

FREEPORT-MCMORAN INC  
Form 10-Q  
August 05, 2016

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  
June 30, 2016

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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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

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.

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Large accelerated filer  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  No

On July 29, 2016, there were issued and outstanding 1,328,258,134 shares of the registrant's common stock, par value \$0.10 per share.

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FREEPORT-McMoRan INC.

TABLE OF CONTENTS

	Page
<u>Part I. Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements:</u>	
<u>Consolidated Balance Sheets (Unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Operations (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Loss (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>6</u>
<u>Consolidated Statement of Equity (Unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Review Report of Independent Registered Public Accounting Firm</u>	<u>33</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>91</u>
<u>Item 4. Controls and Procedures</u>	<u>91</u>
<u>Part II. Other Information</u>	<u>91</u>
<u>Item 1. Legal Proceedings</u>	<u>91</u>
<u>Item 1A. Risk Factors</u>	<u>91</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>92</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>92</u>
<u>Item 6. Exhibits</u>	<u>92</u>
<u>Signature</u>	<u>S-1</u>
<u>Exhibit Index</u>	<u>E-1</u>



Table of Contents

## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## FREEPORT-McMoRan INC.

## CONSOLIDATED BALANCE SHEETS (Unaudited)

	June 30, 2016	December 31, 2015
	(In millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 352	\$ 195
Trade accounts receivable	694	660
Income and other tax receivables	916	1,341
Other accounts receivable	102	154
Inventories:		
Mill and leach stockpiles	1,348	1,539
Materials and supplies, net	1,338	1,594
Product	1,058	1,071
Other current assets	226	164
Assets held for sale	4,666	744
Total current assets	10,700	7,462
Property, plant, equipment and mining development costs, net	23,609	24,248
Oil and gas properties, net - full cost method		
Subject to amortization, less accumulated amortization and impairment	1,381	2,262
Not subject to amortization	1,656	4,831
Long-term mill and leach stockpiles	1,742	1,663
Other assets	2,208	2,001
Assets held for sale	—	4,110
Total assets	\$41,296	\$ 46,577
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$2,569	\$ 3,255
Current portion of debt	770	649
Current portion of environmental and asset retirement obligations	322	272
Accrued income taxes	55	23
Liabilities held for sale	824	108
Total current liabilities	4,540	4,307
Long-term debt, less current portion	18,549	19,779
Deferred income taxes	3,758	3,607
Environmental and asset retirement obligations, less current portion	3,697	3,717
Other liabilities	1,662	1,641
Liabilities held for sale	—	718
Total liabilities	32,206	33,769
Redeemable noncontrolling interest	771	764

Equity:

Stockholders' equity:

Common stock	145	137	
Capital in excess of par value	25,105	24,283	
Accumulated deficit	(17,049 )	(12,387 )	)
Accumulated other comprehensive loss	(488 )	(503 )	)
Common stock held in treasury	(3,710 )	(3,702 )	)
Total stockholders' equity	4,003	7,828	
Noncontrolling interests	4,316	4,216	
Total equity	8,319	12,044	
Total liabilities and equity	\$41,296	\$ 46,577	

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

Table of ContentsFREEPORT-McMoRan INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In millions, except per share amounts)			
Revenues	\$3,334	\$3,938	\$6,576	\$7,709
Cost of sales:				
Production and delivery	2,956	2,651	5,455	5,330
Depreciation, depletion and amortization	632	833	1,294	1,699
Impairment of oil and gas properties	291	2,686	4,078	5,790
Total cost of sales	3,879	6,170	10,827	12,819
Selling, general and administrative expenses	160	148	298	299
Mining exploration and research expenses	15	30	33	57
Environmental obligations and shutdown costs	11	11	21	24
Net gain on sales of assets	(749 )	—	(749 )	(39 )
Total costs and expenses	3,316	6,359	10,430	13,160
Operating income (loss)	18	(2,421 )	(3,854 )	(5,451 )
Interest expense, net	(196 )	(142 )	(387 )	(281 )
Net gain on early extinguishment of debt	39	—	36	—
Other income, net	25	36	64	43
Loss before income taxes and equity in affiliated companies' net earnings	(114 )	(2,527 )	(4,141 )	(5,689 )
(Provision for) benefit from income taxes	(116 )	699	(193 )	1,413
Equity in affiliated companies' net earnings	1	—	8	1
Net loss from continuing operations	(229 )	(1,828 )	(4,326 )	(4,275 )
Net (loss) income from discontinued operations	(181 )	29	(185 )	70
Net loss	(410 )	(1,799 )	(4,511 )	(4,205 )
Net income attributable to noncontrolling interests:				
Continuing operations	(47 )	(16 )	(109 )	(48 )
Discontinued operations	(12 )	(26 )	(22 )	(52 )
Preferred dividends attributable to redeemable noncontrolling interest	(10 )	(10 )	(21 )	(20 )
Net loss attributable to common stockholders	\$(479 )	\$(1,851 )	\$(4,663 )	\$(4,325 )
Basic and diluted net (loss) income per share attributable to common stockholders:				
Continuing operations	\$(0.23 )	\$(1.78 )	\$(3.54 )	\$(4.18 )
Discontinued operations	(0.15 )	—	(0.16 )	0.02
	\$(0.38 )	\$(1.78 )	\$(3.70 )	\$(4.16 )
Basic and diluted weighted-average common shares outstanding	1,269	1,040	1,260	1,040
Dividends declared per share of common stock	\$—	\$0.1605	\$—	\$0.2105

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





Table of Contents

FREEPORT-McMoRan INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)

	Three Months Ended June 30, 2016		2015		Six Months Ended June 30, 2016		2015	
	(In millions)							
Net loss	\$(410)	\$(1,799)	\$(4,511)	\$(4,205)				
Other comprehensive income, net of taxes:								
Unrealized gains on securities	1	—	1	—				
Defined benefit plans:								
Amortization of unrecognized amounts included in net periodic benefit costs	15	8	23	16				
Foreign exchange (losses) gains	(1	) 1	(10	) 5				
Other comprehensive income	15	9	14	21				
Total comprehensive loss	(395	) (1,790	) (4,497	) (4,184	)			
Total comprehensive income attributable to noncontrolling interests	(59	) (42	) (130	) (100	)			
Preferred dividends attributable to redeemable noncontrolling interest	(10	) (10	) (21	) (20	)			
Total comprehensive loss attributable to common stockholders	\$(464)	\$(1,842)	\$(4,648)	\$(4,304)				

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

Table of Contents

## FREEPORT-McMoRan INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Six Months Ended

June 30,

2016

2015

(In millions)

Cash flow from operating activities:			
Net loss	\$	(4,511 )	\$ (4,205 )
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation, depletion and amortization	1,374		1,829
Impairment of oil and gas properties	4,078		5,790
Non-cash oil and gas drillship settlements/idle rig costs	612		—
Oil and gas inventory adjustments and write downs	82		23
Mining inventory adjustments	7		63
Net gain on sales of assets	(749 )		(39 )
Net charges for environmental and asset retirement obligations, including accretion	107		109
Payments for environmental and asset retirement obligations	(116 )		(81 )
Net gain on early extinguishment of debt	(36 )		—
Deferred income taxes	169		(1,432 )
Estimated loss on disposal of discontinued operations	177		—
Increase in long-term mill and leach stockpiles	(99 )		(104 )
Net gains on crude oil derivative contracts	—		(58 )
Other, net	53		81
Changes in working capital and other tax payments, excluding			

amounts from dispositions:			
Accounts receivable	259		493
Inventories	190		8
Other current assets	(53	)	(1
Accounts payable and accrued liabilities	44		(205
Accrued income taxes and changes in other tax payments	26		(485
Net cash provided by operating activities	1,614		1,786
Cash flow from investing activities:			
Capital expenditures:			
North America copper mines	(76	)	(214
South America	(293	)	(902
Indonesia	(459	)	(438
Molybdenum mines	(1	)	(7
United States oil and gas operations	(868	)	(1,795
Other	(118	)	(172
Net proceeds from sale of additional interest in Morenci	996		—
Net proceeds from sale of other assets	290		150
Other, net	(6	)	(14
Net cash used in investing activities	(535	)	(3,392
Cash flow from financing activities:			
Proceeds from debt	2,811		4,422
Repayments of debt	(3,649	)	(2,360
Net proceeds from sale of common stock	32		—
Cash dividends and distributions paid:			
Common stock	(5	)	(380
Noncontrolling interests	(39	)	(60
Stock-based awards net payments, including excess tax benefit	(5	)	(7
Debt financing costs and other, net	(18	)	(7
Net cash (used in) provided by financing activities	(873	)	1,608

Net increase in cash and cash equivalents	206		2	
Increase in cash and cash equivalents in assets held for sale	(49	)	(1	)
Cash and cash equivalents at beginning of year	195		317	
Cash and cash equivalents at end of period	\$	352	\$	318

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

Table of ContentsFREEPORT-McMoRan INC.  
CONSOLIDATED STATEMENT OF EQUITY (Unaudited)

