CLIFFS NATURAL RESOURCES INC.
Form 10-K
February 17, 2011
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value $0.125 per share	New York Stock Exchange and Professional Segment of NYSE Euronext Paris

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 Act). YES ¨ NO x

As of June 30, 2010, the aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant, based on the closing price of $47.16 per share as reported on the New York Stock Exchange Composite Index, was $6,354,612,868 (excluded from this figure is the voting stock beneficially owned by the registrant s officers and directors).

The number of shares outstanding of the registrant s Common Shares, par value $0.125 per share, was 135,462,509 as of February 14, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement for its annual meeting of shareholders scheduled to be held on May 17, 2011 are incorporated by reference into Part III.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Definitions

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

Abbreviation or acronym	Term
Algoma	Essar Steel Algoma Inc.
Amapá	Anglo Ferrous Amapá Mineração Ltda. and Anglo Ferrous Logística Amapá Ltda.
Anglo	Anglo American plc
APBO	Accumulated Postretirement Benefit Obligation
ArcelorMittal USA	ArcelorMittal USA Inc.
ASC	Accounting Standards Codification
AusQuest	AusQuest Limited
BART	Best Available Retrofit Technology
BHP	BHP Billiton
CAC	Cliffs Australia Coal Pty Ltd.
CAWO	Cliffs Australian Washplant Operations Pty Ltd
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
C.I.F.	Cost, Insurance and Freight
CLCC	Cliffs Logan County Coal
Clean Water Act	Federal Water Pollution Control Act
Cliffs Erie	Cliffs Erie LLC
CO_2e	Carbon dioxide equivalent
Cockatoo Island	Cockatoo Island Joint Venture
Compensation Committee	The Compensation and Organization Committee
Consent Order	Administrative Order by Consent
Consolidated Thompson	Consolidated Thompson Iron Mines Ltd.
CPRS	Carbon Cap and Trade Pollution Reduction Scheme
DEP	Department of Environment Protection
Directors Plan	Nonemployee Directors Compensation Plan, as amended and restated 12/31/2008
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Dofasco	ArcelorMittal Dofasco Inc.
DSA	Draft stipulation agreement
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
Empire	Empire Iron Mining Partnership
EPA	United States Environmental Protection Agency
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FMSH Act	Federal Mine Safety and Health Act 1977
F.O.B.	Free on board
Freewest	Freewest Resources Canada Inc.
GAAP	Accounting principles generally accepted in the United States
GHG	Greenhouse gas
Golden West	Golden West Resources Ltd.
GRI	Global Reporting Initiative
Hibbing	Hibbing Taconite Company
ICE Plan	Amended and Restated Cliffs 2007 Incentive Equity Plan
INR	INR Energy, LLC
IRS	Internal Revenue Service
Ispat	Ispat Inland Steel Company
JORC	Joint Ore Reserves Code
LIBOR	London Interbank Offered Rate

