FREEPORT-MCMORAN INC
Form 10-Q
August 11, 2014

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
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.
þ Yes ¨ No

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

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

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

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

On July 31, 2014, there were issued and outstanding 1,039,046,081 shares of the registrant’s common stock, par value $0.10 per share.

FREEPORT-McMoRan INC.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2014	December 31, 2013
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1,458	$1,985
Trade accounts receivable	1,838	1,728
Other accounts receivable	920	834
Inventories:		
Mill and leach stockpiles	1,880	1,705
Materials and supplies, net	1,825	1,730
Product	1,665	1,583
Other current assets	668	407
Total current assets	10,254	9,972
Property, plant, equipment and mining development costs, net	25,407	24,042
Oil and gas properties - full cost method		
Subject to amortization, less accumulated amortization	11,057	12,472
Not subject to amortization	10,769	10,887
Long-term mill and leach stockpiles	2,518	2,386
Goodwill	1,717	1,916
Other assets	2,287	1,798
Total assets	$64,009	$63,473
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$3,950	$3,708
Current portion of debt	2,784	312
Dividends payable	334	333
Current portion of environmental and asset retirement obligations	250	236
Accrued income taxes	240	184
Total current liabilities	7,558	4,773
Long-term debt, less current portion	17,512	20,394
Deferred income taxes	7,451	7,410
Environmental and asset retirement obligations, less current portion	3,294	3,259
Other liabilities	1,782	1,690
Total liabilities	37,597	37,526
Redeemable noncontrolling interest	745	716
Equity:		
FCX stockholders' equity:		
Common stock	117	117

Capital in excess of par value	22,221	22,161
Retained earnings	3,081	2,742
Accumulated other comprehensive loss	(401)	(405)
Common stock held in treasury	(3,686)	(3,681)
Total FCX stockholders’ equity	21,332	20,934
Noncontrolling interests	4,335	4,297
Total equity	25,667	25,231
Total liabilities and equity	$64,009	$63,473

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions, except per share amounts)			
Revenues	$5,522	$4,288	$10,507	$8,871
Cost of sales:				
Production and delivery	3,082	2,853	5,819	5,572
Depreciation, depletion and amortization	1,013	530	1,979	859
Total cost of sales	4,095	3,383	7,798	6,431
Selling, general and administrative expenses	164	186	299	299
Mining exploration and research expenses	34	64	64	116
Environmental obligations and shutdown costs	76	16	82	31
Total costs and expenses	4,369	3,649	8,243	6,877
Operating income	1,153	639	2,264	1,994
Interest expense, net	(164)	(132)	(325)	(189)
Net gain (loss) on early extinguishment of debt	5	—	5	(45)
Gain on investment in McMoRan Exploration Co.	—	128	—	128
Other (expense) income, net	(8)	13	25	10
Income before income taxes and equity in affiliated companies' net earnings	986	648	1,969	1,898
Provision for income taxes	(328)	(40)	(685)	(468)
Equity in affiliated companies’ net earnings	2	2	2	4
Net income	660	610	1,286	1,434
Net income attributable to noncontrolling interests	(168)	(125)	(274)	(301)
Preferred dividends attributable to redeemable noncontrolling interest	(10)	(3)	(20)	(3)
Net income attributable to FCX common stockholders	$482	$482	$992	$1,130
Net income per share attributable to FCX common stockholders:				
Basic	$0.46	$0.49	$0.95	$1.17
Diluted	$0.46	$0.49	$0.95	$1.17
Weighted-average common shares outstanding:				
Basic	1,039	980	1,039	965
Diluted	1,045	984	1,045	968
Dividends declared per share of common stock	$0.3125	$1.3125	$0.625	$1.625

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,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions)			
Net income	$660	$610	$1,286	$1,434
Other comprehensive income, net of taxes:				
Defined benefit plans:				
Amortization of unrecognized amounts included in net periodic benefit costs	4	5	7	12
Foreign exchange losses	(3)	—	(3)	—
Translation adjustments and unrealized gains (losses) on securities	—	—	—	(1)
Other comprehensive income	1	5	4	11
Total comprehensive income	661	615	1,290	1,445
Total comprehensive income attributable to noncontrolling interests	(168)	(125)	(274)	(301)
Preferred dividends attributable to redeemable noncontrolling interest	(10)	(3)	(20)	(3)
Total comprehensive income attributable to FCX common stockholders	$483	$487	$996	$1,141

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

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

	Six Months Ended June 30,	
	2014	2013
	(In millions)	
Cash flow from operating activities:		
Net income	$1,286	$1,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,979	859
Net losses on crude oil and natural gas derivative contracts	120	35
Gain on investment in McMoRan Exploration Co. (MMR)	—	(128)
Stock-based compensation	69	65
Pension plans contributions	(28)	(42)
Net charges for environmental and asset retirement obligations, including accretion	97	73
Payments for environmental and asset retirement obligations	(96)	(91)
Net (gain) loss on early extinguishment of debt	(5)	45
Deferred income taxes	37	43
Increase in long-term mill and leach stockpiles	(131)	(236)
Other, net	36	3
(Increases) decreases in working capital and changes in other tax payments, excluding amounts from acquisitions:		
Accounts receivable	(243)	350
Inventories	(230)	(160)
Other current assets	35	58
Accounts payable and accrued liabilities	(186)	(371)
Accrued income taxes and other tax payments	(153)	(72)
Net cash provided by operating activities	2,587	1,865
Cash flow from investing activities:		
Capital expenditures:		
North America copper mines	(627)	(543)
South America	(839)	(470)
Indonesia	(479)	(511)
Africa	(60)	(103)
Molybdenum mines	(33)	(82)
U.S. oil and gas operations	(1,484)	(190)
Other	(40)	(79)
Acquisition of Deepwater Gulf of Mexico interests	(925)	—
Acquisition of Plains Exploration & Production Company, net of cash acquired	—	(3,465)
Acquisition of MMR, net of cash acquired	—	(1,628)
Acquisition of cobalt chemical business, net of cash acquired	—	(321)
Net proceeds from sale of Eagle Ford shale assets	3,009	—
Restricted cash and other, net	(363)	(264)
Net cash used in investing activities	(1,841)	(7,656)
Cash flow from financing activities:		
Proceeds from debt	1,248	11,021

Repayments of debt	(1,611)	(4,541)
Redemption of MMR preferred stock	—	(202)
Cash dividends and distributions paid:		
Common stock	(653)	(595)
Noncontrolling interests	(250)	(90)
Contributions from noncontrolling interests	24	—
Debt financing costs	(34)	(111)
Stock-based awards net proceeds (payments), including excess tax benefit	3	(102)
Net cash (used in) provided by financing activities	(1,273)	5,380
Net decrease in cash and cash equivalents	(527)	(411)
Cash and cash equivalents at beginning of year	1,985	3,705
Cash and cash equivalents at end of period	$1,458	$3,294

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

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

	FCX Stockholders' Equity									
	Common Stock					Common Stock Held in Treasury				
	Number of Shares	At Par Value	Capital in Excess of Par Value	Retained Earnings	Accumu-lated Other Compre-hensive Loss	Number of Shares	At Cost	Total FCX Stock-holders' Equity	Non-controlling Interests	Total Equity
	(In millions)									
Balance at December 31, 2013	1,165	$117	$22,161	$2,742	$(405)	127	$(3,681)	$ 20,934	$ 4,297	$25,231
Exercised and issued stock-based awards	1	—	8	—	—	—	—	8	—	8
Stock-based compensation	—	—	52	—	—	—	—	52	—	52
Tender of shares for stock-based awards	—	—	—	—	—	—	(5)	(5)	—	(5)
Dividends on common stock	—	—	—	(653)	—	—	—	(653)	—	(653)
Dividends to noncontrolling interests	—	—	—	—	—	—	—	—	(236)	(236)
Net income attributable to FCX common stockholders	—	—	—	992	—	—	—	992	—	992
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—	—	274	274
Other comprehensive income	—	—	—	—	4	—	—	4	—	4
Balance at June 30, 2014	1,166	$117	$22,221	$3,081	$(401)	127	$(3,686)	$ 21,332	$ 4,335	$25,667

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

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

NOTE 1. GENERAL INFORMATION
Effective July 14, 2014, Freeport-McMoRan Copper & Gold Inc. changed its name to Freeport-McMoRan Inc. (FCX) to simplify the corporate name and better reflect FCX's expanded portfolio of assets. 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 FCX's consolidated financial statements and notes contained in its annual report on Form 10-K for the year ended December 31, 2013. The information furnished herein reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported. With the exception of certain adjustments associated with the acquisitions of Plains Exploration & Production Company (PXP) and McMoRan Exploration Co. (MMR), collectively known as FCX Oil & Gas Inc. (FM O&G), all such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the three-month and six-month periods ended June 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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

NOTE 2. ACQUISITIONS AND DISPOSITIONS
PXP and MMR Acquisitions. The second-quarter 2013 acquisitions of PXP and MMR added a portfolio of oil and gas assets to FCX's global mining business, creating a U.S.-based natural resources company. The acquisitions have been accounted for under the acquisition method, with FCX as the acquirer.

During the second quarter of 2014, FCX finalized the purchase price allocations, which resulted in a net increase of $20 million to oil and gas properties, an increase of $22 million to goodwill and a net decrease of $42 million to deferred income tax assets.

For further discussion of the PXP and MMR acquisitions and the related financing, refer to Notes 2 and 8 in FCX's annual report on Form 10-K for the year ended December 31, 2013.

Unaudited Pro Forma Consolidated Financial Information. The following unaudited pro forma financial information has been prepared to reflect the acquisitions of PXP and MMR. The unaudited pro forma financial information combines the historical statements of income of FCX, PXP and MMR for the three-month and six-month periods ended June 30, 2013, giving effect to the mergers as if they had occurred on January 1, 2012. The historical consolidated financial information has been adjusted to reflect factually supportable items that are directly attributable to the acquisitions.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
	(in millions, except per share amounts)	
Revenues	$5,330	$11,025
Operating income	1,330	2,910
Income from continuing operations	722	1,635
Net income attributable to FCX common stockholders	585	1,313

Net income per share attributable to FCX common stockholders:		
Basic	$0.56	$1.26
Diluted	0.56	1.26

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The unaudited pro forma consolidated information has been prepared for illustrative purposes only and is not intended to be indicative of the results of operations that actually would have occurred, or the results of operations expected in future periods, had the events reflected herein occurred on the date indicated. The most significant pro forma adjustments to income from continuing operations for the three-month period ended June 30, 2013, were to exclude $506 million of acquisition-related costs, the net tax benefit of $183 million of acquisition-related adjustments and the $128 million gain on the investment in MMR. Additionally, for the six-month period ended June 30, 2013, the pro forma consolidated information excluded a $77 million gain on the sale of MMR oil and gas properties because of the application of the full cost method of accounting.

Eagle Ford Disposition. On June 20, 2014, FCX completed the sale of its Eagle Ford shale assets to a subsidiary of Encana Corporation (Encana) for cash consideration of $3.1 billion, before closing adjustments from the April 1, 2014, effective date through closing. Under full cost accounting rules, the proceeds were recorded as a reduction of capitalized oil and gas properties, with no gain or loss recognition, except for $58 million of deferred tax expense recorded in connection with the allocation of $221 million of goodwill (for which deferred taxes were not previously provided) to the Eagle Ford shale assets. Approximately $1.3 billion of proceeds from this transaction was placed in a like-kind exchange escrow to reinvest into additional oil and gas interests. On June 30, 2014, $919 million from this like-kind exchange escrow was used to fund the Deepwater Gulf of Mexico (GOM) acquisition discussed below. The remaining $414 million of funds in the like-kind exchange escrow may be used to acquire additional interests in the Deepwater GOM on a tax-efficient basis. Additionally, a portion of the proceeds was used to reduce indebtedness.

Deepwater GOM Acquisition. On June 30, 2014, FCX completed the acquisition of interests in the Deepwater GOM from a subsidiary of Apache Corporation, including interests in the Lucius and Heidelberg oil production development projects and several exploration leases, for $919 million. Based on preliminary valuations, and including transaction costs and estimated asset retirement costs, FCX recorded capitalized costs for oil and gas properties subject to amortization of $460 million and costs not subject to amortization of $476 million. The Deepwater GOM acquisition was funded with a portion of the net proceeds from the sale of the Eagle Ford shale assets.

NOTE 3. EARNINGS PER SHARE

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

The following table sets forth the computation of basic and diluted net income per share (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$660	$610	$1,286	$1,434
Net income attributable to noncontrolling interests	(168)	(125)	(274)	(301)
Preferred dividends on redeemable noncontrolling interest	(10)	(3)	(20)	(3)
Undistributed earnings allocable to participating securities	(2)	—	(3)	—
Net income allocable to FCX common stockholders	$480	$482	$989	$1,130
Basic weighted-average shares of common stock outstanding	1,039	980	1,039	965

Add shares issuable upon exercise or vesting of dilutive stock options and RSUs	6 [a]	4	6 [a]	3
Diluted weighted-average shares of common stock outstanding	1,045	984	1,045	968
Basic net income per share attributable to FCX common stockholders	$0.46	$0.49	$0.95	$1.17
Diluted net income per share attributable to FCX common stockholders	$0.46	$0.49	$0.95	$1.17

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a. Excluded shares of common stock associated with outstanding stock options with exercise prices less than the average market price of FCX's common stock that were anti-dilutive totaled approximately 3 million for both second-quarter 2014 and for the six months ended June 30, 2014.

