# CLIFFS NATURAL RESOURCES INC.

## FORM 8-K/A
(Amended Current report filing)

Filed 06/14/05 for the Period Ending 04/06/05

| | |
|---|---|
| Address | 200 PUBLIC SQUARE<br>STE. 3300<br>CLEVELAND, OH 44114-2315 |
| Telephone | 216-694-5700 |
| CIK | 0000764065 |
| Symbol | CLF |
| SIC Code | 1000 - Metal Mining |
| Industry | Metal Mining |
| Sector | Basic Materials |
| Fiscal Year | 12/31 |

# CLEVELAND CLIFFS INC

## FORM 8-K/A
(Unscheduled Material Events)

### Filed 6/14/2005 For Period Ending 4/6/2005

| | |
|---|---|
| Address | 1100 SUPERIOR AVE 18TH FLR |
| | CLEVELAND, Ohio 44114 |
| Telephone | 216-694-5700 |
| CIK | 0000764065 |
| Industry | Metal Mining |
| Sector | Basic Materials |
| Fiscal Year | 12/31 |

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 8-K/A

(Amendment No. 1)

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): April 6, 2005

# CLEVELAND-CLIFFS INC

(Exact Name of Registrant as Specified in Its Charter)

| | | |
|---|---|---|
| OHIO | 1-8944 | 34-1464672 |
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| | |
|---|---|
| 1100 Superior Avenue, Cleveland, Ohio | 44114-2589 |
| (Address of Principal Executive Offices) | (Zip Code) |

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

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 13d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.01 Completion of Acquisition or Disposition of Assets**

On April 6, 2005, Cleveland-Cliffs Inc ("Cliffs" or the "Company") filed a Current Report on Form 8-K to report that on March 31, 2005 Cleveland-Cliffs Australia Pty Limited ("Cliffs Australia"), a wholly-owned subsidiary of the Company, acquired approximately 68 percent of the outstanding shares in Portman Limited ("Portman"), a Western Australia based iron ore mining and exploration company for $371.7 million. Through the close of the Offer on April 19, 2005, Cliffs Australia acquired an additional 12 percent for $61.9 million, increasing its ownership to approximately 80 percent of the outstanding shares of Portman. The consideration for each Portman Share was A$3.85 in cash. The assets consist primarily of land, mineral rights and iron ore reserves. This amended Current Report on Form 8-K/A provides additional financial information and amends Item 9.01 of the Current Report on Form 8-K filed by the Company on April 6, 2005. Although the Securities and Exchange Commission requires that we file on or prior to June 14, 2005 the consolidated financial statements of Portman as of and for the year ended December 31, 2004 audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), these statements are presently unavailable. Portman and its auditors are currently working on the 2004 audit in accordance with these standards, and the Company intends to provide the audited financial statements of Portman as of and for the year ended December 31, 2004 in a further amendment to this 8-K/A filing as soon as the audit is completed.

**Item 9.01 Financial Statements and Exhibits**

(a) Financial Statements of the Business Acquired

The following unaudited consolidated financial statements of Portman are included as Exhibit 99.2 in this Form 8-K/A.

Unaudited Statement of Financial Performance for the Year Ended 31 December 2004

Unaudited Statement of Financial Position at 31 December 2004

Unaudited Statement of Cash Flows for the Year Ended 31 December 2004

Notes to and Forming Part of the Unaudited Financial Statements

(b) Pro Forma Financial Information

The following unaudited condensed consolidated pro forma financial information of Cliffs, giving effect to the acquisition of Portman, prepared pursuant to Article 11 of Regulation S-X, are included as Exhibit 99.3 in this Form 8-K/A.

Unaudited Pro Forma Condensed Consolidated Statement of Financial Position as of March 31, 2005

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Three Months Ended March 31, 2005

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2004

Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

(c) Exhibits

| Exhibit Number | Exhibit | |
|---|---|---|
| 99.2 | Unaudited consolidated financial statements of Portman as of and for the year ended 31 December 2004 | Filed Herewith |
| 99.3 | Unaudited pro forma condensed consolidated financial information of Cliffs, giving effect to the acquisition of Portman | Filed Herewith |

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CLEVELAND-CLIFFS INC

Date: June 14, 2005 By: /s/ Donald J. Gallagher

Donald J. Gallagher
Executive Vice President,
Chief Financial Officer and
Treasurer

## INDEX TO EXHIBITS

| Exhibit Number | Exhibit | |
|---|---|---|
| 99.2 | Unaudited consolidated financial statements of Portman as of and for the year ended 31 December 2004 | Filed Herewith |
| 99.3 | Unaudited pro forma condensed consolidated financial information of Cliffs, giving effect to the acquisition of Portman | Filed Herewith |

**Exhibit 99.2**

# Portman Limited
## Unaudited Consolidated Financial Statements
## As of and for the Year Ended
## 31 December 2004
## (Australian Currency)

UNAUDITED

**PORTMAN LIMITED**
**UNAUDITED STATEMENT OF FINANCIAL PERFORMANCE**
**FOR THE YEAR ENDED 31 DECEMBER 2004**
**(Australian Currency)**

| | Notes | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|
| Sales Revenue | 2(a) | 195,435 | — |
| Cost of Sales | | (111,827) | — |
| Gross Profit | | 83,608 | — |
| Other Revenues | 2(a) | 3,488 | 1,416 |
| Shipping and Selling Expenses | | (25,686) | — |
| Marketing Expenses | | (993) | — |
| Administrative Expenses | | (8,609) | (1,021) |
| Borrowing Costs | 2(b) | (89) | — |
| Other Expenses | 2(b) | (5,763) | 10,000 |
| Profit from ordinary activities before income tax | | 45,956 | 10,395 |
| Income tax expense relating to ordinary activities | 3 | (13,203) | (96) |
| Net Profit | 24 | 32,753 | 10,299 |
| Basic earnings per share – cents | 25 | 18.87 | |
| Diluted earnings per share – cents | 25 | 18.77 | |

The accompanying notes form part of this Unaudited Statement of Financial Performance.

**PORTMAN LIMITED**
**UNAUDITED STATEMENT OF FINANCIAL POSITION**
**AT 31 DECEMBER 2004**
**(Australian Currency)**

| | Notes | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|
| CURRENT ASSETS | | | |
| Cash Assets | 5 | 17,753 | 14,168 |
| Receivables | 6 | 18,918 | 62 |
| Inventories | 7 | 27,895 | — |
| Other Assets | 8 | 25,175 | — |
| TOTAL CURRENT ASSETS | | 89,741 | 14,230 |
| NON CURRENT ASSETS | | | |
| Receivables | 9 | 1,596 | 139,728 |
| Inventories | 10 | 18,724 | — |
| Other Financial Assets | 11 | — | 1 |
| Property, Plant and Equipment | 12 | 119,344 | — |
| Deferred Tax Assets | 13 | 2,083 | 2,083 |
| Other Assets | 14 | 10,580 | — |
| TOTAL NON CURRENT ASSETS | | 152,327 | 141,812 |
| TOTAL ASSETS | | 242,068 | 156,042 |
| CURRENT LIABILITIES | | | |
| Payables | 15 | 21,881 | 74 |
| Interest Bearing Liabilities | 16 | 62 | — |
| Tax Liabilities | 17 | 3,538 | 3,538 |
| Provisions | 18 | 608 | — |
| Other Liabilities | 19 | 25,174 | — |
| TOTAL CURRENT LIABILITIES | | 51,263 | 3,612 |
| NON CURRENT LIABILITIES | | | |
| Deferred Tax Liabilities | 20 | 11,566 | 11,566 |
| Provisions | 21 | 2,520 | — |
| Other Liabilities | 22 | 7,692 | — |
| TOTAL NON CURRENT LIABILITIES | | 21,778 | 11,566 |
| TOTAL LIABILITIES | | 73,041 | 15,178 |
| NET ASSETS | | 169,027 | 140,864 |
| EQUITY | | | |
| Contributed Equity | 23 | 105,681 | 105,681 |
| Retained Profits | 24 | 63,346 | 35,183 |
| TOTAL EQUITY | | 169,027 | 140,864 |

The accompanying notes form part of this Unaudited Statement of Financial Position.

**PORTMAN LIMITED**
**UNAUDITED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31 DECEMBER 2004**
**(Australian Currency)**

| | Notes | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 186,674 | — |
| Payments to suppliers and employees | | (169,148) | (966) |
| Income tax paid | | (6,984) | (37) |
| GST recovered | | 14,104 | — |
| Interest received | | 1,894 | 1,606 |
| Interest and other costs of finance paid | | (89) | — |
| Net Cash Flows From Operating Activities | 35(a) | 26,451 | 603 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of plant and equipment | | 15 | — |
| Payments for property, plant and equipment | | (6,589) | — |
| Payments for mining ventures and tenements | | (31,523) | — |
| Proceeds from sale of listed investments | | 1,154 | — |
| Net Cash Flows Used In Investing Activities | | (36,943) | — |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from share issues | | 5,356 | 5,356 |
| Payment for share buy-back | | (5,703) | (5,703) |
| Repayment of lease liabilities | | (716) | — |
| Loans to controlled entities | | — | (62,378) |
| Repayment of loans by controlled entities | | — | 48,334 |
| Dividends paid | | (14,904) | (14,904) |
| Net Cash Flows Used In Financing Activities | | (15,967) | (29,295) |
| NET (DECREASE)/INCREASE IN CASH HELD | | (26,459) | (28,692) |
| Cash at the beginning of the year | | 44,212 | 42,860 |
| CASH AT THE END OF THE YEAR | 5 | 17,753 | 14,168 |

For the purpose of the cash flow statements, cash includes cash on hand, cash at bank and investments in short term money market instruments.

The accompanying notes form part of this Unaudited Statement of Cash Flows.

**NOTES TO AND FORMING PART**
**OF THE UNAUDITED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2004**
**(All amounts are reflected in Australian currency unless otherwise noted)**

## NOTE 1:

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention.

### (a) Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year. However from 1 January 2004 the method of depreciation of certain production, rail and port assets was changed from a straight line basis over 10 years to a production output basis. The new policy is considered to be more appropriate as it reflects the pattern in which the assets future economic benefits are consumed by the Company. The effect of this change from 1 January 2004 was to increase net profit after tax by $469,000.

### (b) Principles of Consolidation

The Economic Entity’s financial statements include as controlled entities all entities in which Portman Limited has effective control. A listing of these controlled entities is included in Note 11.

Where control of an entity has been acquired during the year, its results are included in the consolidated Statement of Financial Performance from the date on which control commences. Where control of an entity ceases during the year its results are included for that part of the year during which control existed.

The effects of all transactions between entities in the Economic Entity are eliminated in full.

### (c) Mining Ventures and Tenements

*Costs carried forward*

Costs incurred during exploration, evaluation, development and construction activities related to an area of interest are accumulated. Costs are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not at balance date reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

*Rehabilitation costs*

Costs of rehabilitation work are provided for and treated as production costs.

Costs are recognised over the life of the mine based on production. The provision is to be applied against all rehabilitation costs including reclamation, infrastructure removal and waste treatment.

These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs, which have been discounted to their present value. The provision for rehabilitation is reassessed half yearly and annually.

*Amortisation*

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on a production output basis.

**(d) Depreciation of Property, Plant and Equipment**

Depreciation is calculated on the straight line basis or the production output basis so as to write off the costs of the assets over their estimated useful lives. The Company reviews the estimate of useful lives on an annual basis and after major revisions in the underlying reserves of its mine properties.

Major depreciation periods are as follows:

| Asset Class | Basis | 2004 |
|---|---|---|
| Plant and equipment | Straight Line | 5 – 13 years |
| Plant and equipment | Production Output | 14 years |
| Motor vehicles, furniture & equipment | Straight Line | 3 - 5 years |

**(e) Taxes**

*Income Tax*

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

*Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (f) Interests in Joint Venture Operations

The Economic Entity's share of the assets, liabilities, revenue and expenses of Joint Venture Operations are included in the appropriate items of the Economic Entity's Statement of Financial Position and Performance. Details of the Economic Entity's interests are shown in Note 26.

### (g) Inventories

Inventories are physically measured and are valued at the lower of cost and net realisable value. In determining cost, a weighted average basis is used which includes direct mining and associated costs, labour and transportation costs and an appropriate portion of fixed and variable overhead expenditure.

### (h) Foreign Currency Transactions and Balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of each transaction. Amounts receivable and payable in foreign currencies at year end are converted at the rates of exchange ruling at year end.

*Specific Hedges*

Hedging is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Where sales are specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of sale and costs, premiums and discounts relative to the hedging transaction are deferred and included in measurement of the sale. Unrealised exchange gains and losses at each balance date are deferred and recognised in the Statement of Financial Position.

*General Hedges*

Where hedging is put in place that does not cover specific future transactions the unrealised exchange gains or losses on the hedging transaction that exist at year end are included in the Statement of Financial Performance.

**(i) Employee Entitlements**

Where material, provision is made in the financial statements for benefits accruing to employees in relation to the following matters:

*i) Wages and Salaries and Annual Leave*

Liabilities for wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

*ii) Long Service Leave*

Long service leave is accrued in respect of all employees with more than 5 years service. The result produced by this method of calculation is not materially different from a calculation based on the present value of expected future payments to be made in respect of services provided by all employees up to the year end. The discount rate used is based on the market determined, risk adjusted discount rates.

