

# CLIFFS NATURAL RESOURCES INC.

## FORM 10-Q (Quarterly Report)

Filed 11/12/97 for the Period Ending 09/30/97

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

## FORM 10-Q (Quarterly Report)

Filed 11/12/1997 For Period Ending 9/30/1997

Address	1100 SUPERIOR AVE 18TH FLR CLEVELAND, Ohio 44114
Telephone	216-694-5700
CIK	0000764065
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PART I - FINANCIAL INFORMATION

CLEVELAND-CLIFFS INC

STATEMENT OF CONSOLIDATED INCOME

	(In Millions, Except Per Share Amounts)			
	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	1997	1996	1997	1996
<b>REVENUES:</b>				
Product sales and services	\$ 133.1	\$ 148.7	\$ 256.3	\$ 319.5
Royalties and management fees	13.7	15.0	34.4	37.6
Total operating revenues	146.8	163.7	290.7	357.1
Investment income (securities)	1.0	2.8	4.4	6.6
Recovery of excess closedown provision			4.3	
Property damage claim recovery				2.0
Other income	1.1	0.2	2.9	1.6
<b>TOTAL REVENUES</b>	<b>148.9</b>	<b>166.7</b>	<b>302.3</b>	<b>367.3</b>
<b>COSTS AND EXPENSES:</b>				
Cost of goods sold and operating expenses	118.3	126.6	235.4	279.5
Administrative, selling and general expenses	5.4	4.0	12.6	11.5
Interest expense	0.5	1.1	2.2	3.5
Other expenses	1.6	1.6	5.1	6.3
<b>TOTAL COSTS AND EXPENSES</b>	<b>125.8</b>	<b>133.3</b>	<b>255.3</b>	<b>300.8</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>23.1</b>	<b>33.4</b>	<b>47.0</b>	<b>66.5</b>
<b>INCOME TAXES</b>				
Currently payable	8.0	9.9	11.3	19.5
Deferred	(6.0)	2.2	(1.3)	4.3
<b>TOTAL INCOME TAXES</b>	<b>2.0</b>	<b>12.1</b>	<b>10.0</b>	<b>23.8</b>
<b>NET INCOME</b>	<b>\$ 21.1</b>	<b>\$ 21.3</b>	<b>\$ 37.0</b>	<b>\$ 42.7</b>
<b>NET INCOME PER COMMON SHARE</b>	<b>\$ 1.86</b>	<b>\$ 1.84</b>	<b>\$ 3.26</b>	<b>\$ 3.66</b>

See notes to financial statements

## CLEVELAND-CLIFFS INC

## STATEMENT OF CONSOLIDATED FINANCIAL POSITION

	(In Millions)	
ASSETS	September 30, 1997	December 31, 1996
-----	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 86.4	\$ 165.4
Marketable securities		4.0
	-----	-----
	86.4	169.4
Accounts receivable - net	71.8	70.2
Inventories:		
Finished products	63.6	28.7
Work in process	0.9	0.9
Supplies	13.9	15.4
	-----	-----
	78.4	45.0
Federal income taxes	4.8	4.4
Other	9.7	11.8
	-----	-----
TOTAL CURRENT ASSETS	251.1	300.8
PROPERTIES	277.0	269.3
Less allowances for depreciation and depletion	(143.2)	(141.6)
	-----	-----
TOTAL PROPERTIES	133.8	127.7
INVESTMENTS IN ASSOCIATED COMPANIES	209.4	161.9
OTHER ASSETS		
Long-term investments	10.7	10.8
Deferred income taxes	12.6	11.9
Prepaid pensions	39.8	34.8
Other	23.2	25.8
	-----	-----
TOTAL OTHER ASSETS	86.3	83.3
	-----	-----
TOTAL ASSETS	\$ 680.6	\$ 673.7
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
-----		
CURRENT LIABILITIES	\$ 90.2	\$ 105.5
LONG-TERM OBLIGATIONS	70.0	70.0
POSTEMPLOYMENT BENEFIT LIABILITIES	70.4	67.5
RESERVE FOR CAPACITY RATIONALIZATION	6.0	15.5
OTHER LIABILITIES	47.3	44.6
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	16.8	16.8
Issued - 16,827,941 shares		
Capital in excess of par value of shares	69.1	68.8
Retained income	457.9	432.0
Foreign currency translation adjustments	0.1	0.1
Net unrealized gain (loss) on marketable securities	(0.5)	(1.0)
Cost of 5,448,584 Common Shares in treasury		
(1996 - 5,458,224)	(143.1)	(142.5)
Unearned Compensation	(3.6)	(3.6)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	396.7	370.6
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 680.6	\$ 673.7
	=====	=====

