

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number: 001-11307-01



Freeport-McMoRan Copper & Gold Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

74-2480931
(I.R.S. Employer Identification No.)

333 North Central Avenue
Phoenix, Arizona
(Address of principal executive offices)

85004-2189
(Zip Code)

(602) 366-8100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.10 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer Non-accelerated filer Smaller reporting company

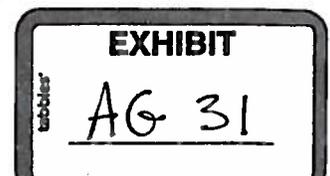
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant was \$33.0 billion on February 15, 2013, and \$32.1 billion on June 29, 2012.

Common stock issued and outstanding was 949,530,599 shares on February 15, 2013, and 949,186,881 shares on June 29, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our proxy statement for our 2013 annual meeting of stockholders are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this report.

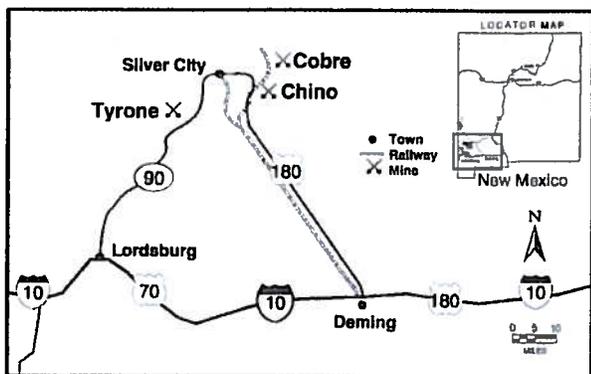


FREEPORT-McMoRan COPPER & GOLD INC.

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Tyrone and Chino



Tyrone

Our wholly owned Tyrone mine is an open-pit copper mining complex which has been in operation since 1967. It is located in southwestern New Mexico in Grant County, approximately 10 miles south of Silver City, New Mexico, along State Highway 90. The site is accessible by paved road and rail.

The Tyrone mine is a porphyry copper deposit. Mineralization is predominantly secondary sulfide consisting of chalcocite with leachable oxide mineralization consisting of chrysocolla.

Copper processing facilities consist of a SX/EW operation with a maximum capacity of approximately 100 million pounds of copper cathodes per year. The available mining fleet consists of twenty-one 240-metric ton haul trucks loaded by three shovels with bucket sizes ranging from 17 to 47 cubic meters, which are capable of moving an average of 136,000 metric tons of material per day.

Tyrone's copper production totaled 83 million pounds in 2012, 76 million pounds in 2011 and 82 million pounds in 2010.

Tyrone is located in a desert environment with rainfall averaging 16 inches per year. The highest bench elevation is 2,000 meters above sea level and the ultimate pit bottom is expected to have an elevation of 1,500 meters above sea level. The Tyrone operation encompasses approximately 35,200 acres, comprising 18,750 acres of patented mining claims and other fee lands, and 16,450 acres of unpatented mining claims.

Tyrone receives electrical power from the Luna Energy facility and from the open market. We believe the Tyrone operation has sufficient water resources to support current operations.

Chino

Our wholly owned Chino mine is an open-pit copper mining complex located in southwestern New Mexico in Grant County, approximately 15 miles east of the town of Silver City off of State Highway 180. The mine is accessible by paved roads and by rail. Chino has been in operation since 1910.

The Chino mine is a porphyry copper deposit with adjacent copper skarn deposits. There is leachable oxide and secondary sulfide mineralization, and millable primary sulfide mineralization. The predominant oxide copper minerals are chrysocolla and azurite. Chalcocite is the most important secondary copper sulfide mineral, and chalcopyrite and molybdenite the dominant primary sulfides.

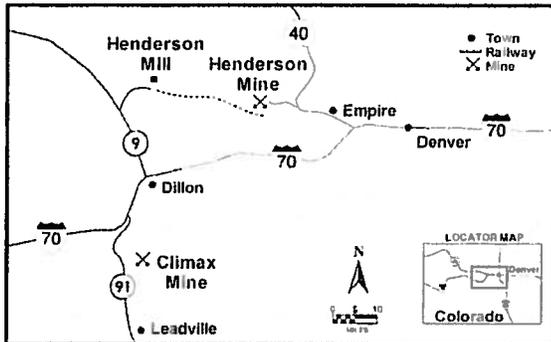
The Chino operation consists of a 36,000 metric ton-per-day concentrator that produces copper and molybdenum concentrates, and a 150 million pound-per-year SX/EW plant that produces copper cathode from solution generated by ROM leaching. The available mining fleet consists of thirty-four 240-metric ton haul trucks loaded by four shovels with bucket sizes ranging from 42 to 48 cubic meters, which are capable of moving an average of 218,000 metric tons of material per day.

During 2011, we restarted mining and milling activities at the Chino mine. Ramp up activities at Chino are continuing, with production of approximately 250 million pounds of copper per year targeted in 2014. Chino's production totaled 144 million pounds of copper and 2 million pounds of molybdenum in 2012, 69 million pounds of copper in 2011 and 34 million pounds of copper in 2010 from residual leaching operations.

Chino is located in a desert environment with rainfall averaging 16 inches per year. The highest bench elevation is 2,250 meters above sea level, and the ultimate pit bottom is expected to be 1,500 meters above sea level. The Chino operation encompasses approximately 118,600 acres, comprising approximately 113,200 acres of patented mining claims and other fee lands, and approximately 5,400 acres of unpatented mining claims.

Chino receives power from the Luna Energy facility and from the open market. We believe Chino has sufficient water resources to support current operations.

Henderson and Climax



Henderson

Our wholly owned Henderson molybdenum mine has been in operation since 1976 and is located approximately 42 miles west of Denver, Colorado, off U.S. Highway 40. Nearby communities include the towns of Empire, Georgetown and Idaho Springs. The Henderson mill site is located approximately 15 miles west of the mine and is accessible from Colorado State Highway 9. The Henderson mine and mill are connected by a 10-mile conveyor tunnel under the Continental Divide and an additional five-mile surface conveyor. The tunnel portal is located five miles east of the mill.

The Henderson mine is a porphyry molybdenum deposit with molybdenite as the primary sulfide mineral.

The Henderson operation consists of a large block-cave underground mining complex feeding a concentrator with a current capacity of approximately 32,000 metric tons per day. Henderson has the capacity to produce approximately 40 million pounds of molybdenum per year. The majority of the molybdenum concentrate produced is shipped to our Fort Madison, Iowa, processing facility. The available underground mining equipment fleet consists of thirteen 9-metric ton load-haul-dump (LHD) units and six 73-metric ton haul trucks, which deliver ore to a gyratory crusher feeding a series of three overland conveyors to the mill stockpiles.

Henderson's molybdenum production totaled 34 million pounds in 2012, 38 million pounds in 2011 and 40 million pounds in 2010.

The Henderson mine is located in a mountain region with the main access shaft at 3,180 meters above sea level. The main production levels are currently at elevations of 2,200 and 2,350 meters above sea level. This region experiences significant snowfall during the winter months.

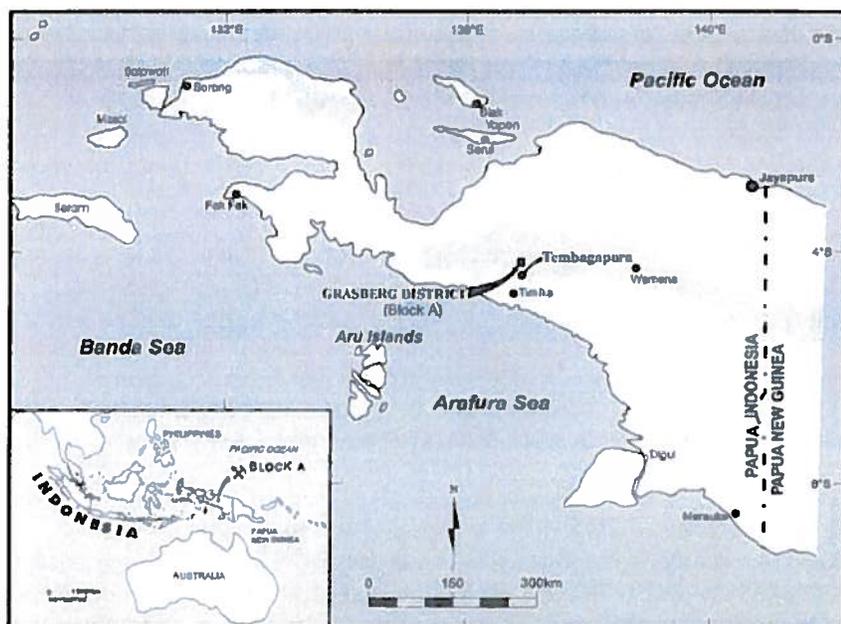
The Henderson mine and mill operations encompass approximately 11,900 acres, comprising approximately 11,850 acres of patented mining claims and other fee lands, and an approximate 50-acre easement with the U.S. Forest Service for the surface portion of the conveyor corridor.

Henderson operations receive electrical power through long-term contracts with Xcel Energy and natural gas through long-term contracts with Anadarko Energy Services Company (and effective March 1, 2013, Seminole Energy Services Company) with Xcel Energy as the transporter. We believe the Henderson operation has sufficient water resources to support current operations.

Salado underground mines and plant site. The remaining property consists of mineral rights owned by us in which the surface is not owned but is controlled by us, which is consistent with Chilean law.

Ojos del Salado receives electrical power through long-term contracts with AES Gener S.A. Ojos del Salado's water supply comes from well fields in the area of Tierra Amarilla and Copiapó that draw water from the Copiapó River aquifer. For a discussion of risks associated with the availability of water, see Item 1A. "Risk Factors."

Indonesia



Ownership. PT Freeport Indonesia is a limited liability company organized under the laws of the Republic of Indonesia and incorporated in Delaware. We directly own 81.28 percent of the outstanding common stock of PT Freeport Indonesia and indirectly own 9.36 percent through our wholly owned subsidiary, PT Indocopper Investama; the Indonesian government owns the remaining 9.36 percent.

We have established certain unincorporated joint ventures with Rio Tinto plc (Rio Tinto), under which Rio Tinto has a 40 percent interest in certain assets and future production exceeding specified annual amounts of copper, gold and silver. Refer to Note 2 for further discussion of our joint ventures with Rio Tinto.

We also conduct exploration activities in Papua through two other entities: PT Irja Eastern Minerals (Eastern Minerals), of which we own 100 percent, and PT Nabire Bakti Mining (PTNBM).

Contracts of Work. PT Freeport Indonesia conducts its current exploration and mining operations in Indonesia through a Contract of Work (COW) with the Indonesian government. The COW governs our rights and obligations relating to taxes, exchange controls, royalties, repatriation and other matters, and was concluded pursuant to the 1967 Foreign Capital Investment Law, which expresses Indonesia's foreign investment policy and provides basic guarantees of remittance rights and protection against nationalization, a framework for economic incentives and basic rules regarding other rights and obligations of foreign investors. Specifically, the COW provides that the Indonesian government will not nationalize or expropriate PT Freeport Indonesia's mining operations. Any disputes regarding the provisions of the COW are subject to international arbitration. We have experienced no disputes requiring arbitration during the more than 40 years we have operated in Indonesia.

PT Freeport Indonesia's original COW was entered into in 1967 and was replaced by a new COW in 1991. The initial term of the current COW expires in 2021, but can be extended for two 10-year periods subject to Indonesian government approval, which pursuant to the COW cannot be withheld or delayed unreasonably. The COW allows us to conduct exploration, mining and production activities in the 24,700-acre Block A area, which is where all of PT Freeport Indonesia's proven and probable mineral reserves and current mining operations are located. Under the COW, PT Freeport Indonesia also conducts exploration activities in the Block B area. We expect the Block B area to be reduced to approximately 413,000 acres once the Department of Energy and Mineral Resources (DEMR)

formally accepts PT Freeport Indonesia's relinquishment of approximately 89,000 acres. Further relinquishments may result from the COW evaluation process discussed below and in Note 14.

PT Freeport Indonesia pays royalties on copper, gold and silver under its COW, and has agreed to pay additional royalties to the Indonesian government that are not required under its COW. The additional royalties provide further support to the local governments and to the people of the Indonesian province of Papua. PT Freeport Indonesia's share of the combined royalties totaled \$93 million in 2012, \$137 million in 2011 and \$156 million in 2010.

Eastern Minerals is allowed to conduct exploration in Papua through a joint venture agreement under a separate COW. We expect Eastern Minerals' exploration area to be reduced to approximately 183,000 acres once the DEMR formally accepts Eastern Minerals' relinquishment of approximately 264,000 acres, and further relinquishments may result from the COW evaluation process discussed below and in Note 14. We have requested suspension of activities for the COW from the DEMR while awaiting receipt of permits from the Indonesian government's Department of Forestry that would allow Eastern Minerals to resume exploration activities. We have not received a response to this request from the DEMR.

Under a joint venture agreement through PTNBM, we are allowed to conduct exploration activities under a separate COW in an area in three parcels contiguous to PT Freeport Indonesia's Block B and one of Eastern Minerals' blocks. We expect PTNBM's exploration area to be reduced to approximately 200,000 acres once the DEMR formally accepts PTNBM's relinquishment of approximately 293,000 acres, and further relinquishments may result from the COW evaluation process discussed below and in Note 14. We have also requested suspension of activities for the COW from the DEMR while awaiting receipt of permits from the Indonesian government's Department of Forestry that would allow us to resume exploration activities. We have not received a response to this request from the DEMR.

In 2009, Indonesia enacted a new mining law, which will operate under a licensing system as opposed to the contract of work system that applies to PT Freeport Indonesia, Eastern Minerals and PTNBM. In 2011 and 2010, the Indonesian government promulgated regulations under the 2009 mining law and certain provisions that address existing contracts of work. The laws and regulations provide that contracts of work will continue to be honored until their expiration. However, the regulations attempt to apply certain provisions of the new law to existing contracts of work and may seek to apply the licensing system to any extension periods of contracts of work, even though the terms of PT Freeport Indonesia's COW provide for two 10-year extension periods subject to Indonesian government approval, which pursuant to the COW cannot be withheld or delayed unreasonably. In February 2012, a new regulation was adopted that would require mining companies in Indonesia to process all minerals domestically and possibly ban export of concentrates and other unrefined minerals. PT Freeport Indonesia's COW includes specific provisions providing the right of PT Freeport Indonesia to export product, subject to giving priority to domestic smelting facilities, on a market basis. In connection with the obligations under its COW, in 1995, PT Freeport Indonesia constructed the only copper smelter and refinery in Indonesia, which is owned and operated by PT Smelting (refer to "Smelting Facilities" for further discussion).

In January 2012, the President of Indonesia issued a decree calling for the creation of a team of Ministers to evaluate contracts of work for adjustment to the 2009 Mining Law, and accordingly, to take steps to assess and negotiate size of work areas, government revenues and domestic processing of minerals. We have had discussions with officials of the Indonesian government and are working cooperatively to complete this evaluation process and to obtain an extension of the COW beyond 2021, as provided under the terms of the COW. The COW can only be modified by mutual agreement between PT Freeport Indonesia and the Indonesian government.

Grasberg Minerals District. PT Freeport Indonesia operates in the remote highlands of the Sudirman Mountain Range in the province of Papua, Indonesia, which is on the western half of the island of New Guinea. We and our predecessors have been the only operator of exploration and mining activities in Block A since 1967.

