

newsbrief 2009

November

CHAIRMAN'S INTRODUCTION



I am pleased to present Newsbrief 2009 which includes the annual update on the Scheme's funding position as at 31 March 2009. This newsletter also provides details from

the 2009 Annual Report & Accounts, reports on a successful Annual Pensions Consultative Meeting, and features some general matters which I hope will be of interest to Scheme members.

The global economic position has deteriorated significantly since 31 March 2008, the effects of which are being felt by UK pension schemes generally. Whilst the BSPS is not immune from these factors, it is reassuring to note that previous de-risking actions have provided a measure of protection against the worst effects of recent events.

In communications earlier in the year, I referred to the expectation that the Annual Funding Update at 31 March 2009 will show

that on an on-going basis, the funding position has fallen into deficit. This has turned out to be the case, and whilst this has been the harsh reality for most pension schemes over a number of years, it is the first time that the Scheme has found itself in this position.

The Scheme Actuary is required to produce annual funding updates in each year between full actuarial valuations. Following the results of the latest Actuarial Valuation as at 31 March 2008, the Actuary prepared an update of the funding position as at 31 March 2009 which indicated on the assumptions used, the Scheme funding level had deteriorated from broadly in balance to a deficit of £790 million over the 12 month period.

There are a number of clearly identifiable factors behind this deterioration; the most significant being falls in asset values of over £1 billion. Since March 2009, there have been some encouraging signs that asset values have recovered somewhat, though this has been offset in part by increasing liabilities. The trustees will continue to keep a watchful eye on the position ahead of the next Annual Funding

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Update as at 31 March 2010, when a more in depth review will be carried out, and this should provide a better feel for the position, leading up to the full valuation in 2011.

I recognise that this deficit will be of concern to Scheme members, however please be assured that the trustees take a long term view on Scheme funding so that obligations can be met as they fall due. Pensions in payment are unaffected by the current circumstances. The position at 31 March 2009 is not unexpected, as this date was a particularly low point for global investment markets.

The Trustee board remains satisfied with the strength of the Company covenant (i.e. the Company's ability and willingness to pay pension contributions to the Scheme) and consequently we believe it is appropriate to continue to take a long term measured approach.

Information on the Annual Funding Update can be found on pages 13-15.

The underlying risks affecting defined benefit pension schemes remain, and the Trustee board will work with its advisers, the Company and other stakeholders to ensure that, where necessary, appropriate and timely actions continue to be taken to protect the security of members' benefits.

The Pensions Regulator's (tPR) guidance requires trustees to put procedures in place to ensure that the employer keeps them informed about its financial position including any plans that will change or impact upon the pension scheme. This is particularly important in the current economic climate where companies that were previously regarded as robust and stable have become victims of the recent global slowdown.

To this end, the Trustee board has established a Covenant sub-committee which meets regularly with the Company to receive an information flow on covenant matters. Throughout the course of these meetings, I have been impressed with the willingness of

the Company to share confidential information in an open and transparent manner and have been reassured regarding its continued support for the Scheme.

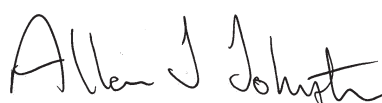
The Trustee board welcomed the successful outcome of the Company's negotiations with the banking syndicate at the end of May regarding a revised package on the debt facility arising from the acquisition of Corus and the additional funding of £425 million this year by Tata Steel towards paying off debt and increasing liquidity. This is on top of £250 million injected into Corus in September 2008.

It is my view that the covenant offered by the Company as part of Tata Steel Group is stronger than that previously provided by Corus as a standalone entity.

During the course of the year, the Company has updated the Trustee board on its intention to close the Scheme to new members as part of its strategy to manage pension risks and ensure that pension provision remains affordable and sustainable.

The Company and the National Trade Union Steel Co-ordinating Committee both recognise the need to manage the risks inherent in a defined benefit scheme such as the BSPS however, to date, no consensus has been reached on how best to achieve this. The parties have agreed that there is value in holding additional meetings to consider further any alternatives to closure of the Scheme to new members, before a final decision is taken.

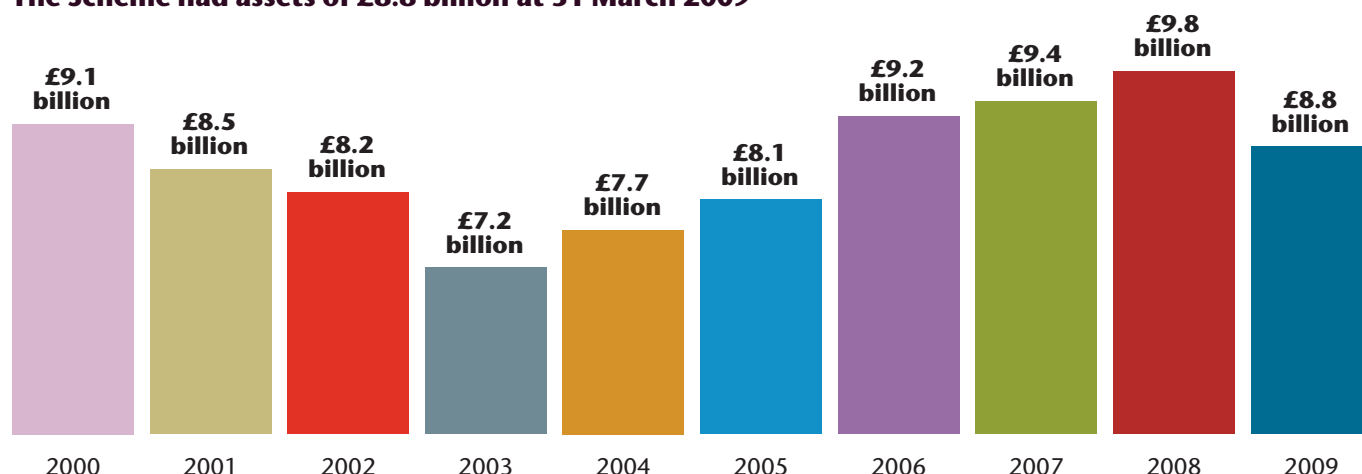
The Trustee board awaits the outcome of these discussions.