See notes to financial statements

## CLEVELAND-CLIFFS INC

## STATEMENT OF CONSOLIDATED CASH FLOWS

	Increase (Decrease) in Cash and Cash Equivalents for Nine Months Ended September 30, (In Millions)	
	1997	1996
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 37.0	\$ 42.7
Depreciation and amortization:		
Consolidated	5.2	4.8
Share of associated companies	9.1	8.3
Provision for deferred income taxes	9.2	4.3
Tax credit	(5.6)	--
Increase (decrease) in capacity rationalization reserve	(14.3)	2.5
Other	1.2	3.6
	-----	-----
Total Before Changes in Operating Assets and Liabilities	41.8	66.2
Changes in operating assets and liabilities	(51.1)	(7.6)
	-----	-----
NET CASH FROM (USED BY) OPERATING ACTIVITIES	(9.3)	58.6
INVESTMENT ACTIVITIES		
Capital expenditures:		
Consolidated	(11.0)	(6.3)
Share of associated companies	(35.7)	(14.0)
Purchase of Wabush interest	(15.0)	--
Other	4.8	(4.0)
	-----	-----
NET CASH USED BY INVESTMENT ACTIVITIES	(56.9)	(24.3)
FINANCING ACTIVITIES		
Dividends	(11.1)	(11.4)
Repurchases of common shares	(1.7)	(19.5)
	-----	-----
NET CASH USED BY FINANCING ACTIVITIES	(12.8)	(30.9)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	0.1
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(79.0)	3.5
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	165.4	148.8
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 86.4	\$ 152.3
	=====	=====
Income taxes paid	\$ 15.2	\$ 11.4
Interest paid on debt obligations	\$ 2.5	\$ 2.4

See notes to financial statements

**CLEVELAND-CLIFFS INC**

**NOTES TO FINANCIAL STATEMENTS**

SEPTEMBER 30, 1997

**NOTE A - BASIS OF PRESENTATION**

The accompanying unaudited 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 1996 Annual Report on Form 10-K. In management's opinion, the quarterly unaudited 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 necessarily 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 February, 1997, the Financial Accounting Standards Board ("FASB") issued Statement 128, "Earnings per Share", which simplifies the standards for computing earnings per share and makes them comparable to international standards. Under the new requirements, basic earnings per share is expected to approximate currently reported earnings per share and the impact of the diluted earnings per share calculation is not expected to be material under the Company's present capital structure. This Statement is effective for years ending after December 15, 1997. Early application is not permitted.

In February, 1997, the FASB issued Statement 129, "Disclosure of Information about Capital Structure," which is effective for years ending after December 15, 1997. It contains no change in disclosure requirements for the Company.

In June, 1997, the FASB issued Statement 130, "Reporting Comprehensive Income," which establishes standards for the reporting and display of comprehensive income and its components in a full set of financial statements. The standard is effective for years beginning after December 15, 1997. Management is evaluating the disclosure alternatives.

In June, 1997, the FASB issued Statement 131, "Disclosures About Segments of an Enterprise and Related Information." This Statement changes the way that segment information is reported in annual and interim financial statements. It is effective for years beginning after December 15, 1997. Management is evaluating the disclosure requirements.

In October, 1996, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 96-1, "Environmental Remediation Liabilities," the purpose of which is to improve the manner in which existing authoritative accounting literature is applied in recognizing, measuring and disclosing environmental remediation liabilities. The Company's adoption of this statement in the first quarter of 1997 did not have a significant effect on recorded earnings.

#### **NOTE C - ACCOUNTING POLICY CHANGE**

In June, 1997, the Company redefined its accounting policy for cash equivalents to include highly liquid debt instruments with a put option. Included in cash equivalents at September 30, 1997 are \$1.1 million (\$12.3 million at December 31, 1996 - reclassified) variable rate demand notes. These investments are revalued every seven days and can be put with seven days notice. The notes are guaranteed by letters of credit from highly rated financial institutions. The carrying value of these instruments approximates fair value on the reporting dates.

The new accounting policy is, "The Company considers investments in highly liquid debt instruments with a put option exercisable in three months or less or an initial maturity of three months or less to be cash equivalents."

