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**PT Freeport Indonesia and Freeport- McMoRan Copper & Gold Inc.
Response to the Audit of Indonesian Operations
by the International Center for Corporate Accountability**

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Introduction

In 1999, the Board of Directors of Freeport-McMoRan Copper & Gold Inc. (FCX) and the Board of Commissioners of PT Freeport Indonesia (PT-FI) adopted a wide-ranging *Social, Employment, and Human Rights Policy* for all operations, with particular emphasis on its Indonesian operations. In 2004, these Boards adopted an enhanced version of the policy. The policy recognizes that protection of human rights begins with the cessation of violence against individuals and groups, but also extends to economic and social development and the opportunity for people to lead healthy and productive lives.

FCX and PT-FI have created programs to foster human rights; to provide education, health care, and economic development opportunities; to develop education and training programs; and to aid in the social development of the indigenous people living in PT-FI's operations area. The main engine of these programs was and continues to be the Freeport Partnership Fund, which was created in 1996 to provide one percent of the revenues from the operations in Papua managed by PT-FI for the benefit of the local communities. By the end of 2004, total contributions from this "One Percent Fund" since inception were \$152 million.

In 1996, PT-FI also made commitments to quadruple total Papuan employment at the Grasberg mine and to double the number of Papuans in staff positions. These commitments have been exceeded.

Fulfilling these commitments relating to social employment and human rights matters involves significant challenges. For that reason, FCX and PT-FI have established a number of initiatives to enable achievement of its commitments and to ensure that the results of these initiatives are measurable.

In 1999, FCX named Judge Gabrielle Kirk McDonald, former President of the International Criminal Tribunal for the former Yugoslavia and former U.S. federal judge and civil rights attorney, as Special Counsel for Human Rights to the Office of the Chairman. Judge McDonald has had a strong influence on the implementation of the FCX and PT-FI human

rights programs, and she has championed the social and developmental rights of women in the PT-FI operations area.

Also in 2000, FCX agreed to be a participant in the U.S. State Department/British Foreign Office *Voluntary Principles for Security and Human Rights*. The *Voluntary Principles* establish standards for extractive companies working in developing countries with regard to providing for necessary security within an operating framework that ensures respect for human rights.

FCX and PT-FI have committed to assess their social development, employment, and human rights programs periodically through use of an independent and respected organization. To that end, FCX and PT-FI engaged the International Center for Corporate Accountability (ICCA) to perform an independent audit of its commitments and results.

PT-FI's Grasberg operation is one of the most complex in the world. PT-FI and ICCA undertook extensive preparation in order to conduct an audit taking into account these complexities. In consideration of the size and diversity of PT-FI's operations, ICCA and PT-FI agreed that the scope of the audit would focus on the key components of the Social, Employment, and Human Rights Policy.

The management of PT-FI and FCX wishes to express appreciation to ICCA for having conducted the audit. An important benefit of the audit has been that this process has provided a framework for PT-FI to evaluate its activities from the perspective of its intended performance goals and actual achievements. FCX and PT-FI have designed and implemented new operational procedures, management systems, performance evaluation, and accountability measures to improve their performance in these areas. These modifications are expected to yield significant enhancement in performance, not only in the areas covered by this audit, but also in PT-FI's business operations. FCX and PT-FI have and will continue to assess the matters ICCA identified in the audit requiring corrective actions, having already embarked upon remediation in a number of areas and striving for continual improvement in all aspects of these programs.

The audit report will be publicly distributed. The company, its workforce and the local community will derive important benefits from this process as the audit has provided a mechanism to highlight those areas in which improvement is necessary to enable PT-FI to achieve its goals and commitments in human rights, the employment and advancement of Papuans in all areas of our operation, and the social development of the local community.

FCX and PT-FI are establishing a team headed by Judge McDonald to ensure the continued implementation of PT-FI's Social, Employment, and Human Rights Policy, including addressing the recommendations made in the ICCA audit report.

