FREEPORT MCMORAN COPPER & GOLD INC
Form 10-Q
August 03, 2012

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-11307-01
Freeport-McMoRan Copper & Gold Inc.
(Exact name of registrant as specified in its charter)

Delaware	74-2480931
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

333 North Central Avenue	
Phoenix, AZ	85004-2189
(Address of principal executive offices)	(Zip Code)

(602) 366-8100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ Yes þ No

On July 31, 2012, there were issued and outstanding 949,247,847 shares of the registrant's common stock, par value $0.10 per share.

FREEPORT-McMoRan COPPER & GOLD INC.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

FREEPORT-McMoRan COPPER & GOLD INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	June 30, 2012	December 31, 2011
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$4,508	$4,822
Trade accounts receivable	1,052	892
Other accounts receivable	263	250
Inventories:		
Mill and leach stockpiles	1,466	1,289
Materials and supplies, net	1,377	1,354
Product	1,182	1,226
Other current assets	328	214
Total current assets	10,176	10,047
Property, plant, equipment and development costs, net	19,613	18,449
Long-term mill and leach stockpiles	1,848	1,686
Long-term receivables	860	675
Intangible assets, net	324	325
Other assets	868	888
Total assets	$33,689	$32,070
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$2,364	$2,297
Dividends payable	299	240
Current portion of reclamation and environmental obligations	227	236
Accrued income taxes	48	163
Current portion of debt	4	4
Total current liabilities	2,942	2,940
Deferred income taxes	3,550	3,255
Long-term debt, less current portion	3,519	3,533
Reclamation and environmental obligations, less current portion	2,235	2,138
Other liabilities	1,553	1,651
Total liabilities	13,799	13,517
Equity:		
FCX stockholders’ equity:		
Common stock	107	107
Capital in excess of par value	19,068	19,007
Retained earnings	1,426	546
Accumulated other comprehensive loss	(448)	(465)
Common stock held in treasury	(3,575)	(3,553)
Total FCX stockholders’ equity	16,578	15,642

Noncontrolling interests	3,312	2,911
Total equity	19,890	18,553
Total liabilities and equity	$33,689	$32,070

The accompanying notes are an integral part of these consolidated financial statements.

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FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions, except per share amounts)			
Revenues	$4,475	$5,814	$9,080	$11,523
Cost of sales:				
Production and delivery	2,622	2,557	5,050	4,934
Depreciation, depletion and amortization	291	267	558	499
Total cost of sales	2,913	2,824	5,608	5,433
Selling, general and administrative expenses	97	107	201	221
Exploration and research expenses	73	66	135	116
Environmental obligations and shutdown costs	81	60	91	60
Total costs and expenses	3,164	3,057	6,035	5,830
Operating income	1,311	2,757	3,045	5,693
Interest expense, net	(43)	(74)	(106)	(172)
Losses on early extinguishment of debt	—	(61)	(168)	(68)
Other income, net	51	2	38	12
Income before income taxes and equity in affiliated companies' net (losses) earnings	1,319	2,624	2,809	5,465
Provision for income taxes	(422)	(906)	(913)	(1,890)
Equity in affiliated companies' net (losses) earnings	(3)	8	(1)	12
Net income	894	1,726	1,895	3,587
Net income attributable to noncontrolling interests	(184)	(358)	(421)	(720)
Net income attributable to FCX common stockholders	$710	$1,368	$1,474	$2,867
Net income per share attributable to FCX common stockholders:				
Basic	$0.75	$1.44	$1.55	$3.03
Diluted	$0.74	$1.43	$1.55	$3.00
Weighted-average common shares outstanding:				
Basic	949	947	949	947
Diluted	953	956	954	956
Dividends declared per share of common stock	$0.3125	$0.75	$0.625	$1.00

The accompanying notes are an integral part of these consolidated financial statements.

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FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Net income	$894	$1,726	$1,895	$3,587
Other comprehensive income, net of taxes:				
Unrealized losses on securities arising during the period	(1)	(1)	(1)	—
Translation adjustments arising during the period	(1)	—	(1)	1
Defined benefit plans:				
Amortization of unrecognized amounts included in net periodic benefit costs	8	3	15	6
Adjustment to deferred tax valuation allowance	—	—	5	—
Other comprehensive income	6	2	18	7
Total comprehensive income	900	1,728	1,913	3,594
Total comprehensive income attributable to noncontrolling interests	(185)	(358)	(422)	(720)
Total comprehensive income attributable to FCX common stockholders	$715	$1,370	$1,491	$2,874

The accompanying notes are an integral part of these consolidated financial statements.

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FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
	2012	2011
	(In millions)	
Cash flow from operating activities:		
Net income	$1,895	$3,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	558	499
Stock-based compensation	54	69
Pension plans contributions	(75)	—
Charges for reclamation and environmental obligations, including accretion	112	79
Payments of reclamation and environmental obligations	(98)	(88)
Losses on early extinguishment of debt	168	68
Deferred income taxes	288	337
Increase in long-term mill and leach stockpiles	(162)	(98)
Other, net	17	(32)
(Increases) decreases in working capital and other tax payments:		
Accounts receivable	(182)	577
Inventories	(160)	(346)
Other current assets	(11)	—
Accounts payable and accrued liabilities	(117)	(184)
Accrued income taxes and other tax payments	(304)	(429)
Net cash provided by operating activities	1,983	4,039
Cash flow from investing activities:		
Capital expenditures:		
North America copper mines	(297)	(204)
South America	(392)	(257)
Indonesia	(387)	(301)
Africa	(297)	(40)
Molybdenum	(153)	(162)
Other	(21)	(68)
Other, net	(4)	19
Net cash used in investing activities	(1,551)	(1,013)
Cash flow from financing activities:		
Proceeds from debt	3,016	23
Repayments of debt	(3,171)	(1,288)
Cash dividends paid:		
Common stock	(535)	(949)
Noncontrolling interests	(38)	(195)
Contributions from noncontrolling interests	—	13
Net payments for stock-based awards	(3)	(3)
Excess tax benefit from stock-based awards	7	22
Other, net	(22)	(9)
Net cash used in financing activities	(746)	(2,386)

Net (decrease) increase in cash and cash equivalents	(314)	640
Cash and cash equivalents at beginning of year	4,822	3,738
Cash and cash equivalents at end of period	$4,508	$4,378

The accompanying notes are an integral part of these consolidated financial statements.

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FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED STATEMENT OF EQUITY (Unaudited)

	FCX Stockholders' Equity									
	Common Stock					Common Stock Held in Treasury				
	Number of Shares	At Par Value	Capital in Excess of Par Value	Retained Earnings	Accumu-lated Other Compre-hensive Loss	Number of Shares	At Cost	Total FCX Stock-holders' Equity	Non-controlling Interests	Total Equity
	(In millions)									
Balance at December 31, 2011	1,071	$107	$19,007	$546	$(465)	123	$(3,553)	$ 15,642	$ 2,911	$18,553
Exercised and issued stock-based awards	2	—	13	—	—	—	—	13	—	13
Stock-based compensation	—	—	54	—	—	—	—	54	—	54
Tax benefit for stock-based awards	—	—	5	—	—	—	—	5	—	5
Tender of shares for stock-based awards	—	—	6	—	—	1	(22)	(16)	—	(16)
Dividends on common stock	—	—	—	(594)	—	—	—	(594)	—	(594)
Dividends to noncontrolling interests	—	—	—	—	—	—	—	—	(38)	(38)
Change in ownership interests	—	—	(17)	—	—	—	—	(17)	17	—
Total comprehensive income	—	—	—	1,474	17	—	—	1,491	422	1,913
Balance at June 30, 2012	1,073	$107	$19,068	$1,426	$(448)	124	$(3,575)	$ 16,578	$ 3,312	$19,890

The accompanying notes are an integral part of these consolidated financial statements.

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FREEPORT-McMoRan COPPER & GOLD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. GENERAL INFORMATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and disclosures required by generally accepted accounting principles (GAAP) in the United States (U.S.). Therefore, this information should be read in conjunction with Freeport-McMoRan Copper & Gold Inc.'s (FCX) consolidated financial statements and notes contained in its 2011 Annual Report on Form 10-K. The information furnished herein reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported. All such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the three-month and six-month periods ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

2. EARNINGS PER SHARE

FCX's basic net income per share of common stock was calculated by dividing net income attributable to common stock by the weighted-average shares of common stock outstanding during the period. Following is a reconciliation of net income and weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$894	$1,726	$1,895	$3,587
Net income attributable to noncontrolling interests	(184)	(358)	(421)	(720)
Net income attributable to FCX common stockholders	$710	$1,368	$1,474	$2,867
Weighted-average shares of common stock outstanding	949	947	949	947
Add shares issuable upon exercise or vesting of:				
Dilutive stock options	3	8	4 [a]	8
Restricted stock units	1	1	1	1
Weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share	953	956	954	956
Diluted net income per share attributable to FCX common stockholders	$0.74	$1.43	$1.55	$3.00

a. Excluded approximately one million shares of common stock with exercise prices less than the average market price of FCX's common stock during the period that were anti-dilutive based on the treasury stock method.

