

FREEPORT-MCMORAN INC
Form 10-Q
November 09, 2018

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT
PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended
September 30, 2018

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 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.

☒ 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).

☒ Yes ☐ No

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

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

On October 31, 2018, there were issued and outstanding 1,449,033,664 shares of the registrant's common stock, par value \$0.10 per share.

FREEPORT-McMoRan INC.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

FREEPORT-McMoRan INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2018	December 31, 2017
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,556	\$ 4,447
Trade accounts receivable	1,064	1,246
Income and other tax receivables	226	325
Inventories:		
Materials and supplies, net	1,439	1,305
Mill and leach stockpiles	1,439	1,422
Product	1,169	1,166
Other current assets	402	270
Assets held for sale	626	508
Total current assets	10,921	10,689
Property, plant, equipment and mine development costs, net	23,013	22,934
Long-term mill and leach stockpiles	1,355	1,409
Other assets	2,460	2,270
Total assets	\$37,749	\$ 37,302
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$2,396	\$ 2,321
Accrued income taxes	645	565
Current portion of environmental and asset retirement obligations	460	388
Dividends payable	73	—
Current portion of debt	4	1,414
Liabilities held for sale	273	323
Total current liabilities	3,851	5,011
Long-term debt, less current portion	11,123	11,703
Deferred income taxes	3,839	3,649
Environmental and asset retirement obligations, less current portion	3,564	3,631
Other liabilities	1,918	2,012
Total liabilities	24,295	26,006
Equity:		
Stockholders' equity:		
Common stock	158	158
Capital in excess of par value	26,603	26,751
Accumulated deficit	(12,526)	(14,722)
Accumulated other comprehensive loss	(532)	(487)
Common stock held in treasury	(3,726)	(3,723)

Total stockholders' equity	9,977	7,977
Noncontrolling interests	3,477	3,319
Total equity	13,454	11,296
Total liabilities and equity	\$37,749	\$ 37,302

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

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FREEPORT-McMoRan INC.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017		2017	
	(In millions, except per share amounts)			
Revenues	\$4,908	\$4,310	\$14,944	\$11,362
Cost of sales:				
Production and delivery	3,069	2,794	8,792	7,462
Depreciation, depletion and amortization	458	418	1,351	1,257
Total cost of sales	3,527	3,212	10,143	8,719
Selling, general and administrative expenses	101	104	341	362
Mining exploration and research expenses	27	27	72	60
Environmental obligations and shutdown costs	8	72	76	76
Net gain on sales of assets	(70)	(33)	(126)	(66)
Total costs and expenses	3,593	3,382	10,506	9,151
Operating income	1,315	928	4,438	2,211
Interest expense, net	(143)	(304)	(436)	(633)
Net gain on early extinguishment of debt	—	11	8	8
Other income (expense), net	14	(9)	63	(9)
Income from continuing operations before income taxes and equity in affiliated companies' net earnings	1,186	626	4,073	1,577
Provision for income taxes	(522)	(387)	(1,543)	(747)
Equity in affiliated companies' net earnings	4	3	5	6
Net income from continuing operations	668	242	2,535	836
Net (loss) income from discontinued operations	(4)	3	(19)	50
Net income	664	245	2,516	886
Net (income) loss attributable to noncontrolling interests:				
Continuing operations	(108)	35	(399)	(106)
Discontinued operations	—	—	—	(4)
Net income attributable to common stockholders	\$556	\$280	\$2,117	\$776
Basic net income (loss) per share attributable to common stockholders:				
Continuing operations	\$0.38	\$0.19	\$1.47	\$0.50
Discontinued operations	—	—	(0.01)	0.03
	\$0.38	\$0.19	\$1.46	\$0.53
Diluted net income (loss) per share attributable to common stockholders:				
Continuing operations	\$0.38	\$0.19	\$1.46	\$0.50
Discontinued operations	—	—	(0.01)	0.03
	\$0.38	\$0.19	\$1.45	\$0.53
Weighted-average common shares outstanding:				
Basic	1,450	1,448	1,449	1,447
Diluted	1,458	1,454	1,458	1,453

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Dividends declared per share of common stock	\$0.05	\$—	\$0.15	\$—
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The accompanying notes are an integral part of these consolidated financial statements.

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FREEPORT-McMoRan INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(In millions)			
Net income	\$664	\$245	\$2,516	\$886
Other comprehensive income, net of taxes:				
Unrealized gains on securities	—	—	—	2
Defined benefit plans:				
Actuarial gains arising during the period, net of taxes of \$48 million for the nine months ended September 30, 2017	—	—	—	69
Amortization of unrecognized amounts included in net periodic benefit costs	13	12	36	42
Foreign exchange (losses) gains	(1)	1	(2)	—
Other comprehensive income	12	13	34	113
Total comprehensive income	676	258	2,550	999
Total comprehensive (income) loss attributable to noncontrolling interests	(109)	35	(399)	(118)
Total comprehensive income attributable to common stockholders	\$567	\$293	\$2,151	\$881

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

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FREEPORT-McMoRan INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30, 2018 2017 (In millions)	
Cash flow from operating activities:		
Net income	\$2,516	\$886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,351	1,257
Net gain on sales of assets	(126)	(66)
Stock-based compensation	70	58
Net charges for Cerro Verde royalty dispute	—	359
Payments for Cerro Verde royalty dispute	(32)	(32)
Net charges for environmental and asset retirement obligations, including accretion	206	196
Payments for environmental and asset retirement obligations	(179)	(85)
Net charges for defined pension and postretirement plans	59	95
Pension plan contributions	(60)	(152)
Net gain on early extinguishment of debt	(8)	(8)
Deferred income taxes	202	77
Loss (gain) on disposal of discontinued operations	19	(41)
Decrease in long-term mill and leach stockpiles	54	181
Non-cash drillship settlements/idle rig costs and other oil and gas adjustments	—	(33)
Oil and gas contract settlement payments	—	(70)
Other, net	7	1
Changes in working capital and other tax payments:		
Accounts receivable	321	420
Inventories	(326)	(314)
Other current assets	(16)	(17)
Accounts payable and accrued liabilities	(2)	(93)
Accrued income taxes and timing of other tax payments	(131)	393
Net cash provided by operating activities	3,925	3,012
Cash flow from investing activities:		
Capital expenditures:		
North America copper mines	(413)	(106)
South America	(188)	(65)
Indonesia	(695)	(663)
Molybdenum mines	(6)	(4)
Other	(89)	(182)
Proceeds from sales of assets	10	68
Intangible water rights and other, net	(91)	(2)
Net cash used in investing activities	(1,472)	(954)
Cash flow from financing activities:		
Proceeds from debt	475	795
Repayments of debt	(2,410)	(1,991)
Cash dividends paid:		

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Common stock	(145)	(2)
Noncontrolling interests	(241)	(67)
Stock-based awards net proceeds (payments)	4	(10)
Debt financing costs and other, net	(23)	(12)
Net cash used in financing activities	(2,340)	(1,287)

Net increase in cash, cash equivalents, restricted cash and restricted cash equivalents	113	771
Decrease (increase) in cash and cash equivalents in assets held for sale	55	(45)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	4,631	4,403
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$4,799	\$5,129
The accompanying notes are an integral part of these consolidated financial statements.		

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FREEPORT-McMoRan INC.

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

THREE MONTHS ENDED SEPTEMBER 30

	Stockholders' Equity									
	Common Stock					Common Stock Held in Treasury		Total Stock-holders' Equity	Non-controlling Interests	Total Equity
	Number of Shares	At Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Number of Shares	At Cost			
(In millions)										
Balance at June 30, 2018	1,579	\$ 158	\$ 26,667	\$ (13,161)	\$ (464)	130	\$ (3,726)	\$ 9,474	\$ 3,368	\$ 12,842
Stock-based compensation, including the tender of shares	—	—	9	—	—	—	—	9	—	9
Dividends	—	—	(73)	—	—	—	—	(73)	—	(73)
Adoption of new accounting standard for reclassification of income taxes (refer to Note 11)	—	—	—	79	(79)	—	—	—	—	—
Net income attributable to common stockholders	—	—	—	556	—	—	—	556	—	556
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—	—	108	108
Other comprehensive income	—	—	—	—	11	—	—	11	1	12
Balance at September 30, 2018	1,579	\$ 158	\$ 26,603	\$ (12,526)	\$ (532)	130	\$ (3,726)	\$ 9,977	\$ 3,477	\$ 13,454

Stockholders' Equity

Common Stock		Accumulated Deficit		Accumulated Other Comprehensive Loss		Common Stock Held in Treasury		Total Stockholders' Equity	Non-controlling Interests	Total Equity
Number of Shares	At Par Value	Capital in Excess of Par Value	Accumulated Deficit	Other Comprehensive Loss	Number of Shares	At Cost				
(In millions)										

