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currently delivered to each customer is based on that customer's preferences, which depend in part on the characteristics of the customer's blast furnace, in general our iron ore pellets can be used interchangeably with other iron ore pellets.



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and scientists and is organized to support the geological interpretation, process mineralogy, mine engineering, mineral processing, pyrometallurgy, advanced process control and analytical service disciplines. Our research and development group is also routioaretation,









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and/or to customers' facilities prior to the transfer of title has somewhat mitigated the seasonal effect on first quarter inventories and sales.

In 2004, 83 percent of our product revenues (79 percent in 2003) were from our subsidiaries as compared to 71 percent in 2002. This is due to the fact that we have expanded our distribution network in several key markets and have increased our sales volume in these markets. In addition, we have entered into several strategic alliances and joint ventures that have allowed us to expand our market reach and increase our sales volume. As a result, our sales have increased significantly over the past several years, and we expect this trend to continue in the future.


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pro rata; however, provisions in the partnership agreement allow additional or reduced production to be delivered under ce#











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(5) As to the assets of Everth Mines were purchased



The iron ore industry has been identified by the Environmental Protection Agency (the "EPA") as an industrial category that emits pollutants established by the 1990 Clean Air Act Amendments. These pollutants included over 200 substances that are now classified as hazardous air pollutants ("HAP"). The EPA is required to develop rules that would require major





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Midpass Power, Inc. will increase its solar power capacity for backup power, and sells 40 megawatts of excess power capacity back to the grid.





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under the law for illnesses allegedly suffered as the result of exposure to airborne asbestos fibers while serving in the military for the Department of Defense. The law provides that the Department of Defense is responsible for the care and treatment of these veterans and their families.



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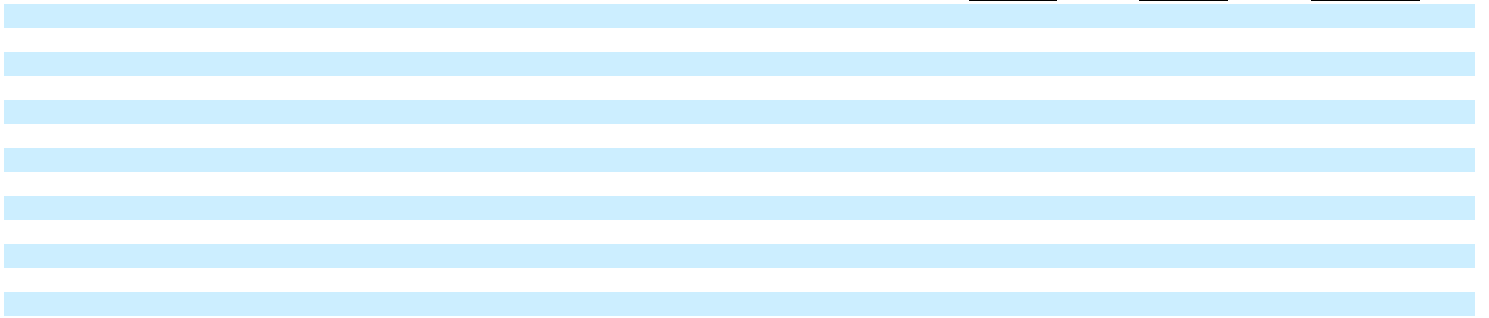
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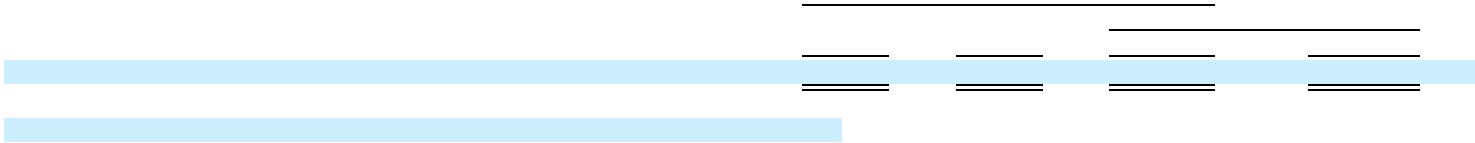


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### *Impairment of Mining Assets*

In 2004 and 2003, the Company recorded additional Empire impairment charges of \$5.8 million and \$2.6 million, respectively, for current years' fixed asset additions. Empire's long-lived assets were impaired in 2002. Approximately \$2.2 million of the 2004 Empire fixed asset additions were related to an increase in the asset retirement obligation reflecting a one year decrease in the estimated mine life due to a change in annual production levels.

