CLIFFS NATURAL RESOURCES INC.
Form 10-Q
October 25, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
OR
o 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: 1-8944
CLIFFS NATURAL RESOURCES INC.
(Exact Name of Registrant as Specified in Its Charter)

Ohio	34-1464672
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
200 Public Square, Cleveland, Ohio	44114-2315
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s Telephone Number, Including Area Code: (216) 694-5700
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES x NO o
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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x 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).
YES o NO x
The number of shares outstanding of the registrant’s Common Shares, par value $0.125 per share, was 142,496,147 as of October 22, 2012.

Table of Contents

TABLE OF CONTENTS

Page No.	
1	Definitions
	PART I – FINANCIAL INFORMATION
3	Item 1 – Financial Statements
	Statements of Unaudited Condensed Consolidated Operations for the Three and Nine Months Ended September 30, 2012 and 2011
4	Statements of Unaudited Condensed Consolidated Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011
5	Statements of Unaudited Condensed Consolidated Financial Position as of September 30, 2012 and December 31, 2011
6	Statements of Unaudited Condensed Consolidated Cash Flows for the Nine Months Ended September 30, 2012 and 2011
7	Notes to Unaudited Condensed Consolidated Financial Statements
39	Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations
67	Item 3 – Quantitative and Qualitative Disclosures About Market Risk
67	Item 4 – Controls and Procedures
	PART II – OTHER INFORMATION AND SIGNATURES
67	Item 1 – Legal Proceedings
68	Item 1A – Risk Factors
70	Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds
70	Item 4 – Mine Safety Disclosures
70	Item 6 – Exhibits
71	Signatures
72	Exhibit Index

Table of Contents

Definitions

The following abbreviations or acronyms are used in the text. References in this report to the "Company," "we," "us," "our" and "Cliffs" are to Cliffs Natural Resources Inc. and subsidiaries, collectively. References to "A$" or "AUD" refer to Australian currency, "C$" to Canadian currency and "$" to United States currency.

Abbreviation or acronym	Term
Algoma	Essar Steel Algoma Inc.
Amapá	Anglo Ferrous Amapá Mineração Ltda. and Anglo Ferrous Logística Amapá Ltda.
ArcelorMittal	ArcelorMittal (as the parent company of ArcelorMittal Mines Canada, ArcelorMittal USA and ArcelorMittal Dofasco, as well as, many other subsidiaries)
ArcelorMittal USA	ArcelorMittal USA LLC (including many of its North American affiliates, subsidiaries and representatives. References to ArcelorMittal USA comprise all such relationships unless a specific ArcelorMittal USA entity is referenced)
ATO	Australian Taxation Office
AusQuest	AusQuest Limited
BART	Best Available Retrofit Technology
Bloom Lake	The Bloom Lake Iron Ore Mine Limited Partnership
C.F.R.	Cost and Freight
CLCC	Cliffs Logan County Coal LLC
Cliffs Chromite Far North Inc.	Entity previously known as Spider Resources Inc.
Cliffs Chromite Ontario Inc.	Entity previously known as Freewest Resources Canada Inc.
Cockatoo Island	Cockatoo Island Joint Venture
Consolidated Thompson	Consolidated Thompson Iron Mining Limited (now known as Cliffs Quebec Iron Mining Limited)
CQIM	Cliffs Quebec Iron Mining Limited
CSAPR	U.S. Cross-State Air Pollution Rule
DEP	U.S. Department of Environment Protection
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Empire	Empire Iron Mining Partnership
EPA	U.S. Environmental Protection Agency
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
Fe	Iron
FIP	Federal Implementation Plan
FMSH Act	U.S. Federal Mine Safety and Health Act 1977
F.O.B.	Free on board
GAAP	Accounting principles generally accepted in the United States
GHG	Green house gas
Hibbing	Hibbing Taconite Company
IASB	International Accounting Standards Board
ICE Plan	Amended and Restated Cliffs 2007 Incentive Equity Plan, As Amended
Ispat	Ispat Inland Steel Company
LCM	Lower of cost or market
LIBOR	London Interbank Offered Rate
LTVSMC	LTV Steel Mining Company
MMBtu	Million British Thermal Units
MPCA	Minnesota Pollution Control Agency
MRRT	Minerals Resource Rent Tax

MSHA	Mine Safety and Health Administration
NDEP	Nevada Department of Environmental Protection
NO_2	Nitrogen dioxide
NO_x	Nitrogen oxide
Northshore	Northshore Mining Company
NOV	Notice of Violation
NPDES	National Pollutant Discharge Elimination System, authorized by the U.S. Clean Water Act

Table of Contents

Abbreviation or acronym	Term
NRD	Natural Resource Damages
Oak Grove	Oak Grove Resources, LLC
OCI	Other comprehensive income
OPEB	Other postretirement benefits
Pinnacle	Pinnacle Mining Company, LLC
Pluton Resources	Pluton Resources Limited
renewaFUEL	renewaFUEL, LLC (now known as Cliffs Michigan Biomass, LLC)
RTWG	Rio Tinto Working Group
SEC	United States Securities and Exchange Commission
Silver Bay Power	Silver Bay Power Company
SIP	State Implementation Plan
SO_2	Sulfur dioxide
Sonoma	Sonoma Coal Project
Tilden	Tilden Mining Company
TSR	Total Shareholder Return
United Taconite	United Taconite LLC
U.S.	United States of America
Wabush	Wabush Mines Joint Venture
WISCO	Wugang Canada Resources Investment Limited, a subsidiary of Wuhan Iron and Steel (Group) Corporation
2012 Equity Plan	Cliffs Natural Resources Inc 2012 Incentive Equity Plan

Table of Contents

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES
STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED OPERATIONS

	(In Millions, Except Per Share Amounts)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES FROM PRODUCT SALES AND SERVICES				
Product	$1,447.9	$2,070.7	$4,096.6	$4,790.8
Freight and venture partners' cost reimbursements	97.0	18.4	240.2	169.4
	1,544.9	2,089.1	4,336.8	4,960.2
COST OF GOODS SOLD AND OPERATING EXPENSES	(1,346.6)	(1,246.0)	(3,403.2)	(2,829.4)
SALES MARGIN	198.3	843.1	933.6	2,130.8
OTHER OPERATING INCOME (EXPENSE)				
Selling, general and administrative expenses	(63.9)	(61.3)	(202.6)	(164.4)
Consolidated Thompson acquisition costs	—	(2.1)	—	(25.0)
Exploration costs	(45.6)	(26.6)	(95.2)	(55.4)
Miscellaneous - net	(12.5)	64.0	25.5	59.4
	(122.0)	(26.0)	(272.3)	(185.4)
OPERATING INCOME	76.3	817.1	661.3	1,945.4
OTHER INCOME (EXPENSE)				
Changes in fair value of foreign currency contracts, net	—	(6.2)	0.3	100.5
Interest expense	(47.2)	(49.4)	(141.2)	(168.2)
Other non-operating income	3.3	0.9	6.2	6.7
	(43.9)	(54.7)	(134.7)	(61.0)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY INCOME (LOSS) FROM VENTURES	32.4	762.4	526.6	1,884.4
INCOME TAX (EXPENSE) BENEFIT	64.0	(3.7)	235.2	(287.2)
EQUITY INCOME (LOSS) FROM VENTURES	(15.3)	11.1	(22.7)	2.8
INCOME FROM CONTINUING OPERATIONS	81.1	769.8	739.1	1,600.0
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(2.7)	(16.8)	5.1	3.7
NET INCOME	78.4	753.0	744.2	1,603.7
LESS: INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	(6.7)	151.8	25.2	170.1
NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	$85.1	$601.2	$719.0	$1,433.6
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - BASIC				
Continuing operations	$0.62	$4.29	$5.02	$10.24
Discontinued operations	(0.02)	(0.12)	0.04	0.03
	$0.60	$4.17	$5.06	$10.27
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS -				

DILUTED				
Continuing operations	$0.61	$4.27	$5.00	$10.19
Discontinued operations	(0.02)	(0.12)	0.04	0.03
	$0.59	$4.15	$5.04	$10.22
AVERAGE NUMBER OF SHARES (IN THOUSANDS)				
Basic	142,396	144,203	142,332	139,563
Diluted	142,895	144,989	142,780	140,321
CASH DIVIDENDS DECLARED PER SHARE	$0.63	$0.28	$1.54	$0.56

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

Table of Contents

CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES
STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

	(In Millions)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	$85.1	$601.2	$719.0	$1,433.6
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Pension and OPEB liability	7.6	4.9	20.9	14.4
Unrealized net loss on marketable securities	(0.1)	(11.6)	(0.6)	(30.8)
Unrealized net gain (loss) on foreign currency translation	18.6	(132.2)	12.2	(74.8)
Unrealized net gain (loss) on derivative financial instruments	14.2	(16.7)	13.6	(13.5)
OTHER COMPREHENSIVE INCOME (LOSS)	40.3	(155.6)	46.1	(104.7)
LESS: OTHER COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE NONCONTROLLING INTEREST	1.5	(0.4)	4.5	0.5
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	$123.9	$446.0	$760.6	$1,328.4

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

Table of Contents

CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES
STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL POSITION

