FREEPORT MCMORAN COPPER & GOLD INC
Form 10-Q
November 06, 2013

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 September 30, 2013
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 October 31, 2013, there were issued and outstanding 1,038,155,157 shares of the registrant’s common stock, par value $0.10 per share.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2013	December 31, 2012
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$2,219	$3,705
Trade accounts receivable	1,749	927
Other accounts receivable	480	702
Inventories:		
Materials and supplies, net	1,762	1,504
Mill and leach stockpiles	1,744	1,672
Product	1,347	1,400
Other current assets	305	387
Total current assets	9,606	10,297
Property, plant, equipment and development costs, net	46,647	20,999
Long-term mill and leach stockpiles	2,304	1,955
Goodwill	1,932	—
Other assets	2,109	2,189
Total assets	$62,598	$35,440
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$3,698	$2,708
Dividends payable	332	299
Current portion of reclamation and environmental obligations	257	241
Accrued income taxes	141	93
Current portion of debt	70	2
Total current liabilities	4,498	3,343
Long-term debt, less current portion	21,053	3,525
Deferred income taxes	6,922	3,490
Reclamation and environmental obligations, less current portion	3,077	2,127
Other liabilities	1,774	1,644
Total liabilities	37,324	14,129
Redeemable noncontrolling interest	720	—
Equity:		
FCX stockholders’ equity:		
Common stock	117	107
Capital in excess of par value	22,092	19,119
Retained earnings	2,361	2,399

Accumulated other comprehensive loss	(484)	(506)
Common stock held in treasury	(3,681)	(3,576)
Total FCX stockholders’ equity	20,405	17,543
Noncontrolling interests	4,149	3,768
Total equity	24,554	21,311
Total liabilities and equity	$62,598	$35,440

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In millions, except per share amounts)			
Revenues	$6,165	$4,417	$15,036	$13,497
Cost of sales:				
Production and delivery	3,332	2,592	8,904	7,642
Depreciation, depletion and amortization	919	298	1,778	856
Total cost of sales	4,251	2,890	10,682	8,498
Selling, general and administrative expenses	158	110	457	311
Mining exploration and research expenses	57	79	173	214
Environmental obligations and shutdown costs	(8)	(73)	23	18
Total costs and expenses	4,458	3,006	11,335	9,041
Operating income	1,707	1,411	3,701	4,456
Interest expense, net	(162)	(42)	(351)	(148)
Losses on early extinguishment of debt	—	—	(45)	(168)
Gain on investment in McMoRan Exploration Co.	—	—	128	—
Other income (expense), net	3	(15)	13	23
Income before income taxes and equity in affiliated companies' net earnings (losses)	1,548	1,354	3,446	4,163
Provision for income taxes	(499)	(215)	(967)	(1,128)
Equity in affiliated companies’ net earnings (losses)	(1)	1	3	—
Net income	1,048	1,140	2,482	3,035
Net income and preferred dividends attributable to noncontrolling interests	(227)	(316)	(531)	(737)
Net income attributable to FCX common stockholders	$821	$824	$1,951	$2,298
Net income per share attributable to FCX common stockholders:				
Basic	$0.79	$0.87	$1.97	$2.42
Diluted	$0.79	$0.86	$1.96	$2.41
Weighted-average common shares outstanding:				
Basic	1,038	949	989	949
Diluted	1,043	953	993	953
Dividends declared per share of common stock	$0.3125	$0.3125	$1.9375	$0.9375

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In millions)			
Net income	$1,048	$1,140	$2,482	$3,035
Other comprehensive income, net of taxes:				
Defined benefit plans:				
Amortization of unrecognized amounts included in net periodic benefit costs	6	7	18	22
Adjustment to deferred tax valuation allowance	—	—	—	5
Unrealized (losses) gains on securities arising during the period	(1)	1	(1)	—
Translation adjustments arising during the period	5	—	4	(1)
Other comprehensive income	10	8	21	26
Total comprehensive income	1,058	1,148	2,503	3,061
Total comprehensive income and preferred dividends attributable to noncontrolling interests	(226)	(315)	(530)	(737)
Total comprehensive income attributable to FCX common stockholders	$832	$833	$1,973	$2,324

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

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

	Nine Months Ended September 30,	
	2013	2012
	(In millions)	
Cash flow from operating activities:		
Net income	$2,482	$3,035
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,778	856
Net losses on oil and gas derivative contracts	205	—
Gain on investment in McMoRan Exploration Co. (MMR)	(128)	—
Stock-based compensation	94	77
Pension plans contributions	(62)	(114)
Net charges for reclamation and environmental obligations, including accretion	98	64
Payments for reclamation and environmental obligations	(166)	(148)
Losses on early extinguishment of debt	45	168
Deferred income taxes	169	223
Increase in long-term mill and leach stockpiles	(348)	(184)
Other, net	65	71
(Increases) decreases in working capital and other tax payments, excluding amounts from acquisitions:		
Accounts receivable	51	(603)
Inventories	(66)	(581)
Other current assets	162	(33)
Accounts payable and accrued liabilities	(596)	78
Accrued income taxes and other tax payments	(40)	(400)
Net cash provided by operating activities	3,743	2,509
Cash flow from investing activities:		
Capital expenditures:		
North America copper mines	(795)	(568)
South America	(734)	(659)
Indonesia	(720)	(624)
Africa	(155)	(428)
Molybdenum mines	(128)	(189)
Oil and gas operations	(928)	—
Other	(163)	(50)
Acquisition of Plains Exploration & Production Company, net of cash acquired	(3,465)	—
Acquisition of MMR, net of cash acquired	(1,628)	—
Acquisition of cobalt chemical business, net of cash acquired	(348)	—
Restricted cash and other, net	(24)	(19)
Net cash used in investing activities	(9,088)	(2,537)
Cash flow from financing activities:		
Proceeds from debt	11,229	3,023
Repayments of debt	(4,816)	(3,179)
Redemption of MMR preferred stock	(227)	—

Cash dividends and distributions paid:		
Common stock	(1,957)	(832)
Noncontrolling interests	(157)	(76)
Contributions from noncontrolling interests	—	15
Debt financing costs	(113)	(22)
Net payments for stock-based awards	(101)	(3)
Excess tax benefit from stock-based awards	1	7
Net cash provided by (used in) financing activities	3,859	(1,067)
Net decrease in cash and cash equivalents	(1,486)	(1,095)
Cash and cash equivalents at beginning of year	3,705	4,822
Cash and cash equivalents at end of period	$2,219	$3,727

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		Capital in Excess of Par Value	Retained Earnings	Accumu-lated Other Compre-hensive Loss	Common Stock Held in Treasury		Total FCX Stock-holders' Equity	Non-controlling Interests	Total Equity
	Number of Shares	At Par Value				Number of Shares	At Cost			
	(In millions)									
Balance at December 31, 2012	1,073	$107	$19,119	$2,399	$(506)	124	$(3,576)	$ 17,543	$ 3,768	$21,311
Common stock issued to acquire Plains Exploration & Production Co.	91	9	2,822	—	—	—	—	2,831	—	2,831
Exchange of employee stock-based awards in connection with acquisitions	—	—	67	—	—	—	—	67	—	67
Exercised and issued stock-based awards	1	1	4	—	—	—	—	5	—	5
Stock-based compensation	—	—	89	—	—	—	—	89	—	89
Reserve on tax benefit for stock-based awards	—	—	(2)	—	—	—	—	(2)	—	(2)
Tender of shares for stock-based awards	—	—	—	—	—	3	(105)	(105)	—	(105)
Dividends on common stock	—	—	—	(1,989)	—	—	—	(1,989)	—	(1,989)
Dividends to noncontrolling interests	—	—	—	—	—	—	—	—	(144)	(144)
Noncontrolling interests' share of contributed capital in subsidiary	—	—	(7)	—	—	—	—	(7)	7	—
Redeemable noncontrolling interest	—	—	—	—	—	—	—	—	(12)	(12)
Total comprehensive income	—	—	—	1,951	22	—	—	1,973	530	2,503
Balance at September 30, 2013	1,165	$117	$22,092	$2,361	$(484)	127	$(3,681)	$ 20,405	$ 4,149	$24,554

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 annual report on Form 10-K for the year ended December 31, 2012. 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. With the exception of certain adjustments associated with the acquisition of Plains Exploration & Production Company (PXP) and McMoRan Exploration Co. (MMR), collectively known as Freeport-McMoRan Oil & Gas (FM O&G), all such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the three-month and nine-month periods ended September 30, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

As further discussed in Note 2, FCX completed its acquisitions of PXP on May 31, 2013, and MMR on June 3, 2013. The financial results for the nine months ended September 30, 2013, include PXP's results beginning June 1, 2013, and MMR's results beginning June 4, 2013.

2. ACQUISITIONS
Oil and Gas. PXP and MMR are both wholly owned consolidated subsidiaries of FCX. These acquisitions added a portfolio of oil and gas assets to FCX's global mining business, creating a U.S.-based natural resource company. The portfolio of oil and gas assets includes oil production facilities and growth potential in the Deepwater Gulf of Mexico (GOM), oil production from the onshore Eagle Ford shale play in Texas, oil production facilities onshore and offshore California, onshore natural gas resources in the Haynesville shale play in Louisiana, and a position in the emerging shallow water, ultra-deep gas trend on the Shelf of the GOM and onshore in South Louisiana. The acquisitions have been accounted for under the acquisition method as required by Accounting Standards Codification (ASC) Topic 805, "Business Combinations," with FCX as the acquirer. As further discussed in Note 7, FCX issued $6.5 billion of unsecured senior notes in March 2013 for net proceeds of $6.4 billion, which was used, together with borrowings under a $4.0 billion unsecured five-year bank term loan, to fund the cash portion of the merger consideration for both transactions, to repay certain indebtedness of PXP and for general corporate purposes.