LIFO	Last-in, first-out
LTVSMC	LTV Steel Mining Company

Table of Contents

Abbreviation or acronym	Term
MMBtu	Million British Thermal Units
MMX	MMX Mineração e Metálicos S.A.
MP	Minnesota Power, Inc.
MPCA	Minnesota Pollution Control Agency
MPSC	Michigan Public Service Commission
MRRT	Minerals Resource Rent Tax
MSHA	Mine Safety and Health Administration
NBCWA	National Bituminous Coal Wage Agreement
NDEP	Nevada Department of Environmental Protection
NO_2	Nitrogen dioxide
Northshore	Northshore Mining Company
NPDES	National Pollutant Discharge Elimination System
NRD	Natural Resource Damages
NYSE	New York Stock Exchange
Oak Grove	Oak Grove Resources, LLC
OCI	Other comprehensive income
OPEB	Other postretirement benefits
PBO	Projected benefit obligation
Pinnacle	Pinnacle Mining Company, LLC
PinnOak	PinnOak Resources, LLC
PolyMet	PolyMet Mining Inc.
Portman	Portman Limited (now known as Cliffs Asia Pacific Iron Ore Holdings Pty Ltd)
PPACA	Patient Protection and Affordable Care Act
PRP	Potentially responsible party
PSD	Prevention of Significant Deterioration
Qcoal	Qcoal Pty Ltd
Quest	Quest Rare Minerals Ltd.
Reconciliation Act	Health Care and Education Reconciliation Act
renewaFUEL	renewaFUEL, LLC
Ring of Fire properties	Black Thor, Black Label and Big Daddy chromite deposits
RTWG	Rio Tinto Working Group
SAR	Stock Appreciation Rights
SEC	United States Securities and Exchange Commission
Severstal	Severstal North America, Inc.
Silver Bay Power	Silver Bay Power Company
SMCRA	Surface Mining Control and Reclamation Act
SMM	Sonoma Mine Management
SO_2	Sulfur dioxide
Sonoma	Sonoma Coal Project
Sonoma Sales	Sonoma Sales Pty Ltd
Spider	Spider Resources Inc.
TCR	The Climate Registry
Tilden	Tilden Mining Company L.C.
TMDL	Total Maximum Daily Load
TSR	Total Shareholder Return
UMWA	United Mineworkers of America
United Taconite	United Taconite LLC
U.S.	United States of America
U.S. Steel	United States Steel Corporation
USW	United Steelworkers
Vale	Companhia Vale do Rio Doce
VEBA	Voluntary Employee Benefit Association trusts
VIE	Variable interest entity
VNQDC Plan	2005 Voluntary NonQualified Deferred Compensation Plan
Wabush	Wabush Mines Joint Venture
Weirton	ArcelorMittal Weirton Inc.
WEPCO	Wisconsin Electric Power Company

Wheeling	Wheeling-Pittsburgh Steel Corporation

Table of Contents

PART I

Item 1. ***Business.***

Introduction

Cliffs Natural Resources Inc. traces its corporate history back to 1847. Today, we are an international mining and natural resources company. A member of the S&P 500 Index, we are the largest producer of iron ore pellets in North America, a major supplier of direct-shipping lump and fines iron ore out of Australia, and a significant producer of metallurgical coal. With core values of environmental and capital stewardship, our colleagues across the globe endeavor to provide all stakeholders operating and financial transparency as embodied in the GRI framework. Our company s operations are organized according to product category and geographic location: North American Iron Ore; North American Coal; Asia Pacific Iron Ore; Asia Pacific Coal; Latin American Iron Ore; Alternative Energies; Ferroalloys; and our Global Exploration Group.

In North America, we operate six iron ore mines in Michigan, Minnesota and Eastern Canada, five metallurgical coal mines located in West Virginia and Alabama and one thermal coal mine located in West Virginia. Our Asia Pacific operations are comprised of two iron ore mining complexes in Western Australia, serving the Asian iron ore markets with direct-shipping fines and lump ore, and a 45 percent economic interest in a coking and thermal coal mine located in Queensland, Australia. In Latin America, we have a 30 percent interest in Amapá, a Brazilian iron ore project, and in Ontario, Canada, we recently acquired chromite properties. Our operations also include our 95 percent controlling interest in renewaFUEL located in Michigan. In addition, our Global Exploration Group was established in 2009 and is focused on early involvement in exploration activities to identify new world-class projects for future development or projects that add significant value to existing operations.

Industry Overview

The strengthening recovery and improving outlook of the economic environment during 2010 was characterized by increased steel production, higher demand and rising prices. In 2010, global crude steel production, a significant driver of our business, was up approximately 15 percent from 2009 with even greater production increases in some areas, including North America. China produced approximately 627 million metric tons of crude steel in 2010, representing approximately 44 percent of global production. Steel production in China increased 10.4 percent, 13.5 percent and 16 percent in 2010, 2009 and 2008, respectively.

The rapid growth in steel production in China over recent years has only been partially met by a corresponding increase in domestic Chinese iron ore production. Chinese iron ore deposits, although substantial, are of a lower grade (less than half of the equivalent iron ore content) than the current iron ore supplied from Brazil and Australia.

The world price of iron ore is heavily influenced by international demand. Worldwide stimulus efforts initiated in 2009 improved demand during 2010, and rising spot market prices for iron ore reflected this trend. The rapid growth in Chinese demand, particularly in more recent years, created a market imbalance, which continues to indicate demand is outpacing supply. In Asia Pacific, the demand for steelmaking raw materials remained strong throughout 2010, primarily led by demand from China. As a result of increasing spot prices for iron ore, there has been a shift in the industry toward shorter-term pricing arrangements linked to the spot market. With the improved economic environment and corresponding strengthening of steel demand throughout 2010, seaborne iron ore prices for most iron ore products increased in excess of 95 percent.

