

# CLIFFS NATURAL RESOURCES INC.

## FORM 10-Q (Quarterly Report)

Filed 10/27/99 for the Period Ending 09/30/99

Address	200 PUBLIC SQUARE STE. 3300 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

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Filed 10/27/1999 For Period Ending 9/30/1999

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 1999

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

*Commission File Number: 1-8944*

## CLEVELAND-CLIFFS INC

(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction of  
incorporation)

34-1464672  
(I.R.S. 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

Indicate by check mark whether the registrant (1) has filed all

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

**YES X NO**

As of October 14, 1999, there were 11,053,349 Common Shares (par value \$1.00 per share) outstanding.

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**PART I - FINANCIAL INFORMATION**

**CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES**

**STATEMENT OF CONSOLIDATED INCOME**

(In Millions, Except Per Share Amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	1999	1998	1999	1998
<b>REVENUES</b>				
Product sales and services	\$ 80.2	\$ 158.1	\$ 176.7	\$ 328.5
Royalties and management fees	10.3	15.5	33.0	36.8
<b>Total Operating Revenues</b>	<b>90.5</b>	<b>173.6</b>	<b>209.7</b>	<b>365.3</b>
Interest income	.5	1.5	2.4	3.7
Other income	.8	1.1	2.6	3.3
<b>Total Revenues</b>	<b>91.8</b>	<b>176.2</b>	<b>214.7</b>	<b>372.3</b>
<b>COSTS AND EXPENSES</b>				
Cost of goods sold and operating expenses	100.3	141.1	191.0	298.8
Administrative, selling and general expenses	3.3	3.4	11.2	13.0
Interest expense	1.2	.1	2.4	.4
Other expenses	3.5	4.4	12.3	9.4
<b>Total Costs and Expenses</b>	<b>108.3</b>	<b>149.0</b>	<b>216.9</b>	<b>321.6</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(16.5)</b>	<b>27.2</b>	<b>(2.2)</b>	<b>50.7</b>
<b>INCOME TAXES (CREDIT)</b>	<b>(5.8)</b>	<b>7.1</b>	<b>(2.0)</b>	<b>13.2</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (10.7)</b>	<b>\$ 20.1</b>	<b>\$ (.2)</b>	<b>\$ 37.5</b>
<b>NET INCOME (LOSS) PER COMMON SHARE</b>				
Basic	\$ (.96)	\$ 1.80	\$ (.02)	\$ 3.33
Diluted	\$ (.96)	\$ 1.78	\$ (.02)	\$ 3.30
<b>AVERAGE NUMBER OF SHARES (IN THOUSANDS)</b>				
Basic	11,112	11,207	11,160	11,286
Diluted	11,112	11,264	11,160	11,363
<b>DIVIDENDS PER COMMON SHARE</b>	<b>\$ .375</b>	<b>\$ .375</b>	<b>\$ 1.125</b>	<b>\$ 1.075</b>

See notes to consolidated financial statements.

**CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES**

**STATEMENT OF CONSOLIDATED FINANCIAL POSITION**

	(In Millions)	
	September 30 1999	December 31 1998
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 33.1	\$ 130.3
Accounts receivable - net	47.0	58.8
Inventories		
Iron ore	112.4	43.4
Supplies and other	14.2	16.2
	-----	-----
	126.6	59.6
Deferred income taxes	10.5	5.1
Other	5.9	6.1
	-----	-----
TOTAL CURRENT ASSETS	223.1	259.9
PROPERTIES		
Allowances for depreciation and depletion	222.2	210.9
	(68.1)	(60.9)
	-----	-----
TOTAL PROPERTIES	154.1	150.0
INVESTMENTS IN ASSOCIATED COMPANIES		
	229.2	235.4
OTHER ASSETS		
Prepaid pensions	40.4	40.0
Miscellaneous	41.8	38.2
	-----	-----
TOTAL OTHER ASSETS	82.2	78.2
	-----	-----
TOTAL ASSETS	\$ 688.6	\$ 723.5
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
	\$ 77.1	\$ 89.2
LONG-TERM DEBT	70.0	70.0
POSTEMPLOYMENT BENEFIT LIABILITIES	65.7	70.5
OTHER LIABILITIES	57.1	56.2
SHAREHOLDERS' EQUITY		
Preferred Stock		
Class A - no par value		
Authorized - 500,000 shares; Issued - none	--	--
Class B - no par value		
Authorized - 4,000,000 shares; Issued - none	--	--
Common Shares - par value \$1 a share		
Authorized - 28,000,000 shares;		
Issued - 16,827,941 shares	16.8	16.8
Capital in excess of par value of shares	67.6	70.9
Retained income	500.4	513.2
Accumulated other comprehensive loss, net of tax	(4.5)	(4.3)
Cost of 5,774,592 Common Shares in treasury		
(1998 - 5,677,287 shares)	(159.5)	(155.9)
Unearned compensation	(2.1)	(3.1)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	418.7	437.6
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 688.6	\$ 723.5
	=====	=====

See notes to consolidated financial statements.

**CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES**

**STATEMENT OF CONSOLIDATED CASH FLOWS**

	(In Millions, Brackets Indicate Cash Decrease) Nine Months Ended September 30	
	1999	1998
	-----	-----
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (.2)	\$ 37.5
Depreciation and amortization:		
Consolidated	7.2	6.4
Share of associated companies	9.1	9.4
Provision for deferred income taxes	(1.1)	5.6
Other	2.1	(1.7)
	-----	-----
Total before changes in operating assets and liabilities	17.1	57.2
Changes in operating assets and liabilities	(71.7)	2.4
	-----	-----
Net cash from (used by) operating activities	(54.6)	59.6
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment:		
Consolidated	(12.2)	(18.8)
Share of associated companies	(4.0)	(8.1)
Investment in Cliffs and Associates Limited	(3.0)	(10.8)
Other	(5.6)	1.3
	-----	-----
Net cash (used by) investing activities	(24.8)	(36.4)
<b>FINANCING ACTIVITIES</b>		
Dividends	(12.6)	(12.1)
Repurchases of Common Shares	(5.2)	(11.5)
	-----	-----
Net cash (used by) financing activities	(17.8)	(23.6)
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS	(97.2)	(.4)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	130.3	115.9
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 33.1	\$ 115.5
	=====	=====

See notes to consolidated financial statements.

**CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

SEPTEMBER 30, 1999

**NOTE A - BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the financial statement footnotes and other information in the Company's 1998 Annual Report on Form 10-K. In management's opinion, the quarterly unaudited consolidated financial statements present fairly the Company's financial position and results in accordance with generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

References to the "Company" mean Cleveland-Cliffs Inc and consolidated subsidiaries, unless otherwise indicated. Quarterly results are not representative of annual results due to seasonal and other factors. Certain prior year amounts have been reclassified to conform to current year classifications.

**NOTE B - ACCOUNTING AND DISCLOSURE CHANGES**

In March, 1998, the Accounting Standards Executive Committee ("AcSEC") of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Adoption of the SOP in the first quarter of 1999 did not have a material impact on the Company's consolidated financial statements.

In April, 1998, AcSEC issued SOP 98-5, "Reporting on the Costs of Start-up Activities," which requires such costs to be expensed as incurred instead of being capitalized and amortized. Adoption of the SOP in the first quarter of 1999 did not have a material impact on the Company's consolidated financial statements.

## NOTE C - ENVIRONMENTAL RESERVES

At September 30, 1999, the Company had an environmental reserve, including its share of ventures, of \$21.1 million, of which \$1.8 million was classified as current. The reserve includes the Company's obligations related to Federal and State Superfund and Clean Water Act sites where the Company is named as a potentially responsible party, including Cliffs-Dow and Kipling sites in Michigan and the Rio Tinto mine site in Nevada, all of which sites are independent of the Company's iron mining operations. Reserves are based on Company estimates and engineering studies prepared by outside consultants engaged by the potentially responsible parties. The Company continues to evaluate the recommendations of the studies and other means for site clean-up. Significant site clean-up activities have taken place at Rio Tinto and Cliffs-Dow. Also included in the reserve are wholly-owned active and closed mining operations, and other sites, including former operations, for which reserves are based on the Company's estimated cost of investigation and remediation.

## NOTE D - COMPREHENSIVE INCOME

	(In Millions)			
	Third Quarter		First Nine Months	
	1999	1998	1999	1998
Net Income (Loss)	\$ (10.7)	\$ 20.1	\$ (.2)	\$ 37.5
Other Comprehensive Income - Unrealized (Loss) on Securities	(.6)	(1.9)	(.2)	(2.1)
Comprehensive Income (Loss)	\$ (11.3)	\$ 18.2	\$ (.4)	\$ 35.4
	=====	=====	=====	=====

## NOTE E - SEGMENT REPORTING

The Company has two reportable segments offering different iron products and services to the steel industry. Iron Ore is the Company's dominant segment. The Ferrous Metallics segment is in the development stage, consisting mainly of the hot briquetted iron venture project in Trinidad and Tobago. "Other" includes non-reportable segments, and unallocated corporate administrative and other income and expense.

	(In Millions)				
	Iron Ore	Ferrous Metallics	Segments Total	Other	Consolidated Total
Third Quarter 1999					
Sales and services to external customers	\$ 80.2	\$	\$ 80.2	\$	\$ 80.2
Royalties and management fees	10.3		10.3		10.3
Total operating revenues	90.5		90.5		90.5
	=====	=====	=====	=====	=====
Income (loss) before taxes	(10.4)	(2.9)	(13.3)	(3.2)	(16.5)
Equity (loss)*		(2.4)	(2.4)		(2.4)
Investments in equity method investees	151.3	77.9	229.2		229.2
Other identifiable assets	427.8	6.7	434.5	24.9	459.4
Total assets	579.1	84.6	663.7	24.9	688.6
	=====	=====	=====	=====	=====



(In Millions)

	Iron Ore	Ferrous Metallics	Segments Total	Other	Consolidated Total
Third Quarter 1998					
Sales and services to external customers	\$158.1	\$	\$158.1	\$	\$158.1
Royalties and management fees	15.5		15.5		15.5
<b>Total operating revenues</b>	<b>173.6</b>		<b>173.6</b>		<b>173.6</b>
Income (loss) before taxes	29.9	(1.2)	28.7	(1.5)	27.2
Equity (loss)*		(.4)	(.4)		(.4)
Investments in equity method investees	155.8	70.0	225.8		225.8
Other identifiable assets	462.7	.5	463.2	13.6	476.8
<b>Total assets</b>	<b>618.5</b>	<b>70.5</b>	<b>689.0</b>	<b>13.6</b>	<b>702.6</b>