Allan Johnston
Trustee Chairman

REPORT AND ACCOUNTS HIGHLIGHTS

The Scheme had assets of £8.8 billion at 31 March 2009



Asset Allocation at 31 March 2009

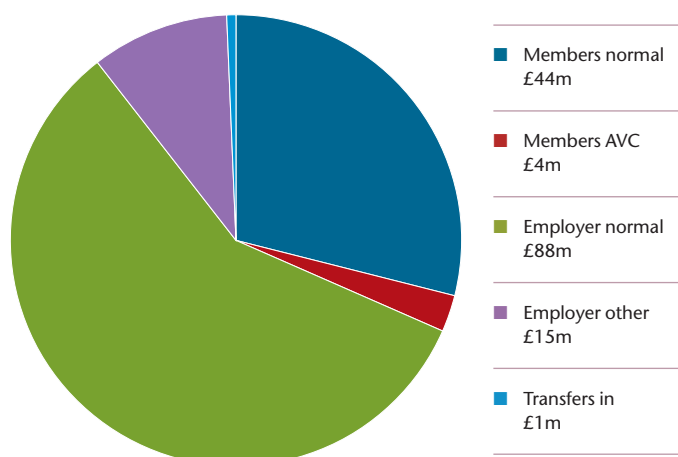
The basis on which the trustees plan to invest the Scheme assets is contained in the Statement of Investment Principles. The Scheme's assets are split between the **Maturity Portfolio** and the **Growth Portfolio**.

The **Maturity Portfolio (M)** seeks to match a large part of the Scheme's pensioner liabilities with more secure bonds.

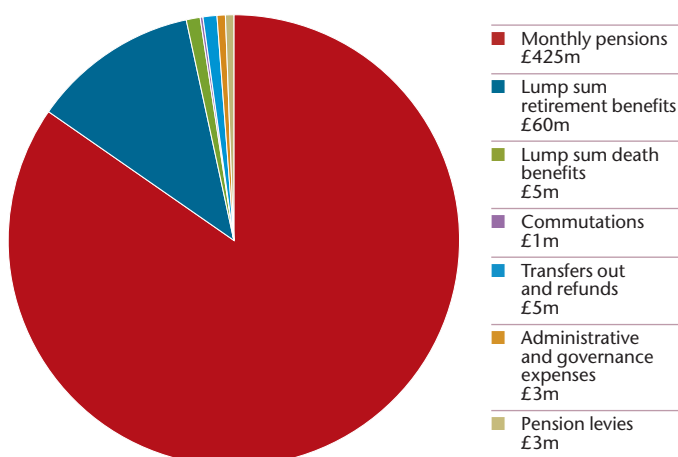
The **Growth Portfolio (G)** seeks to achieve higher longer term returns on the investments and focuses mainly on investment in company shares (both in the UK and overseas).

ASSET CLASS	PERCENTAGE OF FUND (%)	AMOUNT (£BILLION)
Fixed Interest Securities (M)	25.5	2.25
Index Linked Securities (M)	42.7	3.80
United Kingdom Equities (G)	9.3	0.80
Overseas Equities (G)	14.5	1.30
Property (G)	4.7	0.40
Alternative Investments and Derivatives (G)	1.4	0.10
Cash (M)	0.7	0.05
Net Current Assets	1.2	0.10
Total Value of Fund	100.0	£8.80

Contributions and transfers in totalled £152m



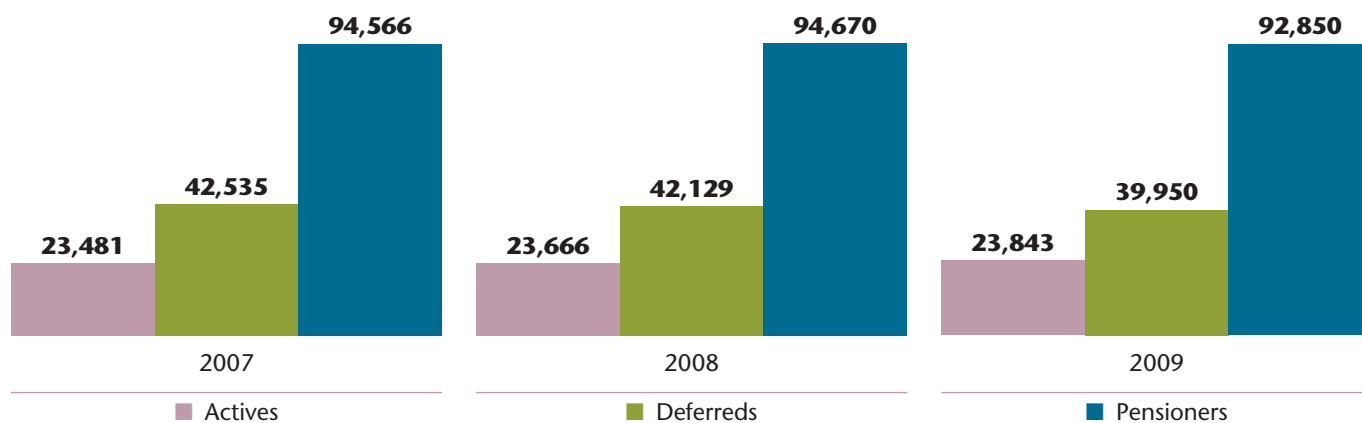
The Scheme paid out £502m in pensions, benefits, transfers out and other expenses



