CLIFFS NATURAL RESOURCES INC.
Form 10-Q
October 27, 2016
Table of Contents

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 September 30, 2016
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	34-1464672
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
200 Public Square, Cleveland, Ohio	44114-2315
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s Telephone Number, Including Area Code: (216) 694-5700
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES 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 230,599,846 as of October 24, 2016.

TABLE OF CONTENTS

		Page Number
DEFINITIONS		1
PART I - FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Statements of Unaudited Condensed Consolidated Financial Position as of September 30, 2016 and December 31, 2015	2
	Statements of Unaudited Condensed Consolidated Operations for the Three and Nine Months Ended September 30, 2016 and 2015	4
	Statements of Unaudited Condensed Consolidated Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2016 and 2015	5
	Statements of Unaudited Condensed Consolidated Cash Flows for the Nine Months Ended September 30, 2016 and 2015	6
	Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	37
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	59
Item 4.	Controls and Procedures	60
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	61
Item 1A.	Risk Factors	61
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	61
Item 4.	Mine Safety Disclosures	61
Item 6.	Exhibits	62
Signatures		63

Table of Contents

DEFINITIONS

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

Abbreviation or acronym	Term
ABL Facility	Syndicated Facility Agreement by and among Bank of America, N.A., as Administrative Agent and Australian Security Trustee, the Lenders that are parties hereto, Cliffs Natural Resources Inc., as Parent and a Borrower, and the Subsidiaries of Parent party hereto, as Borrowers dated as of March 30, 2015, as amended
ArcelorMittal	ArcelorMittal (as the parent company of ArcelorMittal Mines Canada, ArcelorMittal USA and ArcelorMittal Dofasco, as well as, many other subsidiaries)
ALJ	Administrative Law Judge
ASC	Accounting Standards Codification
ASU	Accounting Standards Updates
Bloom Lake	The Bloom Lake Iron Ore Mine Limited Partnership
Bloom Lake Group	Bloom Lake General Partner Limited and certain of its affiliates, including Cliffs Quebec Iron Mining ULC
Canadian Entities	Bloom Lake Group, Wabush Group and certain other wholly-owned Canadian subsidiaries
CCAA	Companies' Creditors Arrangement Act (Canada)
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DR-grade pellets	Direct Reduction pellets
EAF	Electric Arc Furnace
EBITDA	Earnings before interest, taxes, depreciation and amortization
Empire	Empire Iron Mining Partnership
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
Fe	Iron
FERC	Federal Energy Regulatory Commission
FMSH Act	U.S. Federal Mine Safety and Health Act 1977, as amended
GAAP	Accounting principles generally accepted in the United States
Hibbing	Hibbing Taconite Company, an unincorporated joint venture
Koolyanobbing	Collective term for the operating deposits at Koolyanobbing, Mount Jackson and Windarling
LTVSMC	LTV Steel Mining Company
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	Million British Thermal Units
MSHA	U.S. Mine Safety and Health Administration
Monitor	FTI Consulting Canada Inc.
Northshore	Northshore Mining Company
Oak Grove	Oak Grove Resources, LLC
OPEB	Other postretirement employment benefits
Pinnacle	Pinnacle Mining Company, LLC
Platts IODEX	Refers to the Platts daily iron ore assessment rate for “IODEX 62% Fe cost and freight North China” or seaborne traded iron ore fines as published in the McGraw-Hill Companies ‘Platts Steel Markets Daily’ report
Preferred Share	7.00 percent Series A Mandatory Convertible Preferred Stock, Class A, without par value
SEC	U.S. Securities and Exchange Commission

SG&A	Selling, general and administrative
Securities Act	Securities Act of 1933, as amended
SSR	System Support Resource
Tilden	Tilden Mining Company L.C.
TDR	Troubled debt restructuring
United Taconite	United Taconite LLC
U.S.	United States of America
Wabush	Wabush Mines Joint Venture
Wabush Group	Wabush Iron Co. Limited and Wabush Resources Inc., and certain of its affiliates, including Wabush Mines (an unincorporated joint venture of Wabush Iron Co. Limited and Wabush Resources Inc.), Arnaud Railway Company and Wabush Lake Railway Company
2015 Equity Plan	Cliffs Natural Resources Inc. 2015 Equity and Incentive Compensation Plan

Table of Contents

PART I
Item 1. Financial Statements
Statements of Unaudited Condensed Consolidated Financial Position
Cliffs Natural Resources Inc. and Subsidiaries

