CLIFFS NATURAL RESOURCES INC.
Form 10-Q
July 26, 2012
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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 June 30, 2012

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______.

Commission File Number: 1-8944

CLIFFS NATURAL RESOURCES INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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 ¨

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 ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x

The number of shares outstanding of the registrant s Common Shares, par value $0.125 per share, was 142,492,567 as of July 23, 2012.

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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 In
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
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	Cilffs 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
NO_2	Nitrogen dioxide
Northshore	Northshore Mining Company
NOV	Notice of Violation
NPDES	National Pollutant Discharge Elimination System, authorized by the U.S. Clean Water Act
Oak Grove	Oak Grove Resources, LLC
OCI	Other comprehensive income
OPEB	Other postretirement benefits

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Abbreviation or acronym	**Term**
Pinnacle	Pinnacle Mining Company, LLC
renewaFUEL	renewaFUEL, LLC (now known as Cliffs Michigan Biomass, LLC)
SEC	United States Securities and Exchange Commission
Silver Bay Power	Silver Bay Power Company
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 2012 Incentive Equity Plan

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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		Six Months Ended	
	June 30,		June 30,	
	2012	2011	**2012**	2011
REVENUES FROM PRODUCT SALES AND SERVICES				
Product	**$ 1,546.6**	$ 1,705.0	**$ 2,747.5**	$ 2,838.0
Freight and venture partners' cost reimbursements	**79.4**	100.8	**143.2**	151.0
	1,626.0	1,805.8	**2,890.7**	2,989.0
COST OF GOODS SOLD AND OPERATING EXPENSES	**(1,176.7)**	(1,074.2)	**(2,137.9)**	(1,657.9)
SALES MARGIN	**449.3**	731.6	**752.8**	1,331.1
OTHER OPERATING INCOME (EXPENSE)				
Selling, general and administrative expenses	**(83.5)**	(69.4)	**(146.5)**	(115.1)
Consolidated Thompson acquisition costs	**-**	(18.0)	**-**	(22.9)
Exploration costs	**(29.1)**	(18.2)	**(47.9)**	(28.8)
Miscellaneous - net	**28.6**	(8.2)	**38.0**	(4.4)
	(84.0)	(113.8)	**(156.4)**	(171.2)
OPERATING INCOME	**365.3**	617.8	**596.4**	1,159.9
OTHER INCOME (EXPENSE)				
Changes in fair value of foreign currency contracts, net	**-**	50.4	**0.3**	106.7
Interest expense	**(47.1)**	(81.3)	**(94.4)**	(119.7)
Other non-operating income (expense)	**(0.5)**	2.9	**3.0**	5.9
	(47.6)	(28.0)	**(91.1)**	(7.1)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY LOSS FROM VENTURES	**317.7**	589.8	**505.3**	1,152.8
INCOME TAX (EXPENSE) BENEFIT	**(42.9)**	(150.4)	**167.9**	(292.6)
EQUITY LOSS FROM VENTURES	**(0.5)**	(11.3)	**(7.4)**	(8.3)
INCOME FROM CONTINUING OPERATIONS	**274.3**	428.1	**665.8**	851.9
LOSS FROM DISCONTINUED OPERATIONS, net of tax	**-**	(0.7)	**(0.1)**	(1.1)
NET INCOME	**274.3**	427.4	**665.7**	850.8
LESS: INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	**16.3**	18.3	**31.9**	18.3
NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	**$ 258.0**	$ 409.1	**$ 633.8**	$ 832.5
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - BASIC				
Continuing operations	**$ 1.81**	$ 2.95	**$ 4.45**	$ 6.07
Discontinued operations	**-**	(0.01)	**-**	(0.01)
	$ 1.81	$ 2.94	**$ 4.45**	$ 6.06

EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - DILUTED								
Continuing operations	**$**	**1.81**	$	2.93	**$**	**4.44**	$	6.04
Discontinued operations		**-**		(0.01)		**-**		(0.01)
	$	**1.81**	$	2.92	**$**	**4.44**	$	6.03
AVERAGE NUMBER OF SHARES (IN THOUSANDS)								
Basic		**142,380**		139,000		**142,303**		137,243
Diluted		**142,814**		139,783		**142,762**		137,987
CASH DIVIDENDS DECLARED PER SHARE	**$**	**0.63**	$	0.14	**$**	**0.91**	$	0.28