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Balance at June 30, 2017	1,577	\$ 158	\$ 26,734	\$ (16,043)	\$ (456)	130	\$ (3,720)	\$ 6,673	\$ 3,320	\$ 9,993
Exercised and vested stock-based awards	1	—	—	—	—	—	—	—	—	—
Stock-based compensation, including the tender of shares	—	—	9	—	—	—	(2)	7	—	7
Dividends	—	—	—	—	—	—	—	—	(28)	(28)
Net income attributable to common stockholders	—	—	—	280	—	—	—	280	—	280
Net loss attributable to noncontrolling interests	—	—	—	—	—	—	—	—	(35)	(35)
Other comprehensive income	—	—	—	—	13	—	—	13	—	13
Balance at September 30, 2017	1,578	\$ 158	\$ 26,743	\$ (15,763)	\$ (443)	130	\$ (3,722)	\$ 6,973	\$ 3,257	\$ 10,230

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

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FREEPORT-McMoRan INC.
CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)
NINE MONTHS ENDED SEPTEMBER 30

	Stockholders' Equity									
	Common Stock					Common Stock Held in Treasury		Total Stockholders' Equity	Non-controlling Interests	Total Equity
	Number of Shares	At Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Number of Shares	At Cost			
(In millions)										
Balance at December 31, 2017	1,578	\$ 158	\$ 26,751	\$ (14,722)	\$ (487)	130	\$ (3,723)	\$ 7,977	\$ 3,319	\$ 11,296
Exercised and vested stock-based awards	1	—	8	—	—	—	—	8	—	8
Stock-based compensation, including the tender of shares	—	—	62	—	—	—	(3)	59	—	59
Dividends	—	—	(218)	—	—	—	—	(218)	(241)	(459)
Adoption of new accounting standard for reclassification of income taxes (refer to Note 11)	—	—	—	79	(79)	—	—	—	—	—
Net income attributable to common stockholders	—	—	—	2,117	—	—	—	2,117	—	2,117
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—	—	399	399
Other comprehensive income	—	—	—	—	34	—	—	34	—	34
Balance at September 30, 2018	1,579	\$ 158	\$ 26,603	\$ (12,526)	\$ (532)	130	\$ (3,726)	\$ 9,977	\$ 3,477	\$ 13,454

Stockholders' Equity

Common Stock		Accumulated Deficit		Accumulated Other Comprehensive Loss		Common Stock Held in Treasury		Total Stockholders' Equity	
Number of Shares	At Par Value	Capital in Excess of Par Value	Number of Shares	At Par Value	Number of Shares	At Par Value	Number of Shares	At Par Value	Non-controlling Interests

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	Excess of Par Value										
(In millions)											
Balance at December 31, 2016	1,574	\$ 157	\$ 26,690	\$ (16,540)	\$ (548)	129	\$ (3,708)	\$ 6,051	\$ 3,206	\$ 9,257	
Exercised and vested stock-based awards	4	1	4	—	—	—	—	5	—	5	
Stock-based compensation, including the tender of shares	—	—	49	—	—	1	(14)	35	—	35	
Dividends, including forfeited dividends	—	—	—	1	—	—	—	1	(67)	(66)	
Net income attributable to common stockholders	—	—	—	776	—	—	—	776	—	776	
Net income attributable to noncontrolling interests, including discontinued operations	—	—	—	—	—	—	—	—	110	110	
Other comprehensive income	—	—	—	—	105	—	—	105	8	113	
Balance at September 30, 2017	1,578	\$ 158	\$ 26,743	\$ (15,763)	\$ (443)	130	\$ (3,722)	\$ 6,973	\$ 3,257	\$ 10,230	

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

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FREEPORT-McMoRan INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 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 Inc.'s (FCX) consolidated financial statements and notes contained in its annual report on Form 10-K for the year ended December 31, 2017. 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 the accounting for discontinued operations, assets held for sale and the remeasurement of a pension plan in second-quarter 2017, all such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the nine-month period ended September 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Assets Held for Sale. FCX continues to market and evaluate the fair value of its effective 56 percent interest in Freeport Cobalt, which includes the large-scale cobalt refinery in Kokkola, Finland, and the related sales and marketing business. During third-quarter 2018, the fair value evaluations resulted in an increase to the estimated fair value less costs to sell of \$50 million (included in net gain on sales of assets in the consolidated statements of income).

FCX is continuing to assess opportunities for its Kisanfu copper and cobalt exploration project, located in the Democratic of Republic of Congo, including development of the project on its own or a sale of all or a minority stake in the project. In second-quarter 2018, management concluded it no longer believes that it is probable an outright sale will occur in the near term and the related assets and liabilities should no longer be classified as held for sale. In addition, because of this conclusion, revisions to the consolidated balance sheet as of December 31, 2017, included a \$90 million increase to property, plant, equipment and mine development costs, net, with an offsetting reduction in current assets held for sale, and a \$27 million increase to deferred income taxes, with an offsetting reduction in current liabilities held for sale.

NOTE 2. EARNINGS PER SHARE

FCX calculates its basic net income per share of common stock under the two-class method and calculates its diluted net income per share of common stock using the more dilutive of the two-class method or the treasury-stock method. Basic net income per share of common stock was computed by dividing net income attributable to common stockholders by the weighted-average shares of common stock outstanding during the period. Diluted net income per share of common stock was calculated by including the basic weighted-average shares of common stock outstanding adjusted for the effects of all potential dilutive shares of common stock, unless their effect would be anti-dilutive.

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Reconciliations of net income and weighted-average shares of common stock outstanding for purposes of calculating basic and diluted net income per share follow (in millions, except per share amounts):

	Three Months Ended September 30, 2018		September 30, 2017		Nine Months Ended September 30, 2018		September 30, 2017	
Net income from continuing operations	\$668	\$242	\$2,535	\$836				
Net (income) loss from continuing operations attributable to noncontrolling interests	(108)	35	(399)	(106)				
Undistributed earnings allocated to participating securities	(4)	(3)	(5)	(3)				
Net income from continuing operations attributable to common stockholders	556	274	2,131	727				
Net (loss) income from discontinued operations	(4)	3	(19)	50				
Net income from discontinued operations attributable to noncontrolling interests	—	—	—	(4)				
Net (loss) income from discontinued operations attributable to common stockholders	(4)	3	(19)	46				
Net income attributable to common stockholders	\$552	\$277	\$2,112	\$773				
Basic weighted-average shares of common stock outstanding	1,450	1,448	1,449	1,447				
Add shares issuable upon exercise or vesting of dilutive stock options and restricted stock units	8	6	9	^a 6				
Diluted weighted-average shares of common stock outstanding	1,458	1,454	1,458	1,453				
Basic net income (loss) per share attributable to common stockholders:								
Continuing operations	\$0.38	\$0.19	\$1.47	\$0.50				
Discontinued operations	—	—	(0.01)	0.03				
	\$0.38	\$0.19	\$1.46	\$0.53				
Diluted net income (loss) per share attributable to common stockholders:								
Continuing operations	\$0.38	\$0.19	\$1.46	\$0.50				
Discontinued operations	—	—	(0.01)	0.03				
	\$0.38	\$0.19	\$1.45	\$0.53				

Excludes approximately 2 million shares of common stock for the first nine months of 2018 associated with a. outstanding stock options with exercise prices less than the average market price of FCX's common stock that were anti-dilutive.

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. Stock options for 38 million shares of common stock were excluded for both third-quarter 2018 and third-quarter 2017, 35 million for the first nine months of 2018 and 42 million for the first nine months of 2017.

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

The components of inventories follow (in millions):

	September 30, 2018	December 31, 2017
Current inventories:		
Total materials and supplies, net ^a	\$ 1,439	\$ 1,305
Mill stockpiles	\$ 287	\$ 360

Leach stockpiles	1,152	1,062
Total current mill and leach stockpiles	\$ 1,439	\$ 1,422
Raw materials (primarily concentrate)	\$ 299	\$ 265
Work-in-process	174	154
Finished goods	696	747
Total product inventories	\$ 1,169	\$ 1,166

Long-term inventories:

Mill stockpiles	\$ 285	\$ 300
Leach stockpiles	1,070	1,109
Total long-term mill and leach stockpiles	\$ 1,355	\$ 1,409

Materials and supplies inventory was net of obsolescence reserves totaling \$25 million at September 30, 2018, and \$29 million at December 31, 2017.

NOTE 4. INCOME TAXES

Variations in the relative proportions of jurisdictional income result in fluctuations to FCX's consolidated effective income tax rate. FCX's consolidated effective income tax rate was 38 percent for the first nine months of 2018 and 47 percent for the first nine months of 2017. Geographic sources of FCX's (provision for) benefit from income taxes follow (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
U.S. operations	\$(6)	\$2 ^a	\$2 ^b	\$24 ^a
International operations	(516)	(389) ^c	(1,545)	(771) ^c
Total	\$(522)	\$(387)	\$(1,543)	\$(747)

^a Includes net tax (charges) credits of \$(10) million in third-quarter 2017 and \$21 million for the first nine months of 2017 associated with alternative minimum tax credit carryforwards.