	(In Millions)	
	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$132.2	$ 285.2
Accounts receivable, net	49.2	40.2
Inventories	317.3	329.6
Supplies and other inventories	84.0	110.4
Short-term assets of discontinued operations	—	14.9
Loans to and accounts receivable from the Canadian Entities	69.3	72.9
Insurance coverage receivable	—	93.5
Other current assets	47.6	36.0
TOTAL CURRENT ASSETS	699.6	982.7
PROPERTY, PLANT AND EQUIPMENT, NET	990.1	1,059.0
OTHER ASSETS		
Other non-current assets	83.2	93.8
TOTAL OTHER ASSETS	83.2	93.8
TOTAL ASSETS	$1,772.9	$ 2,135.5

(continued)

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

Table of Contents

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

	(In Millions)	
	September 30, 2016	December 31, 2015
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$81.3	$ 106.3
Accrued expenses	134.2	156.0
Short-term liabilities of discontinued operations	5.5	6.9
Guarantees	0.2	96.5
Insured loss	—	93.5
Other current liabilities	102.3	122.5
TOTAL CURRENT LIABILITIES	323.5	581.7
PENSION AND POSTEMPLOYMENT BENEFIT LIABILITIES	198.5	221.0
ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS	220.2	231.2
LONG-TERM DEBT	2,195.9	2,699.4
OTHER LIABILITIES	235.3	213.8
TOTAL LIABILITIES	3,173.4	3,947.1
COMMITMENTS AND CONTINGENCIES (SEE NOTE 20)		
EQUITY		
CLIFFS SHAREHOLDERS' DEFICIT		
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		
Issued and Outstanding - no shares (2015 - 731,223 shares)	—	731.3
Class B - 4,000,000 shares authorized		
Common Shares - par value $0.125 per share		
Authorized - 400,000,000 shares (2015 - 400,000,000 shares);		
Issued - 236,346,794 shares (2015 - 159,546,224 shares);		
Outstanding - 230,594,581 shares (2015 - 153,591,930 shares)	29.5	19.8
Capital in excess of par value of shares	3,336.0	2,298.9
Retained deficit	(4,653.4)	(4,748.4)
Cost of 5,752,213 common shares in treasury (2015 - 5,954,294 shares)	(255.2)	(265.0)
Accumulated other comprehensive loss	(1.2)	(18.0)
TOTAL CLIFFS SHAREHOLDERS' DEFICIT	(1,544.3)	(1,981.4)
NONCONTROLLING INTEREST	143.8	169.8
TOTAL DEFICIT	(1,400.5)	(1,811.6)
TOTAL LIABILITIES AND DEFICIT	$1,772.9	$ 2,135.5

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

Table of Contents

Statements of Unaudited Condensed Consolidated Operations
Cliffs Natural Resources Inc. and Subsidiaries

	(In Millions, Except Per Share Amounts)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUES FROM PRODUCT SALES AND SERVICES				
Product	$508.6	$542.5	$1,237.0	$1,399.9
Freight and venture partners' cost reimbursements	44.7	50.7	118.0	137.4
	553.3	593.2	1,355.0	1,537.3
COST OF GOODS SOLD AND OPERATING EXPENSES	(467.9)	(538.1)	(1,147.2)	(1,344.1)
SALES MARGIN	85.4	55.1	207.8	193.2
OTHER OPERATING INCOME (EXPENSE)				
Selling, general and administrative expenses	(31.1)	(22.4)	(81.8)	(82.2)
Miscellaneous - net	(19.6)	(3.5)	(16.9)	15.8
	(50.7)	(25.9)	(98.7)	(66.4)
OPERATING INCOME	34.7	29.2	109.1	126.8
OTHER INCOME (EXPENSE)				
Interest expense, net	(48.7)	(61.7)	(156.2)	(168.2)
Gain (loss) on extinguishment/restructuring of debt	(18.3)	79.2	164.1	392.9
Other non-operating income (expense)	0.1	(0.1)	0.4	(3.0)
	(66.9)	17.4	8.3	221.7
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(32.2)	46.6	117.4	348.5
INCOME TAX BENEFIT (EXPENSE)	7.1	3.4	1.7	(169.9)
EQUITY LOSS FROM VENTURES, NET OF TAX	—	(0.1)	—	(0.1)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(25.1)	49.9	119.1	178.5
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(2.7)	(43.9)	(0.6)	(869.0)
NET INCOME (LOSS)	(27.8)	6.0	118.5	(690.5)
LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTEREST (Three and Nine Months Ended September 30, 2016 - No loss related to Discontinued Operations, Three Months Ended September 30, 2015 - No loss related to Discontinued Operations, Nine Months Ended September 30, 2015 - Loss of $7.7 million related to Discontinued Operations)	2.0	4.6	(23.5)	1.5
NET INCOME (LOSS) ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	$(25.8)	$10.6	$95.0	$(689.0)
PREFERRED STOCK DIVIDENDS	—	(25.6)	—	(38.4)
NET INCOME (LOSS) ATTRIBUTABLE TO CLIFFS COMMON SHAREHOLDERS	$(25.8)	$(15.0)	$95.0	$(727.4)
EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - BASIC				
Continuing operations	$(0.11)	$0.19	$0.51	$0.87
Discontinued operations	(0.01)	(0.29)	—	(5.62)
	$(0.12)	$(0.10)	$0.51	$(4.75)
EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO CLIFFS SHAREHOLDERS - DILUTED				
Continuing operations	$(0.11)	$0.19	$0.51	$0.87

