CLEVELAND CLIFFS INC
Form 10-Q
July 31, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

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

CLEVELAND-CLIFFS 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.)

1100 Superior Avenue, Cleveland, Ohio 44114-2544

(Address of Principal Executive Offices) (Zip Code)

Registrant s Telephone Number, Including Area Code: (216) 694-5700

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES _X_ NO ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer _X_	Accelerated filer ____
Non-accelerated filer ____	Smaller reporting company ____

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

YES ____ NO _X_

As of July 28, 2008, there were 106,720,100 Common Shares (par value $0.125 per share) outstanding.

Table of Contents

TABLE OF CONTENTS

Page No.

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 to Cleveland-Cliffs Inc and subsidiaries, collectively. References to A$ refer to Australian currency, C$ to Canadian currency and $ to United States currency.

Abbreviation or acronym	Term
AAA	American Arbitration Association
Alpha or ANR	Alpha Natural Resources, Inc.
Amapá	MMX Amapá Mineração Limitada
ArcelorMittal	ArcelorMittal USA Inc.
ASX	Australian Stock Exchange
CAWO	Cliffs Australian Washplant Operations Pty Ltd
Cockatoo Island	Cockatoo Island Joint Venture
Dofasco	ArcelorMittal Dofasco Inc.
EITF	Emerging Issues Task Force
Empire	Empire Iron Mining Partnership
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
F.O.B.	Free on board
FSP	FASB Staff Position
GAAP	Accounting principles generally accepted in the United States
Golden West	Golden West Resources Ltd.
Hibbing	Hibbing Taconite Company
ICE Plan	Incentive Equity Plan
Kobe Steel	Kobe Steel, LTD.
LIBOR	London Interbank Offered Rate
LTVSMC	LTV Steel Mining Company
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million British Thermal Units
MMX	MMX Mineração e Metalicos S.A.
MPCA	Minnesota Pollution Control Agency
MSHA	Mine Safety and Health Administration
NPDES	National Pollutant Discharge Elimination System
Northshore	Northshore Mining Company
NRD	Natural Resource Damages
Oak Grove	Oak Grove Resources, LLC
OPEB	Other postretirement benefits
Pinnacle	Pinnacle Mining Company, LLC
PinnOak	PinnOak Resources, LLC
Portman	Portman Limited
PCAOB	Public Company Accounting Oversight Board
Renewafuel	Renewafuel, LLC
RTWG	Rio Tinto Working Group
SEC	United States Securities and Exchange Commission
Severstal	Severstal North America, Inc.
SFAS	Statement of Financial Accounting Standards
Sonoma	Sonoma Coal Project
Tilden	Tilden Mining Company L.C.
Tonne	Metric ton
United Taconite	United Taconite LLC
VEBA	Voluntary Employee Benefit Association trusts
VNQDC Plan	Voluntary Non-Qualified Deferred Compensation Plan
Wabush	Wabush Mines Joint Venture

3

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED OPERATIONS

	(In Millions, Except Per Share Amounts)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
REVENUES FROM PRODUCT SALES AND SERVICES				
Product	$ 921.6	$ 474.6	$ 1,333.6	$ 740.8
Freight and venture partners cost reimbursements	87.0	73.0	169.5	132.3
	1,008.6	547.6	1,503.1	873.1
COST OF GOODS SOLD AND OPERATING EXPENSES	(582.3)	(418.0)	(994.3)	(681.7)
SALES MARGIN	426.3	129.6	508.8	191.4
OTHER OPERATING INCOME (EXPENSE)				
Casualty recoveries	10.0	3.2	10.0	3.2
Royalties and management fee revenue	7.1	4.0	10.9	6.2
Selling, general and administrative expenses	(52.1)	(21.5)	(96.6)	(42.2)
Gain on sale of other assets	19.5	-	21.0	-
Miscellaneous - net	(1.4)	0.6	(1.9)	2.2
	(16.9)	(13.7)	(56.6)	(30.6)
OPERATING INCOME	409.4	115.9	452.2	160.8
OTHER INCOME (EXPENSE)				
Interest income	6.3	4.6	11.9	9.9
Interest expense	(9.8)	(2.1)	(17.0)	(3.1)
Other - net	0.3	(1.2)	0.3	0.1
	(3.2)	1.3	(4.8)	6.9
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST AND EQUITY LOSS FROM VENTURES	406.2	117.2	447.4	167.7
PROVISION FOR INCOME TAXES	(107.4)	(25.8)	(121.6)	(39.3)
MINORITY INTEREST (net of tax of $9.6, $1.9, $10.9 and $3.9)	(22.4)	(4.5)	(25.5)	(9.0)
EQUITY LOSS FROM VENTURES	(6.2)	-	(13.1)	-
NET INCOME	270.2	86.9	287.2	119.4
PREFERRED STOCK DIVIDENDS	(0.4)	(1.4)	(1.3)	(2.8)
INCOME APPLICABLE TO COMMON SHARES	$ 269.8	$ 85.5	$ 285.9	$ 116.6

EARNINGS PER COMMON SHARE - BASIC	**$ 2.75**	**$ 1.05**	**$ 3.04**	**$ 1.43**
EARNINGS PER COMMON SHARE - DILUTED	**$ 2.57**	**$ 0.83**	**$ 2.73**	**$ 1.14**
AVERAGE NUMBER OF SHARES (IN THOUSANDS)				
Basic	**98,127**	**81,544**	**94,031**	**81,380**
Diluted	**105,227**	**104,664**	**105,087**	**104,508**

See notes to unaudited condensed consolidated financial statements.