	Stockholders' Equity					Common Stock		Total Stockholders' Equity	Non-controlling Interests	Total Equity
	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Held in Treasury	Number of Shares	At Cost			
	Number of Shares	At Par Value								
	(In millions)									
Balance at December 31, 2015	1,374	\$ 137	\$24,283	\$(12,387 )	\$(503 )	128	\$(3,702)	\$ 7,828	\$ 4,216	\$12,044
Issuance of common stock	70	8	793	—	—	—	(3 )	798	—	798
Exercised and issued stock-based awards	3	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	33	—	—	—	—	33	—	33
Reserve on tax benefit for stock-based awards	—	—	(4 )	—	—	—	—	(4 )	—	(4 )
Tender of shares for stock-based awards	—	—	—	—	—	1	(5 )	(5 )	—	(5 )
Dividends on common stock	—	—	—	1	—	—	—	1	—	1
Dividends to noncontrolling interests	—	—	—	—	—	—	—	—	(25 )	(25 )
Changes in noncontrolling interests	—	—	—	—	—	—	—	—	(5 )	(5 )
Net loss attributable to common stockholders	—	—	—	(4,663 )	—	—	—	(4,663 )	—	(4,663 )
Net income attributable to noncontrolling interests, including discontinued operations	—	—	—	—	—	—	—	—	131	131
Other comprehensive income (loss)	—	—	—	—	15	—	—	15	(1 )	14
Balance at June 30, 2016	1,447	\$ 145	\$25,105	\$(17,049 )	\$(488 )	129	\$(3,710)	\$ 4,003	\$ 4,316	\$8,319

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



Table of Contents

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, 2015. 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, and the oil and gas properties impairment discussed below and the related tax charges to establish a deferred tax valuation allowance (refer to Note 5), all such adjustments are, in the opinion of management, of a normal recurring nature. As a result of FCX's second-quarter 2016 agreement to sell its interest in TF Holdings Limited (TFHL), FCX has reported TFHL as discontinued operations for all periods presented in the unaudited consolidated financial statements (refer to Note 2). Operating results for the six-month period ended June 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

**Oil and Gas Properties.** 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 in the full cost pool for impairment each quarter on a country-by-country basis. Under these rules, capitalized costs of oil and gas properties (net of accumulated depreciation, depletion, amortization and impairment, 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 the related proved oil and gas reserves, net of estimated future income taxes; plus
- the cost of the related unproved properties not being amortized; plus
- the lower of cost or estimated fair value of the related unproved properties included in the costs being amortized (net of related tax effects).

These rules require that FCX price its future oil and gas production at the twelve-month average of the first-day-of-the-month historical reference prices as adjusted for location and quality differentials. FCX's reference prices are West Texas Intermediate (WTI) for oil and the Henry Hub spot price for natural gas. Such prices are utilized except where different prices are fixed and determinable from applicable contracts for the remaining term of those contracts. The estimated future net cash flows also 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."

In addition, following the evaluation of alternatives for the oil and gas business and the current limitations and cost of capital available for future drilling, FCX Oil & Gas Inc. (FM O&G, a wholly owned subsidiary of FCX) determined that the carrying values of certain of its unevaluated properties were impaired. For the first six months of 2016, FM O&G transferred \$3.2 billion of costs (including \$3.1 billion in first-quarter 2016) associated with unevaluated properties to the full cost pool, mostly reflecting impairment of the carrying values of unevaluated properties. Combined with the impact of the reduction in twelve-month historical prices, net capitalized costs exceeded the related ceiling test limitation under full cost accounting rules, which resulted in the recognition of a \$291 million impairment charge in second-quarter 2016 and \$4.1 billion for the first six months of 2016. The twelve-month average price (using WTI as the reference oil price) was \$43.12 per barrel at June 30, 2016, compared with \$46.26 per barrel at March 31, 2016.





Table of Contents

NOTE 2. DISPOSITIONS

Timok. On May 2, 2016, Freeport Minerals Corporation (FMC), a wholly owned subsidiary of FCX, completed the sale of an interest in the Timok exploration project in Serbia to Reservoir Minerals Inc. for consideration of \$135 million in cash and contingent consideration of up to \$107 million payable to FCX in stages upon achievement of defined development milestones (no amounts were recorded for the contingent consideration as of June 30, 2016). As a result of this transaction, FCX recorded a gain of \$133 million in second-quarter 2016.

Morenci. On May 31, 2016, FCX completed the sale of a 13 percent undivided interest in its Morenci unincorporated joint venture to Sumitomo Metal Mining Co., Ltd. (SMM) for \$1.0 billion in cash. FCX recorded a \$577 million gain on the transaction and used losses to offset cash taxes on the transaction. Proceeds from the transaction were used to repay borrowings under FCX's unsecured bank term loan (Term Loan) and revolving credit facility.

The Morenci unincorporated joint venture was owned 85 percent by FCX and 15 percent by Sumitomo Metal Mining Arizona Inc. (Sumitomo). As a result of the transaction, the unincorporated joint venture is owned 72 percent by FCX, 15 percent by Sumitomo and 13 percent by an affiliate that is wholly owned by SMM.

Oil and Gas Operations. On June 17, 2016, FM O&G completed the sale of certain oil and gas royalty interests to Black Stone Minerals, L.P. for cash consideration of \$102 million, before closing adjustments. In addition, on July 25, 2016, FM O&G completed the sale of its Haynesville shale assets for cash consideration of \$87 million, before closing adjustments. Under the full cost accounting rules, the proceeds were recorded as a reduction of capitalized oil and gas properties, with no gain or loss recognition.

TF Holdings Limited - Discontinued Operations. On May 9, 2016, FCX entered into a definitive agreement to sell its 70 percent interest in TFHL to China Molybdenum Co., Ltd. (CMOC) for \$2.65 billion in cash and 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 calendar years 2018 and 2019 (no amounts were recorded for the contingent consideration as of June 30, 2016). Through its interest in TFHL, FCX has an effective 56 percent interest in Tenke Fungurume Mining S.A. (TFM or Tenke) located in the Democratic Republic of Congo (DRC). The transaction is expected to close in fourth-quarter 2016, subject to regulatory approvals, CMOC shareholder approval and other customary closing conditions. The transaction is also subject to Lundin Mining Corporation's (Lundin) right of first offer (ROFO), which expires on September 15, 2016. Lundin holds the remaining 30 percent interest in TFHL. In accordance with the mandatory prepayment provision of FCX's Term Loan, one-half of the proceeds from this transaction must be applied toward repaying FCX's Term Loan.

In accordance with accounting guidance, FCX has reported the results of operations of TFHL as discontinued operations in the consolidated statements of operations and presented the assets and liabilities of TFHL as held for sale in the consolidated balance sheets for all periods presented. The consolidated statements of comprehensive loss were not impacted by discontinued operations as TFHL did not have any other comprehensive income, and the consolidated statements of cash flows are reported on a combined basis without separately presenting discontinued operations.

Table of Contents

The carrying amounts of TFHL's major classes of assets, liabilities and noncontrolling interests, which are presented as held for sale in the consolidated balance sheets, follow (in millions):

	June 30, December 31,	
	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 78	\$ 29
Inventories	1,152	584
Receivables and other current assets	154	131
Property, plant, equipment and mining development costs, net	3,056	—
Other assets	226	—
Total current assets held for sale	\$ 4,666	\$ 744
Property, plant, equipment and mining development costs, net	\$ —	\$ 3,261
Inventories	—	608
Other assets	—	241
Total long-term assets held for sale	\$ —	\$ 4,110
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 99	\$ 108
Deferred income taxes	679	—
Asset retirement obligations and other liabilities	46	—
Total current liabilities held for sale	\$ 824	\$ 108
Deferred income taxes	\$ —	\$ 681
Asset retirement obligations and other liabilities	—	37
Total long-term liabilities held for sale	\$ —	\$ 718
Noncontrolling interests	\$ 1,185	\$ 1,178

Net (loss) income from discontinued operations in the consolidated statements of operations consists of the following (in millions):

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues <sup>a</sup>	\$272	\$310	\$558	\$692
Costs and expenses:				
Production and delivery costs	256	197	482	430
Depreciation, depletion and amortization	20	<sup>b</sup> 57	80	<sup>b</sup> 130
Interest expense allocated from parent <sup>c</sup>	11	7	21	14
Other costs and expenses, net	5	8	6	17
(Loss) income before income taxes and estimated loss on disposal	(20 )	41	(31 )	101
Estimated loss on disposal <sup>d</sup>	(177 )	—	(177 )	—
Net (loss) income before income taxes	(197 )	41	(208 )	101
Benefit from (provision for) income taxes	16	(12 )	23	(31 )
Net (loss) income from discontinued operations	\$(181)	\$29	\$(185)	\$70

a. In accordance with accounting guidance, amounts are net of eliminations of intercompany sales totaling \$41 million in both second-quarter 2016 and 2015, \$73 million for the first six months of 2016 and \$69 million for the first six

months of 2015.

- b. In accordance with accounting guidance, depreciation, depletion and amortization is not recognized subsequent to classification as assets held for sale.
- c. In accordance with accounting guidance, interest associated with FCX's Term Loan that will be required to be repaid as a result of the sale of TFHL has been allocated to discontinued operations.
- d. In accordance with accounting guidance, an estimated loss on disposal was recorded, which will be adjusted through closing of the transaction.

