FREEPORT MCMORAN COPPER & GOLD INC
Form 10-Q
May 11, 2009

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

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: 1-9916

Freeport-McMoRan Copper & Gold Inc.
(Exact name of registrant as specified in its charter)

Delaware	74-2480931
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One North Central Avenue Phoenix, AZ	85004-4414
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 0 Yes R 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). o Yes o No

On April 30, 2009, there were issued and outstanding 411,754,522 shares of the registrant's common stock, par value $0.10 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2009	December 31, 2008
	(In Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 644	$ 872
Trade accounts receivable	880	374
Other accounts receivable	830	838
Product inventories and materials and supplies, net	2,195	2,192
Mill and leach stockpiles	571	571
Other current assets	280	386
Total current assets	5,400	5,233
Property, plant, equipment and development costs, net	16,211	16,002
Long-term mill and leach stockpiles	1,147	1,145
Intangible assets, net	359	364
Trust assets	139	142
Other assets	452	467
Total assets	$ 23,708	$ 23,353
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,941	$ 2,766
Accrued income taxes	442	163
Current portion of reclamation and environmental liabilities	178	162
Current portion of long-term debt and short-term borrowings	87	67
Total current liabilities	2,648	3,158
Long-term debt, less current portion:		
Senior notes	6,883	6,884
Project financing, equipment loans and other	257	250
Revolving credit facility	–	150
Total long-term debt, less current portion	7,140	7,284
Deferred income taxes	2,471	2,339
Reclamation and environmental liabilities, less current portion	1,967	1,951
Other liabilities	1,400	1,520
Total liabilities	15,626	16,252
Equity:		
FCX stockholders' equity:		
5½% Convertible Perpetual Preferred Stock	832	832
6¾% Mandatory Convertible Preferred Stock	2,875	2,875
Common stock	53	51

Capital in excess of par value	14,760	13,989
Accumulated deficit	(8,224)	(8,267)
Accumulated other comprehensive loss	(237)	(305)
Common stock held in treasury	(3,409)	(3,402)
Total FCX stockholders' equity	6,650	5,773
Noncontrolling interests in subsidiaries	1,432	1,328
Total equity	8,082	7,101
Total liabilities and equity	$ 23,708	$ 23,353

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

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

	Three Months Ended March 31,	
	2009	2008
	(In Millions, Except Per Share Amounts)	
Revenues	$ 2,602	$ 5,672
Cost of sales:		
Production and delivery	1,562	2,721
Depreciation, depletion and amortization	232	418
Lower of cost or market inventory adjustments	19	1
Total cost of sales	1,813	3,140
Selling, general and administrative expenses	62	84
Exploration and research expenses	30	52
Restructuring and other charges	25	–
Total costs and expenses	1,930	3,276
Operating income	672	2,396
Interest expense, net	(131)	(165)
Losses on early extinguishment of debt	–	(6)
Other income and expense, net	(14)	2
Income before income taxes and equity in affiliated companies' net earnings	527	2,227
Provision for income taxes	(331)	(729)
Equity in affiliated companies' net earnings	11	7
Net income	207	1,505
Net income attributable to noncontrolling interests in subsidiaries	(104)	(319)
Preferred dividends	(60)	(64)
Net income applicable to common stock	$ 43	$ 1,122
Net income per share of common stock attributable to FCX common stockholders:		
Basic	$ 0.11	$ 2.93
Diluted	$ 0.11	$ 2.64
Average common shares outstanding:		
Basic	400	383
Diluted	401	449

Dividends declared per share of common stock	$ –	$ 0.4375

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

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(In Millions)	
Cash flow from operating activities:		
Net income	$ 207	$ 1,505
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation, depletion and amortization	232	418
Lower of cost or market inventory adjustments	19	1
Stock-based compensation	33	47
Charges for reclamation and environmental liabilities, including accretion	67	41
Losses on early extinguishment of debt	–	6
Deferred income taxes	73	(48)
Increase in long-term mill and leach stockpiles	(3)	(47)
Amortization of intangible assets/liabilities and other, net	33	48
(Increases) decreases in working capital:		
Accounts receivable	(455)	(950)
Inventories	(35)	(81)
Other current assets	77	1
Accounts payable and accrued liabilities	(731)	(505)
Accrued income and other taxes	249	216
Settlement of reclamation and environmental liabilities	(24)	(37)
Net cash (used in) provided by operating activities	(258)	615
Cash flow from investing activities:		
Capital expenditures:		
North America copper mines	(72)	(151)
South America copper mines	(74)	(63)
Indonesia	(55)	(115)
Africa	(251)	(143)
Other	(67)	(36)
Proceeds from the sale of assets and other, net	3	21
Net cash used in investing activities	(516)	(487)
Cash flow from financing activities:		
Net proceeds from sale of common stock	740	–
Proceeds from debt	101	473
Repayments of revolving credit facility and other debt	(225)	(118)
Cash dividends paid:		
Common stock	–	(169)
Preferred stock	(60)	(64)
Noncontrolling interests	–	(49)
Net payments for stock-based awards	(7)	(8)

Excess tax benefit from stock-based awards	–	12
Bank fees and other	(3)	–
Net cash provided by financing activities	546	77
Net (decrease) increase in cash and cash equivalents	(228)	205
Cash and cash equivalents at beginning of year	872	1,626
Cash and cash equivalents at end of period	$ 644	$ 1,831

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

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

	Freeport-McMoRan Copper & Gold Inc. Stockholders' Equity												
	Convertible Perpetual Preferred Stock		Mandatory Convertible Preferred Stock		Common Stock				Accumulated	Common Stock Held in Treasury		Noncontrolling	
	Number of Shares	At Par Value	Number of Shares	At Par Value	Number of Shares	At Par Value	Capital in Excess of Par Value	Accumu-lated Deficit	Other Comprehensive Loss	Number of Shares	At Cost	Interests in Subsidiaries	Total Equity
	(In Millions)												
Balance at December 31, 2008	1	$ 832	29	$ 2,875	505	$ 51	$ 13,989	$ (8,267)	$ (305)	121	$ (3,402)	$ 1,328	$ 7,101
Sale of common stock	–	–	–	–	27	2	738	–	–	–	–	–	740
Exercised and issued stock-based awards	–	–	–	–	1	–	–	–	–	–	–	–	–
Stock-based compensation costs	–	–	–	–	–	–	33	–	–	–	–	–	33
Tender of shares for stock-based awards	–	–	–	–	–	–	–	–	–	–	(7)	–	(7)
Dividends on preferred stock	–	–	–	–	–	–	–	(60)	–	–	–	–	(60)
Comprehensive income:													
Net income	–	–	–	–	–	–	–	103	–	–	–	104	207
Other comprehensive income, net of taxes:													
Unrealized gains on securities	–	–	–	–	–	–	–	–	1	–	–	–	1
Defined benefit plans:													
Net gain during period, net of taxes of $40 million	–	–	–	–	–	–	–	–	62	–	–	–	62
	–	–	–	–	–	–	–	–	5	–	–	–	5

Amortization of unrecognized amounts													
Other comprehensive income	–	–	–	–	–	–	–	–	68	–	–	–	68
Total comprehensive income	–	–	–	–	–	–	–	–	–	–	–	–	275
Balance at March 31, 2009	1	$ 832	29	$ 2,875	533	$ 53	$ 14,760	$ (8,224)	$ (237)	121	$ (3,409)	$ 1,432	$ 8,082

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

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

1. GENERAL INFORMATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and disclosures required by generally accepted accounting principles (GAAP) in the United States (U.S.). Therefore, this information should be read in conjunction with Freeport-McMoRan Copper & Gold Inc.'s (FCX) consolidated financial statements and notes contained in its 2008 Annual Report on Form 10-K. The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported. All such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the three-month period ended March 31, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. FCX changed Phelps Dodge Corporation's (Phelps Dodge) legal name to Freeport-McMoRan Corporation (FMC) in 2008.

2. RESTRUCTURING AND OTHER CHARGES

During the fourth quarter of 2008, there was a dramatic decline in copper and molybdenum prices. After averaging $3.05 per pound in 2006, $3.23 per pound in 2007 and $3.61 per pound for the first nine months of 2008, London Metal Exchange (LME) spot copper prices declined to a four-year low of $1.26 per pound in December 2008, averaged $1.78 per pound in the fourth quarter of 2008 and closed at $1.32 per pound on December 31, 2008. Additionally, while molybdenum markets have been strong in recent years with prices averaging approximately $25 per pound in 2006, $30 per pound in 2007 and $33 per pound for the first nine months of 2008, molybdenum prices declined significantly to a four-year low of $8.75 per pound in November 2008, averaged approximately $16 per pound in the fourth quarter of 2008 and closed at $9.50 per pound on December 31, 2008.

While FCX's long-term strategy of developing its resources to their full potential remains in place, the decline in copper and molybdenum prices in the fourth quarter of 2008 and the deterioration of the economic and credit environment have limited FCX's ability to invest in growth projects and required FCX to make adjustments to its near-term operating plans. FCX responded to the sudden downturn and uncertain near-term outlook by revising its near-term strategy to protect liquidity while preserving its mineral resources and growth options for the longer term. Accordingly, operating plans were revised in the fourth quarter of 2008 and January 2009 to reflect: (i) curtailment of copper production at higher-cost North America operations and of molybdenum production at the Henderson molybdenum mine; (ii) capital cost reductions; (iii) aggressive cost control, including workforce reductions, reduced equipment purchases that were planned to support expansion projects, a reduction in material and supplies inventory and reductions in exploration, research and administrative costs; and (iv) suspension of FCX's annual common stock dividend.