4

Table of Contents

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CONDENSED CONSOLIDATED FINANCIAL POSITION

	(In Millions)	
	June 30, 2008	December 31, 2007
ASSETS	(Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	$ 320.4	$ 157.1
Accounts receivable	291.9	84.9
Inventories	466.8	241.9
Supplies and other inventories	81.6	77.0
Derivative assets	157.9	69.5
Other	124.5	124.2
TOTAL CURRENT ASSETS	1,443.1	754.6
PROPERTY, PLANT AND EQUIPMENT LESS ACCUMULATED DEPRECIATION AND DEPLETION - $406.1 ($330.9 in 2007)	2,091.3	1,823.9
OTHER ASSETS		
Investments in ventures	265.3	265.3
Marketable securities	102.4	55.7
Deferred income taxes	42.2	42.1
Other	102.6	134.2
TOTAL OTHER ASSETS	512.5	497.3
TOTAL ASSETS	$ 4,046.9	$ 3,075.8
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 172.5	$ 149.9
Accrued employment costs	67.7	73.2
Accrued expenses	71.2	50.1
Income taxes payable	103.2	11.5
State and local taxes payable	35.9	33.6
Environmental and mine closure obligations	6.8	7.6
Deferred revenue	9.0	28.4
Other	49.0	45.3
TOTAL CURRENT LIABILITIES	515.3	399.6
PENSIONS	98.9	90.0
OTHER POSTRETIREMENT BENEFITS	114.2	114.8
ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS	125.0	123.2
DEFERRED INCOME TAXES	238.5	189.0
SENIOR NOTES	325.0	-
TERM LOAN	200.0	200.0
REVOLVING CREDIT	160.0	240.0
CONTINGENT CONSIDERATION	178.5	99.5
DEFERRED PAYMENT	99.1	96.2
OTHER LIABILITIES	141.5	107.3
TOTAL LIABILITIES	2,196.0	1,659.6
MINORITY INTEREST	187.1	117.8
COMMITMENTS AND CONTINGENCIES		
3.25% REDEEMABLE CUMULATIVE CONVERTIBLE PERPETUAL PREFERRED STOCK - ISSUED 172,500 SHARES OUTSTANDING 19,555 AND 134,715 IN 2008 AND 2007	19.6	134.7
SHAREHOLDERS EQUITY		

Common Shares - par value $0.125 a share				
Authorized - 224,000,000 shares; Issued - 134,623,528 shares				
Outstanding - 102,615,681 shares (net of treasury shares)		**16.8**		**16.8**
Capital in excess of par value of shares		**149.6**		**116.6**
Retained earnings		**1,589.5**		**1,316.2**
Cost of 32,007,847 Common Shares in treasury				
(2007 - 47,455,922 shares)		**(172.5)**		**(255.6)**
Accumulated other comprehensive income (loss)		**60.8**		**(30.3)**
TOTAL SHAREHOLDERS EQUITY		**1,644.2**		**1,163.7**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$**	**4,046.9**	**$**	**3,075.8**

See notes to unaudited condensed consolidated financial statements.

5

Table of Contents

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF UNAUDITED CONDENSED CONSOLIDATED CASH FLOWS

	(In Millions) Six Months Ended June 30,	
	2008	2007
CASH FLOW FROM OPERATIONS		
OPERATING ACTIVITIES:		
Net income	$ 287.2	$ 119.4
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation, depletion and amortization	78.1	42.4
Minority interest	25.5	9.0
Tax contingency reserve	18.8	-
Equity loss in ventures	13.1	-
Share-based compensation	10.8	3.2
Derivatives and currency hedging	(66.1)	(5.7)
Gain on sale of assets	(14.3)	(0.3)
Property damage recoveries	(10.0)	-
Excess tax benefit from share-based compensation	(3.3)	(3.9)
Deferred income taxes	(3.1)	(10.7)
Pensions and other postretirement benefits	(2.0)	1.1
Environmental and closure obligations	(0.3)	2.0
Other	(1.2)	4.8
Changes in operating assets and liabilities:		
Product inventories	(205.3)	(159.0)
Receivables and all other assets	(108.4)	8.1
Payables and accrued expenses	63.4	(48.1)
Net cash provided (used) by operating activities	82.9	(37.7)
INVESTING ACTIVITIES:		
Purchase of minority interest in Portman	(137.8)	-
Purchase of property, plant and equipment	(59.1)	(46.2)
Investment in marketable securities	(27.0)	(36.0)
Investments in ventures	(2.2)	(223.7)
Proceeds from sale of assets	38.6	1.8
Redemption of marketable securities	20.3	-
Proceeds from property damage insurance recoveries	10.0	-
Net cash used by investing activities	(157.2)	(304.1)
FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	260.0	165.0
Repayment under revolving credit facility	(340.0)	(40.0)
Borrowings under senior notes	325.0	-
Excess tax benefit from share-based compensation	3.3	3.9
Contributions by minority interest	1.8	1.5
Common stock dividends	(16.9)	(10.2)
Preferred stock dividends	(1.3)	(2.8)
Repayment of other borrowings	(6.8)	(2.4)
Proceeds from stock options exercised	-	0.1
Repurchases of common stock	-	(2.2)
Net cash from financing activities	225.1	112.9
EFFECT OF EXCHANGE RATE CHANGES ON CASH	12.5	6.5
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	163.3	(222.4)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	157.1	351.7

CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 320.4**	**$ 129.3**

See notes to unaudited condensed consolidated financial statements.

6

Table of Contents

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with SEC rules and regulations and in the opinion of management, contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, the financial position, results of operations 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. The interim results are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in Cleveland-Cliffs Annual Report on Form 10-K for the year ended December 31, 2007. All common shares and per share amounts have been adjusted retroactively to reflect the two-for-one stock split effective May 15, 2008.

