UNITED STATES
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 June 30, 2006

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	34-1464672
(State or Other Jurisdiction of Incorporation or Organization)	(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 ☑ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☑

As of July 21, 2006, there were 41,661,253 Common Shares (par value $.25 per share) outstanding.

TABLE OF CONTENTS

Page No.	
	PART I — FINANCIAL INFORMATION
	Item 1 — Financial Statements
2	Definitions
3	Statements of Condensed Consolidated Operations Three Months Ended June 30, 2006 and 2005 and Six Months Ended June 30, 2006 and 2005
4	Statements of Condensed Consolidated Financial Position June 30, 2006 and December 31, 2005
5	Statements of Condensed Consolidated Cash Flows Six Months Ended June 30, 2006 and 2005
6	Notes to Condensed Consolidated Financial Statements
35	Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations
55	Item 3 — Qualitative and Quantitative Disclosures About Market Risk
56	Item 4 — Controls and Procedures
	PART II — OTHER INFORMATION AND SIGNATURES
57	Item 1 — Legal Proceedings
60	Item 1A — Risk Factors
60	Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds
61	Item 4 — Submission of Matters to a Vote of Security Holders
62	Item 6 — Exhibits
63	Signature
64	Exhibit Index

EX-31(a) — Section 302 Certification of Chief Executive Officer

EX-31(b) — Section 302 Certification of Chief Financial Officer

EX-32(a) — Section 906 Certification of Chief Executive Officer

EX-32(b) — Section 906 Certification of Chief Financial Officer

EX-10.F
EX-31.1 Certification
EX-31.2 Certification
EX-32.1 Certification
EX-32.2 Certification

Definitions

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

Abbreviation or acronym	Term
Algoma	Algoma Steel Inc.
APB	Accounting Principles Board
APBO	Accumulated other postretirement benefit obligation
ARS	Auction rate securities
Cade	Cade Struktur Corporation
CAL	Cliffs and Associates Limited
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
Cliffs Australia	Cleveland-Cliffs Australia Pty Limited
Cockatoo Island	Cockatoo Island Joint Venture
Consent Order	Administrative Order by Consent
EITF	Emerging Issues Task Force
Empire	Empire Iron Mining Partnership
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation Number
F.O.B.	Free on board
GAAP	accounting principles generally accepted in the United States
HBI	Hot Briquette Iron
Hibbing	Hibbing Taconite Company
HLE	HLE Mining Limited Partnership
ISG	International Steel Group Inc.
KHD	KHD Humboldt Wedag International Ltd.
KK Group	Kinnickinnic Development Group
Kobe Steel	Kobe Steel, LTD.
LIFO	Last-in, first-out
LTVSMC	LTV Steel Mining Company
Mittal Steel USA	Mittal Steel USA Inc.
NDEP	Nevada Department of Environmental Protection
NRD	Natural Resource Damages
Notice	Notice of violation
OPEB	Other postretirement benefits
PBO	Projected Benefit Obligation
PCB	Polychlorinated Biphenyl
Portman	Portman Limited
PPI	Producers Price Indices
PRP	Potentially responsible party
PSD	Prevention of Significant Deterioration
RONA	Return on net assets
RTWG	Rio Tinto Working Group
SAB	Staff Accounting Bulletin
SEC	United States Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
Steel Dynamics	Steel Dynamics, Inc.
Stelco	Stelco Inc.
Tilden	Tilden Mining Company L.C.
Tonne	Metric ton
TSR	Total Shareholder Return
United Taconite	United Taconite LLC
USW	United Steelworkers of America
VEBA	Voluntary Employee Benefit Association trusts
Wabush	Wabush Mines Joint Venture
WCI	WCI Steel Inc.
WEPCO	Wisconsin Electric Power Company

PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CONDENSED CONSOLIDATED OPERATIONS (UNAUDITED)

	(In Millions, Except Per Share Amounts)			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
REVENUES FROM PRODUCT SALES AND SERVICES				
Iron ore	$ 420.2	$ 424.5	$ 664.7	$ 643.3
Freight and venture partners' cost reimbursements	66.0	60.8	127.9	113.2
	486.2	485.3	792.6	756.5
COST OF GOODS SOLD AND OPERATING EXPENSES	(357.5)	(348.4)	(608.5)	(575.9)
SALES MARGIN	128.7	136.9	184.1	180.6
OTHER OPERATING INCOME (EXPENSE)				
Casualty insurance recoveries		10.6		10.6
Royalties and management fee revenue	3.0	3.5	5.6	6.2
Administrative, selling and general expenses	(13.3)	(10.3)	(23.1)	(21.6)
Miscellaneous — net	(2.0)	(1.8)	(4.0)	(2.8)
	(12.3)	2.0	(21.5)	(7.6)
OPERATING INCOME	116.4	138.9	162.6	173.0
OTHER INCOME (EXPENSE)				
Interest income	3.5	3.1	7.8	7.0
Interest expense	(.8)	(1.7)	(1.8)	(1.9)
Other — net	(1.3)	.4	(.8)	(9.3)
	1.4	1.8	5.2	(4.2)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	117.8	140.7	167.8	168.8
INCOME TAX EXPENSE	(29.6)	(36.8)	(39.5)	(44.0)
MINORITY INTEREST (net of tax)	(5.2)	(3.9)	(7.6)	(3.9)
INCOME FROM CONTINUING OPERATIONS	83.0	100.0	120.7	120.9
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (net of tax)	.1	(.3)	.3	(.2)
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	83.1	99.7	121.0	120.7
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (net of tax $2.8)				5.2
NET INCOME	83.1	99.7	121.0	125.9
PREFERRED STOCK DIVIDENDS	(1.4)	(1.4)	(2.8)	(2.8)
INCOME APPLICABLE TO COMMON SHARES	$ 81.7	$ 98.3	$ 118.2	$ 123.1
EARNINGS PER COMMON SHARE — BASIC				
Continuing operations	$ 1.91	$ 2.27	$ 2.73	$ 2.72
Discontinued operations		(.01)	.01	
Cumulative effect of accounting change				.12
EARNINGS PER COMMON SHARE — BASIC	$ 1.91	$ 2.26	$ 2.74	$ 2.84
EARNINGS PER COMMON SHARE — DILUTED				
Continuing operations	$ 1.53	$ 1.80	$ 2.19	$ 2.18
Discontinued operations		(.01)	.01	
Cumulative effect of accounting change				.09
EARNINGS PER COMMON SHARE — DILUTED	$ 1.53	$ 1.79	$ 2.20	$ 2.27
WEIGHTED AVERAGE NUMBER OF SHARES (IN THOUSANDS)				
Basic	42,720	43,434	43,209	43,316
Diluted	54,445	55,604	54,899	55,457

See notes to condensed consolidated financial statements.

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CONDENSED CONSOLIDATED FINANCIAL POSITION

	(In Millions)	
	June 30 2006	December 31 2005
ASSETS	(Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	$ 123.6	$ 192.8
Marketable securities	3.7	9.9
Trade accounts receivable — net	80.4	53.7
Receivables from associated companies	22.7	5.4
Product inventories	246.3	119.1
Work in process inventories	62.1	56.7
Supplies and other inventories	65.9	70.5
Deferred and refundable taxes	13.2	12.1
Recoverable electric power payments	15.6	73.0
Other	48.1	42.8
TOTAL CURRENT ASSETS	681.6	636.0
PROPERTIES	1,019.9	979.3
Allowances for depreciation and depletion	(183.8)	(176.5)
TOTAL PROPERTIES	836.1	802.8
OTHER ASSETS		
Long-term receivables	46.3	48.7
Prepaid pensions	80.4	80.4
Deferred income taxes	52.7	66.5
Deposits and miscellaneous	63.4	53.8
Other investments	23.4	34.0
Intangible pension asset	13.9	13.9
Marketable securities	22.7	10.6
TOTAL OTHER ASSETS	302.8	307.9
TOTAL ASSETS	$ 1,820.5	$ 1,746.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 140.8	$ 122.9
Accrued employment costs	40.4	47.4
Pensions	45.3	45.3
Other post-retirement benefits	29.6	36.6
Accrued expenses	28.6	28.9
Income taxes	37.6	29.1
State and local taxes	22.3	22.2
Environmental and mine closure obligations	11.5	13.4
Payables to associated companies	3.1	7.7
Other	12.4	9.2
TOTAL CURRENT LIABILITIES	371.6	362.7
PENSIONS, INCLUDING MINIMUM PENSION LIABILITY	129.5	119.6
OTHER POST-RETIREMENT BENEFITS	82.1	85.2
ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS	88.5	87.3
DEFERRED INCOME TAXES	112.4	116.7
OTHER LIABILITIES	70.4	79.4
TOTAL LIABILITIES	854.5	850.9
MINORITY INTEREST	98.9	71.7
3.25% REDEEMABLE CUMULATIVE CONVERTIBLE PERPETUAL PREFERRED STOCK — ISSUED 172,500 SHARES	172.5	172.5
SHAREHOLDERS' EQUITY		
Common Shares — par value $.25 a share Authorized — 112,000,000 shares; Issued — 67,311,764 shares	16.8	16.8
Capital in excess of par value of shares	93.8	93.9
Retained earnings	932.5	824.2
Accumulated other comprehensive loss, net of tax	(109.4)	(125.6)
Cost of 25,418,674 Common Shares in treasury (2005 — 23,480,770 shares)	(243.1)	(164.3)
Unearned compensation	4.0	6.6
TOTAL SHAREHOLDERS' EQUITY	694.6	651.6
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,820.5	$ 1,746.7

See notes to condensed consolidated financial statements.

Table of Contents

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS (UNAUDITED)

	(In Millions, Brackets Indicate Cash Decrease) Six Months Ended June 30	
	2006	2005
CASH FLOW FROM CONTINUING OPERATIONS		
OPERATING ACTIVITIES		
Net income	$ 121.0	$ 125.9
Cumulative effect of accounting change		(5.2)
(Income) loss from discontinued operations	(.3)	.2
Income from continuing operations	120.7	120.9
Depreciation and amortization:		
Consolidated	30.3	22.0
Share of associated companies	3.2	2.1
Minority interest	7.6	3.9
Deferred income taxes	1.2	7.6
(Gain) loss on currency hedges	(1.4)	9.8
Excess tax benefit from share-based compensation	(1.2)	
Environmental and closure obligations	(1.0)	2.2
Share-based compensation	(.6)	
Gain on sale of assets	(.3)	(.4)
Pensions and other post-retirement benefits	(.2)	8.3
Other	1.8	
Changes in operating assets and liabilities:		
Sales of short-term marketable securities	9.9	182.7
Purchases of short-term marketable securities	(3.7)	
Product inventories	(127.2)	(51.4)
Other	53.3	17.3
Net cash from operating activities	92.4	325.0
INVESTING ACTIVITIES		
Purchase of property, plant and equipment:		
Consolidated	(62.9)	(46.1)
Share of associated companies	(6.4)	(4.6)
Investment in Portman Limited		(409.7)
Payment of currency hedges		(9.8)
Proceeds from sale of assets	1.6	.5
Net cash used by investing activities	(67.7)	(469.7)
FINANCING ACTIVITIES		
Borrowing under Revolving Credit facility		175.0
Repayment under Revolving Credit facility		(125.0)
Contributions by minority interest	1.2	1.1
Excess tax benefit from share-based compensation	1.2	
Proceeds from stock options exercised	.6	3.5
Repurchase of Common Stock	(81.0)	
Common Stock dividends	(9.9)	(4.3)
Preferred Stock dividends	(2.8)	(2.8)
Repayment of capital leases	(2.2)	(.6)
Issuance costs of Revolving Credit	(1.0)	(1.9)
Repayment of other borrowings	(.8)	
Net cash from (used by) financing activities	(94.7)	45.0
EFFECT OF EXCHANGE RATE CHANGES ON CASH	.5	(.4)
CASH USED BY CONTINUING OPERATIONS	(69.5)	(100.1)
CASH FROM (USED BY) DISCONTINUED OPERATIONS — OPERATING ACTIVITIES	.3	(.8)
DECREASE IN CASH AND CASH EQUIVALENTS	(69.2)	(100.9)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	192.8	216.9
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 123.6	$ 116.0

See notes to condensed consolidated financial statements.

CLEVELAND-CLIFFS INC AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial reporting and do not include all information and footnotes required by GAAP for complete financial statements. This Form 10-Q should be read in conjunction with the financial statement footnotes and other information in our 2005 Annual Report on Form 10-K. In management's opinion, the quarterly unaudited condensed consolidated financial statements present fairly our financial position, results of operations and cash flows in accordance with GAAP.

The preparation of financial statements in conformity with GAAP 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. On an on-going basis, management evaluates its estimates and assumptions, including those related to revenue recognition, the fair value of share-based compensation, valuation of inventories, valuation of long-lived assets, post-employment benefits, income taxes, litigation and environmental liabilities. Management bases its estimates on historical experience, current business conditions and expectations and on various other assumptions it believes are reasonable under the circumstances. Actual results could differ from those estimates.

The condensed consolidated financial statements include the accounts of the Company and its controlled subsidiaries, including: Tilden, in Michigan, 85 percent ownership; Empire, in Michigan, 79 percent ownership; United Taconite, in Minnesota, 70 percent ownership; and Portman, in Western Australia, 80.4 percent ownership. All

significant intercompany balances and transactions have been eliminated in consolidation.

On May 9, 2006, the Company's Board of Directors approved a two-for-one stock split of its Common Shares with a corresponding decrease in par value from $.50 to $.25 per Common Share. The record date for the stock split was June 15, 2006 with a distribution date of June 30, 2006. Accordingly, all Common Shares, per share amounts, stock compensation plans and preferred stock conversion rates have been adjusted retroactively to reflect the stock split.

On April 19, 2005, Cliffs Australia, a wholly owned subsidiary of the Company, completed the acquisition of 80.4 percent of Portman's common stock. The acquisition was initiated on March 31, 2005 by the purchase of approximately 68.7 percent of the outstanding shares of Portman. The Statements of Condensed Consolidated Financial Position of the Company as of June 30, 2006 and December 31, 2005 reflect the acquisition of Portman, effective March 31, 2005, under the purchase method of accounting. See NOTE 3 for further discussion.

