Essar Steel Algoma Inc. Pension Plans

Retiree Consultations – November 6, 2018

The Sale of the Business

- The Company has entered into an Asset Purchase Agreement for the sale of the business to a new company, Algoma Steel Inc. ("**New Algoma**") which is conditional upon satisfaction of certain conditions.
- This sale was approved by the Court on September 21, 2018, and is expected to close in November 2018.

Basic Structure of the Pension Agreement

- The pension agreement involves a basic *quid pro quo*:
  - The three pension plans will be maintained and funded by New Algoma and will continue to pay out benefits
  - In exchange, New Algoma receives:
    - Annual caps on certain funding obligations related to special payments
    - Exemptions from certain provisions of the *Pension Benefits Act* that could affect their ability to obtain competitive financing

Summary of Key Changes to the Pension Plans

- There will be no reduction in pension benefits to members of any of the three plans, provided the Wrap Plan regulations are proclaimed into force
- The Hourly and Salaried Plans will have indexation reinstated until 2022, and will receive PBGF coverage once both plans reach a solvency ratio of 85%
- Special payments to the Hourly and Salaried Plans will be made in the maximum amount of $31 million/year until the plans are 85% funded, and thereafter in accordance with the regulations
- The Wrap Plan will be funded on a "cash in = cash out" basis to a maximum of $5 million/year in funding
- All three plans will be exempt from s. 57(3) of the PBA - the deemed trust in respect of contributions that were not made during the CCAA proceedings
- All three plans will be exempt from s. 57(4) of the PBA – the deemed trust in respect of wind up contributions accrued but not yet due
- The Wrap Plan will also be exempt from section 55(1) of the PBA – that a pension plan must provide for funding sufficient to provide pension benefits in

accordance with the PBA and the regulations – to allow for the "cash in = cash out" mechanism and the cap of $5 million in annual funding

- The Wrap Plan will also be exempt from section 69(1)(d) of the PBA and s. 28.2 of the General Regulation under the PBA – thereby removing the discretion of the Superintendent to wind up the Wrap Plan solely because all of the members have ceased to be employed by Essar Steel Algoma Inc., and the Superintendent will have the authority to wind up the Wrap Plan if the Wrap Plan is unable to pay the full pension benefits as they fall due.

- The general standards under the *Pension Benefits Act* are designed to enhance the security of pension benefits. The special funding rules and the deemed trust exemptions in the proposed agreements may reduce the security of your pension benefits. Nonetheless, for the reasons that follow, we recommend these changes

Recommendation

- This deal has been achieved after a 3-year insolvency process, during which we have worked alongside the unions, through hard bargaining, to obtain the best possible agreement in respect of the pension plans

- There is no viable alternative agreement or alternative purchaser to allow the steel plant to continue to operate and assume responsibility for the pensions

- The purpose of this deal is to continue pensions being paid in their full amount (provided the Wrap Plan Regulations are proclaimed into force)

- This deal provides for the Wrap Plan to be assumed by New Algoma, and to continue to be funded and provide benefits for retired and deferred, vested members

- The funding relief was necessary in order to allow New Algoma to profitably operate the steel plant while assuming responsibility for the pension plans

- The exemption from s. 57(3) of the PBA provides a fresh start for New Algoma, ensuring it is not responsible for special payments that were not paid during the CCAA proceedings, and was required by New Algoma

- The exemption from s. 57(4) of the PBA was necessary to allow New Algoma to obtain competitive financing to continue the business

- The exemption of the Wrap Plan from s. 55(1) and 69(1)(d) of the PBA and s. 28.2 of the General Regulation under the PBA protect the Wrap Plan from premature wind up, and the new provisions allow the Superintendent to wind up the plan if it can no longer pay benefits

- The Interim Wrap Arrangements balance the risks in the event that, contrary to all present indications, the Government fails to pass the necessary legislative and regulatory changes to give effect to the Wrap Agreement.