The world market for metallurgical coal in 2010 was influenced less by international demand and more by the geographies where it is consumed. Throughout 2010, reported spot prices in Asia Pacific were strong, and at times trading above the range of announced quarterly settlement prices of $200 to $225 per metric ton. In the North American and European markets, demand in 2010 improved over 2009 levels largely due to the improved economic environment and global increases in steel production.

During 2010, capacity utilization among steelmaking facilities in North America demonstrated continued improvement, reaching an average rate of approximately 70 percent at year-end up from an average rate of approximately 52 percent for 2009. The industry continued to show signs of stabilization, reflecting increasing

Table of Contents

steel production and the restarting of blast furnaces in North America and Europe. As a result, we experienced marked improvements in customer demand and market expectations. We increased production at most of our facilities and called employees back to work in order to ensure that we were positioned to meet increases in demand, while continuing to monitor the markets closely.

Growth Strategy and Recent Developments

Over recent years, we have been executing a strategy designed to achieve scale in the mining industry and focused on serving the world s largest and fastest growing steel markets. Throughout 2010, we continued to increase our operating scale and presence as an international mining and natural resources company by expanding both geographically and through the minerals we mine and market. The long-term outlook remains healthy and we are now focusing on our growth projects with sustained investment in our core businesses. Our growth in North America, as well as acquisitions in minerals outside of iron ore and coal, illustrates the execution of this strategy during 2010.

We also expect to achieve growth through early involvement in exploration activities by partnering with junior mining companies, which provide us low-cost entry points for potentially significant reserve additions. We established a global exploration group in 2009, led by professional geologists who have the knowledge and experience to identify new world-class projects for future development or projects that add significant value to existing operations.

Specifically, we continued our strategic growth as an international mining and natural resources company through the following transactions in 2010:

Freewest. On January 27, 2010, we acquired all of the remaining outstanding shares of Freewest for C$1.00 per share, including its interest in the Ring of Fire properties in Northern Ontario Canada which comprise three premier chromite deposits. The acquisition of Freewest is consistent with our strategy to broaden our geographic and mineral diversification and allows us to apply our expertise in open-pit mining and mineral processing to a chromite ore resource base that could form the foundation of North America s only ferrochrome production operation. The planned mine is expected to produce 1 million to 2 million metric tons of high-grade chromite ore annually, which would be further processed into 400 thousand to 800 thousand metric tons of ferrochrome.

Wabush. On February 1, 2010, we acquired entities from our former partners that held their respective interests in Wabush for $103 million, thereby increasing our ownership interest to 100 percent. With Wabush s 5.5 million tons of production capacity, acquisition of the remaining interest has increased our North American Iron Ore equity production capacity by approximately 4.0 million tons and has added more than 50 million tons of additional reserves. Furthermore, acquisition of the remaining interest has provided us additional access to the seaborne iron ore markets serving steelmakers in Europe and Asia.

Spider. We commenced a formal cash offer to acquire all of the outstanding common shares of Spider, a Canadian-based mineral exploration company, for C$0.19 per share during the second quarter of 2010. On July 6, 2010, all of the conditions to acquire the remaining common shares of Spider had been satisfied or waived and we increased our ownership percentage to 52 percent, representing a majority of the common shares outstanding on a fully-diluted basis. Subsequently, we extended the cash offer to permit additional shares to be tendered and taken up, thereby increasing our ownership percentage in Spider to 85 percent as of July 26, 2010. Effective October 6, 2010, we completed the acquisition of all of the remaining shares of Spider through an amalgamation. Consequently, we own 100 percent of Spider as of December 31, 2010 and have obtained majority ownership of the Big Daddy chromite deposit located in Northern Ontario. The Big Daddy chromite deposit is one of the three premier chromite deposits that we originally acquired interest in through the Freewest acquisition as discussed above.

