FREEPORT MCMORAN COPPER & GOLD INC
Form 10-Q
May 07, 2012

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 March 31, 2012
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-11307-01
Freeport-McMoRan Copper & Gold Inc.
(Exact name of registrant as specified in its charter)

Delaware	74-2480931
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
333 North Central Avenue Phoenix, AZ	85004-2189
(Address of principal executive offices)	(Zip Code)

(602) 366-8100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes ¨ No

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

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

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

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

On April 30, 2012, there were issued and outstanding 949,116,060 shares of the registrant's common stock, par value $0.10 per share.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2012	December 31, 2011
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$4,496	$4,822
Trade accounts receivable	1,165	892
Other accounts receivable	272	250
Inventories:		
Materials and supplies, net	1,450	1,354
Mill and leach stockpiles	1,392	1,289
Product	1,254	1,226
Other current assets	223	214
Total current assets	10,252	10,047
Property, plant, equipment and development costs, net	18,986	18,449
Long-term mill and leach stockpiles	1,747	1,686
Long-term receivables	727	675
Intangible assets, net	326	325
Other assets	867	888
Total assets	$32,905	$32,070
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$2,140	$2,297
Dividends payable	298	240
Current portion of reclamation and environmental obligations	253	236
Accrued income taxes	229	163
Current portion of debt	4	4
Total current liabilities	2,924	2,940
Long-term debt, less current portion	3,517	3,533
Deferred income taxes	3,413	3,255
Reclamation and environmental obligations, less current portion	2,170	2,138
Other liabilities	1,582	1,651
Total liabilities	13,606	13,517
Equity:		
FCX stockholders' equity:		
Common stock	107	107
Capital in excess of par value	19,043	19,007
Retained earnings	1,013	546
Accumulated other comprehensive loss	(453)	(465)
Common stock held in treasury	(3,575)	(3,553)
Total FCX stockholders' equity	16,135	15,642

Noncontrolling interests	3,164	2,911
Total equity	19,299	18,553
Total liabilities and equity	$32,905	$32,070

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

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

	Three Months Ended March 31,	
	2012	2011
	(In millions, except per share amounts)	
Revenues	$4,605	$5,709
Cost of sales:		
Production and delivery	2,428	2,377
Depreciation, depletion and amortization	267	232
Total cost of sales	2,695	2,609
Selling, general and administrative expenses	104	114
Exploration and research expenses	62	50
Environmental obligations and shutdown costs	10	—
Total costs and expenses	2,871	2,773
Operating income	1,734	2,936
Interest expense, net	(63)	(98)
Losses on early extinguishment of debt	(168)	(7)
Other (expense) income, net	(13)	10
Income before income taxes and equity in affiliated companies’ net earnings	1,490	2,841
Provision for income taxes	(491)	(984)
Equity in affiliated companies’ net earnings	2	4
Net income	1,001	1,861
Net income attributable to noncontrolling interests	(237)	(362)
Net income attributable to FCX common stockholders	$764	$1,499
Net income per share attributable to FCX common stockholders:		
Basic	$0.81	$1.58
Diluted	$0.80	$1.57
Weighted-average common shares outstanding:		
Basic	949	946
Diluted	955	955
Dividends declared per share of common stock	$0.3125	$0.25

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

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

	Three Months Ended March 31,	
	2012	2011
	(In millions)	
Net Income	$1,001	$1,861
Other comprehensive income, net of taxes:		
Unrealized gains on securities arising during the period	—	1
Translation adjustments arising during the period	—	1
Defined benefit plans:		
Amortization of unrecognized amounts included in net periodic benefit costs	7	3
Adjustment to deferred tax valuation allowance	5	—
Other comprehensive income	12	5
Comprehensive income	1,013	1,866
Comprehensive income attributable to noncontrolling interests	(237)	(362)
Comprehensive income attributable to FCX common stockholders	$776	$1,504