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

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CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES

STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

	(In Millions)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	**$ 258.0**	$ 409.1	**$ 633.8**	$ 832.5
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Pension and OPEB liability	**7.1**	0.8	**13.3**	9.5
Unrealized net loss on marketable securities	**(2.8)**	(19.0)	**(0.5)**	(19.2)
Unrealized net gain (loss) on foreign currency translation	**(17.4)**	42.9	**(6.5)**	57.5
Unrealized net gain (loss) on derivative financial instruments	**(4.4)**	1.7	**(0.6)**	3.2
OTHER COMPREHENSIVE INCOME (LOSS)	**(17.5)**	26.4	**5.7**	51.0
LESS: OTHER COMPREHENSIVE LOSS ATTRIBUTABLE TO THE NONCONTROLLING INTEREST	**(1.5)**	(0.4)	**(3.0)**	(0.9)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	**$ 239.0**	$ 435.1	**$ 636.5**	$ 882.6

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

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CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES

STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL POSITION

	(In Millions)	
	June 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 159.2**	$ 521.6
Accounts receivable	**310.8**	304.2
Inventories	**741.0**	475.7
Supplies and other inventories	**237.0**	216.9
Derivative assets	**74.8**	82.1
Other current assets	**219.8**	190.2
TOTAL CURRENT ASSETS	**1,742.6**	1,790.7
PROPERTY, PLANT AND EQUIPMENT, NET	**10,882.1**	10,524.6
OTHER ASSETS		
Investments in ventures	**531.2**	526.6
Goodwill	**1,166.1**	1,152.1
Intangible assets, net	**137.9**	147.0
Deferred income taxes	**522.2**	209.5
Other non-current assets	**212.2**	191.2
TOTAL OTHER ASSETS	**2,569.6**	2,226.4
TOTAL ASSETS	**$ 15,194.3**	$ 14,541.7
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	**$ 385.2**	$ 380.3
Accrued expenses	**402.1**	386.3
Taxes payable	**49.2**	324.5
Current portion of debt	**369.7**	74.8
Deferred revenue	**123.4**	126.6
Other current liabilities	**204.7**	200.8
TOTAL CURRENT LIABILITIES	**1,534.3**	1,493.3
POSTEMPLOYMENT BENEFIT LIABILITIES	**634.2**	665.8
ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS	**231.4**	222.0
DEFERRED INCOME TAXES	**1,143.7**	1,062.4
LONG-TERM DEBT	**3,614.1**	3,608.7
BELOW-MARKET SALES CONTRACTS, NET	**98.5**	111.8
OTHER LIABILITIES	**330.6**	338.0
TOTAL LIABILITIES	**7,586.8**	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 - 142,488,633 shares (2011 - 142,021,718 shares)	**18.5**	18.5
Capital in excess of par value of shares	**1,759.6**	1,770.8
Retained earnings	**4,929.4**	4,424.3
Cost of 6,706,836 common shares in treasury (2011 - 7,173,751 shares)	**(322.6)**	(336.0)
Accumulated other comprehensive loss	**(89.9)**	(92.6)

TOTAL CLIFFS SHAREHOLDERS' EQUITY	**6,295.0**	5,785.0
NONCONTROLLING INTEREST	**1,312.5**	1,254.7
TOTAL EQUITY	**7,607.5**	7,039.7
TOTAL LIABILITIES AND EQUITY	**$ 15,194.3**	$ 14,541.7

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

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CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES

STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED CASH FLOWS

	(In Millions) Six Months Ended June 30,	
	2012	2011
CASH FLOW FROM CONTINUING OPERATIONS		
OPERATING ACTIVITIES		
Net income	**$ 665.7**	$ 850.8
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation, depletion and amortization	**249.4**	186.6
Derivatives and currency hedges	**9.0**	(89.8)
Equity loss in ventures (net of tax)	**7.4**	8.3
Deferred income taxes	**(259.2)**	75.9
Changes in deferred revenue and below-market sales contracts	**(23.2)**	(98.1)
Other	**(40.7)**	10.1
Changes in operating assets and liabilities:		
Receivables and other assets	**(86.4)**	7.1
Product inventories	**(265.9)**	(196.8)
Payables and accrued expenses	**(288.9)**	(29.1)
Net cash provided (used) by operating activities	**(32.8)**	725.0
INVESTING ACTIVITIES		
Acquisition of Consolidated Thompson, net of cash acquired	**-**	(4,423.4)
Purchase of property, plant and equipment	**(517.0)**	(244.5)
Settlements in Canadian dollar foreign exchange contracts	**-**	93.1
Cost of Canadian dollar foreign exchange option	**-**	(22.3)
Investment in Consolidated Thompson senior secured notes	**-**	(125.0)
Investments in ventures	**(11.9)**	(1.3)
Proceeds from sale of assets	**8.0**	2.6
Net cash used by investing activities	**(520.9)**	(4,720.8)
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	**(25.0)**	-
Debt issuance costs	**-**	(47.7)
Borrowings under revolving credit facility	**550.0**	-
Repayment under revolving credit facility	**(225.0)**	-
Repayment of Consolidated Thompson convertible debentures	**-**	(337.2)
Contributions by (to) joint ventures, net	**31.5**	(3.0)
Common stock dividends	**(128.8)**	(38.0)
Other financing activities	**(11.1)**	(16.5)
Net cash provided by financing activities	**191.6**	2,659.4
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(0.3)**	7.8
DECREASE IN CASH AND CASH EQUIVALENTS	**(362.4)**	(1,328.6)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**521.6**	1,566.7

CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 159.2**	$ 238.1

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

See Note 20 - Cash Flow Information.

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CLIFFS NATURAL RESOURCES INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 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, contain 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 six months ended June 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 72 percent interest in the Big Daddy chromite deposit, 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 June 30, 2012 and December 31, 2011. Parentheses indicate a net liability.

Investment	Classification	(In Millions)

		Accounting Method	Interest Percentage	**June 30, 2012**	December 31, 2011
Amapá	*Investments in ventures*	Equity Method	30	**$ 493.4**	$ 498.6
Cockatoo	*Other liabilities*	Equity Method	50	**(16.7)**	(15.0)
Hibbing	*Other liabilities*	Equity Method	23	**(5.8)**	(6.8)
Other	*Investments in ventures*	Equity Method	Various	**37.8**	28.0
				$ 508.7	$ 504.8

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 impact of the immaterial error in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2011 would have resulted in an increase in *Income from Continuing Operations* of $7.7 million and $16.1 million, respectively, and a decrease in *Net Income Attributable to Cliffs Shareholders* of $30.4 million and $67.9 million, respectively, or $0.22 and $0.49, respectively, to basic and diluted earnings per common share. These adjustments should be considered when comparing the operating results for the three and six months ended June 30, 2012 to the reported results for the three and six months ended June 30, 2011, as such adjustments are not reflected in the operating results reported for the three and six months ended June 30, 2011.

Discontinued Operations

On September 27, 2011, we announced our plans to cease and dispose of the operations at the renewaFUEL biomass production facility in Michigan. As we continued to successfully grow our core iron ore mining business, the decision to sell our interest in the renewaFUEL operations was made to allow our management focus and allocation of capital resources to be deployed. 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 *Loss From Discontinued Operations* in the Statements of Unaudited Condensed Consolidated Operations for the six months ended June 30, 2012. This compares to losses of $0.7 million and $1.1 million for the three and six months ended June 30, 2011.

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.

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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 settlement date, we could 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.

Costs 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 nonfinancial 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

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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 8 FAIR VALUE OF FINANCIAL INSTRUMENTS for further information.

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, North American Coal, Asia Pacific Iron Ore, 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 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. The Asia Pacific Iron Ore segment is located in Western Australia and provides iron ore to the seaborne market for Asian steel producers. 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. 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.

