

FREEPORT-MCMORAN INC  
Form 10-Q  
August 08, 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  
June 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 ☐ (Do

not check if a smaller reporting company) ☐ 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 July 31, 2018, there were issued and outstanding 1,449,002,815 shares of the registrant's common stock, par value \$0.10 per share.

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FREEPORT-McMoRan INC.

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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## FREEPORT-McMoRan INC.

## CONSOLIDATED BALANCE SHEETS (Unaudited)

	June 30, 2018	December 31, 2017
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$3,859	\$ 4,447
Trade accounts receivable	1,077	1,246
Income and other tax receivables	225	325
Inventories:		
Materials and supplies, net	1,404	1,305
Mill and leach stockpiles	1,435	1,422
Product	1,337	1,166
Other current assets	381	270
Assets held for sale	625	508
Total current assets	10,343	10,689
Property, plant, equipment and mine development costs, net	22,923	22,934
Long-term mill and leach stockpiles	1,371	1,409
Other assets	2,391	2,270
Total assets	\$37,028	\$ 37,302
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$2,420	\$ 2,321
Accrued income taxes	569	565
Current portion of environmental and asset retirement obligations	380	388
Dividends payable	73	—
Current portion of debt	4	1,414
Liabilities held for sale	353	323
Total current liabilities	3,799	5,011
Long-term debt, less current portion	11,123	11,703
Deferred income taxes	3,702	3,649
Environmental and asset retirement obligations, less current portion	3,631	3,631
Other liabilities	1,931	2,012
Total liabilities	24,186	26,006
Equity:		
Stockholders' equity:		
Common stock	158	158
Capital in excess of par value	26,667	26,751
Accumulated deficit	(13,161 )	(14,722 )
Accumulated other comprehensive loss	(464 )	(487 )
Common stock held in treasury	(3,726 )	(3,723 )

Total stockholders' equity	9,474	7,977
Noncontrolling interests	3,368	3,319
Total equity	12,842	11,296
Total liabilities and equity	\$37,028	\$ 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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In millions, except per share amounts)			
Revenues	\$5,168	\$3,711	\$10,036	\$7,052
Cost of sales:				
Production and delivery	2,915	2,480	5,723	4,668
Depreciation, depletion and amortization	442	450	893	839
Total cost of sales	3,357	2,930	6,616	5,507
Selling, general and administrative expenses	109	107	240	258
Mining exploration and research expenses	24	19	45	33
Environmental obligations and shutdown costs	59	(21)	68	4
Net gain on sales of assets	(45)	(10)	(56)	(33)
Total costs and expenses	3,504	3,025	6,913	5,769
Operating income	1,664	686	3,123	1,283
Interest expense, net	(142)	(162)	(293)	(329)
Net gain (loss) on early extinguishment of debt	9	(4)	8	(3)
Other income (expense), net	20	(7)	49	—
Income from continuing operations before income taxes and equity in affiliated companies' net earnings (losses)	1,551	513	2,887	951
Provision for income taxes	(515)	(186)	(1,021)	(360)
Equity in affiliated companies' net earnings (losses)	3	(1)	1	3
Net income from continuing operations	1,039	326	1,867	594
Net (loss) income from discontinued operations	(4)	9	(15)	47
Net income	1,035	335	1,852	641
Net income attributable to noncontrolling interests:				
Continuing operations	(166)	(66)	(291)	(141)
Discontinued operations	—	(1)	—	(4)
Net income attributable to common stockholders	\$869	\$268	\$1,561	\$496
Basic net income (loss) per share attributable to common stockholders:				
Continuing operations	\$0.60	\$0.18	\$1.08	\$0.31
Discontinued operations	—	—	(0.01)	0.03
	\$0.60	\$0.18	\$1.07	\$0.34
Diluted net income (loss) per share attributable to common stockholders:				
Continuing operations	\$0.59	\$0.18	\$1.08	\$0.31
Discontinued operations	—	—	(0.01)	0.03
	\$0.59	\$0.18	\$1.07	\$0.34
Weighted-average common shares outstanding:				
Basic	1,449	1,447	1,449	1,447
Diluted	1,458	1,453	1,458	1,453

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Dividends declared per share of common stock	\$0.05	\$—	\$0.10	\$—
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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 June 30, 2018		Six Months Ended June 30, 2017	
	2018	2017	2018	2017
	(In millions)			
Net income	\$1,035	\$335	\$1,852	\$641
Other comprehensive income, net of taxes:				
Unrealized gains on securities	—	1	—	2
Defined benefit plans:				
Actuarial gains arising during the period, net of taxes of \$48 million for the three and six months ended June 30, 2017	—	69	—	69
Amortization of unrecognized amounts included in net periodic benefit costs	11	19	23	30
Foreign exchange losses	—	—	(1	)(1 )
Other comprehensive income	11	89	22	100
Total comprehensive income	1,046	424	1,874	741
Total comprehensive income attributable to noncontrolling interests	(166 )	(75 )	(290 )	(153 )
Total comprehensive income attributable to common stockholders	\$880	\$349	\$1,584	\$588

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



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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, 2018    2017 (In millions)	
Cash flow from operating activities:		
Net income	\$1,852	\$641
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	893	839
Net gain on sales of assets	(56)	(33)
Stock-based compensation	60	44
Payments for Cerro Verde royalty dispute	(21)	(21)
Net charges for environmental and asset retirement obligations, including accretion	152	87
Payments for environmental and asset retirement obligations	(110)	(59)
Net charges for defined pension and postretirement plans	38	70
Pension plan contributions	(44)	(56)
Net (gain) loss on early extinguishment of debt	(8)	3
Deferred income taxes	61	55
Loss (gain) on disposal of discontinued operations	15	(38)
Decrease in long-term mill and leach stockpiles	38	80
Non-cash drillship settlements/idle rig costs and other oil and gas adjustments	—	(33)
Oil and gas contract settlement payments	—	(70)
Other, net	21	(23)
Changes in working capital and other tax payments:		
Accounts receivable	309	589
Inventories	(468)	(101)
Other current assets	(20)	(2)
Accounts payable and accrued liabilities	114	(267)
Accrued income taxes and timing of other tax payments	(148)	124
Net cash provided by operating activities	2,678	1,829
Cash flow from investing activities:		
Capital expenditures:		
North America copper mines	(232)	(67)
South America	(138)	(45)
Indonesia	(449)	(457)
Molybdenum mines	(2)	(2)
Other	(63)	(135)
Intangible water rights and other, net	(86)	3
Net cash used in investing activities	(970)	(703)
Cash flow from financing activities:		
Proceeds from debt	352	606
Repayments of debt	(2,297)	(1,250)
Cash dividends paid:		
Common stock	(73)	(2)
Noncontrolling interests	(241)	(39)

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Stock-based awards net proceeds (payments)	5	(8	)	
Debt financing costs and other, net	(23	)	(11	)
Net cash used in financing activities	(2,277	)	(704	)

Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(569	)	422
Decrease in cash and cash equivalents in assets held for sale	44		7
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	\$4,106		\$4,832
The accompanying notes are an integral part of these consolidated financial statements.			

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## CONSOLIDATED STATEMENT OF EQUITY (Unaudited)

	Stockholders' Equity					Common Stock		Total Stock-holders' Equity	Non-controlling Interests	Total Equity
	Common Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Capital in Excess of Par Value	Number of Shares	Held in Treasury	Number of Shares			
	Number of Shares	At Par Value					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	—	—	53	—	—	—	(3 )	50	—	50
Dividends	—	—	(145 )	—	—	—	—	(145 )	(241 )	(386 )
Net income attributable to common stockholders	—	—	—	1,561	—	—	—	1,561	—	1,561
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—	—	291	291
Other comprehensive income (loss)	—	—	—	—	23	—	—	23	(1 )	22
Balance at June 30, 2018	1,579	\$ 158	\$ 26,667	\$ (13,161 )	\$ (464 )	130	\$ (3,726 )	\$ 9,474	\$ 3,368	\$ 12,842

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

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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 six-month period ended June 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 is continuing to assess opportunities for its Kisanfu copper and cobalt exploration project, located in the Democratic Republic of Congo, including development of the project on its own or a sale of all or a minority stake in the project. Because management no longer believes that it is probable an outright sale will occur in the near term, the related assets and liabilities are no longer classified as held for sale. The primary revisions to the consolidated balance sheet as of December 31, 2017, were 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income from continuing operations	\$1,039	\$326	\$1,867	\$594
Net income from continuing operations attributable to noncontrolling interests	(166 )	(66 )	(291 )	(141 )
Undistributed earnings allocated to participating securities	(3 )	(3 )	(4 )	(3 )
Net income from continuing operations attributable to common stockholders	870	257	1,572	450
Net (loss) income from discontinued operations	(4 )	9	(15 )	47
Net income from discontinued operations attributable to noncontrolling interests	—	(1 )	—	(4 )
Net (loss) income from discontinued operations attributable to common stockholders	(4 )	8	(15 )	43
Net income attributable to common stockholders	\$866	\$265	\$1,557	\$493
Basic weighted-average shares of common stock outstanding	1,449	1,447	1,449	1,447
Add shares issuable upon exercise or vesting of dilutive stock options and restricted stock units	9	<sup>a</sup> 6	9	<sup>a</sup> 6
Diluted weighted-average shares of common stock outstanding	1,458	1,453	1,458	1,453
Basic net income (loss) per share attributable to common stockholders:				
Continuing operations	\$0.60	\$0.18	\$1.08	\$0.31
Discontinued operations	—	—	(0.01 )	0.03
	\$0.60	\$0.18	\$1.07	\$0.34
Diluted net income (loss) per share attributable to common stockholders:				
Continuing operations	\$0.59	\$0.18	\$1.08	\$0.31
Discontinued operations	—	—	(0.01 )	0.03
	\$0.59	\$0.18	\$1.07	\$0.34

Excludes approximately 2 million shares of common stock for second-quarter 2018 and 3 million shares of common stock for the first six months of 2018 associated with 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 35 million shares of common stock were excluded for second-quarter 2018, 44 million for second-quarter 2017, 34 million for the first six months of 2018 and 44 million for the first six months of 2017.

