FREEPORT-MCMORAN INC
Form 10-Q
November 07, 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 September 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 October 31, 2014, there were issued and outstanding 1,039,118,147 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)

	September 30, 2014	December 31, 2013
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$658	$1,985
Trade accounts receivable	1,514	1,728
Other accounts receivable	793	834
Inventories:		
Mill and leach stockpiles	1,967	1,705
Materials and supplies, net	1,943	1,730
Product	1,579	1,583
Other current assets	577	407
Total current assets	9,031	9,972
Property, plant, equipment and mining development costs, net	26,304	24,042
Oil and gas properties - full cost method		
Subject to amortization, less accumulated amortization	11,306	12,472
Not subject to amortization	11,031	10,887
Long-term mill and leach stockpiles	2,569	2,386
Goodwill	1,717	1,916
Other assets	2,018	1,798
Total assets	$63,976	$63,473
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$3,784	$3,708
Current portion of debt	1,762	312
Dividends payable	334	333
Current portion of environmental and asset retirement obligations	310	236
Accrued income taxes	153	184
Total current liabilities	6,343	4,773
Long-term debt, less current portion	17,975	20,394
Deferred income taxes	7,559	7,410
Environmental and asset retirement obligations, less current portion	3,654	3,259
Other liabilities	1,730	1,690
Total liabilities	37,261	37,526
Redeemable noncontrolling interest	749	716
Equity:		
FCX stockholders’ equity:		
Common stock	117	117

Capital in excess of par value	22,248	22,161
Retained earnings	3,306	2,742
Accumulated other comprehensive loss	(394)	(405)
Common stock held in treasury	(3,686)	(3,681)
Total FCX stockholders’ equity	21,591	20,934
Noncontrolling interests	4,375	4,297
Total equity	25,966	25,231
Total liabilities and equity	$63,976	$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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions, except per share amounts)			
Revenues	$5,696	$6,165	$16,203	$15,036
Cost of sales:				
Production and delivery	3,152	3,332	8,971	8,904
Depreciation, depletion and amortization	945	919	2,924	1,778
Impairment of oil and gas properties	308	—	308	—
Total cost of sales	4,405	4,251	12,203	10,682
Selling, general and administrative expenses	158	158	457	457
Mining exploration and research expenses	29	57	93	173
Environmental obligations and shutdown costs	18	(8)	100	23
Net gain on sales of assets	(46)	—	(46)	—
Total costs and expenses	4,564	4,458	12,807	11,335
Operating income	1,132	1,707	3,396	3,701
Interest expense, net	(158)	(162)	(483)	(351)
Net gain (loss) on early extinguishment of debt	58	—	63	(45)
Gain on investment in McMoRan Exploration Co.	—	—	—	128
Other income, net	23	3	48	13
Income before income taxes and equity in affiliated companies' net (losses) earnings	1,055	1,548	3,024	3,446
Provision for income taxes	(349)	(499)	(1,034)	(967)
Equity in affiliated companies' net (losses) earnings	(2)	(1)	—	3
Net income	704	1,048	1,990	2,482
Net income attributable to noncontrolling interests	(142)	(218)	(416)	(519)
Preferred dividends attributable to redeemable noncontrolling interest	(10)	(9)	(30)	(12)
Net income attributable to FCX common stockholders	$552	$821	$1,544	$1,951
Net income per share attributable to FCX common stockholders:				
Basic	$0.53	$0.79	$1.48	$1.97
Diluted	$0.53	$0.79	$1.47	$1.96
Weighted-average common shares outstanding:				
Basic	1,039	1,038	1,039	989
Diluted	1,046	1,043	1,045	993
Dividends declared per share of common stock	$0.3125	$0.3125	$0.9375	$1.9375

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions)			
Net income	$704	$1,048	$1,990	$2,482
Other comprehensive income, net of taxes:				
Defined benefit plans:				
Amortization of unrecognized amounts included in net periodic benefit costs	5	6	12	18
Foreign exchange losses	2	—	(1)	—
Translation adjustments and unrealized gains (losses) on securities	—	4	—	3
Other comprehensive income	7	10	11	21
Total comprehensive income	711	1,058	2,001	2,503
Total comprehensive income attributable to noncontrolling interests	(142)	(217)	(416)	(518)
Preferred dividends attributable to redeemable noncontrolling interest	(10)	(9)	(30)	(12)
Total comprehensive income attributable to FCX common stockholders	$559	$832	$1,555	$1,973

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

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

	Nine Months Ended September 30,	
	2014	2013
	(In millions)	
Cash flow from operating activities:		
Net income	$1,990	$2,482
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	2,924	1,778
Impairment of oil and gas properties	308	—
Net losses on crude oil and natural gas derivative contracts	56	205
Gain on investment in McMoRan Exploration Co. (MMR)	—	(128)
Net charges for environmental and asset retirement obligations, including accretion	146	98
Payments for environmental and asset retirement obligations	(134)	(166)
Net (gain) loss on early extinguishment of debt	(63)	45
Net gain on sales of assets	(46)	—
Deferred income taxes	107	169
Increase in long-term mill and leach stockpiles	(182)	(348)
Other, net	106	97
Decreases (increases) in working capital and changes in other tax payments, excluding amounts from acquisitions and dispositions:		
Accounts receivable	200	51
Inventories	(267)	(66)
Other current assets	(26)	162
Accounts payable and accrued liabilities	(379)	(596)
Accrued income taxes and other tax payments	(227)	(40)
Net cash provided by operating activities	4,513	3,743
Cash flow from investing activities:		
Capital expenditures:		
North America copper mines	(815)	(795)
South America	(1,278)	(734)
Indonesia	(722)	(720)
Africa	(100)	(155)
Molybdenum mines	(45)	(128)
U.S. oil and gas operations	(2,392)	(928)
Other	(63)	(163)
Acquisition of Deepwater Gulf of Mexico interests	(1,421)	—
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	—	(348)
Net proceeds from sale of Eagle Ford shale assets	2,971	—
Other, net	221	(24)
Net cash used in investing activities	(3,644)	(9,088)
Cash flow from financing activities:		
Proceeds from debt	3,346	11,229

Repayments of debt	(4,196)	(4,816)
Redemption of MMR preferred stock	—	(227)
Cash dividends and distributions paid:		
Common stock	(979)	(1,957)
Noncontrolling interests	(365)	(157)
Contributions from noncontrolling interests	24	—
Stock-based awards net proceeds (payments), including excess tax benefit	7	(100)
Debt financing costs and other, net	(33)	(113)
Net cash (used in) provided by financing activities	(2,196)	3,859
Net decrease in cash and cash equivalents	(1,327)	(1,486)
Cash and cash equivalents at beginning of year	1,985	3,705
Cash and cash equivalents at end of period	$658	$2,219

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	2	—	13	—	—	—	—	13	—	13
Stock-based compensation	—	—	75	—	—	—	—	75	—	75
Tender of shares for stock-based awards	—	—	—	—	—	—	(5)	(5)	—	(5)
Dividends on common stock	—	—	—	(980)	—	—	—	(980)	—	(980)
Dividends to noncontrolling interests	—	—	—	—	—	—	—	—	(344)	(344)
Noncontrolling interests' share of contributed capital in subsidiary	—	—	(1)	—	—	—	—	(1)	6	5
Net income attributable to FCX common stockholders	—	—	—	1,544	—	—	—	1,544	—	1,544
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—	—	416	416
Other comprehensive income	—	—	—	—	11	—	—	11	—	11
Balance at September 30, 2014	1,167	$117	$22,248	$3,306	$(394)	127	$(3,686)	$21,591	$4,375	$25,966

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 the oil and gas properties impairment discussed below and 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 nine-month periods ended September 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 the nine months ended September 30, 2013, include PXP's results beginning June 1, 2013, and MMR's results beginning June 4, 2013.