Income and Expenditure for the year ended 31 March 2009

	£M
Net Assets of the Scheme as at 1 April 2008	9,821
Total income	152
Total outgoings	(502)
Net return on investments	(714)
Net Assets of the Scheme as at 31 March 2009	8,757

The Scheme has over 156,000 members



The summary accounts presented here are not the statutory accounts of the Scheme but a summary of the financial statements included in the full statutory report and accounts. The financial statements are independently audited by KPMG LLP which reassures members that financial matters are being properly controlled and recorded. KPMG have once again stated that the accounts truly and fairly present the Scheme's

income and expenditure for the year and the value of the assets at 31 March 2009.

You can view a copy of the full Annual Report and Accounts on the Scheme website www.bspensions.com or if you require a hard copy of the Report, then please call the Pensions Office.

PENSION INCREASES

Under the Rules of the Scheme, since 1975, BSPS pensions have been increased each year on 1 April by reference to the annual increase in the Retail Prices Index (RPI) over the preceding January/January period.

The relevant increase in RPI over the year to January 2009 was 0.1% and, accordingly, this increase was applied to BSPS pensions in April. The Scheme is funded on this basis and the Trustee board has no authority to apply a different or higher amount or grant discretionary pension increases.

Although the country has recently experienced deflation for the first time since 1960, pensions are protected under the Scheme rules and although a nil increase would apply if the annual percentage change in RPI over a January/January period is negative, there would be no decrease in benefit.

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

2005	2006	2007	2008	2009
3.2%	2.4%	4.2%*	4.1%*	0.1%

**Scheme benefits accrued in respect of service after 1 April 2006 are subject to a cap of 4% for pensions in payment.*

NATIONAL FRAUD INITIATIVE (NFI)

The Trustee regularly checks that pensions are being paid to the correct people. Where there is clear evidence of fraud, cases are pursued rigorously and referred to the Scheme's solicitor for criminal or civil court action where necessary.

The Scheme participates in the NFI which matches the

Scheme's records against deaths registered on the Department for Work and Pensions' database to check for unreported deaths of Scheme members. The Scheme's participation in the NFI is consistent with the obligations imposed on the Scheme under the Data Protection Act 1998 and other applicable data protection laws.

CHANGES TO THE SCHEME'S EARLY RETIREMENT PROVISIONS FROM APRIL 2010 - REMINDER

From 6 April 2010, the earliest age at which any employee Member may, at the request of the Employer or with the Employer's consent, retire from service with an immediate pension will be age 55 (unless retirement is due to Incapacity).

The earliest age from which a deferred pension can be taken after 6 April 2010 will be 55, however those members of the Scheme on 5 April 2006 who had an unqualified right to take a deferred pension from age 50 (i.e. without the consent or request of the Employer) have this right protected. Deferred benefits coming into payment remain subject to actuarial reduction back from age 65.

These changes affect members who otherwise would have

been able to draw retirement benefits from age 50 and reflect new legislation that came into force in 2006. Increasing the normal minimum pension age is one of a number of reforms introduced by the Government to tackle the challenges of an ageing population.

In addition, active Members retiring at Employer's request before age 60 will have an early retirement reduction factor applied to pension earned for service after 5 April 2010 (5% for each year the Member's age at retirement is less than 60). This was agreed between the Company and Trade Unions in 2006 as part of the package of changes to the contribution and benefit framework of the Scheme.

Early retirement due to Incapacity is unaffected by these changes.

STATE PENSION REFORM

The Government has announced various changes to state pension provision.

Since 1981, the basic state pension, which is 100 years old in 2009, has risen in line with inflation rather than in line with average earnings as was the case previously. It is now worth just 16% of average earnings, compared with 26% in 1980. The Government has stated that it intends to re-link increases to the basic state pension with increases in average earnings, rather than price inflation from 2012 if affordable, and in any event no later than 2015.

The basic state pension will increase by 2.5% in April 2010. A single person's full weekly basic state pension will increase from £95.25 to £97.65, and married couple's full weekly basic state pension will go up from £152.30 to £156.15.

At the moment, the basic state pension is paid to women at age 60 and men at 65. From 6 May 2010 until 6 March 2020, the state pension age for women is being progressively raised

until it is 65. The state pension age for men and women will thereafter increase to 66 by 2026, to 67 by 2036 and 68 by 2046. Each rise will be phased in over two years.

The number of years' national insurance contributions people will need to achieve a full basic state pension will reduce to 30, for men and women who reach state pension age on or after 6 April 2010. This is a significant reduction from the current requirement of 44 years for men and 39 years for women.

Expected to be phased in from 2012, the Government intends personal accounts to provide a simple, low-cost pensions savings vehicle, giving all employees the right to a workplace pension with a contribution from their employer. Under the personal accounts regime, employers will have a duty to automatically enrol their eligible employees into a good quality workplace pension scheme (provided they are not already in such a scheme) and will also have a duty in most circumstances to provide a minimum contribution.