Table of Contents

Cash flows from discontinued operations included in the consolidated statements of cash flows follow (in millions):

	Six Months Ended June 30,	
	2016	2015
Net cash provided by operating activities	\$157	\$153
Net cash used in investing activities	(57 )	(105 )
Net cash used in financing activities	(51 )	(47 )
Increase in cash and cash equivalents in assets held for sale	\$49	\$1

FCX has also agreed to negotiate exclusively with CMOC (until December 31, 2016) to enter into a definitive agreement to sell its interest in Freeport Cobalt for \$100 million and the Kisanfu exploration project in the DRC for \$50 million in separate transactions. Freeport Cobalt includes the large-scale cobalt refinery in Kokkola, Finland, and the related sales and marketing business, in which FCX owns an effective 56 percent interest. Kisanfu is a copper and cobalt exploration project, located near Tenke, in which FCX holds a 100 percent interest.

## NOTE 3. EARNINGS PER SHARE

FCX's basic net loss per share of common stock was computed by dividing net loss 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 computed using the most dilutive of (a) the two-class method or (b) the treasury stock method. Under the two-class method, net income is allocated to each class of common stock and participating securities as if all of the earnings for the period had been distributed. FCX's participating securities consist of vested restricted stock units (RSUs) for which the underlying common shares are not yet issued and entitle holders to non-forfeitable dividends.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net loss from continuing operations	\$(229 )	\$(1,828)	\$(4,326)	\$(4,275)
Net income from continuing operations attributable to noncontrolling interests	(47 )	(16 )	(109 )	(48 )
Preferred dividends on redeemable noncontrolling interest	(10 )	(10 )	(21 )	(20 )
Undistributed earnings allocated to participating securities	(3 )	(3 )	(3 )	(3 )
Net loss from continuing operations attributable to common stockholders	\$(289 )	\$(1,857)	\$(4,459)	\$(4,346)
Net (loss) income from discontinued operations	\$(181 )	\$29	\$(185 )	\$70
Net income from discontinued operations attributable to noncontrolling interests	(12 )	(26 )	(22 )	(52 )
Net (loss) income from discontinued operations attributable to common stockholders	\$(193 )	\$3	\$(207 )	\$18
Net loss attributable to common stockholders	\$(482 )	\$(1,854)	\$(4,666)	\$(4,328)
Basic weighted-average shares of common stock outstanding	1,269	1,040	1,260	1,040
Add shares issuable upon exercise or vesting of dilutive stock options and RSUs	—	<sup>a</sup> —	<sup>a</sup> —	<sup>a</sup> —
Diluted weighted-average shares of common stock outstanding	1,269	1,040	1,260	1,040
Basic and diluted net (loss) income per share attributable to common stockholders:				
Continuing operations	\$(0.23)	\$(1.78 )	\$(3.54 )	\$(4.18 )
Discontinued operations	(0.15 )	—	(0.16 )	0.02
	\$(0.38)	\$(1.78 )	\$(3.70 )	\$(4.16 )

Excludes 12 million shares of common stock for second-quarter 2016, 15 million for second-quarter 2015, 11 million for the first six months of 2016, and 14 million for the first six months of 2015 associated with outstanding <sup>a</sup> stock options with exercise prices less than the average market price of FCX's common stock and RSUs 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 46 million shares of common stock were excluded for second-quarter 2016, 47 million for the first six months of 2016 and 40 million for both the quarter and six months ended June 30, 2015.

Table of Contents

## NOTE 4. INVENTORIES, INCLUDING LONG-TERM MILL AND LEACH STOCKPILES

The components of inventories follow (in millions):

	June 30, December 31,	
	2016	2015
Current inventories:		
Mill stockpiles	\$ 146	\$ 137
Leach stockpiles	1,202	1,402
Total current mill and leach stockpiles	\$ 1,348	\$ 1,539
Total materials and supplies, net <sup>a</sup>	\$ 1,338	\$ 1,594
Raw materials (primarily concentrate)	\$ 222	\$ 220
Work-in-process	93	108
Finished goods	743	743
Total product inventories	\$ 1,058	\$ 1,071
Long-term inventories:		
Mill stockpiles	\$ 584	\$ 480
Leach stockpiles	1,158	1,183
Total long-term mill and leach stockpiles <sup>b</sup>	\$ 1,742	\$ 1,663

<sup>a</sup> Materials and supplies inventory was net of obsolescence reserves totaling \$29 million at June 30, 2016, and \$26 million at December 31, 2015.

<sup>b</sup> Estimated metals in stockpiles not expected to be recovered within the next 12 months.

FCX recorded charges for adjustments to inventory carrying values of \$2 million in second-quarter 2016 and \$7 million for the first six months of 2016, primarily at the Molybdenum mines because of lower molybdenum prices, and \$59 million in second-quarter 2015 and \$63 million for the first six months of 2015, primarily because of lower molybdenum and copper prices (refer to Note 10 for 2015 inventory adjustments by business segment).

## NOTE 5. 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 (5) percent for the first six months of 2016 and 25 percent for the first six months of 2015. Geographic sources of FCX's (provision for) benefit from income taxes follow (in millions):

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
U.S. operations	\$(49 )	\$829	\$(38 )	\$1,664
International operations	(67 )	(130 )	(155 )	(251 )
Total	\$(116)	\$699	\$(193)	\$1,413

As a result of the impairment to U.S. oil and gas properties, FCX recorded tax charges of \$1.5 billion for the first six months of 2016 and \$763 million for the first six months of 2015 to establish a valuation allowance primarily against U.S. federal and state deferred tax assets that will not generate a future benefit. Excluding these charges, FCX's consolidated effective income tax rate was 33 percent for the first six months of 2016 and 38 percent for the first six

months of 2015.

13

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Table of Contents

As of December 31, 2015, FCX had determined that undistributed earnings of TFM were reinvested indefinitely and were allocated toward specifically identifiable needs of the local operations. In connection with the anticipated sale of its interest in TFHL, management concluded that its share of undistributed earnings of TFM were no longer reinvested indefinitely. This change did not have a material impact on FCX's results of operations.

Applicable accounting standards require that FCX estimate an annual effective tax rate and apply that rate to each year-to-date interim period. However, because FCX's estimated effective income tax rate for 2016 is highly variable (i.e., minor changes in FCX's estimated annual (loss) income would have a significant effect on the consolidated annual effective income tax rate), the actual effective income tax rate for the year-to-date reporting period represents a better estimate of the consolidated annual effective income tax rate. Accordingly, for the six months ended June 30, 2016, the actual consolidated effective income tax rate was used to determine FCX's income tax provision.

## NOTE 6. DEBT AND EQUITY

Debt. The components of debt follow (in millions):

	June 30, 2016	December 31, 2015
Term Loan	\$2,446	\$3,032
Revolving credit facility	—	—
Cerro Verde credit facility	1,784	1,781
Cerro Verde shareholder loans	261	259
Lines of credit	192	442
Senior notes and debentures:		
Issued by FCX	11,648	11,908
Issued by Freeport-McMoRan Oil & Gas LLC (FM O&G LLC)	2,524	2,539
Issued by FMC	359	359
Other (including equipment capital leases and other short-term borrowings)	105	108
Total debt <sup>a</sup>	19,319	20,428
Less current portion of debt	(770)	(649)
Long-term debt	\$18,549	\$19,779

Includes additions for unamortized fair value adjustments totaling \$195 million at June 30, 2016, and \$210 million at December 31, 2015, and net reductions for unamortized debt issuance costs and unamortized discounts of \$120 million at June 30, 2016, and \$129 million at December 31, 2015.

On February 26, 2016, FCX amended its revolving credit facility and Term Loan. The amendments included (i) modification of the maximum leverage ratio and the minimum interest expense coverage ratio, and (ii) the addition of a springing collateral and guarantee trigger. In addition, the commitment under the revolving credit facility was reduced from \$4.0 billion to \$3.5 billion, and the mandatory prepayment provision was modified under the Term Loan. Refer to Note 18 of FCX's annual report on Form 10-K for the year ended December 31, 2015, for further discussion of these amendments.

In second-quarter 2016, FCX prepaid \$568 million on the Term Loan with a portion of the proceeds from the sale of the 13 percent undivided interest in Morenci.

With closed and pending asset sales exceeding the required \$3 billion threshold under FCX's revolving credit facility and Term Loan, the springing collateral requirement under these agreements was not triggered on June 30, 2016. Since the TFHL transaction is not expected to close until fourth-quarter 2016, FCX was required to pledge its shares in FMC on June 30, 2016, which will be released upon closing of this transaction. If \$3 billion in asset sale



transactions have not been completed by December 31, 2016, the springing collateral requirement will be triggered.

At June 30, 2016, there were no borrowings outstanding and \$40 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.