^b Includes a tax credit of \$5 million associated with the settlement of a state income tax examination.

^c Includes net charges of \$2 million associated with the Cerro Verde mining royalties dispute, consisting of tax charges of \$127 million for disputed royalties and other related mining taxes for the period October 2011 through the year 2013 (when royalties were determined based on operating income), mostly offset by a tax benefit of \$125 million associated with disputed royalties and other related mining taxes for the period December 2006 through the year 2013. Refer to Note 8 for further discussion of the Cerro Verde royalty dispute.

As a result of the unfavorable Peruvian Supreme Court ruling on the Cerro Verde royalty dispute in October 2017, FCX recorded pre-tax charges of \$357 million to income from continuing operations and \$2 million of net tax expense in third-quarter 2017 and for the first nine months of 2017. FCX's consolidated effective income tax rate was 39 percent for the first nine months of 2017 excluding these charges.

The December 2017 Tax Cuts and Jobs Act (the Act) included significant modifications to then-existing U.S. tax laws and created many new complex tax provisions. As of December 31, 2017, FCX recorded provisional impacts of the tax effects related to specific provisions and continues to evaluate other provisions of the Act. During the first nine months of 2018, no adjustments were made to the provisional amounts recorded at December 31, 2017, as FCX has not fully completed its analysis of the Act, and the provisional amounts continue to represent FCX's best estimates. FCX's current analysis of the Act indicates that there may be adjustments to tax receivables associated

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with minimum tax credit refunds resulting from an ongoing review of tax positions taken in prior years and impacts from the Act's Global Intangible Low-Taxed Income provisions resulting in use of net operating loss (NOL) carryforwards against income that would not generate a net tax liability absent the availability of NOLs. FCX continues to carry a valuation allowance against all U.S. federal NOLs. During fourth-quarter 2018, FCX will finalize its calculations, including quantifying potential impacts discussed above, as it completes its analysis of the Act.

NOTE 5. DEBT AND EQUITY

The components of debt follow (in millions):

	September 30, 2018	December 31, 2017
Senior notes and debentures:		
Issued by FCX	\$ 9,594	\$ 11,429
Issued by Freeport Minerals Corporation (FMC)	358	358
Issued by Freeport-McMoRan Oil & Gas LLC (FM O&G LLC)	—	54
Cerro Verde credit facility	1,171	1,269
Other	4	7
Total debt ^a	11,127	13,117
Less current portion of debt	(4	) (1,414
Long-term debt	\$ 11,123	\$ 11,703

Includes additions for unamortized fair value adjustments totaling \$60 million at September 30, 2018 (\$97 million at a. December 31, 2017), and is net of reductions for unamortized net discounts and unamortized debt issuance costs totaling \$73 million at September 30, 2018 (\$85 million at December 31, 2017).

Revolving Credit Facility. At September 30, 2018, there were no borrowings outstanding and \$13 million in letters of credit issued under FCX's revolving credit facility, resulting in availability of approximately \$3.5 billion, of which approximately \$1.5 billion could be used for additional letters of credit.

In April 2018, FCX, PT Freeport Indonesia (PT-FI) and FM O&G LLC entered into a new \$3.5 billion, five-year, unsecured revolving credit facility, which replaced FCX's prior revolving credit facility (scheduled to mature on May 31, 2019). The new revolving credit facility is available until April 20, 2023, with \$500 million available to PT-FI, and up to \$1.5 billion available in letters of credit, and has a substantially similar structure and terms as the prior revolving credit facility. Interest on loans made under the new revolving credit facility will, at the option of FCX, be determined based on the adjusted London Interbank Offered rate or the alternate base rate (each as defined in the new revolving credit facility) plus a spread to be determined by reference to FCX's credit ratings. The new revolving credit facility contains customary affirmative covenants and representations, and also contains 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 or its subsidiaries' ability to: create liens on assets; enter into sale and leaseback transactions; engage in mergers, liquidations and dissolutions; and sell assets. FCX's new revolving credit facility also contains financial ratios governing maximum total leverage and minimum interest expense coverage. FCX's total leverage ratio (ratio of total debt to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit agreement) cannot exceed 3.75x, and the minimum interest expense coverage ratio (ratio of consolidated EBITDA to consolidated cash interest expense, as defined in the credit agreement) is 2.25x.

Senior Notes. In March 2018, FCX's 2.375% Senior Notes matured, and the \$1.4 billion outstanding principal balance was repaid.

On April 4, 2018, FCX redeemed \$454 million of aggregate principal amount of outstanding senior notes (as discussed in Early Extinguishment of Debt).

Cerro Verde Credit Facility. In March 2018, Cerro Verde prepaid \$100 million of its credit facility.

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Early Extinguishment of Debt. During second-quarter 2018, FCX redeemed in full certain senior notes, and holders received the principal amounts together with the redemption premiums and accrued and unpaid interest up to the redemption date. A summary of these redemptions follows (in millions):

	Principal Amount	Net Adjustments	Book Value	Redemption Value	Gain
FCX 6.75% Senior Notes due 2022	\$ 404	\$ 22	\$ 426	\$ 418	\$ 8
FM O&G LLC 6 ⁷ / ₈ % Senior Notes due 2023	50	4	54	52	2
	\$ 454	\$ 26	\$ 480	\$ 470	\$ 10

Partially offsetting the \$10 million gain were losses of \$2 million for the first nine months of 2018, primarily associated with entering into the new revolving credit facility.

During third-quarter 2017 and for the first nine months of 2017, FCX redeemed in full certain senior notes, which resulted in gains of \$11 million. Partially offsetting the gain on early extinguishment of debt for the first nine months of 2017 was a net loss of \$3 million, primarily associated with the modification of Cerro Verde's credit facility in second-quarter 2017.

Interest Expense, Net. Consolidated interest costs (before capitalized interest and excluding interest expense associated with disputed Cerro Verde royalties totaling \$1 million in third-quarter 2018, \$7 million for the first nine months of 2018 and \$141 million in third-quarter 2017 and for the first nine months of 2017) totaled \$166 million in third-quarter 2018, \$196 million in third-quarter 2017, \$501 million for the first nine months of 2018 and \$583 million for the first nine months of 2017. Capitalized interest added to property, plant, equipment and mine development costs, net, totaled \$24 million in third-quarter 2018, \$33 million in third-quarter 2017, \$72 million for the first nine months of 2018 and \$91 million for the first nine months of 2017.

Common Stock. In February 2018, FCX's Board of Directors (the Board) reinstated a cash dividend on FCX's common stock. On September 26, 2018, the Board declared a quarterly cash dividend of \$0.05 per share, which was paid on November 1, 2018, to common stockholders of record as of October 15, 2018.

NOTE 6. FINANCIAL INSTRUMENTS

FCX does not purchase, hold or sell derivative financial instruments unless there is an existing asset or obligation, or it anticipates a future activity that is likely to occur and will result in exposure to market risks, 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 derivative contracts to hedge the market risk associated with fluctuations in the prices of commodities it purchases and sells. Derivative financial instruments used by FCX to manage its risks do not contain credit risk-related contingent provisions. As of September 30, 2018, and December 31, 2017, FCX had no price protection contracts relating to its mine production. A discussion of FCX's derivative contracts and programs follows.

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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) 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 or swap contracts. Hedging gains or losses from these copper futures and swap contracts are recorded in revenues. FCX did not have any significant gains or losses resulting from hedge ineffectiveness during the nine-month periods ended September 30, 2018 and 2017. At September 30, 2018, FCX held copper futures and swap contracts that qualified for hedge accounting for 78 million pounds at an average contract price of \$2.81 per pound, with maturities through June 2020.

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, including the unrealized gains (losses) on the related hedged item follows (in millions):

	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Copper futures and swap contracts:				
Unrealized gains (losses):				
Derivative financial instruments	\$ 7	\$	—\$(12)	\$(1)
Hedged item – firm sales commitments	(7)	—	12	1
Realized (losses) gains:				
Matured derivative financial instruments	(19)	12	(17)	21

Derivatives Not Designated as Hedging Instruments

Embedded Derivatives. Certain FCX concentrate and cathode contracts are provisionally priced at the time of shipment. The provisional prices are finalized in a specified future month (generally one to four months from the shipment date) based on quoted monthly average copper settlement prices on the London Metal Exchange (LME) or COMEX and quoted monthly average London Bullion Market Association (LBMA) gold settlement prices as specified in the contract. FCX receives market prices based on prices in the specified future month, which results in price fluctuations until the date of settlement. Similarly, FCX purchases copper and cobalt 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 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 concentrate or cathode at the then-current metal price as defined in the contract. Mark-to-market price fluctuations from these embedded derivatives are recorded through the settlement date and are reflected in revenues for sales contracts and in inventory for purchase contracts.