*iii) Superannuation*

Contributions are made by the Economic Entity to the parent entity’s superannuation fund and are charged as expenses when incurred. The Economic Entity has no legal obligation to meet any shortfall in the fund’s obligations to provide benefits to employees on retirement.

**(j) Leases**

Finance leases, which effectively transfer to the Economic Entity substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the present value of the minimum lease payments, disclosed as plant and equipment under lease, and amortised over the period the Economic Entity is expected to benefit from the use of the plant and equipment under lease.

Operating lease payments, where the lessors effectively retain substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the profit from ordinary activities in equal instalments over the lease term.

**(k) Investments**

Listed shares held for trading are carried at net market value. Changes in net market value are recognised as revenue or expense in the Statement of Financial Performance for the period.

Where listed shares have been revalued, any capital gains tax which may become payable has not been taken into account in determining the revalued carrying amount. Where it is expected that a liability for capital gains tax exists, this amount is recognised in the Statement of Financial Performance for the reporting period.

All other non-current investments are carried at the lower of cost and recoverable amount.

Dividend income is recognised in the Statement of Financial Performance when received.

The principles of consolidation of controlled entities are set out in Note 1(b).

**(l) Acquisition of Assets**

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

**(m) Acquisition Costs**

The acquisition costs of assets are capitalised and amortised over the periods of their expected benefits.

**(n) Earnings per Share**

Basic earnings per share (EPS) is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## (o) Non Current Assets

Non current assets are stated at amounts not exceeding their recoverable amount.

*Recoverable Amount of Non Current Assets*

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non current asset is greater than its recoverable amount the asset is written-down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, the recoverable amount is determined on the basis of the relevant group of assets.

The expected net cash flows included in determining recoverable amounts of non current assets are discounted to their present values using market determined, risk adjusted discount rates.

Potential capital gains tax is not taken into account in determining revaluation amounts unless there is an intention to sell the assets concerned.

## (p) Capitalisation of Interest

Interest is classified as part of the cost of development of mine properties where they relate to funds borrowed specifically for developing those properties.

## (q) Financial Instruments included in Equity

Ordinary share capital is recorded at consideration received. The costs of issuing shares are charged against share capital. Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

## (r) Financial Instruments included in Liabilities

Loans and bills payable are recognised when issued at the amount of the net proceeds received, with any premium or discount on issue amortised over the period to maturity. Interest is recognised as an expense over the period the loans and bills are outstanding.

## (s) Financial Instruments included in Assets

Trade debtors are initially recorded at the amount of contracted sales proceeds. Sales to foreign customers are either unsecured or under letter of credit arrangements, depending on the quality of customer credit.

Insurance claims receivable are brought to account when liability for a claim is acknowledged by the under-writer, at which time amounts receivable from the customer are written off.

Provision for doubtful debts is recognised to the extent that recovery of the outstanding receivable balance is considered less than likely. Any provision established is based on a review of all outstanding amounts at balance date. A specific provision is maintained for identified doubtful debts, and a general provision is maintained in respect of receivables which are doubtful of recovery but which have not been specifically identified.

Foreign currency options and forward exchange contracts are entered into as specific hedges of current receivables and future transactions and are recognised as either an asset or liability in the Statement of Financial Position. The premium or discount and gain or loss is deferred and included in the initial measurement of the anticipated item being hedged. Where it becomes probable that some or all of the hedged transactions will not occur as designated the deferred gains and losses relating to those transactions that are no longer expected to occur as designated are recognised immediately in the Statement of Financial Performance.

Bank deposits, bills of exchange, promissory notes, loans, marketable securities and marketable equity securities are carried at the lower of cost or recoverable amount. Interest revenue is recognised over the period the financial assets are outstanding.

Dividend revenue is recognised when the dividends are received.

Purchases and sales of investments are recognised on the trade date.

### (t) Employee Share Option Ownership Schemes

Certain employees are entitled to participate in share option ownership schemes. Details of these schemes are included in Note 29. There are no amounts required to be included in the financial accounts in relation to these schemes.

### (u) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Economic Entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

**(v) Revenue Recognition**

Sales revenue and revenue from the sale of assets is recognised when the property in the product or asset has passed to the buyer. Foreign currency revenues are converted to Australian dollars in accordance with the Foreign Currency Transaction and Balances policy described above.

Interest revenue is recognised upon gaining control of the right to receive payment.

**(w) Provisions**

Provisions are recognised when the Economic Entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

**(x) Deferred Waste**

The costs of waste mined from pits in advance of ore are deferred and recognised in the Statement of Financial Position on a unit of ore production basis using medium term schedule projections of recoverable ore reserves and waste stripping for each pit, and having regard to long term projections.

**(y) Comparative Information**

Where necessary comparative information has been adjusted to ensure consistent disclosure with the current year.

## NOTE 2:
## PROFIT AND LOSS ITEMS

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| **(a) Profit from ordinary items after crediting the following revenues:** | | |
| **Sales Revenue** | | |
| Product Sales | 195,435 | — |
| **Other Revenue** | | |
| Interest received from other corporations | 1,704 | 1,416 |
| Management fees | 136 | — |
| Proceeds on sale of investments | 1,154 | — |
| Proceeds from sale of plant and equipment | 15 | — |
| Agency Fee | 456 | — |
| Other income | 23 | — |
| Total Other Revenue | 3,488 | 1,416 |
| **Total Revenue from Ordinary Activities** | 198,923 | 1,416 |
| **(b) Profit from ordinary items after charging the following expenses:** | | |
| **Borrowing Costs** | | |
| Interest paid/payable to other corporations | 60 | — |
| Finance lease charges | 29 | — |
| Interest expense | 89 | — |
| **Other Expenses** | | |
| Other Expenses include the following specific items: | | |
| Provision for write down of rail receivable | (301) | — |
| Provision for write down of inventory to net realisable value | 4,794 | — |
| Written down value of investments sold | 1,247 | — |
| Written down value of plant and equipment sold | 17 | — |
| Total specific items | 5,757 | (10,000) |
| Other Expenses | 6 | — |
| **Total Other Expenses** | 5,763 | (10,000) |
| **(c) Other Disclosures** | | |
| Amortisation and depreciation | | |
| Mining ventures and tenements | 6,746 | — |
| Plant and equipment | 2,616 | — |
| Plant and equipment under finance lease | 106 | — |
| Other expense items | | |
| Operating lease charges | 368 | — |
| Government royalties | 11,338 | — |
| Provision for rehabilitation | 881 | — |
| Gain/(loss) on sale of property, plant & equipment | (2) | — |
| Gain/(loss) on sale of investments | (93) | — |

**NOTE 3:**
**INCOME TAX**

The difference between income tax expense provided in the financial statements and the prima facie income tax expense is reconciled as follows:

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| Profit from ordinary activities before income tax expense | 45,956 | 10,395 |
| Prima facie tax thereon at 30% | 13,787 | 3,118 |
| Tax effect of permanent and other differences: | | |
| Amortisation not deductible | 260 | — |
| Research and development uplift deductions | (755) | — |
| Other permanent differences | (88) | (22) |
| Benefit from tax losses not previously brought to account | (1) | — |
| Reversal of provision for diminution on receivable | — | (3,000) |
| Total income tax expense attributable to profit from ordinary activities | 13,203 | 96 |

The economic and parent entities have estimated capital tax losses, the benefit of which at 30%, have not been brought to account as follows:

| | | |
|---|---|---|
| Capital losses | 14,571 | 14,571 |

The benefit for the capital tax losses will only be obtained if:

(i) the Economic Entity derives future assessable income of a nature and amount sufficient to enable the benefit from the deductions to be realised;

(ii) the Economic Entity continues to comply with conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the Economic Entity in realising the benefit from the deductions for the losses.

**Tax Consolidation**

Effective 1 January 2004, for the purposes of income taxation, Portman Ltd and its 100% owned subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a notional income tax basis. Amounts owed by the subsidiaries to the head entity are non-interest bearing and are repayable on demand by the head entity. The head entity of the tax consolidated group is Portman Ltd.

There were no material changes to the deferred tax balances as a result of the revised tax legislation.

Portman Ltd has not formally notified the Australian Tax Office of its adoption of the tax consolidation regime, but will do so when it lodges its income tax return for the year ended 31 December 2004.

**NOTE 4**
**DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES**

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| (a) Dividends paid during the year | | |
| (i) Current year interim | | |
| Franked dividends (4.5c per share) | 7,876 | 7,876 |
| (ii)Previous year final | | |
| Franked dividends (4c per share) | 7,028 | 7,028 |

(b) Dividends Proposed

In the ordinary course of events, the Portman Board would consider the declaration of a final dividend for the year ended 31 December 2004 at its board meeting at the end of February 2005. On the current timetable, the Cleveland-Cliffs Takeover Offer may have closed by that date. If the Offer Period is extended, the Portman Board presently intends to defer any decision in relation to the final dividend until the outcome of the Offer is known.

(c) Franking credit balance

The amount of franking credits available for the subsequent financial year are:

| | |
|---|---|
| - franking account balance as at the end of the financial year at 30% | 1,440 |
| - franking credits that will arise from the payment of income tax payable as at the end of the financial year | 2,370 |
| | 3,810 |

The Economic Entity’s franking year extends for twelve months after its financial year.

**NOTE 5:**
**CASH ASSETS (CURRENT)**

| | | |
|---|---|---|
| Cash at bank or on hand | 3,855 | 270 |
| Investments in short term money market instruments | 13,898 | 13,898 |
| | 17,753 | 14,168 |

Investments in short term money market instruments are bearing fixed interest rates of 5.65%.

**NOTE 6**
**RECEIVABLES (CURRENT)**

| | Notes | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|
| Trade debtors | (a) | 11,415 | — |
| Other receivables | (b) | 7,503 | 62 |
| | | 18,918 | 62 |

Terms and conditions

(a) Trade debtors are generally non-interest bearing with the majority settled within 30 days from the date of shipment.

(b) Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

**NOTE 7:**
**INVENTORIES (CURRENT)**

| | | |
|---|---|---|
| Work in progress (run of mine stocks) – at cost | 19,352 | — |
| Work in progress (run of mine stocks) – at net realisable value | 632 | — |
| Finished goods (stockpiles awaiting shipment) – at cost | 7,911 | — |
| | 27,895 | — |

**NOTE 8:**
**OTHER ASSETS (CURRENT)**

| | | |
|---|---|---|
| Prepayments | 573 | — |
| Hedge contract receivable | 24,059 | — |
| Deferred waste removal | 543 | — |
| Deferred foreign exchange loss on hedge contracts | — | — |
| | 25,175 | — |

**NOTE 9:**
**RECEIVABLES (NON CURRENT)**

| | | | |
|---|---|---|---|
| Other debtors | (a) | 1,596 | — |
| Wholly owned group | (b) | | |
| Tax related | | — | 12,886 |
| Other | | — | 126,842 |
| | | 1,596 | 139,728 |

Terms and Conditions

(a) Other debtors are non-interest bearing and are due for repayment over 5 years. Other debtors have been recorded at the present value of the expected future cash flows discounted at market determined risk adjusted discount rates.

(b) The receivables from wholly owned group companies are non interest bearing and have no fixed dates for repayment.

**NOTE 10:**
**INVENTORIES (NON CURRENT)**

| | | |
|---|---|---|
| Work in progress (run of mine stocks) — at net realisable value | 18,724 | — |

**NOTE 11:**
**OTHER FINANCIAL ASSETS (NON CURRENT)**

### (a) Investments carried at cost– Listed and Unlisted

The Economic Entity has the following investments in listed entities.

| | Country of Incorporation | Percentage Held 2004 % | Investments at Lower of Cost or Recoverable Amount 2004 $'000 |
|---|---|---|---|
| Shares | | | |
| Queensland Gas Company Limited* | Australia | — | — |

* During 2004 Portman sold its shareholding in Queensland Gas Company Limited (“QGC”).

The parent entity holds shares in controlled entities carried at $1,000 as shown in Note 11(b) below.