The Grasberg minerals district currently has three mines in operation: the Grasberg open pit, the Deep Ore Zone (DOZ) underground mine and the Big Gossan underground mine. We also have several projects in progress in the Grasberg minerals district, primarily related to the development of the large-scale, high-grade underground ore bodies located beneath and nearby the Grasberg open pit. In aggregate, these underground ore bodies are expected to ramp up over several years to approximately 240,000 metric tons of ore per day following the currently anticipated transition from the Grasberg open pit in 2017. Refer to "Development Projects and Exploration" for further discussion.

DEVELOPMENT PROJECTS AND EXPLORATION

We have several projects and potential opportunities to expand production volumes, extend mine lives and develop large-scale underground ore bodies. Our near-term major development projects, which will require substantial additional capital investment, are presented below. Also refer to MD&A for further discussion of these projects, our other development projects and exploration activities.

Considering the long-term nature and large size of our development projects, actual costs and timing could vary from estimates. We continue to review our mine development and processing plans to maximize the value of our reserves.

Morenci. We are engaged in a project to expand mining and milling capacity at Morenci to process additional sulfide ores identified through exploratory drilling. The approximate \$1.4 billion project is targeting incremental annual production of approximately 225 million pounds of copper in 2014 through an increase in milling rates from 50,000 metric tons of ore per day to 115,000 metric tons of ore per day, and mining rates from 700,000 short tons per day (635,000 metric tons per day) to 900,000 short tons per day (815,000 metric tons per day). Engineering activities are progressing and construction activities are under way.

Twin Buttes. In December 2009, we purchased the Twin Buttes copper mine, which ceased operations in 1994 and is adjacent to our Sierrita mine. The purchase provides significant synergies in the Sierrita minerals district, including the potential for expanded mining activities and access to material that can be used for Sierrita tailings and stockpile reclamation purposes. We are conducting drilling on the property and metallurgical studies to support a feasibility study expected to commence in 2013.

Cerro Verde. We are engaged in a large-scale expansion at Cerro Verde. The approximate \$4.4 billion project would expand the concentrator facilities from 120,000 metric tons of ore per day to 360,000 metric tons of ore per day and provide incremental annual production of approximately 600 million pounds of copper and 15 million pounds of molybdenum beginning in 2016. Cerro Verde received approval of the environmental impact assessment in fourth-quarter 2012. Detailed engineering and procurement of long-lead items are under way, and construction is expected to commence in 2013.

El Abra. We are engaged in pre-feasibility studies for a potential large-scale milling operation at El Abra to process additional sulfide material and to achieve higher recoveries. Exploration results at El Abra have identified a significant sulfide resource.

Grasberg. We have several projects in progress in the Grasberg minerals district, primarily related to the development of large-scale, high-grade underground ore bodies located beneath and nearby the Grasberg open pit. In aggregate, these ore bodies are expected to ramp up over several years to approximately 240,000 metric tons of ore per day following the currently anticipated transition from the Grasberg open pit in 2017. Development of the Deep Mill Level Zone (DMLZ) is advancing. The DMLZ is expected to commence production in 2015 and the Grasberg Block Cave mine is scheduled to commence production in 2017. Over the next five years, estimated aggregate capital spending on these projects is currently expected to average \$715 million per year (\$565 million per year net to PT Freeport Indonesia). Refer to MD&A for further discussion of these projects and the Common Infrastructure project.

In addition to the near-term development projects in progress in the Grasberg minerals district, we also have an additional long-term underground mine development project in the Grasberg minerals district for the Kucing Liar ore body, which lies on the southern flank of and underneath the southern portion of the Grasberg open pit at the 2,605-meter elevation level. We expect to mine the Kucing Liar ore body using the block-cave method; aggregate capital cost estimates for development of the Kucing Liar ore body are projected to approximate \$2 billion (which are expected to be made between 2019 and 2031). Additionally, our current mine development plans include approximately \$3 billion of capital expenditures at our processing facilities to optimize the handling of underground ore types once the Grasberg open-pit operations cease (we expect substantially all of these expenditures to be made between 2016 and 2034).

Indonesia. In 1996, PT Freeport Indonesia established the Freeport Partnership Fund for Community Development (the Partnership Fund), through which PT Freeport Indonesia has made available funding and technical assistance to support community development initiatives in the areas of health, education and economic development of the area. PT Freeport Indonesia has committed through 2016 to provide one percent of its annual revenue for the development of the local people in its area of operation through the Partnership Fund. Our share of contributions to the Partnership Fund totaled \$39 million in 2012, \$50 million in 2011 and \$64 million in 2010.

The Amungme and Kamoro Community Development Organization (*Lembaga Pembangunan Masyarakat Amungme dan Kamoro* or LPMK) oversees disbursement of the program funds we contribute to the Partnership Fund. LPMK is governed by a board of commissioners and a board of directors, which are comprised of representatives from the local Amungme and Kamoro tribal communities, government leaders, church leaders, and one representative of PT Freeport Indonesia on each board. The Amungme and Kamoro people are original inhabitants of the land in our area of operations.

Security Matters. Consistent with our COW in Indonesia and the requirement to protect our employees and property, we have taken appropriate steps to provide a safe and secure working environment. As part of its security program, PT Freeport Indonesia maintains its own internal security department, which is unarmed and performs functions such as protecting company facilities, monitoring shipments of supplies and products, assisting in traffic control and aiding in emergency response operations. The security department has received human rights training and each member is required to certify his or her compliance with our human rights policy.

PT Freeport Indonesia's share of costs for its internal civilian security department totaled \$52 million for 2012, \$37 million for 2011 and \$28 million for 2010.

PT Freeport Indonesia, and all businesses and residents of Indonesia, rely on the Indonesian government for the maintenance of public order, upholding the rule of law and the protection of personnel and property. The Grasberg minerals district has been designated by the Indonesian government as one of Indonesia's vital national assets. This designation results in the police, and to a lesser extent, the military, playing a significant role in protecting the area of our operations. The Indonesian government is responsible for employing police and military personnel and directing their operations.

From the outset of PT Freeport Indonesia's operations, the Indonesian government has looked to PT Freeport Indonesia to provide logistical and infrastructure support and assistance for these necessary services because of the limited resources of the Indonesian government and the remote location of and lack of development in Papua. PT Freeport Indonesia's financial support for the Indonesian government security institutions assigned to the operations area represents a prudent response to its requirements to protect its workforce and property, better ensuring that personnel are properly fed and lodged, and have the logistical resources to patrol PT Freeport Indonesia's roads and secure its operating area. In addition, the provision of such support is consistent with PT Freeport Indonesia's obligations under the COW, reflects our philosophy of responsible corporate citizenship, and is in keeping with our commitment to pursue practices that will promote human rights.

PT Freeport Indonesia's share of support costs for the government-provided security was \$22 million in 2012, and \$14 million for each of the years 2011 and 2010. This supplemental support consists of various infrastructure and other costs, such as food, housing, fuel, travel, vehicle repairs, allowances to cover incidental and administrative costs, and community assistance programs conducted by the military and police.

Refer to Item 1A. "Risk Factors" for further discussion of security risks in Indonesia.

Africa. TFM has committed to assist the communities living within its concession in the Katanga province of the DRC. Initiatives include an integrated malaria control program, construction and operational support for six elementary schools, as well as renovation and construction of an additional four schools, installation of over 70 clean water wells, a public sanitation (latrines and hand washing) program reaching over 2,000 households, a mobile clinic for rural villages, and economic development programs supporting micro-credit and development of local entrepreneurs, contractors, and farmers. We have also made significant investments in infrastructure in the region that will have lasting benefits to the country, including upgrading a portion of a national road and the regional power generation and transmission systems.

Recoverable Proven and Probable Reserves												
Estimated at December 31, 2012												
Processing Method	Million metric tons	Average Ore Grade					Million metric tons	Probable Reserves				
		Copper %	Gold g/t	Moly %	Silver g/t	Cobalt %		Copper %	Gold g/t	Moly %	Silver g/t	Cobalt %
North America												
Morenci	Mill	680	0.50	—	0.021	—	5	0.45	—	0.015	—	—
	Crushed leach	417	0.52	—	—	5	0.47	—	—	—	—	—
	ROM leach	2,826	0.18	—	—	85	0.15	—	—	—	—	—
Bagdad	Mill	1,016	0.34	—	0.021	1.59	0.30	—	0.018	—	1.59	—
	ROM leach	267	0.12	—	—	225	0.10	—	—	—	—	—
	Crushed leach	117	0.43	—	—	69	0.41	—	—	—	—	—
Safford	Mill	2,407	0.24	—	0.026	1.43	0.21	—	0.020	—	1.28	—
Sierrita	ROM leach	10	0.19	—	—	7	0.18	—	—	—	—	—
	ROM leach	33	0.52	—	—	8	0.43	—	—	—	—	—
Miami	ROM leach	129	0.29	—	—	9	0.20	—	—	—	—	—
Tyrome	ROM leach	106	0.57	0.04	0.010	0.48	0.56	0.04	0.005	—	0.47	—
Chino	Mill	164	0.31	—	—	64	0.28	—	—	—	—	—
	ROM leach	111	—	—	0.172	2	—	—	0.169	—	—	—
Henderson	Mill	74	—	—	0.183	124	—	—	0.152	—	—	—
Climax	Mill	70	0.40	—	—	3	0.29	—	—	—	—	—
Cobre ^a	ROM leach	8,427	0.27	—	0.016	0.61	0.22	—	0.025	—	0.65	—
South America												
Cerro Verde	Mill	995	0.40	—	0.016	1.64	0.37	—	0.014	—	1.51	—
	Crushed leach	43	0.52	—	—	65	0.42	—	—	—	—	—
	ROM leach	22	0.21	—	—	72	0.20	—	—	—	—	—
El Abra	Crushed leach	417	0.51	—	—	111	0.44	—	—	—	—	—
	ROM leach	137	0.33	—	—	80	0.22	—	—	—	—	—
Candelaria	Mill	302	0.57	0.13	—	13	0.60	0.15	—	—	2.20	—
Opos del Salado	Mill	3	1.07	0.29	—	2	0.83	0.16	—	—	3.36	—
	Mill	1,919	0.44	0.02	0.008	1.17	0.37	—	0.013	—	1.38	—
Indonesia												
Grasberg open pit	Mill	162	0.99	1.18	—	2.67	0.75	0.63	—	—	2.05	—
Deep Ore Zone	Mill	57	0.58	0.72	—	2.45	0.56	0.71	—	—	2.29	—
Big Gossan	Mill	14	2.47	1.11	—	15.97	2.18	0.92	—	—	13.09	—
Grasberg Block Cave ^b	Mill	349	1.22	1.01	—	3.73	0.90	0.65	—	—	3.44	—
Kucing Liar ^b	Mill	149	1.33	1.13	—	7.58	1.20	1.03	—	—	6.06	—
Deep Mill Level Zone ^b	Mill	69	0.92	0.74	—	4.61	0.83	0.70	—	—	4.14	—
	Mill	800	1.15	1.03	—	4.43	0.93	0.74	—	—	4.14	—
Africa												
Tenke Fungurume	Agitation leach	52	3.49	—	—	0.97	3.09	—	—	—	0.32	—
Total FCX - 100% Basis		11,198	0.38	0.08	0.013	0.97	0.52	0.19	0.012	—	1.95	—

a. Grade not shown because of rounding.

b. Undeveloped reserves that would require additional capital investment, which could be significant, to bring into production.

The reserve table above and the tables on the following pages utilize the abbreviations described below:

- g/t – grams per metric ton
- Moly – Molybdenum
- ROM – Run of Mine

**Recoverable Proven and Probable Reserves
Estimated at December 31, 2012**

(continued)

	Processing Method	Proven and Probable Million metric tons	Average Ore Grade					Recoveries ^a				
			Copper %	Gold g/t	Moly %	Silver g/t	Cobalt %	Copper %	Gold %	Moly %	Silver %	Cobalt %
North America												
Morenci	Mill	685	0.50	—	0.021	—	—	79.3	—	47.1	—	
	Crushed leach	422	0.52	—	—	—	78.1	—	—	—		
	ROM leach	2,911	0.18	—	—	—	44.3	—	—	—		
Bagdad	Mill	1,241	0.34	— ^b	0.021	—	85.8	59.1	70.8	49.3		
	ROM leach	490	0.12	—	—	—	24.2	—	—	—		
	Crushed leach	186	0.42	—	—	—	65.9	—	—	—		
Safford	Mill	2,706	0.23	— ^b	0.025	1.41	83.9	60.0	75.7	49.3		
Sierrita	ROM leach	17	0.19	—	—	—	52.3	—	—	—		
Miami	ROM leach	41	0.51	—	—	—	61.8	—	—	—		
Tyrone	ROM leach	138	0.28	—	—	—	60.1	—	—	—		
Chino	Mill	170	0.57	0.04	0.008	0.48	78.8	77.9	44.0	78.5		
	ROM leach	221	0.30	—	—	—	42.9	—	—	—		
Henderson	Mill	113	—	—	0.172	—	—	—	84.7	—		
Clintmax	Mill	198	—	—	0.164	—	—	—	88.9	—		
Cobure ^c	ROM leach	73	0.39	—	—	—	50.7	—	—	—		
South America												
Cerro Verde	Mill	3,992	0.38	—	0.015	1.54	86.2	—	54.3	44.9		
	Crushed leach	108	0.46	—	—	—	79.7	—	—	—		
	ROM leach	94	0.20	—	—	—	48.7	—	—	—		
El Abra	Crushed leach	528	0.49	—	—	—	57.0	—	—	—		
	ROM leach	197	0.30	—	—	—	26.4	—	—	—		
Candelaria	Mill	315	0.57	0.13	—	2.03	89.2	71.9	—	76.3		
Opus del Salado	Mill	5	0.98	0.24	—	3.99	90.3	60.9	—	65.7		
Indonesia												
Grasberg open pit	Mill	258	0.90	0.98	—	2.44	83.7	80.6	—	42.9		
Deep Ore Zone	Mill	176	0.57	0.71	—	2.34	86.7	77.5	—	64.2		
Big Gossan	Mill	54	2.26	0.97	—	13.84	91.6	66.1	—	63.8		
Grasberg Block Cave ^c	Mill	999	1.01	0.78	—	3.54	84.2	64.8	—	57.2		
Kucing La ^c	Mill	420	1.25	1.07	—	6.60	85.8	46.3	—	38.5		
Deep Mill Level Zone ^c	Mill	517	0.84	0.70	—	4.20	87.1	79.0	—	64.6		
Africa												
Tenke Fungurume	Agitation leach	119	3.26	—	—	—	0.35	86.0	—	—		
Total FCX - 100% Basis		17,394								75.6		

- a. Recoveries are net of estimated mill and smelter losses.
- b. Grade not shown because of rounding.
- c. Undeveloped reserves that would require additional capital investment, which could be significant, to bring into production.

Item 1A. Risk Factors.

This report contains “forward-looking statements” within the meaning of United States (U.S.) federal securities laws. Forward-looking statements are all statements other than statements of historical facts, such as statements regarding projected ore grades and milling rates, projected production and sales volumes, projected unit net cash costs, projected operating cash flows, projected capital expenditures, exploration efforts and results, mine production and development plans, the impact of deferred intercompany profits on earnings, liquidity, other financial commitments and tax rates, the impact of copper, gold, molybdenum and cobalt price changes, availability of power, water, labor and equipment, reclamation and closure costs and plans, environmental liabilities and expenditures, litigation contingencies and results, future dividend payments, reserve estimates, risks associated with the completion of pending acquisitions, and anticipated political, economic and social conditions in our areas of operations. We undertake no obligation to update any forward-looking statements. Readers are cautioned that forward-looking statements are not guarantees of future performance and our actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that could cause our actual results to differ materially from those anticipated in the forward-looking statements include the following.