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Outstanding stock options with exercise prices greater than the average market price of FCX’s common stock during the period are excluded from the computation of diluted net income per share of common stock. Excluded stock options totaled 30 million with a weighted-average exercise price of $41.05 per option for both second-quarter 2014 and for the six months ended June 30, 2014, 32 million with a weighted-average exercise price of $40.53 per option for second-quarter 2013 and 30 million with a weighted-average exercise price of $40.92 per option for the six months ended June 30, 2013.

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

The components of inventories follow (in millions):

	June 30, 2014	December 31, 2013
Current inventories:		
Raw materials (primarily concentrates)	$297	$238
Work-in-process[a]	154	199
Finished goods[b]	1,214	1,146
Total product inventories	$1,665	$1,583
Mill stockpiles	$104	$91
Leach stockpiles	1,776	1,614
Total current mill and leach stockpiles	$1,880	$1,705
Total materials and supplies, net[c]	$1,825	$1,730
Long-term inventories:		
Mill stockpiles	$753	$698
Leach stockpiles	1,765	1,688
Total long-term mill and leach stockpiles[d]	$2,518	$2,386

a. FCX's mining operations also have work-in-process inventories that are reflected as mill and leach stockpiles.

b. Primarily included molybdenum concentrates; copper concentrates, anodes, cathodes and rod; and various cobalt products.

c. Materials and supplies inventory was net of obsolescence reserves totaling $21 million at June 30, 2014, and $24 million at December 31, 2013.

d. Estimated metals in stockpiles not expected to be recovered within the next 12 months.

NOTE 5. INCOME TAXES

Variations in the relative proportions of jurisdictional income result in fluctuations to FCX’s consolidated effective income tax rate. Geographic sources of FCX's provision for income taxes follow (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
U.S. operations	$149 [a]	$(95) [b]	$285 [a]	$(19) [b]
International operations	179	135	400	487
Total	$328	$40	$685	$468

a. FCX recognized a $58 million charge for deferred taxes recorded in connection with the allocation of goodwill to the sale of Eagle Ford.

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

FCX’s consolidated effective income tax rate was 35 percent for the first six months of 2014 and 34 percent for the first six months of 2013, excluding the net benefit of $183 million for acquisition-related adjustments.

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NOTE 6. DEBT AND EQUITY TRANSACTIONS

In June 2014, FCX announced the redemption of $1.7 billion of the aggregate principal amount of outstanding senior notes on July 23, 2014. The redemptions included $263 million for the 6.125% Senior Notes due 2019, $525 million for the 6½% Senior Notes due 2020, $350 million for the 6.75% Senior Notes due 2022 and $525 million for the 6.875% Senior Notes due 2023. At the redemption date, these senior notes had a book value of $1.8 billion, which included fair value adjustments of $167 million. In accordance with the terms of these senior notes, the redemptions were funded with cash contributions to FM O&G by FCX in exchange for additional equity, which is eliminated in the consolidated financial statements. FCX used available cash and borrowed approximately $950 million under its revolving credit facility and uncommitted lines of credit to fund the contributions to FM O&G. Holders of these senior notes received the principal amount together with the redemption premium and accrued and unpaid interest to the redemption date. As a result of these redemptions, FCX will report a gain on early extinguishment of debt of $58 million in third-quarter 2014.

In May 2014, FCX, PT Freeport Indonesia (PT-FI) and Freeport-McMoRan Oil & Gas LLC (FM O&G LLC, a wholly owned subsidiary of FM O&G and the successor entity of PXP) amended the senior unsecured $3.0 billion revolving credit facility to extend the maturity date one year to May 31, 2019, and increase the aggregate principal amount from $3.0 billion to $4.0 billion, with $500 million available to PT-FI. FCX, PT-FI and FM O&G LLC had entered into the $3.0 billion revolving credit facility on May 31, 2013 (upon completion of the acquisition of PXP). At June 30, 2014, there were no borrowings and $46 million of letters of credit issued under the revolving credit facility, resulting in availability of approximately $4.0 billion, of which $1.5 billion could be used for additional letters of credit.

In April 2014, FCX redeemed $210 million of the aggregate principal amount of the outstanding 6.625% Senior Notes due 2021. In accordance with the terms of the senior notes, the redemption was funded with cash contributions to FM O&G by FCX in exchange for additional equity, which is eliminated in the consolidated financial statements. Holders of these senior notes received the principal amount together with the redemption premium and accrued and unpaid interest to the redemption date. As a result of the redemption, FCX recorded a gain on early extinguishment of debt of $6 million in second-quarter 2014.

In March 2014, Sociedad Minera Cerro Verde S.A.A. (Cerro Verde, FCX's mining subsidiary in Peru) entered into a five-year, $1.8 billion senior unsecured credit facility that is nonrecourse to FCX and the other shareholders of Cerro Verde. The credit facility allows for term loan borrowings up to the full amount of the facility, less any amounts issued and outstanding under a $500 million letter of credit sublimit. Interest on amounts drawn under the term loan is based on London Interbank Offered Rate (LIBOR) plus a spread (currently 1.90 percent) based on Cerro Verde’s total net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio as defined in the agreement. Amounts may be drawn or letters of credit may be issued over a two-year period to fund a portion of Cerro Verde’s expansion project and for Cerro Verde's general corporate purposes. The credit facility amortizes in three installments in amounts necessary for the aggregate borrowings and outstanding letters of credit not to exceed 85 percent of the $1.8 billion commitment on September 30, 2017, 70 percent on March 31, 2018, and 35 percent on September 30, 2018, with the remaining balance due on the maturity date of March 10, 2019. At June 30, 2014, there were no borrowings and no letters of credit issued under Cerro Verde’s credit facility.

FCX recorded a loss on early extinguishment of debt of $45 million ($39 million to net income attributable to FCX common stockholders) in first-quarter 2013 for financing costs incurred for the terminated $9.5 billion acquisition bridge loan facility, which was entered into in December 2012 to provide interim financing for FCX's second-quarter 2013 acquisitions of PXP and MMR.

Consolidated interest expense (excluding capitalized interest) totaled $225 million in second-quarter 2014, $167 million in second-quarter 2013, $449 million for the first six months of 2014 and $242 million for the first six months of 2013. Capitalized interest included in property, plant, equipment and mining development costs, net, totaled $39 million in second-quarter 2014, $27 million in second-quarter 2013, $79 million for the first six months of 2014 and $45 million for the six months of 2013. Capitalized interest included in oil and gas properties not subject to amortization totaled $22 million in second-quarter 2014, $8 million in second-quarter 2013, $45 million for the first six months of 2014 and $8 million for the first six months of 2013.

On June 25, 2014, FCX's Board of Directors declared a quarterly dividend of $0.3125 per share, which was paid on August 1, 2014, to common shareholders of record at the close of business on July 15, 2014.

In connection with the second-quarter 2013 acquisition of PXP, FCX issued 91 million shares of its common stock.

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NOTE 7. FINANCIAL INSTRUMENTS

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

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. As a result of the acquisition of PXP, FCX assumed a variety of crude oil and natural gas commodity derivatives to hedge the exposure to the volatility of crude oil and natural gas commodity prices. Derivative financial instruments used by FCX to manage its risks do not contain credit risk-related contingent provisions. As of June 30, 2014, and December 31, 2013, 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), a division of the New York Mercantile Exchange (NYMEX), average copper price in the month of shipment. FCX hedges this price exposure in a manner that allows it to receive the COMEX average price in the month of shipment while the customers pay the fixed price they requested. FCX accomplishes this by entering into copper futures or swap contracts. Hedging gains or losses from these copper futures and swap contracts are recorded in revenues. FCX did not have any significant gains or losses during the three-month or six-month periods ended June 30, 2014 and 2013, resulting from hedge ineffectiveness. At June 30, 2014, FCX held copper futures and swap contracts that qualified for hedge accounting for 53 million pounds at an average contract price of $3.10 per pound, with maturities through September 2015.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Copper futures and swap contracts:				
Unrealized gains (losses):				
Derivative financial instruments	$12	$(6)	$—	$(18)
Hedged item – firm sales commitments	(12)	6	—	18
Realized losses:				
Matured derivative financial instruments	(2)	(13)	(4)	(14)

Derivatives Not Designated as Hedging Instruments

Embedded Derivatives. As described in Note 1 to FCX's annual report on Form 10-K for the year ended December 31, 2013, under “Revenue Recognition,” certain FCX copper concentrate, copper cathode and gold sales contracts provide for provisional pricing primarily based on the London Metal Exchange (LME) copper price or the COMEX copper price and the London Bullion Market Association (London) gold price at the time of shipment as specified in the contract. Similarly, FCX purchases copper under contracts that provide for provisional pricing. FCX applies the normal purchases and normal sales scope exception in accordance with derivatives and hedge accounting guidance to the host sales agreements since the contracts do not allow for net settlement and always result in physical delivery.

Sales and purchases with a provisional sales price contain an embedded derivative (i.e., the price settlement mechanism is settled after the time of delivery) that is required to be bifurcated from the host contract. The host contract is the sale or purchase of the metals contained in the concentrates or cathodes at the then-current LME or COMEX copper price or the London gold price as defined in the contract. Mark-to-market price fluctuations recorded through the settlement date are reflected in revenues for sales contracts and in cost of sales as production and delivery costs for purchase contracts.

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A summary of FCX's embedded commodity derivatives at June 30, 2014, follows:

	Open Positions	Average Price Per Unit Contract	Market	Maturities Through
Embedded derivatives in provisional sales contracts:				
Copper (millions of pounds)	496	$3.08	$3.18	November 2014
Gold (thousands of ounces)	85	1,273	1,314	August 2014
Embedded derivatives in provisional purchase contracts:				
Copper (millions of pounds)	84	3.07	3.19	October 2014

Crude Oil and Natural Gas Contracts. As a result of the acquisition of PXP, FCX has derivative contracts for 2014 and 2015 that consist of crude oil options and natural gas swaps. These crude oil and natural gas derivatives are not designated as hedging instruments and are recorded at fair value with the mark-to-market gains and losses recorded in revenues.

The crude oil options were entered into by PXP to protect the realized price of a portion of expected future sales in order to limit the effects of crude oil price decreases. At June 30, 2014, these contracts are composed of crude oil put spreads consisting of put options with a floor limit. The premiums associated with put options are deferred until the settlement period. At June 30, 2014, the deferred option premiums and accrued interest associated with the crude oil option contracts totaled $329 million, which was included as a reduction of the fair value of the crude oil options contracts. At June 30, 2014, the outstanding crude oil option contracts, which settle monthly and cover approximately 20 million barrels in 2014 and approximately 31 million barrels in 2015, follow:

Period	Instrument Type	Daily Volumes (thousand barrels)	Average Strike Price (per barrel)[a] Floor	Floor Limit	Average Deferred Premium (per barrel)	Index
2014						
Jul - Dec	Put options[b]	75	$90	$70	$5.74	Brent
Jul - Dec	Put options[b]	30	95	75	6.09	Brent
Jul - Dec	Put options[b]	5	100	80	7.11	Brent
2015						
Jan - Dec	Put options[b]	84	90	70	6.89	Brent

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

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

In addition, at June 30, 2014, outstanding natural gas swaps with a weighted-average fixed swap price of $4.09 per million British thermal units (MMBtu) cover approximately 18 million MMBtu of natural gas, with maturities through December 2014 (on daily volumes of 100,000 MMBtu). If the Henry Hub index price is less than the fixed price, FCX receives the difference between the fixed price and the Henry Hub index price. FCX pays the difference between the index price and the fixed price if the Henry Hub index price is greater than the fixed price.

Copper Forward Contracts. Atlantic Copper, FCX's wholly owned smelting and refining unit in Spain, enters into forward copper contracts designed to hedge its copper price risk whenever its physical purchases and sales pricing periods do not match. These economic hedge transactions are intended to hedge against changes in copper prices, with the mark-to-market hedging gains or losses recorded in cost of sales. At June 30, 2014, Atlantic Copper held net forward copper purchase contracts for 19 million pounds at an average contract price of $3.07 per pound, with maturities through July 2014.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Embedded derivatives in provisional copper and gold sales contracts[a]	$84	$(205)	$(85)	$(288)
Crude oil options[a]	(68)	(54)	(104)	(54)
Natural gas swaps[a]	(2)	19	(16)	19
Copper forward contracts[b]	4	—	5	3

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

Unsettled Derivative Financial Instruments

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

	June 30, 2014	December 31, 2013
Commodity Derivative Assets:		
Derivatives designated as hedging instruments:		
Copper futures and swap contracts[a]	$6	$6
Derivatives not designated as hedging instruments:		
Embedded derivatives in provisional copper and gold sales/purchase contracts	55	63
Copper forward contracts	2	—
Total derivative assets	$63	$69
Commodity Derivative Liabilities:		
Derivatives designated as hedging instruments:		
Copper futures and swap contracts[a]	$1	$—
Derivatives not designated as hedging instruments:		
Embedded derivatives in provisional copper and gold sales/purchase contracts	12	16
Crude oil options[b]	298	309
Natural gas swaps	7	4
Copper forward contracts	—	1
Total derivative liabilities	$318	$330

a. FCX paid $1 million to brokers at June 30, 2014, and at December 31, 2013, for margin requirements (recorded in other current assets).
b. Included $329 million at June 30, 2014, and $444 million at December 31, 2013, for deferred premiums and accrued interest.