### (b) Controlled Entities of Portman Limited

| | Country of Incorporation | Percentage Held 2004 % | Investments at Cost or Written Down Value 2004 $'000 |
|---|---|---|---|
| Cockatoo Island Holdings Pty Ltd | Australia | 100 | — |
| Pelsoil Limited | Australia | 100 | — |
| Portman Investments Pty Ltd | Australia | 100 | — |
| Portman Finance Pty Ltd | Australia | 100 | — |
| Portman Mining Limited | Australia | 100 | 1 |
| Portman Management Pty Ltd | Australia | 100 | — |
| Portman Iron Ore Limited | Australia | 100 | — |
| Portman Coal Investments Pty Ltd | Australia | 100 | — |
| Koolyanobbing Iron Pty Ltd | Australia | 100 | — |
| Esperance Iron Limited | Australia | 100 | — |
| | | | 1 |

**NOTE 12:**
**PROPERTY, PLANT AND EQUIPMENT (NON CURRENT)**

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| **(a) Mining Ventures and Tenements at cost** | | |
| Opening balance | 54,434 | — |
| Expenditure incurred during the year | 31,530 | — |
| Amortisation during the year | (6,746) | — |
| Closing balance | 79,218 | — |
| Represented by: | | |
| Exploration and evaluation expenditure at cost | 1,045 | — |
| Development properties at cost | 1,267 | — |
| Mine properties at cost | 95,345 | — |
| Less accumulated amortisation | (18,439) | — |
| | 76,906 | — |
| Total at cost: | | |
| Exploration and Evaluation Expenditure | 1,045 | — |
| Development properties | 1,267 | — |
| Mine properties | 95,345 | — |
| | 97,657 | — |
| Less accumulated amortisation | (18,439) | — |
| Total Mining Ventures and Tenements | 79,218 | — |
| **(b) Plant and Equipment** | | |
| Plant and equipment at cost Opening balance | 36,276 | — |
| Expenditure incurred during the year | 6,588 | — |
| Disposals | (16) | — |
| Depreciation/amortisation during the year | (2,722) | — |
| Closing balance | 40,126 | — |
| Plant and equipment at cost | 51,863 | — |
| Less accumulated depreciation | (13,902) | — |
| | 37,961 | — |
| Plant and equipment under finance lease | 3,294 | — |
| Less accumulated amortisation | (1,129) | — |
| | 2,165 | — |
| Total Plant and Equipment | 40,126 | — |
| Total Property, Plant and Equipment | 119,344 | — |

**NOTE 13:**
**DEFERRED TAX ASSETS (NON CURRENT)**

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| Future income tax benefit: | | |
| Attributable to timing differences | 2,083 | 2,083 |

**NOTE 14:**
**OTHER ASSETS (NON CURRENT)**

| | | |
|---|---|---|
| Hedge contract receivable | 7,523 | — |
| Deferred foreign exchange loss | 169 | — |
| Prepaid option expense | 169 | — |
| Deferred waste removal | 2,719 | — |
| | 10,580 | — |

**NOTE 15:**
**PAYABLES (CURRENT)**

| | | |
|---|---|---|
| Trade creditors and accruals | 21,881 | 74 |

Terms and Conditions

(a) Trade creditors and accruals are non-interest bearing and are normally settled on 30 day terms.

**NOTE 16:**
**INTEREST BEARING LIABILITIES (CURRENT)**

| | | |
|---|---|---|
| Finance lease liabilities (refer Note 30) | 62 | — |

**NOTE 17:**
**TAX LIABILITIES (CURRENT)**

| | | |
|---|---|---|
| Income tax payable | 3,538 | 3,538 |

**NOTE 18:**
**PROVISIONS (CURRENT)**

| | | |
|---|---|---|
| Employee entitlements (refer Note 29) | 608 | — |

**NOTE 19:**
**OTHER LIABILITIES (CURRENT)**

| | | |
|---|---|---|
| Deferred foreign exchange gain on hedge contracts | 24,059 | — |
| Deferred foreign exchange gain on pre delivery into designated hedge contracts | 1,115 | — |
| | 25,174 | — |

**NOTE 20:**
**DEFERRED TAX LIABILITIES (NON CURRENT)**

| | | |
|---|---|---|
| Provision for deferred income tax | | |
| Attributable to timing differences | 11,566 | 11,566 |

**NOTE 21:**
**PROVISIONS (NON CURRENT)**

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| Rehabilitation provision | 2,344 | — |
| Employee entitlements (refer Note 29) | 176 | — |
| | 2,520 | — |

**NOTE 22:**
**OTHER LIABILITIES (NON CURRENT)**

| | | |
|---|---|---|
| Deferred foreign exchange gain on hedge contracts | 7,523 | — |
| Hedge contract payable | 169 | — |
| | 7,692 | — |

**NOTE 23:**
**CONTRIBUTED EQUITY**

| | | Parent Entity 2004 Number of Shares | Parent Entity 2004 $'000 |
|---|---|---|---|
| **(a) Contributed Equity** | | | |
| Balance at beginning of the year | | 174,425,712 | 106,028 |
| Options exercised | | 4,962,498 | 5,356 |
| Share buy-back | (i) | (3,775,137) | (5,703) |
| Balance at end of the year | | 175,613,073 | 105,681 |

(i) Portman Limited undertook an on-market share buy-back as part of a capital management initiative designed to optimise the Company's capital structure and enhance returns to equity holders. As a result 3,775,137 fully paid ordinary shares were bought back by Portman Limited at a weighted average price of $1.51. The total cost of the buy-back was $5,702,929, which was all debited to the contributed equity account.

**(b) Share Options**

*Employee Share Option Plan, Non Employee Share Option Plan and Directors' Options*
Details of options issued, cancelled and exercised during the year and options outstanding at 31 December 2004 are included in Note 29.

**(c) Terms and Conditions of Contributed Equity**

*Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

## NOTE 24:
## RETAINED PROFITS

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| Balance at the beginning of year | 45,497 | 39,788 |
| Net profit attributable to members of Portman Limited | 32,753 | 10,299 |
| Total available for appropriation | 78,250 | 50,087 |
| Dividends provided for or paid | (14,904) | (14,904) |
| Balance at end of year | 63,346 | 35,183 |

## NOTE 25:
## EARNINGS PER SHARE

| | Economic Entity 2004 $'000 |
|---|---|
| Basic earnings per share – cents | 18.87 |
| Diluted earnings per share – cents | 18.77 |

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

| | |
|---|---|
| **(a) Income data** | |
| Net profit / (loss) | 32,753 |
| Adjustments | — |
| Earnings used in calculating basic and diluted earnings per share | 32,753 |

| | 2004 Number of shares |
|---|---|
| **(b) Share data** | |
| Weighted average number of ordinary shares used in calculating basic earnings per share: | 173,612,937 |
| Effect of dilutive securities: | |
| Share options | 894,323 |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share: | 174,507,260 |

**(c) Conversions, calls, subscription or issues after 31 December 2004**

Since the end of the financial year, 77,000 ordinary shares have been issued pursuant to the ESOP.

**(d) Options**

Details of options are set out in Note 29.

## NOTE 26:
## INTERESTS IN JOINT VENTURE OPERATIONS

(a) The Economic Entity has an interest in joint venture operations as follows:

| Joint Venture Operations | Principal activities | Interest held in share of output 2004 |
|---|---|---|
| | | % |
| Cockatoo Island Joint Venture Operation | Iron ore mining | 50% |

### (b) Cockatoo Island Joint Venture operation net assets

The Economic Entity's share of the assets and liabilities of the joint venture operation which have been included in the financial statements is:

| | Economic Entity 2004 $'000 |
|---|---|
| CURRENT ASSETS | |
| Receivables | 136 |
| Inventories | 1,419 |
| | 1,555 |
| NON CURRENT ASSETS | |
| Property, plant and equipment | 10,671 |
| TOTAL ASSETS | 12,226 |
| CURRENT LIABILITIES | |
| Payables | 144 |
| NON CURRENT LIABILITIES | |
| Provisions | 528 |
| Deferred foreign exchange gain | 119 |
| | 647 |
| TOTAL LIABILITIES | 791 |
| NET ASSETS EMPLOYED | 11,435 |

For details of capital expenditure commitments and contingent liabilities relating to the joint venture operation refer to Notes 30 and 32 respectively.

## NOTE 27:
## REMUNERATION OF AUDITORS

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| Amounts paid or due and payable to the auditors for: | | |
| Auditing the accounts and consolidated accounts of Portman Limited and the accounts for each of its controlled entities Our auditors | 79 | — |
| | 79 | — |
| Other services provided by our auditors: | | |
| Taxation Advisory | | |
| - Compliance | 75 | — |
| - Research and Development | 90 | — |
| - Other | 18 | — |
| Accounting Advisory | | |
| - International Financial Reporting Standards | 15 | — |
| Corporate Finance Advisory | | |
| - Calculation Review of Corporate Financial Model | 33 | — |
| | 231 | — |
| | 310 | — |
| Amounts paid or due and payable to accounting firms other than our auditors: | | |
| Accounting Advisory | | |
| - International Financial Reporting Standards | 11 | — |
| Other Services | | |
| - Risk Management Review | 39 | — |
| | 50 | — |
| | 360 | — |

The auditors received no other benefits.

The Company is satisfied that the other services provided by our auditors have not impaired their independence with regard to the audit services provided.

**NOTE 28:**
**REMUNERATION OF DIRECTORS AND EXECUTIVES**

**(a) Details of Specified Directors and Specified Executives**

*(i) Specified directors*

| | |
|---|---|
| GF Jones | Chairman (non-executive) |
| BJ Eldridge | Managing Director |
| R Knight | Director (non-executive) |
| MD Perrott | Director (non-executive) |
| FE Harris | Director (non-executive) |
| MH Macpherson | Director (non-executive) |

*(ii) Specified executives*

| | |
|---|---|
| GT Clifford | Company Secretary/General Manager Administration |
| RR Mehan | Chief Operating Officer |
| AJ Schoer | Chief Financial Officer |
| P Nolan | Manager Operations – Koolyanobbing |
| S Fujikawa | General Manager — Marketing |
| J Shellabear * | General Manager Business Development |
| P Bilbe * | Manager Development |

* ceased employment during the year

**(b) Remuneration of Specified Directors and Specified Executives**

*(i) Remuneration Policy*

Remuneration of directors and senior executives of the Company is established by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee's role is to review and make recommendations to the Board on remuneration packages and policies. This role also includes responsibility for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. The Nomination and Remuneration Committee meets as required.

The key performance indices upon which the cash bonuses are paid are determined annually by the Nomination and Remuneration Committee. The primary key performance indices used for the 2004 cash bonuses were the achievement of annual corporate safety and financial targets. The most significant financial targets were net profit after tax and operating cash flow.

In the event of a redundancy, the employment contracts of the Managing Director and certain Specified Executives contain payout clauses ranging from six to twelve months of their respective base salary.

**NOTE 28:**
**REMUNERATION OF DIRECTORS AND EXECUTIVES (CONTINUED)**

*(ii) Remuneration of Specified Directors and Specified Executives*

| | Primary | | Post Employment | | | | |
|---|---|---|---|---|---|---|---|
| | Salary & Fees $ | Cash Bonus $ | Super-annuation $ | Retirement benefits $ | Equity Options $ | Other $ | Total $ |
| **Specified Directors** | | | | | | | |
| GF Jones | | | | | | | |
| 2004 | 113,282 | — | 10,048 | — | 106,000 | — | 229,330 |
| BJ Eldridge | | | | | | | |
| 2004 | 508,707 | 237,899 | 11,293 | — | 119,150 | — | 877,049 |
| R Knight | | | | | | | |
| 2004 | 70,331 | — | 6,330 | — | — | — | 76,661 |
| MD Perrott | | | | | | | |
| 2004 | 70,331 | — | 6,330 | — | — | — | 76,661 |
| FE Harris | | | | | | | |
| 2004 | 74,329 | — | 6,690 | — | — | — | 81,019 |
| MH Macpherson | | | | | | | |
| 2004 | 95,737 | — | 8,617 | — | — | — | 104,354 |
| **Total Remuneration: Specified Directors** | | | | | | | |
| 2004 | 932,717 | 237,899 | 49,308 | — | 225,150 | — | 1,445,074 |
| **Specified Executives** | | | | | | | |
| RR Mehan | | | | | | | |
| 2004 | 284,959 | 68,250 | 11,293 | — | 18,603 | — | 383,105 |
| GT Clifford | | | | | | | |
| 2004 | 211,656 | 38,603 | 11,293 | — | 28,270 | — | 289,822 |
| AJ Schoer | | | | | | | |
| 2004 | 290,746 | 62,920 | 11,293 | — | 22,342 | — | 387,301 |
| J Shellabear (i) | | | | | | | |
| 2004 | 133,711 | — | 5,492 | — | 19,842 | 130,000 | 289,045 |
| P Bilbe (i) | | | | | | | |
| 2004 | 68,526 | — | 2,750 | — | — | 11,764 | 83,040 |
| P Nolan (ii) | | | | | | | |
| 2004 | 183,707 | 32,184 | 11,293 | — | 20,150 | 62,700 | 310,034 |
| S Fujikawa | | | | | | | |
| 2004 | 203,500 | 46,794 | — | — | 39,570 | — | 289,864 |
| **Total Remuneration: Specified Executives** | | | | | | | |
| 2004 | 1,376,805 | 248,751 | 53,414 | — | 148,777 | 204,464 | 2,032,211 |

**NOTE 28:**
**REMUNERATION OF DIRECTORS AND EXECUTIVES (CONTINUED)**

(i) Remuneration for J Shellabear and P Bilbe includes redundancy payments included in "other".

(ii) P Nolan receives various remote living allowances which is included in "other".