Oil and Gas Properties. Under the Securities and Exchange Commission's (SEC) full cost accounting rules, FCX reviews the carrying value of its oil and gas properties each quarter on a country-by-country basis. Under these rules, capitalized costs of oil and gas properties (net of accumulated depreciation, depletion and amortization, and related deferred income taxes) for each cost center may not exceed a “ceiling” equal to:

- the present value, discounted at 10 percent, of estimated future net cash flows from the related proved oil and natural gas reserves, net of estimated future income taxes; plus
- the cost of the related unproved properties not being amortized; plus
- the lower of cost or estimated fair value of the related unproved properties included in the costs being amortized (net of related tax effects).

These rules require that FCX price its future oil and gas production at the twelve-month average of the first-day-of-the-month historical reference prices as adjusted for location and quality differentials. FCX's reference prices are West Texas Intermediate for oil and the Henry Hub spot price for natural gas. Such prices are utilized except where different prices are fixed and determinable from applicable contracts for the remaining term of those contracts. The reserve estimates exclude the effect of any crude oil and natural gas derivatives FCX has in place. The estimated future net cash flows also exclude future cash outflows associated with settling asset retirement obligations included in the net book value of the oil and gas properties. The rules require an impairment if the capitalized costs exceed this “ceiling.”

At September 30, 2014, the net capitalized costs with respect to FCX's U.S. oil and gas properties exceeded the related ceiling; therefore, an impairment charge of $308 million was recorded in third-quarter 2014, primarily because of higher capitalized costs and the lower twelve-month average of the first-day-of-the-month historical reference oil price at September 30, 2014. During October 2014, oil prices declined from the third-quarter average. Continuation of recent oil price declines, increases in capitalized costs subject to amortization and other factors may result in future additional ceiling test impairments.

NOTE 2. ACQUISITIONS AND DISPOSITIONS

Eagle Ford Disposition. On June 20, 2014, FCX completed the sale of its Eagle Ford shale assets to a subsidiary of Encana Corporation for cash consideration of $3.1 billion, before closing adjustments from the April 1, 2014, effective date. 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 $62 million of deferred tax expense recorded through September 30, 2014, 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 and was used to reinvest in additional oil and gas interests, as discussed below. The remaining proceeds were used to repay debt.

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Deepwater Gulf of Mexico (GOM) Acquisitions. 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 fields 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 by the like-kind exchange escrow.

Additionally, on September 8, 2014, FCX completed the acquisition of additional Deepwater GOM interests for $496 million, including an interest in the Vito oil discovery in the Mississippi Canyon area and a significant lease position in the Vito basin area. Based on preliminary valuations, and including purchase price adjustments and transaction costs, FCX recorded capitalized costs for oil and gas properties not subject to amortization of $509 million. This acquisition was funded in part with the remaining $414 million of funds from the like-kind exchange escrow.

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 second-quarter 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 nine months ended September 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.

	Nine Months Ended September 30, 2013 (in millions, except per share amounts)
Revenues	$17,190
Operating income	4,617
Net income from continuing operations	2,683
Net income attributable to FCX common stockholders	2,134
Net income per share attributable to FCX common stockholders:	
Basic	$2.05
Diluted	2.04

The unaudited pro forma consolidated information for the nine months ended September 30, 2013, 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 net income from continuing operations for the nine months ended September 30, 2013, were to exclude $519 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 nine months ended September 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.

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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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$704	$1,048	$1,990	$2,482
Net income attributable to noncontrolling interests	(142)	(218)	(416)	(519)
Preferred dividends on redeemable noncontrolling interest	(10)	(9)	(30)	(12)
Undistributed earnings allocable to participating securities	(2)	—	(4)	—
Net income allocable to FCX common stockholders	$550	$821	$1,540	$1,951
Basic weighted-average shares of common stock outstanding	1,039	1,038	1,039	989
Add shares issuable upon exercise or vesting of dilutive stock options and RSUs	7 [a]	5	6 [a]	4
Diluted weighted-average shares of common stock outstanding	1,046	1,043	1,045	993
Basic net income per share attributable to FCX common stockholders	$0.53	$0.79	$1.48	$1.97
Diluted net income per share attributable to FCX common stockholders	$0.53	$0.79	$1.47	$1.96

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 5 million for third-quarter 2014 and 3 million for the nine months ended September 30, 2014.

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 25 million with a weighted-average exercise price of $42.34 per option for third-quarter 2014, 28 million with a weighted-average exercise price of $41.42 per option for the nine months ended September 30, 2014, 34 million with a weighted-average exercise price of $40.11 per option for third-quarter 2013 and 32 million with a weighted-average exercise price of $40.63 per option for the nine months ended September 30, 2013.

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

The components of inventories follow (in millions):

	September 30, 2014	December 31, 2013
Current inventories:		
Raw materials (primarily concentrates)	$335	$238
Work-in-process[a]	129	199
Finished goods[b]	1,115	1,146
Total product inventories	$1,579	$1,583
Mill stockpiles	$126	$91
Leach stockpiles	1,841	1,614
Total current mill and leach stockpiles	$1,967	$1,705
Total materials and supplies, net[c]	$1,943	$1,730
Long-term inventories:		
Mill stockpiles	$787	$698
Leach stockpiles	1,782	1,688
Total long-term mill and leach stockpiles[d]	$2,569	$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 $22 million at September 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
U.S. operations	$38	$104 [a]	$323 [b]	$85 [a]
International operations	311 [c]	395	711 [c]	882
Total	$349	$499	$1,034	$967

a. 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.

b. Included a $62 million charge for deferred taxes recorded in connection with the allocation of goodwill to the sale of the Eagle Ford shale assets.

c. Included a $54 million charge related to changes in Chilean tax rules.

FCX’s consolidated effective income tax rate was 34 percent for the first nine months of 2014 and 33 percent for the first nine months of 2013, excluding the net benefit of $183 million for acquisition-related adjustments.

NOTE 6. DEBT AND EQUITY TRANSACTIONS

In September 2014, FCX announced the planned redemption of the $400 million outstanding aggregate principal amount of its 8.625% Senior Notes due 2019. On October 15, 2014, the redemption date, these senior notes had a book value of $441 million, which included purchase accounting fair value adjustments of $41 million. 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 this redemption, FCX will report a gain on early extinguishment of debt of $24 million in fourth-quarter 2014.

