



STELCO

CCAA Plan of Compromise and transaction between USSC and Bedrock Industries LLC

July 12, 2017 Meeting
Hamilton Convention Centre

CIVIL LITIGATION | CLASS ACTIONS | LABOUR LAW | PENSION & BENEFITS
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Overview of the CCAA Proceedings

- **2007:** U.S. Steel (“**USS**”) acquires Stelco and renames it U.S. Steel Canada Inc. (“**USSC**”);
- **2014:** USS attempts a reorganization under the Canada *Business Corporations Act*
- USS ceases funding for USSC, which becomes insolvent;
- **September 16, 2014** – USSC is insolvent (bankrupt) and is granted protection from its creditors under the CCAA;
- USSC’s management strategy under CCAA protection has been to find a buyer for its business;
- **April 2, 2015:** USSC begins to run its first sales process;
- USS is reported as a bidder in the sales process for certain assets only - The bids are rejected by stakeholders;

Overview of the CCAA Proceedings

- **July/August 2015:** USS removes steel orders from USSC causing cash flow problems;
- **October 9, 2015:**
 - First sales process terminated after several months without a successful purchaser or investor identified;
 - USSC obtains Cash Conservation/Business Preservation order allowing it to stop paying the following:
 - Contributions to registered pension plans;
 - Supplementary pension benefits for unfunded RBC's;
 - OPEBs (excluding life insurance);
 - Salary continuance for terminated USSC employees; and
 - Municipal taxes

Overview of the CCAA Proceedings

- **January 12, 2016:** Second sales process commenced;
- **February 29, 2016:** Following a trial, CCAA Court confirms that USSC owes USS over \$120 million on a secured basis;
- **September 2016** – Bedrock Industries Group is announced as a successful bidder in the second sales process;
- **September 21, 2016** – Province of Ontario announces a Memorandum of Understanding signed with Bedrock;
- Over the following several months, all stakeholders, including the Representatives and Representative Counsel negotiated terms of the transaction with Bedrock;
- **November 22, 2016:** Letter of support for Bedrock issued by USW Local 8782;
- **April 19, 2017:** Settlement Agreement by Salaried Representatives reached with Bedrock;

Overview of the CCAA Proceedings

- **April 27, 2017** – Creditor Meeting held in Toronto with the majority of creditors voting in favour of the Plan of Compromise (“**CCAA Plan**”);
- **June 6, 2017**: USW Local 1005 agrees to support Bedrock transaction;
- **June 9, 2017** – CCAA Plan is approved by the CCAA Court;
- **June 30, 2017** – Bedrock transaction closes;
- Post-closing work continues on many issues, including the establishment of an ELHT;
- Additional enhancements negotiated for Salaried group as summarized in Second Support Agreement.

The Bedrock Transaction

- Bedrock offered the only acceptable and viable bid in the second sales process and provided the only way to avoid a liquidation of Stelco;
- Bedrock has acquired substantially all of USSC's operating assets and business (other than land) and buildings;
- Pension plans are transferred to the Ontario government for administration, and then to an outside administrator;
- OPEBs will resume in part through the creation and funding of an Employee Life and Health Trust ("ELHT");
- Stelco's lands will be transferred to a new entity called "LandCo" and then leased back to Bedrock;

The Bedrock Transaction

- The Monitor reports that:
 - the Bedrock transaction generates “the highest reasonable value in a timely manner for Affected Creditors and other Creditors given the available alternatives”*; and
 - Stelco will emerge as a stand-alone steel manufacturer with a restructured balance sheet and improved liquidity to provide Stelco with stability to enable it to compete in challenging steel market conditions.

* Information Circular with respect to the USSC Plan of Compromise, March 15, 2017

LandCo

- Stelco Lands at Hamilton Works and Nanticoke are transferred to a Land Limited Partnership (“LandCo”) upon closing on June 30, 2017;
- The purpose is to generate funds for pension and OPEB contributions;
- Pension & OPEB entities own units in Land Limited partnership;
- There is an opportunity for Pension and Retiree groups to benefit from monetizing Stelco lands by way of sale, leasing and redevelopment;
- The Land has been encumbered by Provincial Loans which provide cash flow for OPEBs and operation of Lands.

