ASTSWMO Meeting

Financial Assurance - Industry Panel

April 2011
Financial Disclosures

- **SFAS 143** – Accounting standard regarding the accrual for regulatory-mandated asset retirement obligations (AROs)
  - Government-mandated closure and/or reclamation plans
  - Present-worth basis
- **FIN 47** – Accounting requirement to address regulatory-mandated/compliance obligations associated with the closure of a facility (incorporated into AROs)
  - RCRA-compliant management of hazardous or solid wastes generated during the facility closure or demolition process
  - Regulatory-based management of materials generated during the replacement of structures (i.e. treated power poles)
- Environmental Reserves – typically associated with remediation or corrective action of off-site releases, but can also include onsite issues not addressed through AROs
- Financial Assurance provisions
Financial Assurance Components

- **Scope** [EFAB review - posted 2011]
  - Closure/post-closure
  - Remediation, Corrective Action
  - Boundaries (physical, regulatory)

- **Cost Estimate** [EFAB review - posted 2011]
  - Reliability
  - Frequency of review

- **Form** [EFAB reviews/workshops - posted 2010, 2008, 2007, 2006]
  - Financial test, corporate guarantee
  - Insurance
  - LCs
  - Bonds
  - Trust, CDs
FCX Has Long-Lived US Assets

- **Reserves (a)** (recoverable copper)
  - North America - 35%
    - at $2.00 Cu price
  - Reserves at $2.00 Cu price

- **Mineralized Material (b)** (contained copper)
  - at $2.20 Cu price

- **110 billion lbs**
  - 12/31/10 Mineralized Material (b)
    - by Geographical Region
      - North America: 54%
      - Indonesia: 17%
      - South America: 17%
      - Africa: 12%

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(a) ESTIMATED recoverable proven and probable copper reserves using a long-term average copper price of $2.00/lb; 98 billion pounds net to FCX’s interest.

(b) ESTIMATED consolidated contained copper resources using a long-term copper price of $2.20/lb. Mineralized Material is not included in reserves and will not qualify as reserves until comprehensive engineering studies establish their economic feasibility. Accordingly, no assurance can be given that the estimated mineralized material will become proven and probable reserves. See Cautionary Statement.
Maintain strong balance sheet and liquidity position
- $1.5 billion revolving credit facility
- $2.6 billion consolidated cash (12/31/10)
- Investment grade rated by Fitch (BBB), S&P (BBB-), Moody’s (Baa3)
- Strong ratios re financial test
  - Tangible Net Worth $11 billion

Aggressive cost management
Opportunistic debt repayment
Invest in attractive growth projects
  - Potential capital investments of $8 - 10 billion world-wide over next 5 years
  - Potential to create jobs in southwestern rural US
FCX ARO/Environmental Reserves

U.S. Asset Retirement Obligations*
$653 million

Environmental Reserves*
$1.4 billion, 100+ projects in 27 states

* As of 12/30/10; present value $
FCX Financial Assurance Forms

Financial Assurance *
$793 million

Includes limited $ amounts of FA for remediation projects

* As of 12/30/10; present value $
Hardrock mining industry was first sector targeted (extract, beneficiate, process metals and non-metallic/non-fuel minerals)

Next in line – Chemicals, Petroleum, Electric Power Generation

Issues to be considered in rulemaking process

- Application to operating properties versus CERCLA sites [Reclamation, Remediation, or both]
- Overlap between proposed program and existing state/federal permits and associated financial assurance
- Perceived scope gaps in current closure requirements/plans plus other scope items (NRD, historic areas, etc)
- Agency concern about reliability of closure cost estimates
- How to implement the proposed program
- How to encourage improved environmental performance
- Form
CERCLA 108(b) Components

- State Preemption
- Scope/Gaps
  - Protection of groundwater, surface water
  - Closure
  - Post-closure: long-term water and cap management
  - Remediation
- Cost Estimate
  - “One –size fits all” vs. “site-specific”
  - Frequency of review
- Form
  - Financial test, corporate guarantee
  - Insurance
  - LCs, Bonds, CDs, Trust
Industry likes certainty; mining sector wants to be able to plan for 30 – 60+ years of future operations

Financial assurance approaches need to balance between need to protect taxpayers against CERCLA exposure while minimizing burdens on private sector and job creation

Maintain current flexibility regarding form of financial assurance, particularly for companies with strong balance sheets and liquidity, diverse asset base, and solid environmental performance record

Concerns about financial viability can be addressed with quarterly financial submittals

Highly collateralized forms of financial assurance affect capital liquidity for future investments

Tangible net worth requirement of $10 million may be out of date, but increases can limit ability of smaller companies to use financial test

Concerns on cost estimate reliability requires multiple responses: scope, units, and unit costs need frequent reviews if material uncertainty exists