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

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

	Three Months Ended March 31, 2012	2011
	(In millions)	
Cash flow from operating activities:		
Net income	$1,001	$1,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	267	232
Stock-based compensation	32	43
Pension plans contributions	(52)	—
Charges for reclamation and environmental obligations, including accretion	35	38
Payments of reclamation and environmental obligations	(45)	(52)
Losses on early extinguishment of debt	168	7
Deferred income taxes	168	127
(Increase) decrease in long-term mill and leach stockpiles	(61)	23
Other, net	8	(34)
(Increases) decreases in working capital:		
Accounts receivable	(482)	511
Inventories	(248)	(253)
Other current assets	40	(18)
Accounts payable and accrued liabilities	(64)	(264)
Accrued income and other taxes	34	138
Net cash provided by operating activities	801	2,359
Cash flow from investing activities:		
Capital expenditures:		
North America copper mines	(143)	(119)
South America	(152)	(140)
Indonesia	(182)	(125)
Africa	(127)	(11)
Molybdenum	(95)	(71)
Other	(8)	(39)
Other, net	(7)	—
Net cash used in investing activities	(714)	(505)
Cash flow from financing activities:		
Proceeds from debt	3,004	9
Repayments of debt	(3,159)	(13)
Restricted cash for early extinguishment of debt	—	(1,124)
Cash dividends paid:		
Common stock	(238)	(238)
Noncontrolling interests	(1)	(133)
Contributions from noncontrolling interests	—	5
Net payments for stock-based awards	(4)	(20)
Excess tax benefit from stock-based awards	7	21
Other, net	(22)	(9)
Net cash used in financing activities	(413)	(1,502)

Net (decrease) increase in cash and cash equivalents	(326)	352
Cash and cash equivalents at beginning of year	4,822	3,738
Cash and cash equivalents at end of period	$4,496	$4,090

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

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

	FCX Stockholders' Equity									
	Common Stock					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, 2011	1,071	$107	$19,007	$546	$(465)	123	$(3,553)	$ 15,642	$ 2,911	$18,553
Exercised and issued stock-based awards	2	—	12	—	—	—	—	12	—	12
Stock-based compensation	—	—	32	—	—	—	—	32	—	32
Tax benefit for stock-based awards	—	—	3	—	—	—	—	3	—	3
Tender of shares for stock-based awards	—	—	6	—	—	1	(22)	(16)	—	(16)
Dividends on common stock	—	—	—	(297)	—	—	—	(297)	—	(297)
Dividends to noncontrolling interests	—	—	—	—	—	—	—	—	(1)	(1)
Change in ownership interests for noncontrolling interests	—	—	(17)	—	—	—	—	(17)	17	—
Comprehensive income	—	—	—	764	12	—	—	776	237	1,013
Balance at March 31, 2012	1,073	$107	$19,043	$1,013	$(453)	124	$(3,575)	$ 16,135	$ 3,164	$19,299

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

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

1. GENERAL INFORMATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and disclosures required by generally accepted accounting principles (GAAP) in the United States (U.S.). Therefore, this information should be read in conjunction with Freeport-McMoRan Copper & Gold Inc.'s (FCX) consolidated financial statements and notes contained in its 2011 Annual Report on Form 10-K. 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. All such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the three-month period ended March 31, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

2. EARNINGS PER SHARE

FCX's basic net income per share of common stock was calculated by dividing net income attributable to common stock by the weighted-average shares of common stock outstanding during the period. Following is a reconciliation of net income and weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share (in millions, except per share amounts):

	Three Months Ended March 31,	
	2012	2011
Net income	$1,001	$1,861
Net income attributable to noncontrolling interests	(237)	(362)
Net income attributable to FCX common stockholders	$764	$1,499
Weighted-average shares of common stock outstanding	949	946
Add stock issuable upon exercise or vesting of:		
Dilutive stock options[a]	5	8
Restricted stock units	1	1
Weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share	955	955
Diluted net income per share attributable to FCX common stockholders	$0.80	$1.57

a. Potential additional shares of common stock that were anti-dilutive totaled approximately three million for first-quarter 2012 and approximately two million for first-quarter 2011.

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 net income per share of common stock. Excluded amounts were approximately 9 million stock options with a weighted-average exercise price of $50.63 per option for first-quarter 2012 and less than 1 million stock options with a weighted-average exercise price of $57.86 per option for first-quarter 2011.