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

	(In Millions)							
	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		**2012**		2011	
Revenues from product sales and services:								
U.S. Iron Ore	**$ 705.0**	**43%**	$ 885.2	49%	**$ 1,146.7**	**40%**	$ 1,395.3	47%
Eastern Canadian Iron Ore	**303.9**	**19%**	297.6	16%	**524.6**	**18%**	424.9	14%
North American Coal	**209.2**	**13%**	159.7	9%	**399.2**	**14%**	324.7	11%
Asia Pacific Iron Ore	**361.3**	**22%**	381.6	21%	**721.1**	**25%**	727.0	24%
Other	**46.6**	**3%**	81.7	5%	**99.1**	**3%**	117.1	4%
Total revenues from product sales and services for reportable segments	**$ 1,626.0**	**100%**	$ 1,805.8	100%	**$ 2,890.7**	**100%**	$ 2,989.0	100%
Sales margin:								
U.S. Iron Ore	**$ 286.1**		$ 441.1		**$ 452.9**		$ 802.4	
Eastern Canadian Iron Ore	**11.7**		68.0		**(2.6)**		102.5	
North American Coal	**(9.6)**		(14.8)		**5.0**		(17.7)	
Asia Pacific Iron Ore	**146.8**		205.0		**271.9**		400.8	
Other	**14.3**		32.3		**25.6**		43.1	
Sales margin	**449.3**		731.6		**752.8**		1,331.1	
Other operating expense	**(84.0)**		(113.8)		**(156.4)**		(171.2)	
Other expense	**(47.6)**		(28.0)		**(91.1)**		(7.1)	
Income from continuing operations before income taxes and equity loss from ventures	**$ 317.7**		$ 589.8		**$ 505.3**		$ 1,152.8	
Depreciation, depletion and amortization:								
U.S. Iron Ore	**$ 23.8**		$ 22.2		**$ 47.0**		$ 39.5	
Eastern Canadian Iron Ore	**38.6**		31.5		**76.5**		41.3	
North American Coal	**24.3**		20.8		**44.4**		42.4	
Asia Pacific Iron Ore	**39.8**		24.9		**69.8**		48.9	
Other	**5.6**		7.4		**11.7**		14.5	
Total depreciation, depletion and amortization	**$ 132.1**		$ 106.8		**$ 249.4**		$ 186.6	
Capital additions (1):								
U.S. Iron Ore	**$ 28.1**		$ 55.7		**$ 62.9**		$ 87.3	
Eastern Canadian Iron Ore	**177.3**		60.7		**307.9**		64.2	
North American Coal	**32.7**		28.5		**71.8**		56.0	
Asia Pacific Iron Ore	**16.9**		58.0		**126.2**		83.3	
Other	**11.1**		3.5		**50.7**		6.6	
Total capital additions	**$ 266.1**		$ 206.4		**$ 619.5**		$ 297.4	

(1) Includes capital lease additions and non-cash accruals. Refer to NOTE 20 CASH FLOW INFORMATION

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A summary of assets by segment is as follows:

	(In Millions)	
	June 30, 2012	December 31, 2011
Segment assets:		
U.S. Iron Ore	**$ 1,915.4**	$ 1,691.8
Eastern Canadian Iron Ore	**8,138.3**	7,973.1
North American Coal	**1,908.2**	1,814.4
Asia Pacific Iron Ore	**1,859.4**	1,511.2
Other	**1,045.2**	1,017.6
Total segment assets	**14,866.5**	14,008.1
Corporate	**327.8**	533.6
Total assets	**$ 15,194.3**	$ 14,541.7

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 June 30, 2012 and December 31, 2011:

	(In Millions)							
	Derivative Assets				**Derivative Liabilities**			
	June 30, 2012		December 31, 2011		**June 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 (current)	**$ 10.1**	Derivative assets (current)	$ 5.2	Other current liabilities	**$ 9.5**	Other current liabilities	$ 3.5
Total derivatives designated as hedging instruments under ASC 815		**$ 10.1**		$ 5.2		**$ 9.5**		$ 3.5
Derivatives not designated as hedging instruments under ASC 815:								
Foreign Exchange Contracts	Derivative assets (current)	**$ -**	Derivative assets (current)	$ 2.8		**$ -**		$ -
Customer Supply Agreements	Derivative assets (current)	**61.4**	Derivative assets (current)	72.9		**-**		-
Provisional Pricing Arrangements	Derivative assets (current)	**3.3**	Derivative assets (current)	1.2	Other current liabilities	**15.8**	Other current liabilities	19.5
	Accounts	**19.2**	Accounts receivable	83.8		**-**		-

	receivable				
Total derivatives not designated as hedging instruments under ASC 815		**$ 83.9**	$ 160.7	**$ 15.8**	$ 19.5
Total derivatives		**$ 94.0**	$ 165.9	**$ 25.3**	$ 23.0