(In Millions)

	Iron Ore	Ferrous Metallics	Segments Total	Other	Consolidated Total
First Nine Months 1999					
Sales and services to external customers	\$176.7	\$	\$176.7	\$	\$176.7
Royalties and management fees	33.0		33.0		33.0
<b>Total operating revenues</b>	<b>209.7</b>		<b>209.7</b>		<b>209.7</b>
Income (loss) before taxes	15.9	(8.2)	7.7	(9.9)	(2.2)
Equity (loss)*		(5.8)	(5.8)		(5.8)

(In Millions)

	Iron Ore	Ferrous Metallics	Segments Total	Other	Consolidated Total
First Nine Months 1998					
Sales and services to external customers	\$328.5	\$	\$328.5	\$	\$328.5
Royalties and management fees	36.8		36.8		36.8
<b>Total operating revenues</b>	<b>365.3</b>		<b>365.3</b>		<b>365.3</b>
Income (loss) before taxes	62.8	(3.7)	59.1	(8.4)	50.7
Equity (loss)*		(1.5)	(1.5)		(1.5)

\* Included in income (loss) before taxes.

**NOTE F - COST OF GOODS SOLD ADJUSTMENTS**

The third quarter and the first nine months of 1999 cost of goods sold and operating expenses include approximately \$25 million of fixed costs relating to production curtailments by the Company, which were undertaken to reduce inventory levels. This was partially offset by favorable adjustments, recorded mainly in the first quarter, of approximately \$7 million primarily related to recoveries of prior years' state taxes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OF FINANCIAL CONDITION AND

### RESULTS OF OPERATIONS

#### COMPARISON OF THIRD QUARTER AND FIRST NINE MONTHS - 1999 AND 1998

Net losses were \$10.7 million, or \$.96 per share (all per share results are "per diluted share" unless stated otherwise) in the third quarter, and \$.2 million, or \$.02 per share in the first nine months. In 1998, third quarter earnings were \$20.1 million, or \$1.78 per share, and first nine months earnings were \$37.5 million, or \$3.30 per share.

The \$30.8 million decrease in third quarter earnings and \$37.7 million decrease in nine month results were primarily due to production curtailments, which were undertaken to reduce inventory levels because of lower sales volume. Year-to-date sales volume in 1999 was adversely affected by the extended shutdown of a large customer's blast furnaces due to a power plant explosion and significant imports of unfairly traded steel. Included in third quarter and nine months cost of goods sold and operating expenses is approximately \$25 million of fixed costs related to the production curtailments. This was partially offset by favorable adjustments, recorded mainly in the first quarter, of \$7 million, primarily related to recoveries of prior years' state taxes. Lower price realization and reduced royalty and management fee income also contributed to the decrease in results.

Pellet sales in the third quarter of 1999 were 2.3 million tons versus 4.4 million tons in 1998. Pellet sales were 5.0 million tons in the first nine months, 4.0 million tons below 1998 nine-month sales of 9.0 million tons.

Costs of ferrous metallics activities, which are included in other expenses, were \$2.9 million in the third quarter and \$8.2 million in the first nine months. Comparable costs in 1998 were \$1.2 million in the third quarter and \$3.7 million in the first nine months. The 1999 costs include the Company's share of the start-up expenses of the joint venture plant in Trinidad and Tobago of \$2.4 million in the third quarter and \$5.8 million in the first nine months compared to \$.4 million and \$1.5 million in the third quarter and first nine months of 1998, respectively.

Interest expense increased in the third quarter and the first nine months of 1999 versus 1998 due to the absence of capitalized interest during construction of the hot briquetted iron plant in Trinidad and Tobago. "Mechanical completion" of the plant occurred on April 7, 1999. Interest income declined for the quarter and year-to-date compared to last year reflecting lower cash balances, resulting from higher product inventory levels.

Tax credits recorded in the third quarter and first nine months reflected the benefit of percentage depletion and other permanent tax differences.

## CASH FLOW AND LIQUIDITY

At September 30, 1999, the Company had cash and cash equivalents of \$33.1 million compared to \$130.3 million at December 31, 1998 and \$115.5 million at September 30, 1998. In the first nine months of 1999, cash and cash equivalents decreased \$97.2 million, primarily due to increased working capital, \$71.7 million, capital and project expenditures, \$24.8 million, dividends, \$12.6 million, and common share repurchases, \$5.2 million, partially offset by cash flow from operations, \$17.1 million. The \$71.7 million increase in working capital was primarily due to higher pellet inventory, \$68.4 million.

Pellet inventory, which was \$111.8 million at September 30, 1999, is expected to be reduced in the fourth quarter to a level comparable to year-end 1998.

## NORTH AMERICAN IRON ORE

Rouge Industries, Inc., a major customer of the Company, incurred an extended shutdown of its blast furnaces due to an explosion on February 1 at a power generating facility that supplies Rouge. The Company is pursuing a business interruption claim under its property insurance program, which would partially mitigate the earnings impact of lost pellet sales to Rouge.