Charges recognized in first-quarter 2009 in connection with FCX's revised operating plans in the fourth quarter of 2008 and January 2009 include restructuring charges of $34 million ($31 million to net income applicable to common stock or $0.07 per diluted share) for contract termination costs, other project cancellation costs, employee severance and benefit costs; partially offset by pension and postretirement gains of $9 million ($9 million to net income applicable to common stock or $0.02 per diluted share) for special retirement benefits and curtailments. The restructuring charge reflects workforce reductions (approximately 3,000 employees related to fourth-quarter 2008 revised operating plans and approximately 1,500 employees related to January 2009 revised operating plans) and other charges that reflect an approximate 50 percent total reduction in mining and crushed-leach rates at the Morenci mine in Arizona, an approximate 50 percent reduction in mining and stacking rates at the Safford mine in Arizona, an approximate 50 percent reduction in the mining rate at the Tyrone mine in New Mexico, suspension of mining and milling activities at the Chino mine in New Mexico (with limited residual copper production from leach operations), and an approximate 40 percent reduction in annual production (an approximate 25 percent reduction began in the fourth quarter of 2008) at the Henderson molybdenum mine in Colorado. In addition, the revised operating plans included decisions to defer certain capital projects, including the (i) incremental expansion projects at the Sierrita and Bagdad mines in Arizona, the Cerro Verde mine in Peru and the sulfide project at the El Abra mine in Chile, (ii) the restart of the Miami mine in Arizona and (iii) the restart of the Climax molybdenum mine in Colorado.

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The following table reflects first-quarter 2009 activities associated with the liabilities (included in accounts payable and accrued liabilities) incurred in connection with the fourth quarter of 2008 restructuring (in millions):

	December 31, 2008	Additions/ Adjustments	Payments	March 31, 2009
North America Copper Mines				
Morenci				
Employee severance and benefit costs	$ 2	$ –	$ (1)	$ 1
Contract cancellation and other costs	–	5a	(5)	–
Other mines				
Employee severance and benefit costs	12	(2)	(7)	3
Contract cancellation and other costs	1	6	(2)	5
	15	9a	(15)	9
South America Copper Mines				
Cerro Verde				
Contract cancellation and other costs	1	–	(1)	–
Other mines				
Employee severance and benefit costs	6	–	(3)	3
Contract cancellation and other costs	–	6	(3)	3
	7	6	(7)	6
Africa				
Employee severance and benefit costs	2	–	–	2
Molybdenum				
Employee severance and benefit costs	1	1	(2)	–
Rod & Refining				
Employee severance and benefit costs	4	–	(3)	1
Corporate & Other				
Employee severance and benefit costs	6	–	(5)	1
Contract cancellation and other costs	3	–	(3)	–
	9	–	(8)	1
Total	$ 38	$ 16a	$ (35)	$ 19

a. Excludes $3 million for the write off of other current assets in connection with a lease cancellation.

The following table reflects first-quarter 2009 activities associated with the liabilities (included in accounts payable and accrued liabilities) incurred in connection with the January 2009 restructuring (in millions):

	2009 Additions	Payments	March 31, 2009
North America Copper Mines			
Morenci			
Employee severance and benefit costs	$ 12	$ (2)	$ 10
Contract cancellation and other costs	3	(1)	2

Total	$ 15	$ (3)	$ 12

3. PENSION AND POSTRETIREMENT BENEFITS

During the first quarter of 2009, FCX remeasured its plan assets and benefit obligations for the FMC Retirement Plan and the FMC Retiree Medical Plan as a result of employee reductions caused by FCX's revised operating plans.

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Information as of and for the three months ended March 31, 2009, on the FMC Retirement Plan and the FMC Retiree Medical Plan follows (in millions):

	FMC Retirement Plan	FMC Retiree Medical Plan
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 1,289	$ 222
Service cost	6	–
Interest cost	19	3
Actuarial gains	(165)	(9)
Special retirement benefits and curtailmentsa	(9)	(3)
Benefits paid, net of employee contributions and Medicare Part D subsidy (retiree medical plan)	(29)	(6)
Benefit obligation at end of period	1,111	207
Change in plan assets:		
Fair value of plan assets at beginning of period	924	–
Actual return on plan assets	(57)	–
Employer contributions	–	6
Benefits paid, net of employee contributions	(29)	(6)
Fair value of plan assets at end of period	838	–
Funded status	$ (273)	$ (207)
Discount rate assumption	7.30%	6.90%

a. Resulted from reductions in the workforce caused by the revised mine operating plans (see Note 2 for further discussion).

Following is a reconciliation of the benefit obligation, fair value of plan assets and funded status as of December 31, 2008, for FCX's pension plans (as reported in FCX's 2008 Annual Report on Form 10-K) to the FMC Retirement Plan beginning balances shown above (in millions):

	Benefit Obligation	Fair Value of Plan Assets	Funded Status
FCX's pension plans as reported	$ 1,412	$ 959	$ (453)
Less: FMC plans other than the FMC Retirement Plan, and FCX's SERP, director and excess benefit plans	(123)	(35)	88
FMC Retirement Plan	$ 1,289	$ 924	$ (365)

Following is a reconciliation of the benefit obligation, fair value of plan assets and funded status as of December 31, 2008, for FCX's postretirement medical and life insurance benefit plans (as reported in FCX's 2008 Annual Report on Form 10-K) to the FMC Retiree Medical Plan beginning balances shown above (in millions):

	Benefit	Fair Value of Plan	Funded

	Obligation	Assets	Status
FCX's postretirement medical and life insurance benefit plans as reported	$ 257	$ –	$ (257)
Less: FCX's medical and life insurance benefit plans other than the FMC Retiree Medical Plan	(35)	–	35
FMC Retiree Medical Plan	$ 222	$ –	$ (222)

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The components of net periodic benefit cost for pension and postretirement benefits for the three-month periods ended March 31, 2009 and 2008, follow (in millions):

	Three Months Ended March 31,	
	2009	2008
Service cost	$ 9	$ 9
Interest cost	27	27
Expected return on plan assets	(20)	(32)
Amortization of prior service cost	–	2
Amortization of net actuarial loss	8	–
Curtailments	(4)	–
Special retirement benefits	(5)	–
Net periodic benefit costs	$ 15	$ 6

Net periodic benefit costs increased as a result of a decrease in the expected return on plan assets ($12 million) and amortization of actuarial losses ($8 million) primarily in connection with the losses on plan assets, partially offset by gains on special retirement benefits and curtailments ($9 million) resulting from workforce reductions caused by the revised mine operating plans.

4. EARNINGS PER SHARE

FCX's basic net income per share of common stock was calculated by dividing net income applicable to common stock by the weighted-average shares of common stock outstanding during the period. The following is a reconciliation of net income and weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share for the three months ended March 31, 2009 and 2008 (in millions, except per share amounts):

	Three Months Ended March 31,	
	2009	2008
Net income	$ 207	$ 1,505
Net income attributable to noncontrolling interests in subsidiaries	(104)	(319)
Preferred dividends	(60)	(64)
Net income applicable to common stock	43	1,122
Plus income impact of assumed conversion of:		
6¾% Mandatory Convertible Preferred Stock	–	49
5½% Convertible Perpetual Preferred Stock	–	15
Diluted net income applicable to common stock	$ 43	$ 1,186
Weighted-average shares of common stock outstanding:	400	383
Add stock issuable upon conversion, exercise or vesting of:		
6¾% Mandatory Convertible Preferred Stocka	–b	39
5½% Convertible Perpetual Preferred Stock	–b	23
Dilutive stock options	–	2
Restricted stock	1	2

Weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share		401		449
Diluted net income per share of common stock attributable to FCX stockholders	$	0.11	$	2.64

a. Preferred stock will automatically convert on May 1, 2010, into between approximately 39 million and 47 million shares of FCX common stock at a conversion rate that will be determined based on FCX's common stock price. Prior to May 1, 2010, holders may convert at a conversion rate of 1.3654 or approximately 39 million shares.

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b. Potential additional shares of common stock of approximately 39 million shares for the 6¾% Mandatory Convertible Preferred Stock and 18 million shares for the 5½% Convertible Perpetual Preferred Stock were excluded for the three months ended March 31, 2009, because they were anti-dilutive.

FCX's convertible instruments are excluded from the computation of diluted net income per share of common stock when including the conversion of these instruments results in an anti-dilutive effect on earnings per share (see footnote b above). The quarterly dilution threshold for the 5½% Convertible Perpetual Preferred Stock is $0.64 per share and for the 6¾% Mandatory Convertible Preferred Stock is $1.24 per share. Outstanding stock options with exercise prices greater than the average market price of FCX's common stock during the period are also excluded from the computation of diluted net income per share of common stock. Excluded amounts were approximately nine million stock options with a weighted-average exercise price of $67.00 for first-quarter 2009. No stock options were excluded for first-quarter 2008.

5. INVENTORIES, AND MILL AND LEACH STOCKPILES

The components of inventories follow (in millions):

		March 31, 2009		December 31, 2008
Mining Operations:				
Raw materials	$	1	$	1
Work-in-process		145		128
Finished goodsa		700		703
Atlantic Copper:				
Raw materials (concentrates)		134		164
Work-in-process		132		71
Finished goods		5		1
Total product inventories		1,117		1,068
Total materials and supplies, netb		1,078		1,124
Total inventories	$	2,195	$	2,192

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

b. Materials and supplies inventory is net of obsolescence reserves totaling $21 million at March 31, 2009, and $22 million at December 31, 2008.

The following summarizes mill and leach stockpiles (in millions):

		March 31, 2009		December 31, 2008
Current:				
Mill stockpiles	$	22	$	10
Leach stockpiles		549		561
Total current mill and leach stockpiles	$	571	$	571
Long-terma:				
Mill stockpiles	$	333	$	340
Leach stockpiles		814		805
Total long-term mill and leach stockpiles	$	1,147	$	1,145

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

FCX recorded charges for lower of cost or market (LCM) molybdenum inventory adjustments of $19 million ($19 million to net income applicable to common stock or $0.05 per diluted share) in first-quarter 2009 resulting from lower molybdenum prices.

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6. INCOME TAXES

FCX's first-quarter 2009 income tax provision resulted from taxes on international operations ($330 million) and U.S. operations ($1 million). FCX's effective tax rate for 2009 is expected to be highly sensitive to changes in commodity prices and the mix of income between U.S. and international operations. Taxes provided on income generated from FCX's South America and Indonesia operations are recorded at the applicable statutory rates. However, at certain commodity prices, FCX does not record a tax benefit for losses generated in the U.S., and these losses cannot be used to offset income generated from international operations. These factors have caused FCX's consolidated effective tax rate of 63 percent to be substantially higher than the U.S. federal statutory rate of 35 percent.