**(c) Remuneration options: Granted and vested during the year**

| | | | Terms & Conditions for Each Grant | | | | |
|---|---|---|---|---|---|---|---|
| | Vested Number | Granted Number | Grant Date | Value per option at grant date $ | Exercise Price per share $ | First Exercise Date | Last Exercise Date |
| **Specified Directors** | | | | | | | |
| GF Jones | 333,333 | — | — | — | — | — | — |
| BJ Eldridge | 500,000 | — | — | — | — | — | — |
| **Specified Executives** | | | | | | | |
| RR Mehan | 66,667 | — | — | — | — | — | — |
| GT Clifford | 100,000 | — | — | — | — | — | — |
| AJ Schoer | 83,333 | — | — | — | — | — | — |
| P Nolan | 50,000 | — | — | — | — | — | — |
| S Fujikawa | 100,000 | | | | | | |
| J Shellabear | 83,333 | — | — | — | — | — | — |
| **Total** | 1,316,666 | — | | | | | |

No options were granted as equity compensation benefits to specified directors or specified executives during the financial year.

### (d) Shares issued on exercise of remuneration options

| | Shares issued Number | Paid $ per share | Unpaid $ per share |
|---|---|---|---|
| **Specified Directors** | | | |
| GF Jones | 750,000 | 0.984 | — |
| GF Jones | 1,000,000 | 1.227 | — |
| BJ Eldridge | 500,000 | 1.031 | — |
| MD Perrott | 500,000 | 0.984 | — |
| **Specified Executives** | | | |
| RR Mehan | 67,000 | 1.153 | — |
| RR Mehan | 33,000 | 1.160 | — |
| GT Clifford | 120,000 | 1.153 | — |
| AJ Schoer | 63,000 | 1.160 | — |
| P Nolan | 33,000 | 2.427 | — |
| P Nolan | 67,000 | 1.153 | — |
| S Fujikawa | 100,000 | 1.153 | — |
| S Fujikawa | 50,000 | 0.700 | — |
| S Fujikawa | 33,000 | 1.160 | — |
| **Total** | 3,316,000 | | |

## NOTE 28:
## REMUNERATION OF DIRECTORS AND EXECUTIVES (CONTINUED)

### (e) Option holdings of Specified Directors and Specified Executives

| | Balance at beginning of period 1 Jan 04 No. | Granted as Remunerati-on No. | Options Exercised No. | Net Change Other No. | Balance at end of period 31 Dec 04 No. | Vested at 31 December 2004 Total No. | Not exercis-able No. | Exercisable No. |
|---|---|---|---|---|---|---|---|---|
| **Specified Directors** | | | | | | | | |
| GF Jones | 1,750,000 | — | 1,750,000 | — | — | — | — | — |
| BJ Eldridge | 1,500,000 | — | 500,000 | — | 1,000,000 | — | — | — |
| MD Perrott | 500,000 | — | 500,000 | — | — | — | — | — |
| **Specified Executives** | | | | | | | | |
| RR Mehan | 167,000 | — | 100,000 | — | 67,000 | 333 | — | 333 |
| AJ Schoer | 250,000 | — | 63,000 | — | 187,000 | 20,333 | — | 20,333 |
| GT Clifford | 270,000 | — | 120,000 | — | 150,000 | 83,333 | — | 83,333 |
| P Nolan | 117,000 | — | 100,000 | — | 17,000 | 333 | — | 333 |
| S Fujikawa | 250,000 | — | 183,000 | — | 67,000 | 333 | — | 333 |
| **Total** | 4,804,000 | — | 3,316,000 | — | 1,488,000 | 104,665 | — | 104,665 |

### (f) Shareholdings of Specified Directors and Specified Executives

| | Balance 1 Jan 04 No. | Granted as Remuneration No. | On Exercise of Options No. | Shares Sold No. | Balance 31 Dec 04 No. |
|---|---|---|---|---|---|
| **Specified Directors** | | | | | |
| GF Jones | 3,000,000 | — | 1,750,000 | — | 4,750,000 |
| BJ Eldridge | 157,000 | — | 500,000 | — | 657,000 |
| MD Perrott | 120,000 | — | 500,000 | — | 620,000 |
| R Knight | 100,000 | — | — | — | 100,000 |
| **Specified Executives** | | | | | |
| RR Mehan | — | — | 100,000 | (100,000) | — |
| AJ Schoer | — | — | 63,000 | (63,000) | — |
| GT Clifford | 20,000 | — | 120,000 | (120,000) | 20,000 |
| P Nolan | — | — | 100,000 | (67,000) | 33,000 |
| S Fujikawa | — | — | 183,000 | (183,000) | — |
| **Total** | 3,397,000 | — | 3,316,000 | (533,000) | 6,180,000 |

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

## NOTE 29:
## EMPLOYEE ENTITLEMENTS

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| Provision for employee entitlements – current | 608 | — |
| Provision for employee entitlements – non current | 176 | — |
| [refer Notes1(i), 18 and 21] | 784 | — |
| The number of employees as at year end | 78 | 5 |

**Portman Limited Employee Option Plans**

Portman Limited previously had two employee option plans in existence. The Employee Option Plan (EOP) and the Employee Share Option Plan (ESOP). All options issued under the Portman Limited Employee Option Plan (EOP) have been exercised, have expired or have been cancelled. The Portman Limited Employee Share Option Plan (ESOP) is the only plan now operating.

In addition, Portman has issued options called Directors Options that are not under, but are subject to the rules of, the ESOP and Non ESOP Options that are separate entirely from the ESOP.

**Portman Limited Employee Share Option Plan (Unquoted Securities)**

The Portman Limited Employee Share Option Plan (ESOP) was adopted by the shareholders of the Company on 8 April 1998 to effectively replace the EOP referred to above. The ESOP contains Company performance hurdles that must be achieved before options become exercisable.

Under the ESOP options to subscribe for fully paid ordinary shares of the Company may be issued to participants. Eligible employees (being employees, directors or consultants to any Portman Group Company), subject to invitation to participate by the Board of Directors of the Company, may participate in the ESOP.

Each ESOP option may convert to one fully paid ordinary share. The total number of shares granted under this ESOP, excluding any exercised, lapsed or cancelled options, must not exceed 5% of the then issued share capital of the Company on a fully diluted basis (notwithstanding that those shares may for any reason subsequently represent more than 5% of that capital).

Any ESOP option which has not been exercised before the fifth anniversary of its issue date automatically lapses.

The exercise price of each ESOP option will be not less than the weighted average of the last sale prices of the Company's fully paid ordinary shares on the Australian Stock Exchange over the five trading days on which a sale was effected immediately preceding the day on which the Board resolves to issue the ESOP option.

The issue price of shares issued on the exercise of ESOP options is recognised as issued capital at the date of issue.

**NOTE 29:**
**EMPLOYEE ENTITLEMENTS (CONTINUED)**

Information with respect to options granted under the employee share option plan, non employee share option plan and director option plan is summarized below:

| | | 2004 Number of options | 2004 Weighted average exercise price |
|---|---|---|---|
| Balance at beginning of year | 29(a) | 10,124,931 | 1.31 |
| - granted | 29(b) | — | — |
| - forfeited | | — | — |
| - cancelled | | (167,000) | 1.03 |
| - exercised | 29(c) | (4,962,498) | 1.08 |
| Balance at end of year | 29(d) | 4,995,433 | 1.75 |
| Exercisable at end of year | | 2,288,766 | 1.90 |

### (a) Options held at the beginning of the reporting period

The following table summarises information about options held by employees as at 1 January 2004:

| Plan Type | Number of Options | Grant date | Vesting date | Expiry date | Weighted average |
|---|---|---|---|---|---|
| ESOP | 50,000 | 13-Mar-00 | 13-Mar-01 | 13-Mar-05 | 0.700 |
| ESOP | 67,000 | 01-Mar-01 | 01-Mar-02 | 01-Mar-06 | 1.013 |
| ESOP | 654,335 | 02-Apr-01 | 02-Apr-02 | 02-Apr-06 | 1.153 |
| ESOP | 250,000 | 11-Feb-02 | 11-Feb-03 | 11-Feb-07 | 1.765 |
| ESOP | 945,000 | 19-Apr-02 | 19-Apr-03 | 19-Apr-07 | 2.427 |
| ESOP | 250,000 | 21-Feb-03 | 21-Feb-04 | 21-Feb-08 | 1.031 |
| ESOP | 550,000 | 25-Jun-03 | 25-Jun-04 | 25-Jun-08 | 1.160 |
| Non ESOP | 58,596 | 29-Jan-01 | 29-Jan-02 | 29-Jan-06 | 1.290 |
| Non ESOP | 750,000 | 01-Oct-02 | 01-Oct-03 | 01-Oct-07 | 1.919 |
| Non ESOP | 1,500,000 | 29-Aug-03 | 29-Aug-04 | 29-Aug-08 | 1.031 |
| Directors Options | 1,750,000 | 10-May-00 | 10-May-01 | 10-May-05 | 0.984 |
| Directors Options | 800,000 | 24-May-01 | 24-May-02 | 24-May-06 | 0.924 |
| Directors Options | 1,500,000 | 24-May-01 | 24-May-02 | 24-May-06 | 1.227 |
| Directors Options | 1,000,000 | 19-Apr-02 | 19-Apr-03 | 19-Apr-07 | 2.427 |
| | 10,124,931 | | | | |

**NOTE 29:**
**EMPLOYEE ENTITLEMENTS (CONTINUED)**

### (b) Options granted during the reporting period

(i) No options were granted by Portman Limited to employees during 2004.

### (c) Options exercised

(i) The following table summarises information about options exercised by eligible option holders during the year ended 31 December 2004:

| Plan Type | Number of options | Grant date | Exercise & issue date | Expiry date | Weighted average exercise price | Proceeds from shares issued | Number of shares issued | Fair value of shares issued |
|---|---|---|---|---|---|---|---|---|
| ESOP | 293,667 | 02-Apr-01 | 23-Sep-04 | 02-Apr-06 | 1.153 | 338,598 | 293,667 | 2.08 |
| ESOP | 50,000 | 13-Mar-00 | 23-Sep-04 | 13-Mar-05 | 0.700 | 35,000 | 50,000 | 2.08 |
| ESOP | 33,000 | 25-Jun-03 | 23-Sep-04 | 25-Jun-08 | 1.160 | 38,280 | 33,000 | 2.08 |
| ESOP | 59,000 | 25-Jun-03 | 28-Oct-04 | 25-Jun-08 | 1.160 | 68,440 | 59,000 | 2.48 |
| ESOP | 37,000 | 25-Jun-03 | 03-Sep-04 | 25-Jun-08 | 1.160 | 42,920 | 37,000 | 1.83 |
| ESOP | 77,000 | 02-Apr-01 | 09-Sep-04 | 02-Apr-06 | 1.153 | 88,781 | 77,000 | 1.97 |
| ESOP | 83,000 | 29-Aug-03 | 31-Mar-04 | 29-Aug-08 | 1.031 | 85,573 | 83,000 | 1.53 |
| ESOP | 5,000 | 02-Apr-01 | 02-Dec-04 | 02-Apr-06 | 1.153 | 5,765 | 5,000 | 3.00 |
| ESOP | 100,000 | 19-Apr-02 | 02-Dec-04 | 19-Apr-07 | 2.427 | 242,700 | 100,000 | 3.00 |
| ESOP | 46,667 | 02-Apr-01 | 29-Jul-04 | 02-Apr-06 | 1.153 | 53,807 | 46,667 | 1.90 |
| ESOP | 67,000 | 02-Apr-01 | 12-Aug-04 | 02-Apr-06 | 1.153 | 77,251 | 67,000 | 1.94 |
| ESOP | 23,334 | 02-Apr-01 | 15-Apr-04 | 02-Apr-06 | 1.153 | 26,904 | 23,334 | 1.48 |
| Directors Options | 1,000,000 | 24-May-01 | 03-Sep-04 | 24-May-06 | 1.227 | 1,227,000 | 1,000,000 | 1.83 |
| Directors Options | 1,750,000 | 10-May-00 | 03-Sep-04 | 10-May-05 | 0.984 | 1,722,000 | 1,750,000 | 1.83 |
| Directors Options | 200,000 | 24-May-01 | 05-Aug-04 | 24-May-06 | 0.924 | 184,800 | 200,000 | 2.05 |
| Directors Options | 300,000 | 24-May-01 | 22-Jul-04 | 24-May-06 | 0.924 | 277,200 | 300,000 | 1.90 |
| Directors Options | 300,000 | 24-May-01 | 25-Mar-04 | 24-May-06 | 0.924 | 277,200 | 300,000 | 1.56 |
| Non ESOP | 500,000 | 29-Aug-03 | 03-Sep-04 | 29-Aug-08 | 1.031 | 515,500 | 500,000 | 1.83 |
| Non ESOP | 37,830 | 29-Jan-01 | 04-Nov-04 | 29-Jan-06 | 1.290 | 48,801 | 37,830 | 2.46 |
| | 4,962,498 | | | | | 5,356,520 | | |

Fair value of shares issued during the reporting period is estimated to be the market price of shares of Portman Limited on the ASX as at close of trading on their respective dates.