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

	Assets		Liabilities	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Gross amounts recognized:				
Commodity contracts:				
Embedded derivatives on provisional sales/purchase contracts	$55	$63	$12	$16
Crude oil and natural gas derivatives	—	—	305	313
Copper derivatives	8	6	1	1
	63	69	318	330
Less gross amounts of offset:				
Commodity contracts:				
Embedded derivatives on provisional sales/purchase contracts	—	10	—	10
Crude oil and natural gas derivatives	—	—	—	—
Copper derivatives	1	—	1	—
	1	10	1	10
Net amounts presented in balance sheet:				
Commodity contracts:				
Embedded derivatives on provisional sales/purchase contracts	55	53	12	6
Crude oil and natural gas derivatives	—	—	305	313
Copper derivatives	7	6	—	1
	$62	$59	$317	$320
Balance sheet classification:				
Trade accounts receivable	$55	$53	$—	$—
Other current assets	7	6	—	—
Accounts payable and accrued liabilities	—	—	232	205
Other liabilities	—	—	85	115
	$62	$59	$317	$320

Credit Risk. FCX is exposed to credit loss when financial institutions with which FCX has entered into derivative transactions (commodity, foreign exchange and interest rate swaps) are unable to pay. To minimize the risk of such losses, FCX uses counterparties that meet certain credit requirements and periodically reviews the creditworthiness of these counterparties. FCX does not anticipate that any of the counterparties it deals with will default on their obligations. As of June 30, 2014, the maximum amount of credit exposure associated with derivative transactions was $62 million.

Other Financial Instruments. Other financial instruments include cash and 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 $72 million at June 30, 2014, and $211 million at December 31, 2013), 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 8 for the fair values of investment securities, legally restricted funds and long-term debt).

In addition, FCX has non-detachable warrants, which are considered to be embedded derivative instruments, associated with FM O&G's Plains Offshore Operations Inc. (Plains Offshore) 8% Convertible Preferred Stock (Preferred Stock) (refer to Note 8 for the fair value of these instruments).

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NOTE 8. FAIR VALUE MEASUREMENT

Fair value accounting guidance includes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). FCX recognizes transfers between levels at the end of the reporting period. FCX did not have any significant transfers in or out of Level 1, 2 or 3 for second-quarter 2014.

A summary of the carrying amount and fair value of FCX's financial instruments, other than cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable (refer to Note 7), follows (in millions):

	At June 30, 2014				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
Assets					
Investment securities:[a,b]					
Money market funds[c]	$434	$434	$434	$—	$—
U.S. core fixed income fund	22	22	—	22	—
Equity securities	4	4	4	—	—
Total	460	460	438	22	—
Legally restricted funds:[a,b,d]					
U.S. core fixed income fund	50	50	—	50	—
Government bonds and notes	35	35	—	35	—
Government mortgage-backed securities	31	31	—	31	—
Corporate bonds	29	29	—	29	—
Asset-backed securities	16	16	—	16	—
Money market funds	6	6	6	—	—
Municipal bonds	1	1	—	1	—
Total	168	168	6	162	—
Derivatives:[a,e]					
Embedded derivatives in provisional sales/purchase contracts in a gross asset position	55	55	—	55	—
Copper futures and swap contracts	6	6	6	—	—
Copper forward contracts	2	2	2	—	—
Total	63	63	8	55	—
Total assets		$691	$452	$239	$—
Liabilities					
Derivatives:[a,e]					
Embedded derivatives in provisional sales/purchase contracts in a gross liability position	$12	$12	$—	$12	$—
Crude oil options	298	298	—	—	298
Natural gas swaps	7	7	—	7	—
Copper futures and swap contracts	1	1	1	—	—

Total	318	318	1	19	298
Long-term debt, including current portion[f]	20,296	20,607	—	20,607	—
Total liabilities		$20,925	$1	$20,626	$298

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	At December 31, 2013				
	Carrying	Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
Assets					
Investment securities:[a,b]					
U.S. core fixed income fund	$21	$21	$—	$21	$—
Money market funds	18	18	18	—	—
Equity securities	5	5	5	—	—
Total	44	44	23	21	—
Legally restricted funds:[a,b,d]					
U.S. core fixed income fund	48	48	—	48	—
Government mortgage-backed securities	34	34	—	34	—
Corporate bonds	28	28	—	28	—
Government bonds and notes	28	28	—	28	—
Money market funds	28	28	28	—	—
Asset-backed securities	15	15	—	15	—
Municipal bonds	1	1	—	1	—
Total	182	182	28	154	—
Derivatives:[a,e]					
Embedded derivatives in provisional sales/purchase contracts in a gross asset position	63	63	—	63	—
Copper futures and swap contracts	6	6	5	1	—
Total	69	69	5	64	—
Total assets		$295	$56	$239	$—
Liabilities					
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in a gross liability position[e]	$16	$16	$—	$16	$—
Crude oil options[e]	309	309	—	—	309
Natural gas swaps[e]	4	4	—	4	—
Copper forward contracts[e]	1	1	1	—	—
Plains Offshore warrants[g]	2	2	—	—	2
Total	332	332	1	20	311
Long-term debt, including current portion[f]	20,706	20,487	—	20,487	—
Total liabilities		$20,819	$1	$20,507	$311

a. Recorded at fair value.

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

c. Included $414 million held in an escrow account for future oil and gas property acquisitions (refer to Note 2 for further discussion).

d.

Excluded $225 million of time deposits (which approximated fair value) at June 30, 2014 (included in other current assets), and at December 31, 2013 ($15 million included in other current assets and $210 million in other assets), associated with the Cerro Verde royalty dispute.

e. Refer to Note 7 for further discussion and balance sheet classifications. Crude oil options are net of $329 million at June 30, 2014, and $444 million at December 31, 2013, for deferred premiums and accrued interest.

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

g. Included in other liabilities.

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

Fixed income securities (U.S. core fixed income funds, government securities, corporate bonds, asset-backed securities and municipal bonds) are valued using a bid evaluation 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.

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

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

FCX's derivative financial instruments for crude oil options are valued using an option pricing model, which uses various inputs including IntercontinentalExchange, Inc. crude oil prices, volatilities, interest rates and contract terms. FCX's derivative financial instruments for natural gas swaps are valued using a pricing model that has various inputs including NYMEX price quotations, interest rates and contract terms. Valuations are adjusted for credit quality, using the counterparties' credit quality for asset balances and FCX's credit quality for liability balances (which considers the impact of netting agreements on counterparty credit risk, including whether the position with the counterparty is a net asset or net liability). For asset balances, FCX uses the credit default swap value for counterparties when available or the spread between the risk-free interest rate and the yield rate on the counterparties' publicly traded debt for similar instruments. The 2014 natural gas swaps are classified within Level 2 of the fair value hierarchy because the inputs used in the valuation models are directly or indirectly observable for substantially the full term of the instruments. The 2014 and 2015 crude oil options are classified within Level 3 of the fair value hierarchy because the inputs used in the valuation models are not observable for substantially the full term of the instruments. The significant unobservable inputs used in the fair value measurement of the crude oil options are implied volatilities and deferred premiums. Significant increases (decreases) in implied volatilities in isolation would result in a significantly higher (lower) fair value measurement. The implied volatilities ranged from 14 percent to 55 percent, with a weighted average of 21 percent. The deferred premiums ranged from $5.15 per barrel to $7.22 per barrel, with a weighted average of $6.49 per barrel. Refer to Note 7 for further discussion of these derivative financial instruments.

FCX’s derivative financial instruments for copper futures and swap contracts and copper forward contracts that are traded on the respective exchanges are classified within Level 1 of the fair value hierarchy because they are valued using quoted monthly COMEX or LME prices at each reporting date based on the month of maturity (refer to Note 7 for further discussion). Certain of these contracts are traded on the over-the-counter market and are classified within Level 2 of the fair value hierarchy based on COMEX and LME forward prices.

The fair value of warrants associated with the Plains Offshore Preferred Stock was determined with an option pricing model that used unobservable inputs. The inputs used in the valuation model are the estimated fair value of the underlying Plains Offshore common stock, expected exercise price, expected term, expected volatility and risk-free interest rate. The assumptions used in the valuation model are highly subjective because the common stock of Plains Offshore is not publicly traded. As a result, these warrants are classified within Level 3 of the fair value hierarchy.

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

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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, 2014.

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

	Crude Oil Options	Plains Offshore Warrants
Fair value at December 31, 2013	$(309)	$(2)
Net realized losses	(6) [a]	—
Net unrealized (losses) gains included in earnings related to assets and liabilities still held at the end of the period	(100) [b]	2 [c]
Settlement payments	117	—
Fair value at June 30, 2014	$(298)	$—

a. Recorded in revenues.

b. Included net unrealized losses of $98 million recorded in revenues and $2 million of interest expense associated with the deferred premiums.

c. Recorded in other (expense) income, net.

NOTE 9. CONTINGENCIES AND COMMITMENTS

Litigation. During second-quarter 2014, 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, 2013, and Note 9 of FCX's quarterly report on Form 10-Q for the quarter ended March 31, 2014.

Tax and Other Matters. Cerro Verde Royalty Dispute. There were no significant changes to the Cerro Verde royalty dispute during the first six months of 2014 (refer to Note 12 of FCX’s annual report on Form 10-K for the year ended December 31, 2013, for further discussion of this matter).

Indonesia Tax Matters. As reported in Note 12 of FCX’s annual report on Form 10-K for the year ended December 31, 2013, PT-FI has received assessments from the Indonesian tax authorities for additional taxes and interest related to various audit exceptions for the years 2005, 2006, 2007, 2008 and 2011. PT-FI has filed objections to these assessments because it believes it has properly determined and paid its taxes.

During second-quarter 2014, the Indonesian tax authorities issued a tax assessment for 2012 and refunded $151 million (before foreign exchange adjustments) in August 2014 associated with income tax overpayments made by PT-FI ($303 million was included in other accounts receivable in the condensed consolidated balance sheets at December 31, 2013). PT-FI expects to file objections and use other means available under Indonesian tax laws and regulations to recover the remaining 2012 overpayments that it believes it is due.

As of June 30, 2014, PT-FI had $379 million included in other assets for amounts paid on disputed tax assessments, which it believes are collectable.

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NOTE 10. BUSINESS SEGMENTS
FCX has organized its operations into six primary divisions – North America copper mines, South America mining, Indonesia mining, Africa mining, Molybdenum mines and U.S. oil and gas operations. Notwithstanding this structure, FCX internally reports information on a mine-by-mine basis for its mining operations. Therefore, FCX concluded that its operating segments include individual mines or operations relative to its mining operations. For oil and gas operations, FCX determines its operating segments on a country-by-country basis. Operating segments that meet certain thresholds are reportable segments, which are disclosed separately in the following tables.

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

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

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Business Segments

(In millions)	Mining Operations																
	North America Copper Mines			South America				Indonesia	Africa								
	Morenci	Other Mines	Total	Cerro Verde	Candelaria	Other Mines	Total	Grasberg	Tenke	Molybdenum Mines	Rod & Refining	Atlantic Copper Smelting & Refining	Other Mining & Eliminations	Total Mining	U.S. Oil & Gas Operations	Corporate Other & Eliminations	FCX Tot
Three Months Ended June 30, 2014																	
Revenues:																	
Unaffiliated customers	$52	$55	$107	$421	$213	$311	$945	$523 [a]	$386	$—	$1,234	$623	$468 [b]	$4,286	$1,236 [c]	$—	$5,
Intersegment	474	888	1,362	23	62	1	86	—	32	170	8	6	(1,664)	—	—	—	—
Production and delivery	312	558	870	195	164	171	530	511	198	81	1,233	618	(1,287)	2,754	329	(1)	3,0
Depreciation, depletion and amortization	43	85	128	43	16	36	95	54	63	24	3	10	17	394	616	3	1,0
Selling, general and administrative expenses	1	—	1	1	1	—	2	25	3	—	—	5	6	42	59	63	164
Mining exploration and research expenses	—	2	2	—	—	—	—	—	—	—	—	—	32	34	—	—	34
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	—	—	76	76	—	—	76
Operating income (loss)	170	298	468	205	94	105	404	(67)	154	65	6	(4)	(40)	986	232	(65)	1,1
Interest expense, net	—	1	1	—	—	—	—	—	—	—	—	3	18	22	74	68	164
Provision for income taxes	—	—	—	73	32	35	140	(33)	33	—	—	—	—	140	—	188	328
Total assets at June 30, 2014	3,675	5,822	9,497	6,901	1,520	2,271	10,692	7,972	4,952	2,099	259	882	1,127	37,516	25,293	1,200	64,
Capital expenditures	289	35	324	391	12	13	416	243	29	14	1	5	17	1,049	903	(2)	1,9

Three Months Ended June

30, 2013																	
Revenues:																	
Unaffiliated customers	$38	$76	$114	$311	$138	$315	$764	$471 [a]	$355	$—	$1,265	$583	$399 [b]	$3,951	$336 [c]	$1	$4,
Intersegment	444	751	1,195	86	101	—	187	120	10	144	7	4	(1,667)	—	—	—	—
Production and delivery	301	552	853	189	174	153	516	563	185	78	1,262	575	(1,273)	2,759	89	5	2,8
Depreciation, depletion and amortization	37	71	108	37	16	33	86	58	57	212		12	14	358	169	3	530
Selling, general and administrative expenses	1	1	2	2	—	—	2	27	3	—	—	4	9	47	14	125	186
Mining exploration and research expenses	—	1	1	—	—	—	—	—	—	—	—	—	60	61	—	3	64
Environmental obligations and shutdown costs	—	(2)	(2)	—	—	—	—	—	—	—	—	—	18	16	—	—	16
Operating income (loss)	143	204	347	169	49	129	347	(57)	120	458		(4)	(96)	710	64	(135)	639
Interest expense, net	2	1	3	2	—	—	2	10	2	—	—	4	20	41	26	65	132
Provision for income taxes	—	—	—	59	20	48	127	(4)	22	—	—	—	—	145	—	(105) [d]	40
Total assets at June 30, 2013	2,730	5,768	8,498	6,089	1,623	2,487	10,199	7,095	4,887	2,081	267	934	1,100	35,061	26,587	1,509	63,
Capital expenditures	204	82	286	208	28	8	244	320	46	421		11	23	973	190	10	1,1

a. Included PT-FI’s sales to PT Smelting totaling $540 million in second-quarter 2014 and $291 million in second-quarter 2013.