CLCC. On July 30, 2010, we acquired all of the coal operations of privately-owned INR for $775.9 million, and since that date, the operations acquired from INR have been conducted through our wholly-owned subsidiary known as CLCC. CLCC is a producer of high-volatile metallurgical and thermal coal located in southern West Virginia. CLCC s operations include two underground continuous mining method metallurgical coal mines and one open surface thermal coal mine, a coal preparation and processing facility as well as a large,

Table of Contents

long-life reserve base with an estimated 59 million tons of metallurgical coal and 62 million tons of thermal coal. This reserve base increases our total global reserve base to over 166 million tons of metallurgical coal and over 67 million tons of thermal coal. This acquisition represents an opportunity for us to add complementary high-quality coal products and provides certain advantages, including among other things, long-life mine assets, operational flexibility, and new equipment.

We plan to continue our strategic growth as an international mining and natural resources company in 2011. Specifically:

Consolidated Thompson. On January 11, 2011, we entered into a definitive arrangement agreement with Consolidated Thompson to acquire all of its common shares in an all-cash transaction including net debt, valued at approximately C$4.9 billion, or C$17.25 per share. The proposed acquisition reflects our strategy to build scale by owning expandable and exportable steelmaking raw material assets serving international markets. Completion of the acquisition is subject to customary closing conditions, including approval by Consolidated Thompson shareholders and government and regulatory approvals.

Business Segments

Our company s primary operations are organized and managed according to product category and geographic location: North American Iron Ore; North American Coal; Asia Pacific Iron Ore; Asia Pacific Coal; Latin American Iron Ore; Alternative Energies; Ferroalloys; and Global Exploration Group. The Asia Pacific Coal, Latin American Iron Ore, Alternative Energies, Ferroalloys and Global Exploration Group operating segments do not meet reportable segment disclosure requirements and therefore are not separately reported.

The North American Iron Ore and North American Coal business segments are headquartered in Cleveland, Ohio. Our Asia Pacific headquarters is located in Perth, Australia, and our Latin American headquarters is located in Rio de Janeiro, Brazil. In addition, the Alternative Energies, Ferroalloys and Global Exploration Group operating segments are currently managed at our Cleveland, Ohio location.

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. Financial information about our segments is included in Item 7 and NOTE 2 SEGMENT REPORTING included in Item 8 of this Annual Report on Form 10-K.

North American Iron Ore

We are the largest producer of iron ore pellets in North America and primarily sell our production to integrated steel companies in the United States and Canada. We manage and operate six North American iron ore mines located in Michigan, Minnesota and Eastern Canada that currently have an annual rated capacity of 38.4 million tons of iron ore pellet production, representing 45.3 percent of total North American pellet production capacity.[1] Based on our equity ownership in the North American mines we currently operate, our share of the annual rated pellet production capacity is currently 29.9 million tons, representing 35.3 percent of total North American annual pellet capacity.[2]

1 North American pellet capacity as reported includes plants in the U.S. and Canada but excludes Mexico.

2 On February 1, 2010, we acquired U.S. Steel Canada s 44.6 percent interest and ArcelorMittal Dofasco s 28.6 percent interest in Wabush, thereby increasing our ownership interest in Wabush from 26.8 percent as of December 31, 2009 to 100 percent as of December 31, 2010.

Table of Contents

The following chart summarizes the estimated annual production capacity and percentage of total North American pellet production capacity for each of the North American iron ore pellet producers as of December 31, 2010:

North American Iron Ore Pellet

Annual Rated Capacity Tonnage

	Current Estimated Capacity (Gross Tons in Millions)	Percent of Total North American Capacity
All Cliffs managed mines	38.4	45.3%
Other U.S. mines		
U.S. Steel s Minnesota ore operations		
Minnesota Taconite	16.0	18.9
Keewatin Taconite	5.2	6.2
Total U.S. Steel	21.2	25.1
ArcelorMittal USA Minorca mine	2.8	3.3
Total other U.S. mines	24.0	28.4
Other Canadian mines		
Iron Ore Company of Canada	13.0	15.3
ArcelorMittal Mines Canada	9.3	11.0
Total other Canadian mines	22.3	26.3
Total North American mines	84.7	100.0%

We sell our share of North American iron ore production to integrated steel producers, generally pursuant to term supply agreements with various price adjustment provisions.

For the year ended December 31, 2010, we produced a total of 32 million tons of iron ore pellets, including 25.4 million tons for our account and 6.6 million tons on behalf of steel company owners of the mines.