STOP PRESS TRIVIAL PENSIONS

New Regulations will come into force from 1 December 2009 which will allow greater scope for members of occupational pension schemes to take very small pensions as a cash lump sum. There are a number of conditions which will have to be met before the payment can be made.

Members must be between the ages of 60 and 75 and the overall value of their pension from the Scheme (from all periods of membership of the British Steel Pension Scheme) must not exceed £2,000 in total. The value will be calculated

by applying an actuarial factor to your pension (and your spouse's or civil partner's pension) in order to convert your benefit from pension to a lump amount. If the amount is less than the £2,000 limit and the remaining conditions are met, then it may be possible for a one off payment to be made and you would have no further entitlement to any benefits from the Scheme.

The Pensions Office are reviewing Scheme records and will be writing to any members who may qualify for this option in the new year.

CONSULTATIVE MEETING 2009

The fifteenth Annual Consultative Meeting was held on 24 September at Ashorne Hill Management College and was attended by representatives from the Trustee board and Corus and delegates from a wide cross section of the Scheme's membership including Works Committees, Retirement Associations, deferred pensioners, pensioners and dependants in receipt of pension.



Allan Johnston, *Trustee Chairman*

PENSION SCHEME TRUSTEE DIRECTORS

Jim Cumming
Geoff Deeley
Terry Godfrey
Brian Lilley
Sue Mather

OFFICERS

Mike Donohue, *Scheme Secretary*
Derek Mulholland, *Manager, Pensions*
Hugh Smart, *Chief Investment Officer*

CORUS

Tor Farquhar, *Director, Human Resources*
Frank Royle, *Director, Finance*

WORK COMMITTEE NOMINEES

Kevin Bajjada, *Llanwern*
David Bowyer, *Port Talbot*
Gary Charlesworth, *Rotherham*
Mike Clark, *Shotton*
Paul Evans, *Trostre*
Lew Schaffer, *Scunthorpe*
Bob Stainthorpe, *Teesside*

OTHER ACTIVE MEMBER

Janka Cafolla, *International Automotive Research Centre*

LOCAL PENSIONER ORGANISATIONS

Tom Bowman, *NABSP* North East*
Pat Harlow, *London Retirement Association*
John Monson, *NABSP* North East*
Ian Veitch, *NABSP* Scotland*
Tom Whitehead, *Cumbria Retired Colleagues Association*

OTHER PENSIONERS

Bob Avis, *Former Trustee Chairman*
John Bryant, *Former Corus CEO*
Stewart Colley, *Former Chief Investment Officer*
Peter Ferguson, *Former Trustee Chairman*
Dr David Grieves, *Former Trustee Chairman*
Chris Hollick, *MND applicant 2006*
Tony McCarthy, *MND applicant 2006 and former trustee*
Bill McLuskie, *MND applicant 2006*

DEPENDANT IN RECEIPT OF PENSION

Dorothy Percival, *Cumbria Retired Colleagues Association*

DEFERRED PENSIONER

Peter Hughes, *Former trustee*

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

A selection of additional photographs from the Consultative Meeting can be viewed on the BSPS Website (www.bspensions.com)

CHAIRMAN'S PRESENTATION

The Chairman opened proceedings by welcoming delegates to the meeting. This year marked a welcome return to Ashorne Hill Management College for the first time since 1998.

Fund value

The total Fund value as at 31 March 2009 was £8,756 million, which represented a decrease of over £1 billion from the previous year, mainly arising from the decline in the value of the Fund's investments caused by the extreme volatility in the financial markets. Other UK pension schemes had experienced heavy losses within their investment portfolios, and the Scheme could take some comfort from the effectiveness of its defensive investment strategy in providing a measure of protection against the worst effects of recent events. The Fund has benefited from recent improvements in asset values, though this has been offset in part by increasing liabilities.

Triennial valuation/Annual funding update

A full Scheme valuation is carried out by the Scheme Actuary at least every three years. The 2008 actuarial valuation was the first to be conducted under the Scheme Specific Funding regime introduced by the Pensions Act 2004. Under the new regime, the Trustee board has responsibility for setting funding objectives and contribution requirements, in agreement with the Company, and after taking advice from the Actuary.

The Scheme's past service funding had fallen from 105% at the previous valuation to 100%. Special Newsbrief 2009 updated members on the outcome of the valuation, noting that the main factor contributing to the deterioration in the funding position was a change in financial assumptions including further allowance being made for improving life expectancy and the prospect of lower future investment returns.

Company contributions remain at 12% subject to review at the next valuation.

The Pensions Act 2004 requires the Scheme Actuary to provide an annual funding update in each year between full actuarial valuations. The Annual Funding Update as at 31 March 2009 had coincided with a particularly low point for Scheme funding because of asset volatility and as a result the Scheme had fallen into deficit.



*Trustee Chairmen Past and Present.
Left to right: Dr David Grieves, Peter Ferguson, Bob Avis, Allan Johnston*

Trusteeship

The Trustee board comprises 14 Trustee directors split equally between Company and Member Nominated Directors (MNDs).

As part of the revised MND appointment process effective from 1 October 2008, the Company and Trade Unions have agreed that MNDs will be appointed to serve for a three year term with the initial terms staggered over 1, 2 and 3 years leading up to a 3 year review on a rolling annual basis.

