through issuances of equity and equity-linked securities and possibly through asset sales. While copper, gold and molybdenum prices will play a significant role in determining the extent of the combined company's free cash flows, we will continue to strengthen our financial profile as well as maximize the cash flows from our ore bodies through production and aggressive cost management.

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

## **Industry overview**

### *Copper*

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

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

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

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

Copper consumption is closely associated with industrial production and, therefore, tends to follow economic cycles. During an expansion, demand for copper tends to increase thereby driving up the price. As a result, copper prices are volatile and cyclical. During the past 15 years, the LME price of copper averaged \$1.13 per pound and ranged from a high annual average price of \$3.05 per pound in 2006 to a low annual average price of \$0.71 per pound in 2002. In addition, during the past 15 years, the COMEX price of copper averaged \$1.14 per pound, and has ranged from a high annual average price of \$3.09 per pound in 2006 to a low annual average price of \$0.72 per pound in 2002. The closing 3-month LME and active-month COMEX copper prices on February 27, 2007 were \$2.83 per pound and \$2.81 per pound, respectively.

### *Gold*

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

During 2006, the relative weakness in the U.S. dollar, a low global interest rate environment, global political instability and the establishment of exchange-traded funds all contributed to increased investment demand for gold. Jewelry is the largest single component of gold usage,

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comprising approximately 67 percent of 2006 demand in dollar terms, according to the World Gold Council. In 2006 demand for jewelry reached a new record in dollar terms, while demand for gold in electronics and dental applications rose to a new volume record. Despite an approximate 10 percent decline in total volume demand in 2006, total dollar demand for gold reached a new record, increasing by approximately 22 percent over 2005.

Gold supply is comprised of mine production, gold scrap and central bank sales. According to World Gold Council data, global mine production, net of producer hedging, accounted for approximately 60 percent of total gold supply. Gold scrap is the second-largest source of gold, providing approximately 30 percent of 2006 supply. The remainder of gold supply comes from central bank sales. The total gold supply in terms of volume declined by 13 percent in 2006 according to the World Gold Council. A decrease in central banks sales accounted for a majority of the supply decrease. Mine supply fell approximately 2 percent in 2006, and has remained flat over the past three years due to a lack of new large-scale gold mining projects.

Investment demand and record gold jewelry and industrial demand, combined with constrained supply, created a favorable gold price environment in 2006. The average gold price of \$604 per ounce in the 2006 London spot market represents a 36 percent increase over the 2005 average price of \$444 per ounce. Gold hit a 26-year high of \$726 per ounce in mid-May 2006. The closing London PM Fix gold spot price on February 27, 2007 was \$676 per ounce.

### *Molybdenum*

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

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

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

During 2006, primary mine production increased in both North America and China, although production in China remains difficult to estimate. By-product molybdenum production decreased from 2005 levels primarily due to lower production in South America. Tight supplies of Western,



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high-quality materials continued throughout the first half of 2006, but eased in the second half as demand slowed in the metallurgical segment. Western roaster capacity constraints were reduced in 2006 as increased capacity was realized and by-product supply decreased. Overall, market fundamentals shifted from a supply deficit in the first half of 2006 to a slight surplus late in the year, with the overall year being relatively balanced.

During the past 15 years, *Metals Week* molybdenum Dealer Oxide prices have ranged from a high of \$40.00 per pound to a low of \$1.82 per pound. In 2006, the *Metals Week* molybdenum Dealer Oxide mean price decreased 22 percent from the 2005 mean price of \$31.73 per pound to \$24.75 per pound. Although price levels were lower than those experienced in 2005, 2006 molybdenum prices remained at historically high levels. Strong demand, which has outpaced supply over the past several years, has continued and inventory levels throughout the industry remain low. The *Metals Week* molybdenum Dealer Oxide price on February 26, 2007 was \$26.00 per pound.