The unaudited condensed consolidated financial statements include our accounts and the accounts of our consolidated subsidiaries, including the following significant subsidiaries:

Name	Location	Ownership Interest	Operation
Northshore	Minnesota	100.0%	Iron Ore
Pinnacle	West Virginia	100.0%	Coal
Oak Grove	Alabama	100.0%	Coal
Portman	Western Australia	85.2%	Iron Ore
Tilden	Michigan	85.0%	Iron Ore
Empire	Michigan	79.0%	Iron Ore
United Taconite	Minnesota	70.0%*	Iron Ore

* On July 11, 2008 we acquired the remaining 30 percent from minority

interest shareholders, with an effective date of July 1, 2008.

Intercompany accounts are eliminated upon consolidation.

On May 21, 2008, Portman authorized a tender offer to repurchase up to 16.5 million shares, or 9.39 percent of its common stock. On this date, we owned 80.4 percent of the approximately 176 million shares outstanding in Portman and indicated we would not participate in the tender buyback. Under the share tender program, eligible shareholders could offer to sell some or all of their shareholdings at a fixed-price discount of 14 percent to the volume-weighted average price of Portman shares traded on ASX during the five trading days after the date of announcement. The tender period closed on June 24, 2008. Under the buyback, 9.8 million fully paid ordinary shares were tendered at a price of A$14.66 per share. The total consideration paid under the buyback was A$143.3 million. As a result of the buyback, our ownership interest in Portman increased from 80.4 percent to 85.2 percent. See NOTE 4 ACQUISITIONS & OTHER INVESTMENTS for further information.

Through various interrelated arrangements, we achieve a 45 percent economic interest in Sonoma, despite the ownership percentages of the individual pieces of Sonoma. We own 100 percent of CAWO, 8.33 percent of the exploration permits and applications for mining leases for the real estate that is involved in Sonoma (Mining Assets) and 45 percent of the

Table of Contents

infrastructure, including the construction of a rail loop and related equipment (Non-Mining Assets). CAWO is consolidated as a wholly-owned subsidiary, and as a result of being the primary beneficiary, we absorb greater than 50 percent of the residual returns and expected losses of CAWO. We record our ownership share of the Mining Assets and Non-Mining Assets and share in the respective costs.

Our investments in ventures include our 30 percent equity interest in Amapá, an iron ore project located in Brazil, our 23 percent equity interest in Hibbing, an unincorporated joint venture in Minnesota, our 26.83 percent equity interest in Wabush, an unincorporated joint venture located in Canada, and Portman s 50 percent non-controlling interest in Cockatoo Island.

Investments in certain joint ventures (Wabush, Cockatoo Island, Hibbing) in which our ownership is 50 percent or less, or in which we do not have control but have the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Our share of equity income (loss) is eliminated against consolidated product inventory upon production, and against cost of goods sold and operating expenses when sold. This effectively reduces our cost for our share of the mining venture s production to its cost, reflecting the cost-based nature of our participation in unconsolidated ventures.

Our 30 percent ownership interest in Amapá, in which we do not have control but have the ability to exercise influence over operating and financial policies, is accounted for under the equity method. Accordingly, our share of the results from Amapá is reflected as *Equity loss from ventures* on the Statements of Unaudited Condensed Consolidated Operations.

The following table presents the detail of our investments in ventures and where those investments are classified on the Statements of Condensed Consolidated Financial Position. Parentheses indicate a net liability.

			(In Millions)	
Investment	Classification	Interest Percentage	June 30, 2008	December 31, 2007
Amapá	*Investments in ventures*	30	$ 251.8	$ 247.2
Wabush	*Investments in ventures*	27	6.7	5.8
Cockatoo	*Other current liabilities*	50	(16.6)	(9.9)
Hibbing (1)	*Investments in ventures*	23	0.5	(0.3)
Other	*Investments in ventures*		6.3	12.3
			$ 248.7	$ 255.1

(1) Recorded as *Other liabilities* at December 31, 2007.

The increase in the liability related to Cockatoo is primarily attributable to an increase in the estimated asset retirement obligation in connection with a revised assessment of the mine closure plan.

In preparing our second quarter 2008 interim financial statements, we determined that we should have recognized additional revenue of approximately $55 million in our first quarter 2008 interim financial statements. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), the fair value of the derivative asset relating to shipments made, on which pricing was not yet settled, should have been estimated and recognized in earnings. At the time such shipments were made during the first quarter, we recorded revenue using 2007 international benchmark pricing and should have recorded a derivative asset for the expected increase in the 2008 international benchmark in addition to the amount we recorded in revenue. Although the amount of this adjustment is quantitatively significant to the first quarter of 2008, the additional revenue is fully recorded in our second quarter interim financials and is, therefore, correctly reflected in 2008 year to date earnings by the end of the second quarter. Additionally, we disclosed the nature and potential amount of the adjustment in our first quarter MD&A. Accordingly, we do not believe that this adjustment materially misstates or warrants restatement of our first quarter 2008 unaudited condensed consolidated financial statements.

NOTE 2 ACCOUNTING POLICIES

Revenue Recognition

North American Iron Ore

Revenue is recognized on the sale of products when title to the product has transferred to the customer in accordance with the specified provisions of each term supply agreement and all applicable criteria for revenue recognition have been satisfied. Most of our North American Iron Ore term supply agreements provide that title transfers to the customer when payment is received. Under some term supply agreements, we ship the product to ports on the lower Great Lakes and/or to the customer s facilities prior to the transfer of title. Certain supply agreements with one customer 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 record this provision at fair value until the product is consumed and the amounts are settled as an adjustment to revenue.

