

newsbrief 2006

November 2006

Issued to all Members, Pensioners and Dependants of the British Steel Pension Scheme

Chairman's Introduction



Welcome to Newsbrief 2006, which concentrates on the key financial and membership statistics from the Scheme's Annual Report and Accounts, and the highlights of the twelfth annual Pensions Consultative Meeting.

The market value of the Fund's assets had grown to £9,218 million as at 31 March 2006, an increase of £1,122 million from the previous year, resulting from a strong recovery in investment markets. The Fund produced another year of solid performance with a total investment return of 19.2%. Although we must acknowledge that the daily fluctuations in the market value of the Fund's assets mean that a snapshot at a particular point in time is not a reliable indicator of the strength of the Fund this is nevertheless a very pleasing performance.

We must recognise that the Fund's liabilities have also been growing substantially for a number of reasons, including longer life expectancy. Thus a better measure of the health of the Fund is through regular actuarial valuations which include a long term view of the nature and term of the liabilities.

I commented on this in the Special Newsbrief which you received in September and included a summary of the financial health of the Scheme along with a detailed update on recent pension developments. I trust you found this helpful.

I wrote to you in October concerning the discussions which had taken place between the Trustee and Tata Steel to safeguard the future security of the Scheme if the proposed acquisition of Corus by Tata Steel was successful. A separate update on the latest position regarding Corus and a possible corporate transaction will be included with this edition of Newsbrief.

Finally, this Newsbrief includes a report on the Consultative conference held on 22 September. Please look at the report because it provides you with an update on the many issues which the Trustee has to address.

My best wishes

A handwritten signature in black ink, appearing to read 'Bob Avis'.