### *Administrative, Selling and General Expenses*

Administrative, selling and general expenses in 2004 were \$33.1 million, an increase of \$8.0 million from 2003. The increase pr

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sales volume and higher production costs. The production cost increase reflected higher energy rates, increased pension and medical costs, throughput difficulties at the Michigan mines, an equipment outage at the Tilden operations in Michigan in December 2003, and the impact of the decreased U.S. exchange rate with Canada.

Increased energy rates resulted in an approximate \$17 million aggregate increase in costs in 2003 versus 2002. Similarly, increases in pension expense (excluding restructuring charges) per ton of production accounted for a cost increase in 2003 versus 2002 of more than \$8 million, and higher medical costs (including OPEB increases) per ton of production contributed almost \$5 million to the cost increase. The pension and OPEB increases are net of approximately \$7 million of non-re

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\*\* Increase represents a combination of contractual base price increase, lag year adjustments and capped pricing on one contract.

One of the Company's term supply agreements contains price collars, which limits the percentage se, lag







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*Wabush Mines*

In August 2002, Acme Steel Company, a wholly-owned subsidiary of Acme Metals Incorporated, which had been under chapter 11 bankruptcy protection since 1998, rejected its 15.1 percent interest in Wabush. As a result, the Company's interest increased to 26.83 percent. Acme had discontinued funding its Wabush obligations



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Kobe Steel's technology for converting iron ore into nearly pure iron in nugget form, was completed in May 2003. The high-iron-content product could be utilized to replace steel scrap as a raw material for electric steel furnaces and



## [Table of Contents](#)

### **Strategic Investments**

The Company intends to continue to pursue investment and management opportunities to broaden its scope as a supplier of iron ore pellets to the integrated steel industry through the acquisition of additional mining interests to strengthen its market position. The Company is particularly focused on expanding its international investments to leverage its expertise in mining and processing iron ore to capitalize on gl

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consumed in the customer's blast furnaces. The Company estimates these amounts for recognition at the time of sale. The Company's 2004 revenues included \$6.6 million of supplemental revenue on 2004 sales based on estimates of the customer's 2005 steel pricing.

Our rationale for delivering iron ore products to customers in advance of payment for the products is to more closely relate timing of payment by customers to consumption, which also provides additional liquidity to our customers. Title and risk of loss do not pass to the customer until payment for the pellets is received.

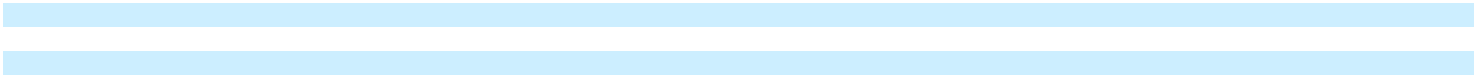


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would also have a significant impact on the recorded ob



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minimum level. Reduced demand for and consumption of iron ore products by North American integrated steel producers have had and may i ma



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*If North American steelmakers use methods other than blast furnace production to produce steel, or if their blast furnaces shut down or otherwise reduce production, the demand for our ~~iron and steel products~~ **iron and steel products** will reduce*

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competition. As a result, we may face pressures on sales prices and volumes of our products from competitors and large customers.

*Our sales and competitive position depend on our ability to transport our products to our customers at competitive rates and in a timely manner.*

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estimates, and if such variances are material, our sales and



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we have gained greater control of the mines we operate, we have also increased our share of the operating vein<sup>g</sup>





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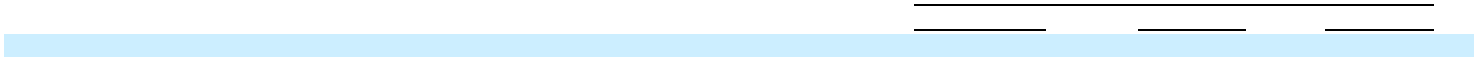
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**Cleveland-Cliffs Inc and Consolidated Subsidiaries**

Notes to Consolidated Financial Statements

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Cleveland-Cliffs Inc and Consolidated Subsidiaries

Notes to Consolidated Financial Statements — (Continued)

Our rationale for delivering iron ore products to customers in advance of payment for the products is to more closely relate timing of payment by customers to consumption, thereby providing additional liquidity to our customers. Title and risk of loss do not pass to the customer until payment for the pellets is received. This is a revenue recognition practice utilized to reduce our financial risk to customer insolvency. This practice is not believed to be widely used throughout the balance of the industry.

Revenue is recognized on the sale of services when the services are performed.