## **The transactions**

The boards of directors of Freeport-McMoRan and Phelps Dodge have approved a merger agreement pursuant to which Freeport-McMoRan will acquire Phelps Dodge. On March 14, 2007, the shareholders of both Freeport-McMoRan and Phelps Dodge approved the acquisition. The acquisition is subject to certain closing conditions, including the absence of events or developments since the date of the merger agreement that would reasonably be expected to have a material adverse effect with respect to Freeport-McMoRan or Phelps Dodge.

The acquisition is expected to close on March 19, 2007.

At the effective time of the acquisition, each issued and outstanding Phelps Dodge common share will be converted into the right to receive a combination of 0.67 of a share of Freeport-McMoRan common stock and \$88.00 in cash, without interest. Upon completion of the acquisition, we expect that Freeport-McMoRan shareholders will own approximately 59 percent of the combined company (62 percent on a fully diluted basis) and former Phelps Dodge shareholders will own approximately 41 percent of the combined company (38 percent on a fully diluted basis). Following the acquisition, Phelps Dodge will continue as a surviving corporation and become a wholly owned subsidiary of Freeport-McMoRan; accordingly, Phelps Dodge shares will no longer be publicly traded.

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

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

the issuance of the notes offered hereby.

The remainder of the cash requirements will be met from cash available at Freeport-McMoRan and Phelps Dodge. The offering of the notes will occur concurrently with, and is conditioned upon, the closing of the acquisition and the other transactions.

**Table of Contents****Sources and uses**

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

**(Dollars in millions)**

<b>Sources of funds</b>	<b>Amount</b>	<b>Uses of funds</b>	<b>Amount</b>
Cash	\$ 2,500.0	Equity purchased <sup>(c)</sup>	\$ 25,791.0
New revolving credit facility <sup>(a)</sup>		Estimated fees and expenses <sup>(d)</sup>	500.0
New Tranche A term loan facility	2,500.0		
New Tranche B term loan facility	7,500.0		
Senior notes offered hereby	6,000.0		
Additional common equity <sup>(b)</sup>	7,791.0		
<b>Total sources</b>	<b>\$ 26,291.0</b>	<b>Total uses</b>	<b>\$ 26,291.0</b>

- (a) Based on expected cash balances at closing, we do not expect to make any drawings under our new revolving credit facility. Availability under the new revolving credit facility will be reduced by outstanding letters of credit. Our availability under our revolving credit facility is anticipated to be approximately \$1,400.0 million at closing after giving effect to outstanding letters of credit. Following the closing, we may be required to issue additional letters of credit in connection with financial assurances with respect to our reclamation obligations. See Risk factors Risks related to Phelps Dodge s business Mine closure regulations may impose substantial costs.
- (b) Reflects the fair value of Freeport-McMoRan common stock to be issued to Phelps Dodge shareholders as a result of the acquisition calculated by using the weighted average market price of Freeport-McMoRan common stock from November 16, 2006 to November 21, 2006 multiplied by the estimated shares of Freeport-McMoRan stock to be issued to Phelps Dodge shareholders.
- (c) Based on the weighted average market price of Freeport-McMoRan common stock from November 16, 2006 to November 21, 2006, the cash consideration to be paid in the acquisition, and the estimated Phelps Dodge common shares outstanding and issuable at December 31, 2006.
- (d) Reflects our estimate of fees and expenses associated with the transactions, including financing fees, estimated change of control costs and related employee benefits and other transaction costs and professional fees.

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### **Corporate structure**

Under the terms of the proposed transactions, a wholly owned subsidiary of Freeport-McMoRan will merge into Phelps Dodge. As a result, Phelps Dodge will continue as a surviving corporation and will become a wholly owned subsidiary of Freeport-McMoRan. The diagram below shows a summary of the corporate structure of the combined company.