Outstanding stock options with exercise prices greater than the average market price of FCX's common stock during the period are excluded from the computation of diluted net income per share of common stock. Excluded amounts were approximately 25 million stock options with a weighted-average exercise price of $42.53 per option for second-quarter 2012 and approximately 17 million stock options with a weighted average exercise price of $44.73 for the six months ended June 30, 2012. Stock options for approximately 5 million shares with a weighted-average exercise price of $55.77 were excluded for second-quarter 2011, and stock options for approximately 2 million shares with a weighted-average exercise price of $55.90 were excluded for the six months ended June 30, 2011.

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3. INVENTORIES, INCLUDING LONG-TERM MILL AND LEACH STOCKPILES

The components of inventories follow (in millions):

	June 30, 2012	December 31, 2011
Mining operations:[a]		
Raw materials	$1	$1
Finished goods[b]	748	769
Atlantic Copper, S.L.U. (Atlantic Copper):		
Raw materials (concentrates)	245	260
Work-in-process	161	187
Finished goods	27	9
Total product inventories	1,182	1,226
Total materials and supplies, net[c]	1,377	1,354
Total inventories, less current portion of mill and leach stockpiles	$2,559	$2,580

a. FCX's mining operations also have work-in-process inventories (i.e., mill and leach stockpiles), which are summarized below.

b. Primarily includes molybdenum concentrates and copper concentrates, anodes, cathodes and rod.

c. Materials and supplies inventory is net of obsolescence reserves totaling $27 million at June 30, 2012, and $26 million at December 31, 2011.

A summary of mill and leach stockpiles follows (in millions):

	June 30, 2012	December 31, 2011
Current:		
Mill stockpiles	$89	$69
Leach stockpiles	1,377	1,220
Total current mill and leach stockpiles	$1,466	$1,289
Long-term:[a]		
Mill stockpiles	$572	$535
Leach stockpiles	1,276	1,151
Total long-term mill and leach stockpiles	$1,848	$1,686

a. Metals in stockpiles not expected to be recovered within the next 12 months.

4. INCOME TAXES

Geographic sources of FCX's provision for income taxes follow (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
United States operations	$110	$120	$193	$258
International operations	312	786	720	1,632
Total	$422	$906	$913	$1,890

FCX’s consolidated effective income tax rate was 33 percent for the first six months of 2012 and 35 percent for the first six months of 2011. Variations in the relative proportions of jurisdictional income can result in fluctuations to FCX’s consolidated effective income tax rate.

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With the exception of Tenke Fungurume S.A.R.L. (TFM), FCX has not elected to permanently reinvest earnings from its foreign subsidiaries, and has recorded deferred tax liabilities for foreign earnings that are available to be repatriated to the U.S. Cerro Verde previously recorded deferred Peruvian income tax liabilities of $240 million for income taxes that would become payable if the reinvested profits used to fund the initial Cerro Verde sulfide expansion are distributed prior to the expiration of Cerro Verde's current stability agreement on December 31, 2013. FCX is currently reviewing Cerro Verde's future cash requirements, including funding for the potential large-scale concentrator expansion to determine whether it believes that the reinvested profits will be distributed prior to December 31, 2013. This review and a decision to proceed with the expansion project may result in all or a part of the $240 million deferred income tax liability being reversed and recognized as an income tax benefit in future periods.

5. DEBT AND EQUITY TRANSACTIONS

In February 2012, FCX sold $500 million of 1.40% Senior Notes due 2015, $500 million of 2.15% Senior Notes due 2017 and $2.0 billion of 3.55% Senior Notes due 2022 for total net proceeds of $2.97 billion. Interest on the 1.40% Senior Notes is payable semiannually on February 13 and August 13 commencing on August 13, 2012. Interest on the 2.15% Senior Notes and the 3.55% Senior Notes is payable semiannually on March 1 and September 1 commencing on September 1, 2012. These unsecured senior notes rank equally with FCX's other existing and future unsecured and unsubordinated indebtedness.

On March 14, 2012, FCX redeemed the remaining $3.0 billion of its outstanding 8.375% Senior Notes due 2017 for which holders received 104.553 percent of the principal amount together with the accrued and unpaid interest. As a result of this redemption, FCX recorded a loss on early extinguishment of debt of $168 million ($149 million to net income attributable to FCX common stockholders or $0.16 per diluted share) for the first six months of 2012.

During the first quarter of 2011, FCX entered into a new senior unsecured revolving credit facility, which replaced the revolving credit facilities that were scheduled to mature on March 19, 2012. FCX recognized a loss on early extinguishment of debt totaling $7 million ($6 million to net income attributable to FCX common shareholders or $0.01 per diluted share) for the first six months of 2011 associated with this transaction.

On April 1, 2011, FCX redeemed its remaining $1.1 billion of outstanding 8.25% Senior Notes due 2015, for which holders received 104.125 percent of the principal amount together with accrued and unpaid interest. As a result of this redemption, FCX recorded a loss on early extinguishment of debt totaling $55 million ($49 million to net income attributable to FCX common stockholders or $0.05 per diluted share) in the second-quarter and six-month periods of 2011.

During the second quarter of 2011, FCX purchased in the open market $35 million of its 9.5% Senior Notes due 2031 for $49 million, which resulted in losses on early extinguishment of debt totaling $6 million ($5 million to net income attributable to FCX common stockholders or $0.01 per diluted share) in the second-quarter and six-month periods of 2011.

Consolidated interest expense (excluding capitalized interest) totaled $55 million in second-quarter 2012, $97 million in second-quarter 2011, $154 million for the first six months of 2012 and $220 million for the first six months of 2011. Capitalized interest totaled $12 million in second-quarter 2012, $23 million in second-quarter 2011 and $48 million for the first six months of 2012 and 2011.

On February 7, 2012, the Board of Directors authorized an increase in the cash dividend on FCX's common stock from an annual rate of $1.00 per share to $1.25 per share. On June 27, 2012, FCX's Board of Directors declared a quarterly dividend of $0.3125 per share, which was paid on August 1, 2012, to common shareholders of record at the close of business on July 13, 2012.

6. FINANCIAL INSTRUMENTS

FCX does not purchase, hold or sell derivative financial instruments unless there is an existing asset or obligation or it anticipates a future activity that is likely to occur and will result in exposure to market risks that FCX intends to offset or mitigate. FCX does not enter into any derivative financial instruments for speculative purposes, but has entered into derivative financial instruments in limited instances to achieve specific objectives. These objectives principally relate to managing risks associated with commodity price changes, foreign currency exchange rates and interest rates.

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Commodity Contracts. From time to time, FCX has entered into forward, futures and swap contracts to hedge the market risk associated with fluctuations in the prices of commodities it purchases and sells. Derivative financial instruments used by FCX to manage its risks do not contain credit risk-related contingent provisions. As of June 30, 2012, FCX had no price protection contracts relating to its mine production. A discussion of FCX’s derivative commodity contracts and programs follows.

Derivatives Designated as Hedging Instruments – Fair Value Hedges
Copper Futures and Swap Contracts. Some of FCX's U.S. copper rod customers request a fixed market price instead of the New York Mercantile Exchange (COMEX) average copper price in the month of shipment. FCX hedges this price exposure in a manner that allows it to receive the COMEX average price in the month of shipment while the customers pay the fixed price they requested. FCX accomplishes this by entering into copper futures and swap contracts and then liquidating the copper futures contracts and settling the copper swap contracts during the month of shipment, which generally results in FCX receiving the COMEX average copper price in the month of shipment. Hedge gains or losses from these copper futures and swap contracts are recorded in revenues. FCX did not have any significant gains or losses during the three-month and six-month periods ended June 30, 2012 and 2011, resulting from hedge ineffectiveness. At June 30, 2012, FCX held copper futures and swap contracts that qualified for hedge accounting for 65 million pounds at an average contract price of $3.55 per pound, with maturities through December 2013.