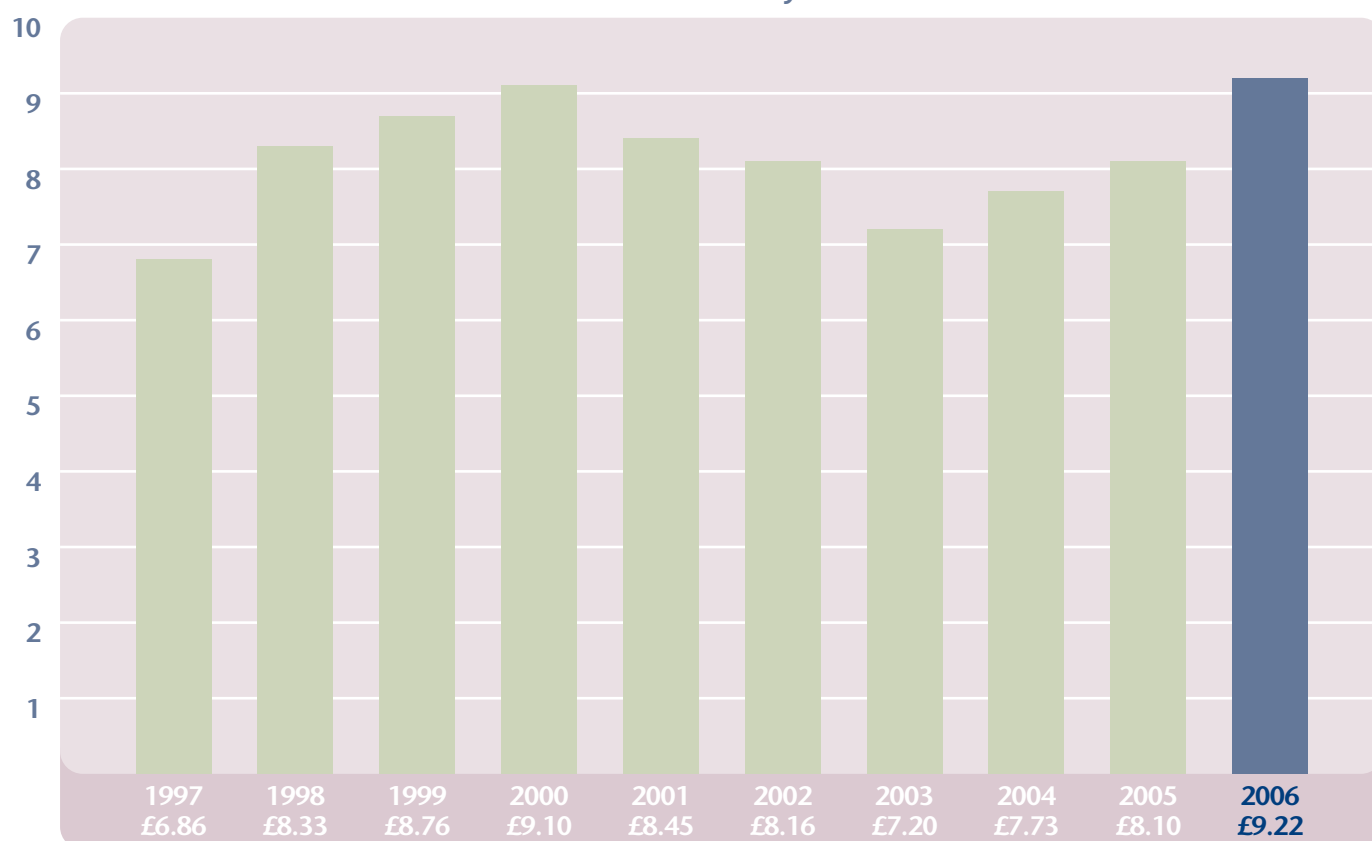
Bob Avis
Trustee Chairman

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INVESTMENT AND ACCOUNTS

£'billion

Fund value over the last 10 years as at 31 March



WHERE THE FUND INVESTED ITS MONEY

as at 31 March 2006

	Discretionary Portfolio		Maturity Portfolio		Total Fund	
	£m	%	£m	%	£m	%
Fixed Interest Securities	105.6	2.1	1,322.2	31.8	1,427.8	15.5
Index-Linked Securities	78.9	1.5	2,748.2	66.2	2,827.1	30.7
United Kingdom Equities	2,306.7	45.5			2,306.7	25.0
Alternative investments	11.2	0.2			11.2	0.1
Overseas Equities	1,907.9	37.7			1,907.9	20.7
Property	485.2	9.6			485.2	5.3
Net Current Assets	170.4	3.4	81.9	2.0	252.3	2.7
Total	5,065.9	100.0	4,152.3	100.0	9,218.2	100.0

PENSION INCREASES

Between January 2005 and January 2006, the increase in the Retail Prices Index was 2.4%. In accordance with the Scheme Rules, this percentage was applied, with effect from 1 April 2006, to increase Scheme pensions and allowances in payment immediately before that date. The 2.4% increase will also be applied to pensions prospectively payable to Deferred Pensioners.

The pension increases for the last 5 years are shown below:

2002 1.3%

2003 2.9%

2004 2.6%

2005 3.2%

2006 2.4%

FOCUS ON THE ACCOUNTS

CONTRIBUTIONS AND BENEFITS

Contributions	£49.8 m
Benefits transferred in	£2.9 m
Total	£52.7 m

£438.2 million was paid from the Fund during the year, as follows:

Benefits payable	£428.3m
Leavers	£4.2m
Administration Expenses (including pensions levy)	£5.7m

Expenditure on benefits exceeded contributions and other non-investment receipts by **£385.5 million**.

During 2005/06, the Fund's net investment income amounted to **£276.5 million**.

