

CLIFFS NATURAL RESOURCES INC.

Form 10-Q

July 24, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark 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 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

The number of shares outstanding of the registrant's common shares, par value \$0.125 per share, was 153,182,488 as of July 21, 2014.

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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 Inc. and subsidiaries, collectively. References to “A\$” or “AUD” refer to Australian currency, “C\$” or “CAD” to Canadian currency and “\$” to United States currency.

Abbreviation or acronym	Term
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)
ASC	Accounting Standards Codification
Barrick	Barrick Gold Corporation Inc.
Bloom Lake	The Bloom Lake Iron Ore Mine Limited Partnership
Chromite Project	Cliffs Chromite Ontario Inc.
CLCC	Cliffs Logan County Coal LLC
CQIM	Cliffs Quebec Iron Mining Limited
DD&A	Depreciation, depletion and amortization
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EBITDA	Earnings before interest, taxes, depreciation and amortization
Empire	Empire Iron Mining Partnership
EPA	U.S. Environmental Protection Agency
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
Fe	Iron
FMSH Act	U.S. Federal Mine Safety and Health Act 1977, as amended
GAAP	Accounting principles generally accepted in the United States
GDP	Gross Domestic Product
Hibbing	Hibbing Taconite Company
ICE Plan	Amended and Restated Cliffs 2007 Incentive Equity Plan, as amended
Koolyanobbing	Collective term for the operating deposits at Koolyanobbing, Mount Jackson and Windarling
LIBOR	London Interbank Offered Rate
LTVSMC	LTV Steel Mining Company
MACT	Maximum Achievable Control Technology
MMBtu	Million British Thermal Units
Moody's	Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors
MSHA	U.S. Mine Safety and Health Administration
n/m	Not meaningful
Northshore	Northshore Mining Company
Oak Grove	Oak Grove Resources, LLC
OCI	Other comprehensive income (loss)
OPEB	Other postretirement benefits
Pinnacle	Pinnacle Mining Company, LLC
S&P	Standard & Poor's Rating Services, a division of Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc., and its successors
SEC	U.S. Securities and Exchange Commission
Severstal	Severstal Dearborn, LLC
Substitute Rating Agency	A "nationally recognized statistical rating organization" within the meaning of Section 3 (a)(62) of the Exchange Act, selected by us (as certified by a certificate of officers confirming the decision of our board of directors) as a replacement agency of Moody's or S&P, or both of them, as the case may be

Tilden	Tilden Mining Company
TSR	Total Shareholder Return
United Taconite	United Taconite LLC
U.S.	United States of America
VNQDC Plan	2005 Voluntary NonQualified Deferred Compensation Plan
VWAP	Volume Weighted Average Price
Wabush	Wabush Mines Joint Venture
WARN Act	Worker Adjustment and Retraining Notification Act
WISCO	Wugang Canada Resources Investment Limited, a subsidiary of Wuhan Iron and Steel (Group) Corporation
Worldlink	Worldlink Resources Limited
2012 Equity Plan	Cliffs Natural Resources Inc. 2012 Incentive Equity Plan

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PART I

Item 1. Financial Statements

Statements of Unaudited Condensed Consolidated Operations

Cliffs Natural Resources Inc. and Subsidiaries

(In Millions, Except Per Share Amounts)

Three Months Ended Six Months Ended

June 30,

June 30,

2014 2013 2014 2013

REVENUES FROM PRODUCT SALES AND SERVICES

Product \$ 1,018.6 \$ 1,391.6 \$ 1,879.5 \$ 2,474.2

Freight and venture partners' cost reimbursements 82.2 96.9 161.3 154.8

1,100.8 1,488.5 2,040.8 2,629.0

COST OF GOODS SOLD AND OPERATING EXPENSES (1,008.8) (1,220.3) (1,885.6) (2,122.9)

SALES MARGIN 92.0 268.2 155.2 506.1

OTHER OPERATING INCOME (EXPENSE)

Selling, general and administrative expenses (52.5) (48.9) (103.6) (97.3)

Exploration costs (3.4) (12.6) (7.6) (35.3)

Miscellaneous - net (47.8) 55.3 (106.4) 56.8

(103.7) (6.2) (217.6) (75.8)

OPERATING INCOME (EXPENSE) (11.7) 262.0 (62.4) 430.3

OTHER INCOME (EXPENSE)

Interest expense, net (44.8) (40.7) (87.5) (89.8)

Other non-operating income 2.2 (2.8) 3.4 (1.7)

(42.6) (43.5) (84.1) (91.5)

INCOME (LOSS) FROM CONTINUING OPERATIONS

BEFORE INCOME TAXES AND EQUITY LOSS FROM

VENTURES

INCOME TAX BENEFIT (EXPENSE) 69.1 (9.3) 90.9 (3.3)

EQUITY LOSS FROM VENTURES, net of tax (0.3) (67.9) (0.6) (73.4)

NET INCOME (LOSS) 14.5 141.3 (56.2) 262.1

LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING

INTEREST (3.6) 4.7 (3.2) (9.1)

NET INCOME (LOSS) ATTRIBUTABLE TO CLIFFS

SHAREHOLDERS \$ 10.9 \$ 146.0 \$ (59.4) \$ 253.0

PREFERRED STOCK DIVIDENDS (12.8) (12.9) (25.6) (22.8)

NET INCOME (LOSS) ATTRIBUTABLE TO CLIFFS

COMMON SHAREHOLDERS \$ (1.9) \$ 133.1 \$ (85.0) \$ 230.2

EARNINGS (LOSS) PER COMMON SHARE

ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - BASIC \$ (0.01) \$ 0.87 \$ (0.56) \$ 1.53

EARNINGS (LOSS) PER COMMON SHARE

ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - DILUTED \$ (0.01) \$ 0.82 \$ (0.56) \$ 1.49

AVERAGE NUMBER OF SHARES (IN THOUSANDS)

Basic 153,087 153,011 153,064 150,418

Diluted 153,087 178,428 153,064 169,708

CASH DIVIDENDS DECLARED PER DEPOSITARY SHARE \$ 0.44 \$ 0.44 \$ 0.88 \$ 0.78

CASH DIVIDENDS DECLARED PER COMMON SHARE \$ 0.15 \$ 0.15 \$ 0.30 \$ 0.30

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

Table of ContentsStatements of Unaudited Condensed Consolidated Comprehensive Income
Cliffs Natural Resources Inc. and Subsidiaries

	(In Millions)				
	Three Months Ended June 30,		Six Months Ended June 30,		
	2014	2013	2014	2013	
NET INCOME (LOSS) ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	\$ 10.9	\$ 146.0	\$(59.4	) \$253.0
OTHER COMPREHENSIVE INCOME (LOSS)					
Changes in pension and other post-retirement benefits, net of tax	3.2	7.7	6.6	14.2	
Unrealized net gain (loss) on marketable securities, net of tax	(3.7	) 0.6	0.2	3.2
Unrealized net gain (loss) on foreign currency translation	19.7	(151.0) 60.2	(147.7)
Unrealized net gain (loss) on derivative financial instruments, net of tax	16.3	(44.4) 26.8	(51.4)
OTHER COMPREHENSIVE INCOME (LOSS)	35.5	(187.1) 93.8	(181.7)
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST	(0.6) (1.1) (1.1) (2.3)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	\$ 45.8	\$ (42.2	) \$ 33.3	\$ 69.0

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

Table of ContentsStatements of Unaudited Condensed Consolidated Financial Position
Cliffs Natural Resources Inc. and Subsidiaries

	(In Millions)	
	June 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 359.9	\$ 335.5
Accounts receivable, net	198.3	270.0
Inventories	648.8	391.4
Supplies and other inventories	200.0	216.0
Income tax receivable	35.4	74.1
Other current assets	221.4	273.0
TOTAL CURRENT ASSETS	1,663.8	1,560.0
PROPERTY, PLANT AND EQUIPMENT, NET	11,004.8	11,153.4
OTHER ASSETS	433.8	408.5
TOTAL ASSETS	\$ 13,102.4	\$ 13,121.9

(continued)

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

Table of ContentsStatements of Unaudited Condensed Consolidated Financial Position
Cliffs Natural Resources Inc. and Subsidiaries - (Continued)

	(In Millions)	
	June 30, 2014	December 31, 2013
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 266.0	\$ 345.5
Accrued expenses	338.0	392.7
Short-term and current portion of long-term debt	161.1	20.9
Other current liabilities	272.4	326.4
TOTAL CURRENT LIABILITIES	1,037.5	1,085.5
PENSION AND POSTEMPLOYMENT BENEFIT LIABILITIES	276.6	294.0
ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS	304.7	309.7
DEFERRED INCOME TAXES	1,034.1	1,146.5
LONG-TERM DEBT	3,293.0	3,022.6
OTHER LIABILITIES	326.9	379.3
TOTAL LIABILITIES	6,272.8	6,237.6
COMMITMENTS AND CONTINGENCIES (SEE NOTE 18)		
EQUITY		
CLIFFS SHAREHOLDERS' EQUITY		
Preferred Stock - no par value		
Class A - 3,000,000 shares authorized		
7% Series A Mandatory Convertible, Class A, no par value and \$1,000 per share liquidation preference (See Note 14)		
Issued and Outstanding - 731,223 shares (2013 - 731,250 shares)	731.3	731.3
Class B - 4,000,000 shares authorized		
Common Shares - par value \$0.125 per share		
Authorized - 400,000,000 shares (2013 - 400,000,000 shares);		
Issued - 159,546,224 shares (2013 - 159,546,224 shares);		
Outstanding - 153,182,592 shares (2013 - 153,126,291 shares)	19.8	19.8
Capital in excess of par value of shares	2,318.0	2,329.5
Retained earnings	3,276.0	3,407.3
Cost of 6,363,632 common shares in treasury (2013 - 6,419,933 shares)	(297.3	) (305.5
Accumulated other comprehensive loss	(20.2	) (112.9
TOTAL CLIFFS SHAREHOLDERS' EQUITY	6,027.6	6,069.5
NONCONTROLLING INTEREST	802.0	814.8
TOTAL EQUITY	6,829.6	6,884.3
TOTAL LIABILITIES AND EQUITY	\$ 13,102.4	\$ 13,121.9

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

Table of ContentsStatements of Unaudited Condensed Consolidated Cash Flows
Cliffs Natural Resources Inc. and Subsidiaries

	(In Millions)	
	Six Months Ended	
	June 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income (loss)	\$(56.2	) \$262.1
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation, depletion and amortization	286.4	284.9
Deferred income taxes	(139.0	) (121.5
Other	24.8	52.3
Changes in operating assets and liabilities:		
Receivables and other assets	85.5	87.2
Product inventories	(251.7	) (105.8
Payables and accrued expenses	(73.7	) (70.3
Net cash provided (used) by operating activities	(123.9	) 388.9
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(164.3	) (501.2
Other investing activities	16.0	0.9
Net cash used by investing activities	(148.3	) (500.3
FINANCING ACTIVITIES		
Net proceeds from issuance of Series A, Mandatory Convertible Preferred Stock, Class A	—	709.4
Net proceeds from issuance of common shares	—	285.3
Repayment of term loan	—	(847.1
Borrowings under credit facilities	730.4	437.0
Repayment under credit facilities	(315.6	) (322.0
Common stock dividends	(46.0	) (46.0
Preferred stock dividends	(25.6	) (10.0
Other financing activities	(52.5	) (13.3
Net cash provided by financing activities	290.7	193.3
EFFECT OF EXCHANGE RATE CHANGES ON CASH	5.9	(13.8
INCREASE IN CASH AND CASH EQUIVALENTS	24.4	68.1
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	335.5	195.2
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$359.9	\$263.3

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
See NOTE 19 - CASH FLOW INFORMATION.

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Cliffs Natural Resources Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

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 six months ended June 30, 2014 are not necessarily indicative of results to be expected for the year ending December 31, 2014 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, 2013.

Basis of Consolidation

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	Newfoundland and Labrador/ Quebec, Canada	100.0%	Iron Ore
Bloom Lake	Quebec, Canada	82.8%	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. Cliffs Chromite Ontario Inc. holds a 100 percent interest in each of the Black Label and Black Thor chromite deposits and, together with Cliffs Chromite Far North Inc., a 70 percent interest in the Big Daddy chromite deposit, all located in northern Ontario, Canada.

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Equity Method Investments

Investments in unconsolidated ventures that we have the ability to exercise significant influence over, but not control, are accounted for under the equity method. 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, 2014 and December 31, 2013. Parentheses indicate a net liability.

Investment	Classification	Accounting Method	Interest Percentage	(In Millions)	
				June 30, 2014	December 31, 2013
Hibbing	Other non-current assets ¹	Equity Method	23%	\$9.5	\$(3.9)
Other	Other non-current assets	Equity Method	Various	34.1	34.7
				\$43.6	\$30.8

¹ At December 31, 2013, the classification for Hibbing was Other liabilities.