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

The components of inventories follow (in millions):

	March 31, 2012	December 31, 2011
Mining operations:[a]		
Raw materials	$1	$1
Finished goods[b]	805	769
Atlantic Copper, S.L.U. (Atlantic Copper):		
Raw materials (concentrates)	218	260
Work-in-process	212	187
Finished goods	18	9
Total product inventories	1,254	1,226
Total materials and supplies, net[c]	1,450	1,354
Total inventories, less current portion of mill and leach stockpiles	$2,704	$2,580

a. FCX's mining operations also have work-in-process inventories (i.e., mill and leach stockpiles), which have been summarized below.

b. Primarily includes molybdenum concentrates, and copper concentrates, anodes, cathodes and rod.

c. Materials and supplies inventory is net of obsolescence reserves totaling $27 million at March 31, 2012, and $26 million at December 31, 2011.

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

	March 31, 2012	December 31, 2011
Current:		
Mill stockpiles	$85	$69
Leach stockpiles	1,307	1,220
Total current mill and leach stockpiles	$1,392	$1,289
Long-term:[a]		
Mill stockpiles	$549	$535
Leach stockpiles	1,198	1,151
Total long-term mill and leach stockpiles	$1,747	$1,686

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

4. INCOME TAXES

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

	Three Months Ended March 31,	
	2012	2011
United States operations	$83	$138
International operations	408	846
Total	$491	$984

FCX’s consolidated effective income tax rate totaled 33 percent for first-quarter 2012 and 35 percent for first-quarter 2011. Variations in the relative proportions of jurisdictional income can result in fluctuations to FCX’s consolidated effective income tax rate.

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5. DEBT AND EQUITY TRANSACTIONS

In February 2012, FCX sold $500 million of 1.40% Senior Notes due 2015, $500 million of 2.15% Senior Notes due 2017 and $2.0 billion of 3.55% Senior Notes due 2022 for total net proceeds of $2.97 billion. Interest on the 1.40% Senior Notes is payable semiannually on February 13 and August 13 commencing on August 13, 2012. Interest on the 2.15% Senior Notes and the 3.55% Senior Notes is payable semiannually on March 1 and September 1 commencing on September 1, 2012. The unsecured senior notes rank equally with FCX's other existing and future unsecured and unsubordinated indebtedness.

On March 14, 2012, FCX redeemed the remaining $3.0 billion of its outstanding 8.375% Senior Notes due 2017 for which holders received 104.553 percent of the principal amount together with the accrued and unpaid interest. As a result of this redemption, FCX recorded a loss on early extinguishment of debt of $168 million ($149 million to net income attributable to FCX common stockholders or $0.16 per diluted share) in first-quarter 2012.

During the first quarter of 2011, FCX entered into a new senior unsecured revolving credit facility, which replaced the existing revolving credit facilities that were scheduled to mature on March 19, 2012. FCX recognized a loss on early extinguishment of debt totaling $7 million ($6 million to net income attributable to FCX common shareholders or $0.01 per diluted share) in first-quarter 2011 associated with this transaction.

On February 24, 2011, FCX announced its intent to redeem the remaining $1.1 billion of its outstanding 8.25% Senior Notes due 2015. On March 30, 2011, FCX transferred funds totaling $1.2 billion to a restricted cash account to pay the holders of the 8.25% Senior Notes (principal and premium amounts together with accrued and unpaid interest). On April 1, 2011, holders of these senior notes received 104.125 percent of the principal amount together with accrued and unpaid interest. As a result of this redemption, FCX recorded a loss on early extinguishment of debt totaling $55 million ($49 million to net income attributable to FCX common stockholders or $0.05 per diluted share) in second-quarter 2011.

Consolidated interest expense (excluding capitalized interest) totaled $99 million in first-quarter 2012 and $123 million in first-quarter 2011. Capitalized interest totaled $36 million in first-quarter 2012 and $25 million in first-quarter 2011.