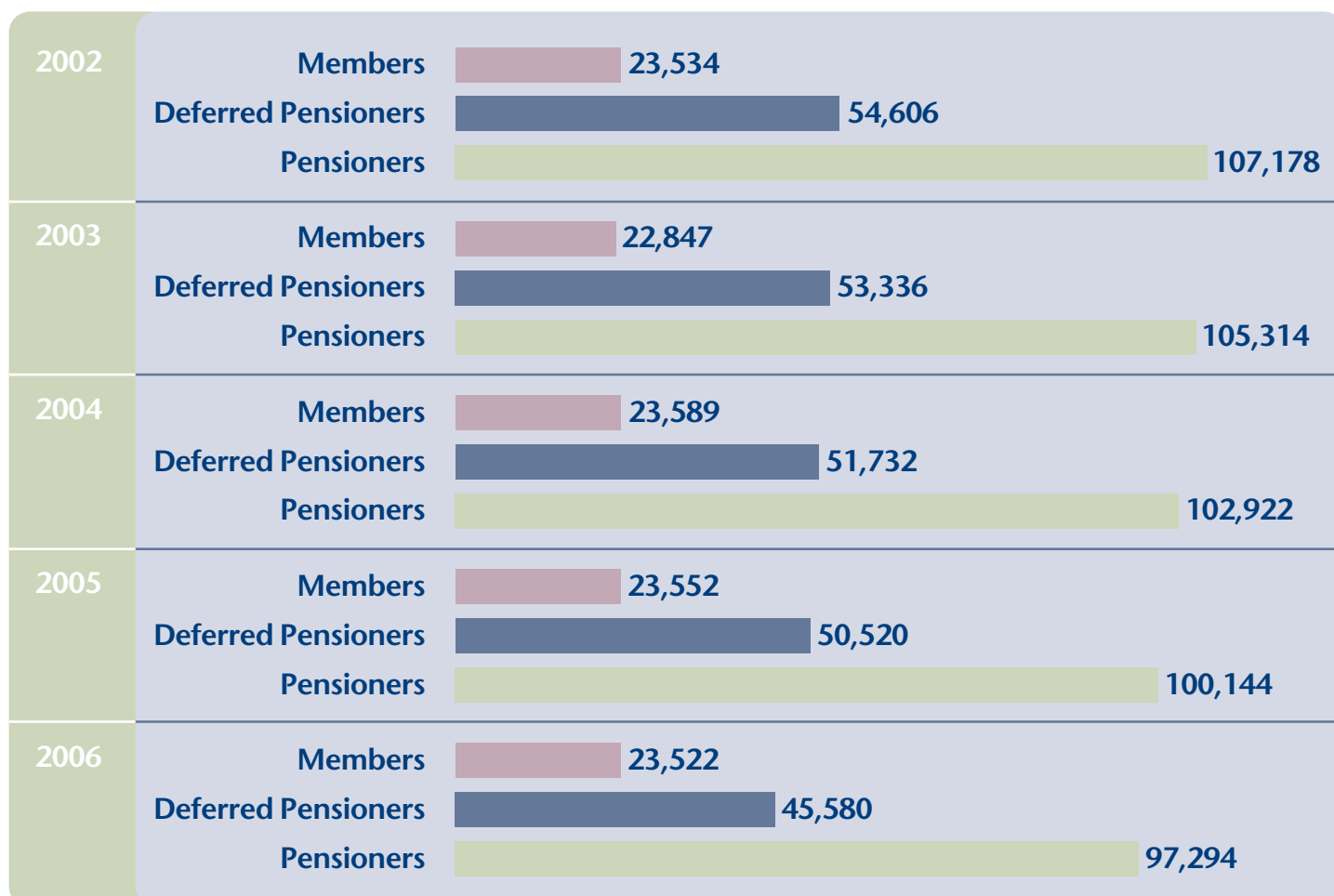
The net funding requirement during 2005/06 was therefore **£109 million** which was financed by disposals of investments.

The Auditor

The Scheme Accounts are audited every year and this reassures members that financial matters are being properly recorded. The auditor, KPMG LLP, has again confirmed that the accounts fairly present the Scheme's income and expenditure for the year and the value of the assets as at 31 March 2006.