FCX's first-quarter 2008 income tax provision resulted from taxes on international operations ($579 million) and U.S. operations ($150 million). The difference between FCX's consolidated effective income tax rate of approximately 33 percent for first-quarter 2008 and the U.S. federal statutory rate of 35 percent primarily was attributable to a U.S. benefit for percentage depletion, partially offset by withholding taxes and incremental U.S. income tax accrued on foreign earnings.

7. INTEREST COSTS

Capitalized interest totaled $45 million in first-quarter 2009 and $22 million in first-quarter 2008.

8. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

Derivative Financial Instruments. FCX and its subsidiaries do not purchase, hold or sell derivative financial instruments unless there is an existing asset or obligation or if FCX anticipates a future activity that is likely to occur and will result in exposure to market risks. FCX does not enter into any derivative financial instruments for speculative purposes. FCX and its subsidiaries have entered into derivative financial instruments in limited instances to achieve specific objectives. These objectives principally relate to managing risks associated with commodity price, foreign currency and interest rate risks. The fair values of FCX's derivative financial instruments are based on widely published market prices.

Summarized below are unrealized gains/losses on derivative financial instruments that are designated and qualify as fair value hedge transactions under Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, for the three months ended March 31, 2009, along with the unrealized gains (losses) on the related hedged item (in millions):

	Derivative	Hedged Item
Commodity contracts:		
Copper futures and swap contractsa	$ 5	$ (5)

a. Gains (losses) on derivative financial instruments as well as the offsetting gains (losses) on the hedged items (unrecognized firm commitments) are recorded in revenues. Additionally, FCX realized gains of $3 million during first-quarter 2009 from matured derivative financial instruments that qualify for hedge accounting.

Summarized below are the realized and unrealized gains recognized in income before income taxes and equity in affiliated companies' net earnings for derivative financial instruments, including embedded derivatives, which do not qualify for hedge accounting under SFAS No. 133, as amended, for the three months ended March 31, 2009 (in millions):

Commodity contracts:	
Embedded derivatives in provisional sales contractsa	$ 313
Embedded derivatives in provisional purchase contractsb	1
Copper forward contractsb	4

Copper futures and swap contracts[a]	32

a. Amounts recorded in revenues.

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

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Summarized below are the fair values of unsettled derivative financial instruments recorded on the consolidated balance sheet at March 31, 2009 (in millions):

Derivatives designated as hedging instruments under		
SFAS No. 133, as amended		
Commodity contracts:		
Copper futures and swap contracts:		
Asset positiona	$	5
Derivatives not designated as hedging instruments under		
SFAS No. 133, as amended		
Commodity contracts:		
Embedded derivatives in provisional sales/purchases contracts:b		
Asset position	$	220
Liability position		(10)
Copper forward contracts:		
Liability positionc		(1)
Copper futures and swap contracts:d		
Asset positiona		5
Liability positione		(25)

a. Amounts recorded in other current assets.

b. Amounts recorded either as a net accounts receivable or a net accounts payable except for Atlantic Copper's copper purchases, which are recorded to product inventories ($(7) million).

c. Amounts recorded in accounts payable and accrued liabilities.

d. At March 31, 2009, FCX had paid $26 million to brokers for margin requirements, which is recorded in other current assets.

e. Amounts recorded in accounts payable and accrued liabilities ($23 million) and long-term liabilities ($2 million).

Commodity Contracts. From time to time, FCX has entered into forward, futures and swap contracts to hedge the market risk associated with fluctuations in the prices of commodities it purchases and sells. Derivative financial instruments used by FCX to manage its risks do not contain credit risk-related contingent provisions. As of March 31, 2009, FCX had no price protection contracts relating to its future mine production. A discussion of FCX's derivative commodity contracts and programs follows.

Fair Value Hedges

Copper Futures and Swap Contracts. Some of FCX's U.S. copper rod customers request a fixed market price instead of the New York Mercantile Exchange (COMEX) average price in the month of shipment. FCX hedges this price exposure in a manner that allows it to receive the COMEX average price in the month of shipment while the customers pay the fixed price they requested. FCX accomplishes this by entering into copper futures and swap contracts and then liquidating the copper futures contracts and settling the copper swap contracts during the month of shipment, which generally results in FCX receiving the COMEX average price in the month of shipment. Hedge gains or losses from these copper futures and swap contracts are recorded in revenues. FCX did not have any significant gains or losses during the three months ended March 31, 2009, resulting from ineffectiveness. At March 31, 2009, FCX held copper futures and swap contracts for 34 million pounds at an average price of $1.69 per pound, with maturities through January 2011.

Other Derivative Financial Instruments

Derivative financial instruments that do not meet the criteria to qualify under FSAS No. 133, as amended, for hedge accounting are discussed below.

Embedded Derivatives. As described in Note 1 to FCX's 2008 Annual Report on Form 10-K under "Revenue Recognition," certain FCX copper concentrate, copper cathode and gold sales contracts provide for provisional pricing primarily based on LME or COMEX prices at the time of shipment as specified in the contract. Similarly, FCX purchases copper and molybdenum under contracts that provide for provisional pricing. FCX applies the normal purchase and sale exception under SFAS No. 133, as amended, to the host sales agreements since the contracts do not allow for net settlement and always result in physical delivery. Under SFAS No. 133, as amended,

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sales and purchases with a provisional sales price contain an embedded derivative (i.e., the price settlement mechanism that is settled after the time of delivery) that is required to be bifurcated from the host contract. The host contract is the sale or purchase of the metals contained in the concentrates or cathodes at the then-current LME or COMEX price. Mark-to-market price fluctuations recorded through the settlement date are reflected in revenues for sales contracts and in cost of sales as production and delivery costs for purchase contracts. At March 31, 2009, FCX had embedded derivatives on 407 million pounds of copper sales (net of noncontrolling interests), with maturities through August 2009 and 57 million pounds of copper purchases, with maturities through July 2009.

In order to reduce short-term price volatility in earnings and cash flows, FCX entered into copper forward sales contracts (not included in the table above) in early April 2009 to lock in prices at an average of $1.86 per pound on 355 million pounds of PT Freeport Indonesia's provisionally priced copper sales at March 31, 2009. These economic hedge transactions are scheduled to final price from April 2009 through July 2009. From time to time, FCX may enter into similar transactions to lock in pricing on provisionally priced sales, but FCX does not intend to change its long-standing policy of not hedging future copper production.

Copper Forward Contracts. Atlantic Copper enters into forward copper contracts designed to hedge its copper price risk whenever its physical purchases and sales pricing periods do not match. These economic hedge transactions are intended to hedge against changes in copper prices, with the mark-to-market hedging gains or losses recorded in cost of sales. At March 31, 2009, Atlantic Copper held forward copper purchase contracts for 8 million pounds at an average price of $1.69 per pound, with maturities through May 2009.

Copper Futures and Swap Contracts. In addition to the contracts that qualify for fair value hedge accounting that are discussed above, FCX also has similar contracts with its U.S. copper rod customers that do not qualify for hedge accounting because of certain terms in the sales contracts. Gains and losses for these economic hedge transactions are recorded in revenues. At March 31, 2009, FCX held copper futures and swap contracts for 49 million pounds at an average price of $2.27 per pound, with maturities through December 2010.

From time to time, FCX or its subsidiaries may enter into foreign currency exchange contracts to lock in or minimize the effects of fluctuations in exchange rates or interest rate swaps to manage its exposure to interest rate changes on a portion of its debt. FCX had no outstanding foreign currency exchange contracts or interest rate swaps at March 31, 2009. Refer to Note 17 in FCX's 2008 Annual Report on Form 10-K for further discussion.

Fair Value Measurement. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 does not require any new fair value measurements under U.S. GAAP; rather this statement establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP and expands disclosure requirements about fair value measurements. In February 2008, FASB issued FASB Staff Position (FSP) No. FAS 157-2, which delayed the effective date of SFAS No. 157 for nonfinancial assets or liabilities that are not required or permitted to be measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008, and interim periods within those years. FCX adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis effective January 1, 2008. This partial adoption of SFAS No. 157 did not have a material impact on FCX's financial reporting and disclosures as its financial assets are measured using quoted market prices, or Level 1 inputs. FCX adopted SFAS No. 157 for nonfinancial assets or liabilities not valued on a recurring basis (at least annually) effective January 1, 2009, with no material impact on its financial reporting and disclosures.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means;
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

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The following table sets forth FCX's financial assets and liabilities measured at fair value on a recurring basis (in millions):

	Fair Value at March 31, 2009			
	Total	Level 1	Level 2	Level 3
Cash equivalents	$ 612	$ 612	$ –	$ –
Trust assets (current and long-term)	230	230	–	–
Available-for-sale securities	68	68	–	–
Embedded derivatives in provisional sales/purchases contracts	210	210	–	–
Other derivative financial instruments, net	(16)	(16)	–	–
	$ 1,104	$ 1,104	$ –	$ –

9. NEW ACCOUNTING STANDARDS

Noncontrolling Interests in Consolidated Financial Statements. In December 2007, FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," which clarifies that noncontrolling interests (minority interests) are to be treated as a separate component of equity and any changes in the ownership interest (in which control is retained) are to be accounted for as capital transactions. However, a change in ownership of a consolidated subsidiary that results in a loss of control is considered a significant event that triggers gain or loss recognition, with the establishment of a new fair value basis in any remaining ownership interests. SFAS No. 160 also provides additional disclosure requirements for each reporting period. SFAS No. 160 applies to fiscal years beginning on or after December 15, 2008, with early adoption prohibited. This statement is required to be adopted prospectively, except for the following provisions, which are to be applied retrospectively: (i) the reclassification of noncontrolling interests to equity in the consolidated balance sheets and (ii) the adjustment to consolidated net income to include net income attributable to both the controlling and noncontrolling interests. FCX adopted SFAS No. 160 effective January 1, 2009.

Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion. In May 2008, FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)," which changes the accounting treatment for convertible debt securities that the issuer may settle fully or partially in cash. FSP No. APB 14-1 requires bifurcation of convertible debt instruments into a debt component that is initially recorded at fair value and an equity component that represents the difference between the initial proceeds from issuance of the instrument and the fair value allocated to the debt component. The debt component is subsequently accreted (as a component of interest expense) to par value over its expected life. FSP No. APB 14-1 is effective for fiscal years and interim periods beginning after December 15, 2008, and must be retrospectively applied to all prior periods presented, even if an instrument has matured, converted, or otherwise been extinguished as of the FSP's effective date. FSP No. APB 14-1 did not have an impact on FCX's financial reporting.

Employers' Disclosures about Postretirement Benefit Plan Assets. In December 2008, FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," which provides enhanced guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 revises disclosure requirements on pension and postretirement plan assets from those required in the original SFAS No. 132 after the FASB decided disclosures about fair value measurements for postretirement plan assets were not within the scope of SFAS No. 157. The disclosures about plan assets required by FSP FAS 132(R)-1 are effective for fiscal years ending after December 15, 2009, with early application permitted. Upon initial application, disclosures are not required for earlier periods that are presented for comparative purposes. FCX is currently evaluating the impact that the adoption of FSP No. FAS 132(R)-1 will have on its financial disclosures.

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10. BUSINESS SEGMENTS

FCX has organized its operations into five primary divisions – North America copper mines, South America copper mines, Indonesia mining, Africa mining and Molybdenum operations. Notwithstanding this structure, FCX internally reports information on a mine-by-mine basis. Therefore, in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” FCX concluded that its operating segments include individual mines. Operating segments that meet certain SFAS No. 131 thresholds are reportable segments. In accordance with this guidance, beginning in first-quarter 2009, Sierrita is no longer a reportable segment.

In third-quarter 2008, FCX revised its presentation of the operating divisions to better reflect management’s view of the consolidated FCX operations. Accordingly, FCX has revised its segment disclosures for the three months ended March 31, 2008, to conform with the current period presentation.

Further discussion of the reportable segments included in FCX’s primary operating divisions, as well as FCX’s other reportable segments – Rod & Refining and Atlantic Copper Smelting & Refining – follows.

North America Copper Mines. FCX has five operating copper mines in North America – Morenci, Sierrita, Bagdad and Safford in Arizona and Tyrone in New Mexico. The North America copper mines include open-pit mining, sulfide ore concentrating, leaching, and solution extraction and electrowinning (SX/EW) operations. A majority of the copper produced at the North America copper mines is cast into copper rod by FCX’s Rod & Refining operations. The North America mines division includes the Morenci copper mine as a reportable segment.

Morenci. The Morenci open-pit mine, located in southeastern Arizona, primarily produces copper cathodes. FCX owns an 85 percent undivided interest in Morenci through an unincorporated joint venture.

Other Mines. Other mines include FCX’s other operating southwestern U.S. copper mines – Sierrita, Bagdad, Safford and Tyrone. In addition to copper, the Sierrita and Bagdad mines produce molybdenum concentrates as a by-product. Other mines also include FCX’s southwestern U.S. copper mines that are currently on care-and-maintenance status.

South America Copper Mines. FCX has four operating copper mines in South America – Cerro Verde in Peru, and Candelaria, Ojos del Salado and El Abra in Chile. These operations include open-pit and underground mining, sulfide ore concentrating, leaching and SX/EW operations. The South America mines division includes the Cerro Verde copper mine as a reportable segment.

Cerro Verde. The Cerro Verde open-pit copper mine, located near Arequipa, Peru, produces copper cathodes and copper concentrates. In addition to copper, the Cerro Verde mine produces molybdenum concentrates as a by-product. FCX owns a 53.56 percent interest in Cerro Verde.

Other Mines. Other mines include FCX’s Chilean copper mines – Candelaria, Ojos del Salado and El Abra – which include open-pit and underground mining, sulfide ore concentrating, leaching and SX/EW operations. In addition to copper, the Candelaria and Ojos del Salado mines produce gold and silver as by-products. FCX owns an 80 percent interest in both the Candelaria and Ojos del Salado mines, and owns a 51 percent interest in the El Abra mine.

Indonesia. Indonesia mining includes PT Freeport Indonesia’s Grasberg minerals district. PT Freeport Indonesia produces copper concentrates, which contain significant quantities of gold and silver. FCX owns 90.64 percent of PT Freeport Indonesia, including 9.36 percent owned through PT Indocopper Investama. In 1996, FCX established an unincorporated joint venture with Rio Tinto, which covers PT Freeport Indonesia’s mining operations in Block A and gives Rio Tinto, through 2021, a 40 percent interest in certain assets and future production exceeding specified annual amounts of copper, gold and silver. After 2021, Rio Tinto will have a 40 percent interest in all production from Block A.

Africa. Africa mining includes the Tenke Fungurume copper and cobalt mining concessions in the Katanga province of the Democratic Republic of Congo. Construction progressed during first-quarter 2009, and the first copper cathode was produced in late March 2009 as the project entered the commissioning and start-up phase. FCX owns an effective 57.75 percent interest in Tenke Fungurume.

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Molybdenum. The Molybdenum segment is an integrated producer of molybdenum, with mining, sulfide ore concentrating, roasting and processing facilities that produce high-purity, molybdenum-based chemicals, molybdenum metal powder and metallurgical products, which are sold to customers around the world, and includes the wholly owned Henderson molybdenum mine in Colorado and related conversion facilities. The Henderson underground mine produces high-purity, chemical-grade molybdenum concentrates, which are typically further processed into value-added molybdenum chemical products. This segment also includes a sales company that purchases and sells molybdenum from the Henderson mine as well as from FCX's North and South America copper mines that produce molybdenum as a by-product. In addition, at times this segment roasts and/or processes material on a toll basis. Toll arrangements require the tolling customer to deliver appropriate molybdenum-bearing material to FCX's facilities for processing into a product that is returned to the customer, who pays FCX for processing its material into the specified products. The Molybdenum segment also includes FCX's wholly owned Climax molybdenum mine in Colorado, which has been on care-and-maintenance status since 1995.

Rod & Refining. The Rod & Refining segment consists of copper conversion facilities located in North America, and includes a refinery, three rod mills and a specialty copper products facility. These operations process copper produced at the North America mines and purchased copper into copper cathode, rod and custom copper shapes. At times these operations refine copper and produce copper rod and shapes for customers on a toll basis. Toll arrangements require the tolling customer to deliver appropriate copper-bearing material to FCX's facilities for processing into a product that is returned to the customer, who pays FCX for processing its material into the specified products.

Atlantic Copper Smelting & Refining. Atlantic Copper, S.A. (Atlantic Copper), FCX's wholly owned smelting unit in Spain, smelts and refines copper concentrates and markets refined copper and precious metals in slimes. PT Freeport Indonesia and the South America copper mines generally sell a portion of their concentrate and cathode (South America) production to Atlantic Copper.

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

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

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Business Segments

(In Millions)	North America Copper Mines			South America Copper Mines			Indonesia	Africa					
	Morenci	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum	Rod & Refining	Atlantic Copper Smelting & Refining	Corporate, Other & Eliminations	FCX Total
First-Quarter 2009													
Revenues:													
Unaffiliated customers	$ 21	$ 23	$ 44	$ 246	$ 338	$ 584	$ 920[a]	$ –	$ 146	$ 613	$ 292	$ 3	$ 2,602
Intersegment	212	362	574	77	41	118	202	–	–	6	–	(900)	–
Production and delivery	190	363	553	149	218	367	350	16	119	614	293	(750)	1,562
Depreciation, depletion and amortization	36	39	75	35	30	65	65	3	9	2	8	5	232
LCM inventory adjustments	–	–	–	–	–	–	–	–	19	–	–	–	19
Selling, general and administrative expenses	–	–	–	–	–	–	18	–	4	–	2	38	62
Exploration and research expenses	–	–	–	–	–	–	–	–	–	–	–	30	30
Restructuring and other charges[b]	24	(2)	22	–	6	6	–	–	(1)	(2)	–	–	25
Operating income (loss)	(17)	(15)	(32)	139	125	264	689	(19)	(4)	5	(11)	(220)	672
Interest expense, net	1	2	3	–	1	1	1	(24)	–	–	1	149	131
Provision for (benefit from) income taxes	–	–	–	47	37	84	288	(1)	–	–	–	(40)	331
Total assets at March 31, 2009	2,079	4,072	6,151	4,002	2,401	6,403	4,765	3,013	1,755	268	875	478	23,708
Capital expenditures	29	43	72	37	37	74	55	251	44	3	6	14	519
First-Quarter 2008													
Revenues:													
Unaffiliated customers	$ 134	$ 111	$ 245	$ 612	$ 861	$ 1,473	$ 887[a]	$ –	$ 719	$ 1,680	$ 665	$ 3	$ 5,672
Intersegment	464	787	1,251	117	17	134	165	–	–	8	–	(1,558)	–
Production and delivery	279	366	645	162	270	432	399	3	460	1,676	651	(1,545)	2,721
Depreciation, depletion and amortization	81	103	184	43	87	130	45	1	39	2	9	8	418
LCM inventory adjustments	–	1	1	–	–	–	–	–	–	–	–	–	1
Selling, general and administrative expenses	–	–	–	–	–	–	37	–	6	–	8	33	84
Exploration and research expenses	–	–	–	–	–	–	–	–	–	–	–	52	52

Operating income (loss)	238	428	666	524	521	1,045	571	(4)	214	10	(3)	(103)	2,396
Interest expense, net	1	3	4	1	–	1	1	(9)	–	1	4	163	165
Provision for income taxes	–	–	–	173	160	333	239	–	–	–	–	157	729
Goodwill at March 31, 2008	1,912	2,299	4,211	763	366	1,129	–	2	703	–	–	3	6,048
Total assets at March 31, 2008	6,960	11,922	18,882	5,464	4,833	10,297	3,932	1,666	4,179	604	994	1,274	41,828
Capital expenditures	77	74	151	17	46	63	115	143	12	3	5	16	508

a. Includes PT Freeport Indonesia's sales to PT Smelting totaling $263 million in first-quarter 2009 and $464 million in first-quarter 2008.