Financial risks

Extended declines in the market prices of copper, gold and/or molybdenum could adversely affect our earnings and cash flows and, if sustained, could adversely affect our ability to repay debt. Fluctuations in the market prices of copper, gold or molybdenum can cause significant volatility in our financial performance and adversely affect the trading prices of our debt and common stock.

Our financial results vary with fluctuations in metal market prices, including copper, gold and molybdenum (for further information about the market prices of these commodities, refer to discussion below and in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”). An extended decline in the market prices of these commodities could adversely affect our financial results, or our ability to repay our debt and meet our other fixed obligations, and depress the trading prices of our common stock and of our publicly traded debt securities.

Additionally, if market prices for the metals we produce decline for a sustained period of time, we may have to revise our operating plans, including curtailing production, reducing operating costs and capital expenditures and discontinuing certain exploration and development programs. We may be unable to decrease our costs in an amount sufficient to offset reductions in revenues, and may incur losses.

Substantially all of our copper concentrate and cathode sales contracts provide final copper pricing in a specified future month (generally one to four months from the shipment date) based primarily on quoted London Metal Exchange (LME) monthly average spot copper prices. Accordingly, in times of rising copper prices, our revenues benefit from adjustments to the final pricing of provisionally priced sales pursuant to contracts entered into in prior periods; in times of falling copper prices, the opposite occurs.

Copper prices have fluctuated historically, with LME spot copper prices ranging from a low of \$2.76 to a high of \$4.60 per pound during the three years ended December 31, 2012. Copper prices are affected by numerous factors beyond our control, including:

- The strength of the U.S. economy and the economies of other industrialized and developing nations, including China, which has become the largest consumer of refined copper in the world;
- Available supplies of copper from mine production and inventories;
- Sales by holders and producers of copper;
- Demand for industrial products containing copper;
- Investment activity, including speculation, in copper as a commodity;
- The availability and cost of substitute materials; and
- Currency exchange fluctuations, including the relative strength or weakness of the U.S. dollar.

Gold prices have also fluctuated historically, with the London PM gold price ranging from a low of \$1,058 to a high of \$1,895 per ounce during the three years ended December 31, 2012. Gold prices are affected by numerous factors beyond our control, including:

- The strength of the U.S. economy and the economies of other industrialized and developing nations, including China and India;
- Global or regional political or economic crises;
- The relative strength or weakness of the U.S. dollar and other currencies;
- Expectations with respect to the rate of inflation;
- Interest rates;
- Purchases and sales of gold by governments, central banks and other holders;
- Demand for jewelry containing gold; and
- Investment activity, including speculation, in gold as a commodity.

Molybdenum prices also fluctuate, with the *Metals Week* Molybdenum Dealer Oxide weekly average price ranging from a low of \$10.90 to a high of \$18.60 per pound during the three years ended December 31, 2012. Molybdenum prices are affected by numerous factors beyond our control, including:

- The worldwide balance of molybdenum demand and supply;
- Rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel;
- The volume of molybdenum produced as a by-product of copper production;
- Inventory levels;
- Currency exchange fluctuations, including the relative strength or weakness of the U.S. dollar; and
- Production costs of U.S. and foreign competitors.

Under U.S. federal and state laws that require closure and reclamation plans for our mines, we generally are required to provide financial assurance sufficient to allow a third party to implement those plans if we are unable to do so. The U.S. Environmental Protection Agency (EPA) and state agencies may also seek financial assurance for investigation and remediation actions under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) or equivalent state regulations. The failure to comply with these requirements could have a material adverse effect on us.

We are required by U.S. federal and state laws to provide financial assurance sufficient to allow a third party to implement approved closure and reclamation plans if we are unable to do so. These laws are complex and vary from jurisdiction to jurisdiction. The laws govern the determination of the scope and cost of the closure and reclamation obligations and the amount and forms of financial assurance. EPA and state agencies may also seek financial assurance for investigation and remediation actions under CERCLA or equivalent state regulations.

In July 2009, EPA published a Priority Notice of Action identifying classes of facilities within the hardrock mining industry for which the agency will develop financial responsibility requirements consistent with the degree and duration of risk associated with the production, transportation, treatment, storage or disposal of hazardous substances. In EPA's semi-annual regulatory agenda published on January 8, 2013, EPA indicated that it intends to propose regulations regarding hardrock mining financial responsibility in May 2014. It is uncertain how the new requirements, if promulgated, will affect the amount and form of our existing and future financial assurance obligations.

The amount of financial assurance we are required to provide will vary with changes in laws, regulations and reclamation and closure requirements and cost estimates. As of December 31, 2012, our financial assurance obligations associated with closure and reclamation costs totaled \$970 million, of which \$601 million was in the form of parent company guarantees and financial capability demonstrations. Our ability to continue to provide financial assurance in the form of parent guarantees and financial capability demonstrations depends on our ability to meet financial tests. Certain of the ratios in these tests are significantly more rigorous for companies that do not have an investment grade rating from a state-approved ratings service. We are currently rated investment grade by Standard & Poor's Rating Services (S&P), Fitch Ratings and Moody's Investors Service (Moody's). If we fail to maintain our investment grade rating, we would be subject to these more rigorous tests, in which case the regulatory agencies may require us to provide alternative forms of financial assurance, such as letters of credit, surety bonds or collateral. Depending on our financial condition and market conditions, these other forms of financial assurance may be difficult or costly to provide. Issuance of letters of credit under our credit facilities would reduce our available liquidity. Failure to provide the required financial assurance could result in the closure of mines. As of December 31, 2012, we had limited financial assurance obligations associated with CERCLA-related remediation obligations, although EPA and certain states are increasing the use of financial assurance requirements for such obligations.

For additional information and for discussion of mine closure laws impacting our international operations, refer to the environmental risk factor "Mine closure regulations impose substantial costs on our operations."

Movements in foreign currency exchange rates could negatively affect our operating results.

The functional currency for most of our operations is the U.S. dollar. All of our revenues and a significant portion of our costs are denominated in U.S. dollars; however, some costs and certain asset and liability accounts are denominated in local currencies, including the Indonesian rupiah, Australian dollar, Chilean peso, Peruvian nuevo sol, euro and South African rand. Generally, our results are positively affected when the U.S. dollar strengthens in relation to those foreign currencies and adversely affected when the U.S. dollar weakens in relation to those foreign currencies. Refer to Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" for a summary of the estimated impact of changes in foreign currency rates on our annual operating costs.

From time to time, we may implement currency hedges intended to reduce our exposure to changes in foreign currency exchange. However, our hedging strategies may not be successful, and any of our unhedged foreign exchange payments will continue to be subject to market fluctuations.

International risks

Our international operations are subject to political, social and geographic risks of doing business in foreign countries.

We are a global mining company with substantial assets located outside of the U.S. We conduct international mining operations in Indonesia, Peru, Chile and the Democratic Republic of Congo (DRC). Accordingly, in addition to the usual risks associated with conducting business in foreign countries, our business may be adversely affected by political, economic and social uncertainties in each of these countries. Such risks include:

- Renegotiation, cancellation or forced modification of existing contracts,
- Expropriation or nationalization of property,
- Changes in a foreign country's laws, regulations and policies, including those relating to labor, taxation, royalties, divestment, imports, exports, trade regulations, currency and environmental matters,
- Political instability, bribery, extortion, corruption, civil strife, acts of war, guerrilla activities, insurrection and terrorism,
- Foreign exchange controls, and
- The risk of having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory.

Our insurance does not cover most losses caused by the above described risks. Accordingly, our exploration, development and production activities outside of the U.S. could be substantially affected by factors beyond our control, some of which could materially and adversely affect our financial position or results of operations.

Our international operations must comply with the U.S. Foreign Corrupt Practices Act and similar anti-corruption and anti-bribery laws of the foreign jurisdictions in which we operate. There has been a substantial increase in the global enforcement of these laws. Although we have a compliance program in place designed to reduce the likelihood of violations of such laws, any violation could result in significant criminal or civil sanctions.

We are involved in several significant tax proceedings and other tax matters with the Indonesian and Peruvian tax authorities (refer to Note 13 for further discussion of these matters).

Because our Grasberg minerals district is our most significant operating asset, our business may continue to be adversely affected by political, economic and social uncertainties and security risks in Indonesia.

Indonesia has faced political and social uncertainties, including separatist movements and civil and religious strife in a number of provinces. In particular, several separatist groups are opposing Indonesian rule over the province of Papua, where our Grasberg minerals district is located, and have sought political independence for the province. In response, Indonesia enacted regional autonomy laws, which became effective January 1, 2001. The manner in which those laws are being implemented and the degree of political and economic autonomy that they may bring to individual provinces, including Papua, are uncertain and are ongoing issues in Indonesian politics. In Papua, there have been sporadic attacks on civilians by separatists and sporadic but highly publicized conflicts between separatists and the Indonesian military. Social, economic and political instability in Papua could materially and adversely affect us if it results in damage to our property or interruption of our activities.

Maintaining a good working relationship with the Indonesian government is important to us because our mining operations there are among Indonesia's most significant business enterprises and are conducted pursuant to a Contract of Work (COW) with the Indonesian government. Partially because of their significance to Indonesia's economy, the environmentally sensitive area in which they are located, and the number of people employed, our operations are occasionally the subject of criticism in the Indonesian press and in political debates, and have been the target of protests and occasional violence.

Between July 2009 and February 15, 2013, there were 37 shooting incidents in and around the Grasberg minerals district, including along the road leading to our mining and milling operations, which resulted in 15 fatalities and 57 injuries. The investigation of these matters is continuing. We have taken precautionary measures, including limiting the use of the roads to secured convoys. The Indonesian government has responded with additional security forces and expressed a commitment to protect the safety of the community and our operations. Prolonged limitations on access to the road could adversely affect operations at the mine. The safety of our workforce is a critical concern, and PT Freeport Indonesia is working cooperatively with the Indonesian government to address security issues.

During 2011, PT Freeport Indonesia was adversely affected by labor disruptions, including an eight-day work stoppage in July 2011 and an approximate three-month strike that concluded in December 2011. The strike involved civil unrest, transportation blockades, sabotage of important operating facilities and violence. Additionally, during first-quarter 2012, PT Freeport Indonesia experienced work interruptions in connection with its efforts to resume normal operations and temporarily suspended operations.

Large numbers of illegal miners have continued to operate along the river used to transport the tailings from the mill to the lowlands in PT Freeport Indonesia's government-approved tailings management area. The illegal miners have periodically clashed with police who have attempted to move them away from our facilities. In 2006, the illegal miners temporarily blocked the road leading to the Grasberg mine and mill in protest, and PT Freeport Indonesia temporarily suspended mining and milling operations as a precautionary measure.

We cannot predict whether additional incidents will occur that could disrupt or suspend our Indonesian operations. If additional violence or other disruptive incidents occur, it could adversely affect our business and profitability in ways that we cannot predict at this time.

We will not mine all of our ore reserves in Indonesia before the initial term of our COW expires.

PT Freeport Indonesia is entitled to mine in Indonesia under its COW with the Indonesian government. The initial term of the current COW expires in 2021, but can be extended for two 10-year periods subject to Indonesian government approval, which pursuant to the COW cannot be withheld or delayed unreasonably. Our proven and probable ore reserves in Indonesia reflect estimates of minerals that can be recovered through the end of 2041 and our current mine plan has been developed, and our operations are based on the assumption that we will receive the two 10-year extensions. As a result, we will not mine all of these ore reserves during the initial term of the current COW, and there can be no assurance that the Indonesian government will approve the extensions. Prior to the end of 2021, we expect to mine 28 percent of aggregate proven and probable recoverable ore at December 31, 2012, representing 34 percent of PT Freeport Indonesia's share of recoverable copper reserves and 46 percent of its share of recoverable gold reserves.

We have had discussions with the Indonesian government regarding the implications of the 2009 mining law, and are working cooperatively to complete the government's contract of work evaluation process and to obtain an extension of the COW beyond 2021, as provided under the terms of the COW (refer to Part I, Items 1 and 2, "Business and Properties - Mines, Indonesia" for further discussion). The outcome of these discussions may result in revisions to certain terms of the COW.

Our COWs in Indonesia are subject to termination if we do not comply with our contractual obligations, and if a dispute arises, we may have to submit to the jurisdiction of a foreign court or arbitration panel.

PT Freeport Indonesia's COW and other COWs in which we have an interest were entered into under Indonesia's 1967 Foreign Capital Investment Law, which provides guarantees of remittance rights and protection against nationalization. Our COWs can be terminated by the Indonesia government if we do not satisfy our contractual obligations, which include the payment of royalties and taxes to the government and the satisfaction of certain mining, environmental, safety and health requirements.

Certain forestry laws and designations as well as prevailing environmental laws and regulations may conflict with or overlap with the mining rights established under our COW. Although our COW grants to PT Freeport Indonesia the unencumbered right to operate in accordance with the COW, certain government agencies could seek to impose additional restrictions on PT Freeport Indonesia that could affect exploration and operating requirements.

At times, certain government officials and others in Indonesia have questioned the validity of contracts entered into by the Indonesian government prior to May 1998 (*i.e.*, during the Suharto regime, which lasted over 30 years), including PT Freeport Indonesia's COW, which was signed in December 1991. We cannot provide assurance that the validity of, or our compliance with, the COWs will not be challenged for political or other reasons. PT Freeport Indonesia's COW and our other COWs require that disputes with the Indonesian government be submitted to international arbitration. Accordingly, if a dispute arises under the COWs, we face the risk of having to submit to the jurisdiction of a foreign court or arbitration panel, and if we prevail in such a dispute, we will face the additional risk of having to enforce the judgment of a foreign court or arbitration panel against Indonesia within its own territory.

The Tenke Fungurume minerals district is located in the Katanga province of the DRC, and may be adversely affected by security risks and political, economic and social instability in the DRC.

During 2009, we completed construction activities and commenced copper and cobalt production at the Tenke Fungurume (Tenke) mine located in the DRC. Since gaining independence in 1960, the DRC has undergone outbreaks of violence, changes in national leadership and financial crises. These factors heighten the risk of abrupt changes in the national policy toward foreign investors, which in turn could result in unilateral modification of concessions or contracts, increased taxation, denial of permits or permit renewals or expropriation of assets. As part of a review of all mining contracts by the Ministry of Mines (the Ministry) in the DRC, in February 2008, we received notification that the Ministry wished to renegotiate several material provisions of Tenke Fungurume Mining S.A.R.L.'s (TFM) mining concessions. In October 2010, the DRC government concluded its review of TFM's existing mining contracts and confirmed that they are in good standing. In connection with the review, TFM made several commitments that were reflected in amendments to its mining contracts, which were signed by the parties in December 2010, approved by a ministerial council in March 2011, and a Presidential Decree was issued in April 2011. In addition, effective March 26, 2012, the DRC government issued a Presidential Decree approving

modifications to TFM's bylaws. Among other changes to the Amended and Restated Mining Convention (ARMC), FCX's effective ownership in TFM was reduced from 57.75 percent to 56 percent.

Political, economic, social and security risks in the DRC are generally outside of our control and could adversely affect our business. These risks include legal and regulatory uncertainties; exposure to an environment of governmental corruption and bribery; attempts to increase taxes or claims for fees and penalties by governmental officials, including retroactive claims; security risks resulting from political instability in the DRC; and risk of loss due to civil strife, acts of war, guerrilla activities, insurrection and terrorism.

In addition to ongoing conflict in the eastern region of the DRC, there have been a limited number of reported acts of violence in the Katanga province where the Tenke Fungurume minerals district is located. The safety of our workforce at all of our operations is our highest priority, and TFM works cooperatively with government officials to address security issues; however, no assurance can be given that conflict or random acts of violence will not occur near or impact TFM's operations.