The Company also owns a 26.83 percent interest in Wabush Mines, an unincorporated Joint Venture, in Canada; and a 23 percent interest in Hibbing Taconite Company, an unincorporated Joint Venture in Minnesota. Additionally, Portman owns a 50 percent interest in Cockatoo Island Joint Venture. Investments in joint ventures which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method.

Quarterly results historically are not representative of annual results due to seasonal and other factors. Certain prior year amounts have been reclassified to conform to the current year presentation, including amounts related to discontinued operations and the cumulative effect of an accounting change.

NOTE 2 — ACCOUNTING POLICIES

In June 2006, FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by defining a criterion that an individual tax position must meet for any part of the

benefit of that position to be recognized in an enterprise's financial statements. Additionally, the Interpretation provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. We do not expect adoption of this Interpretation to have a material impact on our consolidated financial statements.

In March 2006, FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets — an amendment of FASB Statement No. 140" ("SFAS 156"). SFAS 156 establishes the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends Statement No. 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This statement is effective January 1, 2007. We do not expect adoption of this standard to have a material impact on our consolidated financial statements.

On February 16, 2006, FASB issued Statement No. 155, "Accounting for Certain Hybrid Instruments" ("SFAS 155"), which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS 140"). SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. We do not expect adoption of this standard to have a material impact on our consolidated financial statements.

On March 17, 2005, the EITF reached consensus on Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry", ("EITF 04-6"). The consensus clarifies that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the cost of inventory. The consensus, which is effective for reporting periods beginning after December 15, 2005, permitted early adoption. At its June 29, 2005 meeting,

FASB ratified a modification to EITF 04-6 to clarify that the term “inventory produced” means “inventory extracted.” We elected to adopt EITF 04-6 in 2005. As a result, we recorded an after-tax cumulative effect adjustment of $5.2 million or $.09 per diluted share, and increased product inventory by $8.0 million effective January 1, 2005.

Marketable Securities

We determine the appropriate classification of debt and equity securities at the time of purchase and re-evaluate such designation as of each balance sheet date. At June 30, 2006, we had $3.7 million of six-month term deposits at Portman. At December 31, 2005, we had $9.9 million in highly-liquid auction rate securities (“ARS”), classified as trading with changes in market value, if any, included in income. The ARS were fully liquidated in the first quarter of 2006. We invested in ARS to generate higher returns than traditional money market investments. Although these securities have long-term stated contractual maturities, they can be presented for redemption at auction when rates are reset, which is typically every 7, 28 or 35 days. As a result, we classify these securities as current assets. We had no realized or unrealized gains or losses related to these securities during the first six months of 2006 and 2005. All income, including any gains or losses related to these investments, was recorded as interest income. In accordance with our investment policy, we only invest in ARS with high quality credit issuers and limit the amount of investment exposure to any one issuer.

We had $22.7 million and $10.6 million at June 30, 2006 and December 31, 2005, respectively, of non-current marketable securities, classified as “available for sale”, which are stated at fair value, with unrealized holding gains and losses included in other comprehensive income.

Inventories

North America

Product inventories are stated at the lower of cost or market. Cost of iron ore inventories is determined using the LIFO method. We maintain ownership of the inventories until title has transferred to the customer, usually when payment is made. Maintaining iron ore products at ports on the lower Great Lakes reduces risk of non-

payment by customers, as we retain title to the product until payment is received from the customer. We track the movement of inventory and have the right to verify the quantities on hand. Supplies and other inventories reflect the weighted average cost method.

Australia

At acquisition, the fair value of Portman's inventory was assigned value at estimated selling price less costs of realization and an appropriate margin for selling efforts and costs to complete, with the exception of lower grade stockpiles. The net realizable value has been discounted to present value using a weighted average cost of capital where appropriate. Optimal use of lower grade stockpiles of high phosphorous ore is dependent on future production of standard ore for blending into saleable product. These stockpiles are scheduled to be utilized in the mine plan progressively over the life of the mine. Given the nature of these stockpiles and their dependence on future production, they have been assessed on the same basis as mineral rights associated with mining operations adjusted for the costs incurred to date to extract the ore and to reflect the benefits to Portman of having this ore available as an alternative to in-ground reserves. We maintain ownership of the inventories until title has transferred to the customer at the F.O.B. point, which is generally when the product is loaded into the vessel.

Share-Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R using the modified prospective transition method. Because we elected to use the modified prospective transition method, results for prior periods have not been restated. Under this transition method, share-based compensation expense for the first six months of 2006 includes compensation expense for all share-based compensation awards granted prior to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Accordingly, the revised compensation costs are being amortized on a straight-line basis over the remaining service periods of the awards.

Prior to the adoption of SFAS 123R, we recognized share-based compensation expense in accordance with SFAS 123. As prescribed in SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure” (“SFAS 148”), we elected to use the prospective method. The prospective method requires expense to be recognized for all awards granted, modified or settled beginning in the year of adoption. In accordance with SFAS 123 and SFAS 148, we provided pro forma net income or loss and net income or loss per share disclosures for each period prior to adoption of SFAS 123R as if we had applied the fair value recognition provisions to all awards unvested in each period.

In March 2005, the SEC issued SAB 107, which provides supplemental implementation guidance for SFAS 123R. We have applied the provisions of SAB 107 in our adoption of SFAS 123R. See NOTE 10 for information on the impact of our adoption of SFAS 123R and the assumptions we used to calculate the fair value of share-based employee compensation.

Derivatives

In the normal course of business, we use various instruments to hedge our exposure for purchases of commodities and foreign currency.

We enter into forward contracts for the purchase of commodities, primarily natural gas and diesel fuel, which are used in our North American operations. Such contracts are in quantities expected to be delivered and used in the production process and are not intended for resale or speculative purposes.

Portman uses forward exchange contracts, call options, collar options and convertible collar options to hedge its currency exposure for a portion of its sales receipts denominated in United States currency. The primary objective for the use of these instruments is to reduce the volatility of earnings due to changes in the Australian/United States currency exchange rate, and to protect against undue adverse movement in these exchange rates. All hedges are tested for effectiveness at inception and at each reporting period thereafter.

Income Taxes

Income taxes are based on income for financial reporting purposes calculated using our expected annual effective rate and reflect a current tax liability (asset) for the estimated taxes payable (recoverable) on the current year tax return and expected annual changes in deferred taxes. Deferred tax assets or liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax laws and rates. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized.

Revenue Recognition

Revenue is recognized on the sale of products when title to the product has transferred to the customer in accordance with the specified terms of each term supply agreement. Generally, our North American term supply agreements provide that title transfers to the customer when payment is received. Under some term supply agreements, we ship the product to ports on the lower Great Lakes and/or to the customer’s facilities prior to the transfer of title. Certain sales contracts with one customer include provisions for supplemental revenue or refunds based on annual steel pricing at the time the product is consumed in the customer’s blast furnaces. We estimate these amounts for recognition at the time of sale when it is deemed probable that they will be realized. Estimated supplemental payments (on approximately .8 million tons), which at estimated pricing would have amounted to approximately $12.9 million related to 2005 sales to one of the customer’s indefinitely idled facilities, were not included in 2005 revenue. Supplemental payments related to pellets sold to this facility are due and will be recognized when the pellets are consumed or upon other disposition. Revenue in the first six months of 2006 included approximately $12.9 million of additional revenue on 2005 sales due to such changes, including $4.0 million for .3 million tons related to the idled facility. Revenue for the first six months of the year from product sales includes reimbursement for freight charges ($37.1 million in 2006 and $38.5 million in 2005) paid on behalf of customers and venture partners’ cost reimbursements ($90.8 million in 2006 and $74.7 million in 2005) from minority interest partners for their share of North American mine costs.

We do not recognize revenue on North American iron ore products shipped to some customers until payment is received. Generally, our North American term supply agreements specify that title and risk of loss pass to the customer when 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.

Where we are joint venture participants in the ownership of a North American mine, our contracts entitle us to receive royalties and management fees, which we earn as the pellets are produced. Revenue is recognized on services when the services are performed.

Portman's sales revenue is recognized at the F.O.B. point, which is generally when the product is loaded into the vessel. Revenues denominated in a foreign currency are converted to Australian dollars at the currency exchange rate in effect at the time of the transaction.

Foreign Currency Translation

Results of foreign operations are translated into United States dollars using the average exchange rates during the applicable periods. Assets and liabilities are translated into United States dollars using the exchange rate on the balance sheet date. Resulting translation adjustments are recorded in "Accumulated other comprehensive loss" in Shareholders' Equity on our Statements of Condensed Consolidated Financial Position.

Goodwill

Based on our final purchase price allocation for the Portman acquisition, we identified approximately $8.4 million of excess purchase price over the fair value of assets acquired and liabilities assumed. As required by SFAS No. 142, "Goodwill and Other Intangible Assets", ("SFAS 142"), goodwill was allocated to our Australia segment. SFAS 142 requires us to compare the fair value of the reporting unit to its carrying value on an annual basis to determine if there is potential goodwill impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is

recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

Preferred Stock

In January 2004, we completed an offering of $172.5 million of redeemable cumulative convertible perpetual preferred stock, without par value, issued at $1,000 per share. The preferred stock pays quarterly cash dividends at a rate of 3.25 percent per annum, has a liquidation preference of $1,000 per share and is convertible into our common shares at an adjusted rate of 65.5068 common shares per share of preferred stock, which is equivalent to an adjusted conversion price of $15.27 per share at June 30, 2006, subject to further adjustment in certain circumstances. Each share of preferred stock may be converted by the holder if during any fiscal quarter ending after March 31, 2004 the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding quarter exceeds 110 percent of the applicable conversion price on such trading day ($16.80 at June 30, 2006). The threshold was met as of June 30, 2006. The satisfaction of this condition allows conversion of the preferred stock during the fiscal quarter ending September 30, 2006 only. The conversion right may continue after such quarter if certain conditions set forth in the terms of the preferred stock are satisfied. The preferred stock was also convertible during each of the past six quarters due to the satisfaction of this condition during each of the immediately preceding quarters.

NOTE 3 — PORTMAN ACQUISITION

On April 19, 2005, Cliffs Australia completed the acquisition of 80.4 percent of the outstanding shares of Portman, a Western Australia-based independent iron ore mining and exploration company. The acquisition was initiated on March 31, 2005 by the purchase of approximately 68.7 percent of the outstanding shares of Portman. The assets consisted primarily of iron ore inventory, land and mineral rights and iron ore reserves. The purchase price of the 80.4 percent interest was $433.1 million, including $12.4 million of acquisition costs. Additionally, we incurred $9.8 million of foreign currency hedging costs related to this transaction, which were included in “Other-net” in

the first quarter 2005 Statements of Condensed Consolidated Operations. The acquisition increased our customer base in China and Japan and established our presence in the Australian mining industry. Portman's full-year 2005 production (excluding its .6 million tonne share of the 50 percent-owned Cockatoo Island Joint Venture) was approximately 6.0 million tonnes. Portman's $66 million expansion project is in the production ramp up mode. Portman expects to be shipping at nearly the eight million tonne production rate in the third quarter of 2006. The production is fully committed to steel companies in China and Japan for the next four years.

The acquisition and related costs were financed with existing cash and marketable securities and $175 million of interim borrowings under a three-year $350 million revolving credit facility. The outstanding balance was repaid in July 2005. See NOTE 4.

The Statements of Condensed Consolidated Financial Position of the Company as of June 30, 2006 and December 31, 2005 reflect the acquisition of Portman, effective March 31, 2005, under the purchase method of accounting. Assets acquired and liabilities assumed have been recorded at estimated fair values as of the acquisition date as determined by the results of an appraisal of assets and liabilities, which was finalized at the end of the first quarter of 2006.

NOTE 4 — DEBT AND REVOLVING CREDIT FACILITY

On June 23, 2006, we entered into a five-year unsecured credit agreement with a syndicate of 16 financial institutions. The new facility provides $500 million in borrowing capacity under a revolving credit line, with no scheduled maturities other than the five-year term of the agreement; loans are made with a choice of interest rates and maturities, subject to the term of the agreement. The new credit agreement replaced an existing $350 million unsecured revolving credit facility scheduled to expire in March 2008. The facility has financial covenants based on earnings, debt and fixed cost coverage. Interest rates are either (1) a range from LIBOR plus .75 percent to LIBOR plus 1.50 percent based on debt and earnings, or (2) the prime rate. As of June 30, 2006, we were in compliance with the covenants in the credit agreement. We did not have any borrowings outstanding against this facility as of June 30, 2006.

Portman is party to a A$40 million credit agreement. The facility has various covenants based on earnings, asset ratios and fixed cost coverage. The floating interest rate is 80 basis points over the 90-day bank bill swap rate in Australia. Under this facility, Portman has remaining borrowing capacity of A$28.5 million on June 30, 2006, after reduction of A$11.5 million for commitments under outstanding performance bonds. As of June 30, 2006, Portman was in compliance with the covenants in the credit agreement.

In 2005, Portman secured five-year financing from its customers in China as part of its long-term sales agreements to assist with the funding of the expansion of its mining operation. The borrowings, which total $7.0 million at June 30, 2006, accrue interest annually at five percent. The borrowings require a $.7 million principal payment plus accrued interest to be made each January 31 for the next three years with the remaining balance due in full in January 2010.

NOTE 5 — SEGMENT REPORTING

As a result of the Portman acquisition, we have organized into two operating and reporting segments: North America and Australia. The North America segment, comprised of our mining operations in the United States and Canada, represented approximately 81 percent of our consolidated revenues for the six-month period ended June 30, 2006. The Australia segment, comprised of our 80.4 percent Portman interest in Western Australia represented approximately 19 percent of our consolidated revenues for the same period. There have been no intersegment revenues since the acquisition.

The North America segment is comprised of our six iron ore mining operations in Michigan, Minnesota and Eastern Canada. We manufacture 13 grades of iron ore pellets, including standard, fluxed and high manganese, for use in our customers' blast furnaces as part of the steelmaking process. Each of the mines has crushing, concentrating and pelletizing facilities used in the production process. More than 97 percent of the pellets are sold to integrated steel companies in the United States and Canada, using a single sales force.

Table of Contents

The Australia segment includes production facilities at the Koolyanobbing operations and a 50 percent interest in a joint venture at Cockatoo Island, producing lump ore and direct shipping fines for our customers in China and Japan. The Koolyanobbing operation has crushing and screening facilities used in the production process. Production is fully committed to steel companies in China and Japan for the next four years.