b. The following table summarizes restructuring and other charges:

Restructuring charges	$ 23	$ 4	$ 27	$ –	$ 6	$ 6	$ –	$ –	$ 1	$ –	$ –	$ –	$ 34
Special retirement benefits and curtailments	1	(6)	(5)	–	–	–	–	–	(2)	(2)	–	–	(9)
Restructuring and other charges	$ 24	$ (2)	$ 22	$ –	$ 6	$ 6	$ –	$ –	$ (1)	$ (2)	$ –	$ –	$ 25

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the condensed consolidated balance sheet of Freeport-McMoRan Copper & Gold Inc. as of March 31, 2009, and the related consolidated statements of income and cash flows for the three-month periods ended March 31, 2009 and 2008, and the consolidated statement of equity for the three-month period ended March 31, 2009. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Freeport-McMoRan Copper & Gold Inc. as of December 31, 2008, and the related consolidated statements of income, cash flows, and stockholders' equity for the year then ended (not presented herein), and in our report dated February 18, 2009, we expressed an unqualified opinion on those consolidated financial statements and which report included an explanatory paragraph for the Company's adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," effective January 1, 2007; and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R," effective December 31, 2006. As described in Note 9, on January 1, 2009, Freeport-McMoRan Copper & Gold Inc. adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements," on a retrospective basis resulting in revisions of the December 31, 2008, consolidated balance sheet. We have not audited and reported on the revised balance sheet reflecting the adoption of SFAS No. 160.

ERNST & YOUNG LLP

Phoenix, Arizona
May 4, 2009

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

OVERVIEW and OUTLOOK

In Management's Discussion and Analysis of Financial Condition and Results of Operations, "we," "us" and "our" refer to Freeport-McMoRan Copper & Gold Inc. (FCX) and its consolidated subsidiaries, including, except as otherwise stated, Phelps Dodge Corporation (Phelps Dodge) and its subsidiaries, which we acquired on March 19, 2007. You should read this discussion in conjunction with our financial statements, the related Management's Discussion and Analysis of Financial Condition and Results of Operations and the discussion of our "Business and Properties" in our Form 10-K for the year ended December 31, 2008, filed with the U.S. Securities and Exchange Commission (SEC). The results of operations reported and summarized below are not necessarily indicative of future operating results. References to "Notes" are Notes included in our "Notes to Consolidated Financial Statements." Throughout Management's Discussion and Analysis of Financial Condition and Results of Operations all references to earnings or losses per share are on a diluted basis, unless otherwise noted. FCX changed Phelps Dodge's legal name to Freeport-McMoRan Corporation (FMC) in 2008; therefore, references to FMC and Phelps Dodge represent the same entity.

We are one of the world's largest copper, gold and molybdenum mining companies in terms of reserves and production. Our portfolio of assets includes the Grasberg minerals district in Indonesia, which contains the largest single recoverable copper reserve and the largest single gold reserve of any mine in the world based on the latest available reserve data provided by third-party industry consultants; significant mining operations in North and South America; and the Tenke Fungurume minerals district in the Democratic Republic of Congo (DRC), which we believe is one of the world's highest potential copper and cobalt concessions. We also operate Atlantic Copper, our wholly owned copper smelting and refining operation in Spain. Refer to "Operations" for further discussion.

Our mining revenues for first-quarter 2009 include sales of copper (approximately 71 percent), gold (approximately 17 percent) and molybdenum (approximately 5 percent). We currently have five operating copper mines in North America, four in South America, the Grasberg minerals district in Indonesia, and in late March 2009, the first copper cathode was produced at the Tenke Fungurume minerals district in the DRC as the project entered the commissioning and start-up phase. We also have one operating primary molybdenum mine in North America. During first-quarter 2009, approximately 66 percent of our consolidated copper production was from our Grasberg, Cerro Verde and Morenci mines, and approximately 57 percent of our mined copper was sold in concentrate, approximately 23 percent as rod (principally from our North America operations) and approximately 20 percent as cathodes. We produce gold as a by-product at our copper mines, primarily at the Grasberg minerals district in Indonesia, which accounted for approximately 96 percent of our consolidated gold production in first-quarter 2009. During first-quarter 2009, approximately half of our consolidated molybdenum production was from our Henderson molybdenum mine and half was produced as a by-product primarily at our North America copper mines. Refer to "Operations" for further discussion of our mining operations.

Because of the significant reduction in debt following our March 2007 acquisition of Phelps Dodge and historically high prices for copper, molybdenum and gold, our financial policy during most of 2008 was designed to use our cash flow to invest in growth projects with anticipated high rates of return and to return excess cash flows to shareholders in the form of dividends and share purchases. However, the dramatic declines in copper and molybdenum prices and the deterioration of the economic and credit environment have limited our ability to invest in growth projects and required us to make adjustments to our near-term plans. Our near-term strategy has been designed to protect liquidity while preserving our large mineral resources and growth options for the longer term. Revisions made to our operating and financial plans in late 2008 and early 2009 include:

- Curtailment of copper production at higher cost North America operations and of molybdenum production at the Henderson molybdenum mine (refer to "Operations" for further discussion);

- Capital cost reductions, including deferral of most of our project development activities and also reduced capital spending on the remaining development projects in the Grasberg minerals district and at Tenke Fungurume (refer to “Development Projects” for further discussion);

- Aggressive cost control, including workforce reductions, reduced equipment purchases that were planned to support expansion projects, a reduction in material and supplies inventory and reductions in exploration, research and administrative costs; and

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- The suspension of our annual common stock dividend.

The completion in February 2009 of a public offering of 26.8 million shares of FCX common stock at an average price of $28.00 per share generated total proceeds of $750 million (net proceeds of $740 million after fees and expenses). Refer to “Capital Resources and Liquidity – Financing Activities” for further discussion.

While we view the long-term outlook for our business positively, supported by limitations on supplies of copper and by the requirements for copper in the world’s economy, we have responded to the sudden downturn and uncertain near-term outlook and will continue to adjust our operating strategy as market conditions change.

At March 31, 2009, we had $644 million in consolidated cash ($445 million of which was available to our parent company). We also had no borrowings and $74 million of letters of credit issued under our $1.5 billion revolving credit facilities, resulting in availability of approximately $1.4 billion. From time to time we may use the facilities for working capital and short-term funding requirements.

The sharp declines in copper and molybdenum prices have significantly impacted our consolidated financial results in first-quarter 2009, compared to first-quarter 2008. Refer to “Consolidated Results” for further discussion of our consolidated financial results for the three month periods ended March 31, 2009 and 2008.

Outlook

Consolidated sales from mines are expected to approximate 3.9 billion pounds of copper, 2.3 million ounces of gold and 50 million pounds of molybdenum for 2009, including 955 million pounds of copper, 650 thousand ounces of gold and 11 million pounds of molybdenum for second-quarter 2009. Achievement of these sales volume estimates is dependent on the achievement of targeted mining rates, the successful operation of production facilities, the impact of weather conditions and other factors.

Consolidated revenues, operating cash flows and net income vary significantly with fluctuations in the market prices of copper, gold and molybdenum, sales volumes and other factors. Based on the above projected consolidated sales volumes for 2009 and assuming average prices of $2.00 per pound of copper, $900 per ounce of gold and $8 per pound of molybdenum for the remainder of 2009, our consolidated operating cash flows would approximate $2.5 billion in 2009, net of an estimated $0.6 billion for working capital requirements principally reflecting settlements with customers in first-quarter 2009 of prior year provisionally priced sales. Operating cash flows for 2009 would be impacted by approximately $240 million for each $0.10 per pound change in copper prices, $75 million for each $50 per ounce change in gold prices and $30 million for each $1 per pound change in molybdenum prices.

Assuming average prices of $2.00 per pound of copper, $900 per ounce of gold and $8.00 per pound of molybdenum for the remainder of 2009, and using recent prices for commodity-based input costs, we estimate our consolidated unit net cash costs related to our copper mining operations (after by-product credits) would average approximately $0.70 per pound of copper in 2009, compared with $1.16 per pound of copper in 2008. Estimated consolidated unit net cash costs for 2009 are lower when compared to 2008 primarily because of the effects of lower operating rates and reduced energy prices and other commodity-based input costs. Refer to “Consolidated Results – Production and Delivery Costs” for further discussion of consolidated unit net cash costs.

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COPPER, GOLD AND MOLYBDENUM MARKETS

The graphs below illustrate the movements in metals prices from January 1993 through April 2009. World prices for copper, gold and molybdenum have fluctuated significantly during this period. The London Metal Exchange (LME) spot copper price varied from a low of $0.60 per pound in 2001 to a high of $4.08 per pound in July 2008, the London gold price fluctuated from a low of approximately $250 per ounce in 1999 to a high of $1,011 per ounce in March 2008, and the average weekly Metals Week Molybdenum Dealer Oxide price ranged from $1.87 per pound in January 1993 to a high of $39.25 per pound in June 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, 2008.

* Excludes Shanghai stocks, producer, consumer and merchant stocks.

The graph above presents LME spot copper prices and reported stocks of copper at the LME and the New York Mercantile Exchange (COMEX) from January 1993 through April 2009. During the period 2003 to 2006, global consumption exceeded production, evidenced by the decline in exchange warehouse inventories. Disruptions associated with strikes and other operational issues, combined with growing demand from China and other emerging economies resulted in low levels of inventory from 2006 through most of 2008. However, slowing consumption has led to increases in inventory levels, with combined LME and COMEX stocks rising to approximately 540 thousand metric tons at March 31, 2009.

During first-quarter 2009, LME spot copper prices ranged from $1.38 per pound to $1.85 per pound and averaged $1.56 per pound. Turmoil in the United States (U.S.) financial markets and concerns about the global economy negatively impacted copper prices in fourth-quarter 2008; however, copper prices have improved in 2009 because of increased Chinese buying activity, less bearish economic sentiment and production and supply issues. While the near-term outlook is uncertain, we believe the underlying fundamentals of the copper business remain positive, supported by supply side constraints and the absence of significant new development projects. Future copper prices may continue to be volatile and are expected to be influenced by demand from China, 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. During April 2009, copper prices rose as declines in inventory levels signaled an increase in demand; the LME spot copper price closed at $2.05 per pound on April 30, 2009.