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, 2013 included in our Annual Report on Form 10-K filed with the SEC. The significant accounting policies requiring updates have been included within the disclosures below.

Foreign Currency

Our financial statements are prepared with the U.S. dollar as the reporting currency. The functional currency of the Company's Australian subsidiaries is the Australian dollar. The functional currency of all other international subsidiaries is the U.S. dollar. The financial statements of international subsidiaries are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for revenues, expenses, gains and losses. Where the local currency is the functional currency, translation adjustments are recorded as Accumulated other comprehensive loss. Income taxes generally are not provided for foreign currency translation adjustments. To the extent that monetary assets and liabilities, inclusive of intercompany notes, are recorded in a currency other than the functional currency, these amounts are remeasured each reporting period, with the resulting gain or loss being recorded in the Statements of Unaudited Condensed Consolidated Operations. Transaction gains and losses resulting from remeasurement of short-term intercompany loans are included in Miscellaneous - net in our Statements of Unaudited Condensed Consolidated Operations. For the three and six months ended June 30, 2014, net losses of \$11.4 million and \$18.1 million, respectively, related to the impact of transaction gains and losses resulting from remeasurement. Of these transaction gains and losses, for the three months ended June 30, 2014, losses of \$4.2 million and \$2.0 million, respectively, and for the six months ended June 30, 2014 losses of \$13.0 million and \$5.1 million, respectively, resulted from remeasurement of short-term intercompany loans and cash and cash equivalents. For the three and six months ended June 30, 2013, net gains of \$47.0 million and \$50.5 million, respectively, related to the impact of transaction gains and losses resulting from remeasurement. Of these transaction gains and losses, for the three months ended June 30, 2013 gains of \$28.7 million and \$12.2 million, respectively, and for the six months ended June 30, 2013 \$28.2 million and \$11.9 million, respectively, resulted from remeasurement of short-term intercompany loans and cash and cash equivalents.

Recent Accounting Pronouncements

In June 2014, the FASB amended the accounting guidance for share-based payments through ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. Under the updated guidance, performance targets that affect vesting and that could be achieved after the requisite service period are treated as performance conditions. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized

prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that

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ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The update is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 and may be adopted either prospectively or retrospectively. Earlier adoption is permitted. We are currently evaluating the impact the adoption of the updated guidance will have on the Statements of Unaudited Condensed Consolidated Financial Position, Statements of Unaudited Condensed Consolidated Operations or Statements of Unaudited Condensed Consolidated Cash Flows and do not expect that this guidance will have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The new revenue guidance broadly replaces the revenue guidance provided throughout the Codification. The core principle of the revenue guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new revenue guidance also requires the capitalization of certain contract acquisition costs. Reporting entities must provide new disclosures providing qualitative and quantitative information on the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. New disclosures also include qualitative and quantitative information on significant judgments, changes in judgments, and contract acquisition assets. The update is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016 and may be adopted either retrospectively or retrospectively with the cumulative effect. Earlier adoption is not permitted. We are still evaluating the impact of the updated guidance on the Statements of Unaudited Condensed Consolidated Financial Position, Statements of Unaudited Condensed Consolidated Operations or Statements of Unaudited Condensed Consolidated Cash Flows.

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, 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 four 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 were no intersegment revenues in the first half of 2014 or 2013.

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 Ferroalloys and Global Exploration Group operating segments do not meet reportable segment disclosure requirements and, therefore, are not reported separately. In alignment with our capital allocation strategy, we anticipate decreased levels of exploration spending in our Global Exploration Group and Ferroalloys operation segments throughout 2014.

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.

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The following table presents a summary of our reportable segments for the three and six months ended June 30, 2014 and 2013, including a reconciliation of segment sales margin to Income (Loss) from Continuing Operations Before Income Taxes and Equity Loss from Ventures:

	(In Millions)									
	Three Months Ended					Six Months Ended				
	June 30,					June 30,				
	2014		2013			2014		2013		
Revenues from product sales and services:										
U.S. Iron Ore	\$514.6	47 %	\$701.7	47 %	\$875.9	43 %	\$1,111.8	42 %		
Eastern Canadian Iron Ore	174.0	16 %	213.9	14 %	332.3	16 %	459.2	17 %		
Asia Pacific Iron Ore	233.1	21 %	327.0	22 %	487.3	24 %	597.8	23 %		
North American Coal	179.1	16 %	245.9	17 %	345.3	17 %	460.2	18 %		
Total revenues from product sales and services	\$1,100.8	100 %	\$1,488.5	100 %	\$2,040.8	100 %	\$2,629.0	100 %		
Sales margin:										
U.S. Iron Ore	\$147.2		\$216.3		\$242.2		\$373.6			
Eastern Canadian Iron Ore	(38.5)		(49.7)		(88.2)		(30.3)			
Asia Pacific Iron Ore	36.0		95.0		102.3		156.3			
North American Coal	(52.7)		6.6		(101.1)		8.4			
Other	—		—		—		(1.9)			
Sales margin	92.0		268.2		155.2		506.1			
Other operating expense	(103.7)		(6.2)		(217.6)		(75.8)			
Other expense	(42.6)		(43.5)		(84.1)		(91.5)			
Income (loss) from continuing operations before income taxes and equity loss from ventures	\$(54.3)		\$218.5		\$(146.5)		\$338.8			
Depreciation, depletion and amortization:										
U.S. Iron Ore	\$26.6		\$28.4		\$55.3		\$55.0			
Eastern Canadian Iron Ore	42.4		42.4		83.6		83.5			
Asia Pacific Iron Ore	42.3		41.7		81.4		78.1			
North American Coal	32.0		28.4		61.9		60.9			
Other	2.0		3.4		4.2		7.4			
Total depreciation, depletion and amortization	\$145.3		\$144.3		\$286.4		\$284.9			
Capital additions ¹ :										
U.S. Iron Ore	\$14.0		\$12.2		\$28.9		\$23.9			
Eastern Canadian Iron Ore	23.1		186.8		74.1		353.8			
Asia Pacific Iron Ore	2.0		2.3		5.2		6.6			
North American Coal	11.0		15.7		20.2		26.8			
Other	1.9		1.1		2.8		2.7			
Total capital additions	\$52.0		\$218.1		\$131.2		\$413.8			

¹ Includes capital lease additions and non-cash accruals. Refer to NOTE 19 - CASH FLOW INFORMATION.

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A summary of assets by segment is as follows:

	(In Millions)	
	June 30, 2014	December 31, 2013
Assets:		
U.S. Iron Ore	\$ 1,825.2	\$ 1,671.6
Eastern Canadian Iron Ore	7,740.8	7,915.5
Asia Pacific Iron Ore	1,046.0	1,078.4
North American Coal	1,750.6	1,841.8
Other	513.4	455.6
Total segment assets	12,876.0	12,962.9
Corporate	226.4	159.0
Total assets	\$ 13,102.4	\$ 13,121.9

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, 2014 and December 31, 2013:

Derivative Instrument	(In Millions)							
	Derivative Assets				Derivative Liabilities			
	June 30, 2014		December 31, 2013		June 30, 2014		December 31, 2013	
	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:								
Interest Rate Swaps	Other current assets	\$ 3.6		\$ —		\$ —	Other current liabilities	\$ 2.1
Foreign Exchange Contracts	Other current assets	12.1	Other current assets	0.3	Other current liabilities	0.5	Other current liabilities	25.8
Total derivatives designated as hedging instruments under ASC 815		\$ 15.7		\$ 0.3		\$ 0.5		\$ 27.9
Derivatives not designated as hedging instruments under ASC 815:								
Foreign Exchange Contracts		\$ —		\$ —		\$ —	Other current liabilities	\$ 1.1
Customer Supply Agreement	Other current assets	33.0	Other current assets	55.8		—		—
Provisional Pricing Arrangements		—	Other current assets	3.1	Other current liabilities	20.2	Other current liabilities	10.3
Total derivatives not designated as hedging instruments under ASC 815		\$ 33.0		\$ 58.9		\$ 20.2		\$ 11.4

Total derivatives	\$48.7	\$59.2	\$20.7	\$39.3
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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 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 entities with 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 currency exchange rates 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, 2014, we had outstanding Australian and Canadian foreign currency exchange contracts with notional amounts of \$300.0 million and \$259.1 million, respectively, in the form of forward contracts with varying maturity dates ranging from July 2014 to June 2015. This compares with outstanding Australian and Canadian foreign currency exchange contracts with a notional amount of \$323.0 million and \$285.9 million, respectively, as of December 31, 2013.

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, 2014 and 2013, there was no material ineffectiveness recorded for foreign exchange contracts that were classified as cash flow hedges. However, certain Canadian hedge contracts were deemed ineffective during the fourth quarter of 2013 and no longer qualified for hedge accounting treatment. The de-designated hedges are discussed within the Derivatives Not Designated as Hedging Instruments section of this footnote. Amounts recorded as a component of Accumulated other comprehensive loss are reclassified into earnings in the same period the forecasted transactions affect earnings. Of the amounts remaining in Accumulated other comprehensive loss related to Australian hedge contracts and Canadian hedge contracts, we estimate that gains of \$6.8 million and gains of \$1.4 million (net of tax), respectively, will be reclassified into earnings within the next 12 months.

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The following summarizes the effect of our derivatives designated as cash flow hedging instruments, net of tax in Accumulated other comprehensive loss in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2014 and 2013:

Derivatives in Cash Flow Hedging Relationships	(In Millions)		Location of Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	
	Three Months Ended			Three Months Ended	
	June 30, 2014	2013		June 30, 2014	2013
Australian Dollar Foreign Exchange Contracts (hedge designation)	\$3.7	\$(31.3)	) Product revenues	\$(3.7)	) \$2.6
Canadian Dollar Foreign Exchange Contracts (hedge designation)	6.0	(10.9)	) Cost of goods sold and operating expenses	(2.7)	) (0.4)
Canadian Dollar Foreign Exchange Contracts (prior to de-designation)	—	—	Cost of goods sold and operating expenses	(0.2)) —
Total	\$9.7	\$(42.2)	)	\$(6.6)	) \$2.2
	Six Months Ended			Six Months Ended	
	June 30, 2014	2013		June 30, 2014	2013
Australian Dollar Foreign Exchange Contracts (hedge designation)	\$9.2	\$(28.1)	) Product revenues	\$(12.8)	) \$4.4
Canadian Dollar Foreign Exchange Contracts (hedge designation)	(1.8)	) (19.1)	) Cost of goods sold and operating expenses	(6.1)	) (0.2)
Canadian Dollar Foreign Exchange Contracts (prior to de-designation)	—	—	Cost of goods sold and operating expenses	(0.5)) —
	\$7.4	\$(47.2)	)	\$(19.4)	) \$4.2

Fair Value Hedges**Interest Rate Hedges**

Our fixed-to-variable interest rate swap derivative instruments, with a notional amount of \$250.0 million, are designated and qualify as fair value hedges as of June 30, 2014. The objective of the hedges is to offset changes in the fair value of our debt instruments associated with fluctuations in the benchmark LIBOR interest rate as part of our risk management strategy.

For derivative instruments that are designated and qualify as fair-value hedges, the gain or loss on the hedge instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in net income. We include the gain or loss on the derivative instrument and the offsetting loss or gain on the hedged item in Other non-operating income. The net gains recognized in Other non-operating income for the three and six months ended June 30, 2014 were \$0.1 million and \$0.3 million, respectively. There were no derivative instruments that were designated as fair-value hedges for the period ended June 30, 2013.

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Derivatives Not Designated as Hedging Instruments

Foreign Exchange Contracts

During the fourth quarter of 2013, we discontinued hedge accounting for Canadian foreign currency exchange contracts for all outstanding contracts associated with the Wabush operation and the Ferroalloys operating segment as projected future cash flows were no longer considered probable, but we continue to hold these instruments as economic hedges to manage currency risk. Subsequent to de-designation, no further foreign currency exchange contracts were entered into for the Wabush operation or the Ferroalloys operating segment. As of June 30, 2014, there were no outstanding de-designated foreign currency exchange rate contracts as all remaining de-designated foreign exchange contracts matured during the second quarter of 2014. This compares with outstanding de-designated foreign currency exchange contracts with a notional amount of \$74.8 million as of December 31, 2013.

As a result of discontinued hedge accounting, the instruments are prospectively adjusted to fair value each reporting period through Cost of goods sold and operating expenses on the Statements of Unaudited Condensed Consolidated Operations. For the three and six months ended June 30, 2014, the change in fair value of our de-designated foreign currency exchange contracts resulted in net losses of \$2.4 million and \$3.3 million, respectively. The amounts that were previously recorded as a component of Accumulated other comprehensive loss prior to de-designation will be reclassified to earnings and a corresponding realized gain or loss will be recognized when the forecasted cash flow occurs. For the three and six months ended June 30, 2014, we reclassified losses of \$0.2 million and \$0.5 million, respectively, from Accumulated other comprehensive loss related to contracts that matured during the period, and recorded the amounts as Cost of goods sold and operating expenses on the Statements of Unaudited Condensed Consolidated Operations. As of June 30, 2014, no gains or losses remain in Accumulated other comprehensive loss related to the effective cash flow hedge contracts prior to de-designation as all de-designated hedges matured by the end of the second quarter of 2014.