#### **NOTE D - ENVIRONMENTAL RESERVES**

The Company has a formal code of environmental conduct which promotes environmental protection and restoration. The Company's obligations for known environmental problems at active mining operations, idle and closed mining operations, and other sites have been recognized based on estimates of the cost of investigation and remediation at each site. If the cost can only be estimated as a range of possible amounts with no specific amount being most likely, the minimum of the range is accrued in accordance with generally accepted accounting principles. Estimates may change as additional information becomes available. Actual costs incurred may vary from the estimates due to the inherent uncertainties involved. Any potential insurance recoveries have not been reflected in the determination of the financial reserves.

At September 30, 1997, the Company has an environmental reserve, including its share of the environmental obligations of associated companies, of \$23.4 million, of which \$2.8 million is 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. The reserves are based on 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.
  
- Wholly-owned active and idle operations, including Northshore mine and Silver Bay power plant in Minnesota. The Northshore/Silver Bay reserve is based on an environmental investigation conducted by the Company and an outside consultant.



- Other sites, including former operations, for which reserves are based on the Company's estimated cost of investigation and remediation of sites where expenditures may be incurred.

#### **NOTE E - SAVAGE RIVER MINE CLOSEDOWN OBLIGATIONS**

The remaining assets of Savage River Mines and all related environmental and rehabilitation obligations were transferred to the Tasmanian government on March 25, 1997. As a result of completion of the transaction, the Company recorded a \$2.8 million after-tax (\$4.3 million pre-tax) credit in the second quarter 1997 from recognition of actual Savage River Mines closedown obligations being less than the accrual.

#### **NOTE F - WABUSH INVESTMENT**

On June 30, 1997, the Company completed its previously announced acquisition of Inland Steel Company's 15.1 percent interest in the Wabush Mines iron ore joint venture in Canada for \$15 million, effective January 1, 1997. The acquisition raises the Company's interest in the Company-managed venture to 22.8 percent. Depending on the magnitude of future tonnage, additional payments to Inland may be required, but would not be expected to be material in any year.

Separately, the Company revised existing sales arrangements with Inland to supply Inland's pellet requirements beyond its 40 percent ownership in the Company-managed Empire Mine in Michigan and Inland's wholly-owned Minorca Mine in Minnesota. Sales to Inland under this new 10-year contract are expected to range between 800,000 and 900,000 tons in 1997.

#### **NOTE G - INCOME TAXES**

A reversal of prior years' tax accruals of \$5.6 million was recorded in the third quarter of 1997 as a result of settlement of issues raised during examination of the Company's Federal income tax returns for the tax years 1991 and 1992.

#### **NOTE H - STOCK PLANS**

The 1992 Incentive Equity Plan was amended in May, 1997 to authorize the Company to issue up to 1,150,000 Common Shares (previously 595,000 common shares) upon the exercise of Option Rights, as Restricted Shares, in payment of Performance Shares or Performance Units that have been earned, as Deferred Shares, or in payment of dividend equivalents paid with respect to awards made under the Plan.

Under the terms of the 1987 Incentive Equity Plan, effective April, 1997, no further grants or awards may be made from this Plan.

#### **NOTE I - SHAREHOLDERS' EQUITY**

In May, 1997, the Company's program to repurchase common shares in the open market or in negotiated transactions was increased to 1,500,000 common shares from the previous authorization of 1,000,000 common shares.

On September 9, 1997, the Company announced the adoption of a new share purchase rights ("Rights") plan, which became effective on September 19, 1997. Each Right entitles the holder to acquire the Company's stock at a discounted price if a person or group acquires 20 percent or more of the Company's common stock and, under certain circumstances, the Rights will entitle the holder to buy shares in an acquiring entity at a discounted price. The Rights will expire September 19, 2007, unless redeemed, exchanged or amended by the Directors.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**RESULTS OF OPERATIONS**

**COMPARISON OF THIRD QUARTER AND FIRST NINE MONTHS - 1997 AND 1996**

Earnings for the third quarter were \$21.1 million, or \$1.86 per share, including a \$5.6 million tax credit resulting from the settlement of prior years' tax issues. Excluding the special tax credit, earnings were \$15.5 million, or \$1.37 per share, compared with 1996 third quarter earnings of \$21.3 million, or \$1.84 per share.

The \$5.8 million decrease in third quarter earnings, excluding the special tax credit, was principally due to the termination of Savage River Mine operations in Australia in March, 1997, and higher North American mine operating costs. Pre-tax earnings from Savage River were \$4.9 million in the third quarter of 1996.

