

THE ALGOMA STEEL INC.

PENSION PLAN FOR HOURLY EMPLOYEES

The following summary is provided for your information and is a generalization of The Algoma Steel Inc. Pension Plan for Hourly Employees (the "Hourly Plan") as at August 1, 2004. The actual terms of the Hourly Plan and the laws of Ontario shall govern in the event of any discrepancy between them and this summary.

1. MEMBERSHIP

You become a member of the Hourly Plan on the effective date of the plan, if you were an employee on that date, or on the first day of the month following the month in which you are hired into an Hourly position.

2. PENSION PLAN BENEFITS

On retirement, the Hourly Plan provides a continuing monthly income, for the balance of your lifetime, which is a non-contributory pension based on your earnings and service.

If you have service under The Algoma Steel Inc. Pension Plan for Salaried Employees, you will receive the benefit you accrued under that plan, in addition to the benefit you earned under the Hourly Plan.

3. WHEN YOU MAY RETIRE

You may retire as early as age 55 or if you have 30 years of Credited Service provided you give the Company two months' notice.

Note: If you choose to retire early and on your retirement date you are not age 60 and do not have at least 10 years of Credited Service, your pension will be reduced. See 5 - Early Retirement Reductions.

During the term of the current Collective Agreement, there are Early Retirement Windows. See 8 on page 7.

If you do not choose early retirement, you must retire on the first day of the month following your 65th birthday.

Note: All retirements are on the first day of the month.

4. AMOUNT OF PENSION

Since your pension is based on earnings and service these terms should first be clarified.

“Credited Earnings” is the monthly equivalent of the average bi-weekly earnings paid to you in the 130 pay periods in which your earnings were highest.

“Base Earnings” is Credited Earnings to a maximum of 150% of one-twelfth of the average YMPE (defined below) in the 3 calendar years ending in the year in which you retire. In 2004 maximum Base Earnings are \$4,979.17.

“Hourly Service” is determined based on 1,800 hours of work constituting one year of hourly service. If you work 1,800 or more hours in a calendar year, you will be credited with one year of Hourly Service. If you work less than 1,800 hours in a calendar year, your Hourly Service for that year will be equal to the hours you worked in the year divided by 1,800. Hours of work includes scheduled vacation with pay, time off for illness, accident, and for certain other reasons as described in Article 6 of the Pension Agreement.

“YMPE” is the Yearly Maximum Pensionable Earnings established by the Canada Pension Plan and used in determining your Canada Pension Plan benefit. It is also used for your Bridge Pension calculation.

If you have prior salaried service, the amount of pension you will receive for that service was calculated when you transferred to the Hourly Plan. If that service was prior to August 1, 1999 and the amount of pension so calculated is less than your salaried service times the flat formula in effect under the Hourly Plan when you retire from active service, you will receive the greater amount.

Total credited service (hourly plus salaried service) is limited to 35 years.

As your earnings increase, your Credited Earnings also increase and so does the value for each year of your service. As your service increases, so does your pension.

Lifetime or Basic (Age 65) Pension

For Credited Service prior to August 1988, your pension shall be \$48.00 times your years of Credited Service prior to August 1988.

For Credited Service after July 1988 but prior to August 1999, your pension shall be the greater of:

- (a) \$48.00 times your years of Credited Service after July 1988 but prior to August, 1999; and
- (b) 1.35% times your Credited Earnings times your years of Credited Service after July 1988 but prior to August, 1999 (Credited Earnings not to exceed \$50,000 annual).

For Credited Service after July 1999, your pension shall be the greater of:

- (c) \$48.00 times your years of Credited Service after July 1999; and
- (d) 1.35% times your Credited Earnings times your years of Credited Service after July 1999.

Total Credited Service cannot exceed 35 years. If you have more than 35 years of Credited Service, your last 35 years will be counted towards the determination of your pension.

Bridge Pension (Before Age 65)

If on your early retirement date, you are age 60 and have at least 10 years of Credited Service, a bridge benefit will be payable from your early retirement date to age 65, determined as follows:

- (a) for Credited Service prior to August 1988, \$20.00 times your years of Credited Service prior to August 1988, to a maximum of 30 years of Credited Service;
- (b) for Credited Service after July, 1988 but prior to August, 1999, the greater of:
 - (i) \$20.00 times your years of Credited Service after July, 1988 but prior to August, 1999; or
 - (ii) 0.6% times your Base Earnings times your years of Credited Service after July, 1988 but prior to August, 1999 (Base Earnings not to exceed \$50,000 annual)

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- (c) for Credited Service after July 1999, the greater of:
- (i) \$20.00 times your years of Credited Service after July 1999; or
 - (ii) 0.6% times your Base Earnings times your years of Credited Service after July 1999.