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In July 2014, FCX redeemed $1.7 billion of the aggregate principal amount of outstanding senior notes, which 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 purchase accounting 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. 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 recorded 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 September 30, 2014, FCX had borrowings of $1.1 billion and $45 million of letters of credit issued under the revolving credit facility, resulting in availability of approximately $2.9 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 September 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 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 $212 million in third-quarter 2014, $223 million in third-quarter 2013, $661 million for the first nine months of 2014 and $465 million for the first nine months of 2013. Capitalized interest included in property, plant, equipment and mining development costs, net, totaled $34 million in third-quarter 2014, $26 million in third-quarter 2013, $113 million for the first nine months of 2014 and $68 million for the nine months of 2013. Capitalized interest included in oil and gas properties not subject to amortization totaled $20 million in third-quarter 2014, $35 million in third-quarter 2013, $65 million for the first nine months of 2014 and $46 million for the four months from June 1, 2013, to September 30, 2013.

On September 24, 2014, FCX's Board of Directors declared a quarterly dividend of $0.3125 per share, which was paid on November 3, 2014, to common shareholders of record at the close of business on October 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 September 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 nine-month periods ended September 30, 2014 and 2013, resulting from hedge ineffectiveness. At September 30, 2014, FCX held copper futures and swap contracts that qualified for hedge accounting for 54 million pounds at an average contract price of $3.09 per pound, with maturities through December 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Copper futures and swap contracts:				
Unrealized gains (losses):				
Derivative financial instruments	$(10)	$16	$(10)	$(2)
Hedged item – firm sales commitments	10	(16)	10	2
Realized gains (losses):				
Matured derivative financial instruments	1	(3)	(3)	(17)

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 September 30, 2014, follows:

	Open Positions	Average Price Per Unit Contract	Market	Maturities Through
Embedded derivatives in provisional sales contracts:				
Copper (millions of pounds)	554	$3.14	$3.03	February 2015
Gold (thousands of ounces)	301	1,259	1,214	January 2015
Embedded derivatives in provisional purchase contracts:				
Copper (millions of pounds)	98	3.16	3.03	January 2015

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 September 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 September 30, 2014, the deferred option premiums and accrued interest associated with the crude oil option contracts totaled $269 million, which was included as a reduction of the fair value of the crude oil options contracts. At September 30, 2014, the outstanding crude oil option contracts, which settle monthly and cover approximately 10 million barrels in the fourth quarter of 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						
Oct - Dec	Put options[b]	75	$90	$70	$5.74	Brent
Oct - Dec	Put options[b]	30	95	75	6.09	Brent
Oct - 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 September 30, 2014, outstanding natural gas swaps with a weighted-average fixed swap price of $4.09 per million British thermal units (MMBtu) cover approximately 9 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 September 30, 2014, Atlantic Copper held net forward copper purchase contracts for 46 million pounds at an average contract price of $3.12 per pound, with maturities through November 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Embedded derivatives in provisional copper and gold sales contracts[a]	$(99)	$141	$(184)	$(147)
Crude oil options and swaps[a]	57	(173)	(47)	(227)
Natural gas swaps[a]	7	3	(9)	22
Copper forward contracts[b]	(4)	—	1	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):

	September 30, 2014	December 31, 2013
Commodity Derivative Assets:		
Derivatives designated as hedging instruments:		
Copper futures and swap contracts[a]	$1	$6
Derivatives not designated as hedging instruments:		
Embedded derivatives in provisional copper and gold sales/purchase contracts	12	63
Total derivative assets	$13	$69
Commodity Derivative Liabilities:		
Derivatives designated as hedging instruments:		
Copper futures and swap contracts[a]	$5	$—
Derivatives not designated as hedging instruments:		
Embedded derivatives in provisional copper and gold sales/purchase contracts	75	16
Crude oil options[b]	182	309
Natural gas swaps	—	4
Copper forward contracts	4	1
Total derivative liabilities	$266	$330

a. FCX paid $6 million to brokers at September 30, 2014, and $1 million at December 31, 2013, for margin requirements (recorded in other current assets).
b. Included $269 million at September 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	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Gross amounts recognized:				
Commodity contracts:				
Embedded derivatives on provisional sales/purchase contracts	$12	$63	$75	$16
Crude oil and natural gas derivatives	—	—	182	313
Copper derivatives	1	6	9	1
	13	69	266	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	12	53	75	6
Crude oil and natural gas derivatives	—	—	182	313
Copper derivatives	—	6	8	1
	$12	$59	$265	$320
Balance sheet classification:				
Trade accounts receivable	$1	$53	$60	$—
Other current assets	—	6	—	—
Accounts payable and accrued liabilities	11	—	169	205
Other liabilities	—	—	36	115
	$12	$59	$265	$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 September 30, 2014, the maximum amount of credit exposure associated with derivative transactions was $12 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 September 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 third-quarter 2014 or for the first nine months of 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 September 30, 2014				
	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
Assets					
Investment securities:[a,b,c]					
U.S. core fixed income fund	$22	$22	$—	$22	$—
Money market funds	20	20	20	—	—
Equity securities	4	4	4	—	—
Total	46	46	24	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	33	33	—	33	—
Corporate bonds	26	26	—	26	—
Asset-backed securities	16	16	—	16	—
Money market funds	8	8	8	—	—
Municipal bonds	1	1	—	1	—
Total	169	169	8	161	—
Derivatives:[a,e]					
Embedded derivatives in provisional sales/purchase contracts in a gross asset position	12	12	—	12	—
Copper futures and swap contracts	1	1	1	—	—
Total	13	13	1	12	—
Total assets		$228	$33	$195	$—
Liabilities					
Derivatives:[a,e]					
Embedded derivatives in provisional sales/purchase contracts in a gross liability position	$75	$75	$—	$75	$—
Crude oil options	182	182	—	—	182
Copper futures and swap contracts	5	5	5	—	—
Copper forward contracts	4	4	2	2	—
Total	266	266	7	77	182

Long-term debt, including current portion[f]	19,737	19,882	—	19,882	—
Total liabilities		$20,148	$7	$19,959	$182

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	At December 31, 2013				
	Carrying Amount	Fair Value 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. Excluded $115 million of time deposits (which approximated fair value) at September 30, 2014 (included in other assets), associated with an assurance bond to support PTFI's commitment for smelter development in Indonesia (refer to Note 9 for further discussion).

d. Excluded time deposits (which approximated fair value) of $9 million at September 30, 2014 (included in other current assets), associated with a customs audit assessment at PT-FI, and $15 million included in other current assets and $210 million in other assets at December 31, 2013, 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 $269 million at September 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 17 percent to 33 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 $6.64 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 September 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	(21) [a]	—
Net unrealized (losses) gains included in earnings related to assets and liabilities still held at the end of the period	(29) [b]	2 [c]
Settlement payments	177	—
Fair value at September 30, 2014	$(182)	$—

a. Included net realized losses of $20 million recorded in revenues and $1 million of interest expense associated with the deferred premiums.

b. Included net unrealized losses of $28 million recorded in revenues and $1 million of interest expense associated with the deferred premiums.

c. Recorded in other income, net.

NOTE 9. CONTINGENCIES AND COMMITMENTS

Litigation. During third-quarter 2014, there were no significant developments in previously reported legal proceedings included in Note 12 of FCX’s annual report on Form 10-K for the year ended December 31, 2013, as updated in 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 nine 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.

Required estimated income tax payments for 2012 significantly exceeded PT-FI’s 2012 reported income tax liability, which resulted in a $303 million overpayment (included in other accounts receivable in the condensed consolidated balance sheets at December 31, 2013). During second-quarter 2014, the Indonesian tax authorities issued tax assessments for 2012 of $137 million and other offsets of $15 million, and refunded the balance of $151 million (before foreign exchange adjustments). PT-FI expects to file objections and use other means available under Indonesian tax laws and regulations to recover all overpayments that remain in dispute.