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

c. Included net mark-to-market losses associated with crude oil and natural gas derivative contracts totaling $70 million in second-quarter 2014 and $35 million for the period from June 1, 2013, to June 30, 2013.

d. Included $183 million of net benefits resulting from oil and gas acquisitions.

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(In millions)	Mining Operations North America Copper Mines			South America				Indonesia	Africa							
	Morenci	Other Mines	Total	Cerro Verde	Candelaria	Other Mines	Total	Grasberg	Tenke	Molybdenum Mines	Rod & Refining	Atlantic Copper Smelting & Refining	Other Mining & Eliminations	Total Mining	U.S. Oil & Gas Operations	C C & E
Six Months Ended June 30, 2014																
Revenues:																
Unaffiliated customers	$75	$116	$191	$701	$341	$605	$1,647	$985 [a]	$692	$—	$2,380	$1,211	$904 [b]	$8,010	$2,497 [c]	$
Intersegment	918	1,646	2,564	87	190	5	282	8	53	296	16	11	(3,230)	—	—	—
Production and delivery	595	1,061	1,656	360	314	332	1,006	894	350	157	2,381	1,206	(2,470)	5,180	640	(
Depreciation, depletion and amortization	77	158	235	79	35	68	182	102	114	46	5	20	36	740	1,232	7
Selling, general and administrative expenses	1	1	2	2	1	1	4	46	6	—	—	9	13	80	116	1
Mining exploration and research expenses	—	4	4	—	—	—	—	—	—	—	—	—	60	64	—	—
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	—	—	82	82	—	—
Operating income (loss)	320	538	858	347	181	209	737	(49)	275	93	10	(13)	(47)	1,864	509	(
Interest expense, net	1	1	2	—	—	—	—	—	—	—	—	7	36	45	150	1
Provision for income taxes	—	—	—	130	68	69	267	(15)	57	—	—	—	—	309	—	3
Capital expenditures	533	94	627	791	22	26	839	479	60	33	2	6	27	2,073	1,484	5
Six Months Ended June 30, 2013																
Revenues:																

Unaffiliated customers	$118	$121	$239	$601	$391	$622	$1,614	$1,335 [a]	$793	$—$2,595	$1,216	$740 [b]	$8,532	$336 [c]	$
Intersegment	880	1,575	2,455	195	156	—	351	187	10	2874	10	(3,314)	—	—	—
Production and delivery	598	1,054	1,652	360	341	290	991	1,126	370	158,590	1,203	(2,615)	5,475	89	8
Depreciation, depletion and amortization	70	140	210	70	25	62	157	113	115	415	22	22	685	169	5
Selling, general and administrative expenses	1	2	3	2	1	—	3	53	6	——	9	18	92	14	1
Mining exploration and research expenses	—	1	1	—	—	—	—	—	—	——	—	109	110	—	6
Environmental obligations and shutdown costs	—	(6)	(6)	—	—	—	—	—	—	——	—	37	31	—	—
Operating income (loss)	329	505	834	364	180	270	814	230	312	8814	(8)	(145)	2,139	64	(
Interest expense, net	3	1	4	2	—	—	2	12	2	——	8	40	68	26	9
Provision for income taxes	—	—	—	123	64	91	278	116	66	——	—	—	460	—	8
Capital expenditures	357	186	543	372	68	30	470	511	103	822	19	40	1,770	190	1

a. Included PT-FI’s sales to PT Smelting totaling $913 million for the first six months of 2014 and $721 million for the first six months of 2013.

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

c. Included net mark-to-market losses associated with crude oil and natural gas derivative contracts totaling $120 million for the first six months of 2014 and $35 million for the period from June 1, 2013, to June 30, 2013.

d. Included $183 million of net benefits resulting from oil and gas acquisitions.

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NOTE 11. GUARANTOR FINANCIAL STATEMENTS
In March 2013, FCX completed the sale of $6.5 billion of senior notes. These notes, along with FCX's senior notes sold in February 2012, 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 FCX, including indebtedness under the revolving credit facility. The guarantee ranks senior in right of payment with all future subordinated obligations and is effectively subordinated in right of payment to any debt of FCX's subsidiaries that are not subsidiary guarantors. In the future, FM O&G LLC's guarantee may be released or terminated for certain obligations under the following circumstances: (i) all or substantially all of the equity interests or assets of FM O&G LLC are sold to a third party; or (ii) FM O&G LLC no longer has any obligations under any FM O&G senior notes or any refinancing thereof and no longer guarantees any obligations of FCX under the revolver, the term loan or any other senior debt.

The following condensed consolidating financial information includes information regarding FCX, as issuer, FM O&G LLC, as guarantor, and all other non-guarantor subsidiaries of FCX. Included are the condensed consolidating balance sheets at June 30, 2014, and December 31, 2013, and the related condensed consolidating statements of comprehensive income for the three and six months ended June 30, 2014 and 2013, and condensed consolidating statements of cash flows for the six months ended June 30, 2014 and 2013, which should be read in conjunction with FCX's notes to the consolidated financial statements (in millions). Certain amounts in the Condensed Consolidating Statement of Cash Flows for the six months ended June 30, 2013, have been reclassified to conform with the current period presentation. These amounts, which were not material, had no effect on the reported changes in cash and cash equivalents.

CONDENSED CONSOLIDATING BALANCE SHEET
June 30, 2014

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$1	$1,457	$—	$1,458
Accounts receivable	388	2,840	2,466	(2,936)	2,758
Other current assets	78	56	5,904	—	6,038
Total current assets	466	2,897	9,827	(2,936)	10,254
Property, plant, equipment and mining development costs, net	25	45	25,337	—	25,407
Oil and gas properties, net - full cost method:					
Subject to amortization, less accumulated amortization	—	4,583	6,460	14	11,057
Not subject to amortization	—	1,853	8,916	—	10,769
Investments in consolidated subsidiaries	32,769	10,107	11,416	(54,292)	—
Goodwill	—	217	1,500	—	1,717
Other assets	6,346	3,432	4,241	(9,214)	4,805
Total assets	$39,606	$23,134	$67,697	$(66,428)	$64,009
LIABILITIES AND EQUITY					
Current liabilities	$1,550	$1,026	$6,088	$(1,106)	$7,558
Long-term debt, less current portion	12,435	6,762	5,885	(7,570)	17,512

Deferred income taxes	4,244 [a]	—	3,207	—	7,451
Environmental and asset retirement obligations, less current portion	—	291	3,003	—	3,294
Other liabilities	46	3,457	1,753	(3,474)	1,782
Total liabilities	18,275	11,536	19,936	(12,150)	37,597
Redeemable noncontrolling interest	—	—	745	—	745
Equity:					
Stockholders' equity	21,331	11,598	43,140	(54,737)	21,332
Noncontrolling interests	—	—	3,876	459	4,335
Total equity	21,331	11,598	47,016	(54,278)	25,667
Total liabilities and equity	$39,606	$23,134	$67,697	$(66,428)	$64,009

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

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CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2013

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$—	$1,985	$—	$1,985
Accounts receivable	855	659	2,258	(1,210)	2,562
Other current assets	114	38	5,273	—	5,425
Total current assets	969	697	9,516	(1,210)	9,972
Property, plant, equipment and mining development costs, net	27	43	23,972	—	24,042
Oil and gas properties, net - full cost method:					
Subject to amortization, less accumulated amortization	—	6,207	6,265	—	12,472
Not subject to amortization	—	2,649	8,238	—	10,887
Investments in consolidated subsidiaries	31,162	9,712	12,468	(53,342)	—
Goodwill	—	437	1,479	—	1,916
Other assets	7,126	4,640	4,128	(11,710)	4,184
Total assets	$39,284	$24,385	$66,066	$(66,262)	$63,473
LIABILITIES AND EQUITY					
Current liabilities	$1,003	$758	$4,222	$(1,210)	$4,773
Long-term debt, less current portion	13,184	7,199	8,056	(8,045)	20,394
Deferred income taxes	4,137 [a]	—	3,273	—	7,410
Environmental and asset retirement obligations, less current portion	—	301	2,958	—	3,259
Other liabilities	26	3,436	1,893	(3,665)	1,690
Total liabilities	18,350	11,694	20,402	(12,920)	37,526
Redeemable noncontrolling interest	—	—	716	—	716
Equity:					
Stockholders' equity	20,934	12,691	41,100	(53,791)	20,934
Noncontrolling interests	—	—	3,848	449	4,297
Total equity	20,934	12,691	44,948	(53,342)	25,231
Total liabilities and equity	$39,284	$24,385	$66,066	$(66,262)	$63,473

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

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
Three and Six Months Ended June 30, 2014
Three Months Ended June 30, 2014

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	$—	$570	$4,952	$—	$5,522
Total costs and expenses	21	489	3,865	(6)	4,369
Operating (loss) income	(21)	81	1,087	6	1,153
Interest expense, net	(87)	(44)	(51)	18	(164)
Net (loss) gain on early extinguishment of debt	(1)	6	—	—	5
Other income (expense), net	17	1	(8)	(18)	(8)
Benefit from (provision for) income taxes	26	26	(378)	(2)	(328)
Equity in affiliated companies' net earnings (losses)	548	126	154	(826)	2
Net income (loss)	482	196	804	(822)	660
Net income and preferred dividends attributable to noncontrolling interests	—	—	(180)	2	(178)
Net income (loss) attributable to FCX common stockholders	$482	$196	$624	$(820)	$482
Other comprehensive income	—	—	1	—	1
Total comprehensive income (loss)	$482	$196	$625	$(820)	$483

Six Months Ended June 30, 2014

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	$—	$1,214	$9,293	$—	$10,507
Total costs and expenses	32	1,015	7,204	(8)	8,243
Operating (loss) income	(32)	199	2,089	8	2,264
Interest expense, net	(169)	(85)	(109)	38	(325)
Net (loss) gain on early extinguishment of debt	(1)	6	—	—	5
Other income (expense), net	37	1	25	(38)	25
Benefit from (provision for) income taxes	5	(17)	(670)	(3)	(685)
Equity in affiliated companies' net earnings (losses)	1,152	256	339	(1,745)	2
Net income (loss)	992	360	1,674	(1,740)	1,286
Net income and preferred dividends attributable to noncontrolling interests	—	—	(291)	(3)	(294)
Net income (loss) attributable to FCX common stockholders	$992	$360	$1,383	$(1,743)	$992
Other comprehensive income	—	—	4	—	4
Total comprehensive income (loss)	$992	$360	$1,387	$(1,743)	$996

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
Three and Six Months Ended June 30, 2013
Three Months Ended June 30, 2013

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	$—	$162	$4,126	$—	$4,288
Total costs and expenses	76	135	3,438	—	3,649
Operating (loss) income	(76)	27	688	—	639
Interest expense, net	(92)	(12)	(39)	11	(132)
Gain on investment in MMR	128	—	—	—	128
Other income (expense), net	11	—	13	(11)	13
Benefit from (provision for) income taxes	35	(5)	(70)	—	(40)
Equity in affiliated companies' net earnings (losses)	476	20	(3)	(491)	2
Net income (loss)	482	30	589	(491)	610
Net income and preferred dividends attributable to noncontrolling interests	—	—	(133)	5	(128)
Net income (loss) attributable to FCX common stockholders	$482	$30	$456	$(486)	$482
Other comprehensive income	—	—	5	—	5
Total comprehensive income (loss)	$482	$30	$461	$(486)	$487