Table of Contents

## Early Extinguishment of Debt

During second-quarter 2016, FCX redeemed certain senior notes in exchange for its common stock (refer to the discussion under "Equity" in this note). A summary of these debt extinguishments follows (in millions):

	Principal Amount	Discounts/Deferred Debt Issuance Costs	Book Value	Gain
3.55% Senior Notes due 2022	\$ 85	\$ —	\$ 85	\$ 9
3.875% Senior Notes due 2023	52	—	52	6
5.40% Senior Notes due 2034	50	1	49	8
5.450% Senior Notes due 2043	81	1	80	16
Total	\$ 268	\$ 2	\$ 266	\$ 39

In addition, FCX recorded a loss on early extinguishment of debt totaling \$3 million associated with the modifications to its Term Loan and revolving credit facility in first-quarter 2016.

## Interest Expense, Net

Consolidated interest expense from continuing operations (excluding capitalized interest) totaled \$218 million in second-quarter 2016, \$208 million in second-quarter 2015, \$436 million for the first six months of 2016 and \$411 million for the first six months of 2015. Capitalized interest added to property, plant, equipment and mining development costs, net, totaled \$22 million in second-quarter 2016, \$47 million in second-quarter 2015, \$42 million for the first six months of 2016 and \$92 million for the first six months of 2015. Capitalized interest added to oil and gas properties not subject to amortization totaled \$19 million in second-quarter 2015 (none in second-quarter 2016), \$7 million for the first six months of 2016 and \$38 million for the first six months of 2015.

Equity. In 2015 and through January 5, 2016, FCX generated approximately \$2 billion in gross proceeds (proceeds of \$1.97 billion net of \$20 million of commissions and expenses) through the sale of 210 million shares of common stock (206 million shares through December 31, 2015, and 4 million shares (with a value of \$32 million) in January 2016) under its at-the-market equity programs. At July 29, 2016, FCX has approximately \$12 million remaining under these at-the-market equity programs.

During second-quarter 2016, FCX issued 48 million shares of its common stock (with a value of \$540 million, excluding \$5 million of commissions paid by FCX) in connection with the settlement of two drilling rig contracts (refer to Note 9 for further discussion).

During second-quarter 2016, FCX negotiated private exchange transactions exempt from registration under the Securities Act of 1933, as amended, whereby 17 million shares of FCX's common stock were issued, with an additional 3 million shares that settled in early July 2016 (with an aggregate value of \$226 million), in exchange for \$268 million principal amount of FCX's senior notes. From July 1, 2016, through August 4, 2016, an additional 8 million shares of FCX's common stock (with a value of \$85 million) were issued in exchange for \$101 million principal amount of FCX's senior notes. The timing of future exchanges is dependent upon many factors including FCX's operating results, cash flow and financial position, the market price of FCX's common stock, and general economic and market conditions.

## NOTE 7. 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.

Table of Contents

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 June 30, 2016, and December 31, 2015, FCX had no price protection contracts relating to its mine production or future sales of oil and gas. A discussion of FCX's derivative contracts and programs follows.

## Derivatives Designated as Hedging Instruments – Fair Value Hedges

Copper Futures and Swap Contracts. Some of FCX's U.S. copper rod customers request a fixed market price instead of the Commodity Exchange Inc. (COMEX), a division of the New York Mercantile Exchange, 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 during the six-month periods ended June 30, 2016 and 2015, resulting from hedge ineffectiveness. At June 30, 2016, FCX held copper futures and swap contracts that qualified for hedge accounting for 62 million pounds at an average contract price of \$2.18 per pound, with maturities through March 2018.

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 follows (in millions):

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Copper futures and swap contracts:				
Unrealized gains (losses):				
Derivative financial instruments	\$3	\$(4)	\$10	\$2
Hedged item – firm sales commitments	(3)	4	(10)	(2)

## Realized losses:

Matured derivative financial instruments (4) (1) (8) (11)

## 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, 2015, 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) copper price or the COMEX copper price and the London Bullion Market Association (London) gold price 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 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 LME or COMEX copper price or the London gold price as defined in the contract. Mark-to-market price fluctuations from these embedded derivatives related to continuing operations are recorded through the settlement date and are reflected in revenues for sales contracts and in cost of sales as production and delivery costs for purchase contracts. Mark-to-market price fluctuations associated with embedded derivatives for discontinued operations, which were

minimal, are included in discontinued operations for all periods presented in these financial statements.

A summary of FCX's embedded derivatives at June 30, 2016, follows:

	Open Positions	Average Price Per Unit Contract		Maturities Through
Embedded derivatives in provisional sales contracts:				
Copper (millions of pounds)	769	\$2.16	\$ 2.20	November 2016
Gold (thousands of ounces)	90	1,259	1,322	October 2016
Embedded derivatives in provisional purchase contracts:				
Copper (millions of pounds)	123	2.17	2.20	October 2016

Table of Contents

Crude Oil Contracts. As a result of the acquisition of the oil and gas business, FCX had derivative contracts in 2015 that consisted of crude oil options. These derivatives were not designated as hedging instruments and were recorded at fair value with the mark-to-market gains and losses recorded in revenues. The crude oil options were entered into to protect the realized price of a portion of expected future sales in order to limit the effects of crude oil price decreases. The remaining contracts matured in 2015, and FCX does not have any crude oil derivative contracts in place for 2016 or future years.

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 June 30, 2016, Atlantic Copper held net copper forward purchase contracts for 14 million pounds at an average contract price of \$2.10 per pound, with maturities through August 2016.

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

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Embedded derivatives in provisional copper and gold sales contracts <sup>a</sup>	\$4	\$(73)	\$76	\$(144)
Copper forward contracts <sup>b</sup>	(2)	(6)	5	(7)
Crude oil options <sup>a</sup>	—	6	—	58

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):

	June 30, 2016	December 31, 2015
Commodity Derivative Assets:		
Derivatives designated as hedging instruments:		
Copper futures and swap contracts <sup>a</sup>	\$ 4	\$ 1
Derivatives not designated as hedging instruments:		
Embedded derivatives in provisional copper and gold sales/purchase contracts	49	19
Copper forward contracts	2	—
Total derivative assets	\$ 55	\$ 20

## Commodity Derivative Liabilities:

Derivatives designated as hedging instruments:

Copper futures and swap contracts<sup>a</sup> \$ 3 \$ 11

Derivatives not designated as hedging instruments:

Embedded derivatives in provisional copper and gold

sales/purchase contracts	18	81
Copper forward contracts	1	—
Total derivative liabilities	\$ 22	\$ 92

FCX paid \$3 million to brokers at June 30, 2016, and \$10 million at December 31, 2015, for margin requirements  
a. (recorded in other current assets).

Table of Contents

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 its 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	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Gross amounts recognized:				
Commodity contracts:				
Embedded derivatives in provisional sales/purchase contracts	\$49	\$ 19	\$ 18	\$ 81
Copper derivatives	6	1	4	11
	55	20	22	92
Less gross amounts of offset:				
Commodity contracts:				
Embedded derivatives in provisional sales/purchase contracts	3	5	3	5
Copper derivatives	4	1	4	1
	7	6	7	6
Net amounts presented in balance sheet:				
Commodity contracts:				
Embedded derivatives in provisional sales/purchase contracts	46	14	15	76
Copper derivatives	2	—	—	10
	\$48	\$ 14	\$ 15	\$ 86
Balance sheet classification:				
Trade accounts receivable	\$48	\$ 9	\$ 8	\$ 51
Accounts payable and accrued liabilities	—	5	7	35
	\$48	\$ 14	\$ 15	\$ 86

**Credit Risk.** FCX is exposed to credit loss when financial institutions with which FCX has entered into derivative transactions (commodity, foreign exchange and interest rate swaps) are unable to pay. To minimize the risk of such losses, FCX uses counterparties that meet certain credit requirements and periodically reviews the creditworthiness of these counterparties. FCX does not anticipate that any of the counterparties it deals with will default on their obligations. As of June 30, 2016, the maximum amount of credit exposure associated with derivative transactions was \$42 million.

**Other Financial Instruments.** Other financial instruments include cash and cash equivalents, accounts receivable, restricted cash, investment securities, legally restricted funds, accounts payable and accrued liabilities, and long-term debt. The carrying value for cash and cash equivalents (which included time deposits of \$48 million at June 30, 2016, and \$34 million at December 31, 2015), accounts receivable, restricted cash, and accounts payable and accrued liabilities approximates fair value because of their short-term nature and generally negligible credit losses (refer to Note 8 for the fair values of investment securities, legally restricted funds and long-term debt).



In addition, FCX has contingent liabilities related to the settlement of FM O&G's drilling rig contracts (refer to Note 8 for the fair value and Note 9 for further discussion of these instruments).

Table of Contents

## NOTE 8. 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 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 second-quarter 2016.