	(In Millions)	
	September 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$36.3	$519.3
Accounts receivable	285.9	287.9
Inventories	526.7	456.9
Supplies and other inventories	259.5	216.9
Derivative assets	78.3	82.1
Assets held for sale	156.6	159.9
Other current assets	322.1	188.2
TOTAL CURRENT ASSETS	1,665.4	1,911.2
PROPERTY, PLANT AND EQUIPMENT, NET	11,030.7	10,404.1
OTHER ASSETS		
Investments in ventures	517.0	526.6
Goodwill	1,167.2	1,152.1
Intangible assets, net	133.8	147.0
Deferred income taxes	612.3	209.5
Other non-current assets	170.4	191.2
TOTAL OTHER ASSETS	2,600.7	2,226.4
TOTAL ASSETS	$15,296.8	$14,541.7
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$422.1	$364.7
Accrued expenses	485.2	384.8
Taxes payable	84.7	324.5
Current portion of debt	369.7	74.8
Deferred revenue	125.1	126.6
Liabilities held for sale	29.7	25.9
Other current liabilities	197.8	200.8
TOTAL CURRENT LIABILITIES	1,714.3	1,502.1
POSTEMPLOYMENT BENEFIT LIABILITIES	603.3	665.8
ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS	226.3	213.2
DEFERRED INCOME TAXES	1,147.0	1,062.4
LONG-TERM DEBT	3,514.3	3,608.7
BELOW-MARKET SALES CONTRACTS, NET	83.8	111.8
OTHER LIABILITIES	318.6	338.0
TOTAL LIABILITIES	7,607.6	7,502.0
COMMITMENTS AND CONTINGENCIES		
EQUITY		
CLIFFS SHAREHOLDERS' EQUITY		
Common Shares - par value $0.125 per share		
Authorized - 400,000,000 shares (2011 - 400,000,000);		
Issued - 149,195,469 shares (2011 - 149,195,469 shares);		
Outstanding - 142,491,645 shares (2011 - 142,021,718 shares)	18.5	18.5
Capital in excess of par value of shares	1,766.2	1,770.8

Retained earnings	4,925.7	4,424.3
Cost of 6,703,824 common shares in treasury (2011 - 7,173,751 shares)	(322.6)	(336.0)
Accumulated other comprehensive loss	(51.0)	(92.6)
TOTAL CLIFFS SHAREHOLDERS' EQUITY	6,336.8	5,785.0
NONCONTROLLING INTEREST	1,352.4	1,254.7
TOTAL EQUITY	7,689.2	7,039.7
TOTAL LIABILITIES AND EQUITY	$15,296.8	$14,541.7

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

Table of Contents

CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES
STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED CASH FLOWS

	(In Millions) Nine Months Ended September 30,	
	2012	2011
OPERATING ACTIVITIES		
Net income	$744.2	$1,603.7
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation, depletion and amortization	382.3	306.3
Derivatives and currency hedges	12.0	(84.4)
Equity income (loss) in ventures (net of tax)	22.7	(2.8)
Deferred income taxes	(352.5)	(29.7)
Changes in deferred revenue and below-market sales contracts	(36.2)	(156.3)
Pensions and other postretirement benefits	(45.4)	(43.3)
Other	(10.3)	3.7
Changes in operating assets and liabilities:		
Receivables and other assets	(118.6)	(62.5)
Product inventories	(70.4)	(128.5)
Payables and accrued expenses	(252.3)	139.5
Net cash provided by operating activities	275.5	1,545.7
INVESTING ACTIVITIES		
Acquisition of Consolidated Thompson, net of cash acquired	—	(4,423.5)
Purchase of property, plant and equipment	(793.6)	(478.9)
Settlements in Canadian dollar foreign exchange contracts	—	93.1
Investment in Consolidated Thompson senior secured notes	—	(125.0)
Other investing activities	8.9	15.7
Net cash used by investing activities	(784.7)	(4,918.6)
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	—	853.7
Net proceeds from issuance of senior notes	—	998.1
Borrowings on term loan	—	1,250.0
Borrowings on bridge credit facility	—	750.0
Repayment of bridge credit facility	—	(750.0)
Repayment of term loan	(49.9)	(265.4)
Debt issuance costs	—	(54.8)
Borrowings under revolving credit facility	670.0	250.0
Repayment under revolving credit facility	(420.0)	—
Repayment of Consolidated Thompson convertible debentures	—	(337.2)
Payments under share buyback program	—	(221.9)
Contributions by joint ventures, net	68.8	—
Common stock dividends	(217.8)	(78.8)
Other financing activities	(23.9)	(27.1)
Net cash provided by financing activities	27.2	2,366.6
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(0.1)	(15.3)
DECREASE IN CASH AND CASH EQUIVALENTS	(482.1)	(1,021.6)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	521.6	1,566.7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$39.5	$545.1

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
See NOTE 21 - CASH FLOW INFORMATION.

CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with SEC rules and regulations and in the opinion of management, include all adjustments (consisting of normal recurring adjustments) necessary to present fairly, the financial position, results of operations, comprehensive income and cash flows for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management bases its estimates on various assumptions and historical experience, which are believed to be reasonable; however, due to the inherent nature of estimates, actual results may differ significantly due to changed conditions or assumptions. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of results to be expected for the year ended December 31, 2012 or any other future period. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

The unaudited condensed consolidated financial statements include our accounts and the accounts of our wholly owned and majority-owned subsidiaries, including the following operations:

Name	Location	Ownership Interest	Operation
Northshore	Minnesota	100.0%	Iron Ore
United Taconite	Minnesota	100.0%	Iron Ore
Wabush	Labrador/Quebec, Canada	100.0%	Iron Ore
Bloom Lake	Quebec, Canada	75.0%	Iron Ore
Tilden	Michigan	85.0%	Iron Ore
Empire	Michigan	79.0%	Iron Ore
Koolyanobbing	Western Australia	100.0%	Iron Ore
Pinnacle	West Virginia	100.0%	Coal
Oak Grove	Alabama	100.0%	Coal
CLCC	West Virginia	100.0%	Coal

Intercompany transactions and balances are eliminated upon consolidation.

Also included in our consolidated results are Cliffs Chromite Ontario Inc. and Cliffs Chromite Far North Inc., which have a 100 percent interest in the Black Label and Black Thor chromite deposits and a 70 percent interest in the Big Daddy chromite deposit, respectively, all located in Northern Ontario, Canada.

The following table presents the detail of our investments in unconsolidated ventures and where those investments are classified in the Statements of Unaudited Condensed Consolidated Financial Position as of September 30, 2012 and December 31, 2011. Parentheses indicate a net liability.

				(In Millions)	
Investment	Classification	Accounting Method	Interest Percentage	September 30, 2012	December 31, 2011
Amapá	Investments in ventures	Equity Method	30	$479.2	$498.6
Cockatoo	Other liabilities	Equity Method	50	(28.7)	(15.0)
Hibbing (1)	Investments in ventures	Equity Method	23	0.8	(6.8)
Other	Investments in ventures	Equity Method	Various	37.0	28.0
				$488.3	$504.8

(1) Recorded as Other liabilities at December 31, 2011.

Table of Contents

Cockatoo Island

In August 2011, we entered into a term sheet with our joint venture partner, HWE Cockatoo Pty Ltd., to sell our beneficial interest in the mining tenements and certain infrastructure of Cockatoo Island to Pluton Resources. On July 31, 2012, the parties entered into a definitive asset sale agreement, which was amended on August 31, 2012. On September 7, 2012, the closing date, Pluton Resources paid as consideration under the asset sale agreement, a nominal sum of AUD $4.00 and assumed ownership of the assets and responsibility for the environmental rehabilitation obligations and other assumed liabilities not inherently attached to the tenements acquired. With respect to those rehabilitation obligations and assumed liabilities that are inherently attached to the tenements, those obligations and liabilities will automatically transfer to, and be assumed by, Pluton Resources upon registration of each of the tenements in Pluton Resources' name. Registration of the tenements in Pluton Resources' name cannot occur until the Office of State Revenue assesses the amount of stamp duty payable by Pluton Resources. The duty assessment process is expected to be completed during the fourth quarter of 2012. As of September 30, 2012, our portion of the current estimated cost of the rehabilitation is approximately $24 million and will be extinguished upon registration of the tenements in Pluton Resources' name. Cliffs and HWE Cockatoo Pty Ltd. completed the current stage of mining, Phase 3, at Cockatoo Island on September 30, 2012.

Immaterial Errors

In September 2011, we noted an error in the accounting for the 21 percent noncontrolling interest in the Empire mine. In accordance with applicable GAAP, management quantitatively and qualitatively evaluated the materiality of the error and determined the error to be immaterial to the quarterly reports previously filed for the periods ended March 31, 2011 and June 30, 2011 and also immaterial for the quarterly report for the period ended September 30, 2011. Accordingly, all of the resulting adjustments were recorded prospectively in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2011 and the Statements of Unaudited Condensed Consolidated Financial Position as of September 30, 2011. The adjustment to record the noncontrolling interest related to the Empire mining venture of $84.0 million resulted in an increase to Income from Continuing Operations of $16.1 million, as a result of reductions in income tax expenses and a decrease to Net Income Attributable to Cliffs Shareholders of $67.9 million in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2011. The adjustments resulted in a decrease to basic and diluted earnings per common share of $0.47 per common share and $0.49 and $0.48 per common share for the three and nine months ended September 30, 2011, respectively. In addition, Retained Earnings was decreased by $67.9 million and Noncontrolling Interest was increased by $84.0 million in the Statements of Unaudited Condensed Consolidated Financial Position as of September 30, 2011.

In addition to the noncontrolling interest adjustment, the application of consolidation accounting for the Empire partnership arrangement also resulted in several financial statement line item reclassifications in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2011. Under the captive cost company accounting, we historically recorded the reimbursements for our venture partners' cost through Freight and venture partners' cost reimbursements, with a corresponding offset in Cost of goods sold and operating expenses in the Statements of Unaudited Condensed Consolidated Operations. Accordingly, we reclassified $46.0 million of revenues from Freight and venture partners' cost reimbursements to Product revenues in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2011. We also reclassified $54.1 million related to the ArcelorMittal price re-opener settlement recorded during the first quarter of 2011 from Cost of goods sold and operating expenses to Product revenues in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2011.