Accordingly, the Tenke Fungurume minerals district and its future development projects may be substantially affected by factors beyond our control, any of which could adversely affect our operating results, interrupt our operations or result in a loss of all or part of our investment in the DRC.

Terrorist attacks and violence near our operations and throughout the world and the potential for additional future terrorist acts and violence have created economic and political uncertainties that could materially and adversely affect our business.

Refer to the international risk factor "Because our Grasberg minerals district is our most significant operating asset, our business may continue to be adversely affected by political, economic and social uncertainties in Indonesia" for more information about a series of shooting incidents near our Grasberg minerals district.

In July 2009, two suicide bombers set off explosions inside of the JW Marriott and Ritz-Carlton hotels in Jakarta, Indonesia, that killed nine people and injured 53 others, including two of our Indonesia-based executives.

In October 2005, three suicide bombers killed 19 people and wounded over 100 in the Indonesian province of Bali, which is 1,500 miles west of our mining and milling operations. In September 2004, 11 people were killed and over 200 injured by a car bomb detonated in front of the Australian embassy in Jakarta. In August 2003, 12 people were killed and over 100 were injured by a car bomb detonated outside of the JW Marriott Hotel in Jakarta, Indonesia. In October 2002, a bombing killed 202 people in Bali. Indonesian authorities arrested 35 people in connection with this bombing and 29 of those arrested have been tried and convicted. The same international terrorist organizations are suspected in each of these incidents. In November 2005, Indonesian police raided a house in East Java that resulted in the death of other accused terrorists linked to the bombings discussed above. Our mining and milling operations were not interrupted by these incidents, but PT Freeport Indonesia's corporate office in Jakarta had to relocate for several months following the bombing in front of the Australian embassy. In addition to the Bali, JW Marriott Hotel and Australian embassy bombings, there have been anti-American demonstrations in certain sections of Indonesia reportedly led by radical Islamic activists.

No assurance can be given that additional terrorist incidents and acts of violence will not occur. If there were to be additional terrorist incidents or acts of violence, particularly at or near our operations, there could be no assurance that the occurrence of such events would not have a material adverse impact on our business and results of operations.

Operational risks

Our business is subject to operational risks that could adversely affect our business.

Mines by their nature are subject to many operational risks, some of which are outside of our control. These operational risks, which could adversely affect our business, operating results and cash flows, include the following:

- Earthquakes, floods and other natural disasters;
- The occurrence of unusual weather or operating conditions and other force majeure events;

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- The failure of equipment or processes to operate in accordance with specifications, design or expectations;
- Accidents;
- Wall failures and rock slides in our open-pit mines, and structural collapses in our underground mines;
- Interruption of energy supply;
- Lower than expected ore grades or recovery rates;
- Metallurgical and other processing problems;
- Unanticipated ground and water conditions;
- Adverse claims to water rights, adverse outcomes of pending water adjudications and shortages of water to which we have rights;
- Adjacent land ownership or usage that results in constraints on current or future mine operations;
- Delays in the receipt of or failure to receive necessary government authorizations, approvals or permits;
- Delays in transportation and disruptions of supply routes; and
- The inability to obtain satisfactory insurance coverage.

Managing the volume of waste rock, leach material and tailings produced in our mining operations also presents significant environmental, safety and engineering challenges and risks. We maintain large leach pads and tailings impoundments containing viscous material, which must be monitored for structural stability and leakages; our tailings impoundments in arid areas must have effective programs to suppress fugitive dust emissions; and we must effectively monitor and treat acid rock drainage. In Indonesia, we use a river transport system for tailings management, which presents other risks, as discussed elsewhere in these risk factors. The failure to adequately manage these risks could result in significant personal injury, loss of life, property damage and damage to the environment, both in and around our areas of operations, as well as damage to production facilities and delays in or curtailments of production.

Our business may also be impacted by information technology disruptions. Cybersecurity incidents, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and the corruption of data. We have experienced cybersecurity incidents in the past and may experience them in the future. We believe that we have implemented appropriate measures to mitigate potential risks to our technology and our operations from these information technology disruptions. However, given the unpredictability of the timing, nature and scope of information technology disruptions, we could potentially be subject to production downtimes, operational delays, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, other manipulation or improper use of our systems and networks or financial losses from remedial actions, any of which could have a material adverse effect on our cash flows, competitive position, financial condition or results of operations.

Labor unrest and activism could disrupt our operations and may adversely affect our business, financial condition, results of operations and prospects.

As further described in Part I, Items 1 and 2., "Business and Properties - Labor Matters," we are party to labor agreements with various unions that represent employees at our operations. Labor agreements are negotiated on a periodic basis, and the risk exists that labor agreements may not be renewed on reasonably satisfactory terms to us or at all. We cannot predict what issues may be raised by the collective bargaining units representing our employees and, if raised, whether negotiations concerning those issues will be concluded successfully. Our production and sales volumes could be significantly reduced and our business, financial condition and results of operations adversely affected by significant reductions in productivity or protracted work stoppages at one or more

of our operations. Additionally, if we enter into a new labor agreement with any union that significantly increases our labor costs relative to our competitors, our ability to compete may be materially and adversely affected.

During 2011, PT Freeport Indonesia was adversely affected by labor disruptions, including an eight-day work stoppage in July 2011 and an approximate three-month strike that concluded in December 2011. The strike involved civil unrest, transportation blockades, sabotage of important operating facilities and violence. Additionally, during first-quarter 2012, PT Freeport Indonesia experienced work interruptions in connection with its efforts to resume normal operations and temporarily suspended operations.

In fourth-quarter 2011, there was an approximate two-month labor strike at Cerro Verde during the negotiation of a new labor agreement. The strike did not have a significant impact on production, and a new three-year agreement with the union was reached in late December 2011.

As of December 31, 2012, approximately 50 percent of our labor force was covered by collective bargaining agreements, and approximately 35 percent of our labor force is covered by agreements that will expire within one year.

If we do not successfully negotiate new collective bargaining agreements with our union workers, we may incur prolonged strikes and other work stoppages at our mining operations, which could adversely affect our business, financial condition and results of operations.

Our mining production depends on the availability of sufficient water supplies.

Our operations require significant quantities of water for mining, ore processing and related support facilities. Our operations in North and South America are in areas where water is scarce and competition among users for continuing access to water is significant. Continuous production at our mines is dependent on our ability to maintain our water rights and claims, and the continuing physical availability of the water supplies.

At our North America operations, certain of our water supplies are supported by surface water rights, which give us the right to use public waters for a statutorily defined beneficial use at a designated location. In Arizona, we are a participant in two active general stream adjudications in which, for over 30 years, the Arizona courts have been attempting to quantify and prioritize surface water claims for two of the state's largest river systems, which affect four of our operating mines (Morenci, Safford, Sierrita and Miami). The legal precedent set in these proceedings may also affect our Bagdad mine. Groundwater has historically been treated differently from surface water under Arizona law, which has generally allowed land owners to pump at will, subject to the doctrine of reasonable use. However, court decisions in one of the adjudications have concluded that groundwater pumping may affect surface water, thereby bringing the pumping within the jurisdiction of the general stream adjudications. The effort to define the boundaries between groundwater and surface water remains contested, however, and is currently a primary focus of one of those adjudications. Because groundwater accounts for approximately 40 percent of Arizona's water supplies, the re-characterization of any significant portion of that water as surface water could jeopardize the ability of consumers, farmers, ranchers, municipalities, and industrial users like us, to continue to access water supplies that have been relied on for decades. Because we are a significant user of groundwater in Arizona, we are an active participant in the adjudication proceedings.

In Colorado, our surface water and groundwater rights are subject to adjudication and we are involved in legal proceedings to resolve disputes regarding priority and administration of rights, including priority of some of our rights for the Climax molybdenum mine. In New Mexico, our surface water and groundwater rights are fully licensed or have been fully adjudicated.

Water for our Cerro Verde mining operation comes from renewable sources through a series of storage reservoirs on the Rio Chili watershed that collect water primarily from seasonal precipitation. Due to occasional drought conditions and the possibility that climate change will reduce precipitation levels, temporary supply shortages are possible that could affect our current and planned Cerro Verde operations. Cerro Verde has been conducting water studies to assess opportunities for additional supplies to support current operations and potential future expansion projects. Cerro Verde has reached an agreement with the Regional Government of Arequipa, the National Government, Servicio de Agua Potable y Alcantarillado de Arequipa S.A. (SEDAPAR) and other local institutions to allow it to finance the engineering and construction of a wastewater treatment plant, should Cerro Verde proceed with plans for a large-scale concentrator expansion. Once Cerro Verde obtains a license for the treated water, it would be used to supplement its existing water supplies to support the concentrator expansion.

Water for our El Abra mining operation comes from the continued pumping of groundwater from the Salar de Ascotán aquifer. In 2010, El Abra obtained regulatory approval, subject to certain conditions, for the continued pumping of groundwater from the Salar de Ascotán aquifer for its sulfide processing plant, which began operations in 2011. We believe that El Abra has sufficient water rights to support current operations, however, a change to the sulfide ore project, such as increased production or mill processing, would require additional water beyond our sulfide groundwater pumping, which is permitted through 2021. El Abra is also conducting studies to assess the feasibility of constructing a desalination plant near the Pacific Ocean to treat seawater for possible increased sulfide ore production or mill processing.

Water for our Candelaria and Ojos del Salado mining operations is drawn from the Copiapó River aquifer. Because of rapid depletion of this aquifer in recent years, Candelaria is expanding its sources of water supply. During 2010, we completed construction of a pipeline to convey reclaimed water from a nearby water treatment facility to our Candelaria mine. In addition, we have substantially completed the construction of a desalination plant and pipeline that will supply Candelaria's longer term water needs.

Although each of our operations currently has access to sufficient water supplies to support current operational demands, some supplies are subject to unresolved claims by others, and additional supplies that may be needed to support expanded operations are expensive, in short supply, and can be difficult to access because of logistical and legal obstacles. Moreover, we cannot predict the potential outcome of pending or future legal proceedings on our water rights, claims and uses. The loss of a water right, loss of continued use of a currently available water supply, or inability to expand our water resources could materially and adversely affect our mining operations, by significantly increasing the cost of water, forcing us to curtail operations, preventing us from expanding operations or forcing premature closures, thereby increasing and/or accelerating costs or foregoing profitable operations.

Increased production costs could reduce our profitability and cash flow.

Our copper mining operations require significant energy, principally diesel, electricity, coal and natural gas. For the year 2012, energy represented approximately 21 percent of our consolidated copper production costs. An inability to procure sufficient energy at reasonable prices could adversely affect our profits, cash flow and growth opportunities.

Our consolidated copper production costs are also affected by the prices of commodities we consume or use in our operations, such as sulphuric acid, grinding media, steel, reagents, liners, tires, explosives and diluents. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside our control and such prices are at times subject to volatile movements. Increases in the cost of these commodities could make our operations less profitable. Increases in the costs of commodities that we consume or use may also significantly affect the capital costs of new projects.

Also refer to the environmental risk factor "Regulation of greenhouse gas emissions and climate change issues may increase our costs and adversely affect our operations and markets" for discussion of the potential for increased energy costs.

In addition to the usual risks encountered in the mining industry, our Indonesia operations involve additional risks because they are located on unusually difficult terrain in a very remote area.

The Grasberg minerals district is located in steep mountainous terrain in a remote area of Indonesia. Because of these conditions, we have had to overcome special engineering difficulties and develop extensive infrastructure facilities. In addition, the area receives considerable rainfall, which has led to periodic floods and mudslides. The mine site is also in an active seismic area and has experienced earth tremors from time to time. Our insurance may not sufficiently cover an unexpected natural or operating disaster.

In April 2011, two PT Freeport Indonesia employees died in an accident when a portion of the Deep Ore Zone (DOZ) mine experienced an uncontrolled muck flow. The area was temporarily shut down during the investigation of the accident.

In September 2008, a small scale failure encompassing approximately 75,000 metric tons of material occurred at our Grasberg open pit. There were no injuries or property damage. The event caused a delay in our access to the

high-grade section of the open pit and, as a result, a portion of the metal expected to be mined in the second half of 2008 was deferred to future periods.

In March 2006, a mud/topsoil slide involving approximately 75,000 metric tons of material occurred from a mountain ridge above service facilities supporting PT Freeport Indonesia's mining facilities. Three contract workers were fatally injured in the event. The material damaged a mess hall and an adjacent area. As a result of investigations by PT Freeport Indonesia and the Indonesian Department of Energy and Mineral Resources, we conducted geotechnical studies to identify and address any potential hazards to workers and facilities from slides. The existing early warning system for potential slides, based upon rainfall and other factors, has also been expanded.

In October 2003, a slippage of material occurred in a section of the Grasberg open pit, resulting in eight fatalities. In December 2003, a debris flow involving a relatively small amount of loose material occurred in the same section of the open pit resulting in only minor property damage. The events caused us to alter our short-term mine sequencing plans; normal production activities resumed in second-quarter 2004.

No assurance can be given that similar events will not occur in the future.

In addition to the usual risks encountered in the mining industry, our Africa mining operation involves additional risks because it is located in a remote area of the DRC.

The Tenke Fungurume minerals district is located in a remote area of the DRC and is subject to additional challenges, including:

- Severely limited infrastructure, including road, bridge and rail access that is in disrepair and receives minimal maintenance;
- Limited and possibly unreliable energy supply from antiquated equipment and from power distribution corridors that are not maintained;
- Challenges in obtaining experienced personnel;
- Security risks; and
- Limited health care in an area plagued by disease and other potential endemic health issues, including malaria, cholera and HIV.

Additionally, due to limited rail access, we currently truck a significant portion of the production from the Tenke mines approximately 1,900 miles to ports in South Africa. The Tenke Fungurume minerals district and its future development may be substantially affected by factors beyond our control, which could adversely affect their contribution to our operating results and increase the cost of future development.

The volume and grade of ore reserves that we recover and our rate of production may be more or less than anticipated.

Our ore reserve amounts are determined in accordance with Industry Guide 7 as required by the Securities Exchange Act of 1934, and are estimates of the mineral deposits that can be economically and legally extracted or produced at the time of the reserve determination. The determination of reserves involves numerous uncertainties with respect to the ultimate geology of the ore bodies, including quantities, grades and recovery rates, and estimates may change as new data becomes available. Estimating the quantity and grade of reserves requires us to determine the size, shape and depth of our ore bodies by analyzing geological data, such as samplings of drill holes, tunnels and other underground workings. In addition to the geology of our mines, assumptions are required to determine the economic feasibility of mining these reserves, including estimates of future commodity prices and demand, the mining methods we use and the related costs incurred to develop and mine our reserves. A sustained decrease in commodity prices may result in a reduction in economically recoverable ore reserves. These factors may result in variations in the volumes of mineral reserves that we report from period to period.

There are also uncertainties inherent in estimating quantities of ore reserves and copper recovered from mill and leach stockpiles. The quantity of copper delivered to mill and leach stockpiles is based on surveyed volumes of mined material and daily production records. Sampling and assaying of blasthole cuttings determine the estimated

copper grade contained in the material delivered to the mill and leach stockpiles. Processes and recovery rates are monitored regularly, and recovery rate estimates are adjusted periodically as additional information becomes available and as related technology changes. Accordingly, the volume and grade of ore reserves recovered, rates of production and copper recovered from stockpiles may be less than anticipated.

We must continually replace reserves depleted by production. Our exploration activities may not result in additional discoveries.