Revenue also includes reimbursement for freight charges. The following table is a summary of reimbursement in our North American Iron Ore operations for the three and six months ended June 30, 2008 and 2007:

	(In Millions)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Reimbursements for:				
Freight	$ 24.6	$ 21.1	$ 41.6	$ 33.3
Venture partners cost	53.7	51.9	106.2	99.0
Total reimbursements	$ 78.3	$ 73.0	$ 147.8	$ 132.3

North American Coal

We recognize revenue when title passes to the customer. For domestic coal sales, this generally occurs when coal is loaded into rail cars at the mine. For export coal sales, this generally occurs when coal is loaded into the vessels at the terminal. Revenue from product sales for the three and six months ended June 30, 2008 included reimbursement for freight charges of $8.7 million and $21.7 million, respectively.

Asia-Pacific Iron Ore

Sales revenue is recognized at the F.O.B. point, which is generally when the product is loaded into the vessel.

Deferred Revenue

In 2008, the terms of one of our North American Iron Ore pellet supply agreements require a prepayment by the customer for one estimated weekly shipment of pellets in addition to the amount of the bi-weekly invoice for shipments previously made. In 2007, the terms of the agreement required semi-monthly installments equaling 1/24th of the estimated total purchase value of the calendar-year nomination. In both years, revenue related to this supply agreement has been recognized when title transfers upon shipment of the pellets. Installment amounts received in excess of sales totaled $9.0 million and $14.6 million, which were recorded as *Deferred revenue* on the Statements of Condensed Consolidated Financial Position at June 30, 2008 and December 31, 2007, respectively.

Two of our North American Iron Ore customers purchased and paid for approximately 1.5 million tons of iron ore pellets in stockpiles in the fourth quarter of 2007. The customers requested the Company to not ship the iron ore pellets until the spring of 2008 under a fixed shipment schedule, when the Great Lakes waterways re-opened for shipping. Freight revenue related to these transactions of $13.8 million was deferred on the Statements of Condensed Consolidated Financial Position at December 31, 2007 and subsequently recognized in 2008 upon shipment. First and second quarter 2008 freight revenues included $5.3 million and $8.5 million, respectively, related to the shipment of 0.6 million and 0.9 million respective tons of pellets from the stockpiles.

Derivative Financial Instruments

Portman receives funds in United States currency for its iron ore sales. Portman uses forward exchange contracts, call options, collar options and convertible collar options, designated as cash flow hedges, to hedge its foreign currency exposure for a portion of its sales receipts. United States currency is converted to Australian dollars at the currency exchange rate in effect at the time of the transaction. The primary objective for the use of these instruments is to reduce the volatility of earnings due to changes in Australian and United States currency exchange rates and to protect against undue adverse movement in these exchange rates. At June 30, 2008, Portman had $559.2 million of outstanding exchange rate contracts in the form of call options, collar options, convertible collar options and forward exchange contracts with varying maturity dates ranging from July 2008 to May 2011, with a fair value adjustment of $44.4 million based on the June 30, 2008 spot rate. We had $32.1 million and $15.7 million of foreign currency hedge contracts recorded as *Derivative assets* on the June 30, 2008 and December 31, 2007 Statements of Condensed Consolidated Financial Position, respectively. We also had $12.3 million and $5.9 million of foreign currency hedge contracts recorded as non-current assets in *Deposits and miscellaneous* on the Statements of Condensed Consolidated Financial Position at June 30, 2008 and December 31, 2007, respectively. Changes in fair value for highly effective hedges are recorded as a component of *Other comprehensive income*. For the first six months of 2008 and 2007, ineffectiveness resulted in a loss of $8.6 million and a loss $2.3 million, respectively, which were recorded in *Miscellaneous-net* on the Statements of Unaudited Condensed Consolidated Operations.

10

Table of Contents

Effective July 1, 2008, Portman de-designated these cash flow hedges and will prospectively mark to market future hedges through the Statements of Operations.

Certain supply agreements with one North American Iron Ore customer provide for supplemental revenue or refunds 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 an embedded derivative and is required to be accounted for separately from the base contract price. The embedded derivative instrument, which is finalized based on a future price, is marked to fair value as a revenue adjustment each reporting period until the pellets are consumed and the amounts are settled. We recognized $84.3 million and $20.0 million, in the second quarter of 2008 and 2007, respectively, and $110.3 million and $29.6 million for the six months ended June 30, 2008 and 2007, respectively, as *Product* revenues on the Statements of Unaudited Condensed Consolidated Operations related to the supplemental payments. Derivative assets, representing the fair value of the pricing factors, were $125.8 million and $53.8 million, respectively, on the June 30, 2008 and December 31, 2007 Statements of Condensed Consolidated Financial Position.

Certain supply agreements primarily with our Asia-Pacific customers provide for revenue or refunds based on the ultimate settlement of annual international benchmark pricing provisions. The pricing provisions are characterized as freestanding derivatives and are required to be accounted for separately once iron ore is shipped. The derivative instrument, which is settled and billed once the annual international benchmark price is settled, is marked to fair value as a revenue adjustment each reporting period based upon the estimated forward settlement until the benchmark is actually settled. We recognized $160.6 million as *Product* revenues in the Statements of Unaudited Condensed Consolidated Operations for both the three and six months ended June 30, 2008, related to the 2008 pricing provisions. See Note 1 BASIS OF PRESENTATION regarding the portion of this revenue related to shipments made during the three months ended March 31, 2008. The derivative instrument was settled during the second quarter of 2008 upon settlement of annual international benchmark prices and is therefore not reflected on the June 30, 2008 Statement of Condensed Consolidated Financial Position.