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

The components of inventories follow (in millions):

	June 30, December 31,	
	2018	2017
Current inventories:		
Total materials and supplies, net <sup>a</sup>	\$ 1,404	\$ 1,305
Mill stockpiles	\$ 293	\$ 360
Leach stockpiles	1,142	1,062
Total current mill and leach stockpiles	\$ 1,435	\$ 1,422
Raw materials (primarily concentrate)	\$ 435	\$ 265
Work-in-process	179	154
Finished goods	723	747
Total product inventories	\$ 1,337	\$ 1,166

Long-term inventories:

Mill stockpiles	\$ 288	\$ 300
Leach stockpiles	1,083	1,109
Total long-term mill and leach stockpiles	\$ 1,371	\$ 1,409

<sup>a</sup> Materials and supplies inventory was net of obsolescence reserves totaling \$25 million at June 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 35 percent for the first six months of 2018 and 38 percent for the first six months of 2017. Geographic sources of FCX's (provision for) benefit from income taxes follow (in millions):

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
U.S. operations	\$5 <sup>a</sup>	\$29 <sup>b</sup>	\$8 <sup>a</sup>	\$22 <sup>b</sup>
International operations	(520)	(215)	(1,029)	(382)
Total	\$(515)	\$(186)	\$(1,021)	\$(360)

<sup>a</sup> Includes a tax credit of \$5 million in second-quarter 2018 and for the first six months of 2018 associated with the settlement of a state income tax examination.

<sup>b</sup> Includes net tax credits of \$32 million in second-quarter 2017 and \$31 million for the first six months of 2017 associated with anticipated recovery of alternative minimum tax credit carryforwards.

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 six 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 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 the remainder of 2018, FCX will continue to refine its calculations, including quantifying potential impacts discussed above, as it completes its analysis of the Act.

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## NOTE 5. DEBT AND EQUITY

The components of debt follow (in millions):

	June 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 <sup>a</sup>	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 \$63 million at June 30, 2018 (\$97 million at a. December 31, 2017), and is net of reductions for unamortized net discounts and unamortized debt issuance costs totaling \$76 million at June 30, 2018 (\$85 million at December 31, 2017).

Revolving Credit Facility. At June 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.

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 <sup>7</sup> / <sub>8</sub> % Senior Notes due 2023	50	4	54	52	2
	\$ 454	\$ 26	\$ 480	\$ 470	\$ 10

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Partially offsetting the \$10 million gain were losses in second-quarter 2018 and for the first six months of 2018, primarily associated with entering into the new revolving credit facility.

During second-quarter 2017, a \$4 million loss was recognized associated with the modification of Cerro Verde's credit facility.

**Interest Expense, Net.** Consolidated interest costs (before capitalized interest) totaled \$165 million in second-quarter 2018, \$192 million in second-quarter 2017, \$341 million for the first six months of 2018 and \$387 million for the first six months of 2017. Capitalized interest added to property, plant, equipment and mine development costs, net, totaled \$23 million in second-quarter 2018, \$30 million in second-quarter 2017, \$48 million for the first six months of 2018 and \$58 million for the first six 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 June 27, 2018, the Board declared a quarterly cash dividend of \$0.05 per share, which was paid on August 1, 2018, to common stockholders of record as of July 13, 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 June 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.

### 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 six-month periods ended June 30, 2018 and 2017. At June 30, 2018, FCX held copper futures and swap contracts that qualified for hedge accounting for 64 million pounds at an average contract price of \$3.08 per pound, with maturities through September 2019.

A summary of (losses) gains 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 June 30, 2018	2017	Six Months Ended June 30, 2018	2017
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Copper futures and swap contracts:

Unrealized (losses) gains:

Derivative financial instruments	\$ (4)	\$ 1	\$ (19)	\$ (1)
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Hedged item – firm sales commitments	4	(1 )	19	1
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Realized gains:

Matured derivative financial instruments	—	1	2	9
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## 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 June 30, 2018, follows:

	Open Positions	Average Price Per Unit Contract Market		Maturities Through
Embedded derivatives in provisional sales contracts:				
Copper (millions of pounds)	532	\$3.12	\$ 3.01	November 2018
Gold (thousands of ounces)	308	1,296.18	1,254.91	September 2018
Embedded derivatives in provisional purchase contracts:				
Copper (millions of pounds)	159	3.11	3.01	October 2018
Cobalt (millions of pounds) <sup>a</sup>	8	32.55	28.60	September 2018
a. Relates to assets held for sale.				

a. Relates to assets held for sale.

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, 2018, Atlantic Copper held net copper forward sales contracts for 46 million pounds at an average contract price of \$3.16 per pound, with maturities through August 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		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Embedded derivatives in provisional sales contracts: <sup>a</sup>				
Copper	\$(14)	\$35	\$(149)	\$142
Gold and other metals	(30)	(1)	(12)	18
Copper forward contracts <sup>b</sup>	6	(4)	8	(5)

a. Amounts recorded in revenues.

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



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## Unsettled Derivative Financial Instruments

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

	June 30, December 31,	
	2018	2017

## Commodity Derivative Assets:

## Derivatives designated as hedging instruments:

Copper futures and swap contracts	\$ —	\$ 11
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## Derivatives not designated as hedging instruments:

Embedded derivatives in provisional copper and gold sales/purchase contracts	17	155
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Copper forward contracts	6	1
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Total derivative assets	\$ 23	\$ 167
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## Commodity Derivative Liabilities:

## Derivatives designated as hedging instruments:

Copper futures and swap contracts	\$ 8	\$ —
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## Derivatives not designated as hedging instruments:

Embedded derivatives in provisional copper and gold sales/purchase contracts	73	31
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Copper forward contracts	—	2
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Total derivative liabilities	\$ 81	\$ 33
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The table above and below excludes \$31 million of embedded derivatives in provisional cobalt purchase contracts at June 30, 2018, and \$24 million at December 31, 2017, which are reflected in liabilities held for sale.

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 counterparty 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	
	June 30, December 31,		June 30, December 31,	
	2018	2017	2018	2017

## Gross amounts recognized:

## Commodity contracts:

## Embedded derivatives in provisional copper

and gold sales/purchase contracts	\$ 17	\$ 155	\$ 73	\$ 31
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Copper derivatives	6	12	8	2
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	23	167	81	33
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## Less gross amounts of offset:

## Commodity contracts:

## Embedded derivatives in provisional copper

and gold sales/purchase contracts	—	—	—	—
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Copper derivatives	—	1	—	1
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	—	1	—	1
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## Net amounts presented in balance sheet:

## Commodity contracts:

Embedded derivatives in provisional copper and gold sales/purchase contracts	17	155	73	31
Copper derivatives	6	11	8	1
	\$23	\$ 166	\$ 81	\$ 32

Balance sheet classification:

Trade accounts receivable	\$—	\$ 151	\$ 64	\$ —
Other current assets	6	11	—	—
Accounts payable and accrued liabilities	17	4	17	32
	\$23	\$ 166	\$ 81	\$ 32

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**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 June 30, 2018, the maximum amount of credit exposure associated with derivative transactions was \$23 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 June 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 June 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).

**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):

	June 30, December 31, 2018 2017	
Balance sheet components:		
Cash and cash equivalents	\$ 3,859	\$ 4,447
Restricted cash and restricted cash equivalents included in:		
Other current assets	120	52
Other assets	127	132
Total cash, cash equivalents, restricted cash and restricted cash equivalents presented in the consolidated statements of cash flows	\$ 4,106	\$ 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.



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## 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 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 during second-quarter 2018.

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 June 30, 2018					
	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	\$24	\$24	\$24	\$ —	\$ —	\$ —
Equity securities	5	5	—	5	—	—
Total	29	29	24	5	—	—
Legally restricted funds: <sup>a</sup>						
U.S. core fixed income fund	54	54	54	—	—	—
Government bonds and notes	37	37	—	—	37	—
Government mortgage-backed securities	31	31	—	—	31	—
Corporate bonds	29	29	—	—	29	—
Asset-backed securities	14	14	—	—	14	—
Collateralized mortgage-backed securities	8	8	—	—	8	—
Money market funds	4	4	—	4	—	—
Municipal bonds	1	1	—	—	1	—
Total	178	178	54	4	120	—
<b>Derivatives:</b>						
Embedded derivatives in provisional copper and gold sales/purchase contracts in a gross asset position <sup>c,d</sup>	17	17	—	—	17	—
Copper forward contracts <sup>c</sup>	6	6	—	3	3	—
Contingent consideration for the sales of TF Holdings Limited (TFHL) and onshore California oil and gas properties <sup>a</sup>	151	151	—	—	151	—
Total	174	174	—	3	171	—
Contingent consideration for the sale of the Deepwater GOM oil and gas properties <sup>a</sup>	150	132	—	—	—	132

**Liabilities****Derivatives:<sup>c</sup>**

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Embedded derivatives in provisional copper and gold

sales/purchase contracts in a gross liability position	\$ 73	\$ 73	\$ —	\$ —	\$ 73	\$ —
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Copper futures and swap contracts	8	8	—	7	1	—
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Total	81	81	—	7	74	—
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Long-term debt, including current portion <sup>e</sup>	11,127	10,662	—	—	10,662	—
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	At December 31, 2017					
	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	\$25	\$25	\$ 25	\$ —	\$ —	\$ —
Equity securities	5	5	—	5	—	—
Total	30	30	25	5	—	—
Legally restricted funds: <sup>a</sup>						
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	—
<b>Derivatives:</b>						
Embedded derivatives in provisional copper and gold sales/purchase contracts in a gross asset position <sup>c</sup>	155	155	—	—	155	—
Copper futures and swap contracts <sup>c</sup>	11	11	—	9	2	—
Copper forward contracts <sup>c</sup>	1	1	—	—	1	—
Contingent consideration for the sales of TFHL and onshore California oil and gas properties <sup>a</sup>	108	108	—	—	108	—
Total	275	275	—	9	266	—
Contingent consideration for the sale of the Deepwater GOM oil and gas properties <sup>a</sup>	150	134	—	—	—	134
<b>Liabilities</b>						
Derivatives: <sup>c</sup>						
Embedded derivatives in provisional copper and gold sales/purchase contracts in a gross liability position <sup>d</sup>	\$31	\$31	\$ —	\$ —	\$ 31	\$ —
Copper forward contracts	2	2	—	1	1	—
Total	33	33	—	1	32	—
Long-term debt, including current portion <sup>e</sup>	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 \$120 million at June 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 June 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 \$31 million at June 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 \$150 million at June 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) \$61 million at June 30, 2018, and \$74 million at December 31, 2017, associated with the sale of TFHL and (ii) \$90 million at June 30, 2018, and \$34 million at December 31, 2017, associated with the sale of the onshore California oil and gas properties. The contingent consideration derivative was included in other assets in the consolidated balance sheets except for \$44 million included in other current assets at June 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.

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 contingent consideration included in (i) other current assets totaled \$28 million at June 30, 2018, and \$24 million at December 31, 2017, and (ii) other assets totaled \$122 million at June 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.