FCX retrospectively adopted the May 2015 Accounting Standards Update (ASU) associated with investments for which fair value is measured using the net asset value (NAV) per share as a practical expedient. As a result, investments valued using NAV per share are shown in the tables below in a column separate from the levels within the fair value hierarchy. A summary of the carrying amount and fair value of FCX's financial instruments, other than cash and cash equivalents, accounts receivable, restricted cash, and accounts payable and accrued liabilities (refer to Note 7) follows (in millions):

	At June 30, 2016					
	Carrying Amount		Fair Value			
	Total	NAV	Level 1	Level 2	Level 3	
<b>Assets</b>						
Investment securities: <sup>a,b</sup>						
U.S. core fixed income fund at NAV	\$24	\$24	\$ 24	\$ —	\$ —	\$ —
Money market funds	22	22	—	22	—	—
Equity securities	4	4	—	4	—	—
Total	50	50	24	26	—	—
Legally restricted funds: <sup>a,b,c,d</sup>						
U.S. core fixed income fund at NAV	55	55	55	—	—	—
Government bonds and notes	38	38	—	—	38	—
Government mortgage-backed securities	30	30	—	—	30	—
Corporate bonds	30	30	—	—	30	—
Asset-backed securities	15	15	—	—	15	—
Money market funds	12	12	—	12	—	—
Collateralized mortgage-backed securities	6	6	—	—	6	—
Municipal bonds	1	1	—	—	1	—
Total	187	187	55	12	120	—
Derivatives: <sup>a,e</sup>						
Embedded derivatives in provisional sales/ purchase contracts in a gross asset position	49	49	—	—	49	—
Copper futures and swap contracts	4	4	—	4	—	—
Copper forward contracts	2	2	—	1	1	—
Total	55	55	—	5	50	—
Total assets	\$292	\$ 79	\$ 43	\$170	\$	—
<b>Liabilities</b>						
Derivatives: <sup>a,e</sup>						

Embedded derivatives in provisional sales/ purchase contracts in a gross liability position	\$18	\$18	\$ —	\$ —	\$18	\$ —
Copper futures and swap contracts	3	3	—	1	2	—
Copper forward contracts	1	1	—	1	—	—
Total	22	22	—	2	20	—
Contingent consideration for the settlements of drilling rig contracts <sup>f</sup>	25	25	—	—	25	—
Long-term debt, including current portions <sup>g</sup>	19,319	17,772	—	—	17,772	—
Total liabilities		\$17,819	\$ —	\$ 2	\$17,817	\$ —

Table of Contents

	At December 31, 2015					
	Carrying Value		Fair Value			
	Amount	Total	NAV	Level 1	Level 2	Level 3
<b>Assets</b>						
Investment securities: <sup>a,b</sup>						
U.S. core fixed income fund at NAV	\$23	\$23	\$ 23	\$ —	\$—	\$ —
Money market funds	21	21	—	21	—	—
Equity securities	3	3	—	3	—	—
Total	47	47	23	24	—	—
Legally restricted funds: <sup>a,b,c,d</sup>						
U.S. core fixed income fund at NAV	52	52	52	—	—	—
Government bonds and notes	37	37	—	—	37	—
Government mortgage-backed securities	28	28	—	—	28	—
Corporate bonds	26	26	—	—	26	—
Asset-backed securities	13	13	—	—	13	—
Collateralized mortgage-backed securities	7	7	—	—	7	—
Money market funds	7	7	—	7	—	—
Municipal bonds	1	1	—	—	1	—
Total	171	171	52	7	112	—
Derivatives: <sup>a,e</sup>						
Embedded derivatives in provisional sales/ purchase contracts in a gross asset position	19	19	—	—	19	—
Copper futures and swap contracts	1	1	—	1	—	—
Total	20	20	—	1	19	—
Total assets		\$238	\$ 75	\$ 32	\$ 131	\$ —
<b>Liabilities</b>						
Derivatives: <sup>a,e</sup>						
Embedded derivatives in provisional sales/ purchase contracts in a gross liability position	\$81	\$81	\$ —	\$ —	\$81	\$ —
Copper futures and swap contracts	11	11	—	7	4	—
Total	92	92	—	7	85	—
Long-term debt, including current portion <sup>g</sup>	20,428	20,987	—	—	13,987	—
Total liabilities		\$14,079	\$ —	\$ 7	\$ 14,072	\$ —

a. Recorded at fair value.

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

c. Excludes time deposits (which approximated fair value) included in other assets of \$120 million at June 30, 2016, and \$118 million at December 31, 2015, primarily associated with an assurance bond to support PT Freeport

Indonesia's (PT-FI) commitment for smelter development in Indonesia.

d. Excludes time deposits (which approximated fair value) included in other current assets of \$30 million at June 30, 2016, and \$28 million at December 31, 2015.

e. Refer to Note 7 for further discussion and balance sheet classifications.

f. Included in other liabilities.

g. Recorded at cost except for debt assumed in acquisitions, which were recorded at fair value at the respective acquisition dates.

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.

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.

## Table of Contents

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 only quoted monthly LME or COMEX copper forward prices and the London gold forward price at each reporting date based on the month of maturity (refer to Note 7 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 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 7 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.

Contingent liabilities for the settlement of drilling rig contracts (refer to Note 9 for further discussion) are based on the average price of WTI crude oil over the 12-month period ending June 30, 2017. The fair value is estimated using a Monte Carlo simulation model that uses various observable inputs, including WTI crude oil forward prices, volatilities, discount rate and settlement terms. As a result, these contingent liabilities are classified within Level 2 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 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 (usually within one business day of notice).

The techniques described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FCX believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the techniques used at June 30, 2016.

## NOTE 9. CONTINGENCIES AND COMMITMENTS

Litigation. During second-quarter 2016, 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, 2015.

### 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, 2015, SUNAT, the Peru national tax authority, has assessed mining royalties on ore processed by the Cerro Verde concentrator, which

commenced operations in late 2006, for the period December 2006 to December 2007 and the years 2008 and 2009. In April 2016, SUNAT issued assessments for the year 2010 and the period January 2011 to September 2011. Cerro Verde has contested the assessments, of which the aggregate amount covering the period December 2006 to September 2011 totals \$387 million (based on the exchange rate as of June 30, 2016), including estimated accumulated interest and penalties. Additionally, in April 2016, Peru's Twentieth Contentious Administrative Court, which specializes in taxation matters, rendered its decision upholding the Peru Tax Tribunal's July 2013 decision affirming SUNAT's assessments for the period December 2006 through December 2007. On May 2, 2016, Cerro Verde appealed this decision to Peru's Twentieth Contentious Administrative Court.

Table of Contents

SUNAT may make additional assessments for mining royalties and associated penalties and interest for the period from October 2011 through December 2013, which Cerro Verde will contest. As of June 30, 2016, FCX estimates the total exposure associated with these mining royalties for the period from December 2006 through December 2013 approximates \$474 million (based on the exchange rate as of June 30, 2016), including estimated accumulated interest and penalties. No amounts have been accrued for these assessments as of June 30, 2016, because Cerro Verde believes its 1998 stability agreement exempts it from these royalties and believes any payments will be recoverable.

Other Peru Tax Matters

There were no significant changes to other Peru tax matters during second-quarter 2016 (refer to Note 12 of FCX's annual report on Form 10-K for the year ended December 31, 2015, for further discussion of these matters).

Indonesia Tax Matters

The following information includes a discussion of 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, 2015.

In December 2009, PT-FI was notified by Indonesian tax authorities that it was obligated to pay value-added taxes on certain goods imported after the year 2000. In December 2014, PT-FI paid \$269 million for valued-added taxes for the period from November 2005 through the year 2009 and sought a refund. In March 2016, PT-FI collected a cash refund of \$196 million and \$38 million was offset against other tax liabilities. The remaining balance of the amount originally paid was reduced by currency exchange and other losses.

Required estimated income tax payments for 2014 significantly exceeded PT-FI's 2014 reported income tax liability, which resulted in a \$284 million overpayment. During second-quarter 2016, the Indonesian tax authorities issued tax assessments for 2014 of \$156 million and agreed to refund \$128 million associated with income tax overpayments made by PT-FI in 2014. PT-FI will file objections for \$155 million of the tax assessments.

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 May 2016. PT-FI has filed or will file objections to these assessments. The local government of Papua rejected PT-FI's objections to the assessments related to the period from January 2011 through December 2015, and PT-FI has filed or will file appeals with the Indonesia Tax Court. The aggregate amount of all assessments received through June 30, 2016, including penalties, was 2.9 trillion Indonesian rupiah (\$220 million based on the exchange rate as of June 30, 2016). Additional penalties, which could be significant, may be assessed depending on the outcome of the appeals process. No amounts have been accrued for these assessments as of June 30, 2016, because PT-FI believes its Contract of Work (COW) exempts it from these payments and that it has the right to contest these assessments in the Indonesia Tax Court and ultimately the Indonesia Supreme Court.

Indonesia Mining Contract. There were no significant updates related to PT-FI's COW during second-quarter 2016 (refer to Note 13 of FCX's annual report on Form 10-K for the year ended December 31, 2015, for further discussion). PT-FI is required to apply for renewal of export permits at six-month intervals. In February 2016, PT-FI's export permit was renewed through August 8, 2016. PT-FI has applied for an extension of this permit. The Indonesian government continues to impose a five percent export duty while it reviews PT-FI's smelter plans.