On February 7, 2012, the Board of Directors authorized an increase in the cash dividend on FCX's common stock from an annual rate of $1.00 per share to $1.25 per share. On March 28, 2012, FCX's Board of Directors declared a quarterly dividend of $0.3125 per share, which was paid on May 1, 2012, to common shareholders of record at the close of business on April 13, 2012.

6. FINANCIAL INSTRUMENTS

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

Commodity Contracts. From time to time, FCX has entered into forward, futures and swap contracts to hedge the market risk associated with fluctuations in the prices of commodities it purchases and sells. Derivative financial instruments used by FCX to manage its risks do not contain credit risk-related contingent provisions. As of March 31, 2012, FCX had no price protection contracts relating to its mine production. A discussion of FCX’s derivative commodity contracts and programs follows.

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Derivatives Designated as Hedging Instruments – Fair Value Hedges

Copper Futures and Swap Contracts. Some of Freeport-McMoRan Corporation's (FMC) U.S. copper rod customers request a fixed market price instead of the New York Mercantile Exchange (COMEX) average copper price in the month of shipment. FCX hedges this price exposure in a manner that allows it to receive the COMEX average price in the month of shipment while the customers pay the fixed price they requested. FCX accomplishes this by entering into copper futures and swap contracts and then liquidating the copper futures contracts and settling the copper swap contracts during the month of shipment, which generally results in FCX receiving the COMEX average copper price in the month of shipment. Hedge 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 periods ended March 31, 2012 and 2011, resulting from hedge ineffectiveness. At March 31, 2012, FCX held copper futures and swap contracts that qualified for hedge accounting for 68 million pounds at an average contract price of $3.72 per pound, with maturities through April 2013.

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

	Three Months Ended March 31,	
	2012	2011
Copper futures and swap contracts:		
Unrealized gains (losses):		
Derivative financial instruments	$18	$(15)
Hedged item	(18)	15
Realized gains:		
Matured derivative financial instruments	10	12

Derivatives Not Designated as Hedging Instruments

Embedded Derivatives. As described in Note 1 to FCX's 2011 Annual Report on Form 10-K under "Revenue Recognition," certain FCX copper concentrate, copper cathode and gold sales contracts provide for provisional pricing primarily based on London Metal Exchange (LME) or COMEX prices (copper) and the London Bullion Market Association (London PM) price (gold) at the time of shipment as specified in the contract. Similarly, FCX purchases copper and molybdenum under contracts that provide for provisional pricing (molybdenum purchases are generally based on an average Metals Week Molybdenum Dealer Oxide price). FCX applies the normal purchases and normal sales scope exception in accordance with derivatives and hedge accounting guidance to the host sales agreements since the contracts do not allow for net settlement and always result in physical delivery. Sales and purchases with a provisional sales price contain an embedded derivative (i.e., the price settlement mechanism that is settled after the time of delivery) that is required to be bifurcated from the host contract. The host contract is the sale or purchase of the metals contained in the concentrates or cathodes at the then-current LME or COMEX price (copper), London PM price (gold) or the average Metals Week Molybdenum Dealer Oxide price (molybdenum) as defined in the contract. Mark-to-market price fluctuations recorded through the settlement date are reflected in revenues for sales contracts and in cost of sales as production and delivery costs for purchase contracts.

A summary of FCX's embedded derivatives at March 31, 2012, follows:

	Open	Average Price Per Unit		Maturities
	Positions	Contract	Market	Through
Embedded derivatives in provisional sales contracts:				
Copper (millions of pounds)	326	$3.69	$3.82	August 2012

Gold (thousands of ounces)	53	1,690	1,663	May 2012
Embedded derivatives in provisional purchase contracts:				
Copper (millions of pounds)	181	3.69	3.84	June 2012
Molybdenum (thousand of pounds)	42	12.83	12.44	April 2012

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Copper Forward Contracts. Atlantic Copper, FCX's wholly owned smelting and refining unit in Spain, enters into forward copper contracts designed to hedge its copper price risk whenever its physical purchases and sales pricing periods do not match. These economic hedge transactions are intended to hedge against changes in copper prices, with the mark-to-market hedging gains or losses recorded in cost of sales. At March 31, 2012, Atlantic Copper held net forward copper purchase contracts for 22 million pounds at an average contract price of $3.81 per pound, with maturities through May 2012.