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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 June 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 six 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 )
Fair value at June 30, 2018	\$ 132

## NOTE 8. CONTINGENCIES AND COMMITMENTS

## Environmental

## Cyprus Tohono

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.

## 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 quarter ended March 31, 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 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 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. 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 would be required

to be filed by late August 2018. On May 29, 2018, the Ninth Circuit also stayed further proceedings in Garcia pending the U.S. Supreme Court's consideration of the petition for review in Newton v. Parker Drilling.



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The amount of the exposure in Garcia 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 \$50 million to \$80 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 and Other Peru Tax Matters

During second-quarter 2018, there were no significant updates to the Cerro Verde royalty dispute and other Peru tax matters included in 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 matter below, which was also updated in Note 8 of FCX's quarterly report on Form 10-Q for the quarter ended March 31, 2018.

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 June 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 June 30, 2018), or an approximate 40 percent reduction. Hearings in the Indonesia Tax Court related to assessments for the period from May 2016 through September 2016 have concluded with no decisions issued, and hearings related to assessments for the period from October 2016 through April 2017 are currently underway.

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 June 30, 2018) for the period from August 2015 through June 2018 totals \$169 million, including \$85 million in penalties. As of June 30, 2018, no charges have been recorded for these assessments because PT-FI believes its COW exempts it from these payments. As of August 8, 2018, PT-FI has not paid and does not intend to pay these assessments.

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

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 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.

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PT-FI and the Indonesian government have been engaged in negotiation and documentation of a special mining license (IUPK) and accompanying documentation for assurances on legal and fiscal terms to provide PT-FI with long-term mining rights through 2041. In addition, the IUPK would provide that PT-FI construct a smelter within five years of reaching definitive agreements and include agreement for the divestment of 51 percent of the project area interests to Indonesian participants at fair market value.

In late 2017, the Indonesian government (including the regional government of Papua Province and Mimika Regency) and PT Indonesia Asahan Aluminium (Persero) (Inalum), a state-owned enterprise, which leads the Indonesian government's consortium of investors, formed a special purpose company to acquire Grasberg project area interests. Inalum is wholly owned by the Indonesian government and currently holds 9.36 percent of PT-FI's outstanding common stock.

In July 2018, FCX and PT-FI entered into a Heads of Agreement with Inalum and PT-FI's joint venture partner Rio Tinto. Under the terms of the non-binding agreement, Inalum would acquire for aggregate cash consideration of \$3.85 billion all of Rio Tinto's interests associated with its joint venture with PT-FI (Joint Venture) and all of FCX's interests in PT Indocopper Investama, which owns 9.36 percent of PT-FI.

Inalum would contribute the Rio Tinto interests to PT-FI, which would expand PT-FI's asset base, in exchange for a 40 percent share ownership in PT-FI, pursuant to arrangements that would enable FCX and existing PT-FI shareholders to retain the economics of the revenue and cost sharing arrangements under the Joint Venture. Following completion of the transaction, Inalum's share ownership would approximate 51 percent of PT-FI (subject to an agreement between shareholders to replicate the Joint Venture economics) and FCX's ownership would approximate 49 percent.

At closing, Rio Tinto would receive \$3.5 billion and FCX would receive \$350 million in cash proceeds from Inalum. In addition, Rio Tinto would forego in favor of FCX an amount equivalent to Rio Tinto's share of Joint Venture cash flows since January 1, 2018, through closing.

Following completion of the ownership restructuring, FCX does not expect its economic exposure to PT-FI to change significantly. FCX expects its share of future cash flows of the expanded PT-FI asset base, combined with the cash proceeds received in the transaction, to be comparable to its existing share of future cash flows under the current Joint Venture arrangement. FCX would also continue to manage the operations of PT-FI.

The transaction, which is expected to close during the second half of 2018, is subject to the negotiation and documentation of definitive agreements, including purchase and sale agreements, the extension and stability of PT-FI's long-term mining rights through 2041 in a form acceptable to FCX and Inalum, a shareholders' agreement between FCX and Inalum providing for continuity of FCX's management of PT-FI's operations and addressing governance arrangements, and resolution of environmental regulatory matters pending before the Ministry satisfactory to the Indonesian government, FCX and Inalum. The terms of these agreements will be subject to approval by the FCX Board, and will require modification or revocation of current regulations and the implementation of new regulations by the Indonesian government. FCX cannot currently predict whether there will be any material accounting and tax impacts associated with the transaction.

PT-FI's export license is effective through February 15, 2019. In July 2018, PT-FI's temporary IUPK was extended to August 31, 2018, and PT-FI will continue to seek extensions to its temporary IUPK until definitive agreements are complete. 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.

FCX cannot predict whether PT-FI will be successful in reaching satisfactory definitive agreements on the terms of its long-term mining rights. Until definitive agreements are reached, PT-FI has reserved all rights under its COW,

including pursuing arbitration under the dispute resolution procedures.

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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 divisions, including Atlantic Copper 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 second quarters and first six months of 2018 and 2017 follow (in millions):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Copper:				
Concentrate	\$1,703	\$1,241	\$3,350	\$2,222
Cathode	1,465	954	2,888	1,995
Rod and other refined copper products	668	590	1,338	1,214
Gold	933	571	1,741	839
Molybdenum	310	239	596	448
Other <sup>a</sup>	400	281	798	512
Adjustments to revenue:				
Treatment charges	(139)	(128)	(271)	(231)
Royalty expense <sup>b</sup>	(73)	(44)	(142)	(66)
Export duties <sup>c</sup>	(55)	(27)	(101)	(41)
Revenue from contracts with customers	5,212	3,677	10,197	6,892
Embedded derivatives <sup>d</sup>	(44)	34	(161)	160
Total consolidated revenues	\$5,168	\$3,711	\$10,036	\$7,052

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 Corporate, Copper Other				FCX
	Morenci	Other	Total	Verde	Other	Total	Mining	Mines	Refining	Smelting & Refining	Elimi- nations <sup>a</sup>	Total		
Three Months Ended June 30, 2018														
Revenues:														
Unaffiliated customers	\$25	\$13	\$38	\$719	\$171	\$890	\$1,639 <sup>b</sup>	\$—	\$1,387	\$602	\$612 <sup>c</sup>	\$5,168		
Intersegment	568	641	1,209	100	—	100	1	111	8	—	(1,429)	—		
Production and delivery	298	491	789	445	133	578	425	71	1,389	579	(916)	2,915		
Depreciation, depletion and amortization	44	48	92	109	24	133	172	21	3	7	14	442		
Selling, general and administrative expenses	1	—	1	2	—	2	28	—	—	5	73	109		
Mining exploration and research expenses	—	—	—	—	—	—	—	—	—	—	24	24		
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	59	59		
Net gain on sales of assets	—	—	—	—	—	—	—	—	—	—	(45)	(45)		
Operating income (loss)	250	115	365	263	14	277	1,015	19	3	11	(26)	1,664		
Interest expense, net	1	—	1	16	—	16	—	—	—	6	119	142		
Provision for (benefit from) income taxes	—	—	—	102	6	108	429	—	—	—	(22)	515		
Total assets at June 30, 2018	2,819	4,374	7,193	8,630	1,715	10,345	10,911	1,820	278	931	5,550 <sup>d</sup>	37,028		
Capital expenditures	41	99	140	68	3	71	246	1	1	3	20	482		
Three Months Ended June 30, 2017														
Revenues:														
Unaffiliated customers	\$45	\$32	\$77	\$567	\$111	\$678	\$1,065 <sup>b</sup>	\$—	\$1,046	\$400	\$445 <sup>c</sup>	\$3,711		
Intersegment	478	593	1,071	157	—	57	—	71	6	—	(1,205)	—		
Production and delivery	266	454	720	376	87	463	547 <sup>e</sup>	58	1,047	400	(755)	2,480 <sup>f</sup>		
Depreciation, depletion and amortization	49	69	118	104	21	125	153	19	3	7	25	450		
Selling, general and administrative expenses	1	—	1	3	—	3	30 <sup>e</sup>	—	—	4	69	107		
Mining exploration and research expenses	—	1	1	—	—	—	—	—	—	—	18	19		

Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	(21 )	(21 )
Net gain on sales of assets	—	—	—	—	—	—	—	—	—	(10 )	(10 )
Operating income (loss)	207	101	308	141	3	144	335	(6 )	2	(11 )	(86 ) 686
Interest expense, net	—	1	1	15	—	15	—	—	—	4	142 162
Provision for (benefit from) income taxes	—	—	—	56	2	58	135	—	—	2	(9 ) 186
Total assets at June 30, 2017	2,830	4,314	7,144	8,828	1,479	10,307	10,769	1,900	253	739	5,931 <sup>d</sup> 37,043
Capital expenditures	29	10	39	29	1	30	213	1	1	17	61 362

a. Includes U.S. oil and gas operations, which were previously a reportable segment.

b. Includes PT-FI's sales to PT Smelting totaling \$649 million in second-quarter 2018 and \$536 million in second-quarter 2017.

