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December 2003

Guiding Principles for Indonesian Operations – People and the Community

Part - I

I. 1. General

Freeport-McMoRan Copper & Gold Inc. (FCX), “Freeport,” is a publicly owned Company, headquartered in New Orleans, Louisiana, United States. It is an integrated mining Company and its affiliate, P.T. Freeport Indonesia (PTFI), operates the world’s largest gold mine and one of the largest copper mines in Papua, Indonesia. PTFI is the largest single taxpayer in Indonesia.

Extractive industries, by their nature, have significant impact on the physical environment and people of the region. Mining is a highly capital and technology intensive industry. The remote location requires building a complex infrastructure and transportation network for moving raw materials and processed goods.

A similar and somewhat less recognized but equally daunting parallel exists in terms of people. Inaccessibility and remoteness of the region has fostered communities that are essentially self-contained, surviving at subsistence level and without meaningful contact with outside societies. Only in the past century have these communities confronted the outside world and modern societies. This isolation has given rise to highly localized and unique cultures. These cultures risk serious challenges, and in some cases, harm when confronted with new people, new technologies, new modes of production and employment, new community structures, and new lifestyles and standards of living. When confronted with these issues on a massive scale, and within a short timeframe, these communities may become disoriented and disenfranchised, leading to resentment and rebellion against newcomers and everything that they represent.

No country, especially a poor and developing country, can afford not to harness its resources to support its growing population and improve its economic well-being. It is, therefore, inevitable and unavoidable that large-scale mining operations, or for that

matter any type of large infrastructure projects (e.g., building a dam), will bring about major changes in the lives of the local people and their surrounding environment. Change can be a force for both good and evil. When properly managed, it can minimize adverse impact on the environment and fragile local cultures, while at the same time creating enormous economic wealth and opportunities to help both the nation and the local community to gain and sustain an improved standard of living and quality of life for the current and future generations.

I. 2. Mission Statement

Freeport has always been cognizant of its multiple responsibilities toward the economic and social development of the local people, respect for their culture, human rights and civil liberties and protection of the environment. The Company has conducted its Indonesian operations with concern for the environment and a sense of responsibility toward its Papuan employees and the indigenous people who live around its operations area.

To this end, Freeport has voluntarily devoted resources, and will continue to do so in the future, which go beyond its legal and contractual commitments to the Government of Indonesia and the Papuan people of the region. The Corporate mission for the future is to conduct its mining operations in Papua in a manner that is economically efficient, protects the environment, and nurtures the economic growth and development of the Papuan people with respect for their tribal culture and value system and their human rights.

I. 3. Corporate Commitment

The Guiding Principles enunciated here are intended to codify Freeport's Social, Employment, and Human Rights Policy by enumerating practices and operational standards in Papua in the areas of social and economic development of the indigenous people of Papua, protection of human rights and respect for their culture and dignities. These Principles address how Freeport's policies and operational practices are intended to impact employment, business-government relations, protection of human rights, and economic and social development of the local tribes in the area of operations. They also set forth Freeport's commitment for the welfare of the people of Papua and their unique culture and value set.

Furthermore, to ensure compliance with these Principles, Freeport has already undertaken a series of measures:

1. Created detailed, objective, quantifiable, and outcome-oriented measures of performance in each of the five areas covered in the Principles.
2. Initiated policies and procedures whose implementation and enforcement will be required of all levels of supervisors and managers.

3. Undertaken an extensive training program to familiarize managers and workers with these policies. This training program has also been offered to local community leaders as well as police and military units to sensitize them to these issues.
4. Developed internal monitoring programs to evaluate compliance with the Principles and their Standards of Implementation.
5. Made compliance with the Principles and Standards an integral part of every manager's performance evaluation, promotion, and compensation.
6. Implemented an internal communication program whereby all employees and managers are made aware of their responsibilities under the Principles and are encouraged to participate in the implementation and enhancement of these Principles.

Part - II

II. 1. People and the Community

The Guiding Principles address how Freeport's policies and operational practices are intended to impact employment, protection of human rights, and economic and social development of the local tribes in the area of operations. In particular, they pertain to the Seven Papuan Tribal Communities (7-PTC) which encompass the area of Freeport's mining operations.

These Principles are a public expression of Freeport's commitment and how the Company intends to meet the self-imposed obligations that Freeport has voluntarily assumed. The Principles further demonstrate the Company's resolve to conduct its operations in Papua in a highly professional, economically efficient, and socially responsible manner.

The Principles described here cover five areas:

1. Treatment of Workers employed by Freeport and its affiliated organizations.
2. Special Status workers from the Seven Papuan Tribal Communities (7-PTC) with regard to Employment, Training, and Promotion at Freeport.
3. Protection of Human Rights.
4. Business-Government Relations.
5. Economic and Social Development of the Seven Papuan Tribal Communities (7-PTC).