Our ability to replenish our ore reserves is important to our long-term viability. Produced ore reserves must be replaced by further delineation of existing ore bodies or by locating new deposits in order to maintain production levels over the long term. Exploration is highly speculative in nature. Our exploration projects involve many risks, require substantial expenditures and may not result in the discovery of sufficient additional mineral deposits that can be mined profitably. Once a site with mineralization is discovered, it may take several years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish recoverable proven and probable reserves and to construct mining and processing facilities. As a result, there is no assurance that current or future exploration programs will be successful. There is a risk that depletion of reserves will not be offset by discoveries or acquisitions.

Development projects are inherently risky and may require more capital than anticipated, which could adversely affect our business.

There are many risks and uncertainties inherent in all development projects. The economic feasibility of development projects is based on many factors, including the accuracy of estimated reserves, metallurgical recoveries, capital and operating costs and estimated future prices of the relevant minerals. The capital expenditures and time required to develop new mines or other projects are considerable, and changes in costs or construction schedules can adversely affect project economics. Moreover, underground mining is generally more expensive than surface mining as a result of higher capital costs, including costs for modern mining equipment and construction of extensive ventilation systems. Therefore, it is possible that actual costs and economic returns may differ materially from our estimates. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of our current development projects.

New development projects have no operating history upon which to base estimates of future cash flow. These development projects also require the successful completion of feasibility studies, acquisition of governmental permits, acquisition of land, power and water, and ensuring that appropriate community infrastructure is developed by third parties to support such projects. It is possible that we could fail to obtain the government approvals necessary for the operation of a project, in which case, the project may not proceed, either on its original timing or at all. It is not unusual for new mining operations to experience unexpected problems during the start-up phase, resulting in delays in producing revenue and increases in capital expenditures.

The development of underground mines is subject to additional risks, including the following:

- Unanticipated geologic, geotechnical and hydrogeologic conditions;
- Challenges related to hiring and training personnel required for underground mining activities;
- Larger than expected dilution of ore associated with block caving and stoping mining methods; and
- Unanticipated delays in the development of major access and supporting infrastructure due to engineering changes, late delivery of critical components and longer than planned construction periods.

Some of these risks could result in delays to production startup and a loss or reduction in minable tons. There can be no assurance that the occurrence of such events or conditions would not have a material adverse impact on our business and results of operations.

Environmental risks

Our operations are subject to complex and evolving environmental laws and regulation. Compliance with environmental regulatory requirements involves significant costs and may constrain our expansion opportunities.

Our mining, development, exploration and production activities, both in the U.S. and internationally, are subject to extensive laws and regulations governing occupational health, mine safety, generation, transportation and disposal of hazardous toxic substances, waste disposal, air emissions and water discharges, remediation of the environment, protection of endangered and protected species, and other related matters. Compliance with these laws and regulations imposes substantial costs, which we expect will continue to increase over time because of increased regulatory oversight, adoption of increasingly stringent environmental standards, as well as other factors.

For example, under the Clean Air Act, EPA recently lowered the National Ambient Air Quality Standards (NAAQS) for sulfur dioxide. The area around our smelter in Miami, Arizona, has sulfur dioxide levels in excess of the new standard, and the smelter is the primary contributor to those levels. As a result, we will be required to limit the smelter's operations or install expensive pollution control equipment that will significantly reduce those emissions. Additionally, any expansion of the smelter will be constrained by, or be significantly more expensive because of, these new standards.

In addition, EPA has recently proposed rules that, if effective, would reclassify some mineral processing materials as "hazardous waste" under the Federal Resource Conservation and Recovery Act, which would reverse long-standing EPA regulatory determinations and subject the industry to significant new and costly waste management requirements.

We also believe there has generally been more aggressive application of the Endangered Species Act, resulting in increases in the number of protected species and expansive designations of their critical habitat, which may make obtaining federal permits and securing additional water resources more time-consuming, unpredictable and expensive.

Other regulation under consideration by environmental regulatory agencies include provisions that would impose additional restrictions on waterway discharges, and regulate environmental impacts of radioactive materials associated with mining operations and expand regulation of solid wastes, among other things.

Adoption of these or similar new environmental regulations or more stringent application of existing regulations may materially increase our costs and constrain our U.S. expansion opportunities.

In addition to compliance with environmental regulation at our operating sites, we incur significant costs for remediating environmental conditions on properties that have not been operated in many years.

Freeport-McMoRan Corporation (FMC), and many of its affiliates and predecessor companies have been involved in exploration, mining, milling, smelting and manufacturing in the U.S. for more than a century. Activities that occurred in the late 19th century and the 20th century prior to the advent of modern environmental laws were not subject to environmental regulation and were conducted before American industrial companies understood the long-term effects of their operations on the surrounding environment. With the passage of CERCLA in 1980, companies like FMC became legally responsible for environmental remediation on properties previously owned or operated by them, irrespective of when the damage to the environment occurred or who caused it. That liability is often shared on a joint and several basis with all other owners and operators, meaning that each owner or operator of the property is fully responsible for the clean-up, although in many cases some or all of the other historical owners or operators no longer exist, do not have the financial ability to respond or cannot be found. As a result, because of our acquisition of FMC in 2007, many of the subsidiary companies we now own are responsible for a wide variety of environmental remediation projects throughout the U.S., and we expect to spend substantial sums annually for many years to address those remediation issues. We are also subject to claims where the release of hazardous substances is alleged to have damaged natural resources. At December 31, 2012, we had more than 100 active remediation projects (including damaged natural resource claims) in the U.S. in 28 states.

At December 31, 2012, we had \$1.2 billion recorded in our consolidated balance sheet for environmental obligations attributed to CERCLA or analogous state programs and for estimated future costs associated with environmental matters at closed facilities or closed portions of certain operating facilities. Our environmental obligation estimates are primarily based upon:

- Our knowledge and beliefs about complex scientific and historical facts and circumstances that in many cases involve events that occurred many decades ago;
- Our beliefs and assumptions regarding the nature, extent and duration of remediation activities that we will be required to undertake and the estimated costs of those remediation activities, which are subject to varying interpretations; and
- Our beliefs regarding the requirements that are imposed on us by existing laws and regulations and, in some cases, the expected clarification of uncertain regulatory requirements that could materially affect our environmental obligation estimates.

Significant adjustments to these estimates are likely to occur in the future as additional information becomes available. The actual environmental costs ultimately may exceed our current and future accruals for these costs, and any such changes could be material.

In addition, remediation standards imposed by EPA and state environmental agencies have generally become more stringent over time. For example, in some cases, EPA has applied increasingly costly requirements regarding remediation of contaminated water bottom sediments. Continued application of these types of standards could have an adverse impact on our ultimate cleanup costs at the Newtown Creek site in New York City. Additionally, imposition of more stringent remediation standards poses a risk that additional remediation work could be required at sites that we have already remediated to the satisfaction of the responsible governmental agencies, and may increase the risk of toxic tort litigation.

Refer to Note 13 for further discussion of our environmental obligations.

During 2012, we incurred environmental capital expenditures and other environmental costs (including our joint venture partners' shares) to comply with applicable environmental laws and regulations that affect our operations of \$612 million, compared with \$387 million in 2011 and \$372 million in 2010. For 2013, we expect to incur approximately \$600 million of aggregate environmental capital expenditures and other environmental costs. The timing and amounts of estimated payments could change as a result of changes in regulatory requirements, changes in scope and costs of reclamation activities, the settlement of environmental matters and as actual spending occurs.

An adverse ruling in one or more pending legal proceedings involving environmental matters could have a material adverse effect on us.

As described in Note 13, we are a defendant in numerous, and in some cases significant, litigation matters involving alleged environmental contamination, alleged environmental toxic torts and complex interpretations of environmental regulations. An adverse ruling in one or more of those matters could have a material adverse effect on our results of operations, financial condition and cash flow.

Our Indonesia mining operations create difficult and costly environmental challenges, and future changes in environmental laws, or unanticipated environmental impacts from those operations, could require us to incur increased costs.

Mining operations on the scale of our Indonesia operations involve significant environmental risks and challenges. Our primary challenge is to dispose of the large amount of crushed and ground rock material, called tailings, that results from the process by which we physically separate the copper-, gold- and silver-bearing materials from the ore that we mine. Our tailings management plan, which has been approved by the Indonesian government, uses the river system near our mine to transport the tailings to an engineered area in the lowlands where the tailings and natural sediments are managed in a deposition area. Lateral levees have been constructed to help contain the footprint of the tailings and to limit their impact in the lowlands.

Another major environmental challenge is managing overburden, which is the rock that must be moved aside in the mining process to reach the ore. In the presence of air, water and naturally occurring bacteria, some overburden can generate acid rock drainage, or acidic water containing dissolved metals that, if not properly managed, can adversely affect the environment.

From time to time, certain Indonesian government officials have raised questions with respect to our tailings and overburden management plans, including a suggestion that we implement a pipeline system rather than our river transport system for tailings management and disposition. Because our Indonesia mining operations are remotely located in steep mountainous terrain and in an active seismic area, a pipeline system would be costly, difficult to construct and maintain, and more prone to catastrophic failure, and could therefore involve significant potentially adverse environmental issues. Based on our own studies and others conducted by third parties, we do not believe that a pipeline system is necessary or practical.

In connection with obtaining our environmental approvals from the Indonesian government, we committed to perform a one-time environmental risk assessment on the impacts of our tailings management plan. We completed this extensive environmental risk assessment with more than 90 scientific studies conducted over four years and submitted it to the Indonesian government in December 2002. We developed the risk assessment study using internationally recognized methods with input from an independent review panel, which included representatives from the Indonesian government, academia and non-governmental organizations. The risks identified during this process were in line with our impact projections of the tailings management program contained in our environmental approval documents.

Since 2005, PT Freeport Indonesia has participated in the Indonesian government's PROPER (Program for Pollution Control, Evaluation and Rating) program. The last PROPER audit where the Indonesian Ministry of Environment issued PT Freeport Indonesia a rating was in 2010, for which a Blue rating was issued acknowledging PT Freeport Indonesia's environmental management practices as being in compliance with the laws and regulations in Indonesia. In 2011, a PROPER audit of PT Freeport Indonesia was performed, however the Indonesian Ministry of Environment did not issue a rating for PT Freeport Indonesia. A PROPER audit of PT Freeport Indonesia was not performed in 2012 because of security conditions that existed.

Mine closure regulations impose substantial costs on our operations.

Our U.S. operations are subject to various federal and state permitting requirements that include mine closure and mined-land reclamation obligations. These requirements are complex and vary depending upon the jurisdiction. The laws govern the determination of the scope and cost of the closure and reclamation obligations and the amount and forms of financial assurance sufficient to allow a third party to meet the obligations of those plans if we are unable to do so. In general, our U.S. mines are required to review estimated closure and reclamation costs on either a periodic basis or at the time of significant permit modifications and post increasing amounts of financial assurance as required. It is uncertain how potential EPA requirements for financial assurance will affect the timing of periodic closure cost reviews or the scope of closure activities.

In July 2011, the Chilean senate passed legislation regulating mine closure, which became effective November 2012 and established new requirements for closure plans. Our Chilean operations will be required to update closure plans and provide financial assurance for these obligations. Revised closure plans for our Chilean mine sites are due in November 2014.

Cerro Verde is subject to regulation under the Mine Closure Law administered by the Peruvian Ministry of Energy and Mines. Under the closure regulations, mines must submit a closure plan that includes the reclamation methods, closure cost estimates, methods of control and verification, closure and post-closure plans and financial assurance. The updated closure plan for the Cerro Verde mine expansion must be submitted to the Peruvian regulatory authorities in December 2013.

In December 2009, PT Freeport Indonesia submitted its revised mine closure plan to the Department of Energy and Minerals Resources for review and has addressed comments received during the course of this review process. In December 2010, the President of Indonesia issued a regulation regarding mine reclamation and closure, which requires a company to provide a mine closure guarantee in the form of a time deposit placed in a state-owned bank in Indonesia. In accordance with its COW, PT Freeport Indonesia is working with the Department of Energy and

Mineral Resources to review these requirements, including discussions of other options for the mine closure guarantee.

We cannot predict at this time the cost of these closure plans or the levels or forms of financial assurance that may be required, which amounts could be substantial.

At December 31, 2012, we had asset retirement obligations (AROs) of \$1.1 billion recorded in our consolidated balance sheet. ARO cost estimates may increase or decrease significantly in the future as a result of changes in closure regulations, changes in engineering designs and technology, permit modifications or updates, changes in mine plans, inflation or other factors and as actual reclamation spending occurs. Refer to Note 13 for further discussion.

Regulation of greenhouse gas emissions and climate change issues may increase our costs and adversely affect our operations and markets.

Many scientists believe that emissions from the combustion of carbon-based fuels contribute to greenhouse effects and, therefore, contribute to climate change. In 2012, our worldwide total greenhouse gas emissions, measured as carbon dioxide equivalent emissions, were approximately 10 million metric tons, divided between direct (59 percent) and indirect (41 percent) emissions. Most of our direct emissions are from fuel combustion in haul trucks, followed by the combustion of fuels to provide energy for roasting, smelting and other processes. Indirect emissions are generally the emissions of outside providers from whom we purchase electricity for use in our operations. Our direct emissions are in Indonesia (54 percent), North America (28 percent), South America (11 percent), and Europe and Africa (7 percent). Our indirect emissions are in North America (73 percent), South America (24 percent) and Europe (3 percent).

A number of governments have introduced or are contemplating regulatory initiatives designed to control and reduce greenhouse gas emissions. In June 2010, the EPA issued final regulations under the Clean Air Act for the control of greenhouse gases from new large stationary sources and major modifications to existing large stationary sources. This and other federal greenhouse gas regulations have been challenged in judicial proceedings. Certain of our operations, including the Miami smelter, could be materially affected by these regulations if plant expansions exceed applicable thresholds. In addition, anticipated future EPA regulations covering large fossil fuel fired power plants may materially increase energy costs at our operations. The U.S. may also become a party to international agreements to reduce greenhouse gas emissions, which could lead to new regulations affecting our U.S. operations. The December 1997 Kyoto Protocol established greenhouse gas emission targets for developed countries that ratified the Protocol. In 2012, parties to the Kyoto Protocol agreed to a second commitment period beyond the original December 2012 expiration date. Although the U.S. has not ratified the Kyoto Protocol, the U.S. continues to participate in global climate summits that may lead to an agreement in the future.

Since 2006, we have participated in the Carbon Disclosure Project, which is a voluntary initiative that promotes standardized reporting of greenhouse gas emissions and reduction efforts. In 2009, we formed a multi-departmental greenhouse gas task force to pursue ways to improve the energy efficiency of our operations and reduce greenhouse gas emissions, including evaluating potential reductions in emissions from our haul trucks. However, because of longer and steeper mining hauls as our open pits expand and deepen, and increases in use of electricity as we increase production capacity, we expect increases in our total greenhouse gas emissions.

From a medium and long-term perspective, we are likely to experience increased costs relating to our greenhouse gas emissions as a result of regulatory initiatives in the U.S. and other countries in which we operate. In addition, the cost of electricity that we purchase from others may increase if our suppliers incur increased costs from the regulation of their greenhouse gas emissions. We cannot predict the magnitude of any increased costs at this time, given the wide scope of potential regulatory changes in the many countries in which we operate.

The potential physical impacts of climate change on our operations are highly uncertain, and would vary by operation based on particular geographic circumstances. These may include changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities, and changing temperatures. These effects may adversely impact the cost, production and financial performance of our operations.

Other risks

If market prices for our commodities decline, the carrying values of inventories and long-lived assets may be impaired, which could require charges to operating income that could be material.

Declines in the market price of copper, among other factors, could cause us to record lower of cost or market (LCM) inventory adjustments and could also result in a write-down of the carrying value of long-lived assets, which would potentially have a material adverse impact on our results of operations and stockholders' equity, but would have no effect on cash flows.