Table of Contents

Discontinued Operations

On July 10, 2012, we entered into a definitive share and asset sale agreement to sell our 45 percent economic interest in the Sonoma joint venture coal mine located in Queensland, Australia. The assets to be sold include our interests in the Sonoma mine along with our ownership of the affiliated washplant. Upon completion of the transaction, anticipated to close during the fourth quarter of 2012, we expect to collect approximately AUD $141.0 million in cash proceeds. As of September 30, 2012, we have reported the assets and related liabilities of the Sonoma operations as Assets held for sale and Liabilities held for sale in the Statements of Unaudited Condensed Consolidated Financial Position as of September 30, 2012 and December 31, 2011 and reflected the results of operations as discontinued operations in the Statements of Unaudited Condensed Consolidated Operations for all periods presented. The Sonoma operations historically were reported as the Asia Pacific Coal operating segment. Refer to NOTE 7 - DISCONTINUED OPERATIONS for additional information.

On September 27, 2011, we announced our plans to cease and dispose of the operations at the renewaFUEL biomass production facility in Michigan. On January 4, 2012, we entered into an agreement to sell the renewaFUEL assets to RNFL Acquisition, LLC. The results of operations of the renewaFUEL operations are reflected as discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented. We recorded a loss of $0.1 million as Income (Loss) from Discontinued Operations in the Statements of Unaudited Condensed Consolidated Operations for the nine months ended September 30, 2012. This compares to losses of $17.5 million and $18.7 million for the three and nine months ended September 30, 2011, which included a $16.7 million impairment charge, taken to write the renewaFUEL assets down to fair value.

Significant Accounting Policies

A detailed description of our significant accounting policies can be found in the audited financial statements for the fiscal year ended December 31, 2011, included in our Annual Report on Form 10-K filed with the SEC. There have been changes in our significant accounting policies from those disclosed therein. As disclosed in the March 31, 2012 Form 10-Q, the following significant accounting policies have been included within the disclosures below.

Revenue Recognition and Cost of Goods Sold and Operating Expenses

U.S. Iron Ore, Eastern Canadian Iron Ore and Asia Pacific Iron Ore

We sell our products pursuant to comprehensive supply agreements negotiated and executed with our customers. Revenue is recognized from a sale when persuasive evidence of an arrangement exists, the price is fixed or determinable, the product is delivered in accordance with F.O.B. terms, title and risk of loss have transferred to the customer in accordance with the specified provisions of each supply agreement and collection of the sales price reasonably is assured. Our U.S. Iron Ore, Eastern Canadian Iron Ore and Asia Pacific Iron Ore supply agreements provide that title and risk of loss transfer to the customer either upon loading of the vessel, shipment or, as is the case with some of our U.S. Iron Ore supply agreements, when payment is received. Under certain term supply agreements, we ship the product to ports on the lower Great Lakes or to the customers’ facilities prior to the transfer of title. Our rationale for shipping iron ore products to certain customers and retaining title until payment is received for these products is to minimize credit risk exposure.

Iron ore sales are recorded at a sales price specified in the relevant supply agreements resulting in revenue and a receivable at the time of sale. Upon revenue recognition for provisionally priced sales, a freestanding derivative is created for the difference between the sales price used and expected future settlement price. The derivative, which does not qualify for hedge accounting, is adjusted to fair value through Product revenues as a revenue adjustment each reporting period based upon current market data and forward-looking estimates determined by management until the final sales price is determined. The principal risks associated with recognition of sales on a provisional basis include iron ore price fluctuations between the date initially recorded and the date of final settlement. For revenue recognition, we estimate the future settlement rate; however, if significant changes in iron ore prices occur between the provisional pricing date and the final

Table of Contents

settlement date, we might be required to either return a portion of the sales proceeds received or bill for the additional sales proceeds due based on the provisional sales price. Refer to NOTE 3 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES for further information.

In addition, certain supply agreements with one customer include provisions for supplemental revenue or refunds based on the customer's annual steel pricing for the year the product is consumed in the customer's blast furnaces. We account for this provision as a derivative instrument at the time of sale and record this provision at fair value until the year the product is consumed and the amounts are settled as an adjustment to revenue. Refer to NOTE 3 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES for further information.

Revenue from product sales also includes reimbursement for freight charges paid on behalf of customers in Freight and venture partners' cost reimbursements separate from Product revenues. Revenue is recognized for the expected reimbursement of services when the services are performed.

Cost of goods sold and operating expenses represents all direct and indirect costs and expenses applicable to the sales and revenues of our mining operations. Operating expenses within this line item primarily represent the portion of the Tilden mining venture costs for which we do not own; that is, the costs attributable to the share of the mine's production owned by the other joint venture partner in the Tilden mine. The mining venture functions as a captive cost company; it supplies product only to its owners effectively on a cost basis. Accordingly, the noncontrolling interests' revenue amounts are stated at cost of production and are offset by an equal amount included in Cost of goods sold and operating expenses resulting in no sales margin reflected in the noncontrolling partner participant. As we are responsible for product fulfillment, we act as a principal in the transaction and, accordingly, record revenue under these arrangements on a gross basis.

Where we have joint ownership of a mine, our contracts entitle us to receive royalties and/or management fees, which we earn as the pellets are produced.

Recent Accounting Pronouncements

In May 2011, the FASB amended the guidance on fair value as a result of the joint efforts by the FASB and the IASB to develop a single, converged fair value framework. The amended fair value framework provides guidance on how to measure fair value and on what disclosures to provide about fair value measurements. The significant amendments to the fair value measurement guidance and the new disclosure requirements include: (1) the highest and best use and valuation premise for non-financial assets; (2) the application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risks; (3) premiums or discounts in fair value measurement; (4) fair value of an instrument classified in a reporting entity's shareholders' equity; (5) for Level 3 measurements, a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, a description of the valuation process in place and a narrative description of the sensitivity of the fair value to changes in the unobservable inputs and interrelationships between those inputs; and (6) the level in the fair value hierarchy of items that are not measured at fair value in the Statement of Financial Position but whose fair value must be disclosed. The new guidance is effective for interim and annual periods beginning after December 15, 2011. We adopted the amended guidance as of January 1, 2012. Refer to NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS for further information.

Table of Contents

NOTE 2 - SEGMENT REPORTING

Our Company's primary operations are organized and managed according to product category and geographic location: U.S. Iron Ore, Eastern Canadian Iron Ore, Asia Pacific Iron Ore, North American Coal, Asia Pacific Coal, Latin American Iron Ore, Ferroalloys and our Global Exploration Group. The U.S. Iron Ore segment is comprised of our interests in five U.S. mines that provide iron ore to the integrated steel industry. The Eastern Canadian Iron Ore segment is comprised of two Eastern Canadian mines that primarily provide iron ore to the seaborne market for Asian steel producers. The Asia Pacific Iron Ore segment is located in Western Australia and provides iron ore to the seaborne market for Asian steel producers. The North American Coal segment is comprised of our five metallurgical coal mines and one thermal coal mine that provide metallurgical coal primarily to the integrated steel industry and thermal coal primarily to the energy industry. There are no intersegment revenues.

The Asia Pacific Coal operating segment is comprised of our 45 percent economic interest in Sonoma, located in Queensland, Australia, which is expected to be sold during the fourth quarter of 2012. The Latin American Iron Ore operating segment is comprised of our 30 percent Amapá interest in Brazil. The Ferroalloys operating segment is comprised of our interests in chromite deposits held in Northern Ontario, Canada and the Global Exploration Group is focused on early involvement in exploration activities to identify new projects for future development or projects that add significant value to existing operations. The Asia Pacific Coal, Latin American Iron Ore, Ferroalloys and Global Exploration Group operating segments do not meet reportable segment disclosure requirements and therefore are not reported separately.

We evaluate segment performance based on sales margin, defined as revenues less cost of goods sold and operating expenses identifiable to each segment. This measure of operating performance is an effective measurement as we focus on reducing production costs throughout the Company.

Table of Contents

The following table presents a summary of our reportable segments for the three and nine months ended September 30, 2012 and 2011:

	(In Millions)							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Revenues from product sales and services:								
U.S. Iron Ore	$796.0	52 %	$1,106.7	52 %	$1,942.7	45 %	$2,502.0	49 %
Eastern Canadian Iron Ore	253.1	16 %	517.3	24 %	777.8	18 %	942.2	18 %
Asia Pacific Iron Ore	254.2	16 %	400.1	19 %	975.3	22 %	1,127.1	22 %
North American Coal	241.8	16 %	64.0	3 %	640.9	15 %	388.7	8 %
Other	(0.2)	— %	1.0	2 %	0.1	— %	0.2	3 %
Total revenues from product sales and services	$1,544.9	100 %	$2,089.1	100 %	$4,336.8	100 %	$4,960.2	100 %
Sales margin:								
U.S. Iron Ore	$255.9		$481.3		$708.9		$1,283.7	
Eastern Canadian Iron Ore	(40.5)		191.0		(43.0)		293.5	
Asia Pacific Iron Ore	(15.8)		214.6		256.1		615.4	
North American Coal	(1.3)		(42.7)		3.8		(60.4)	
Other	—		(1.1)		7.8		(1.4)	
Sales margin	198.3		843.1		933.6		2,130.8	
Other operating expense	(122.0)		(26.0)		(272.3)		(185.4)	
Other expense	(43.9)		(54.7)		(134.7)		(61.0)	
Income from continuing operations before income taxes and equity income (loss) from ventures	$32.4		$762.4		$526.6		$1,884.4	
Depreciation, depletion and amortization:								
U.S. Iron Ore	$24.9		$23.0		$71.9		$62.5	
Eastern Canadian Iron Ore	41.7		43.2		118.2		84.5	
Asia Pacific Iron Ore	40.2		25.4		110.0		74.3	
North American Coal	25.1		19.7		69.5		62.1	
Other	1.0		8.4		12.7		22.9	
Total depreciation, depletion and amortization	$132.9		$119.7		$382.3		$306.3	
Capital additions (1):								
U.S. Iron Ore	$19.6		$28.5		$82.5		$115.8	
Eastern Canadian Iron Ore	285.5		103.3		593.4		167.5	
Asia Pacific Iron Ore	5.8		57.3		132.0		140.6	
North American Coal	33.3		60.3		105.1		116.3	
Other	10.3		6.5		61.0		13.1	
Total capital additions	$354.5		$255.9		$974.0		$553.3	