Six Months Ended June 30, 2013

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	$—	$162	$8,709	$—	$8,871
Total costs and expenses	95	135	6,647	—	6,877
Operating (loss) income	(95)	27	2,062	—	1,994
Interest expense, net	(128)	(12)	(64)	15	(189)
Losses on early extinguishment of debt	(45)	—	—	—	(45)
Gain on investment in MMR	128	—	—	—	128
Other income (expense), net	15	—	10	(15)	10
Benefit from (provision for) income taxes	26	(5)	(489)	—	(468)
Equity in affiliated companies' net earnings (losses)	1,229	20	(46)	(1,199)	4
Net income (loss)	1,130	30	1,473	(1,199)	1,434
Net income and preferred dividends attributable to noncontrolling interests	—	—	(292)	(12)	(304)
Net income (loss) attributable to FCX common stockholders	$1,130	$30	$1,181	$(1,211)	$1,130
Other comprehensive income	—	—	11	—	11
Total comprehensive income (loss)	$1,130	$30	$1,192	$(1,211)	$1,141

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2014

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Cash flow from operating activities:					
Net income (loss)	$992	$360	$ 1,674	$ (1,740)	$ 1,286
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Depreciation, depletion and amortization	2	545	1,440	(8)	1,979
Net losses on crude oil and natural gas derivative contracts	—	120	—	—	120
Net gain (loss) on early extinguishment of debt	1	(6)	—	—	(5)
Equity in (earnings) losses of consolidated subsidiaries	(1,152)	(256)	39	1,367	(2)
Other, net	121	(12)	(123)	—	(14)
(Increases) decreases in working capital and changes in other tax payments	(164)	(2,165)	1,552	—	(777)
Net cash (used in) provided by operating activities	(200)	(1,414)	4,582	(381)	2,587
Cash flow from investing activities:					
Capital expenditures	—	(897)	(2,665)	—	(3,562)
Acquisition of Deepwater GOM interest	—	—	(925)	—	(925)
Intercompany loans	1,318	1,629	—	(2,947)	—
Investment in consolidated subsidiary	(364)	(96)	1,079	(619)	—
Net proceeds from sale of Eagle Ford shale assets	—	3,009	—	—	3,009
Other, net	—	(381)	18	—	(363)
Net cash provided by (used in) investing activities	954	3,264	(2,493)	(3,566)	(1,841)
Cash flow from financing activities:					
Proceeds from debt	890	—	358	—	1,248
Repayments of debt	(990)	(224)	(397)	—	(1,611)
Intercompany loans	—	(170)	(2,777)	2,947	—
Cash dividends and distributions paid	(653)	(1,453)	203	1,000	(903)
Other, net	(1)	(2)	(4)	—	(7)
Net cash (used in) provided by financing activities	(754)	(1,849)	(2,617)	3,947	(1,273)
Net increase (decrease) in cash and cash equivalents	—	1	(528)	—	(527)
Cash and cash equivalents at beginning of period	—	—	1,985	—	1,985
Cash and cash equivalents at end of period	$—	$1	$ 1,457	$ —	$ 1,458

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2013

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Cash flow from operating activities:					
Net income (loss)	$1,130	$30	$ 1,473	$ (1,199)	$ 1,434
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Depreciation, depletion and amortization	2	79	772	6	859
Net loss on early extinguishment of debt	45	—	—	—	45
Gain on investment in MMR	(128)	—	—	—	(128)
Net losses on crude oil and natural gas derivative contracts	—	35	—	—	35
Equity in (earnings) losses of consolidated subsidiaries	(1,229)	(20)	52	1,193	(4)
Other, net	27	(6)	(202)	—	(181)
Decreases (increases) in working capital and changes in other tax payments, excluding amounts from acquisitions	142	31	(368)	—	(195)
Net cash (used in) provided by operating activities	(11)	149	1,727	—	1,865
Cash flow from investing activities:					
Capital expenditures	—	(151)	(1,827)	—	(1,978)
Acquisitions, net of cash acquired	(5,437)	—	(321)	344	(5,414)
Investment in consolidated subsidiary	104	—	—	(104)	—
Other, net	(5)	—	(259)	—	(264)
Net cash (used in) provided by investing activities	(5,338)	(151)	(2,407)	240	(7,656)
Cash flow from financing activities:					
Proceeds from debt	10,885	—	136	—	11,021
Repayments of debt	(4,050)	(415)	(76)	—	(4,541)
Intercompany loans	(476)	476	344	(344)	—
Cash dividends and distributions paid	(595)	—	(194)	104	(685)
Other, net	(415)	—	—	—	(415)
Net cash provided by (used in) financing activities	5,349	61	210	(240)	5,380
Net increase (decrease) in cash and cash equivalents	—	59	(470)	—	(411)
Cash and cash equivalents at beginning of period	—	—	3,705	—	3,705
Cash and cash equivalents at end of period	$—	$59	$ 3,235	$ —	$ 3,294

NOTE 12. NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU), which outlines a single comprehensive model and supersedes most of the current revenue recognition guidance. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is not permitted. FCX is evaluating this new guidance, but does not expect it to have a significant impact on its current revenue recognition policies.

In April 2014, FASB issued an ASU, which revises the guidance for reporting discontinued operations. This ASU amends the definition of a discontinued operation and requires additional disclosures about disposal transactions that do not meet the definition of a discontinued operation. For public entities, this ASU is effective for annual periods beginning on or after December 15, 2014, and interim periods within that year. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. FCX adopted this ASU in the first quarter of 2014.

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NOTE 13. SUBSEQUENT EVENTS

Mining Contract - Indonesia. On July 25, 2014, PT-FI entered into a Memorandum of Understanding (MOU) with the Indonesian government under which PT-FI and the government have agreed to negotiate an amended Contract of Work (COW) to address provisions related to the size of PT-FI’s concession area, royalties and taxes, domestic processing and refining, divestment, local content, and continuation of operations post-2021.

Under the MOU, provisions to be addressed in the negotiation of an amended COW include provisions for the development of new copper smelting and refining capacity in Indonesia, which will take into consideration an equitable sharing of costs between PT-FI (and any partners in the project) and the Indonesian government through fiscal incentives, provisions for divestment to the Indonesian government and/or Indonesian nationals of up to a 30 percent interest (an additional 20.64 percent interest) in PT-FI at fair value, and continuation of operations from 2022 through 2041. Negotiations will take into consideration PT-FI’s need for assurance of legal and fiscal terms post-2021 for PT-FI to continue with its large-scale investment program for the development of its underground reserves. The negotiations are expected to be completed within six months.

Effective with the signing of the MOU, PT-FI agreed to provide a $115 million assurance bond to support its commitment for smelter development, to increase royalties to 4.0 percent for copper and 3.75 percent for gold from the previous rates of 3.5 percent for copper and 1.0 percent for gold, and to pay export duties set forth in a new regulation. On July 25, 2014, the Indonesian government revised its January 2014 regulations (as discussed in Note 13 of FCX’s annual report on Form 10-K for the year ended December 31, 2013) regarding export duties to incorporate reduced rates for copper concentrate exports for companies engaged in smelter development. The revised regulations provide for duties on copper concentrate exports during smelter development initially at 7.5 percent, declining to 5.0 percent when development progress exceeds 7.5 percent and is eliminated when development progress exceeds 30 percent.

Under the MOU, no terms of the COW other than those relating to the export duties, smelter bond and royalties described previously will be changed until the completion of the amended COW.

FCX evaluated events after June 30, 2014, 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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REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the condensed consolidated balance sheet of Freeport-McMoRan Inc. (formerly Freeport-McMoRan Copper & Gold Inc.) as of June 30, 2014, and the related consolidated statements of income and comprehensive income for the three- and six-month periods ended June 30, 2014 and 2013, the consolidated statements of cash flows for the six-month periods ended June 30, 2014 and 2013, and the consolidated statement of equity for the six-month period ended June 30, 2014. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Freeport-McMoRan Inc. as of December 31, 2013, and the related consolidated statements of income, comprehensive income, cash flows, and equity for the year then ended (not presented herein), and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 27, 2014. In our opinion, the accompanying condensed consolidated balance sheet of Freeport-McMoRan Inc. as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Phoenix, Arizona
August 8, 2014

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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, "we," "us" and "our" refer to Freeport-McMoRan Inc. (FCX) and its consolidated subsidiaries. You should read this discussion in conjunction with our financial statements, the related Management’s Discussion and Analysis of Financial Condition and Results of Operations and the discussion of our Business and Properties in our annual report on Form 10-K for the year ended December 31, 2013, 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 and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" for further discussion). References to "Notes" are Notes included in our Notes to Consolidated Financial Statements. Throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, all references to earnings or losses per share are on a diluted basis.

OVERVIEW

Effective July 14, 2014, Freeport-McMoRan Copper & Gold Inc. changed its name to Freeport-McMoRan Inc. to simplify the corporate name and better reflect FCX's expanded portfolio of assets.

We are a premier U.S.-based natural resources company with an industry-leading global portfolio of mineral assets, significant oil and gas resources and a growing production profile. 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; significant mining operations in North and South America; the Tenke Fungurume (Tenke) minerals district in the Democratic Republic of Congo (DRC) in Africa; and significant oil and natural gas assets in the U.S., including reserves in the Deepwater Gulf of Mexico (GOM), onshore and offshore California, in the Haynesville shale play in Louisiana, in the Madden area in central Wyoming, and an industry-leading position in the emerging Inboard Lower Tertiary/Cretaceous natural gas trend in the shallow waters of the GOM and onshore in South Louisiana.

As further discussed in Note 2, in June 2014, we completed the sale of our Eagle Ford shale assets for $3.1 billion (before closing adjustments) and acquired additional interests in the Deepwater GOM for $0.9 billion. Refer to "Operations - Oil and Gas" for further discussion.

Our results for the second quarter and first six months of 2014 reflect the impact of restrictions on concentrate exports from Indonesia and a full six months of FCX Oil & Gas Inc. (FM O&G) results in 2014. Additionally, second-quarter 2013 was impacted by a temporary production suspension at PT Freeport Indonesia (PT-FI). Refer to "Consolidated Results" for further discussion of our consolidated financial results for the three- and six-month periods ended June 30, 2014 and 2013.

On July 25, 2014, PT-FI entered into a Memorandum of Understanding (MOU) with the Indonesian government under which, PT-FI and the government have agreed to negotiate an amended Contract of Work (COW), to be completed over the next six months, to address provisions related to the size of PT-FI’s concession area, royalties and taxes, domestic processing and refining, divestment, local content and continuation of operations post-2021. The MOU provides that negotiations for an amended COW will take into consideration PT-FI’s need for assurance of legal and fiscal terms post-2021 for PT-FI to continue with its large-scale investment program for the development of its underground reserves.

Execution of the MOU enabled the resumption of concentrate exports from PT-FI, which began in August 2014. Effective with the signing of the MOU, PT-FI has agreed to provide a $115 million assurance bond to support its commitment for smelter development, to increase royalties to 4.0 percent for copper and 3.75 percent for gold from the previous rates of 3.5 percent for copper and 1 percent for gold, and to pay export duties set forth in a new regulation. On July 25, 2014, the Indonesian government revised its January 2014 regulation regarding export duties to incorporate reduced rates for copper concentrate exports for companies engaged in smelter development. The revised regulations provide for duties on copper concentrate exports during smelter development initially at 7.5 percent, declining to 5 percent when development progress exceeds 7.5 percent, and is eliminated when development progress exceeds 30 percent. Refer to Note 13 and "Operations - Indonesia" for further discussion.

At June 30, 2014, we had $1.5 billion in consolidated cash and cash equivalents and $20.3 billion in total debt. On July 23, 2014, we redeemed $1.8 billion of senior notes, with an aggregate face value of $1.7 billion. We continue to target significant reductions in debt by the end of 2016 using cash flows generated above capital expenditures and other cash requirements and potentially, net proceeds from asset sales. Refer to Note 6 and "Capital Resources and Liquidity" for further discussion.

OUTLOOK

We view the long-term outlook for our business positively, supported by limitations on supplies of copper and oil and by the requirements for copper and oil in the world's economy. Our financial results vary as a result of fluctuations in market prices primarily for copper, gold, molybdenum and oil, as well as other factors. World market prices for these commodities have fluctuated historically and are affected by numerous factors beyond our control. Because we cannot control the price of our products, the key measures that management focuses on in operating our business are sales volumes, unit net cash costs for our mining operations, cash production costs per barrel of oil equivalent (BOE) for our oil and gas operations and operating cash flow. The outlook for each of these measures follows.

Sales Volumes. Following are our projected consolidated sales volumes for the year 2014:

Copper (millions of recoverable pounds):		
North America copper mines	1,700	
South America mining	1,200	
Indonesia mining	735	
Africa mining	440	
	4,075	
Gold (thousands of recoverable ounces):		
Indonesia mining	1,250	
North and South America mining	90	
	1,340	
Molybdenum (millions of recoverable pounds)	98	a
Oil Equivalents (million BOE, or MMBOE)	58.4	

a. Projected molybdenum sales include 53 million pounds produced by our Molybdenum mines and 45 million pounds produced by our North and South America copper mines.

Consolidated sales for third-quarter 2014 are expected to approximate 1.1 billion pounds of copper, 445 thousand ounces of gold, 23 million pounds of molybdenum and 12.2 MMBOE. Projected sales volumes are dependent on a number of factors, including operational performance and other factors.