A summary of gains (losses) recognized in revenues for derivative financial instruments related to commodity contracts that are designated and qualify as fair value hedge transactions, along with the unrealized gains (losses) on the related hedged item (firm sales commitments) follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Copper futures and swap contracts:				
Unrealized gains (losses):				
Derivative financial instruments	$(11)	$5	$7	$(10)
Hedged item	11	(5)	(7)	10
Realized gains (losses):				
Matured derivative financial instruments	(14)	(6)	(4)	6

Derivatives Not Designated as Hedging Instruments
Embedded Derivatives. As described in Note 1 to FCX’s 2011 Annual Report on Form 10-K under “Revenue Recognition,” certain FCX copper concentrate, copper cathode and gold sales contracts provide for provisional pricing primarily based on London Metal Exchange (LME) or COMEX prices (copper) and the London Bullion Market Association (London PM) price (gold) at the time of shipment as specified in the contract. Similarly, FCX purchases copper and molybdenum under contracts that provide for provisional pricing (molybdenum purchases are generally based on an average Metals Week Molybdenum Dealer Oxide price). FCX applies the normal purchases and normal sales scope exception in accordance with derivatives and hedge accounting guidance to the host sales agreements since the contracts do not allow for net settlement and always result in physical delivery. Sales and purchases with a provisional sales price contain an embedded derivative (i.e., the price settlement mechanism that is settled after the time of delivery) that is required to be bifurcated from the host contract. The host contract is the sale or purchase of the metals contained in the concentrates or cathodes at the then-current LME or COMEX price (copper), London PM price (gold) or the average Metals Week Molybdenum Dealer Oxide price (molybdenum) as defined in the contract. Mark-to-market price fluctuations recorded through the settlement date are reflected in revenues for sales contracts and in cost of sales as production and delivery costs for purchase contracts.

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A summary of FCX's embedded derivatives at June 30, 2012, follows:

	Open Positions	Average Price Per Unit Contract	Market	Maturities Through
Embedded derivatives in provisional sales contracts:				
Copper (millions of pounds)	484	$3.62	$3.48	November 2012
Gold (thousands of ounces)	96	1,600	1,585	September 2012
Embedded derivatives in provisional purchase contracts:				
Copper (millions of pounds)	282	3.57	3.49	October 2012

Copper Forward Contracts. Atlantic Copper, FCX's wholly owned smelting and refining unit in Spain, enters into forward copper contracts designed to hedge its copper price risk whenever its physical purchases and sales pricing periods do not match. These economic hedge transactions are intended to hedge against changes in copper prices, with the mark-to-market hedging gains or losses recorded in cost of sales. At June 30, 2012, Atlantic Copper held net forward copper purchase contracts for 23 million pounds at an average contract price of $3.36 per pound, with maturities through August 2012.

A summary of the realized and unrealized gains (losses) recognized in income before income taxes and equity in affiliated companies' net (losses) earnings for commodity contracts that do not qualify as hedge transactions, including embedded derivatives, follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Embedded derivatives in provisional sales contracts[a]	$(160)	$22	$24	$(25)
Copper forward contracts[b]	1	(6)	12	(6)

a. Amounts recorded in revenues.
b. Amounts recorded in cost of sales as production and delivery costs.

Unsettled Derivative Financial Instruments

A summary of the fair values of unsettled derivative financial instruments recorded on the consolidated balance sheets follows (in millions):

	June 30, 2012	December 31, 2011
Derivatives designated as hedging instruments		
Commodity contracts:		
Copper futures and swap contracts:[a]		
Asset position[b]	$4	$3
Liability position[c]	(8)	(13)
Derivatives not designated as hedging instruments		
Commodity contracts:		
Embedded derivatives in provisional sales/purchase contracts:[d]		
Asset position	$53	$72
Liability position	(95)	(82)
Copper forward contracts:		
Asset position[b]	3	2

a. FCX had paid $25 million to brokers as of June 30, 2012, and $31 million as of December 31, 2011, for margin requirements (recorded in other current assets). In addition, FCX held $4 million in margin funding from customers as of June 30, 2012, and $3 million as of December 31, 2011, associated with margin requirements (recorded in accounts payable and accrued liabilities).

b. Amounts recorded in other current assets.

c. Amounts recorded in accounts payable and accrued liabilities.

d. Amounts recorded either as a net accounts receivable or a net accounts payable.

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Foreign Currency Exchange Contracts. As a global company, FCX transacts business in many countries and in many currencies. Foreign currency transactions of FCX's international subsidiaries increase its risks because exchange rates can change between the time agreements are made and the time foreign currency transactions are settled. FCX may hedge or protect its international subsidiaries' foreign currency transactions from time to time by entering into forward exchange contracts to lock in or minimize the effects of fluctuations in exchange rates. FCX had no outstanding foreign currency exchange contracts at June 30, 2012.

Interest Rate Swap Contracts. From time to time, FCX or its subsidiaries may enter into interest rate swaps to manage its exposure to interest rate changes and to achieve a desired proportion of fixed-rate versus floating-rate debt based on current and projected market conditions. FCX may enter into fixed-to-floating interest rate swap contracts to protect against changes in the fair value of the underlying fixed-rate debt that result from market interest rate changes and to take advantage of lower interest rates. FCX had no outstanding interest rate swap contracts at June 30, 2012.

Credit Risk. FCX is exposed to credit loss when financial institutions with which FCX has entered into derivative transactions (commodity, foreign exchange and interest rate swaps) are unable to pay. To minimize the risk of such losses, FCX uses counterparties that meet certain credit requirements and periodically reviews the creditworthiness of these counterparties. FCX does not anticipate that any of the counterparties it deals with will default on their obligations. As of June 30, 2012, FCX did not have any significant credit exposure associated with derivative transactions.

Other Financial Instruments. Other financial instruments include cash and cash equivalents, accounts receivable, trust assets, investment securities, accounts payable and accrued liabilities, dividends payable and long-term debt. Refer to Note 7 for the fair values of these financial instruments.

Cash and Cash Equivalents, Accounts Receivable, Accounts Payable and Accrued Liabilities, and Dividends Payable. The financial statement amount is a reasonable estimate of the fair value because of the short maturity of these instruments and generally negligible credit losses.

Trust Assets and Investment Securities. The financial statement amount represents the fair value of trust assets and investment securities except for the investment in McMoRan Exploration Co.'s (MMR) 5¾% Convertible Perpetual Preferred Stock, which is recorded at cost.

Long-Term Debt. The financial statement amount represents cost except for long-term debt acquired in the Freeport-McMoRan Corporation (FMC) acquisition, which was recorded at fair value at the acquisition date.

7. FAIR VALUE MEASUREMENT

Fair value accounting guidance includes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). FCX did not have any significant transfers in or out of Levels 1, 2 or 3 for the second quarter of 2012.

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The carrying value for certain FCX financial instruments (i.e., cash, accounts receivable, accounts payable and accrued liabilities, and dividends payable) approximate fair value because of their short-term nature and generally negligible credit losses. A summary of the carrying amount and fair value of FCX's other financial instruments follows (in millions):

	At June 30, 2012				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
Assets					
Cash equivalents:[a]					
Money market funds	$4,185	$4,185	$4,185	$—	$—
Investment securities (current and long-term):					
MMR investment[b]	461	475	—	475	—
Money market funds[a, c]	24	24	24	—	—
Equity securities[a, c]	7	7	7	—	—
Total investment securities	492	506	31	475	—
Trust assets (long-term):[a, c]					
U.S. core fixed income fund	48	48	—	48	—
Government mortgage-backed securities	43	43	—	43	—
Corporate bonds	24	24	—	24	—
Government bonds and notes	24	24	—	24	—
Asset-backed securities	10	10	—	10	—
Money market funds	7	7	7	—	—
Municipal bonds	1	1	—	1	—
Total trust assets	157	157	7	150	—
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in an asset position[d]	53	53	—	53	—
Copper futures and swap contracts[e]	4	4	3	1	—
Copper forward contracts[e]	3	3	1	2	—
Total derivative assets	60	60	4	56	—
Total assets		$4,908	$4,227	$681	$—
Liabilities					
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in a liability position[d]	$95	$95	$—	$95	$—
Copper futures and swap contracts[f]	8	8	6	2	—
Total derivative liabilities	103	103	6	97	—
Long-term debt, including current portion[g]	3,523	3,564	—	3,564	—
Total liabilities		$3,667	$6	$3,661	$—

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	At December 31, 2011				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
Assets					
Cash equivalents:[a]					
Money market funds	$4,007	$4,007	$4,007	$—	$—
Investment securities (current and long-term):					
MMR investment[b]	475	507	—	507	—
Equity securities[a, c]	9	9	9	—	—
Money market funds[a, c]	2	2	2	—	—
Total investment securities	486	518	11	507	—
Trust assets (long-term):[a, c]					
Government mortgage-backed securities	47	47	—	47	—
U.S. core fixed income fund	46	46	—	46	—
Government bonds and notes	21	21	—	21	—
Corporate bonds	19	19	—	19	—
Money market funds	9	9	9	—	—
Asset-backed securities	9	9	—	9	—
Municipal bonds	1	1	—	1	—
Total trust assets	152	152	9	143	—
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in an asset position[d]	72	72	—	72	—
Copper futures and swaps contracts[e]	3	3	3	—	—
Copper forward contracts[e]	2	2	1	1	—
Total derivative assets	77	77	4	73	—
Total assets		$4,754	$4,031	$723	$—
Liabilities					
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in a liability position[d]	$82	$82	$—	$82	$—
Copper futures and swap contracts[f]	13	13	11	2	—
Total derivative liabilities	95	95	11	84	—
Long-term debt, including current portion[g]	3,537	3,797	—	3,797	—
Total liabilities		$3,892	$11	$3,881	$—

a. Recorded at fair value.
b. Recorded at cost and included in other assets.
c. Current portion included in other current assets and long-term portion included in other assets.
d. Embedded derivatives are recorded in accounts receivable and/or accounts payable and accrued liabilities.
e. Included in other current assets.

f. Included in accounts payable and accrued liabilities.

g. Recorded at cost except for long-term debt acquired in the FMC acquisition, which was recorded at fair value at the acquisition date.