As of September 30, 2014, PT-FI had $392 million included in other assets for amounts paid on disputed tax assessments, which it believes are collectable.

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 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. 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. PT-FI is engaged in discussions with the Indonesian government regarding an amended COW.

Effective with the signing of the MOU, PT-FI provided a $115 million assurance bond to support its commitment for smelter development, agreed 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. 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. In addition, PT-FI is required to apply for renewal of export permits at six-month intervals, with the next renewal date in January 2015.

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 an amended COW.

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. FCX's U.S. oil and gas operations reflect the results of FM O&G beginning June 1, 2013. Operating segments that meet certain thresholds are reportable segments, which are disclosed separately in the following tables.

On November 3, 2014, FCX completed the sale of its 80 percent ownership interests in the Candelaria mine, a separately reported segment, and the Ojos del Salado mine, reported as a component of other South America mines. Refer to Note 13 for further discussion.

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	Co Ot & El na
Three Months Ended September 30, 2014																
Revenues:																
Unaffiliated customers	$140	$79	$219	$295	$141	$300	$736	$1,086 [a]	$379	$—	$1,219	$597	$470 [b]	$4,706	$990 [c]	$-
Intersegment	428	843	1,271	63	48	—	111	167	49	173	8	4	(1,783)	—	—	—
Production and delivery	341	561	902	178	142	151	471	700	206	86	1,220	578	(1,283)	2,880	273	(1)
Depreciation, depletion and amortization	51	82	133	41	14	47	102	92	58	25	2	11	15	438	504	3
Impairment of oil and gas properties	—	—	—	—	—	—	—	—	—	—	—	—	—	—	308	—
Selling, general and administrative expenses	—	1	1	—	—	1	1	27	3	—	—	4	7	43	55	60
Mining exploration and research expenses	—	2	2	—	—	—	—	—	—	—	—	—	27	29	—	—
Environmental obligations and shutdown costs	—	(5)	(5)	—	—	—	—	—	—	—	—	—	23	18	—	—
Net gain on sales of assets	—	(14)	(14)	—	—	—	—	—	—	—	—	—	(32)	(46)	—	—
Operating income (loss)	176	295	471	139	33	101	273	434	161	62	5	8	(70)	1,344	(150)	(6
Interest expense, net	1	—	1	1	—	—	1	—	—	—	—	3	19	24	51	83
Provision for (benefit from) income taxes	—	—	—	47	4	91	142	181	36	—	—	—	—	359	—	(1

Total assets at September 30, 2014	3,689	5,742	9,431	7,030	1,511	2,210	10,751	8,537	5,010	2,0[illegible]	[illegible]	948	1,025	38,073	25,328	57
Capital expenditures	158	30	188	416	7	16	439	243	40	121		3	11	937	908	8
Three Months Ended September 30, 2013																
Revenues:																
Unaffiliated customers	$100	$145	$245	$434	$318	$300	$1,052	$1,108 [a]	$406	$—	$1,247	$514	$417 [b]	$4,989	$1,176 [c]	$—
Intersegment	375	681	1,056	27	60	—	87	3	14	12[illegible]	[illegible]	2	(1,289)	—	—	—
Production and delivery	287	520	807	175	163	156	494	617	190	82	1,245	523	(916)	3,042	288	2
Depreciation, depletion and amortization	35	67	102	35	19	31	85	60	64	212		10	9	353	563	3
Selling, general and administrative expenses	—	1	1	—	1	1	2	29	3	—	—	5	5	45	51	62
Mining exploration and research expenses	—	2	2	—	—	—	—	1	—	—	—	—	52	55	—	2
Environmental obligations and shutdown costs	—	5	5	—	—	—	—	—	—	—	—	—	(13)	(8)	—	—
Operating income (loss)	153	231	384	251	195	112	558	404	163	186		(22)	(9)	1,502	274	(6
Interest expense, net	—	—	—	—	—	—	—	—	—	—	—	4	20	24	74	64
Provision for income taxes	—	—	—	92	67	35	194	173	33	—	—	—	—	400	—	99
Total assets at September 30, 2013	2,915	5,734	8,649	6,440	1,612	2,478	10,530	7,399	4,862	2,0[illegible]	[illegible]	691	1,267	35,800	26,347	45
Capital expenditures	172	80	252	224	23	17	264	209	52	461		20	51	895	738	12

a. Included PT-FI’s sales to PT Smelting totaling $628 million in third-quarter 2014 and $458 million in third-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 gains (losses) associated with crude oil and natural gas derivative contracts totaling $64 million in third-quarter 2014 and $(170) million in third-quarter 2013.

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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	Molyb-denum Mines	Rod & Refining	Atlantic Copper Smelting & Refining	Other Mining & Elimi-nations	Total Mining	U.S. Oil & Gas Ope
Nine Months Ended September 30, 2014															
Revenues:															
Unaffiliated customers	$215	$195	$410	$996	$482	$905	$2,383	$2,071 [a]	$1,071	$—	$3,599	$1,808	$1,374 [b]	$12,716	$3,
Intersegment	1,346	2,489	3,835	150	238	5	393	175	102	469	24	15	(5,013)	—	—
Production and delivery	936	1,622	2,558	538	456	483	1,477	1,594	556	243	3,601	1,784	(3,753)	8,060	913
Depreciation, depletion and amortization	128	240	368	120	49	115	284	194	172	71	7	31	51	1,178	1,7
Impairment of oil and gas properties	—	—	—	—	—	—	—	—	—	—	—	—	—	—	308
Selling, general and administrative expenses	1	2	3	2	1	2	5	73	9	—	—	13	20	123	171
Mining exploration and research expenses	—	6	6	—	—	—	—	—	—	—	—	—	87	93	—
Environmental obligations and shutdown costs	—	(5)	(5)	—	—	—	—	—	—	—	—	—	105	100	—
Net gain on sales of assets	—	(14)	(14)	—	—	—	—	—	—	—	—	—	(32)	(46)	—
Operating income (loss)	496	833	1,329	486	214	310	1,010	385	436	155	15	(5)	(117)	3,208	359
Interest expense, net	2	1	3	1	—	—	1	—	—	—	—	10	55	69	201
Provision for income taxes	—	—	—	177	72	160	409	166	93	—	—	—	—	668	—
	691	124	815	1,207	29	42	1,278	722	100	45	3	9	38	3,010	2,3