II. 2. Treatment of Workers

1. Freeport will comply with all national and local labor laws with regard to employment practices. This will also apply to all independent contractors, privatized companies, and major suppliers and service providers doing business with Freeport. There can be no exception to this rule.
2. Where economically feasible, Freeport will act affirmatively to create policies and programs that go beyond the national and local labor laws and regulations to demonstrate the Company's commitment to be a responsible corporate citizen.
3. The treatment of workers includes such issues as: Hiring, wages, and working hours; training and skill enhancement; protection from discrimination based on religion, ethnicity, gender, and political affiliation; protection from physical abuse, sexual harassment, and unfair treatment; workplace safety; provision of adequate living space and eating facilities; workers' health; and safety. Freeport is also committed to the protection of freedom of speech, religion, and association.

Freeport's implementation of its policies with regard to worker treatment will necessarily differ according to the extent of the Company's control over the workers in affiliated organizations and service providers as described below. However, Freeport will assume overall responsibility to ensure that these units comply with Indonesia's national and local labor laws, do not practice discrimination among different classes of workers, and that differences as to wages and working conditions are reasonable, non-exploitative, and non-discriminatory.

These policies cover four classes of workers and include both permanent and temporary workers.

1. All workers employed directly by Freeport in its mining operations and related facilities. These are called Category 1 workers.
2. All workers employed by independent entities who perform specialized services connected with Freeport's mining operations are called Category 2 workers.¹
3. All workers employed by independent companies with significant business relationship with Freeport, but not connected specifically with Freeport mining operations. These are called Category 3 workers.²
4. All workers employed by companies that supply labor at Freeport's operations for temporary work at Freeport's various facilities. These are called Category 4 workers.³

¹ Privatized companies: Privatized companies: PT Alas Emas Abadi (AEA/ISOS), Sheraton Timika, PT Kuala Pelabuhan Indonesia (KPI), PT Tata Disantara (TDS), PT Mahaka Industri Perdana, PT Pangansari Utama, PT AVCO, PT Puncak Jaya Power (PJP).

² For example: PT Trakindo Utama, PT United Tractors, PT Petrosea, PT Redpath Indonesia, PT Hero etc.

Category 1 Workers. Freeport has developed detailed policies covering workers directly employed by Freeport at the mine and its affiliated facilities. Salient elements of these policies are briefly described here.

Category 2 Workers. Independent entities (“privatized companies,” specifically referring to privatization contracts developed during 1994-1995) that perform specialized services connected with Freeport’s mining operations hire these workers. A company employing Category 2 workers must meet all the conditions applicable to Category 1 workers subject to the following exception:

Category 2 workers may receive wages and benefits that are significantly different than those paid to Category 1 workers provided that the nature of work performed by Category 2 workers is not comparable to any work performed by Category 1 workers.

Category 3 workers. Companies employing Category 3 workers have a significant business relationship with Freeport, but are not directly connected with Freeport’s mining operations. These companies have their own policies and programs covering wages and working conditions of their employees. Freeport has no control over the employment practices of these companies. Notwithstanding, these companies must abide by Freeport’s policies with regard to compliance with local and national laws, non-discrimination, and human rights policies.

Category 4 workers. Category 4 workers perform temporary jobs. If their work is required for a period of less than three years, their wages and benefits will gradually achieve parity with those of workers employed in similar positions at Freeport. Upon the completion of three years of service, if the work is still needed, all qualified Category 4 employees will become Category 1 employees.

- Where work performed by Category 4 workers is similar to the work performed by Category 1 workers, wages and benefits paid to Category 4 workers must be substantially similar to those of Category 1 workers.
- Where Category 4 workers terminate employment with their employer and become Category 1 workers, the criteria for transfer must be non-arbitrary, clearly established, and made known to all Category 4 workers. There can be no discrimination among Category 4 workers seeking status of Category 1 workers with the exception noted in the case of workers belonging to the 7-PTC.

II. 3. Hiring Practices

³ PT Inamco Varia Jasa, PT Buma Kumawa, PT Jasti Pravita, PT Tomi Irja, PT Srikandi Mitra Karya, PT Nurul Amaliyah.

1. At the time of hiring, each worker must be provided with a document that provides complete details of the terms and conditions of his or her employment, method of wage calculation, and the regularly scheduled dates of payment of wages.
2. Each worker must also receive appropriate training with regard to plant safety, fire drills, safe handling of hazardous materials, and job-specific training.
3. Workers may be required to undergo a reasonable probationary period. However, workers must be paid no less than the prevailing minimum wage during the probationary period.