**NOTE 29:**
**EMPLOYEE ENTITLEMENTS (CONTINUED)**

### (d) Options held as at the end of the reporting date

The following table summarises information about options held by eligible option holders as at 31 December 2004:

| Plan Type | Number of Options | Grant date | Vesting Date | Expiry date | Weighted average exercise price |
|---|---|---|---|---|---|
| ESOP | 67,000 | 01-Mar-01 | 01-Mar-02 | 01-Mar-06 | 1.013 |
| ESOP | 141,667 | 02-Apr-01 | 02-Apr-02 | 02-Apr-06 | 1.153 |
| ESOP | 845,000 | 19-Apr-02 | 19-Apr-03 | 19-Apr-07 | 2.427 |
| ESOP | 250,000 | 11-Feb-02 | 11-Feb-03 | 11-Feb-07 | 1.765 |
| ESOP | 421,000 | 25-Jun-03 | 25-Jun-04 | 25-Jun-08 | 1.160 |
| Non ESOP | 20,766 | 29-Jan-01 | 29-Jan-02 | 29-Jan-06 | 1.290 |
| Non ESOP | 750,000 | 01-Oct-02 | 01-Oct-03 | 01-Oct-07 | 1.919 |
| Non ESOP | 1,000,000 | 29-Aug-03 | 29-Aug-04 | 29-Aug-08 | 1.031 |
| Directors Options | 500,000 | 24-May-01 | 24-May-02 | 24-May-06 | 1.227 |
| Directors Options | 1,000,000 | 19-Apr-02 | 19-Apr-03 | 19-Apr-07 | 2.427 |
| | 4,995,433 | | | | |

### Superannuation Commitments

The employer contributes in accordance with the Government Superannuation Guarantee Legislation.

**NOTE 30:**
**COMMITMENTS FOR EXPENDITURE**

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| **Lease Commitments** | | |
| Operating lease commitments contracted for at year end but not provided for in the financial statements | | |
| Not later than one year | 412 | — |
| Later than one year but not later than two years | 412 | — |
| Later than two years but not later than five years | 1,615 | — |
| | 2,439 | — |

Operating leases are entered into as a means of acquiring access to office premises. Rental payments are generally fixed with inflation escalation clauses on which contingent rentals are determined. Outgoings related to the occupation of premises are included in these commitments.

| | | |
|---|---|---|
| **Finance Lease Commitments** | | |
| Not later than one year | 62 | — |
| Later than one year but not later than two years | — | — |
| Later than two years but not later than five years | — | — |
| | 62 | — |
| Less future finance charges | — | — |
| | 62 | — |

Finance leases are entered into as a means of funding the acquisition of some items of plant and equipment. Rental payments are fixed. The parent entity has guaranteed the performance of the finance lease.

| | | |
|---|---|---|
| Representing lease liabilities: | | |
| Current (refer note 16) | 62 | — |
| Non Current | — | — |
| | 62 | — |
| **Capital Commitments** | | |
| Not later than one year | 40,214 | — |
| Later than one year but not later than two years | — | — |
| Later than two years but not later than five years | — | — |
| | 40,214 | — |

**Operating Contract Commitments**

1. Commitments exist under long term take or pay agreements relating to the rail and port facilities which have been entered into by a controlled entity within the Economic Entity.

2. Other commitments contracted for at year end but not provided for in the financial statements

| | | |
|---|---|---|
| Not later than one year | 4,092 | — |
| Later than 1 year but not later than 2 years | 4,092 | — |
| Later than 2 years but not later than 5 years | 12,275 | — |
| Later than 5 years | 28,912 | — |
| | 49,371 | — |

**Mining Tenements**

| | | |
|---|---|---|
| Annual expenditure commitments to maintain current rights of tenure to mining tenements | 1,763 | — |

## NOTE 31:
## SEGMENT INFORMATION

### Segment products and locations

The consolidated entity’s operating companies are organised and managed separately according to the nature of the products and services they provide, with each segment offering different products and serving different markets.

The Iron Ore segment produces and sells iron ore products to the world steel making industry. The Silicon segment was sold during 2003. The Corporate & Net Interest segment includes revenues and expenses associated with the investment portfolio that is managed by the Economic Entity and other revenues and expenses associated with general head office activities.

Geographically, the group operates only in Australia.

### Segment accounting policies

The group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices. Revenues are attributed to geographic areas based on the location of the assets producing the revenues. Segment accounting policies are the same as the consolidated entity’s policies described in Note 1. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.

**NOTE 31:**
**SEGMENT INFORMATION (CONTINUED):**

| | Iron Ore $'000 | Silicon $'000 | 2004 Corporate & Net Interest $'000 | Consolidated $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to customers outside the consolidated entity | 195,435 | — | — | 195,435 |
| Other revenues from customers outside the consolidated entity | 886 | — | 2,602 | 3,488 |
| **Total Segment Revenue** | **196,321** | **—** | **2,602** | **198,923** |
| **Result** | | | | |
| Segment result | 51,790 | — | (5,834) | 45,956 |
| **Consolidated entity profit from ordinary activities before income tax expense** | **51,790** | **—** | **(5,834)** | **45,956** |
| Income tax expense | | | | **(13,203)** |
| **Consolidated entity profit from ordinary activities after income tax expense before Outside Equity Interest** | | | | **32,753** |

**NOTE 31:**
**SEGMENT INFORMATION (CONTINUED):**

| | 2004 | | | |
|---|---|---|---|---|
| | **Iron Ore** $'000 | **Silicon** $'000 | **Corporate & Net Interest** $'000 | **Consolidated** $'000 |
| **Assets** | | | | |
| Segment assets | 224,053 | — | 18,015 | 242,068 |
| Total assets | **224,053** | **—** | **18,015** | **242,068** |
| **Liabilities** | | | | |
| Segment liabilities | 56,702 | — | 16,339 | 73,041 |
| Total liabilities | **56,702** | **—** | **16,339** | **73,041** |
| **Other segment information** | | | | |
| Acquisition of PPE, intangible assets & other non current assets | 38,071 | — | 47 | 38,118 |
| Depreciation | 2,605 | — | 117 | 2,722 |
| Amortisation | 6,746 | — | — | 6,746 |

**NOTE 32:**
**CONTINGENT LIABILITIES**

Contingent liabilities not otherwise provided for in these financial statements are:

1. The parent entity has guaranteed the lease liabilities of a controlled entity under an operating lease for premises to a maximum of $504,620.

2. The parent entity has guaranteed the performance of a controlled entity under a hire purchase arrangement with Commonwealth Bank Finance Corporation.

3. The parent entity has guaranteed the performance of a controlled entity under a long term contract with the Esperance Port Authority for the provision of port services related to the exporting of iron ore.

4. The parent entity has contingent liabilities in respect of termination benefits which may arise pursuant to service agreements entered into with executives and employees who take part in the management of the Economic Entity. The maximum amount of the contingent liability is dependent upon the circumstances in which the employment is terminated.

5. The parent entity has guaranteed the performance of a controlled entity's obligations under a Farm in Agreement in respect of a petroleum lease.

6. Controlled entities within the Economic Entity have guaranteed the performance of a third party's obligations to BHP Minerals Limited in respect of mining leases on which the Cockatoo Island Joint Venture carries out mining operations.

7. In the Sale and Purchase Agreement, for the sale of the Burton Coal Project, dated 15 September 1999 between RAG Australia Coal Pty Ltd, RAG International Mining GmbH, Portman Limited and Pelsoil Limited, various warranties, indemnities and guarantees were given to RAG by Portman or Pelsoil.

   No claims in respect to warranties, indemnities or guarantees have been or are expected to be received by Portman or Pelsoil.

8. A claim of $491,562 has been made against the parent entity by a former employee in respect of the cancellation of employee share options. This claim is being defended by the company.

9. Native Title claims exist over the land that the Koolyanobbing Project and Cockatoo Island Joint Venture occupy. Under the Native Title Act the Project and Joint Venture are however protected for all current and future mining operations on existing mining leases. Applications for new mining leases may require agreement with any Native Title applicant regarding compensation before the mining lease would be granted by the Government.

10. A Section 10 heritage protection application is under consideration by the Federal Minister. This is by a group related to parties who have previously sought to prevent new mine development. None of these particular applicants

have demonstrated cultural connection to the area or specific knowledge relating to any sites requiring protection. Following detailed reporting, two previous Section 10 protection applications were rejected by the Federal Minister. Portman considers the potential for the remaining application to cause disruption to operations to be very low.

11. On 12 January 2005, Cleveland-Cliffs Inc (Cliffs) announced a A$3.40 per share cash takeover offer for Portman Limited, valuing the company at approximately A$605 million. The offer has the unanimous support of the Portman board and, in the absence of a superior offer, the Portman directors have recommended that Portman shareholders accept the offer and they have indicated that they intend to accept the offer (in the absence of a superior offer) with respect to their own shareholdings. Portman has agreed to pay a break fee of 1% of the bid consideration if the board of Portman withdraws its recommendation of the bid in the absence of a superior competing offer or if a competing offeror acquires control of Portman.

**NOTE 33:**
**FINANCING ARRANGEMENTS**

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| The following lines of credit with financial institutions were available at the year end: | | |
| **Total Credit Facilities** | | |
| Multi — option facility | 40,000 | 40,000 |
| **Drawn Down Portions** | | |
| Multi — option facility — bank guarantees | (8,926) | (8,926) |
| **Net Unused Credit Facilities** | | |
| Multi — option facility | 31,074 | 31,074 |

The unused facilities at year end are available for any use within the Economic Entity. The $40,000,000 Multi-option facility is subject to annual review. The Multi-option facility is secured by a first ranking fixed and floating charge over all the assets and undertakings of the group, granted by the parent entity and all wholly owned entities.

During the year the Economic Entity secured long term funding from concluded long term sales agreements to assist with the funding of the 8Mpta expansion of the Koolyanobbing operation. As at 31 December 2004 USD 7,700,000 had been secured, due to be advanced in full by 31 March 2005.

**NOTE 34:**
**FINANCIAL INSTRUMENTS**

**(a) Objectives for Holding Derivative Financial Instruments**

The Economic Entity uses derivative financial instruments to manage specifically identified foreign currency exposures. The Economic Entity is primarily exposed to the risk of adverse movements in the Australian dollar compared to the United States dollar. The primary objective of using derivative financial instruments is to reduce the volatility of earnings attributable to changes in AUD/USD, and to protect against undue adverse movements in these rates. The purposes for which specific derivative instruments are used are as follows:

Foreign currency options (uncommitted) and forward exchange contracts (committed) are purchased to hedge the Australian dollar value of US dollar receipts arising from both completed and forecasted export sales. Foreign currency hedging can commit the Economic Entity to sell US dollars at an agreed rate of exchange. All foreign currency options and forward exchange contracts are denominated in US dollars and contracted against Australian dollars. The Economic Entity hedges a portion of its anticipated future sales for periods up to three years (rolling monthly) from the end of the financial year. The Board of Directors has set the following guidelines for the portion of forecasted export sales that can be hedged:

| | Committed Hedging Max | Aggregate Committed and Uncommitted Hedging Band |
|---|---|---|
| 0–12 months | 90% | 50% - 90% |
| 13–24 months | 30% | 25% - 75% |
| 25–36 months | 15% | 15% - 50% |

All proposals for additional foreign exchange hedging outside the parameters stated above must be submitted to the Treasury Policy Committee, comprising an external independent advisor and five other committee members and then approved by the Portman Board of Directors.

**NOTE 34:**
**FINANCIAL INSTRUMENTS (CONTINUED)**

**(b) Interest Rate**

Interest rate risk for the Economic Entity, together with effective interest rates as at 31 December 2004.

| | Floating interest rate $'000 | Fixed interest rate maturing in: 1 year or less $'000 | Over 1 to 5 years $'000 | More than 5 years $'000 | Non-interest bearing $'000 | Total $'000 | Average interest rate floating | Average interest rate fixed |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Cash | 3,855 | — | — | — | — | 3,855 | 4.25% | — |
| Bills receivable/Bank bills | — | 13,898 | — | — | — | 13,898 | — | 5.65% |
| Trade debtors | — | — | — | — | 11,415 | 11,415 | — | — |
| Other receivables | — | — | — | — | 9,099 | 9,099 | — | — |
| Hedge contract receivables | — | — | — | — | 31,582 | 31,582 | — | — |
| | 3,855 | 13,898 | — | — | 52,096 | 69,849 | — | — |
| **Financial liabilities** | | | | | | | | |
| Trade creditors | — | — | — | — | 21,881 | 21,881 | — | — |
| Equipment HP | — | 62 | — | — | — | 62 | — | 6.25% |
| Hedge contract payable | — | — | — | — | 169 | 169 | — | — |
| | — | 62 | — | — | 22,050 | 22,112 | | |

**NOTE 34:**
**FINANCIAL INSTRUMENTS (CONTINUED)**

### (c) Foreign Exchange

The following table summarises by currency the Australian dollar value of forward foreign exchange agreements and foreign currency options. Foreign currency amounts are translated at rates current at the reporting date. The 'buy' amounts represent the Australian dollar equivalent of commitments to purchase foreign currencies, and the 'sell' amount represents the Australian dollar equivalent of commitments to sell foreign currencies. Contracts, options, collars and convertible collars to sell foreign currency are entered into from time to time to offset sale obligations so as to maintain a properly hedged position.

| US$ denominated Forward Foreign Exchange Agreements | Average exchange rate 2004 | 2004 Buy $'000 | 2004 Sell $'000 |
|---|---|---|---|
| Within one year | 0.6654 | — | 157,207 |
| One to three years | 0.6550 | — | 41,223 |
| Total | | — | 198,430 |

| US$ denominated Foreign Currency Options | Average exchange rate 2004 | 2004 Buy $'000 | 2004 Sell $'000 |
|---|---|---|---|
| Within one year | — | — | — |
| One to two years | — | — | — |
| Total | | — | — |

| US$ denominated Foreign Currency Collars | Average exchange rate 2004 | 2004 Buy $'000 | 2004 Sell $'000 |
|---|---|---|---|
| Within one year (1) | 0.6950 | — | 7,194 |
| One to three years (2) | 0.6875 | — | 7,273 |
| Total | | — | 14,467 |

| US$ denominated Foreign Currency Convertible Collars | Average exchange rate 2004 | 2004 Buy $'000 | 2004 Sell $'000 |
|---|---|---|---|
| Within one year | — | — | — |
| One to three years (3) | 0.7810 | — | 62,740 |
| Total | | — | 62,740 |

Notes:

(1) Collar range 0.6950 to 0.6500. Sell rate shown above is based on the cap rate.