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The graph above presents London gold prices from January 1993 through April 2009. During first-quarter 2009, the environment for gold was positive, but volatile, with gold prices ranging from approximately $810 per ounce to $989 per ounce and averaging approximately $908 per ounce. Growing investment demand, economic uncertainty and a weak U.S. dollar are continuing to support gold prices. London gold prices closed at approximately $883 per ounce on April 30, 2009.

The graph above presents the Metals Week Molybdenum Dealer Oxide price from January 1993 through April 2009. Molybdenum prices have declined significantly as a result of the financial market turmoil and a decline in demand. During first-quarter 2009, the weekly average price of molybdenum ranged from approximately $8.13 per pound to approximately $9.50 per pound and averaged $8.91 per pound. The weekly average Metals Week Molybdenum Dealer Oxide price was $8.00 per pound on April 30, 2009.

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CONSOLIDATED RESULTS

	First-Quarter			
	2009		2008	
Financial Data (in millions, except per share amounts)				
Revenues	$	2,602a,b,c	$	5,672a,b,c
Operating income	$	672a,b,c,d,e	$	2,396a,b,c,e
Net income	$	207b,c,d,e	$	1,505b,c,e
Net income applicable to common stockf	$	43b,c,d,e	$	1,122b,c,e
Diluted net income per share of common stock	$	0.11b,c,d,e	$	2.64b,c,e
Diluted average common shares outstanding g		401		449
FCX Mining Operating Data				
Copper (millions of recoverable pounds)				
Production		1,041		880
Sales, excluding purchases		1,020		911
Average realized price per pound	$	1.72	$	3.69
Site production and delivery costs per poundh	$	1.07	$	1.47
Unit net cash costs per poundh	$	0.66	$	1.06
Gold (thousands of recoverable ounces)				
Production		595		275
Sales, excluding purchases		545		280
Average realized price per ounce	$	904	$	933
Molybdenum (millions of recoverable pounds)				
Production		14		18
Sales, excluding purchases		10		20
Average realized price per pound	$	11.52	$	31.67

a. As discussed in Note 10, during 2008 we revised the presentation of our operating divisions to better reflect management's view of our consolidated operations, and have also reclassified amounts for first-quarter 2008 to conform to the current period presentation. Following is a summary of revenues and operating income (loss) by operating division (in millions):

	First-Quarter 2009				First-Quarter 2008			
		Revenues		Operating Income (Loss)		Revenues		Operating Income (Loss)
North America copper mines	$	618	$	(32)	$	1,496	$	666
South America copper mines		702		264		1,607		1,045
Indonesia mining		1,122		689		1,052		571
Africa mining		–		(19)		–		(4)
Molybdenum		146		(4)		719		214
Rod & Refining		619		5		1,688		10
Atlantic Copper Smelting & Refining		292		(11)		665		(3)
Corporate, other & eliminations		(897)		(220)		(1,555)		(103)
Total	$	2,602	$	672	$	5,672	$	2,396

b.

Includes impacts of adjustments to provisionally priced prior year copper sales. Refer to "Revenues" for further discussion.

c. Includes unrealized gains on copper derivative contracts entered into in connection with certain of our sales contracts with U.S. copper rod customers totaling $19 million ($19 million to net income applicable to common stock or $0.05 per share) in first-quarter 2009 and $19 million ($12 million to net income applicable to common stock or $0.03 per share) in first-quarter 2008. These contracts allow us to receive market prices in the month of shipment while the customer pays the fixed price they requested. Refer to Note 8 for further discussion.

d. First-quarter 2009 includes charges totaling $25 million to operating income ($22 million to net income applicable to common stock or $0.05 per share) for restructuring and other charges associated with our revised operating plans. Refer to Note 2 for further discussion.

e. First-quarter 2009 includes charges of $31 million ($31 million to net income applicable to common stock or $0.08 per share) associated with adjustments to environmental obligations, and $19 million ($19 million to net income applicable to common stock or $0.05 per share) for lower of cost or market (LCM) molybdenum inventory adjustments.

Also includes a reduction in compensation expense attributable to the prior years' financial results totaling $33 million ($29 million to net income applicable to common stock or $0.07 per share) for first-quarter 2009 and $40 million ($23 million to net income applicable to common stock or $0.05 per share) for first-quarter 2008.

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f. After net income attributable to noncontrolling interests in subsidiaries and preferred dividends.

g. Reflects assumed conversion of our 5½% Convertible Perpetual Preferred Stock and 6¾% Mandatory Convertible Preferred Stock in first-quarter 2008. These securities were not dilutive in first-quarter 2009.

h. Reflects per pound weighted average production and delivery costs and unit net cash costs (net of by-product credits) for all copper mines. For reconciliations of the per pound costs by operating division to production and delivery costs applicable to sales reported in our consolidated financial statements, refer to "Operations – Unit Net Cash Costs" and to "Product Revenues and Production Costs."

Revenues

Consolidated revenues include the sale of copper rod, copper cathodes, copper concentrates, molybdenum, gold and other metals by our North and South America copper mines, the sale of copper concentrates (which also contain significant quantities of gold and silver) by our Indonesia mining operation, the sale of molybdenum in various forms by our Molybdenum operations, and the sale of copper anodes, copper cathodes, and gold in anodes and slimes by Atlantic Copper. Consolidated revenues totaled $2.6 billion in first-quarter 2009, compared with $5.7 billion in first-quarter 2008, primarily because of the sharp declines in the price of copper. Following is a summary of changes in our consolidated revenues between periods (in millions):

First-quarter 2008 consolidated revenues	$	5,672
Price realizations:		
Copper		(2,009)
Gold		(16)
Molybdenum		(198)
Sales volumes:		
Copper		403
Gold		247
Molybdenum		(337)
Purchased copper and molybdenum		(590)
Adjustments, primarily for copper pricing on prior year open sales		(137)
Atlantic Copper revenues		(372)
Other, net		(61)
First-quarter 2009 consolidated revenues	$	2,602

Realized copper prices decreased to an average of $1.72 per pound in first-quarter 2009, compared with $3.69 per pound in first-quarter 2008; realized gold prices decreased to an average of $904 per ounce in first-quarter 2009, compared with $933 per ounce in first-quarter 2008; and realized molybdenum prices decreased to an average of $11.52 per pound in first-quarter 2009, compared with $31.67 per pound in first-quarter 2008.

Consolidated sales volumes in first-quarter 2009 totaled 1.0 billion pounds of copper, 545 thousand ounces of gold and 10 million pounds of molybdenum, compared with 911 million pounds of copper, 280 thousand ounces of gold and 20 million pounds of molybdenum in first-quarter 2008. Higher first-quarter 2009 copper and gold sales volumes primarily reflect expected increased production at Grasberg because of higher ore grades. The increase in copper sales volumes was partly offset by lower sales volumes at our North America copper mines as a result of planned curtailed production rates at these operations to reduce production of higher cost volumes. Lower molybdenum sales volumes in first-quarter 2009 reflect the effects of declines in demand, principally in the metallurgical sector. Refer to "Operations" for further discussion.

During first-quarter 2009, approximately 57 percent of our mined copper was sold in concentrate, approximately 23 percent as rod (principally from our North America operations) and approximately 20 percent as cathodes. Substantially all of our concentrate sales contracts and some of our cathode sales contracts provide final copper pricing in a specified future period (generally one to four months from the shipment date) based primarily on quoted LME prices. We receive market prices based on prices in the specified future period, and the accounting rules applied to these sales result in changes recorded to revenues until the specified future period. We record revenues and invoice customers at the time of shipment based on then-current LME prices, which results in an embedded derivative on our provisional priced concentrate and cathode sales that is adjusted to fair value through earnings each period until the date of final pricing. To the extent final prices are higher or lower than what was recorded on a provisional basis, an increase or decrease to revenues is recorded each reporting period until the date of final pricing.

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At December 31, 2008, we had provisionally priced copper sales of 508 million pounds of copper (net of noncontrolling interests) recorded at an average of $1.39 per pound. Higher prices during first-quarter 2009 resulted in adjustments to these prior year copper sales and increased consolidated revenues by $128 million ($60 million to net income applicable to common stock or $0.15 per share) in first-quarter 2009, compared with an increase of $263 million ($111 million to net income applicable to common stock or $0.25 per share) in first-quarter 2008.

LME spot copper prices averaged $1.56 per pound in first-quarter 2009, compared with our average recorded price of $1.72 per pound. Approximately 70 percent of our first-quarter 2009 consolidated copper sales were provisionally priced at the time of shipment and are subject to final pricing during the remainder of 2009. At March 31, 2009, we had provisionally priced copper sales totaling 407 million pounds of copper (net of noncontrolling interests) recorded at an average of $1.83 per pound, subject to final pricing over the next several months.

In early April 2009, we entered into forward copper sales contracts to lock in prices at an average of $1.86 per pound on 355 million pounds of PT Freeport Indonesia's provisionally priced copper sales at March 31, 2009, which are scheduled to final price from April 2009 through July 2009. From time to time, we may enter into future transactions to lock in pricing on provisionally priced sales to reduce short-term volatility in earnings and cash flows, but we do not intend to change our long standing policy of not hedging future copper production.

After taking into account the forward sales contracts on PT Freeport Indonesia's provisionally priced copper sales, we estimate that each $0.05 change in the price realized from the March 31, 2009, provisional price recorded would have a net impact on our 2009 consolidated revenues of approximately $8 million ($4 million to net income applicable to common stock). The LME spot copper price closed at $2.05 per pound on April 30, 2009.