(1) Includes capital lease additions and non-cash accruals. Refer to NOTE 21 - CASH FLOW INFORMATION

Table of Contents

A summary of assets by segment is as follows:

	(In Millions)	
	September 30, 2012	December 31, 2011
Segment assets:		
U.S. Iron Ore	$1,841.4	$1,691.8
Eastern Canadian Iron Ore	8,307.7	7,973.1
Asia Pacific Iron Ore	1,864.8	1,511.2
North American Coal	1,904.6	1,814.4
Other	960.2	1,017.6
Total segment assets	14,878.7	14,008.1
Corporate	418.1	533.6
Total assets	$15,296.8	$14,541.7

Table of Contents

NOTE 3 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The following table presents the fair value of our derivative instruments and the classification of each in the Statements of Unaudited Condensed Consolidated Financial Position as of September 30, 2012 and December 31, 2011:

	(In Millions)							
	Derivative Assets				Derivative Liabilities			
	September 30, 2012		December 31, 2011		September 30, 2012		December 31, 2011	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:								
Foreign Exchange Contracts	Derivative assets	$22.4	Derivative assets	$5.2	Other current liabilities	$1.3	Other current liabilities	$3.5
Total derivatives designated as hedging instruments under ASC 815		$22.4		$5.2		$1.3		$3.5
Derivatives not designated as hedging instruments under ASC 815:								
Foreign Exchange Contracts		$—	Derivative assets	$2.8		$—		$—
Foreign Exchange Contracts	Assets held for sale	1.1		—		—		—
Customer Supply Agreements	Derivative assets	54.5	Derivative assets	72.9		—		—
Provisional Pricing Arrangements	Derivative assets	1.4	Derivative assets	1.2	Other current liabilities	11.7	Other current liabilities	19.5
		—	Accounts receivable	83.8		—		—
Total derivatives not designated as hedging instruments under ASC 815		$57.0		$160.7		$11.7		$19.5
Total derivatives		$79.4		$165.9		$13.0		$23.0

Derivatives Designated as Hedging Instruments

Cash Flow Hedges

Australian and Canadian Dollar Foreign Exchange Contracts

We are subject to changes in foreign currency exchange rates as a result of our operations in Australia and Canada. With respect to Australia, foreign exchange risk arises from our exposure to fluctuations in foreign currency exchange rates because the functional currency of our Asia Pacific operations is the Australian dollar. Our Asia Pacific operations receive funds in U.S. currency for their iron ore and coal sales. The functional currency of our Canadian operations is the U.S. dollar; however, the production costs for these operations primarily are incurred in the Canadian dollar.

We use foreign currency exchange contracts to hedge our foreign currency exposure for a portion of our U.S. dollar sales receipts in our Australian functional currency entities and our Canadian dollar operating costs. For our Australian operations, U.S. dollars are converted to Australian dollars at the currency exchange rate in effect during

the period the transaction occurred. For our Canadian operations, U.S. dollars are converted to Canadian dollars at the exchange rate in effect for the period the operating costs are incurred. The primary objective for the use of these instruments is to reduce exposure to changes in Australian and U.S. currency exchange rates and U.S. and Canadian currency exchange rates, respectively, and to protect against undue adverse movement in these exchange rates. These instruments qualify for hedge accounting treatment, and are tested for effectiveness at inception and at least once each reporting period. If and when any of our hedge contracts are determined not to be highly effective as hedges, the underlying hedged transaction is no longer likely to occur, or the derivative is terminated, hedge accounting is discontinued.

Table of Contents

As of September 30, 2012, we had outstanding Australian and Canadian foreign currency exchange contracts with notional amounts of $420.0 million and $645.7 million, respectively, in the form of forward contracts with varying maturity dates ranging from October 2012 to September 2013. This compares with outstanding Australian foreign currency exchange contracts with a notional amount of $400.0 million as of December 31, 2011. There were no outstanding Canadian foreign currency exchange contracts as of December 31, 2011, as we did not begin entering into Canadian foreign currency exchange contracts until January 2012.

Changes in fair value of highly effective hedges are recorded as a component of Accumulated other comprehensive loss in the Statements of Unaudited Condensed Consolidated Financial Position. Any ineffectiveness is recognized immediately in income and for the three and nine months ended September 30, 2012 and 2011, there was no material ineffectiveness recorded for these foreign exchange contracts. Amounts recorded as a component of Accumulated other comprehensive loss are reclassified into earnings in the same period the forecasted transaction affects earnings. Of the amounts remaining in Accumulated other comprehensive loss related to Australian hedge contracts and Canadian hedge contracts, we estimate that gains of $8.7 million and $6.2 million (net of tax), respectively, will be reclassified into earnings within the next 12 months.

The following summarizes the effect of our derivatives designated as hedging instruments, net of tax in Accumulated other comprehensive loss and the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2012 and 2011:

	(In Millions)				
Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain Reclassified from Accumulated OCI into Income (Effective Portion)	
	Three Months Ended September 30,			Three Months Ended September 30,	
	2012	2011		2012	2011
Australian Dollar Foreign Exchange Contracts (hedge designation)	$1.4	$(15.2)	Product revenues	$5.1	$1.5
Canadian Dollar Foreign Exchange Contracts (hedge designation)	11.3	—	Cost of goods sold and operating expenses	1.3	—
Total	$12.7	$(15.2)		$6.4	$1.5
	Nine Months Ended September 30,			Nine Months Ended September 30,	
	2012	2011		2012	2011
Australian Dollar Foreign Exchange Contracts (hedge designation)	$7.5	$(10.3)	Product revenues	$7.8	$2.5
Canadian Dollar Foreign Exchange Contracts (hedge designation)	6.2	—	Cost of goods sold and operating expenses	1.6	—
Australian Dollar Foreign Exchange Contracts (prior to de-designation)	—	—	Product revenues	—	0.7
Total	$13.7	$(10.3)		$9.4	$3.2

Interest Rate Risk Management

Interest rate risk is managed using a portfolio of variable- and fixed-rate debt composed of short- and long-term instruments, such as U.S. treasury lock agreements and interest rate swaps. From time to time these instruments, which are derivative instruments, are entered into to facilitate the maintenance of the desired ratio of variable- and fixed-rate debt. These derivative instruments are designated and qualify as cash flow hedges. These instruments did not have a material impact on our financial statements as of and for the three and nine months ended September 30, 2012.

Derivatives Not Designated as Hedging Instruments

Australian Dollar Foreign Exchange Contracts

On July 10, 2012, we entered into a definitive share and asset sale agreement to sell our 45 percent economic interest in the Sonoma joint venture coal mine located in Queensland, Australia. The assets to be sold include our interests in the Sonoma mine along with our ownership of the affiliated wash plant. We hedged the Sonoma sale price on the open market by entering into foreign currency exchange forward contracts with a notional amount of AUD $141.0 million. The hedge contracts were considered economic hedges, which do not qualify for hedge accounting. The forward contracts have a maturity date of November 13, 2012. These instruments are prospectively marked to fair value each reporting period through Income (Loss) from Discontinued Operations on the Statements of Unaudited Condensed Consolidated Operations. For the three and nine months ended September 30, 2012, the change in fair value of these forward contracts resulted in net unrealized gains of $1.1 million based on the Australian to U.S. dollar spot rate of 1.04 at September 30, 2012. Current Assets held for sale of $1.1 million, representing the fair value of the contracts was recorded on September 30, 2012 in the Statements of Unaudited Condensed Consolidated Financial Position.

Canadian Dollar Foreign Exchange Contracts and Options

On January 11, 2011, we entered into a definitive agreement with Consolidated Thompson to acquire all of its common shares in an all-cash transaction, including net debt. We hedged a portion of the purchase price on the open market by entering into foreign currency exchange forward contracts and an option contract with a combined notional amount of C$4.7 billion. The hedge contracts were considered economic hedges, which do not qualify for hedge accounting. The forward contracts had various maturity dates and the option contract had a maturity date of April 14, 2011.

During the first half of 2011, swaps were executed in order to extend the maturity dates of certain of the forward contracts through the consummation of the Consolidated Thompson acquisition and the repayment of the Consolidated Thompson convertible debentures. These swaps and the maturity of the forward contracts resulted in net realized gains of $93.1 million recognized through Changes in fair value of foreign currency contracts, net in the Statements of Unaudited Condensed Consolidated Operations for the nine months ended September 30, 2011.