As a result of the extended shutdown of Rouge and significant imports of unfairly traded steel, especially semi-finished steel, year-to-date sales volume was adversely affected. Full year 1999 sales are expected to be about 8.7 million tons as compared to the record sales of 12.1 million tons in 1998.

The Company's managed mines are expected to produce 36.6 million tons in 1999 as compared to 40.3 million tons in 1998. First nine months production in 1999 was 26.9 million tons down from 30.2 million tons in 1998, and third quarter production was 6.8 million tons in 1999 versus 10.8 million tons in 1998. The Company's share of 1999 production was 7.1 million tons through nine months and 1.4 million tons in the quarter versus 8.4 million tons and 3.0 million tons in the respective periods of 1998.

Pellet inventory increased substantially in the first half of the year pending the settlement of labor contracts on July 31. After the successful completion of labor negotiations, production curtailments were implemented for the second half of 1999. The schedule of production curtailments by mine was:

	Shutdown Date -----	Restart Date -----	Shutdown Days -----
Empire Mine	Sept. 3	Oct. 17	42
Hibbing Mine	Aug. 8	Sept. 11	34
Tilden Mine	Aug. 2	Oct. 17	75
Wabush Mines	Aug. 2	Sept. 5	34

In addition, the small pelletizing line at Northshore was taken down in mid-July and is not scheduled to return to production until the end of the year. Although production curtailments largely occurred in the third quarter, the Company has estimated that fourth quarter fixed costs related to curtailments will approximate \$10 million.

New five-year labor agreements between the United Steelworkers of America (USWA) and the Empire, Hibbing, and Tilden Mines were ratified by the union membership in August. The agreements, which were patterned after agreements negotiated earlier by major steel companies, provide employees with improvements in pensions, wages, and other benefits. The agreements also commit the mines and the union to jointly seek operating cost improvements. LTV Steel Mining Company, in separate negotiations, also entered into a new five-year pattern agreement with the USWA. The Wabush Mine in Canada settled on a new five-year contract in July.

Capital additions and replacements at the six mining ventures and supporting operations in North America are expected to total approximately \$52 million in 1999, with the Company's share approximately \$24 million (\$16 million through September 30). The Company's share of expenditures in the fourth quarter of 1999 is expected to total approximately \$8 million, which will be funded from current operations.

## **FERROUS METALLICS**

In the third quarter, Cliffs and Associates Limited (a joint venture with Company ownership of 46.5 percent) produced a modest quantity of hot briquetted iron at its plant in Trinidad and Tobago. While the plant has experienced numerous mechanical problems during the start-up process, the Company remains confident in the Circored(R) process technology and expects to have the plant operational by the end of 1999. The briquettes meet most of the expected quality specifications, including metallization of 93 percent. The Company expects that the plant will be able to produce at least 400,000 metric tons in 2000. The demand for ferrous metallics products, including CIRCAL(TM) briquettes, has improved primarily as a result of higher operating rates at steel plants utilizing electric arc furnaces.

Project capital expenditures through September 30, 1999 were \$157.2 million (Company share - \$73.1 million). The current estimate for total project capital expenditures of \$165 million (Company share - \$77 million) includes the settlement of disputed suppliers' claims, on which tentative agreements were reached in the third quarter.

## **STRATEGIC INVESTMENTS**

The Company is seeking additional investment opportunities, domestically and internationally, to broaden its scope as a supplier of iron units to the steel industry, including investments in iron ore mines or ferrous metallics facilities. In the normal course of business, the Company examines opportunities to increase profitability and strengthen its business position by evaluating various investment opportunities consistent with its business strategy. In the event of any future acquisitions or joint

venture opportunities, the Company may consider using available liquidity, incurring additional indebtedness, project financing, or other sources of funding to make investments.

## CAPITALIZATION

Long-term debt of the Company consists of \$70.0 million of senior unsecured notes payable to an insurance company group. The notes bear a fixed interest rate of 7.0 percent and are scheduled to be repaid on December 15, 2005. In addition to the senior unsecured notes, the Company has a \$100 million revolving credit agreement. No borrowings are outstanding under this agreement, which expires on May 31, 2003. The Company was in compliance with all financial covenants and restrictions of the agreements.

The fair value of the Company's long-term debt (which had a carrying value of \$70.0 million) at September 30, 1999, was estimated at \$65.0 million based on a discounted cash flow analysis and estimates of current borrowing rates.

In September, 1999, the Company announced the expansion of its share repurchase program to 2.0 million shares, an increase of 500,000 shares from its previous authorization. Under the program, the Company had repurchased 1,298,775 shares at a total cost of \$51.9 million at September 30, 1999.

Following is a summary of common shares outstanding:

	1999	1998	1997
	----	----	----
March 31	11,209,734	11,344,605	11,377,322
June 30	11,211,376	11,322,047	11,374,448
September 30	11,053,349	11,148,453	11,379,357
December 31		11,150,654	11,308,914

## YEAR 2000 TECHNOLOGY

Year 2000 compliance, a major business priority of the Company over the past two and one-half years, is near completion. The Company-wide Year 2000 Compliance Program ("Compliance Program") includes a dedicated team headed by a Project Executive, with representation from Internal Control, Information Technology, Process Control, and functional project leaders from the Company's ventures. Additionally, two outside engineering firms and one information technology service firm were utilized to support and assist in process control compliance activities. The status of the Compliance Program continues to be reported regularly to the Year 2000 Compliance Steering Committee, consisting of the Chief Executive Officer and other Officers of the Company, and to the Company's Board of Directors.