Production and Delivery Costs

Consolidated production and delivery costs totaled $1.6 billion in first-quarter 2009 compared with $2.7 billion in first-quarter 2008. Lower production and delivery costs in first-quarter 2009 primarily reflected the effects of lower operating rates at our North America copper mines and declining commodity-based input costs. Energy costs are expected to approximate 20 percent of our consolidated copper production costs in 2009, compared with approximately 25 percent in 2008, and include purchases of approximately 190 million gallons of diesel fuel, 800 thousand metric tons of coal, 5,700 gigawatt hours of electricity and 1 million MMBTU (million british thermal units) of natural gas.

Consolidated unit net cash costs, net of by-product credits, related to our copper mining operations totaled $0.66 per pound of copper in first-quarter 2009 compared with $1.06 per pound of copper in first-quarter 2008. The decrease in unit net cash costs in first-quarter 2009 reflected the effects of lower operating rates following production curtailments at our North America copper mines, higher copper ore grades at Grasberg and decreases in energy prices and other commodity-based input costs. Refer to "Operations – Unit Net Cash Costs" for further discussion of unit net cash costs associated with our operating divisions, and to "Product Revenues and Production Costs" for reconciliations of per pound costs by operating division to production and delivery costs applicable to sales reported in our consolidated financial statements.

Depreciation, Depletion and Amortization

Consolidated depreciation, depletion and amortization expense totaled $232 million in first-quarter 2009 compared with $418 million in first-quarter 2008. The decrease in depreciation, depletion and amortization expense reflects the impact of the long-lived asset impairment charges recognized in fourth-quarter 2008, partly offset by higher expense under the unit-of-production method primarily resulting from higher production at PT Freeport Indonesia in first-quarter 2009.

LCM Inventory Adjustments

Inventories are required to be recorded at the lower of cost or market. As a result of lower molybdenum prices we recognized charges of $19 million ($19 million to net income applicable to common stock or $0.05 per share) for LCM inventory adjustments in first-quarter 2009.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses totaled $62 million in first-quarter 2009 compared with $84 million in first-quarter 2008. Lower selling, general and administrative expenses primarily reflected lower incentive compensation costs because of weaker financial results in 2009 compared with 2008, lower stock-based compensation costs related to a lower FCX common stock price, and changes to certain benefit plans.

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Exploration and Research Expenses

Consolidated exploration and research expenses totaled $30 million in first-quarter 2009 compared with $52 million in first-quarter 2008. Exploration activities are being conducted near our existing mines with a focus on opportunities to expand reserves that will support additional future production capacity in the large mineral districts where we currently operate. Drilling activities were significantly expanded in 2008 and were successful in providing significant reserve additions and in identifying potential additional ore adjacent to existing ore bodies. Results indicate opportunities for significant future potential reserve additions at Morenci, Sierrita and Bagdad in North America, at Cerro Verde in South America and in the high potential Tenke Fungurume minerals district.

During 2009, we will focus on analyzing exploratory data gained through the core drilling previously undertaken. For 2009, exploration expenditures are expected to approximate $75 million.

Restructuring and Other Charges

Net charges of $25 million ($22 million to net income applicable to common stock or $0.05 per share) were recognized in first-quarter 2009 associated with our revised operating plans, including contract termination costs, other project cancellation costs and charges for employee severance and benefits, partially offset by pension and postretirement gains for special retirement benefits and curtailments. Refer to Note 2 for further discussion.

Interest Expense, Net

Consolidated interest expense (before capitalization) totaled $176 million in first-quarter 2009 and $187 million in first-quarter 2008. Capitalized interest totaled $45 million in first-quarter 2009 compared with $22 million in first-quarter 2008. Capitalized interest is primarily related to our Tenke Fungurume development project (refer to “Development Projects” for further discussion), which entered the commissioning and start-up phase in late March 2009. As a result, we expect to recognize significantly less capitalized interest beginning in second-quarter 2009.

Provision for Income Taxes

Our first-quarter 2009 income tax provision resulted from taxes on international operations ($330 million) and U.S. operations ($1 million). Our effective tax rate for 2009 is expected to be highly sensitive to changes in commodity prices and the mix of income between U.S. and international operations. Taxes provided on income generated from our South America and Indonesia operations are recorded at the applicable statutory rates. However, at certain commodity prices, we do not record a tax benefit for losses generated in the U.S., and those losses cannot be used to offset income generated from international operations. These factors have caused our consolidated effective tax rate of 63 percent to be substantially higher than the U.S. federal statutory rate of 35 percent.

Our first-quarter 2008 income tax provision resulted from taxes on international operations ($579 million) and U.S. operations ($150 million). The difference between our consolidated effective income tax rate of approximately 33 percent for first-quarter 2008 and the U.S. federal statutory rate of 35 percent primarily was attributable to a U.S. benefit for percentage depletion, partly offset by withholding taxes and incremental U.S. income tax accrued on foreign earnings.

A summary of the approximate amounts in the calculation of our consolidated provision for income taxes for first-quarter 2009 and first-quarter 2008 follows (in millions, except percentages):

	First-Quarter 2009			First-Quarter 2008		
	Income (Loss)a	Effective Tax Rate	Income Tax Provision (Benefit)	Income (Loss)a	Effective Tax Rate	Income Tax Provision (Benefit)
U.S.	$ (288)	–	$ 1	$ 778	19%	$ 150
South America	253	33%	84	1,024	33%	333

Indonesia		689	42%		288		570	42%		239
Africa		(2)	30%		(1)		-	30%		-
Eliminations and other		(125)	N/A		(41)		(145)	N/A		(3)
Annualized rate adjustmentb		N/A	N/A		–		N/A	N/A		10
Consolidated FCX	$	527	63%c	$	331	$	2,227	33%	$	729

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

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

c. Our estimated consolidated effective tax rate for 2009 will vary with commodity price changes and the mix of income from international and U.S. operations. Following is a summary of our estimated annual consolidated effective tax rate using currently projected sales volumes for 2009 and based on various commodity price assumptions for the remainder of 2009:

Copper (per pound)	Gold (per ounce)	Molybdenum (per pound)	Estimated Effective Tax Rate(1)
$ 1.50	$ 900	$ 8.00	72%
$ 2.00	$ 900	$ 8.00	48%
$ 2.50	$ 900	$ 8.00	42%

(1) Quarterly effective tax rates may vary depending on the mix of income for the quarterly period.

OPERATIONS

North America Copper Mines

We currently have five operating open-pit copper mines in North America – Morenci, Sierrita, Bagdad and Safford in Arizona, and Tyrone in New Mexico. In addition to copper, the Sierrita and Bagdad mines produce molybdenum as a by-product. All of these mining operations are wholly owned, except for Morenci, an unincorporated joint venture, in which we own an 85 percent undivided interest.

The North America copper mines include open-pit mining, sulfide ore concentrating, leaching and solution extraction/electrowinning (SX/EW) operations. A majority of the copper produced at our North America copper mines is cast into copper rod by our Rod & Refining operations. The remainder of our North America copper sales is primarily in the form of copper cathode or copper concentrate.

In response to weak market conditions, we revised operating plans at our North America copper mines at the end of 2008 and in early 2009, which included an approximate 50 percent reduction in mining and crushed-leach rates at Morenci; an approximate 50 percent reduction in mining and stacking rates at the Safford mine; an approximate 50 percent reduction in the mining rate at the Tyrone mine; and the suspension of mining and milling activities at the Chino mine (with limited residual copper production from leach operations). Operating plans for the North America copper mines will continue to be reviewed and additional adjustments may be made as market conditions warrant.

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Operating Data. Following is summary operating data for the North America copper mines for the first quarters of 2009 and 2008.

	First-Quarter	
	2009	2008
Operating Data, Net of Joint Venture Interest		
Copper (millions of recoverable pounds)		
Production	289	327
Sales, excluding purchases	301	339
Average realized price per pound	$ 1.59	$ 3.50
Molybdenum (millions of recoverable pounds)		
Production (by-product)a	6	8
100% Operating Data, Including Joint Venture Interest		
SX/EW operations		
Leach ore placed in stockpiles (metric tons per day)	669,200	1,134,900
Average copper ore grade (percent)	0.30	0.19
Copper production (millions of recoverable pounds)	222	217
Mill operations		
Ore milled (metric tons per day)	180,800	244,000
Average ore grade (percent):		
Copper	0.35	0.39
Molybdenum	0.02	0.02
Copper recovery rate (percent)	85.2	81.2
Production (millions of recoverable pounds):		
Copper	88	136
Molybdenum (by-product)	6	8

a. Reflects by-product molybdenum production from the North America copper mines. Sales of by-product molybdenum are reflected in the Molybdenum division.

Copper sales from the North America mines totaled 301 million pounds in first-quarter 2009 compared with 339 million pounds in first-quarter 2008. The decrease in copper sales volumes in first-quarter 2009 primarily reflected planned curtailed production rates to reduce production of higher cost volumes, partly offset by higher production at the Safford copper mine. Production commenced at Safford in December 2007 and was ramped up to design capacity during 2008 before we revised operating plans to curtail production in fourth-quarter 2008.

For 2009, copper sales volumes from our North America copper mines are expected to approximate 1.1 billion pounds and by-product molybdenum production is expected to approximate 27 million pounds, compared with 1.4 billion pounds of copper and 30 million pounds of by-product molybdenum production in 2008. Production from the North America copper mines in 2010 is currently expected to decline by approximately an additional 200 million pounds because of impacts of 2009 mining activities on 2010 leaching operations.

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

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Gross Profit per Pound of Copper and Molybdenum

The following tables summarize unit net cash costs and gross profit at the North America copper mines for the first quarters of 2009 and 2008. Refer to "Product Revenues and Production Costs" for an explanation of the "by-product" and "co-product" methods and a reconciliation of unit net cash costs per pound to production and delivery costs applicable to sales reported in our consolidated financial statements.