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Valuation Techniques

Money market funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets.

MMR's 5¾% Convertible Perpetual Preferred Stock is not actively traded; therefore, FCX's investment in the MMR 5¾% Convertible Perpetual Preferred Stock is valued based on a pricing simulation model that uses MMR's publicly traded common stock as the most significant observable input. Therefore, this investment is classified within Level 2 of the fair value hierarchy.

Fixed income securities (government and agency securities, U.S. core fixed income funds, corporate bonds and asset-backed securities) are valued using a bid evaluation or a mid evaluation. A bid evaluation is an estimated price at which a dealer would pay for a security. A mid evaluation is the average of the estimated price at which a dealer would sell a security and the estimated price at which a dealer would pay for a security. These evaluations are based on quoted prices, if available, or models that use observable inputs and, as such, are classified within Level 2 of the fair value hierarchy.

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded and, as such, are classified within Level 1 of the fair value hierarchy.

FCX’s embedded derivatives on provisional copper concentrate, copper cathode and gold purchases and sales have critical inputs of quoted monthly LME or COMEX copper forward prices and the London PM gold forward price at each reporting date based on the month of maturity; however, FCX's contracts themselves are not traded on an exchange. Likewise, FCX’s embedded derivatives on provisional molybdenum purchases have critical inputs based on the latest average weekly Metals Week Molybdenum Dealer Oxide prices; however, FCX's contracts themselves are not traded on an exchange. As a result, these derivatives are classified within Level 2 of the fair value hierarchy.

FCX’s derivative financial instruments for copper futures and swap contracts and copper forward contracts that are traded on the respective exchanges are classified within Level 1 of the fair value hierarchy because they are valued using quoted monthly COMEX or LME forward prices at each reporting date based on the month of maturity (refer to Note 6 for further discussion). Certain of these contracts are traded on the over-the-counter market and are classified within Level 2 of the fair value hierarchy.

Long-term debt, including current portion, is not actively traded and is valued using prices obtained from a readily available pricing source and, as such, is classified within Level 2 of the fair value hierarchy.

The techniques described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FCX believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the techniques used at June 30, 2012.

8. CONTINGENCIES AND COMMITMENTS

Litigation. The following information includes a discussion of updates to previously reported legal proceedings included in Note 13 and incorporated by reference into Part I, Item 3. “Legal Proceedings” of FCX's annual report on Form 10-K for the year ended December 31, 2011.

Kay County, Oklahoma. Board of Commissioners of the County of Kay, Oklahoma, v. Freeport-McMoRan Copper & Gold Inc., et al., United States District Court, Western District of Oklahoma, Case No. 5:12-cv-00601-C. On May 23, 2012, the Board of Commissioners of Kay County, Oklahoma, filed suit in Oklahoma District Court against FCX and several affiliates, including Blackwell Zinc Company, Inc. (BZC), an indirect subsidiary of FCX that owned and operated a zinc smelter in Blackwell, Oklahoma, from 1916 to 1974. On May 25, 2012, the case was removed to the United States District Court for the Western District of Oklahoma. The suit alleges that BZC permitted large quantities of smelter waste to be used as road building and fill material throughout Kay County over a period of decades and seeks unspecified financial assistance for removing or covering much of the material and unspecified damages for the alleged public nuisance created by the presence of the material. Because of the early stage of the proceeding, an estimate of any possible loss or range of loss cannot be made. FCX intends to vigorously defend against this litigation.

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Columbian Chemicals Company (Columbian) Claims. Columbian Chemicals Company and Columbian Chemicals Acquisition LLC v. Freeport-McMoRan Corporation f/k/a Phelps Dodge Corporation, County of New York, Supreme Court of the State of New York, Index No. 600999/2010. In July 2012, FCX and Columbian reached a settlement pursuant to which the litigation will be dismissed with prejudice and all outstanding disputes regarding the extent of FCX's indemnity obligations to Columbian will be fully resolved. Under the terms of the settlement, FCX's remaining possible exposure will be to indemnify Columbian for incurred losses related only to the Clean Air Act matter and the Carbon Black claims, and the original indemnity cap of approximately $110 million will be increased by an amount that is not material to FCX.

Other Contingencies. The Indonesian tax authorities issued assessments for various audit exceptions on PT Freeport Indonesia's income tax returns as follows (in millions):

Date of assessment	Tax return year	Tax assessment	Interest assessment	Total
October 2010	2005	$106	$52	$158
November 2011	2006	22	10	32
March 2012	2007	91	44	135
Total		$219	$106	$325

PT Freeport Indonesia has filed objections to the 2005, 2006 and 2007 assessments. During first-quarter 2012, PT Freeport Indonesia's objections to the assessments related to 2005 were substantially all rejected by the Indonesian tax authorities and, in May 2012, appeals were filed with the Indonesian Tax Court. As of June 30, 2012, PT Freeport Indonesia has paid $158 million (of which $124 million is included in long-term receivables) for the disputed tax assessments related to 2005, 2006 and 2007.

Mining Contracts. Effective March 26, 2012, the Democratic Republic of Congo (DRC) government issued a Presidential Decree approving the modifications to TFM's bylaws. As a result, FCX's effective ownership interest in the Tenke Fungurume minerals district was reduced from 57.75 percent to 56.0 percent and $50 million of TFM's intercompany loans payable to FMC were converted to equity.

9. NEW ACCOUNTING STANDARDS

In May 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) in connection with guidance for fair value measurements and disclosures. This ASU clarifies the FASB's intent on current guidance, modifies and changes certain guidance and principles, and expands disclosures concerning Level 3 fair value measurements in the fair value hierarchy (including quantitative information about significant unobservable inputs within Level 3 of the fair value hierarchy). In addition, this ASU requires disclosure of the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position, but whose fair value is required to be disclosed. This ASU is effective for interim and annual reporting periods beginning after December 15, 2011, and early application is not permitted. FCX adopted this guidance effective January 1, 2012.

In June 2011, FASB issued an ASU in connection with guidance on the presentation of comprehensive income. The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This ASU requires an entity to present the components of net income and other comprehensive income and total comprehensive income (includes net income) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of equity, but does not change the items that must be reported in other comprehensive income. This ASU is effective for interim and annual reporting periods beginning after December 15, 2011, and early adoption is permitted. Effective January 1, 2012, FCX adopted this ASU and presented total comprehensive income in a separate statement. Additionally, in December 2011, FASB deferred the effective date in this ASU for presenting reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements.

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10. SUBSEQUENT EVENTS

In July 2012, Sociedad Minera Cerro Verde S.A.A. (Cerro Verde) signed a new 15-year mining stability agreement with the Peruvian government, which is expected to become effective January 1, 2014, when the current mining stability agreement expires on December 31, 2013. In connection with the new mining stability agreement, Cerro Verde's income tax rate will increase from 30 percent to 32 percent. As a result of the change in the income tax rate, FCX expects to recognize additional deferred tax expense of approximately $50 million in third-quarter 2012, which relates primarily to the increase in asset values recorded in connection with the 2007 acquisition of FMC.

FCX evaluated events after June 30, 2012, and through the date the consolidated financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these consolidated financial statements.

11. BUSINESS SEGMENTS

FCX has organized its operations into five primary divisions – North America copper mines, South America mining, Indonesia mining, Africa mining and Molybdenum operations. Notwithstanding this structure, FCX internally reports information on a mine-by-mine basis. Therefore, FCX concluded that its operating segments include individual mines or operations. Operating segments that meet certain thresholds are reportable segments.

Intersegment Sales. Intersegment sales between FCX’s operations are based on similar arms-length transactions with third parties at the time of the sale. Intersegment sales may not be reflective of the actual prices ultimately realized because of a variety of factors, including additional processing, timing of sales to unaffiliated customers and transportation premiums.

Allocations. FCX allocates certain operating costs, expenses and capital expenditures to its operating divisions and individual segments. However, not all costs and expenses applicable to a mine or operation are allocated. U.S. federal and state income taxes are recorded and managed at the corporate level, whereas foreign income taxes are recorded and managed at the applicable country. In addition, most exploration and research activities are managed at the corporate level, and those costs along with some selling, general and administrative costs are not allocated to the operating divisions or segments. Accordingly, the following segment information reflects management determinations that may not be indicative of what the actual financial performance of each operating division or segment would be if it was an independent entity.