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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 derivatives to hedge our foreign currency exposure for a portion of our Australian dollar sales receipts 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.

As of June 30, 2012, we had outstanding Australian and Canadian foreign currency exchange contracts with notional amounts of $425.0 million and $558.0 million, respectively, in the form of forward contracts with varying maturity dates ranging from July 2012 to June 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 as of June 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 losses of $5.6 million and $5.2 million, respectively, will be reclassified into earnings within the next 12 months.

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

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Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		(In Millions) Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	Three months ended June 30,			Three months ended June 30,	
	2012	2011		**2012**	2011
Australian Dollar Foreign Exchange Contracts *(hedge designation)*	**$ 2.1**	$ 3.0	Product revenue	**$ (0.4)**	$ 0.8
Canadian Dollar Foreign Exchange Contracts *(hedge designation)*	**(5.9)**		Cost of goods sold and operating expenses	**(0.2)**	
Australian Dollar Foreign Exchange Contracts *(prior to de-designation)*			Product revenue		0.5
Total	**$ (3.8)**	$ 3.0		**$ (0.6)**	$ 1.3
	Six months ended June 30,			Six months ended June 30,	
	2012	2011		**2012**	2011
Australian Dollar Foreign Exchange Contracts *(hedge designation)*	**$ 5.1**	$ 4.9	Product revenue	**$ 2.7**	$ 1.0
Canadian Dollar Foreign Exchange Contracts *(hedge designation)*	**(5.2)**		Cost of goods sold and operating expenses	**0.3**	
Australian Dollar Foreign Exchange Contracts *(prior to de-designation)*			Product revenue		0.7
Total	**$ (0.1)**	$ 4.9		**$ 3.0**	$ 1.7

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 six months ended June 30, 2012.

Derivatives Not Designated as Hedging Instruments

Australian Dollar Foreign Exchange Contracts

Effective July 1, 2008, we discontinued hedge accounting for foreign exchange contracts entered into for all outstanding contracts at the time and continued to hold such instruments as economic hedges to manage currency risk as described above. The outstanding non-designated foreign exchange contracts with a notional amount of $15.0 million as of December 31, 2011, matured as of January 2012.

As a result of discontinuing hedge accounting, the instruments were marked to fair value each reporting period through *Changes in fair value of foreign currency contracts, net* in the Statements of Unaudited Condensed Consolidated Operations. For the six months ended June 30, 2012, the change in fair value of the foreign currency contracts resulted in net gains of $0.3 million based on the Australian to U.S. dollar spot rate change until maturity. This compares with the net gains of $7.0 million and $11.4 million for the three and six months ended June 30, 2011, respectively, based on the Australian to U.S. dollar spot rate of 1.07 at June 30, 2011. The amounts that previously were recorded as a component of *Accumulated other comprehensive loss* were reclassified to earnings with a corresponding realized gain or loss recognized in the same period the forecasted transaction affected earnings.

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 $41.5 million and $93.1 million, respectively, recognized through *Changes in fair value of foreign currency contracts, net* in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 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.

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 $42.6 million and $82.0 million, respectively, as *Product revenues* in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2012, related to the supplemental payments. This compares with *Product revenues* of $46.5 million and $71.1 million, respectively, for the comparable periods in 2011. Derivative assets, representing the fair value of the pricing factors, were $61.4 million and $72.9 million, respectively, in the June 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 $2.0 million as current *Derivative assets* and $4.2 million as derivative liabilities included in *Other current liabilities* in the Statements of Unaudited Condensed Consolidated Financial Position at June 30, 2012 related to our estimate of final sales price with our U.S. Iron Ore, Eastern Canadian Iron Ore and Asia Pacific Iron Ore customers. At December 31, 2011, we did not have any derivative assets or liabilities recorded due to these arrangements. 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 $2.2 million as a decrease in *Product revenues* in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2012 related to these arrangements. There were no amounts recognized related to these arrangements for the three and six months ended June 30, 2011.