LandCo

- There are potential long-term recoveries to retirees after Provincial and other loans totaling \$98M are repaid;
- LandCo is a speculative long term venture but has the potential to be very successful;
- Governance of LandCo are currently being worked on such that the salaried group will have input and information rights on LandCo;

Advantages of the Bedrock Transaction

Pensions Plans:

- Prevents a pension wind up which would result in pension benefit losses to retirees;
- \$275 million over 20 years of fixed payments will be contributed to the Salaried pension plans, of which an estimated 18% go to the salaried group - this improves the likelihood of full pension continuation;
- Provides further opportunity for payments to the pension plans via free cash flow payments, tax savings payments, potential recovery through the sale of land, and a payment in the event that Stelco is sold;
- Backstopped by a \$160M guarantee by Bedrock.

Advantages of the Bedrock Transaction

OPEBs:

- \$330M of contributions, over 10 years, towards OPEBs to the ELHT of which the non-USW group is expected to receive \$90M of benefit value over 10 years;
- For 10 years, the level of funding is approximately 70% of historical OPEB costs (excluding life insurance, before administration fees and taxes) - this contrasts with an unsecured creditor recovery of about 10 cents on the dollar.

Stelco operates as a going-concern:

- Results in continued operation of and employment at Stelco.

Non-USW Settlement Agreement Improvements

- Representative Counsel negotiated numerous improvements to the Bedrock Transaction:
 - a) Parity treatment for OPEB funding in the first 10 years if any improvements are granted to USW Local 1005;
 - b) Fixed funding for OPEBs increased from 5 years to 10 years;
 - c) Bedrock agreed to continue life insurance for salaried retirees until August 31, 2017 at approximate cost of \$800,000;
 - d) \$150,000 paid for set-up costs for the Non-USW ELHT;

Non-USW Settlement Agreement Improvements

- d) Approximately \$4,800/per month for administration of the ELHT;
- e) \$9 million payment to be used for:
 - i) employee claims including unpaid severance; and
 - ii) unfunded supplemental pension claims;

This represents an increase from 10% to about 30% recovery on these claims;

- f) Limited funding for the legal costs of the retirees and the continuation of Representative Counsel to provide support and finalize issues for six months after Closing.

Active Salaried Employees

- Representative Counsel met with active employees on May 23, 2017 and has posted a FAQ on their website answering some of the questions from this meeting.
- The Non-USW Settlement Agreement provides:
 - a) Active salaried employees accruing DB benefits will have their services in the DB plans “frozen” as of December 31, 2017; and
 - b) As of January 1, 2018, active employees would commence enrollment in the Opportunity Plan Group RRSP (the "Opportunity Plan").
- No change has been made to benefits for active employees as of the Closing date.
- Bedrock to review compensation for salaried employees