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Business Segments

(In millions)	North America Copper Mines			South America			Indonesia	Africa					
	Morenci	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum	Rod & Refining	Atlantic Copper Smelting & Refining	Corporate, Other & Eliminations	FCX Total
Three Months Ended June 30, 2012													
Revenues:													
Unaffiliated customers	$105	$(5)	$100	$332	$546	$878	$875 [a]	$317	$334	$1,283	$686	$2	$4,475
Intersegment	405	922	1,327	151	(13)	138	81	5	—	7	9	(1,567)	—
Production and delivery	279	503	782	185	305	490	594	152	277	1,281	669	(1,623)	2,622
Depreciation, depletion and amortization	33	61	94	33	39	72	53	40	14	3	10	5	291
Selling, general and administrative expenses	1	—	1	—	1	1	27	1	3	—	5	59	97
Exploration and research expenses	—	—	—	—	—	—	—	—	1	—	—	72	73
Environmental obligations and shutdown costs	—	42	42	—	—	—	—	—	—	—	—	39	81
Operating income (loss)	197	311	508	265	188	453	282	129	39	6	11	(117)	1,311
Interest expense, net	—	1	1	—	—	—	3	—	—	—	3	36	43
Provision for income taxes	—	—	—	96	55	151	126	22	—	—	—	123	422
Total assets at June 30, 2012	2,135	5,356	7,491	5,472	4,081	9,553	5,883	4,318	2,561	327	990	2,566	33,689
Capital expenditures	52	102	154	116	124	240	205	170	58	—	4	9	840
Three Months Ended June 30, 2011													
Revenues:													
Unaffiliated customers	$157	$94	$251	$598	$638	$1,236	$1,465 [a]	$375	$413	$1,421	$651	$2	$5,814

Intersegment	438	870	1,308	138	74	212	99	3	—	6	2	(1,630)	—
Production and delivery	257	414	671	198	243	441	518	156	286	1,421	685	(1,621)	2,557
Depreciation, depletion and amortization	30	41	71	36	30	66	60	38	16	2	9	5	267
Selling, general and administrative expenses	1	—	1	1	—	1	28	3	4	—	5	65	107
Exploration and research expenses	1	—	1	—	—	—	—	—	1	—	—	64	66
Environmental obligations and shutdown costs	3	—	3	—	—	—	—	—	—	1	—	56	60
Operating income (loss)	303	509	812	501	439	940	958	181	106	3	(46)	(197)	2,757
Interest expense, net	1	2	3	1	—	1	1	1	—	—	4	64	74
Provision for income taxes	—	—	—	159	162	321	405	40	—	—	—	140	906
Total assets at June 30, 2011	1,970	4,797	6,767	4,732	3,558	8,290	5,876	3,744	2,193	359	1,316	2,034	30,579
Capital expenditures	19	66	85	32	85	117	176	29	91	2	16	11	527

a. Includes PT Freeport Indonesia’s sales to PT Smelting totaling $368 million in second-quarter 2012 and $653 million in second-quarter 2011.

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(In millions)	North America Copper Mines			South America			Indonesia	Africa					
	Morenci	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum	Rod & Refining	Atlantic Copper Smelting & Refining	Corporate, Other & Elimi-nations	FCX Total
Six Months Ended June 30, 2012													
Revenues:													
Unaffiliated customers	$118	$12	$130	$781	$1,072	$1,853	$1,828 [a]	$620	$674	$2,581	$1,390	$4	$9,080
Intersegment	918	1,835	2,753	278	139	417	78	7	—	13	17	(3,285)	—
Production and delivery	535	954	1,489	378	575	953	1,089	284	539	2,578	1,364	(3,246)	5,050
Depreciation, depletion and amortization	64	123	187	63	71	134	99	72	29	5	20	12	558
Selling, general and administrative expenses	1	1	2	1	2	3	60	3	6	—	10	117	201
Exploration and research expenses	—	—	—	—	—	—	—	—	2	—	—	133	135
Environmental obligations and shutdown costs	—	42	42	—	—	—	—	—	—	—	—	49	91
Operating income (loss)	436	727	1,163	617	563	1,180	658	268	98	11	13	(346)	3,045
Interest expense, net	—	2	2	5	—	5	3	—	—	—	6	90	106
Provision for income taxes	—	—	—	219	172	391	276	51	—	—	—	195	913
Capital expenditures	96	201	297	185	207	392	387	297	153	3	7	11	1,547
Six Months Ended June 30, 2011													
Revenues:													
Unaffiliated customers	$293	$110	$403	$1,266	$1,233	$2,499	$2,837 [a]	$684	$787	$2,902	$1,407	$4	$11,523
Intersegment	824	1,693	2,517	198	153	351	457	3	—	12	8	(3,348)	—
	467	792	1,259	373	479	852	1,044	280	526	2,902	1,448	(3,377)	4,934

Production and delivery													
Depreciation, depletion and amortization	58	71	129	70	53	123	117	66	30	4	19	11	499
Selling, general and administrative expenses	1	1	2	2	1	3	71	5	8	—	13	119	221
Exploration and research expenses	1	—	1	—	—	—	—	—	2	—	—	113	116
Environmental obligations and shutdown costs	3	—	3	—	—	—	—	—	—	1	—	56	60
Operating income (loss)	587	939	1,526	1,019	853	1,872	2,062	336	221	7	(65)	(266)	5,693
Interest expense, net	2	3	5	1	—	1	2	3	—	—	8	153	172
Provision for income taxes	—	—	—	322	305	627	901	80	—	—	—	282	1,890
Capital expenditures	48	156	204	56	201	257	301	40	162	5	24	39	1,032

a. Includes PT Freeport Indonesia’s sales to PT Smelting totaling $957 million for the first six months of 2012 and $1.3 billion for the first six months of 2011.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
FREEPORT-McMoRan COPPER & GOLD INC.

We have reviewed the condensed consolidated balance sheet of Freeport-McMoRan Copper & Gold Inc. as of June 30, 2012, and the related consolidated statements of income and comprehensive income for the three- and six-month periods ended June 30, 2012 and 2011, the consolidated statements of cash flows for the six-month periods ended June 30, 2012 and 2011, and the consolidated statement of equity for the six-month period ended June 30, 2012. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Freeport-McMoRan Copper & Gold Inc. as of December 31, 2011, and the related consolidated statements of income, cash flows, and equity for the year then ended (not presented herein), and in our report dated February 27, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Phoenix, Arizona
August 3, 2012

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

In Management’s Discussion and Analysis of Financial Condition and Results of Operations, “we,” “us” and “our” refer to Freeport-McMoRan Copper & Gold Inc. (FCX) and its consolidated subsidiaries. You should read this discussion in conjunction with our financial statements, the related Management’s Discussion and Analysis of Financial Condition and Results of Operations and the discussion of our Business and Properties in our annual report on Form 10-K for the year ended December 31, 2011, filed with the United States (U.S.) Securities and Exchange Commission (SEC). The results of operations reported and summarized below are not necessarily indicative of future operating results (refer to "Cautionary Statement" for further discussion). References to “Notes” are Notes included in our Notes to Consolidated Financial Statements. Throughout Management's Discussion and Analysis of Financial Condition and Results of Operations all references to earnings or losses per share are on a diluted basis, unless otherwise noted.

We are one of the world’s largest copper, gold and molybdenum mining companies in terms of reserves and production. Our portfolio of assets includes the Grasberg minerals district in Indonesia, significant mining operations in North and South America, and the Tenke Fungurume (Tenke) minerals district in the Democratic Republic of Congo (DRC). The Grasberg minerals district contains the largest single recoverable copper reserve and the largest single gold reserve of any mine in the world based on the latest available reserve data provided by third-party industry consultants. We also operate Atlantic Copper, our wholly owned copper smelting and refining unit in Spain.

Our results for the second quarter and first six months of 2012, compared with the 2011 periods, primarily reflected lower copper and gold sales volumes and lower realized copper prices. Refer to “Consolidated Results” for further discussion of our consolidated financial results for the three- and six-month periods ended June 30, 2012 and 2011.

Operations and productivity at PT Freeport Indonesia have continued to improve following the first-quarter 2012 work interruptions in connection with efforts to resume normal operations. PT Freeport Indonesia's milling rates averaged 179,500 metric tons of ore per day in second-quarter 2012, compared with the first-quarter 2012 average of 114,800 metric tons of ore per day. Mining operations in the Grasberg open pit are approaching normal levels and underground mining operations at the Deep Ore Zone (DOZ) underground mine continue to be ramped up following the 2011 work stoppages. Mining rates at the DOZ underground mine averaged 45,400 metric tons of ore per day in second-quarter 2012 and are expected to reach 80,000 metric tons of ore per day during fourth-quarter 2012.

During second-quarter 2012, our Climax molybdenum mine began commercial production. Production from the Climax mine is expected to ramp up to a rate of 20 million pounds of molybdenum per year during 2013.