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 America and South America copper mines.

d. Includes assets held for sale, primarily Freeport Cobalt, totaling \$625 million at June 30, 2018, and \$373 million at June 30, 2017.

e. Includes net charges at PT-FI associated with workforce reductions totaling \$82 million in production and delivery costs and \$5 million in selling, general and administrative expenses.

f. Includes a \$15 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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(In millions)

	North America Copper Mines			South America Mining Cerro			Indonesia Mining	Molybdenum Mines	Refining	Atlantic Copper & Refining	Corporate, Other & Elimina- tions <sup>a</sup>	FCX Total
	Morenci	Other	Total	Verde	Other	Total						
Six Months Ended June 30, 2018												
Revenues:												
Unaffiliated customers	\$28	\$28	\$56	\$1,344	\$321	\$1,665	\$3,160 <sup>b</sup>	\$—	\$2,772	\$1,179	\$1,204 <sup>c</sup>	\$10,036
Intersegment	1,169	1,330	2,499	202	—	202	53	206	16	2	(2,978)	—
Production and delivery	588	992	1,580	872	249	1,121	882	138	2,777	1,135	(1,910)	5,723
Depreciation, depletion and amortization	90	96	186	214	46	260	353	40	5	14	35	893
Selling, general and administrative expenses	2	2	4	4	—	4	67	—	—	11	154	240
Mining exploration and research expenses	—	1	1	—	—	—	—	—	—	—	44	45
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	68	68
Net gain on sales of assets	—	—	—	—	—	—	—	—	—	—	(56)	(56)
Operating income (loss)	517	267	784	456	26	482	1,911	28	6	21	(109)	3,123
Interest expense, net												
Interest expense, net	2	—	2	33	—	33	—	—	—	11	247	293
Provision for income taxes	—	—	—	170	10	180	830	—	—	1	10	1,021
Capital expenditures	88	144	232	131	7	138	449	2	2	7	54	884
Six Months Ended June 30, 2017												
Revenues:												
Unaffiliated customers	\$111	\$82	\$193	\$1,207	\$223	\$1,430	\$1,599 <sup>b</sup>	\$—	\$2,153	\$858	\$819 <sup>c</sup>	\$7,052
Intersegment	894	1,156	2,050	173	—	173	—	134	14	—	(2,371)	—
Production and delivery	523	863	1,386	767	169	936	817 <sup>d</sup>	110	2,156	836	(1,573)	4,668 <sup>e</sup>

Depreciation, depletion and amortization	96	138	234	216	42	258	236	38	5	14	54	839
Selling, general and administrative expenses	1	1	2	5	—	5	60	<sup>d</sup> —	—	9	182	258
Mining exploration and research expenses	—	2	2	—	—	—	—	—	—	—	31	33
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	4	4
Net gain on sales of assets	—	—	—	—	—	—	—	—	—	—	(33 )	(33 )
Operating income (loss)	385	234	619	392	12	404	486	(14 )	6	(1 )	(217 )	1,283
Interest expense, net	1	1	2	31	—	31	—	—	—	8	288	329
Provision for (benefit from) income taxes	—	—	—	154	5	159	202	—	—	3	(4 )	360
Capital expenditures	52	15	67	43	2	45	457	2	2	25	108	706

a. Includes U.S. oil and gas operations, which were previously a reportable segment.

b. Includes PT-FI's sales to PT Smelting totaling \$1.3 billion for the first six months of 2018 and \$794 million for the first six months of 2017.

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 America and South America copper mines.

d. Includes net charges at PT-FI associated with workforce reductions totaling \$103 million in production and delivery costs and \$5 million in selling, general and administrative expenses.

e. Includes a \$27 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 June 30, 2018, and December 31, 2017, and the related condensed consolidating statements of comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017, and the condensed consolidating statements of cash flows for the six months ended June 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

June 30, 2018

	FCX	FM O&G LLC	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
	Issuer	Guarantor			
<b>ASSETS</b>					
Current assets	\$ 619	\$ 783	\$ 10,220	\$ (1,279 )	\$ 10,343
Property, plant, equipment and mine development costs, net	19	4	22,900	—	22,923
Investments in consolidated subsidiaries	19,003	—	—	(19,003 )	—
Other assets	547	53	3,239	(77 )	3,762
Total assets	\$ 20,188	\$ 840	\$ 36,359	\$ (20,359 )	\$ 37,028
<b>LIABILITIES AND EQUITY</b>					
Current liabilities	\$ 237	\$ 120	\$ 4,837	\$ (1,395 )	\$ 3,799
Long-term debt, less current portion	9,594	6,686	5,054	(10,211 )	11,123
Deferred income taxes	727	<sup>a</sup> —	2,975	—	3,702
Environmental and asset retirement obligations, less current portion	—	206	3,425	—	3,631
Investments in consolidated subsidiaries	—	857	10,368	(11,225 )	—
Other liabilities	156	3,339	1,922	(3,486 )	1,931
Total liabilities	10,714	11,208	28,581	(26,317 )	24,186
<b>Equity:</b>					
Stockholders' equity	9,474	(10,368 )	4,985	5,383	9,474
Noncontrolling interests	—	—	2,793	575	3,368
Total equity	9,474	(10,368 )	7,778	5,958	12,842
Total liabilities and equity	\$ 20,188	\$ 840	\$ 36,359	\$ (20,359 )	\$ 37,028

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
<b>ASSETS</b>					
Current assets	\$75	\$ 671	\$ 10,733	\$ (790 )	\$ 10,689
Property, plant, equipment and mine development costs, net	14	11	22,919	(10 )	22,934
Investments in consolidated subsidiaries	19,570	—	—	(19,570 )	—
Other assets	943	48	3,179	(491 )	3,679
Total assets	\$20,602	\$ 730	\$ 36,831	\$ (20,861 )	\$ 37,302
<b>LIABILITIES AND EQUITY</b>					
Current liabilities	\$1,683	\$ 220	\$ 4,046	\$ (938 )	\$ 5,011
Long-term debt, less current portion	10,021	6,512	5,440	(10,270 )	11,703
Deferred income taxes	748	<sup>a</sup> —	2,901	—	3,649
Environmental and asset retirement obligations, less current portion	—	201	3,430	—	3,631
Investments in consolidated subsidiary	—	853	10,397	(11,250 )	—
Other liabilities	173	3,340	1,987	(3,488 )	2,012
Total liabilities	12,625	11,126	28,201	(25,946 )	26,006
<b>Equity:</b>					
Stockholders' equity	7,977	(10,396)	5,916	4,480	7,977
Noncontrolling interests	—	—	2,714	605	3,319
Total equity	7,977	(10,396)	8,630	5,085	11,296
Total liabilities and equity	\$20,602	\$ 730	\$ 36,831	\$ (20,861 )	\$ 37,302

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

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## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Three Months Ended June 30, 2018

	FCX	FM O&G LLC	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
	Issuer	Guarantor			
Revenues	\$—	\$ 16	\$ 5,152	\$ —	\$ 5,168
Total costs and expenses	4	(16 )	3,525	(9 )	3,504
Operating (loss) income	(4 )	32	1,627	9	1,664
Interest expense, net	(97 )	(76 )	(92 )	123	(142 )
Other income (expense), net	132	2	18	(123 )	29
Income (loss) before income taxes and equity in affiliated companies' net earnings (losses)	31	(42 )	1,553	9	1,551
(Provision for) benefit from income taxes	(11 )	10	(512 )	(2 )	(515 )
Equity in affiliated companies' net earnings (losses)	849	2	(45 )	(803 )	3
Net income (loss) from continuing operations	869	(30 )	996	(796 )	1,039
Net loss from discontinued operations	—	—	(4 )	—	(4 )
Net income (loss)	869	(30 )	992	(796 )	1,035
Net income attributable to noncontrolling interests:					
Continuing operations	—	—	(102 )	(64 )	(166 )
Net income (loss) attributable to common stockholders	\$869	\$ (30 )	\$ 890	\$ (860 )	\$ 869
Other comprehensive income (loss)	11	—	11	(11 )	11
Total comprehensive income (loss)	\$880	\$ (30 )	\$ 901	\$ (871 )	\$ 880

Three Months Ended June 30, 2017

	FCX	FM O&G LLC	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
	Issuer	Guarantor			
Revenues	\$—	\$ 12	\$ 3,699	\$ —	\$ 3,711
Total costs and expenses	14	11	2,990	10	3,025
Operating (loss) income	(14 )	1	709	(10 )	686
Interest expense, net	(117 )	(55 )	(74 )	84	(162 )
Other income (expense), net	80	—	(7 )	(84 )	(11 )
(Loss) income before income taxes and equity in affiliated companies' net earnings (losses)	(51 )	(54 )	628	(10 )	513
(Provision for) benefit from income taxes	(72 )	19	(136 )	3	(186 )
Equity in affiliated companies' net earnings (losses)	391	(26 )	(62 )	(304 )	(1 )
Net income (loss) from continuing operations	268	(61 )	430	(311 )	326
Net income from discontinued operations	—	—	9	—	9
Net income (loss)	268	(61 )	439	(311 )	335
Net income attributable to noncontrolling interests:					
Continuing operations	—	—	(46 )	(20 )	(66 )

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Discontinued operations	—	—	(1	)	—	(1	)
Net income (loss) attributable to common stockholders	\$268	\$ (61	)	\$ 392	\$ (331	)	\$ 268
Other comprehensive income (loss)	81	—	81	(81	)	81	
Total comprehensive income (loss)	\$349	\$ (61	)	\$ 473	\$ (412	)	\$ 349

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## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Six Months Ended June 30, 2018

	FCX	FM O&G LLC	Non-guarantor		Consolidated	
	Issuer	Guarantor	Subsidiaries	Eliminations	FCX	
Revenues	\$—	\$ 31	\$ 10,005	\$ —	\$ 10,036	
Total costs and expenses	13	(8	) 6,918	(10	) 6,913	
Operating (loss) income	(13	) 39	3,087	10	3,123	
Interest expense, net	(201	) (140	) (177	) 225	(293	)
Other income (expense), net	233	2	47	(225	) 57	
Income (loss) before income taxes and equity in affiliated companies' net earnings (losses)	19	(99	) 2,957	10	2,887	
(Provision for) benefit from income taxes	(94	) 22	(947	) (2	) (1,021	)
Equity in affiliated companies' net earnings (losses)	1,636	(4	) (79	) (1,552	) 1	
Net income (loss) from continuing operations	1,561	(81	) 1,931	(1,544	) 1,867	
Net loss from discontinued operations	—	—	(15	) —	(15	)
Net income (loss)	1,561	(81	) 1,916	(1,544	) 1,852	
Net income attributable to noncontrolling interests:						
Continuing operations	—	—	(173	) (118	) (291	)
Net income (loss) attributable to common stockholders	\$ 1,561	\$ (81	) \$ 1,743	\$ (1,662	) \$ 1,561	
Other comprehensive income (loss)	23	—	23	(23	) 23	
Total comprehensive income (loss)	\$ 1,584	\$ (81	) \$ 1,766	\$ (1,685	) \$ 1,584	

Six Months Ended June 30, 2017

	FCX	FM O&G LLC	Non-guarantor		Consolidated
	Issuer	Guarantor	Subsidiaries	Eliminations	FCX
Revenues	\$—	\$ 25	\$ 7,027	\$ —	\$ 7,052
Total costs and expenses	22	61	5,674	12	5,769
Operating (loss) income	(22 )	(36 )	1,353	(12 )	1,283
Interest expense, net	(239 )	(108 )	(145 )	163	(329 )
Other income (expense), net	158	—	2	(163 )	(3 )
(Loss) income before income taxes and equity in affiliated companies' net earnings (losses)	(103 )	(144 )	1,210	(12 )	951
(Provision for) benefit from income taxes	(132 )	50	(282 )	4	(360 )
Equity in affiliated companies' net earnings (losses)	731	(6 )	(98 )	(624 )	3
Net income (loss) from continuing operations	496	(100 )	830	(632 )	594
Net income from discontinued operations	—	—	47	—	47
Net income (loss)	496	(100 )	877	(632 )	641
Net income attributable to noncontrolling interests:					
Continuing operations	—	—	(111 )	(30 )	(141 )
Discontinued operations	—	—	(4 )	—	(4 )
Net income (loss) attributable to common stockholders	\$ 496	\$ (100 )	\$ 762	\$ (662 )	\$ 496
Other comprehensive income (loss)	92	—	92	(92 )	92