A summary of FCX's embedded derivatives at September 30, 2018, follows:

	Open Positions	Average Price Per Unit Contract	Maturities Through Market
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Embedded derivatives in provisional sales contracts:

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Copper (millions of pounds)	567	\$2.82	\$ 2.84	January 2019
Gold (thousands of ounces)	375	1,201.40	1188.75	December 2018
Embedded derivatives in provisional purchase contracts:				
Copper (millions of pounds)	125	2.78	2.84	January 2019
Cobalt (millions of pounds) ^a	7	23.80	22.14	December 2018
a. Relates to assets held for sale.				

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Copper Forward Contracts. Atlantic Copper, FCX's wholly owned smelting and refining unit in Spain, enters into copper forward 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, 2018, Atlantic Copper held net copper forward sales contracts for 31 million pounds at an average contract price of \$2.73 per pound, with maturities through November 2018.

Summary of (Losses) Gains. A summary of the realized and unrealized (losses) gains recognized in operating income for commodity contracts that do not qualify as hedge transactions, including embedded derivatives, follows (in millions):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Embedded derivatives in provisional sales contracts: ^a				
Copper	\$(93)	\$133	\$(242)	\$275
Gold and other metals	(25)	4	(37)	22
Copper forward contracts ^b	9	(9)	17	(14)

a. Amounts recorded in revenues.

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

Unsettled Derivative Financial Instruments

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

	September 30, 2018	December 31, 2017
Commodity Derivative Assets:		
Derivatives designated as hedging instruments:		
Copper futures and swap contracts	\$ 5	\$ 11
Derivatives not designated as hedging instruments:		
Embedded derivatives in provisional copper and gold sales/purchase contracts	49	155
Copper forward contracts	—	1
Total derivative assets	\$ 54	\$ 167

Commodity Derivative Liabilities:

Derivatives designated as hedging instruments:

Copper futures and swap contracts \$ 5 \$ —

Derivatives not designated as hedging instruments:

Embedded derivatives in provisional copper and gold sales/purchase contracts 50 31

Copper forward contracts 4 2

Total derivative liabilities \$ 59 \$ 33

The table above and the following table excludes \$12 million of embedded derivatives in provisional cobalt purchase contracts (in a gross asset position) at September 30, 2018, and \$24 million (in a gross liability position) at December 31, 2017, which are both reflected in liabilities held for sale.

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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 generally offset balances by contract on its balance sheet. FCX's embedded derivatives on provisional sales/purchase contracts are netted with the corresponding outstanding receivable/payable balances. A summary of these unsettled commodity contracts that are offset in the balance sheets follows (in millions):

	Assets		Liabilities	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Gross amounts recognized:				
Commodity contracts:				
Embedded derivatives in provisional copper and gold sales/purchase contracts	\$ 49	\$ 155	\$ 50	\$ 31
Copper derivatives	5	12	9	2
	54	167	59	33
Less gross amounts of offset:				
Commodity contracts:				
Embedded derivatives in provisional copper and gold sales/purchase contracts	12	—	12	—
Copper derivatives	5	1	5	1
	17	1	17	1
Net amounts presented in balance sheet:				
Commodity contracts:				
Embedded derivatives in provisional copper and gold sales/purchase contracts	37	155	38	31
Copper derivatives	—	11	4	1
	\$ 37	\$ 166	\$ 42	\$ 32
Balance sheet classification:				
Trade accounts receivable	\$ 32	\$ 151	\$ 24	\$ —
Other current assets	—	11	—	—
Accounts payable and accrued liabilities	5	4	18	32
	\$ 37	\$ 166	\$ 42	\$ 32

Credit Risk. FCX is exposed to credit loss when financial institutions with which it 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, 2018, the maximum amount of credit exposure associated with derivative transactions was \$49 million (including embedded derivatives in provisional cobalt purchase contracts of \$12 million).

Other Financial Instruments. Other financial instruments include cash and cash equivalents, restricted cash, restricted cash equivalents, accounts receivable, investment securities, legally restricted funds, accounts payable and accrued liabilities, dividends payable and long-term debt. The carrying value for cash and cash equivalents (which included time deposits of \$2.4 billion at September 30, 2018, and \$2.9 billion at December 31, 2017), restricted cash, restricted cash equivalents, 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 7 for the fair values of

investment securities, legally restricted funds and long-term debt).

In addition, as of September 30, 2018, FCX has contingent consideration assets related to certain 2016 asset sales (refer to Note 7 for the related fair values and to Note 2 of FCX's annual report on Form 10-K for the year ended December 31, 2017, for further discussion of these instruments).

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Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents. The following table provides a reconciliation of total cash, cash equivalents, restricted cash and restricted cash equivalents presented in the consolidated statements of cash flows to the components presented in the consolidated balance sheets (in millions):

	September 30, 2018	December 31, 2017
Balance sheet components:		
Cash and cash equivalents	\$ 4,556	\$ 4,447
Restricted cash and restricted cash equivalents included in:		
Other current assets	116	52
Other assets	127	132
Total cash, cash equivalents, restricted cash and restricted cash equivalents presented in the consolidated statements of cash flows	\$ 4,799	\$ 4,631

FCX's restricted cash and restricted cash equivalents are primarily related to PT-FI's commitment for smelter development in Indonesia; guarantees and commitments for certain mine closure and reclamation obligations, and customs duty taxes; and funds held as cash collateral for surety bonds related to plugging and abandonment obligations of certain oil and gas properties. Restricted cash and restricted cash equivalents are classified as a current or long-term asset based on the timing and nature of when or how the cash is expected to be used or when the restrictions are expected to lapse. Restricted cash and restricted cash equivalents are comprised of time deposits and money market funds.

NOTE 7. FAIR VALUE MEASUREMENT

Fair value accounting guidance includes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). FCX did not have any significant transfers in or out of Level 3 during third-quarter 2018.

In August 2018, the Financial Accounting Standards Board (FASB) issued a new Accounting Standards Update (ASU) in connection with the disclosure framework project that modifies the disclosure requirements on fair value measurements. FCX early adopted this ASU in third-quarter 2018, which did not have a material impact on its financial statements.

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FCX's financial instruments are recorded on the consolidated balance sheets at fair value except for contingent consideration associated with the sale of the Deepwater Gulf of Mexico (GOM) oil and gas properties (which was recorded under the loss recovery approach) and debt. A summary of the carrying amount and fair value of FCX's financial instruments (including those measured at net asset value (NAV) as a practical expedient), other than cash and cash equivalents, restricted cash, restricted cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable (refer to Note 6) follows (in millions):

	At September 30, 2018					
	Carrying Amount	Fair Value	NAV	Level 1	Level 2	Level 3
Assets						
Investment securities: ^{a,b}						
U.S. core fixed income fund	\$24	\$24	\$24	\$	—	\$
Equity securities	5	5	—	5	—	—
Total	29	29	24	5	—	—
Legally restricted funds: ^a						
U.S. core fixed income fund	54	54	54	—	—	—
Government bonds and notes	31	31	—	—	31	—
Government mortgage-backed securities	39	39	—	—	39	—
Corporate bonds	28	28	—	—	28	—
Asset-backed securities	14	14	—	—	14	—
Collateralized mortgage-backed securities	8	8	—	—	8	—
Money market funds	3	3	—	3	—	—
Municipal bonds	1	1	—	—	1	—
Total	178	178	54	3	121	—
Derivatives:						
Embedded derivatives in provisional copper and gold sales/purchase contracts in a gross asset position ^{c,d}	49	49	—	—	49	—
Copper futures and swap contracts ^c	5	5	—	4	1	—
Contingent consideration for the sales of TF Holdings Limited (TFHL) and onshore California oil and gas properties ^a	167	167	—	—	167	—
Total	221	221	—	4	217	—
Contingent consideration for the sale of the Deepwater GOM oil and gas properties ^a	148	130	—	—	—	130
Liabilities						
Derivatives:^c						
Embedded derivatives in provisional copper and gold sales/purchase contracts in a gross liability position	\$50	\$50	\$	\$	—	\$
Copper futures and swap contracts	5	5	—	4	1	—
Total	55	55	—	4	51	—
Long-term debt, including current portion ^e	11,127	10,865	—	—	10,865	—