Capital expenditures

Nine Months Ended September 30, 2013														
Revenues:														
Unaffiliated customers	$218	$266	$484	$1,035	$709	$922	$2,666	$2,443 [a]	$1,199	$—$3,842	$1,730	$1,157 [b]	$13,521	$1,
Intersegment	1,255	2,256	3,511	222	216	—	438	190	24	4080	12	(4,603)	—	—
Production and delivery	885	1,574	2,459	535	504	446	1,485	1,743	560	240,835	1,726	(3,531)	8,517	377
Depreciation, depletion and amortization	105	207	312	105	44	93	242	173	179	627	32	31	1,038	732
Selling, general and administrative expenses	1	3	4	2	2	1	5	82	9	——	14	23	137	65
Mining exploration and research expenses	—	3	3	—	—	—	—	1	—	——	—	161	165	—
Environmental obligations and shutdown costs	—	(1)	(1)	—	—	—	—	—	—	——	—	24	23	—
Operating income (loss)	482	736	1,218	615	375	382	1,372	634	475	10620	(30)	(154)	3,641	338
Interest expense, net	3	1	4	2	—	—	2	12	2	——	12	60	92	100
Provision for income taxes	—	—	—	215	131	126	472	289	99	——	—	—	860	—
Capital expenditures	529	266	795	596	91	47	734	720	155	128	39	91	2,665	928

a. Included PT-FI’s sales to PT Smelting totaling $1.5 billion for the first nine months of 2014 and $1.2 billion for the first nine 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 $56 million for the first nine months of 2014 and $205 million for the period from June 1, 2013 to September 30, 2013.

d. Included $183 million of net benefits resulting from second-quarter 2013 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 FM O&G LLC, including indebtedness under the revolving credit facility. The guarantee ranks senior in right of payment with all of FM O&G LLC's future subordinated obligations and is effectively subordinated in right of payment to any debt of FM O&G LLC's subsidiaries. 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 September 30, 2014, and December 31, 2013, and the related condensed consolidating statements of comprehensive income for the three and nine months ended September 30, 2014 and 2013, and condensed consolidating statements of cash flows for the nine months ended September 30, 2014 and 2013 (in millions), which should be read in conjunction with FCX's notes to the consolidated financial statements.

CONDENSED CONSOLIDATING BALANCE SHEET

September 30, 2014

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$1	$657	$—	$658
Accounts receivable	348	1,814	2,187	(2,042)	2,307
Other current assets	104	73	5,889	—	6,066
Total current assets	452	1,888	8,733	(2,042)	9,031
Property, plant, equipment and mining development costs, net	23	45	26,236	—	26,304
Oil and gas properties, net - full cost method:					
Subject to amortization, less accumulated amortization	—	4,235	6,727	344	11,306
Not subject to amortization	—	2,346	8,685	—	11,031
Investments in consolidated subsidiaries	33,908	10,492	13,063	(57,463)	—
Goodwill	—	217	1,500	—	1,717
Other assets	6,512	3,913	4,439	(10,277)	4,587
Total assets	$40,895	$23,136	$69,383	$(69,438)	$63,976
LIABILITIES AND EQUITY					
Current liabilities	$1,664	$985	$5,294	$(1,600)	$6,343
Long-term debt, less current portion	13,355	5,301	6,562	(7,243)	17,975
Deferred income taxes	4,233 [a]	—	3,326	—	7,559
Environmental and asset retirement obligations, less current portion	—	302	3,352	—	3,654

Other liabilities	52	3,403	1,751	(3,476)	1,730
Total liabilities	19,304	9,991	20,285	(12,319)	37,261
Redeemable noncontrolling interest	—	—	749	—	749
Equity:					
Stockholders' equity	21,591	13,145	44,460	(57,605)	21,591
Noncontrolling interests	—	—	3,889	486	4,375
Total equity	21,591	13,145	48,349	(57,119)	25,966
Total liabilities and equity	$40,895	$23,136	$69,383	$(69,438)	$63,976

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 Nine Months Ended September 30, 2014
Three Months Ended September 30, 2014

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	$—	$370	$5,326	$—	$5,696
Total costs and expenses	12	916	3,966	(330)	4,564
Operating (loss) income	(12)	(546)	1,360	330	1,132
Interest expense, net	(99)	(38)	(37)	16	(158)
Net gain on early extinguishment of debt	—	58	—	—	58
Other income (expense), net	15	—	24	(16)	23
Benefit from (provision for) income taxes	46	(104)	(166)	(125)	(349)
Equity in affiliated companies' net earnings (losses)	602	381	(111)	(874)	(2)
Net income (loss)	552	(249)	1,070	(669)	704
Net income and preferred dividends attributable to noncontrolling interests	—	—	(130)	(22)	(152)
Net income (loss) attributable to FCX common stockholders	$552	$(249)	$940	$(691)	$552
Other comprehensive income	—	—	7	—	7
Total comprehensive income (loss)	$552	$(249)	$947	$(691)	$559

Nine Months Ended September 30, 2014

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	$—	$1,584	$14,619	$—	$16,203
Total costs and expenses	44	1,931	11,170	(338)	12,807
Operating (loss) income	(44)	(347)	3,449	338	3,396
Interest expense, net	(268)	(123)	(146)	54	(483)
Net (loss) gain on early extinguishment of debt	(1)	64	—	—	63
Other income (expense), net	52	1	49	(54)	48
Benefit from (provision for) income taxes	51	(121)	(836)	(128)	(1,034)
Equity in affiliated companies' net earnings (losses)	1,754	637	228	(2,619)	—
Net income (loss)	1,544	111	2,744	(2,409)	1,990
Net income and preferred dividends attributable to noncontrolling interests	—	—	(421)	(25)	(446)
Net income (loss) attributable to FCX common stockholders	$1,544	$111	$2,323	$(2,434)	$1,544
Other comprehensive income	—	—	11	—	11
Total comprehensive income (loss)	$1,544	$111	$2,334	$(2,434)	$1,555

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
Three and Nine Months Ended September 30, 2013
Three Months Ended September 30, 2013

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	$—	$512	$5,653	$—	$6,165
Total costs and expenses	11	452	3,995	—	4,458
Operating (loss) income	(11)	60	1,658	—	1,707
Interest expense, net	(94)	(51)	(40)	23	(162)
Other income (expense), net	24	—	2	(23)	3
Benefit from (provision for) income taxes	35	(5)	(529)	—	(499)
Equity in affiliated companies' net earnings (losses)	867	187	47	(1,102)	(1)
Net income (loss)	821	191	1,138	(1,102)	1,048
Net income and preferred dividends attributable to noncontrolling interests	—	—	(202)	(25)	(227)
Net income (loss) attributable to FCX common stockholders	$821	$191	$936	$(1,127)	$821
Other comprehensive income	—	—	11	—	11
Total comprehensive income (loss)	$821	$191	$947	$(1,127)	$832

Nine Months Ended September 30, 2013

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Revenues	$—	$674	$14,362	$—	$15,036
Total costs and expenses	106	587	10,642	—	11,335
Operating (loss) income	(106)	87	3,720	—	3,701
Interest expense, net	(222)	(63)	(104)	38	(351)
Loss on early extinguishment of debt	(45)	—	—	—	(45)
Gain on investment in MMR	128	—	—	—	128
Other income (expense), net	39	—	12	(38)	13
Benefit from (provision for) income taxes	61	(10)	(1,018)	—	(967)
Equity in affiliated companies' net earnings (losses)	2,096	207	1	(2,301)	3
Net income (loss)	1,951	221	2,611	(2,301)	2,482
Net income and preferred dividends attributable to noncontrolling interests	—	—	(494)	(37)	(531)
Net income (loss) attributable to FCX common stockholders	$1,951	$221	$2,117	$(2,338)	$1,951
Other comprehensive income	—	—	22	—	22
Total comprehensive income (loss)	$1,951	$221	$2,139	$(2,338)	$1,973

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Nine Months Ended September 30, 2014