Total comprehensive income (loss)	\$588	\$ (100 )	\$ 854	\$ (754 )	\$ 588
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## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2018

	FCX	FM O&G LLC	Non-guarantor		Consolidated
	Issuer	Guarantor	Subsidiaries	Elimination	FCX
Net cash (used in) provided by operating activities	\$ (163)	\$ (184 )	\$ 3,025	\$ —	\$ 2,678
Cash flow from investing activities:					
Capital expenditures	(2 )	—	(882 )	—	(884 )
Intercompany loans	(442 )	—	—	442	—
Dividends from (investments in) consolidated subsidiaries	2,519	—	45	(2,564)	—
Asset sales and other, net	4	1	(91 )	—	(86 )
Net cash provided by (used in) investing activities	2,079	1	(928 )	(2,122)	(970 )
Cash flow from financing activities:					
Proceeds from debt	—	—	352	—	352
Repayments of debt	(1,826)	(52 )	(419 )	—	(2,297 )
Intercompany loans	—	228	214	(442 )	—
Cash dividends paid and contributions received, net	(73 )	—	(2,789 )	2,548	(314 )
Other, net	(17 )	—	(17 )	16	(18 )
Net cash (used in) provided by financing activities	(1,916)	176	(2,659 )	2,122	(2,277 )
Net decrease in cash, cash equivalents, restricted cash and restricted cash equivalents	—	(7 )	(562 )	—	(569 )
Decrease in cash and cash equivalents in assets held for sale	—	—	44	—	44
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	—	7	4,624	—	4,631
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ —	\$ —	\$ 4,106	\$ —	\$ 4,106

Six Months Ended June 30, 2017

	FCX	FM O&G LLC	Non-guarantor		Consolidated
	Issuer	Guarantor	Subsidiaries	Elimination	FCX
Net cash (used in) provided by operating activities	\$ (96)	\$ (284 )	\$ 2,209	\$ —	\$ 1,829
Cash flow from investing activities:					
Capital expenditures	—	(23 )	(683 )	—	(706 )
Intercompany loans	(427 )	—	—	427	—
Dividends from (investments in) consolidated subsidiaries	1,032	(16 )	62	(1,078)	—
Asset sales and other, net	—	(5 )	8	—	3
Net cash provided by (used in) investing activities	605	(44 )	(613 )	(651 )	(703 )
Cash flow from financing activities:					
Proceeds from debt	—	—	606	—	606
Repayments of debt	(499 )	—	(751 )	—	(1,250 )
Intercompany loans	—	337	90	(427 )	—

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Cash dividends paid and contributions received, net	(2 )	—	(1,064 )	1,025	(41 )
Other, net	(8 )	(9 )	(55 )	53	(19 )
Net cash (used in) provided by financing activities	(509 )	328	(1,174 )	651	(704 )
Net increase in cash, cash equivalents, restricted cash and restricted cash equivalents	—	—	422	—	422
Decrease in cash and cash equivalents in assets held for sale	—	—	7	—	7
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	—	11	4,392	—	4,403
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$—	\$ 11	\$ 4,821	\$ —	\$ 4,832

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NOTE 11. NEW ACCOUNTING STANDARDS

**Revenue Recognition.** In May 2014, the Financial Accounting Standards Board (FASB) issued a new Accounting Standards Update (ASU) related to revenue recognition. FCX adopted this standard effective January 1, 2018, under the modified retrospective approach applied to contracts that remain in force at the adoption date. The adoption of this standard did not result in any financial statement impacts or changes to FCX's revenue recognition policies or processes as revenue is primarily derived from arrangements in which the transfer of control coincides with the fulfillment of performance obligations (refer to Note 1 of FCX's annual report on Form 10-K for disclosure of FCX's revenue recognition policy). In connection with the adoption of the standard and consistent with FCX's policy prior to adoption of the standard, FCX has elected to account for shipping and handling activities performed after control of goods has been transferred to a customer as a fulfillment cost recorded in production and delivery costs on the consolidated statements of income.

FCX recognizes revenue for all of its products upon transfer of control in an amount that reflects the consideration it expects to receive in exchange for those products. Transfer of control is in accordance with the terms of customer contracts, which is generally upon shipment or delivery of the product. While payment terms vary by contract, terms generally include payment to be made within 30 days, but not longer than 60 days. Certain of FCX's concentrate and cathode sales contracts also provide for provisional pricing, which is accounted for as an embedded derivative (refer to Note 6 for further discussion). For provisionally priced sales, 90 percent to 100 percent of the provisional payment is made upon shipment or within 20 days, and final balances are settled in a contractually specified future month (generally one to four months from the shipment date) based on quoted monthly average copper settlement prices on the LME or COMEX and quoted monthly average LBMA gold settlement prices. FCX's product revenues are also recorded net of treatment charges, royalties and export duties. Refer to Note 9 for a summary of revenue by product type.

**Financial Instruments.** In January 2016, FASB issued an ASU that amends the guidance on the classification and measurement of financial instruments. This ASU makes limited changes to prior guidance and amends certain disclosure requirements. FCX adopted this ASU effective January 1, 2018, and adoption did not have a material impact on its financial statements.

**Leases.** In February 2016, FASB issued an ASU that will require lessees to recognize most leases on the balance sheet. This ASU allows lessees to make an accounting policy election to not recognize a lease asset and liability for leases with a term of 12 months or less and do not have a purchase option that is expected to be exercised. For public entities, this ASU is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. In July 2018, FASB issued a practical expedient, which FCX expects to elect, allowing for entities to apply the provisions of the updated lease guidance at the January 1, 2019, effective date, without adjusting the comparative periods presented. FCX is completing an assessment of its lease portfolio and is in the process of implementing a new system, collecting data, and designing processes and controls to account for its leases in accordance with the new standard.

**Statement of Cash Flows: Restricted Cash.** In November 2016, FASB issued an ASU that changes the classification and presentation of restricted cash and restricted cash equivalents on the statement of cash flows. The ASU requires that a statement of cash flows include the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. FCX adopted this ASU effective January 1, 2018, and adjusted its consolidated statement of cash flows for the six months ended June 30, 2017, to include restricted cash and restricted cash equivalents with cash and cash equivalents.



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The impact of adopting this ASU for the six months ended June 30, 2017, follows (in millions):

	Previously Reported	Impact of Adoption	Current Presentation
Other, net included in cash flow from investing activities	\$ (4 )	\$ 7	\$ 3
Cash flow from investing activities	(710 )	7	(703 )
Net increase in cash, cash equivalents, restricted cash and restricted cash equivalents	415	7	422
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	4,245	158	4,403
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	4,667	165	4,832

Net Periodic Pension and Postretirement Benefit Cost. In March 2017, FASB issued an ASU that changes how entities with defined benefit pension or other postretirement benefit plans present net periodic benefit cost in the income statement. This ASU requires the service cost component of net periodic benefit cost to be presented in the same income statement line item or items as other compensation costs for those employees who are receiving the benefit. In addition, only the service cost component is eligible for capitalization when applicable (i.e., as a cost of inventory or an internally constructed asset). The other components of net periodic benefit cost are required to be presented separately from the service cost component and outside of operating income. These other components of net periodic benefit cost are not eligible for capitalization, and FCX elected to include these other components in other income, net. FCX adopted this ASU effective January 1, 2018, and adjusted its presentation in the consolidated statements of income for the three- and six-month periods ended June 30, 2017, to conform with the new guidance. The impact of adopting this ASU for the three- and six-month periods ended June 30, 2017, follows (in millions):

	Three Months Ended June 30, 2017		
	Previously Reported	Impact of Adoption	Current Presentation
Production and delivery	\$2,495	\$ (15 )	\$ 2,480
Total cost of sales	2,945	(15 )	2,930
Environmental obligations and shutdown costs	(19 )	(2 )	(21 )
Total costs and expenses	3,042	(17 )	3,025
Operating income	669	17	686
Other (expense) income, net	10	(17 )	(7 )
	Six Months Ended June 30, 2017		
	Previously Reported	Impact of Adoption	Current Presentation
Production and delivery	\$4,695	\$ (27 )	\$ 4,668
Total cost of sales	5,534	(27 )	5,507
Selling, general and administrative expenses	260	(2 )	258
Mining exploration and research expenses	34	(1 )	33
Environmental obligations and shutdown costs	8	(4 )	4
Total costs and expenses	5,803	(34 )	5,769
Operating income	1,249	34	1,283
Other income, net	34	(34 )	—

## NOTE 12. SUBSEQUENT EVENTS

FCX evaluated events after June 30, 2018, and through the date the consolidated financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these consolidated financial statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated balance sheet of Freeport-McMoRan Inc. (the Company) as of June 30, 2018, the related consolidated statements of income and comprehensive income for the three and six-month periods ended June 30, 2018 and 2017, the consolidated statements of cash flows for the six-month periods ended June 30, 2018 and 2017, the consolidated statement of equity for the six-month period ended June 30, 2018, and the related notes (collectively referred to as the “consolidated interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, the related consolidated statements of operations, comprehensive income, cash flows and equity for the year then ended, and the related notes (not presented herein); and in our report dated February 20, 2018, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ ERNST & YOUNG LLP

Phoenix, Arizona  
August 8, 2018



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

In Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), "we," "us" and "our" refer to Freeport-McMoRan Inc. (FCX) and its consolidated subsidiaries. You should read this discussion in conjunction with our consolidated financial statements, the related MD&A and the discussion of our Business and Properties in our annual report on Form 10-K for the year ended December 31, 2017, filed with the United States (U.S.) Securities and Exchange Commission (SEC). The results of operations reported and summarized below are not necessarily indicative of future operating results (refer to "Cautionary Statement" for further discussion). References to "Notes" are Notes included in our Notes to Consolidated Financial Statements (Unaudited). Throughout MD&A, all references to income or losses per share are on a diluted basis.

## OVERVIEW

We are a leading international mining company with headquarters in Phoenix, Arizona. We operate large, long-lived, geographically diverse assets with significant proven and probable reserves of copper, gold and molybdenum. We are the world's largest publicly traded copper producer. Our portfolio of assets includes the Grasberg minerals district in Indonesia, one of the world's largest copper and gold deposits; and significant mining operations in the Americas, including the large-scale Morenci minerals district in North America and the Cerro Verde operation in South America.