Net income for the first nine months of 1997 was \$37.0 million, or \$3.26 per share. Nine-month earnings included the \$5.6 million special tax credit recorded in the third quarter and an after-tax credit of \$2.8 million resulting from the second quarter reversal of an excess accrual for Savage River closedown obligations recorded in prior years. In the first nine months of 1996, earnings were \$42.7 million, or \$3.66 per share, including a \$1.3 million after-tax property damage insurance recovery on a 1996 ore train derailment.

Excluding the special items in both years, 1997 nine-month earnings were \$28.6 million, or \$2.52 per share, compared with \$41.4 million, or \$3.55 per share, in 1996.

Following is a summary of results:

	(In Millions, Except Per Share)			
	Third Quarter		Nine Months	
	1997	1996	1997	1996
Income Before Special Items:				
Amount	\$15.5	\$21.3	\$28.6	\$41.4
Per Share	1.37	1.84	2.52	3.55
Special Items:				
Amount	5.6	--	8.4	1.3
Per Share	.49	--	.74	.11
Net Income:				
Amount	21.1	21.3	37.0	42.7
Per Share	1.86	1.84	3.26	3.66

The \$12.8 million decrease in nine-month earnings before special items was mainly due to the Savage River termination, lower North American sales volume, and higher mine operating costs.

\*\*\*

The Company's North American iron ore pellet sales in the third quarter of 1997 were 3.5 million tons compared with 3.8 million tons in 1996. Nine-month sales were 6.6 million tons versus 7.7 million tons in 1996.

The Company's managed mines in North America produced 10.0 million tons of pellets in the third quarter of 1997 compared with 10.6 million tons in 1996. Nine-month production was 29.2 million tons in 1997 versus 29.4 million tons in 1996. Third quarter and nine-month 1997 production volumes were impacted by a six-week (June 25 to August 1) shutdown at the Tilden Mine to accommodate a 1.0 million ton reduction of 1997 production requirements of the Company and its Tilden partners, Algoma Steel Inc. and Stelco Inc.

## **LIQUIDITY**

At September 30, 1997, the Company had cash and short-term marketable securities of \$86.4 million. Since December 31, 1996, cash and marketable securities have decreased \$83.0 million, primarily due to project investments and capital expenditures, \$61.7 million (including investment in a reduced iron joint venture in Trinidad and Tobago, \$32.2 million, and the Wabush Mines investment, \$15.0 million), increased working capital, \$51.1 million, payments associated with closing Savage River Mines and transferring related assets and liabilities, \$11.6 million, dividends, \$11.1 million, and repurchases of common shares, \$1.7 million, partially offset by cash flow from operations, \$53.4 million.

Iron ore pellet inventory of 2.3 million tons at September 30, 1997 exceeds the inventory level at the same time last year by 1.0 million tons. Product inventories of \$63.6 million at September 30, 1997 have increased by \$34.9 million during the year and are \$21.1 million above the level at the same time last year. Product inventories are expected to approximate 1.5 million tons at year-end 1997.

Capital additions and replacements at the Company and the six Company- managed mines in North America are projected to total approximately \$63 million in 1997. The Company's share of such 1997 expenditures is expected to approximate \$23 million.

In 1996, the Company announced an international joint venture (with LTV Corporation and Lurgi AG of Germany), located in Trinidad and Tobago, to produce and market premium quality reduced iron briquettes to the steel industry. All definitive project documents were subsequently signed on May 8, 1996. The Company's share of capital expenditures is estimated to be \$76 million, of which \$38 million has been spent through September 30, 1997, and \$12 million is expected to be spent in the remainder of 1997. No project financing will be used. While some construction difficulties are being experienced, the planned fourth quarter 1998 start-up date is still intact.

Cliffs and Associates Limited, the venture company, has entered into forward currency exchange contracts to hedge the Deutsche Mark as part of the construction project. The purpose of the contracts is to manage the risk of exchange rate fluctuation with respect to a portion of project construction costs denominated in the Deutsche Mark. The Company's share of outstanding contracts, which have varying maturity dates to June 1, 1998, have an aggregate contract value of \$3.8 million and an aggregate estimated fair value of \$3.2 million at September 30, 1997.

The Company anticipates further investment in reduced iron projects.