(2) Collar range 0.6875 to 0.6400. Sell rate shown above is based on the cap rate.

(3) Convertible Collar range 0.7900 to 0.7396. Sell rate shown above is the year end spot rate which is within the collar range. The collars have a knockout on the floor ranging from 0.8450 to 0.8500

**NOTE 34:**
**FINANCIAL INSTRUMENTS (CONTINUED)**

The Economic Entity is exposed to currency exchange rate risk through primary financial assets and forecast transactions reduced through derivative financial instruments such as forward exchange contracts, currency options, collars and convertible collars. The following table summarises by currency, in Australian dollars, the foreign exchange risk in respect of recognised financial assets and derivatives entered to hedge forecast transactions. Those financial assets and liabilities in which all amounts are denominated in Australian dollars are not included in these tables.

| | Australian dollars 2004 A$'000 | United States dollars 2004 A$'000 | Total 2004 A$'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Trade debtors | — | 11,415 | 11,415 |
| **Anticipated future transactions** | | | |
| Forward exchange contracts | 198,430 | (198,430) | — |
| Foreign exchange options | — | — | — |
| Foreign exchange collars | 14,467 | (14,467) | — |
| Foreign exchange convertible collars | 62,740 | (62,740) | — |

### (d) Credit Risk Exposures

The credit risk amounts do not take into account the value of any collateral or security. Receivables due from major counter-parties are not normally secured by collateral, however most sales are covered by letters of credit. In addition the group policy requires that counter-parties meet certain high levels of credit worthiness and the credit worthiness of counter-parties is regularly monitored. The amounts of credit risk shown, therefore, do not reflect expected losses.

**NOTE 34:**
**FINANCIAL INSTRUMENTS (CONTINUED)**

### (e) Net Fair Value Of Financial Assets And Liabilities

The carrying amounts and estimated net fair values of financial assets and financial liabilities (including derivatives) held at balance date are given below.

Short term instruments where carrying amounts approximate net fair values, are omitted. The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

### Economic Entity

| | 2004 Carrying amount $000 | 2004 Net Fair value $000 |
|---|---|---|
| **Financial assets:** | | |
| Receivables - non current | 1,596 | 1,596 |
| **Financial liabilities:** | | |
| Borrowings – current | 62 | 62 |
| **Derivatives:** | | |
| Foreign exchange contracts | 29,919 | 25,389 |
| Foreign exchange collars | 1,663 | 1,351 |
| Foreign exchange convertible collars | (169) | (472) |

The carrying amounts shown in the table are included in the Statement of Financial Position under the indicated captions.

The following methods and assumptions were used to estimate the net fair value of each class of financial instrument:

1. Interest Bearing Liabilities – non current

   The net fair value of the non current interest bearing liabilities is estimated by discounting expected cash flows at the interest rates currently offered to the Economic Entity for debt of the same remaining maturities and security plus costs expected to be incurred were the liability settled.

2. Foreign Exchange Contracts and Options

   The net fair value of forward foreign exchange contracts, options, collars and convertible collars is determined by reference to amounts quoted by the Economic Entity's banks.

**NOTE 34:**
**FINANCIAL INSTRUMENTS (CONTINUED)**

### (f) Hedges of Anticipated Future Transactions

The following table summarises deferred realised and unrealised gains and losses on derivative financial instruments entered as hedges of future anticipated purchases and sales, showing the periods in which they are expected to be recognised as income or expense. Deferred gains and losses are recognised as a component of the purchase or sale transaction when it occurs, or as other gains or losses when a hedged transaction is no longer expected to occur. These deferred gains and losses are calculated as the mark to market position as at 31 December 2004. The unrealised gains and losses from a mark to market calculation are different to the unrealised gains and losses recorded in the Statement of Financial Position, which have been measured on a mark to spot basis in accordance with Accounting Standard AASB 1012 “Foreign Currency Translation”.

Economic Entity

| | 2004 | |
|---|---|---|
| | Gains $000 | Losses $000 |
| Within one year | 21,225 | — |
| One to three years | 5,515 | 472 |
| Total gains and losses on anticipated future hedge transactions | 26,740 | 472 |
| Less amounts recorded in the financial accounts | — | — |
| Deferred gains and losses on anticipated future hedge transactions | 26,740 | 472 |

It should be noted that unrealised gains or losses for foreign exchange derivative instruments reflect changes in the underlying foreign exchange rates since the contracts were undertaken.

**NOTE 35:**
**NOTES TO THE STATEMENT OF CASH FLOWS**

### (a) Reconciliation Of Net Profit After Income Tax To The Net Cash Flows From Operating Activities

| | Economic Entity 2004 $'000 | Parent Entity 2004 $'000 |
|---|---|---|
| Net profit after income tax | 32,753 | 10,299 |
| Amortisation & depreciation | 9,468 | — |
| Loss/(Profit) on sale of plant & equipment | 2 | — |
| Loss/(Profit) on sale of listed investment | 93 | — |
| Provision for rehabilitation | 881 | — |
| Write back of provision for diminution | — | (10,000) |
| Write down of inventory to net realisable value | 4,794 | — |
| Movements in operating assets and liabilities | | |
| (Increase)/decrease in inventories | (14,393) | — |
| (Increase)/decrease in trade debtors | (7,279) | — |
| (Increase)/decrease in other debtors and prepayments | (5,048) | 190 |
| (Increase)/decrease in other current assets | (543) | — |
| (Increase)/decrease in intercompany loans | — | (12,885) |
| (Increase)/decrease in deferred tax assets | 730 | (2,052) |
| (Increase)/decrease in non current receivables | 105 | — |
| (Increase)/decrease in other non current assets | (2,888) | — |
| Increase/(decrease) in deferred foreign exchange | (1,836) | — |
| Increase/(decrease) in provision for tax payments | 1,360 | 3,430 |
| Increase/(decrease) in deferred tax liabilities | 4,129 | 11,566 |
| Increase/(decrease) in other provisions | (119) | — |
| Increase/(decrease) in trade payables | 4,242 | 55 |
| Net Cash Flows From Operating Activities | 26,451 | 603 |

## NOTE 36:
## RELATED PARTY INFORMATION

### Directors

The names of persons who were directors of Portman Limited during the year:

George F Jones
Barry J Eldridge
Fiona E Harris
Richard Knight
Malcolm H Macpherson
Michael D Perrott

### Details Of Share And Option Dealings With Directors And Their Director Related Entities

Details of share and option dealings with Directors and their Director related entities is disclosed in Note 28.

### The Wholly Owned Group

The wholly owned group consists of Portman Limited and its controlled entities as set out in Note 11.

Transactions between Portman Limited and related parties in the wholly owned group during the year ended 31 December 2004 consisted of:

(a) Loan advances by Portman Limited;

(b) Loans repaid to Portman Limited;

(c) The payment of management fees by controlled entities;

(d) Transfer of tax related balances;

(e) Dividends from controlled entities; and

(f) Guarantees by Portman Limited on behalf of controlled entities.

The above transactions were made on normal commercial terms and conditions, except that there are no fixed terms for the repayment of loans advanced by Portman Limited.

## NOTE 36:
## RELATED PARTY INFORMATION (CONTINUED)

| | Economic Entity 2004 $ '000 | Parent Entity 2004 $ '000 |
|---|---|---|
| Aggregate amounts receivable from and payable to, related parties in the wholly owned group at the year end were as follows: | | |
| Non current receivables | — | 139,728 |

Loans to and receivables from related entities are on an unsecured basis, non interest bearing and with no fixed terms for repayment.

**Director Related Entity Transactions**
Services

The company retains Oakvale Capital Limited to provide treasury services including foreign exchange and cash investment policy setting, product pricing and transactional assistance. The provision of these services is on normal commercial terms. The total amount spent in 2004 on these services was $72,223.

Mr George F Jones is a 10% shareholder in Oakvale Capital Limited.

**Transactions with Other Related Parties**

There were no other transactions with related parties.

**NOTE 37:**
**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Portman Limited will be required to adopt Australian Accounting Standards Board (AASB) equivalents to International Financial Reporting Standards (IFRSs), for its financial reporting at the half year ending 30 June 2005 and the full year ending 31 December 2005. At these dates a first time adopter of Australian equivalent IFRSs will be required to restate its comparative financial statements using all IFRSs, except for AASB132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement, and AASB 4 Insurance Contracts. For Portman Limited this means the preparation of an opening balance sheet in accordance with IFRSs as at 1 January 2004, with the majority of restatement adjustments being made, retrospectively, against opening retained earnings.

During the year Portman Limited established a project team to manage the transition to Australian equivalent IFRSs who have been working on the project together with independent experts. As a result of these procedures, Portman Limited has graded impact areas as either high, medium or low and has established dedicated project teams to address each of the areas in order of priority as represented by the gradings. An IFRS steering committee has been established to oversee the progress of each of the project teams and make necessary decisions. Regular updates are provided to the Audit and Risk Management Committee. As Portman Limited has a 31 December year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 January 2004. Set out below are the key areas where accounting policies will change and may have an impact on the financial report.

The amounts disclosed below are a best estimate as at the date of preparing the financial statements and may change due to:

(a) further work being performed by the IFRS project team; and

(b) potential amendments to the Australian equivalents to the International Financial Reporting Standards ( “AIFRSs” ) and interpretations thereof being issued by the standard setters and the International Financial Reporting Interpretations Committee (“IFRIC”).

**Classification of Financial Instruments**

AASB 139 applies from 1 January 2005, meaning that the comparative period of 2004 is not required to be restated unlike the majority of other IFRS standards which require retrospective application. Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables – measured at amortised cost; financial assets held to maturity – measured at amortised cost; financial assets held for trading – measured at fair value with fair value changes charged to net profit or loss; financial assets available for sale – measured at fair value with fair value changes taken to equity and non-trading liabilities – measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on balance sheet. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

**Derivatives**

Under AASB 139, recognition and measurement of all derivative financial instruments at fair value is required. Unless detailed hedge accounting requirements are met, movements in the fair value of derivative financial instruments must be taken to the profit and loss statement.

AASB 139 also introduces the concept of embedded derivatives and requires the identification, recognition and measurement of derivatives embedded within contracts that a company may enter. Embedded derivatives are required to be fair valued and movements reported in the profit and loss statement. Portman is currently reviewing contracts to determine the extent of any embedded derivatives.

**Hedge Accounting**

Under AASB 139 Financial Instruments: Recognition and Measurement, in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identified the type of hedge – fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Under the current accounting policy unrealised exchange gains and losses on specific hedges at balance date are deferred and recognised in the Statement of Financial Position and any unrealised exchange gains or losses on general hedges are included in the Statement of Financial Performance. Reliable estimation of the future financial effect of this change in accounting policy has not yet been measured. Portman has implemented new processes and procedures to meet the enhanced requirements for hedge accounting as at 1 January 2005.

**Exploration and Evaluation**

AASB 6 Exploration for and Evaluation of Mineral Resources is effective from 1 January 2005 and early adoption will not be permitted. The new standard requires entities to perform impairment testing on exploration and evaluation assets when facts and circumstances suggest that the carrying amount may be impaired. Impairment of exploration and evaluation assets is assessed at a cash generating unit or group of cash generating units level provided this is no larger than an area of interest.

**NOTE 37:**
**INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**

### Impairment of Assets

Under AASB 136 Impairment of Assets, the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the current accounting policy which determines the recoverable amount of an asset on the basis of discounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of any write-downs may be greater. It is expected that there will be no adjustment considered necessary for the consolidated entity opening balance as at 1 January 2004.

### Share Based Payments

Under AASB 2 Share Based Payments, the Company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance over the vesting period. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share–based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Under the current accounting policy no amounts are recognised in the financial accounts in relation to equity based compensation schemes. It is expected that there will be no adjustment considered necessary for the consolidated entity opening balance as at 1 January 2004.

### Income Taxes

Under AASB 112 Income Taxes, the Company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. The expected adjustment required in the consolidated entity opening balance sheet as a result of the adoption of this standard as at 1 January 2004 will result in a reduction in retained earnings.