We believe that we have a high-quality portfolio of long-lived copper assets positioned to generate long-term value. We continue to advance a project to develop the Lone Star oxide ores near the Safford operation in eastern Arizona, and PT Freeport Indonesia (PT-FI) has several projects in the Grasberg minerals district related to the development of its large-scale, long-lived, high-grade underground ore bodies. We are also pursuing other opportunities to enhance our mines' net present values, and we continue to advance studies for future development of our copper resources, the timing of which will be dependent on market conditions.

Net income attributable to common stock totaled \$869 million in second-quarter 2018, \$268 million in second-quarter 2017, \$1.6 billion for the first six months of 2018 and \$496 million for the first six months of 2017. The 2018 periods, compared with the 2017 periods, benefited from higher copper and gold sales volumes and higher copper prices, partly offset by higher production and delivery costs and foreign income tax expense. Refer to "Consolidated Results" for further discussion.

During the first six months of 2018, we had net repayments of debt totaling \$1.95 billion, and our Board of Directors (Board) reinstated a cash dividend on our common stock. The Board declared quarterly cash dividends of \$0.05 per share of our common stock in both the first and second quarters of 2018. Refer to Note 5 for further discussion.

In April 2018, we entered into a new \$3.5 billion, five-year, unsecured revolving credit facility with substantially similar structure and terms as our prior credit facility. Refer to Note 5 for further discussion. At June 30, 2018, we had \$3.9 billion in consolidated cash and cash equivalents and \$11.1 billion in total debt. We had no borrowings and \$3.5 billion available under our revolving credit facility.

As further discussed in Note 8, in July 2018, we and PT-FI entered into a Heads of Agreement with the Indonesian state-owned enterprise PT Indonesia Asahan Aluminium (Persero) (Inalum) and PT-FI's joint venture partner Rio Tinto. Under the terms of the non-binding agreement, Inalum would acquire all of Rio Tinto's interests associated with its joint venture with PT-FI and all of our interests in PT Indocopper Investama (PT-II). Until definitive agreements are reached, PT-FI has reserved all rights under its Contract of Work (COW), including pursuing arbitration under the dispute resolution procedures. PT-FI's export license is effective through February 15, 2019. In July 2018, PT-FI's temporary special mining license (IUPK) was extended to August 31, 2018, and PT-FI will continue to seek extensions to its temporary IUPK until definitive agreements are complete.

PT-FI has revised its mine plans to extend mining activities in the open pit by approximately six months through the first half of 2019 following results of an economic analysis. PT-FI's revised mine plans also reflect a delay in the ramp-up of the Deep Mill Level Zone (DMLZ) underground mine as a result of mining-induced seismic activity, which began in 2017 and continued in 2018. Refer to "Indonesia Mining – Operating and Development Activities" for further discussion.

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## OUTLOOK

We continue to view the long-term outlook for our business positively, supported by limitations on supplies of copper and by the requirements for copper in the world's economy. Our financial results vary as a result of fluctuations in market prices primarily for copper, gold and molybdenum, as well as other factors. World market prices for these commodities have fluctuated historically and are affected by numerous factors beyond our control. Refer to "Markets" for further discussion. Because we cannot control the price of our products, the key measures that management focuses on in operating our business are sales volumes, unit net cash costs, operating cash flow and capital expenditures. In July 2018, copper prices declined because of the uncertain impact on the global economy of recent international trade actions. If copper prices continue to decline, we will be prepared to adjust our operating plans if necessary to respond to market conditions.

Projections for 2018 and other forward looking statements in this quarterly report on Form 10-Q assume resolution of PT-FI's long-term mining rights or an extension of PT-FI's temporary IUPK after August 31, 2018. Refer to Note 8 for further discussion of Indonesia regulatory matters, which could have a significant impact on future results. For other important factors that could cause results to differ materially from projections, refer to "Cautionary Statement."

## Consolidated Sales Volumes

Following are our projected consolidated sales volumes for the year 2018:

Copper (millions of recoverable pounds):

North America copper mines	1,445
South America mining	1,227
Indonesia mining	1,145
Total	3,817

Gold (thousands of recoverable ounces) 2,416

Molybdenum (millions of recoverable pounds) 95 <sup>a</sup>

<sup>a</sup> Projected molybdenum sales include 35 million pounds produced by our Molybdenum mines and 60 million pounds produced by our North America and South America copper mines.

Consolidated sales volumes for third-quarter 2018 are expected to approximate 970 million pounds of copper, 700 thousand ounces of gold and 24 million pounds of molybdenum.

## Consolidated Unit Net Cash Costs

Quarterly unit net cash costs vary with fluctuations in sales volumes and realized prices, primarily for gold and molybdenum. Assuming average prices of \$1,250 per ounce of gold and \$11.00 per pound of molybdenum for the second half of 2018 and achievement of current sales volume and cost estimates, consolidated unit net cash costs (net of by-product credits) for our copper mines are expected to average \$1.04 per pound of copper for the year 2018 (including \$0.95 per pound of copper in third-quarter 2018 and \$1.29 per pound of copper in fourth-quarter 2018). The impact of price changes for the second half of 2018 on consolidated unit net cash costs would approximate \$0.015 per pound for each \$50 per ounce change in the average price of gold and \$0.015 per pound for each \$2 per pound change in the average price of molybdenum. Refer to "Consolidated Results – Production and Delivery Costs" for further discussion of consolidated production costs for our mining operations.

## Consolidated Operating Cash Flow

Our consolidated operating cash flows vary with sales volumes, prices realized from copper, gold and molybdenum sales, production costs, income taxes, other working capital changes and other factors. Based on current sales volume and cost estimates, and assuming average prices of \$2.75 per pound of copper, \$1,250 per ounce of gold and \$11.00

per pound of molybdenum for the second half of 2018, our consolidated operating cash flows are estimated to approximate \$4.3 billion for the year 2018 (net of \$0.2 billion in working capital uses and timing of other tax payments). Projected consolidated operating cash flows for the year 2018 also reflect an estimated income tax provision of \$1.7 billion (refer to “Consolidated Results – Income Taxes” for further discussion of our projected income tax rate for the year 2018). The impact of price changes during the second half of 2018 on operating cash flows would approximate \$185 million for each \$0.10 per pound change in the average price of copper, \$60 million for each \$50 per ounce change in the average price of gold and \$55 million for each \$2 per pound change in the average price of molybdenum.

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### Consolidated Capital Expenditures

Consolidated capital expenditures are expected to approximate \$2.0 billion for the year 2018, including \$1.1 billion for major mining projects primarily associated with underground development activities in the Grasberg minerals district and development of the Lone Star oxide project.

### MARKETS

World prices for copper, gold and molybdenum can fluctuate significantly. During the period from January 2008 through June 2018, the London Metal Exchange (LME) copper settlement price varied from a low of \$1.26 per pound in 2008 to a record high of \$4.60 per pound in 2011; the London Bullion Market Association (LBMA) PM gold price fluctuated from a low of \$713 per ounce in 2008 to a record high of \$1,895 per ounce in 2011; and the Metals Week Molybdenum Dealer Oxide weekly average price ranged from a low of \$4.46 per pound in 2015 to a high of \$33.88 per pound in 2008. Copper, gold and molybdenum prices are affected by numerous factors beyond our control as described further in “Risk Factors” contained in Part I, Item 1A. of our annual report on Form 10-K for the year ended December 31, 2017.

This graph presents LME copper settlement prices and the combined reported stocks of copper at the LME, Commodity Exchange Inc. (COMEX), a division of the New York Mercantile Exchange (NYMEX), and the Shanghai Futures Exchange from January 2008 through June 2018. Beginning in mid-2014, copper prices declined because of concerns about slowing growth rates in China, a stronger U.S. dollar and a broad-based decline in commodity prices, but began to improve in fourth-quarter 2016 and throughout 2017. During second-quarter 2018, LME copper settlement prices ranged from a low of \$3.01 per pound to a high of \$3.29 per pound, averaged \$3.12 per pound and settled at \$3.01 per pound on June 30, 2018. In July 2018, copper prices declined because of the uncertain impact on the global economy of recent international trade actions. The LME copper settlement price was \$2.82 per pound on July 31, 2018.

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We believe the underlying long-term fundamentals of the copper business remain positive, supported by the significant role of copper in the global economy and a challenging long-term supply environment attributable to difficulty in replacing existing large mines' output with new production sources. Future copper prices are expected to be volatile and are likely to be influenced by demand from China and emerging markets, as well as economic activity in the U.S. and other industrialized countries, the timing of the development of new supplies of copper and the production levels of mines and copper smelters.

This graph presents LBMA PM gold prices from January 2008 through June 2018. An improving economic outlook, stronger U.S. dollar and positive equity performance contributed to lower demand for gold since 2014. During second-quarter 2018, LBMA PM gold prices ranged from a low of \$1,250 per ounce to a high of \$1,351 per ounce, averaged \$1,306 per ounce, and closed at \$1,250 per ounce on June 30, 2018. The LBMA PM gold price was \$1,221 per ounce on July 31, 2018.

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This graph presents the Metals Week Molybdenum Dealer Oxide weekly average prices from January 2008 through June 2018. Molybdenum prices declined beginning in mid-2014 because of weaker demand from global steel and stainless steel producers but have rebounded starting in mid-2016 with further improvement in late-2017 and early 2018 before a decline in second-quarter 2018. During second-quarter 2018, the weekly average price of molybdenum ranged from a low of \$10.72 per pound to a high of \$12.46 per pound, averaged \$11.64 per pound, and was \$10.72 per pound on June 30, 2018. The Metals Week Molybdenum Dealer Oxide weekly average price was \$12.02 per pound on July 31, 2018.