Total Credited Service under (a), (b)(i) and c(i) cannot exceed 30 years and the aggregate under (a) and (b)(ii) & (c)(ii) cannot exceed 35 years of Credited Service. If you have more than 35 years of Credited Service, your last 35 years will be counted towards the determination of your pension.

If on your early retirement date, you are not age 60 and do not have at least 10 years of Credited Service but you qualified for early retirement at December 31, 2001, a bridge benefit for your service to December 31, 2001 will be calculated as above subject to the reductions outlined in 5 - Early Retirement Reductions.

If on your early retirement date, you are not age 60 and do not have at least 10 years of Credited Service and did not qualify for early retirement at December 31, 2001, you will not receive a bridge benefit.

If you retire from active service before age 53 and you qualified for early retirement at December 31, 2001, you will receive a special supplemental monthly increase of \$2.00 multiplied by your years of Credited Service up to 30 years. This special supplemental increase will commence 24 months after your retirement and will cease at the end of the month in which you reach age 55.

Retiring Allowance

If you retire from the Company during the life of this agreement with at least 30 pension credits and the total (lifetime and bridge) pension payable in the normal form is less than \$2,250 per month, you will receive a retiring allowance equal to \$2,250 less your total early retirement pension payable under the normal form. The retiring allowance is payable monthly from your early retirement date to age 65.

Note: Normal form means before any reduction for a Joint & Survivor pension and taxes.

5. EARLY RETIREMENT REDUCTIONS

If you choose to retire early, your Basic Pension at the time you retire will be actuarially reduced from the date you would be age 60 and have 10 years of Credited Service.

If you choose to retire early and you qualified for early retirement at December 31, 2001, your pension will be reduced as follows:

(a) Service Prior to August 1, 1988

For service prior to August 1, 1988, your Basic and Bridge Pensions will be reduced by 0.5% for each complete month by which your early retirement date precedes your 58th birthday, except that the reduction will not apply if you have 30 or more years of Credited Service, regardless of age.

(b) Service After July 31, 1988 and Before January 1, 2002

If your Basic and Bridge Pensions for service after July 31, 1988 and before January 1, 2002 are calculated using the \$48 and \$20 formulas respectively, the reductions on them will be calculated as in (a).

If your Basic and Bridge Pensions for service after July 31, 1988 and before January 1, 2002 are calculated using your Credited and Base Earnings respectively, they will be reduced by the lesser of:

- (i) 0.25% for each month that you start your pension before your 62nd birthday, plus an additional 0.25% for each month that you start your pension before your 59th birthday; and
- (ii) 0.33% for each month that your age plus service at retirement is less than 85, except that no reduction shall apply if you have 35 years of service at retirement.

REMEMBER: The percentage which provides you with the largest pension is used.

(c) Service After December 31, 2001

For service after December 31, 2001, your Basic Pension will be actuarially reduced from the date you would be age 60 and have 10 years of Credited Service.

6. OPTIONAL PENSIONS

The form of pension you receive will depend on whether or not you have a spouse when you retire. If you do not have a spouse, your pension will be payable for your life. If you have a spouse when you retire, the law requires that your pension be paid as a Joint and Survivor pension, unless you and your spouse waive the right to that form of benefit in writing. The Joint and Survivor form pays you a reduced pension for life with 60% of the reduced pension continuing to your spouse after your death. This pension will be equal in value to the lifetime pension that you would receive if you do not have a spouse when you retire.

The Ontario Pension Benefits Act requires a 60% joint and survivorship (J&S) pension for your spouse by taking a slightly smaller pension payable for your lifetime. You and your spouse, however, may elect to take a smaller or larger percentage J&S pension or no J&S pension.

If you elect to take a J&S pension of less than 60% the law requires that both spouses sign a waiver form.

The amount paid to your spouse in the event of your death is dependent on your age at retirement, the age difference between you and your spouse and the percentage amount you elect.

The J&S pension is based on the lifetime portion of the pension only, that is, it does not apply to the bridge benefit.