Response to ICCA Audit

Human Rights

ICCA confirms that all potential human rights violations noted in its audit have been reported to the appropriate authorities and addressed in accordance with PT-FI's human rights policy. None of the reported human rights violations involved activities of PT-FI's security

personnel, its other employees or the security personnel of the government of Indonesia involved in the protection of PT-FI's operations and property. The reported incidents fell within the realm of criminal acts and were dealt with accordingly. In the audit, PT-FI employees were also asked about their perceptions of possible human rights violations. While 80% of those involved in the random sample said they knew of nothing that could be construed to be a violation suffered either by them or anyone they knew, 20% said they knew of events that they considered might involve a possible violation, even though few of these instances of potential inappropriate conduct were reported. FCX and PT-FI will work through its SEHR education program to ensure that all 3 employees know how to identify and report human rights concerns and to create an atmosphere in which employees feel comfortable in submitting such reports.

Human Rights Training

The audit commends PT-FI's human rights training programs as being "carefully articulated and well suited to PT-FI's operating environment." However, even with this training program, ICCA reported that some employees did not adequately comprehend concepts of human rights and how they were applicable to PT-FI's operations. FCX/PT-FI will undertake to create new mechanisms to improve the effectiveness of its training programs. To this end, PT-FI has already begun revising the human rights training curriculum to focus on "effective learning," especially in the Security and Social and Local Development Departments. As part of this process, PT-FI has appointed a Senior Human Rights Compliance Officer, a distinguished Papuan, whose role is to ensure that our training and communications efforts are effective, appropriate, and ongoing.

Although not included in the audit report, FCX/PT-FI's Annual Human Rights Certification achieved 100% compliance, and all issues identified from the certification process were addressed and resolved.

Security Department Drivers for Police and Military

The Government of Indonesia mandates that government security institutions serve to protect the area of PT-FI operations, which has been designated as one of Indonesia's "National Vital Objects." PT-FI strives to separate activities undertaken by its employees and contractors from Government security personnel. However because of safety considerations -- driving conditions in the mining area are among the most challenging in the world -- PT-FI has provided competent drivers for military personnel using PT-FI roads. We acknowledge ICCA's findings that this practice may have led to confusion between the Company and government security. Consequently, PT-FI has made arrangements to discontinue this practice and to provide training to enable government security to drive safely in PT-FI's area of operations.

Papuan Employment

The audit noted that PT-FI has fulfilled or exceeded its commitments to increase the number of Papuan employees in the workforce. The audit also noted the challenges that PT-FI faces with continuing to provide employment opportunities for Papuans in the future. While PT-FI agrees with the audit assessment about these challenges, PT-FI has and will continue to take

steps to meet them. After successfully quadrupling the total number of Papuan employees and more than doubling the number of Papuans among the management and technical staff, the management of PT-FI believes its next important milestone is the complete integration of Papuan employees into the workforce through employee development programs, including mentoring and training.

PT-FI will continue to identify qualified Papuans for positions required in the work force. PT-FI will also continue to develop and implement programs that will accomplish the following:

1. Establish employee development plans for all workers, including Papuan employees
2. Hold supervisors responsible for the evaluation of work performance of all their subordinates and the implementation of all employee development plans
3. Make regular reports on the development of all employees to the PT-FI Manpower Planning and Review Board.

Early in 2004, PT-FI established a Graduate Development Program to attract top graduates from the best Indonesian universities. Candidates are assessed using a variety of tools, and those selected to participate are placed in a special development program. The program, now in its second year, has been highly successful, with 75 participants in September 2005. PT-FI is specifically targeting talented Papuans for this program and is recruiting at least 10 new Papuan graduates this year. In 2003, PT-FI established the Nemangkawi Mining Institute, (NMI) which currently has more than 700 students, more than 90% of whom are Papuan. NMI focuses on technical training in various trades. We expect that those who successfully complete the program will obtain meaningful skilled employment with PT-FI or another enterprise and that at least 10% of NMI graduates will have the capacity to advance to supervisory and managerial levels.

Contract Labor Providers

The ICCA audit notes that a number of workers at PT-FI are employed through contract labor providers. The audit notes that such employment is permissible under Indonesian labor law so long as certain conditions are met. PT-FI acknowledges that a number of the contract employees have been engaged as contract workers for periods that may extend longer than specified by Indonesian labor law. However, certain aspects of this law are unclear, and other provisions of the law, which are applicable to certain workers provided by licensed manpower providers, permit such employees to be contracted for an indefinite period of time.

Since 2004, we have been systematically and objectively evaluating each worker to determine whether he or she meets our current standards for hiring them as employees. If a contract worker achieves these standards, the individual is hired as an employee by PT-FI. In cases where the contract workers do not meet hiring standards, the individual is offered enrollment in a development program to gain the skills required for direct employment. Individual skill development and performance are reviewed every six months. PT-FI has developed plans to reduce its use of contract labor and to recruit all hourly employees from students that graduate from the Nemangkawi Mining Institute.