At June 30, 2012, we had $4.5 billion in consolidated cash and cash equivalents and $3.5 billion in total debt. In February 2012, we sold $3.0 billion of senior notes in three tranches with a weighted average interest rate of approximately three percent. We used the proceeds from this offering, plus cash on hand, to redeem the remaining $3.0 billion of our 8.375% Senior Notes. Refer to Note 5 and “Capital Resources and Liquidity – Financing Activities” for further discussion.

In February 2012, our Board of Directors authorized an increase in the cash dividend on our common stock to an annual rate of $1.25 per share ($0.3125 per share quarterly). Refer to Note 5 for further discussion.

At current copper prices, we expect to produce significant operating cash flows in 2012, and expect to use our cash to invest in our development projects, including the underground development projects at Grasberg and the expansion projects at Morenci, Cerro Verde and Tenke, as well as to return cash to shareholders through common stock dividends and/or share repurchases.

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OUTLOOK

We view the long-term outlook for our business positively, supported by limitations on supplies of copper and by the requirements for copper in the world's economy. We will continue to adjust our operating strategy as market conditions change. Our financial results vary with fluctuations in market prices for copper, gold and molybdenum and other factors. World market prices for these commodities have fluctuated historically and are affected by numerous factors beyond our control. Because we cannot control the price of our products, the key measures that management focuses on in operating our business are sales volumes, unit net cash costs and operating cash flow. Discussion of the outlook for each of these measures follows.

Sales Volumes. Consolidated sales from mines for the year 2012 are expected to approximate 3.6 billion pounds of copper, 1.1 million ounces of gold and 81 million pounds of molybdenum, including 885 million pounds of copper, 225 thousand ounces of gold and 20 million pounds of molybdenum for third-quarter 2012. Sales estimates for the year 2012 have been revised from the estimates provided in our quarterly report on Form 10-Q for the period ended March 31, 2012, by approximately 85 million pounds of copper and 60 thousand ounces of gold primarily because of mine sequencing changes and slower underground ramp-up at PT Freeport Indonesia and revisions to El Abra production. The achievement of projected 2012 sales volumes is dependent on a number of factors, including achievement of targeted mining rates, the successful operation of production facilities, the impact of weather conditions and other factors.

Unit Net Cash Costs. Quarterly unit net cash costs will vary with fluctuations in sales volumes and average realized prices for gold and molybdenum. Assuming average prices of $1,600 per ounce of gold and $13 per pound of molybdenum for the second half of 2012, and achievement of current sales volume and cost estimates, consolidated unit net cash costs (net of by-product credits) for our copper mining operations are expected to average approximately $1.47 per pound of copper for the year 2012. The impact of price changes for the second half of 2012 on consolidated unit net cash costs would approximate $0.01 per pound for each $50 per ounce change in the average price of gold, and $0.01 per pound for each $2 per pound change in the average price of molybdenum. Assuming consistent commodity price assumptions, unit net cash costs for 2013 are expected to be lower than 2012 because of projected increased copper and gold volumes at Grasberg. Refer to "Consolidated Results – Production and Delivery Costs" for further discussion of consolidated production and delivery costs.

Operating Cash Flows. Our operating cash flows vary with prices realized from copper, gold and molybdenum sales, our sales volumes, production costs, income taxes and other working capital changes and other factors. Based on projected consolidated sales volumes and unit net cash costs for 2012, and assuming average prices of $3.50 per pound of copper, $1,600 per ounce of gold and $13 per pound of molybdenum for the second half of 2012, consolidated operating cash flows are estimated to approximate $4.0 billion for the year 2012 (net of an estimated $1.2 billion in working capital uses and other tax payments). Projected operating cash flows for the year 2012 also reflect estimated taxes of $1.8 billion (refer to "Consolidated Results – Provision for Income Taxes" for further discussion of our projected consolidated effective annual tax rate for 2012). The impact of price changes for the second half of 2012 on operating cash flows would approximate $80 million for each $0.05 per pound change in the average price of copper, $25 million for each $50 per ounce change in the average price of gold and $40 million for each $2 per pound change in the average price of molybdenum.

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COPPER, GOLD AND MOLYBDENUM MARKETS

World prices for copper, gold and molybdenum can fluctuate significantly. During the period from January 2002 through July 2012, the London Metal Exchange (LME) spot copper price varied from a low of $0.64 per pound in 2002 to a record high of $4.60 per pound in February 2011, the London Bullion Market Association (London) gold price fluctuated from a low of $278 per ounce in 2002 to a record high of $1,895 per ounce in September 2011, and the Metals Week Molybdenum Dealer Oxide weekly average price ranged from a low of $2.43 per pound in 2002 to a record high of $39.25 per pound in 2005. Copper, gold and molybdenum prices are affected by numerous factors beyond our control as described further in our "Risk Factors" contained in Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2011.

This graph presents LME spot copper prices and the combined reported stocks of copper at the LME, the New York Mercantile Exchange (COMEX) and the Shanghai Futures Exchange from January 2002 through July 2012. From 2006 through most of 2008, limited supplies, combined with growing demand from China and other emerging economies, resulted in high copper prices and low levels of inventories. In late 2008, slowing consumption, turmoil in the U.S. financial markets and concerns about the global economy led to a sharp decline in copper prices, which reached a low of $1.26 per pound in December 2008. Copper prices have since improved from 2008 lows, attributable to a combination of strong demand from emerging markets and limitations on available supply. During second-quarter 2012, LME spot copper prices ranged from $3.29 per pound to $3.89 per pound and averaged $3.57 per pound. Average LME copper prices were lower in second-quarter 2012, compared with first-quarter 2012, reflecting concerns about global growth, led by slower Chinese growth, the situation in Europe and a slowing U.S. economy. Nonetheless, global exchange inventories remain low and represent less than two weeks of global demand.

We believe the underlying fundamentals of the copper business remain positive, supported by the significant role of copper in the global economy and limited supplies. Future copper prices are expected to be volatile and are likely to be influenced by demand from China and emerging markets, economic activity in the U.S. and other industrialized countries, the timing of the development of new supplies of copper and production levels of mines and copper smelters. The LME spot copper price closed at $3.44 per pound on July 31, 2012.

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This graph presents London p.m. gold prices from January 2002 through July 2012. During second-quarter 2012, gold prices ranged from $1,540 per ounce to $1,678 per ounce and averaged $1,609 per ounce. Gold prices closed at $1,622 per ounce on July 31, 2012.

This graph presents the Metals Week Molybdenum Dealer Oxide weekly average prices from January 2002 through July 2012. In late 2008, molybdenum prices declined significantly as a result of the financial market turmoil and a decline in demand. During second-quarter 2012, the weekly average price of molybdenum ranged from $13.13 per pound to $14.23 per pound and averaged $13.83 per pound. The Metals Week Molybdenum Dealer Oxide weekly average price was $12.18 per pound on July 31, 2012. Average Metals Week Molybdenum Dealer Oxide prices were lower in second-quarter 2012, compared with first-quarter 2012, reflecting weaker demand and cautious buying activity in response to the global economic situation.

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CONSOLIDATED RESULTS

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
Financial Data (in millions, except per share amounts)								
Revenues[a,b]	$4,475		$5,814		$9,080		$11,523	
Operating income[b,c]	$1,311	d	$2,757	d	$3,045	d	$5,693	d
Net income attributable to FCX common stockholders	$710	d	$1,368	d,e	$1,474	d,e	$2,867	d,e
Diluted net income per share attributable to FCX common stockholders	$0.74	d	$1.43	d,e	$1.55	d,e	$3.00	d,e
Diluted weighted-average common shares outstanding	953		956		954		956	
Mining Operating Data								
Copper (millions of recoverable pounds)								
Production	887		967		1,720		1,917	
Sales, excluding purchases	927		1,002		1,754		1,928	
Average realized price per pound	$3.53		$4.22		$3.61		$4.24	
Site production and delivery costs per pound[f]	$2.01		$1.63		$1.98		$1.62	
Unit net cash costs per pound[f]	$1.49		$0.93		$1.38		$0.87	
Gold (thousands of recoverable ounces)								
Production	251		351		503		817	
Sales, excluding purchases	266		356		554		836	
Average realized price per ounce	$1,588		$1,509		$1,639		$1,466	
Molybdenum (millions of recoverable pounds)								
Production	20		22		41		42	
Sales, excluding purchases	20		21		41		41	
Average realized price per pound	$15.44		$18.16		$15.39		$18.13	

a. Includes the impact of adjustments to provisionally priced concentrate and cathode sales recognized in prior periods (refer to “Revenues” below for further discussion).

b. Refer to Note 11 for a summary of revenues and operating income by business segment.

c. We defer recognizing profits on intercompany sales until final sales to third parties occur. Refer to "Operations - Atlantic Copper Smelting & Refining" for a summary of net impacts from changes in these deferrals.

d. Includes charges for adjustments to environmental obligations and related litigation reserves totaling $66 million ($53 million to net income attributable to common stockholders or $0.06 per share) for the second quarter and first six months of 2012 and $49 million ($40 million to net income attributable to common stockholders or $0.04 per share) for the second quarter and first six months of 2011.

e. Includes losses on early extinguishment of debt totaling $54 million ($0.06 per share) for second-quarter 2011, $149 million ($0.16 per share) for the first six months of 2012 and $60 million ($0.06 per share) for the first six months of 2011 (Refer to Note 5 for further discussion).

f. Reflects per pound weighted-average production and delivery costs and unit net cash costs (net of by-product credits) for all copper mines, excluding net noncash and other costs. For reconciliations of the per pound costs by operating division to production and delivery costs applicable to sales reported in our consolidated financial statements, refer to “Operations – Unit Net Cash Costs” and to “Product Revenues and Production Costs.”