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. The base price is the primary component of the purchase price for each contract. The indexed price adjustment factors are integral to the iron ore supply contracts and vary based on the agreement, but typically include adjustments based upon changes in the Platts 62 percent Fe spot rate and/or international pellet prices and changes in specified Producer Price Indices, including those for all commodities, industrial commodities, energy and steel. The pricing 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. In most cases, these adjustment factors have not been finalized at the time our product is sold. In these cases, we historically have estimated the adjustment factors at each reporting period based upon the best third-party information available. The estimates are then adjusted to actual when the information has been finalized. 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.

A certain supply agreement with one U.S. Iron Ore customer provides 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 \$34.3 million and \$62.0 million as Product revenues in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2014, respectively, related to the supplemental payments. This compares with Product revenues of \$35.4 million and \$59.5 million for the comparable respective periods in 2013. Derivative assets, representing the fair value of the pricing factors, were \$33.0 million and \$55.8 million in the June 30, 2014 and December 31, 2013 Statements of Unaudited Condensed Consolidated Financial Position, respectively.

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 revenue rate to be based on market inputs at a specified period in time in the future, per the terms of the supply agreements. The difference between the provisionally agreed-upon price and the estimated final revenue rate is

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characterized as a freestanding derivative and is required to be accounted for separately once the provisional 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 revenue rate is determined. At June 30, 2014 we had no Other current assets recorded related to our estimate of the final revenue rate with any of our customers. At December 31, 2013, we recorded \$3.1 million as Other current assets in the Statements of Unaudited Condensed Consolidated Financial Position related to our estimate of the final revenue rate with our U.S. Iron Ore, Eastern Canadian Iron Ore and Asia Pacific Iron Ore customers. At June 30, 2014 and December 31, 2013, we recorded \$20.2 million and \$10.3 million, respectively, as Other current liabilities in the Statements of Unaudited Condensed Consolidated Financial Position related to our estimate of the final revenue rate with our U.S. Iron Ore and Asia Pacific Iron Ore customers and our U.S. Iron Ore, Eastern Canadian Iron Ore and Asia Pacific 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 revenue rate based on the price calculations established in the supply agreements. As a result, we recognized a net \$14.1 million decrease and a net \$20.2 million decrease in Product revenues in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2014, respectively, related to these arrangements. This compares with a net \$28.2 million decrease and a net \$31.1 million decrease in Product revenues for the comparable respective periods in 2013.

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, 2014 and 2013:

(In Millions)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
Foreign Exchange Contracts	Cost of goods sold and operating expenses	\$(2.4)	) \$—	\$(3.3)) \$—
Customer Supply Agreement	Product revenues	34.3	35.4	62.0	59.5
Provisional Pricing Arrangements	Product revenues	(14.1)	) (28.2)	) (20.2)	) (31.1)
		\$17.8	\$7.2	\$38.5	\$28.4

Refer to NOTE 7 - 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, 2014 and December 31, 2013:

Segment	(In Millions)					
	June 30, 2014			December 31, 2013		
	Finished Goods	Work-in-Process	Total Inventory	Finished Goods	Work-in-Process	Total Inventory
U.S. Iron Ore	\$361.5	\$24.4	\$385.9	\$92.1	\$13.0	\$105.1
Eastern Canadian Iron Ore	34.4	51.9	86.3	65.3	48.1	113.4
Asia Pacific Iron Ore	39.6	75.9	115.5	39.7	50.6	90.3
North American Coal	45.0	16.1	61.1	59.4	23.2	82.6
Total	\$480.5	\$168.3	\$648.8	\$256.5	\$134.9	\$391.4

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We recorded lower-of-cost-or-market inventory charges of \$15.0 million and \$37.1 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, 2014, respectively, for our North American Coal operations. The charges at North American Coal were a result of market pricing declines during the periods. For the three and six months ended June 30, 2013, we recorded lower-of-cost-or-market inventory charges of \$0.7 million and \$2.7 million, respectively, for our North American Coal operations. These charges were a result of market declines and costs associated with operational and geological issues.

We recorded lower-of-cost-or-market inventory charges of \$2.6 million and \$16.0 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, 2014, respectively, for our Eastern Canadian Iron Ore operations. The \$2.6 million charge in the second quarter of 2014 relates to an adjustment of the remaining Wabush mine inventory to estimated net realizable value. The charges in the first quarter of 2014 at Eastern Canadian Iron Ore were a result of declines in Platts pricing and higher inventory costs at both Bloom Lake and Wabush. Bloom Lake's higher inventory costs were driven by the timing of maintenance activities and mine development, whereas Wabush's higher costs were driven by unfavorable production performance up to the idling of the Scully mine operation.

We recorded a lower-of-cost-or-market inventory charge during the second quarter of 2013 of \$11.1 million relating to Wabush pellets that were contractually committed tons. We additionally recorded a lower-of-cost-or-market inventory charge during the second quarter of 2013 of \$4.7 million relating to the Wabush sinter feed caused by higher costs as a result of the transition of product being produced and the forest fire that temporarily idled the mine in June. An unsaleable inventory impairment charge was recorded in the second quarter of 2013 relating to Wabush pellets of \$10.6 million as a result of our idling of the Wabush pellet plant during the second quarter of 2013. All of these charges recorded during the second quarter were recorded 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, 2013 for our Eastern Canadian Iron Ore operations.

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, 2014 and December 31, 2013:

	(In Millions)	
	June 30, 2014	December 31, 2013
Land rights and mineral rights	\$7,854.2	\$7,819.6
Office and information technology	125.8	125.7
Buildings	307.1	255.2
Mining equipment	2,199.3	1,819.3
Processing equipment	1,943.9	2,148.6
Electric power facilities	114.6	114.3
Port facilities	105.1	99.4
Interest capitalized during construction	23.1	23.8
Land improvements	54.5	69.3
Other	89.6	104.4
Construction in-progress	892.8	991.3
	13,710.0	13,570.9
Accumulated depreciation and depletion	(2,705.2	) (2,417.5
	\$ 11,004.8	\$ 11,153.4

We recorded depreciation and depletion expense of \$142.5 million and \$280.9 million in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2014, respectively. This compares with depreciation and depletion expense of \$138.9 million and \$274.9 million for the three and six months ended June 30, 2013, respectively.

The accumulated amount of capitalized interest included within construction in-progress at June 30, 2014 is \$31.2 million, of which \$1.0 million was capitalized during 2014. At December 31, 2013, \$31.4 million of capitalized interest was included within construction in-progress, of which \$17.4 million was capitalized during 2013.

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NOTE 6 - 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, 2014 and the year ended December 31, 2013:

	(In Millions)						(In Millions)					
	June 30, 2014						December 31, 2013					
	U.S. Iron Ore	Eastern Canadian Iron Ore	Asia Pacific Iron Ore	North America Coal	Other	Total	U.S. Iron Ore	Eastern Canadian Iron Ore	Asia Pacific Iron Ore	North America Coal	Other	Total
Beginning Balance	\$2.0	\$—	\$72.5	\$—	\$—	\$74.5	\$2.0	\$—	\$84.5	\$—	\$80.9	\$167.4
Arising in business combinations	—	—	—	—	—	—	—	—	—	—	—	—
Impairment	—	—	—	—	—	—	—	—	—	—	(80.9)	(80.9)
Impact of foreign currency translation	—	—	4.1	—	—	4.1	—	—	(12.0)	—	—	(12.0)
Ending Balance	\$2.0	\$—	\$76.6	\$—	\$—	\$78.6	\$2.0	\$—	\$72.5	\$—	\$—	\$74.5
Accumulated goodwill impairment loss	\$—	\$(1,000.0)	\$—	\$(27.8)	\$(80.9)	\$(1,108.7)	\$—	\$(1,000.0)	\$—	\$(27.8)	\$(80.9)	\$(1,108.7)

Other Intangible Assets and Liabilities

Following is a summary of intangible assets and liabilities as of June 30, 2014 and December 31, 2013:

	Classification	(In Millions)			(In Millions)		
		June 30, 2014			December 31, 2013		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:							
Permits	Intangible assets, net	\$130.2	\$(41.6)	\$88.6	\$127.4	\$(35.9)	\$91.5
Utility contracts	Intangible assets, net	54.7	(53.9)	0.8	54.7	(53.1)	1.6
Leases	Intangible assets, net	2.4	(0.2)	2.2	2.4	(0.1)	2.3
Total intangible assets		\$187.3	\$(95.7)	\$91.6	\$184.5	\$(89.1)	\$95.4
Below-market sales contracts	Other current liabilities	\$(23.0)	\$—	\$(23.0)	\$(23.0)	\$—	\$(23.0)
Below-market sales contracts	Other liabilities	(205.9)	167.4	(38.5)	(205.9)	159.7	(46.2)
Total below-market sales contracts		\$(228.9)	\$167.4	\$(61.5)	\$(228.9)	\$159.7	\$(69.2)

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Amortization expense relating to intangible assets was \$2.8 million and \$5.5 million, respectively, for the three and six months ended June 30, 2014 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 \$5.3 million and \$10.0 million for the comparable respective periods in 2013. The estimated amortization expense relating to intangible assets for the remainder of this year and each of the five succeeding years is as follows:

	(In Millions)
	Amount
Year Ending December 31,	
2014 (remaining six months)	\$4.6
2015	7.9
2016	7.0
2017	6.4
2018	7.4
2019	7.4
Total	\$40.7

The below-market sales contracts are classified as a liability and recognized over the term of the underlying contracts. The outstanding below-market sales contract has a remaining life of approximately three years. For the three and six months ended June 30, 2014 and 2013, we recognized \$7.6 million and \$14.7 million, respectively, in Product revenues related to below-market sales contracts. The following amounts are estimated to be recognized in Product revenues for the remainder of this year and each of the three succeeding fiscal years:

	(In Millions)
	Amount
Year Ending December 31,	
2014 (remaining six months)	\$15.4
2015	23.0
2016	23.0
2017	0.1
Total	\$61.5

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NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following represents the assets and liabilities of the Company measured at fair value at June 30, 2014 and December 31, 2013:

Description	(In Millions)			Total
	June 30, 2014			
	Quoted Prices in			
	Active	Significant Other	Significant	
	Markets for	Observable Inputs	Unobservable	
	Identical	(Level 2)	Inputs	
	Assets/Liabilities		(Level 3)	
	(Level 1)			
Assets:				
Cash equivalents	\$ 84.0	\$—	\$—	\$ 84.0
Derivative assets	—	3.6	33.0	36.6
Available-for-sale marketable securities	27.1	—	—	27.1
Foreign exchange contracts	—	12.1	—	12.1
Total	\$ 111.1	\$ 15.7	\$ 33.0	\$ 159.8
Liabilities:				
Derivative liabilities	\$—	\$—	\$ 20.2	\$ 20.2
Foreign exchange contracts	—	0.5	—	0.5
Total	\$—	\$ 0.5	\$ 20.2	\$ 20.7

Description	(In Millions)			Total
	December 31, 2013			
	Quoted Prices in			
	Active	Significant Other	Significant	
	Markets for	Observable Inputs	Unobservable	
	Identical	(Level 2)	Inputs	
	Assets/Liabilities		(Level 3)	
	(Level 1)			
Assets:				
Cash equivalents	\$ 85.0	\$—	\$—	\$ 85.0
Derivative assets	—	—	58.9	58.9
Available-for-sale marketable securities	21.4	—	—	21.4
Foreign exchange contracts	—	0.3	—	0.3
Total	\$ 106.4	\$ 0.3	\$ 58.9	\$ 165.6
Liabilities:				
Derivative liabilities	\$—	\$ 2.1	\$ 10.3	\$ 12.4
Foreign exchange contracts	—	26.9	—	26.9
Total	\$—	\$ 29.0	\$ 10.3	\$ 39.3

Financial assets classified in Level 1 at June 30, 2014 and December 31, 2013 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 June 30, 2014 and December 31, 2013, such derivative financial instruments included

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our existing foreign currency exchange contracts and interest rate swaps. 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 June 30, 2014 and December 31, 2013 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 also consisted of derivatives related to certain provisional pricing arrangements with our U.S. Iron Ore and Asia Pacific Iron Ore customers at June 30, 2014 and to certain provisional pricing arrangements with our U.S. Iron Ore, Eastern Canadian Iron Ore and Asia Pacific Iron Ore customers at December 31, 2013. These provisional pricing arrangements specify provisional price calculations, where the pricing mechanisms generally are based on market pricing, with the final revenue rate 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 revenue rate 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 revenue rate is determined.