Although contract workers earn less than PT-FI employees, in most cases they lack the full competency to meet the work requirements of employees. PT-FI offers contract workers the opportunity to develop competencies and, as their competency increases, so does their pay rate. When a contract worker has reached full competency -- assuming all other conditions are met -- he or she can be hired by PT-FI.

The audit noted that PT-FI should “create a set of guidelines clearly specifying the conditions under which contract workers can be hired by PT-FI.” PT-FI has established guidelines, which are set forth in the Policy on the *Secondment of Managed Contractors’ Indonesian Employees to PT-FI*. This policy has been recently revised to incorporate new practices and changes in the labor law. We will further assess existing guidelines in response to the audit’s recommendations.

Industrial Relations

The audit recommended changes to the Industrial Relations (IR) Department to enhance the employees’ perceptions regarding its fairness and objectivity from the perspective of the workforce. PT-FI management will consider these recommendations. The report also recommended that the IR Department publish an annual report for senior management on the number of cases handled, their nature, timing, and resolution. Currently, the IR department publishes such a report and it is furnished monthly to the PT-FI Manpower Planning and Review Board.

Social and Local Development Department (SLD)

The audit report states that “from ICCA’s perspective, SLD is a remarkable success story ...” and that “PT-FI clearly fulfilled its commitments to the local community through programs developed for and with the local community.” The PT-FI personnel working in the SLD Department are genuinely involved and committed to helping Papuans. PT-FI is pleased that the audit recognized the benefits to the local community from its programs.

PT-FI recognizes its responsibility to foster the efficient and effective use of its donated funds by the local community. PT-FI has committed that the local community will have a significant role in the administration of the Freeport Partnership Fund. The formation of the LPMK in 2002 was designed to address this objective.

PT-FI and LPMK recognize that the LPMK Education Program is a beneficial program, but acknowledge that certain areas need to be addressed and improved. LPMK has decided to reduce the emphasis on scholarships and educational subsidies in favor of enhanced local education. Toward this end, LPMK and PT-FI have been working with the local education authorities to improve the quality of basic education. LPMK has developed and is implementing a five-year plan that includes specific initiatives to improve the structure and effectiveness of the Education Bureau, refocus educational resources, and bring the overall results achieved in line with expectations. In the future:

1. The number of scholarships will be reduced and refocused to provide support for performing students
2. University scholarships will be linked with employment opportunities within Papua

3. Scholarships will be provided in fields of study that match these links to employment opportunities
4. Teacher training programs will be implemented to focus on improving the quality of instruction at elementary and secondary levels
5. LPMAK will work with partner institutions to provide programs to improve the quality of basic education to create a stronger education foundation within the Mimika area
6. A quality dormitory program with high standards and accountability will be created and linked with selected quality schools. Performance standards for students living in dormitories will be enhanced. The situation with the dormitory identified in the audit has been addressed.
7. The Education Bureau will be restructured to make it a more effective body for implementing and monitoring programs.

PT-FI and LPMAK have already begun to address the problems identified in the LPMAK education program. PT-FI believes that working with LPMAK to improve programs, rather than having PT-FI take over direct administration of them as suggested in the audit report, will produce a more sustainable result for the future. We also acknowledge that emphasis should be placed on “results achieved,” not “activities,” and we are working to develop measurable objectives in all SLD areas.

Employee Perceptions

ICCA reported a number of findings that suggest negative employee perceptions of PT-FI, in particular its Industrial Relations Department (IRD). PT-FI will develop a communication program in which employees and management can engage in an ongoing dialogue about issues and perceptions. Overall, the audit found that PT-FI employees generally hold a positive opinion the company as a good employer and that most respondents feel that PT-FI contributes to the welfare of the Papuan people.

Audit Follow Up

PT-FI would like to invite ICCA to return to its Indonesian operations early in 2006 to review and assess the actions that PT-FI has taken in response to issues in its audit report.

ICCA Recommendations to PT-FI Management

ICCA has made recommendations to PT-FI for ways in which to improve performance in certain areas adjunct to, but not directly part of, the audit. PT-FI appreciates these recommendations and will take these into consideration as we move forward with our programs.