The Annual Report and Accounts can be obtained by phoning **0845 274 0902** or it can be downloaded from the website **www.bspensions.com**, along with other Scheme publications such as *Newsbrief* and *Pensioners' Update* newsletters.

MEMBERSHIP AT A GLANCE



CONSULTATIVE MEETING 2006

The twelfth Consultative Meeting was held on 22 September in Barford, Warwickshire and was attended by representatives from the Trustee, Corus, Retirement Associations and Works Committees, along with the Scheme's Solicitor.

Below: Bob Avis (left) with Allan Johnston



Bob Avis, Trustee Chairman

Works Committee Nominees

Kevin Bajjada, Llanwern
David Bowyer, Port Talbot
Mick Conroy, Scunthorpe
Paul Evans, Trostre
Dougie Fairbairn, Corby
Andy Gunn, Teesside
Sue Mather, Rotherham

Pensioner Organisations

John Batstone, NABSP*, Scunthorpe
Arnold Berry, Cumbria Retired Colleagues Association
Norman Bielby, NABSP*, Teesside
Tom Bowman, NABSP*, North East

Pat Harlow, London Retirement Association

Bob Leonard, Port Talbot Retired Employees Association

Don Thomas, NABSP*, Wales

Ian Veitch, NABSP*, Scotland

* National Association of British Steel Pensioners, which is part of the UNITE pensioner group

Pension Scheme Trustees

Steve Breen

Ray Hill

Allan Johnston

Charles Radcliffe

Paul Strickland (Chairman of the Investment Committee)

Officers

Jim Cumming, Director, Group Pensions

Alex Kelly, Communications Manager

Ian Kelly, Pension Scheme Secretary

Derek Mulholland, Manager, Corporate Pensions

Hugh Smart, Chief Investment Officer

Corus

Staf Wouters, Director, Human Resources

Adviser

Stuart James, Scheme Solicitor

CHAIRMAN'S PRESENTATION

The Chairman reviewed the main features of the Scheme's Annual Report and Accounts for the year to 31 March 2006 and focussed on key matters which had arisen throughout the year.

Primarily due to a strong recovery in investment markets, the Fund's assets had grown by £1,122 million to £9,218 million at 31 March 2006.

The Scheme accounts showed that investment returns represented 84% of its total income for the year, and that monthly pensions continued to be the main item of regular

expenditure. As a result of "A-Day" legislation, it was interesting to note that there had been a considerable increase in the amount of tax free cash taken by members on retirement since April 2006, in exchange for lower pensions.

Illustrating the continuing trend of increasing longevity, there are currently 36 Scheme Pensioners and Dependants over 100 years of age, compared with 27 at the same time last year. Scheme Trustees regularly visit Scheme Pensioners and Dependants reaching 100.

Other notable events in the year included:

ANNUAL AUDIT BY KPMG LLP

The annual audit of the Glasgow Pensions Office and the London Investment Office was carried out by KPMG LLP. Once again, this progressed very smoothly, with no major control deficiencies identified.

TRUSTEES' ACTIONS TO REDUCE COSTS AND RISKS

The formal valuation of the Scheme's assets and liabilities at 31 March 2005 identified an actuarial surplus of £414 million, a heartening result in the current climate. However, although the Scheme continues to be soundly funded, it is not immune to the challenges facing UK pension schemes generally.

Against this background, the Trustees have taken various steps to address costs and risks, including ending the practice of accepting individual transfer values from external pension arrangements and finalising the commutation of around 6,300 small pensions, of less than £260 per year, for one-off lump sums.

CHANGES TO THE BRITISH STEEL PENSION SCHEME (BSPS)

Following a detailed consultation exercise with the National Trade Union Steel Co-ordinating Committee, the Company implemented a number of changes to the BSPS contribution and benefits framework. Pensions for existing pensioners and beneficiaries at 1 April 2006 are unaffected, and Deferred Pensioners at 1 April 2006 are generally unaffected. The changes only apply to the BSPS pension package for the future service of active members. These were communicated during the year by Pensions Office staff through a series of Pension Roadshows at major Corus sites throughout the UK

TRUSTEE KNOWLEDGE AND UNDERSTANDING

The Pensions Act 2004 stipulates that from April 2006, trustees are required to demonstrate that they have the knowledge and understanding required to carry out their duties, including being conversant with key scheme documents, such as the Trust Deed and Rules, and having knowledge and understanding of particular areas including trust law, funding principles and investment principles.