During fourth-quarter 2008, we concluded that the then-current economic environment and significant declines in copper and molybdenum prices represented significant adverse changes in our business requiring us to evaluate our long-lived assets and goodwill for impairment. As a result, we recorded significant impairment and LCM inventory charges. Refer to Item 6. "Selected Financial Data" for a summary of these charges.

Unanticipated litigation or negative developments in pending litigation could have a material adverse effect on our results of operations and financial condition.

We are a party to the litigation described in Note 13 and in Item 3. "Legal Proceedings" and a number of other litigation matters, including asbestos exposure cases, disputes over the allocation of environmental remediation obligations at Superfund and other sites, disputes over water rights and disputes with regulatory authorities. The outcome of litigation is inherently uncertain and adverse developments or outcomes can result in significant monetary damages, penalties or injunctive relief against us, limitations on our property rights, or regulatory interpretations that increase our operating costs. If any of these disputes results in a substantial monetary judgment against us or an adverse legal interpretation is settled on unfavorable terms, or otherwise affects our operations, it could have a material adverse effect on our operating results and financial condition.

We depend on our senior management team and other key employees, and the loss of any of these employees could adversely affect our business.

Our success depends in part on our ability to attract, retain and motivate senior management and other key employees. Achieving this objective may be difficult because of many factors, including fluctuations in global economic and industry conditions, competitors' hiring practices, cost reduction activities, and the effectiveness of our compensation programs. Competition for qualified personnel can be very intense. We must continue to recruit, retain and motivate senior management and other key employees to maintain our current business and support our future projects. A loss of such personnel could prevent us from capitalizing on business opportunities, and our operating results could be adversely affected.

Our holding company structure may impact your ability to receive dividends.

We are a holding company with no material assets other than the capital stock of our subsidiaries. As a result, our ability to repay our indebtedness and pay dividends is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, loan, debt repayment or otherwise. Our subsidiaries do not have any obligation to make funds available to us to repay our indebtedness or pay dividends. Dividends from subsidiaries that are not wholly owned are shared with other equity owners. Cash at our international operations is also subject to foreign withholding taxes upon repatriation into the U.S.

In addition, our subsidiaries may not be able to, or be permitted to, make distributions to enable us to repay our indebtedness or pay dividends. Each of our subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. Our rights to participate in any distribution of our subsidiaries' assets upon their liquidation, reorganization or insolvency would generally be subject to the prior claims of the subsidiaries' creditors, including any trade creditors.

Anti-takeover provisions in our charter documents and Delaware law may make an acquisition of us more difficult.

Anti-takeover provisions in our charter documents and Delaware law may make an acquisition of us more difficult. These provisions:

- Authorize our Board of Directors (the Board) to issue preferred stock without stockholder approval and to designate the rights, preferences and privileges of each class; if issued, such preferred stock would increase the number of outstanding shares of our capital stock and could include terms that may deter an acquisition of us;
- Establish advance notice requirements for nominations to the Board or for proposals that can be presented at stockholder meetings;
- Limit removal of directors for cause only;
- Limit who may call stockholder meetings; and
- Require the approval of the holders of two thirds of our outstanding common stock to enter into certain business combination transactions, subject to certain exceptions, including if the consideration to be received by our common stockholders in the transaction is deemed to be a fair price.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors other than the candidates nominated by the Board.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit large stockholders from consummating a merger with, or acquisition of, us.

These provisions may deter an acquisition of us that might otherwise be attractive to stockholders.

Risks associated with the proposed acquisitions of Plains Exploration & Production Company (PXP) and McMoRan Exploration Co. (MMR)

Our proposed acquisitions of PXP and MMR may present certain risks to our business and operations.

On December 5, 2012, we announced definitive merger agreements to acquire PXP and MMR. The proposed acquisitions present numerous risks, including the following:

- The possibility that the expected benefits of each transaction may not materialize in the timeframe expected or at all, or may be more costly to achieve than anticipated;
- That either or both of the transactions may not be timely completed, or completed at all;
- Our ability to obtain financing required in connection with the transactions, and the increase in our indebtedness that would result from entering into such financing;
- That prior to the completion of the transactions or thereafter, our business or the respective businesses of PXP and MMR may not perform as expected due to transaction-related uncertainty or other factors;
- That the parties are unable to successfully implement integration strategies following closing of the transactions;
- That required approvals to consummate the mergers, including the required approvals of the stockholders of each of PXP and MMR, are not obtained or other closing conditions are not satisfied in a timely manner or at all;

- Stockholder reaction to the proposed acquisitions;
- Risks associated with the ownership and operation of oil and gas assets and the other assets of each of PXP and MMR, which differ from those in the mining industry and include, among others, risks relating to oil and gas exploration, drilling and development (including ultra deep drilling) and operating in the deep water of the Gulf of Mexico;
- Our ability to retain key employees of each of the parties; and
- Whether or not one or both of the transactions are completed, the proposed acquisitions may require diversion of the attention of our management and other key employees from ongoing business activities, including the pursuit of other opportunities that could be beneficial to us.

In addition, we have incurred substantial costs in connection with the proposed acquisitions, a significant amount of which are required to be paid whether or not the transactions are completed. One or more of these factors could negatively affect our business, financial condition or results of operations.

Refer to Note 1 for further discussion of the proposed acquisitions of PXP and MMR.

Pending litigation against us, PXP and MMR could result in injunctions preventing completion of either or both of the proposed acquisitions and the payment of damages in the event one or both of the transactions is completed.

In connection with the proposed acquisitions, stockholders of each of FCX, PXP and MMR have filed numerous derivative lawsuits against us and class action lawsuits against us, PXP and MMR, among others. Among other remedies, the plaintiffs in these lawsuits seek to enjoin the proposed acquisitions. We may be subject to additional stockholder lawsuits during the pendency of the proposed acquisitions. These lawsuits could prevent or delay completion of one or both of the proposed acquisitions and result in substantial costs to us, including any costs associated with the indemnification of directors. The defense or settlement of any lawsuit or claim that remains unresolved may adversely affect our business, financial condition or results of operations.

Refer to Note 13 for further discussion of shareholder litigation that could have a material adverse effect on our results of operations and financial condition.

Consummating the PXP merger, but failing to complete the MMR merger could have consequences under the Clayton Antitrust Act (the Clayton Act) and negatively affect the combined company's future business and financial results.

If the PXP merger is completed, but the MMR merger is not completed, then the boards of directors and executive management of FCX and MMR may need to be reconstituted in order to comply with the Clayton Act. Subject to certain de minimis exceptions, Section 8 of the Clayton Act prohibits individuals from serving as directors or officers of two competing corporations when each corporation has capital, surplus and undivided profits in excess of \$27.8 million. Currently, FCX and MMR share overlapping board and management members, an overlap that is expected to continue even after the PXP merger is consummated, unless the MMR merger is also consummated. In the event that the PXP merger closes without the MMR merger also closing, the U.S. Department of Justice or Federal Trade Commission could investigate whether the combined company and MMR are competitors for purposes of the Clayton Act, and could seek to eliminate the interlock by securing resignation of the interlocked individuals or by pursuing injunctive relief. Private plaintiffs could also bring suits against the combined company seeking an injunction against the interlock. The potential distraction from operations, loss of key executive talent and cost of litigation could adversely affect the combined company's business, financial condition or result of operations.

Item 1B. Unresolved Staff Comments.

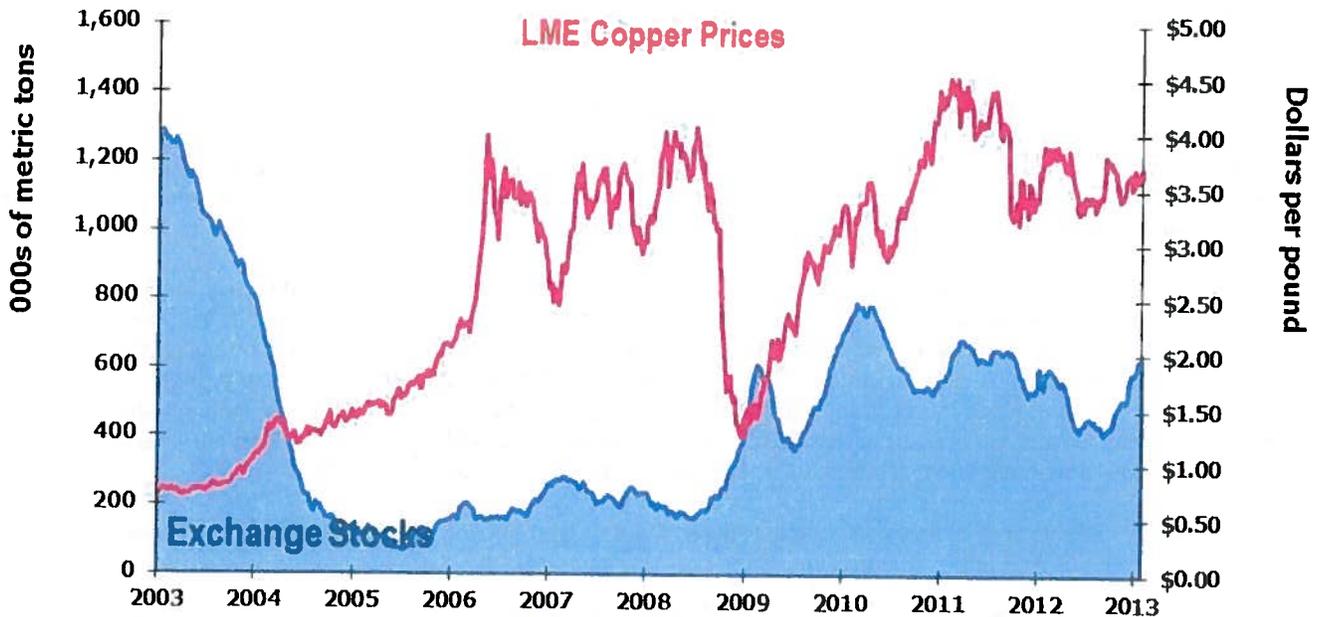
Not applicable.

COPPER, GOLD AND MOLYBDENUM MARKETS

World prices for copper, gold and molybdenum can fluctuate significantly. During the period from January 2003 through January 2013, the London Metal Exchange (LME) spot copper price varied from a low of \$0.70 per pound in 2003 to a record high of \$4.60 per pound in February 2011; the London Bullion Market Association (London) gold price fluctuated from a low of \$320 per ounce in 2003 to a record high of \$1,895 per ounce in September 2011; and the *Metals Week* Molybdenum Dealer Oxide weekly average price ranged from a low of \$3.28 per pound in 2003 to a 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 Form 10-K for the year ended December 31, 2012.

Historical LME Copper Prices

Through January 31, 2013



This graph presents LME spot copper prices and combined reported stocks of copper at the LME, the New York Mercantile Exchange (COMEX) and the Shanghai Futures Exchange from January 2003 through January 2013. 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. In late 2008, slowing consumption, turmoil in the U.S. financial markets and concerns about the global economy led to a sharp decline in copper prices, which reached a low of \$1.26 per pound in December 2008. Higher copper prices since that time are attributable to a combination of continuing demand from developing economies and pro-growth monetary and fiscal policy decisions in Europe, China and the U.S. During 2012, LME spot copper prices ranged from \$3.29 per pound to \$3.93 per pound, averaged \$3.61 per pound and closed at \$3.59 per pound on December 31, 2012. Global exchange inventories increased during the second half of 2012, but remain low and represent less than two weeks of global demand.

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 supply environment. Future copper prices are expected to be volatile and are likely to be influenced by demand from China and emerging markets, 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. The LME spot copper price closed at \$3.72 per pound on February 15, 2013.

	2011		2010	
	By-Product Method	Co-Product Method	By-Product Method	Co-Product Method
Revenues, excluding adjustments	\$ 3.77	\$ 3.77	\$ 3.68	\$ 3.68
Site production and delivery, before net noncash and other costs shown below	1.38 ^a	1.27	1.21	1.14
By-product credits	(0.35)	—	(0.21)	—
Treatment charges	0.17	0.17	0.15	0.15
Unit net cash costs	1.20	1.44	1.15	1.29
Depreciation, depletion and amortization	0.20	0.18	0.19	0.18
Noncash and other costs, net	0.06	0.05	0.05	0.05
Total unit costs	1.46	1.67	1.39	1.52
Revenue adjustments, primarily for pricing on prior period open sales	0.01	—	(0.01)	(0.01)
Gross profit per pound	\$ 2.32	\$ 2.10	\$ 2.28	\$ 2.15
Copper sales (millions of recoverable pounds)	1,322	1,322	1,335	1,335

a. Includes \$50 million (\$0.04 per pound) for bonuses paid at Cerro Verde and El Abra pursuant to new labor agreements.

Unit net cash costs (net of by-product credits) for our South America mining operations increased to \$1.20 per pound of copper in 2011, compared with \$1.15 per pound in 2010, primarily reflecting higher input costs and the impact of bonuses paid pursuant to new labor agreements, partially offset by higher by-product credits.

Indonesia Mining

Indonesia mining includes PT Freeport Indonesia's Grasberg minerals district. We own 90.64 percent of PT Freeport Indonesia, including 9.36 percent owned through our wholly owned subsidiary, PT Indocopper Investama. As discussed in Note 14, we have agreed to consider a potential sale of our interest in PT Indocopper Investama at fair market value. PT Freeport Indonesia is currently engaged in discussions with the Indonesian government related to its Contract of Work and intends to conclude that process before proceeding with any further discussions about the potential sale of an interest in PT Indocopper Investama.

PT Freeport Indonesia produces copper concentrates, which contain significant quantities of gold and silver. Substantially all of PT Freeport Indonesia's copper concentrates are sold under long-term contracts, of which approximately one-half is sold to affiliated smelters, Atlantic Copper and PT Smelting (PT Freeport Indonesia's 25-percent owned copper smelter and refinery in Indonesia - refer to Note 2 for further discussion), and the remainder to other third-party customers.

We have established certain unincorporated joint ventures with Rio Tinto plc (Rio Tinto), under which Rio Tinto has a 40 percent interest in certain assets and future production exceeding specified annual amounts of copper, gold and silver. Refer to Note 2 for further discussion of our joint ventures with Rio Tinto plc and to Note 14 for further discussion of PT Freeport Indonesia's Contract of Work with the Government of Indonesia. Refer to "Risk Factors" contained in Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2012, for discussion of risks associated with operations in Indonesia.

Operating and Development Activities. We have several projects in progress in the Grasberg minerals district, primarily related to the development of large-scale, high-grade underground ore bodies. In aggregate, these underground ore bodies are expected to ramp up over several years to approximately 240,000 metric tons of ore per day following the currently anticipated transition from the Grasberg open pit in 2017. Over the next five years, aggregate capital spending on these projects is currently expected to average \$715 million per year (\$565 million per year net to PT Freeport Indonesia). Considering the long-term nature and large size of these projects, actual costs could vary from these estimates.

The following provides additional information on the continued development of the Common Infrastructure project, the Grasberg Block Cave underground mine and development of the Deep Mill Level Zone (DMLZ) ore body that lies below the Deep Ore Zone (DOZ) underground mine.

Common Infrastructure and Grasberg Block Cave Mine. In 2004, PT Freeport Indonesia commenced its Common Infrastructure project to provide access to its large undeveloped underground ore bodies located in the Grasberg minerals district through a tunnel system located approximately 400 meters deeper than its existing underground tunnel system. In addition to providing access to our underground ore bodies, the tunnel system will enable PT Freeport Indonesia to conduct future exploration in prospective areas associated with currently identified ore bodies. The tunnel system was completed to the Big Gossan terminal, and the Big Gossan mine was brought into production in fourth-quarter 2010. Development of the DMLZ and Grasberg Block Cave is advancing.