The Trustee board operates Investment and Valuation/Covenant sub-committees to assist with the efficient running of the Scheme. Both sub-committees have their terms of reference set by, and are accountable to, the full Trustee board and comprise equal representation of Company and Member Nominated Directors.

Scheme Governance

Basic trust law requires a trustee to administer their trust in accordance with its Trust Deed & Rules. The Pensions Regulator (tPR) had also set pension scheme governance as one of its key priorities to ensure there are “well informed, capable trustees acting in the best interests of their members”. Scheme governance has therefore become an important area which demands an increasing amount of trustees’ attention. The Trustee board have recently considered and formalised a number of key governance areas, these include:

- regular training to develop and refresh Trustee directors’ knowledge and understanding;
- a process of self-assessment for Trustee directors to identify areas for development;
- a conflicts management framework explaining the steps the Trustee board is taking to identify and manage directors’ conflicts of interest;
- a formal Risk Management Policy setting out key risks affecting the Scheme and how they have been mitigated through the internal controls regime;

- regular testing of member data in line with tPR guidance on good record-keeping;
- regular reporting on a range of key target measures across a broad spectrum of regular administration tasks; and
- a Service Standards Complaints Procedure for recording and assessing complaints where an individual believes that the service provided by the Pensions Office has fallen significantly short of their expectations.



Left to right: Dorothy Percival, Tom Whitehead

INVESTMENT UPDATE



HUGH SMART,
CHIEF INVESTMENT OFFICER

Hugh reported on the recent performance of the Fund and provided an update on general investment matters.

The year ended 31 March 2009 had been particularly difficult for the global and UK economies and in this challenging environment the Fund produced an actual return of minus 7.3% against the challenging Scheme Specific Benchmark of minus 5.4%. The relatively high bond allocation in the Fund compared to the typical UK pension fund meant the Scheme returned a creditable absolute return compared to other typical UK pension funds. For example, the Fund compared very favourably with the weighted average return of minus 18.1% for the year for the 50 largest pension funds, as measured by the State Street-WM index. The Fund’s overall performance for the year outperformed 90% of this WM50

universe continuing the trend over three and five years when the Fund had outperformed respectively 91% and 95% of the schemes in this universe.

Since 31 March 2009, the Fund had achieved good performance in UK equities, index linked, and corporate fixed income bonds. There had also been improved performance in portfolios which previously had lagged their respective indices. The European, Pacific Basin ex Japan and Emerging Market Equity portfolios had significantly reduced their shortfall against benchmark. The Combined Fixed Interest Portfolio had also moved back in line with the long run index over the period. In overall terms, the total Fund had produced a return of 5.1% for the 1st quarter 2009/10 which was significantly ahead of the Scheme Specific Benchmark return of 3.8%, and was achieved mostly as a result of positive asset allocation.

As anticipated, the Fund’s overweight towards growth assets had been extended as a result of the absorption of CESPS assets, with its higher exposure to equities, into the Scheme. The Fund had an overweight/underweight position of 3.6% in Growth and Maturity assets respectively. The Fund’s asset allocation would be rebalanced in a disciplined manner as appropriate opportunities arose.

PENSION ISSUES AND DEVELOPMENTS



DEREK MULHOLLAND,
MANAGER, PENSIONS

Derek reported on some of the broader issues and developments affecting occupational pension schemes and their members.

Early retirement provisions 2010

The normal minimum pension age (i.e. the earliest age at which a pension can be taken from a registered pension scheme) will generally increase from 50 to 55 from 6 April 2010.

Employee Members of the BSPS retiring at Employer's request before age 60 will have an early retirement reduction factor applied to pension earned by service after 5 April 2010.

Default retirement age (DRA)

Currently, employers can insist on workers retiring at age 65 provided they follow due process and consider any requests to work beyond that age. This "default" retirement age is being reviewed by the Government in 2010, earlier than anticipated.

Budget 2009

From April 2011, tax-relief on pension savings will be restricted to the basic rate of income tax (currently 20%) for individuals with taxable income over £180,000. Relief will be tapered (from 50% to 20%) where taxable income is between £150,000 and £180,000. The restriction on tax relief will extend to employer contributions.

This sets a worrying precedent for the taxation of both employee and employer contributions which could have a marked effect on pension provision if extended to those on lower earnings. It is likely that this change could result in key decision makers opting out of their Company's pension arrangements.

Defined benefit (DB) environment

Over the year to 31 March 2009, the aggregate deficit of all UK DB pension schemes, as measured by the Pension Protection Fund's 7800 Index increased from £23 billion to £242 billion.

According to the Association of Consulting Actuaries Pension Trends Survey published in September 2009, 87% of DB schemes are now closed to new entrants and 18% were also closed to future accrual. 39% of DB schemes were currently considering changes to future accrual.

Amongst measures taken recently by major employers to reduce costs and risks were changes to future benefit accrual rates, members being able to exchange future pension increases for a higher starting pension at retirement, increased normal retirement age and capped increases to pensionable pay.

In a clear sign that the risks associated with retirees living longer are a key issue to both trustees and sponsoring companies, a UK company had become the first to hedge its pension scheme's mortality risk by agreeing the terms of a longevity swap whereby a counterparty will pay the pension payments for the scheme's pensioners until death in exchange for a series of fixed payments from the scheme. The Trustee and Company are currently monitoring developments in this area.

Pensions Quality Mark

The quality mark, launched by the National Association of Pension Funds is designed to create a benchmark for good quality defined contribution (DC) schemes offered by employers.