### Rehabilitation

Under AASB 137 Provisions, Contingent Liabilities and Contingent Assets, the Company will be required to recognise the full provision for rehabilitation, based on discounted future cash flows, at the date of transition to IFRS. A corresponding asset net of depreciation to the date of transition may qualify for recognition as part of development costs and be amortised together with development assets. The future financial effect of this change in accounting policy is not yet known.

**NOTE 38:**
**SUBSEQUENT EVENTS**

On March 31, 2005, Cliffs acquired approximately 68 percent of the outstanding shares of Portman. Through the close of the cash takeover offer on April 19, 2005, Cliffs acquired an additional 12 percent, increasing its ownership to approximately 80 percent of the outstanding shares of Portman. The consideration for each Portman share was $3.85 in cash.

On 31 January 2005 mining contractor Henry Walker Eltin Group Ltd (HWE) went into voluntary administration. Portman utilises the services of HWE for contract mining at its Koolyanobbing and Cockatoo Island Iron Ore projects. The Cockatoo Island Iron Ore project is an unincorporated joint venture between HWE and Portman. At the date of signing the financial statements Portman has not experienced any adverse impacts as a result of an administrator being appointed to HWE.

There has not been any other matter or circumstance that has arisen since the year-end that has affected or may significantly affect the operations of the Economic Entity, the results of those operations or the state of affairs of the Economic Entity in subsequent periods.

**NOTE 39: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES OF AMERICA (U.S. GAAP)**

The consolidated financial statements of Portman are prepared under generally accepted accounting principles in Australia (Australian GAAP), which differ in certain respects from U.S. GAAP. The material differences, as they apply to Portman’s financial statements, are as follows:

*Income tax*

Under Australian GAAP, tax effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognized in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit related to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realized.

Under U.S. GAAP, the balance sheet approach is applied whereby deferred income tax is provided on all temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

As a result of applying U.S. GAAP, mining interest acquired as a result of Portman purchasing the remaining shares in Koolyanobbing Iron Ore Ltd, which was treated as a permanent difference under Australian GAAP, is now tax effected under U.S. GAAP.

*Rehabilitation*

Under Australian GAAP, costs of rehabilitation work are provided for and treated as production costs. Costs are recognized prospectively over the life of mine based on production. The provision is to be applied against all rehabilitation costs, including reclamation, infrastructure removal and waste treatment.

Under U.S. GAAP, the costs of dismantling and removing an asset and restoring the site on which it is located is to be included as an element of asset cost with a corresponding provision being recorded. The asset and liability are initially recorded at their discounted value. The asset is then depreciated over its useful life and the provision is increased by the time value of money (accretion) up until the time of closure.

As a result of applying U.S. GAAP, an asset and corresponding provision has been booked for assets requiring removal and site restoration at the end of the mine life.

*Hedging*

Under Australian GAAP, unrealized foreign exchange gains and losses for specific hedges are deferred and recognized in the Statement of Financial Position for hedges that are effective and are expensed in the Statement of Financial Performance for hedges that are ineffective. The unrealized gain or loss is calculated with reference to the exchange rate ruling at the respective balance date.

Under U.S. GAAP, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion is recognized in the income statement in relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the condition for hedge accounting. The calculation of the cash flow hedges is based on fair value.

As a result of applying U.S. GAAP, Portman has recorded its cash flow hedges at fair value as opposed to the spot rate ruling at balance date. Given no hedge documentation existed at the inception of the hedge relationship, all hedges are considered to be ineffective. Accordingly, fair value movement for the year ended 31 December 2004 has been recorded in the Statement of Financial Performance.

*Embedded Derivative*

Under U.S. GAAP, embedded derivatives that exist in long term contracts shall be separated from the host contract and accounted for as a derivative if the economic characteristics of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. There is no equivalent standard under Australian GAAP.

Portman has a long term contract with the Esperance Port Authority whereby the interest on the infrastructure facilities is charged at a fixed rate over the life of the agreement. This is considered to be an embedded derivative that is not closely related to the underlying contract, namely the provision of infrastructure, in order to enable the loading of iron ore into vessels at the port. Accordingly, the derivative has been measured at fair value with the difference recorded as an asset and against beginning retained earnings. The asset will be amortized to expense over the life of the contract.

*Exploration*

Under Australian GAAP, costs incurred during exploration related to an area of interest are accumulated. These costs are carried forward provided they are expected to be recouped through successful development, or by sale, or where exploration activities have not at balance date reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. Alternatively, exploration costs can be expensed as incurred. Portman's policy is the former, which is to carry forward exploration expenses until a decision is made to abandon, in which case the costs are written-off. If a decision is made to exploit the reserves and develop the area of interest, the costs are carried forward and amortized over the life of the area of interest.

Under Cliffs' accounting policies, exploration costs and development drilling are expensed as incurred.

As a result of applying Cliffs' accounting policies to Portman, the carrying amount of exploration and development drilling costs have been written-off.

***Deferred Waste***

Portman's accounting policy under Australian GAAP with regards to costs of waste stripping from mining areas in advance of mining ore is to defer and recognize costs in the Statement of Financial Position on a unit of ore production basis using medium term schedule projections of recoverable ore reserves and waste stripping for each pit. At December 31, 2004, Portman had deferred waste recorded in its Statement of Financial Position for two mining areas.

Under Cliffs' accounting policy, in accordance with U.S. GAAP, waste stripping is expensed as incurred.

As a result of applying Cliffs' accounting policy, the balance of deferred waste in the Statement of Consolidated Financial Position has been written-off.

Reconciliation

The following is a summary of the material adjustments to Portman's net profit, shareholders' equity and cash flows which would be required had the financial statements been prepared in accordance with U.S. GAAP for the year ended 31 December 2004:

**UNAUDITED**

(i) Reconciliation of Net Profit

| | Year ended 31 December 2004 (A$000) |
|---|---|
| Net Profit as stated under Australian GAAP | 32,753 |
| Adjustments to conform to International Financial Reporting Standards | |
| Income tax | 308 |
| Rehabilitation | (650) |
| Subtotal adjustments | (342) |
| Net Profit under International Financial Reporting Standards | 32,411 |
| Adjustments to conform to U.S. GAAP | |
| Hedging | (2,850) |
| Exploration | (1,887) |
| Deferred waste | (857) |
| Subtotal adjustments | (5,594) |
| Net Profit as stated under U.S. GAAP | 26,817 |

(ii) Reconciliation of shareholders' equity

| | Year ended 31 December 2004 (A$000) |
|---|---|
| Total equity as stated under Australian GAAP | 169,027 |
| Adjustments to conform to International Financial Reporting Standards | |
| Income tax | (5,265) |
| Rehabilitation | (948) |
| Subtotal adjustments | (6,213) |
| Total equity as stated under International Financial Reporting Standards | 162,814 |
| Adjustments to conform to U.S. GAAP | |
| Exploration | (11,720) |
| Deferred waste | (857) |
| Hedging | 18,269 |
| Embedded derivative | 807 |
| Subtotal adjustments | 6,499 |
| Total equity as stated under U.S. GAAP | 169,313 |

*Consolidated Cash Flow*

The principal differences between the Statement of Cash Flows prepared under Australian GAAP and the objectives and principles set out in SFAS No. 95 “Statement of Cash Flows”, relate to the treatment of exploration costs and the consolidation of Portman’s interest in the Cockatoo Island Joint Venture.

*Exploration*

Exploration costs, capitalized and presented as a cash flow from investing activities in Portman’s Statement of Cash Flows, have been reclassified as a cash flow from operating activities in accordance with Cliffs’ accounting policy and U.S. GAAP.

*Equity Interest*

Portman has a 50 percent ownership in the Cockatoo Island Joint Venture. The Joint Venture is unincorporated with the other joint venture partner, HWE, owning the remaining 50 percent interest. The joint venture was formed to conduct mining operations which includes mine development, mine operation and rehabilitation work at the end of the mine life. The joint venture partners receive their share of output, ore produced, from the joint venture. The ore produced is sold by each participant outside the joint venture agreement.

Under Australian GAAP, the Cockatoo Island Joint Venture can either be proportionately consolidated or accounted for under the equity method. Under U. S. GAAP, joint ventures are accounted for under the equity method.

As a result of applying U.S. GAAP, the Cockatoo Island Joint Venture, which is proportionately consolidated in Portman’s accounts, has been adjusted under the equity method.

The following is the U.S. GAAP cash flow data for the year ended December 31, 2004:

(iii) Consolidated statement of cash flows

| | Year ended 31 December 2004 (A$000) |
|---|---|
| Cash Flows from Operating Activities | 30,540 |
| Cash Flows from Investing Activities | (41,032) |
| Cash Flows from Financing Activities | (15,967) |
| Net Decrease in Cash and Cash Equivalents | (26,459) |
| Cash and Cash Equivalents at the Beginning of the Year | 44,212 |
| Cash and Cash Equivalents at the End of the Year | 17,753 |

**Exhibit 99.3**

# Cleveland-Cliffs Inc
# Unaudited Pro Forma Condensed Consolidated Financial Information

**CLEVELAND-CLIFFS INC**
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

On April 6, 2005, Cleveland-Cliffs Inc (“Cliffs” or the “Company”) filed a Current Report on Form 8-K to report that on March 31, 2005 Cleveland-Cliffs Australia (“Cliffs Australia”), a wholly-owned subsidiary of the Company, acquired approximately 68 percent of the outstanding shares of Portman Limited (“Portman”), a Western Australia based iron ore mining and exploration company for $371.7 million. Through the close of the offer on April 19, 2005 Cliffs-Australia acquired an additional 12 percent for $61.9 million, increasing its ownership to approximately 80 percent of the outstanding shares of Portman. The following unaudited pro forma condensed consolidated financial statements have been prepared to give effect to the Company’s acquisition of Portman using the purchase method of accounting and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed consolidated financial statements. These unaudited pro forma condensed consolidated financial statements were prepared as if the acquisition had been completed as of January 1, 2004 with respect to the statements of operations, and as of March 31, 2005 with respect to the balance sheet.

The unaudited pro forma condensed consolidated financial statements are based upon the respective historical financial statements of Cliffs and Portman. These unaudited pro forma condensed consolidated financial statements should be read in conjunction with: (i) the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 filed on April 29, 2005; (ii) the Company’s Annual Report on Form 10-K for the year ended December 31, 2004 filed on February 22, 2005; (iii) Portman’s unaudited financial statements as of and for the year ended December 31, 2004, included in this Form 8-K/A as Exhibit 99.2; and (iv) the accompanying notes to the unaudited pro forma condensed consolidated financial statements. The unaudited financial statements of Portman included in Exhibit 99.2 to this Form 8-K/A have been presented in Australian dollars and prepared in accordance with generally accepted accounting principles in Australia, whereas all other amounts for Portman included herein have been presented in U.S. dollars and prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

The unaudited pro forma condensed consolidated financial statements include adjustments, which are based upon preliminary estimates, to reflect the allocation of the purchase price to the acquired assets and assumed liabilities of Portman. The purchase price allocation presented herein is preliminary; final allocation of the purchase price will be based upon the results of third party valuations which are currently in process but not yet complete. Accordingly, final purchase accounting adjustments may differ from the pro forma adjustments presented herein.

The unaudited pro forma condensed consolidated financial statements are intended for informational purposes only and, in the opinion of management, are not necessarily indicative of the financial position or results of operations of the Company had the acquisition actually been effected as of the dates indicated, nor are they indicative of the Company’s future financial position or results of operations.

The unaudited pro forma condensed consolidated financial statements do not include potential cost savings from operating efficiencies or synergies that may result from the acquisition.