## CONSOLIDATED RESULTS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
SUMMARY FINANCIAL DATA	(in millions, except per share amounts)			
Revenues <sup>a,b</sup>	\$5,168	\$3,711	\$10,036	\$7,052
Operating income <sup>a,c,d,e</sup>	\$1,664	\$686	\$3,123	\$1,283
Net income from continuing operations <sup>g,h,i</sup>	\$1,039	\$326	\$1,867	\$594
Net (loss) income from discontinued operations <sup>k</sup>	\$(4)	\$9	\$(15)	\$47
Net income attributable to common stock	\$869	\$268	\$1,561	\$496
Diluted net income (loss) per share of common stock:				
Continuing operations	\$0.59	\$0.18	\$1.08	\$0.31
Discontinued operations	—	—	(0.01)	0.03
	\$0.59	\$0.18	\$1.07	\$0.34
Diluted weighted-average common shares outstanding	1,458	1,453	1,458	1,453
Operating cash flows <sup>l</sup>	\$1,309	\$1,037	\$2,678	\$1,829
Capital expenditures	\$482	\$362	\$884	\$706
At June 30:				
Cash and cash equivalents	\$3,859	\$4,667	\$3,859	\$4,667
Total debt, including current portion	\$11,127	\$15,354	\$11,127	\$15,354

a. Refer to Note 9 for a summary of revenues and operating income by operating division.

b. Includes adjustments to embedded derivatives for provisionally priced concentrate and cathode sales (refer to Note 6).

c. Includes net gains on sales of assets totaling \$45 million (\$45 million to net income attributable to common stock or \$0.03 per share) in second-quarter 2018, \$10 million (\$10 million to net income attributable to common stock or \$0.01 per share) in second-quarter 2017, \$56 million (\$56 million to net income attributable to common stock or \$0.04 per share) for the first six months of 2018, and \$33 million (\$33 million to net income attributable to common stock or \$0.02 per share) for the first six months of 2017. Refer to “Net Gain on Sales of Assets” for further discussion.

d. Includes net charges (credits) to environmental obligations and related litigation reserves totaling \$50 million (\$50 million to net income attributable to common stock or \$0.03 per share) in the second quarter and first six months of 2018, \$(30) million (\$(30) million to net income attributable to common stock or \$(0.02) per share) in second-quarter 2017, and \$(11) million (\$(11) million to net income attributable to common stock or \$(0.01) per share) for the first six months of 2017.

e. Includes net credits to mining operations totaling \$10 million (\$4 million to net income attributable to common stock or less than \$0.01 per share) in the second quarter and first six months of 2018. The 2017 periods include net charges of \$87 million (\$46 million to net income attributable to common stock or 0.03 per share) in second-quarter 2017 and \$108 million (\$57 million to net income attributable to common stock or \$0.04 per share) for the first six

months of 2017 associated with workforce reductions at PT-FI. The 2017 periods also include net charges to mining operations for inventory adjustments and asset impairment totaling \$9 million (\$9 million to net income attributable to common stock or \$0.01 per share) in second-quarter 2017 and \$28 million (\$28 million to net income attributable to common stock or \$0.02 per share) for the first six months of 2017.

Second-quarter 2017 includes net credits at oil and gas operations totaling \$6 million (\$6 million to net income attributable to common stock or less than \$0.01 per share) primarily related to adjustments to the fair value of the contingent payments related to the 2016 drillship settlements. The first six months of 2017 include net credits at oil and gas operations totaling \$4 million (\$4 million to net income attributable to common stock or \$0.01 per share) primarily related to drillship settlements, including adjustments to the fair value of the contingent payments, partly offset by other contract termination costs.



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Includes net gains (losses) on early extinguishment of debt totaling \$9 million (\$9 million to net income attributable to common stock or \$0.01 per share) in second-quarter 2018, \$(4) million (\$(4) million to net income attributable to common stock or less than \$(0.01) per share) in second-quarter 2017, \$8 million (\$8 million to net income attributable to common stock or less than \$(0.01) per share) for the first six months of 2018, and \$(3) million (\$(3) million to net income attributable to common stock or less than \$(0.01) per share) for the first six months of 2017. Refer to Note 5 for further discussion.

Includes net tax credits of \$7 million (less than \$0.01 per share) in the second quarter and first six months of 2018, \$32 million (\$0.02 per share) in second-quarter 2017 and \$31 million (\$0.02 per share) for the first six months of 2017. Refer to “Income Taxes” for further discussion of these net tax credits.

We defer recognizing profits on intercompany sales until final sales to third parties occur. Refer to “Operations – Smelting & Refining” for a summary of net impacts from changes in these deferrals.

Includes interest received on tax refunds totaling \$6 million (\$6 million to net income attributable to common stock or less than \$0.01 per share) in second-quarter 2018 and \$30 million (\$19 million to net income attributable to common stock or \$0.01 per share) for the first six months of 2018. The 2018 periods also include charges to interest expense totaling \$2 million (\$1 million to net income attributable to common stock or less than \$0.01 per share) in second-quarter 2018 and \$6 million (\$2 million to net income attributable to common stock or less than \$0.01 per share) for the first six months of 2018 related to the Cerro Verde royalty and related matters.

Primarily reflects adjustments to the estimated fair value of contingent consideration related to the November 2016 sale of our interest in TF Holdings Limited (TFHL), which will continue to be adjusted through December 31, 2019.

Includes net working capital (uses) sources and timing of other tax payments of \$(192) million in second-quarter 2018, \$154 million in second-quarter 2017, \$(213) million for the first six months of 2018 and \$343 million for the first six months of 2017.

	Three Months	Six Months		
	Ended June 30,	Ended June 30,		
	2018	2017	2018	2017

**SUMMARY OPERATING DATA****Copper (millions of recoverable pounds)**

Production	1,014	883	1,966	1,734
Sales, excluding purchases	989	942	1,982	1,751
Average realized price per pound	\$3.08	\$2.65	\$3.10	\$2.65
Site production and delivery costs per pound <sup>a</sup>	\$1.69	\$1.63	\$1.68	\$1.61
Unit net cash costs per pound <sup>a</sup>	\$0.96	\$1.19	\$0.97	\$1.28

**Gold (thousands of recoverable ounces)**

Production	746	353	1,345	592
Sales, excluding purchases	676	432	1,286	614
Average realized price per ounce	\$1,274	\$1,243	\$1,291	\$1,242

**Molybdenum (millions of recoverable pounds)**

Production	24	23	46	46
Sales, excluding purchases	24	25	48	49
Average realized price per pound	\$12.89	\$9.58	\$12.42	\$9.16

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

**Revenues**

Consolidated revenues totaled \$5.2 billion in second-quarter 2018 and \$10.0 billion for the first six months of 2018, compared with \$3.7 billion in second-quarter 2017 and \$7.1 billion for the first six months of 2017. Revenues from our mining operations primarily include the sale of copper concentrate, copper cathode, copper rod, gold in

concentrate and molybdenum.

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

	Three Months Ended June 30	Six Months Ended June 30
Consolidated revenues - 2017 period	\$3,711	\$7,052
Higher (lower) sales volumes:		
Copper	127	615
Gold	303	832
Molybdenum	(10)	(10)
Higher average realized prices:		
Copper	426	892
Gold	20	62
Molybdenum	79	155
Adjustments for prior period provisionally priced copper sales	43	(151)
Higher treatment charges	(11)	(40)
Higher revenues from purchased copper	119	200
Higher Atlantic Copper revenues	202	323
Other, including intercompany eliminations	159	106
Consolidated revenues - 2018 period	\$5,168	\$10,036

**Sales Volumes.** Consolidated copper sales increased to 989 million pounds in second-quarter 2018, compared with 942 million pounds in second-quarter 2017, primarily reflecting higher mining and milling rates and higher ore grades in Indonesia. Consolidated copper sales increased to 2.0 billion for the first six months of 2018, compared with 1.75 billion for the first six months of 2017, primarily reflecting higher operating rates in Indonesia.

Consolidated gold sales volumes increased to 676 thousand ounces in second-quarter 2018 and 1.3 million ounces for the first six months of 2018, compared with 432 thousand ounces in second-quarter 2017 and 614 thousand ounces for the first six months of 2017, primarily reflecting higher ore grades and operating rates in Indonesia.

Consolidated molybdenum sales volumes of 24 million pounds in second-quarter 2018 and 48 million for the first six months of 2018 were slightly lower than sales of 25 million pounds in second-quarter 2017 and 49 million for the first six months of 2017.

Refer to “Operations” for further discussion of sales volumes at our mining operations.

**Realized Prices.** Our consolidated revenues can vary significantly as a result of fluctuations in the market prices of copper, gold and molybdenum. Second-quarter 2018 average realized prices, compared with second-quarter 2017, were 16 percent higher for copper, 2 percent higher for gold and 35 percent higher for molybdenum, and average realized prices for the first six months of 2018, compared with the first six months of 2017, were 17 percent higher for copper, 4 percent higher for gold and 36 percent higher for molybdenum. Refer to “Markets” for further discussion.

As discussed below, substantially all of our copper concentrate and cathode sales contracts provide final copper pricing in a specified future month. We record revenues and invoice customers at the time of shipment based on then-current LME prices, which results in an embedded derivative on provisionally priced concentrate and cathode sales that is adjusted to fair value through earnings each period until final pricing on the date of settlement. Average realized copper prices include net adjustments to current period provisionally priced copper sales totaling \$(37)

million in second-quarter 2018 and \$(79) million for the first six months of 2018, compared with \$55 million in second-quarter 2017 and \$61 million for the first six months of 2017. Refer to Notes 6 and 9 for a summary of total adjustments to prior period and current period provisionally priced sales.

**Prior Period Provisionally Priced Copper Sales.** Substantially all of our copper concentrate and cathode sales contracts provide final copper pricing in a specified future month (generally one to four months from the shipment date) based primarily on quoted LME monthly average copper prices. We receive market prices based on prices in the specified future period, which results in price fluctuations recorded through revenues until the date of settlement. We record revenues and invoice customers at the time of shipment based on then-current LME prices, which results in an embedded derivative on our provisionally priced concentrate and cathode sales that is adjusted to fair value through earnings each period, using the period-end forward prices, until final pricing on the date of

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settlement. To the extent final prices are higher or lower than what was recorded on a provisional basis, an increase or decrease to revenues is recorded each reporting period until the date of final pricing. Accordingly, in times of rising copper prices, our revenues benefit from adjustments to the final pricing of provisionally priced sales pursuant to contracts entered into in prior periods; in times of falling copper prices, the opposite occurs. Net adjustments to prior periods' provisionally priced copper sales recorded in consolidated revenues totaled \$23 million in second-quarter 2018 and \$(70) million for the first six months of 2018, compared with \$(20) million in second-quarter 2017 and \$81 million for the first six months of 2017. Refer to Notes 6 and 9 for a summary of total adjustments to prior period and current period provisionally priced sales.

At June 30, 2018, we had provisionally priced copper sales totaling 336 million pounds of copper (net of intercompany sales and noncontrolling interests) recorded at an average of \$3.01 per pound, subject to final pricing over the next several months. We estimate that each \$0.05 change in the price realized from the June 30, 2018, provisional price recorded would have an approximate \$10 million effect on our 2018 net income attributable to common stock. The LME copper price settled at \$2.82 per pound on July 31, 2018.

**Treatment Charges.** Revenues from our concentrate sales are recorded net of treatment charges. Higher treatment charges in the 2018 periods, compared with the 2017 periods, primarily reflect higher sales volumes from Indonesia.