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 June 30, 2014	Balance Sheet Location	Valuation Technique	Unobservable Input	Range or Point Estimate (Weighted Average)
Provisional Pricing Arrangements	\$20.2	Derivative liabilities	Market Approach	Management's Estimate of 62% Fe	\$93
Customer Supply Agreement	\$33.0	Derivative assets	Market Approach	Hot-Rolled Steel Estimate	\$635 - \$665 (\$650)

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 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 measurement, respectively.

The significant unobservable input used in the fair value measurement of the reporting entity's customer supply agreement is the future hot-rolled steel price that is estimated based on current market data, analysts' projections, projections provided by the customer and forward-looking estimates determined by management. Significant increases or decreases in this input would result in a significantly higher or lower fair value measurement, respectively.

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We recognize any transfers between levels as of the beginning of the reporting period. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the three and six months ended June 30, 2014 or 2013. The following tables represent 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 six months ended June 30, 2014 and 2013.

	(In Millions)			
	Derivative Assets (Level 3)			
	Three Months Ended		Six Months Ended	
	June 30,	2013	June 30,	2013
	2014	2013	2014	2013
Beginning balance	\$43.3	\$53.3	\$58.9	\$62.4
Total gains				
Included in earnings	33.0	32.4	62.0	60.4
Settlements	(43.3	) (40.6	) (87.9	) (77.7
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Ending balance - June 30	\$33.0	\$45.1	\$33.0	\$45.1
Total gains for the period included in earnings attributable to the change in unrealized gains on assets still held at the reporting date	\$33.0	\$32.4	\$62.0	\$60.4

	(In Millions)			
	Derivative Liabilities (Level 3)			
	Three Months Ended		Six Months Ended	
	June 30,	2013	June 30,	2013
	2014	2013	2014	2013
Beginning balance	\$(7.4	) \$(6.8	) \$(10.3	) \$(11.3
Total gains				
Included in earnings	(12.8	) (25.2	) (20.2	) (32.0
Settlements	—	—	10.3	11.3
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Ending balance - June 30	\$(20.2	) \$(32.0	) \$(20.2	) \$(32.0
Total losses for the period included in earnings attributable to the change in unrealized losses on liabilities still held at the reporting date	\$(12.8	) \$(25.2	) \$(20.2	) \$(32.0

Gains and losses included in earnings are reported in Product revenues in the Statements of Unaudited Condensed Consolidated Operations for the three and six months ended June 30, 2014 and 2013.

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The carrying amount for certain financial instruments (e.g., Accounts receivable, net, 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 June 30, 2014 and December 31, 2013 were as follows:

	Classification	(In Millions)		December 31, 2013	
		June 30, 2014 Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt:					
Senior notes—\$700 million	Level 2	\$ 699.5	\$ 756.6	\$ 699.4	\$ 718.2
Senior notes—\$1.3 billion	Level 2	1,289.8	1,537.4	1,289.6	1,404.9
Senior notes—\$400 million	Level 2	398.5	450.2	398.4	432.1
Senior notes—\$500 million	Level 2	496.9	532.4	496.5	523.8
Revolving loan	Level 2	275.0	275.0	—	—
Equipment loan facilities	Level 2	130.0	130.0	140.8	140.8
Fair value adjustment to interest rate hedge	Level 2	3.3	3.3	(2.1	) (2.1)
Total long-term debt		\$ 3,293.0	\$ 3,684.9	\$ 3,022.6	\$ 3,217.7

The fair value of debt is based on the fair market yield curves for the remainder of the term expected to be outstanding. The fair value of long-term debt was determined using quoted market prices or discounted cash flows based upon current borrowing rates. The revolving loan is variable rate interest and approximates fair value. See NOTE 8 - DEBT AND CREDIT FACILITIES for further information.

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Items Measured at Fair Value on a Non-Recurring Basis

The following table presents information about the impairment charges on both financial and nonfinancial assets that were measured on a fair value basis at December 31, 2013. The table also indicates the fair value hierarchy of the valuation techniques used to determine such fair value. We had no financial assets and liabilities measured at fair value on a non-recurring basis at June 30, 2014.

Description	(In Millions)			Total	Total Losses
	December 31, 2013	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)			Significant Unobservable Inputs (Level 3)
Assets:					
Goodwill impairment - Ferroalloys reporting unit	\$—	\$—	\$—	\$—	\$ 80.9
Other long-lived assets - Property, plant and equipment	—	—	46.3	46.3	155.4
Other long-lived assets - Intangibles and long-term deposits	—	—	1.6	1.6	14.5
Investment in ventures impairment - Amapá	—	—	—	—	67.6
	\$—	\$—	\$47.9	\$47.9	\$ 318.4

Financial Assets

In light of the March 28, 2013 collapse of the Santana port shiploader and subsequent evaluation of the effect that this event had on the carrying value of our investment in Amapá as of June 30, 2013, we recorded an impairment charge of \$67.6 million in the second quarter of 2013. The sale of Amapá was completed in the fourth quarter of 2013.

Non-Financial Assets

During the fourth quarter of 2013, a goodwill impairment charge of \$80.9 million was recorded for our Cliffs Chromite Ontario and Cliffs Chromite Far North reporting units within our Ferroalloys operating segment. The impairment charge was primarily a result of the decision to indefinitely suspend the Chromite Project and to not allocate additional capital for the project given the uncertain timeline and risks associated with the development of necessary infrastructure to bring the project online. Based on our review of the fair value hierarchy, the inputs used in these fair value measurements were considered Level 3 inputs.

We also recorded impairment charges to property, plant and equipment during 2013 related to our Wabush operation within our Eastern Canadian Iron Ore operating segment, our Cliffs Chromite Ontario and Cliffs Chromite Far North reporting units within our Other reportable segments and certain mineral lands at our Asia Pacific Iron Ore operating segment to reduce the related assets to their estimated fair value as we determined that the cash flows associated with these operations were not sufficient to support the recoverability of the carrying value of these assets. Fair value was determined based on management's estimate of liquidation value, which is considered a Level 3 input, and resulted in a charge of \$155.4 million.

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NOTE 8 - DEBT AND CREDIT FACILITIES

The following represents a summary of our long-term debt as of June 30, 2014 and December 31, 2013:

(\$ in Millions)

June 30, 2014

Debt Instrument	Type	Annual Effective Interest Rate	Final Maturity	Total Face Amount	Total Debt	
\$700 Million 4.875% 2021 Senior Notes	Fixed	4.89%	2021	\$700.0	\$699.5	(1)
\$1.3 Billion Senior Notes:						
\$500 Million 4.80% 2020 Senior Notes	Fixed	4.83%	2020	500.0	499.3	(2)
\$800 Million 6.25% 2040 Senior Notes	Fixed	6.34%	2040	800.0	790.5	(3)
\$400 Million 5.90% 2020 Senior Notes	Fixed	5.98%	2020	400.0	398.5	(4)
\$500 Million 3.95% 2018 Senior Notes	Fixed	4.14%	2018	500.0	496.9	(5)
\$1.75 Billion Credit Facility:						
Revolving Loan	Variable	1.66%	2017	1,750.0	275.0	(6)
Equipment Loans	Fixed	Various	2020	164.8	151.4	
Short-Term Borrowing Arrangements			2014/2015	139.7	139.7	
Fair Value Adjustment to Interest Rate Hedge					3.3	
Total debt				\$4,954.5	\$3,454.1	
Less: Short-term and current portion of long-term debt					161.1	
Long-term debt					\$3,293.0	

(\$ in Millions)

December 31, 2013

Debt Instrument	Type	Annual Effective Interest Rate	Final Maturity	Total Face Amount	Total Debt	
\$700 Million 4.875% 2021 Senior Notes	Fixed	4.88%	2021	700.0	699.4	(1)
\$1.3 Billion Senior Notes:						
\$500 Million 4.80% 2020 Senior Notes	Fixed	4.83%	2020	500.0	499.2	(2)
\$800 Million 6.25% 2040 Senior Notes	Fixed	6.34%	2040	800.0	790.4	(3)
\$400 Million 5.90% 2020 Senior Notes	Fixed	5.98%	2020	400.0	398.4	(4)
\$500 Million 3.95% 2018 Senior Notes	Fixed	4.14%	2018	500.0	496.5	(5)
\$1.75 Billion Credit Facility:						
Revolving Loan	Variable	1.64%	2017	1,750.0	—	(6)
Equipment Loans	Fixed	Various	2020	164.8	161.7	
Fair Value Adjustment to Interest Rate Hedge					(2.1))
Total debt				\$4,814.8	\$3,043.5	
Less: Short-term and current portion of long-term debt					20.9	
Long-term debt					\$3,022.6	

As of June 30, 2014 and December 31, 2013, the \$700 million 4.875 percent senior notes were recorded at a par (1) value of \$700 million less unamortized discounts of \$0.5 million and \$0.6 million, respectively, based on an imputed interest rate of 4.89 percent.

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As of June 30, 2014 and December 31, 2013, the \$500 million 4.80 percent senior notes were recorded at a par (2) value of \$500 million less unamortized discounts of \$0.7 million and \$0.8 million, respectively, based on an imputed interest rate of 4.83 percent.

As of June 30, 2014 and December 31, 2013, the \$800 million 6.25 percent senior notes were recorded at a par (3) value of \$800 million less unamortized discounts of \$9.5 million and \$9.6 million, respectively, based on an imputed interest rate of 6.34 percent.

As of June 30, 2014 and December 31, 2013, the \$400 million 5.90 percent senior notes were recorded at a par (4) value of \$400 million less unamortized discounts of \$1.5 million and \$1.6 million, respectively, based on an imputed interest rate of 5.98 percent.

As of June 30, 2014 and December 31, 2013, the \$500 million 3.95 percent senior notes were recorded at a par (5) value of \$500 million less unamortized discounts of \$3.1 million and \$3.5 million, respectively, based on an imputed interest rate of 4.14 percent.

As of June 30, 2014, \$275.0 million of revolving loans were drawn under the credit facility. As of December 31, 2013, no revolving loans were drawn under the credit facility. As of June 30, 2014 and December 31, 2013, the (6) principal amount of letter of credit obligations totaled \$5.2 million and \$8.4 million, respectively, thereby reducing available borrowing capacity to \$1.5 billion and \$1.7 billion for each period, respectively.

Credit Facility

On June 30, 2014, we amended the Amended and Restated Multicurrency Credit Agreement among Cliffs Natural Resources Inc. and various lenders dated August 11, 2011 (as further amended by Amendment No. 1 as of October 16, 2012 and Amendment No. 2 as of February 8, 2013), or revolving credit agreement, to effect the following:

- Replacing the current maximum leverage covenant ratio of debt to earnings of less than 3.5 times with a maximum balance sheet leverage ratio of debt to capitalization of less than 45 percent.

- Resetting the minimum interest coverage ratio from 2.5 to 1.0 to the ratio of 3.5 to 1.0.

- Amending the definition of EBITDA to include certain cash charges related to the Company's Wabush mine and other cash restructuring charges and the definition of net worth to exclude up to \$1 billion in non-cash impairment charges.

- Modifying the covenants restricting certain investments and acquisitions, the incurrence of certain indebtedness and liens, and the amount of dividends that may be declared or paid and shares that may be repurchased.

The new amended revolving credit agreement terms are effective June 30, 2014, and remain in effect for the life of the revolving credit agreement. This amended revolving credit agreement allows our borrowing capacity to be less susceptible to the impact of volatile iron ore and metallurgical coal pricing.

As of June 30, 2014, we were in compliance with these financial covenants. Additionally, as of December 31, 2013, we were in compliance with all applicable financial covenants related to the revolving credit agreement.

Short-Term Borrowing Arrangements

As of June 30, 2014, we had outstanding borrowings of \$45.0 million on an uncommitted credit facility agreement which was used for general corporate purposes. Per the uncommitted credit agreement, each loan drawn cannot be outstanding less than 30 days or more than 90 days. Interest payable under the uncommitted credit facility is at a variable rate based on LIBOR plus an agreed upon margin of approximately one percent.

On April 22, 2014, we established an accounts receivable securitization facility for certain domestic subsidiaries that provides up to \$110 million of funding and expires on April 21, 2015. Availability under this facility is based on eligible receivable balances. At June 30, 2014, the amounts available and utilized under this program totaled \$57.3 million. Interest payable under the credit facility is at a variable rate based on LIBOR type rate plus an agreed upon margin of less than one percent.

As of June 30, 2014, we had outstanding borrowings of \$37.4 million on pre-export trade finance loans. Per the agreements, the loans drawn have fixed maturity dates that are short-term in nature. Interest payable under the pre-export trade finance loans are at a fixed rate of less than one percent.