Under the Company's program to repurchase up to 1,500,000 of its common shares (increased from 1,000,000 common shares in May, 1997) in the open market or in negotiated transactions, the Company has repurchased 821,900 shares through November 6, 1997, at a total cost of \$32.0 million.

The UMWA Combined Benefit Fund and the UMWA 1992 Benefit Plan have assigned responsibility to the Company for premium payments with respect to retirees, dependents, and "orphans" (unassigned beneficiaries) under the Coal Industry Retiree Health Benefit Act of 1992. The Company is making premium payments under protest and is contesting the assignments that it believes are incorrect. At September 30, 1997, the Company's coal retiree reserve was \$10.2 million, of which \$.9 million is expected to be paid in 1997 (\$1.3 million to be spent, less \$.4 million received in April, 1997 as a refund of contested premiums).

In the third quarter, the Company and the Internal Revenue Service reached agreement settling issues raised during the examination of the Company's Federal income tax returns for the tax years 1991 and 1992. As a result of the settlement and its related impact on the tax years 1993 through 1995, the Company made additional tax and interest payments of \$3.3 million in the third quarter of 1997 and is entitled to tax and interest refunds of \$.8 million. Additional cash benefits of the tax settlement will be realized for tax years 1996 and thereafter. A reversal of prior years' tax accruals of \$5.6 million was recorded in the third quarter of 1997.

## **CAPITALIZATION**

The Company has \$70.0 million of senior unsecured notes outstanding with a group of private investors. The notes which have a fixed interest rate of 7.0 percent are due in December, 2005. In addition, the Company has a \$100 million revolving credit agreement. No borrowings are outstanding under this agreement which expires March 1, 2002. 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, 1997 was estimated at \$69.1 million based on a discounted cash flow analysis and estimates of current borrowing rates.

Following is a summary of common shares outstanding:

	1997 -----	1996 -----	1995 -----
March 31	11,377,322	11,832,767	12,031,392
June 30	11,374,448	11,614,517	11,892,092
September 30	11,379,357	11,367,717	11,898,467
December 31		11,369,717	11,829,267

## **AUSTRALIAN OPERATIONS**

On March 25, 1997, the remaining assets (including \$8.6 million in cash) of Savage River Mines and all related environmental and rehabilitation obligations were transferred to the Tasmanian government. The release from these obligations includes not only release from previously identified environmental and rehabilitation obligations but also release from any such obligations that may be asserted in the future, whether presently known or unknown.

Estimated costs associated with the planned closure of Savage River Mines, including estimates of previously agreed environmental and rehabilitation obligations, had been fully provided for in the Capacity Rationalization Reserve. In light of the completion of the transaction with the Tasmanian government, the Company has recorded a \$2.8 million after-tax (\$4.3 million pre-tax) credit in the second quarter 1997 resulting from reversal of an excess accrual for Savage River Mines closedown obligations.

## **OTHER DEVELOPMENTS**

On June 30, 1997, the Company completed its previously announced acquisition of Inland Steel Company's 15.1 percent interest in the Wabush Mine in Canada, retroactive to January 1, 1997. The acquisition, which adds 900,000 tons to the Company's share of production capacity, raises the Company's total sales capacity in North America to 11.5 million tons and provides increased access to international markets.

Separately, the Company revised existing sales arrangements with Inland to supply Inland's pellet requirements beyond its 40 percent ownership in the Company-managed Empire Mine in Michigan and Inland's wholly-owned Minorca Mine in Minnesota. Sales to Inland under this new 10-year contract are expected to range between 800,000 and 900,000 tons in 1997.

## **IRON ORE OUTLOOK**

Steel producers in the U.S. and Canada continue to realize strong steel demand from nearly all markets, and steel inventories at producers and service centers are low by historical measures.

Industry analysts generally expect steel production and shipment volumes to remain strong in 1998, with operating rates declining slightly as new minimill production capacity and restarted Wheeling-Pittsburgh operations increase steel supplies. Steel imports, which have remained at stubbornly high levels throughout 1997, are expected by analysts to decline in 1998 as steel prices in North America weaken due to the added capacity.

The six North American mines managed by the Company are expected to produce 39.5 million tons of iron ore pellets in the year 1997, a slight decrease from the 39.9 million tons produced in 1996. The Company's share of expected production is 10.9 million tons in 1997 versus 10.4 million tons in 1996, which reflects the Company's increased equity interest in the Wabush Mine in Canada, partly offset by the production cutback at Tilden.