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 March 31,	
	2012	2011
Embedded derivatives in provisional sales contracts[a]	$184	$(47)
Copper forward contracts[b]	11	—

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 derivative financial instruments recorded on the consolidated balance sheets follows (in millions):

	March 31, 2012	December 31, 2011
Derivatives designated as hedging instruments		
Commodity contracts:		
Copper futures and swap contracts:[a]		
Asset position[b]	$10	$3
Liability position[c]	(3)	(13)
Derivatives not designated as hedging instruments		
Commodity contracts:		
Embedded derivatives in provisional sales/purchase contracts:[d]		
Asset position	$46	$72
Liability position	(29)	(82)
Copper forward contracts:		
Asset position[b]	1	2

a. FCX had paid $12 million to brokers at March 31, 2012, and $31 million at December 31, 2011, for margin requirements (recorded in other current assets). In addition, FCX held $3 million in margin funding from customers at December 31, 2011, associated with margin requirements (recorded in accounts payable and accrued liabilities).
b. Amounts recorded in other current assets.
c. Amounts recorded in accounts payable and accrued liabilities.
d. Amounts recorded either as a net accounts receivable or a net accounts payable.

Foreign Currency Exchange Contracts. As a global company, FCX transacts business in many countries and in many currencies. Foreign currency transactions of FCX's international subsidiaries increase its risks because exchange rates can change between the time agreements are made and the time foreign currency transactions are settled. FCX may hedge or protect its international subsidiaries' foreign currency transactions from time to time by entering into forward exchange contracts to lock in or minimize the effects of fluctuations in exchange rates. FCX had no outstanding foreign currency exchange contracts at March 31, 2012.

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Interest Rate Swap Contracts. From time to time, FCX or its subsidiaries may enter into interest rate swaps to manage its exposure to interest rate changes and to achieve a desired proportion of fixed-rate versus floating-rate debt based on current and projected market conditions. FCX may enter into fixed-to-floating interest rate swap contracts to protect against changes in the fair value of the underlying fixed-rate debt that result from market interest rate changes and to take advantage of lower interest rates. FCX had no outstanding interest rate swap contracts at March 31, 2012.

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 March 31, 2012, FCX did not have any significant credit exposure associated with derivative transactions.

Other Financial Instruments. Other financial instruments include cash and cash equivalents, accounts receivable, trust assets, available-for-sale securities, accounts payable and accrued liabilities, dividends payable and long-term debt. Refer to Note 7 for the fair values of these financial instruments.

Cash and Cash Equivalents, Accounts Receivable, Accounts Payable and Accrued Liabilities, and Dividends Payable. The financial statement amount is a reasonable estimate of the fair value because of the short maturity of these instruments and generally negligible credit losses.

Trust Assets and Available-for-Sale Securities. The financial statement amount represents the fair value of trust assets and available-for-sale securities.

Long-Term Debt. The financial statement amount represents cost except for long-term debt acquired in the FMC (formerly Phelps Dodge Corporation) acquisition, which was recorded at fair value at the acquisition date.

7. FAIR VALUE MEASUREMENT

Fair value accounting guidance includes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). FCX did not have any significant transfers in or out of Levels 1, 2 or 3 for the first quarter of 2012.

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The carrying value for certain FCX financial instruments (i.e., cash, accounts receivable, accounts payable and accrued liabilities, and dividends payable) approximate fair value because of their short-term nature and generally negligible credit losses. A summary of the carrying amount and fair value of FCX's other financial instruments follows (in millions):