Effective October 19, 2007, we entered into a $100 million fixed interest rate swap to convert a portion of our floating rate debt to fixed rate debt. Interest on borrowings under our credit facility is based on a floating rate, dependent in part on the LIBOR rate, exposing us to the effects of interest rate changes. The objective of the hedge is to eliminate the variability of cash flows in interest payments for forecasted floating rate debt, attributable to changes in benchmark LIBOR interest rates. To support hedge accounting, we designate floating-to-fixed interest rate swaps as cash flow hedges of the variability of future cash flows at the inception of the swap contract. The amount charged to *Other comprehensive income* for the six months ended June 30, 2008 was $0.8 million. Derivative liabilities, totaling $2.2 million and $1.4 million, were recorded as *Other current liabilities* on the Statements of Condensed Consolidated Financial Position as of June 30, 2008 and December 31, 2007, respectively. There was no ineffectiveness recorded for the interest rate swap in the first six months of 2008.

Table of Contents

Inventories

The following table presents the detail of our *Inventories* on the Statements of Condensed Consolidated Financial Position at June 30, 2008 and December 31, 2007:

	(In Millions)					
	June 30, 2008			December 31, 2007		
	Finished Goods	Work-in Process	Total Inventory	Finished Goods	Work-in Process	Total Inventory
North American Iron Ore	$ 297.1	$ 9.3	$ 306.4	$ 114.3	$ 16.5	$ 130.8
North American Coal	15.4	0.9	16.3	8.3	0.8	9.1
Asia-Pacific Iron Ore	38.0	92.8	130.8	30.2	71.8	102.0
Other	10.6	2.7	13.3	-	-	-
Total	$ 361.1	$ 105.7	$ 466.8	$ 152.8	$ 89.1	$ 241.9

Our North American Iron Ore sales for the first half of the year are influenced by winter-related shipping constraints on the Great Lakes. While we continue to produce our products during the winter months, we cannot ship those products via lake freighter until the Great Lakes are passable, which causes our inventory levels to rise during the first half of the year. Finished goods inventory then begins to decline as sales increase later in the year.

Income Taxes

Income taxes are based on income for financial reporting purposes calculated using our expected annual effective rate and reflect a current tax liability or asset for the estimated taxes payable or recoverable on the current year tax return and expected annual changes in deferred taxes. Any interest or penalties on income tax are recognized as a component of income tax expense.

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial results of operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes. See NOTE 10 INCOME TAXES for further information.

Fair Value Measurements

Valuation Hierarchy

SFAS No. 157, *Fair Value Measurements* (SFAS 157) establishes a three-level valuation hierarchy for classification of fair value measurements. The valuation hierarchy is

12

Table of Contents

based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Level 1 Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

The classification of assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement in its entirety. Valuation methodologies used for assets and liabilities measured at fair value are as follows:

Cash Equivalents

Where quoted prices are available in an active market, cash equivalents are classified within Level 1 of the valuation hierarchy. Cash equivalents classified in Level 1 at June 30, 2008 include money market funds. The valuation of these instruments is determined using a market approach and is based upon unadjusted quoted prices for identical assets in active markets. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. In these instances, the valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for substantially the full term of the financial instrument, and the related financial instrument is therefore classified within Level 2 of valuation the hierarchy. Level 2 securities include short-term investments such as commercial paper for which the value of each investment is a function of the purchase price, purchase yield, and maturity date.

Marketable Securities

Where quoted prices are available in an active market, marketable securities are classified within Level 1 of the valuation hierarchy. Marketable securities classified in Level 1 at June 30, 2008 include available for sale securities. The valuation of these instruments is determined using a market approach and is based upon unadjusted quoted prices for identical assets in active markets.

Derivative Financial Instruments

Derivative financial instruments valued using financial models that use as their basis readily observable market parameters are classified within Level 2 of the valuation hierarchy. Such derivative financial instruments include substantially all of our foreign currency exchange contracts and interest rate swap agreements. Derivative financial instruments that are valued based upon models with significant unobservable market parameters, and that are normally traded less actively, are classified within Level 3 of the valuation hierarchy.

Non-Financial Assets and Liabilities

We have deferred the adoption of SFAS 157 until January 1, 2009 with respect to non-financial assets and liabilities in accordance with the provisions of FSP FAS 157-2. Items that are recognized or disclosed at fair value for which we have not applied the provisions of SFAS 157 include goodwill, asset retirement obligations, guarantees and certain other items. See NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS for further information.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. They included the reclassification of certain amounts included in *Miscellaneous net* to *Selling, general and administrative expenses* on the Statements of Unaudited Condensed Consolidated Operations.

Recent Accounting Pronouncements

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 is effective 60 days following the SEC s approval of the PCAOB s related amendments to remove the GAAP hierarchy from auditing standards, where it has previously resided. We are evaluating the impact SFAS 162 will have on our consolidated financial statements upon adoption, but do not expect this Statement to result in a material change in current practice.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), and other U.S. GAAP. This FSP applies to all intangible assets, whether acquired in a business combination or otherwise and shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. We are currently evaluating the impact adoption of this FSP will have on our consolidated financial statements.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* (SFAS 161). This Statement amends and expands the disclosure requirements of Statement 133 to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The new requirements apply to derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. The Statement is effective for fiscal years and interim periods beginning after

14

November 15, 2008. Early application is encouraged. We are currently evaluating the impact adoption of this Statement will have on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (FSP 157-1). FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. In addition, on February 12, 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which amends SFAS 157 by delaying its effective date by one year for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. This pronouncement was effective upon issuance. We have deferred the adoption of SFAS 157 with respect to all non-financial assets and liabilities in accordance with the provisions of this pronouncement. On January 1, 2009, SFAS 157 will be applied to all other fair value measurements for which the application was deferred under FSP FAS 157-2. We are currently assessing the impact SFAS 157 will have in relation to non-financial assets and liabilities on our consolidated financial statements. See NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS for further information.

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115* (SFAS 159) became effective on January 1, 2008. This standard permits entities to choose to measure many financial instruments and certain other items at fair value. While SFAS 159 became effective for our 2008 fiscal year, we did not elect the fair value measurement option for any of our financial assets or liabilities. Therefore, adoption of this Statement did not have a material impact on our consolidated financial statements.