The two-tier benchmark requires contributions of at least 10 or 15% into a DC pension, that the scheme has good governance arrangements in place, and that the scheme provides its members with good information. Companies are required to contribute at least 6% of pay, with employees contributing a minimum 4% to qualify for the pension quality mark. For the quality mark plus, contributions have to be at least 15%, with the employer putting in a minimum of 10%.

The benchmark is aimed at rebuilding confidence in workplace pensions and making arrangements understandable and attractive to employees.

PENSIONS COVER FOR NEW ENTRANTS



TOR FARQUHAR,
CORUS, DIRECTOR, HUMAN
RESOURCES

Tor outlined the background to the Company's position regarding the proposed closure of the BSPS to new entrants and the consequential considerations with regard to pension options for future recruits.

The need to consider pension options for new entrants had been identified as part of the 2005/06 discussions between the Company and Trade Unions.

The Company wished to continue to offer attractive and competitive pension benefits on an affordable and sustainable basis, with the risks to the Company effectively controlled.

A key objective for the Company was to avoid underwriting future uncertainties on top of those attributable to liabilities arising from the existing membership.

The Company had considered a number of options to meet its objective of managing long-term pension risks and was of the opinion that closing the BSPS to new entrants best achieves the Company's goals with the least impact on existing BSPS members. Future pension provision for new entrants would be by means of a good quality DC arrangement.

Discussions on the matter between the Company and Trade Unions had been taking place over a number of months, and the need to manage the risks inherent in DB pension schemes such as the BSPS was recognised by both sides. The Trade Unions have indicated willingness to discuss ways to reduce the risks faced by the Company and it has been agreed that there is value in further discussions over the next few weeks to consider more fully the alternatives to closure to new joiners.

CORUS RESULTS AND TRADING UPDATE



FRANK ROYLE,
CORUS, DIRECTOR, FINANCE

Frank provided an update on Corus' (Tata Steel Europe) recent financial results and trading performance.

The unprecedented global economic crisis had resulted in a massive collapse in US/European steel demand – c50% for Corus and its European peers. World crude steel production was down 11% in the year to July 2009, despite increased production in China and India.

Corus had responded to the very weak economic environment in Europe by undertaking major cost-saving initiatives:

- “Weathering the Storm” focused on alignment of production with market demands (including mothballing blast furnaces at Port Talbot, Ijmuiden and Scunthorpe) and an operational cost savings plan; and
- “Fit for the Future” introduced a set of strategic measures to improve the long-term competitiveness of the operations with restructuring taking place throughout many of the businesses.

In light of the deteriorating market conditions, Tata Steel UK had approached the banking syndicate to reset the covenants in its debt facility related to its acquisition of Corus. A revised covenant package was agreed unanimously by the banks which did not involve an increase in interest costs or rescheduling of interest or debtor payments. As part of the package, Tata Steel Limited injected £425 million into Tata Steel UK this year, with £200 million being used to prepay debt and de-leverage the European balance sheet.

Despite continuing improvements in the financial markets of several European economies, including France and Germany now coming out of recession, the crisis affecting the capital goods sector was not over. Recent recovery in European steel markets remained fragile with improvements largely based on the impact of car scrappage schemes (with the UK scheme recently extended to February 2010), and stock replenishment.

Tata Steel was continuing to perform well in a growing Indian market, with capacity at Jamshedpur being increased to 10 million tonnes per annum. Tata Steel continues to pursue raw material developments which will ultimately benefit its European operations.

The future remained challenging, however with continuing strong parental support, and the major benefits being achieved through its strategic and long-term competitiveness initiatives, Corus was well placed to capitalise from any upturn in the economy.

POINTS FROM THE QUESTION AND ANSWER SESSIONS NOT COVERED ELSEWHERE IN NEWSBRIEF

Are BSPS Additional Voluntary Contributions (AVCs) subject to the early retirement reduction factors that apply in respect of service from 6 April 2010?

No. Existing AVCs are treated as pre April 2006 service and are therefore not subject to actuarial reduction back from age 60 in respect of service from 2010.



Left to right: Sue Mather, Ian Veitch, Tom Bowman, Gary Charlesworth

What is the role of the Trustee's Covenant sub-committee?

The Covenant sub-committee has been established to meet regularly with the Company to receive an information flow on Company covenant matters.

The sub-committee comprises 2 Company nominated directors + 2 Member Nominated Directors (supported by Scheme Officers and the Actuary), has no decision making powers and reports back to the full Trustee board on developments.

What are "hybrid" pension arrangements?

A hybrid pension arrangement is a generic description for any arrangement which includes both defined benefit (DB) and defined contribution (DC) elements in its core design. In a DB arrangement the risk commonly rests with the employer, whereas in a DC arrangement, the risk lies with the member. Hybrid arrangements seek to share the risk between both parties. Examples of hybrid arrangements would be where the first £15,000 of earnings accrue benefits on a DB basis, with the remainder accruing benefits on a DC basis or where a new recruit joins a "nursery" DC arrangement for the first 5 years of service, and then accrues benefits in a DB arrangement for the remainder of their employment.



Left to right: John Bryant, Chris Hollick, Frank Royle

Who would govern a DC arrangement if introduced by the Company?

A DC scheme could be either trust based, where a trustee body (such as the BSPS Trustee) governs the scheme on behalf of the members, in accordance with a Trust Deed and Rules, or contract based where the member contract is directly with the plan provider, normally an insurance company.

Why was the Company considering changes in pension provisions when the number of new entrants was at a very low level and with the 2011 valuation ahead?