We primarily evaluate performance based on segment operating income, defined as revenues less expenses identifiable to each segment. We have classified certain administrative expenses as unallocated corporate expenses.

The following table presents a summary of our segments for the three-month and six-month periods ended June 30, 2006 and 2005 based on the current reporting structure.

	(In Millions)			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Revenues from product sales and services:				
North America	$ 393.9	$ 417.5	$ 640.1	$ 688.7
Australia	92.3	67.8	152.5	67.8
Total revenues from product sales and services	$ 486.2	$ 485.3	$ 792.6	$ 756.5
Segment operating income:				
North America	$ 100.1	$ 128.3	$ 147.5	$ 173.7
Australia	27.8	18.8	35.4	18.8
Segment operating income	127.9	147.1	182.9	192.5
Unallocated corporate expenses	(11.5)	(8.2)	(20.3)	(19.5)
Other income (expense)	1.4	1.8	5.2	(4.2)
Income from continuing operations before income taxes and minority interest	$ 117.8	$ 140.7	$ 167.8	$ 168.8
Depreciation, depletion and amortization:				
North America	$ 8.3	$ 8.5	$ 16.3	$ 15.8
Australia	10.9	8.3	17.2	8.3
Total depreciation, depletion and amortization	$ 19.2	$ 16.8	$ 33.5	$ 24.1
Capital additions:				
North America	$ 7.4	$ 17.4	$ 28.3	$ 34.1
Australia	7.6	9.8	22.4	9.8
Total capital additions	$ 15.0	$ 27.2	$ 50.7*	$ 43.9

* There were no non-cash additions at June 30, 2006.

A summary of assets by segment is as follows:

	(In Millions) June 30 2006	December 31 2005
Segment assets:		
North America	$ 1,130.9	$ 1,079.6
Australia	689.6	667.1
Total consolidated assets	$ 1,820.5	$ 1,746.7

NOTE 6 — COMPREHENSIVE INCOME

Following are the components of comprehensive income for the three-month and six-month periods ended June 30, 2006 and 2005:

	(In Millions) Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net income	$ 83.1	$ 99.7	$ 121.0	$ 125.9
Other comprehensive income (loss):				
Unrealized gain on marketable securities - net of tax	2.3	.2	7.8	.2
Foreign currency translation gain (loss)	14.8	(6.7)	5.5	(8.9)
Derivative instrument hedges, mark to market gains (losses) arising in period	3.2	(3.6)	2.9	(3.6)
Total other comprehensive income (loss)	20.3	(10.1)	16.2	(12.3)
Total comprehensive income	$ 103.4	$ 89.6	$ 137.2	$ 113.6

NOTE 7 — PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The components of defined benefit pension and OPEB expense for the three-month and six-month periods ended June 30, 2006 and 2005 were as follows:

Defined Benefit Pension Expense

	(In Millions)			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Service cost	$ 2.9	$ 3.0	$ 5.9	$ 6.0
Interest cost	10.7	10.1	21.3	20.2
Expected return on plan assets	(12.1)	(11.1)	(24.2)	(22.3)
Amortization:				
Unrecognized prior service costs	.7	.6	1.5	1.3
Net actuarial losses	4.1	3.1	8.2	6.3
Amortization of net obligation	(.6)	(1.0)	(1.2)	(2.0)
Net periodic benefit cost	$ 5.7	$ 4.7	$ 11.5	$ 9.5

OPEB Expense

	(In Millions)			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Service cost	$ .7	$ .9	$ 1.4	$ 1.8
Interest cost	4.4	4.5	8.8	9.0
Expected return on plan assets	(2.3)	(1.8)	(4.5)	(3.6)
Amortization:				
Unrecognized prior service credits	(1.6)	(2.0)	(3.2)	(3.6)
Net actuarial losses	2.9	3.7	5.8	7.2
Net periodic benefit cost	$ 4.1	$ 5.3	$ 8.3	$ 10.8

Historically, the U.S. discount rate has been set for all plans using the Moody’s Aa corporate bond index. As of December 31, 2005, this rate was 5.4 percent. The Company, through an independent consultant, matched the projected cash flows used to determine the PBO and APBO to a projected yield curve of approximately 400 Aa graded bonds in the 10th to 90th percentiles. These bonds are either noncallable or callable with make-whole provisions. The duration matching produced rates ranging from 5.5 percent to 5.6 percent for the Company’s U.S. pension plans. Based on these results, the Company selected a discount rate of 5.5 percent for its U.S. plans at December 31, 2005, compared with a rate of 5.75 percent at December 31, 2004.

The Canadian discount rate is set based upon a model by an independent consultant. The model discount rates for Canada are determined by calculating the single level discount rate that, when applied to a particular cash flow pattern, produces the same present value as discounting the cash flow pattern using spot rates generated from a high-quality corporate bond yield curve. Based on the cash flow patterns and liability duration for the Canadian plans, which are dependent on the demographic profile of each plan, the December 31, 2005 discount rate was 5.00 percent, compared with a rate of 5.75 percent at December 31, 2004.

NOTE 8 — ENVIRONMENTAL AND MINE CLOSURE OBLIGATIONS

At June 30, 2006, the Company, including its share of unconsolidated ventures, had environmental and mine closure liabilities of $112.8 million, of which $11.5 million was classified as current. Payments in the first six months of 2006 were $7.9 million (2005 — $1.1 million). Following is a summary of the obligations:

	(In Millions)	
	June 30 2006	December 31 2005
Environmental	$ 15.0	$ 17.8
Mine closure		
LTVSMC	29.4	30.4
Operating mines	68.4	64.8
Total mine closure	97.8	95.2
Total environmental and mine closure obligations*	$ 112.8	$ 113.0

* Includes $12.8 million and $12.3 million at June 30, 2006 and December 31, 2005, respectively, of our share of unconsolidated ventures.

Environmental

Our mining and exploration activities are subject to various laws and regulations governing the protection of the environment. We conduct our operations so as to protect the public health and environment and believe our operations are in compliance with applicable laws and regulations in all material respects. Our environmental liabilities of $15.0 million at June 30, 2006, including obligations for known environmental remediation exposures at active and closed mining operations and other sites, have been recognized based on the estimated 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 SFAS No. 5, “Accounting for Contingencies.” Future expenditures are not discounted, and potential insurance recoveries have not been reflected. Additional environmental obligations could be incurred, the extent of which cannot be assessed.

The environmental liability includes our obligations related to five sites that are independent of our iron mining operations, three former iron ore-related sites, two leased land sites where we are lessor and miscellaneous remediation obligations at our operating units. We recorded $3.8 million of additional clean-up expense related to a PCB spill at Tilden ($5.2 million was previously accrued in December 2005) in the second quarter of 2006 as “Miscellaneous — net” in the Statements of Condensed Consolidated Operations.

The obligation also includes Federal and State sites where the Company is named as a PRP: the Rio Tinto mine site in Nevada, the Milwaukee Solvay site in Wisconsin, and the Kipling and Deer Lake sites in Michigan.

Milwaukee Solvay Site

The Kinnickinnic Development Group (“KK Group”) is pursuing the acquisition of the Milwaukee Solvay property. Pursuant to the Liability Transfer and Indemnity Agreement entered into between KK Group and Cliffs Mining Company, the KK Group has agreed to acquire our mortgage interest in the property for $2.25 million, assume all environmental liabilities in connection with the property and place $4.0 million in escrow to secure the KK Group’s obligations. The KK Group has agreed, upon closing, to purchase a $5.0 million environmental insurance policy. The estimated premium for the insurance policy is expected to be placed in escrow in the near future to be utilized when the policy is issued. The Company received the $2.25 million payment for the assignment of the mortgage in June 2006 as a deposit to be held pending closure on the global agreement.

Rio Tinto

The Rio Tinto Mine site is a historic underground copper mine located near Mountain City, NV, where tailings were placed in Mill Creek, a tributary to the Owyhee River. Remediation work is being conducted in accordance with a Consent Order between the Nevada Department of Environmental Protection ("NDEP") and the Rio Tinto Working Group ("RTWG") composed of the Company, Atlantic Richfield Company, Teck Cominco American Incorporated, and E. I. du Pont de Nemours and Company. The Consent Order provides for technical review by the U.S. Department of the Interior Bureau of Indian Affairs, the U.S. Fish & Wildlife Service, U.S. Department of Agriculture Forest Service, the NDEP and the Shoshone-Paiute Tribes of the Duck Valley Reservation (collectively, "Rio Tinto Trustees"). The Consent Order is currently projected to continue through 2006 with the objective of supporting the selection of the final remedy for the site. Costs are shared pursuant to the terms of a Participation Agreement between the parties of the RTWG, who have reserved the right to renegotiate any future participation or cost sharing following the completion of the Consent Order.

The Rio Tinto Trustees have made available for public comment their plans for the assessment of Natural Resource Damages ("NRD"). The RTWG commented on the plans and also are in discussions with the Rio Tinto Trustees informally about those plans. The notice of plan availability is a step in the damage assessment process. The studies presented in the plan may lead to a NRD claim under CERCLA. There is no monetized NRD claim at this time.

During 2005, the focus of the RTWG was on development of alternatives for remediation of the mine site. A draft of an alternatives study has recently been reviewed with the Rio Tinto Trustees and the alternatives have essentially been reduced to three: (1) no action; (2) long-term water treatment; and (3) removal of the tailings. The estimated costs range from approximately $1 million to $27 million. In recognition of the potential for an NRD claim, the parties are exploring the possibility of a global settlement that would encompass both the site decision and the NRD issues and thereby avoid the lengthy litigation typically associated with NRD. The Company's recorded reserve of approximately $1.0 million reflects its estimated costs for

completion of the existing Consent Order and the minimum “no action” alternative based on the current Participation Agreement.

Northshore Mine Notice of Violation

On February 10, 2006, Northshore mine received a Notice of Violation (“Notice”) from the EPA. The Notice cites four alleged violations: (1) that Northshore violated the Prevention of Significant Deterioration (“PSD”) requirements of the Clean Air Act in the 1990 restart of Furnaces 11 and 12; (2) that Northshore mine violated the PSD Regulations in the 1995 restart of Furnace 6; (3) Title V operating permit violations for not including in the Title V permit all applicable requirements (including a compliance schedule for PSD and Best Available Control Technology requirements associated with the furnace restarts); and (4) failure to comply with calibration of monitoring equipment as required under Northshore’s Title V permit. The alleged violations relating to the restart of Furnaces 11 and 12 occurred prior to our acquisition of Northshore (formerly Cyprus Northshore Mining Company) in a share purchase in 1994. We have investigated the allegations and have communicated our position to the EPA. In accordance with SFAS No. 5, we have not recorded an environmental liability related to this Notice.

Mine Closure

The mine closure obligation of $97.8 million includes the accrued obligation at June 30, 2006 for a closed operation formerly known as LTVSMC, for our six North American operating mines and for Portman. The LTVSMC closure obligation results from an October 2001 transaction where subsidiaries of the Company received a net payment of $50 million and certain other assets and assumed environmental and certain facility closure obligations of $50 million, which obligations have declined to $29.4 million at June 30, 2006, as a result of expenditures totaling $20.6 million since 2001 ($1.0 million in the first six months of 2006).

The accrued closure obligation for our active mining operations of $68.4 million at June 30, 2006 reflects the adoption of SFAS No. 143, “Accounting for Asset Retirement Obligations”, to provide for contractual and legal obligations associated with the eventual closure of the mining operations. We determined the obligations, based

on detailed estimates, adjusted for factors that an outside third party would consider (i.e., inflation, overhead and profit), escalated to the estimated closure dates and then discounted using a credit-adjusted risk-free interest rate of 10.25 percent (12.0 percent for United Taconite and 5.5 percent for Portman). The estimates for the North American operations were revised at December 31, 2005 using a three percent escalation factor and a six percent credit-adjusted risk-free discount rate for the incremental increases in the closure cost estimates. The closure date for each location was determined based on the expected exhaustion date of the remaining economic iron ore reserves. The accretion of the liability and amortization of the property and equipment are recognized over the estimated mine lives for each location.

The following summarizes our asset retirement obligation liability, including our share of unconsolidated associated companies:

	(In Millions)	
	June 30 2006	December 31 2005
Asset retirement obligation at beginning of year	$ 64.8	$ 52.2
Accretion expense	3.0	5.7
Portman acquisition		5.1
Minority interest	.6	.2
Revision in estimated cash flows		1.6
Asset retirement obligation at end of year	$ 68.4	$ 64.8

NOTE 9 — INCOME TAXES

Our total tax provision from continuing operations for the first half of 2006 of $39.5 million is comprised of $29.0 million related to North American operations, primarily the U.S., and $10.5 million related to Australian operations. Our expected effective tax rate for 2006 related to North American operations reflects benefits from deductions for percentage depletion in excess of cost depletion.

Through our acquisition of Portman in 2005, we have $11.1 million of deferred tax assets related to Australian capital loss carryforwards of $37.0 million. Under Australian income tax law, capital losses are deductible from taxable capital gains, not from ordinary taxable income, but can be carried forward indefinitely. Due to uncertainty as to when, if ever, Portman may be able to utilize these Australian capital

Table of Contents

loss carryforwards, we continue to maintain a full valuation allowance against this deferred tax asset.

At June 30, 2006, cumulative undistributed earnings of our Australian subsidiaries included in consolidated retained earnings continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for deferred taxes related to a future repatriation of these earnings, nor is it practicable to determine the amount of this liability.

NOTE 10 — SHARE-BASED COMPENSATION PLANS

Description of Share-Based Compensation Plans

The 1992 Incentive Equity Plan, as amended in 1999, authorizes us to issue up to 6,800,000 Common Shares to employees upon the exercise of Options 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 on awards made under the Plan. Such shares may be shares of original issuance, treasury shares, or a combination of both. Stock options may be granted at a price not less than the fair market value of the stock on the date the option is granted, generally are not subject to repricing, and must be exercisable not later than ten years and one day after the date of grant. Common Shares may be awarded or sold to certain employees with disposition restrictions over specified periods.