The Compliance Program was divided into five phases: 1) inventory, 2) assessment, 3) renovation, 4) unit testing, and 5) system integration testing. The inventory, assessment, renovation and unit testing phases were substantially completed in 1998. Renovation and unit testing of critical items (impacting production, safety or quality) are essentially complete with minor delays attributable to availability of manufacturers' support personnel and hardware/software upgrades. The percentage of completion of unit testing at operational locations ranges from 95 to 100 percent. System integration testing has been substantially completed for operating locations.

A substantial portion of Year 2000 information technology compliance has been achieved as a result of the Company's Information Technology Plan ("IT Plan"). The IT Plan, initiated in 1996, involved the implementation of a purchased, mining-based, Year 2000 compliant, software suite to replace legacy programs for operations and administrative mainframe systems servicing most domestic locations. In addition to avoiding Year 2000 problems, the IT Plan resulted in improved system and operating effectiveness. Implementation was achieved at the Michigan mines in the first quarter of 1999, and at the Minnesota mines in the second quarter of 1999. Implementation at the corporate office and central service locations was achieved in the third quarter of 1999. Year 2000 compliance of the new software suite is expected to be confirmed in the fourth quarter upon completion of system integration testing. The Company charged to operations current state assessment, process re-engineering, and training costs associated with the IT Plan.

For legacy programs and locations not included in the IT Plan, modifications and/or replacement of existing programs for achieving Year 2000 compliance were completed at a cost of \$1.1 million.

In addition to addressing software legacy program issues, the Compliance Program has addressed the impact of the date change on the Company's mainframe computer system, technical infrastructure, end user-computing, process control systems, environmental and safety monitoring, and security and access systems. Emphasis has been placed on those systems which affect production, quality or safety. The Company has completed internal audits at various operations to verify that progress is on schedule toward timely completion of the Compliance Program. The incremental expense of achieving Year 2000 compliance on systems not covered by the IT Plan and other software legacy programs is estimated to be \$4.4 million for the Company and its ventures.

Following is a summary of the Year 2000 total project compliance cost and project cost incurred to date:

	(In Millions)			
	September 30, 1999		Total Project	
	Company's Share	Total	Company's Share	Total
IT Plan:				
Capital	\$15.2	\$16.3	\$16.9*	\$18.0
Operating	1.7	5.9	2.0	7.0
Total IT Plan	16.9	22.2	18.9	25.0
Other**	1.7	4.3	2.2	5.5
Total	\$18.6	\$26.5	\$21.1	\$30.5

\* Includes amounts reimbursable by mining ventures of \$14.3 million.

\*\* Includes charges for legacy software not covered by the IT Plan, hardware, process control systems, environmental and safety monitoring, etc.

The Company has sent Year 2000 compliance questionnaires to 305 of its major suppliers and customers as part of the Year 2000 readiness program. Of these, 44 vendors have been identified as critical and on site assessments have been performed, with vendor assessments classified as "low risk" and the remaining vendors classified as "medium risk". Follow-up assessments for medium risk vendors are in progress.

Interruption of electrical power supplied to the Company's ventures has been identified as having the greatest potential adverse impact. Failure of electric power suppliers of the Company's mining ventures to become Year 2000 compliant could cause power interruptions resulting in significant production losses and potential equipment damage. The Company's wholly-owned Northshore and managed LTV Steel Mining Company mines are equipped with electric power generation facilities capable of providing nearly all of their power requirements.

The Company has developed specific contingency plans at each location to mitigate Year 2000 compliance failures of the Company or any of its key suppliers or customers. The contingency plans involve specific actions designed to maintain employee safety, production and quality. The contingency plans include a range of actions, including low technology or manual alternatives to current automated processes. Alternatives for key suppliers have been identified, and, where alternative suppliers do not exist, other actions (e.g., increased inventory) are planned. While focused on continuing production, by necessity the plans include procedures for reducing production or orderly temporary suspension of operations, if required to protect employees, property and the environment. Contingency plans, although considered complete, will continue to be refined throughout 1999, incorporating assessments of areas where risk is greatest.

The Company expects to be Year 2000 compliant; however, statements with regard to such expectations are subject to various risk factors which may materially affect the Company's Year 2000 compliance efforts. Risk factors include availability of trained personnel, ability to detect, locate and correct system codes, evaluation of the wide variety of IT software and hardware, failure of software vendors to deliver upgrades or make repairs as promised, and failure of key vendors to become compliant. Although the Company has taken actions that it believes are appropriate and reasonable to determine the readiness of third parties, it must in part rely on third party representations. The Company is attempting to reduce these risks and others by utilizing an organized approach, conducting audits and extensive testing, identifying alternative sources of supply, and other contingency plans.