In the PXP acquisition, FCX acquired PXP for per-share consideration equivalent to 0.6531 shares of FCX common stock and $25.00 in cash. PXP stockholders had the right to elect to receive merger consideration in the form of cash or shares of FCX common stock, subject to the proration provisions in the merger agreement. Based on the final results of the merger consideration elections and as set forth in the merger agreement, FCX issued 91 million shares of its common stock and paid $3.8 billion in cash (which includes $411 million for the value of the $3 per share special dividend paid to PXP stockholders on May 31, 2013).

Following is a summary of the $6.6 billion purchase price for PXP (in millions, except the exchange ratio and closing share price):

Number of shares of PXP common stock acquired	132.280	a
Exchange ratio of FCX common stock for each PXP share	0.6531	
	86.392	
Shares of FCX common stock issued for certain PXP equity awards	4.769	
Total shares of FCX common stock issued	91.161	

Closing share price of FCX common stock at May 31, 2013	$31.05	
FCX stock consideration	$2,831	
Cash consideration	3,725	b
Employee stock-based awards, primarily cash-settled stock-based awards	78	
Total purchase price	$6,634	

a. Adjusted for cash paid in lieu of fractional shares.

b. Cash consideration includes the payment of $25.00 in cash for each PXP share ($3.3 billion), cash paid in lieu of any fractional shares of FCX common stock, cash paid for certain equity awards ($7 million), and the value of the $3 per share PXP special cash dividend ($411 million) paid on May 31, 2013.

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In the MMR acquisition, for each MMR share owned, MMR shareholders received $14.75 in cash and 1.15 units of a royalty trust, which holds a five percent overriding royalty interest in future production from MMR's ultra-deep exploration prospects that existed as of December 5, 2012, the date of the merger agreement. MMR conveyed the royalty interests to the royalty trust immediately prior to the effective time of the merger, and they were "carved out" of the mineral interests that were acquired by FCX and not considered part of purchase consideration.

Prior to June 3, 2013, FCX owned 500,000 shares of MMR's 5.75% Convertible Perpetual Preferred Stock, Series 2, which was accounted for under the cost method and recorded on FCX's balance sheet at $432 million on May 31, 2013. Through its acquisition of PXP on May 31, 2013, FCX acquired 51 million shares of MMR's common stock, which had a fair value of $848 million on that date based upon the closing market price of MMR's common stock ($16.63 per share, i.e., Level 1 measurement). As a result of FCX obtaining control of MMR on June 3, 2013, FCX remeasured its ownership interests in MMR to a fair value of $1.4 billion in accordance with ASC Topic 805, resulting in a gain of $128 million that was recorded in second-quarter 2013. Fair value was calculated using the closing quoted market price of MMR's common stock on June 3, 2013, of $16.75 per share (i.e., Level 1 measurement for the common stock and Level 2 measurement for the preferred stock).

Following is a summary of the $3.1 billion purchase price for MMR (in millions, except the closing share price):

Number of shares of MMR common stock acquired	112.362	a
Cash consideration of $14.75 per share	$14.75	
Cash consideration paid by FCX	$1,657	
Employee stock-based awards	63	
Total	1,720	
Fair value of FCX's investment in 51 million shares of MMR common stock acquired on May 31, 2013, through the acquisition of PXP	854	
Fair value of FCX's investment in MMR's 5.75% Convertible Perpetual Preferred Stock, Series 2	554	
Total purchase price	$3,128	

a. Excluded 51 million shares of MMR common stock owned by FCX through its acquisition of PXP on May 31, 2013.

The final valuation of assets acquired, liabilities assumed and redeemable noncontrolling interest is not complete and the net adjustments to those values may result in changes to goodwill and other carrying amounts initially assigned to the assets, liabilities and redeemable noncontrolling interest based on the preliminary fair value analysis. The following table summarizes the preliminary purchase price allocations for PXP and MMR (in millions):

	PXP	MMR	Eliminations	Total
Current assets	$1,192	$98	$—	$1,290
Oil and gas properties - full cost method:				
Subject to depletion	11,447	756	—	12,203
Not subject to depletion	9,431	1,686	—	11,117
Property, plant and equipment	261	1	—	262
Investment in MMR[a]	848	—	(848)	—
Other assets	12	421	—	433
Current liabilities	(907)	(174)	—	(1,081)
Debt (current and long-term)	(10,631)	(620)	—	(11,251)
Deferred income taxes[b]	(3,956)	—	—	(3,956)
Other long-term liabilities	(805)	(258)	—	(1,063)
Redeemable noncontrolling interest	(713)	(259)	—	(972)

Total fair value, excluding goodwill	6,179	1,651	(848)	6,982
Goodwill	455	1,477	—	1,932
Total purchase price	$6,634	$3,128	$(848)	$8,914

a. PXP owned 51 million shares of MMR common stock, which was eliminated in FCX's condensed consolidated balance sheet at the acquisition date of MMR.

b. Deferred income taxes have been recognized based on the estimated fair value adjustments to net assets using a 38 percent tax rate, which reflected the 35 percent federal statutory rate and a 3 percent weighted-average of the applicable statutory state tax rates (net of federal benefit).

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In accordance with the acquisition method of accounting, the purchase price from FCX's acquisitions of both PXP and MMR has been allocated on a preliminary basis to the assets acquired, liabilities assumed and redeemable noncontrolling interest based on their estimated fair values on the respective acquisition dates. The estimated fair values were based on preliminary estimates and are subject to change as FCX completes its analysis. The fair value estimates were based on, but not limited to quoted market prices, where available; expected future cash flows based on estimated reserve quantities; costs to produce and develop reserves; current replacement cost for similar capacity for certain fixed assets; market rate assumptions for contractual obligations; appropriate discount rates and growth rates, and oil and gas forward prices. The excess of the total consideration over the estimated fair value of the amounts initially assigned to the identifiable assets acquired, liabilities assumed and redeemable noncontrolling interest has been recorded as goodwill. Goodwill recorded in connection with the acquisitions will not be deductible for income tax purposes.

The fair value measurement of the oil and gas properties, asset retirement obligations included in other liabilities (refer to Note 8 for further discussion) and redeemable noncontrolling interest were based, in part, on significant inputs not observable in the market (as discussed above) and thus represents a Level 3 measurement. The fair value measurement of long-term debt, including the current portion, was based on prices obtained from a readily available pricing source and thus represents a Level 2 measurement.

As of September 30, 2013, FCX had not identified any material pre-acquisition contingencies where the related asset, liability or impairment is probable and the amount of the asset, liability or impairment can be reasonably estimated. Prior to the end of the purchase price allocation period, if information becomes available that an asset existed, a liability had been incurred or an asset had been impaired as of the applicable acquisition date, and the amounts can be reasonably estimated, such items will be included in the applicable purchase price allocations.

Goodwill arose on these acquisitions principally because of limited drilling activities to date and the absence of production history and material reserve data associated with the very large geologic potential of an emerging trend targeting deep-seated structures in the shallow waters of the GOM and onshore analogous to large discoveries in the deepwater GOM and other proven basins' prospects. In addition, goodwill also resulted from the requirement to recognize deferred taxes on the difference between the fair value and the tax basis of the acquired assets.

A summary of third-quarter 2013 adjustments to the preliminary fair values assigned to assets acquired, liabilities assumed and redeemable noncontrolling interest from the acquisitions follows (in millions):

	PXP	MMR	Total
Increase in current assets (primarily current deferred income tax asset)	$182	$2	$184
(Decrease) in oil and gas properties - full cost method:			
Subject to depletion	—	(45)	(45)
Not subject to depletion	(204)	(6)	(210)
Increase in other assets (deferred income tax asset)	—	22	22
Net (increase) in deferred income tax liability	(85)	—	(85)
Net decrease in other liabilities (primarily warrants)	70	—	70
Decrease in redeemable noncontrolling interest	36	—	36
Increase in goodwill	1	27	28

The third-quarter 2013 adjustments to the preliminary purchase price allocations were primarily associated with revised estimated fair values of oil and gas properties, which also resulted in adjustments to the fair value of warrants, redeemable noncontrolling interest and deferred income taxes. In addition, an adjustment was recorded to reclassify $162 million of deferred income taxes to current assets.

In third-quarter 2013, FM O&G contributed revenue of $1.2 billion and operating income of $274 million to FCX's consolidated results; for the four-month period from June 1, 2013, to September 30, 2013, FM O&G contributed revenue of $1.5 billion and operating income of $338 million. FCX's acquisition-related costs of $76 million for the first nine months of 2013 were included in selling, general and administrative expense in the consolidated statements of income. In addition, FCX deferred debt issuance costs of $96 million in connection with the debt financings of the acquisitions (refer to Note 7 for further discussion of the debt financings), which are included in other assets in the condensed consolidated balance sheet as of September 30, 2013.

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Redeemable Noncontrolling Interest - PXP. In 2011, PXP issued (i) 450,000 shares of Plains Offshore Operations Inc. (Plains Offshore) 8% Convertible Preferred Stock (Preferred Stock) for gross proceeds of $450 million and (ii) non-detachable warrants with an exercise price of $20 per share to purchase in aggregate 9.1 million shares of Plains Offshore's common stock. In addition, Plains Offshore issued 87 million shares of Plains Offshore Class A common stock, which will be held in escrow until the conversion and cancellation of the Preferred Stock or the exercise of the warrants. Plains Offshore holds certain of FM O&G's oil and gas properties and assets located in the GOM in water depths of 500 feet or more, including the Lucius oil field and the Phobos prospect, but excluding the properties acquired by PXP in 2012 from BP Exploration & Production Inc., BP America Production Company and Shell Offshore Inc. The Preferred Stock represents a 20 percent equity interest in Plains Offshore and is entitled to a dividend of 8 percent per annum, payable quarterly, of which 2 percent may be deferred ($20 million of accumulated deferred dividends as of September 30, 2013). The shares of Preferred Stock also fully participate, on an as-converted basis at four times, in cash dividends distributed to any class of common stockholders of Plains Offshore. Plains Offshore has not distributed any dividends to its common stockholders.