Existing Trustee training processes have been reviewed in light of the new legislation and a strengthened training programme has been designed to meet the increasing requirements for Scheme trustees. Since the Consultative Meeting, all existing trustees have attended a full day of

briefing on the new regulations. Every Management meeting now includes a briefing session on new matters. Additionally, many of the trustees are working through The Pensions Regulator's new e-learning programme.

SECURITY

The Chairman concluded his presentation by noting that as he was stepping down from the post in February 2007, this would be his last Consultative Meeting as Trustee Chairman. When he was appointed as Trustee Chairman in 2001, his principle objective had been to sustain the security of the Scheme, and as he reached the end of his term of office, this goal continued to be his main focus.

PAUL STRICKLAND, CHAIRMAN, INVESTMENT COMMITTEE AGENDA - 12 MONTHS TO SEPTEMBER 2006

FUND SECURITY

Paul began by looking at the importance of the financial strength of the sponsoring company, Corus UK Limited, to the security of the BSPS. Over the last couple of years, the Company had traded profitably, however prior to this there had been a number of years of heavy losses. The steel industry was cyclical in nature and therefore it was likely that the financial strength of the Company could fluctuate over time.

Turning to the market value of the group when compared with BSPS pension liabilities, this had increased from a low point of less than £1 billion in 2002 to around £3 billion in 2005, which was still dwarfed by the liabilities of the BSPS which stood at around £9 billion. Reassuringly, there are currently adequate assets within the Scheme to meet these liabilities. These contrasting figures serve as a "reality check" for the ability of the Company to support the Scheme in times of difficulty.

FUTURE INVESTMENT STRATEGY

The Scheme's asset strategy is conservative relative to other major UK pension schemes, and has provided an enviable level of security for members' benefits.

The objective of future investment strategy is to reduce both risk to the Fund and reliance on the sponsoring company. The Scheme Actuary's Asset/Liability study recommended a significant reduction in investment risk and discussions are ongoing between the Trustee and Corus on this matter as part of a detailed consultation process. Both the Trustee and the Company have an interest in striking the right balance between risk and return. The outcome will be communicated to members in due course.



Left to Right: Hugh Smart, Paul Strickland, Bob Leonard

HUGH SMART, CHIEF INVESTMENT OFFICER INVESTMENT UPDATE

Hugh presented the background of the Fund's legal structure and governance. The Trustee's policy for compliance with the Pensions Act 2004 is through a dedicated internal investment management operation staffed by qualified professionals who report to the Investment Committee, a Sub-Committee of the Management Committee. The Investment Committee is advised by three external advisers, one on property and two on general investments, (including a past Investment Manager of the Fund), who are experts of high standing in their respective areas. The internal management company, Pension Services Limited (PSL), is regulated by the Financial Services Authority.

The key steps in the investment process were described as Asset/Liability Management, strategic asset allocation, tactical asset allocation, stock selection and performance attribution. As the investment strategy evolves, changes to the investment mix are implemented when the appropriate terms are available.

The investment team select stocks by building up a portfolio to try to out-perform the relevant index. Over the 10 years ending on 30 June 2006, the annualised performance of the Total Fund was 7.9% compared to 6.6% for its benchmark.

Hugh reviewed PSL's specific asset performances in the past 3 years against the indices for the respective asset classes. Overall, PSL's performance had been very good, with some admirable out-performance against a number of the indices.