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Letters of Credit

We issued standby letters of credit with certain financial institutions in order to support general business obligations including, but not limited to, workers compensation and environmental obligations. As of June 30, 2014 and December 31, 2013, these letter of credit obligations totaled \$48.0 million, respectively. All of these standby letters of credit are in addition to the letters of credit provided for under the revolving credit agreement.

Other Short-Term Facilities

Asia Pacific Iron Ore maintains a bank contingent instrument and cash advance facility. The facility, which is renewable annually at the bank's discretion, provides A\$30.0 million (\$28.3 million) at June 30, 2014 in credit for contingent instruments, such as performance bonds. At December 31, 2013, the facility provided A\$30.0 million (\$26.8 million) in credit for contingent instruments. As of June 30, 2014, the outstanding bank guarantees under the facility totaled A\$23.0 million (\$21.7 million), thereby reducing borrowing capacity to A\$7.0 million (\$6.6 million). As of December 31, 2013, the outstanding bank guarantees under the facility totaled A\$23.0 million (\$20.5 million), thereby reducing borrowing capacity to A\$7.0 million (\$6.3 million). We have provided a guarantee of the facility, along with certain of our Australian subsidiaries. The terms of the short-term facility contain certain customary covenants; however, there are no financial covenants.

Debt Maturities

The following represents a summary of our maturities of debt instruments, excluding borrowings on the revolving credit agreement, based on the principal amounts outstanding at June 30, 2014:

	(In Millions)
	Maturities of Debt
2014 (July 1 - December 31)	\$ 150.4
2015	21.8
2016	22.7
2017	23.6
2018	524.6
2019 and thereafter	2,448.0
Total maturities of debt	\$3,191.1

NOTE 9 - 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 \$4.0 million and \$11.3 million for the three and six months ended June 30, 2014, respectively, compared with \$7.4 million and \$14.2 million for the same respective period in 2013.

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Future minimum payments under capital leases and non-cancellable operating leases at June 30, 2014 are as follows:

	(In Millions)	
	Capital Leases	Operating Leases
2014 (July 1 - December 31)	\$ 33.5	\$ 9.5
2015	89.0	14.2
2016	38.0	9.2
2017	30.5	8.3
2018	22.4	7.1
2019 and thereafter	37.8	14.7
Total minimum lease payments	\$ 251.2	\$ 63.0
Amounts representing interest	43.4	
Present value of net minimum lease payments	\$ 207.8	(1)

The total is comprised of \$82.0 million and \$125.7 million classified as Other current liabilities and Other (1) liabilities, respectively, in the Statements of Unaudited Condensed Consolidated Financial Position at June 30, 2014.

NOTE 10 - ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS

We had environmental and mine closure liabilities of \$310.3 million and \$321.0 million at June 30, 2014 and December 31, 2013, respectively. The following is a summary of the obligations as of June 30, 2014 and December 31, 2013:

	(In Millions)	
	June 30, 2014	December 31, 2013
Environmental	\$ 11.0	\$ 8.4
Mine closure		
LTVSMC	22.4	22.0
Operating mines:		
U.S. Iron Ore	137.5	152.2
Eastern Canadian Iron Ore	76.3	78.2
Asia Pacific Iron Ore	27.4	25.5
North American Coal	35.7	34.7
Total mine closure	299.3	312.6
Total environmental and mine closure obligations	310.3	321.0
Less current portion	5.6	11.3
Long term environmental and mine closure obligations	\$ 304.7	\$ 309.7

Mine Closure
The accrued closure obligation for our active mining operations provides for contractual and legal obligations associated with the eventual closure of the mining operations. The accretion of the liability and amortization of the related asset is recognized over the estimated mine lives for each location.

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The following represents a rollforward of our asset retirement obligation liability related to our active mining locations for the six months ended June 30, 2014 and for the year ended December 31, 2013:

(In Millions)

	June 30, 2014	December 31, 2013 ⁽¹⁾
Asset retirement obligation at beginning of period	\$ 290.6	\$ 231.1
Accretion expense	7.2	18.1
Exchange rate changes	1.2	(3.4)
Revision in estimated cash flows	(22.1	) 44.8
Asset retirement obligation at end of period	\$ 276.9	\$ 290.6

⁽¹⁾ Represents a 12-month rollforward of our asset retirement obligation at December 31, 2013.

The revisions in estimated cash flows recorded during the six months ended June 30, 2014 primarily were a result of the announced Empire Mine extension during the first quarter of 2014. As a result of the extension, a portion of the required storm water management systems are now expected to be implemented prior to closure of the mine.

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NOTE 11 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The following are the components of defined benefit pension and OPEB expense for the three and six months ended June 30, 2014 and 2013:

Defined Benefit Pension Expense

	(In Millions)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Service cost	\$7.9	\$9.7	\$15.9	\$19.6
Interest cost	12.5	11.7	25.0	23.2
Expected return on plan assets	(18.0)	) (20.0)	) (36.0)	) (33.1)
Amortization:				
Prior service costs	6.5	0.8	7.2	1.5
Net actuarial (gain) loss	(2.3)	) 8.2	1.3	15.0
Curtailments/settlements	\$0.9	\$—	1.2	—
Net periodic benefit cost	\$7.5	\$10.4	\$14.6	\$26.2

Other Postretirement Benefits Expense

	(In Millions)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Service cost	\$2.0	\$3.1	\$4.0	\$6.2
Interest cost	4.1	4.4	8.1	8.7
Expected return on plan assets	(4.3)	) (5.0)	) (8.6)	) (10.0)
Amortization:				
Prior service costs	(0.9)	) (0.9)	) (1.8)	) (1.8)
Net actuarial loss	1.1	3.0	2.3	5.8
Net periodic benefit cost	\$2.0	\$4.6	\$4.0	\$8.9

We made pension contributions of \$10.4 million and \$14.6 million for the three and six months ended June 30, 2014, respectively, compared to pension contributions of \$11.4 million and \$15.1 million for the three and six months ended June 30, 2013, respectively. OPEB contributions are typically made on an annual basis in the first quarter of each year, but due to plan funding requirements being met, no OPEB contributions were required or made for the six months ended June 30, 2014. OPEB contributions were \$14.1 million for the six months ended June 30, 2013.

NOTE 12 - STOCK COMPENSATION PLANS

Employees' Plans

The Compensation and Organization Committee ("Committee") of the board of directors approved grants on February 10, 2014 and May 12, 2014 to certain officers and employees under our shareholder-approved 2012 Equity Plan for the 2014 to 2016 performance period. Shares granted under the awards during 2014 consisted of 0.5 million performance shares and 0.2 million restricted share units.

The 2012 Equity Plan was approved by our board of directors on March 13, 2012 and our shareholders approved it on May 8, 2012, effective as of March 13, 2012. The 2012 Equity Plan replaced the ICE Plan. The maximum number of shares that may be issued under the 2012 Equity Plan is 6.0 million common shares. No additional grants were issued from the ICE Plan after the date of approval of the 2012 Equity Plan; however, all awards previously granted under the ICE Plan continue in full force and effect in accordance with the terms of the award.

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On February 10, 2014, upon recommendation by the Committee, Cliffs' Board approved and adopted, subject to the approval of Cliffs' shareholders at the 2014 annual meeting of shareholders, the Cliffs Amended and Restated 2012 Incentive Equity Plan, or Revised Incentive Plan. The principal reason for amending and restating the 2012 Equity Plan is to increase the number of common shares available for issuance by 5.0 million common shares. Upon shareholder approval, additional grants to employees will be made for the 2014 to 2016 performance period. For the outstanding ICE Plan and 2012 Equity Plan awards, each performance share, if earned, entitles the holder to receive common shares or cash within a range between a threshold and maximum number of our common shares, with the actual number of common shares earned dependent upon whether the Company achieves certain objectives and performance goals as established by the Committee. The performance share or unit grants vest over a period of three years and are intended to be paid out in common shares or cash in certain circumstances. Performance for the 2012 to 2014, 2013 to 2015 and 2014 to 2016 performance periods are measured only on the basis of relative TSR for the period and measured against the constituents of the S&P Metals and Mining ETF Index on the last day of trading of the performance period. The final payouts for the 2012 to 2014 performance period, the 2013 to 2015 performance period and the 2014 to 2016 performance period will vary from zero to 200 percent of the original grant. The restricted share units are subject to continued employment and will vest at the end of the respective performance period, and are payable in common shares or cash in certain circumstances at a time determined by the Committee at its discretion.

Upon the occurrence of a change in control, all performance shares, restricted share units, restricted stock, performance units and retention units granted to a participant prior to October 2013 will vest and become nonforfeitable and will be paid out in cash for awards currently outstanding. For any equity grants awarded after September 2013, if we experience a change in control, then the vesting of all such grants only will accelerate following the employee's termination associated with the change in control and if the common shares are not substituted with a replacement award.

Determination of Fair Value

The fair value of each grant is estimated on the date of grant using a Monte Carlo simulation to forecast relative TSR performance. A correlation matrix of historic and projected stock prices was developed for both the Company and our predetermined peer group of mining and metals companies. The fair value assumes that performance goals will be achieved.

The expected term of the grant represents the time from the grant date to the end of the service period for each of the three plan-year agreements. We estimate the volatility of our common shares and that of the peer group of mining and metals companies using daily price intervals for all companies. The risk-free interest rate is the rate at the grant date on zero-coupon government bonds, with a term commensurate with the remaining life of the performance plans. The following assumptions were utilized to estimate the fair value for the first and second quarters of 2014 performance share grants:

Grant Date	Grant Date Market Price	Average Expected Term (Years)	Expected Volatility	Risk-Free Interest Rate	Dividend Yield	Fair Value	Fair Value (Percent of Grant Date Market Price)
February 10, 2014	\$20.58	2.89	54.0%	0.54%	2.92%	\$22.21	107.92%
May 12, 2014	\$17.54	2.61	54.0%	0.54%	2.92%	\$18.93	107.92%

The fair value of the restricted share units is determined based on the closing price of the Company's common shares on the grant date. The restricted share units granted under either the ICE Plan or 2012 Equity Plan vest over a period of three years.

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NOTE 13 - INCOME TAXES

For the six months ended June 30, 2014 we recognized an income tax benefit of \$90.9 million. The income tax benefit was primarily driven by the six months ended June 30, 2014 pre-tax loss. The year-to-date benefit was calculated using the year-to-date loss, considering non-taxable and non-deductible items expected to be incurred for the full year unless those items are expected to be ratably incurred based on operating activity or profitability, (e.g. depletion), in which case we only considered year-to-date actual amounts, multiplied by the statutory rate. The tax benefit of the non-taxable interest income is expected to be \$48.4 million for the year ending December 31, 2014. This is related to long-term intercompany loans between certain foreign subsidiaries and is a result of the difference in the tax characterization of the instruments in the United States, Australia and Canada. Interest expense is deductible by the debtors in Canada and Australia and interest income is excluded from taxable income by the creditors in the United States and Canada, resulting in an income tax benefit of \$48.4 million. The adjustment is based on the terms of the intercompany loans and no significant management judgments or estimates were involved in the computation of the non-taxable interest income. The current year benefit of the intercompany loan between the United States and Canada is \$27.8 million and will have no further impact on our financial results subsequent to April 27, 2014 when the terms of the loan were restructured. A benefit of \$20.6 million is expected from the intercompany loan between Canada and Australia and will continue to have an impact through the year ending December 31, 2020, of which the impact will vary depending on the fluctuations in currency exchange rates.

There were discrete items recorded in the first half of 2014 which resulted in a \$4.4 million benefit. These adjustments relate primarily to the finalization of certain foreign tax returns and foreign currency remeasurement of current and deferred tax assets and deferred liabilities.

NOTE 14 - CAPITAL STOCK

Depository Shares

On February 21, 2013, we issued 29.25 million depository shares, equivalent to 731,250 preferred shares, comprised of the 27.0 million depository share offering and the exercise of an underwriters' over-allotment option to purchase an additional 2.25 million depository shares, for total net proceeds of approximately \$709.4 million, after underwriter fees and discounts. Each depository share represents a 1/40th interest in a share of our 7.00 percent Series A Mandatory Convertible Preferred Stock, Class A, without par value, or Preferred Share, at a price of \$25 per depository share. Each Preferred Share has an initial liquidation preference of \$1,000 per share (equivalent to a \$25 liquidation preference per depository share). When and if declared by our board of directors, we will pay cumulative dividends on each Preferred Share at an annual rate of 7.00 percent on the liquidation preference. We will pay declared dividends in cash on February 1, May 1, August 1 and November 1 of each year, commencing on May 1, 2013 and to, and including February 1, 2016. Holders of the depository shares are entitled to a proportional fractional interest in the rights and preferences of the Preferred Shares, including conversion, dividend, liquidation and voting rights, subject to the provisions of the deposit agreement.

