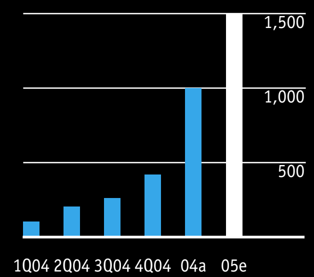
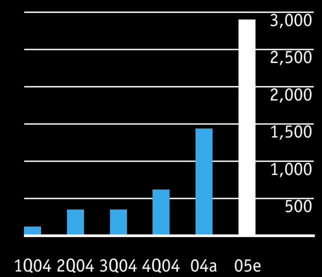
Making Progress





To Our Shareholders

We successfully addressed significant operating challenges for our Company in 2004, and by year's end we positioned our operations for strong performance in 2005 and beyond. Following the Grasberg open-pit wall slippage events in the fourth quarter of 2003, our first priority has been assuring the safety of our workforce. We also took steps to provide for the long-term stability of the Grasberg's pit walls. While the management decision to take these prudent actions caused us to produce lower volumes of copper and gold during 2004, they positioned our operations for strong future results. We achieved our goal of establishing safe access to our high-grade ore areas and production ramped up throughout 2004. By the fourth quarter of 2004, we were mining high-grade material in the lower areas of the Grasberg mine and achieving strong financial results. Our outlook for 2005 is highly positive, both from an operating and a market perspective.

Most important to our operating outlook is the significant progress we made in 2004 in our safety performance, including new and enhanced workforce programs, renewed and expanded management emphasis, the stabilizing work in the Grasberg pit and additional state-of-the-art equipment. Our lost-time injury rate per 200,000 hours worked at PT Freeport Indonesia for 2004 was 0.15 — a 56 percent improvement over 2003 — compared to the U.S. metallic mining industry average rate of 2.10 for 2003 (the latest year available); and our total reportable rate (all reportable injuries) for 2004 was 0.44 — a 32 percent improvement over 2003 — compared to the U.S. average of 3.39 in 2003. While these results are positive, the focus of our organization will be to improve our safety performance continually.

Total sales for PT Freeport Indonesia, our Indonesian mining affiliate, for 2004 were 1.0 billion pounds of copper and 1.44 million ounces of gold. Restoring safe access to our high-grade ore is expected to provide substantially greater sales for 2005 — 1.5 billion pounds of copper (50 percent more than 2004) and 2.9 million ounces of gold (100 percent more than 2004) net to PT Freeport Indonesia's interest.

The markets for both of our metals were strong in 2004, and the outlook for continued near-term strength is positive. Our average realized price per pound of copper for 2004 was $1.37, a $0.55 increase from 2003. Our average realized price per ounce of gold was $412, a $45 increase from 2003. Despite lower sales volumes, we generated net income for 2004 of $156.8 million, $0.85 per share, compared to $154.2 million, $0.97 per share in 2003. We anticipate strong financial performance in 2005. At annual average metals prices of $1.35 per pound for copper and $420 per ounce for gold, our anticipated 2005 sales of copper and gold would be expected to provide operating cash flows in excess of $1.1 billion, more than triple our 2004 cash flows.

Because the Grasberg mine and its supporting infrastructure have been fully developed in past years, capital expenditures in recent years have been limited. In 2004, capital expenditures totaled $141 million. We expect capital expenditures to total approximately $180 million in 2005 and to average approximately $145 million annually for the next five years. These expenditures include costs to maintain our productive capacity, to continue to expand our underground operations at our high-grade Deep Ore Zone underground mine and to pursue the development of our underground infrastructure for the long-term production of our significant underground reserves that are currently undeveloped. With our expected strong cash flows from operations in 2005 and subsequent years, the relatively low level of capital expenditures enables us to pursue a financial strategy of continuing to improve our balance sheet while providing returns to shareholders through dividends and purchases of our common shares.

In recent years, we have aggressively reduced our Company's debt and lengthened the maturities of our remaining obligations. Over the past five years, we have reduced our debt by $966 million and our debt net of unrestricted cash by $1.5 billion. At December 31, 2004, our gross debt was $1.95 billion. Our net debt now totals $1.4 billion, including $575 million of our 7% convertible notes which have a conversion price of $30.87 per share significantly below the current market price of our common stock. We have relatively low amounts of debt maturing in the