Discontinued operations	(0.01)	(0.29)	—	(5.62)
	$(0.12)	$(0.10)	$0.51	$(4.75)
AVERAGE NUMBER OF SHARES (IN THOUSANDS)				
Basic	206,279	153,237	186,454	153,213
Diluted	206,279	153,237	188,471	153,213
CASH DIVIDENDS DECLARED PER DEPOSITARY SHARE	$—	$0.88	$—	$1.32

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

4

Table of Contents

Statements of Unaudited Condensed Consolidated Comprehensive Income (Loss)
Cliffs Natural Resources Inc. and Subsidiaries

	(In Millions)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
NET INCOME (LOSS) ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	$(25.8)	$10.6	$95.0	$(689.0)
OTHER COMPREHENSIVE INCOME (LOSS)				
Changes in pension and other post-retirement benefits, net of tax	7.1	6.6	19.0	36.0
Unrealized net gain on marketable securities, net of tax	—	0.1	—	1.6
Unrealized net gain (loss) on foreign currency translation	0.9	(11.4)	2.6	157.1
Unrealized net gain (loss) on derivative financial instruments, net of tax	0.7	9.2	(2.6)	16.7
OTHER COMPREHENSIVE INCOME	8.7	4.5	19.0	211.4
OTHER COMPREHENSIVE LOSS (INCOME) ATTRIBUTABLE TO THE NONCONTROLLING INTEREST	(0.9)	(0.7)	(2.2)	9.3
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CLIFFS SHAREHOLDERS	$(18.0)	$14.4	$111.8	$(468.3)

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

Table of Contents

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

	(In Millions) Nine Months Ended September 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income (loss)	$118.5	$(690.5)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation, depletion and amortization	88.9	99.1
Impairment of other long-lived assets	—	76.6
Deferred income taxes	—	160.0
Gain on extinguishment/restructuring of debt	(164.1)	(392.9)
(Gain) loss on deconsolidation, net of cash deconsolidated	(3.2)	654.8
Other	9.0	52.7
Changes in operating assets and liabilities:		
Receivables and other assets	137.5	293.1
Inventories	21.6	(76.2)
Payables, accrued expenses and other liabilities	(136.1)	(236.2)
Net cash provided (used) by operating activities	72.1	(59.5)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(45.8)	(57.9)
Other investing activities	6.3	0.7
Net cash used by investing activities	(39.5)	(57.2)
FINANCING ACTIVITIES		
Repayment of equipment loans	(95.6)	(36.9)
Distributions of partnership equity	(52.5)	(31.7)
Debt issuance costs	(5.2)	(33.6)
Net proceeds from issuance of common shares	287.6	—
Proceeds from first lien notes offering	—	503.5
Repurchase of debt	(301.0)	(225.9)
Borrowings under credit facilities	105.0	309.8
Repayment under credit facilities	(105.0)	(309.8)
Preferred stock dividends	—	(38.4)
Other financing activities	(19.3)	(38.8)
Net cash provided (used) by financing activities	(186.0)	98.2
EFFECT OF EXCHANGE RATE CHANGES ON CASH	0.4	(2.2)
DECREASE IN CASH AND CASH EQUIVALENTS	(153.0)	(20.7)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	285.2	290.9
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$132.2	$270.2

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
See NOTE 17 - CASH FLOW INFORMATION.

Table of Contents

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 (loss) and cash flows for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management bases its estimates on various assumptions and historical experience, which are believed to be reasonable; however, due to the inherent nature of estimates, actual results may differ significantly due to changed conditions or assumptions. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of results to be expected for the year ending December 31, 2016 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, 2015.

As more fully described in the Form 10-K for the year ended December 31, 2015, we announced in January 2015, that the Bloom Lake Group commenced CCAA proceedings (the "Bloom Filing") with the Quebec Superior Court (Commercial Division) in Montreal (the "Montreal Court"). Effective January 27, 2015, following the Bloom Filing, we deconsolidated the Bloom Lake Group and certain other wholly-owned subsidiaries comprising substantially all of our Canadian operations. Additionally, on May 20, 2015, the Wabush Group commenced CCAA proceedings (the "Wabush Filing") in the Montreal Court, which resulted in the deconsolidation of the remaining Wabush Group entities that were not previously deconsolidated. Financial results prior to the respective deconsolidations of the Bloom Lake and Wabush Groups and subsequent expenses directly associated with the Canadian Entities are included in our financial statements and classified within discontinued operations.