The Preferred Shares may be converted, at the option of the holder, at the minimum conversion rate of 28.1480 of our common shares (equivalent to 0.7037 of our common shares per depository share) at any time prior to February 1, 2016 or other than during a fundamental change conversion period, subject to anti-dilution adjustments. If not converted prior to that time, each Preferred Share will convert automatically on February 1, 2016 into between 28.1480 and 34.4840 common shares, par value \$0.125 per share, subject to anti-dilution adjustments. The number of common shares issuable on conversion will be determined based on the average VWAP per share of our common shares during the 20 trading day period beginning on, and including, the 23rd scheduled trading day prior to February 1, 2016, subject to customary anti-dilution adjustments. Upon conversion, a minimum of 20.6 million common shares and a maximum of 25.2 million common shares will be issued.

If certain fundamental changes involving the Company occur, holders of the Preferred Shares may convert their shares into a number of common shares at the conversion rate that will be adjusted under certain circumstances, and such holders also will be entitled to a fundamental change dividend make-whole amount. The Preferred Shares are not redeemable.

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Dividends

On March 20, 2013, our board of directors declared a cash dividend of \$13.6111 per Preferred Share, which is equivalent to approximately \$0.34 per depositary share. The cash dividend was paid on May 1, 2013 to our Preferred Shareholders of record as of the close of business on April 15, 2013. On May 7, 2013, September 9, 2013 and November 11, 2013, our board of directors declared the quarterly cash dividend of \$17.50 per Preferred Share, which is equivalent to approximately \$0.44 per depositary share. The cash dividend was paid on August 1, 2013, November 1, 2013 and February 3, 2014 to our Preferred Shareholders of record as of the close of business on July 15, 2013, October 15, 2013 and January 15, 2014. On February 11, 2014, our board of directors declared the quarterly cash dividend of \$17.50 per Preferred Share, which is equivalent to approximately \$0.44 per depositary share. The cash dividend was paid on May 1, 2014 to our Preferred Shareholders of record as of the close of business on April 15, 2014. On May 13, 2014, our board of directors declared the quarterly cash dividends of \$17.50 per Preferred Share, which is equivalent to approximately \$0.44 per depositary share. The cash dividend of \$12.8 million will be paid on August 1, 2014 to our shareholders of record as of the close of business on July 15, 2014. On February 11, 2013, our board of directors approved a reduction to our quarterly cash dividend rate by 76 percent to \$0.15 per share. Our board of directors took this step in order to improve the future cash flows available for investment in the Phase II expansion at Bloom Lake, as well as to preserve our investment-grade credit ratings. The decreased dividend of \$0.15 per share was paid on March 1, 2013, June 3, 2013, September 3, 2013 and December 2, 2013 to our common shareholders of record as of the close of business on February 22, 2013, May 17, 2013, August 15, 2013 and November 22, 2013, respectively. Additionally, the cash dividend of \$0.15 per share was paid on March 3, 2014 and June 3, 2014 to our common shareholders of record as of close of business on February 21, 2014 and May 23, 2014.

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NOTE 15 - SHAREHOLDERS' EQUITY

The following table reflects the changes in shareholders' equity attributable to both Cliffs and the noncontrolling interests primarily related to Bloom Lake, Tilden and Empire of which Cliffs owns 82.8 percent, 85 percent and 79 percent, respectively, for the six months ended June 30, 2014 and June 30, 2013:

	(In Millions)			
	Cliffs Shareholders' Equity	Noncontrolling Interest	Total Equity	
December 31, 2013	\$6,069.5	\$814.8	\$6,884.3	
Comprehensive income				
Net loss	(59.4) 3.2	(56.2)
Other comprehensive income	92.7	1.1	93.8	
Total comprehensive income	33.3	4.3	37.6	
Stock and other incentive plans	(3.1) —	(3.1)
Common and preferred share dividends	(72.1) —	(72.1)
Undistributed losses to noncontrolling interest	—	(17.1) (17.1)
June 30, 2014	\$6,027.6	\$802.0	\$6,829.6	
	(In Millions)			
	Cliffs Shareholders' Equity	Noncontrolling Interest	Total Equity	
December 31, 2012	\$4,632.7	\$1,128.2	\$5,760.9	
Comprehensive income				
Net income	253.0	9.1	262.1	
Other comprehensive income	(184.0) 2.3	(181.7)
Total comprehensive income	69.0	11.4	80.4	
Issuance of common shares	263.4	—	263.4	
Issuance of preferred shares	731.3	—	731.3	
Stock and other incentive plans	3.7	—	3.7	
Common and preferred share dividends	(68.9) —	(68.9)
Capital contribution by noncontrolling interest to subsidiary	—	13.0	13.0	
June 30, 2013	\$5,631.2	\$1,152.6	\$6,783.8	

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The following table reflects the changes in Accumulated other comprehensive income (loss) related to Cliffs shareholders' equity for June 30, 2014 and June 30, 2013:

	(In Millions)				
	Changes in Pension and Other Post-Retirement Benefits, net of tax	Unrealized Net Gain (Loss) on Securities, net of tax	Unrealized Net Gain (Loss) on Foreign Currency Translation	Net Unrealized Gain (Loss) on Derivative Financial Instruments, net of tax	Accumulated Other Comprehensive Income (Loss)
Balance December 31, 2013	\$ (204.9	) \$ 6.2	\$ 106.7	\$ (20.9	) \$ (112.9)
Other comprehensive income (loss) before reclassifications	(0.4	) 3.8	40.5	(2.3	) 41.6
Net loss (gain) reclassified from accumulated other comprehensive income (loss)	3.3	0.1	—	12.8	16.2
Balance March 31, 2014	\$ (202.0	) \$ 10.1	\$ 147.2	\$ (10.4	) \$ (55.1)
Other comprehensive income (loss) before reclassifications	(1.4	) (2.4	) 19.7	9.7	25.6
Net loss (gain) reclassified from accumulated other comprehensive income (loss)	4.0	(1.3	) —	6.6	9.3
Balance June 30, 2014	\$ (199.4	) \$ 6.4	\$ 166.9	\$ 5.9	\$ (20.2)
	(In Millions)				
	Changes in Pension and Other Post-Retirement Benefits, net of tax	Unrealized Net Gain (Loss) on Securities, net of tax	Unrealized Net Gain (Loss) on Foreign Currency Translation	Net Unrealized Gain (Loss) on Derivative Financial Instruments, net of tax	Accumulated Other Comprehensive Income (Loss)
Balance December 31, 2012	\$ (382.7	) \$ 2.1	\$ 316.3	\$ 8.7	\$ (55.6)
Other comprehensive income (loss) before reclassifications	(1.1	) 2.5	3.3	(5.0	) (0.3)
Net loss (gain) reclassified from accumulated other comprehensive income (loss)	6.4	0.1	—	(2.0	) 4.5
Balance March 31, 2013	\$ (377.4	) \$ 4.7	\$ 319.6	\$ 1.7	\$ (51.4)
Other comprehensive income (loss) before reclassifications	\$ (1.5	) \$ (2.0	) \$ (152.0	) \$ (42.2	) \$ (197.7)
Net loss (gain) reclassified from accumulated other comprehensive income (loss)	\$ 8.1	\$ 3.6	\$ —	\$ (2.2) \$ 9.5
Balance June 30, 2013	\$ (370.8) \$ 6.3	\$ 167.6	\$ (42.7) \$ (239.6)

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The following table reflects the details about Accumulated other comprehensive income (loss) components related to Cliffs shareholders' equity for the three and six months ended June 30, 2014:

Details about Accumulated Other Comprehensive Income (Loss) Components	(In Millions)				Affected Line Item in the Statement of Unaudited Condensed Consolidated Operations
	Amount of (Gain)/Loss Three Months Ended June 30,		Reclassified into Income Six Months Ended June 30,		
	2014	2013	2014	2013	
Amortization of Pension and Postretirement Benefit Liability:					
Prior-service costs	\$5.6	\$(0.1)	) \$5.4	\$(0.3)	) (1)
Net actuarial loss	(1.2)	) 11.2	3.6	20.8	(1)
Settlements/curtailments	0.9	—	1.2	—	(1)
	5.3	11.1	10.2	20.5	Total before taxes
	(1.3)	) (3.0)	) (2.9)	) (6.0)	) Income tax benefit (expense)
	\$4.0	\$8.1	\$7.3	\$14.5	Net of taxes
Unrealized gain (loss) on marketable securities:					
Sale of marketable securities	\$(1.9)	) \$(1.1)	) \$(1.7)	) \$(1.1)	) Other non-operating income
Impairment	—	5.2	—	5.3	Other non-operating income
	(1.9)	) 4.1	(1.7)	) 4.2	Total before taxes
	0.6	(0.5)	) 0.5	(0.5)	) Income tax benefit (expense)
	\$(1.3)	) \$3.6	\$ (1.2)	) \$3.7	Net of taxes
Unrealized gain (loss) on derivative financial instruments:					
Australian dollar foreign exchange contracts	\$5.3	\$(3.7)	) \$18.3	\$(6.3)	) Product revenues
Canadian dollar foreign exchange contracts	4.4	0.6	9.9	0.3	Cost of goods sold and operating expenses
	9.7	(3.1)	) 28.2	(6.0)	) Total before taxes
	(3.1)	) 0.9	(8.8)	) 1.8	Income tax benefit (expense)
	\$6.6	\$(2.2)	) \$19.4	\$(4.2)	) Net of taxes
Total Reclassifications for the Period	\$9.3	\$9.5	\$25.5	\$14.0	

(1) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost. See NOTE 11 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS for further information.

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NOTE 16 - RELATED PARTIES

Three of our five U.S. iron ore mines and our Bloom Lake mine in Eastern Canada are owned with various joint venture partners that are integrated steel producers or their subsidiaries. We are the manager of each of the mines we co-own and rely on our joint venture partners to make their required capital contributions and to pay for their share of the iron ore pellets and concentrate that we produce. The joint venture partners are also our customers. The following is a summary of the mine ownership of these iron ore mines at June 30, 2014:

Mine	Cliffs Natural Resources	ArcelorMittal	U.S. Steel Corporation	WISCO
Empire	79.0	% 21.0	% —	—
Tilden	85.0	% —	15.0	% —
Hibbing	23.0	% 62.3	% 14.7	% —
Bloom Lake	82.8	% —	—	17.2 %

During the first quarter of 2014, we announced that we entered into a revised commercial agreement with ArcelorMittal to supply iron ore pellets for an additional two years through the end of January 2017, with a mutual option to extend for a third year. In addition, Cliffs and ArcelorMittal also extended the joint partnership for the Empire Mine preventing the impending closure in 2014.

ArcelorMittal has a unilateral right to put its interest in the Empire mine to us, but has not exercised this right to date. Product revenues from related parties were as follows:

	(In Millions)				
	Three Months Ended		Six Months Ended		
	June 30, 2014	2013	June 30, 2014	2013	
Product revenues from related parties	\$ 322.1	\$ 455.0	\$ 539.0	\$ 756.2	
Total product revenues	1,018.6	1,391.6	1,879.5	2,474.2	
Related party product revenue as a percent of total product revenue	31.6	% 32.7	% 28.7	% 30.6	%

Amounts due from related parties recorded in Accounts receivable, net and Other current assets, including trade accounts receivable, a customer supply agreement and provisional pricing arrangements, were \$69.9 million and \$132.0 million at June 30, 2014 and December 31, 2013, respectively. Amounts due to related parties recorded in Accounts payable and Other current liabilities, including provisional pricing arrangements, were \$26.3 million at June 30, 2014 and amounts including provisional pricing arrangements and liabilities to related parties were \$25.1 million at December 31, 2013.