NOTE 3 MARKETABLE SECURITIES

During the second quarter of 2008, Portman acquired 22 million shares of Golden West, a Western Australia iron ore exploration company, which represents approximately 19.9 percent of its outstanding shares. Acquisition of the shares represents an investment of approximately $27 million. Golden West owns the Wiluna West exploration ore project in Western Australia, containing a resource of 119 million metric tons of ore. The purchase provides Portman a strategic interest in Golden West and Wiluna West. We do not exercise significant influence, and at June 30, 2008, the investment is classified as an available-for-sale security.

Our marketable securities are classified as either held-to-maturity or available-for-sale. We account for marketable securities in accordance with the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). SFAS 115 addresses the accounting and reporting for investments in fixed maturity securities and for equity securities with readily determinable fair values. We determine the appropriate classification of debt and equity securities at the time of purchase and re-evaluate such designation as of each balance sheet date. In addition, we review our investments on an ongoing basis for indications of possible impairment. We review impairments in accordance with EITF 03-1 and FSP SFAS 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* to determine the classification of the impairment as temporary or other-than-temporary. Once identified, the determination of whether the impairment is temporary or other-than-temporary requires significant judgment. The primary factors that we consider in classifying the impairment include the extent and time the fair value of each investment has been below cost. If a decline in fair value is judged other than

15

Table of Contents

temporary, the basis of the individual security is written down to fair value as a new cost basis, and the amount of the write-down is included as a realized loss. At June 30, 2008 and December 31, 2007, we had $102.8 million and $74.6 million, respectively, of marketable securities as follows:

	(In Millions) June 30, 2008	December 31, 2007
Held to maturity - current	$ 0.4	$ 18.9
Held to maturity - non-current	26.4	25.8
	26.8	44.7
Available for sale - non-current	76.0	29.9
Total	$ 102.8	$ 74.6

Marketable securities classified as held-to-maturity are measured and stated at amortized cost. The amortized cost, gross unrealized gains and losses and fair value of investment securities held-to-maturity at June 30, 2008 and December 31, 2007 are summarized as follows:

	June 30, 2008 (In Millions)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset backed securities	$ 3.3	$ -	$ (0.6)	$ 2.7
Floating rate notes	23.5	-	(0.9)	22.6
Total	$ 26.8	$ -	$ (1.5)	$ 25.3

	December 31, 2007 (In Millions)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset backed securities	$ 23.1	$ -	$ (1.4)	$ 21.7
Floating rate notes	21.6	-	(0.1)	21.5
Total	$ 44.7	$ -	$ (1.5)	$ 43.2

Investment securities held-to-maturity at June 30, 2008 and December 31, 2007 have contractual maturities as follows:

	(In Millions) June 30, 2008	December 31, 2007
Asset backed securities:		
Within 1 year	$ 0.4	$ 18.9
1 to 5 years	2.9	4.2

	$ 3.3	$ 23.1
Floating rate notes:		
Within 1 year	$ -	$ -
1 to 5 years	23.5	21.6
	$ 23.5	$ 21.6

Marketable securities classified as available for sale are stated at fair value, with unrealized holding gains and losses included in *Other comprehensive income*. The amortized cost, gross

16

Table of Contents

unrealized gains and losses and fair value of investment securities available-for-sale at June 30, 2008 and December 31, 2007 are summarized as follows:

	(In Millions) June 30, 2008			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Equity securities (without contractual maturity)	$ 41.2	$ 34.8	$ -	$ 76.0

	(In Millions) December 31, 2007			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Equity securities (without contractual maturity)	$ 14.2	$ 15.7	$ -	$ 29.9

We intend to hold our shares of available-for-sale equity securities indefinitely.

NOTE 4 ACQUISITIONS & OTHER INVESTMENTS

In accordance with FASB Statement No. 141, *Business Combinations* (SFAS 141) we allocate the cost of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the cost over the fair value of the net assets acquired is recorded as goodwill.

PinnOak

On July 31, 2007, we completed our acquisition of 100 percent of PinnOak, a privately-owned United States producer of high-quality, low-volatile metallurgical coal. The acquisition furthers our growth strategy and expands our diversification of products for the integrated steel industry. The purchase price of PinnOak and its subsidiary operating companies was $450 million in cash, of which $108.4 million is deferred until December 31, 2009, plus the assumption of approximately $160 million in debt, which was repaid at closing. The deferred payment was discounted using a six percent credit-adjusted risk free rate and was recorded as $93.7 million of *Deferred payment* on the Statements of Consolidated Financial Position as of July 31, 2007. The purchase agreement also includes a contingent earn-out, which ranges from $0 to approximately $300 million dependent upon PinnOak s performance in 2008 and 2009. The earn-out, if any, would be payable in 2010 and treated as additional purchase price. The assets acquired consist primarily of coal mining rights and mining equipment and are included in our North American Coal segment.

PinnOak s operations include two complexes comprising three underground mines the Pinnacle and Green Ridge mines in southern West Virginia and the Oak Grove mine near Birmingham, Alabama. Combined, the mines have rated capacity to produce 6.5 million tons of premium-quality metallurgical coal annually.

