To: ISDA Credit Derivatives Determinations Committee (Americas)

Date: March 13, 2020

Re: Is there a Successor to AK Steel Corporation?

Capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the 2014 Credit Derivatives Definitions (the "**Definitions**").

Overview

Under Section 2.2(a)(ii) of the Definitions, a Successor shall be determined as follows:

> "*if only one entity succeeds, either directly or as a provider of a Relevant Guarantee, to more than twenty-five per cent (but less than seventy-five per cent) of the Relevant Obligations of the Reference Entity, and not more than twenty-five per cent of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entity that succeeds to more than twenty-five per cent of the Relevant Obligations will be the sole Successor for the entire Credit Derivative Transaction*"

In connection with a merger between Cleveland Cliffs Inc. ("**CLF**") and AK Steel Holdings Corporation ("**AKS Holdings**"), CLF issued notes that were exchanged for certain debt obligations of AKS Steel Corporation ("**AKS**"). Contemporaneously, CLF engaged in related and mutually dependent refinancing transactions resulting in the cancellation or repayment of a significant portion of the debt outstanding at AKS prior to the merger, the consummation of the exchange offer and the refinancing transactions. As a result of those integrated transactions constituting a single event, CLF succeeded to 29.88% of the Relevant Obligations of AKS and 59.27% of the Relevant Obligations of AKS were repaid, resulting in 10.85% of the Relevant Obligations of AKS remaining at AKS. CLF is therefore the sole Successor to AKS pursuant to Section 2.2(a)(ii) of the Definitions.

Factual Background

Merger and Debt Reorganization

On December 3, 2019, CLF and AKS Holding announced their intention to merge (the "**Merger**") pursuant to a merger agreement dated December 2, 2019 (the "**Merger Agreement**"). In an investor presentation provided by the companies,[1] CLF disclosed that, in connection with the Merger, it planned to offer to exchange 2025 Notes and 2027 Notes issued by AKS for CLF issued notes with the same economic terms and to opportunistically refinance the 2021 Notes. CLF also disclosed that it intended to refinance AKS's 2023 Notes and enter into a new ABL agreement with a view to repaying the AKS ABL.

[1] See investor presentation and call transcript from analyst call on 12/3/19.

The Merger was consummated on March 13, 2020.[2] In connection with the Merger and consistent with prior disclosure, CLF implemented a major reorganization of the $1.898 billion of AKS debt outstanding immediately prior to the Merger and consisting of the following Relevant Obligations (the "**AKS Obligations**"):

- ABL Revolver ("**AKS ABL**") – $450,000,000 drawn;
- 7.5% Secured Noted due July 15, 2023 ("**2023 Notes**") – $380,000,000;
- 7.625% Senior Notes due October 2021("**2021 Notes**") – $406,200,000;
- 6.375% Senior Notes due October 2025 ("**2025 Notes**") – $270,232,000; and
- 7% Senior Notes due March 2027 ("**2027 Notes**") – $391,632,000.

Upon closing of the Merger, the AKS Obligations were reorganized as follows:

1. The AKS ABL was repaid in full and replaced by an asset-based revolving credit facility entered into by CLF on March 13, 2020.

2. $364,200,000 of the 2021 Notes and $310,658,000 of the 2023 Notes were tendered and accepted for purchase by CLF as part of a cash tender offer (the "**Tender Offer**") commenced by CLF on February 26, 2010. Pursuant to the Tender Offer offering memorandum, the tendered 2021 and 2023 Notes will cease to be outstanding and will be cancelled.[3]

3. CLF completed its exchange of $231,824,000 of the 2025 Notes and $335,376,000 of the 2027 Notes for $567,200,000.00 in new notes issued by CLF (the "**Exchange Offer**"). The Exchange Offer expired on March 13, 2020 and settled on the following business day.

Following the debt reorganization, the Relevant Obligations remaining at AKS amount to $206,006,000.[4]

Single Integrated Transaction and Timing

Pursuant to the offering memoranda for both the Tender Offer and the Exchange Offer (together, the "**Offers**"), the Offers were both subject to the consummation of the Merger, intimately linking the overall debt reorganization to the consummation of the Merger as previously disclosed by the companies in public statements and investor materials. In one recent example, on CLF's Q4 2019 earnings call on 2/20/20, CLF CEO Lourenco Gonclaves made it clear that the debt reorganization was an integral part and would be complete at the time of the Merger: "With [the exchange offer

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[2] http://www.clevelandcliffs.com/English/news-center/news-releases/news-releases-details/2020/Cleveland-Cliffs-Completes-Acquisition-of-AK-Steel/default.aspx

[3] Tender Offer OM, page 18

[4] $42,000,000 in 2021 Notes; $69,342,000 in 2023 Notes; $38,408,000 in 2025 Notes; and $56,256,000 in 2027 Notes

and related refinancing transactions], at closing on March 13, the new combined company should have a much stronger financial profile".