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, in the current period we recorded certain shipments made to one of our U.S. Iron Ore customers based on an agreed-upon provisional price. The shipments will continue to be 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 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 six months ended June 30, 2012, we had shipments to one U.S. Iron Ore customer under a supply agreement in which components of the pricing calculations are still being finalized. We recognized $96.1 million as an increase in *Product revenues* in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2012, under these pricing provisions for certain shipments to the U.S. Iron Ore customer. For the three and six months ended June 30, 2011, $289.4 million and $309.4 million, respectively, were realized due to provisional pricing settlements. At June 30, 2012, we have recorded a $1.3 million *Derivative asset* and an $11.6 million derivative liability included in *Other current liabilities*, in the Statements of Unaudited Condensed Consolidated Financial Position related to this arrangement. As of June 30, 2012, we also have derivatives of $19.2 million classified as *Accounts receivable* in the Statements of Unaudited Condensed Consolidated Financial Position to reflect the amount we have provisionally agreed upon with the U.S. Iron Ore customer until a final price settlement is reached. 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 type of provisional pricing arrangements with various U.S. Iron Ore and Eastern Canadian Iron Ore customers.

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 six months ended June 30, 2012 and 2011:

(In Millions)

Derivatives Not Designated as Hedging Instruments	**Location of Gain Recognized in Income on Derivative**	**Amount of Gain Recognized in Income on Derivative**			
		Three Months Ended June 30,		**Six Months Ended June 30,**	
		2012	2011	**2012**	2011
Foreign Exchange Contracts	Product Revenues	**$ -**	$ 2.6	**$ -**	$ 3.2

Foreign Exchange Contracts	Other Income (Expense)	**-**	48.5	**0.3**	104.5
Customer Supply Agreements	Product Revenues	**42.6**	46.5	**82.0**	71.1
Provisional Pricing Arrangements	Product Revenues	**98.3**	289.4	**98.3**	309.4
Total		**$ 140.9**	$ 387.0	**$ 180.6**	$ 488.2

Refer to NOTE 8 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 June 30, 2012 and December 31, 2011:

	(In Millions)					
	June 30, 2012			December 31, 2011		
Segment	**Finished Goods**	**Work-in Process**	**Total Inventory**	Finished Goods	Work-in Process	Total Inventory
U.S. Iron Ore	**$ 290.8**	**$ 36.8**	**$ 327.6**	$ 100.2	$ 8.5	$ 108.7
Eastern Canadian Iron Ore	**103.6**	**50.8**	**154.4**	96.2	43.0	139.2
North American Coal	**61.7**	**90.2**	**151.9**	19.7	110.5	130.2
Asia Pacific Iron Ore	**27.2**	**57.2**	**84.4**	57.2	21.6	78.8
Other	**21.5**	**1.2**	**22.7**	18.0	0.8	18.8
Total	**$ 504.8**	**$ 236.2**	**$ 741.0**	$ 291.3	$ 184.4	$ 475.7

At our North American Coal operating segment, we recorded lower of cost or market inventory charges of $8.6 million and $9.9 million in *Cost of goods sold and operating expenses* in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2012, respectively, due to the softening in the market prices for coal. No lower of cost or market inventory adjustments were recorded for the three and six months ended June 30, 2011.

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 June 30, 2012 and December 31, 2011:

	(In Millions)	
	June 30, 2012	December 31, 2011
Land rights and mineral rights	**$ 7,964.1**	$ 7,918.9
Office and information technology	**63.9**	67.0
Buildings	**144.7**	132.2
Mining equipment	**1,123.2**	1,323.8
Processing equipment	**1,998.3**	1,441.8
Railroad equipment	**241.5**	164.3
Electric power facilities	**58.2**	57.9
Port facilities	**125.0**	64.1
Interest capitalized during construction	**27.6**	22.5
Land improvements	**31.8**	30.4
Other	**32.5**	43.2
Construction in progress	**667.0**	615.4
	12,477.8	11,881.5
Allowance for depreciation and depletion	**(1,595.7)**	(1,356.9)
	$ 10,882.1	$ 10,524.6

We recorded depreciation and depletion expense of $125.8 million and $237.2 million in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2012, respectively. This compares with depreciation and depletion expense of $98.4 million and $170.1 million for the three and six months ended June 30, 2011.