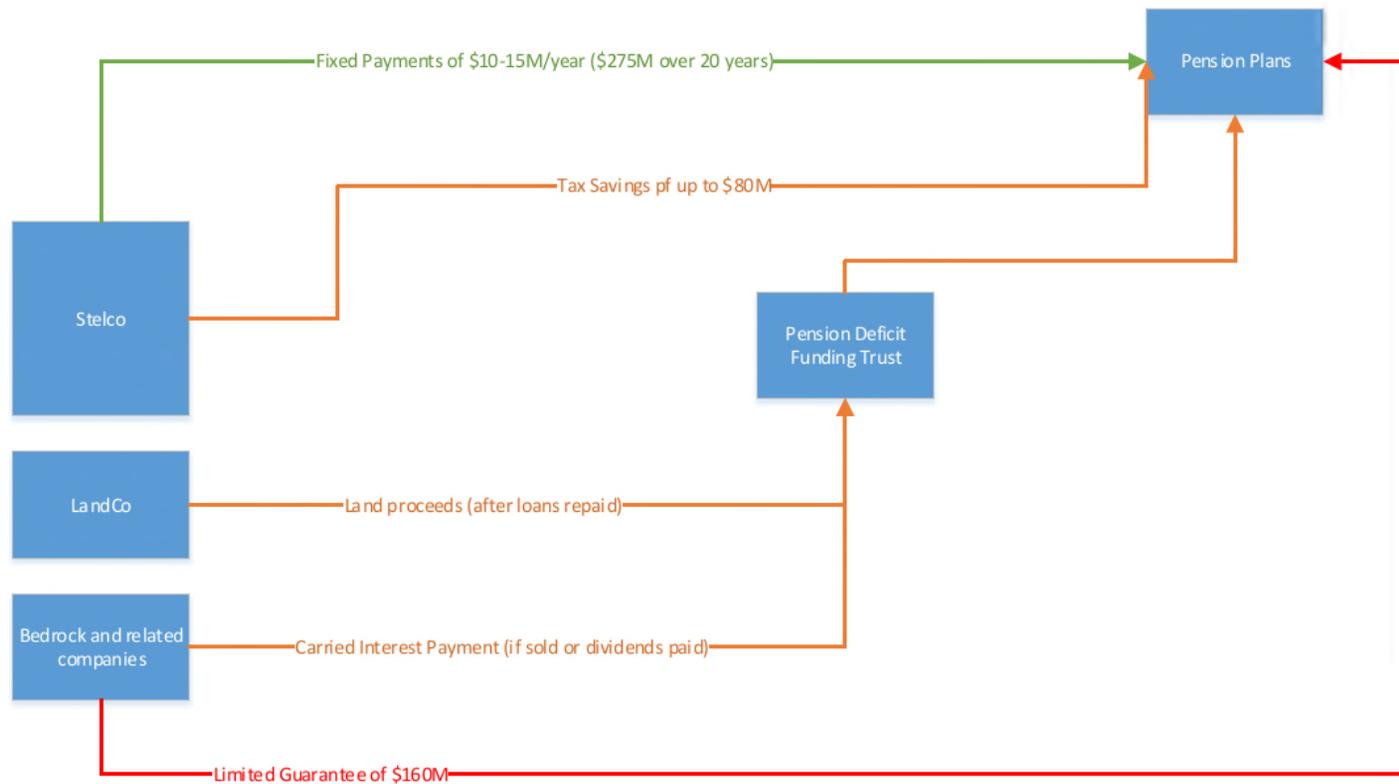
Non-USW Registered Pension Plans

- Three registered pension plans for non-USW retirees:
 1. Hamilton Salaried Pension Plan;
 2. Lake Erie Works Salaried Pension Plan; and
 3. Lake Erie Works Pickle Line Pension Plan (together the “Non-USW Pension Plans”).
- On a going-concern basis (i.e. if the plans continue and are not wound up), all three have a surplus as of December 31, 2016
- As of the Closing Date, the Ontario government enacted a Regulation under the PBA reflecting the contribution obligations and transfer of administration of the Non-USW Pension Plans.

Non-USW Registered Pension Plans

- Future funding for the Non-USW Pension Plans will come from:
 - Monthly minimum contributions by Stelco;
 - Free cash flow contributions;
 - Any tax savings contributions;
 - Any land proceeds (after Province loans are repaid);
 - Carried interests payments (if sold or dividends paid);
 - \$160 million guarantee (amongst all Stelco's legacy pension plans).

Non-USW Registered Pension Plans



Non-USW Registered Pension Plans

- Governance and Oversight Mechanisms for the Non-USW Pension Plans:
 - The Ontario Superintendent of Financial Services will appoint an Administrator for all of Stelco's legacy Pension Plans;
 - Pension Advisory Committees (PACs) will closely monitor the Plans and will have access to information;
 - Future governance of PDFT to be determined and trustees to be appointed, with representation from the Non-USW retirees.

Non-USW Registered Pension Plans

- Three pension plans were wound up as of December 31, 2016:
 - a) Welland Pipe Salaried Plan;
 - b) Stelpipe Salaried Plan; and,
 - c) Stelpipe Hourly Plan
- These Plans have a surplus which Representative Counsel will be communicating to members about in the near future.

Supplemental Pension Plans

- Stelco had two types of supplemental pension plans which were terminated prior to closing:
 - 1) Funded RCA - the first installment of amounts was provided to members at closing
 - 2) Unfunded RBC - these members participate in the Settlement Agreement Funds

Retiree Life Insurance

- Retiree Life Insurance under a Desjardins policy will be terminated as of August 31, 2017:
 - Cost of premiums increased significantly because the retiree group policy would no longer be part of all of U.S. Steel's employees and retirees in the United States, and the average age of the non-USW group is significantly higher when considered in isolation.