The Company's North American iron ore pellet sales for the full year 1997 are expected to approximate 10.4 million tons, which is unchanged from the Company's previous expectation but trails 1996 record sales of 11.0 million tons. Lower sales in 1997 are primarily due to certain customers reducing purchases to correct inventories.

Based on the projected steel industry operating rates in 1998, we expect our 1998 sales volume to increase over 1997 as the reductions experienced in customer requirements in 1997 are not expected to repeat. We are also encouraged by improved mine operating results in recent months.

## **BUSINESS RISK**

The North American integrated steel industry has continued to experience relatively high operating rates in 1997 and recent years. Although steel prices have been volatile and subject to intense competition, most steel company partners and customers of the Company have improved their financial condition during the current extended general business expansion. However, the integrated steel industry continues to have relatively high fixed costs and obligations, including substantial "legacy" costs.

The improvement in most integrated steel companies' financial positions has reduced the major business risk faced by the Company, i.e., the potential financial failure and shutdown of one or more of its significant customers or partners, with the resulting loss of ore sales or royalty and management fee income. However, if any such shutdown were to occur without full mitigation through replacement sales or cost reduction, it would represent a significant adverse financial development to the Company.

### **FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. In addition to historical information, this report contains forward-looking statements that are subject to risks and uncertainties which 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.

The Company's dominant business is the production and sale of iron ore pellets, which is subject to the cyclical nature of the integrated steel industry. Factors that could cause the Company's actual results to be materially different from projected results include the following:

- Changes in the financial condition of integrated steel company partners and customers;
- Domestic or international economic and political conditions;
- Unanticipated geological conditions or ore processing changes;
- Changes in imports of steel or iron ore;
- Development of alternative steel-making technologies;
- Displacement of integrated steel production by electric furnace production;
- Displacement of steel by competitive materials;
- Energy costs and availability;
- Labor contract negotiations;
- Changes in individual customers' iron ore requirements;
- Changes in tax laws affecting corporate income and deductions;
- Changes in laws, regulations or enforcement practices governing environmental site remediation requirements and safety standards; and
- Accounting principles or policies imposed 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 5. Other Information**

Mr. M. Thomas Moore retired as Chairman, President and Chief Executive Officer of the Company, effective November 9, 1997. Mr. Moore remains a Director of the Company. Mr. John S. Brinzo became President and Chief Executive Officer, and a Director of the Company and Mr. John C. Morley became non-executive Chairman of the Board of the Company, effective November 10, 1997.

### **Item 6. Exhibits and Reports on Form 8-K**

(a) List of Exhibits - Refer to Exhibit Index on page 15.

(b) During the quarter for which this 10-Q Report is filed, the Company filed a Current Report on Form 8-K, dated September 19, 1997, covering information reported under ITEM 5. OTHER EVENTS. There were no financial statements filed as part of the Current Report 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 November 12, 1997*

*By /s/ C. B. Bezik*

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



EXHIBIT INDEX  
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Exhibit Number -----	Exhibit -----	-----
11	Statement re computation of earnings per share	Filed Herewith
27	Consolidated Financial Data Schedule submitted for Securities and Exchange Commission information only	

## CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

	(In Millions, Except Per Share Amounts) Nine Months Ended September 30	
	----- 1997 ----	----- 1996 ----
Primary and fully diluted earnings per share:		
Average shares outstanding	11.4	11.7
Net effect of dilutive stock options and performance shares based on treasury stock method using average market price	-- ----	-- ----
Average shares and equivalents	11.4 ====	11.7 ====
Net income applicable to average share and equivalents	\$37.0 =====	\$42.7 =====
Income per share	\$3.26 =====	\$3.66 =====

**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 1997
PERIOD START	JAN 01 1997
PERIOD END	SEP 30 1997
CASH	86
SECURITIES	0
RECEIVABLES	72
ALLOWANCES	1
INVENTORY	78
CURRENT ASSETS	251
PP&E	277
DEPRECIATION	143
TOTAL ASSETS	681
CURRENT LIABILITIES	90
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	17
OTHER SE	380
TOTAL LIABILITY AND EQUITY	681
SALES	256
TOTAL REVENUES	302
CGS	235
TOTAL COSTS	248
OTHER EXPENSES	5
LOSS PROVISION	0
INTEREST EXPENSE	2
INCOME PRETAX	47
INCOME TAX	10
INCOME CONTINUING	37
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	37
EPS PRIMARY	3.26
EPS DILUTED	0

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