The following is a summary of our Performance Share Award Agreements for each of the past three years:

Performance Share Plan Year	Performance Shares Outstanding	Forfeitures*	Grant Date	Performance Period
2006	75,246	28,724	May 8, 2006	1/1/2006-12/31/2008
2005	89,184	8,908	March 8, 2005	1/1/2005-12/31/2007
2004	214,664	23,536	March 11, 2004	1/1/2004-12/31/2006

* The 2006 and 2005 Plans are based on assumed forfeitures. The 2004 Plan is based on actual forfeitures.

For all three Agreements, each performance share, if earned, entitles the holder to receive a number of Common Shares within the range between a threshold and

maximum number of shares, with the actual number of Common Shares earned dependent upon whether the Company achieves certain objectives established by the Compensation Committee of its Board of Directors. The performance payout is determined primarily by the Company's Total Shareholder Return ("TSR") for the period as measured against a predetermined peer group of mining and metals companies. For the 2006 and 2005 Agreements, the TSR calculated payout may be reduced by up to 50 percent in the event that the Company's pre-tax return on net assets ("RONA") for the incentive period falls below 12 percent. The 2004 Agreement includes a discrete performance measure and payout based on the Company's pre-tax RONA. Additionally, the payout for both the 2005 and 2004 Agreements may be increased or reduced by up to 25 percent of the target based on management's performance relative to the Company's strategic objectives over the performance period as evaluated by the Compensation Committee. The final payout may vary from zero to 175 percent of the performance shares awarded for both the 2005 and 2004 Agreements subject to a maximum payout of two times the grant date price. The final payout for the 2006 Agreement varies from zero to 150 percent of the performance shares awarded.

Impact of the Adoption of SFAS 123R

Under existing restricted stock plans awarded prior to January 1, 2006, we will continue to recognize compensation cost for awards to retiree-eligible employees without substantive forfeiture risk over the nominal vesting period. This recognition method differs from the requirements for immediate recognition for awards granted with similar provisions after the January 1, 2006 adoption of SFAS 123R. Accordingly, compensation expense of $1.6 million related to restricted stock awards to retiree-eligible employees granted on March 14, 2006 was recognized in the first quarter of 2006.

Our income from continuing operations for the six months ended June 30, 2006 includes approximately $4.4 million in pre-tax share-based employee compensation calculated under the provisions of SFAS 123R, which compares with $4.0 million of pre-tax expense had we accounted for share-based compensation under the provisions of SFAS 123 for the comparable period.

The following table summarizes the share-based compensation expense that we recorded for continuing operations in accordance with SFAS 123R for the three month and six month periods ended June 30, 2006:

	(In Millions, except per common share)	
	Three Months Ended June 30 2006	Six Months Ended June 30 2006
Administrative, selling and general expenses	$ 2.0	$ 4.4
Reduction of operating income from continuing operations before income taxes and minority interest	2.0	4.4
Income tax benefit	(.5)	(1.1)
Reduction of net income	$ 1.5	$ 3.3
Reduction of earnings per share:		
Basic	$ .04	$ .08
Diluted	$ .03	$ .06

Prior to the adoption of SFAS 123R, we presented all tax benefits for actual deductions in excess of compensation expense as operating cash flows on our Statements of Condensed Consolidated Cash Flows. SFAS 123R requires the cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense to be classified as financing cash flows. Accordingly, we classified $1.2 million in excess tax benefits as cash from financing activities rather than cash from operating activities on our Statements of Condensed Consolidated Cash Flows for the six-month period ended June 30, 2006.

Determining fair value

We estimated fair value using a Monte Carlo simulation to forecast relative TSR performance. Consistent with the guidelines of SFAS 123R, a correlation matrix of historic and projected stock prices was developed for both the Company and its predetermined peer group of mining and metals companies.

The expected term of the grant represented the time from the grant date to the end of the service period for each of the three performance Agreements. We estimated the volatility of our common stock and that of the peer group of mining and metals companies

using daily price intervals for all companies. The risk-free interest rate was the rate at the valuation date on zero-coupon government bonds, with a term commensurate with the remaining life of the performance plans.

The assumptions utilized to estimate the fair value of the Agreements incorporating the Company's relative TSR and the calculated fair values are as follows:

	2006 Agreement	2005 Agreement	2004 Agreement
Average expected term (years)	2.65	2.81	2.80
Expected volatility	46%	48%	47%
Risk-free interest rate	4.96%	3.72%	1.94%
Dividend yield	1.04%	0%	0%
Fair value — percent of grant date market price	27.73%	118.53%	61.88%

We adjusted the number of shares awarded under our share-based equity plans concurrent with our June 30, 2006 two-for-one stock split. Management has concluded that the equity anti-dilution adjustments were required and accordingly, the adjustments did not require the recognition of incremental compensation expense.

Stock option, restricted stock, deferred stock allocation and performance share activity under our Incentive Equity Plans and Nonemployee Directors' Compensation Plans are as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock options:				
Options outstanding at beginning of year	54,268	$ 14.69		
Granted during the period Excercised	(36,468)	16.79		
Cancelled or expired Options outstanding at end of period	17,800	11.55	1.5	$ 205,590
Options exercisable at end of period	17,800	11.55	1.5	205,590
Restricted awards:				
Awarded and restricted at beginning of year	193,180			
Awarded during the period	162,178			
Vested	(30,072)			
Cancelled Awarded and restricted at end of period	325,286		2.6	
Performance shares:				
Allocated at beginning of year	822,118			
Awarded during the period	103,970			
Issued	(202,518)			
Forfeited/cancelled	(306,844)			
Allocated at end of period	416,726		1.1	
Directors' retainer and voluntary shares:				
Awarded at beginning of year	1,856			
Awarded during the period	1,082			
Issued	(2,388)			
Awarded at end of period	550		.5	
Reserved for future grants or awards at end of period:				
Employee plans	1,348,436			
Directors' plans	86,774			
Total	1,435,210			

The intrinsic value of options exercised during the six-month periods ended June 30, 2006 and 2005 was $.6 million and $3.5 million, respectively.

A summary of our non-vested shares as of June 30, 2006 and changes during the six months ended June 30, 2006 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of year	1,017,154	$ 16.66
Granted	267,230	45.05
Vested	(270,732)	10.62
Forfeited/expired	(306,844)	5.07
Nonvested, end of period	706,808	$ 34.74

The total compensation cost related to non-vested awards not yet recognized is $11.2 million.

Comparable disclosures

As discussed in NOTE 2, we accounted for share-based employee compensation under SFAS 123R's fair value method during the three-month and six-month periods ended June 30, 2006. Prior to January 1, 2006, we accounted for share-based compensation under the provisions of SFAS 123. The following table illustrates the pro forma effect on our net income and earnings per common share as if we had applied the fair value recognition provisions of SFAS 123 to all awards unvested for the three-month and six-month periods ended June 30, 2005:

	(In Millions, except per common share)	
	Three Months Ended June 30 2005	Six Months Ended June 30 2005
Net income as reported	$ 99.7	$ 125.9
Stock-based employee compensation, net of tax:		
Add expense included in reported results	.4	4.2
Deduct fair value based method	(.4)	(1.8)
Pro forma net income	$ 99.7	$ 128.3
Earnings attributable to common shares:		
Basic — as reported	$ 2.26	$ 2.84
Basic — pro forma	$ 2.26	$ 2.90
Diluted — as reported	$ 1.79	$ 2.27
Diluted — pro forma	$ 1.79	$ 2.31

Table of Contents

NOTE 11 — EARNINGS PER SHARE

We present both basic and diluted EPS amounts. Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the quarter. Diluted EPS is calculated by dividing net income by the weighted average number of common shares, common share equivalents and convertible preferred stock outstanding during the period, utilizing the treasury share method for employee stock plans. Common share equivalents are excluded from EPS computations in the periods in which they have an anti-dilutive effect.

A summary of the calculation of earnings per common share on a basic and diluted basis follows:

	(In Millions, except EPS)			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net income	$ 83.1	$ 99.7	$ 121.0	$ 125.9
Preferred stock dividends	1.4	1.4	2.8	2.8
Income applicable to common shares	$ 81.7	$ 98.3	$ 118.2	$ 123.1
Weighted average number of shares:				
Basic	42.7	43.4	43.2	43.3
Employee stock plans	.4	1.0	.4	1.0
Convertible preferred stock	11.3	11.2	11.3	11.2
Diluted	54.4	55.6	54.9	55.5
Earnings per common share — Basic	$ 1.91	$ 2.26	$ 2.74	$ 2.84
Earnings per common share — Diluted	$ 1.53	$ 1.79	$ 2.20	$ 2.27

We increased our quarterly common share dividend to $.125 per share from $.10 per share on May 9, 2006 and to $.10 per share from $.05 per share on July 12, 2005. During the second quarter, we settled 2.3 million of the 2.5 million common shares re-purchased under a May 2006 authorization by Cliffs' Board of Directors at a cost of $81.0 million. On July 11, 2006, the Board of Directors authorized an additional two million common share repurchase program. Common stock repurchased in accordance with these programs will be accumulated as treasury shares and used for general corporate purposes.

NOTE 12 — LEASE OBLIGATIONS

The Company and its ventures lease certain mining, production and other equipment under operating and capital leases. Future minimum payments under capital leases and non-cancellable operating leases, including our share of ventures, at June 30, 2006, are expected to be:

	(In Millions)			
	Company Share		Total	
	Capital Leases	Operating Leases	Capital Leases	Operating Leases
2006 (July 1 - December 31)	$ 3.0	$ 9.1	$ 4.9	$ 13.1
2007	5.9	12.5	8.4	15.7
2008	4.4	7.0	6.3	7.8
2009	4.3	6.3	6.2	6.5
2010	3.5	5.6	4.7	5.6
2011 and thereafter	18.5	5.0	18.7	5.0
Total minimum lease payments	39.6	$ 45.5	49.2	$ 53.7
Amounts representing interest	9.5		10.3	
Present value of net minimum lease payments	$ 30.1		$ 38.9	

Total minimum lease payments include $32.2 million for capital leases and $2.4 million for operating leases associated with Portman. Our share of total minimum lease payments, $85.1 million, is comprised of our consolidated obligation of $79.0 million and our share of unconsolidated ventures' obligations of $6.1 million, principally related to Hibbing and Wabush.

NOTE 13 — BANKRUPTCY OF CUSTOMERS

On May 1, 2006, an entity controlled by the secured noteholders of WCI acquired the steelmaking assets and business of WCI ("New WCI"). New WCI assumed the 2004 Pellet Agreement, including the obligation to cure the remaining unpaid pre-bankruptcy $4.9 million trade receivable owed to the Company by WCI plus $.9 million of subsequent pricing adjustments. At June 30, 2006, a total of $3.9 million of this cure amount remained unpaid. Under the terms of the 2004 Pellet Agreement, the remainder of the cure amount will be paid by New WCI in two annual installments, with interest, due November 2006 and November 2007.

On March 31, 2006, Stelco emerged from protection from its creditors under the Companies' Creditors Arrangement Act, which had been mandated by the Ontario Superior Court of Justice (the "Court") on January 29, 2004. Pursuant to Stelco's plan of reorganization, C$350 million of new financing was invested in Stelco. The investor required, as a condition of such financing, that Stelco be reorganized into limited — partnership operating subsidiaries, one of which was a "mining" subsidiary, HLE Mining Limited Partnership ("HLE"). By way of a consent made as of March 31, 2006, Cliffs Mining Company and Wabush Iron Co. Limited, among others, consented to the transfer of Stelco's interest in the Wabush Joint Venture, and its subsidiaries' shareholdings in the Hibbing and Tilden operations, to HLE. The Consent Order was conditional upon the completion of a number of items on or before June 30, 2006:

a. the execution and delivery of a Reorganization Agreement and related documentation with respect to the joint venture operations; and

b. the execution and delivery by Stelco of the obligations of HLE with respect to the joint ventures, and guarantees of the obligations of Stelco under its guarantee from each of the other limited partnerships into which Stelco's other business interests were organized pursuant to the restructuring.

Stelco has been unable to complete the necessary documentation, and the participants in the Wabush Joint Venture have extended the time to September 15, 2006. We fully expect to be working with Stelco and its subsidiaries in the coming weeks to complete the documentation necessary to satisfy these conditions. If, however, the conditions are not satisfied by September 15, 2006, the Consent dictates that the consent provided therein is to be deemed not to have been given.

NOTE 14 — DISCONTINUED OPERATIONS

Cliffs' business/consulting arrangements with C.V.G. Ferrominera Orinoco C. A. of Venezuela to provide technical assistance in support of improving operations of a 3.3 million tonne per year pelletizing facility were terminated in the third quarter of 2005. We recorded after-tax income of $.2 million and after-tax expense of $.9 million related to this contract in the first six months of 2006 and 2005, respectively. The amounts

were recorded under “Discontinued Operations” in the Statements of Condensed Consolidated Operations.

On July 23, 2004, CAL, an affiliate of the Company jointly owned by a subsidiary of the Company (82.3945 percent) and Outokumpu Technology GmbH (17.6055 percent), a German company (formerly known as Lurgi Metallurgie GmbH), completed the sale of CAL’s HBI facility located in Trinidad and Tobago to Mittal Steel USA. Terms of the sale include a purchase price of $8.0 million plus assumption of liabilities. Mittal Steel USA closed this facility at the end of 2005. We recorded after-tax income of $.1 million and $.7 million in the first six months of 2006 and 2005, respectively. The amounts were classified under “Discontinued Operations” in the Statements of Condensed Consolidated Operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Cleveland-Cliffs Inc is the largest producer of iron ore pellets in North America. We sell the majority of our pellets to integrated steel companies in the United States and Canada. We manage and operate six North American iron ore mines located in Michigan, Minnesota and Eastern Canada that currently have a rated capacity of 37.5 million tons of iron ore production annually, representing approximately 46 percent of the current total North American pellet production capacity. Based on our percentage ownership of the mines we operate, our share of the rated pellet production capacity is currently 23.0 million tons annually, representing approximately 28 percent of total North American annual pellet capacity.

On April 19, 2005, Cliffs Australia, a wholly owned subsidiary of the Company, completed the acquisition of 80.4 percent of Portman, the third-largest iron ore mining company in Australia. The Portman acquisition represents another significant milestone in our long-term strategy to seek additional investment and management opportunities and to broaden our scope as a supplier of iron ore or other raw materials to the integrated steel industry. We are particularly focused on expanding our international investments to capitalize on global demand for steel and iron ore.