	At March 31, 2012				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
Assets					
Cash equivalents:[a]					
Money market funds	$4,221	$4,221	$4,221	$—	$—
McMoRan Exploration Co. investment[b]	468	379	—	379	—
Trust assets (long-term):[a, c]					
U.S. core fixed income fund	47	47	—	47	—
Government mortgage-backed securities	39	39	—	39	—
Corporate bonds	24	24	—	24	—
Government bonds and notes	21	21	—	21	—
Asset-backed securities	10	10	—	10	—
Money market funds	8	8	8	—	—
Municipal bonds	1	1	—	1	—
Total trust assets	150	150	8	142	—
Available-for-sale securities (current and long-term):[a, c, d]					
Equity securities	8	8	8	—	—
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in an asset position[e]	46	46	—	46	—
Copper futures and swap contracts[f]	10	10	9	1	—
Copper forward contracts[f]	1	1	—	1	—
Total derivative assets	57	57	9	48	—
Total assets		$4,815	$4,246	$569	$—
Liabilities					
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in a liability position[e]	$(29)	$(29)	$—	$(29)	$—
Copper futures and swap contracts[g]	(3)	(3)	(2)	(1)	—
Total derivative liabilities	(32)	(32)	(2)	(30)	—
Long-term debt, including current portion[h]	(3,521)	(3,502)	—	(3,502)	—
Total liabilities		$(3,534)	$(2)	$(3,532)	$—

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	At December 31, 2011				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
Assets					
Cash equivalents:[a]					
Money market funds	$4,007	$4,007	$4,007	$—	$—
McMoRan Exploration Co. investment[b]	475	507	—	507	—
Trust assets (long-term):[a, c]					
Government mortgage-backed securities	47	47	—	47	—
U.S. core fixed income fund	46	46	—	46	—
Government bonds and notes	21	21	—	21	—
Corporate bonds	19	19	—	19	—
Money market funds	9	9	9	—	—
Asset-backed securities	9	9	—	9	—
Municipal bonds	1	1	—	1	—
Total trust assets	152	152	9	143	—
Available-for-sale securities (current and long-term):[a, c]					
Equity securities	9	9	9	—	—
Money market funds	2	2	2	—	—
Total available-for-sale securities	11	11	11	—	—
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in an asset position[e]	72	72	—	72	—
Copper futures and swaps contracts[f]	3	3	3	—	—
Copper forward contracts[f]	2	2	1	1	—
Total derivative assets	77	77	4	73	—
Total assets		$4,754	$4,031	$723	$—
Liabilities					
Derivatives:[a]					
Embedded derivatives in provisional sales/purchase contracts in a liability position[e]	$(82)	$(82)	$—	$(82)	$—
Copper futures and swap contracts[g]	(13)	(13)	(11)	(2)	—
Total derivative liabilities	(95)	(95)	(11)	(84)	—
Long-term debt, including current portion[h]	(3,537)	(3,797)	—	(3,797)	—
Total liabilities		$(3,892)	$(11)	$(3,881)	$—

a. Recorded at fair value.
b. Recorded at cost and included in other assets.
c. Current portion included in other current assets and long-term portion included in other assets.

d. Excluded were$17 million of time deposits at March 31, 2012.
e. Embedded derivatives are recorded in accounts receivable and/or accounts payable and accrued liabilities.
f. Included in other current assets.
g. Included in accounts payable and accrued liabilities.
h. Recorded at cost.

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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.

McMoRan Exploration Co.'s (MMR) 5¾% Convertible Perpetual Preferred Stock is not actively traded; therefore, FCX's investment in the MMR 5¾% Convertible Perpetual Preferred Stock is valued based on a pricing simulation model that uses MMR's publicly traded common stock as the most significant observable input. Therefore, this investment is classified within Level 2 of the fair value hierarchy.

Fixed income securities (government and agency securities, U.S. core fixed income funds, corporate bonds and asset-backed securities) are valued using a bid evaluation or a mid evaluation. A bid evaluation is an estimated price at which a dealer would pay for a security. A mid evaluation is the average of the estimated price at which a dealer would sell a security and the estimated price at which a dealer would pay for a security. These evaluations are based on quoted prices, if available, or models that use observable inputs and, as such, are classified within Level 2 of the fair value hierarchy.

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

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

FCX’s derivative financial instruments for copper futures and swap contracts and 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 forward prices at each reporting date based on the month of maturity (refer to Note 6 for further discussion). Certain of these contracts are traded on the over-the-counter market and are classified within Level 2 of the fair value hierarchy.