Revenues

Consolidated revenues totaled $4.5 billion in second-quarter 2012 and $9.1 billion for the first six months of 2012, compared with $5.8 billion in second-quarter 2011 and $11.5 billion for the first six months of 2011. Consolidated revenues include the sale of copper concentrates, copper cathodes, copper rod, gold, molybdenum and other metals by our North and South America copper mines, the sale of copper concentrates (which also contain significant quantities of gold and silver) by our Indonesia mining operations, the sale of copper cathodes and cobalt hydroxide by our Africa mining operations, the sale of molybdenum in various forms by our Molybdenum operations, and the sale of copper cathodes, copper anodes, and gold in anodes and slimes by Atlantic Copper.

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Following is a summary of changes in our consolidated revenues between periods (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
Consolidated revenues - 2011 periods	$5,814		$11,523	
(Lower) higher price realizations from mining operations:				
Copper	(640	)	(1,105	)
Gold	21		96	
Molybdenum	(56	)	(113	)
Silver	(16	)	(23	)
Cobalt	(17	)	(29	)
(Lower) higher sales volumes from mining operations:				
Copper	(317	)	(739	)
Gold	(136	)	(413	)
Molybdenum	(21	)	3	
Silver	(16	)	(32	)
Cobalt	(16	)	(25	)
(Unfavorable) favorable impact of net adjustments to prior period provisionally priced sales	(39	)	132	
Lower purchased copper	(147	)	(386	)
Other, including intercompany eliminations	61		191	
Consolidated revenues - 2012 periods	$4,475		$9,080	

Price Realizations

Our consolidated revenues vary as a result of fluctuations in the market prices of copper, gold, molybdenum, silver and cobalt. Consolidated revenues in the 2012 periods, compared with the 2011 periods, reflected lower price realizations primarily associated with copper. Realized copper prices averaged $3.53 per pound in second-quarter 2012 (compared with $4.22 per pound in second-quarter 2011) and $3.61 per pound for the first six months of 2012 (compared with $4.24 for the first six months of 2011). Realized gold prices averaged $1,588 per ounce in second-quarter 2012 (compared with $1,509 per ounce in second-quarter 2011) and $1,639 per ounce for the first six months of 2012 (compared with $1,466 per ounce for the first six months of 2011). Realized molybdenum prices averaged $15.44 per pound in second-quarter 2012 (compared with $18.16 per pound in second-quarter 2011) and $15.39 per pound for the first six months of 2012 (compared with $18.13 per pound for the first six months of 2011).

Sales Volumes

Consolidated copper sales volumes totaled 927 million pounds of copper, 266 thousand ounces of gold and 20 million pounds of molybdenum in second-quarter 2012, compared with 1.0 billion pounds of copper, 356 thousand ounces of gold and 21 million pounds of molybdenum in second-quarter 2011. For the first six months of 2012, consolidated sales volumes totaled 1.8 billion pounds of copper, 554 thousand ounces of gold and 41 million pounds of molybdenum, compared with 1.9 billion pounds of copper, 836 thousand ounces of gold and 41 million pounds of molybdenum for the first six months of 2011. Lower consolidated copper and gold sales volumes in the 2012 periods primarily reflected lower ore grades and production rates in Indonesia (refer to "Operations - Indonesia Mining" for further discussion of the impact of the first-quarter 2012 work interruptions and the related temporary suspension of operations). Lower copper sales volumes also reflected lower ore grades in South America, partly offset by increased production in North America and Africa. Refer to “Operations” for further discussion of sales volumes at our operating divisions.

Provisionally Priced Copper Sales

During the first six months of 2012, 43 percent of our mined copper was sold in concentrate, 29 percent as rod from our North America operations and 28 percent as cathode. Substantially all of our copper concentrate and cathode sales contracts provide final copper pricing in a specified future month (generally one to four months from the shipment date) based primarily on quoted LME monthly average spot copper prices. We receive market prices based on prices in the specified future period, which results in price fluctuations recorded through revenues until the date of settlement. We record revenues and invoice customers at the time of shipment based on then-current LME prices, which results in an embedded derivative on our provisionally priced concentrate and cathode sales that is adjusted to fair value through earnings each period, using the period-end forward prices, until the date of final pricing. To the extent final prices are higher or lower than what was recorded on a provisional basis, an increase or decrease to revenues is recorded each reporting period until the date of final pricing. Accordingly, in times of rising

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copper prices, our revenues benefit from adjustments to the final pricing of provisionally priced sales pursuant to contracts entered into in prior periods; in times of falling copper prices, the opposite occurs.

At March 31, 2012, we had provisionally priced copper sales at our copper mining operations, primarily South America and Indonesia, totaling 214 million pounds of copper (net of intercompany sales and noncontrolling interests) recorded at an average of $3.83 per pound. Lower prices during second-quarter 2012 resulted in adjustments to these provisionally priced copper sales that unfavorably impacted consolidated revenues by $75 million ($31 million to net income attributable to common stockholders or $0.03 per share) in second-quarter 2012, compared with adjustments to the March 31, 2011, provisionally priced copper sales that unfavorably impacted second-quarter 2011 revenues by $47 million ($23 million to net income attributable to common stockholders or $0.02 per share). Adjustments to the December 31, 2011, provisionally priced copper sales favorably impacted consolidated revenues by $101 million ($43 million to net income attributable to common stockholders or $0.05 per share) for the first six months of 2012, compared with adjustments to the December 31, 2010, provisionally priced copper sales that unfavorably impacted consolidated revenues by $12 million ($5 million to net income attributable to common stockholders or $0.01 per share) for the first six months of 2011.

At June 30, 2012, we had provisionally priced copper sales at our copper mining operations, primarily South America and Indonesia, totaling 329 million pounds of copper (net of intercompany sales and noncontrolling interests) recorded at an average of $3.49 per pound, subject to final pricing over the next several months. We estimate that each $0.05 change in the price realized from the June 30, 2012, provisional price recorded would have a net impact on our 2012 consolidated revenues of approximately $22 million ($11 million to net income attributable to common stockholders). The LME spot copper price closed at $3.44 per pound on July 31, 2012.

Purchased Copper
From time to time, we purchase copper cathode to be processed by our Rod & Refining operations when production from our North America copper mines does not meet customer demand. The decrease in purchased copper resulted from higher production at our North America copper mines for the 2012 periods, compared with the 2011 periods.

Production and Delivery Costs
Consolidated production and delivery costs totaled $2.6 billion in second-quarter 2012 and $5.1 billion for the first six months of 2012, compared with $2.6 billion in second-quarter 2011 and $4.9 billion for the first six months of 2011.

Consolidated unit site production and delivery costs for our copper mining operations averaged $2.01 per pound of copper in second-quarter 2012 and $1.98 per pound of copper for the first six months of 2012, compared with $1.63 per pound of copper in second-quarter 2011 and $1.62 per pound of copper for the first six months of 2011. Higher unit site production and delivery costs in the 2012 periods primarily reflected lower copper sales volumes in Indonesia and higher mining rates in North America. Refer to “Operations – Unit Net Cash Costs” for further discussion of unit net cash costs associated with our operating divisions, and to “Product Revenues and Production Costs” for reconciliations of per pound costs by operating division to production and delivery costs applicable to sales reported in our consolidated financial statements.

Our copper mining operations require significant energy, principally diesel, electricity, coal and natural gas. For the year 2012, energy costs are expected to approximate 21 percent of our consolidated copper production costs, which reflects projected purchases of approximately 260 million gallons of diesel fuel; 7,000 gigawatt hours of electricity at our North America, South America and Africa copper mining operations (we generate all of our power at our Indonesia mining operation); 710 thousand metric tons of coal for our coal power plant in Indonesia; and 1 million MMBTU (million british thermal units) of natural gas at certain of our North America mines. Energy costs for 2011 approximated 21 percent of our consolidated copper production costs.