The holders of the Preferred Stock (preferred holders) have the right, at any time at their option, to convert any or all of such holder's shares of Preferred Stock and exercise any of the associated non-detachable warrants into shares of Class A common stock of Plains Offshore, at an initial conversion/exercise price of $20 per share; the conversion price is subject to adjustment as a result of certain events. Furthermore, Plains Offshore has the right to convert all or a portion of the outstanding shares of Preferred Stock if certain events occur more than 180 days after an initial public offering or a qualified public offering of Plains Offshore. FM O&G also has a right to purchase shares of Plains Offshore preferred stock, common stock and warrants under certain circumstances in order to permit the consolidation of Plains Offshore for federal income tax purposes. Additionally, at any time on or after November 17, 2016, the fifth anniversary of the closing date, FM O&G may exercise a call right to purchase all, but not less than all, of the outstanding shares of Preferred Stock and associated non-detachable warrants for cash, at a price equal to the liquidation preference described below.

At any time after November 17, 2015, the fourth anniversary of the closing date, a majority of the preferred holders may cause Plains Offshore to use its commercially reasonable efforts to consummate an exit event. An exit event, as defined in the stockholders agreement, means, at the sole option of Plains Offshore (i) the purchase by FM O&G or the redemption by Plains Offshore of all the preferred stock, warrants and common stock held by the preferred holders for the aggregate fair value thereof; (ii) a sale of Plains Offshore or a sale of all or substantially all of its assets, in each case in an arms' length transaction with a third party, at the highest price available after reasonable marketing efforts by Plains Offshore; or (iii) a qualified initial public offering. In the event that Plains Offshore fails to consummate an exit event prior to the applicable exit event deadline, the conversion price of the Preferred Stock and the exercise price of the warrants will immediately and automatically be adjusted such that all issued and outstanding shares of Preferred Stock on an as-converted basis taken together with shares of Plains Offshore common stock issuable upon exercise of the warrants, in the aggregate, will constitute 49 percent of the common equity securities of Plains Offshore on a fully diluted basis. In addition, FM O&G would be required to purchase $300 million of junior preferred stock in Plains Offshore.

The preferred holders are entitled to vote on all matters on which Plains Offshore common stockholders are entitled to vote.

In the event of liquidation of Plains Offshore, each preferred holder is entitled to receive the liquidation preference before any payment or distribution is made on any Plains Offshore junior preferred stock or common stock. A liquidation event includes any of the following events: (i) the liquidation, dissolution or winding up of Plains Offshore, whether voluntary or involuntary, (ii) a sale, consolidation or merger of Plains Offshore in which the stockholders immediately prior to such event do not own at least a majority of the outstanding shares of the surviving entity, or (iii) a sale or other disposition of all or substantially all of Plains Offshore's assets to a person other than FM O&G or its affiliates. The liquidation preference, as defined in the stockholders agreement, is equal to (i) the greater of (a) 1.25 times the initial offering price and (b) the sum of (1) the fair market value of the shares of common stock

issuable upon conversion of the Preferred Stock and (2) the applicable tax adjustment amount, plus (ii) any accrued dividends and accumulated dividends.
The non-detachable warrants may be exercised at any time on the earlier of (i) November 17, 2019, the eighth anniversary of the original issue date or (ii) a termination event. A termination event is defined as the occurrence of any of (a) the conversion of the Preferred Stock, (b) the redemption of the Preferred Stock, (c) the repurchase by FM O&G or any of its affiliates of the Preferred Stock or (d) a liquidation event of Plains Offshore, described above. The non-detachable warrants are considered to be embedded derivative instruments for accounting purposes and

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have been assessed as not being clearly and closely related to the related Preferred Stock. Therefore, the warrants are classified as a long-term liability in the accompanying condensed consolidated balance sheet and will be adjusted to fair value each reporting period with adjustments recorded in other income (expense). The fair value measurement of the warrants was based on significant inputs not observable in the market (refer to Note 10 for discussion of valuation technique) and thus represents a Level 3 measurement.

The Preferred Stock of Plains Offshore is classified as temporary equity because of its redemption features and is therefore reported outside of permanent equity in FCX's condensed consolidated balance sheet. The redeemable noncontrolling interest totaled $719 million as of September 30, 2013. Remeasurement of the redeemable noncontrolling interest represents its initial carrying amount adjusted for any noncontrolling interest's share of net income (loss) or changes to the redemption value. Additionally, the carrying amount will be further increased by amounts representing dividends not currently declared or paid, but which are payable under the redemption features described above. Future mark-to-market adjustments to the redemption value, subject to a minimum balance of the original recorded value ($713 million) on May 31, 2013, shall be reflected in retained earnings and earnings per share. FM O&G will accrete changes in the redemption value over the period from the date FCX acquired PXP to the earliest redemption date.

Redeemable Noncontrolling Interest - MMR. The enhanced "make-whole" conversion rates triggered by FCX's acquisition of MMR expired on July 9, 2013, for MMR's 8% Convertible Perpetual Preferred Stock (8% Preferred Stock) and 5.75% Convertible Perpetual Preferred Stock, Series 1 (5.75% Preferred Stock). A summary of the conversion activity follows (in millions):

	8% Preferred Stock	5.75% Preferred Stock
Acquisition-date (June 3, 2013) fair value	$30	$229
Less June 2013 conversions	29	200
Less July 2013 conversions	—	29
Remaining balance at make-whole expiration dates	$1	$—
Royalty trust units released upon conversions:		
June 2013 conversions	2.0	13.7
July 2013 conversions	—	2.0
Total	2.0	15.7

The conversions of the 8% Preferred Stock and 5.75% Preferred Stock required cash payments of $227 million and the release of royalty trust units with a fair value of $31 million at the acquisition date.

Unaudited Pro Forma Consolidated Financial Information. The following unaudited pro forma financial information has been prepared to reflect the acquisitions of PXP and MMR. The unaudited pro forma financial information combines the historical statements of income of FCX, PXP and MMR (including the pro forma effects of PXP's GOM acquisition that was completed on November 30, 2012) for the three-month period ended September 30, 2012, and the nine-month periods ended September 30, 2013 and 2012, giving effect to the mergers as if they had occurred on January 1, 2012. The historical consolidated financial information has been adjusted to reflect factually supportable items that are directly attributable to the acquisitions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions, except per share amounts)			
Revenues	$6,165	$5,406	$17,190	$16,955
Operating income	1,707	1,575	4,617	5,081

Income from continuing operations	1,048	898	2,762	3,161
Net income attributable to FCX common stockholders	821	573	2,213	2,397
Net income per share attributable to FCX common stockholders:				
Basic	$0.79	$0.55	$2.13	$2.30
Diluted	0.79	0.55	2.12	2.29

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The above unaudited pro forma consolidated information has been prepared for illustrative purposes only and is not intended to be indicative of the results of operations that actually would have occurred, or the results of operations expected in future periods, had the events reflected herein occurred on the dates indicated. The most significant pro forma adjustments to income from continuing operations for the nine-month period ended September 30, 2013, were to exclude $519 million of acquisition-related costs, the net tax benefit of $183 million of acquisition-related adjustments and the $128 million gain on the investment in MMR and to include them in the nine-month period ended September 30, 2012. Additionally, for the nine-month period ended September 30, 2013, the pro forma consolidated information excluded a $77 million gain on the sale of MMR oil and gas properties because of the full cost method of accounting.

Cobalt Chemical Refinery Business. On March 29, 2013, FCX, through a newly formed consolidated joint venture, completed the acquisition of a cobalt chemical refinery in Kokkola, Finland, and the related sales and marketing business. The acquisition provides direct end-market access for the cobalt hydroxide production at Tenke Fungurume Mining S.A.R.L. (TFM or Tenke). The joint venture operates under the name Freeport Cobalt, and FCX is the operator with an effective 56 percent ownership interest. The remaining effective ownership interest is held by FCX's partners in TFM, including 24 percent by Lundin Mining Corporation (Lundin) and 20 percent by La Générale des Carrières et des Mines (Gécamines). Consideration paid was $382 million, which included $34 million for cash acquired, and was funded 70 percent by FCX and 30 percent by Lundin. Under the terms of the acquisition agreement, there is also the potential for additional consideration of up to $110 million over a period of three years, contingent upon the achievement of revenue-based performance targets. The initial estimates of the fair value of assets acquired and liabilities assumed included in FCX's consolidated financial statements as of September 30, 2013, are not final.

3. SIGNIFICANT ACCOUNTING POLICIES

As a result of the acquisitions of PXP and MMR, the following supplements the significant accounting policies contained in FCX's annual report on Form 10-K for the year ended December 31, 2012.

Basis of Presentation. FCX began consolidating its wholly owned subsidiaries, PXP and MMR, effective June 1, 2013, and June 4, 2013, respectively. PXP's and MMR's financial information consolidates the results of operations and the assets and liabilities for their majority-owned subsidiaries. Investments in unincorporated joint ventures, as well as individual interests in oil and gas exploration, development and production activities, are reflected using the proportionate consolidation method. All significant intercompany transactions have been eliminated.

Use of Estimates. As a result of the acquisitions of PXP and MMR, other significant areas requiring the use of management estimates include oil and gas reserve estimation; timing of transfers of oil and gas properties not subject to amortization into the full cost pool; determination of fair value of assets acquired, liabilities assumed and redeemable noncontrolling interest, and recognition of goodwill and deferred taxes in connection with business combinations; and valuation of derivative instruments. Actual results could differ from those estimates. In particular, initial estimates of acquisition fair values are preliminary and subject to change as the related valuations are finalized.

Goodwill. Goodwill has an indefinite useful life and is not amortized, but rather is tested for impairment at least annually, unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a related reporting unit below its carrying value. Impairment occurs when the carrying amount of goodwill exceeds its implied fair value. FCX uses a discounted cash flow model to determine if the carrying value of the reporting unit, including goodwill, is less than the fair value of the reporting unit. FCX's approach to allocating goodwill includes the identification of the reporting unit it believes has contributed to the excess purchase price and includes consideration of the reporting unit's potential for future growth. Goodwill arose with FCX's acquisitions of PXP and MMR, which has been allocated to the oil and gas reporting unit. Events affecting oil and gas prices may cause a decrease in the fair value of the reporting unit, and FCX could have an impairment of its goodwill in future periods. When a sale of oil and gas properties occurs, goodwill is allocated to that property based on the relationship of the fair value of the property sold to the total reporting unit's fair value. A significant sale of oil and gas properties may represent a triggering event that requires goodwill to be evaluated for impairment.