	First-Quarter 2009			First-Quarter 2008		
	By-Product Method	Co-Product Method Copper	Co-Product Method Molyb-denuma	By-Product Method	Co-Product Method Copper	Co-Product Method Molyb-denuma
Revenues, excluding adjustments shown below	$ 1.59	$ 1.59	$ 9.71	$ 3.50	$ 3.50	$ 32.75
Site production and delivery, before net noncash and nonrecurring costs shown below	1.32	1.26	4.28	1.64	1.43	9.75
By-product creditsa	(0.18)	–	–	(0.77)	–	–
Treatment charges	0.08	0.08	–	0.09	0.09	–
Unit net cash costs	1.22	1.34	4.28	0.96	1.52	9.75
Depreciation, depletion and amortization	0.24	0.23	0.21	0.53	0.47	2.47
Noncash and nonrecurring costs, net	0.15	0.15	0.15	0.09	0.09	0.11
Total unit costs	1.61	1.72	4.64	1.58	2.08	12.33
Revenue adjustments, primarily for hedging	0.24	0.24	–	0.13	0.13	–
Idle facility and other non-inventoriable costs	(0.13)	(0.13)	–	(0.04)	(0.04)	(0.02)
Gross profit (loss)	$ 0.09	$ (0.02)	$ 5.07	$ 2.01	$ 1.51	$ 20.40
Copper sales (millions of recoverable pounds)	301	301		337	337	
Molybdenum sales (millions of recoverable pounds)b			6			8

a. Molybdenum by-product credits and revenues reflect volumes produced at market-based pricing and also include tolling revenues at Sierrita.

b. Reflects molybdenum produced by the North America copper mines.

Unit net cash costs, after by-product credits, for our North America copper mines increased to $1.22 per pound of copper in first-quarter 2009, compared with $0.96 per pound of copper in first-quarter 2008, primarily reflecting lower molybdenum credits ($0.59 per pound decrease) resulting from lower molybdenum prices and volumes, partly offset by a decrease in site production and delivery costs ($0.32 per pound decrease, including $0.48 per pound associated with lower operating rates and $0.17 per pound for reduced energy costs, partly offset by increases of $0.25 per pound related to draw downs of inventory with higher average costs).

Our five operating North America copper mines have varying cost structures because of differences in ore grades and ore characteristics, processing costs, by-products and other factors. During first-quarter 2009, the Morenci mine, which accounts for approximately 40 percent of North America's production, had unit net cash costs of $1.18 per pound. Based on current operating plans and assuming average prices of $2.00 per pound of copper and $8.00 per pound of molybdenum for the remainder of 2009, we estimate that average unit net cash costs, including molybdenum credits, for our North America copper mines would approximate $1.22 per pound of copper for the year 2009, compared with $1.33 per pound in 2008. Each $1 per pound change in the molybdenum price during the remainder of 2009 would have an approximate $0.015 per pound impact on the North America copper mines' 2009 unit net cash costs.

The decrease in depreciation, depletion and amortization in first-quarter 2009, compared with first-quarter 2008, reflects the impact of the long-lived asset impairment charges recognized in fourth-quarter 2008.

South America Copper Mines

We have four operating copper mines in South America – Cerro Verde in Peru, and Candelaria, Ojos del Salado and El Abra in Chile. We own a 53.56 percent interest in Cerro Verde, an 80 percent interest in both Candelaria and Ojos del Salado and a 51 percent interest in El Abra.

The South America copper mines include open-pit and underground mining, sulfide ore concentrating, leaching and SX/EW operations. In addition to copper, the Cerro Verde mine produces molybdenum concentrates as a by-product, and the Candelaria and Ojos del Salado mines produce gold and silver as by-products. Production from our South America copper mines is sold as copper concentrate or copper cathode under long-term contracts.

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In response to weak market conditions, we revised operating plans at our South America copper mines at the end of 2008 and in early 2009. The revised operating plans for 2009 principally reflect the incorporation of reduced input costs; a significant reduction in capital spending plans, including deferral of the planned incremental expansion project at the Cerro Verde mine and a delay in the sulfide project at El Abra; and reduced spending for discretionary items. In addition, we have temporarily curtailed the molybdenum circuit at Cerro Verde. Operating plans for the South America copper mines will continue to be reviewed and additional adjustments may be made as market conditions warrant.

Operating Data. Following is summary operating data for the South America copper mines for the first quarters of 2009 and 2008.

	First-Quarter	
	2009	2008
Copper (millions of recoverable pounds)		
Production	348	353
Sales	350	365
Average realized price per pound	$ 1.76	$ 3.78
Gold (thousands of recoverable ounces)		
Production	23	26
Sales	23	27
Average realized price per ounce	$ 902	$ 936
Molybdenum (millions of recoverable pounds)		
Production (by-product)a	1	1
SX/EW operations		
Leach ore placed in stockpiles (metric tons per day)	250,500	274,100
Average copper ore grade (percent)	0.45	0.39
Copper production (millions of recoverable pounds)	137	135
Mill operations		
Ore milled (metric tons per day)	182,400	170,700
Average copper ore grade (percent):		
Copper	0.68	0.74
Molybdenum	0.02	0.02
Copper recovery rate (percent)	88.9	90.6
Production (millions of recoverable pounds):		
Copper	211	218
Molybdenum	1	1

a. Reflects by-product molybdenum production from our Cerro Verde copper mine. Sales of by-product molybdenum are reflected in the Molybdenum segment.

Copper sales from the South America mines totaled 350 million pounds in first-quarter 2009, compared with 365 million pounds in first-quarter 2008. Lower sales volumes in first-quarter 2009 primarily reflect the mining of lower ore grades at El Abra and Candelaria.

For 2009, consolidated sales volumes from our South America mines are expected to approximate 1.4 billion pounds of copper and 100 thousand ounces of gold, compared with 1.5 billion pounds of copper and 116 thousand ounces of gold in 2008. Lower copper volumes in 2009, compared with 2008, reflect the impact of previously expected mining of lower ore grades at Candelaria. While the revised operating plans for our South America copper mines do not have a significant effect on 2009 production volumes, they are expected to result in lower 2010 production by approximately 100 million pounds of copper.

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

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Gross Profit per Pound of Copper

The following tables summarize unit net cash costs and gross profit at the South America copper mines for the first quarters of 2009 and 2008. The below tables reflect unit net cash costs per pound of copper under the by-product and co-product methods as the South America copper mines also had small amounts of molybdenum, gold and silver sales. Refer to "Product Revenues and Production Costs" for an explanation of the "by-product" and "co-product" methods and a reconciliation of unit net cash costs per pound to production and delivery costs applicable to sales reported in our consolidated financial statements.

	First-Quarter 2009		First-Quarter 2008	
	By-Product Method	Co-Product Method	By-Product Method	Co-Product Method
Revenues, excluding adjustments shown below	$ 1.76	$ 1.76	$ 3.78	$ 3.78
Site production and delivery, before net noncash and nonrecurring costs shown below	1.00	0.92	1.08	1.05
By-product credits	(0.11)	–	(0.14)	–
Treatment charges	0.14	0.14	0.21	0.21
Unit net cash costs	1.03	1.06	1.15	1.26
Depreciation, depletion and amortization	0.18	0.17	0.35	0.34
Noncash and nonrecurring costs, net	0.02	0.02	0.07	0.07
Total unit costs	1.23	1.25	1.57	1.67
Revenue adjustments, primarily for pricing on prior period open sales	0.25	0.25	0.63	0.63
Idle facility and other non-inventoriable costs	(0.02)	(0.02)	(0.02)	(0.01)
Gross profit	$ 0.76	$ 0.74	$ 2.82	$ 2.73
Copper sales (millions of recoverable pounds)	350	350	365	365

Unit net cash costs, after by-product credits, for our South America copper mines decreased to $1.03 per pound of copper in first-quarter 2009, compared with $1.15 per pound in first-quarter 2008, primarily reflecting lower site production and delivery costs ($0.08 per pound decrease, including $0.15 per pound for lower operating costs reflecting the impacts of revised operating plans and $0.07 per pound for lower energy costs, partly offset by an increase of $0.12 per pound for draw downs of inventory with higher average costs). In addition, lower treatment charges ($0.07 per pound decrease) associated with lower price participation because of lower copper prices contributed to lower unit net cash costs for our South America copper mines.

Our South America copper mines have varying cost structures because of differences in ore grades and ore characteristics, processing costs, by-products and other factors. During first-quarter 2009, the Cerro Verde mine, which accounts for almost half of South America's production had unit net cash costs for of $0.97 per pound. Assuming average prices of $2.00 per pound of copper for the remainder of 2009 and achievement of current 2009 sales, we estimate that average unit net cash costs, after by-product credits, for our South America copper mines would approximate $1.05 per pound of copper in 2009, compared with $1.14 per pound in 2008.

The decrease in depreciation, depletion and amortization in first-quarter 2009, compared with first-quarter 2008, reflects the impact of the long-lived asset impairment charges recognized in fourth-quarter 2008.

Indonesia Mining

We own 90.64 percent of PT Freeport Indonesia, including 9.36 percent owned through our wholly owned subsidiary, PT Indocopper Investama. The Government of Indonesia owns the remaining 9.36 percent of PT Freeport Indonesia. PT Freeport Indonesia operates under an agreement, called a Contract of Work, with the Government of Indonesia that allows us to conduct exploration, mining and production activities in a 24,700-acre area called Block A located in Papua, Indonesia. Under the Contract of Work, PT Freeport Indonesia also conducts exploration activities in an approximate 500,000-acre area called Block B in Papua. All of PT Freeport Indonesia’s proven and probable mineral reserves and current mining operations, including the Grasberg minerals district, are located in Block A.

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.

We have established certain unincorporated joint ventures with Rio Tinto plc (Rio Tinto), an international mining company with headquarters in London, England. Pursuant to the joint venture agreement, Rio Tinto has a 40

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percent interest in certain assets and future production exceeding specified annual amounts of copper, gold and silver through 2021 in Block A of PT Freeport Indonesia's Contract of Work, and, after 2021, a 40 percent interest in all production from Block A.

As reported in January 2006, we received and responded to requests from U.S. governmental authorities related to PT Freeport Indonesia's support of Indonesian security institutions. In May 2009, we were notified by the SEC that the U.S. government's investigation has been completed and no action has been recommended.

Operating Data. Following is summary operating data for our Indonesia mining operations for the first quarters of 2009 and 2008.

	First-Quarter	
	2009	2008
Consolidated Operating Data, Net of Joint Venture Interest		