II. 4. Wages, Working Hours, Benefits

1. Freeport must comply with all national, provincial, and local laws pertaining to payment for overtime work, mandatory deductions, holidays, vacations, medical benefits, and other provisions of the country's labor laws. Where Freeport has obtained specific dispensation from the Department of Manpower for additional overtime required for certain jobs, Freeport will comply fully with these guidelines.
2. All Company provided benefits, e.g., healthcare benefits, housing, meals, and other incentive bonuses must be paid to all employees within similar job categories. Where differences exist as to specific benefits between various job categories, these must be based on clearly defined criteria such as specialized skills, job characteristics, and seniority, to name a few.
3. All overtime work must be voluntary except where it is integral to the type of work performed and scheduling of work shifts at the work location. The employees must have agreed to "standard overtime" as part of the employment contract. The Company must also comply with all applicable laws with regard to the maximum number of overtime hours permitted during a given day, week, or month.

II. 5. Discrimination at the Workplace

1. Freeport must ensure that its human resource management policies are free of any form of discrimination against workers on the basis of age, gender, ethnicity, sexual preference, religion, or tribal affiliation. The only exception to this rule applies to workers from 7-PTC areas. This is discussed in a latter part of the document. Furthermore, any form of harassment based on similar considerations is prohibited.

II. 6. Disciplinary Actions and Grievance Handling Procedure

1. Freeport has created written procedures, rules, and regulations to maintain discipline and safe working conditions in the operations areas and other related facilities, dormitories, canteens, and recreational areas. These include, among others, implementing a formal program of handling grievances and resolving disciplinary issues and awareness on the part of all workers about these rules and procedures.
2. Freeport will also ensure that its grievance handling and conflict resolution procedures are free from any pro-management bias and are transparent as to their findings and implementation. This attribute is necessary if the Company is to engender trust among the workers, enhance workplace harmony, and achieve greater worker loyalty.

II. 7. Worker Access to Management

1. Freeport's policies require that mine management should provide and encourage access by workers to all levels of management on issues that impact their wages, benefits, working, and living conditions. All levels of management must also hold regular meetings with workers on issues of concern to them.
2. Freeport will also create an effective mechanism that allows and encourages workers to communicate anonymously with the management on issues of concern to them and also make suggestions toward improvement of the vendor's operations and human resource management practices.

II. 8. Dormitory and Living Space

1. Allocation of dormitory space in different job categories will be based on work-related criteria. These criteria will be explained to the workers. Where enough dormitory space is not available to all eligible workers, comparable financial compensation will be provided to workers who cannot be accommodated in the dormitories.

II. 9. Food Services and Canteen Privileges

1. These services will be available to all workers under rules that are clearly defined and applied to all workers in a fair and equitable manner.

Part - III

Business—Governmental Relations

III.1. Compliance with Host Country Laws

Freeport will obey and support the laws of the Republic of Indonesia and will support the development of civil government in the area of its operations.

III. 2. Bribery and Corruption

1. In its dealings with the representatives of the Indonesian government, provincial and local officials, and other functionaries performing government work, Freeport employees and representatives of its affiliates, contractors, and privatized corporations are prohibited from using bribes or other unethical practices toward seeking favorable treatment from government agencies in furtherance of their business.
2. Under certain circumstances, where it is considered normal and customary to make small payments (defined as “facilitating payments” under the Foreign Corrupt Practices Act, 1977) to minor officials, Freeport accepts the reality of this situation, but expresses aversion to this practice. In all such cases, business practices must meet the standards specified in the U.S. Foreign Corrupt Practices Act of 1977. Any violation of this Act on the part of Freeport employees or anyone representing Freeport will be considered a serious breach of Company policy and the offending employee or representative will be subjected to severe penalties including termination from employment.
3. All such payments, whether in kind or cash, must also meet the reporting requirements of the Foreign Corrupt Practices Act, 1977 and those of the U.S. Securities and Exchange Commission.

Part – IV

IV. 1. Protection of Human Rights

1. Freeport is one of the few multinational companies in the extractive industries with a well-defined human rights policy and implementation program. This includes the appointment, at the corporate level, of a Vice President with direct responsibility for Human Rights.
2. In developing this policy, Freeport is guided by the United Nations Universal Declaration of Human Rights and the Voluntary Principles on Security and Human Rights as its standard for upholding the human rights of the

employees, dependents, and those who live in the area of the Company's operations.