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Oil and Gas Properties. FCX follows the full cost method of accounting whereby all costs associated with oil and gas property acquisitions, exploration and development activities are capitalized. Such costs include internal general and administrative costs, such as payroll and related benefits and costs directly attributable to employees engaged in acquisition, exploration and development activities. General and administrative costs associated with production, operations, marketing and general corporate activities are charged to expense as incurred. Capitalized costs, along with estimated future costs to develop proved reserves and asset retirement costs that are not already included in oil and gas properties, net of related salvage value, are amortized to expense under the unit-of-production method using engineers' estimates of proved oil and gas reserves. The costs of unproved oil and gas properties are excluded from amortization until the properties are evaluated. Interest is capitalized on oil and gas properties not subject to amortization and in the process of development. Proceeds from the sale of oil and gas properties are accounted for as reductions to capitalized costs unless such sale causes a 25 percent or greater change in the total proved reserves of oil and gas attributable to a cost center, in which case a gain or loss is recognized.

As of September 30, 2013, property, plant, equipment and development costs, net on the condensed consolidated balance sheet included $12.2 billion for oil and gas properties subject to depletion and $11.1 billion for oil and gas properties not subject to depletion.

Under the U.S. Securities and Exchange Commission's (SEC) full cost accounting rules, FCX reviews the carrying value of its oil and gas properties each quarter on a country-by-country basis, with each country representing a cost center. FCX's oil and gas operations currently have one cost center, the U.S. Under these rules, capitalized costs of oil and gas properties (net of accumulated depreciation, depletion and amortization, and related deferred income taxes) for each cost center may not exceed a “ceiling” equal to:

- the present value, discounted at 10 percent, of estimated future net cash flows from proved oil and gas reserves, net of estimated future income taxes; plus
- the cost of unproved properties not being amortized; plus
- the lower of cost or estimated fair value of unproved properties included in the costs being amortized (net of related tax effects).

These rules generally require that FCX price its future oil and gas production at the trailing twelve-month average of the first-day-of-the-month reference prices as adjusted for location and quality differentials. FCX reference prices are West Texas Intermediate (WTI) for oil and the Henry Hub spot price for gas. Such prices are utilized except where different prices are fixed and determinable from applicable contracts for the remaining term of those contracts. The reserve estimates exclude the effect of any oil and gas derivatives FCX has in place. The estimated future net cash flows exclude future cash outflows associated with settling asset retirement obligations included in the net book value of the oil and gas properties. The rules require an impairment if the capitalized costs exceed this “ceiling.” At September 30, 2013, the ceiling with respect to FCX's oil and gas properties exceeded the net capitalized costs, and therefore, no impairment was recorded.

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4. EARNINGS PER SHARE

FCX's basic net income per share of common stock was calculated by dividing net income attributable to FCX common stockholders 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$1,048	$1,140	$2,482	$3,035
Net income attributable to noncontrolling interests	(218)	(316)	(519)	(737)
Preferred dividends on redeemable noncontrolling interest	(9)	—	(12)	—
Net income attributable to FCX common stockholders	$821	$824	$1,951	$2,298
Weighted-average shares of common stock outstanding	1,038	949	989	949
Add shares issuable upon exercise or vesting of dilutive stock options and restricted stock units	5	4	4	4 [a]
Weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share	1,043	953	993	953
Diluted net income per share attributable to FCX common stockholders	$0.79	$0.86	$1.96	$2.41

a. Excluded shares of common stock associated with outstanding stock options with exercise prices less than the average market price of FCX's common stock that were anti-dilutive based on the treasury stock method totaled approximately one million for the nine months ended September 30, 2012.

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 34 million stock options with a weighted-average exercise price of $40.11 per option for third-quarter 2013, and approximately 32 million stock options with a weighted average exercise price of $40.63 for the nine months ended September 30, 2013. Stock options for approximately 24 million shares with a weighted-average exercise price of $42.52 per option were excluded for third-quarter 2012, and stock options for approximately 19 million shares with a weighted-average exercise price of $43.80 were excluded for the nine months ended September 30, 2012.

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

The components of inventories, excluding mill and leach stockpiles, follow (in millions):

	September 30, 2013	December 31, 2012
Raw materials (primarily concentrates)	$154	$237
Work-in-process[a]	80	252
Finished goods[b]	1,113	911
Total product inventories	$1,347	$1,400
Total materials and supplies, net[c]	$1,762	$1,504

a. FCX's mining operations also have work-in-process inventories that are included in mill and leach stockpiles.
b. Primarily included molybdenum concentrates and copper concentrates, anodes, cathodes and rod.
c. Materials and supplies inventory was net of obsolescence reserves totaling $30 million at September 30, 2013, and $27 million at December 31, 2012.

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

	September 30, 2013	December 31, 2012
Current:		
Mill stockpiles	$85	$104
Leach stockpiles	1,659	1,568
Total current mill and leach stockpiles	$1,744	$1,672
Long-term:[a]		
Mill stockpiles	$672	$615
Leach stockpiles	1,632	1,340
Total long-term mill and leach stockpiles	$2,304	$1,955

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

6. INCOME TAXES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
United States operations	$99	$98	$76 [a]	$291
International operations	400	117 [b]	891	837 [b]
Total	$499	$215	$967	$1,128

a. As a result of second-quarter 2013 oil and gas acquisitions, FCX recognized a net tax benefit of $183 million consisting of income tax benefits of $190 million associated with net reductions in FCX's valuation allowances and $69 million related to the release of the deferred tax liability on PXP's investment in MMR common stock, partially offset by income tax expense of $76 million associated with the write off of deferred tax assets related to environmental liabilities.

b. Included a net tax benefit of $234 million associated with an adjustment to Cerro Verde's deferred income tax liability.

Excluding the net tax benefit of $183 million for acquisition-related adjustments in 2013 and Cerro Verde's net deferred tax liability adjustment of $234 million in 2012, FCX’s consolidated effective income tax rate was 33 percent for the first nine months of 2013 and 2012. Variations in the relative proportions of jurisdictional income can result in fluctuations to FCX’s consolidated effective income tax rate.

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7. DEBT

At September 30, 2013, FCX had $21.1 billion in debt, which included $10.5 billion of acquisition-related debt and $7.1 billion of debt assumed in the acquisitions of PXP and MMR. As of September 30, 2013, debt included $683 million of fair value adjustments related to the debt assumed in the acquisitions of PXP and MMR. All of FCX's debt is unsecured.

A summary of the changes in debt for the nine months ended September 30, 2013, follows (in millions):

Balance at December 31, 2012	$3,527
Additions:	
Acquisition-related debt:	
Bank term loan	4,000
2.375% Senior Notes due 2018	1,500
3.100% Senior Notes due 2020	1,000
3.875% Senior Notes due 2023	1,999
5.450% Senior Notes due 2043	1,991
PXP debt assumed at the acquisition date (initially recorded at fair value):	
Amended credit facility:	
Revolving line of credit	1,469
Five-year term loan due 2017	750
Seven-year term loan due 2019	1,250
7 % Senior Notes due 2018	415
6 % Senior Notes due 2019	823
8 % Senior Notes due 2019	451
7 % Senior Notes due 2020	339
6½% Senior Notes due 2020	1,658
6 % Senior Notes due 2021	663
6¾% Senior Notes due 2022	1,118
6 % Senior Notes due 2023	1,695
MMR debt assumed at the acquisition date (initially recorded at fair value):	
11.875% Senior Notes due 2014	314
4% Convertible Senior Notes due 2017	237
5¼% Convertible Senior Notes due 2013	69
FCX's borrowings under the revolving credit facility	200
PXP's additional borrowings under the amended credit facility	396
Other borrowings and changes	75
Subtotal	25,939
Less cash repayments and payments for conversions:	
FCX's revolving credit facility	200
PXP's amended credit facility	3,865
MMR's 4% Convertible Senior Notes due 2017	209
PXP's 7 % Senior Notes due 2018	415
Other	127
Total debt balance at September 30, 2013	21,123
Less current portion	(70)
Long-term debt	$21,053

Revolving Credit Facility. On February 14, 2013, FCX and PT Freeport Indonesia entered into a new senior unsecured $3.0 billion revolving credit facility, which replaced FCX's existing revolving credit facility (scheduled to mature on March 30, 2016) upon completion of the acquisition of PXP. On May 31, 2013, in connection with the PXP acquisition, FCX satisfied all conditions under its new senior unsecured $3.0 billion revolving credit facility, and Freeport-McMoRan Oil & Gas, LLC (FM O&G LLC, the successor entity of PXP) joined the revolving credit facility as a borrower. The new revolving credit facility is available until May 31, 2018, in an aggregate principal amount of $3.0 billion, with $500 million available to PT Freeport Indonesia. At September 30, 2013, FCX had no borrowings and $46 million of letters of credit issued under the revolving credit facility, resulting in availability of approximately

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$3.0 billion, of which $1.5 billion could be used for additional letters of credit. Interest on the new revolving credit facility (currently London Interbank Offered Rate (LIBOR) plus 1.50 percent or the alternate base rate (ABR) plus 0.50 percent) is determined by reference to FCX's credit rating.

Lines of Credit. During third-quarter 2013, FCX entered into uncommitted lines of credit totaling $450 million with three financial institutions. These unsecured lines allow FCX to borrow at a spread over LIBOR or the respective financial institution's cost of funds with terms and pricing that are more favorable than FCX's revolving credit facility. As of September 30, 2013, there were no borrowings drawn on these lines of credit.