As a result of the Portman acquisition, we now operate in two reportable segments: the North America segment and the Australia segment, also referred to as Portman. See NOTE 5 for a further discussion of the nature of our operations and related financial disclosures for the reportable segments.

Table of Contents

RESULTS OF OPERATIONS

Following is a summary of our second quarter and first half results:

	(In Millions, except per share)			
	Second Quarter		First Half	
	2006	2005	2006	2005
Income from continuing operations:				
Amount	$ 83.0	$ 100.0	$ 120.7	$ 120.9
Per diluted share	1.53	1.80	2.19	2.18
Income (loss) from discontinued operations:				
Amount	.1	(.3)	.3	(.2)
Per diluted share		(.01)	.01	
Cumulative effect of accounting change:				
Amount				5.2
Per diluted share				.09
Net income:				
Amount	$ 83.1	$ 99.7	$ 121.0	$ 125.9
Per diluted share	$ 1.53	$ 1.79	$ 2.20	$ 2.27

All per-share amounts have been adjusted retroactively to reflect a June 30, 2006 two-for-one stock split. See NOTE 1 for more information.

Second quarter net income was $16.6 million lower than the comparable period of 2005. The decrease reflected lower North American pre-tax sales margin of $14.3 million, last year's $10.6 million pre-tax second quarter business interruption recovery related to a 2003 production curtailment and higher administrative, selling and general expenses, $3.0 million, partially offset by higher pre-tax sales margin at Portman, $6.1 million, and lower income taxes, $7.2 million.

The $4.9 million decrease in first half net income primarily reflected lower North American pre-tax sales margin of $12.4 million and last year's $10.6 million pre-tax insurance recovery, partially offset by higher pre-tax sales margin at Portman, $15.9 million, and last year's $9.8 million pre-tax currency hedging costs associated with the acquisition. Cliffs acquired a controlling interest in Portman on March 31, 2005, and our 2005 first half net income only included Portman's second quarter results. The decrease in first-half net income also reflected $5.2 million of after-tax income related to a 2005 accounting change.

Sales Margin

North American Iron Ore

The decrease in North American sales margins for the second quarter and first half were primarily due to lower sales volume and higher production costs, partially offset by higher sales price realizations. A summary is as follows:

	Sales Margin Increase (Decrease) From Last Year (In Millions)					
	Second Quarter			First Half		
	Rate	Volume	Total	Rate	Volume	Total
Sales revenue	$ 36.6	$ (65.4)	$ (28.8)	$ 61.6	$ (124.9)	$ (63.3)
Cost of goods sold and operating expenses	29.6	(44.1)	(14.5)	39.3	(90.2)	(50.9)
Sales margin	$ 7.0	$ (21.3)	$ (14.3)	$ 22.3	$ (34.7)	$ (12.4)

Sales revenue (excluding freight and venture partners' cost reimbursements) decreased $28.8 million in the quarter and $63.3 million in the first half. The decreases were the net effect of a 1.1 million ton sales volume reduction for the quarter and 2.2 million tons for the first half, largely offset by higher sales prices (Rate). A portion of the sales volume decrease is expected to be realized in the second half as full year 2006 sales are projected to be approximately 21 million tons, compared with 22.3 million tons in 2005. The increase in sales prices of approximately 13 percent in the second quarter and 14 percent in the first half primarily reflected contractual base price increases, higher term sales contract escalation factors including higher steel pricing, higher PPI, and lag year adjustments, partially offset by the impact of lower international benchmark pellet prices. The price of blast furnace pellets for Eastern Canadian producers was settled during the second quarter, resulting in a 3.5 percent decrease. The retroactive change on a portion of first quarter sales was $1.2 million. Included in first half 2006 revenues were approximately 1.2 million tons of 2006 sales at 2005 contract prices and $12.9 million of revenue related to pricing adjustments on 2005 sales.

Cost of goods sold and operating expenses (excluding freight and venture partners' costs) decreased $14.5 million in the quarter and $50.9 million in the first half. The decreases primarily reflected the net effect of lower sales volumes, partially offset by higher unit production costs (Rate). On a per-ton basis, cost of goods sold and

operating expenses increased approximately 15 percent in the quarter and 12 percent in the first half, principally due to higher energy and supply pricing, higher labor costs, increased maintenance activity and lower production.

Australian Iron Ore

The increase in sales margin at Portman for the second quarter was due to higher sales prices and higher sales volume, partially offset by higher production costs. A summary is as follows:

	Sales Margin Increase (Decrease) From Last Year (In Millions)					
	Second Quarter			First Half		
	Rate	Volume	Total	Rate	Volume (1)	Total
Sales revenue	$ 14.1	$ 10.4	$ 24.5	$ 9.3	$ 75.4	$ 84.7
Cost of goods sold and operating expenses	11.3	7.1	18.4	16.7	52.1	68.8
Sales margin	$ 2.8	$ 3.3	$ 6.1	$ (7.4)	$ 23.3	$ 15.9

(1) First half volume for 2005 only included Portman's second quarter results.

Portman's sales prices include the effects of a 19 percent increase in the international benchmark price of iron ore, which was settled in the second quarter of 2006. The retroactive impact on a portion of first quarter sales was $7.3 million.

Cost of goods sold and operating expenses increased $18.4 million in the second quarter and $68.8 million in the first half, compared with the respective 2005 periods. The second quarter increase reflected higher volume enabled by the expansion. Sales margin reflected the Company's basis adjustments of $9.3 million and $17.5 million for depletion and inventory step-ups in the second quarter and first half of 2006 and $.2 million and $1.9 million of revenue reductions in the second quarter and first half, respectively, due to foreign currency contract settlements.

Other operating income (expense)

The pre-tax earnings changes for the second quarter and first half of 2006 versus the comparable 2005 period also included:

- A business interruption insurance recovery of $10.6 million in the second quarter of 2005 related to a five-week production curtailment at the Empire and Tilden

mines in 2003 due to the loss of electric power as a result of flooding in the Upper Peninsula of Michigan.

- Higher administrative, selling and general expense of $3.0 million in the quarter and $1.5 million for the first half primarily reflecting higher outside professional services.
- Higher miscellaneous-net of $.2 million in the quarter and $1.2 million for the first half. Miscellaneous-net in the second quarter includes $3.8 million for additional clean-up costs related to a PCB spill at the Tilden mine in November 2005, partially offset by $2.6 million of mark-to-market gains on currency hedging by Portman.

Other income (expense)

- Decreased interest expense of $.9 million in the quarter reflects borrowings in 2005 for the Portman acquisition.
- Lower other-net expense of $8.5 million in the first half primarily reflected $9.8 million of currency hedging costs associated with the Portman acquisition in the first quarter of 2005, partially offset by $1.7 million of expense related to the accelerated write-off of fees due to the replacement of our unsecured revolving credit facility. See NOTE 4.

Change in Accounting

On March 17, 2005, the EITF reached consensus on Issue No. 04-6, “Accounting for Stripping Costs Incurred during Production in the Mining Industry”, (“EITF 04-6”). The consensus clarified that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the cost of inventory. The consensus, which was effective for reporting periods beginning after December 15, 2005, permitted early adoption. At its June 29, 2005 meeting, FASB ratified a modification to EITF 04-6 to clarify that the term “inventory produced” means “inventory extracted.” We elected to adopt EITF 04-6 in 2005. As a result, we recorded an after-tax cumulative effect adjustment of $5.2 million or $.09 per diluted share, and increased product inventory by $8.0 million effective January 1, 2005.

In December, 2004, FASB issued SFAS No. 123R, "Share-Based Payment", ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supersedes APB 25. SFAS 123R requires all share-based payments to employees be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity instruments issued. In addition, liability awards will be re-measured each reporting period. Compensation costs will be recognized over the period that an employee provides service in exchange for the award. SFAS 123R was effective for periods beginning after December 15, 2005.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R using the modified prospective transition method. Because we elected to use the modified prospective transition method, results for prior periods have not been restated. Under this transition method, share-based compensation expense for the first half of 2006 includes compensation expense for all share-based compensation awards granted based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Accordingly, compensation costs are being amortized on a straight-line basis over the remaining service periods of the awards.

Prior to the adoption of SFAS 123R, we recognized share-based compensation expense in accordance with SFAS 123. As prescribed in SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" ("SFAS 148"), we elected to use the prospective method. The prospective method requires expense to be recognized for all awards granted, modified or settled beginning in the year of adoption. In accordance with SFAS 123 and SFAS 148, we provided pro forma net income or loss and net income or loss per share disclosures for each period prior to adoption of SFAS 123R as if we had applied the fair value recognition provisions to all awards unvested in each period.

SFAS 123R requires us to estimate forfeitures at the time of the grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We used historical severance data and expected future retirements to estimate the forfeitures and recorded share-based compensation expense only for those awards that

are expected to vest. For purposes of calculating pro forma information under SFAS 123 for periods prior to 2006, we accounted for forfeitures as they occurred.

Income from continuing operations for the six months ended June 30, 2006 includes approximately $4.4 million in pre-tax share-based employee compensation calculated under the provisions of SFAS 123R, which compares with $4.0 million of pre-tax expense had we accounted for share-based compensation under the provisions of SFAS 123 for the comparable period.

Income Taxes

Our total tax provision from continuing operations for the first half of 2006 of $39.5 million is comprised of $29.0 million related to North American operations, primarily the U.S., and $10.5 million related to Australian operations. Our expected effective tax rate for 2006 related to North American operations of approximately 23 percent primarily reflects benefits from deductions for percentage depletion in excess of cost depletion.

Through our acquisition of Portman in 2005, we have $11.1 million of deferred tax assets related to Australian capital loss carryforwards of $37 million. Under Australian income tax law, capital losses are deductible from taxable capital gains, not from ordinary taxable income, but can be carried forward indefinitely. Due to uncertainty as to when, if ever, Portman may be able to utilize these Australian capital loss carryforwards, we continue to maintain a full valuation allowance against this deferred tax asset.

At June 30, 2006, cumulative undistributed earnings of our Australian subsidiaries included in consolidated retained earnings continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for deferred taxes related to a future repatriation of these earnings, nor is it practicable to determine the amount of this liability.

PRODUCTION AND SALES VOLUME

Following is a summary of production tonnage for 2006 and 2005:

	(In Millions)					
	Second Quarter		First Half		Full Year	
	2006	2005	2006	2005	2006*	2005
North America (1)						
Empire	1.2	1.2	2.5	2.4	4.7	4.8
Tilden	1.7	2.4	3.4	3.8	7.3	7.9
Hibbing	2.1	2.1	4.1	4.0	8.3	8.5
Northshore	1.2	1.2	2.5	2.4	5.0	4.9
United Taconite	1.4	1.2	2.4	2.3	5.4	4.9
Wabush	1.0	1.3	1.8	2.4	4.2	4.9
Total	8.6	9.4	16.7	17.3	34.9	35.9
Cliffs' Share of Total	5.4	5.9	10.5	10.7	21.7	22.1
Australia (2)						
Koolyanobbing	1.8	1.5	3.0	1.5	6.8	4.7
Cockatoo Island	.2	.1	.3	.1	.7	.5
Total	2.0	1.6	3.3	1.6	7.5	5.2

* Estimate

(1) Tons are long tons of pellets of 2,240 pounds.

(2) Tonnes are metric tons of 2,205 pounds. Portman's 2005 totals reflect production since the acquisition.

North America

Our share of second quarter pellet production was 5.4 million tons in 2006 compared with 5.9 million tons last year. For the first half of 2006, our share of production was 10.5 million tons compared with 10.7 million tons last year. Lower production at Tilden in the first half was primarily due to repair downtime in the second quarter of 2006. The decrease in Wabush first half production in 2006 was due to continued mining difficulties. Crude ore mining was significantly impacted by pit de-watering difficulties, which are adversely impacting production and costs. The Company and its joint venture partners are exploring options to deal with the Wabush issues, including additional dewatering, a manganese reduction circuit and shortening the mine life.

Pellet sales in the second quarter were 4.9 million tons in 2006 compared with 6.0 million tons in 2005. First half sales were 7.8 million tons compared with 10.0

million tons in the same period last year. The sales volume decrease in the first half primarily reflected lower consignment sales tons shipped to lower Great Lakes ports during the 2005 shipping season as a result of programmed contractual changes with customers and customers' inventory liquidation.

On April 13, 2006 the Company entered into a letter agreement with Mittal Steel USA that resolved the dispute between the companies over the terms of the iron ore supply agreement between the Company and Mittal Steel USA's Weirton facility. Under the terms of the letter agreement, the three separate iron ore supply agreements between the Company and Mittal Steel USA's Cleveland and Indiana Harbor West, Indiana Harbor East and Weirton facilities, which are scheduled to expire at the end of 2016, in January 2015 and at the end of 2018, respectively, were modified to aggregate Mittal Steel USA's purchases under the agreements during the years 2006 through and including 2010. During this period, Mittal Steel USA is obligated to purchase specified minimum tonnages of iron ore pellets on an aggregate basis as specified in the letter agreement. The terms of the letter agreement permit Mittal Steel USA to manage its ore inventory levels through buy down provisions, which permit Mittal Steel USA to reduce its tonnage purchase obligation each year at a specified price per ton, and with deferral provisions, which permit Mittal Steel USA to defer a portion of its annual tonnage purchase obligation beginning in 2007.

Mittal Steel USA is permitted under the letter agreement to use the committed volume at any of its facilities. The letter agreement also provides for consistent nomination procedures during the 2006 to 2010 time period across all three iron ore supply agreements. As part of the settlement, the Company canceled its invoice for approximately .3 million tons of iron ore pellets that were not purchased by Mittal Steel USA's Weirton facility in January 2006. In addition, Mittal Steel USA waived all Special Steel Payment claims as described in the Company's Form 8-K filed on February 10, 2006.

The terms of the letter agreement resulted in a definitive agreement that amended the terms of the three separate iron ore supply agreements between the Company and Mittal Steel USA's Cleveland and Indiana Harbor West, Indiana Harbor East and Weirton facilities.

We currently have a long-term iron ore supply agreement with Algoma that runs through 2016 (the “Algoma Agreement”). Pricing under the Algoma Agreement is based on a formula linked to a number of adjustment factors, including international benchmark pellet prices (the “pricing formula”). The Algoma Agreement also provides that in certain years either party may request a price negotiation (“Reopener Years”) if prices under the Algoma Agreement differ from a specified benchmark price. Algoma has taken the position that the Reopener Years are 2007, 2010 and 2013. Our position is that the Reopener Years are 2008, 2011 and 2014. We have agreed with Algoma to resolve this issue through binding arbitration which is anticipated to be completed by the end of 2006. The amount of the variance, if any, between the pricing formula and the benchmark price for a particular Reopener Year depends on future events and is therefore currently not determinable.