Left to right: Lew Schaffer, Bob Stainthorpe

The Company's actions are in response to long term factors affecting the Scheme and not just the current economic conditions, and even allowing for a return to more normal market conditions; it is likely that the long term pressures on DB schemes will continue.

The current rate of new entrants does not alter the long term situation. There is never a good time to close a scheme to new entrants; however the fact that the Company is not recruiting makes this an appropriate time to bed in a new pension arrangement.

How will the Company communicate the outcome of its discussions with the Trade Unions on pension provision to new entrants?

Members will be notified directly of the outcome of discussions. If appropriate, consideration will be given to the need for pension roadshows to explain any new arrangements.

Would the Pensions Office be able to give advice on DB and DC pension arrangements?

The Pensions Office staff are available to explain BSPS benefits, however they are not authorised to provide financial advice of any kind.

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This service is provided free of charge.

ANNUAL FUNDING UPDATE

What is an Actuarial Valuation?

The Trustee board is required to carry out an actuarial valuation of the Scheme at least every three years. The purpose of the valuation is to check that the Scheme has sufficient and appropriate assets to pay the accrued benefits as they fall due, and to calculate the cost of future accrual of benefits. The Scheme Actuary, who is a qualified and independent professional, prepares the Valuation Report.

The valuation considers the ongoing funding position in two stages. Firstly, the value of pension liabilities already accrued (past service) is compared to the assets of the Scheme. This determines whether or not the Scheme has a past service surplus or deficit. Secondly, the level of contributions required to fund future benefit accrual is calculated. Combined, the two measures serve to establish the level of cash contributions required from the Company through to the next valuation, which is ultimately a key outcome of the valuation exercise.

To assess the Scheme's liabilities the Actuary must use various assumptions - set by the Trustee board after consultation with the Actuary and with the Company's agreement - including how long members will live (life expectancy) and how many members will retire, leave or die each year. Using these assumptions, projections of future benefit payments are produced.

Prudent assumptions are then made of the level of expected future investment returns based upon the Scheme's asset allocation (the lower the expected return, the higher the value of assets required now to generate the necessary cash flows to pay benefits in future).

The total benefit projections are then discounted back to a present value using the expected rate of return on investments to arrive at the total pension liabilities.

Consideration is given to the sensitivity of this figure to changes in the underlying assumptions.

The Trustee board must take a long-term view of how the Scheme's assets and liabilities will change over time. Carrying out a valuation every 3 years allows assumptions to be updated in line with experience and other developments in the intervening period to be taken into account.

Reminder of Results of Actuarial Valuation in 2008

The three-yearly Actuarial Valuation of the Scheme as at 31 March 2008 was the first to be conducted under the new scheme specific funding regime introduced by the Pensions Act 2004. Under the new regime, the Trustee board now has responsibility for setting funding objectives and contribution requirements, in agreement with the Company and after taking advice from the Scheme Actuary.

A summary of the Actuary's Report of January 2009 on the 2008 Valuation results was communicated to members in the Special Newsbrief sent out at the end of April 2009. You will recall that the Scheme was fully funded on an ongoing basis to meet its liabilities at 31 March 2008 and had a very small past service surplus of £4 million. The Scheme's assets were £9,821 million and the value placed on liabilities was £9,817 million, meaning the past service funding level was 100%.

The main factors for the reduction in the funding level from 105% at the previous valuation in 2005 were:

- *further allowance was made for improving life expectancy; and*
- *the prospect of lower future investment returns was recognised under the change in financial assumptions*

The combined effect of these factors was partly offset by the Scheme receiving higher than expected investment returns between 2005 and 2008.

Following discussions between the Trustee and Company, Employers contributions were set at 12% of pensionable earnings through to the next Valuation, scheduled to be conducted as at 31 March 2011. The Scheme Actuary certified that the agreed contributions were no less than he would have required had the responsibility for setting the Contribution Schedule remained with him and confirmed that these were consistent with the Scheme's Statement of Funding Principles.

The Scheme Actuary is also required by law to report to the Trustees on the Scheme's financial position if it had been wound up on 31 March 2008. If the Scheme had been wound up the Trustees would have sought to buy insurance policies to secure the payment in full of all the benefits earned by all its members up to 31 March

2008. This is a purely hypothetical assessment since the Company has no intention of winding up the Scheme at this time.

As part of the Actuarial valuation, the Scheme Actuary estimated that, had the Scheme been wound up on 31 March 2008, its assets of £9,821 million would have covered 84% of the amount that would have been needed to buy the necessary insurance policies. Even though the Scheme had a shortfall on this measure, it is significantly better funded on this basis than most other UK pension schemes.

Overall being fully funded on an on-going basis was a very satisfactory outcome for the Scheme and its members, given that most other pension schemes in the UK were reporting significant funding deficits at that time.

EXPLAINING THE HEALTH OF THE BRITISH STEEL PENSION SCHEME AS AT 31 MARCH 2009

Basis of 2009 Review

The Scheme Actuary is now required to provide an annual funding update each year between actuarial valuations and this review as at 31 March 2009 was completed at the end of September after discussions with the Trustee board and input from the Company. In contrast to the full Valuation, the funding update is the responsibility of the Scheme Actuary.