Retiree Life Insurance

- Representative Counsel has negotiated an agreement with Bedrock to allow the current life insurance policy to continue until August 31, 2017 to provide you with notice to make alternative arrangements.
- For those 65 years and under as of August 31, 2017, you will have the right to convert your individual coverage.
 - A pamphlet has been prepared by Desjardins including a summary of options and included in the mailing sent to members.
- The ELHT Trustees and the Representatives are actively exploring alternative life insurance options.

Other Post Employment Benefits (ELHT)

Emergency Retiree Fund Extended

- While the ELHT is being set up, the Monitor and Green Shield have agreed to continue to administer a fund to provide emergency health and dental benefits to those who have no other coverage, similar to the Retiree Fund that has been in place since April 1, 2017;
- As the cost of these benefits will ultimately be borne by the trust we are establishing for the new OPEB Plan, we believe it is appropriate to limit eligibility for benefits under the Transition Fund to those who have no other options, and for whom paying for the service would cause a significant hardship for themselves and/or their family.

ELHT Funding

- In the first 10 years OPEBs are funded via a combination of payments from Stelco, Stelco lease payments to the ELHTs, loans from the Province of Ontario, and a loan from Stelco;
- OPEB funding totals \$33M/year for the first 10 years, of which approximately \$9M will go to the non-USW group as is summarized on the chart on the next page.

ELHT Funding for Non-USW Retirees

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Stelco Contribution	3.41	3.41	3.41	2.48	2.48	1.55	1.55	1.55	1.55	3.41	24.80
Lease Payment	-	-	1.55	2.17	3.26	3.26	3.26	3.26	3.26	3.26	23.25
FCF or Province Guarantee	2.33	2.02	2.02	2.02	2.02	2.02	2.02	2.02	2.02	2.02	20.46
Stelco Advance OPEB Payment	3.26	3.57	2.02	0.47	-	-	-	-	-	-	9.30
Stelco Shortfall Payment	-	-	-	1.86	1.24	2.17	2.17	2.17	2.17	0.31	12.09
	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99	89.90

- The Company advises that historical OPEB costs were about \$13M/year;
- The result is funding approximately 70% of funding costs (excluding life insurance) for first 10 years (before administration costs and taxes);
- Funding after year 10 is uncertain and contingent on a number of variables.

Employee Life and Health Trust (“ELHT”)

- 3 ELHT Trustees have been appointed with the approval of the Representatives, including:
 - 2 Trustees selected by the Representatives:
 - David McBride
 - Gerry Goddard
 - 1 Independent Expert Trustee:
 - Gordon Graham
- Jeff Wareham, benefit plan and ELHT expert, has been retained as Acting Director

Stelco Non-USW Retiree Benefits Trust (ELHT)

Presentation by: Jeff Wareham

Stelco Non-USW Retiree Benefits Trust (ELHT)...

how it works

- CCAA plan transfers responsibility for Stelco retiree health care benefits to 3 ELHTs
 - One such ELHT covers non-Steelworker beneficiaries – this is your Retiree Benefits Trust
- The Rep Committee, appointed by the Court, has
 - 1) approved a Board of Trustees (two member trustees and one independent Trustee) for the Trust, and
 - 2) approved the hiring of a consultant (Acting Director) to start up and oversee day to day operations
- The Trustees preside over all aspects of the ELHT

Stelco Non-USW Retiree Benefits Trust (ELHT)... Funding

- 10 year funding guarantee, with multiple funding sources (Stelco, Provincial loan, lease payments)
- Negotiated funding amount = less than 70% of pre-CCAA costs before factoring in administrative costs and taxes (~\$89m over 10 years)
- Funding beyond year 10 is uncertain
 - Trustee's considerations include solidifying the Trust beyond 10 years

Stelco Non-USW Retiree Benefits Trust (ELHT)... Benefit Plan Redesign

- So, our funding is not sufficient to restore benefits to pre-CCAA levels
 - Trustees will work to redesign the new benefit plan to match claims costs with available funds
- 1st step is to survey beneficiaries to gauge the importance of various benefits and coverage levels
- Surveys will be mailed July 17th

Stelco Non-USW Retiree Benefits Trust (ELHT)... Next Steps

- Watch for your survey – it's on it's way
 - Fill it out and return the survey no later than August 8th
- Transition Fund is still available for limited benefit claims
 - Coverages the same as under CCAA – hardship
 - Funds drawn from Transition Fund reduce funds available to the Trust
- We'll be in touch...

How the Trust works