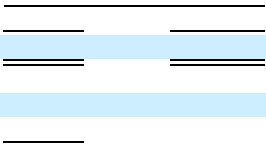
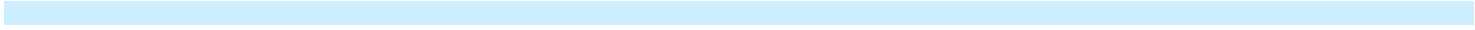
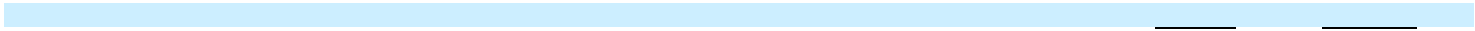
Where we are joint venture participants in the ownership of a mine, our contracts entitle us to receive royalties and management fees, which we earn as the pellets are produced.

**Business Risk:** The major business risk faced by the Company, as it increases its merchant position, is lower customer consumption of iron ore from the Company's mines, which may result from competition from other iron ore suppliers; increased use of iron ore substitutes, including imported semi-finished steel; customers rationalization or financial failure; or decreased North American steel production, resulting from increased imports or lower steel consumption. The Company's sales are concentrated with a relatively few number of customers. Unmitigated loss of sales would have a greater impact on operating results and r









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Cleveland-Cliffs Inc and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (Continued)

**Reclassifications:** Certain prior year amounts have been reclassified to conform to current year classifications.

**Accounting and Disclosure Changes:** In December 2004, the Financial Accounting Standard Board ("FASB") issued SFAS No. 153, "Exchange of Nonmonetary Assets" an amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. The Statement is effective for nonmonetary exchanges occurring in fiscal periods beginning on or after December 15, 2004.



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**Cleveland-Cliffs Inc and Consolidated Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

tons) of annual production capacity at a cost of approximately \$35 million, with \$13.3 million expended in 2004. Production for 2005 is estimated to approximate 5.0 million tons (Company share 3.5 million tons). A further expansion is being evaluated.

*Empire Mine*

Effective December 31, 2002, the Company increased its ownership

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**Cleveland-Cliffs Inc and Consolidated Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

*Effect of Mine Ownership Increases*

While none of the increases in mine ownerships during 2002 required cash payments or assumption of debt, the ownership changes resulted in the Company recognizing net obligations of approximately \$93 million at December 31, 2002. Addition

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**Cleveland-Cliffs Inc and Consolidated Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

**Note 5 — Environmental and Mine Closure Obligations**

At December 31, 2004, the Company, including its share of unconsolidated ventures, had environmental and mine closure liabilities of \$99.0 million, of which \$6.0 million was classified as current.

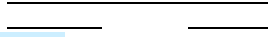
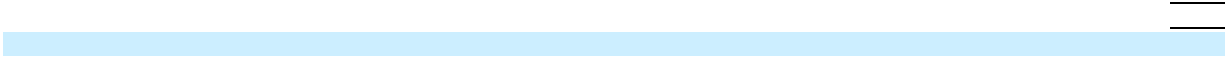
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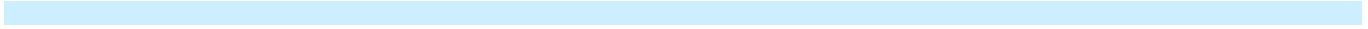




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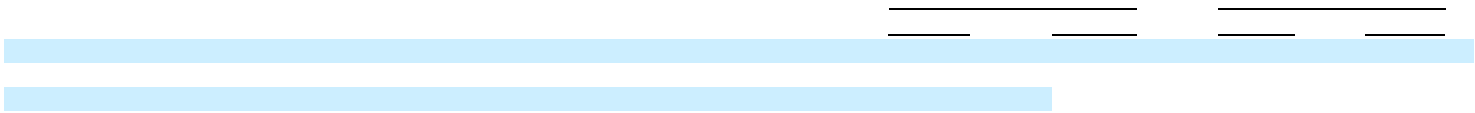




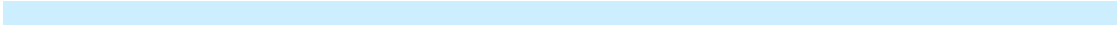














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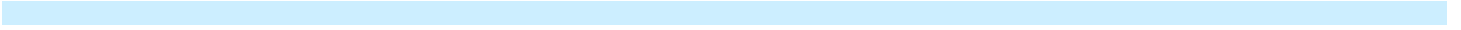