Mining Unit Net Cash Costs. Assuming average prices of $1,300 per ounce of gold and $12 per pound of molybdenum for the second half of 2014, 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 $1.54 per pound of copper for the year 2014. These amounts include estimates of the new royalty rates and export duties at PT-FI. Quarterly unit net cash costs vary with fluctuations in sales volumes and average realized prices (primarily gold and molybdenum prices). The impact of price changes for the second half of 2014 on consolidated unit net cash costs would approximate $0.012 per pound for each $50 per ounce change in the average price of gold and $0.01 per pound for each $2 per pound change in the average price of molybdenum. Refer to "Consolidated Results – Production and Delivery Costs" for further discussion of consolidated production and delivery costs for our mining operations.

Oil and Gas Cash Production Costs per BOE. Based on current sales volume and cost estimates for the second half of 2014, cash production costs are expected to approximate $22 per BOE for the second half of 2014 and $20 per BOE for the year 2014. Refer to "Operations – Oil and Gas" for further discussion of oil and gas production costs.

Consolidated Operating Cash Flow. Our consolidated operating cash flows vary with prices realized from copper, gold, molybdenum and oil sales, our sales volumes, production costs, income taxes, other working capital changes and other factors. Based on current sales volume and cost estimates, including the new royalty rates and export duties at PT-FI, and assuming average prices of $3.25 per pound of copper, $1,300 per ounce of gold, $12 per pound of molybdenum and $110 per barrel of Brent crude oil for the second half of 2014, consolidated operating cash flows are estimated to approximate $6.7 billion for the year 2014 (net of $0.7 billion of working capital uses and changes in other tax payments). Projected consolidated operating cash flows for the year 2014 also reflect

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estimated taxes of $1.7 billion (refer to “Consolidated Results – Provision for Income Taxes” for further discussion of our projected consolidated effective annual tax rate for 2014). The impact of price changes during the second half of 2014 on operating cash flows would approximate $200 million for each $0.10 per pound change in the average price of copper, $40 million for each $50 per ounce change in the average price of gold, $55 million for each $2 per pound change in the average price of molybdenum and $60 million for each $5 per barrel change in the price of Brent crude oil above $100 per barrel.

MARKETS

Metals. World prices for copper, gold and molybdenum can fluctuate significantly. During the period from January 2004 through July 2014, the London Metal Exchange (LME) spot copper price varied from a low of $1.06 per pound in 2004 to a record high of $4.60 per pound in 2011, the London Bullion Market Association (London) PM gold price fluctuated from a low of $375 per ounce in 2004 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 $7.35 per pound in 2004 to a record high of $39.25 per pound in 2005. Copper, gold and molybdenum prices are affected by numerous factors beyond our control as described further in our “Risk Factors” contained in Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2013.

This graph presents LME spot copper prices and the combined reported stocks of copper at the LME, Commodity Exchange Inc., a division of the New York Mercantile Exchange (NYMEX), and the Shanghai Futures Exchange from January 2004 through July 2014. From 2006 through most of 2008, limited supplies, combined with growing demand from China and other emerging economies, resulted in high copper prices and low levels of inventories. Current copper prices are supported by a combination of demand from developing economies and pro-growth monetary and fiscal policy decisions in Europe, China and the U.S. During the first half of 2014, copper prices declined because of concerns about slowing growth rates in China and an outlook for higher near-term supplies. During second-quarter 2014, LME spot copper prices ranged from a low of $2.99 per pound to a high of $3.19 per pound, averaged $3.08 per pound, and closed at $3.16 per pound on June 30, 2014.

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. 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

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supplies of copper and production levels of mines and copper smelters. LME spot copper prices closed at $3.24 per pound on July 31, 2014.

This graph presents London PM gold prices from January 2004 through July 2014. An improving economic outlook and positive equity performance contributed to lower demand for gold in 2013 and early 2014, resulting in generally lower prices. During second-quarter 2014, London PM gold prices ranged from a low of $1,243 per ounce to a high of $1,326 per ounce, averaged $1,288 per ounce and closed at $1,315 per ounce on June 30, 2014. Gold prices closed at $1,285 per ounce on July 31, 2014.

This graph presents the Metals Week Molybdenum Dealer Oxide weekly average prices from January 2004 through July 2014. Molybdenum prices have improved during the first half of 2014, resulting from improved demand in the metallurgical sector. During second-quarter 2014, the weekly average price of molybdenum ranged from a low of $11.14 per pound to a high of $15.00 per pound, averaged $13.58 per pound and was $13.77 on June 30, 2014. The Metals Week Molybdenum Dealer Oxide weekly average price was $13.28 per pound on July 31, 2014.

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Oil and Gas. Market prices for crude oil and natural gas can fluctuate significantly. During the period from January 2004 through July 2014, the Brent crude oil price ranged from a low of $28.83 per barrel in 2004 to a high of $146.08 per barrel in 2008 and the NYMEX natural gas price fluctuated from a low of $2.04 per million British thermal units (MMBtu) in 2012 to a high of $13.91 per MMBtu in 2005. Crude oil and natural gas prices are affected by numerous factors beyond our control as described further in our "Risk Factors" contained in Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2013.

This graph presents Brent crude oil prices and NYMEX natural gas contract prices from January 2004 through July 2014. Current crude oil prices are supported by an improving global economy and demand outlook. During second-quarter 2014, the Brent crude oil price ranged from a low of $104.79 per barrel to a high of $115.06 per barrel, averaged $109.73 per barrel and was $112.36 per barrel on June 30, 2014. The Brent crude oil price was $106.02 per barrel on July 31, 2014.

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CONSOLIDATED RESULTS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013[a]	2014	2013[a]
SUMMARY FINANCIAL DATA	(in millions, except per share amounts)			
Revenues[b]	$5,522 [c,d]	$4,288 [c,d]	$10,507 [c,d]	$8,871 [c,d]
Operating income[b]	$1,153 [c,d,e,f]	$639 [c,d,f,g]	$2,264 [c,d,e,f]	$1,994 [c,d,f,g]
Net income attributable to common stockholders[h]	$482 [c,d,e,f,i,j]	$482 [c,d,f,g,k]	$992 [c,d,e,f,i,j]	$1,130 [c,d,f,g,j,k]
Diluted net income per share attributable to common stockholders	$0.46 [c,d,e,f,i,j]	$0.49 [c,d,f,g,k]	$0.95 [c,d,e,f,i,j]	$1.17 [c,d,f,g,j,k]
Diluted weighted-average common shares outstanding	1,045	984	1,045	968
Operating cash flows[l]	$1,386	$1,034	$2,587	$1,865
Capital expenditures	$1,950	$1,173	$3,562	$1,978
At June 30:				
Cash and cash equivalents	$1,458	$3,294	$1,458	$3,294
Total debt, including current portion	$20,296	$21,215	$20,296	$21,215

a. Reflects the results of FM O&G beginning June 1, 2013.

b. As further detailed in Note 10, following is a summary of revenues and operating income by operating division (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
Revenues	2014	2013	2014	2013
North America copper mines	$1,469	$1,309	$2,755	$2,694
South America mining	1,031	951	1,929	1,965
Indonesia mining	523	591	993	1,522
Africa mining	418	365	745	803
Molybdenum mines	170	144	296	287
Rod & Refining	1,242	1,272	2,396	2,609
Atlantic Copper Smelting & Refining	629	587	1,222	1,226
U.S. oil & gas operations	1,236	336	2,497	336
Other mining, corporate, other & eliminations	(1,196)	(1,267)	(2,326)	(2,571)
Total FCX revenues	$5,522	$4,288	$10,507	$8,871
Operating income (loss)				
North America copper mines	$468	$347	$858	$834
South America mining	404	347	737	814
Indonesia mining	(67)	(57)	(49)	230
Africa mining	154	120	275	312
Molybdenum mines	65	45	93	88
Rod & Refining	6	8	10	14
Atlantic Copper Smelting & Refining	(4)	(4)	(13)	(8)
U.S. oil & gas operations	232	64	509	64
Other mining, corporate, other & eliminations	(105)	(231)	(156)	(354)
Total FCX operating income	$1,153	$639	$2,264	$1,994

c. Includes favorable (unfavorable) adjustments to provisionally priced concentrate and cathode sales recognized in prior periods totaling $35 million ($16 million to net income attributable to common stockholders or $0.01 per share) for second-quarter 2014, $(117) million ($(55) million to net income attributable to common stockholders or $(0.06) per share) for second-quarter 2013, $(118) million ($(65) million to net income attributable to common stockholders or $(0.06) per share) for the first six months of 2014 and $(26) million ($(12) million to net income attributable to common stockholders or $(0.01) per share) for the first six months of 2013. Refer to "Revenues" for further discussion.

d. Includes net noncash mark-to-market (losses) gains associated with crude oil and natural gas derivative contracts totaling $(7) million ($(4) million to net income attributable to common stockholders or less than $(0.01) per share) for second-quarter 2014, $8 million ($5 million to net income attributable to common stockholders or less than $0.01 per share) for the first six months of 2014, and $(36) million ($(23) million to net income attributable to common stockholders or $(0.02) per share) for June 2013. Refer to "Revenues" for further discussion.

e. Includes fixed costs charged directly to cost of sales as a result of the impact of export restrictions on PT-FI's operating rates totaling $56 million ($30 million to net income attributable to common stockholders or $0.03 per share) for second-

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quarter 2014 and $109 million ($58 million to net income attributable to common stockholders or $0.06 per share) for the first six months of 2014.

f. Includes net charges for adjustments to environmental obligations and related litigation reserves of $69 million ($68 million to net income attributable to common stockholders or $0.06 per share) for the second quarter and first six months of 2014, $3 million ($2 million to net income attributable to common stockholders or less than $0.01 per share) for second-quarter 2013 and $7 million ($7 million to net income attributable to common stockholders or $0.01 per share) for the first six months of 2013.

g. Includes charges of $61 million ($46 million to net income attributable to common stockholders or $0.05 per share) for second-quarter 2013 and $75 million ($57 million to net income attributable to common stockholders or $0.06 per share) for the first six months of 2013 for transaction and related costs principally associated with the second-quarter 2013 oil and gas acquisitions.

h. 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.

i. Includes a charge of $58 million to net income attributable to common stockholders, or $0.06 per share, associated with deferred taxes recorded in connection with the allocation of goodwill to the sale of Eagle Ford.

j. Includes net gains (losses) on early extinguishment of debt totaling $5 million ($4 million to net income attributable to common stockholders or less than $0.01 per share) in the second quarter and first six months of 2014 primarily related to the redemption of senior notes and $(45) million ($(39) million to net income attributable to common stockholders ($(0.04) per share) for first six months of 2013 related to the termination of the acquisition bridge loan facilities.

k. Includes gains associated with the oil and gas acquisitions, including $128 million to net income attributable to common stockholders or $0.13 per share, primarily related to our preferred stock investment in and the subsequent acquisition of McMoRan Exploration Co., and $183 million to net income attributable to common stockholders or $0.19 per share, associated with net reductions in our deferred tax liabilities and deferred tax asset valuation allowances.

l. Includes net working capital (uses) sources and changes in other tax payments of $(364) million for second-quarter 2014, $235 million for second-quarter 2013, $(777) million for the first six months of 2014 and $(195) million for the first six months of 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013[a]	2014	2013[a]
SUMMARY OPERATING DATA				
Copper (recoverable)				
Production (millions of pounds)	931	909	1,879	1,889
Sales, excluding purchases (millions of pounds)	968	951	1,839	1,905
Average realized price per pound	$3.16	$3.17	$3.17	$3.29
Site production and delivery costs per pound[b]	$1.99	$2.11	$1.94	$2.02
Unit net cash costs per pound[b]	$1.72	$1.85	$1.64	$1.71
Gold (recoverable)				
Production (thousands of ounces)	166	151	397	386
Sales, excluding purchases (thousands of ounces)	159	173	346	387
Average realized price per ounce	$1,296	$1,322	$1,299	$1,434
Molybdenum (recoverable)				
Production (millions of pounds)	25	24	49	46
Sales, excluding purchases (millions of pounds)	25	23	52	48
Average realized price per pound	$13.43	$12.35	$12.27	$12.56
Oil Equivalents				
Sales volumes:				

MMBOE	16.0	5.0	32.2	5.0
Thousand BOE (MBOE) per day	176	169	178	169
Cash operating margin per BOE:[c]				
Realized revenues	$77.53	$74.37	$77.37	$74.37
Cash production costs	19.57	16.58	19.03	16.58
Cash operating margin	$57.96	$57.79	$58.34	$57.79

a. Reflects the results of FM O&G beginning June 1, 2013.

b. Reflects per pound weighted-average production and delivery costs and unit net cash costs (net of by-product credits) for all copper mines, excluding net noncash and other costs. Site production and delivery and unit net cash costs exclude $0.06 per pound of copper for the second quarter and first six months of 2014 for fixed costs charged directly to cost of sales as a

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result of the impact of export restrictions on PT-FI's operating rates. For reconciliations of the 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."

c. Cash operating margin for oil and gas operations reflects realized revenues less cash production costs. Realized revenues exclude noncash mark-to-market adjustments on derivative contracts, and cash production costs exclude accretion and other costs. For reconciliations of realized revenues and cash production costs per BOE to revenues and production and delivery costs reported in our consolidated financial statements, refer to "Product Revenues and Production Costs."

Revenues

Consolidated revenues totaled $5.5 billion in second-quarter 2014 and $10.5 billion for the first six months of 2014, compared with $4.3 billion in second-quarter 2013 and $8.9 billion for the first six months of 2013. Revenues included the sale of copper concentrates, copper cathodes, copper rod, gold, molybdenum, silver, cobalt hydroxide and beginning June 1, 2013, the sale of oil, natural gas and natural gas liquids (NGLs) by our oil and gas operations.