Acquisition-Related Debt. In connection with financing FCX's acquisitions of PXP and MMR, FCX used the proceeds from the issuance of $6.5 billion of unsecured senior notes and a $4.0 billion unsecured five-year bank term loan (the Term Loan) to fund the cash portion of the merger consideration for both transactions, to repay certain indebtedness of PXP and for general corporate purposes.

Senior Notes. On March 7, 2013, in connection with the financing of FCX's then-pending acquisitions of PXP and MMR, FCX issued $6.5 billion of unsecured senior notes in four tranches. FCX sold $1.5 billion of 2.375% Senior Notes due March 2018 (5-year notes), $1.0 billion of 3.100% Senior Notes due March 2020 (7-year notes), $2.0 billion of 3.875% Senior Notes due March 2023 (10-year notes) and $2.0 billion of 5.450% Senior Notes due March 2043 (30-year notes) for total net proceeds of $6.4 billion. Interest on these notes is payable semiannually on March 15 and September 15, beginning September 15, 2013.

Bank Term Loan. On February 14, 2013, FCX entered into an agreement for a $4.0 billion unsecured Term Loan in connection with the then-pending acquisitions of PXP and MMR. Upon closing the PXP acquisition, FCX borrowed $4.0 billion under the Term Loan, and FM O&G LLC joined the Term Loan as a borrower. The Term Loan will amortize in equal quarterly installments during the second, third and fourth years of the loan in annual amounts equal to 10 percent, 15 percent and 20 percent, respectively, of the original aggregate principal amount, and the remainder will mature five years from the date of the first borrowing on May 31, 2013). At FCX's option, the Term Loan bears interest at either an adjusted LIBOR or an alternate base rate (as defined under the Term Loan agreement) plus a spread determined by reference to FCX's credit ratings (currently LIBOR plus 1.50 percent or ABR plus 0.50 percent).

PXP Debt Assumed. At the close of the acquisition of PXP, FCX assumed long-term debt with a stated value of $9.9 billion, which was increased by $762 million to reflect the acquisition-date fair market value of these obligations. The fair value adjustments will be amortized over the term of the senior notes and recorded as a reduction of interest expense. Following is a brief description of the debt assumed in the PXP acquisition.

PXP's 6 % Senior Notes due 2019, 8 % Senior Notes due 2019, 7 % Senior Notes due 2020, 6½% Senior Notes due 2020, 6 % Senior Notes due 2021, 6¾% Senior Notes due 2022 and 6 % Senior Notes due 2023 had a total stated value of $6.4 billion (including the 7 % Senior Notes due 2018 that were repaid in June 2013), which was increased by $716 million to reflect the acquisition-date fair market value of these senior notes. Interest on these notes is payable semiannually. These senior notes are redeemable in whole or in part, at the option of FCX, at make-whole redemption prices prior to the dates stated below, and beginning on the dates below at specified redemption prices. In addition, up to 35 percent of the principal amount of certain of these notes may be redeemed at specified redemption prices with all or a portion of the proceeds of an equity contribution.

Debt Instrument	Date
6 % Senior Notes due 2019	June 15, 2016
8 % Senior Notes due 2019	October 15, 2014
7 % Senior Notes due 2020	April 1, 2015
6½% Senior Notes due 2020	November 15, 2015

6 % Senior Notes due 2021	May 1, 2016
6¾% Senior Notes due 2022	February 1, 2017
6 % Senior Notes due 2023	February 15, 2018

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MMR Debt Assumed. At the close of the acquisition of MMR, FCX assumed long-term debt with a stated value of $558 million, which was increased by $62 million to reflect the acquisition-date fair market value of these obligations. The fair value adjustments will be amortized over the term of the senior notes and recorded as a reduction of interest expense. Following is a brief description of the debt assumed in the MMR acquisition.

Interest on MMR's 11.875% Senior Notes due 2014 is payable semiannually, and these notes are redeemable in whole or in part, at the option of FCX, at specified redemption prices. These notes are callable at par in November 2013 (refer to Note 12 for discussion of the redemption of these notes). During June and July 2013, holders of MMR's 4% Convertible Senior Notes due 2017 converted their notes into merger consideration totaling $237 million, including cash payments of $209 million and 16.3 million royalty trust units with a fair value of $28 million at the acquisition date. Interest on MMR's 5¼% Convertible Senior Notes due 2013 was payable semiannually (refer to Note 12 for discussion of the conversion of these notes in October 2013).

Repayments. In connection with the acquisition of PXP, FCX repaid the $3.9 billion outstanding under PXP's amended credit facility. Additionally, during June 2013, FCX redeemed all of PXP's 7 % Senior Notes due 2018, which were recorded at fair value on the date of acquisition, for $415 million.

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) for the first nine months of 2012.

Other. During the first nine months of 2013, FCX recorded a loss on early extinguishment of debt of $45 million ($36 million to net income attributable to FCX common stockholders) for financing costs incurred for the terminated $9.5 billion acquisition bridge loan facility, which was entered into in December 2012 to provide interim financing for the acquisitions of PXP and MMR but was replaced with other financing.

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 these notes is payable semiannually.

Guarantees. In connection with the acquisition of PXP, FCX guaranteed the PXP senior notes, and the guarantees by certain PXP subsidiaries were released. At the time of FCX's acquisition of MMR, FCX guaranteed MMR's 11.875% Senior Notes due 2014, and the guarantees by certain MMR subsidiaries were released. Refer to Note 14 for a discussion of FCX's senior notes guaranteed by FM O&G LLC.

Restrictive Covenants. The Term Loan and new revolving credit facility both contain customary affirmative covenants and representations, and also contain a number of negative covenants that, among other things, restrict, subject to certain exceptions, the ability of FCX's subsidiaries that are not borrowers or guarantors to incur additional indebtedness (including guarantee obligations) and FCX's ability or the ability of FCX's subsidiaries to: create liens on assets; enter into sale and leaseback transactions; engage in mergers, liquidations and dissolutions; and sell assets. The Term Loan and new revolving credit facility also contain financial ratios governing maximum total leverage and minimum interest coverage. The FCX senior notes contain limitations on liens that are generally typical for investment grade companies.

Maturities. Maturities of debt instruments based on the amounts and terms outstanding at September 30, 2013, total $67 million for the remainder of 2013; $614 million in 2014; $1.1 billion in 2015, $750 million in 2016, $700 million in 2017 and $17.9 billion thereafter.

Consolidated interest expense (excluding capitalized interest) totaled $223 million in third-quarter 2013, $56 million in third-quarter 2012, $465 million for the first nine months of 2013 and $210 million for the first nine months of 2012. Capitalized interest totaled $61 million in third-quarter 2013, $14 million in third-quarter 2012, $114 million for the first nine months of 2013 and $62 million for the first nine months of 2012.

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8. CONTINGENCIES AND COMMITMENTS

Asset Retirement Obligations (AROs). A summary of changes in FCX's AROs (included in reclamation and environmental obligations in the condensed consolidated balance sheet) for the nine months ended September 30, 2013, follows (in millions):

Balance at December 31, 2012	$1,146
Liabilities assumed in the acquisitions of PXP and MMR[a]	1,024
Liabilities incurred	15
Settlements and revisions to cash flow estimates, net	(3)
Accretion expense	66
Spending	(62)
Other	(3)
Balance at September 30, 2013	2,183
Less: current portion	(125)
Long-term portion	$2,058

a. The fair value of AROs assumed in the acquisitions of PXP and MMR ($741 million and $283 million, respectively) were estimated based on projected cash flows, an estimated long-term annual inflation rate of 2.5 percent, and discount rates based on FCX's estimated credit-adjusted, risk-free interest rates ranging from 1.3 percent to 6.3 percent.

The following discussion updates previously reported information regarding AROs included in Note 13 of FCX's annual report on Form 10-K for the year ended December 31, 2012, to reflect the acquisitions of PXP and MMR. Consistent with oil and gas industry practices, substantially all of the oil and gas leases require that, upon termination of economic production, the working interest owners plug and abandon non-producing wellbores, remove platforms, tanks, production equipment and flow lines and restore the wellsite. Typically, when producing oil and gas assets are purchased, the purchaser assumes the obligation to plug and abandon wells and facilities that are part of such assets. However, in some instances, an indemnity may be received with respect to those costs. FCX cannot be assured that it will be able to collect on these indemnities. In connection with the acquisitions of PXP and MMR, the most significant asset retirement obligations were related to the oil and gas properties located in the GOM.

Litigation. The following information includes a discussion of updates to previously reported legal proceedings included in Note 13 of FCX’s annual report on Form 10-K for the year ended December 31, 2012, and Notes 8 and 9 of FCX’s quarterly report on Form 10-Q for the quarters ended June 30, 2013, and March 31, 2013, respectively.

Shareholder Litigation. On July 19, 2013, the plaintiffs in In Re Freeport-McMoRan Copper & Gold, Inc. Derivative Litigation, No. 8145-VCN, pending in the Delaware Court of Chancery, filed a second amended consolidated complaint and voluntarily dismissed without prejudice the aiding and abetting claims against most of the defendants. On October 10, 2013, FCX and the other defendants filed a motion to dismiss the second amended consolidated complaint.

On August 14, 2013, the parties in In Re Plains Exploration & Production Company Stockholder Litigation, No. 8090-VCN, entered into a stipulation that provided for dismissal with prejudice as to the named plaintiffs and without prejudice as to the non-present class members. The court approved the stipulation on August 15, 2013.

On October 11, 2013, the court held a hearing to consider the evidence in support of the proposed settlement of In Re McMoRan Exploration Co. Stockholder Litigation, No. 8132-VCN. On October 16, 2013, the court entered an order approving the settlement, the terms of which are not material to FCX.