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Cash flow from operating activities:					
Net income (loss)	$1,544	$111	$ 2,744	$ (2,409)	$ 1,990
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Depreciation, depletion and amortization	3	673	2,269	(21)	2,924
Impairment of oil and gas properties	—	625	—	(317)	308
Net losses on crude oil and natural gas derivative contracts	—	56	—	—	56
Net loss (gain) on early extinguishment of debt	1	(64)	—	—	(63)
Equity in (earnings) losses of consolidated subsidiaries	(1,754)	(637)	4	2,387	—
Other, net	87	(17)	(73)	—	(3)
(Increases) decreases in working capital and changes in other tax payments, excluding amounts from dispositions	(217)	(1,166)	684	—	(699)
Net cash (used in) provided by operating activities	(336)	(419)	5,628	(360)	4,513
Cash flow from investing activities:					
Capital expenditures	—	(1,771)	(3,644)	—	(5,415)
Acquisition of Deepwater GOM interests	—	—	(1,421)	—	(1,421)
Intercompany loans	1,151	734	—	(1,885)	—
Investment in consolidated subsidiary	(959)	(97)	(696)	1,752	—
Net proceeds from sale of Eagle Ford shale assets	—	2,971	—	—	2,971
Other, net	—	32	189	—	221
Net cash provided by (used in) investing activities	192	1,869	(5,572)	(133)	(3,644)
Cash flow from financing activities:					
Proceeds from debt	2,806	—	540	—	3,346
Repayments of debt	(1,686)	(1,996)	(514)	—	(4,196)
Intercompany loans	—	213	(2,098)	1,885	—
Cash dividends and distributions paid, and contributions received	(979)	336	691	(1,392)	(1,344)
Other, net	3	(2)	(3)	—	(2)
Net cash provided by (used in) financing activities	144	(1,449)	(1,384)	493	(2,196)
Net increase (decrease) in cash and cash equivalents	—	1	(1,328)	—	(1,327)
Cash and cash equivalents at beginning of period	—	—	1,985	—	1,985
Cash and cash equivalents at end of period	$—	$1	$ 657	$ —	$ 658

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Nine Months Ended September 30, 2013

	FCX Issuer	FM O&G LLC Guarantor	Non-guarantor Subsidiaries	Eliminations	Consolidated FCX
Cash flow from operating activities:					
Net income (loss)	$1,951	$221	$ 2,611	$ (2,301)	$ 2,482
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Depreciation, depletion and amortization	3	341	1,434	—	1,778
Net losses on crude oil and natural gas derivative contracts	—	205	—	—	205
Net loss on early extinguishment of debt	45	—	—	—	45
Gain on investment in MMR	(128)	—	—	—	(128)
Equity in (earnings) losses of consolidated subsidiaries	(2,096)	(207)	2	2,301	—
Other, net	8	(15)	(143)	—	(150)
Decreases (increases) in working capital and changes in other tax payments, excluding amounts from acquisitions	112	518	(1,119)	—	(489)
Net cash (used in) provided by operating activities	(105)	1,063	2,785	—	3,743
Cash flow from investing activities:					
Capital expenditures	—	(621)	(3,002)	—	(3,623)
Acquisitions, net of cash acquired	(5,437)	—	(4)	—	(5,441)
Intercompany loans	793	—	(1,095)	302	—
Dividends from consolidated subsidiary	321	—	—	(321)	—
Other, net	14	32	(70)	—	(24)
Net cash (used in) provided by investing activities	(4,309)	(589)	(4,171)	(19)	(9,088)
Cash flow from financing activities:					
Proceeds from debt	11,085	—	144	—	11,229
Repayments of debt and redemption of MMR preferred stock	(4,501)	(416)	(126)	—	(5,043)
Intercompany loans	—	(56)	358	(302)	—
Cash dividends and distributions paid	(1,957)	—	(478)	321	(2,114)
Other, net	(213)	—	—	—	(213)
Net cash provided by (used in) financing activities	4,414	(472)	(102)	19	3,859
Net increase (decrease) in cash and cash equivalents	—	2	(1,488)	—	(1,486)
Cash and cash equivalents at beginning of period	—	—	3,705	—	3,705
Cash and cash equivalents at end of period	$—	$2	$ 2,217	$ —	$ 2,219

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

Candelaria and Ojos del Salado Disposition. On November 3, 2014, FCX completed the sale of its 80 percent ownership interests in the Candelaria and Ojos del Salado copper mining operations and supporting infrastructure (Candelaria/Ojos) located in Chile to Lundin Mining Corporation for $1.8 billion in cash, before closing adjustments, and contingent consideration of up to $200 million. Contingent consideration is calculated as five percent of net copper revenues in any annual period over the next five years when the average realized copper price exceeds $4.00 per pound. Excluding contingent consideration, after-tax net proceeds approximated $1.5 billion, and FCX expects to record a gain of approximately $680 million (approximately $450 million after tax) associated with this transaction. The transaction has an effective date of June 30, 2014. FCX expects to use the proceeds from this transaction to repay indebtedness.

The sale of Candelaria/Ojos does not meet the criteria for classification as a discontinued operation.

The following table provides the major classes of assets and liabilities associated with Candelaria/Ojos at September 30, 2014 (in millions):

Current assets	$449
Long-term assets	1,160
Current liabilities	138
Long-term liabilities	92

The following table provides net income before income taxes and net income attributable to FCX associated with Candelaria/Ojos (in millions):

	Nine Months Ended September 30,	
	2014	2013
Net income before income taxes	$236	$391
Net income attributable to FCX	132	199

Other. FCX evaluated events after September 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 September 30, 2014, and the related consolidated statements of income and comprehensive income for the three- and nine-month periods ended September 30, 2014 and 2013, the consolidated statements of cash flows for the nine-month periods ended September 30, 2014 and 2013, and the consolidated statement of equity for the nine-month period ended September 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
November 7, 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

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.

In November 2014, we completed the sale of our 80 percent ownership interests in the Candelaria and Ojos del Salado copper mining operations and supporting infrastructure (Candelaria/Ojos) to Lundin Mining Corporation (Lundin) for $1.8 billion in cash and contingent consideration of up to $0.2 billion. Excluding contingent consideration, after-tax net proceeds from the transaction approximated $1.5 billion. Refer to Note 13 for further discussion.

As further discussed in Note 2, we completed the sale of our Eagle Ford shale assets for $3.1 billion (before closing adjustments) in June 2014, and acquired additional interests in the Deepwater GOM totaling $1.4 billion. Refer to "Operations - Oil and Gas" for further discussion.

Our results for third-quarter 2014, compared with third-quarter 2013, reflect lower oil volumes and price realizations for copper, gold and oil, partly offset by higher copper and gold sales volumes. Our results for the first nine months of 2014, compared with the first nine months of 2013, reflect lower copper volumes and price realizations for copper and gold, partly offset by higher gold sales volumes and a full nine months of results from FCX Oil & Gas Inc. (FM O&G). The third quarter and first nine months of 2014 were also impacted by a ceiling-test impairment charge for our oil and gas properties pursuant to full cost accounting rules (refer to Note 1), which was partly offset by net noncash mark-to-market gains on oil and gas derivative contracts. Refer to “Consolidated Results” for further discussion of our consolidated financial results for the three- and nine-month periods ended September 30, 2014 and 2013.