With regard to retaining PSL as in-house investment managers, as opposed to selecting external managers, it was generally recognised that the Fund benefits from the current arrangements. The investment management culture has been developed to suit the Scheme's circumstances, thus minimising conflicts of interest which could arise where a number of clients are being served. There were also advantages in continuity of service with managers who are fully familiar with the Fund and the Scheme's requirements.



Derek speaking to Sue Mather

DEREK MULHOLLAND, MANAGER, CORPORATE PENSIONS

PENSION ISSUES AND DEVELOPMENTS

Derek reported that there had been a number of major developments affecting pension schemes during 2006.

PENSIONS LEGISLATION

In April, the Finance Act 2004 introduced the most radical pension changes for 20 years. A single tax regime for pensions replaced 8 previous personal and occupational regimes, and Annual and Lifetime Allowances were introduced to regulate tax effective contributions to pension arrangements. Members were also afforded the potential to give up more pension for higher lump sums on retirement.

PENSION PROTECTION FUND (PPF)

The PPF was established by the Government in April 2005 to pay compensation to members of eligible defined benefit schemes, where there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.

MEMBER NOMINATED DIRECTORS (MNDs)

Under the Pensions Act 2004, from 6 April 2006, trustees are required to implement a process whereby at least one-third of all trustees are nominated by members, or by organisations representing them, including nomination and selection procedures to comply with the statutory requirements.

The existing arrangements, whereby 50% of the trustees are nominated by the Trades Unions, have served the Scheme well. The nomination and selection processes are currently being reviewed with the Scheme's professional advisers, to ensure compliance with the new legislation. The trustees will determine what, if any, changes are required prior to the implementation deadline of October 2007.

REFORM OF THE UK STATE PENSION – THE GOVERNMENT'S WHITE PAPER

The Government's White Paper announced a number of initiatives aimed at strengthening pension provision in the UK and securing the future of the State's pension system. Most of these reforms will not be introduced for some years, and much of the detail has still to be agreed.

STATE PENSION

The main changes are:

- The age at which the State Pension can be drawn will increase, in stages, from 65 to 66 by 2026; to 67 by 2036; to 68 by 2046. These changes complement the raising of the State Pension Age for women from 60 to 65 over the period 2010 to 2020.
- If affordable, from 2012, the Basic State Pension will be increased in line with average earnings, rather than price inflation.
- Many people have interrupted work records, resulting in them receiving less in State pension, and this affects women in particular. The number of years of National Insurance contributions needed to qualify for a full State pension will be reduced to 30 years for both men and women reaching State Pension Age from 2010 (currently 39 years for women and 44 years for men).

NATIONAL PENSIONS SAVINGS SCHEME (NPSS)

- The Pensions Commission's first interim report, published in October 2004, found that around nine million people were not saving enough for their retirement. The Government's response to this was to propose the setting up of new low cost pension savings accounts in 2012.
- Automatic membership for employees (with an option to opt out) unless they are eligible to join a more generous scheme which enrolls them automatically.
- Employers will have to make a compulsory 3% contribution to the scheme, and employees to pay 4% (on earnings between £5,035 and £33,540 p.a. under current thresholds) and the Government providing 1% in the form of tax relief.
- The contributions will be invested into personal accounts on behalf of employees in a variety of savings vehicles, such as investments in stocks, bonds and property.

THE UK EMPLOYMENT EQUALITY (AGE) REGULATIONS 2006

The Employment Equality (Age) Regulations came into force on 1 October 2006. The new law applies in England, Scotland and Wales. The impact of the legislation means that it is unlawful to discriminate on grounds of age. Pension provisions, which form part of the legislation, will not come into force until 1 December 2006, to give schemes more time to adjust to the new rules.

Original draft regulations exempted many age related practices of occupational schemes but the final regulations may still leave some technical problems to be resolved. Revised guidance from the Department of Work and Pensions (DWP) is currently awaited.