**UNAUDITED**

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF MARCH 31, 2005

| | (In Millions) | | | | | |
|---|---|---|---|---|---|---|
| | CLEVELAND-CLIFFS HISTORICAL | | PORTMAN & PRO FORMA ADJUSTMENTS (a) | | | PRO FORMA CONSOLIDATED |
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | $ | 108.5 | $ 36.6 | (b) | $ | 145.1 |
| Trade accounts receivable — net | | 55.7 | | | | 55.7 |
| Receivables from associated companies | | 11.8 | | | | 11.8 |
| Product inventories | | 160.9 | | | | 160.9 |
| Work in process inventories | | 44.2 | | | | 44.2 |
| Supplies and other inventories | | 55.0 | | | | 55.0 |
| Deferred and refundable income taxes | | 39.1 | | | | 39.1 |
| Other | | 73.6 | | | | 73.6 |
| TOTAL CURRENT ASSETS | | 548.8 | 36.6 | | | 585.4 |
| PROPERTIES | | 937.8 | 61.9 | (c) | | 999.7 |
| Allowances for depreciation and depletion | | (166.1) | | | | (166.1) |
| TOTAL PROPERTIES | | 771.7 | 61.9 | | | 833.6 |
| OTHER ASSETS | | | | | | |
| Long-term receivables | | 52.6 | | | | 52.6 |
| Deferred income taxes | | 42.6 | | | | 42.6 |
| Deposits and miscellaneous | | 41.9 | | | | 41.9 |
| Other investments | | 21.6 | | | | 21.6 |
| Intangible pension asset | | 12.6 | | | | 12.6 |
| Marketable securities | | 0.6 | | | | 0.6 |
| TOTAL OTHER ASSETS | | 171.9 | | | | 171.9 |
| TOTAL ASSETS | $ | 1,492.4 | $ 98.5 | | $ | 1,590.9 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Accounts payable | $ | 90.0 | $ — | | $ | 90.0 |
| Revolving credit | | 75.0 | 100.0 | (d) | | 175.0 |
| Accrued employment costs | | 33.5 | | | | 33.5 |
| Pensions | | 31.0 | | | | 31.0 |
| Other post-retirement benefits | | 29.9 | | | | 29.9 |
| Accrued expenses | | 24.2 | | | | 24.2 |
| Income taxes | | 23.5 | | | | 23.5 |
| State and local taxes | | 16.7 | | | | 16.7 |
| Environmental and mine closure obligations | | 6.4 | | | | 6.4 |
| Payables to associated companies | | 1.3 | | | | 1.3 |
| Other | | 27.8 | | | | 27.8 |
| TOTAL CURRENT LIABILITIES | | 359.3 | 100.0 | | | 459.3 |
| PENSIONS, INCLUDING MINIMUM PENSION LIABILITY | | 47.2 | | | | 47.2 |
| OTHER POST — RETIREMENT BENEFITS | | 102.8 | | | | 102.8 |
| ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS | | 84.7 | | | | 84.7 |
| DEFERRED INCOME TAXES | | 131.0 | 18.2 | (e) | | 149.2 |
| OTHER LIABILITIES | | 56.2 | | | | 56.2 |
| TOTAL LIABILITIES | | 781.2 | 118.2 | | | 899.4 |
| MINORITY INTEREST | | 89.9 | (19.7) | (f) | | 70.2 |
| 3.25% REDEEMABLE CUMULATIVE CONVERTIBLE PERPETUAL PREFERRED STOCK — ISSUED 172,500 SHARES | | 172.5 | | | | 172.5 |
| SHAREHOLDERS' EQUITY | | | | | | |
| Common Shares — par value $.50 a share | | | | | | |
| Authorized - 56,000,000 shares; | | | | | | |
| Issued - 33,655,882 shares | | 16.8 | | | | 16.8 |
| Capital in excess of par value of shares | | 93.6 | | | | 93.6 |
| Retained earnings | | 586.9 | | | | 586.9 |
| Accumulated other comprehensive loss, net of tax | | (83.2) | | | | (83.2) |

| | | | |
|---|---|---|---|
| Cost of 11,781,759 Common Shares in treasury | (165.7) | | (165.7) |
| Unearned compensation | 0.4 | | 0.4 |
| TOTAL SHAREHOLDERS' EQUITY | 448.8 | | 448.8 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 1,492.4 | $ 98.5 | $ 1,590.9 |

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

**UNAUDITED**

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2005

| | (In Millions) | | | |
|---|---|---|---|---|
| | CLEVELAND-CLIFFS HISTORICAL | PORTMAN | PRO FORMA ADJUSTMENTS | PRO FORMA CONSOLIDATED |
| REVENUES FROM PRODUCT SALES AND SERVICES | | | | |
| Iron ore | $ 219.2 | $ 55.7 | $ — | $ 274.9 |
| Freight and minority interest | 52.4 | | | 52.4 |
| | 271.6 | 55.7 | | 327.3 |
| COST OF GOODS SOLD AND OPERATING EXPENSES | (228.6) | (26.2) | (7.2) (g) | (262.0) |
| SALES MARGIN | 43.0 | 29.5 | (7.2) | 65.3 |
| OTHER OPERATING INCOME (EXPENSE) | | | | |
| Royalties and management fee revenue | 2.7 | | | 2.7 |
| Administrative, selling and general expenses | (11.3) | (7.9) | | (19.2) |
| Miscellaneous — net | (1.0) | (4.6) | | (5.6) |
| | (9.6) | (12.5) | | (22.1) |
| OPERATING INCOME (LOSS) | 33.4 | 17.0 | (7.2) | 43.2 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 3.9 | | | 3.9 |
| Interest expense | (.2) | (.1) | (2.2) (h) | (2.5) |
| Other — net | (9.7) | | | (9.7) |
| | (6.0) | (.1) | (2.2) | (8.3) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST | 27.4 | 16.9 | (9.4) | 34.9 |
| INCOME TAX (EXPENSE) BENEFIT | (7.0) | (5.1) | 2.9 (i) | (9.2) |
| MINORITY INTEREST | | | (2.3) (j) | (2.3) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 20.4 | 11.8 | (8.8) | 23.4 |
| PREFERRED STOCK DIVIDEND | (1.4) | | | (1.4) |
| INCOME (LOSS) APPLICABLE TO COMMON SHARES | $ 19.0 | $ 11.8 | $ (8.8) | $ 22.0 |
| EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS — BASIC | $ 0.88 | | | $ 1.02 |
| EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS — DILUTED | $ 0.74 | | | $ 0.85 |
| AVERAGE NUMBER OF SHARES (IN THOUSANDS) | | | | |
| Basic | 21,599 | | | 21,599 |
| Diluted | 27,655 | | | 27,655 |

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

**UNAUDITED**

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
TWELVE MONTHS ENDED DECEMBER 31, 2004

| | (In Millions) | | | | | | |
|---|---|---|---|---|---|---|---|
| | CLEVELAND-CLIFFS HISTORICAL | PORTMAN | PRO FORMA ADJUSTMENTS | | PRO FORMA CONSOLIDATED | | |
| REVENUES FROM PRODUCT SALES AND SERVICES | | | | | | | |
| Iron ore | $ 998.6 | $ 143.9 | $ — | | $ 1,142.5 | | |
| Freight and minority interest | 208.1 | | | | 208.1 | | |
| | 1,206.7 | 143.9 | | | 1,350.6 | | |
| COST OF GOODS SOLD AND OPERATING EXPENSES | (1,056.8) | (85.9) | (28.4) | (g) | (1,171.1) | | |
| SALES MARGIN | 149.9 | 58.0 | (28.4) | | 179.5 | | |
| OTHER OPERATING INCOME (EXPENSE) | | | | | | | |
| Royalties and management fee revenue | 11.3 | | | | 11.3 | | |
| Administrative, selling and general expenses | (33.1) | (26.0) | | | (59.1) | | |
| Provision for customer bankruptcy exposures | (1.6) | | | | (1.6) | | |
| Impairment of mining assets | (5.8) | | | | (5.8) | | |
| Restructuring (charge) credit | .2 | | | | .2 | | |
| Miscellaneous — net | (2.9) | (4.4) | | | (7.3) | | |
| | (31.9) | (30.4) | | | (62.3) | | |
| OPERATING INCOME (LOSS) | 118.0 | 27.6 | (28.4) | | 117.2 | | |
| OTHER INCOME (EXPENSE) | | | | | | | |
| Gain on sale of ISG common stock | 152.7 | | | | 152.7 | | |
| Interest income | 11.5 | | | | 11.5 | | |
| Interest expense | (.8) | (.3) | (8.8) | (h) | (9.9) | | |
| Other — net | 4.2 | | | | 4.2 | | |
| | 167.6 | (.3) | (8.8) | | 158.5 | | |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST | 285.6 | 27.3 | (37.2) | | 275.7 | | |
| INCOME TAX (EXPENSE) BENEFIT | 34.9 | (7.5) | 10.9 | (i) | 38.3 | | |
| MINORITY INTEREST | | | (3.9) | (j) | (3.9) | | |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 320.5 | 19.8 | (30.2) | | 310.1 | | |
| PREFERRED STOCK DIVIDEND | (5.3) | | | | (5.3) | | |
| INCOME (LOSS) APPLICABLE TO COMMON SHARES | $ 315.2 | $ 19.8 | $ (30.2) | | $ 304.8 | | |
| EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS — BASIC | $ 14.79 | | | | $ 14.30 | | |
| EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS — DILUTED | $ 11.69 | | | | $ 11.31 | | |
| AVERAGE NUMBER OF SHARES (IN THOUSANDS) | | | | | | | |
| Basic | 21,308 | | | | 21,308 | | |
| Diluted | 27,421 | | | | 27,421 | | |

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

## Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

The unaudited pro forma condensed consolidated financial statements included herein have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information and certain footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations; however management believes that the disclosures are adequate to make the information not misleading.

### Note 1. Basis of Presentation

On April 19 2005, Cliffs Australia, a wholly-owned subsidiary of Cliffs completed the purchase of 80.4 percent of the outstanding shares of Portman, a Western Australia based independent iron ore mining and exploration company. The purchase price was $433.6 million. We funded the acquisition with existing cash and marketable securities and $175.0 million of borrowings under a new three-year $350 million unsecured revolving credit facility. The purchase price included $13.1 million of acquisition costs. Additionally, we incurred $9.8 million of foreign currency hedging costs related to this transaction which were charged to first quarter 2005 operations.

The acquisition was accounted for in the Unaudited Pro Forma Condensed Consolidated Financial Statements using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), whereby the total cost of the acquisition has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the effective date of the acquisition. The estimated purchase allocation is preliminary and is subject to revision. A third party valuation of the assets acquired and liabilities assumed is being conducted, and the final allocation will be made when completed.

The unaudited pro forma condensed consolidated statements of operations were prepared as if the acquisition occurred on January 1, 2004 and the unaudited pro forma condensed consolidated statement of financial position was prepared as if the acquisition was completed on March 31, 2005. These statements do not purport to represent what our financial position and results of operations would actually have been had the acquisition in fact occurred on such dates or to project our financial position or results of operations for any future period. Furthermore, the allocation of the purchase price is preliminary and subject to further revision.

The Unaudited Pro Forma Condensed Consolidated Financial Statements have been prepared based on the annual audited consolidated financial statements of the Company and the unaudited consolidated financial statements of Portman for their respective years ended December 31, 2004 and the unaudited consolidated financial statements of the Company and Portman for the three months ended March 31, 2005.

Included in Portman's pro forma results are mark - to - market before - tax losses of $5.1 million ($3.5 million after-tax) for the first quarter ended March 31, 2005 and $3.0 million ($2.1 million after - tax) for the year ended December 31, 2004 relating to foreign currency hedges.

### Note 2. Preliminary Purchase Price Allocation

The unaudited pro forma condensed consolidated financial statements reflect an estimated total purchase price of $433.6 million. The purchase price is summarized as follows:

| | In Millions | | |
|---|---|---|---|
| | As of 3/31/05 | April | Total |
| Cash | $ 359.5 | $ 61.0 | $ 420.5 |
| Acquisition Costs | 12.2 | 0.9 | 13.1 |
| Purchase Price | $ 371.7 | $ 61.9 | $ 433.6 |

Under the purchase method of accounting, the total estimated purchase price will be allocated to the assets acquired and liabilities assumed of Portman based upon their estimated fair value as of the date of the acquisition. The following represents the preliminary allocation of the aggregate purchase price as of March 31, 2005:

| | In Millions |
|---|---|
| Assets | |
| Current Assets | $ 86.7 |
| Property, Plant and Equipment | 539.7 |
| Other Assets | 28.4 |
| Total Assets | 654.8 |
| Liabilities | |
| Current liabilities | 35.6 |
| Long-Term Liabilities | 158.3 |
| Total Liabilities | 193.9 |
| Net Assets | 460.9 |
| Minority Interest | 27.3 |
| Purchase Price | $ 433.6 |

It is currently estimated that a significant portion of the purchase price will be allocated to iron ore reserves, which will be depleted on a unit of production basis over the estimated reserve life. A final determination of the fair values may differ materially from preliminary estimates and will include management's consideration of a final valuation prepared by independent valuation specialists. Any final adjustments may change the allocations of purchase price, which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited pro forma condensed consolidated financial statements.

### Note 3. Pro Forma Adjustments

The pro forma adjustments to the unaudited pro forma condensed consolidated financial statements are as follows:

(a) Reflects the adjustments related to the purchase of the approximate 12 percent incremental outstanding shares of Portman for $61.9 million.

(b) To reflect the net of cash borrowings under the three year credit facility and the cash used to purchase incremental outstanding shares of Portman.

(c) To reflect the incremental allocation of purchase price to iron ore reserves created as a result of the acquisition of incremental shares of Portman.

(d) To reflect the incremental borrowings under the three-year credit facility used to purchase incremental outstanding shares of Portman.

(e) To reflect the incremental deferred tax liability, which consists primarily of liabilities associated with the acquired identifiable tangible assets.

(f) The reduction in minority interest to reflect the incremental shares of Portman not acquired by the Company.

(g) Represents depletion amortization costs incurred related to the allocation of purchase price to iron ore reserves amortized on a "unit of production" basis.

(h) To reflect interest expense assuming $175 million of borrowings outstanding for the entire period at an interest rate of 4.71 percent. The interest rate used was the rate on borrowings outstanding for the first quarter of 2005. Interest expense includes amortization of loan origination costs. As of June 14, 2005, $50 million of borrowings is outstanding.

(i) Represents the tax impact of the pro forma adjustments. The tax expense on interest is reflected at the U.S. statutory rate of 35 percent. All other adjustments were tax effected at Portman's effective tax rate of 30 percent for the first three months 2005 and 27.6 percent for 2004.

(j) Represent the 19.6 percent minority interest in earnings of Portman.