Also, for the majority of 2015, we operated two metallurgical coal operations in Alabama and West Virginia. In December 2015, we completed the sale of these two metallurgical coal operations, which marked our exit from the coal business. As of March 31, 2015, management determined that our North American Coal operating segment met the criteria to be classified as held for sale under ASC 205, Presentation of Financial Statements. As such, all presented North American Coal operating segment results are included and classified within discontinued operations in our financial statements.

Refer to NOTE 14 - DISCONTINUED OPERATIONS for further discussion of the Eastern Canadian Iron Ore and North American Coal segment's discontinued operations.

We report our results from continuing operations in two reportable segments: U.S. Iron Ore and Asia Pacific Iron Ore.

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 as of September 30, 2016:

Name	Location	Ownership Interest	Operation	Status of Operations
Northshore	Minnesota	100.0%	Iron Ore	Active
United Taconite	Minnesota	100.0%	Iron Ore	Active
Tilden	Michigan	85.0%	Iron Ore	Active
Empire	Michigan	79.0%	Iron Ore	Idle
Koolyanobbing	Western Australia	100.0%	Iron Ore	Active

Intercompany transactions and balances are eliminated upon consolidation.

Equity Method Investments

Our 23 percent ownership interest in Hibbing is recorded as an equity method investment. As of September 30, 2016 and December 31, 2015, our investment in Hibbing was $1.9 million and $2.4 million, respectively, classified as Other liabilities in the Statements of Unaudited Condensed Consolidated Financial Position.

Foreign Currency

Our financial statements are prepared with the U.S. dollar as the reporting currency. The functional currency of our 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 the Statements of Unaudited Condensed Consolidated Operations.

For the three and nine months ended September 30, 2016, we incurred a net loss of $0.3 million and $1.2 million, respectively, from the impact of transaction gains and losses resulting from remeasurement. Of these amounts, for the three months ended September 30, 2016, losses of $1.1 million and gains of $0.6 million and for the nine months ended September 30, 2016, gains of $0.3 million and losses of $2.0 million resulted from remeasurement of cash and cash equivalents and remeasurement of certain obligations, respectively.

For the three and nine months ended September 30, 2015, net gains of $2.4 million and $15.2 million, respectively, related to the impact of transaction gains and losses resulting from remeasurement. Of these amounts, for the three months ended September 30, 2015, gains of $0.1 million and $1.3 million, respectively, resulted from remeasurement of short-term intercompany loans and cash and cash equivalents. Additionally, of these amounts for the nine months ended September 30, 2015, gains of $11.1 million and $2.0 million resulted from remeasurement of short-term intercompany loans and cash and cash equivalents, respectively.

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, 2015 included in our Annual Report on Form 10-K filed with the SEC. There have been no material changes in our significant accounting policies and estimates from those disclosed therein.

Recent Accounting Pronouncements

Issued and Not Effective

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard requires recognition of lease assets and lease liabilities for leases previously classified as operating leases. The guidance is effective for fiscal years beginning after December 15, 2018. We are currently reviewing the guidance and assessing the potential impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Stock Compensation - Improvements to Employee Share-Based Payment Accounting. The new standard is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance is effective for fiscal years beginning after December 15, 2016, and early adoption is permitted. We are currently reviewing the guidance and assessing the potential impact on our consolidated financial statements.

Issued and Adopted

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. The new standard addresses eight specific changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for interim and annual reporting periods beginning after December 15, 2017, and early adoption is permitted. We have adopted the guidance for the period ended September 30, 2016 and have applied this amended accounting guidance to the Statements of

Unaudited Condensed Consolidated Cash Flows for all periods presented. The adoption of ASU 2016-15 did not have an impact on prior results reported in the Statements of Unaudited Condensed Consolidated Cash Flows.

Table of Contents

NOTE 2 - SEGMENT REPORTING

Our continuing operations are organized and managed according to geographic location: U.S. Iron Ore and Asia Pacific Iron Ore. Our U.S. Iron Ore segment is a major supplier of iron ore pellets to the North American steel industry from our mines and pellet plants located in Michigan and Minnesota. The Asia Pacific Iron Ore segment is located in Western Australia and provides iron ore to the seaborne market for Asian steel producers. There were no intersegment revenues in the first nine months of 2016 or 2015.

We have historically evaluated segment performance based on sales margin, defined as revenues less cost of goods sold, and operating expenses identifiable to each segment. Additionally, we evaluate segment performance based on the key indicators of EBITDA, defined as net income (loss) before interest, income taxes, depreciation, depletion and amortization, and Adjusted EBITDA, defined as EBITDA excluding certain items such as impacts of impairment of other long-lived assets, discontinued operations, extinguishment/restructuring of debt, severance and contractor termination costs, foreign currency remeasurement, and intersegment corporate allocations of SG&A costs. These measures allow management and investors to focus on our ability to service our debt, as well as, illustrate how the business and each operating segment is performing. Additionally, EBITDA and Adjusted EBITDA assist management and investors in their analysis and forecasting as these measures approximate the cash flows associated with operational earnings.