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NOTE 17 - EARNINGS PER SHARE

The following table summarizes the computation of basic and diluted earnings (loss) per share:

	(In Millions, Except Per Share Amounts)			
	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
NET INCOME (LOSS) ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	\$ 10.9	\$ 146.0	\$(59.4)	\$253.0
PREFERRED STOCK DIVIDENDS	(12.8)	(12.9)	(25.6)	(22.8)
NET INCOME (LOSS) ATTRIBUTABLE TO CLIFFS COMMON SHAREHOLDERS	\$(1.9)	\$ 133.1	\$(85.0)	\$ 230.2
Weighted Average Number of Shares:				
Basic	153.1	153.0	153.1	150.4
Depository Shares	—	25.2	—	19.1
Employee Stock Plans	—	0.2	—	0.2
Diluted	153.1	178.4	153.1	169.7
Earnings (Loss) per Common Share Attributable to Cliffs Common Shareholders - Basic:	\$(0.01)	\$0.87	\$(0.56)	\$ 1.53
Earnings (Loss) per Common Share Attributable to Cliffs Common Shareholders - Diluted:	\$(0.01)	\$0.82	\$(0.56)	\$ 1.49

The diluted earnings per share calculation excludes 25.2 million depository shares that were anti-dilutive for the three and six months ended June 30, 2014. Additionally, the diluted earnings per share calculation excludes 0.8 million shares related to equity plan awards that were anti-dilutive for both the three and six months ended June 30, 2014.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Contingencies

Claims and Legal Proceedings

We are currently a party to various claims and legal proceedings incidental to our operations. If management believes that a loss arising from these matters is probable and can reasonably be estimated, we record the amount of the loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material effect on our financial position, results of operations or cash flows. However, claims and legal proceedings are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages, additional funding requirements or an injunction. If an unfavorable ruling were to occur, there exists the possibility of a material impact on the financial position and results of operations of the period in which the ruling occurs, or future periods. Specifically, our wholly owned subsidiary, CQIM, along with the Bloom Lake General Partner Limited and Bloom Lake, instituted an arbitral claim against Bloom Lake's former customer, Worldlink, in October 2011 for material and/or fundamental breaches of the parties' 2007 offtake agreement for the purchase and sale of iron concentrate produced at the Bloom Lake mine. We filed the arbitration claim with the International Court of Arbitration of the International Chamber of Commerce pursuant to the dispute resolution provisions of the offtake agreement. Bloom Lake terminated the offtake agreement with Worldlink in August 2011 due to Worldlink's failure to fulfill its obligations under the agreement and Worldlink's demand to renegotiate the price of the iron ore concentrate in spite of being party to a long-term offtake agreement. Our damages for the breach of the offtake agreement are in excess of \$85 million and Worldlink has counterclaimed for damages in excess of \$100 million. We strongly disagree with Worldlink's defenses and counterclaims and intend to vigorously pursue our claim. The arbitrators heard testimony at a hearing in May 2014 but have not yet issued a decision. A decision is expected from the arbitrators later in 2014.

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NOTE 19 - CASH FLOW INFORMATION

A reconciliation of capital additions to cash paid for capital expenditures for the six months ended June 30, 2014 and 2013 is as follows:

	(In Millions)	
	Six Months Ended	
	June 30,	
	2014	2013
Capital additions	\$ 131.2	\$ 413.8
Cash paid for capital expenditures	164.3	501.2
Difference	\$(33.1)	) \$(87.4)
Non-cash accruals	\$(43.0)	) \$(87.4)
Capital leases	9.9	—
Total	\$(33.1)	) \$(87.4)

Non-Cash Financing Activities - Declared Dividends

On May 13, 2014, our board of directors declared the quarterly cash dividend on our Preferred Shares of \$17.50 per share, which is equivalent to approximately \$0.44 per depositary share, each representing 1/40th of a share of Series A preferred stock. The cash dividend of \$12.8 million will be payable on August 1, 2014 to our preferred shareholders of record as of the close of business on July 15, 2014.

NOTE 20 - SUBSEQUENT EVENTS

We have evaluated subsequent events through the date of financial statement issuance.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and other factors that may affect our future results. We believe it is important to read our MD&A in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013 as well as other publicly available information.

Overview

Cliffs Natural Resources Inc. traces its history back to 1847. Today, we are an international mining and natural resources company. As an independent, owner-operator mining company supplying the global steelmaking industry, we are a major global iron ore producer and a significant producer of high- and low-volatile metallurgical coal. Driven by the core values of safety, social, environmental and capital stewardship, our associates across the globe endeavor to provide all stakeholders with operating and financial transparency. We are organized through a global commercial group responsible for sales and delivery of our products and a global operations group responsible for the production of the minerals that we market. Our operations are organized according to product category and geographic location: U.S. Iron Ore, Eastern Canadian Iron Ore, Asia Pacific Iron Ore, North American Coal, Ferroalloys and our Global Exploration Group.

In the U.S., we currently operate five iron ore mines in Michigan and Minnesota, four metallurgical coal operations located in West Virginia and Alabama, and one thermal coal mine located in West Virginia. We also own two iron ore mines in Eastern Canada. Our Asia Pacific operations consist solely of our Koolyanobbing iron ore mining complex in Western Australia. We also have other non-producing operations and investments around the world that provide us with optionality to diversify and expand our portfolio of assets in the future.

The key driver of our business is global demand for steelmaking raw materials in both emerging and developed economies, with China and the U.S. representing the two largest markets for our Company. In the first half of 2014, China produced approximately 412 million metric tons of crude steel, or approximately 49 percent of total global crude steel production, whereas the U.S. produced approximately 43 million metric tons of crude steel, or about 5 percent of total global crude steel production. These figures represent a 3 percent increase in Chinese crude steel production and an approximate 1 percent increase in U.S. crude steel production when compared to the same period in 2013.

Average global total steel capacity utilization was about 78 percent in the first half of 2014, an approximate 1 percent decrease from the same period in 2013; U.S. total steel capacity utilization was about 77 percent in the first half of 2014, which is unchanged from the rate in the same period in 2013. Through the first half of 2014, global crude steel production grew about 3 percent compared to the same period in 2013.

The global price of iron ore is influenced significantly by the worldwide supply of iron ore and by Chinese demand. The global supply of iron ore continues to increase, which has put downward pressure on current pricing.

Additionally, Chinese demand for raw materials was moderate during the first half of 2014 as a result of continued weak profitability of Chinese steel mills and high levels of raw material inventories at the steel mills and ports. The world market price that is utilized most commonly in our sales contracts is the Platts 62 percent Fe fines spot price. The Platts 62 percent Fe fines spot price decreased 18.5 percent to an average price of \$103 per ton for the three months ended June 30, 2014 compared to the respective quarter of 2013. In comparison, the year to date Platts pricing also has decreased 18.5 percent to an average price of \$112 per ton during the six months ended June 30, 2014. The spot price volatility impacts our realized revenue rates, particularly in our Eastern Canadian Iron Ore and Asia Pacific Iron Ore business segments because their contracts correlate heavily to world market spot pricing. However, the impact of this volatility on our U.S. Iron Ore revenues is muted and/or deferred partially because the pricing in our long-term contracts mostly is structured to be based on 12-month averages. Additionally, contracts often are priced partially or completely on other indices instead of world market spot prices.

The metallurgical coal market continues to be in an oversupplied position due to increased supply from Australian producers. Those producers, benefiting from currency impacts, are very competitive in European and South American markets. In addition, China's demand for metallurgical coal imports has been sporadic.

Consistent with the above, the quarterly benchmark price for premium low-volatile hard coking coal between Australian metallurgical coal suppliers and Japanese/Korean consumers decreased 30.2 percent to a second quarter average of \$120 per metric ton in 2014 versus the comparable period in 2013. In comparison, the year-to-date quarterly benchmark average price for premium low-volatile hard coking coal decreased 22.0 percent to \$132 per ton during the six months ended June 30, 2014 when compared to the comparable period in 2013. The decline in market pricing has

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impacted negatively realized revenue rates for our North American Coal business segment, and as a result, we issued a WARN notice in June 2014 to inform employees we intend to temporarily idle our Pinnacle mine operations if market conditions do not improve.

We expect economic growth in the U.S. to accelerate through the second half of 2014. Despite the unanticipated first quarter 2014 contraction in real GDP, which was largely caused by adverse winter weather and a change in private business inventories, growth is expected to be supported by continued improvement in the labor market and other key indicators. Domestic steel production and the corresponding demand for steelmaking raw materials are expected to be supported by both healthy construction activity and motor vehicle production. We expect China's economy will continue to expand while, correspondingly, increased Chinese domestic steel production will continue to require imported steelmaking raw materials to satisfy demand. However, projections indicate that China's real GDP growth is expected to slow from 7.7 percent in 2013 to approximately 7.5 percent in 2014, which, when coupled with increased supply and the continued implementation of Chinese reform policies, could result in a weaker pricing environment for steelmaking raw materials. Nevertheless, growth in both the U.S. and China should provide a continued source of demand for our products throughout the remainder of 2014.

For the three and six months ended June 30, 2014, our consolidated revenues were \$1.1 billion and \$2.0 billion, respectively, and a net loss per diluted share of \$0.01 and \$0.56, respectively. This compares with consolidated revenues of \$1.5 billion and \$2.6 billion, respectively, and with net income per diluted share of \$0.82 and \$1.49, respectively, for the comparable periods in 2013. Net income in the first half of 2014 was impacted primarily by lower market pricing for our products, which decreased product revenues by \$187.1 million and \$341.8 million in the three and six months ended June 30, 2014, respectively, when compared to the same periods of 2013. Additionally, results for the three and six months ended June 30, 2014 were impacted negatively by \$25.0 million and \$63.0 million, respectively, of Wabush idle costs.

Strategy

In recent years, we have shifted from a merger and acquisition-based strategy to one that primarily focuses on organic growth and productivity initiatives. We believe that our strategic imperative is to create long-term shareholder value through financial discipline, operational excellence, long-term customer relationships, and strength of our people. We believe our ability to execute our strategy is dependent on our financial position, balance sheet strength and financial flexibility to manage through the inevitable volatility in commodity prices. We will continue to execute initiatives that improve our cost profile and increase long-term profitability. The cash generated from our operations in excess of that used for sustaining and license-to-operate capital spending and dividends will be evaluated and allocated towards initiatives that enhance shareholder value.

Recent Developments

Currently, our Board of Directors is soliciting our shareholders' votes for matters being submitted for approval at our 2014 Annual Meeting of Shareholders. The Board has nominated a slate of seven directors for the available 11 seats at the 2014 Annual Meeting. Casablanca Capital LP, a New York-based hedge fund and owner of approximately 5.2 percent of our common shares, has initiated a proxy contest and nominated a slate of six nominees for election as directors at the 2014 Annual Meeting in opposition to the seven nominees recommended by the Cliffs Board.

On June 30, 2014, we announced that we entered into an agreement to amend our existing \$1.75 billion unsecured revolving credit facility. The amended agreement replaces the existing leverage covenant ratio with a Debt-to-Capitalization ratio for the life of the facility in order to provide us with a more consistent source of liquidity. The amended agreement also increases the current EBITDA-to-Interest covenant to a minimum requirement ratio of 3.5 times versus the previous requirement ratio of 2.5 times. This amended facility retains substantial financial flexibility for management to continue making prudent business decisions during this period of pricing volatility. Unlike the prior amendment completed in the first quarter of 2013, this amendment addresses the leverage covenant for the life of the facility, while also retaining the full \$1.75 billion facility size and the existing maturity date of October 16, 2017.

On June 25, 2014, we issued a WARN Act notice to all employees of Pinnacle, a wholly-owned subsidiary of ours, the United Mine Workers of America and state and local government agencies, that we intend to temporarily idle our operations at the Pinnacle mine as a result of current poor market conditions for metallurgical coal. The WARN Act

notice began the 60-day notice period that must be given prior to temporarily idling operations under the WARN Act. If market conditions do not improve, it is expected that the idling of the Pinnacle mine could last more than six months beginning on or about August 25, 2014.

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On May 27, 2014, we announced that we were further reducing our expected full-year 2014 capital spending range by approximately 25 percent, or \$100 million, to \$275 million to \$325 million. This significant reduction is in addition to our previously announced capital spending decrease of approximately 55 percent, or \$460 million, from our full-year 2013 capital expenditures. The \$100 million decrease will impact all of our reporting segments, with Eastern Canadian Iron Ore and North American Coal making up 75 percent of the reduction.

Business Segments

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, Ferroalloys and our Global Exploration Group. The Ferroalloys and Global Exploration Group operating segments do not meet the criteria for reportable segments. In alignment with our capital allocation strategy, we anticipate decreased levels of exploration spending in our Global Exploration Group and Ferroalloys operation segments throughout 2014.

Results of Operations – Consolidated**2014 Compared to 2013**

The following is a summary of our consolidated results of operations for the three and six months ended June 30, 2014 and 2013:

	(In Millions)					
	Three Months Ended June 30,		Variance Favorable/ (Unfavorable)	Six Months Ended June 30,		Variance Favorable/ (Unfavorable)
	2014	2013		2014	2013	
Revenues from product sales and services	\$ 1,100.8	\$ 1,488.5	\$(387.7)	\$ 2,040.8	\$ 2,629.0	\$(588.2)
Cost of goods sold and operating expenses	(1,008.8)	(1,220.3)	211.5	(1,885.6)	(2,122.9)	237.3
Sales margin	\$92.0	\$268.2	\$(176.2)	\$155.2	\$506.1	\$(350.9)
Sales margin %	8.4	% 18.0	% (9.6)	% 7.6	% 19.3	% (11.7)

Revenues from Product Sales and Services

Sales revenue for the three and six months ended June 30, 2014 decreased \$387.7 million and \$588.2 million, respectively, or 26.0 percent and 22.4 percent, respectively, from the comparable periods in 2013. The decrease in sales revenue during the second quarter and first half of 2014 compared to the comparable periods in 2013 was primarily attributable to the decrease in market pricing for our products, which impacted revenues by \$187.1 million and \$341.8 million for three and six months ended June 30, 2014, respectively, and lower sales volumes in our U.S. Iron Ore operations, which impacted revenues by \$153.5 million and \$186.1 million for three and six months ended June 30, 2014, respectively.