Long-term debt, including 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.

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 measured at the reporting date. There have been no changes in the techniques used at March 31, 2012.

8. CONTINGENCIES AND COMMITMENTS

Litigation. The following information includes a discussion of updates to a previously reported legal proceeding and a new legal proceeding since the information included in Note 13 and incorporated by reference into Part I, Item 3. “Legal Proceedings” of FCX's annual report on Form 10-K for the year ended December 31, 2011.

Blackwell. Coffey, et al., v. Freeport-McMoRan Copper & Gold, Inc., et al., Kay County, Oklahoma District Court, Case No. CJ-2008-68. Information regarding this legal proceeding is incorporated by reference to Note 13 and Part I, Item 3. “Legal Proceedings” of FCX's annual report on Form 10-K for the year ended December 31, 2011. On March 22, 2012, the court approved a settlement with the plaintiffs, which was filed and entered on March 26, 2012, to resolve this pending class action in Blackwell, Oklahoma. A number of potential class members opted out of the settlement, and a smaller number formally objected to the settlement terms. Because no objector filed an appeal by the April 25, 2012 deadline, the settlement is now final.

One Point Street. One Point Street, Inc. v. Freeport-McMoRan Corporation, et al., United States District Court, Southern District of New York, Case No. 2011 CIV 6315, filed September 9, 2011, and amended on March 1, 2012.

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From 1932 until 1984, FMC owned and operated a cable manufacturing facility on the Hudson River in Yonkers, New York. FMC sold that operation in 1984, and it was subsequently sold to BICC Cables Corporation (BICC). BICC closed the facility in 1996. One Point Street, Inc. (OPS), a real estate developer, has current title to the site.

On September 9, 2011, OPS filed a complaint in federal court in New York, which it amended on March 1, 2012. The amended complaint alleges that FMC, BICC and other third parties have failed to timely and diligently complete remediation of the site in breach of alleged obligations under federal and state law and under the contractual agreements among the parties. Due to the early stage of the proceeding, an estimate of the possible loss or range of loss cannot be made. FMC believes it has met its obligations under the contractual agreements and intends to continue doing so, and it will vigorously defend against this litigation.

Other Contingencies. The Indonesian tax authorities issued assessments for various audit exceptions on PT Freeport Indonesia's income tax returns as follows (in millions):

Date of assessment	Tax return year	Tax assessment	Interest assessment	Total
October 2010	2005	$106	$52	$158
November 2011	2006	22	10	32
March 2012	2007	91	44	135
Total		$219	$106	$325

PT Freeport Indonesia has filed objections to the 2005 and 2006 assessments, and also intends to file objections to the 2007 assessments. During first-quarter 2012, PT Freeport Indonesia's objections to the assessments related to 2005 were substantially all rejected by the Indonesian tax authorities, and PT Freeport Indonesia is preparing to file appeals with the Indonesian Tax Court. As of March 31, 2012, PT Freeport Indonesia has paid $158 million (of which $124 million is included in long-term receivables) for the disputed tax assessments related to 2005, 2006 and 2007.

Mining contracts. Africa. Effective March 26, 2012, the Democratic Republic of Congo (DRC) government issued a Presidential Decree approving the modifications to Tenke Fungurume Mining S.A.R.L's (TFM) bylaws. As a result, FCX's effective ownership interest in the Tenke Fungurume minerals district was reduced from 57.75 percent to 56.0 percent (prospectively) and $50 million of TFM's intercompany loans were converted to equity.

9. NEW ACCOUNTING STANDARDS

In May 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) in connection with guidance for fair value measurements and disclosures. This ASU clarifies the FASB's intent on current guidance, modifies and changes certain guidance and principles, and expands disclosures concerning Level 3 fair value measurements in the fair value hierarchy (including quantitative information about significant unobservable inputs within Level 3 of the fair value hierarchy). In addition, this ASU requires disclosure of the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position, but whose fair value is required to be disclosed. This ASU is effective for interim and annual reporting periods beginning after December 15, 2011, and early application is not permitted. FCX adopted this guidance effective January 1, 2012.