Other. During second-quarter 2016, FCX negotiated the termination and settlement of FM O&G's drilling rig contracts with Noble Drilling (U.S.) LLC (Noble) and Rowan Companies plc (Rowan). Under the settlement with Noble, FCX issued 48 million shares of its common stock (representing a value of \$540 million) during second-quarter 2016, and Noble immediately sold these shares. Under the settlement with Rowan, FCX paid \$85 million in cash during second-quarter 2016 and will pay the remaining \$130 million during third-quarter 2016. FCX also agreed to provide



contingent payments of up to \$75 million to Noble and \$30 million to Rowan, depending on the average price of crude oil over the 12-month period ending June 30, 2017. The fair value of these contingent payments totaled \$25 million as of June 30, 2016 (refer to Note 8). As a result of the settlements, FM O&G was released from a total of \$1.1 billion in payment obligations under its three drilling rig contracts.

Table of Contents

NOTE 10. BUSINESS SEGMENTS

FCX has organized its continuing 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. For oil and gas operations, FCX determines its operating segments on a country-by-country basis. Separately disclosed in the following table are FCX's reportable segments, which include the Morenci, Cerro Verde and Grasberg copper mines, the Rod & Refining operations, the Atlantic Copper Smelting & Refining operation and U.S. Oil & Gas operations.

FCX's reportable segments previously included Africa mining, which consisted of the Tenke mine located in the DRC. As discussed in Note 2, FCX has entered into a definitive agreement to sell its interest in TFHL, and as a result, Tenke has been removed from continuing operations and reported as discontinued operations for all periods presented. On May 31, 2016, FCX completed the sale of an additional 13 percent undivided interest in the Morenci unincorporated joint venture. As a result, FCX's undivided interest in Morenci was prospectively reduced from 85 percent to 72 percent.

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. In addition, intersegment sales from Tenke to FCX's other consolidated subsidiaries have been eliminated in discontinued operations (refer to Note 2) and included in Other Mining & Eliminations.

FCX defers recognizing profits on sales from its mines to other divisions, including Atlantic Copper (FCX's wholly owned smelter and refinery in Spain) and on 25 percent of PT-FI's sales to PT Smelting (PT-FI's 25 percent-owned smelter and refinery in Indonesia), 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 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.

Table of Contents

## Financial Information by Business Segments

(In millions) Mining Operations<sup>a</sup>

	North America Copper Mines			South America			Indonesia			Atlanta Copper & Smelting & Refining		Other Mining & Refining		U.S. Oil & Gas Operations		Corporate, Other & FCX Elimi- nations Total		
	Morenci	Other	Total	Verde	Other	Total	Grasberg	Mine	Refining			Total						
Three Months Ended June 30, 2016																		
Revenues:																		
Unaffiliated customers	\$79	\$43	\$122	\$494	\$123	\$617	\$532	<sup>b</sup> \$—	\$919	\$493	\$241	<sup>c</sup> \$2,924	\$410	\$—	\$—	\$—	\$—	\$3,334
Intersegment	404	534	938	60	—	60	(1)	<sup>d</sup> 45	7	2	(1,051)	—	—	—	—	—	—	—
Production and delivery	298	428	726	303	103	406	356	50	919	466	(866)	2,057	889	<sup>e</sup> 10	10	2,956		
Depreciation, depletion and amortization	57	77	134	109	27	136	93	17	3	7	20	410	218	4	632			
Impairment of oil and gas properties	—	—	—	—	—	—	—	—	—	—	—	—	290	1	<sup>f</sup> 291			
Selling, general and administrative expenses	1	1	2	2	—	2	22	—	—	4	2	32	81	<sup>g</sup> 47	160			
Mining exploration and research expenses	—	—	—	—	—	—	—	—	—	—	15	15	—	—	15			
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	10	10	—	1	11			
Net gain on sales of assets	(577)	—	(577)	—	—	—	—	—	—	—	(172)	(749)	—	—	(749)			
Operating income (loss)	704	71	775	140	(7)	133	60	(2)	4	18	181	1,149	(1,068)	(63)	18			
Interest expense, net	—	1	1	20	—	20	—	—	—	4	19	44	93	59	196			
Provision for (benefit from) income taxes	—	—	—	45	(2)	43	18	—	—	—	—	61	—	55	116			
	2,960	4,676	7,636	9,330	1,609	10,939	9,550	1,962	217	607	6,151	<sup>h</sup> 37,069	3,902	325	41,296			

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Total assets at June 30, 2016																
Capital expenditures	37	5	42	135	1	136	234	—	—	5	24	<sup>i</sup> 441	388	<sup>j</sup> 4	833	
Three Months Ended June 30, 2015																
Revenues:																
Unaffiliated customers	\$180	\$92	\$272	\$195	\$221	\$416	\$792	<sup>b</sup> \$—	\$1,089	\$495	\$305	<sup>c</sup> \$3,369	\$569	<sup>k</sup> \$—	\$3,938	
Intersegment	427	706	1,133	37	—	37	(2)	<sup>d</sup> 102	8	5	(1,283)	—	—	—	—	
Production and delivery	386	576 <sup>l</sup>	962	165	150	315	455	84 <sup>l</sup>	1,088	468	(1,004) <sup>l</sup>	2,368	281	<sup>e</sup> 2	2,651	
Depreciation, depletion and amortization	55	84	139	40	32	72	78	25	3	9	19	345	485	3	833	
Impairment of oil and gas properties	—	—	—	—	—	—	—	—	—	—	—	—	2,686	—	2,686	
Selling, general and administrative expenses	—	2	2	—	1	1	25	—	—	4	5	37	49	62	148	
Mining exploration and research expenses	—	2	2	—	—	—	—	—	—	—	28	30	—	—	30	
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	11	11	—	—	11	
Operating income (loss)	166	134	300	27	38	65	232	(7)	6	19	(37)	<sup>j</sup> 578	(2,932)	(67)	(2,421)	
Interest expense, net	—	1	1	—	—	—	—	—	—	2	39	42	41	59	142	
Provision for (benefit from) income taxes	—	—	—	(5)	<sup>j</sup> 11	6	95	—	—	—	—	101	—	(800)	(699)	
Total assets at June 30, 2015	3,806	5,582	9,388	8,567	1,935	10,502	8,959	2,052	286	786	6,461	<sup>h</sup> 38,434	15,393	181	54,008	
Capital expenditures	79	28	107	444	13	457	213	4	—	4	70	<sup>i</sup> 855	777	<sup>j</sup> 29	1,661	

a. Excludes the results of Tenke, which is reported as discontinued operations (refer to Note 2).

b. Includes PT-FI's sales to PT Smelting totaling \$287 million in second-quarter 2016 and \$293 million in second-quarter 2015.

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

d. Reflects net reductions for provisional pricing adjustments to prior period open sales. There were no intersegment sales from Grasberg in second-quarter 2016 or 2015.

- e. Includes charges at oil and gas operations totaling \$692 million in second-quarter 2016 and \$22 million in second-quarter 2015, primarily associated with drillship settlement/idle rig costs and inventory write-downs.
- f. Reflects impairment charges for international oil and gas properties primarily in Morocco.
- g. Includes \$37 million for net restructuring charges.
- h. Includes assets held for sale totaling \$4.7 billion at June 30, 2016 and \$4.9 billion at June 30, 2015, associated with discontinued operations (refer to Note 2).
- i. Includes capital expenditures of \$20 million in second-quarter 2016 and \$58 million in second-quarter 2015 associated with discontinued operations.  
Excludes international oil and gas capital expenditures totaling \$4 million in second-quarter 2016 and \$29 million in second-quarter 2015, primarily related to the Morocco oil and gas properties, which are included in Corporate, Other & Eliminations.
- k. Includes net mark-to-market gains of \$6 million associated with crude oil derivative contracts.
- l. Includes inventory adjustments totaling \$11 million at other North America copper mines, \$3 million at Molybdenum mines and \$45 million at Other Mining & Eliminations.

Table of Contents

(In millions)	Mining Operations <sup>a</sup>			South America			Indonesia			Atlantic		Other		U.S.	Corpor
	North America			Cerro			Grasberg			Molyb-	Copper	Mining	Oil &		
	Morenc	Other	Total	Verde	Other	Total	Grasberg	Mind	Refining	&	Refining	nations	Total	Gas	Elimi-
Six Months Ended June 30, 2016															
Revenues:															
Unaffiliated customers	\$241	\$99	\$340	\$980	\$267	\$1,247	\$1,030	<sup>b</sup> \$—	\$1,890	\$915	\$449	<sup>c</sup> \$5,871	\$705	\$—	\$—
Intersegment	761	1,095	1,856	101	—	101	57	90	15	3	(2,122)	—	—	—	—
Production and delivery	638	876	1,514	594	222	816	750	102	1,889	859	(1,784)	4,146	1,296	<sup>d</sup> 13	5,
Depreciation, depletion and amortization	119	159	278	210	58	268	174	36	5	15	38	814	473	7	1,
Impairment of oil and gas properties	—	—	—	—	—	—	—	—	—	—	—	—	4,061	17 <sup>e</sup>	4,
Selling, general and administrative expenses	1	2	3	4	—	4	36	—	—	8	6	57	130	<sup>f</sup> 111	29
Mining exploration and research expenses	—	1	1	—	—	—	—	—	—	—	32	33	—	—	33
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	20	20	—	1	21
Net gain on sales of assets	(577)	—	(577)	—	—	—	—	—	—	—	(172)	(749)	—	—	(7
Operating income (loss)	821	156	977	273	(13)	260	127	(48)	11	36	187	1,550	(5,255)	(149)	(3
Interest expense, net	1	1	2	42	—	42	—	—	—	8	39	91	164	132	38
Provision for (benefit from) income taxes	—	—	—	90	(8)	82	54	—	—	—	—	136	—	57	19
	65	11	76	291	2	293	459	1	1	7	63	<sup>g</sup> 900	868	<sup>h</sup> 47	1,