**Purchased Copper.** We purchase copper cathode primarily for processing by our Rod & Refining operations. Purchased copper volumes totaled 90 million pounds in second-quarter 2018 and 164 million pounds for the first six months of 2018, compared with 62 million pounds in second-quarter 2017 and 120 million for the first six months of 2017.

**Atlantic Copper Revenues.** Atlantic Copper revenues totaled \$602 million in second-quarter 2018 and \$1.2 billion for the first six months of 2018, compared with \$400 million in second-quarter 2017 and \$858 million for the first six months of 2017. Higher revenues in the 2018 periods, compared with the 2017 periods, primarily reflect higher copper sales volumes and higher copper prices.

### **Production and Delivery Costs**

Consolidated production and delivery costs totaled \$2.9 billion in second-quarter 2018, \$2.5 billion in second-quarter 2017, \$5.7 billion for the first six months of 2018 and \$4.7 billion for the first six months of 2017. Production and delivery costs for the 2017 periods included charges totaling \$82 million in second-quarter 2017 and \$103 million for the first six months of 2017 associated with PT-FI workforce reductions. Higher consolidated production and delivery costs in the 2018 periods, compared with the 2017 periods, primarily reflect higher concentrate purchases at Atlantic Copper and copper purchases at Rod & Refining operations, as well as higher mining, repairs and maintenance costs in North America and South America.

**Mining Unit Site Production and Delivery Costs.** Site production and delivery costs for our copper mining operations primarily include labor, energy and commodity-based inputs, such as sulphuric acid, reagents, liners, tires and explosives. Consolidated unit site production and delivery costs (before net noncash and other costs) for our copper mines averaged \$1.69 per pound of copper in second-quarter 2018 and \$1.68 per pound of copper for the first six months of 2018, compared with \$1.63 per pound of copper in second-quarter 2017 and \$1.61 per pound of copper for the first six months of 2017. Higher consolidated unit site production and delivery costs in the 2018 periods, compared with the 2017 periods, primarily reflect higher mining, repairs and maintenance costs in North America and South America, partly offset by higher copper sales volumes at PT-FI. Refer to "Operations – Unit Net Cash Costs" for further discussion of unit net cash costs associated with our operating divisions and to "Product Revenues and Production Costs" for reconciliations of per pound costs by operating division to production and delivery costs applicable to sales reported in our consolidated financial statements.

#### Depreciation, Depletion and Amortization

Depreciation will vary under the unit-of-production (UOP) method as a result of changes in sales volumes and the related UOP rates at our mining operations. Consolidated depreciation, depletion and amortization (DD&A) totaled \$442 million in second-quarter 2018 and \$893 million for the first six months of 2018, compared with \$450 million in second-quarter 2017 and \$839 million for the first six months of 2017.

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### Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses totaled \$109 million in second-quarter 2018, \$107 million in second-quarter 2017, \$240 million for the first six months of 2018 and \$258 million for the first six months of 2017.

### Mining Exploration and Research Expenses

Consolidated exploration and research expenses for our mining operations totaled \$24 million in second-quarter 2018, \$19 million in second-quarter 2017, \$45 million for the first six months of 2018 and \$33 million for the first six months of 2017. Our mining exploration activities are generally associated with our existing mines, focusing on opportunities to expand reserves and resources to support development of additional future production capacity. Exploration results continue to indicate opportunities for significant future potential reserve additions in North America and South America. Exploration spending is expected to approximate \$90 million for the year 2018.

### Environmental Obligations and Shutdown Costs

Environmental obligation costs reflect net revisions to our long-term environmental obligations, which vary from period to period because of changes to environmental laws and regulations, the settlement of environmental matters and/or circumstances affecting our operations that could result in significant changes in our estimates. Shutdown costs include care-and-maintenance costs and any litigation, remediation or related expenditures associated with closed facilities or operations. Net charges (credits) for environmental obligations and shutdown costs totaled \$59 million in second-quarter 2018, \$(21) million in second-quarter 2017, \$68 million for the first six months of 2018 and \$4 million for the first six months of 2017. Refer to Note 8 for further discussion.

### Net Gain on Sales of Assets

Net gain on sales of assets totaled \$45 million in second-quarter 2018 and \$56 million for the first six months of 2018, primarily reflecting adjustments to the fair value of the potential \$150 million in contingent consideration related to the 2016 sale of onshore California oil and gas properties, which will continue to be adjusted through December 31, 2020.

Net gain on sales of assets totaled \$10 million in second-quarter 2017 and \$33 million for the first six months of 2017, primarily reflecting an adjustment to assets held for sale, partly offset by an adjustment to the estimated fair value of the contingent consideration related to the 2016 sale of onshore California oil and gas properties. The first six months of 2017 also included gains associated with oil and gas transactions.

### Interest Expense, Net

Consolidated interest costs (before capitalization) totaled \$165 million in second-quarter 2018, \$192 million in second-quarter 2017, \$341 million for the first six months of 2018 and \$387 million for the first six months of 2017. Lower interest costs in the 2018 periods, compared with the 2017 periods, reflect a decrease in total debt.

Capitalized interest varies with the level of expenditures for our development projects and average interest rates on our borrowings, and totaled \$23 million in second-quarter 2018, \$30 million in second-quarter 2017, \$48 million for the first six months of 2018 and \$58 million for the first six months of 2017.

### Income Taxes

Following is a summary of the approximate amounts used in the calculation of our consolidated income tax provision (in millions, except percentages):

Six Months Ended June 30,			
2018		2017	
Income <sup>a</sup>	Effective	Income	Effective
	Tax Rate		Tax Rate
	(Provision)		(Provision)

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			Benefit				Benefit	
U.S.	\$311	(3)%	\$ 9		<sup>b</sup> \$61	(39)%	\$ 24	<sup>c</sup>
South America	459	39%	(180	) <sup>d</sup>	386	41%	(159	)
Indonesia	1,945	43%	(830	)	487	41%	(202	)
Eliminations and other	172	N/A	(31	)	17	N/A	(24	)
Rate adjustment <sup>e</sup>	—	N/A	11		—	N/A	1	
Consolidated FCX	\$2,887	35%	<sup>f</sup> \$ (1,021	)	\$951	38%	\$ (360	)

<sup>a</sup> Represents income from continuing operations by geographic location before income taxes and equity in affiliated companies' net earnings (losses).



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- b. Includes a tax credit of \$5 million associated with the settlement of a state income tax examination.
  - c. Includes net tax credits of \$31 million associated with anticipated recovery of alternative minimum tax credit carryforwards.
  - d. Includes a tax credit of \$5 million (\$2 million net of noncontrolling interest) associated with Cerro Verde's disputed royalties and other related mining taxes.
  - e. In accordance with applicable accounting rules, we adjust our interim provision for income taxes to equal our consolidated tax rate.
- The consolidated effective income tax rate is a function of the combined effective tax rates for the jurisdictions in which we operate. Accordingly, variations in the relative proportions of jurisdictional income result in fluctuations to our consolidated effective income tax rate. Assuming achievement of current sales volume and cost estimates and average prices of \$2.75 per pound for copper, \$1,250 per ounce for gold and \$11.00 per pound for molybdenum for the second half of 2018, we estimate our consolidated effective tax rate for the year 2018 would approximate 38 percent, which would result in a consolidated effective tax rate of approximately 46 percent in third-quarter 2018 and 38 percent in fourth-quarter 2018. We expect that our consolidated effective tax rate for the year 2018 would decrease with higher prices.

### Net (Loss) Income from Discontinued Operations

Net (loss) income from discontinued operations of \$(4) million in second-quarter 2018, \$9 million in second-quarter 2017, \$15 million for the first six months of 2018 and \$47 million for the first six months of 2017, primarily reflected adjustments to the fair value of the potential \$120 million contingent consideration related to the November 2016 sale of our interest in TFHL, which will continue to be adjusted through December 31, 2019.

## OPERATIONS

### North America Copper Mines

We operate seven open-pit copper mines in North America – Morenci, Bagdad, Safford, Sierrita and Miami in Arizona, and Chino and Tyrone in New Mexico. All of the North America mining operations are wholly owned, except for Morenci. We record our 72 percent undivided joint venture interest in Morenci using the proportionate consolidation method.

The North America copper mines include open-pit mining, sulfide ore concentrating, leaching and solution extraction/electrowinning (SX/EW) operations. A majority of the copper produced at our North America copper mines is cast into copper rod by our Rod & Refining segment. The remainder of our North America copper sales is in the form of copper cathode or copper concentrate, a portion of which is shipped to Atlantic Copper (our wholly owned smelter). Molybdenum concentrate, gold and silver are also produced by certain of our North America copper mines.

**Operating and Development Activities.** We have significant undeveloped reserves and resources in North America and a portfolio of potential long-term development projects. Future investments will be undertaken based on the results of economic and technical feasibility studies, and are dependent on market conditions. We continue to study opportunities to reduce the capital intensity of our potential long-term development projects.

Through exploration drilling, we have identified a significant resource at our wholly owned Lone Star project located near the Safford operation in eastern Arizona. An initial project to develop the Lone Star oxide ores commenced in first-quarter 2018, with first production expected by the end of 2020. Total capital costs, including mine equipment and pre-production stripping, are expected to approximate \$850 million and will benefit from the utilization of existing infrastructure at the adjacent Safford operation. As of June 30, 2018, \$113 million has been incurred for this project. Production from the Lone Star oxide ores is expected to average approximately 200 million pounds of copper per year with an approximate 20-year mine life. The project also advances the potential for development of a larger-scale district opportunity. We are conducting additional drilling following positive exploration results and

continue to evaluate longer term opportunities available from the significant long-term sulfide potential in the Lone Star/Safford minerals district.

For further discussion of the risks associated with development projects, refer to Part I, Item 1A. “Risk Factors” of our annual report on Form 10-K for the year ended December 31, 2017, as updated by Part II, Item 1A. “Risk Factors” of this quarterly report on Form 10-Q.

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Operating Data. Following is a summary of consolidated operating data for the North America copper mines for the second quarters and first six months of 2018 and 2017:

	Three Months Ended June 30, 2018		2017		Six Months Ended June 30, 2018		2017	
Operating Data, Net of Joint Venture Interests								
Copper (millions of recoverable pounds)								
Production	354	384	702	776				
Sales, excluding purchases	361	408	745	783				
Average realized price per pound	\$3.12	\$2.62	\$3.14	\$2.65				

Molybdenum (millions of recoverable pounds)

Production<sup>a</sup>