We produce various grades of iron ore pellets, including standard, fluxed and high manganese, for use in our customers blast furnaces as part of the steelmaking process. The variation in grades results from the specific chemical and metallurgical properties of the ores at each mine and whether or not fluxstone is added in the process. Although the grade or grades of pellets currently delivered to each customer are based on that customer s preferences, which depend in part on the characteristics of the customer s blast furnace operation, in many cases our iron ore pellets can be used interchangeably. Industry demand for the various grades of iron ore pellets depends on each customer s preferences and changes from time to time. In the event that a given mine is operating at full capacity, the terms of most of our pellet supply agreements allow some flexibility to provide our customers iron ore pellets from different mines.

Standard pellets require less processing, are generally the least costly pellets to produce and are called standard because no ground fluxstone, such as limestone or dolomite, is added to the iron ore concentrate before turning the concentrates into pellets. In the case of fluxed pellets, fluxstone is added to the concentrate, which produces pellets that can perform at higher productivity levels in the customer s specific blast furnace and will minimize the amount of fluxstone the customer may be required to add to the blast furnace. High manganese pellets are the pellets produced at our Canadian Wabush operation in Eastern Canada, where there is more natural manganese in the crude ore than is found at our other operations. The manganese contained in the iron ore mined at Wabush cannot be entirely removed during the concentrating process. Wabush produces manganese pellets, both in standard and fluxed grades.

It is not possible to produce pellets with identical physical and chemical properties from each of our mining and processing operations. The grade or grades of pellets purchased by and delivered to each customer are based on that customer s preferences and availability.

7

Table of Contents

Each of our North American Iron Ore mines is located near the Great Lakes or, in the case of Wabush, near the St. Lawrence Seaway, which is connected to the Great Lakes. The majority of our iron ore pellets are transported via railroads to loading ports for shipment via vessel to steelmakers in the U.S., Canada or into the international seaborne market.

Our North American Iron Ore sales are influenced by seasonal factors in the first quarter of the year as shipments and sales are restricted by weather conditions on the Great Lakes. During the first quarter, we continue to produce our products, but we cannot ship those products via lake vessel until the conditions on the Great Lakes are navigable, which causes our first quarter inventory levels to rise. Our limited practice of shipping product to ports on the lower Great Lakes or to customers facilities prior to the transfer of title has somewhat mitigated the seasonal effect on first quarter inventories and sales, as shipment from this point to the customers operations is not limited by weather-related shipping constraints. At December 31, 2010 and 2009, we had approximately 0.8 million and 1.2 million tons of pellets, respectively, in inventory at lower lakes or customers facilities.

North American Iron Ore Customers

Our North American Iron Ore revenues are primarily derived from sales of iron ore pellets to the North American integrated steel industry, consisting of seven major customers. Generally, we have multi-year supply agreements with our customers. Sales volume under these agreements is largely dependent on customer requirements, and in many cases, we are the sole supplier of iron ore pellets to the customer. Historically, each agreement has contained a base price that is adjusted annually using one or more adjustment factors. Factors that could result in a price adjustment include international pellet prices, measures of general industrial inflation and steel prices. Additionally, certain of our supply agreements have a provision that limits the amount of price increase or decrease in any given year. In 2010, the world s largest iron ore producers moved away from the annual international benchmark pricing mechanism referenced in certain of our customer supply agreements, resulting in a shift in the industry toward shorter-term pricing arrangements linked to the spot market. These changes caused us to assess the impact a change to the historical annual pricing mechanism would have on certain of our larger existing North American Iron Ore customer supply agreements. We reached final pricing settlements with some of our North American Iron Ore customers through the fourth quarter of 2010 for the 2010 contract year.

During 2010, 2009 and 2008, we sold 26.2 million, 16.4 million, and 22.7 million tons of iron ore pellets, respectively, from our share of the production from our North American Iron Ore mines. The segment s five largest customers together accounted for a total of 81 percent, 86 percent, and 84 percent of North American Iron Ore product revenues for the years 2010, 2009 and 2008, respectively. Refer to *Concentration of Customers* within Item 1 *Business*, for additional information regarding our major customers.

North American Coal

We own and operate five metallurgical coal mines located in West Virginia and Alabama and one thermal coal mine located in West Virginia that currently have a rated capacity of 9.4 million tons of production annually. In 2010, we sold a total of 3.3 million tons, compared with 1.9 million tons in 2009 and 3.2 million tons in 2008. Each of our North American coal mines are positioned near rail or barge lines providing access to international shipping ports, which allows for export of our coal production.