The Grasberg Block Cave underground mine accounts for more than 40 percent of our recoverable proven and probable reserves in Indonesia. Production at the Grasberg Block Cave mine is currently scheduled to commence in 2017, at the end of mining the Grasberg open pit, which is currently expected at the end of 2016. Targeted production rates once the Grasberg Block Cave mining operation reaches full capacity are expected to approximate 160,000 metric tons of ore per day.

Aggregate mine development capital for the Grasberg Block Cave mine and associated Common Infrastructure is expected to approximate \$4.4 billion (incurred from 2008 to 2021), with PT Freeport Indonesia's share totaling approximately \$4.1 billion. Aggregate project costs totaling \$860 million have been incurred through December 31, 2012 (\$291 million during 2012).

DMLZ. The DMLZ ore body lies below the DOZ mine at the 2,590-meter elevation and represents the downward continuation of mineralization in the Ertsberg East Skarn system and neighboring Ertsberg porphyry. We plan to mine the ore body using a block-cave method with production beginning in 2015. Drilling efforts continue to determine the extent of this ore body. Aggregate mine development capital costs for the DMLZ mine are expected to approximate \$2.3 billion (incurred from 2009 to 2020), with PT Freeport Indonesia's share totaling approximately \$1.4 billion. Aggregate project costs totaling \$510 million have been incurred through December 31, 2012 (\$241 million during 2012). Targeted production rates once the DMLZ mining operation reaches full capacity are expected to approximate 80,000 metric tons of ore per day.

Other Matters. PT Freeport Indonesia is engaged in discussions with officials of the Indonesian government on its operations, future plans and Contract of Work (COW). We are working cooperatively with the government in its review of PT Freeport Indonesia's COW and to obtain an extension of our COW beyond 2021, as provided under the terms of the COW. Refer to Note 14 for further discussion of PT Freeport Indonesia's COW.

Between July 2009 and February 15, 2013, there were 37 shooting incidents in and around the Grasberg minerals district, including along the road leading to our mining and milling operations, which resulted in 15 fatalities and 57 injuries. The investigation of these matters is continuing. We have taken precautionary measures, including limiting use of the road to secured convoys. The Indonesian government has responded with additional security forces and expressed a commitment to protect the safety of the community and our operations. Prolonged limitations on access to the road could adversely affect operations at the mine. The safety of our workforce is a critical concern, and PT Freeport Indonesia is working cooperatively with the Indonesian government to address security issues. Refer to "Risk Factors" contained in Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2012, for further discussion.

Operating Data. Following is summary operating data for our Indonesia mining operations for the years ended December 31.

	2012	2011	2010
Operating Data, Net of Joint Venture Interest			
Copper (millions of recoverable pounds)			
Production	695	846	1,222
Sales	716	846	1,214
Average realized price per pound	\$ 3.58	\$ 3.85	\$ 3.69
Gold (thousands of recoverable ounces)			
Production	862	1,272	1,786
Sales	915	1,270	1,765
Average realized price per ounce	\$ 1,664	\$ 1,583	\$ 1,271
100% Operating Data			
Ore milled (metric tons per day): ^a			
Grasberg open pit	118,800	112,900	149,800
DOZ underground mine ^b	44,600	51,700	79,600
Big Gossan underground mine ^c	1,600	1,500	800
Total	165,000	166,100	230,200
Average ore grade:			
Copper (percent)	0.62	0.79	0.85
Gold (grams per metric ton)	0.59	0.93	0.90
Recovery rates (percent):			
Copper	88.7	88.3	88.9
Gold	75.7	81.2	81.7
Production (recoverable):			
Copper (millions of pounds)	695	882	1,330
Gold (thousands of ounces)	862	1,444	1,964

- a. Amounts represent the approximate average daily throughput processed at PT Freeport Indonesia's mill facilities from each producing mine.
- b. Production from the DOZ underground mine is expected to ramp up to the design rate of 80,000 metric tons of ore per day by year end 2013, following completion of ongoing panel repairs resulting from the temporary shutdown and suspension of operations in fourth-quarter 2011 and early 2012.
- c. Production from the Big Gossan underground mine is expected to ramp up to 7,000 metric tons of ore per day in 2014.

2012 Compared with 2011

Sales volumes from our Indonesia mining operations declined to 716 million pounds of copper and 915 thousand ounces of gold in 2012, compared with 846 million pounds of copper and 1.3 million ounces of gold in 2011. Lower copper and gold sales volumes in 2012 primarily reflected lower ore grades.

At the Grasberg mine, the sequencing of mining areas with varying ore grades causes fluctuations in the timing of ore production resulting in varying quarterly and annual sales of copper and gold. Consolidated sales volumes from our Indonesia mining operations are expected to approximate 1.1 billion pounds of copper and 1.2 million ounces of gold for 2013. We expect sales from Indonesia to increase in fourth-quarter 2013 as PT Freeport Indonesia gains access to higher ore grades and achieves the targeted ramp up in production from the DOZ mine. Approximately 33 percent of projected copper sales and 38 percent of projected gold sales from our Indonesia mining operations are currently expected in fourth-quarter 2013.

2011 Compared with 2010

Sales volumes from our Indonesia mining operations declined to 846 million pounds of copper and 1.3 million ounces of gold in 2011, compared with 1.2 billion pounds of copper and 1.8 million ounces of gold in 2010. Lower copper and gold sales volumes in 2011 primarily reflected the impact of labor-related disruptions and the temporary suspension of milling operations in fourth-quarter 2011 because of damage to the concentrate pipelines.

Indonesia Mining Product Revenues and Production Costs**Year Ended December 31, 2012**

(In millions)

	By-Product Method	Co-Product Method			Total
		Copper	Gold	Silver ^a	
Revenues, excluding adjustments	\$ 2,564	\$ 2,564	\$ 1,522	\$ 64	\$ 4,150
Site production and delivery, before net noncash and other costs shown below	2,230	1,378	818	34	2,230
Gold and silver credits	(1,589)	—	—	—	—
Treatment charges	152	94	56	2	152
Royalty on metals	93	58	34	1	93
Net cash costs	886	1,530	908	37	2,475
Depreciation and amortization	212	131	78	3	212
Noncash and other costs, net	82	50	30	2	82
Total costs	1,180	1,711	1,016	42	2,769
Revenue adjustments, primarily for pricing on prior period open sales	13	13	3	—	16
PT Smelting intercompany loss	(37)	(23)	(13)	(1)	(37)
Gross profit	\$ 1,360	\$ 843	\$ 496	\$ 21	\$ 1,360

Reconciliation to Amounts Reported

	Revenues	Production and Delivery	Depreciation, Depletion and Amortization
Totals presented above	\$ 4,150	\$ 2,230	\$ 212
Treatment charges	(152)	N/A	N/A
Royalty on metals	(93)	N/A	N/A
Net noncash and other costs	N/A	82	N/A
Revenue adjustments, primarily for pricing on prior period open sales	16	N/A	N/A
PT Smelting intercompany loss	N/A	37	N/A
Indonesia mining	3,921	2,349	212
North America copper mines	5,490	3,012	362
South America mining	4,728	2,114	287
Africa mining	1,359	615	176
Molybdenum	1,255	1,033	65
Rod & Refining	5,016	4,993	9
Atlantic Copper Smelting & Refining	2,709	2,640	42
Corporate, other & eliminations	(6,468)	(6,374)	26
As reported in FCX's consolidated financial statements	\$ 18,010	\$ 10,382	\$ 1,179

a. Includes silver sales of 2.1 million ounces (\$30.70 per ounce average realized price).

Indonesia Mining Product Revenues and Production Costs (continued)**Year Ended December 31, 2011**

(In millions)

	By-Product	Co-Product Method			Total
	Method	Copper	Gold	Silver	
Revenues, excluding adjustments	\$ 3,261	\$ 3,261	\$ 2,011	\$ 97 ^a	\$ 5,369
Site production and delivery, before net noncash and other costs shown below	1,869 ^b	1,135	700	34	1,869
Gold and silver credits	(2,090)	—	—	—	—
Treatment charges	156	95	58	3	156
Royalty on metals	137	83	52	2	137
Net cash costs	72	1,313	810	39	2,162
Depreciation and amortization	215	131	80	4	215
Noncash and other costs, net	33	20	12	1	33
Total costs	320	1,464	902	44	2,410
Revenue adjustments, primarily for pricing on prior period open sales	(12)	(12)	(18)	—	(30)
PT Smelting intercompany profit	111	67	41	3	111
Gross profit	\$ 3,040	\$ 1,852	\$ 1,132	\$ 56	\$ 3,040

Reconciliation to Amounts Reported

	Revenues	Production and Delivery	Depreciation, Depletion and Amortization
Totals presented above	\$ 5,369	\$ 1,869	\$ 215
Treatment charges	(156)	N/A	N/A
Royalty on metals	(137)	N/A	N/A
Net noncash and other costs	N/A	33	N/A
Revenue adjustments, primarily for pricing on prior period open sales	(30)	N/A	N/A
PT Smelting intercompany profit	N/A	(111)	N/A
Indonesia mining	5,046	1,791	215
North America copper mines	5,633	2,629	279
South America mining	5,258	1,905	258
Africa mining	1,289	591	140
Molybdenum	1,424	1,036	60
Rod & Refining	5,549	5,527	8
Atlantic Copper Smelting & Refining	2,984	2,991	40
Corporate, other & eliminations	(6,303)	(6,572)	22
As reported in FCX's consolidated financial statements	\$ 20,880	\$ 9,898	\$ 1,022

a. Includes silver sales of 2.7 million ounces (\$36.18 per ounce average realized price).

b. Includes \$66 million associated with bonuses and other strike-related costs.

Indonesia Mining Product Revenues and Production Costs (continued)**Year Ended December 31, 2010**

(In millions)

	By-Product Method	Co-Product Method			Total
		Copper	Gold	Silver ^a	
Revenues, excluding adjustments	\$ 4,475	\$ 4,475	\$ 2,243	\$ 90	\$ 6,808
Site production and delivery, before net noncash and other costs shown below	1,856	1,220	612	24	1,856
Gold and silver credits	(2,334)	—	—	—	—
Treatment charges	270	178	89	3	270
Royalty on metals	156	102	51	3	156
Net cash (credits) costs	(52)	1,500	752	30	2,282
Depreciation and amortization	257	169	85	3	257
Noncash and other costs, net	48	31	16	1	48
Total costs	253	1,700	853	34	2,587
Revenue adjustments, primarily for pricing on prior period open sales	(6)	(6)	1	—	(5)
PT Smelting intercompany loss	(42)	(28)	(14)	—	(42)
Gross profit	\$ 4,174	\$ 2,741	\$ 1,377	\$ 56	\$ 4,174

Reconciliation to Amounts Reported

	Revenues	Production and Delivery	Depreciation, Depletion and Amortization
Totals presented above	\$ 6,808	\$ 1,856	\$ 257
Treatment charges	(270)	N/A	N/A
Royalty on metals	(156)	N/A	N/A
Net noncash and other costs	N/A	48	N/A
Revenue adjustments, primarily for pricing on prior period open sales	(5)	N/A	N/A
PT Smelting intercompany loss	N/A	42	N/A
Indonesia mining	6,377	1,946	257
North America copper mines	4,173	2,052	273
South America mining	4,991	1,678	250
Africa mining	1,106	488	128
Molybdenum	1,205	784	51
Rod & Refining	4,470	4,442	8
Atlantic Copper Smelting & Refining	2,491	2,470	38
Corporate, other & eliminations	(5,831)	(5,525)	31
As reported in FCX's consolidated financial statements	\$ 18,982	\$ 8,335	\$ 1,036

a. Includes silver sales of 4.1 million ounces (\$21.99 per ounce average realized price).

Uranium Mining Sites. During a period between 1940 and the early 1970s, certain FMC predecessor entities were involved in uranium exploration and mining in the western U.S. Similar exploration and mining activities by other companies have caused environmental impacts that have warranted remediation, and EPA and local authorities are currently evaluating the need for significant cleanup activities in the region. To date, FMC has undertaken remediation at a limited number of sites associated with these predecessor entities. An initiative to gather additional information about sites in the region is ongoing, and information gathered under this initiative was submitted to EPA Region 9 during the second and third quarters of 2008 and the fourth quarter of 2009 in response to an information request by EPA regarding uranium mining activities on Navajo Nation properties. FCX utilized the results of FMC's remediation experience, in combination with historical and updated information to initially estimate the fair value of uranium-related liabilities assumed in the FMC acquisition.

Asset Retirement Obligations (AROs). FCX's ARO cost estimates are reflected on a third-party cost basis and comply with FCX's legal obligation to retire tangible, long-lived assets.

A summary of changes in FCX's AROs for the years ended December 31 follows:

	2012	2011	2010
Balance at beginning of year	\$ 921	\$ 856	\$ 731
Liabilities incurred	6	9	5
Revisions to cash flow estimates ^a	211	48	105
Accretion expense	55	58	54
Spending	(47)	(49)	(38)
Foreign currency translation adjustment	—	(1)	(1)
Balance at end of year	<u>1,146</u>	<u>921</u>	<u>856</u>
Less current portion	<u>(55)</u>	<u>(31)</u>	<u>(69)</u>
Long-term portion	<u>\$ 1,091</u>	<u>\$ 890</u>	<u>\$ 787</u>

- a. Revisions to cash flow estimates were primarily related to updated closure plans that included revised cost estimates and accelerated timing of certain closure activities.

ARO costs may increase or decrease significantly in the future as a result of changes in regulations, changes in engineering designs and technology, permit modifications or updates, changes in mine plans, inflation or other factors and as actual reclamation spending occurs. ARO activities and expenditures generally are made over an extended period of time commencing near the end of the mine life; however, certain reclamation activities may be accelerated if legally required or if determined to be economically beneficial.

Legal requirements in New Mexico, Arizona, Colorado and other states require financial assurance to be provided for the estimated costs of reclamation and closure, including groundwater quality protection programs. FCX has satisfied financial assurance requirements by using a variety of mechanisms, such as performance guarantees, financial capability demonstrations, trust funds, surety bonds, letters of credit and collateral. The applicable regulations specify financial strength tests that are designed to confirm a company's or guarantor's financial capability to fund estimated reclamation and closure costs. The amount of financial assurance FCX is required to provide will vary with changes in laws, regulations and reclamation and closure requirements, and cost estimates. At December 31, 2012, FCX's financial assurance obligations associated with these closure and reclamation costs totaled \$970 million, of which \$601 million was in the form of guarantees issued by FCX and financial capability demonstrations. At December 31, 2012, FCX had trust assets totaling \$161 million (included in other assets), which are legally restricted to fund a portion of its AROs for properties in New Mexico as required by New Mexico regulatory authorities.

New Mexico Environmental and Reclamation Programs. FCX's New Mexico operations are regulated under the New Mexico Water Quality Act and regulations adopted under that act by the Water Quality Control Commission (WQCC). The New Mexico Environment Department (NMED) has required each of these operations to submit closure plans for NMED's approval. The closure plans must include measures to assure meeting groundwater quality standards following the closure of discharging facilities and to abate any groundwater or surface water contamination. In March 2009, the Tyrone operation appealed the WQCC Final Order, dated February 4, 2009, regarding location of the "places of withdrawal of water," a legal criterion used to determine where groundwater quality standards must be met at FCX's New Mexico mining sites. In December 2010, FCX's Tyrone mine entered into a settlement agreement with NMED that calls for a stay of the appeal while NMED and the WQCC complete several administrative actions, including renewal of Tyrone's closure permit consistent with the terms of the

settlement, review and approval of a groundwater abatement plan and adoption of alternative abatement standards, and adoption of new groundwater discharge permit rules for copper mines. If the administrative actions are concluded consistent with the terms of the settlement agreement within the period of the stay, then Tyrone will move to dismiss the appeal. In December 2012, Tyrone and NMED agreed to extend the period to conclude the administrative actions through December 31, 2013. The Court of Appeals also extended the stay for another year. Finalized closure plan requirements, including those resulting from the actions to be taken under the settlement agreement, could result in increases in closure costs for FCX's New Mexico operations.