Australia

Portman’s second quarter production was 2.0 million tonnes in 2006 compared with 1.6 million tonnes last year. For the first half of 2006, production was 3.3 million tonnes.

Sales of fines and lump ore were 1.8 million tonnes in the second quarter of 2006 compared with 1.5 million tonnes in 2005. First half sales were 3.2 million tonnes. The increase in sales and production in the second quarter was primarily due to the expansion of Portman’s operations.

WISCONSIN ELECTRIC POWER COMPANY DISPUTE

Two of the Company’s mines, Tilden and Empire (the “Mines”), currently purchase their electric power from WEPCO pursuant to the terms of special contracts specifying prices based on WEPCO’s “actual costs”. Effective April 1, 2005, WEPCO unilaterally changed its method of calculating the energy charges to the Mines. It is the Mines’ contention that WEPCO’s new billing methodology is inconsistent with the terms of the parties’ contracts and a dispute has arisen between WEPCO and the Mines over the pricing issue. An interim agreement was entered into effective May 5, 2006, between WEPCO and the Mines. Under the terms of the agreement, we received a net amount of approximately $67.5 million, representing a rebate of amounts in excess of

certain contractual caps paid either to WEPCO or placed in escrow. The agreement also temporarily adjusts the billing and payment provisions of the contracts during the pendency of the arbitration, without affecting the final outcome of the dispute. As of June 30, 2006, a total of approximately $31 million remains in the escrow accounts which represents portions of WEPCO's 2005 and 2006 billings, plus accrued interest, that remain in dispute in the arbitration. See Part II Item 1 — Legal Proceedings for further information.

LABOR AND EMPLOYEE RELATIONS

The USW has advised the Company with a "Written Notification" that they initiated an organizing campaign effective April 1, 2006 at Northshore. Under the terms of the Company's collective bargaining agreements with the USW, the Company is required to remain neutral during the organizing campaign. Based upon subsequent conversations with USW representatives, the organizing campaign has been postponed pending resolution of issues related to the neutrality commitment in the collective bargaining agreement. Those issues remain in discussion. At this time, the timing of when a campaign may begin and the outcome of the campaign, when it proceeds, cannot be predicted. Previous efforts to organize Northshore employees have not been successful.

BANKRUPTCY OF CUSTOMERS

On May 1, 2006, an entity controlled by the secured noteholder of WCI acquired the steelmaking assets and business of WCI ("New WCI"). New WCI assumed the 2004 Pellet Agreement, including the obligation to cure the remaining unpaid pre-bankruptcy $4.9 million trade receivable owed to the Company by WCI plus $.9 million of subsequent pricing adjustments. At June 30, 2006, a total of $3.9 million of this cure amount remained unpaid. Under the terms of the 2004 Pellet Agreement, the remainder of the cure amount will be paid by New WCI in two annual installments, with interest, due November 2006 and November 2007. See NOTE 13.

On March 31, 2006, Stelco emerged from protection from its creditors under the Companies' Creditors Arrangement Act, which had been mandated by the Ontario Superior Court of Justice (the "Court") on January 29, 2004. Pursuant to Stelco's plan

of reorganization, C$350 million of new financing was invested in Stelco. The investor required, as a condition of such financing, that Stelco be reorganized into limited — partnership operating subsidiaries, one of which was a “mining” subsidiary, HLE Mining Limited Partnership (“HLE”). By way of a consent made as of March 31, 2006, Cliffs Mining Company and Wabush Iron Co. Limited, among others, consented to the transfer of Stelco’s interest in the Wabush Joint Venture, and its subsidiaries’ shareholdings in the Hibbing and Tilden operations, to HLE. The Consent Order was conditional upon the completion of a number of items on or before June 30, 2006:

a. the execution and delivery of a Reorganization Agreement and related documentation with respect to the joint venture operations; and

b. the execution and delivery by Stelco of the obligations of HLE with respect to the joint ventures, and guarantees of the obligations of Stelco under its guarantee from each of the other limited partnerships into which Stelco’s other business interests were organized pursuant to the restructuring.

Stelco has been unable to complete the necessary documentation, and the participants in the Wabush Joint Venture have extended the time period to September 15, 2006. We fully expect to be working with Stelco and its subsidiaries in the coming weeks to complete the documentation necessary to satisfy these conditions. If, however, the conditions are not satisfied by September 15, 2006, the Consent dictates that the consent provided therein is to be deemed not to have been given.

CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES

On June 23, 2006, we entered into a five-year unsecured credit agreement with a syndicate of 16 financial institutions. The new facility provides $500 million in borrowing capacity under a revolving credit line, with no scheduled maturities other than the five-year term of the agreement; loans are made with a choice of interest rates and maturities, subject to the term of the agreement. The new credit agreement replaced an existing $350 million unsecured revolving credit facility scheduled to expire in March 2008. The facility has financial covenants based on earnings, debt and fixed cost coverage. Interest rates are either (1) a range from LIBOR plus .75 percent to LIBOR

plus 1.50 percent, based on debt and earnings, or (2) the prime rate. We did not have any borrowings outstanding against this facility as of June 30, 2006.

Portman is party to a A$40 million credit agreement. The facility has various covenants based on earnings, asset ratios and fixed cost coverage. The floating interest rate is 80 basis points over the 90-day bank bill swap rate in Australia.

In 2005, Portman secured five-year financing from its customers in China as part of its long-term supply agreements to assist with the funding of the expansion of its mining operation. The borrowings, totaling $7.7 million, accrue interest annually at five percent. The borrowings require a $.7 million principal payment plus accrued interest to be made each January 31 for the next three years with the remaining balance due in full in January 2010.

At June 30, 2006, we had cash and cash equivalents of $123.6 million (including $29.3 million at Portman), $500 million of availability under the unsecured credit agreement and A$28.5 million of availability under the credit facility at Portman. At June 30, 2006, there were no outstanding borrowings under either credit facility. Total availability under these facilities was reduced by A$11.5 million for commitments under outstanding performance bonds at Portman.

Following is a summary of cash activity for the first six months of 2006:

	(In Millions)
Repurchases of common stock	$ (81.0)
Capital expenditures	(69.3)
Dividends on common and preferred stock	(12.7)
Net cash provided by operating activities	92.4
Effect of exchange rate changes on cash	.5
Other	.6
Decrease in cash and cash equivalents from continuing operations	(69.5)
Cash provided by discontinued operations	.3
Decrease in cash and cash equivalents	$ (69.2)

Common stock repurchases reflected the settlement on 2.3 million of 2.5 million Common Shares re-purchased under a May 2006 authorization by Cliffs' Board of Directors. On July 11, 2006, Cliffs' Board authorized an additional two million common share repurchase program. Also, we increased our quarterly common share dividend

to $.125 per share from $.10 per share on May 9, 2006 and to $.10 per share from $.05 per share on July 12, 2005.

Capital expenditures through June 30, 2006 were $69.3 million, of which $32.6 million related to Portman. Our share of capital expenditures is expected to approximate $138 million in 2006, including approximately $44 million for expansion and related activity at Portman. We expect to fund our expenditures from operations and available cash.

Included in net cash from operating activities was a refund of $67.5 million from the WEPCO escrow account. At June 30, 2006, there were 5.9 million tons of pellets in inventory at a cost of $230.1 million, which was 2.6 million tons, or $125.2 million, higher than December 31, 2005. Pellet inventory at June 30, 2005 was 4.1 million tons, or $150.9 million. The increase in the first half reflects winter shipment curtailments on the Great Lakes. At June 30, 2006, Portman had .7 million tonnes of finished product inventory at a cost of $16.2 million, which was .1 million tonnes or $2.4 million higher than December 31, 2005. Finished product inventory at Portman was .8 million tonnes, or $8.7 million at June 30, 2005.

Following is a summary of our Common Shares outstanding:

	2006	2005	2004
March 31	43,797,072	43,748,246	42,736,148
June 30	42,170,090	43,756,230	42,782,604
September 30		43,858,932	43,176,772
December 31		43,830,994	43,197,544

ENVIRONMENTAL

Our environmental liabilities of $15.0 million at June 30, 2006, including obligations for known environmental remediation exposures at active and closed mining operations and other sites, have been recognized based on the estimated 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 SFAS No. 5, "Accounting for Contingencies." Future expenditures are not discounted, and potential insurance recoveries have not

been reflected. Additional environmental obligations could be incurred, the extent of which cannot be assessed.

The environmental liability includes our obligations related to five sites that are independent of our iron mining operations, three former iron ore-related sites, two leased land sites where we are lessor and miscellaneous remediation obligations at our operating units. Included in the obligation are Federal and State sites where the Company is named as a PRP: the Rio Tinto mine site in Nevada, the Milwaukee Solvay site in Wisconsin and the Kipling and Deer Lake sites in Michigan. See NOTE 8 for more information.

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Defined benefit pension expense totaled $5.7 million and $11.5 million for the second quarter and first half of 2006, compared with $4.7 million and $9.5 million for the comparable 2005 periods. The increase in defined benefit pension expense for the three-month and six-month periods was due primarily to a decrease in the discount rate. See NOTE 7 for more information.

OPEB expense totaled $4.1 million and $8.3 million for the second quarter and first half of 2006, compared with $5.3 million and $10.8 million for the comparable 2005 periods. The decrease in OPEB expense for the three-month and six-month periods was due to higher expected asset returns and lower loss amortization. The higher expected asset returns are primarily due to additional VEBA contributions agreed to under the existing labor agreement with the USW. The decrease in loss amortization is due to longer amortization periods reflecting increased remaining service lives of employees.

Following is a summary of our consolidated share of defined benefit pension and OPEB funding and expense for the years 2003 through 2006:

	(In Millions)			
	Pension		OPEB	
	Funding	Expense	Funding	Expense
2003	$ 6.4	$ 32.0	$ 17.0	$ 29.1
2004	63.0	23.1	30.9	28.5
2005	40.6	20.7	31.8	17.9
2006 (Estimated)	46.2	23.1	37.4	16.6

Year 2006 and 2005 OPEB expense reflect estimated cost reductions of $3.0 million and $3.6 million, respectively, due to the effect of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

MARKET RISKS

We are subject to a variety of risks, including those caused by changes in the market value of equity investments, changes in commodity prices and foreign currency exchange rates. We have established policies and procedures to manage such risks; however, certain risks are beyond our control.

Our investment policy relating to our short-term investments (classified as cash equivalents) is to preserve principal and liquidity while maximizing the short-term return through investment of available funds. The carrying value of these investments approximates fair value on the reporting dates.

The rising cost of energy and supplies are important issues affecting our North American production costs. Energy costs represent approximately 25 percent of our North American production costs. Recent trends indicate that electric power, natural gas and oil costs can be expected to increase over time, although the direction and magnitude of short-term changes are difficult to predict. Our North American mining ventures consumed approximately 6.7 million mmbtu's of natural gas and 12.4 million gallons of diesel fuel (Company share 4.8 million mmbtu's and 7.9 million gallons of diesel fuel) in the first six months of 2006. As of June 30, 2006, we purchased or have forward purchase contracts for 12.1 million mmbtu's of natural gas (representing approximately 92 percent of estimated 2006 consumption) at an average price of approximately $8.74 per mmbtu and 13.0 million gallons of diesel fuel at approximately

$2.25 per gallon for our North American mining ventures. Our strategy to address increasing energy rates includes improving efficiency in energy usage and utilizing the lowest cost alternative fuels. Our mining ventures enter into forward contracts for certain commodities, primarily natural gas, as a hedge against price volatility. Such contracts are in quantities expected to be delivered and used in the production process. At June 30, 2006, the notional amount of the outstanding forward contracts was $47.3 million (Company share — $40.0 million), with an unrecognized fair value loss of $13.7 million (Company share — $11.6 million) based on June 30, 2006 forward rates. The contracts mature at various times through December 2006. If the forward rates were to change 10 percent from the month-end rate, the value and potential cash flow effect on the contracts would be approximately $3.4 million (Company share $2.8 million).

Our share of the Wabush Mines operation in Canada represents approximately five percent of our North American pellet production. This operation is subject to currency exchange fluctuations between the U.S. and Canadian dollars; however, we do not hedge our exposure to this currency exchange fluctuation. Since 2003, the value of the Canadian dollar rose against the U.S. dollar from $.64 U.S. dollar per Canadian dollar at the beginning of 2003 to $.90 U.S. dollar per Canadian dollar at June 30, 2006, an increase of approximately 41 percent. The average exchange rate increased to $.88 U.S. dollar per Canadian dollar in the first six months of 2006 from an average of $.77 U.S. dollar per Canadian dollar for 2004, an increase of approximately 14 percent.

Portman hedges a portion of its United States currency-denominated sales in accordance with a formal policy. The primary objective for using derivative financial instruments is to reduce the earnings volatility attributable to changes in Australian and United States currency fluctuations. The instruments are subject to formal documentation, intended to achieve qualifying hedge treatment, and are tested at inception and at each reporting period as to effectiveness. Changes in fair value for highly effective hedges are recorded as a component of other comprehensive income. Ineffective portions are charged to operations. At June 30, 2006, Portman had outstanding A$435.2 million in the form of call options, collar options, convertible collars options and forward exchange contracts with varying maturity dates ranging from July 2006 to February 2009, and a fair value loss based on the June 30, 2006 spot rate of

A$4.8 million. A one percent increase in the value of the Australian dollar from the month-end rate would increase the fair value by approximately A$3.3 million and a one percent decrease would decrease the fair value and cash flow by approximately A$2.9 million.

STRATEGIC INVESTMENTS

We intend to continue to pursue investment and management opportunities to broaden our scope as a supplier of iron ore or other raw materials to the integrated steel industry through the acquisition of additional mining interests to strengthen our market position. We are particularly focused on expanding our international investments to capitalize on global demand for steel and iron ore. Our Portman acquisition is an example of our ability to expand geographically, and we intend to continue to pursue similar opportunities. We will continue to investigate opportunities to expand our leadership position in the North American iron ore market. In the event of any future acquisitions or joint-venture opportunities, we may consider using available liquidity or other sources of funding to make investments. In addition, we will strive to continuously improve iron ore pellet quality and develop alternative metallic products, through such investments as the Mesabi Nugget Project.