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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 is reported as a component of our Eastern Canadian Iron Ore segment.

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	$ -

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.

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 revised final purchase price allocation has been provided in the table above.

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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 7 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 six months ended June 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 June 30, 2011	**Six Months Ended June 30, 2011**
REVENUES FROM PRODUCT SALES AND SERVICES	**$ 2,065.0**	**$ 3,343.8**
NET INCOME ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	**$ 418.4**	**$ 810.1**
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - BASIC	**$ 3.01**	**$ 5.90**
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - DILUTED	**$ 2.99**	**$ 5.87**

NOTE 7 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 six months ended June 30, 2012 and the year ended December 31, 2011:

	(In Millions)											
	June 30, 2012						December 31, 2011 [1]					
	U.S. Iron Ore	**Eastern Canadian Iron Ore**	**North American Coal**	**Asia Pacific Iron Ore**	**Other**	**Total**	U.S. Iron Ore	Eastern Canadian Iron Ore	North American Coal	Asia Pacific Iron Ore	Other	Total
Beginning Balance	**$ 2.0**	**$ 986.2**	**$ -**	**$ 83.0**	**$ 80.9**	**$ 1,152.1**	$ 2.0	$ 3.1	$ 27.9	$ 82.6	$ 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	**-**	**-**	**-**	**0.2**	**-**	**0.2**	-	-	-	0.4	-	0.4

currency translation												
Other	**-**	**-**	**-**	**-**	**-**	**-**	-	(0. 4)	-	-	-	(0.4)
Ending Balance	**$ 2.0**	**$ 1,000.0**	**$ -**	**$ 83.2**	**$ 80.9**	**$ 1,166.1**	$ 2.0	$ 986.2	$ -	$ 83.0	$ 80.9	$ 1,152.1

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

Goodwill is not subject to amortization and is tested for impairment annually 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 June 30, 2012 and December 31, 2011:

		(In Millions)					
		June 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*	$ 134.5	$ (26.8)	$ 107.7	$ 134.3	$ (23.2)	$ 111.1
Utility contracts	*Intangible assets, net*	54.7	(26.9)	27.8	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		$ 194.7	$ (56.8)	$ 137.9	$ 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*	(250.7)	152.2	(98.5)	(252.3)	140.5	(111.8)
Total below-market sales contracts		$ (296.7)	$ 152.2	$ (144.5)	$ (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

Amortization expense relating to intangible assets was $4.5 million and $9.3 million, respectively, for the three and six months ended June 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 $4.7 million and $9.6 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 six months)	$ 9.0
2013	17.9
2014	17.9
2015	6.0
2016	6.0
2017	6.0
Total	$ 62.8

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 six months ended June 30, 2012, we recognized $14.7 million and $16.6 million, respectively, in *Product revenues* related to the below-market sales contracts, compared with $16.6 million and $23.7 million, respectively, for the three and six months ended June 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 six months)	$ 29.4
2013	46.0
2014	23.1
2015	23.0
2016	23.0
2017	-
Total	$ 144.5

NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	(In Millions) June 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:				
Cash equivalents	$ 25.0	$ -	$ -	**$ 25.0**
Derivative assets	-	-	83.9 (1)	**83.9**
International marketable securities	25.0	-	-	**25.0**
Foreign exchange contracts	-	10.1	-	**10.1**
Total	$ 50.0	$ 10.1	$ 83.9	**$ 144.0**
Liabilities:				
Derivative liabilities	$ -	$ -	$ 15.8	**$ 15.8**
Foreign exchange contracts	-	9.5	-	**9.5**
Total	$ -	$ 9.5	$ 15.8	**$ 25.3**

	(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	$ -			