At September 30, 2014, we had $0.7 billion in consolidated cash and cash equivalents and $19.7 billion in total debt. During third-quarter 2014, we redeemed $1.7 billion aggregate principal amount of senior notes with an average interest rate of 6.6 percent. Additionally, on October 15, 2014, we redeemed the $400 million aggregate principal amount of our 8.625% Senior Notes. 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.

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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	1,670	
South America mining	1,090	a
Indonesia mining	710	
Africa mining	445	
	3,915	
Gold (thousands of recoverable ounces):		
Indonesia mining	1,150	
North and South America mining	70	a
	1,220	
Molybdenum (millions of recoverable pounds)	95	b
Oil Equivalents (million BOE, or MMBOE)	56.2	

a. Excludes estimated fourth-quarter 2014 production from the Candelaria and Ojos del Salado mines (totaling 80 million pounds of copper and 25 thousand ounces of gold).

b. Projected molybdenum sales include 50 million pounds produced by our Molybdenum mines and 45 million pounds produced by our North and South America copper mines.

Consolidated sales for fourth-quarter 2014 are expected to approximate 1.0 billion pounds of copper, 350 thousand ounces of gold, 21 million pounds of molybdenum and 11.5 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 $1,250 per ounce of gold and $10 per pound of molybdenum for fourth-quarter 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 $1.52 per pound of copper for the year 2014. 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 fourth-quarter 2014 on consolidated unit net cash costs would approximate $0.01 per pound for each $50 per ounce change in the average price of gold and $0.005 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 fourth-quarter 2014, oil and gas cash production costs are expected to approximate $21 per BOE for the year 2014 and $24 per BOE for fourth-quarter 2014. Fourth-quarter 2014 unit cost estimates reflect downtime for maintenance affecting production rates at Marlin in the Deepwater GOM. 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, and assuming average prices of $3.00 per pound of copper, $1,250 per ounce of gold, $10 per pound of molybdenum and $90 per barrel of Brent crude oil for fourth-quarter 2014, consolidated operating cash flows are estimated to approximate $5.8 billion for the year 2014 (net of $0.4 billion of working capital uses and changes in other tax payments). Projected consolidated operating cash flows for the year 2014 also reflect estimated taxes of $1.6 billion (refer to “Consolidated Results – Provision

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for Income Taxes" for further discussion of our projected consolidated effective annual tax rate for 2014). The impact of price changes during fourth-quarter 2014 on operating cash flows would approximate $90 million for each $0.10 per pound change in the average price of copper, $15 million for each $50 per ounce change in the average price of gold and $18 million for each $2 per pound change in the average price of molybdenum. For Brent crude oil, a $5 per barrel increase above $90 per barrel in fourth-quarter 2014 would improve 2014 operating cash flows by approximately $20 million. After giving effect to derivative contracts, which provide price protection between approximately $70 and $90 per barrel, a $5 per barrel decrease below $90 per barrel in fourth-quarter 2014 would not reduce 2014 operating cash flows.

MARKETS

Metals. World prices for copper, gold and molybdenum can fluctuate significantly. During the period from January 2004 through September 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 October 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. We believe 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 nine months of 2014, copper prices declined because of concerns about slowing growth rates in China and an outlook for higher near-term supplies. During third-quarter 2014, LME spot copper prices ranged from a low of $3.06 per pound to a high of $3.26 per pound, averaged $3.17 per pound, and closed at $3.06 per pound on September 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

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prices are expected to be volatile and are likely to be influenced by demand from China and emerging markets, as well as economic activity in the U.S. and other industrialized countries, the timing of the development of new supplies of copper and production levels of mines and copper smelters. LME spot copper prices closed at $3.10 per pound on October 31, 2014.

This graph presents London PM gold prices from January 2004 through October 2014. An improving economic outlook and positive equity performance contributed to lower demand for gold in 2013 and the first nine months of 2014, resulting in generally lower prices. During third-quarter 2014, London PM gold prices ranged from a low of $1,214 per ounce to a high of $1,340 per ounce, averaged $1,282 per ounce and closed at $1,217 per ounce on September 30, 2014. Gold prices closed at $1,164 per ounce on October 31, 2014.

This graph presents the Metals Week Molybdenum Dealer Oxide weekly average prices from January 2004 through October 2014. Molybdenum prices improved during the first nine months of 2014, resulting from improved demand in the metallurgical sector. During third-quarter 2014, the weekly average price of molybdenum ranged from a low of $11.21 per pound to a high of $13.28 per pound, averaged $12.77 per pound and was $11.21 on September 30,

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2014. The Metals Week Molybdenum Dealer Oxide weekly average price was $9.38 per pound on October 31, 2014.

Oil and Gas. Market prices for crude oil and natural gas can fluctuate significantly. During the period from January 2004 through October 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 October 2014. During third-quarter 2014 and through October 2014, oil prices have been under pressure from global oversupply primarily attributable to U.S. shale production and increased Libyan output, coupled with weak economic data in Europe and slowing Chinese demand. During third-quarter 2014, Brent crude oil prices ranged from a low of $94.67 per barrel to a high of $112.29 per barrel, averaged $103.50 per barrel and were $94.67 per barrel on September 30, 2014. Brent crude oil prices declined during October 2014 and were $85.86 per barrel on October 31, 2014.

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CONSOLIDATED RESULTS

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013[a]	
SUMMARY FINANCIAL DATA	(in millions, except per share amounts)							
Revenues[b]	$5,696	c,d	$6,165	c,d	$16,203	c,d	$15,036	c,d
Operating income[b]	$1,132	c,d,e,f,g	$1,707	c,d,g	$3,396	c,d,e,f,g	$3,701	c,d,g,h
Net income attributable to common stockholders[i]	$552	c,d,e,f,g,j,k	$821	c,d,g	$1,544	c,d,e,f,g,j,k	$1,951	c,d,g,h,j,l
Diluted net income per share attributable to common stockholders	$0.53	c,d,e,f,g,j,k	$0.79	c,d,g	$1.47	c,d,e,f,g,j,k	$1.96	c,d,g,h,j,l
Diluted weighted-average common shares outstanding	1,046		1,043		1,045		993	
Operating cash flows[m]	$1,926		$1,878		$4,513		$3,743	
Capital expenditures	$1,853		$1,645		$5,415		$3,623	
At September 30:								
Cash and cash equivalents	$658		$2,219		$658		$2,219	
Total debt, including current portion	$19,737		$21,123		$19,737		$21,123	

a. Includes 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 (loss) by operating division (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenues	2014	2013	2014	2013
North America copper mines	$1,490	$1,301	$4,245	$3,995
South America mining	847	1,139	2,776	3,104
Indonesia mining	1,253	1,111	2,246	2,633
Africa mining	428	420	1,173	1,223
Molybdenum mines	173	121	469	408
Rod & Refining	1,227	1,253	3,623	3,862
Atlantic Copper Smelting & Refining	601	516	1,823	1,742
U.S. oil & gas operations	990	1,176	3,487	1,512
Other mining, corporate, other & eliminations	(1,313)	(872)	(3,639)	(3,443)
Total FCX revenues	$5,696	$6,165	$16,203	$15,036
Operating income (loss)				
North America copper mines	$471	$384	$1,329	$1,218
South America mining	273	558	1,010	1,372
Indonesia mining	434	404	385	634
Africa mining	161	163	436	475
Molybdenum mines	62	18	155	106
Rod & Refining	5	6	15	20
Atlantic Copper Smelting & Refining	8	(22)	(5)	(30)
U.S. oil & gas operations	(150)	274	359	338
Other mining, corporate, other & eliminations	(132)	(78)	(288)	(432)
Total FCX operating income	$1,132	$1,707	$3,396	$3,701

c.