7. POST-RETIREMENT INDEXING OF BASIC PENSION

If you retire from active service, have been retired for at least 24 months and are at least age 55, you will have a portion of your Basic Pension increased on July 1, 2005, July 1, 2006 and July 1, 2007 based on the Percentage Adjustment which shall be calculated as the lesser of:

- (a) 80% of the average annual percentage increase in the Consumer Price Index in the immediately preceding calendar year subject to an annual maximum of 3%, and
- (b) the difference between the rate of return on the assets of the pension fund in the preceding calendar year and the solvency interest rate for the current calendar year plus 1.5%.

If the Percentage Adjustment is zero or negative, no indexing will be paid. Any negative balance in the Percentage Adjustment will be carried forward to future years. At July 1, 2004, the Percentage Adjustment was approximately negative 12%.

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The maximum portion of your Basic Pension which will be increased is equal to \$48 per month times your years of Credited Service (Salaried and Hourly to a maximum of 35 years) plus increases previously granted to you.

8. Early Retirement Windows

If you retire during one of the following periods:

- (a) August 1, 2004 to October 31, 2004
- (b) January 1, 2005 to October 31, 2005
- (c) January 1, 2006 to October 31, 2006
- (d) January 1, 2007 to July 31, 2007

your Basic and Bridge Pensions will be calculated using the reductions outlined in Sections 5(a) and (b) of this booklet, with Section 5(b) applying to all years of Credited Service after July 31, 1988.

Remember: All retirements are on the first of the month. For example, the last opportunity to retire under these early retirement windows will be on July 1, 2007.

9. Plant Closure Benefit

If the plant closes and you were a Member of the Hourly Plan on December 31, 2001, your Basic and Bridge Pensions will be calculated using the reductions outlined in Sections 5(a), (b) and (c) of this booklet.

This benefit will not be pre-funded and will impact the funded status of the Hourly Plan in the event of a plant closure.

10. INTEGRATION WITH GOVERNMENT PLANS

Although full Canada Pension Plan (CPP) benefits do not become payable until age 65 (unless you become totally disabled), you may take a reduced CPP benefit as early as age 60. Old Age Security is payable at age 65. Since the Hourly Plan provides you with the option to retire before you are eligible for the Government benefits, the Hourly Plan provides an extra amount of pension (Bridge Pension) if you decide to retire before age 65 and if you meet the qualifying criteria. When you reach age 65 the Bridge Pension ceases. If you choose to take your CPP before age 65, the Bridge Pension will still continue to age 65.

11. SURVIVOR BENEFITS

In the event of your death before retirement from any cause, your surviving spouse will be entitled to receive an on-going monthly survivor pension under the terms of the Hourly Plan.

The Survivor Benefit payable under the Hourly Plan is the greater of:

- half of your Basic Lifetime (Age 65) pension entitlement earned to your date of death, or
- the commuted value of your pension earned from January 1, 1987.

The Survivor Benefit monthly income is payable for the lifetime of your spouse.

If you do not have a surviving spouse, your designated beneficiary will receive a lump sum payment equal to the commuted value of your deferred pension accrued from January 1, 1987. If you have not designated a beneficiary or if your beneficiary predeceases you or dies before receiving all payments to which the beneficiary is due, any remaining benefits payable to the beneficiary will be paid as a single lump sum to your estate or the estate of your beneficiary, respectively.

A surviving spouse and surviving dependents under the Hourly Plan also receive, at Company cost:

- Prescription drugs at 100% coverage
- Dental Plan coverage until the spouse reaches age 60 or there are no dependent children, whichever occurs last.

In all cases of the death of an employee and/or a surviving spouse, the Company will assist beneficiaries in any way possible.

12. TERMINATION OF EMPLOYMENT

If you terminate your employment with the Company prior to becoming eligible for an early retirement pension and you have at least 24 months of continuous service, you shall be entitled to receive a deferred pension. You will receive as a minimum the value of your basic lifetime (at age 65) pension. You will have the option of transferring the commuted value of your deferred pension to your new employer's pension plan (if it will accept the funds), or to your own locked in Retirement Account (such as a RRSP) or using it to purchase a Deferred Life Annuity.

You will have 60 days to make your election. If you do not make an election, you will be deemed to have elected not to transfer the commuted value of your deferred pension from the Hourly Plan.

13. ESTIMATED PENSION CALCULATION

When you are approaching retirement contact Employee Benefits for an estimate of your pension entitlement.