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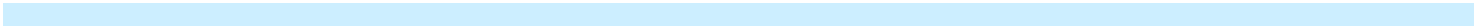
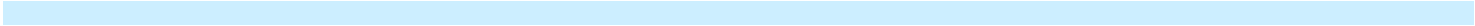




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Item 9. *Changes in*



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**EXHIBIT INDEX**

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Pagination by  
Sequential  
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**Exhibit  
Number**

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\* Cleveland-Cliffs Inc Nonemployee Directors' Compensation Plan (Amended and Resp'

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CLEVELAND-CLIFFS INC

LONG-TERM INCENTIVE PROGRAM  
PARTICIPANT GRANT AND AGREEMENT  
YEAR 2002

WHEREAS, on April 14, 1992, the shareholders of Cleveland-Cliffs Inc, an Ohio corporation ("Company" and the term "Company" as used herein shall also include the CompanyCT



1.10 "PERFORMANCE SHARES EARNED" shall mean the number of Common Shares of the Company (or cash equivalent) earned by a Participant following the

4

conclusion of an Incentive Period in which a required minimum of Company Performance Objectives and Strategic Objectives were met or exceeded.

1.11 "RELATIVE TOTAL SHAREHOLDER RETURN" shall mean for the Incentive Period the Total Shareholder Return of the Company compared to the total Shareholder Return of the Peer Group, as more particularly set forth on attached Exhibit C.

1.12 "RETIREMENT OR RETIRED" shall mean retirement as defined in the retirement plan of the Company, including without limitation any supplemental retirement plan.

1.13 "RET'ret plan of t li

downwards by the Committee's assessment of the achievement of the Strategic Objectives. That resultant percentage level of achievement of both the Performance Objectives and Strategic Objectives shall be multiplied by the number of Performance Shares granted to determine the actual number of Performance Shares Earned. The calculation as to whether the Company has met or exceeded the Company Performance Objectives shall be determined in accordance with this Agreement.

2.5 PAYMENT OF PERFORMANCE SHARES.

(a). Payment of Performance Shares Earned shall be made in the form of Common Shares <sup>n</sup> ~~mm~~



obligated to issue any Common Shares or pay the value of any Retention Units



Vice President-Human Resources

The undersigned hereby acknowledges receipt of an executed original of this Participant Grant and Agreement



benefit plan (or related trustCe





will or pursuant to the laws of descent and distribution.

8

3.5 DEATH, DISABILITY, RETIREMENT OR OTHER. With respect to Retention Units granted to a Participant whose employment is terminated because of death, Disability, Retirement, or is terminated by the Company without cause during the Incentive Period, the Participant shall receive the number of Retention Units as calculated in Section 2.4, prorated for the number of months the Participant was employed in such Incentive Period.

ARTICLE 4.

OTHER TERMS COMMON TO RETENTION UNITS AND PERFORMANCE SHARES

4.1 FORFEITURE.

(a) \*

withhold federal, state, local or foreign taxes in connection with an

Retention Units granted hereunder on the terms and conditions set forth herein and in the Incentive Program.

Participant

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granted shall be earned as Performance Shares Earned based on the degree of achievement of the Performance Objectives.

the Retention Units shall be paid in cash at the time the Performance Shares would normally have been paid.

(b). Any payment of Retention Units to a deceased Participant shall be paid to the beneficiary designated by the Participant on the Designation of Death Beneficiary attached as Exhibit H and filed with the Company. If no such beneficiary has been designated or survives the Participant, payment shall be made to the estate of a Participant. A beneficiary designation may be changed or revoked by a Participant at any time, provided the change or revocation is filed with the Company.

(c). bci

Committee may require relinquishment of a portion of such Peri

APPENDICES

Appendix A-1      1992 ICE Plan T\_\_\_\_\_T\_\_\_\_\_T 'A T\_j T ' TC\_\_\_\_\_ ' \_\_\_\_\_ 1 \_\_\_\_\_ 1992 ICE Pl\_\_\_\_\_K\_\_\_\_\_ T\_j Tj T \_\_\_\_\_





**Subsidiaries of Cleveland-Cliffs Inc**

Name of Subsidiary	Jurisdiction of Incorporation or Organization
CALipso Sales Company(3)	Delaware
Cleveland-Cliffs Ore Corporation(1),(2)	Ohio
Cliffs and Associates Limited(3)	Trinidad
Cliffs Biwabik Ore Corporation(2)	Minnesota
Cliffs Empire, d	
Clif	











CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1615C (1) (A) PURSUANT TO SECTION 1615C (1) (A)

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CERTIFICATION PURSUANT TO

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