The following tables present a summary of our reportable segments for the three and nine months ended September 30, 2016 and 2015, including a reconciliation of segment sales margin to Income (Loss) from Continuing Operations Before Income Taxes and a reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA:

	(In Millions)							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
Revenues from product sales and services:								
U.S. Iron Ore	$428.3	77 %	$471.0	79 %	$975.5	72 %	$1,152.5	75 %
Asia Pacific Iron Ore	125.0	23 %	122.2	21 %	379.5	28 %	384.8	25 %
Total revenues from product sales and services	$553.3	100%	$593.2	100%	$1,355.0	100%	$1,537.3	100%
Sales margin:								
U.S. Iron Ore	$66.5		$48.7		$149.7		$177.7	
Asia Pacific Iron Ore	18.9		6.4		58.1		15.5	
Sales margin	85.4		55.1		207.8		193.2	
Other operating expense	(50.7)		(25.9)		(98.7)		(66.4)	
Other income (expense)	(66.9)		17.4		8.3		221.7	
Income (loss) from continuing operations before income taxes	$(32.2)		$46.6		$117.4		$348.5	

Table of Contents

	(In Millions) Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Income (Loss)	$(27.8)	$6.0	$118.5	$(690.5)
Less:				
Interest expense, net	(48.7)	(62.3)	(156.2)	(170.7)
Income tax benefit (expense)	7.1	4.8	1.7	(167.3)
Depreciation, depletion and amortization	(26.8)	(35.6)	(88.9)	(99.1)
EBITDA	$40.6	$99.1	$361.9	$(253.4)
Less:				
Impairment of other long-lived assets	$—	$—	$—	$(3.3)
Impact of discontinued operations	(2.7)	(44.8)	(0.6)	(865.9)
Gain (loss) on extinguishment/restructuring of debt	(18.3)	79.2	164.1	392.9
Severance and contractor termination costs	—	2.2	(0.1)	(9.3)
Foreign exchange remeasurement	(0.3)	2.4	(1.2)	15.2
Adjusted EBITDA	$61.9	$60.1	$199.7	$217.0
EBITDA:				
U.S. Iron Ore	$61.1	$69.2	$196.6	$239.6
Asia Pacific Iron Ore	21.2	11.1	69.6	38.7
Other	(41.7)	18.8	95.7	(531.7)
Total EBITDA	$40.6	$99.1	$361.9	$(253.4)
Adjusted EBITDA:				
U.S. Iron Ore	$65.3	$72.3	$208.6	$254.6
Asia Pacific Iron Ore	23.7	9.7	73.2	32.8
Other	(27.1)	(21.9)	(82.1)	(70.4)
Total Adjusted EBITDA	$61.9	$60.1	$199.7	$217.0

	(In Millions) Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Depreciation, depletion and amortization:				
U.S. Iron Ore	$18.8	$27.9	$65.1	$71.6
Asia Pacific Iron Ore	6.3	6.1	19.2	19.1
Other	1.7	1.6	4.6	5.2
Total depreciation, depletion and amortization	$26.8	$35.6	$88.9	$95.9
Capital additions[1]:				
U.S. Iron Ore	$25.8	$15.0	$39.5	$35.8
Asia Pacific Iron Ore	0.2	0.3	0.2	4.8
Other	0.4	2.4	4.8	6.0
Total capital additions	$26.4	$17.7	$44.5	$46.6

[1] Includes capital lease additions and non-cash accruals. Refer to NOTE 17 - CASH FLOW INFORMATION.

Table of Contents

A summary of assets by segment is as follows:

	(In Millions)	
	September 30, 2016	December 31, 2015
Assets:		
U.S. Iron Ore	$1,429.0	$ 1,476.4
Asia Pacific Iron Ore	137.7	202.5
Total segment assets	1,566.7	1,678.9
Corporate	206.2	441.7
Assets of Discontinued Operations	—	14.9
Total assets	$1,772.9	$ 2,135.5

NOTE 3 - INVENTORIES

The following table presents the detail of our Inventories in the Statements of Unaudited Condensed Consolidated Financial Position as of September 30, 2016 and December 31, 2015:

	(In Millions)					
	September 30, 2016			December 31, 2015		
Segment	Finished Goods	Work-in Process	Total Inventory	Finished Goods	Work-in Process	Total Inventory
U.S. Iron Ore	$248.8	$ 20.4	$ 269.2	$252.3	$ 11.7	$ 264.0
Asia Pacific Iron Ore	17.3	30.8	48.1	20.8	44.8	65.6
Total	$266.1	$ 51.2	$ 317.3	$273.1	$ 56.5	$ 329.6