The Statements of Unaudited Condensed Consolidated Financial Position of the Company as of June 30, 2008 reflect the acquisition of PinnOak, effective July 31, 2007, under the purchase method of accounting. The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based upon their estimated fair values at the date of the acquisition. The allocation resulted in an excess of fair value of acquired net assets over

Table of Contents

cost. As the acquisition involved a contingent earn-out, a liability has been recorded totaling $178.5 million, representing the lesser of the maximum amount of contingent consideration or the excess prior to the pro rata allocation of purchase price. We finalized the purchase price allocation in the second quarter of 2008. A comparison of the finalized purchase price allocation to the initial allocation is as follows:

	(In Millions)		
	Finalized Allocation	Initial Allocation	Change
ASSETS			
Current assets	$ 80.8	$ 77.2	$ 3.6
Property, plant and equipment	156.7	133.0	23.7
Mineral rights	676.5	619.9	56.6
Asset held for sale	14.0	-	14.0
Other assets	3.7	3.6	0.1
Total assets	$ 931.7	$ 833.7	$ 98.0
LIABILITIES			
Current liabilities	$ 62.5	$ 61.3	$ 1.2
Long-term liabilities	268.0	171.2	96.8
Total liabilities	330.5	232.5	98.0
Purchase price	$ 601.2	$ 601.2	$ -

The adjustment since our initial allocation reduced coal inventory by $1.1 million to reflect inventory survey adjustments, increased supplies inventory by $4.8 million to reflect the capitalization of supplies inventory, increased property, plant and equipment by $23.7 million and increased mineral rights by $56.6 million to reflect market-based valuation adjustments. The asset held for sale represents the estimated fair value less cost to sell of the assets of a pond fines recovery operation. The sale was completed on February 15, 2008. The increase in current liabilities reflects additional accruals for non-income taxes. The increase in long-term liabilities represents adjustments to the contingent earn-out, $78.5 million, and an increase in deferred tax liabilities resulting from further assessment of the purchase price for tax purposes, $18.0 million.

Portman Share Repurchase

On May 21, 2008, Portman authorized a tender offer to repurchase up to 16.5 million shares, or 9.39 percent of its common stock. On this date, we owned 80.4 percent of the approximately 176 million shares outstanding in Portman and indicated we would not participate in the tender buyback. Under the share tender program, eligible shareholders could offer to sell some or all of their shareholdings at a fixed-price discount of 14 percent to the volume-weighted average price of Portman shares traded on ASX during the five trading days after the date of announcement. The tender period closed on June 24, 2008. Under the buyback, 9.8 million fully paid ordinary shares were tendered at a price of A$14.66 per share. The total consideration paid under the buyback was A$143.3 million. As a result of the buyback, our ownership interest in Portman increased from 80.4 percent to 85.2 percent.

The transaction constituted a step acquisition of a noncontrolling interest. In accordance with SFAS 141 we have accounted for the acquisition of the minority interests in Portman by the purchase method. As of the date of a step acquisition of the minority interest, the then historical cost basis of the minority interest balance was reduced to the extent of the percentage interest sold, or $49.0 million, and a corresponding deferred tax liability with a preliminary fair value assignment of $38.0 million was recorded to reflect the tax effect of the acquisition. The remaining purchase price over the net assets acquired was preliminarily assigned *to Property, Plant and Equipment* resulting in an increase of $126.8 million on the Statement of Condensed Consolidated Financial Position at June 30, 2008. We are in the process of conducting a valuation of the assets acquired and liabilities assumed related to the acquisition, most notably, inventory, mineral rights, and property, plant and equipment. Accordingly, allocation of the purchase price is subject to modification in the future.

NOTE 5 DEBT AND CREDIT FACILITIES

On June 25, 2008, we entered into a $325 million private placement consisting of $270 million of 6.31 percent Five-Year Senior Notes due June 15, 2013, and $55 million of 6.59 percent Seven-Year Senior Notes due June 15, 2015. Interest will be paid on the notes for both tranches on June 15 and December 15 until their respective maturities. The notes are unsecured obligations with interest and principal amounts guaranteed by certain of our domestic subsidiaries. The notes and guarantees are not required to be registered under the Securities Act of 1933, as amended, and have been placed with qualified institutional investors. We used the proceeds to repay senior unsecured indebtedness and for general corporate purposes.

The terms of the note purchase agreement contain customary covenants that require compliance with certain financial covenants based on: (1) debt to earnings ratio and (2) interest coverage ratio. As of June 30, 2008, we were in compliance with the covenants in the note purchase agreement.

On August 17, 2007, we entered into a five-year unsecured credit facility with a syndicate of 13 financial institutions. The facility provides $800 million in borrowing capacity, comprised of $200 million in term loans and $600 million in revolving loans, swing loans and letters of credit. Loans are drawn with a choice of interest rates and maturities, subject to the terms of the agreement. Interest rates are either (1) a range from LIBOR plus 0.45 percent to LIBOR plus 1.125 percent based on debt and earning levels or (2) the prime rate or the prime rate plus 1.125 percent, based on debt and earnings.

The credit facility has two financial covenants based on: (1) debt to earnings ratio and (2) interest coverage ratio. As of June 30, 2008, we were in compliance with the covenants in the credit agreement.

As of June 30, 2008, $160 million was drawn in revolving loans and the principal amount of letter of credit obligations totaled $19.4 million under the credit facility. We had $200 million drawn in term loans; $420.6 million of borrowing capacity was available under the $800 million credit facility. The weighted average interest rate for outstanding revolving and term loans under the credit facility was 3.33 percent as of June 30, 2008. After the effect of interest rate hedging, the weighted average annual borrowing rate was 3.85 percent.

Effective June 23, 2008, Portman added a A$120 million cash facility to its existing facility agreement, under which Portman continues to maintain a A$40 million multi-option facility. The facilities have floating interest rates of 20 basis points and 75 basis points, respectively, over the 90-day bank bill swap rate in Australia. At June 30, 2008, the outstanding bank commitments totaled A$12.5 million, reducing borrowing capacity to A$27.5 million on the A$40 million facility. No funds have been utilized on the A$120 million facility. The A$120 million facility is available until September 30, 2008. Both facilities operate under the same

financial covenants of Portman: (1) debt to earnings ratio and (2) interest coverage ratio. As of June 30, 2008, Portman was in compliance with the covenants of the credit facilities.