3. Freeport considers that each worker has the right of freedom of association, freedom of speech, and freedom of religion without fear of intimidation or punishment on the part of the employer.
4. In implementing this policy, Freeport will train its management employees – and all members of its Security and Community Relations Departments – to ensure their respect of human rights of the workers and the community. Freeport will also put in place a systematic program whereby all managers will be held accountable to ensure that everyone under their supervision has knowledge of Freeport's Human Rights policies and to ensure that their conduct conforms with the standards and procedures laid out in the Company's policy and policy manuals
5. Freeport will also conduct internal monitoring programs to assure compliance with its policies with regard to human rights by all those who are responsible for implementing these policies. Where necessary, the Company will take appropriate disciplinary measures against those who violate these policies and will also report all suspected human rights violations in its area of operations to appropriate governmental officials.

Part - V

V. 1. Special Status of Papuan Workers

The Principles recognize the special status of 7-PTC Papuans and that Freeport will have a proactive bias to support increased employment of 7-PTC workers in all of the Company's operations and those of its affiliates, contractors, and privatized corporations.

Freeport has made a commitment that - at a minimum - it will quadruple the number of Papuan employees between the years 1996 and 2006. In addition the number of Papuan staff employees will double during the same period of time.

To make increased employment of Papuans a reality, Freeport will initiate training programs that will increase the supply of skilled and qualified Papuans. Freeport will also recruit aggressively for qualified Papuans to work at Freeport.

Freeport will work closely with its affiliates, contractors, and privatized corporations to ensure increased levels of employment and promotion of Papuan workers in their operations commensurate with Freeport's commitment enunciated in this document.

Freeport will develop a viable plan of action, including in-house training and aggressive recruiting, to ensure that it can meet its 2006 goals for 7-PTC workers at all levels of the organization. It will also establish annual targets for evaluating progress toward meeting the 2006 goal. This plan will be prepared in consultation with 7-PTC representatives, 7-PTC members currently in the employment of Freeport and its affiliated agencies. The plan will also have the approval of senior management in Indonesia and in Freeport's headquarters in New Orleans.

V. 2. Economic and Social Development of the Local Tribes

Freeport is committed to the economic development and cultural protection of the local tribes. The Company has already taken important steps to engage the local 7-PTC in developing programs and policies designed to improve their economic conditions while respecting their traditions in terms of communal organization and leadership.

The Company has devoted substantial financial resources to this effort. Between 1996 and 2002 the Company has allocated or spent over \$100 million on the development activities in support of the 7-PTC communities. These funds have been spent on healthcare, education, infrastructure development, and small business development. From these funds two hospitals have been built and are operating, scholarships and educational aid has been provided for more than 5,000 students, houses, community buildings, roads, bridges, and drainage facilities have been constructed, and more than a dozen small business have been developed and nurtured in the local indigenous community.

V. 3. Freeport Fund for Community Development (One Percent Fund)

In an initiative that is unprecedented in the mining industry and in other industries with significant direct foreign investments anywhere in the world, Freeport has agreed to devote one percent of its net revenue from the mining operations to the economic and social development of the 7-PTC. This commitment is strictly voluntary and is undertaken by Freeport to extend its support to the development and transformation of the seven Papuan Tribal Communities to adapt to the exigencies of the modern world while protecting their unique culture and value set.

Legal and governance infrastructure to assure proper usage of these funds has already been developed. The LPMK provides a community-based management structure so that the community can use these funds in accordance with the overall donor guidance. These funds will be spent under the guidance and supervision of the local tribes and will be primarily devoted to four areas: Education, Public Health, Housing and Infrastructure, and Economic Development.

As a first step, the Company has agreed to make these contributions through the year 2006. In 2006, Freeport and the local community will evaluate the success of the program and will determine its future.

Part - VI

Evaluation, Corrective Action and Monitoring

Freeport is determined to ensure that all of its activities under the Principles have the full support of senior management and employees. Freeport also wishes to engender public confidence and trust in the Company's compliance with the Principles. To achieve these twin goals:

1. Freeport and its affiliated organizations will undergo regular audits of all activities covered under GPIO-1. The organizations' respective internal audit departments will perform the audits to assess their compliance with the Principles. The internal audit process will include performance evaluations, plans for corrective action, and a follow-up mechanism to ensure compliance in a timely fashion.
2. Freeport's commitment to the public includes verification audits by the International Center for Corporate Accountability (an independent monitoring organization) to assess the extent of compliance with the Principles by Freeport and its affiliated organizations on a regular basis and to afford these audits maximum transparency and public credibility. Freeport will provide the independent monitoring organization with complete access to all information and facilities in order to make an evaluation of Freeport's performance on the Principles and their implementation standards. The independent monitor will have complete discretion in issuing its reports without any censorship from Freeport provided that Freeport is afforded a suitable opportunity to respond to any findings of fact and conclusion by the Independent Monitor.