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 - 2013 periods	$4,288	$8,871
Mining operations:		
Higher (lower) sales volumes from mining operations:		
Copper	54	(219)
Gold	(17)	(59)
Molybdenum	20	47
(Lower) higher price realizations from mining operations:		
Copper	(10)	(221)
Gold	(4)	(47)
Molybdenum	27	(15)
Favorable (unfavorable) impact of net adjustments for prior period provisionally priced copper sales for mining operations	152	(92)
Higher (lower) Atlantic Copper revenues	42	(4)
Lower revenues from purchased copper	(68)	(135)
Other, including intercompany eliminations	138	220
Oil and gas operations:		
Oil and gas revenues, including realized cash losses on derivative contracts	871	2,117
Net noncash mark-to-market adjustments on crude oil and natural gas derivative contracts	29	44
Consolidated revenues - 2014 periods	$5,522	$10,507

Mining Sales Volumes

Consolidated copper sales volumes were 968 million pounds in second-quarter 2014 and 1.8 billion pounds for the first six months of 2014, compared with 951 million pounds in second-quarter 2013 and 1.9 billion pounds for the first six months of 2013. Consolidated gold sales volumes decreased to 159 thousand ounces in second-quarter 2014 and 346 thousand ounces for the first six months of 2014, compared with 173 thousand ounces in second-quarter 2013 and 387 thousand ounces for the first six months of 2013. Copper and gold sales volumes for the second quarter and first six months of 2014 reflect restrictions on concentrate exports from Indonesia, which resulted in a deferral of approximately 150 million pounds of copper and 240 thousand ounces of gold in second-quarter 2014 and 275 million pounds of copper and 380 thousand ounces of gold for the first six months of 2014. Partly offsetting these impacts were higher copper sales volumes from North America. Consolidated molybdenum sales volumes increased to 25 million pounds in second-quarter 2014 and 52 million pounds for the first six months of 2014, compared with 23 million pounds in second-quarter 2013 and 48 million pounds for the first six months of 2013. Refer to “Operations” for further discussion of sales volumes at our mining operations.

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Metal Price Realizations

Our consolidated revenues can vary significantly as a result of fluctuations in the market prices of copper, gold and molybdenum. Following is a summary of our average price realizations from mining operations for the second quarters and first six months of 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Copper (per pound)	$3.16	$3.17	$3.17	$3.29
Gold (per ounce)	$1,296	$1,322	$1,299	$1,434
Molybdenum (per pound)	$13.43	$12.35	$12.27	$12.56

We had lower copper and gold realizations in second-quarter 2014 and for the first six months of 2014, compared with second-quarter 2013 and the first six months of 2013. Realized molybdenum prices improved in second-quarter 2014, compared with second-quarter 2013. Refer to "Markets" for further discussion.

Provisionally Priced Copper Sales

During the first six months of 2014, 41 percent of our mined copper was sold in concentrate, 32 percent as cathode and 27 percent as rod from our North America operations. Impacts of net adjustments for prior period provisionally priced sales primarily relate to 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 spot copper prices. We receive market prices based on prices in the specified future period, which results in price fluctuations recorded through revenues until the date of settlement. We record revenues and invoice customers at the time of shipment based on then-current LME prices, which results in an embedded derivative on our provisionally priced concentrate and cathode sales that is adjusted to fair value through earnings each period, using the period-end forward prices, until final pricing on the date of 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.

Following is a summary of the favorable (unfavorable) impacts of net adjustments to the prior periods' provisionally priced copper sales for the second quarters and first six months of 2014 and 2013 (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$35	$(117)	$(118)	$(26)
Net income attributable to common stockholders	$16	$(55)	$(65)	$(12)
Net income per share attributable to common stockholders	$0.01	$(0.06)	$(0.06)	$(0.01)

At June 30, 2014, we had provisionally priced copper sales at our copper mining operations, primarily South America and Indonesia, totaling 329 million pounds of copper (net of intercompany sales and noncontrolling interests) recorded at an average of $3.18 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, 2014, provisional price recorded would have an approximate $11 million impact on 2014 net income attributable to common stockholders. The LME spot copper price closed at $3.24 per pound on July 31, 2014.

Purchased Copper

From time to time, we purchase copper cathode for processing by our Rod & Refining segment when production from our North America copper mines does not meet customer demand.

Oil & Gas Revenues

FM O&G's realized revenues totaled $1.2 billion ($77.53 per BOE) in second-quarter 2014, $2.5 billion ($77.37 per BOE) for the first six months of 2014 and $372 million ($74.37 per BOE) for June 2013.

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Consolidated sales of 16.0 MMBOE during second-quarter 2014 included 11.7 million barrels (MMBbls) of crude oil, 20.3 billion cubic feet (Bcf) of natural gas and 1.0 MMBbls of NGLs. Consolidated sales of 32.2 MMBOE for the first six months of 2014 included 23.5 MMBbls of crude oil, 39.8 Bcf of natural gas and 2.1 MMBbls of NGLs. Consolidated sales of 5.0 MMBOE during June 2013 included 3.4 MMBbls of crude oil, 7.7 Bcf of natural gas and 0.3 MMBbls of NGLs.

Refer to “Operations” for further discussion of realized revenues and sales volumes at our oil and gas operations.

In connection with the acquisition of Plains Exploration & Production Company (PXP) in June 2013, we have derivative contracts for 2014 and 2015 that consist of crude oil options and natural gas swaps at June 30, 2014. These crude oil and natural gas derivative contracts are not designated as hedging instruments; accordingly, they are recorded at fair value with the mark-to-market gains and losses recorded in revenues each period. Excluded from the realized revenues above are the following net noncash mark-to-market (losses) gains on crude oil and natural gas derivative contracts for the second quarter and first six months of 2014 and for June 2013 (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013[a]	2014	2013[a]
Revenues	$(7)	$(36)	$8	$(36)
Net income attributable to common stockholders	$(4)	$(23)	$5	$(23)
Net income per share attributable to common stockholders	$—	$(0.02)	$—	$(0.02)

a. Reflects the results of FM O&G beginning June 1, 2013.

Refer to Note 7 for further discussion of oil and gas derivative contracts.

Production and Delivery Costs

Consolidated production and delivery costs increased to $3.1 billion in second-quarter 2014 and $5.8 billion for the first six months of 2014, compared with $2.9 billion in second-quarter 2013 and $5.6 billion for the first six months of 2013. The increase in costs are primarily associated with production and delivery costs from our oil and gas operations beginning June 1, 2013, which totaled $329 million for second-quarter 2014, $640 million for the first six months of 2014 and $89 million for June 2013. Production and delivery costs for our mining operations for the second quarter and first six months of 2014 also reflected lower volumes from PT-FI related to restrictions on concentrate exports from Indonesia, while second-quarter 2013 production and delivery costs were impacted by a temporary suspension of operations at PT-FI.

Consolidated unit site production and delivery costs (before net noncash and other costs) for our copper mines of $1.99 per pound of copper in second-quarter 2014 and $1.94 per pound for the first six months of 2014, were lower than consolidated unit site production and delivery costs of $2.11 per pound in second-quarter 2013 and $2.02 per pound for the first six months of 2013 primarily reflecting higher North America sales volumes. Consolidated unit site production and delivery costs exclude fixed costs charged directly to cost of sales as a result of the impact of export restrictions on PT-FI's operating rates totaling $0.06 per pound of copper in the second quarter and first six months of 2014. Assuming achievement of current volume and cost estimates, consolidated unit site production and delivery costs are expected to average $1.95 per pound of copper for the year 2014. Refer to “Operations – Unit Net Cash Costs” for further discussion of unit net cash costs associated with our operating divisions and to “Product Revenues and Production Costs” for reconciliations of per pound costs by operating division to production and delivery costs applicable to sales reported in our consolidated financial statements.

Our mining operations require significant energy, principally diesel, electricity, coal and natural gas, most of which is obtained from third parties under long-term contracts. Energy costs are expected to approximate 20 percent of our consolidated copper production costs for the year 2014, including purchases of approximately 270 million gallons of diesel fuel; 8,000 gigawatt hours of electricity at our North America, South America and Africa copper mining operations (we generate all of our power at our Indonesia mining operation); 655 thousand metric tons of coal for our coal power plant in Indonesia; and 1 MMBtu of natural gas at certain of our North America mines.

Cash production costs for our oil and gas operations of $19.57 per BOE in second-quarter 2014 and $19.03 for the first six months of 2014, were higher than $16.58 per BOE in June 2013, primarily reflecting higher operating costs in California.

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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 and oil and gas operations. Consolidated depreciation, depletion and amortization expense totaled $1.0 billion in second-quarter 2014 and $2.0 billion for the first six months of 2014, compared with $530 million in second-quarter 2013 and $859 million for the first six months of 2013. Higher depreciation, depletion and amortization expense in the 2014 periods was primarily associated with depreciation, depletion and amortization costs from our oil and gas operations, which totaled $616 million for second-quarter 2014, $1.2 billion first six months of 2014 and $169 million for June 2013.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses totaled $164 million in second-quarter 2014 and $299 million for the first six months of 2014, compared with $186 million in second-quarter 2013 and $299 million for the first six months of 2013. Excluding amounts for our oil and gas operations, which totaled $59 million in second-quarter 2014, $116 million for the first six months of 2014 and $14 million for June 2013, selling, general and administrative expenses were lower in the 2014 periods primarily because of transaction costs incurred during 2013 associated with the oil and gas acquisitions.

Mining Exploration and Research Expenses

Consolidated exploration and research expenses for our mining operations totaled $34 million in second-quarter 2014 and $64 million for the first six months of 2014, compared with $64 million in second-quarter 2013 and $116 million for the first six months of 2013. We are actively conducting exploration activities near our existing mines with a focus on opportunities to expand reserves and resources to support development of additional future production capacity in the large mineral districts where we currently operate. Exploration results indicate opportunities for what we believe could be significant future potential reserve additions in North and South America, and in the Tenke minerals district. The drilling data in North America continues to indicate the potential for significantly expanded sulfide production.

For the year 2014, exploration and research expenditures for our mining operations are expected to approximate $135 million, including $100 million for exploration.

Under the full cost method of accounting, exploration costs for our oil and gas operations are capitalized to oil and gas properties.

Environmental Obligations and Shutdown Costs

Environmental obligation costs reflect net revisions to our long-term environmental obligations, which will vary from period to period because of changes to environmental laws and regulations, 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 for environmental obligations and shutdown costs totaled $76 million in second-quarter 2014 and $82 million for the first six months of 2014, compared with $16 million in second-quarter 2013 and $31 million for the first six months of 2013. Refer to Note 9 and "Contingencies" for further discussion of environmental obligations and litigation matters associated with closed facilities or operations.

Interest Expense, Net

Consolidated interest expense (excluding capitalized interest) increased to $225 million in second-quarter 2014 and $449 million for the first six months of 2014, compared with $167 million in second-quarter 2013 and $242 million for the first six months of 2013, reflecting additional interest expense associated with acquisition-related debt and assumed debt of PXP. Refer to Note 6 for further discussion.

Capitalized interest is related to the level of expenditures for our development projects and average interest rates on our borrowings, and totaled $61 million in second-quarter 2014 and $124 million for the first six months of 2014, compared with $35 million in second-quarter 2013 and $53 million for the first six months of 2013. Refer to "Capital Resources and Liquidity - Investing Activities" for further discussion of current development projects.

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Net Gains (Losses) on Early Extinguishment of Debt

Net gains (losses) on early extinguishment of debt totaled $5 million in the second quarter and first six months of 2014 primarily related to the redemption of senior notes and $(45) million for the first six months of 2013 related to the termination of the bridge loan facilities for the oil and gas acquisitions.

Gain on Investment in McMoRan Exploration Co. (MMR)

Gain on investment in MMR totaled $128 million in the second quarter and first six months of 2013 primarily related to the carrying value of our 2010 preferred stock investment in and the subsequent acquisition of MMR.

Provision for Income Taxes

Following is a summary of the approximate amounts used in the calculation of our consolidated provision for income taxes for the 2014 and 2013 periods (in millions, except percentages):

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Income (Loss)[a]	Effective Tax Rate	Income Tax (Provision) Benefit	Income (Loss)[a]	Effective Tax Rate	Income Tax (Provision) Benefit
U.S.	$936	31%	$(291)[b]	$578	28%	$(160)
South America	747	36%	(267)	784	35%	(278)
Indonesia	(39)	38%	15	213	54%	(116)[c]
Africa	187	30%	(57)	210	31%	(66)
Eliminations and other	138	N/A	(37)	113	N/A	(18)
Annualized rate adjustment[d]	—	N/A	(48)	—	N/A	(13)
	1,969	35%	(685)	1,898	34%	(651)
Adjustments	—	N/A	—	—	N/A	183[e]
Consolidated FCX	$1,969	35%[f]	$(685)	$1,898	25%	$(468)

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

b. Includes a $58 million charge for deferred taxes recorded in connection with the allocation of goodwill to the sale of Eagle Ford.

c. Includes an $18 million charge to reflect increases in tax reserves related to prior periods.