Tax and Other Matters. Cerro Verde Royalty Dispute. As reported in Note 13 of FCX's annual report on Form 10-K for the year ended December 31, 2012, SUNAT, the Peruvian national tax authority, has assessed mining royalties on ore processed by the Cerro Verde concentrator that commenced operations in late 2006. These assessments cover the period October 2006 to December 2007 and the years 2008 and 2009. In July 2013, the Peruvian Tax Tribunal issued two decisions affirming SUNAT's assessments for the period October 2006 through December 2008. Decisions by the Tax Tribunal end the administrative stage of the appeal procedures for the assessments. In September 2013, Cerro Verde filed judiciary appeals related to the assessments because it continues to believe that its 1998 stability agreement provides an exemption for all minerals extracted from its mining concession, irrespective of the method used for processing those minerals. Although FCX believes its interpretation of the stability agreement is correct, if Cerro Verde is ultimately found responsible for these assessments, it will also be liable for interest, which accrues at rates that range from approximately 7 to 18 percent based on the year accrued and the currency in which the amounts would be payable.

On October 1, 2013, SUNAT served Cerro Verde with a demand for payment totaling 492 million Peruvian nuevo soles ($176 million based on current exchange rates, including interest and penalties of $104 million) based on the Peruvian Tax Tribunal’s July 2013 decisions. As permitted by law, Cerro Verde requested and was granted an installment payment program that defers payment for six months and thereafter satisfies the amount via sixty-six equal monthly payments. On July 19, 2013, a hearing on SUNAT's assessment for 2009 was held, but no decision has been issued by the Tax Tribunal for that year. As of September 30, 2013, the aggregate amount of the assessments, including interests and penalties, for the year 2009 was 200 million Peruvian nuevo soles ($72 million based on current exchange rates). SUNAT may make additional assessments for mining royalties and associated penalties and interest for the years 2010 through 2013, which Cerro Verde will contest; FCX believes any such assessments for the years 2010 through 2013, if made, would in the aggregate be similar to the aggregate assessments received for the periods October 2006 through December 2009. No assessments can be issued for years after 2013, as Cerro Verde’s current stability agreement expires on December 31, 2013, and Cerro Verde will begin paying royalties on all of its production in January 2014 under its new 15-year stability agreement. No amounts were accrued as of September 30, 2013, because Cerro Verde believes its stability agreement exempts it from these royalties.

Indonesia Tax Matters. PT Freeport Indonesia has received assessments from the Indonesian tax authorities for additional taxes and interest related to various audit exceptions for the years 2005, 2006, 2007, 2008 and 2011. During first-quarter 2013, PT Freeport Indonesia received assessments from the Indonesian tax authorities for additional taxes of $59 million and interest of $55 million related to various audit exceptions for 2008. During second-quarter 2013, the Indonesian tax authorities agreed to refund $291 million ($320 million was included in other accounts receivable in the condensed consolidated balance sheet at December 31, 2012) associated with overpayments made by PT Freeport Indonesia for 2011. PT Freeport Indonesia filed objections for $22 million of the remaining 2011 overpayments that it believes it is due. Additionally, the Indonesian tax authorities withheld $126 million of the 2011 overpayment for unrelated assessments from 2005 and 2007, which PT Freeport Indonesia is disputing. A refund of $165 million was received in July 2013. PT Freeport Indonesia has filed objections to the 2005, 2006, 2007, 2008 and 2011 assessments because it believes it has properly determined and paid its taxes. As of September 30, 2013, FCX had $284 million included in other assets for amounts paid on disputed tax assessments, which it believes are collectible, including the $126 million discussed above for the 2011 refunds.

Contractual Obligations. The following information updates previously reported contractual obligations included in Note 14 of FCX's annual report on Form 10-K for the year ended December 31, 2012, to reflect the acquisitions of PXP and MMR. As is common within the oil and gas industry, FCX has various commitments and operating agreements associated with oil and gas exploration, development and production activities, gathering and transportation, and oilfield and other services. As of September 30, 2013, aggregate future obligations under these agreements total $2.3 billion, primarily comprising minimum commitments of $1.5 billion for two ultra-deepwater drillships currently under construction and expected to be delivered in late 2014 and early 2015 for the GOM drilling campaign and $472 million associated with the deferred premium costs and future interest expected to be accrued on crude oil option contracts, which will be paid once the options settle (refer to Note 9 for further discussion). FCX's future commitments associated with these oil and gas unconditional purchase obligations total $72 million for the remainder of 2013, $340 million in 2014, $704 million in 2015, $565 million in 2016, $493 million in 2017 and $166 million thereafter.

9. 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, which 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.

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 copper and gold commodities it purchases and sells. As a result of the acquisition of PXP, FCX assumed a variety of oil and gas commodity derivatives, such as swaps, collars, puts, calls and various combinations of these instruments, to hedge the exposure to the volatility of oil and gas commodity prices.

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Derivative financial instruments used by FCX to manage its risks do not contain credit risk-related contingent provisions. A discussion of FCX's derivative commodity contracts and programs follows.

Commodity 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 Commodity Exchange Inc. (COMEX), a division of the New York Mercantile Exchange (NYMEX), 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. Hedging 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 or nine-month periods ended September 30, 2013 and 2012, resulting from hedge ineffectiveness. At September 30, 2013, FCX held copper futures and swap contracts that qualified for hedge accounting for 41 million pounds at an average contract price of $3.28 per pound, with maturities through November 2014.

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Copper futures and swap contracts:				
Unrealized (losses) gains:				
Derivative financial instruments	$16	$13	$(2)	$20
Hedged item	(16)	(13)	2	(20)
Realized (losses) gains:				
Matured derivative financial instruments	(3)	1	(17)	(3)

Commodity Derivatives Not Designated as Hedging Instruments

Embedded Derivatives. As described in Note 1 to FCX's annual report on Form 10-K for the year ended December 31, 2012, under "Revenue Recognition," certain FCX copper concentrate, copper cathode and gold sales contracts provide for provisional pricing primarily based on the London Metal Exchange (LME) price (copper) or the COMEX price (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 under contracts that provide for provisional pricing. 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) or the London PM price (gold) 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.

A summary of FCX's embedded commodity derivatives at September 30, 2013, follows:

Average Price

	Open Positions	Per Unit Contract	Market	Maturities Through
Embedded derivatives in provisional sales contracts:				
Copper (millions of pounds)	555	$3.22	$3.31	February 2014
Gold (thousands of ounces)	161	1,356	1,332	January 2014
Embedded derivatives in provisional purchase contracts:				
Copper (millions of pounds)	52	3.17	3.31	January 2014

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Oil and Gas Contracts. As a result of the acquisition of PXP, FCX assumed PXP's 2013, 2014 and 2015 economic hedge positions that consisted of crude oil options, and crude oil and natural gas swaps. The crude oil and natural gas derivatives do not qualify or are not designated as hedging instruments and are recorded at fair value with the mark-to-market gains and losses recorded in revenues.

The crude oil options were entered into by PXP to protect the realized price of a portion of expected future sales in order to limit the effects of crude oil price decreases. These contracts are composed of crude oil put spreads (consisting of put options with a floor limit) and crude oil three-way collars (consisting of a put option with a floor limit and a call option with a ceiling). The premiums associated with put options are deferred until the settlement period. At September 30, 2013, the deferred option premiums and accrued interest associated with the crude oil option contracts totaled $461 million, which was included as a component of the fair value of the crude oil options contracts. At September 30, 2013, the outstanding crude oil option contracts, all of which settle monthly, follow:

			Average Price (per Bbl)[a]				
Period	Instrument Type	Daily Volumes (MBbls)	Ceiling	Floor	Floor Limit	Average Deferred Premium (per Bbl)	Index
2013							
Oct - Dec	Three-way collars[b]	25	$124.29	$100	$80	$—	Brent
Oct - Dec	Put options[c]	17	N/A	90	70	6.25	Brent
Oct - Dec	Put options[c]	13	N/A	100	80	6.80	Brent
Oct - Dec	Three-way collars[b]	5	126.08	90	70	—	Brent
2014							
Jan - Dec	Put options[c]	75	N/A	90	70	5.74	Brent
Jan - Dec	Put options[c]	30	N/A	95	75	6.09	Brent
Jan - Dec	Put options[c]	5	N/A	100	80	7.11	Brent
2015							
Jan - Dec	Put options[c]	84	N/A	90	70	6.89	Brent

a. The average strike prices do not reflect any premiums to purchase the put options.

b. If the index price is less than the per barrel floor, FCX receives the difference between the per barrel floor and the index price up to a maximum of $20 per barrel. FCX pays the difference between the index price and the per barrel ceiling if the index price is greater than the per barrel ceiling. If the index price is at or above the per barrel floor and at or below the per barrel ceiling, no cash settlement is required.

c. If the index price is less than the per barrel floor, FCX receives the difference between the per barrel floor and the index price up to a maximum of $20 per barrel less the option premium. If the index price is at or above the per barrel floor, FCX pays the option premium and no cash settlement is received.

In addition, at September 30, 2013, outstanding crude oil swaps with a weighted-average swap price of $109.23 per barrel cover approximately 4 million barrels (MMBbls) of crude oil, and natural gas swaps with a weighted-average swap price of $4.13 per million British thermal units (MMBTU) cover approximately 47 million MMBTUs of natural gas.

At September 30, 2013, the outstanding crude oil and natural gas swap contracts, all of which settle monthly, follow:

	Daily	Weighted-Average	Maturities

	Volumes	Fixed Price	Index	Through
2013 crude oil swaps (MBbls)[a]	40	$ 109.23	Brent	December 2013
2013 natural gas swaps (MMBtu)[a]	110,000	4.27	Henry Hub	December 2013
2014 natural gas swaps (MMBtu)[a]	100,000	4.09	Henry Hub	December 2014

a. If the index price is less than the fixed price, FCX receives the difference between the fixed price and the index price. FCX pays the difference between the index price and the fixed price if the index price is greater than the fixed price.