Moreover, the offering memorandum dated January 14, 2020 for the Exchange Offer (the "**Exchange Offer OM**") details an integrated, mutually dependent Merger and refinancing transaction designed to refinance all of the debt at AKS with existing capital or new debt incurred at CLF:

> "In connection with the consummation of the Merger, [CLF] expects to: (i) use the net proceeds from the issuance of a new series of secured notes and a new series of unsecured notes (collectively, the "New Cliffs Secured/Unsecured Notes"), as well as cash on hand, to repurchase or redeem AK Steel's existing 7.50% secured notes due 2023 (the "AK Steel 7.50% 2023 Notes") and, depending on market and other conditions, AK Steel's existing 7.625% unsecured notes due 2021 (the "AK Steel 7.625% 2021 Notes"); and (ii) enter into a new asset based revolving credit facility (the "New ABL Facility") to replace [CLF's] existing revolving credit facility (the "ABL Facility") and AK Steel's existing revolving credit facility, refinance in full all amounts outstanding under AK Steel's existing revolving credit facility, provide funds to pay any cash that is required to be paid pursuant to the terms of the Merger Agreement in lieu of the issuance of any fractional [CLF] common shares in the Merger and pay certain Merger-related expenses."

The Offers were specifically intended to be consummated on the same date as the consummation of the Merger. On the CLF Q4 2019 earnings call on 2/20/20, CLF CEO Lourenco Gonclaves stated "Last but not least, **on day one**, we are resolving for good, the AK Steel balance sheet issue."(emphasis added) Also, the offering memorandum dated February 26, 2020 for the Tender Offer states that the Early Settlement Date (i.e. the date on which bonds validly tendered on or before March 10, 2020 and eligible to receive the tender premium) "is expected to be March 13, 2020" (i.e. the date of the Merger). Likewise, the Exchange Offer OM, as supplemented by a statement by CLF and AKS Holding dated February 11, 2020, also stated that "the settlement date [of the Exchange Offer] is expected to be on the Expiration Date (i.e. the date of the merger)."[5]

Succession Event

Pursuant to Section 2.2(a)(ii) of the Definitions, a Successor means:

> "*if only one entity succeeds, either directly or as a provider of a Relevant Guarantee, to more than twenty-five per cent (but less than seventy-five per cent) of the Relevant Obligations of the Reference Entity, and not more than twenty-five per cent of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entity that succeeds to more than twenty-five per cent of the Relevant Obligations will be the sole Successor for the entire Credit Derivative Transaction*"

[5] http://www.clevelandcliffs.com/English/news-center/news-releases/news-releases-details/2020/Cleveland-Cliffs-Inc-and-AK-Steel-Holding-Corporation-Announce-the-Extension-of-the-Expiration-Date-for-Exchange-Offers-and-Consent-Solicitations/default.aspx

Section 2.2(f) of the Definitions defines the Relevant Obligations for the purpose of Section 2.2(a)(ii) as:

> "*Obligations of the Reference Entity which fall within the Obligation Category "Bond or Loan" and which are outstanding immediately prior to the Succession Date*"

Succession Date is defined in Section 2.2(j) as:

> "*the legally effective date of an event in which one or more entities succeed to some or all of the Relevant Obligations of the Reference Entity*"

As a result of the Exchange Offer, CLF has succeeded (as defined in Section 2.2(d) of the Definitions) to $567,200,000 of the 2025 Notes and 2027 Notes in the aggregate.

As described above, the Exchange Offer is an integrated, necessary and indivisible part of the Merger and its related, mutually dependent refinancing transactions designed to effect a reorganization of all of the debt outstanding at AKS upon consummation of the Merger.

The Merger, Exchange Offer and its related refinancing transactions should therefore constitute one single event for purposes of the Definitions. As a result, all AKS Obligations outstanding prior to the consummation of the Merger, in the amount of $1,898,064,000, shall be deemed to be "outstanding immediately prior to the Succession Date" and constitute the applicable Relevant Obligations for purposes of the Successor determination pursuant to Section 2.2(a)(ii) of the Definitions.

In the alternative, the Succession Date shall be deemed to occur on March 13, 2020 and the settlement of the Exchange Offer on the following business day, as is customary practice for an exchange of this nature to enable adequate processing time to administratively effect the exchange of notes, should be disregarded.

In either case, it follows that CLF would have succeeded to 29.88% of the Relevant Obligations[6] and only 10.85% of the Relevant Obligations remain at AKS[7] with effect from the Succession Date. Pursuant to Section 2.2(a)(ii) of the Definitions, CLF should therefore be determined to be the sole successor to AKS with respect to AKS CDS contracts outstanding as of the Succession Date.

Any other outcome would frustrate the reasonable expectations of CDS market participants in the context of such a significant debt reorganization. More troublingly, any other outcome would make the CDS contract subject to undue influence by market participants favoring an outcome that would see a portion of the CDS contract being effectively orphaned in the very short term even though substantially all of the AKS Obligations are essentially refinanced with debt raised at CLF.

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[6] $567,200,000/$1,898,064,000
[7] $206,006,000/$1,898,064,000

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We confirm that a copy of this statement may be provided to the members of any Credit Derivatives Determinations Committee convened under the DC Rules in connection with the General Interest Question to consider the issues discussed herein, and that it may be made publicly available on the ISDA Credit Derivatives Determinations Committee website. We accept no responsibility or legal liability in relation to its contents.