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	At December 31, 2017					
	Carrying Value			Fair Value		
	Amount	Total	NAV	Level 1	Level 2	Level 3
Assets						
Investment securities: ^{a,b}						
U.S. core fixed income fund	\$25	\$25	\$ 25	\$ —	\$ —	\$ —
Equity securities	5	5	—	5	—	—
Total	30	30	25	5	—	—
Legally restricted funds: ^a						
U.S. core fixed income fund	55	55	55	—	—	—
Government bonds and notes	40	40	—	—	40	—
Corporate bonds	32	32	—	—	32	—
Government mortgage-backed securities	27	27	—	—	27	—
Asset-backed securities	15	15	—	—	15	—
Money market funds	11	11	—	11	—	—
Collateralized mortgage-backed securities	8	8	—	—	8	—
Municipal bonds	1	1	—	—	1	—
Total	189	189	55	11	123	—
Derivatives:						
Embedded derivatives in provisional copper and gold sales/purchase contracts in a gross asset position ^c	155	155	—	—	155	—
Copper futures and swap contracts ^c	11	11	—	9	2	—
Copper forward contracts ^c	1	1	—	—	1	—
Contingent consideration for the sales of TFHL and onshore California oil and gas properties ^a	108	108	—	—	108	—
Total	275	275	—	9	266	—
Contingent consideration for the sale of the Deepwater GOM oil and gas properties ^a	150	134	—	—	—	134
Liabilities						
Derivatives:^c						
Embedded derivatives in provisional copper and gold sales/purchase contracts in a gross liability position ^d	\$31	\$31	\$ —	\$ —	\$ 31	\$ —
Copper forward contracts	2	2	—	1	1	—
Total	33	33	—	1	32	—
Long-term debt, including current portion ^e	13,117	13,269	—	—	13,269	—

a. Current portion included in other current assets and long-term portion included in other assets.

Excludes time deposits (which approximated fair value) included in (i) other current assets of \$116 million at September 30, 2018, and \$52 million at December 31, 2017, primarily associated with PT-FI's mine closure and

b. reclamation guarantees and its disputed incremental export duty and (ii) other assets of \$126 million at September 30, 2018, and \$123 million at December 31, 2017, primarily associated with an assurance bond to support PT-FI's commitment for smelter development in Indonesia.

c. Refer to Note 6 for further discussion and balance sheet classifications.

d. Excludes embedded derivatives in provisional cobalt purchase contracts of \$12 million at September 30, 2018, and \$24 million at December 31, 2017 (refer to Note 6 for further discussion).

e. Recorded at cost except for debt assumed in acquisitions, which were recorded at fair value at the respective acquisition dates. In addition, debt excludes \$160 million at September 30, 2018, and \$112 million at December 31, 2017, related to assets held for sale (which approximated fair value).

Valuation Techniques. The U.S. core fixed income fund is valued at NAV. The fund strategy seeks total return consisting of income and capital appreciation primarily by investing in a broad range of investment-grade debt securities, including U.S. government obligations, corporate bonds, mortgage-backed securities, asset-backed securities and money market instruments. There are no restrictions on redemptions (which are usually within one business day of notice).

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

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.

Fixed income securities (government securities, corporate bonds, asset-backed securities, collateralized mortgage-backed securities and municipal bonds) are valued using a bid-evaluation price or a mid-evaluation price. A bid-evaluation price is an estimated price at which a dealer would pay for a security. A mid-evaluation price 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.

FCX's embedded derivatives on provisional copper concentrate, copper cathode and gold purchases and sales are valued using quoted monthly LME or COMEX copper forward prices and the adjusted LBMA gold prices at each reporting date based on the month of maturity (refer to Note 6 for further discussion); 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 embedded derivatives on provisional cobalt purchases, included in liabilities held for sale, are valued using quoted monthly LME cobalt forward prices or average published Metals Bulletin cobalt prices, subject to certain adjustments as specified by the terms of the contracts, at each reporting date based on the month of maturity (Level 2).

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 6 for further discussion). Certain of these contracts are traded on the over-the-counter market and are classified within Level 2 of the fair value hierarchy based on COMEX and LME forward prices.

As reported in Note 2 of FCX's annual report on Form 10-K for the year ended December 31, 2017, in November 2016, FCX's sale of its interest in TFHL included contingent consideration of up to \$120 million in cash, consisting of \$60 million if the average copper price exceeds \$3.50 per pound and \$60 million if the average cobalt price exceeds \$20 per pound, both during the 24-month period beginning January 1, 2018. Also in 2016, FCX Oil & Gas LLC's (FM O&G) sale of its onshore California oil and gas properties included contingent consideration of up to \$150 million, consisting of \$50 million per year for 2018, 2019 and 2020 if the price of Brent crude oil averages over \$70 per barrel in each of these calendar years. Future changes in the fair value of the contingent consideration derivative for the sale of TFHL will continue to be recorded in discontinued operations and for the onshore California oil and gas properties will continue to be recorded in operating income. The fair value of the contingent consideration derivative was (i) \$57 million at September 30, 2018, and \$74 million at December 31, 2017, associated with the sale of TFHL and (ii) \$110 million at September 30, 2018, and \$34 million at December 31, 2017, associated with the sale of the onshore California oil and gas properties. The contingent consideration derivatives are included in other assets in the consolidated balance sheets except for \$49 million included in other current assets at September 30, 2018. These fair values were calculated based on average commodity price forecasts through applicable maturity dates using a Monte Carlo simulation model. The models use various observable inputs, including Brent crude oil forward prices, historical copper and cobalt prices, volatilities, discount rates and settlement terms. As a result, these contingent consideration assets are classified within Level 2 of the fair value hierarchy.

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As reported in Note 2 of FCX's annual report on Form 10-K for the year ended December 31, 2017, in December 2016, FM O&G's sale of its Deepwater GOM oil and gas properties included up to \$150 million in contingent consideration that was recorded at the total amount under the loss recovery approach. The contingent consideration will be received over time as future cash flows are realized in connection with a third-party production handling agreement for an offshore platform. The first collection occurred in third-quarter 2018. The contingent consideration included in (i) other current assets totaled \$12 million at September 30, 2018, and \$24 million at December 31, 2017, and (ii) other assets totaled \$136 million at September 30, 2018, and \$126 million at December 31, 2017. The fair value of this contingent consideration was calculated based on a discounted cash flow model using inputs that include third-party estimates for reserves, production rates and production timing, and discount rates. Because significant inputs are not observable in the market, the contingent consideration is classified within Level 3 of the fair value hierarchy.

Long-term debt, including current portion, is valued using available market quotes and, as such, is classified within Level 2 of the fair value hierarchy.

The techniques described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FCX believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the techniques used at September 30, 2018, as compared to those techniques used at December 31, 2017.

A summary of the changes in the fair value of FCX's Level 3 instrument, contingent consideration for the sale of the Deepwater GOM oil and gas properties, during the first nine months of 2018 follows (in millions):

Fair value at January 1, 2018	\$ 134
Net unrealized loss related to assets still held at the end of the period	(2)
Settlements	(2)
Fair value at September 30, 2018	\$ 130

NOTE 8. CONTINGENCIES AND COMMITMENTS

Environmental

Cyprus Tohono, a wholly owned subsidiary of FMC, had historical mining operations in south central Arizona, and groundwater issues at the site are expected to require remediation. FCX increased its recorded environmental obligation for this contingency by \$44 million with a corresponding charge to operating income in second-quarter 2018 to reflect an updated assessment of remediation alternatives. There was no significant update to this matter during third-quarter 2018, which was also disclosed in Note 8 of FCX's quarterly report on Form 10-Q for the quarter ended June 30, 2018.

As reported in Note 12 of FCX's annual report on Form 10-K for the year ended December 31, 2017, in third-quarter 2017, FCX recorded a \$59 million charge to operating income related to an increase in its Borough of Carteret environmental obligation as a result of off-site soil sampling in public and private areas near the former smelter. In addition, for the first nine months of 2017, FCX recorded a \$41 million credit to operating income associated with updated cash flow and timing estimates for environmental obligations at former uranium mining sites in Arizona and New Mexico.

Litigation

There were no significant updates to previously reported legal proceedings included in Note 12 of FCX's annual report on Form 10-K for the year ended December 31, 2017, other than the matter below, which was also disclosed in Note 8

of FCX's quarterly report on Form 10-Q for the quarters ended March 31, 2018, and June 30, 2018.