This first year review in the valuation cycle is based substantially on much of the information and methodology used in the 2008 calculations but with changes to some of the key financial assumptions to reflect March 2009 market conditions, as follows:

	2008 ASSUMPTIONS		2009 ASSUMPTIONS	
	Nominal % per annum	Real % per annum	Nominal % per annum	Real % per annum
Price inflation	3.50	-	3.00	-
Investment return - pre retirement	7.00	3.50	6.60	3.60
Investment return - post retirement	5.25	1.75	4.90	1.90
Pay increases	4.50	1.00	4.00	1.00
Pension increases (generally)	3.50	0.00	3.00	0.00

No detailed analysis was undertaken in areas such as membership movements and mortality experience and no adjustments were made for any change in the Company covenant. This is broadly consistent with the approach taken by the Scheme in between formal valuations but with a bit more formality about the process.

The assets and liabilities of the Corus Engineering Steels Pension Scheme were excluded from the review because the merger into the BSPS did not take place until after 31 March 2009.

Results

The general economic environment deteriorated significantly between 31 March 2008 and 31 March 2009 and it was a very difficult and challenging year for UK pension schemes generally. The Scheme Actuary was required by law to report on the Scheme's position at 31 March 2009, and it is unfortunate that this date was a particularly low point for a snapshot view of the Scheme's funding position. Although the actions taken by the Trustee board to reduce the investment risks run by the Scheme provided a measure of protection against the worst effects of the severe global recession, the value of Scheme assets still reduced by £1,064 million to £8,757 million over the year. The value placed on liabilities also fell, but by not as much as the assets, to £9,547 million, leaving a past service deficit of £790 million and an ongoing funding level of 92%.

The major reason for the drop in the funding position since March 2008 was the lower than expected investment return relative to the assumption made by the Scheme Actuary for the actuarial valuation. The vast majority of UK pension schemes would have also seen a fall in their funding positions over the same period, due to the fall in global stock markets.

Outlook - 2010 Annual Funding Update

So far, investment markets have made a good recovery since March 2009 and Scheme assets have moved on accordingly. The value placed on liabilities however will also have increased but the likelihood is that the deficit will have reduced a little.

Actuarial Valuations are extremely complex and involve a lot of moving parts. A more detailed investigation into the funding position of the Scheme will be carried out as at 31 March 2010 and this should provide a better feel for the position leading up to the full valuation in 2011.

Points to note

The assets to pay for members' pensions are held by the Trustee board in a common fund. It is not held in separate funds for each individual. No individual is entitled to any specific assets of the fund.

No payment has been made to Corus UK Ltd out of Scheme funds since the last statement was issued, or at any other time in the past.

Additional documents available on request

If you have a question about the Scheme generally or on the information provided in this Newsbrief please get in touch with the Pensions Office (see back page for contact details). A list of more detailed documents which provide further information is below. If you want us to send you any of these documents please let us know.

Actuarial Valuation Report - *the full report following the Actuary's investigation into the Scheme's funding position as at 31 March 2008*

Actuarial Funding Update - *the report following the Actuary's update on the Scheme's funding position as at 31 March 2009*

Annual Report and Accounts - *which show the Scheme's income and expenditure in the year up to 31 March 2009.*

NOMINATION FORMS

It is important that your Dependants are provided for in case you die while an employee member or deferred pensioner. Scheme lump sum death benefits are paid at the Trustee's discretion and are generally not subject to Inheritance Tax.

You can help the Trustee board pay any lump sum benefits due to your Dependants in the event of your death as soon as possible by completing a Nomination Form advising who you would like the benefits to be paid to. A Nomination Form is not binding on the Trustees but while they need not follow your wishes, they will give due weight to them in deciding how to pay the benefit.

If your personal circumstances have changed since you last completed a Nomination form and you have reconsidered who you may wish to receive all, or part of, any lump sum benefit payable in the event of your death please ensure you complete a fresh form and send it to the Pensions Office.

Copies of the Nomination Form can be obtained from the Scheme website, or from the Pensions Office (details below). Forms must be returned to the Pensions Office in order for consideration by the Trustee board.

The Nomination Form applies only to the lump sum death benefit and not to any other entitlements which may become payable on your death.

RECEIVE NEWSLETTERS ON-LINE

Good environmental management is important to the Pensions Office. To date, almost two thousand Scheme members have registered to receive Scheme newsletters on-line. By choosing not to receive paper copies of newsletters these members are helping to reduce the Scheme's environmental impact and reduce Scheme costs into the bargain. If you wish to receive future Scheme newsletters electronically (rather than a paper copy) please advise the Pensions Office of your email address by one of the means below. Please quote your National Insurance number too.

CONTACTING THE PENSIONS OFFICE

When contacting the Pensions Office, please quote your National Insurance number and indicate whether your enquiry relates to your membership of the former Corus Engineering Steels Pension Scheme (CESPS).

Email	pension.enquiries@corusgroup.com
Fax	0141 248 5299
Website	www.bspensions.com (in process of being reviewed and updated)
Telephone	If your surname begins A-K, 0330 440 0800 If your surname begins L-Z, 0330 440 0801
Writing from the UK (no need for a stamp)	British Steel Pension Scheme FREEPOST RLXS-ZXKT-AUER Glasgow G2 7BW
Writing from outside the UK	British Steel Pension Scheme 6th floor, Sentinel 105 Waterloo Street GLASGOW G2 7BW Scotland, United Kingdom

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

Your feedback

If you have any comments on this edition of the Newsbrief, or suggestions for future editions, please write to:

Anne McCulloch
Communications Manager
British Steel Pension Scheme
FREEPOST RLXS-ZXKT-AUER
Glasgow
G2 7BW