## **FORWARD-LOOKING STATEMENTS**

The preceding discussion and analysis of the Company's operations, financial performance and results, as well as material included elsewhere in this report, includes statements not limited to historical facts. Such statements are "forward-looking statements" (as defined in the Private Securities Litigation Reform Act of 1995) that are subject to risks and uncertainties that could cause future results to differ materially from expected results. Such statements are based on management's beliefs and assumptions made on information currently available to it. Factors that could cause the Company's actual results to be materially different from the Company's expectations include the following:

- Changes in the financial condition of the Company's partners and/or customers. The potential financial failure of one or more significant customers or partners without mitigation could represent a significant adverse development;
- Unanticipated changes in the market value of steel, iron ore or ferrous metallics;
- Substantial changes in imports of steel, iron ore, or ferrous metallic products;
- Development of alternative steel-making technologies;
- Displacement of steel by competing materials;
- Displacement of North American integrated steel production and/or electric furnace production by imported semi-finished steel or pig iron;
- Domestic or international economic and political conditions;
- Major equipment failure, availability, and magnitude and duration of repairs;
- Unanticipated geological conditions or ore processing changes;



- Process difficulties, including the failure of new technology to perform as anticipated;
- Availability and cost of the key components of production (e.g., labor, electric power, fuel, water);
- Weather conditions (e.g., extreme winter weather, availability of process water due to drought);
- Timing and successful completion of construction projects;
- Failure or delay in achieving Year 2000 compliance by the Company or any of its key suppliers or customers;
- Changes in tax laws (e.g., percentage depletion allowance);
- Changes in laws, regulations or enforcement practices governing environmental site remediation requirements and the technology available to complete required remediation. Additionally, the impact of inflation, the identification and financial condition of other responsible parties, as well as the number of sites and quantity and type of material to be removed, may significantly affect estimated environmental remediation liabilities;
- Changes in laws, regulations or enforcement practices governing compliance with environmental and safety standards at operating locations; and,
- Accounting principle or policy changes by the Financial Accounting Standards Board or the Securities and Exchange Commission.

The Company is under no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**PART II - OTHER INFORMATION**

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) List of Exhibits - Refer to Exhibit Index on page 17.

(b) During the quarter for which this 10-Q Report is filed, the Company filed two Current Reports on Form 8-K, one dated August 1, 1999 and the other dated September 14, 1999, both covering information reported under ITEM 5. OTHER EVENTS. There were no financial statements filed as part of the Current Reports on Form 8-K.

**SIGNATURE**

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

**CLEVELAND-CLIFFS INC**

*Date*      *October 27, 1999*

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*By /s/ C. B. Bezik*

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*C. B. Bezik*  
*Senior Vice President-Finance and*  
*Principal Financial Officer*

## EXHIBIT INDEX

Exhibit Number -----	Exhibit -----	-----
27	Consolidated Financial Data Schedule submitted for Securities and Exchange Commission information only	-
99(a)	Cleveland-Cliffs Inc News Release published on October 20, 1999, with respect to third quarter 1999 loss	Filed Herewith

**ARTICLE 5**

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM STATEMENTS OF CONSOLIDATED INCOME, CONSOLIDATED FINANCIAL POSITION AND COMPUTATION OF EARNINGS PER SHARE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK: 0000764065

NAME: CLEVELAND CLIFFS INC

MULTIPLIER: 1,000,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	SEP 30 1999
CASH	33
SECURITIES	0
RECEIVABLES	47
ALLOWANCES	2
INVENTORY	127
CURRENT ASSETS	223
PP&E	222
DEPRECIATION	68
TOTAL ASSETS	689
CURRENT LIABILITIES	77
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	17
OTHER SE	401
TOTAL LIABILITY AND EQUITY	689
SALES	177
TOTAL REVENUES	215
CGS	191
TOTAL COSTS	203
OTHER EXPENSES	12
LOSS PROVISION	0
INTEREST EXPENSE	2
INCOME PRETAX	(2)
INCOME TAX	(2)
INCOME CONTINUING	0
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	0
EPS BASIC	(.02)
EPS DILUTED	(.02)

**NEWS RELEASE CLEVELAND-CLIFFS INC**

1100 Superior Avenue  
Cleveland, Ohio 44114-2589

**CLEVELAND-CLIFFS REPORTS**  
**THIRD QUARTER 1999 LOSS**

Cleveland, OH, October 20, 1999 - Cleveland-Cliffs Inc (NYSE:CLF) today reported a net loss of \$10.7 million, or \$.96 per diluted share, for the third quarter of 1999. In the third quarter of 1998, Cliffs recorded net income of \$20.1 million, or \$1.78 per diluted share. In the first nine months of 1999, the Company recorded a loss of \$.2 million, or \$.02 per diluted share, which compared with earnings of \$37.5 million, or \$3.30 per diluted share, in 1998.

The decreases in third quarter and nine-month results were primarily due to production curtailments, which were undertaken to reduce inventory levels because of lower sales volume. Year-to-date sales volume was adversely affected by the extended shutdown of Rouge Industries' blast furnaces due to a tragic power plant explosion and significant imports of unfairly traded steel, especially semi-finished steel. Cliffs' iron ore pellet sales in the third quarter of 1999 were 2.3 million tons versus 4.4 million tons in 1998, and for the first nine months of 1999 were 5.0 million tons compared to 9.0 million tons in 1998. Full year sales are expected to be about 8.7 million tons versus 12.1 million tons in 1998. Lower price realization and reduced royalty and management fee income also contributed to the decrease in results.