Capital  
expendituresSix Months  
Ended June  
30, 2015

## Revenues:

Unaffiliated customers	\$286	\$207	\$493	\$443	\$452	\$895	\$1,413	<sup>b</sup> \$—	\$2,151	\$1,035	\$653	<sup>c</sup> \$6,640	\$1,069	<sup>i</sup> \$—	\$—
Intersegment	877	1,370	2,247	51	(7)	44	(16)	<sup>j</sup> 215	15	11	(2,516)	—	—	—	—
Production and delivery	760	1,145	<sup>k</sup> 1,905	363	297	660	894	167	2,151	987	(2,003)	<sup>k</sup> 4,761	564	<sup>d</sup> 5	5
Depreciation, depletion and amortization	106	166	272	77	70	147	148	51	5	19	35	677	1,015	7	1
Impairment of oil and gas properties	—	—	—	—	—	—	—	—	—	—	—	—	5,790	—	5
Selling, general and administrative expenses	1	2	3	1	1	2	50	—	—	9	11	75	103	121	29
Mining exploration and research expenses	—	5	5	—	—	—	—	—	—	—	52	57	—	—	57
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	24	24	—	—	24
Net gain on sales of assets	—	(39)	(39)	—	—	—	—	—	—	—	—	(39)	—	—	(39)
Operating income (loss)	296	298	594	53	77	130	305	(3)	10	31	18	1,085	(6,403)	(1)	(133)
Interest expense, net	1	1	2	1	—	1	—	—	—	5	79	87	78	—	116
Provision for (benefit from) income taxes	—	—	—	—	30	30	124	—	—	—	—	154	—	—	(1,567)
Capital expenditures	163	51	214	875	27	902	438	7	1	8	119	<sup>g</sup> 1,689	1,795	<sup>h</sup> 44	3

a. Excludes the results of Tenke, which is reported as discontinued operations (refer to Note 2).

b. Includes PT-FI's sales to PT Smelting totaling \$564 million for the first six months of 2016 and \$643 million for the first six months of 2015.

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

d. Includes charges at oil and gas operations totaling \$892 million for the first six months of 2016 and \$39 million for the first six months of 2015, primarily associated with drillship settlement/idle rig costs and inventory write downs.

e. Reflects impairment charges for international oil and gas properties primarily in Morocco.

f. Includes \$39 million for net restructuring charges.

g. Includes capital expenditures of \$55 million for the first six months of 2016 and \$97 million for the first six months of 2015 associated with discontinued operations.

h. Excludes international oil and gas capital expenditures totaling \$47 million for the first six months of 2016 and \$44 million for the first six months of 2015, primarily related to the Morocco oil and gas properties, which are included in Corporate, Other & Eliminations.

i. Includes net mark-to-market gains of \$58 million associated with crude oil derivative contracts.

j. Reflects net reductions for provisional pricing adjustments to prior period open sales. There were no intersegment sales from El Abra or Grasberg for the first six months of 2015.

k. Includes inventory adjustments totaling \$11 million at other North America copper mines, \$3 million at Molybdenum mines and \$49 million at Other Mining & Eliminations for the first six months of 2015.



Table of Contents

## NOTE 11. 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 the 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 revolver, the Term Loan or any other senior debt.

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 June 30, 2016, and December 31, 2015, and the related condensed consolidating statements of comprehensive (loss) income for the three and six months ended June 30, 2016 and 2015, and cash flows for the six months ended June 30, 2016 and 2015 (in millions), which should be read in conjunction with FCX's notes to the consolidated financial statements.

## CONDENSED CONSOLIDATING BALANCE SHEET

June 30, 2016

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
<b>ASSETS</b>					
Current assets, other than assets held for sale	\$267	\$ 2,792	\$ 6,902	\$ (3,927 )	\$ 6,034
Current assets held for sale	—	—	4,666	—	4,666
Property, plant, equipment and mining development costs, net	23	57	23,529	—	23,609
Oil and gas properties, net - full cost method:					
Subject to amortization, less accumulated amortization and impairments	—	356	1,025	—	1,381
Not subject to amortization	—	408	1,246	2	1,656
Investments in consolidated subsidiaries	19,759	—	—	(19,759 )	—
Other assets	1,389	42	3,866	(1,347 )	3,950
Total assets	\$21,438	\$ 3,655	\$ 41,234	\$ (25,031 )	\$ 41,296
<b>LIABILITIES AND EQUITY</b>					
Current liabilities, other than liabilities held for sale	\$2,811	\$ 534	\$ 4,288	\$ (3,917 )	\$ 3,716
Current liabilities held for sale	—	—	824	—	824
Long-term debt, less current portion	13,520	7,425	12,064	(14,460 )	18,549
Deferred income taxes	1,064	<sup>a</sup> —	2,694	—	3,758
Environmental and asset retirement obligations, less current portion	—	313	3,384	—	3,697
Investments in consolidated subsidiaries	—	649	8,647	(9,296 )	—
Other liabilities	40	3,381	1,730	(3,489 )	1,662
Total liabilities	17,435	12,302	33,631	(31,162 )	32,206

Redeemable noncontrolling interest	—	—	771	—	771
Equity:					
Stockholders' equity	4,003	(8,647 )	3,067	5,580	4,003
Noncontrolling interests	—	—	3,765	551	4,316
Total equity	4,003	(8,647 )	6,832	6,131	8,319
Total liabilities and equity	\$21,438	\$ 3,655	\$ 41,234	\$ (25,031 )	\$ 41,296

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

Table of Contents

## CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2015

	FCX	FM O&G LLC	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
	Issuer	Guarantor			
<b>ASSETS</b>					
Current assets, other than assets held for sale	\$ 181	\$ 3,831	\$ 10,238	\$ (7,532 )	\$ 6,718
Current assets held for sale	—	—	744	—	744
Property, plant, equipment and mining development costs, net	26	57	24,165	—	24,248
Oil and gas properties, net - full cost method:					
Subject to amortization, less accumulated amortization and impairments	—	710	1,552	—	2,262
Not subject to amortization	—	1,393	3,432	6	4,831
Investments in consolidated subsidiaries	24,311	—	—	(24,311 )	—
Other assets	5,038	1,826	3,598	(6,798 )	3,664
Assets held for sale	—	—	4,110	—	4,110
Total assets	\$ 29,556	\$ 7,817	\$ 47,839	\$ (38,635 )	\$ 46,577
<b>LIABILITIES AND EQUITY</b>					
Current liabilities, other than assets held for sale	\$ 6,012	\$ 666	\$ 5,047	\$ (7,526 )	\$ 4,199
Current liabilities held for sale	—	—	108	—	108
Long-term debt, less current portion	14,735	5,883	11,594	(12,433 )	19,779
Deferred income taxes	941	<sup>a</sup> —	2,666	—	3,607
Environmental and asset retirement obligations, less current portion	—	305	3,412	—	3,717
Investment in consolidated subsidiary	—	—	2,397	(2,397 )	—
Other liabilities	40	3,360	1,732	(3,491 )	1,641
Liabilities held for sale	—	—	718	—	718
Total liabilities	21,728	10,214	27,674	(25,847 )	33,769
Redeemable noncontrolling interest	—	—	764	—	764
Equity:					
Stockholders' equity	7,828	(2,397 )	15,725	(13,328 )	7,828
Noncontrolling interests	—	—	3,676	540	4,216
Total equity	7,828	(2,397 )	19,401	(12,788 )	12,044
Total liabilities and equity	\$ 29,556	\$ 7,817	\$ 47,839	\$ (38,635 )	\$ 46,577

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

Table of Contents

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Three Months Ended June 30, 2016

	FCX	FM O&G LLC	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	\$—	\$ 106	\$ 3,228	\$ —	\$ 3,334
Total costs and expenses	17	964	<sup>a</sup> 2,335	<sup>a</sup> —	3,316
Operating (loss) income	(17 )	(858 )	893	—	18
Interest expense, net	(141 )	(15 )	(124 )	84	(196 )
Other income (expense), net	107	—	28	(71 )	64
(Loss) income before income taxes and equity in affiliated companies' net (losses) earnings	(51 )	(873 )	797	13	(114 )
(Provision for) benefit from income taxes	(345 )	306	(69 )	(8 )	(116 )
Equity in affiliated companies' net (losses) earnings	(90 )	(280 )	(853 )	1,224	1
Net (loss) income from continuing operations	(486 )	(847 )	(125 )	1,229	(229 )
Net income (loss) from discontinued operations	5	—	(175 )	(11 )	(181 )
Net (loss) income	(481 )	(847 )	(300 )	1,218	(410 )
Net income and preferred dividends attributable to noncontrolling interests:					
Continuing operations	—	—	(50 )	(7 )	(57 )
Discontinued operations	—	—	(12 )	—	(12 )
Net (loss) income attributable to common stockholders	\$(481)	\$(847 )	\$(362 )	\$ 1,211	\$(479 )
Other comprehensive income (loss)	15	—	15	(15 )	15
Total comprehensive (loss) income	\$(466)	\$(847 )	\$(347 )	\$ 1,196	\$(464 )

Includes charges totaling \$0.2 billion at the FM O&G LLC guarantor and \$0.1 billion at the non-guarantor subsidiaries related to impairment of FCX's oil and gas properties pursuant to full cost accounting rules.