Mesabi Nugget Project

In 2002, we agreed to participate in Phase II of the Mesabi Nugget Project (“Project”). Other participants include Kobe Steel, Steel Dynamics, Ferrometrics, Inc. and the State of Minnesota. Construction of a $16 million pilot plant at our Northshore mine, to test and develop 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 blast furnaces or basic oxygen furnaces of integrated steel producers or as feedstock for the foundry industry. A third operating phase of the pilot plant test in 2004 confirmed the commercial viability of this technology. The pilot plant ended operations August 3, 2004. The product was used by four electric furnace producers and one foundry with favorable results. Preliminary construction engineering and environmental permitting activities were initiated for two potential commercial plant locations (one in

Butler, Indiana near Steel Dynamics' steelmaking facilities and one at our Cliffs Erie site in Hoyt Lakes, Minnesota). A non-binding term sheet for a commercial plant was executed in March 2005, and a decision to proceed with construction engineering was made in April. On July 26, 2005, the Minnesota Pollution Control Agency Citizens' Board unanimously approved environmental permitting for the Cliffs Erie site and focus was diverted to that site. We would be the supplier of iron ore and have a minority interest in the first commercial plant. Our contribution to the project to-date has totaled $6.3 million ($1.0 million in 2005), including significant contributions of in-kind facilities and services. In January 2006, our Board of Directors authorized $50 million in capital expenditures for the project, subject to the Project obtaining non-recourse financing for its capital requirements in excess of equity investments made by the Project participants and the Project participants reaching mutually agreed upon terms. Steel Dynamics has agreed to participate in the Project subject to the same qualifications. Our equity interest in the venture is expected to be approximately 25 percent. Included in our Board's authorization is $21 million for construction and operation of the commercial nugget plant, $25 million to expand the Northshore concentrator to provide the iron ore concentrate, and $4.4 million for railroad improvements to transport the concentrate. The participants have tentatively agreed on terms of the venture agreements. The initiative to secure non-recourse project financing has commenced.

OUTLOOK

Although production schedules are subject to change, Cliffs-managed North American pellet production is expected to be approximately 35 million tons, with our share representing 21.7 million tons.

Our forecast of total year 2006 North American sales is expected to be approximately 21 million tons, reflecting higher inventories at North American steel plants, the shut down of Mittal Steel USA's Weirton blast furnace and a programmed 2005 contractual change that modified and reduced consignment tonnage. Revenue per ton for pellets is expected to increase approximately 9.5 percent to $64.35 per ton from the 2005 average of $58.77 per ton due to the combination of contractual base price increases, higher term sales contract escalation factors including higher steel

pricing, higher PPI and lag year adjustments, partially offset by the effect of lower international benchmark pellet prices.

Our total 2006 North American unit production costs are expected to increase approximately 11 percent from the 2005 cost of goods sold and operating expenses (excluding freight and venture partners' cost reimbursements) of $42.65 per ton. The cost increase principally reflects increased energy and supply pricing, higher labor costs, increased maintenance activity and lower production. Portman's unit production costs are expected to increase approximately five percent from 2005, as Portman operating cost increases are expected to be partially offset by a reduction in our purchase accounting adjustments.

Portman's current estimate of total year 2006 production is 7.5 million tonnes, reflecting the expansion of its operations. Portman's current estimate of total year 2006 sales is 7.5 million tonnes. Revenue per tonne is expected to increase approximately 16 percent to $48.40 per tonne from the 2005 average of $41.66 per tonne due to benchmark price settlements, changes in sales mix, purchase accounting adjustments related to currency hedges in place at the date of acquisition and changes in exchange rate.

As we look forward in 2006, we continue to be focused on the rising costs of much of our purchased energy and materials. While PPI escalation factors in our North American sales contracts will recover some of the expected inflation, we will continue our efforts to mitigate inflationary pressure through cost reduction initiatives.

FORWARD-LOOKING STATEMENTS

Cautionary Statements

This report contains statements that constitute "forward-looking statements." These forward-looking statements may be identified by the use of predictive, future-tense or forward-looking terminology, such as "believes," "anticipates," "expects," "estimates," "intends," "may," "will" or similar terms. These statements speak only as of the date of this report, and we undertake no ongoing obligation, other than that imposed by law, to update these statements. These statements appear in a number of places in

this report and include statements regarding our intent, belief or current expectations of our directors or our officers with respect to, among other things:

- trends affecting our financial condition, results of operations or future prospects;
- estimates of our economic iron ore reserves;
- our business and growth strategies;
- our financing plans and forecasts; and
- the potential existence of significant deficiencies or material weaknesses in internal controls over financial reporting that may be identified during the performance of testing required under Section 404 of the Sarbanes-Oxley Act of 2002.

You are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those contained in the forward-looking statements as a result of various factors, some of which are unknown. For a discussion of the factors , including but not limited to, those that could adversely affect our actual results and performance, see "Risk Factors" in Part I — Item 1A in our Annual Report on Form 10-K for the year-ended December 31, 2005.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding Market Risk of the Company is presented under the caption "Market Risk" which is included in our Annual Report on Form 10-K for the year ended December 31, 2005 and in the Management's Discussion and Analysis section of this report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e) promulgated under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the date of the evaluation conducted by our Chief Executive Officer and Chief Financial Officer.

Changes in internal controls over financial reporting

There have been no changes in our internal control over financial reporting or in other factors that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. See "Management Report on Internal Controls Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" in our Annual Report on Form 10-K for the year ended December 31, 2005.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Wisconsin Electric Power Company. Two of the Company’s mines, Tilden and Empire (the “Mines”), currently purchase their electric power from WEPCO pursuant to the terms of special contracts specifying prices based on WEPCO’s “actual costs”. Effective April 1, 2005, WEPCO unilaterally changed its method of calculating the energy charges to the Mines. It is the Mines’ contention that WEPCO’s new billing methodology is inconsistent with the terms of the parties’ contracts, and a dispute has arisen between WEPCO and the Mines over the pricing issue. On September 20, 2005, the Mines filed a Demand for Arbitration with the American Arbitration Association with respect to the dispute as provided for in their contracts with WEPCO. WEPCO filed its reply on October 8, 2005, which included a counterclaim for damages in an amount of in excess of $4.1 million resulting from an alleged failure of Tilden to notify WEPCO of planned production in excess of seven million tons per year. We consider WEPCO’s counterclaim to be without merit and intend to defend the counterclaim vigorously. Pursuant to the terms of the relevant contracts, the undisputed amounts were paid to WEPCO, while the disputed amounts were deposited into an interest-bearing escrow account maintained by a bank. An interim agreement was entered into effective May 5, 2006, between WEPCO and the Mines. Under the terms of the agreement, we received a net amount of approximately $67.5 million, representing a rebate of amounts in excess of certain contractual caps paid either to WEPCO or placed in escrow. The agreement also temporarily adjust the billing and payment provisions of the contracts during the pendency of the arbitration, without affecting the final outcome of the dispute. As of June 30, 2006, a total of approximately $31 million remains in the escrow accounts which represents a portion of WEPCO’s 2005 and 2006 billings, plus accrued interest, that remain in dispute in the arbitration.

Milwaukee Solvay Coke. In September 2002, we received a draft of a proposed Administrative Order by Consent from the EPA, for clean-up and reimbursement of costs associated with the Milwaukee Solvay coke plant site in Milwaukee, Wisconsin. The plant was operated by a predecessor of ours from 1973 to 1983, which predecessor we acquired in 1986. In January 2003, we completed the sale of the plant site and property to a third party. Following this sale, an Administrative Order by Consent ("Solvay Consent Order") was entered into with the EPA by us, the new owner and another third party who had operated on the site. In connection with the Solvay Consent Order, the new owner agreed to take responsibility for the removal action and agreed to indemnify us for all costs and expenses in connection with the removal action. In the third quarter of 2003, the new owner, after completing a portion of the removal, experienced financial difficulties. In an effort to continue progress on the removal action, we expended approximately $.9 million in the second half of 2003 and $2.1 million in 2004. In September 2005, we received a notice of completion from the EPA documenting that all work has been fully performed in accordance with the Consent Order.

On August 26, 2004, we received a Request for Information pursuant to Section 104(e) of CERCLA relative to the investigation of additional contamination below the ground surface at the Milwaukee Solvay site. The Request for Information was also sent to 13 other PRPs. On July 14, 2005, we received a General Notice Letter from the EPA notifying us that the EPA believes we may be liable under CERCLA and requesting that we, along with other PRPs, voluntarily perform clean-up activities at the site. On July 26, 2005, we received correspondence from the EPA with a proposed Consent Order, informing us that three other PRPs had also expressed interest in negotiating with the EPA. Subsequently, on March 30, 2006, we received a Special Notice Letter from the EPA notifying all PRPs that we have a 60-day period within which to enter into negotiations with EPA over the conduct of a remedial investigation and feasibility study for the Milwaukee Solvay site. At this time, the nature and extent of the contamination, the required remediation, the total cost of the clean-up and the

cost sharing responsibilities of the PRPs cannot be determined, although the EPA has advised us that it has incurred approximately $.5 million in past response costs, which the EPA will seek to recover from us and the other PRPs. We increased our environmental reserve for Milwaukee Solvay by $.5 million in 2005 for potential additional exposure.

The Kinnickinnic Development Group ("KK Group") is pursuing the acquisition of the Milwaukee Solvay property. Pursuant to the Liability Transfer and Indemnity Agreement entered into between KK Group and Cliffs Mining Company, the KK Group has agreed to acquire our mortgage interest in the property for $2.25 million, assume all environmental liabilities in connection with the property and place $4.0 million in escrow to secure the KK Group's obligations. The KK Group has agreed, upon closing, to purchase a $5.0 million environmental insurance policy. The estimated premium for the insurance policy is expected to be placed in escrow in the near future to be utilized when the policy is issued. The Company received the $2.25 million payment for the assignment of the mortgage in June 2006 as a deposit to be held pending closure on the global agreement.

KHD Humboldt Wedag International Ltd. ("KHD"). On June 20, 2006, KHD and Cade Struktur Corporation ("Cade") submitted an Arbitration Notice, Appointment of Arbitrator and Request to Appoint Arbitrator to the participants in the Wabush Mines Joint Venture in connection with a dispute over the calculation of royalties under the terms of an Amended and Consolidation of Mining Leases dated September 2, 1959, as amended, between Wabush Iron Co. Limited and Canadian Javelin Limited (a predecessor to KHD and Cade). KHD and Cade have claimed that the Wabush Mines Joint Venture has underpaid royalties since 1991 and claim underpayments in excess of C$15 million. The participants in the Wabush Mines Joint Venture have denied the existence of any royalty underpayments and plan to defend the arbitration vigorously. The Company currently owns 26.83 percent of the Wabush Mines Joint Venture.

Item 1A. Risk Factors

There have been no material changes in our risk factors as described in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds .

(a) On April 19, May 31, and June 15, 2006, pursuant to the Cleveland-Cliffs Inc Voluntary Non-Qualified Deferred Compensation Plan ("VNQDC Plan"), the Company sold a total of 328 shares of common stock, par value $.25 per share, of Cleveland-Cliffs Inc ("Common Shares") for an aggregate consideration of $14,088.77 to the Trustee of the Trust maintained under the VNQDC Plan. These sales were made in reliance on Rule 506 of Regulation D under the Securities Act of 1933 pursuant to an election made by two managerial employees under the VNQDC Plan.

(b) The table below sets forth information regarding repurchases by Cleveland-Cliffs Inc of its Common Shares during the periods indicated.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased (1) (2)	Average Price Paid per Share (or Unit) $	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs (2)
April 1 - 30, 2006				
May 1 - 31, 2006	1,020,408	37.3506	1,019,600	1,480,400
June 1 - 30, 2006	1,241,600	34.5426	1,241,600	238,800
Total	2,262,008	35.8093	2,261,200	238,800

(1) The Company acquired 808 shares from an employee in connection with the vesting of restricted stock. Whole shares were repurchased to satisfy the tax withholding obligations of the employee on May 23, 2006.

(2) On May 9, 2006 the Company received the approval by the Board of Directors to repurchase up to an aggregate of 2,500,000 shares on a post-split basis of the Company's outstanding Common Stock.

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Shareholders was held on May 9, 2006. At the meeting the Company's shareholders acted upon (i) the election of 11 Directors, and (ii) the approval of the appointment of Deloitte & Touche LLP as the Company's independent auditors.

In the election of Directors, 11 of the 12 nominees named in the Company's Proxy Statement, dated March 30, 2006, were elected to hold office

until the next Annual Meeting of Shareholders and until their respective successors are elected. Ranko Cucuz withdrew his name for consideration as a Director nominee on May 1, 2006 and the Board of Directors determined, effective upon the expiration of Mr. Cucuz's term at the Annual Meeting, to decrease the size of the Board of Directors from 12 to 11. Each nominee received the number of votes set opposite his name:

NOMINEES	FOR	AGAINST
John S. Brinzo	37,747,360	2,012,856
Ronald C. Cambre	38,027,910	1,732,306
Joseph A. Carrabba	37,747,606	2,012,610
Susan M. Cunningham	38,024,528	1,735,688
Barry J. Eldridge	38,028,964	1,731,252
David H. Gunning	37,741,494	2,018,722
James D. Ireland III	37,750,332	2,009,884
Francis R. McAllister	38,028,694	1,731,522
Roger Phillips	38,025,788	1,734,428
Richard K. Riederer	37,754,600	2,005,616
Alan Schwartz	38,025,862	1,734,354

There were no broker non-votes with respect to the election of Directors.

For the ratification of Deloitte & Touche LLP as independent auditors, the voting was as follows:

For	39,701,898
Against	32,284
Abstain	26,034

Item 6. Exhibits

(a) List of Exhibits-Refer to Exhibit Index on page 64.