On April 1, 2016, a purported class action titled David Garcia v. Freeport-McMoRan Oil & Gas LLC was filed in the Superior Court of the State of California for the County of Santa Barbara (Case No. 16CV01305) against FM O&G LLC, an indirect wholly owned subsidiary of FCX. A former FM O&G LLC employee filed the case, which alleges violations of various California employment laws and seeks relief for past wages, overtime, penalties, interest and attorney's fees. The primary issue underlying the claims is whether compensation must be paid to non-exempt shift workers on platforms located offshore California on the outer-continental shelf for sleep time and other non-working

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time. In June 2016, FM O&G LLC removed the case to the U.S. District Court for the Central District of California, Santa Barbara (the District Court). In September 2016, the District Court dismissed the complaint on the grounds that all four FM O&G LLC platforms potentially involved are located in federal waters, that federal law, not state law, applies, and that federal law does not require an employer to compensate for non-work time. In October 2016, the plaintiff appealed the dismissal to the U.S. Court of Appeals for the Ninth Circuit (Ninth Circuit). In June 2017, the Ninth Circuit stayed the Garcia case pending its decision in another case involving essentially the same legal issues, titled *Newton v. Parker Drilling Management Services, Ltd.* In February 2018, a three-judge panel of the Ninth Circuit ruled in favor of the plaintiffs in the Newton case. Because that decision conflicts with longstanding precedent in the Fifth Circuit and could set a precedent that will result in a reversal of the dismissal in the Garcia case, FM O&G LLC and others filed amicus briefs in April 2018 in support of Parker Drilling's petition for an en banc rehearing in the Newton case. The Ninth Circuit denied that request on April 27, 2018, but modified its original opinion noting that the question of whether the Ninth Circuit's holding should be applied retrospectively is reserved for the District Court's consideration on remand. On May 16, 2018, the Ninth Circuit granted Parker Drilling's motion to stay further proceedings in the District Court pending the possible filing of a petition for review by the U.S. Supreme Court, which was filed in September 2018. FCX expects to learn whether the U.S. Supreme Court will grant review of the Ninth Circuit's decision in the Newton case in early 2019. The Ninth Circuit has placed the Garcia case on administrative hold pending the U.S. Supreme Court's consideration of the petition for review in the Newton case.

The amount of the exposure in the Garcia case is uncertain because FM O&G LLC has potential defenses to the claims even if state law would be applied; however, absent success on those defenses, FCX estimates that the exposure could be in the range of approximately \$60 million to \$100 million if California wage and hour law is applied retroactively to FM O&G LLC's operations offshore California. FCX has not established a reserve for this contingency because it believes that its legal position is correct and does not believe a loss is probable. FCX intends to vigorously defend this matter.

Tax and Other Matters

Cerro Verde Royalty Dispute

As reported in Note 12 of FCX's annual report on Form 10-K for the year ended December 31, 2017, SUNAT, Peru's national tax authority, assessed mining royalties on ore processed by the Cerro Verde concentrator, which commenced operations in late 2006, for the period December 2006 to December 2011. In 2018, SUNAT issued assessments for the period January 2012 to December 2013. Cerro Verde contested each of these assessments because it believes that its 1998 stability agreement exempts from royalties all minerals extracted from its mining concession, irrespective of the method used for processing such minerals. No assessments can be issued for years after 2013, as Cerro Verde began paying royalties on all of its production in January 2014 under its new 15-year stability agreement. Since 2014, Cerro Verde has been paying the disputed assessments for the period from December 2006 through December 2008 under an installment program (\$177 million paid by Cerro Verde through September 30, 2018). In October 2017, the Peruvian Supreme Court issued a ruling in favor of SUNAT that the assessments of royalties for the year 2008 on ore processed by the Cerro Verde concentrator were proper under Peruvian law. As a result of the unfavorable Peruvian Supreme Court ruling on the 2008 royalty dispute, Cerro Verde has recorded cumulative charges totaling \$487 million (\$355 million net of tax benefits and \$187 million net of noncontrolling interests), which were primarily recorded in third-quarter 2017 and consist of \$244 million in royalty assessments, \$158 million of penalties and interest related to the December 2006 to December 2008 assessments, and \$85 million for related items (primarily associated with the special mining tax and net assets tax) that Cerro Verde would have incurred under the view that its concentrator was not stabilized.

In September 2018, the Peruvian Tax Tribunal denied Cerro Verde's request to waive penalties and interest for the period January 2009 through September 2011. In October 2018, SUNAT served Cerro Verde with demands for payments associated with the Tax Tribunal ruling, including interest and penalties, for the period January 2009 through September 2011. Without waiving its rights to appeal these claims, Cerro Verde expects to begin making

monthly payments starting in second-quarter 2019 under a 66-month payment plan and believes amounts paid for penalties and interest would be recoverable following judicial appeals.

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Cerro Verde acted in good faith in applying the provisions of its 1998 stability agreement and continues to evaluate alternatives to defend its rights in the Peruvian judicial system and under international law. Cerro Verde intends to continue to pursue waivers available under Peruvian law of penalties and interest associated with this matter and has not recorded charges for potential penalties and interest totaling \$406 million (\$217 million net of noncontrolling interests) at September 30, 2018, for the period January 2009 to December 2013 as FCX believes that Cerro Verde should obtain waivers under Peruvian law.

Other Peru Tax Matters

There were no significant changes to other Peru tax matters during third-quarter 2018 (refer to Note 12 of FCX's annual report on Form 10-K for the year ended December 31, 2017).

Indonesia Tax Matters

There were no significant updates to previously reported Indonesia tax matters included in Note 12 of FCX's annual report on Form 10-K for the year ended December 31, 2017, other than the surface water tax matter below, which was also updated in Note 8 of FCX's quarterly report on Form 10-Q for the quarters ended March 31, 2018, and June 30, 2018, and the mine development costs matter below.

PT-FI received assessments from the local regional tax authority in Papua, Indonesia, for additional taxes and penalties related to surface water taxes for the period from January 2011 through August 2018. PT-FI has filed or will file appeals of these assessments with the Indonesia Tax Court. During the first half of 2018, the Indonesia Tax Court ruled partially in favor of PT-FI with respect to assessments for the period January 2016 through April 2016 by reducing these assessments that amounted to \$20 million, including penalties, to \$12 million, including penalties (based on the exchange rate at September 30, 2018), or an approximate 40 percent reduction. Hearings in the Indonesia Tax Court related to assessments for the period from May 2016 through April 2017 have concluded with no written decisions issued.

During 2017, PT-FI filed reconsideration request petitions to the Indonesia Supreme Court with respect to assessments for the period from January 2011 through December 2015; and in second-quarter 2018, filed reconsideration request petitions with respect to the Indonesia Tax Court decisions related to the assessments for the period from January 2016 through April 2016. In second-quarter 2018, the Indonesia Supreme Court issued favorable decisions relating to surface water tax assessments for the period January 2011 through July 2015. The Indonesia Supreme Court ruling concluded that PT-FI and the Indonesian government are bound by PT-FI's Contract of Work (COW), which is *lex specialis*, and prevails as the law for the parties to the COW that should be carried out in good faith. As a result, FCX estimates the total amount of the assessments, including penalties, (based on the exchange rate at September 30, 2018) for the period from August 2015 through August 2018 totals \$173 million, including \$87 million in penalties. As of September 30, 2018, no charges have been recorded for these assessments because PT-FI believes its COW exempts it from these payments. As of November 9, 2018, PT-FI has not paid and does not intend to pay these assessments.

In September 2018, PT-FI received an unfavorable decision from the Indonesian Tax Court with respect to its appeal of disallowed items on its 2012 corporate income tax return. The most significant disallowed item relates to the tax treatment of mine development costs. A similar decision on PT-FI's 2014 corporate income tax return was announced in October 2018. PT-FI will appeal these decisions to the Indonesian Supreme Court because it believes the COW is explicit about the tax treatment associated with mine development costs. No adjustments have been recorded for this matter as of September 30, 2018, because FCX believes PT-FI has properly determined and paid its taxes. As of September 30, 2018, PT-FI had long-term receivables totaling approximately \$300 million related to this matter. FCX estimates the potential exposure for penalties for the years 2013, 2016 and 2017 in which the Indonesian tax authorities may assert that PT-FI has underpaid income taxes totals \$212 million based on the exchange rate as of September 30, 2018.

Indonesia Mining Contract. Refer to Note 13 of FCX's annual report on Form 10-K for the year ended December 31, 2017, for further discussion. The following is the latest information related to PT-FI's COW and the pending divestment transaction.

In October 2017, Indonesia's Ministry of Environment and Forestry (the Ministry) notified PT-FI of administrative sanctions related to certain activities the Ministry indicated are not reflected in PT-FI's environmental permit. The Ministry also notified PT-FI that certain operational activities were inconsistent with factors set forth in PT-FI's environmental permitting studies and that additional monitoring and improvements need to be undertaken related to air quality, water drainage, treatment and handling of certain wastes, and tailings management. PT-FI has been

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engaged in a process to update its permits through submissions and dialogue with the Ministry that began in late 2014, and PT-FI believes that it has submitted the required documentation to update such permits. In April 2018, the Ministry issued decrees imposing unattainable environmental standards related to PT-FI's controlled riverine tailings management system that must be complied with by October 2018. The decrees, which PT-FI believes are contrary to the Indonesian government's obligations under PT-FI's COW, conflict with PT-FI's approved environmental management programs and existing environmental permits. If these unattainable environmental standards are not modified or delayed, PT-FI could be adversely affected, including possible shutdown of its operations. PT-FI is currently engaged in constructive discussions with the Ministry in working toward a resolution of these issues. During these discussions, the Ministry has advised PT-FI that the transition period for compliance with the decrees will be extended for up to an additional six months.