### **Recent developments**

On November 22, December 12 and December 14, 2006, putative class actions were filed on behalf of Phelps Dodge shareholders in Arizona state court, New York state court and Arizona state court, respectively. The class actions allege breaches of fiduciary duties by the Phelps Dodge board of directors in connection with the acquisition. The complaints allege, among otherIDTH: 100%">

Auto-Callable Contingent Coupon Barrier Notes  
Linked to the Common Stock of Square, Inc.  
Due April 29, 2021

### **SUPPLEMENTAL DISCUSSION OF U.S. FEDERAL INCOME TAX CONSEQUENCES**

The following disclosure supplements, and to the extent inconsistent supersedes, the discussion in the product prospectus supplement dated January 8, 2016 under “Supplemental Discussion of U.S. Federal Income Tax Consequences.” The discussions below and in the accompanying product prospectus supplement do not address the tax consequences applicable to holders subject to Section 451(b) of the Code.

Under Section 871(m) of the Code, a “dividend equivalent” payment is treated as a dividend from sources within the United States. Such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-U.S. holder. Under U.S. Treasury Department regulations, payments (including deemed payments) with respect to equity-linked instruments (“ELIs”) that are “specified ELIs” may be treated as dividend equivalents if such specified ELIs reference an interest in an “underlying security,” which is generally any interest in an entity taxable as a corporation for U.S. federal income tax purposes if a payment with respect to such interest could give rise to a U.S. source dividend. However, the IRS has issued guidance that states that the U.S. Treasury Department and the IRS intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2019. Based on our determination that the Notes are not delta-one instruments, non-U.S. holders should not be subject to withholding on dividend equivalent payments, if any, under the Notes. However, it is possible that the Notes could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Reference Stock or the Notes, and following such occurrence the Notes could be treated as subject to withholding on dividend equivalent payments. Non-U.S. holders that enter, or have entered, into other transactions in respect of the Reference Stock or the Notes should consult their tax advisors as to the application of the dividend equivalent withholding tax in the context of the Notes and their other transactions. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

### **SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)**

Delivery of the Notes will be made against payment for the Notes on April 30, 2018, which is the second (2nd) business day following the Trade Date (this settlement cycle being referred to as “T+2”). See “Plan of Distribution” in the prospectus dated January 8, 2016. For additional information as to the relationship between us and RBCCM, please

see the section “Plan of Distribution—Conflicts of Interest” in the prospectus dated January 8, 2016.

In the initial offering of the Notes, they were offered to investors at a purchase price equal to par, except with respect to certain accounts as indicated on the cover page of this document.

The value of the Notes shown on your account statement may be based on RBCCM’s estimate of the value of the Notes if RBCCM or another of our affiliates were to make a market in the Notes (which it is not obligated to do). That estimate will be based upon the price that RBCCM may pay for the Notes in light of then prevailing market conditions, our creditworthiness and transaction costs. For a period of approximately three months after the issue date of the Notes, the value of the Notes that may be shown on your account statement may be higher than RBCCM’s estimated value of the Notes at that time. This is because the estimated value of the Notes will not include the underwriting discount and our hedging costs and profits; however, the value of the Notes shown on your account statement during that period may initially be a higher amount, reflecting the addition of RBCCM’s underwriting discount and our estimated costs and profits from hedging the Notes. This excess is expected to decrease over time until the end of this period. After this period, if RBCCM repurchases your Notes, it expects to do so at prices that reflect their estimated value.

We may use this pricing supplement in the initial sale of the Notes. In addition, RBCCM or another of our affiliates may use this pricing supplement in a market-making transaction in the Notes after their initial sale. Unless we or our agent informs the purchaser otherwise in the confirmation of sale, this pricing supplement is being used in a market-making transaction.

No Prospectus (as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”)) will be prepared in connection with the Notes. Accordingly, the Notes may not be offered to the public in any member state of the European Economic Area (the “EEA”), and any purchaser of the Notes who subsequently sells any of the Notes in any EEA member state must do so only in accordance with the requirements of the Prospectus Directive, as implemented in that member state.