Changes in world market pricing heavily impacts our revenues each year. Iron ore revenues were impacted primarily by the decrease in the Platts 62 percent Fe fines spot price, which declined 18.5 percent to an average price of \$103 per ton in the second quarter of 2014, resulting in decreased revenues of \$121.8 million. The decrease in our realized revenue rates during the second quarter of 2014 compared to the second quarter of 2013 was 20.9 percent, 26.5 percent and 3.2 percent for our Eastern Canadian Iron Ore, Asia Pacific Iron Ore and U.S. Iron Ore operations, respectively. During the three months ended June 30, 2014, our North American Coal business segment market pricing has continued to be affected by various supply and demand pressures in the metallurgical coal markets, which has impacted negatively revenue by \$65.3 million and decreased our realized revenue rate by 30.6 percent. Lower worldwide iron ore sales volumes of 952 thousand tons or \$108.9 million driven by adverse weather conditions on the Great Lakes delaying timing of shipments and due to the idling of the Wabush facility resulting in lower iron ore sales of 472 thousand tons or \$63.6 million during the first half of 2014, which have impacted negatively the quarter-over-quarter results.

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During the first half of 2014, iron ore revenues were impacted primarily by the decrease in the Platts 62 percent Fe fines spot price, which declined 18.5 percent to an average price of \$112 per ton, resulting in decreased revenues of \$242.1 million, excluding the impact of Wabush tons sold. The decrease in our realized revenue rates during the first half of 2014 compared to the first half of 2013 was 23.7 percent, 22.1 percent and 5.2 percent for our Eastern Canadian Iron Ore, Asia Pacific Iron Ore and U.S. Iron Ore operations, respectively. Also, the decision to idle Wabush impacted the period-over-period revenues negatively by \$92.8 million. Additionally, during the six months ended June 30, 2014, our North American Coal business segment experienced continued downward pricing pressures, which revenues were impacted negatively by \$99.7 million and decreased our realized revenue rate by 25.8 percent. Additionally, lower worldwide iron ore sales volumes of 1,070 thousand tons or \$121.8 million, excluding the impact of the period-over-period Wabush volume variance, and lower North American Coal sales volumes of 267 thousand tons or \$28.6 million, negatively impacted the first half of 2014 results compared to the first half of 2013.

Refer to “Results of Operations – Segment Information” for additional information regarding the specific factors that impacted revenue during the period.

Cost of Goods Sold and Operating Expenses

Cost of goods sold and operating expenses for the three and six months ended June 30, 2014 were \$1,008.8 million and \$1,885.6 million, respectively, which represented a decrease of \$211.5 million and \$237.3 million, or 17.3 percent and 11.2 percent, respectively, from the comparable prior-year periods.

Cost of goods sold and operating expenses for the three and six months ended June 30, 2014 decreased as costs were impacted positively as a result of the Wabush idle that occurred during the second quarter of 2014, which reduced costs by \$95.0 million and \$104.1 million period-over-period. Also, the lower sales volumes as discussed above decreased costs by \$64.0 million and \$87.0 million, respectively, for the three and six months ended June 30, 2014.

Additionally, as a result of favorable foreign exchange rates in the second quarter and first half of 2014 versus the comparable periods in 2013, we realized lower costs of \$18.1 million and \$64.8 million, respectively.

Refer to “Results of Operations – Segment Information” for additional information regarding the specific factors that impacted our operating results during the period.

Other Operating Income (Expense)

The following is a summary of other operating income (expense) for the three and six months ended June 30, 2014 and 2013:

	(In Millions)		Variance Favorable/ (Unfavorable)	Six Months Ended		Variance Favorable/ (Unfavorable)
	Three Months Ended June 30,			June 30,		
	2014	2013		2014	2013	
Selling, general and administrative expenses	\$ (52.5)	\$ (48.9)	\$ (3.6)	\$ (103.6)	\$ (97.3)	\$ (6.3)
Exploration costs	(3.4)	(12.6)	9.2	(7.6)	(35.3)	27.7
Miscellaneous - net	(47.8)	55.3	(103.1)	(106.4)	56.8	(163.2)
	\$ (103.7)	\$ (6.2)	\$ (97.5)	\$ (217.6)	\$ (75.8)	\$ (141.8)

Selling, general and administrative expenses during the three and six months ended June 30, 2014 increased \$3.6 million and \$6.3 million, respectively, over the comparable periods in 2013. The three and six months ended June 30, 2014 was impacted by \$4.6 million and \$10.8 million, respectively, in severance costs related to involuntary terminations throughout the first half of 2014, which includes a 33 percent decrease in officer level executives since December 31, 2013. Additionally, the three and six months ended June 30, 2014 was impacted by \$4.0 million and \$4.3 million, respectively, in proxy-contest-related costs.

Exploration costs decreased by \$9.2 million and \$27.7 million during the three and six months ended June 30, 2014, respectively, from the comparable periods in 2013, due to decreases in costs at our Ferroalloys and Global Exploration Group operating segments. Our Ferroalloys operating segment had cost decreases of \$6.8 million and \$21.4 million in the three and six months ended June 30, 2014, respectively, over the comparable prior-year periods due to the decision

made in the fourth quarter of 2013 to indefinitely suspend the Chromite Project and to not allocate additional

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capital for the project given the uncertain timeline and risks associated with the development of necessary infrastructure to bring the project online. Our Global Exploration Group had cost decreases of \$2.0 million and \$5.1 million in the three and six months ended June 30, 2014, respectively, over the comparable prior-year periods, due to lower overhead and professional services spend. In alignment with our capital allocation strategy, we anticipate decreased levels of exploration spending to continue throughout 2014.

The following is a summary of Miscellaneous - net for the three and six months ended June 30, 2014 and 2013:

	(In Millions)					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Variance Favorable/ (Unfavorable)	2014	2013	Variance Favorable/ (Unfavorable)
Foreign exchange remeasurement	\$ (11.4)	\$ 47.0	\$ (58.4)	\$ (18.1)	\$ 50.5	\$ (68.6)
Gain on sale of Cockatoo Island	—	18.6	(18.6)	—	18.6	(18.6)
Minimum shipment penalties	(14.2)	(5.6)	(8.6)	(29.9)	(5.7)	(24.2)
Wabush operations idle costs	(25.0)	(2.2)	(22.8)	(63.0)	(2.2)	(60.8)
Other	2.8	(2.5)	5.3	4.6	(4.4)	9.0
	\$ (47.8)	\$ 55.3	\$ (103.1)	\$ (106.4)	\$ 56.8	\$ (163.2)

Miscellaneous - net expense increased by \$103.1 million and \$163.2 million during the three and six months ended June 30, 2014, respectively, from the comparable periods in 2013. The three and six months ended June 30, 2014 was impacted negatively by \$25.0 million and \$63.0 million, respectively, as a result of the idling of the Wabush Scully mine operations. We estimate the full year cost of the idling to be approximately \$100 million in 2014, which includes idling costs, employment-related expenditures and contract costs. During the three and six months ended June 30, 2014, we incurred \$14.2 million and \$29.9 million, respectively, for failure to meet minimum monthly shipment requirements as a result of the continued delay in the Bloom Lake Phase II expansion and anticipate approximately \$14 million to \$16 million for each quarter until the Bloom Lake Phase II expansion is completed. Additionally, for the three and six months ended June 30, 2014, there was an unfavorable incremental impact of \$58.4 million and \$68.6 million, respectively, due to the change in foreign exchange re-measurement on short-term intercompany notes, Australian bank accounts that are denominated in U.S. dollars and certain monetary financial assets and liabilities, which are denominated in something other than the functional currency of the entity.

Other Income (Expense)

The following is a summary of other income (expense) for the three and six months ended June 30, 2014 and 2013:

	(In Millions)					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Variance Favorable/ (Unfavorable)	2014	2013	Variance Favorable/ (Unfavorable)
Interest expense, net	\$ (44.8)	\$ (40.7)	\$ (4.1)	\$ (87.5)	\$ (89.8)	\$ 2.3
Other non-operating income	2.2	(2.8)	5.0	3.4	(1.7)	5.1
	\$ (42.6)	\$ (43.5)	\$ 0.9	\$ (84.1)	\$ (91.5)	\$ 7.4

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Income Taxes

We determined our interim tax provision using a methodology required by ASC 740, Income Taxes. As our loss for the six months ended June 30, 2014 exceeds the anticipated ordinary loss for the full year, the tax benefit recognized for the six months ended June 30, 2014 is limited to the amount that would be recognized if the six months ended June 30, 2014 ordinary loss were the anticipated ordinary loss for the full year. The following represents a summary of our tax provision for the three and six months ended June 30, 2014 and 2013:

	(In Millions)					
	Three Months Ended			Six Months Ended		
	June 30,			June 30,		
	2014	2013	Variance	2014	2013	Variance
Income tax benefit (expense)	\$69.1	\$(9.3)	\$78.4	\$90.9	\$(3.3)	\$94.2

We have recorded an income tax benefit for the six months ended June 30, 2014 of \$90.9 million compared with an expense of \$3.3 million for the comparable prior-year period. The increase in the benefit from the prior-year period is due primarily to the six months ended June 30, 2014 pre-tax loss. Other items contributing to the benefit are deductions for percentage depletion in excess of cost depletion related to U.S. operations and non-taxable interest income.

The tax benefit of the non-taxable interest income is expected to be \$48.4 million for the year ended December 31, 2014. Of this, \$27.8 million, relates to an intercompany note between the United States and Canada. This note was restructured on April 27, 2014 and will no longer result in an income tax benefit on the financials after this date. \$20.6 million relates to an intercompany note between Canada and Australia, the balance of which is \$838.2 million at June 30, 2014 with an interest rate of 9.4 percent and a maturity date of December 31, 2020. The balances of the intercompany loans are not indefinitely invested in the subsidiaries.

Discrete items for the six months ended June 30, 2014 provided a benefit of approximately \$4.4 million. These adjustments relate primarily to the finalization of certain foreign tax returns and foreign currency remeasurement of current and deferred tax assets and deferred liabilities. Discrete items for the six months ended June 30, 2013 related primarily to adjustments to deferred tax balances, including the reversal of a previously recorded valuation allowance for which it was determined the benefit of the associated deferred tax asset is realizable.

Equity Loss from Ventures

Equity loss from ventures for the three and six months ended June 30, 2013 of \$67.9 million and \$73.4 million, respectively. The equity loss from ventures for the three and six months ended June 30, 2013 primarily is comprised of the impairment charge of \$67.6 million related to our 30 percent ownership interest in Amapá. In the fourth quarter of 2012, our Board of Directors authorized the sale of our 30 percent interest in Amapá. The sale of Amapá was completed in the fourth quarter of 2013.

Noncontrolling Interest

Noncontrolling interest primarily is comprised of our consolidated, but less-than-wholly owned subsidiaries at the Bloom Lake and Empire mining operations. The net loss attributable to the noncontrolling interest related to Bloom Lake was \$9.4 million and \$16.7 million for the three and six months ended June 30, 2014, respectively, compared to net loss attributable to noncontrolling interest of \$3.3 million and net income attributable to noncontrolling interest of \$2.2 million for the comparable periods in 2013.

The net income attributable to the noncontrolling interest of the Empire mining venture was \$13.1 million and \$20.0 million for the three and six months ended June 30, 2014, respectively, compared to a net loss attributable to the noncontrolling interest of \$1.3 million and net income attributable to the noncontrolling interest of \$7.0 million for the compared respective periods in 2013.

Results of Operations – Segment Information

We are organized and managed according to product category and geographic location. Segment information reflects our strategic business units, which are organized to meet customer requirements and global competition. 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.

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2014 Compared to 2013

U.S. Iron Ore

The following is a summary of U.S. Iron Ore results for the three months ended June 30, 2014 and 2013:

(In Millions)

	Three Months Ended June 30,		Changes due to:			Freight and reimburse-ment	Total change
	2014	2013	Revenue and cost rate	Sales volume	Idle cost/production volume variance		
Revenues from product sales and services	\$514.6	\$701.7	\$(15.1)	\$(153.5)	\$ —	\$ (18.5)	\$(187.1)
Cost of goods sold and operating expenses	(367.4)	(485.4)	(19.6)	94.4	24.7	18.5	118.0
Sales margin	\$147.2	\$216.3	\$(34.7)	\$(59.1)	\$ 24.7	\$ —	\$(69.1)

Per Ton Information	Three Months Ended June 30,		Difference	Percent change
	2014	2013		
Realized product revenue rate ¹	\$106.80	\$110.32	\$(3.52)	(3.2)%
Cost of goods sold and operating expenses rate ¹ (excluding DDA)	66.73	67.59	(0.86)	(1.3)%
Depreciation, depletion & amortization	6.13	4.96	1.17	23.6 %
Total cost of goods sold and operating expenses rate	72.86	72.55	0.31	0.4