Customer Supply Agreements

Most of our U.S. Iron Ore long-term supply agreements are comprised of a base price with annual price adjustment factors, some of which are subject to annual price collars in order to limit the percentage increase or decrease in prices for our iron ore pellets during any given year. The price adjustment factors vary based on the agreement but typically include adjustments based upon changes in international pellet prices and changes in specified Producer Price indices including those for all commodities, industrial commodities, energy and steel. The adjustments generally operate in the same manner, with each factor typically comprising a portion of the price adjustment, although the weighting of each factor varies based upon the specific terms of each agreement. The price adjustment factors have been evaluated to determine if they contain embedded derivatives. The price adjustment factors share the same economic characteristics and risks as the host contract and are integral to the host contract as inflation adjustments; accordingly, they have not been separately valued as derivative instruments.

Table of Contents

Certain supply agreements with one U.S. Iron Ore customer provide for supplemental revenue or refunds to the customer based on the customer's average annual steel pricing at the time the product is consumed in the customer's blast furnace. The supplemental pricing is characterized as a freestanding derivative and is required to be accounted for separately once the product is shipped. The derivative instrument, which is finalized based on a future price, is adjusted to fair value as a revenue adjustment each reporting period until the pellets are consumed and the amounts are settled. We recognized $49.8 million and $131.8 million, respectively, as Product revenues in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2012, related to the supplemental payments. This compares with Product revenues of $53.8 million and $124.9 million, respectively, for the comparable periods in 2011. Derivative assets, representing the fair value of the pricing factors, were $54.5 million and $72.9 million, respectively, in the September 30, 2012 and December 31, 2011 Statements of Unaudited Condensed Consolidated Financial Position.

Provisional Pricing Arrangements

Certain of our U.S. Iron Ore, Eastern Canadian Iron Ore and Asia Pacific Iron Ore customer supply agreements specify provisional price calculations, where the pricing mechanisms generally are based on market pricing, with the final sales price to be based on market inputs at a specified point in time in the future, per the terms of the supply agreements. The difference between the provisionally agreed-upon price and the estimated final sales price is characterized as a derivative and is required to be accounted for separately once the revenue has been recognized. The derivative instrument is adjusted to fair value through Product revenues each reporting period based upon current market data and forward-looking estimates provided by management until the final sales price is determined. We have recorded $1.4 million as Derivative assets and $11.7 million as derivative liabilities included in Other current liabilities in the Statements of Unaudited Condensed Consolidated Financial Position at September 30, 2012 related to our estimate of final sales price with our U.S. Iron Ore and Eastern Canadian Iron Ore customers. These amounts represent the difference between the provisional price agreed upon with our customers based on the supply agreement terms and our estimate of the final sales price based on the price calculations established in the supply agreements. As a result, we recognized a net $10.3 million as a decrease in Product revenues in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2012 related to these arrangements. At December 31, 2011, we did not have any derivative assets or liabilities recorded due to these arrangements.

In instances when we were still working to revise components of the pricing calculations referenced within our supply agreements to incorporate new market inputs to the pricing mechanisms, we record certain shipments made to customers based on an agreed-upon provisional price. The shipments were recorded based on the provisional price until settlement of the market inputs to the pricing mechanisms are finalized. The lack of agreed-upon market inputs results in these provisional prices being characterized as derivatives. The derivative instrument, which is settled and billed or credited once the determinations of the market inputs to the pricing mechanisms are finalized, is adjusted to fair value through Product revenues each reporting period based upon current market data and forward-looking estimates determined by management. During the third quarter, we reached final pricing settlements on the customer supply agreements in which components of the pricing calculations were still being revised. As such, at September 30, 2012, no shipments were recorded based upon this type of provisional pricing. For the three and nine months ended September 30, 2011, we recognized $193.0 million and $623.5 million, respectively, as an increase in Product revenues in the Statements of Unaudited Condensed Consolidated Operations under the pricing provisions for certain shipments to U.S. Iron Ore and Eastern Canadian Iron Ore customers as we were still in the process of revising the terms of the related customer supply agreements. At December 31, 2011, we recorded $1.2 million Derivative assets, $19.5 million derivative liabilities included in Other current liabilities and $83.8 million Accounts receivable in the Statements of Unaudited Condensed Consolidated Financial Position related to these types of provisional pricing arrangements with various U.S. Iron Ore and Eastern Canadian Iron Ore customers.

Table of Contents

The following summarizes the effect of our derivatives that are not designated as hedging instruments in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2012 and 2011:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	(In Millions) Amount of Gain (Loss) Recognized in Income on Derivative			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
Foreign Exchange Contracts	Product revenues	$—	$—	$—	$1.0
Foreign Exchange Contracts	Other income (expense)	—	(6.2)	0.3	100.5
Foreign Exchange Contracts	Income (Loss) from Discontinued Operations	1.1	—	1.1	—
Customer Supply Agreements	Product revenues	49.8	53.8	131.8	124.9
Provisional Pricing Arrangements	Product revenues	(10.3)	193.0	(10.3)	623.5
Total		$40.6	$240.6	$122.9	$849.9

Refer to NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS for additional information.

NOTE 4 - INVENTORIES

The following table presents the detail of our Inventories in the Statements of Unaudited Condensed Consolidated Financial Position as of September 30, 2012 and December 31, 2011:

Segment	(In Millions) September 30, 2012			December 31, 2011		
	Finished Goods	Work-in Process	Total Inventory	Finished Goods	Work-in Process	Total Inventory
U.S. Iron Ore	$182.7	$46.8	$229.5	$100.2	$8.5	$108.7
Eastern Canadian Iron Ore	77.7	37.6	115.3	96.2	43.0	139.2
Asia Pacific Iron Ore	21.7	41.8	63.5	57.2	21.6	78.8
North American Coal	57.7	60.7	118.4	19.7	110.5	130.2
Total	$339.8	$186.9	$526.7	$273.3	$183.6	$456.9

At our North American Coal operating segment, we recorded lower of cost or market inventory charges of $8.0 million and $17.9 million in Cost of goods sold and operating expenses in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2012, respectively, due to market prices for coal. No lower of cost or market inventory adjustments were recorded for the three and nine months ended September 30, 2011.

Table of Contents

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following table indicates the value of each of the major classes of our consolidated depreciable assets as of September 30, 2012 and December 31, 2011:

	(In Millions)	
	September 30, 2012	December 31, 2011
Land rights and mineral rights	$7,952.1	$7,868.7
Office and information technology	83.3	66.8
Buildings	143.0	132.2
Mining equipment	1,318.9	1,323.8
Processing equipment	1,839.4	1,311.6
Railroad equipment	224.3	161.6
Electric power facilities	58.8	57.9
Port facilities	112.1	64.1
Interest capitalized during construction	32.2	22.5
Land improvements	43.3	30.4
Other	31.9	43.2
Construction in progress	844.4	612.8
	12,683.7	11,695.6
Allowance for depreciation and depletion	(1,653.0)	(1,291.5)
	$11,030.7	$10,404.1

We recorded depreciation and depletion expense of $127.7 million and $364.9 million in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2012, respectively. This compares with depreciation and depletion expense of $109.6 million and $279.7 million for the three and nine months ended September 30, 2011.

NOTE 6 - ACQUISITIONS

Acquisitions

We allocate the cost of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. Any excess of cost over the fair value of the net assets acquired is recorded as goodwill.

Consolidated Thompson

On May 12, 2011, we completed our acquisition of Consolidated Thompson by acquiring all of the outstanding common shares of Consolidated Thompson for C$17.25 per share in an all-cash transaction, including net debt, pursuant to the terms of an arrangement agreement dated as of January 11, 2011. Upon the acquisition: (a) each outstanding Consolidated Thompson common share was acquired for a cash payment of C$17.25; (b) each outstanding option and warrant that was “in the money” was acquired for cancellation for a cash payment of C$17.25 less the exercise price per underlying Consolidated Thompson common share; (c) each outstanding performance share unit was acquired for cancellation for a cash payment of C$17.25; (d) all outstanding Quinto Mining Corporation rights to acquire common shares of Consolidated Thompson were acquired for cancellation for a cash payment of C$17.25 per underlying Consolidated Thompson common share; and (e) certain Consolidated Thompson management contracts were eliminated that contained certain change of control provisions for contingent payments upon termination. The acquisition date fair value of the consideration transferred totaled $4.6 billion. Our full ownership of Consolidated Thompson has been included in the unaudited condensed consolidated financial statements since the acquisition date and the subsidiary CQIM is reported as a component of our Eastern Canadian Iron Ore segment.

Table of Contents

The acquisition of Consolidated Thompson reflects our strategy to build scale by owning expandable and exportable steelmaking raw material assets serving international markets. Through our acquisition of Consolidated Thompson, we now own and operate an iron ore mine and processing facility near Bloom Lake in Quebec, Canada that produces iron ore concentrate of high quality. WISCO is a 25 percent partner in the Bloom Lake mine. We also own additional development properties, primarily Lamêlée and Peppler Lake, in Quebec. All of these properties are in proximity to our existing Canadian operations and will allow us to leverage our port facilities and supply this iron ore to the seaborne market. The acquisition also is expected to further diversify our existing customer base.

The following table summarizes the consideration paid for Consolidated Thompson and the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. We finalized the purchase price allocation for the acquisition of Consolidated Thompson during the second quarter of 2012.