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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 September 30, 2013, Atlantic Copper held net forward copper sales contracts for 14 million pounds at an average contract price of $3.25 per pound, with maturities through November 2013.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Embedded derivatives in provisional copper and gold sales contracts[a]	$141	$164	$(147)	$188
Crude oil options and swaps[a]	(173)	—	(227)	—
Natural gas swaps[a]	3	—	22	—
Copper forward contracts[b]	—	5	3	17

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

Unsettled Commodity Derivative Financial Instruments

A summary of the fair values of unsettled commodity derivative financial instruments follows (in millions):

	September 30, 2013	December 31, 2012
Commodity Derivative Assets:		
Derivatives designated as hedging instruments:		
Copper futures and swap contracts:[a]	$3	$5
Derivatives not designated as hedging instruments:		
Embedded derivatives in provisional copper and gold sales/purchase contracts	51	36
Crude oil and natural gas swaps	24	—
Total derivative assets	$78	$41
Commodity Derivative Liabilities:		
Derivatives designated as hedging instruments:		
Copper futures and swap contracts[a]	$1	$1
Derivatives not designated as hedging instruments:		
Embedded derivatives in provisional copper and gold sales/purchase contracts	13	27
Crude oil options	218	—
Copper forward contracts	1	—
Total derivative liabilities	$233	$28

a. FCX paid $3 million to brokers at September 30, 2013, and $7 million at December 31, 2012, for margin requirements (recorded in other current assets).

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FCX's commodity contracts have netting arrangements with counterparties with which the right of offset exists, and it is FCX's policy to offset balances by counterparty on the balance sheet. FCX's embedded derivatives on provisional sales/purchases are netted with the corresponding outstanding receivable/payable balances. A summary of these unsettled commodity contracts that are offset in the balance sheet follows (in millions):

	Assets		Liabilities	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Gross amounts recognized:				
Commodity contracts:				
Embedded derivatives on provisional sales/purchase contracts	$51	$36	$13	$27
Crude oil and natural gas derivatives	24	—	218	—
Copper derivatives	3	5	2	1
	78	41	233	28
Less gross amounts of offset:				
Commodity contracts:				
Embedded derivatives on provisional sales/purchase contracts	4	8	4	8
Crude oil and natural gas derivatives	20	—	20	—
Copper derivatives	1	—	1	—
	25	8	25	8
Net amounts presented in balance sheet:				
Commodity contracts:				
Embedded derivatives on provisional sales/purchase contracts	47	28	9	19
Crude oil and natural gas derivatives	4	—	198	—
Copper derivatives	2	5	1	1
	$53	$33	$208	$20
Balance sheet classification:				
Trade accounts receivable	$46	$24	$1	$9
Other current assets	6	5	—	—
Other assets	—	—	—	—
Accounts payable and accrued liabilities	1	4	116	11
Other liabilities	—	—	91	—
	$53	$33	$208	$20

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 September 30, 2013, the maximum amount of credit exposure associated with derivative transactions was $50 million.

Other Financial Instruments. Other financial instruments include cash and cash equivalents, accounts receivable, investment securities, trust assets, accounts payable and accrued liabilities, dividends payable and long-term debt. The carrying value for cash and cash equivalents (which included time deposits of $239 million at September 30, 2013, and $514 million at December 31, 2012), accounts receivable, accounts payable and accrued liabilities, and dividends payable approximates fair value because of their short-term nature and generally negligible credit losses (refer to Note 10 for the fair values of investment securities, trust assets and long-term debt).

In addition, FCX has non-detachable warrants, which are considered to be embedded derivative instruments, associated with the Plains Offshore Preferred Stock (refer to Note 2 for further discussion and Note 10 for the fair value of these instruments).

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10. 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 recognizes transfers between levels at the end of the reporting period. FCX did not have any significant transfers in or out of Level 1, 2, or 3 for third-quarter 2013.

A summary of the carrying amount and fair value of FCX's financial instruments other than cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable follows (in millions):

	At September 30, 2013				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
Assets					
Investment securities (current and long-term):[a, b, c]					
Money market funds	$82	$82	$82	$—	$—
U.S. core fixed income fund	21	21	—	21	—
Equity securities	4	4	4	—	—
Total investment securities	107	107	86	21	—
Trust assets (long-term):[a, c]					
U.S. core fixed income fund	48	48	—	48	—
Government mortgage-backed securities	37	37	—	37	—
Corporate bonds	26	26	—	26	—
Government bonds and notes	24	24	—	24	—
Asset-backed securities	15	15	—	15	—
Money market funds	7	7	7	—	—
Municipal bonds	1	1	—	1	—
Total trust assets	158	158	7	151	—
Derivatives:[a, d]					
Embedded derivatives in provisional sales/purchase contracts in a gross asset position	51	51	—	51	—
Crude oil and natural gas swaps	24	24	—	24	—
Copper futures and swap contracts	3	3	3	—	—
Total derivative assets	78	78	3	75	—
Total assets		$343	$96	$247	$—
Liabilities					
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in a gross liability position[d]	$13	$13	$—	$13	$—
Crude oil options[d]	218	218	—	—	218
Copper futures and swap contracts[d]	1	1	1	—	—
Copper forward contracts[d]	1	1	1	—	—
Plains Offshore warrants[e]	11	11	—	—	11

Total derivative liabilities	244	244	2	13	229
Long-term debt, including current portion[f]	21,123	20,411	—	20,411	—
Total liabilities		$20,655	$2	$20,424	$229

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	At December 31, 2012				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
Assets					
Investment securities (current and long-term):					
MMR investment[g]	$446	$539	$—	$539	$—
U.S. core fixed income fund[a, c]	22	22	—	22	—
Money market funds[a, c]	16	16	16	—	—
Equity securities[a, c]	8	8	8	—	—
Total investment securities	492	585	24	561	—
Trust assets (long-term):[a, c]					
U.S. core fixed income fund	50	50	—	50	—
Government mortgage-backed securities	36	36	—	36	—
Corporate bonds	30	30	—	30	—
Government bonds and notes	24	24	—	24	—
Asset-backed securities	15	15	—	15	—
Money market funds	7	7	7	—	—
Municipal bonds	1	1	—	1	—
Total trust assets	163	163	7	156	—
Derivatives:[a, d]					
Embedded derivatives in provisional sales/purchase contracts in a gross asset position	36	36	—	36	—
Copper futures and swaps contracts	5	5	5	—	—
Total derivative assets	41	41	5	36	—
Total assets		$789	$36	$753	$—
Liabilities					
Derivatives:[a, d]					
Embedded derivatives in provisional sales/purchase contracts in a gross liability position	$27	$27	$—	$27	$—
Copper futures and swap contracts	1	1	1	—	—
Total derivative liabilities	28	28	1	27	—
Long-term debt, including current portion[f]	3,527	3,589	—	3,589	—
Total liabilities		$3,617	$1	$3,616	$—

a. Recorded at fair value.
b. Investment securities excluded $30 million of time deposits at September 30, 2013.
c. Current portion included in other current assets and long-term portion included in other assets.
d. Crude oil options are net of $461 million for deferred premiums and accrued interest at September 30, 2013. Refer to Note 9 for further discussion and balance sheet classifications.
e. Included in other liabilities. Refer to Note 2 for further discussion.
f.

Recorded at cost except for debt assumed in the PXP, MMR and Freeport-McMoRan Corporation acquisitions, which were recorded at fair value at the respective acquisition dates.

g. Recorded at cost and included in other assets.

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.

Fixed income securities (U.S. core fixed income funds, government securities, corporate bonds, asset-backed securities and municipal bonds) 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. As a result, these derivatives are classified within Level 2 of the fair value hierarchy.

FCX's derivative financial instruments for crude oil options are valued using an option pricing model, which uses various inputs including IntercontinentalExchange, Inc. (ICE) crude oil prices, volatilities, interest rates and contract terms. FCX's derivative financial instruments for crude oil and natural gas swaps are valued using a pricing model that has various inputs including NYMEX and ICE price quotations, interest rates and contract terms. Valuations are adjusted for credit quality, using the counterparties' credit quality for asset balances and FCX's credit quality for liability balances. For asset balances, FCX uses the credit default swap value for counterparties when available or the spread between the risk-free interest rate and the yield rate on the counterparties' publicly traded debt for similar instruments (which considers the impact of netting agreements on counterparty credit risk, including whether the position with the counterparty is a net asset or net liability). The 2013 and 2014 crude oil and natural gas swaps are classified within Level 2 of the fair value hierarchy because the inputs used in the valuation models are directly or indirectly observable for substantially the full term of the instruments. The 2013, 2014 and 2015 crude oil options are classified within Level 3 of the fair value hierarchy because the inputs used in the valuation models are not observable for substantially the full term of the instruments. The significant unobservable inputs used in the fair value measurement of the crude oil options are implied volatilities and deferred premiums. Significant increases (decreases) in implied volatilities in isolation would result in a significantly higher (lower) fair value measurement. The implied volatilities ranged from 18 percent to 46 percent, with a weighted average of 25 percent. The deferred premiums ranged from $5.15 per Bbl to $7.22 per Bbl, with a weighted average of $6.35 per Bbl. Refer to Note 9 for further discussion of these derivative financial instruments.

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 prices at each reporting date based on the month of maturity (refer to Note 9 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 based on COMEX and LME forward prices.

The fair value of warrants associated with the Plains Offshore Preferred Stock was determined with an option pricing model that used unobservable inputs. The inputs used in the valuation model are the estimated fair value of the underlying Plains Offshore common stock, expected exercise price, expected term, expected volatility and risk-free interest rate. The assumptions used in the valuation model are highly subjective because the common stock of Plains Offshore is not publicly traded. As a result, these warrants are classified within Level 3 of the fair value hierarchy. The expected volatilities ranged from 20 percent to 54 percent, with a weighted average of 28 percent. Refer to Note 2 for further discussion of the Plains Offshore warrants.

Long-term debt, including the current portion, is valued using prices obtained from a readily available pricing source and, as such, is classified within Level 2 of the fair value hierarchy.

At December 31, 2012, FCX's investment in MMR's 5.75% Convertible Perpetual Preferred Stock, Series 2 (MMR investment) was not actively traded; therefore, FCX valued its MMR investment based on a pricing simulation model that used the quoted market prices of MMR's publicly traded common stock as the most significant observable input and other inputs, such as expected volatility, expected settlement date and risk-free interest rate. Therefore, this investment was classified within Level 2 of the fair value hierarchy. FCX's shares of MMR's 5.75% Convertible Perpetual Preferred Stock, Series 2 were canceled in connection with the acquisition of MMR.