North American Coal Customers

North American Coal s metallurgical coal production is sold to global integrated steel and coke producers in Europe, Latin America and North America and its thermal coal production is sold to energy companies and distributors in North America and Europe. Approximately 72 percent of our 2010 production and 76 percent of our 2009 production was committed under one-year contracts. At December 31, 2010, approximately 68 percent of our projected 2011 production has been committed under one-year contracts. North American negotiations are still ongoing, and international negotiations have recently begun. The remaining tonnage is pending price negotiations primarily with our international customers, which is typically dependent on settlements of Australian pricing for metallurgical coal. International customer contracts are typically negotiated on a fiscal year basis extending from April 1 through March 31, whereas customer contracts in North America are typically negotiated on a calendar year basis extending from January 1 through December 31.

Table of Contents

International and North American sales represented 55 percent and 45 percent, respectively, of our North American Coal sales in 2010. This compares with 65 percent and 35 percent, respectively, in 2009 and 56 percent and 44 percent, respectively, in 2008. The segment s five largest customers together accounted for a total of 62 percent, 75 percent and 76 percent of North American Coal product revenues for the years 2010, 2009 and 2008, respectively. Refer to *Concentration of Customers* within Item 1 *Business*, for additional information regarding our major customers.

Asia Pacific Iron Ore

Our Asia Pacific Iron Ore operations are located in Western Australia and include our 100 percent owned Koolyanobbing complex and our 50 percent equity interest in Cockatoo Island. We serve the Asian iron ore markets with direct-shipping fines and lump ore. Production in 2010 was 9.3 million metric tons, compared with 8.3 million metric tons in 2009 and 7.7 million metric tons in 2008.

These two operations supply a total of three direct-shipping export products to Asia via the global seaborne trade market. Koolyanobbing produces a standard lump and fines product. Cockatoo Island produces a single premium fines product. The lump products are directly fed to blast furnaces, while the fines products are used as sinter feed. The variation in the three export product grades reflects the inherent chemical and physical characteristics of the ore bodies mined as well as the supply requirements of the customers.

Koolyanobbing is a collective term for the operating deposits at Koolyanobbing, Mount Jackson and Windarling. There are approximately 60 miles separating the three mining areas. Banded iron formations host the mineralization, which is predominately hematite and goethite. Each deposit is characterized with different chemical and physical attributes, and in order to achieve customer product quality, ore in varying quantities from each deposit must be blended together. In December 2010, we received regulatory approvals to further develop the Mount Jackson J1 deposit, which is an extension of the existing Mount Jackson Iron Ore deposits in Western Australia. In September 2010, our Board of Directors approved a capital project at our Koolyanobbing Operation that is expected to increase production output at Koolyanobbing to approximately 11 million metric tons annually. The Mount Jackson J1 deposit project is expected to contribute to our ability to increase production output. These improvements are expected to be fully implemented by the second half of 2012.

Crushing and blending is undertaken at Koolyanobbing, where the crushing and screening plant is located. Once the blended ore has been crushed and screened into a direct lump and fines shipping product, it is transported by rail approximately 360 miles south to the Port of Esperance for shipment to our customers in Asia.

Cockatoo Island is located off the Kimberley coast of Western Australia, approximately 1,200 miles north of Perth and is only accessible by sea and air. Cockatoo Island produces a single high-grade iron ore product known as Cockatoo Island Premium Fines. The deposit is almost pure hematite and contains very few contaminants enabling the shipping grade to be above 66 percent iron. Ore is mined below the sea level on the southern edge of the island. This is facilitated by a sea wall, which enables mining to a depth of 130 feet below sea level. Ore is crushed and screened on-site to the final product sizing. Vessels berth at the island and the fines product is loaded directly to the ship. Cockatoo Island Premium Fines are highly sought in the global marketplace due to their extremely high iron grade and low valueless mineral content. Production at Cockatoo Island ended during 2008 due to construction on Phase 3 of the seawall, and in April 2009, an unanticipated subsidence of the seawall occurred. As a result, production from the mine was delayed and was not expected to resume until the first half of 2011 once the seawall is completed. Production at Cockatoo Island resumed earlier than expected during the third quarter of 2010.