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In June 2011, FASB issued an ASU in connection with guidance on the presentation of comprehensive income. The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This ASU requires an entity to present the components of net income and other comprehensive income and total comprehensive income (includes net income) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of equity, but does not change the items that must be reported in other comprehensive income. This ASU is effective for interim and annual reporting periods beginning after December 15, 2011, and early adoption is permitted. Effective January 1, 2012, FCX adopted this ASU and presented total comprehensive income in a separate statement. Additionally, in December 2011, FASB deferred the effective date in this ASU for presenting reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements.

10. SUBSEQUENT EVENTS

FCX evaluated events after March 31, 2012, 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.

11. BUSINESS SEGMENTS

FCX has organized its operations into five primary divisions – North America copper mines, South America mining, Indonesia mining, Africa mining and Molybdenum operations. Notwithstanding this structure, FCX internally reports information on a mine-by-mine basis. Therefore, FCX concluded that its operating segments include individual mines or operations. Operating segments that meet certain thresholds are reportable segments.

Intersegment Sales. Intersegment sales between FCX’s 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.

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 a mine or 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. In addition, most exploration and research activities are managed at the corporate level, and those costs along with some selling, general and administrative costs are not allocated to the operating divisions or 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)	North America Copper Mines			South America			Indonesia	Africa					
	Morenci	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum	Rod & Refining	Atlantic Copper Smelting & Refining	Corporate, Other & Eliminations	FCX Total
Three Months Ended March 31, 2012													
Revenues:													
Unaffiliated customers	$13	$17	$30	$449	$526	$975	$953 [a]	$303	$340	$1,298	$704	$2	$4,605
Intersegment	513	913	1,426	127	152	279	(3)	2	—	6	8	(1,718)	—
Production and delivery	256	451	707	193	270	463	495	132	262	1,297	695	(1,623)	2,428
Depreciation, depletion and amortization	31	62	93	30	32	62	46	32	15	2	10	7	267
Selling, general and administrative expenses	—	1	1	1	1	2	33	2	3	—	5	58	104
Exploration and research expenses	—	—	—	—	—	—	—	—	1	—	—	61	62
Environmental obligations and shutdown costs	—	—	—	—	—	—	—	—	—	—	—	10	10
Operating income (loss)	239	416	655	352	375	727	376	139	59	5	2	(229)	1,734
Interest expense, net	—	1	1	5	—	5	—	—	—	—	3	54	63
Provision for income taxes	—	—	—	123	117	240	150	29	—	—	—	72	491
Total assets at March 31, 2012	2,146	5,255	7,401	5,300	4,127	9,427	5,613	4,138	2,543	328	1,033	2,422	32,905
Capital expenditures	44	99	143	69	83	152	182	127	95	3	3	2	707
Three Months Ended March 31, 2011													
Revenues:													
Unaffiliated customers	$136	$16	$152	$668	$595	$1,263	$1,372 [a]	$309	$374	$1,481	$756	$2	$5,709
Intersegment	386	823	1,209	60	79	139	358	—	—	6	6	(1,718)	—

Production and delivery	210	378	588	175	236	411	526	124	240	1,481	763	(1,756)	2,377
Depreciation, depletion and amortization	28	30	58	34	23	57	57	28	14	2	10	6	232
Selling, general and administrative expenses	—	1	1	1	1	2	43	2	4	—	8	54	114
Exploration and research expenses	—	—	—	—	—	—	—	—	1	—	—	49	50
Operating income (loss)	284	430	714	518	414	932	1,104	155	115	4	(19)	(69)	2,936
Interest expense, net	1	1	2	—	—	—	1	2	—	—	4	89	98
Provision for income taxes	—	—	—	163	143	306	496	40	—	—	—	142	984
Total assets at March 31, 2011	1,991	4,623	6,614	4,573	3,427	8,000	5,440	3,630	2,068	384	1,437	3,435	31,008
Capital expenditures	29	90	119	24	116	140	125	11	71	3	8	28	505

a. Includes PT Freeport Indonesia’s sales to PT Smelting totaling $589 million in first-quarter 2012 and $680 million in first-quarter 2011.