In 2005, Portman secured five-year financing from its customers in China as part of its long-term sales agreements to assist with the funding of the expansion of its Koolyanobbing mining operations. The borrowings, totaling $5.5 million and $6.2 million at June 30, 2008 and December 31, 2007, respectively, accrue interest annually at five percent. The borrowings require a principal payment of approximately $0.8 million plus accrued interest to be made January 31, 2009, with the balance due in full on January 31, 2010.

At June 30, 2008, Amapá had long-term project debt outstanding of approximately $338 million for which we have provided a several guarantee on our 30 percent share. Amapá has engaged in ongoing discussions with its lenders regarding loan amendments to address several loan covenant violations related to project delays, higher construction expenditures, debt-to-equity ratios and deliveries under its long-term supply agreement with an operator of an iron ore pelletizing plant in the Kingdom of Bahrain. In addition, at June 30, 2008, Amapá had total short-term loans outstanding of $188.9 million. We subsequently provided a several guarantee in July 2008 on our 30 percent share of the total debt outstanding, or $159.1 million.

NOTE 6 SEGMENT REPORTING

Our company is organized and managed according to product category and geographic location: North American Iron Ore, North American Coal, Asia-Pacific Iron Ore, Asia-Pacific Coal and Latin American Iron Ore. The North American Iron Ore segment is comprised of our interests in six North American mines that provide iron ore to the integrated steel industry. The North American Coal segment is comprised of our three North American coal mines that provide metallurgical coal to the integrated steel industry. The Asia-Pacific Iron Ore segment, comprised of our interests in Portman, is located in Western Australia and provides iron ore to steel producers in China and Japan. There are no intersegment revenues.

The Asia-Pacific Coal operating segment is comprised of our 45 percent economic interest in Sonoma, located in Queensland, Australia, which is in the early stages of production. The Latin American Iron Ore operating segment is comprised of our 30 percent Amapá interest in Brazil, which is also in the early stages of production. As a result, the Asia-Pacific Coal and Latin American Iron Ore operating segments do not meet reportable segment disclosure requirements and therefore are not separately reported.

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

The following table presents a summary of our reportable segments for the three and six months ended June 30, 2008 and 2007:

Table of Contents

	(In Millions) Three Months Ended June 30, 2008		2007		(In Millions) Six Months Ended June 30, 2008		2007	
Revenues from product sales and services:								
North American Iron Ore	$ 643.4	64%	$ 432.8	79%	$ 922.2	61%	$ 658.0	75%
North American Coal	61.5	6%	-		155.4	10%	-	
Asia-Pacific Iron Ore	268.2	27%	114.8	21%	385.7	26%	215.1	25%
Other	35.5	3%	-		39.8	3%	-	
Total revenues from product sales and services for reportable segments	$ 1,008.6	100%	$ 547.6	100%	$ 1,503.1	100%	$ 873.1	100%
Sales margin:								
North American Iron Ore	$ 272.6		$ 104.4		$ 337.2		$ 141.7	
North American Coal	(23.0)		-		(25.5)		-	
Asia-Pacific Iron Ore	160.9		25.2		182.3		49.7	
Other	15.8		-		14.8		-	
Sales margin	426.3		129.6		508.8		191.4	
Other operating income	(16.9)		(13.7)		(56.6)		(30.6)	
Other income (expense)	(3.2)		1.3		(4.8)		6.9	
Income from continuing operations before income taxes, minority interest and equity loss from ventures	$ 406.2		$ 117.2		$ 447.4		$ 167.7	
Depreciation, depletion and amortization:								
North American Iron Ore	$ 11.2		$ 10.2		$ 20.9		$ 19.8	
North American Coal	14.2		-		27.6		-	
Asia-Pacific Iron Ore	13.1		11.5		27.0		22.6	
Other	1.5		-		2.6		-	
Total depreciation, depletion and amortization	$ 40.0		$ 21.7		$ 78.1		$ 42.4	
Capital additions [1]:								
North American Iron Ore	$ 12.4		$ 11.6		$ 19.5		$ 41.2	
North American Coal	8.0		-		19.9		-	
Asia-Pacific Iron Ore	6.6		1.9		35.2		3.0	
Other	7.2		-		11.3		-	
Total capital additions	$ 34.2		$ 13.5		$ 85.9		$ 44.2	

[1] Includes capital lease additions.

A summary of assets by segment is as follows:

	(In Millions)	
	June 30, 2008	December 31, 2007
Segment assets:		
North American Iron Ore	$ 1,521.3	$ 968.9
North American Coal	822.8	773.2
Asia-Pacific Iron Ore	1,270.1	1,083.8
Other	432.7	249.9
Total assets	$ 4,046.9	$ 3,075.8

21

Table of Contents

NOTE 7 COMPREHENSIVE INCOME

The following are the components of comprehensive income for the three and six months ended June 30, 2008 and 2007:

	(In Millions)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net Income	$ 270.2	$ 86.9	$ 287.2	$ 119.4
Other comprehensive income:				
Unrealized net gain on marketable securities - net of tax	12.3	4.1	11.7	3.3
Foreign currency translation	37.1	27.7	81.0	40.4
Amortization of net periodic benefit - net of tax	(23.9)	4.1	(20.8)	6.9
Unrealized gain (loss) on interest rate swap - net of tax	0.9	-	(0.5)	-
Unrealized gain on derivative financial instruments	14.2	4.7	19.7	7.4
Total other comprehensive income	40.6	40.6	91.1	58.0
Total comprehensive income	$ 310.8	$ 127.5	$ 378.3	$ 177.4

NOTE 8 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, 2008 and 2007:

Defined Benefit Pension Expense

	(In Millions)	
	Three Months Ended June 30,	Six Months Ended June 30,
	&n	