Staf Wouters

STAF WOUTERS, DIRECTOR, HUMAN RESOURCES, CORUS GROUP

Staf reported on Corus' 6 month results to the end of June 2006, and provided an update on the Company's discussions with the Trades Unions on matters affecting the BSPS.

THE COMPANY'S RESULTS

Group operating profit totalled £305 million in the half year to June 2006, a decrease of £180 million from the same period in 2005. This decrease was mainly attributed to an increase in the costs of energy and raw materials. The Company's "Restoring Success" programme was launched in June 2003, to deliver an improvement in earnings by the end of 2006, thereby closing the competitive gap between Corus and its European competitors by concentrating on safety, performance, service delivery and cost savings. The Company is currently on track to deliver targeted benefits of £635 million by the end of 2006.

PENSION CONSIDERATIONS

The Company's costs in respect of the provision of its employees' pension arrangements are recorded in its Annual Report and Accounts, under IAS19 accounting standards. Looking at Corus' total exposure to pensions worldwide for accounting purposes, during the 6 months to June 2006, the Group's pension position improved by £492 million. The BSPS surplus on an IAS19 basis at the end of 2005 was £67 million and this had improved to £375 million by the end of June 2006, but had been at £431 million at the end of March 2006. This emphasised the volatile nature of the IAS19 figures.

PENSIONS DISCUSSIONS WITH TRADES UNIONS

During 2005, a comprehensive consultation process took place between Corus and the National Trade Union Steel Co-ordinating Committee (NTUSCC) on the longer term challenges facing the Scheme and to improve affordability and sustainability going forward. This process was tackled positively, with full and open discussion where both groups focussed on the same objectives. This resulted in the changes to the contribution and benefits framework implemented in April 2006.

As a follow on from these discussions, a joint working group was looking at possible options for new recruits.

POINTS FROM THE QUESTIONS AND ANSWERS SESSIONS

COMMON LAW PARTNERS

Under the Rules of the Scheme, a widow/widower's pension is payable only to the legal spouse at date of death. The possibility of extending this provision to common law partners would be a matter for the Company to consider, taking into account the cost implications for the Scheme. Benefit improvements are not currently under consideration.

SCHEME'S ASSETS

The Scheme's assets are held by the Trustee to provide maximum security for members' benefits and are separate from the assets of the employer. In the event of a takeover, the Scheme's assets would continue to be held separately from those of the employer.

Contacting the Pensions Office

When you contact the Pensions Office, please quote your Membership Number as this will help us to answer your enquiry as promptly and efficiently as possible.



In writing

British Steel Pension Scheme
6th Floor, Sentinel, 105 Waterloo Street
Glasgow G2 7BW

If you live in the UK, you can write to the Pensions Office using our Freepost facility, so there is no need for a stamp.

Your envelope should state the following:

British Steel Pension Scheme
Freepost RLXS-ZXKT-AUER
6th Floor, Sentinel, 105 Waterloo Street
Glasgow G2 7BW

Members living outside the UK can write to the Pensions Office at:

British Steel Pension Scheme
6th Floor, Sentinel, 105 Waterloo Street
Glasgow G2 7BW, Scotland, United Kingdom



By telephone

The Pensions Office aims to make it as easy as possible for you to contact it.

All UK calls to the Pensions Office will be charged at local rates:

If your surname begins

A - K, please call 0845 274 0900.

If your surname begins

L - Z, please call 0845 274 0901.

Dialling from outside the UK:

If your surname begins A - K,
please call +44 141 274 2222.

If your surname begins L - Z,
please call +44 141 274 2266.

Standard office hours are 8.45 am to 4.45 pm Monday to Friday. If you telephone outside these times or during statutory holidays, you will normally hear a recorded message giving details of when we can be contacted.

You also have the option of leaving a message, which we will reply to as soon as possible.



By fax

You can fax your enquiry to us on **0141 248 5299**



By email

You can send an email to us at:
pension.enquiries@corusgroup.com



Website

Our website provides general information about the Scheme. The website address is:
www.bspensions.com