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

e. Reflects net reductions in our deferred tax liabilities and deferred tax asset valuation allowances resulting from the oil and gas acquisitions.

f. Our consolidated effective income tax rate is a function of the combined effective tax rates for the jurisdictions in which we conduct operations. Accordingly, variations in the relative proportions of jurisdictional income result in fluctuations to our consolidated effective income tax rate. Assuming average prices of $3.25 per pound for copper, $1,300 per ounce for gold, $12 per pound for molybdenum and Brent crude oil of $110 per barrel for the second half of 2014 and achievement of current sales volume and cost estimates, we estimate that our consolidated effective tax rate will approximate 34 percent for the year 2014.

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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 85 percent 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 copper smelter). Molybdenum concentrate is also produced by certain of our North America copper mines.

Operating and Development Activities. We have increased production from our North America copper mines by approximately 25 percent over the past five years and continue to evaluate a number of opportunities to invest in additional production capacity following positive exploration results. Future investments will be undertaken based on the results of economic and technical feasibility studies and market conditions.

Morenci Mill Expansion. At Morenci, start-up activities from the expanded mill project began in second-quarter 2014. Commissioning activities commenced in May 2014, with a ramp up to full rates expected to be achieved by year-end 2014. The project targets average incremental annual production of approximately 225 million pounds of copper (an approximate 40 percent increase from 2013) through an increase in milling rates from 50,000 metric tons of ore per day to approximately 115,000 metric tons of ore per day. At full rates, Morenci's copper production is expected to approach 1 billion pounds in 2015, compared with 564 million pounds in 2013. At June 30, 2014, $1.5 billion had been incurred for this project ($0.4 billion during the first six months of 2014).
Construction of the new mill is substantially complete. Remaining items include completion of the molybdenum circuit, which would add capacity of approximately 9 million pounds of molybdenum per year, and the construction of an expanded tailings storage facility, which is expected to be completed in 2015.

Operating Data. Following is summary operating data for the North America copper mines for the second quarters and first six months of 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Data, Net of Joint Venture Interest				
Copper (recoverable)				
Production (millions of pounds)	395	349	780	692
Sales, excluding purchases (millions of pounds)	423	372	794	725
Average realized price per pound	$3.16	$3.25	$3.21	$3.41
Molybdenum (millions of recoverable pounds)				
Production[a]	9	9	17	17
100% Operating Data				
SX/EW operations				
Leach ore placed in stockpiles (metric tons per day)	1,044,500	1,053,000	1,014,000	1,026,700
Average copper ore grade (percent)	0.25	0.22	0.25	0.22
Copper production (millions of recoverable pounds)	234	226	463	435

Mill operations				
Ore milled (metric tons per day)	260,100	240,900	257,700	245,700
Average ore grade (percent):				
Copper	0.44	0.38	0.43	0.39
Molybdenum	0.03	0.03	0.03	0.03
Copper recovery rate (percent)	82.8	82.4	84.4	83.4
Copper production (millions of recoverable pounds)	188	148	370	306

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a. Refer to "Consolidated Results" for our consolidated molybdenum sales volumes, which include sales of molybdenum produced at the North America copper mines.

Copper sales volumes from our North America copper mines increased to 423 million pounds in second-quarter 2014 and 794 million pounds for the first six months of 2014, compared with 372 million pounds in second-quarter 2013 and 725 million pounds for the first six months of 2013, reflecting higher milling rates and ore grades at several operating sites.

North America's copper production is expected to continue to increase during the second half of 2014 with the ramp up of the Morenci mill expansion project. Copper sales from our North America copper mines are expected to approximate 1.7 billion pounds for the year 2014, compared with 1.4 billion pounds in 2013. Refer to "Outlook" for projected molybdenum sales volumes.

Unit Net Cash Costs. Unit net cash costs per pound of copper is a measure intended to provide investors with information about the cash-generating capacity of our mining operations expressed on a basis relating to the primary metal product for our respective operations. We use this measure for the same purpose and for monitoring operating performance by our mining operations. This information differs from measures of performance determined in accordance with U.S. GAAP and should not be considered in isolation or as a substitute for measures of performance determined in accordance with U.S. GAAP. This measure is presented by other metals mining companies, although our measure may not be comparable to similarly titled measures reported by other companies.

Gross Profit per Pound of Copper and Molybdenum

The following tables summarize unit net cash costs and gross profit per pound at our North America copper mines for the second quarters and first six months of 2014 and 2013. Refer to “Product Revenues and Production Costs” for an explanation of the “by-product” and “co-product” methods and a reconciliation of unit net cash costs per pound to production and delivery costs applicable to sales reported in our consolidated financial statements.

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	By-Product Method	Co-Product Method		By-Product Method	Co-Product Method	
		Copper	Molybdenum[a]		Copper	Molybdenum[a]
Revenues, excluding adjustments	$3.16	$3.16	$12.26	$3.25	$3.25	$11.17
Site production and delivery, before net noncash and other costs shown below	1.87	1.83	2.63	2.09	2.01	4.63
By-product credits	(0.28)	—	—	(0.25)	—	—
Treatment charges	0.11	0.11	—	0.08	0.08	—
Unit net cash costs	1.70	1.94	2.63	1.92	2.09	4.63
Depreciation, depletion and amortization	0.30	0.29	0.19	0.28	0.27	0.30
Noncash and other costs, net	0.07	0.06	0.03	0.08	0.08	0.04
Total unit costs	2.07	2.29	2.85	2.28	2.44	4.97
Revenue adjustments, primarily for pricing on prior period open sales	0.02	0.02	—	(0.04)	(0.04)	—
Gross profit per pound	$1.11	$0.89	$9.41	$0.93	$0.77	$6.20
Copper sales (millions of recoverable pounds)	421	421		370	370	
			9			9

Molybdenum sales (millions of recoverable pounds)[a]

a. Reflects sales of molybdenum produced by certain of the North America copper mines to our molybdenum sales company at market-based pricing.

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	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	By-Product Method	Co-Product Method Copper	Co-Product Method Molybdenum	By-Product Method	Co-Product Method Copper	Co-Product Method Molybdenum
Revenues, excluding adjustments	$3.21	$3.21	$11.19 [a]	$3.41	$3.41	$11.45 [a]
Site production and delivery, before net noncash and other costs shown below	1.87	1.84	2.56	2.04	1.98	3.98
By-product credits	(0.25)	—	—	(0.26)	—	—
Treatment charges	0.12	0.12	—	0.11	0.10	—
Unit net cash costs	1.74	1.96	2.56	1.89	2.08	3.98
Depreciation, depletion and amortization	0.29	0.28	0.14	0.28	0.27	0.26
Noncash and other costs, net	0.08	0.08	0.03	0.08	0.08	0.04
Total unit costs	2.11	2.32	2.73	2.25	2.43	4.28
Revenue adjustments, primarily for pricing on prior period open sales	(0.01)	(0.01)	—	(0.01)	(0.01)	—
Gross profit per pound	$1.09	$0.88	$8.46	$1.15	$0.97	$7.17
Copper sales (millions of recoverable pounds)	790	790		722	722	
Molybdenum sales (millions of recoverable pounds)[a]			17			17

a. Reflects sales of molybdenum produced by certain of the North America copper mines to our molybdenum sales company at market-based pricing.

Our North America copper mines have varying cost structures because of differences in ore grades and characteristics, processing costs, by-product credits and other factors. Average unit net cash costs (net of by-product credits) of $1.70 per pound of copper in second-quarter 2014 and $1.74 per pound for the first six months of 2014, were lower than unit net cash costs of $1.92 per pound in second-quarter 2013 and $1.89 per pound for the first six months of 2013, primarily reflecting higher copper sales volumes.

Because certain assets are depreciated on a straight-line basis, North America's average unit depreciation rate may vary with asset additions and the level of copper production and sales.

Assuming achievement of current sales volume and cost estimates, and an average price of $12 per pound of molybdenum for the second half of 2014, average unit net cash costs (net of by-product credits) for our North America copper mines are expected to approximate $1.74 per pound of copper for the year 2014, compared with $1.87 per pound in 2013. North America's unit net cash costs for the remainder of 2014 would change by approximately $0.015 per pound for each $2 per pound change in the average price of molybdenum.

South America Mining

We operate four copper mines in South America – Cerro Verde in Peru and El Abra, Candelaria and Ojos del Salado in Chile. We own a 53.56 percent interest in Cerro Verde, a 51 percent interest in El Abra, and an 80 percent interest in the Candelaria and Ojos del Salado mining complex. All operations in South America are consolidated in our financial statements.

South America mining includes open-pit and underground mining, sulfide ore concentrating, leaching and SX/EW operations. Production from our South America mines is sold as copper concentrate or copper cathode under long-term contracts. Our South America mines ship a portion of their copper concentrate inventories to Atlantic Copper. In addition to copper, the Candelaria and Ojos del Salado mines produce gold and silver, and the Cerro Verde mine produces molybdenum concentrates.

Development Activities.

Cerro Verde Expansion. Construction activities associated with a large-scale expansion at Cerro Verde are in progress. Detailed project engineering and procurement are substantially complete and construction is advancing on schedule. The project will expand the concentrator facilities from 120,000 metric tons of ore per day to 360,000 metric tons of ore per day and provide incremental annual production of approximately 600 million pounds of copper and 15 million pounds of molybdenum beginning in 2016. At June 30, 2014, $2.3 billion had been incurred for this project (approximately $0.8 billion during the first six months of 2014), with approximately $2.3 billion remaining to be incurred. Considering the long-term nature and large size of the project, actual costs could vary from these estimates.

El Abra Sulfide. We continue to evaluate a potential large-scale milling operation at El Abra to process additional sulfide material and to achieve higher recoveries. Exploration results in recent years at El Abra indicate a significant sulfide resource, which could potentially support a major mill project. Future investments will be dependent on technical studies, economic factors and global copper market conditions.

Operating Data. Following is summary operating data for our South America mining operations for the second quarters and first six months of 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Copper (recoverable)				
Production (millions of pounds)	300	299	614	597
Sales (millions of pounds)	310	315	617	600
Average realized price per pound	$3.17	$3.13	$3.16	$3.22
Gold (recoverable)				
Production (thousands of ounces)	21	19	42	40
Sales (thousands of ounces)	20	21	43	42
Average realized price per ounce	$1,302	$1,317	$1,302	$1,449
Molybdenum (millions of recoverable pounds)				
Production[a]	2	2	5	4
SX/EW operations				
Leach ore placed in stockpiles (metric tons per day)	281,700	279,100	284,200	271,000
Average copper ore grade (percent)	0.52	0.50	0.51	0.50
Copper production (millions of recoverable pounds)	125	110	248	219
Mill operations				
Ore milled (metric tons per day)	182,200	194,600	185,500	191,600
Average ore grade:				
Copper (percent)	0.56	0.56	0.58	0.57
Gold (grams per metric ton)	0.11	0.09	0.11	0.10
Molybdenum (percent)	0.02	0.02	0.02	0.02
Copper recovery rate (percent)	88.7	89.8	89.4	90.3
Copper production (millions of recoverable pounds)	175	189	366	378

a. Refer to "Consolidated Results" for our consolidated molybdenum sales volumes, which include sales of molybdenum produced at Cerro Verde.

Consolidated copper sales volumes from South America of 310 million pounds in second-quarter 2014 were slightly lower than second-quarter 2013 sales of 315 million pounds, primarily reflecting timing of shipments. South America's consolidated copper sales volumes increased to 617 million pounds for the first six months of 2014, compared with 600 million pounds for the first six months of 2013, primarily reflecting higher copper production from El Abra.

Consolidated sales volumes from South America mines are expected to approximate 1.2 billion pounds of copper for the year 2014, compared with sales of 1.3 billion pounds of copper in 2013, primarily reflecting lower ore grades at Candelaria and Cerro Verde. Refer to "Outlook" for projected gold and molybdenum sales volumes.

Unit Net Cash Costs. Unit net cash costs per pound of copper is a measure intended to provide investors with information about the cash-generating capacity of our mining operations expressed on a basis relating to the primary metal product for our respective operations. We use this measure for the same purpose and for monitoring operating performance by our mining operations. This information differs from measures of performance determined in accordance with U.S. GAAP and should not be considered in isolation or as a substitute for measures of

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performance determined in accordance with U.S. GAAP. This measure is presented by other metals mining companies, although our measure may not be comparable to similarly titled measures reported by other companies.

Gross Profit per Pound of Copper

The following tables summarize unit net cash costs and gross profit per pound at the South America mining operations for the second quarters and first six months of 2014 and 2013. Unit net cash costs per pound of copper are reflected under the by-product and co-product methods as the South America mining operations also had small amounts of molybdenum, gold and silver sales. Refer to “Product Revenues and Production Costs” for an explanation of the “by-product” and “co-product” methods and a reconciliation of unit net cash costs per pound to production and delivery costs applicable to sales reported in our consolidated financial statements.

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
	By-Product Method	Co-Product Method	By-Product Method	Co-Product Method
Revenues, excluding adjustments	$3.17	$3.17	$3.13	$3.13
Site production and delivery, before net noncash and other costs shown below	1.64	1.52	1.62	1.50
By-product credits	(0.23)	—	(0.24)	—
Treatment charges	0.18	0.18	0.16	0.16
Royalty on metals[a]	0.01	0.01	—	—
Unit net cash costs	1.60	1.71	1.54	1.66