On September 27, 2018, FCX, PT-FI, PT Indocopper Investama (PT-II) and PT Indonesia Asahan Aluminium (Persero) (PT Inalum), a state-owned enterprise that currently holds 9.36 percent of PT-FI's outstanding common stock, entered into a Divestment Agreement on previously agreed economic terms in connection with PT Inalum's acquisition of shares of PT-FI. Under the Divestment Agreement, PT Inalum will acquire, for cash consideration of \$350 million, 100 percent of FCX's interests in PT-II, which owns 9.36 percent of PT-FI (equates to a 5.6 percent interest in the project after 2022). PT Inalum also entered into a definitive agreement with Rio Tinto to acquire, for cash consideration of \$3.5 billion, all of Rio Tinto's interests (40 percent interest in the project after 2022) associated with its joint venture with PT-FI (the Joint Venture). The arrangements provide for FCX and existing PT-FI shareholders to retain the economics of the revenue and cost sharing arrangements under the Joint Venture and for FCX to continue to manage PT-FI's operations. Following completion of the transaction, PT Inalum's share ownership will be 51.2 percent of PT-FI (subject to a dividend assignment mechanism to replicate the Joint Venture economics), and FCX's ownership will be 48.8 percent.

PT-FI has agreed to complete the construction of a smelter within five years of the closing, with economics shared pro rata by FCX and PT Inalum according to their respective equity ownership in PT-FI. Concurrent with the closing of the divestment transaction, PT-FI will be granted a special mining license (IUPK) providing long-term mining rights with assured legal and fiscal terms and legal enforceability through 2041. The IUPK issued at closing will initially be valid through 2031 and will include an assured extension through 2041 upon PT-FI's satisfaction of agreed conditions, including those related to smelter construction and payment of state revenues in accordance with the IUPK.

The transaction, which is expected to close in late 2018 or early 2019, is subject to certain conditions, including the documentation and issuance by the Indonesian government of the IUPK providing for the extension and stability of PT-FI's long-term mining rights with assured legal and fiscal terms and legal enforceability through 2041 in a form acceptable to FCX and PT Inalum; resolution of environmental regulatory matters that include amendments to the decrees imposing unattainable environmental standards on PT-FI pending before the Ministry satisfactory to the Indonesian government, FCX and PT Inalum; various other Indonesian regulatory actions and approvals, including modification or revocation of current regulations and the implementation of new regulations by the Indonesian government and assurances or approvals by Indonesian tax authorities with respect to the pending transaction; and receipt of customary regulatory approvals from international competition authorities.

The Divestment Agreement provides FCX and PT Inalum with the right to terminate, in certain circumstances, including if the transaction is not consummated on or before December 31, 2018, subject to a six-month extension, if needed, to obtain regulatory approvals from international competition authorities.

PT-FI's export license is effective through February 15, 2019. In October 2018, PT-FI's temporary IUPK was extended to November 30, 2018, and PT-FI will continue to seek extensions to its temporary IUPK until closing of the pending transaction. On February 28, 2018, PT Smelting (PT-FI's 25 percent-owned smelter and refinery in Indonesia) received an extension of its anode slimes export license through February 26, 2019.

Until the pending transaction is completed, PT-FI has reserved all rights under its COW.

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NOTE 9. BUSINESS SEGMENTS

FCX has organized its mining operations into four primary divisions – North America copper mines, South America mining, Indonesia mining and Molybdenum mines, and operating segments that meet certain thresholds are reportable segments. Separately disclosed in the following tables are FCX's reportable segments, which include the Morenci, Cerro Verde and Grasberg (Indonesia Mining) copper mines, the Rod & Refining operations and Atlantic Copper Smelting & Refining.

Intersegment sales between FCX's business segments are based on terms similar to 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 mines to other segments, including Atlantic Copper Smelting & Refining and on 25 percent of PT-FI'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.

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 (included in Corporate, Other & Eliminations), whereas foreign income taxes are recorded and managed at the applicable country level. In addition, most mining exploration and research activities are managed on a consolidated basis, and those costs, along with some selling, general and administrative costs, are not allocated to the operating divisions or individual segments. Accordingly, the following Financial Information by Business Segment 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.

Product Revenues. FCX's revenues attributable to the products it sold for the third quarters and first nine months of 2018 and 2017 follow (in millions):

	Three Months Ended September 30, 2018		2017		Nine Months Ended September 30, 2018		2017	
Copper:								
Concentrate	\$1,743		\$1,571		\$5,093		\$3,793	
Cathode	1,271		1,197		4,159		3,192	
Rod and other refined copper products	561		604		1,899		1,818	
Gold	1,073		495		2,814		1,334	
Molybdenum	286		213		882		661	
Other ^a	381		307		1,179		819	
Adjustments to revenues:								
Treatment charges	(162	)	(147	)	(433	)	(378)
Royalty expense ^b	(75	)	(46	)	(217	)	(112)
Export duties ^c	(52	)	(21	)	(153	)	(62)
Revenues from contracts with customers	5,026		4,173		15,223		11,065	
Embedded derivatives ^d	(118	)	137		(279	)	297	
Total consolidated revenues	\$4,908		\$4,310		\$14,944		\$11,362	

a. Primarily includes revenues associated with cobalt, silver, oil, gas and natural gas liquids.

b. Reflects royalties for sales from PT-FI and Cerro Verde that will vary with the volume of metal sold and the prices of copper and gold.

c. Reflects PT-FI export duties.

- d. Refer to Note 6 for discussion of embedded derivatives related to FCX's provisionally priced concentrate and cathode sales contracts.

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Financial Information by Business Segment

(In millions)

	North America Copper Mines			South America						Atlantic Copper			Corporate, Other	
				Cerro			Indonesia	Molybdenum	Refining	Smelting & Refining	& Eliminations	FCX		
	Morenci	Other	Total	Verde	Other	Total	Mining	Mines	Refining				Total	
Three Months Ended September 30, 2018														
Revenues:														
Unaffiliated customers	\$30	\$2	\$32	\$687	\$122	\$809	\$1,703 ^a	\$—	\$1,212	\$579	\$573 ^b	\$4,908		
Intersegment	467	587	1,054	71	—	71	61	101	8	—	(1,295)	—		
Production and delivery	304	485	789	519 ^c	105	624	522	76	1,215	559	(716)	3,069		
Depreciation, depletion and amortization	43	45	88	122	20	142	181	20	3	6	18	458		
Selling, general and administrative expenses	1	—	1	3	—	3	29	—	—	5	63	101		
Mining exploration and research expenses	—	1	1	—	—	—	—	—	—	—	26	27		
Environmental obligations and shutdown costs	—	2	2	—	—	—	—	—	—	—	6	8		
Net gain on sales of assets	—	—	—	—	—	—	—	—	—	—	(70) ^d	(70)		
Operating income (loss)	149	56	205	114	(3)	111	1,032	5	2	9	(49)	1,315		
Interest expense, net	1	—	1	15	—	15	—	—	—	7	120	143		
Provision for income taxes	—	—	—	37	5	42	424	—	—	—	56	522		
Total assets at September 30, 2018	2,826	4,465	7,291	8,613	1,709	10,322	11,764	1,808	284	835	5,445 ^e	37,749		
Capital expenditures	63	118	181	47	3	50	246	4	1	3	22	507		
Three Months Ended September 30, 2017														
Revenues:														
Unaffiliated customers	\$57	\$40	\$97	\$850	\$109	\$959	\$1,121 ^a	\$—	\$1,137	\$554	\$442 ^b	\$4,310		
Intersegment	460	548	1,008	64	—	64	—	65	8	1	(1,146)	—		
Production and delivery	242	410	652	683 ^f	76	759	407	57	1,140	533	(754)	2,794		
Depreciation, depletion and amortization	42	54	96	116	18	134	136	20	2	7	23	418		
Selling, general and administrative expenses	1	1	2	2	—	2	32	—	—	4	64	104		
Mining exploration and research expenses	—	—	—	—	—	—	—	—	—	—	27	27		

Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	72	72
Net gain on sales of assets	—	—	—	—	—	—	—	—	—	—	(33) ^d	(33)
Operating income (loss)	232	123	355	113	15	128	546	(12)	3	11	(103)	928
Interest expense, net	1	—	1	156 ^f	—	156	1	—	—	5	141	304
Provision for income taxes	—	—	—	134 ^f	5	139	233	—	—	1	14	387
Total assets at September 30, 2017	2,844	4,223	7,067	8,851	1,595	10,446	11,100	1,885	264	751	5,814 ^e	37,327
Capital expenditures	26	13	39	17	3	20	206	2	1	5	41	314
a. Includes PT-FI's sales to PT Smelting totaling \$827 million in third-quarter 2018 and \$652 million in third-quarter 2017.												
b. Includes revenues from FCX's molybdenum sales company, which includes sales of molybdenum produced by the Molybdenum mines and by certain of the North America and South America copper mines.												
c. Includes charges of \$69 million associated with Cerro Verde's new three-year collective labor agreement.												
d. Includes gains in third-quarter 2018 of \$50 million associated with an increase to the estimated fair value less costs to sell for Freeport Cobalt (refer to Note 1) and \$20 million reflecting adjustments to the fair value of the potential contingent consideration related to the 2016 sale of onshore California oil and gas properties, and a gain in third-quarter 2017 of \$33 million associated with the sale of oil and gas properties.												
e. Includes assets held for sale, primarily Freeport Cobalt, totaling \$626 million at September 30, 2018, and \$459 million at September 30, 2017.												
f. Includes net charges of \$216 million in production and delivery costs, \$141 million in interest expense and \$2 million in provision for income taxes associated with disputed royalties for prior years.												
g. Includes an \$8 million decrease related to the adoption of the new guidance for the presentation of net periodic benefit cost for pension and other postretirement benefit plans (refer to Note 11 for further discussion).												