Includes (unfavorable) favorable adjustments to provisionally priced concentrate and cathode sales recognized in prior periods totaling $(22) million ($(10) million to net income attributable to common stockholders or $(0.01) per share) for third-quarter 2014, $73 million ($35 million to net income attributable to common stockholders or $0.03 per share) for third-quarter 2013, $(118) million ($(65) million to net income attributable to common stockholders or $(0.06) per share) for the first nine months of 2014 and $(26) million ($(12) million to net income attributable to common stockholders or $(0.01) per share) for the first nine months of 2013. Refer to “Revenues” for further discussion.

d. Includes net noncash mark-to-market gains (losses) associated with crude oil and natural gas derivative contracts totaling $122 million ($76 million to net income attributable to common stockholders or $0.07 per share) for third-quarter 2014, $(158) million ($(98) million to net income attributable to common stock or $(0.09) per share) for third-quarter 2013, $130 million ($80 million to net income attributable to common stockholders or $0.08 per share) for the first nine months of 2014, and $(194) million ($(120) million to net income attributable to common stock or $(0.12) per share) for the four-month period from June 1, 2013, to September 30, 2013. Refer to "Revenues" for further discussion.

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e. Includes a charge of $308 million ($192 million to net income attributable to common stockholders or $0.18 per share) to reduce the carrying value of oil and gas properties pursuant to full cost accounting rules.

f. Includes a gain of $46 million ($31 million to net income attributable to common stockholders or $0.03 per share) primarily from the sale of a metals injection molding plant.

g. Includes net credits (charges) for adjustments to environmental obligations and related litigation reserves of $1 million ($1 million to net income attributable to common stockholders or less than $0.01 per share) for third-quarter 2014, $22 million ($14 million to net income attributable to common stockholders or $0.01 per share) for third-quarter 2013, $(68) million ($(67) million to net income attributable to common stockholders or $(0.06) per share) for the first nine months of 2014 and $14 million ($7 million to net income attributable to common stockholders or $0.01 per share) for the first nine months of 2013.

h. Includes transaction and related costs totaling $76 million ($47 million to net income attributable to common stock or $0.05 per share) principally associated with oil and gas acquisitions.

i. 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.

j. Includes net gains (losses) on early extinguishment of debt totaling $58 million ($17 million to net income attributable to common stockholders or $0.02 per share) in third-quarter 2014 and $63 million ($21 million to net income attributable to common stockholders or $0.02 per share) for the first nine months of 2014 related to the redemption of senior notes and $(45) million ($(36) million to net income attributable to common stockholders or $(0.04) per share) for the first nine months of 2013 related to the termination of the acquisition bridge loan facilities.

k. Includes a tax charge of $54 million ($47 million net of noncontrolling interests or $0.04 per share) related to changes in Chilean tax rules. Additionally, the first nine months of 2014 include a tax charge of $62 million ($0.06 per share) associated with deferred taxes recorded in connection with the allocation of goodwill to the sale of Eagle Ford properties.

l. Includes gains associated with the oil and gas acquisitions, including $128 million to net income attributable to common stockholders or $0.13 per share, 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 $0.18 per share, associated with net reductions in our deferred tax liabilities and deferred tax asset valuation allowances.

m. Includes net working capital sources (uses) and changes in other tax payments of $78 million for third-quarter 2014, $(294) million for third-quarter 2013, $(699) million for the first nine months of 2014 and $(489) million for the first nine months of 2013.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014		2013	2014		2013[a]
SUMMARY OPERATING DATA						
Copper (recoverable)						
Production (millions of pounds)	1,027		1,063	2,906		2,952
Sales, excluding purchases (millions of pounds)	1,077		1,041	2,916		2,946
Average realized price per pound	$3.12		$3.28	$3.14		$3.31
Site production and delivery costs per pound[b]	$1.91		$1.85	$1.92	c	$1.96
Unit net cash costs per pound[b]	$1.34	d	$1.46	$1.52	c,d	$1.62
Gold (recoverable)						
Production (thousands of ounces)	449		327	846		713
Sales, excluding purchases (thousands of ounces)	525		305	871		692
Average realized price per ounce	$1,220		$1,329	$1,251		$1,395
Molybdenum (recoverable)						
Production (millions of pounds)	24		25	73		71
Sales, excluding purchases (millions of pounds)	22		23	74		71
Average realized price per pound	$14.71		$11.21	$13.01		$12.12

Oil Equivalents				
Sales volumes:				
MMBOE	12.5	16.5	44.7	21.5
Thousand BOE (MBOE) per day	136	179	164	176
Cash operating margin per BOE:[e]				
Realized revenues	$69.08	$80.93	$75.04	$79.40
Cash production costs	20.93	16.80	19.57	16.76
Cash operating margin	$48.15	$64.13	$55.47	$62.64

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

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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. 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. Excludes $0.05 per pound of copper for fixed costs charged directly to cost of sales as a result of the impact of export restrictions on PT Freeport Indonesia's (PT-FI) operating rates.

d. Includes $0.06 per pound of copper in third-quarter 2014 and $0.02 per pound of copper for the first nine months of 2014 for export duties and increased royalty rates at PT-FI.

e. 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 $5.7 billion in third-quarter 2014 and $16.2 billion for the first nine months of 2014, compared with $6.2 billion in third-quarter 2013 and $15.0 billion for the first nine 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 September 30,	Nine Months Ended September 30,
Consolidated revenues - 2013 periods	$6,165	$15,036
Mining operations:		
Higher (lower) sales volumes:		
Copper	119	(100)
Gold	293	250
Molybdenum	(9)	35
(Lower) higher price realizations:		
Copper	(172)	(496)
Gold	(57)	(126)
Molybdenum	78	66
Unfavorable impact of net adjustments for prior period provisionally priced copper sales	(95)	(92)
Lower revenues from purchased copper	(189)	(324)
Oil and gas operations:		
Lower oil sales volumes	(302)	—
Lower oil price realizations, including realized cash losses on derivative contacts	(136)	—
Higher oil and gas revenues, including realized cash losses on derivative contracts	—	1,651 [a]
Favorable impact of net noncash mark-to-market adjustments on derivative contracts	280	324
Other, including intercompany eliminations	(279)	(21)
Consolidated revenues - 2014 periods	$5,696	$16,203

a. Represents the change in oil and gas revenues, excluding impacts from net noncash mark-to-market adjustments on derivative contracts, for the first nine months of 2014 compared to the four-month period from June 1, 2013, to September 30, 2013.

Mining Sales Volumes

Consolidated copper sales volumes were 1.08 billion pounds in third-quarter 2014 and 2.9 billion pounds for the first nine months of 2014, compared with 1.04 billion pounds in third-quarter 2013 and 2.9 billion pounds for the first nine months of 2013. Consolidated gold sales volumes increased to 525 thousand