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

The following table indicates the value of each of the major classes of our consolidated depreciable assets as of September 30, 2016 and December 31, 2015:

	(In Millions)	
	September 30, 2016	December 31, 2015
Land rights and mineral rights	$500.5	$ 500.5
Office and information technology	63.6	71.0
Buildings	61.1	60.4
Mining equipment	598.7	594.0
Processing equipment	541.2	516.8
Electric power facilities	49.6	46.4
Land improvements	24.8	24.8
Asset retirement obligation	18.3	87.9
Other	28.4	28.2
Construction in-progress	37.9	40.3
	1,924.1	1,970.3
Allowance for depreciation and depletion	(934.0)	(911.3)
	$990.1	$ 1,059.0

We recorded depreciation and depletion expense of $25.6 million and $85.1 million in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2016, respectively. This compares with depreciation and depletion expense of $34.6 million and $92.8 million for the three and nine months ended September 30, 2015, respectively.

Table of Contents

NOTE 5 - DEBT AND CREDIT FACILITIES

The following represents a summary of our long-term debt as of September 30, 2016 and December 31, 2015:

($ in Millions)

September 30, 2016

Debt Instrument	Annual Effective Interest Rate	Total Principal Amount	Debt Issuance Costs	Undiscounted Interest/(Unamortized Discounts)	Total Debt	
$700 Million 4.875% 2021 Senior Notes	4.89%	$325.7	$ (1.2)	$ (0.2)	$324.3	(1)
$1.3 Billion Senior Notes:						
$500 Million 4.80% 2020 Senior Notes	4.83%	244.8	(0.7)	(0.2)	243.9	(2)
$800 Million 6.25% 2040 Senior Notes	6.34%	298.4	(2.5)	(3.4)	292.5	(3)
$400 Million 5.90% 2020 Senior Notes	5.98%	225.6	(0.7)	(0.5)	224.4	(4)
$500 Million 3.95% 2018 Senior Notes	6.15%	—	—	—	—	(5)
$540 Million 8.25% 2020 First Lien Notes	9.97%	540.0	(8.6)	(27.4)	504.0	
$218.5 Million 8.00% 2020 1.5 Lien Notes	N/A	218.5	—	70.0	288.5	(6)
$544.2 Million 7.75% 2020 Second Lien Notes	15.55%	430.1	(6.2)	(90.1)	333.8	(7)
$550 Million ABL Facility:						
ABL Facility	N/A	550.0	N/A	N/A	—	(8)
Fair Value Adjustment to Interest Rate Hedge					2.0	
Total debt		$2,833.1			$2,213.4	
Less: Current portion					17.5	
Long-term debt					$2,195.9	

($ in Millions)

December 31, 2015

Debt Instrument	Annual Effective Interest Rate	Total Principal Amount	Debt Issuance Costs	Unamortized Discounts	Total Debt	
$700 Million 4.875% 2021 Senior Notes	4.89%	$412.5	$ (1.7)	$ (0.2)	$410.6	
$1.3 Billion Senior Notes:						
$500 Million 4.80% 2020 Senior Notes	4.83%	306.7	(1.1)	(0.4)	305.2	
$800 Million 6.25% 2040 Senior Notes	6.34%	492.8	(4.3)	(5.8)	482.7	
$400 Million 5.90% 2020 Senior Notes	5.98%	290.8	(1.1)	(0.8)	288.9	
$500 Million 3.95% 2018 Senior Notes	6.30%	311.2	(0.9)	(1.2)	309.1	
$540 Million 8.25% 2020 First Lien Notes	9.97%	540.0	(10.5)	(32.1)	497.4	
$544.2 Million 7.75% 2020 Second Lien Notes	15.55%	544.2	(9.5)	(131.5)	403.2	
$550 Million ABL Facility:						
ABL Facility	N/A	550.0	N/A	N/A	—	(9)
					2.3	

Fair Value Adjustment to Interest Rate Hedge		
Total debt	$3,448.2	$2,699.4

12

Table of Contents

(1) On March 2, 2016, we exchanged as part of an exchange offer $76.3 million of the 4.875 percent senior notes for $30.5 million of the 8.00 percent 1.5 lien notes that were recorded at a carrying value of $41.5 million, including undiscounted interest payments as of the transaction date. Additionally, during the third quarter of 2016 we entered into a debt for equity exchange; see NOTE 15 - CAPITAL STOCK for further discussion of this transaction.

(2) On March 2, 2016, we exchanged as part of an exchange offer $44.7 million of the 4.80 percent senior notes for $17.9 million of the 8.00 percent 1.5 lien notes that were recorded at a carrying value of $24.4 million, including undiscounted interest payments as of the transaction date. Additionally, during the second and third quarters of 2016 we entered into a debt for equity exchange; see NOTE 15 - CAPITAL STOCK for further discussion of this transaction.