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Depreciation, Depletion and Amortization

Consolidated depreciation, depletion and amortization expense totaled $291 million in second-quarter 2012, $558 million for the first six months of 2012, $267 million in second-quarter 2011 and $499 million for the first six months of 2011. Depreciation will vary under the unit of production (UOP) method as a result of increases and decreases in sales volumes and the related UOP rates at our mining operations. Higher depreciation, depletion and amortization expense for the 2012 periods, compared with the 2011 periods, primarily reflects higher production in North America.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses totaled $97 million in second-quarter 2012 and $201 million for the first six months of 2012, compared with $107 million in second-quarter 2011 and $221 million for the first six months of 2011, primarily reflecting lower estimated incentive compensation costs for the 2012 periods.

Exploration and Research Expenses

Consolidated exploration and research expenses totaled $73 million in second-quarter 2012 and $135 million for the first six months of 2012, compared with $66 million in second-quarter 2011 and $116 million for the first six months of 2011. We are actively conducting exploration activities near our existing mines with a focus on opportunities to expand reserves that will support additional future production capacity in the large mineral districts where we currently operate. Exploration results indicate opportunities for what we believe could be significant future potential reserve additions in North and South America and in the Tenke minerals district. The drilling data in North America continues to indicate the potential for expanded sulfide production.

For the year 2012, exploration and research expenditures are expected to total approximately $315 million, including approximately $275 million for exploration. Exploration activities will continue to focus primarily on the potential for future reserve additions in our existing mineral districts.

Environmental Obligations and Shutdown Costs

Environmental obligation costs reflect net revisions to our long-term environmental obligations, which will vary from period to period because of changes to environmental laws and regulations and/or circumstances affecting our operations that could result in significant changes in our estimates. Shutdown costs include care and maintenance costs and any litigation, remediation or related expenditures associated with closed facilities or operations.

Environmental obligations and shutdown costs totaled $81 million in second-quarter 2012, $91 million for the first six months of 2012, and $60 million for both the second quarter and first six months of 2011. See "Contingencies" for further discussion of environmental obligations and litigation matters associated with closed facilities or operations.

Interest Expense, Net

Consolidated interest expense (before capitalization) totaled $55 million in second-quarter 2012 and $154 million for the first six months of 2012, compared with $97 million in second-quarter 2011 and $220 million for the first six months of 2011. Lower interest expense for the 2012 periods primarily reflected the impact of the first-quarter 2012 refinancing transaction and other debt repayments during 2011.

Capitalized interest is primarily related to our development projects and totaled $12 million in second-quarter 2012 and $48 million for the first six months of 2012, compared with $23 million in second-quarter 2011 and $48 million for the first six months of 2011. Refer to “Operations” for further discussion of current development projects.

Losses on Early Extinguishment of Debt

We recorded losses on early extinguishment of debt of $168 million for the first six months of 2012 associated with the redemption of our remaining 8.375% Senior Notes.

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We recorded losses on early extinguishment of debt totaling $61 million for second-quarter 2011 and $68 million for the first six months of 2011 associated with the redemption of our 8.25% Senior Notes and open-market purchases of our 9.5% Senior Notes. Losses on early extinguishment of debt for the first six months of 2011 also include amounts related to the revolving credit facilities that were replaced in March 2011 by a new senior unsecured revolving credit facility.

Refer to Note 5 for further discussion of these transactions.

Provision for Income Taxes

Following is a summary of the approximate amounts in the calculation of our consolidated provision for income taxes for the 2012 and 2011 periods (in millions, except percentages):

	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
	Income[a]	Effective Tax Rate	Income Tax (Provision) Benefit	Income[a]	Effective Tax Rate	Income Tax (Provision) Benefit
U.S.	$793	24%	$(193)	$1,242	21%	$(258)
South America	1,136	34%	(391)	1,827	34%	(627)
Indonesia	643	43%	(276)	2,105	43%	(901)
Africa	168	31%	(51)	240	33%	(80)
Eliminations and other	69	N/A	1	51	N/A	(39)
Annualized rate adjustment[b]	N/A	N/A	(3)	N/A	N/A	15
Consolidated FCX	$2,809	33% [c]	$(913)	$5,465	35%	$(1,890)

a. Represents income by geographic location before income taxes and equity in affiliated companies' net (losses) earnings.

b. In accordance with applicable accounting rules, we adjust our interim provision for income taxes equal to our estimated annualized tax rate.

c. Our consolidated effective income tax rate is a function of the combined effective tax rates for the jurisdictions in which we operate. Accordingly, variations in the relative proportions of jurisdictional income can result in fluctuations to our consolidated effective income tax rate. Assuming average prices of $3.50 per pound for copper, $1,600 per ounce for gold and $13 per pound for molybdenum for the remainder of 2012 and achievement of current sales volume and cost estimates, we estimate our annual consolidated effective tax rate will approximate 33 percent.

In July 2012, Sociedad Minera Cerro Verde S.A.A. (Cerro Verde) signed a new 15-year mining stability agreement with the Peruvian government, which is expected to become effective January 1, 2014, when the current mining stability agreement expires on December 31, 2013. In connection with the new mining stability agreement, Cerro Verde's income tax rate will increase from 30 percent to 32 percent. As a result of the change in the income tax rate, we expect to recognize additional deferred tax expense of approximately $50 million in third-quarter 2012, which relates primarily to the assets recorded in connection with the 2007 acquisition of FMC. The impact of the new mining stability agreement is not included in the estimated consolidated effective tax rate for 2012 in footnote "c" above.

With the exception of Tenke Fungurume S.A.R.L. (TFM), we have not elected to permanently reinvest earnings from our foreign subsidiaries, and we have recorded deferred tax liabilities for foreign earnings that are available to be repatriated to the U.S. Cerro Verde previously recorded deferred Peruvian income tax liabilities of $240 million for income taxes that would become payable if the reinvested profits used to fund the initial Cerro Verde sulfide expansion are distributed prior to the expiration of Cerro Verde's current stability agreement on December 31, 2013. We are currently reviewing Cerro Verde's future cash requirements, including funding for the potential large-scale concentrator expansion (refer to "Operations - South America" for further discussion), to determine whether we believe that the reinvested profits will be distributed prior to December 31, 2013. This review and a decision to proceed with the expansion project may result in all or a part of the $240 million deferred income tax liability being reversed and recognized as an income tax benefit in future periods. The impact of the reversal of this deferred income tax liability has not been reflected in the estimated consolidated effective tax rate for 2012 in footnote "c" above.

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OPERATIONS

North America Copper Mines
We currently operate seven copper mines in North America – Morenci, Bagdad, Safford, Sierrita and Miami in Arizona, and Tyrone and Chino in New Mexico. All of these mining operations are wholly owned, except for Morenci, an unincorporated joint venture in which we own an 85 percent undivided interest.

The North America copper mines include open-pit mining, sulfide ore concentrating, leaching and solution extraction/electrowinning (SX/EW) operations. Molybdenum concentrate is also produced by certain of our North America copper mines (Sierrita, Bagdad, Morenci and Chino). A majority of the copper produced at our North America copper mines is cast into copper rod by our Rod & Refining operations. The remainder of our North America copper sales is in the form of copper cathode or copper concentrate.

Operating and Development Activities. We have completed projects to increase production at our North America copper mines, including restarting milling operations and increasing mining rates at Morenci and Chino and restarting the Miami mine. We continue to evaluate a number of opportunities to invest in additional production capacity at several of our North America copper mines. Exploration results in recent years indicate the potential for significant additional sulfide development in North America.

Morenci Mill Expansion. We recently completed a feasibility study to expand mining and milling capacity at Morenci to process additional sulfide ores identified through exploratory drilling. The approximate $1.4 billion project would target incremental annual production of approximately 225 million pounds of copper in 2014 through an increase in milling rates from the current level of 50,000 metric tons of ore per day to approximately 115,000 metric tons of ore per day, and mining rates from the current level of 700,000 short tons per day to 900,000 short tons per day. We have commenced initial construction and engineering, and procurement activities are in progress. Project costs of $111 million have been incurred as of June 30, 2012 ($84 million during the first six months of 2012).

Chino Restart. During 2011, mining and milling activities were restarted at the Chino mine. Production at Chino totaled 69 million pounds of copper for 2011 and is expected to increase to approximately 250 million pounds of copper per year in 2014. Costs for the project associated with equipment and mill refurbishment are expected to approximate $175 million. Project costs of $111 million have been incurred as of June 30, 2012 ($6 million during the first six months of 2012).

Bagdad Tailings Storage Facility. We are completing engineering to replace the Bagdad concentrator rougher flotation circuit and to improve water recovery by installing a new tailings thickener with associated pumping and piping to a new tailings impoundment area. Construction has commenced on this approximate $220 million project with completion targeted for the second half of 2013.

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Operating Data. Following is summary operating data for the North America copper mines for the second quarters and first six months of 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Operating Data, Net of Joint Venture Interest				
Copper (millions of recoverable pounds)				
Production	331	313	668	595
Sales, excluding purchases	361	331	699	