Six Months Ended June 30, 2016

	FCX	FM O&G LLC	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	\$—	\$ 184	\$ 6,392	\$ —	\$ 6,576
Total costs and expenses	44	2,593	<sup>a</sup> 7,787	<sup>a</sup> 6	10,430
Operating loss	(44 )	(2,409 )	(1,395 )	(6 )	(3,854 )
Interest expense, net	(278 )	(19 )	(238 )	148	(387 )
Other income (expense), net	157	—	68	(125 )	100
(Loss) income before income taxes and equity in affiliated companies' net (losses) earnings	(165 )	(2,428 )	(1,565 )	17	(4,141 )
(Provision for) benefit from income taxes	(2,128 )	922	1,019	(6 )	(193 )
Equity in affiliated companies' net (losses) earnings	(2,376 )	(2,984 )	(4,483 )	9,851	8
Net (loss) income from continuing operations	(4,669 )	(4,490 )	(5,029 )	9,862	(4,326 )
Net income (loss) from discontinued operations	5	—	(169 )	(21 )	(185 )
Net (loss) income	(4,664 )	(4,490 )	(5,198 )	9,841	(4,511 )
Net income and preferred dividends attributable to noncontrolling interests:					

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Continuing operations	—	—	(117 )	(13 )	(130 )
Discontinued operations	—	—	(22 )	—	(22 )
Net (loss) income attributable to common stockholders	\$(4,664)	\$(4,490 )	\$ (5,337 )	\$ 9,828	\$ (4,663 )
Other comprehensive income (loss)	15	—	15	(15 )	15
Total comprehensive (loss) income	\$(4,649)	\$(4,490 )	\$ (5,322 )	\$ 9,813	\$ (4,648 )

a. Includes charges totaling \$1.5 billion at the FM O&G LLC guarantor and \$2.6 billion at the non-guarantor subsidiaries related to impairment of FCX's oil and gas properties pursuant to full cost accounting rules.

Table of Contents

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Three Months Ended June 30, 2015

	FCX	FM O&G LLC	Non-guarantor	Eliminations	Consolidated
	Issuer	Guarantor	Subsidiaries		FCX
Revenues	\$—	\$ 169	\$ 3,769	\$ —	\$ 3,938
Total costs and expenses	19	1,217	<sup>a</sup> 5,120	<sup>a</sup> 3	6,359
Operating loss	(19 )	(1,048 )	(1,351 )	(3 )	(2,421 )
Interest expense, net	(121 )	(2 )	(53 )	34	(142 )
Other income (expense), net	127	—	(57 )	(34 )	36
Loss before income taxes and equity in affiliated companies' net (losses) earnings	(13 )	(1,050 )	(1,461 )	(3 )	(2,527 )
(Provision for) benefit from income taxes	(265 )	374	592	(2 )	699
Equity in affiliated companies' net (losses) earnings	(1,573 )	(1,920 )	(2,972 )	6,465	—
Net (loss) income from continuing operations	(1,851 )	(2,596 )	(3,841 )	6,460	(1,828 )
Net income from discontinued operations	—	—	22	7	29
Net (loss) income	(1,851 )	(2,596 )	(3,819 )	6,467	(1,799 )
Net income and preferred dividends attributable to noncontrolling interests:					
Continuing operations	—	—	(12 )	(14 )	(26 )
Discontinued operations	—	—	(26 )	—	(26 )
Net (loss) income attributable to common stockholders	\$(1,851)	\$(2,596)	\$(3,857)	\$ 6,453	\$(1,851)
Other comprehensive income (loss)	9	—	9	(9)	9
Total comprehensive (loss) income	\$(1,842)	\$(2,596)	\$(3,848)	\$ 6,444	\$(1,842)

Includes charges totaling \$1.0 billion at the FM O&G LLC guarantor and \$1.7 billion at the non-guarantor

<sup>a</sup> subsidiaries related to impairment of FCX's oil and gas properties pursuant to full cost accounting rules.

Six Months Ended June 30, 2015

	FCX	FM O&G LLC	Non-guarantor	Eliminations	Consolidated
	Issuer	Guarantor	Subsidiaries		FCX
Revenues	\$—	\$ 350	\$ 7,359	\$ —	\$ 7,709
Total costs and expenses	35	2,535	<sup>a</sup> 10,603	<sup>a</sup> (13)	13,160
Operating (loss) income	(35 )	(2,185 )	(3,244 )	13	(5,451 )
Interest expense, net	(236 )	(6 )	(96 )	57	(281 )
Other income (expense), net	156	—	(49 )	(64 )	43
(Loss) income before income taxes and equity in affiliated companies' net (losses) earnings	(115 )	(2,191 )	(3,389 )	6	(5,689 )
(Provision for) benefit from income taxes	(686 )	790	1,317	(8 )	1,413
Equity in affiliated companies' net (losses) earnings	(3,524 )	(4,279 )	(6,502 )	14,306	1
Net (loss) income from continuing operations	(4,325 )	(5,680 )	(8,574 )	14,304	(4,275 )
Net income from discontinued operations	—	—	56	14	70
Net (loss) income	(4,325 )	(5,680 )	(8,518 )	14,318	(4,205 )
Net income and preferred dividends attributable to noncontrolling interests:					
Continuing operations	—	—	(42 )	(26 )	(68 )

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Discontinued operations	—	—	(52	)	—	(52	)
Net (loss) income attributable to common stockholders	\$(4,325)	\$(5,680)	\$ (8,612	)	\$ 14,292	\$ (4,325	)
Other comprehensive income (loss)	21	—	21	(21	)	21	
Total comprehensive (loss) income	\$(4,304)	\$(5,680)	\$ (8,591	)	\$ 14,271	\$ (4,304	)

<sup>a.</sup> Includes charges totaling \$2.1 billion at the FM O&G LLC guarantor and \$3.7 billion at the non-guarantor subsidiaries related to impairment of FCX's oil and gas properties pursuant to full cost accounting rules.

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2016

	FCX	FM O&G	Non-guarantor		Consolidated
	Issuer	LLC	Subsidiaries	Eliminations	FCX
Cash flow from operating activities:					
Net (loss) income	\$(4,664)	\$(4,490 )	\$ (5,198 )	\$ 9,841	\$(4,511 )
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Depreciation, depletion and amortization	3	92	1,293	(14 )	1,374
Impairment of oil and gas properties	—	1,436	2,622	20	4,078
Equity in losses (earnings) of affiliated companies	2,375	2,985	4,483	(9,851 )	(8 )
Other, net	104	600	(489 )	—	215
Changes in working capital and other tax payments, excluding amounts from dispositions	2,009	(713 )	(836 )	6	466
Net cash (used in) provided by operating activities	(173 )	(90 )	1,875	2	1,614
Cash flow from investing activities:					
Capital expenditures	—	(433 )	(1,380 )	(2 )	(1,815 )
Intercompany loans	(994 )	(493 )	—	1,487	—
Dividends from (investments in) consolidated subsidiaries	1,935	(41 )	78	(1,972 )	—
Asset sales and other, net	—	91	1,189	—	1,280
Net cash provided by (used in) investing activities	941	(876 )	(113 )	(487 )	(535 )
Cash flow from financing activities:					
Proceeds from debt	1,505	—	1,306	—	2,811
Repayments of debt	(2,282 )	—	(1,367 )	—	(3,649 )
Intercompany loans	—	1,018	469	(1,487 )	—
Net proceeds from sale of common stock	32	—	42	(42 )	32
Cash dividends and distributions paid, and contributions received, net	(5 )	—	(1,989 )	1,950	(44 )
Other, net	(18 )	(52 )	(17 )	64	(23 )
Net cash (used in) provided by financing activities	(768 )	966	(1,556 )	485	(873 )
Net increase in cash and cash equivalents	—	—	206	—	206
Increase in cash and cash equivalents in assets held for sale	—	—	(49 )	—	(49 )
Cash and cash equivalents at beginning of period	—	—	195	—	195
Cash and cash equivalents at end of period	\$—	\$—	\$ 352	\$ —	\$ 352



Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2015

	FCX	FM O&G LLC	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Cash flow from operating activities:					
Net (loss) income	\$(4,325)	\$(5,680 )	\$ (8,518 )	\$ 14,318	\$ (4,205 )
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Depreciation, depletion and amortization	2	223	1,638	(34 )	1,829
Impairment of oil and gas properties	—	2,052	3,717	21	5,790
Net gains on crude oil derivative contracts	—	(58 )	—		