Asia Pacific Iron Ore Customers

Asia Pacific Iron Ore s production is under contract with steel companies in China and Japan through 2012. Historically, a limited spot market existed for seaborne iron ore as most production has been sold under supply contracts with annual benchmark prices driven from negotiations between the major suppliers and Chinese, Japanese and other Asian steel mills. As discussed above, in 2010, the world s largest iron ore producers moved away from the annual international benchmark pricing mechanism referenced in our customer supply

Table of Contents

agreements, resulting in a shift in the industry toward shorter-term pricing arrangements linked to the spot market. These changes caused us to assess and renegotiate the terms of our supply agreements with our customers.

Asia Pacific Iron Ore has five-year term supply agreements with steel producers in China and Japan that account for approximately 82 percent and 18 percent, respectively, of sales. The contracts were renegotiated for the period 2008 through 2012. Sales volume under the agreements is partially dependent on customer requirements. As a result of the move away from the annual international benchmark pricing mechanism in 2010, we renegotiated the terms of our supply agreements with our Chinese and Japanese Asia Pacific Iron Ore customers moving to shorter-term pricing mechanisms of various durations based on the average daily spot prices, with certain pricing mechanisms that have a duration of up to a quarter. This change was effective in the first quarter of 2010 for our Chinese customers and the second quarter of 2010 for our Japanese customers.

During 2010, 2009 and 2008, we sold 9.3 million, 8.5 million and 7.8 million metric tons of iron ore, respectively, from our Western Australia mines. No customer comprised more than 10 percent of our consolidated sales in 2010, 2009 or 2008. Asia Pacific Iron Ore s five largest customers accounted for approximately 36 percent of the segment s sales in 2010, 39 percent in 2009 and 44 percent in 2008.

Investments

In addition to our reportable business segments, we are partner to a number of projects, including Amapá in Brazil and Sonoma in Australia, which comprise our Latin American Iron Ore and Asia Pacific Coal operating segments, respectively.

Amapá

We are a 30 percent minority interest owner in Amapá, which consists of an iron ore deposit, a 120-mile railway connecting the mine location to an existing port facility and 71 hectares of real estate on the banks of the Amazon River, reserved for a loading terminal. Amapá initiated production in late December 2007. The remaining 70 percent of Amapá is owned by Anglo.

As the operator of the property, Anglo declared commercial production achievement during 2010 with annual production totaling 4.0 million metric tons, compared with 2.7 million metric tons and 1.2 million metric tons in 2009 and 2008, respectively. Anglo has indicated that it expects Amapá will produce and sell 4.5 million metric tons of iron ore fines products in 2011 and 5.1 million metric tons annually once fully operational, which is expected to occur in 2012, based on current capital expenditure levels. The majority of Amapá s production is committed under a long-term supply agreement with an operator of an iron oxide pelletizing plant in the Kingdom of Bahrain.

Sonoma

We own a 45 percent economic interest in Sonoma, located in Queensland, Australia. Production and sales totaled approximately 3.5 million metric tons, respectively, in 2010. This compares with production and sales of approximately 2.8 million and 3.1 million metric tons and 2.4 million and 2.1 million metric tons in 2009 and 2008, respectively. The project is expected to produce approximately 3.6 million metric tons of coal annually in 2011 and beyond. Production is expected to include a mix of approximately two-thirds thermal and one-third metallurgical grade coal. In 2009, Sonoma experienced intrusions in the coal seams which affected raw coal quality, recoverability in the washing process, and ultimately the quantity of metallurgical coal in the production mix. As a result, the geological model for Sonoma has been enhanced to reflect the presence of the intrusions and to refine the mining sequence in order to optimize the mix of metallurgical and thermal coal despite being lower than initially planned levels. Sonoma has economically recoverable reserves of 20 million metric tons. Of the 3.5 million metric tons produced in 2010, approximately 3.0 million metric tons were committed under supply agreements. As of December 31, 2010, approximately 2.0 million metric tons, of the 3.6 metric tons expected to be produced in 2011, are committed under supply agreements.

Research and Development

We have been a leader in iron ore mining technology for more than 160 years. We operated some of the first mines on Michigan s Marquette Iron Range and pioneered early open-pit and underground mining methods.