John S. Brinzo, Cliffs' president and chief executive officer said, "This was a difficult quarter for the Company as we took the necessary steps to reduce inventory by year-end to a more normal level. We allowed our pellet inventory to grow substantially pending the settlement of labor contracts on July 31. After successful labor negotiations, major production curtailments were scheduled in the second half of 1999. While the production curtailments largely occurred in the third quarter, production did not resume at the Empire and Tilden Mines in Michigan until earlier this week. The Hibbing and Wabush Mines both completed their five-week shutdowns in early September. The Company's wholly-owned Northshore Mine in Minnesota plans to keep its smallest pelletizing furnace down through the end of the year."

Commenting further, Brinzo said, "While we anticipate the fourth quarter to be only break-even to modestly profitable, we are encouraged by improving steel fundamentals in North America. We are taking aggressive actions in 1999 to better position Cliffs for 2000. Margins on pellet sales should improve in 2000 due to higher volumes and continued unit cost reduction. While we do not anticipate that year 2000 earnings will return to the 1998 level, we expect significantly improved earnings next year."

## **IRON ORE**

Iron ore pellet production at Cliffs-managed mines was 6.8 million tons in the third quarter of 1999 versus 10.8 million tons in the third quarter of 1998. Nine month production was 26.9 million tons, down from 30.2 million tons in 1998. Following is a summary of production tonnages by mine for the third quarter and first nine months of 1999 and 1998:

	(Tons in Millions)			
	Third Quarter		First Nine Months	
	1999	1998	1999	1998
Empire	1.4	2.1	5.4	6.1
Hibbing	1.0	2.1	4.8	5.9
LTV Steel Mining	1.8	1.9	5.3	5.5
Northshore	.8	1.0	3.0	3.2
Tilden	.8	2.1	4.6	5.0
Wabush	1.0	1.6	3.8	4.5
Total	6.8	10.8	26.9	30.2

Prior to initiating the cutbacks, 1999 was shaping up to be an excellent operating year for production and costs. Through July 31, production volume was 3 percent ahead of last year and unit operating costs were below 1998 costs. In 1998, the six mines managed by Cliffs implemented comprehensive cost reduction plans that were yielding encouraging results until the production cutbacks. Cost savings include maintenance planning programs, material purchasing initiatives, and research and engineering efforts. In addition, the installation of a Y2K compliant, enterprise-wide, software system was completed on time and on budget. The installation of the new system, which took about two years to complete, significantly upgraded information technology at the domestic operations and will also facilitate cost reduction efforts.

New five-year labor agreements between United Steelworkers of America (USWA) and the Empire, Hibbing, and Tilden Mines were ratified by the union membership in August. The agreements, which were patterned after agreements negotiated earlier by major steel companies, provide employees with improvements in pensions, wages, and other benefits. The agreements also commit the mines and the union to jointly seek operating cost improvements that will help reduce mine costs in a very competitive global iron ore market. LTV Steel Mining Company, in separate negotiations, also entered into a new five-year pattern agreement with the USWA. The Wabush Mine in Canada settled on a new five-year contract in July.

## **FERROUS METALLICS**

Third quarter and nine-month results were also adversely affected by on-going ferrous metallics activities. The pre-tax costs of ferrous metallics activities, which are included in other expenses, were \$2.9 million in the third quarter and \$8.2 million in the first nine months. Comparable costs in 1998 were \$1.2 million in the third quarter and \$3.7 million in the first nine months. The 1999 costs include Cliffs' share of the start-up expenses of the joint venture plant in Trinidad and Tobago, which were \$2.4 million in the quarter and \$5.8 million in the first nine months.

In commenting on ferrous metallics activities, Brinzo said, "Over the last several weeks, Cliffs and Associates Limited has produced a modest quantity of hot briquetted iron (HBI) at its plant in Trinidad and Tobago. The briquettes meet most of the quality specifications that were expected, including metallization of 93 percent. While the plant has experienced numerous mechanical problems during the start-up process, we remain confident in the Circored(R) process technology and expect to get the plant on track by the end of 1999. We expect to be able to produce at least 400,000 metric tons in 2000."

The demand for ferrous metallics products, including CIRCAL(TM) briquettes, has improved primarily as a result of high operating rates at steel plants utilizing electric arc furnaces. Ferrous metallics prices have been rising during 1999, with HBI currently selling in the range of \$100 to \$110 per metric ton at ports in the Gulf of Mexico.

\* \* \* \*

Cleveland-Cliffs is the largest supplier of iron ore products to the North American steel industry and is developing a significant ferrous metallics business. Subsidiaries of the Company manage six iron ore mines in North America and hold equity interests in five of the mines. Cliffs has a major iron ore reserve position in the United States, is a substantial iron ore merchant, and is beginning production of hot briquetted iron at a joint venture plant in Trinidad and Tobago.

This news release contains forward-looking statements regarding financial performance, pricing, sales volume, and operating levels, which could differ significantly from current expectations due to inherent risks such as lower demand for steel, iron ore, and ferrous metallics products, higher steel imports, processing difficulties, or other factors. Although the Company believes that its forward-looking statements are based on reasonable assumptions, such statements are subject to risks and uncertainties, which could cause actual results to differ materially. For further discussion of factors that could cause actual results to differ materially from those reflected in the forward looking statements, see the Company's Annual Report and reports on 10K and 10Q.