(3) On March 2, 2016, we exchanged as part of an exchange offer $194.4 million of the 6.25 percent senior notes for $75.8 million of the 8.00 percent 1.5 lien notes that were recorded at a carrying value of $103.0 million, including undiscounted interest payments as of the transaction date.

(4) On March 2, 2016, we exchanged as part of an exchange offer $65.1 million of the 5.90 percent senior notes for $26.0 million of the 8.00 percent 1.5 lien notes that were recorded at a carrying value of $35.4 million, including undiscounted interest payments as of the transaction date.

(5) See the section entitled "$500 million 3.95 percent 2018 Senior Notes - Full Redemption" below for further discussion related to this instrument. On March 2, 2016, we exchanged as part of an exchange offer $17.6 million of the 3.95 percent senior notes for $11.4 million of the 8.00 percent 1.5 lien notes that were recorded at a carrying value of $15.5 million, including undiscounted interest payments as of the transaction date. Additionally, during the first quarter of 2016, we entered into a debt for equity exchange; see NOTE 15 - CAPITAL STOCK for further discussion of this transaction.

(6) See the section entitled "$218.5 million 8.00 percent 2020 Senior Secured 1.5 Lien Notes - 2016 Exchange Offers" below for further discussion related to this instrument. As of September 30, 2016, $17.5 million of the undiscounted interest is recorded as current and classified as Other current liabilities in the Statements of Unaudited Condensed Consolidated Financial Position.

(7) On March 2, 2016, we exchanged as part of an exchange offer $114.1 million of the 7.75 percent senior notes for $57.0 million of the 8.00 percent 1.5 lien notes that were recorded at a carrying value of $77.5 million, including undiscounted interest payments as of the transaction date.

(8) As of September 30, 2016, no loans were drawn under the ABL Facility and we had total availability of $355.7 million as a result of borrowing base limitations. As of September 30, 2016, the principal amount of letter of credit obligations totaled $108.8 million, thereby further reducing available borrowing capacity on our ABL Facility to $246.9 million.

(9) As of December 31, 2015, no loans were drawn under the ABL Facility and we had total availability of $366.0 million as a result of borrowing base limitations. As of December 31, 2015, the principal amount of letter of credit obligations totaled $186.3 million and commodity hedge obligations totaled $0.5 million, thereby further reducing available borrowing capacity on our ABL Facility to $179.2 million.

$500 million 3.95 percent 2018 Senior Notes - Full Redemption

On September 16, 2016, we redeemed in whole $283.6 million aggregate principal of the outstanding 3.95 percent senior notes due 2018 at a total redemption price of $301.0 million. As a result, we recorded a $19.9 million pre-tax loss on full retirement of long-term debt in the third quarter of 2016, which consisted of debt redemption premiums of $17.4 million and expenses of $2.5 million related to the write-off of unamortized debt issuance costs, unamortized bond discount and deferred losses on interest rate swaps. The loss was recorded against the Gain (Loss) on extinguishment/restructuring of debt in the Statements of Unaudited Condensed Consolidated Operations for the three and nine months ended September 30, 2016.

$218.5 million 8.00 percent 2020 Senior Secured 1.5 Lien Notes - 2016 Exchange Offers

On March 2, 2016, we entered into an indenture among the Company, the guarantors party thereto and U.S. Bank National Association, as trustee and notes collateral agent, relating to our issuance of $218.5 million aggregate principal amount of 8.00 percent 1.5 Lien Senior Secured Notes due 2020 (the “1.5 Lien Notes”). The 1.5 Lien Notes were issued on March 2, 2016 in exchange offers for certain of our existing senior notes.

Table of Contents

The 1.5 Lien Notes bear interest at a rate of 8.00 percent per annum. Interest on the 1.5 Lien Notes is payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2016. The 1.5 Lien Notes mature on September 30, 2020 and are secured senior obligations of the Company.

The 1.5 Lien Notes are jointly and severally and fully and unconditionally guaranteed on a senior secured basis by substantially all of our material U.S. subsidiaries and are secured (subject in each case to certain exceptions and permitted liens) on (i) a junior first-priority basis by substantially all of our U.S. assets, other than the ABL collateral (the "Notes Collateral"), which secures the 8.25 percent senior first lien notes due 2020 (the "First Lien Notes") obligations on a senior first-priority basis, the 7.75 percent senior second lien notes due 2020 (the "Second Lien Notes") obligations on a second-priority basis and the ABL Facility obligations on a third-priority basis, and (ii) a junior second-priority basis by our ABL collateral, which secures our ABL obligations on a first-priority basis, the First Lien Notes obligations on a senior second-priority basis and the Second Lien Notes obligations on a third-priority basis.