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, and a “retail investor” means a person who is one (or more) of: (a) a retail client, as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (b) a customer, within the meaning of Insurance Distribution Directive 2016/97/EU, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (c) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required

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Auto-Callable Contingent Coupon Barrier Notes  
Linked to the Common Stock of Square, Inc.  
Due April 29, 2021

by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared, and therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## STRUCTURING THE NOTES

The Notes are our debt securities, the return on which is linked to the performance of the Reference Stock. As is the case for all of our debt securities, including our structured notes, the economic terms of the Notes reflect our actual or perceived creditworthiness at the time of pricing. In addition, because structured notes result in increased operational, funding and liability management costs to us, we typically borrow the funds under these Notes at a rate that is more favorable to us than the rate that we might pay for a conventional fixed or floating rate debt security of comparable maturity. Using this relatively lower implied borrowing rate rather than the secondary market rate, is a factor that reduced the initial estimated value of the Notes at the time their terms were set. Unlike the estimated value included in this pricing supplement, any value of the Notes determined for purposes of a secondary market transaction may be based on a different funding rate, which may result in a lower value for the Notes than if our initial internal funding rate were used.

In order to satisfy our payment obligations under the Notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) on the issue date with RBCCM or one of our other subsidiaries. The terms of these hedging arrangements take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Reference Stock, and the tenor of the Notes. The economic terms of the Notes and their initial estimated value depend in part on the terms of these hedging arrangements.

The lower implied borrowing rate is a factor that reduced the economic terms of the Notes to you. The initial offering price of the Notes also reflects the underwriting commission and our estimated hedging costs. These factors resulted in the initial estimated value for the Notes on the Trade Date being less than their public offering price. See “Selected Risk Considerations—The Initial Estimated Value of the Notes Is Less than the Price to the Public” above.

## VALIDITY OF THE NOTES

In the opinion of Norton Rose Fulbright Canada LLP, the issue and sale of the Notes has been duly authorized by all necessary corporate action of the Bank in conformity with the Indenture, and when the Notes have been duly executed, authenticated and issued in accordance with the Indenture and delivered against payment therefor, the Notes will be validly issued and, to the extent validity of the Notes is a matter governed by the laws of the Province of Ontario or Québec, or the laws of Canada applicable therein, and will be valid obligations of the Bank, subject to equitable remedies which may only be granted at the discretion of a court of competent authority, subject to applicable bankruptcy, to rights to indemnity and contribution under the Notes or the Indenture which may be limited by applicable law; to insolvency and other laws of general application affecting creditors’ rights, to limitations under applicable limitations statutes, and to limitations as to the currency in which judgments in Canada may be rendered, as prescribed by the Currency Act (Canada). This opinion is given as of the date hereof and is limited to the laws of the Provinces of Ontario and Québec and the federal laws of Canada applicable thereto. In addition, this opinion is subject to customary assumptions about the Trustee’s authorization, execution and delivery of the Indenture and the genuineness of signatures and certain factual matters, all as stated in the letter of such counsel dated January 8, 2016, which has been filed as Exhibit 5.1 to Royal Bank’s Form 6-K dated January 8, 2016.

In the opinion of Morrison & Foerster LLP, when the Notes have been duly completed in accordance with the Indenture and issued and sold as contemplated by the prospectus supplement and the prospectus, the Notes will be valid, binding and enforceable obligations of Royal Bank, entitled to the benefits of the Indenture, subject to applicable bankruptcy, insolvency and similar laws affecting creditors’ rights generally, concepts of reasonableness

and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith). This opinion is given as of the date hereof and is limited to the laws of the State of New York. This opinion is subject to customary assumptions about the Trustee's authorization, execution and delivery of the Indenture and the genuineness of signatures and to such counsel's reliance on the Bank and other sources as to certain factual matters, all as stated in the legal opinion dated January 8, 2016, which has been filed as Exhibit 5.2 to the Bank's Form 6-K dated January 8, 2016.

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