### **Contacts**

Media: David L. Gardner, (216) 694-5407

Financial Community: Fred B. Rice, (800) 214-0739 or (216) 694-5459

To obtain faxed copies of Cleveland-Cliffs Inc news releases dial (800) 778-3888. News releases and other information on the Company are available on the Internet at <http://www.cleveland-cliffs.com>

**CLEVELAND-CLIFFS INC**

**STATEMENT OF CONSOLIDATED INCOME**

(In Millions Except Per Share Amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
<b>REVENUES</b>				
Product sales and services	\$ 80.2	\$ 158.1	\$ 176.7	\$ 328.5
Royalties and management fees	10.3	15.5	33.0	36.8
Total Operating Revenues	90.5	173.6	209.7	365.3
Interest income	.5	1.5	2.4	3.7
Other income	.8	1.1	2.6	3.3
<b>TOTAL REVENUES</b>	91.8	176.2	214.7	372.3
<b>COSTS AND EXPENSES</b>				
Cost of goods sold and operating expenses	100.3	141.1	191.0	298.8
Administrative, selling and general expenses	3.3	3.4	11.2	13.0
Interest expense	1.2	.1	2.4	.4
Other expenses	3.5	4.4	12.3	9.4
<b>TOTAL COSTS AND EXPENSES</b>	108.3	149.0	216.9	321.6
INCOME (LOSS) BEFORE INCOME TAXES	(16.5)	27.2	(2.2)	50.7
INCOME TAXES (CREDIT)	(5.8)	7.1	(2.0)	13.2
NET INCOME (LOSS)	\$ (10.7)	\$ 20.1	\$ (.2)	\$ 37.5
NET INCOME (LOSS) PER COMMON SHARE				
Basic	\$ (.96)	\$ 1.80	\$ (.02)	\$ 3.33
Diluted	\$ (.96)	\$ 1.78	\$ (.02)	\$ 3.30
AVERAGE NUMBER OF SHARES				
Basic	11.1	11.2	11.2	11.3
Diluted	11.2	11.3	11.2	11.4



**CLEVELAND-CLIFFS INC**

**STATEMENT OF CONSOLIDATED CASH FLOWS**

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Millions, Brackets Indicate Decrease in Cash)	1999	1998	1999	1998
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	\$ (10.7)	\$ 20.1	\$ (.2)	\$ 37.5
Depreciation and amortization:				
Consolidated	2.8	2.1	7.2	6.4
Share of associated companies	2.6	3.1	9.1	9.4
Other	(.8)	3.6	1.0	3.9
	(6.1)	28.9	17.3	57.2
Total before changes in operating assets and liabilities				
Changes in operating assets and liabilities	32.3	45.1	(71.7)	2.4
	26.2	74.0	(54.6)	59.6
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment:				
Consolidated	(1.9)	(12.7)	(12.2)	(18.8)
Share of associated companies	(2.0)	(5.1)	(4.0)	(8.1)
Investment in Cliffs and Associates Limited			(3.0)	(10.8)
Other	(3.5)		(5.6)	1.3
	(7.4)	(17.8)	(24.8)	(36.4)
<b>FINANCING ACTIVITIES</b>				
Dividends	(4.2)	(4.1)	(12.6)	(12.1)
Repurchases of Common Shares	(5.2)	(8.3)	(5.2)	(11.5)
	(9.4)	(12.4)	(17.8)	(23.6)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 9.4</b>	<b>\$ 43.8</b>	<b>\$ (97.2)</b>	<b>\$ (.4)</b>
	=====	=====	=====	=====

**CLEVELAND-CLIFFS INC**

**STATEMENT OF CONSOLIDATED FINANCIAL POSITION**

	(In Millions)			
	Sept. 30, 1999	June 30, 1999	Dec. 31, 1998	Sept. 30, 1998
ASSETS				
-----				
CURRENT ASSETS				
Cash and cash equivalents	\$ 33.1	\$ 23.7	\$ 130.3	\$ 115.5
Accounts receivable - net	47.0	54.1	58.8	68.9
Inventories	126.6	158.6	59.6	54.7
Other	16.4	11.6	11.2	15.0
	-----	-----	-----	-----
TOTAL CURRENT ASSETS	223.1	248.0	259.9	254.1
PROPERTIES - NET	154.1	155.5	150.0	146.0
INVESTMENTS IN ASSOCIATED COMPANIES	229.2	231.3	235.4	225.8
OTHER ASSETS	82.2	80.5	78.2	76.7
	-----	-----	-----	-----
TOTAL ASSETS	\$ 688.6	\$ 715.3	\$ 723.5	\$ 702.6
	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY				
-----				
CURRENT LIABILITIES	\$ 77.1	\$ 79.6	\$ 89.2	\$ 87.0
LONG-TERM DEBT	70.0	70.0	70.0	70.0
POSTEMPLOYMENT BENEFIT LIABILITIES	65.7	68.2	70.5	69.8
OTHER LIABILITIES	57.1	57.8	56.2	55.1
SHAREHOLDERS' EQUITY	418.7	439.7	437.6	420.7
	-----	-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 688.6	\$ 715.3	\$ 723.5	\$ 702.6
	=====	=====	=====	=====

**UNAUDITED FINANCIAL STATEMENTS**

In management's opinion, the unaudited financial statements present fairly the company's financial position and results. All supplementary information required by generally accepted accounting principles for complete financial statements has not been included. For further information, please refer to the Company's latest Annual Report.