	(In Millions)		
	Initial Allocation	Final Allocation	Change
Consideration			
Cash	$4,554.0	$4,554.0	$—
Fair value of total consideration transferred	$4,554.0	$4,554.0	$—
Recognized amounts of identifiable assets acquired and liabilities assumed			
ASSETS:			
Cash	$130.6	$130.6	$—
Accounts receivable	102.8	102.4	(0.4)
Product inventories	134.2	134.2	—
Other current assets	35.1	35.1	—
Mineral rights	4,450.0	4,825.6	375.6
Property, plant and equipment	1,193.4	1,193.4	—
Intangible assets	2.1	2.1	—
Total identifiable assets acquired	6,048.2	6,423.4	375.2
LIABILITIES:			
Accounts payable	(13.6)	(13.6)	—
Accrued liabilities	(130.0)	(123.8)	6.2
Convertible debentures	(335.7)	(335.7)	—
Other current liabilities	(41.8)	(47.9)	(6.1)
Long-term deferred tax liabilities	(831.5)	(1,041.8)	(210.3)
Senior secured notes	(125.0)	(125.0)	—
Capital lease obligations	(70.7)	(70.7)	—
Other long-term liabilities	(25.1)	(32.8)	(7.7)
Total identifiable liabilities assumed	(1,573.4)	(1,791.3)	(217.9)
Total identifiable net assets acquired	4,474.8	4,632.1	157.3
Noncontrolling interest in Bloom Lake	(947.6)	(1,075.4)	(127.8)
Goodwill	1,026.8	997.3	(29.5)
Total net assets acquired	$4,554.0	$4,554.0	$—

Table of Contents

Included in the changes to the initial purchase price allocation for Consolidated Thompson, which was performed during the second quarter of 2011, are changes recorded in the first quarter of 2012, when we further refined the fair value of the assets acquired and liabilities assumed. The acquisition date fair value was adjusted to record a $16.4 million increase related to pre-acquisition date Quebec mining duties tax. We recorded $6.1 million and $10.3 million as increases to current and long-term liabilities, respectively. This resulted in a reduction of our calculated minimum distribution payable to the minority partner by $2.6 million. These adjustments resulted in a net $13.8 million increase to our goodwill during the period. As our fair value estimates remained materially unchanged from December 31, 2011, the immaterial adjustments made to the initial purchase price allocation during the first quarter of 2012 were recorded in that period. All other changes to the initial allocation were recorded retrospectively to the acquisition date. During the second quarter of 2012, no further adjustments were recorded when the allocation was finalized.

During 2011, subsequent to the initial purchase price allocation for Consolidated Thompson, we adjusted the fair values of the assets acquired and liabilities assumed. Based on this process, the acquisition date fair value of the Consolidated Thompson mineral rights, deferred tax liability and noncontrolling interest in Bloom Lake were adjusted to $4,825.6 million, $1,041.8 million and $1,075.4 million, respectively, in the revised purchase price allocation during the fourth quarter of 2011. The change in mineral rights was caused by further refinements to the valuation model, most specifically as it related to potential tax structures that have value from a market participant standpoint and the risk premium used in determining the discount rate. The change in the deferred tax liability primarily was a result of the movement in the mineral rights value and obtaining additional detail of the acquired tax basis in the acquired assets and liabilities. Finally, the change in the noncontrolling interest in Bloom Lake was due to the change in mineral rights and a downward adjustment to the discount for lack of control being used in the valuation. A complete comparison of the initial and final purchase price allocation has been provided in the table above.

The fair value of the noncontrolling interest in the assets acquired and liabilities assumed in Bloom Lake has been allocated proportionately, based upon WISCO’s 25 percent interest in Bloom Lake. We then reduced the allocated fair value of WISCO’s ownership interest in Bloom Lake to reflect the noncontrolling interest discount.

The $997.3 million of goodwill resulting from the acquisition has been assigned to our Eastern Canadian Iron Ore business segment through the CQIM reporting unit. Management believes the goodwill recognized primarily is attributable to the proximity to our existing Canadian operations and potential for future expansion in Eastern Canada, which will allow us to leverage our port facilities and supply iron ore to the seaborne market. None of the goodwill is expected to be deductible for income tax purposes. Refer to NOTE 8 - GOODWILL AND OTHER INTANGIBLE ASSETS AND LIABILITIES for further information.

The following unaudited consolidated pro forma information summarizes the results of operations for the three and nine months ended September 30, 2011 as if the Consolidated Thompson acquisition and the related financing had been completed as of January 1, 2010. The pro forma information gives effect to actual operating results prior to the acquisition. The unaudited consolidated pro forma information does not purport to be indicative of the results that actually would have been obtained if the acquisition of Consolidated Thompson had occurred as of the beginning of the periods presented or that may be obtained in the future.

	(In Millions, Except Per Common Share)	
	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
REVENUES FROM PRODUCT SALES AND SERVICES	$2,089.1	$5,168.6
NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	$607.3	$1,439.2
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - BASIC	$4.21	$10.31
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - DILUTED	$4.19	$10.26

21

Table of Contents

NOTE 7 - DISCONTINUED OPERATIONS

The tables below set forth selected financial information related to assets and liabilities held for sale and operating results of our business classified as discontinued operations. Assets and liabilities held for sale represent the assets that are expected to be sold and liabilities expected to be assumed. While the reclassification of revenues and expenses related to discontinued operations for prior periods have no impact upon previously reported net income, the Statements of Unaudited Condensed Consolidated Operations present the revenues and expenses that were reclassified from the specified line items to discontinued operations.

The following table presents Statements of Unaudited Condensed Consolidated Financial Position data of the Sonoma operations:

	(In Millions)	
	September 30, 2012	December 31, 2011
ASSETS HELD FOR SALE		
Cash and cash equivalents	$3.2	$2.3
Accounts receivable	10.1	16.3
Inventories	20.3	18.8
Other current assets	8.1	2.0
Property, plant and equipment, net	114.9	120.5
Assets held for sale	$156.6	$159.9
LIABILITIES HELD FOR SALE		
Accounts payable	$19.4	$15.6
Accrued expenses	1.1	1.5
Environmental and mine closure obligations	9.2	8.8
Liabilities held for sale	$29.7	$25.9

The following table presents detail of our operations related to our Sonoma operations in the Statements of Unaudited Condensed Consolidated Operations:

	(In Millions)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES FROM PRODUCT SALES AND SERVICES				
Product	$42.6	$53.7	$141.6	$171.6
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	$(2.7)	$0.7	$5.2	$22.4

Table of Contents

NOTE 8 - GOODWILL AND OTHER INTANGIBLE ASSETS AND LIABILITIES

Goodwill

The following table summarizes changes in the carrying amount of goodwill allocated by operating segment for the nine months ended September 30, 2012 and the year ended December 31, 2011:

	(In Millions)										
	September 30, 2012					December 31, 2011 [1]					
	U.S. Iron Ore	Eastern Canadian Iron Ore	Asia Pacific Iron Ore	Other	Total	U.S. Iron Ore	Eastern Canadian Iron Ore	Asia Pacific Iron Ore	North American Coal	Other	Total
Beginning Balance	$2.0	$986.2	$83.0	$80.9	$1,152.1	$2.0	$3.1	$82.6	$ 27.9	$80.9	$196.5
Arising in business combinations	—	13.8	—	—	13.8	—	983.5	—	(0.1)	—	983.4
Impairment	—	—	—	—	—	—	—	—	(27.8)	—	(27.8)
Impact of foreign currency translation	—	—	1.3	—	1.3	—	—	0.4	—	—	0.4
Other	—	—	—	—	—	—	(0.4)	—	—	—	(0.4)
Ending Balance	$2.0	$1,000.0	$84.3	$80.9	$1,167.2	$2.0	$986.2	$83.0	$ —	$80.9	$1,152.1

(1) Represents a 12-Month rollforward of our goodwill by reportable segment at December 31, 2011.

Goodwill is not subject to amortization and is tested for impairment annually as of October 1st or when events or circumstances indicate that impairment may have occurred.

Other Intangible Assets and Liabilities

Following is a summary of intangible assets and liabilities as of September 30, 2012 and December 31, 2011:

		(In Millions)					
		September 30, 2012			December 31, 2011		
	Classification	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:							
Permits	Intangible assets, net	$135.3	$(28.9)	$106.4	$134.3	$(23.2)	$111.1
Utility contracts	Intangible assets, net	54.7	(29.7)	25.0	54.7	(21.3)	33.4
Leases	Intangible assets, net	5.5	(3.1)	2.4	5.5	(3.0)	2.5
Total intangible assets		$195.5	$(61.7)	$133.8	$194.5	$(47.5)	$147.0
Below-market sales contracts	Other current liabilities	$(46.0)	$—	$(46.0)	$(77.0)	$24.3	$(52.7)
Below-market sales contracts	Below-market sales contracts, net	(250.7)	166.9	(83.8)	(252.3)	140.5	(111.8)
Total below-market sales contracts		$(296.7)	$166.9	$(129.8)	$(329.3)	$164.8	$(164.5)

The intangible assets are subject to periodic amortization on a straight-line basis over their estimated useful lives as follows:

Intangible Asset	Useful Life (years)

Permits	15 - 28
Utility contracts	5
Leases	1.5 - 4.5

Table of Contents

Amortization expense relating to intangible assets was $4.8 million and $14.1 million, respectively, for the three and nine months ended September 30, 2012, and is recognized in Cost of goods sold and operating expenses in the Statements of Unaudited Condensed Consolidated Operations. Amortization expense relating to intangible assets was $3.3 million and $12.5 million, respectively, for the comparable periods in 2011. The estimated amortization expense relating to intangible assets for the remainder of 2012 and each of the five succeeding years is as follows:

	(In Millions) Amount
Year Ending December 31	
2012 (remaining three months)	$4.5
2013	17.9
2014	17.9
2015	6.0
2016	6.0
2017	6.0
Total	$58.3

The below-market sales contracts are classified as a liability and recognized over the terms of the underlying contracts, which have remaining lives ranging from two to five years. For the three and nine months ended September 30, 2012, we recognized $14.7 million and $31.3 million, respectively, in Product revenues related to the below-market sales contracts, compared with $16.7 million and $40.4 million, respectively, for the three and nine months ended September 30, 2011. The following amounts are estimated to be recognized in Product revenues for each of the five succeeding fiscal years:

	(In Millions) Amount
Year Ending December 31	
2012 (remaining three months)	$14.7
2013	46.0
2014	23.1
2015	23.0
2016	23.0
2017	—
Total	$129.8

Table of Contents

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following represents the assets and liabilities of the Company measured at fair value at September 30, 2012 and December 31, 2011:

	(In Millions)				
	September 30, 2012				
Description	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Total
Assets:					
Derivative assets	$—	$—	$55.9		$55.9
International marketable securities	25.3	—	—		25.3
Foreign exchange contracts	—	23.5	—		23.5
Total	$25.3	$23.5	$55.9		$104.7
Liabilities:					
Derivative liabilities	$—	$—	$11.7		$11.7
Foreign exchange contracts	—	1.3	—		1.3
Total	$—	$1.3	$11.7		$13.0

	(In Millions)				
	December 31, 2011				
Description	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Total
Assets:					
Cash equivalents	$351.2	$—	$—		$351.2
Derivative assets	—	—	157.9	(1)	157.9
International marketable securities	27.1	—	—		27.1
Foreign exchange contracts	—	8.0	—		8.0
Total	$378.3	$8.0	$157.9		$544.2
Liabilities:					
Derivative liabilities	$—	$—	$19.5		$19.5
Foreign exchange contracts	—	3.5	—		3.5
Total	$—	$3.5	$19.5		$23.0

(1)Derivative assets includes $83.8 million classified as Accounts receivable in the Statements of Unaudited Condensed Consolidated Financial Position as of December 31, 2011. Refer to NOTE 3 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES for further information.

Financial assets classified in Level 1 at September 30, 2012 include available-for-sale marketable securities and at December 31, 2011 they include money market funds and available-for-sale marketable securities. The valuation of these instruments is based upon unadjusted quoted prices for identical assets in active markets.

The valuation of financial assets and liabilities classified in Level 2 is determined using a market approach based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable. Level 2 securities primarily include derivative financial instruments valued using financial models that use as their basis readily observable market parameters. At September 30, 2012 and

25

Table of Contents

December 31, 2011, such derivative financial instruments included our existing foreign currency exchange contracts. The fair value of the foreign currency exchange contracts is based on forward market prices and represents the estimated amount we would receive or pay to terminate these agreements at the reporting date, taking into account creditworthiness, nonperformance risk and liquidity risks associated with current market conditions.

The derivative financial assets classified within Level 3 at September 30, 2012 and December 31, 2011 included a freestanding derivative instrument related to certain supply agreements with one of our U.S. Iron Ore customers. The agreements include provisions for supplemental revenue or refunds based on the customer’s annual steel pricing at the time the product is consumed in the customer’s blast furnaces. We account for this provision as a derivative instrument at the time of sale and adjust this provision to fair value as an adjustment to Product revenues each reporting period until the product is consumed and the amounts are settled. The fair value of the instrument is determined using a market approach based on an estimate of the annual realized price of hot-rolled steel at the steelmaker’s facilities, and takes into consideration current market conditions and nonperformance risk.

The Level 3 derivative assets and liabilities at September 30, 2012 also consisted of derivatives related to certain provisional pricing arrangements with our U.S. Iron Ore and Eastern Canadian Iron Ore customers. These provisional pricing arrangements specify provisional price calculations, where the pricing mechanisms generally are based on market pricing, with the final sales price to be based on market inputs at a specified point in time in the future, per the terms of the supply agreements. The difference between the provisionally agreed-upon price and the estimated final sales price is characterized as a derivative and is required to be accounted for separately once the revenue has been recognized. The derivative instrument is adjusted to fair value through Product revenues each reporting period based upon current market data and forward-looking estimates provided by management until the final sales price is determined.

In the second quarter of 2011, we revised the inputs used to determine the fair value of these derivatives to include 2011 published pricing indices and settlements realized by other companies in the industry. Prior to this change, the fair value primarily was determined based on significant unobservable inputs to develop the forward price expectation of the final price settlement for 2011. Based on these changes to the inputs used in the determination of the fair value, we transferred $20.0 million of derivative assets from a Level 3 classification to a Level 2 classification within the fair value hierarchy in the second quarter of 2011.

The Level 3 derivative assets and liabilities at December 31, 2011 also consisted of derivatives related to certain supply agreements with our U.S. Iron Ore and Eastern Canadian Iron Ore customers. In some instances we are still working to revise components of the pricing calculations referenced within our supply agreements to incorporate new market inputs to the pricing mechanisms as a result of the elimination of historical benchmark pricing. As a result, we record certain shipments made to our U.S. Iron Ore and Eastern Canadian Iron Ore customers based on an agreed-upon provisional price with the customer until final settlement on the market inputs to the pricing mechanisms are finalized. The lack of agreed-upon market inputs results in these pricing provisions being characterized as derivatives. The derivative instrument, which is settled and billed or credited once the determinations of the market inputs to the pricing mechanisms are finalized, is adjusted to fair value through Product revenues each reporting period based upon current market data and forward-looking estimates determined by management. During the three and nine months ended September 30, 2012, we did not have any supply agreements in which components of the pricing calculations were still being finalized. As a result, we did not have any shipments as of September 30, 2012 recorded on a provisional basis. The pricing provisions are characterized as freestanding derivatives and are required to be accounted for separately once product is shipped. The derivative instrument, which is settled and billed once final pricing settlement is reached, is marked to fair value as a revenue adjustment each reporting period.

Table of Contents

The following table illustrates information about quantitative inputs and assumptions for the derivative assets and derivative liabilities categorized in Level 3 of the fair value hierarchy:
Qualitative/Quantitative Information About Level 3 Fair Value Measurements

($ in millions)	Fair Value at 9/30/2012	Balance Sheet Location	Valuation Technique	Unobservable Input	Range (Weighted Average)
Provisional Pricing Arrangements	$1.4	Derivative assets	Market Approach	Managements Estimate of 62% Fe	$105 - $115 ($125)
	$11.7	Other current liabilities			
Customer Supply Agreement	$54.5	Derivative assets	Market Approach	Hot-Rolled Steel Estimate	$635 - $695 ($665)

The significant unobservable input used in the fair value measurement of the reporting entity’s provisional pricing arrangements is management’s estimate of 62 percent Fe price that is estimated based upon current market data, including historical seasonality and forward-looking estimates determined by management. Significant increases or decreases in this input would result in a significantly higher or lower fair value.
The significant unobservable input used in the fair value measurement of the reporting entity’s customer supply agreements is the future hot-rolled steel price. Significant increases or decreases in this input would result in a significantly higher or lower fair value measurement, respectively.
These significant estimates are determined by a collaboration of our commercial, finance and treasury departments and are reviewed by management.
Substantially all of the financial assets and liabilities are carried at fair value or contracted amounts that approximate fair value. We had no material financial assets and liabilities measured at fair value on a non-recurring basis at September 30, 2012 or December 31, 2011.
There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the first nine months of 2012 or 2011. As noted above, there was a transfer from Level 3 to Level 2 in the second quarter of 2011, as reflected in the table below. The following table represents a reconciliation of the changes in fair value of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2012 and 2011.

Table of Contents

	(In Millions)			
	Derivative Assets (Level 3)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Beginning balance	$83.9	$64.0	$157.9	$45.6
Total gains				
Included in earnings	24.9	53.8	129.6	144.9
Included in other comprehensive income	—	—	—	—
Settlements	(52.9)	(50.0)	(231.6)	(102.7)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	(20.0)
Ending balance - September 30	$55.9	$67.8	$55.9	$67.8
Total gains for the period included in earnings attributable to the change in unrealized gains on assets still held at the reporting date	$24.9	$53.8	$129.6	$144.9

	(In Millions)			
	Derivative Liabilities (Level 3)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Beginning balance	$(15.8)	$—	$(19.5)	$—
Total losses				
Included in earnings	4.1	—	(11.7)	—
Included in other comprehensive income	—	—	—	—
Settlements	—	—	19.5	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Ending balance - September 30	$(11.7)	$—	$(11.7)	$—
Total losses for the period included in earnings attributable to the change in unrealized losses on assets still held at the reporting date	$4.1	$—	$(11.7)	$—

Gains and losses included in earnings are reported in Product revenues in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2012 and 2011.

Table of Contents

The carrying amount for certain financial instruments (e.g. Accounts receivable, Accounts payable and Accrued expenses) approximate fair value and, therefore, have been excluded from the table below. A summary of the carrying amount and fair value of other financial instruments at September 30, 2012 and December 31, 2011 were as follows:

		(In Millions)			
		September 30, 2012		December 31, 2011	
	Classification	Carrying Value	Fair Value	Carrying Value	Fair Value
Other receivables:					
Customer supplemental payments	Level 2	$5.6	$5.2	$22.3	$20.8
ArcelorMittal USA—Receivable	Level 2	21.2	23.5	26.5	30.7
Other	Level 2	10.6	10.6	10.0	10.0
Total receivables		$37.4	$39.3	$58.8	$61.5
Long-term debt:					
Term loan—$1.25 billion	Level 2	$822.4	$822.4	$897.2	$897.2
Senior notes—$700 million	Level 2	699.4	772.7	699.3	726.4
Senior notes—$1.3 billion	Level 2	1,289.3	1,576.3	1,289.2	1,399.4
Senior notes—$400 million	Level 2	398.2	467.4	398.0	448.8
Senior notes—$55 million	Level 2	55.0	62.8	325.0	348.7
Revolving loan	Level 2	250.0	250.0	—	—
Total long-term debt		$3,514.3	$3,951.6	$3,608.7	$3,820.5

The fair value of the receivables and debt are based on the fair market yield curves for the remainder of the term expected to be outstanding.