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A summary of the changes in the fair value of FCX's Level 3 instruments follows (in millions):

	Crude Oil Options	Plains Offshore Warrants
Fair value at December 31, 2012	$—	$—
Derivative financial instruments assumed in the PXP acquisition	(83)	(12)
Net unrealized (losses) gains included in earnings related to assets and liabilities still held at the end of the period	(135) [a]	1 [b]
Fair value at September 30, 2013	$(218)	$(11)

a. Realized and unrealized (losses) gains are recorded in revenue. There were no realized gains for the first nine months of 2013.

b. Realized and unrealized (losses) gains are recorded in other income. There were no realized gains for the first nine months of 2013.

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 September 30, 2013, except for warrants (refer to Note 2 for discussion of warrants).

Refer to Note 2 for the levels within the fair value hierarchy associated with other assets acquired, liabilities assumed and redeemable noncontrolling interest related to second-quarter 2013 acquisitions.

11. NEW ACCOUNTING STANDARD

In December 2011, the Financial Accounting Standards Board (FASB) issued an ASU that requires companies to disclose information regarding offsetting and other arrangements for derivatives and other financial instruments. Additionally, in January 2013, FASB issued an ASU that limited the scope of the balance sheet offsetting disclosures to derivatives, repurchase agreements and securities lending transactions to the extent that they are (i) offset in the financial statements or (ii) subject to an enforceable master netting arrangement or similar arrangement. FCX adopted this guidance effective January 1, 2013.

12. SUBSEQUENT EVENTS

FCX evaluated events after September 30, 2013, 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.

Environmental. Following is an update to a previously reported environmental litigation matter included in Note 13 of FCX's annual report on Form 10-K for the year ended December 31, 2012.

Blackwell. In October 2013, the parties to the suit entitled Board of Commissioners of the County of Kay, Oklahoma v. Freeport-McMoRan Copper & Gold Inc., et. al., pending in the United States District Court for the Western District of Oklahoma, agreed in principle to settle the suit for an amount that is not material to FCX, subject to negotiation of a final agreement with the Oklahoma Department of Environmental Quality and completion of definitive settlement documents. On October 12, 2013, the court administratively dismissed the case on that basis.

Debt. In October 2013, holders of MMR's outstanding 5¼% Convertible Senior Notes due 2013 converted their notes into merger consideration totaling $67 million, including cash payments of $59 million and 4.6 million royalty trust units with a fair value of $8 million at the acquisition date.

On October 15, 2013, FCX announced its intent to redeem the $299 million of MMR's outstanding 11.875% Senior Notes due 2014 on November 15, 2013. Holders of record will receive the principal amount together with accrued and unpaid interest. FCX expects to record a gain of $8 million in fourth-quarter 2013 in connection with this redemption.

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Exploration Commitment. FM O&G has a definitive agreement to participate in an exploration program offshore the Kingdom of Morocco. In October 2013, FM O&G obtained Moroccan government approval and made a payment of $15 million to farm-in to Pura Vida Energy’s 75 percent working interest in the approximate 2.7 million acre Mazagan permit area in the Essaouira Basin offshore Morocco. FM O&G will earn a 52 percent working interest and act as operator in exchange for funding 100 percent of the costs of certain specified exploration activities, including a commitment to fund and drill two wells, subject to a maximum commitment of $215 million (excluding the $15 million payment to Pura Vida Energy). Drilling is expected to commence late 2014 or early 2015.

13. BUSINESS SEGMENTS

Subsequent to the acquisitions of PXP and MMR, FCX has organized its operations into six primary divisions – North America copper mines, South America mining, Indonesia mining, Africa mining, Molybdenum mines and Oil & Gas operations. Notwithstanding this structure, FCX internally reports information on a mine-by-mine basis for its mining operations. Therefore, FCX concluded that its operating segments include individual mines or operations relative to its mining operations. For oil and gas operations, operating segments are determined on a country-by-country basis and all of FCX's oil and gas operations are in the U.S. Operating segments that meet certain thresholds are reportable segments.

Beginning in first-quarter 2013, the Molybdenum operations division was revised to report only FCX's two molybdenum mines in North America - the Henderson underground mine and the Climax open-pit mine, both in Colorado - as a division (i.e. Molybdenum mines). The molybdenum sales company and related conversion facilities are included with Other Mining & Eliminations in the following segment tables. FCX revised its segment disclosures for the three and nine months ended September 30, 2012, to conform with the current period presentation.

Oil & Gas Operations. FCX's oil and gas operations include oil production facilities and growth potential in the Deepwater GOM, oil production from the onshore Eagle Ford shale play in Texas, oil production facilities onshore and offshore California, onshore natural gas resources in the Haynesville shale play in Louisiana, and a position in the emerging shallow water, ultra-deep gas trend on the Shelf of the GOM and onshore in South Louisiana. All of the operations are considered one operating segment.

Intersegment Sales. Intersegment sales between FCX’s mining 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.

FCX defers recognizing profits on sales from its mining operations to Atlantic Copper and on 25 percent of PT Freeport Indonesia's sales to PT Smelting until final sales to third parties occur. Quarterly variations in ore grades, the timing of intercompany shipments and changes in product prices result in variability in FCX's net deferred profits and quarterly earnings.

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 an 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 level. In addition, most mining 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 individual 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)	Mining Operations															
	North America Copper Mines			South America			Indonesia	Africa								
	Morenci	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum Mines	Rod & Refining	Atlantic Copper Smelting & Refining	Other Mining & Eliminations	Total Mining	Oil & Gas Operations	Corporate Other & Eliminations	FCX Total
Three Months Ended September 30, 2013																
Revenues:																
Unaffiliated customers	$100	$145	$245	$434	$618	$1,052	$1,108 [a]	$406	$—	$1,247	$514	$417 [b]	$4,989	$1,176 [c]	$—	$6,
Intersegment	375	681	1,056	27	60	87	3	14	121	6	2	(1,289)	—	—	—	—
Production and delivery	287	520	807	175	319	494	617	190	82	1,245	523	(916)	3,042	288	2	3,3
Depreciation, depletion and amortization	35	67	102	35	50	85	60	64	21	2	10	9	353	563	3	919
Selling, general and administrative expenses	—	1	1	—	2	2	29	3	—	—	5	5	45	51	62	158
Mining exploration and research expenses	—	2	2	—	—	—	1	—	—	—	—	52	55	—	2	57
Environmental obligations and shutdown costs	—	5	5	—	—	—	—	—	—	—	—	(13)	(8)	—	—	(8
Operating income (loss)	153	231	384	251	307	558	404	163	18	6	(22)	(9)	1,502	274	(69)	1,7
Interest expense, net	—	—	—	—	—	—	—	—	—	—	4	20	24	74	64	162
Provision for income taxes	—	—	—	92	102	194	173	33	—	—	—	—	400	—	99	499
Total assets at September 30, 2013	2,915	5,734	8,649	6,440	4,090	10,530	7,399	4,862	2,094	308	691	1,267	35,800	26,347	451	62,
Capital expenditures	172	80	252	224	40	264	209	52	46	1	20	51	895	738	12	1,6

Three Months Ended September 30, 2012																
Revenues:																
Unaffiliated customers	$39	$9	$48	$504	$491	$995	$845 [a]	$365	$—	$1,221	$633	$309 [b]	$4,416	$—	$1	$4,
Intersegment	456	811	1,267	71	126	197	146	2	129	7	5	(1,753)	—	—	—	—
Production and delivery	268	475	743	197	333	530	603	172	88	1,222	624	(1,392)	2,590	—	2	2,59
Depreciation, depletion and amortization	31	57	88	39	35	74	54	42	152		11	10	296	—	2	298
Selling, general and administrative expenses	—	1	1	1	1	2	31	2	—	—	4	4	44	—	66	110
Mining exploration and research expenses	1	—	1	—	—	—	—	—	—	—	—	78	79	—	—	79
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	—	(69)	(69)	—	(4)	(73
Operating income (loss)	195	287	482	338	248	586	303	151	264		(1)	(75)	1,476	—	(65)	1,4
Interest expense, net	1	—	1	—	—	—	—	—	—	—	3	21	25	—	17	42
Provision for (benefit from) income taxes	—	—	—	(88) [d]	72	(16)	111	28	—	—	—	—	123	—	92	215
Total assets at September 30, 2012	2,297	5,403	7,700	5,704	4,232	9,936	6,393	4,490	1,9[illegible]	[illegible]	1,192	719	32,739	—	1,778	34,
Capital expenditures	108	164	272	180	87	267	237	131	412		4	15	969	—	2	971

a. Included PT Freeport Indonesia’s sales to PT Smelting totaling $458 million in third-quarter 2013 and $520 million in third-quarter 2012.

b. Included revenues from FCX's molybdenum sales company, which included sales of molybdenum produced by the molybdenum mines and by certain of the North and South America copper mines.

c. Included net charges of $158 million for unrealized losses on oil and gas derivative contracts that were assumed in connection with FCX's acquisition of PXP. For further discussion, refer to Note 9.

d. Included a credit of $234 million for the reversal of a net deferred tax liability. For further discussion, refer to Note 6.

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(In millions)	Mining Operations															
	North America Copper Mines			South America			Indonesia	Africa								
	Morenci	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum Mines	Rod & Refining	Atlantic Copper Smelting & Refining	Other Mining & Eliminations	Total Mining	Oil & Gas Operations	Corporate, Other & Eliminations	Total
Nine Months Ended September 30, 2013																
Revenues:																
Unaffiliated customers	$218	$266	$484	$1,035	$1,631	$2,666	$2,443 [a]	$1,199	$—	$3,842	$1,730	$1,157 [b]	$13,521	$1,512 [c]	$3	$
Intersegment	1,255	2,256	3,511	222	216	438	190	24	408	20	12	(4,603)	—	—	—	—
Production and delivery	885	1,574	2,459	535	950	1,485	1,743	560	240	3,835	1,726	(3,531)	8,517			