FCX's New Mexico operations also are subject to regulation under the 1993 New Mexico Mining Act (the Mining Act) and the related rules that are administered by the Mining and Minerals Division (MMD) of the New Mexico Energy, Minerals and Natural Resources Department. Under the Mining Act, mines are required to obtain approval of plans describing the reclamation to be performed following cessation of mining operations. At December 31, 2012, FCX had accrued reclamation and closure costs of \$476 million for its New Mexico operations. As stated above, additional accruals may be required based on the state's review of FCX's updated closure plans and any resulting permit conditions, and the amount of those accruals could be material.

Arizona Environmental and Reclamation Programs. FCX's Arizona properties are subject to regulatory oversight in several areas. ADEQ has adopted regulations for its aquifer protection permit (APP) program that require permits for, among other things, certain facilities, activities and structures used for mining, concentrating and smelting and require compliance with aquifer water quality standards at an applicable point of compliance well or location. The APP program also may require mitigation and discharge reduction or elimination of some discharges.

An application for an APP requires a description of a closure strategy that will meet applicable groundwater protection requirements following cessation of operations and an estimate of the cost to implement the closure strategy. An APP may specify closure requirements, which may include post-closure monitoring and maintenance. A more detailed closure plan must be submitted within 90 days after a permitted entity notifies ADEQ of its intent to cease operations. A permit applicant must demonstrate its financial ability to meet the closure costs estimated in the APP.

Portions of Arizona mining facilities that operated after January 1, 1986, also are subject to the Arizona Mined Land Reclamation Act (AMLRA). AMLRA requires reclamation to achieve stability and safety consistent with post-mining land use objectives specified in a reclamation plan. Reclamation plans must be approved by the State Mine Inspector and must include an estimate of the cost to perform the reclamation measures specified in the plan. FCX will continue to evaluate options for future reclamation and closure activities at its operating and non-operating sites, which are likely to result in adjustments to FCX's ARO liabilities. At December 31, 2012, FCX had accrued reclamation and closure costs of \$240 million for its Arizona operations.

Colorado Reclamation Programs. FCX's Colorado operations are regulated by the Colorado Mined Land Reclamation Act (Reclamation Act) and regulations promulgated thereunder. Under the Reclamation Act, mines are required to obtain approval of reclamation plans describing the reclamation of lands affected by mining operations to be performed during mining or upon cessation of mining operations. As of December 31, 2012, FCX had accrued reclamation and closure costs of \$47 million for its Colorado operations.

Chilean Reclamation and Closure Programs. In July 2011, the Chilean senate passed legislation regulating mine closure, which establishes new requirements for closure plans and became effective in November 2012. FCX's Chilean operations will be required to update closure plans and provide financial assurance for these obligations. FCX cannot predict at this time the cost of these closure plans or the levels or forms of financial assurance that may be required. Revised closure plans for the Chilean mine sites are due in November 2014. At December 31, 2012, FCX had accrued reclamation and closure costs of \$54 million for its Chilean operations.

Peruvian Reclamation and Closure Programs. Cerro Verde is subject to regulation under the Mine Closure Law administered by the Peruvian Ministry of Energy and Mines. Under the closure regulations, mines must submit a closure plan that includes the reclamation methods, closure cost estimates, methods of control and verification, closure and post-closure plans and financial assurance. The updated closure plan for the Cerro Verde mine expansion must be submitted to the Peruvian regulatory authorities in December 2013. At December 31, 2012, Cerro Verde had accrued reclamation and closure costs of \$89 million and had financial assurance obligations associated with these reclamation and closure costs totaling \$9 million in the form of letters of credit.

Tax Matters. Cerro Verde Tax Proceedings. SUNAT, the Peruvian national tax authority, has assessed mining royalties on materials processed by the Cerro Verde concentrator that commenced operations in late 2006. These assessments cover the period October 2006 to December 2007 and the years 2008 and 2009. SUNAT has issued rulings denying Cerro Verde's protest of the assessments. Cerro Verde has appealed these decisions and currently has three cases pending before the Peruvian Tax Court. Cerro Verde is challenging these royalties because it believes its stability agreement provides an exemption for all minerals extracted from its mining concession, irrespective of the method used for processing those minerals. Although FCX believes its interpretation of the stability agreement is correct, if Cerro Verde is ultimately found responsible for these assessments, it will also be liable for interest, which accrues at rates that range from approximately 7 to 18 percent based on the year accrued and the currency in which the amounts would be payable. At December 31, 2012, the aggregate amount of the assessments, including interest and penalties, totaled \$218 million. SUNAT may continue to assess mining royalties annually until this matter is resolved by the Peruvian Tax Tribunal.

Cerro Verde is also challenging various income and value-added tax assessments from SUNAT covering the years 2002 through 2008 and has cases pending before the Peruvian Tax Court. At December 31, 2012, the approximate amount of these assessments, including interest and penalties, totaled \$180 million.

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

Date of Assessment	Tax Return Year	Tax Assessment	Interest Assessment	Total
October 2010	2005	\$ 106	\$ 52	\$ 158
November 2011	2006	22	10	32
March 2012	2007	91	44	135
Total		\$ 219	\$ 106	\$ 325

PT Freeport Indonesia has filed objections to the assessments because it believes it has properly paid its taxes. During first-quarter 2012, PT Freeport Indonesia's objections to the assessments related to 2005 were substantially all rejected by the Indonesian tax authorities and, in May 2012, appeals were filed with the Indonesian Tax Court. As of December 31, 2012, PT Freeport Indonesia has paid \$182 million (of which \$148 million is included in long-term receivables) for the disputed tax assessments related to 2005, 2006 and 2007. PT Freeport Indonesia is working with the Indonesian tax authorities to resolve these matters and expects to receive additional assessments from the Indonesian tax authorities for their audit of its 2008 tax return.

In December 2009, PT Freeport Indonesia was notified by the Large Taxpayer's Office of the Government of Indonesia of its view that PT Freeport Indonesia is obligated to pay value added taxes on certain goods imported after the year 2000. The amount of such taxes and related penalties under this view would be significant. PT Freeport Indonesia believes that, pursuant to the terms of its Contract of Work, it is only required to pay value added taxes on these types of goods imported after December 30, 2009. PT Freeport Indonesia has not received a formal assessment and is working with the applicable government authorities to resolve this matter.

Letters of Credit, Bank Guarantees and Surety Bonds. Letters of credit and bank guarantees totaled \$98 million at December 31, 2012, primarily for reclamation and environmental obligations, workers' compensation insurance programs, tax and customs obligations, and other commercial obligations. In addition, FCX had surety bonds totaling \$159 million at December 31, 2012, associated with reclamation and closure (\$137 million), self-insurance bonds primarily for workers' compensation (\$18 million) and other bonds (\$4 million).

Insurance. FCX purchases a variety of insurance products to mitigate potential losses. The various insurance products typically have specified deductible amounts or self-insured retentions and policy limits. FCX generally is self-insured for U.S. workers' compensation, but purchases excess insurance up to statutory limits. An actuarial analysis is performed twice a year for various FCX casualty programs, including workers' compensation, to estimate required insurance reserves. Insurance reserves totaled \$52 million at December 31, 2012, which consisted of a current portion of \$8 million (included in accounts payable and accrued liabilities) and a long-term portion of \$44 million (included in other liabilities).

FCX maintains property damage and business interruption insurance related to its operations. FCX and its insurers entered into an insurance settlement agreement in December 2012. The insurers agreed to pay an aggregate of \$63 million, including PT Freeport Indonesia's joint venture partner's share, for the settlement of the insurance claim for business interruption and property damage relating to the 2011 incidents affecting PT Freeport Indonesia's concentrate pipelines. As a result of the settlement, FCX recorded a gain of \$59 million (\$31 million to net income attributable to FCX common stockholders) in 2012.

NOTE 14. COMMITMENTS AND GUARANTEES

Operating Leases. FCX leases various types of properties, including offices and equipment. A summary of future minimum rentals under non-cancelable leases at December 31, 2012, follows:

2013	\$	32
2014		19
2015		19
2016		16
2017		15
Thereafter		104
Total payments	<u>\$</u>	<u>205</u>

Minimum payments under operating leases have not been reduced by aggregate minimum sublease rentals, which are minimal. Total aggregate rental expense under operating leases was \$77 million in 2012, \$70 million in 2011 and \$64 million in 2010.

Contractual Obligations. Based on applicable prices at December 31, 2012, FCX has unconditional purchase obligations of \$2.2 billion, primarily comprising the procurement of copper concentrates (\$799 million), electricity (\$524 million) and transportation services (\$448 million) that are essential to its operations worldwide. Some of FCX's unconditional purchase obligations are settled based on the prevailing market rate for the service or commodity purchased. In some cases, the amount of the actual obligation may change over time because of market conditions. Obligations for copper concentrates provide for deliveries of specified volumes to Atlantic Copper at market-based prices. Electricity obligations are primarily for contractual minimum demand at the South America and Tenke mines. Transportation obligations are primarily for South America contracted ocean freight and for North America rail freight.

FCX's future commitments associated with unconditional purchase obligations total \$976 million in 2013, \$499 million in 2014, \$232 million in 2015, \$152 million in 2016, \$134 million in 2017 and \$207 million thereafter. During the three-year period ended December 31, 2012, FCX fulfilled its minimum contractual purchase obligations or negotiated settlements in those situations in which it terminated an agreement containing an unconditional obligation.

Mining Contracts. *Indonesia.* FCX is entitled to mine in Indonesia under the Contract of Work between PT Freeport Indonesia and the Government of Indonesia. The original Contract of Work was entered into in 1967 and was replaced with a new Contract of Work in 1991. The initial term of the current Contract of Work expires in 2021 but can be extended by PT Freeport Indonesia for two 10-year periods subject to Indonesian government approval, which pursuant to the Contract of Work cannot be withheld or delayed unreasonably. Given the importance of contracts of work under the Indonesian legal system and PT Freeport Indonesia's approximately 40 years of working with the Indonesian government, which included entering into the Contract of Work in 1991 well before the expiration of the 1967 Contract of Work, PT Freeport Indonesia fully expects that the government will approve the extensions as long as it continues to comply with the terms of the Contract of Work.

In July 2004, FCX received a request from the Indonesian Department of Energy and Mineral Resources that it offer to sell shares in PT Indocopper Investama to Indonesian nationals at fair market value. In response to this request and in view of the potential benefits of having additional Indonesian ownership in the operations, FCX agreed, at the time, to consider a potential sale of an interest in PT Indocopper Investama at fair market value. Neither its Contract of Work nor Indonesian law requires FCX to divest any portion of its ownership in PT Freeport Indonesia or PT Indocopper Investama. In May 2008, FCX signed a Memorandum of Understanding with the Papua provincial government (the Province) whereby the parties agreed to work cooperatively to determine the feasibility of an acquisition by the Province of the PT Indocopper Investama shares at market value. PT Freeport Indonesia is currently engaged in discussions with the Indonesian government related to its Contract of Work and intends to

conclude that process before proceeding with any further discussions about the potential sale of an interest in PT Indocopper Investama.

The copper royalty rate payable by PT Freeport Indonesia under its Contract of Work varies from 1.5 percent of copper net revenue at a copper price of \$0.90 or less per pound to 3.5 percent at a copper price of \$1.10 or more per pound. The Contract of Work royalty rate for gold and silver sales is at a fixed rate of 1.0 percent.

A large part of the mineral royalties under Indonesian government regulations is designated to the provinces from which the minerals are extracted. In connection with its fourth concentrator mill expansion completed in 1998, PT Freeport Indonesia agreed to pay the Government of Indonesia additional royalties (royalties not required by the Contract of Work) to provide further support to the local governments and the people of the Indonesian province of Papua. The additional royalties are paid on production exceeding specified annual amounts of copper, gold and silver expected to be generated when PT Freeport Indonesia's milling facilities operate above 200,000 metric tons of ore per day. The additional royalty for copper equals the Contract of Work royalty rate, and for gold and silver equals twice the Contract of Work royalty rates. Therefore, PT Freeport Indonesia's royalty rate on copper net revenues from production above the agreed levels is double the Contract of Work royalty rate, and the royalty rates on gold and silver sales from production above the agreed levels are triple the Contract of Work royalty rates.

The combined royalties, including the additional royalties that became effective January 1, 1999, totaled \$93 million in 2012, \$137 million in 2011 and \$156 million in 2010.

In 2009, Indonesia enacted a new mining law, which will operate under a licensing system as opposed to the contract of work system that applies to PT Freeport Indonesia. In 2011 and 2010, the Government of Indonesia promulgated regulations under the 2009 mining law and certain provisions that address existing contracts of work. The laws and regulations provide that contracts of work will continue to be honored until their expiration. However, the regulations attempt to apply certain provisions of the new law to existing contracts of work and may seek to apply the licensing system to any extension periods of contracts of work, even though the terms of PT Freeport Indonesia's Contract of Work provide for two 10-year extension periods subject to Indonesian government approval, which pursuant to the Contract of Work cannot be withheld or delayed unreasonably. In February 2012, a new regulation was adopted that would require mining companies in Indonesia to process all minerals domestically and possibly ban export of concentrates and other unrefined minerals. PT Freeport Indonesia's Contract of Work includes specific provisions providing the right of PT Freeport Indonesia to export product, subject to giving priority to domestic smelting facilities, on a market basis. In connection with the obligations under its Contract of Work, in 1995, PT Freeport Indonesia constructed the only copper smelter and refinery in Indonesia (which is owned and operated by PT Smelting - refer to Note 2 for further discussion).

Indonesian government officials have periodically undertaken reviews regarding FCX's compliance with Indonesian environmental laws and regulations and the terms of the Contract of Work. In January 2012, the President of Indonesia issued a decree calling for the creation of a team of Ministers to evaluate contracts of work for adjustment to the 2009 Mining Law, and accordingly, to take steps to assess and negotiate size of work areas, government revenues and domestic processing of minerals. FCX has had discussions with officials of the Indonesian government and is working cooperatively to complete this evaluation and to obtain an extension of the Contract of Work beyond 2021, as provided under the terms of the Contract of Work. The Contract of Work can only be modified by mutual agreement between PT Freeport Indonesia and the Government of Indonesia.

Africa. FCX is entitled to mine in the DRC under an Amended and Restated Mining Convention (ARMC) between TFM and the Government of the DRC. The original Mining Convention was entered into in 1996, was replaced with the ARMC in 2005 and was further amended in 2010 (approved in 2011). The current ARMC will remain in effect for as long as the Tenke concession is exploitable. The royalty rate payable by TFM under the ARMC is two percent of net revenue. These mining royalties totaled \$25 million in 2012, \$24 million in 2011 and \$20 million in 2010.

Effective March 26, 2012, the DRC government issued a Presidential Decree approving the modifications to TFM's bylaws following a review (completed in 2010) of TFM's existing mining contracts. Among other changes to the amended ARMC, FCX's effective ownership interest in TFM was reduced from 57.75 percent to 56 percent and \$50 million of TFM's stockholder loan payable to a subsidiary of FMC was converted to equity.

Community Development Programs. FCX has adopted policies that govern its working relationships with the communities where it operates. These policies are designed to guide its practices and programs in a manner that