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Financial Information by Business Segment (continued)

(In millions)

	North America Copper Mines			South America Mining Cerro			Indonesia Mining	Molybdenum Mines	Pend Ore Refining	Atlantic Corporate, Copper Other Smelting & Refining		FCX & Eliminations	FCX Total
	Morenci	Other	Total	Verde	Other	Total							
Nine Months Ended September 30, 2018													
Revenues:													
Unaffiliated customers	\$58	\$30	\$88	\$2,031	\$443	\$2,474	\$4,863 ^a	\$ —	\$3,984	\$1,758	\$1,777 ^b	\$14,944	
Intersegment	1,636	1,917	3,553	273	—	273	114	307	24	2	(4,273)	—	
Production and delivery	892	1,477	2,369	1,391 ^c	354	1,745	1,404	214	3,992	1,694	(2,626)	8,792	
Depreciation, depletion and amortization	133	141	274	336	66	402	534	60	8	20	53	1,351	
Selling, general and administrative expenses	3	2	5	7	—	7	96	—	—	16	217	341	
Mining exploration and research expenses	—	2	2	—	—	—	—	—	—	—	70	72	
Environmental obligations and shutdown costs	—	2	2	—	—	—	—	—	—	—	74	76	
Net gain on sales of assets	—	—	—	—	—	—	—	—	—	—	(126) ^d	(126)	
Operating income (loss)	666	323	989	570	23	593	2,943	33	8	30	(158)	4,438	
Interest expense, net													
Interest expense, net	3	—	3	48	—	48	—	—	—	18	367	436	
Provision for income taxes	—	—	—	207	15	222	1,254	—	—	1	66	1,543	
Capital expenditures	151	262	413	178	10	188	695	6	3	10	76	1,391	
Nine Months Ended September 30, 2017													
Revenues:													
	\$168	\$122	\$290	\$2,057	\$332	\$2,389	\$2,720 ^a	\$ —	\$3,290	\$1,412	\$1,261 ^b	\$11,362	

Unaffiliated customers													
Intersegment	1,354	1,704	3,058	237	—	237	—	199	22	1	(3,517)	—	
Production and delivery	765	1,273	2,038	1,450	^e 245	1,695	1,224	^f 167	3,296	1,369	(2,327)	7,462	^g
Depreciation, depletion and amortization	138	192	330	332	60	392	372	58	7	21	77	1,257	
Selling, general and administrative expenses	2	2	4	7	—	7	92	^f —	—	13	246	362	
Mining exploration and research expenses	—	2	2	—	—	—	—	—	—	—	58	60	
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	76	76	
Net gain on sales of assets	—	—	—	—	—	—	—	—	—	—	(66)	^d (66)	
Operating income (loss)	617	357	974	505	27	532	1,032	(26)	9	10	(320)	2,211	
Interest expense, net	2	1	3	187	^e —	187	1	—	—	13	429	633	
Provision for income taxes	—	—	—	288	^e 10	298	435	—	—	4	10	747	
Capital expenditures	78	28	106	60	5	65	663	4	3	30	149	1,020	

a. Includes PT-FI's sales to PT Smelting totaling \$2.1 billion for the first nine months of 2018 and \$1.4 billion for the first nine months of 2017.

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

c. Includes charges of \$69 million associated with Cerro Verde's new three-year collective labor agreement.

d. Includes gains for the first nine months of 2018 of \$50 million associated with an increase to the estimated fair value less costs to sell for Freeport Cobalt (refer to Note 1) and \$76 million reflecting adjustments to the fair value of the potential contingent consideration related to the 2016 sale of onshore California oil and gas properties; and net gains for the first nine months of 2017, primarily associated with sales of oil and gas properties of \$49 million and a favorable adjustment of \$13 million associated with the estimated fair value less costs to sell for the Kisanfu exploration project.

e. Includes net charges of \$216 million in production and delivery, \$141 million in interest expense and \$2 million in provision for income taxes associated with disputed royalties for prior years.

f. Includes net charges at PT-FI associated with workforce reductions totaling \$112 million in production and delivery costs and \$5 million in selling, general and administrative expenses.

g. Includes a \$35 million decrease related to the adoption of the new guidance for the presentation of net periodic benefit cost for pension and other postretirement benefit plans (refer to Note 11 for further discussion).

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NOTE 10. GUARANTOR FINANCIAL STATEMENTS

All of the senior notes issued by FCX are fully and unconditionally guaranteed on a senior basis jointly and severally by FM O&G LLC, as guarantor, which is a 100-percent-owned subsidiary of FM O&G and FCX. The guarantee is an unsecured obligation of the guarantor and ranks equal in right of payment with all existing and future indebtedness of FM O&G LLC, including indebtedness under FCX's revolving credit facility. The guarantee ranks senior in right of payment with all of FM O&G LLC's future subordinated obligations and is effectively subordinated in right of payment to any debt of FM O&G LLC's subsidiaries. The indentures provide that FM O&G LLC's guarantee may be released or terminated for certain obligations under the following circumstances: (i) all or substantially all of the equity interests or assets of FM O&G LLC are sold to a third party; or (ii) FM O&G LLC no longer has any obligations under any FM O&G senior notes or any refinancing thereof and no longer guarantees any obligations of FCX under the revolving credit facility or any other senior debt or, in each case, any refinancing thereof.

The following condensed consolidating financial information includes information regarding FCX, as issuer, FM O&G LLC, as guarantor, and all other non-guarantor subsidiaries of FCX. Included are the condensed consolidating balance sheets at September 30, 2018, and December 31, 2017, and the related condensed consolidating statements of comprehensive income (loss) for the three and nine months ended September 30, 2018 and 2017, and the condensed consolidating statements of cash flows for the nine months ended September 30, 2018 and 2017 (in millions), which should be read in conjunction with FCX's notes to the consolidated financial statements.

CONDENSED CONSOLIDATING BALANCE SHEET

September 30, 2018

	FCX	FM O&G LLC	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
	Issuer	Guarantor			
ASSETS					
Current assets	\$ 549	\$ 577	\$ 10,817	\$ (1,022)	\$ 10,921
Property, plant, equipment and mine development costs, net	19	3	22,991	—	23,013
Investments in consolidated subsidiaries	19,681	—	—	(19,681)	—
Other assets	546	67	3,279	(77)	3,815
Total assets	\$ 20,795	\$ 647	\$ 37,087	\$ (20,780)	\$ 37,749
LIABILITIES AND EQUITY					
Current liabilities	\$ 246	\$ 137	\$ 4,614	\$ (1,146)	\$ 3,851
Long-term debt, less current portion	9,594	6,784	5,095	(10,350)	11,123
Deferred income taxes	820	^a —	3,019	—	3,839
Environmental and asset retirement obligations, less current portion	—	209	3,355	—	3,564
Investments in consolidated subsidiaries	—	601	10,424	(11,025)	—
Other liabilities	158	3,340	1,907	(3,487)	1,918
Total liabilities	10,818	11,071	28,414	(26,008)	24,295
Equity:					
Stockholders' equity	9,977	(10,424)	5,832	4,592	9,977
Noncontrolling interests	—	—	2,841	636	3,477
Total equity	9,977	(10,424)	8,673	5,228	13,454
Total liabilities and equity	\$ 20,795	\$ 647	\$ 37,087	\$ (20,780)	\$ 37,749

a. All U.S.-related deferred income taxes are recorded at the parent company.

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CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2017

	FCX	FM O&G LLC	Non-guarantor		Consolidated
	Issuer	Guarantor	Subsidiaries	Eliminations	FCX
ASSETS					
Current assets	\$ 75	\$ 671	\$ 10,733	\$ (790)	\$