The terms of one of our U.S. Iron Ore pellet supply agreements require supplemental payments to be paid by the customer during the period 2009 through 2013, with the option to defer a portion of the 2009 monthly amount up to $22.3 million in exchange for interest payments until the deferred amount is repaid in 2013. Interest is payable by the customer quarterly and began in September 2009 at the higher of 9 percent or the prime rate plus 350 basis points. As of September 30, 2012 and December 31, 2011, a receivable of $5.6 million and $22.3 million, respectively, has been recorded in Other non-current assets in the Statements of Unaudited Condensed Consolidated Financial Position reflecting the terms of this deferred payment arrangement. The fair value of the receivable of $5.2 million and $20.8 million at September 30, 2012 and December 31, 2011, respectively, is based on a discount rate of 3.30 percent and 3.29 percent, respectively, which represents the estimated credit-adjusted risk-free interest rate for the period the receivable is outstanding.

In 2002, we entered into an agreement with Ispat that restructured the ownership of the Empire mine and increased our ownership from 46.7 percent to 79.0 percent in exchange for the assumption of all mine liabilities. Under the terms of the agreement, we indemnified Ispat from obligations of Empire in exchange for certain future payments to Empire and to us by Ispat of $120.0 million, recorded at a present value of $21.2 million and $26.5 million at September 30, 2012 and December 31, 2011, respectively, of which $10.0 million was recorded in Other current assets for each respective period. The fair value of the receivable of $23.5 million and $30.7 million at September 30, 2012 and December 31, 2011, respectively, is based on a discount rate of 3.31 percent and 2.12 percent, respectively, which represents the estimated credit-adjusted risk-free interest rate for the period the receivable is outstanding.

The fair value of long-term debt was determined using quoted market prices or discounted cash flows based upon current borrowing rates. The term loan and revolving loan are variable rate interest and approximate fair value. See NOTE 10 - DEBT AND CREDIT FACILITIES for further information.

Table of Contents

NOTE 10 - DEBT AND CREDIT FACILITIES

The following represents a summary of our long-term debt as of September 30, 2012 and December 31, 2011:

($ in Millions)

September 30, 2012

Debt Instrument	Type	Annual Effective Interest Rate	Final Maturity	Total Face Amount		Total Debt	
$1.25 Billion Term Loan	Variable	1.60%	2016	$922.1	(1)	$922.1	(1)
$700 Million 4.875% 2021 Senior Notes	Fixed	4.88%	2021	700.0		699.4	(2)
$1.3 Billion Senior Notes:							
$500 Million 4.80% 2020 Senior Notes	Fixed	4.80%	2020	500.0		499.1	(3)
$800 Million 6.25% 2040 Senior Notes	Fixed	6.25%	2040	800.0		790.2	(4)
$400 Million 5.90% 2020 Senior Notes	Fixed	5.90%	2020	400.0		398.2	(5)
$325 Million Private Placement Senior Notes:							
Series 2008A - Tranche A	Fixed	6.31%	2013	270.0		270.0	
Series 2008A - Tranche B	Fixed	6.59%	2015	55.0		55.0	
$1.75 Billion Credit Facility:							
Revolving Loan	Variable	1.47%	2016	1,750.0		250.0	(6)
Total debt				$5,397.1		$3,884.0	
Less current portion						369.7	
Long-term debt						$3,514.3	

($ in Millions)

December 31, 2011

Debt Instrument	Type	Annual Effective Interest Rate	Final Maturity	Total Face Amount		Total Debt	
$1.25 Billion Term Loan	Variable	1.40%	2016	$972.0	(1)	$972.0	(1)
$700 Million 4.875% 2021 Senior Notes	Fixed	4.88%	2021	700.0		699.3	(2)
$1.3 Billion Senior Notes:							
$500 Million 4.80% 2020 Senior Notes	Fixed	4.80%	2020	500.0		499.1	(3)
$800 Million 6.25% 2040 Senior Notes	Fixed	6.25%	2040	800.0		790.1	(4)
$400 Million 5.90% 2020 Senior Notes	Fixed	5.90%	2020	400.0		398.0	(5)
$325 Million Private Placement Senior Notes:							
Series 2008A - Tranche A	Fixed	6.31%	2013	270.0		270.0	
Series 2008A - Tranche B	Fixed	6.59%	2015	55.0		55.0	
$1.75 Billion Credit Facility:							
Revolving Loan	Variable	—%	2016	1,750.0		—	(6)
Total debt				$5,447.0		$3,683.5	
Less current portion						74.8	
Long-term debt						$3,608.7	

(1) As of September 30, 2012 and December 31, 2011, $327.9 million and $278.0 million, respectively, had been paid down on the original $1.25 billion term loan and, of the remaining term loan, $99.7 million and $74.8 million, respectively, was classified as Current portion of debt. The current classification is based upon the principal payment terms of the arrangement requiring principal payments on each three-month anniversary following the funding of the term loan.

(2) As of September 30, 2012 and December 31, 2011, the $700 million 4.88 percent senior notes were recorded at a par value of $700 million less unamortized discounts of $0.6 million and $0.7 million, respectively, based on an imputed interest rate of 4.89 percent.

30

Table of Contents

(3) As of September 30, 2012 and December 31, 2011, the $500 million 4.80 percent senior notes were recorded at a par value of $500 million less unamortized discounts of $0.9 million and $0.9 million, respectively, based on an imputed interest rate of 4.83 percent.

(4) As of September 30, 2012 and December 31, 2011, the $800 million 6.25 percent senior notes were recorded at par value of $800 million less unamortized discounts of $9.8 million and $9.9 million, respectively, based on an imputed interest rate of 6.38 percent.

(5) As of September 30, 2012 and December 31, 2011, the $400 million 5.90 percent senior notes were recorded at a par value of $400 million less unamortized discounts of $1.8 million and $2.0 million, respectively, based on an imputed interest rate of 5.98 percent.

(6) As of September 30, 2012 and December 31, 2011, $250.0 million and no revolving loans were drawn under the credit facility, respectively, and the principal amount of letter of credit obligations totaled $23.1 million and $23.5 million for each period, respectively, thereby reducing available borrowing capacity to $1.48 billion and $1.73 billion for each period, respectively.

The terms of the private placement senior notes, term loan and credit facility each contain customary covenants that require compliance with certain financial covenants based on: (1) debt to earnings ratio (Total Funded Debt to EBITDA, as those terms are defined in the credit agreement, as of the last day of each fiscal quarter cannot exceed (i) 3.5 to 1.0, if none of the $270 million private placement senior notes due 2013 remain outstanding, or otherwise (ii) the then applicable maximum multiple under the $270 million private placement senior notes due 2013) and (2) interest coverage ratio (Consolidated EBITDA to Interest Expense, as those terms are defined in the amended credit agreement, for the preceding four quarters must not be less than 2.5 to 1.0 on the last day of any fiscal quarter). As of September 30, 2012 and December 31, 2011, we were in compliance with the financial covenants related to both the private placement senior notes and the credit facilities. The terms of the senior notes due in 2020, 2021 and 2040 contain certain customary covenants; however, there are no financial covenants.

Short-term Facilities

Asia Pacific Iron Ore maintains a bank contingent instrument facility and cash advance facility. The facility, which is renewable annually at the bank’s discretion, provides A$40.0 million ($41.5 million) in credit for contingent instruments, such as performance bonds and the ability to request a cash advance facility to be provided at the discretion of the bank. As of September 30, 2012, the outstanding bank guarantees under this facility totaled A$24.9 million ($25.8 million), thereby reducing borrowing capacity to A$15.1 million ($15.7 million). We have provided a guarantee of the facility, along with certain of our Australian subsidiaries. During the third quarter of 2012, the agreement was amended to eliminate the customary covenants that were required. Prior to this amendment, the facility agreement contained certain customary covenants that require compliance with certain financial covenants: (1) debt to earnings ratio and (2) interest coverage ratio, both based on the financial performance of the Company. As of December 31, 2011, we were in compliance with these financial covenants.

Letters of Credit

In conjunction with our acquisition of Consolidated Thompson, we issued standby letters of credit with certain financial institutions in order to support Consolidated Thompson’s and Bloom Lake’s general business obligations. In addition, we issued standby letters of credit with certain financial institutions during the third quarter of 2011 in order to support Wabush’s obligations. As of September 30, 2012 and December 31, 2011, these letter of credit obligations totaled $97.6 million and $95.0 million, respectively. All of these standby letters of credit are in addition to the letters of credit provided for under the amended and restated multicurrency credit agreement.

Debt Maturities

Maturities of debt instruments, excluding borrowings on the revolving credit facility, based on the principal amounts outstanding at September 30, 2012, total approximately $24.9 million in 2012, $369.7 million in 2013, $124.6 million in 2014, $428.8 million in 2015, $299.1 million in 2016 and $2.4 billion thereafter.

Table of Contents

NOTE 11 - LEASE OBLIGATIONS

We lease certain mining, production and other equipment under operating and capital leases. The leases are for varying lengths, generally at market interest rates and contain purchase and/or renewal options at the end of the terms. Our operating lease expense was $6.7 million and $19.2 million, respectively, for the three and nine months ended September 30, 2012, compared with $4.2 million and $17.9 million, respectively, for the same periods in 2011.

Future minimum payments under capital leases and non-cancellable operating leases at September 30, 2012 are as follows:

	(In Millions)	
	Capital Leases	Operating Leases
2012 (October 1 - December 31)	$21.1	