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: July 27, 2006

By /s/ Donald J. Gallagher
Donald J. Gallagher
President—North American Iron Ore, Chief Financial Officer and Treasurer

Table of Contents

Exhibit Index

Exhibit Number	Exhibit	
3(a)	Amendment No. 2 to Amended Articles of Incorporation as filed with the Secretary of State of the State of Ohio on June 7, 2006 (filed as Exhibit 3(a) to Form 8-K of Cleveland-Cliffs Inc on June 9, 2006 and incorporated by reference)	Not Applicable
4(a)	Form of Common Stock Certificate (filed as Exhibit 4(a) to Form 8-K/A (Amendment No. 2) of Cleveland-Cliffs Inc on June 30, 2006 and incorporated by reference)	Not Applicable
4(b)	Multicurrency Credit Agreement, entered into as of June 23, 2006, among Cleveland-Cliffs Inc, 16 various institutions, and Fifth Third Bank as Administrative Agent and L/C Issuer, and Bank of America N.A. as Syndication Agent (filed as Exhibit 3(a) to Form 8-K of Cleveland-Cliffs Inc on June 27, 2006 and incorporated by reference)	Not Applicable
10(a)	* Form of Severance Agreement by and between Cleveland-Cliffs Inc and certain elected officers of the Company dated May 19, 2006 and effective May 8, 2006 (filed as Exhibit 10(a) to Form 8-K of Cleveland-Cliffs Inc on May 25, 2006 and incorporated by reference)	Not Applicable
10(b)	* Amendment No. 1 to Annex A to the Severance Agreement between Cleveland-Cliffs Inc and Joseph A. Carrabba effective May 9, 2006 (filed as Exhibit 10(a) to Form 8-K of Cleveland-Cliffs Inc on May 10, 2006 and incorporated by reference)	Not Applicable
10(c)	* Amendment No. 1 to Long-Term Incentive Program dated May 8, 2006 and effective as of January 1, 2006 (filed as Exhibit 10(b) to Form 8-K of Cleveland-Cliffs Inc on May 12, 2006 and incorporated by reference)	Not Applicable

* Reflects management contract or other compensatory arrangement required to be filed as an Exhibit pursuant to Item 6 of this Report.

Exhibit Number	Exhibit	
10(d)	* Form of Long-Term Incentive Program Participant Grant and Agreement Year 2006 (Performance Period 2006-2008) (filed as Exhibit 10(a) to Form 8-K of Cleveland Cliffs Inc on May 12, 2006 and incorporated by reference)	Not Applicable
10(e)	** Letter of Agreement between Mittal Steel USA and Cleveland-Cliffs Inc to amend three existing pellet sales contracts for Mittal Steel USA-Indiana Harbor West, Mittal Steel USA-Indiana Harbor East, and Mittal Steel USA-Weirton (filed as Exhibit 10(e) to Form 10-Q of Cleveland-Cliffs Inc on April 27, 2006 and incorporated by reference)	Not Applicable
10(f)	Interim Agreement between Wisconsin Electric Power Company and Tilden Mining Company L.C. and Empire Iron Mining Partnership dated and effective May 5, 2006	Filed Herewith
31(a)	Certification Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed and dated by John S. Brinzo, Chairman and Chief Executive Officer for Cleveland-Cliffs Inc, as of July 27, 2006	Filed Herewith
31(b)	Certification Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed and dated by Donald J. Gallagher, President-North American Iron Ore, Chief Financial Officer and Treasurer for Cleveland-Cliffs Inc, as of July 27, 2006	Filed Herewith
32(a)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed and dated by John S. Brinzo, Chairman and Chief Executive Officer for Cleveland-Cliffs Inc, as of July 27, 2006	Filed Herewith
32(b)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed and dated by Donald J. Gallagher, President-North American Iron Ore, Chief Financial Officer and Treasurer for Cleveland-Cliffs Inc, as of July 27, 2006	Filed Herewith

* Reflects management contract or other compensatory arrangement required to be filed as an Exhibit pursuant to Item 6 of this Report.

** Confidential treatment requested any/or approved as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

EXHIBIT 10(f)

INTERIM AGREEMENT

This Interim Agreement is entered into as of and is effective as of May 5, 2006, by and between Wisconsin Electric Power Company (hereinafter "WEPCo"), an electric utility having its principal offices at 231 W. Michigan Street, Milwaukee, Wisconsin 53201, and Empire Mining Partnership ("Empire"), and Tilden Mining Company, L.C. ("Tilden"), by their managing agent, The Cleveland-Cliffs Iron Company, a corporation having its principal offices at 1100 Superior Avenue, Cleveland, Ohio 44114, (hereinafter "Cliffs"). Empire Iron Mining Partnership and Tilden Mining Company, L.C. are herein referred to collectively as "the Mines".

WHEREAS, the Mines and WEPCo are parties in pending American Arbitration Association Case No. 54 198 Y 01237 ("Arbitration" and the panel of arbitrators deciding the Arbitration "Arbitrators"), which proceeding involves claims related to the pricing of electric service under the Power Purchase Agreements ("PPAs"), dated as of January 22, 1996, between WEPCo and the Mines, and additional disputes have arisen in connection with the billing and payment for services;

WHEREAS, the parties have reached an agreement intended to address billing and payment arrangements on an interim basis pending completion of the Arbitration proceeding, and without prejudice to the parties' rights under the PPAs;

NOW THEREFORE, in consideration of the premises and the mutual promises contained herein, the parties hereby agree to the following terms and conditions:

1. RELEASE OF FUNDS FROM ESCROW

Within two business days from the effective date of this Agreement, WEPCo and Cliffs will deliver the "Notice of Interim Agreement and Joint Instructions for Partial Disposition of Funds Held in Escrow," in the form attached hereto as Exhibit A, to the escrow agent identified in the Escrow Agreement attached hereto as Exhibit B. As specified in Exhibit A, this partial disposition of funds from escrow shall be in the amount of $25,687,080.08 delivered to Tilden and the amount of $34,866,868.06 delivered to Empire. Within two business days of the effective date of this

Agreement, WEPCo shall also deliver to Tilden the amount of $4,756,336.54 and deliver to Empire the amount of $6,479,494.86, pursuant to Section 4(b)(ii) of the PPAs.

2. OVER-THE-CAP PAYMENTS

The amounts released from escrow plus the amounts paid by WEPCo to the Mines, as described in paragraph 1 above, represent a return to the Mines of the following amounts due to the Mines pursuant to the Energy Price Cap provisions in Section 4(b)(ii) of the parties' PPAs:

A. Over-the-cap payments that Cliffs has deposited into the escrow account described in Exhibit B for firm and curtailable service to the Empire Mine during the period from April 1, 2005, through December 31, 2005 ($34,866,868.06);

B. Over-the-cap payments that Cliffs has deposited into the escrow account described in Exhibit B for firm and curtailable service to the Tilden Mine during the period from April 1, 2005, through November 14, 2005 ($25,687,080.08);

C. Over-the-cap payments that Cliffs paid directly to WEPCo for firm and curtailable service to the Empire Mine during the period from January 1, 2005, through December 31, 2005 ($6,479,494.86);

D. Over-the-cap payments that Cliffs paid directly to WEPCo for firm and curtailable service to the Tilden Mine during the period from January 1, 2005, through November 14, 2005 ($4,756,336.54).

3. PAYMENT OF BILLS FOR SERVICE RENDERED IN FEBRUARY AND MARCH 2006

Within five (5) business days after WEPCo complies fully with paragraph 1 above, the Mines will make the following payments related to energy delivered to the Mines during the billing months of January, February and March of 2006:

A. The Mines will reverse the credits that were previously applied to these bills;

B. The Mines will make cash payments to WEPCo as follows: for February 2006 - Tilden $3,397,644.36 and Empire $3,401,843.13; and, for March 2006 - Tilden $4,089,984.58 and Empire $3,513,160.72 (for a total of $14,402,632.79); and

C. The Mines, acting through Cliffs, will deposit into the escrow account the following amounts that are disputed portions of the amounts billed for energy delivered: For January 2006 - Tilden $91,729.16 and Empire $89,009.67; for February 2006 - Tilden

$1,906,815.51 and Empire $1,887,303.44; and for March 2006 - Tilden $2,849,058.27 and Empire $2,233,151.93 (for a total of $9,057,067.98).

D. The Mines, acting through Cliffs, will deposit into the escrow account the following late payment fees (billed as part of the April 2006 bills) for energy delivered during March 2006: Tilden $104,085.64 and Empire $86,194.69.

4. BILLINGS FOR ELECTRIC SERVICE PROVIDED ON AND AFTER APRIL 1, 2006

With respect to electric service provided by WEPCo to the Mines beginning on April 1, 2006, and continuing until such time as the Arbitrators issue their award:

A. WEPCo will bill the Mines for energy delivered under firm and curtailable service up to the production limits specified in the PPAs at the applicable Energy Price Cap set forth in Section 4(b)(ii) of the PPAs.

B. WEPCo will bill the Mines a Base Energy Cost for energy delivered under auxiliary service up to the production limits specified in the PPAs at the system average real time locational marginal prices (LMP) equal to .873 multiplied by the WEC South LMP plus .127 multiplied by the WEC North LMP.

C. The billings described in this section will be issued in accordance with WEPCo's normal billing schedule.

D. The Mines agree to pay directly to WEPCo the charges specified in this paragraph 4 in accordance with the normal monthly payment schedule. Both parties acknowledge that the billings and payments for auxiliary service, as specified herein, are disputed amounts and such payments will be subject to refund or additional charges upon resolution of the Arbitration proceeding via a future settlement agreement, arbitration decision or court order.

E. Demand and environmental remediation charges, losses, taxes and power movement and service fees shall continue to be governed by the existing terms and conditions of the PPAs.

5. INTEREST

A. Timely payments for service rendered on and after April 1, 2006, as provided in Paragraph 4 of this Agreement, shall not include interest.

B. Any refunds required by the Arbitrators' final award to the Mines of disputed amounts paid for energy delivered under auxiliary service pursuant to Paragraphs 3 and 4 of this Agreement shall bear interest at the rate otherwise applicable to funds held in escrow during the same period as specified in the Escrow Agreement, attached hereto as Exhibit B. Any additional charges due to WEPCo required by the Arbitrators' final award for energy delivered under auxiliary service pursuant to Paragraphs 3 and 4 of

this Agreement shall bear interest at the prime rate as specified in the PPAs and the Escrow Agreement.

C. The Arbitrators, as part and parcel of their final award, shall determine the manner in which interest is to be allocated and awarded to the Mines and to WEPCo with respect to any funds that have been placed into escrow by the Mines.

6. WAIVER AND DISCHARGE

Upon the timely payment of the amounts set forth in Paragraph 3, above, WEPCo expressly waives and forever discharges the Mines from any claim for additional payments, damages or termination of the PPAs based upon the timing or form of Mines' payment of the invoices for January, February, and March 2006; however, the parties expressly acknowledge and agree that the issue of whether a

late fee is due pursuant to Section 11(a) of the PPAs with respect to such payments remains a disputed issue to be resolved by the Arbitrators.

7. UNRESOLVED ISSUES

The parties agree that this Interim Agreement does not finally resolve any of the disputes between them, which are at issue in the Arbitration. Except as provided otherwise in Paragraph 6, hereof, the billing and payment provisions of this Agreement are expressly stated and recognized by all parties to be without prejudice to any position any party may take in the pending Arbitration.

8. GENERAL PROVISIONS

Any dispute under this Agreement shall be submitted to the Arbitrators, and any arbitration award rendered in the Arbitration may be filed with the appropriate court having jurisdiction and shall be enforced in accordance therewith. The parties expressly acknowledge and agree that this Interim Agreement shall be admissible before the Arbitrators only for the limited and specific purpose of enforcing its terms and shall not be used or considered for any other purpose. This Agreement shall be governed and interpreted in accordance with the laws of the State of Michigan. This Agreement is not intended to, and does not, amend the provisions of PPAs, but is designed to direct the actions of WEPCo and Cliffs for the interim period, which runs from the date when the

parties execute this Agreement through the date when the Arbitrators enter a final opinion, with regards to interim payments during the pending Arbitration. The first sentence of paragraph 2 of the parties' Escrow Agreement is hereby amended to read as follows: "Once each month, on or before the due date for Empire's and Tilden's monthly payments to WEPCo under the terms of the PPAs, Cliffs shall deposit with and deliver to the Escrow Agent that portion of the amounts billed by WEPCo that are in dispute, except for the disputed amounts that Cliffs has agreed to pay to WEPCo under protest pursuant to the terms of the Interim Agreement dated May 5, 2006." All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, representatives and successors of the parties hereto. Any assignment of this Agreement must comply with the applicable assignment provisions of the PPAs. No amendment to this Agreement shall be effective unless made in writing and signed by duly authorized representatives of each of the parties.

IN WITNESS WHEREOF, the parties hereto, by their authorized representatives, have executed this Agreement as set forth below.

WISCONSIN ELECTRIC POWER COMPANY	TILDEN MINING COMPANY, L.C. By The Cleveland-Cliffs Iron Mining Company, its Managing Agent
By: /s/ James C. Fleming	By: /s/ Joseph A. Carrabba
Its: Executive Vice President & General Counsel	Its: President
Date: May 5, 2006	Date: May 5, 2006
	EMPIRE IRON MINING PARTNERSHIP By The Cleveland-Cliffs Iron Mining Company, its Managing Agent
	By: /s/ Joseph A. Carrabba
	Its: President
	Date: May 5, 2006

Exhibit 31(a)

CERTIFICATION

I, John S. Brinzo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cleveland-Cliffs Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2006

By /s/ John S. Brinzo
John S. Brinzo
Chairman and Chief Executive Officer

Exhibit 31(b)

CERTIFICATION

I, Donald J. Gallagher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cleveland-Cliffs Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2006

By /s/ Donald J. Gallagher
Donald J. Gallagher
President—North American Iron Ore,
Chief Financial Officer and Treasurer

Exhibit 32(a)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cleveland-Cliffs Inc (the “Company”) on Form 10-Q for the period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Form 10-Q”), I, John S. Brinzo, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Form 10-Q.

Date: July 27, 2006

/s/ John S. Brinzo

John S. Brinzo
Chairman and Chief Executive Officer

Exhibit 32(b)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cleveland-Cliffs Inc (the “Company”) on Form 10-Q for the period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Form 10-Q”), I, Donald J. Gallagher, President-North American Iron Ore, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Form 10-Q.

Date: July 27, 2006

/s/ Donald J. Gallagher
Donald J. Gallagher
President-North American Iron Ore, Chief Financial Officer and Treasurer