The terms of the 1.5 Lien Notes are governed by the 1.5 Lien Notes indenture. The 1.5 Lien Notes indenture contains customary covenants that, among other things, limit our ability to incur certain secured indebtedness, create liens on principal property and the capital stock or debt of a subsidiary that owns a principal property, use proceeds of dispositions of collateral, enter into certain sale and leaseback transactions, merge or consolidate with another company and transfer or sell all or substantially all of our assets. Upon the occurrence of a “change of control triggering event,” as defined in the 1.5 Lien Notes indenture, we are required to offer to repurchase the 1.5 Lien Notes at 101 percent of the aggregate principal amount thereof, plus any accrued and unpaid interest, if any, to, but excluding, the repurchase date.

We may redeem any of the 1.5 Lien Notes beginning on September 30, 2017. The initial redemption price is 104 percent of their principal amount, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. The redemption price will decline after September 30, 2017 and will be 100 percent of its principal amount, plus accrued interest, beginning on September 30, 2019. We may also redeem some or all of the 1.5 Lien Notes at any time and from time to time prior to September 30, 2017 at a price equal to 100 percent of the principal amount thereof plus a “make-whole” premium, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, at any time and from time to time on or prior to September 30, 2017, we may redeem in the aggregate up to 35 percent of the original aggregate principal amount of the 1.5 Lien Notes (calculated after giving effect to any issuance of additional 1.5 Lien Notes) with the net cash proceeds from certain equity offerings, at a redemption price of 108 percent, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, so long as at least 65 percent of the original aggregate principal amount of the 1.5 Lien Notes (calculated after giving effect to any issuance of additional 1.5 Lien Notes) issued under the 1.5 Lien Notes indenture remain outstanding after each such redemption.

The 1.5 Lien Notes indenture contains customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to pay or acceleration of certain other indebtedness, certain events of bankruptcy and insolvency and failure to pay certain judgments. An event of default under the 1.5 Lien Notes indenture will allow either the trustee or the holders of at least 25 percent in aggregate principal amount of the then-outstanding 1.5 Lien Notes issued under the 1.5 Lien Notes indenture to accelerate, or in certain cases, will automatically cause the acceleration of, the amounts due under the 1.5 Lien Notes.

We accounted for the 1.5 Lien Notes exchange as a TDR. For an exchange classified as TDR, if the future undiscounted cash flows of the newly issued debt are less than the net carrying value of the original debt, the carrying value of the newly issued debt is adjusted to the future undiscounted cash flow amount, a gain is recorded for the difference and no future interest expense is recorded. All future interest payments on the newly issued debt reduce the carrying value. Accordingly, we recognized a gain of $174.3 million in the Gain (loss) on extinguishment/restructuring of debt in the Statements of Unaudited Condensed Consolidated Operations for the nine months ended September 30, 2016. As a result, our reported interest expense will be less than the contractual interest payments throughout the term of the 1.5 Lien Notes. Debt issuance costs incurred of $5.2 million related to the notes exchange were expensed and were included in the Gain (loss) on extinguishment/restructuring of debt in the Statements of Unaudited Condensed Consolidated Operations for the nine months ended September 30, 2016.

Letters of Credit

We issued standby letters of credit with certain financial institutions in order to support business obligations including, but not limited to, workers compensation and environmental obligations. As of September 30, 2016 and December 31, 2015, these letter of credit obligations totaled $108.8 million and $186.3 million, respectively.

Table of Contents

Debt Maturities

The following represents a summary of our maturities of debt instruments, excluding borrowings on the ABL Facility, based on the principal amounts outstanding at September 30, 2016:

	(In Millions) Maturities of Debt
2016 (October 1 - December 31)	$ —
2017	—
2018	—
2019	—
2020	1,659.0
2021	325.7
2022 and thereafter	298.4
Total maturities of debt	$ 2,283.1

NOTE 6 - FAIR VALUE MEASUREMENTS

We have various financial instruments that require fair value measurements classified as Level 1, Level 2 and Level 3 of the fair value hierarchy. The following discussion represents the assets and liabilities measured at fair value at September 30, 2016 and December 31, 2015.

There were no Level 1 financial assets as of September 30, 2016. Financial assets classified in Level 1 as of December 31, 2015, include money market funds of $30.0 million. The valuation of these instruments is based upon unadjusted quoted prices for identical assets in active markets.

The derivative financial assets classified within Level 3 at September 30, 2016 and December 31, 2015 primarily relate to 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 coil 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 September 30, 2016 and December 31, 2015. 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 estimated final revenue at the date of sale 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.

Table of Contents

The following table illustrates information about quantitative inputs and assumptions for the derivative assets and derivative liabilities categorized in Level 3 of the fair value hierarchy:

Qualitative/Quantitative Information About Level 3 Fair Value Measurements	(In Millions) Fair Value at September 30, 2016