British Steel
Pension Scheme

Annual Report and Accounts for the year ended 31 March 2002

Executive Summary

- Fund Value £8,168 million
- Maturity portfolio continues to provide stability in another difficult year for equity investments

Scheme Membership

- Contributing members: 23,534
- Deferred pensioners: 54,606
- Current pensioners: 107,178
- Total 187,318

Contents

Scheme Trustee

The Trustee

The British Steel Pension Scheme is administered by B.S. Pension Fund Trustee Limited, a corporate Trustee Company set up for this purpose. The assets of the Scheme are in the name of the Trustee Company, and the staff of both the Investment Office and the Pensions Office are employees of the Trustee, not of Corus UK Limited.

The day-to-day administration of the Scheme is supervised by a Committee of Management, half of whom are appointments by Corus UK Limited and half nominated by the Trade Unions, from the membership. The Committee of Management are Directors of the Trustee Company. Corus UK Limited is responsible for appointments and resignations of Directors of the Trustee Company.

Investments are managed from the Fund's own premises at Radstock House, in London. Investment policy is supervised by an Investment Committee, which has 9 members, all of whom are Directors of the Trustee Company, 4 of whom are Company nominations, 4 are nominated by the Trade Unions and the Fund's Investment Manager. The Investment Committee is assisted by three independent advisers.

Scheme Management

Committee of Management

Employers' Appointments

Mr R A Avis (Chairman)
Radstock House, London

Mr J Abbott
Port Talbot/Llanwern Works

Mrs G M Brown
Scunthrope Works

Mr J Cumming
Pensions Office, Glasgow

Mr A Dunbar
Port Talbot Works

Mr P J K Ferguson
Radstock House, London

Mr D S Maddock
Corus Building Systems, Orb Works

Mr P R Strickland
Head Office, London

Mr J H Walker
Scunthorpe Group

Members Nominated by the Trade Unions

Mr D C Davies, Ebbw Vale Works

Mr G Deeley, Trade Union
Co-ordinating Committee

Mr R Hill, Scunthorpe Works

Mr R Hughes, Workington Works

Mr L James, Port Talbot Works
(retired 31 March 2002)

Mr J T Lenaghan, Corby Works

Mr P A Poynter, Teesside Works

Mr C J Treadgold, IJmuiden Technology Centre, The Netherlands

Vacancy

Investment Committee

Mr P R Strickland (Chairman)

Mr S Colley
(Manager, Pensions Investments)

Mr R A Avis

Mr D C Davies

Mr A Dunbar

Mr L James (retired 31 March 2002)

Mr A J Johnston

Mr J T Lenaghan

Mr P A Poynter

Independent Investment Advisers

Prof A H P Gillett -
past senior partner of Kemsley Whiteley & Ferris, Chartered Surveyors, and a visiting professor at Kingston University;

Mr J Tigue -
investment manager of the Foreign & Colonial Investment Trust and a director of Foreign & Colonial Management;

Mr P E Oldham -
past investment manager of the Fund and chairman of the Reliance Mutual Insurance Society.

Administration

Trustee
B. S. Pension Fund Trustee Limited,
Radstock House, 5 Eccleston Street,
London SW1W 9LX

Manager, Pensions
Mr J Cumming
Douglas House, 116 Waterloo Street,
Glasgow G2 7NL

Manager, Pensions Investments
Mr S Colley
Radstock House, 5 Eccleston Street,
London SW1W 9LX

Pensions Secretary
Mr I Kelly
Douglas House, 116 Waterloo Street,
Glasgow G2 7NL

Advisers

Actuary
Mr C P Burbidge, Watson Wyatt Partners,
Consulting Actuaries, 21 Tothill Street,
Westminster, London SW1H 9LL

Auditor
KPMG
Chartered Accountants
8 Salisbury Square,
London EC4Y 8BB

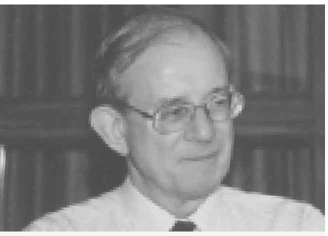
Banker
Royal Bank of Scotland plc
67 Lombard Street,
London EC3P 3DL

Investment Manager
Pension Services Limited
Radstock House, 5 Eccleston Street,
London SW1W 9LX

Medical Adviser
Dr I G Woollands
Scunthorpe Works

Dr P A Flippance (part year)
Scunthorpe Works

Solicitor
Mayer Brown, Rowe & Maw,
Mr S C James, 11 Pilgrim Street,
London EC4V 6RW



I have pleasure in introducing the 2002 Report & Accounts of the Scheme.

In my first year as Trustee Chairman it has been clear that there is no lessening of the challenges facing occupational pension schemes. There has been much uncertainty about pension provision in the UK generally, with a significant shift away from final salary occupational schemes. The main reasons for this trend seems to be increased costs and risks to the employer arising from difficult financial markets and increasing life expectancy and the demanding and complex regulatory framework in which final salary schemes have to operate. Against this background the creation of the Fund's Maturity Portfolio has served the Scheme really well, especially in contrast to the experience of many other final salary occupational pension schemes in recent times. Completed in 1999, the Maturity Portfolio broadly matches pensioners and deferred pensioners' liabilities through a more conservative holding in low risk assets.

The Government appointed Mr Paul Myners (the then Chairman of Gartmore) to lead an enquiry into institutional investment in the UK. The resulting Myners Review Report was published in October 2001 and contained ten principles designed to promote best practice in investment governance for pension funds. Our Fund has always aimed at the highest standards of investment governance and already complied with most aspects of the ten principles. Nevertheless, to ensure continued best practice for the Fund, a detailed review was carried out during the year and some changes made, based on the Myners principles, including some additions to the information provided within this Report.

2001/02 was another difficult year for equity investments. Increasing concerns about the US economy had contributed to a downturn in the markets which was further accelerated by the terrorist attacks of 11 September and the later US accounting scandals. By way of balance, the Maturity Portfolio of gilts and bonds continued to provide stability and enabled the Fund to achieve a small positive investment return. Overall the maturity of the Scheme resulted in expenditure exceeding income, but the existence of the Maturity Portfolio meant that equities did not have to be sold at depressed values to pay pensions. The Fund's market value as at 31 March was £8,168 million, down from £8,452 million the previous year end.

The market value of assets fluctuates on a daily basis and is a less reliable indicator of the funding position than the long term actuarial values placed on the Fund's assets in the Scheme valuations. The Scheme's formal three-yearly valuation as at 31 March 2002 is currently being carried out by the Scheme Actuary. The outcome of this detailed review of the Scheme's financial position will be communicated to members later in the year.

I would like to thank my colleagues on the Management and Investment Committees and all those involved in the administration of the Fund and Scheme for their work and continued commitment during the period under review.

Mr R A Avis
Chairman of B.S. Pension Fund Trustee Limited

Introduction
The Committee of Management has pleasure in submitting its Report and Statement of Accounts for the Scheme Year ended 31 March 2002.

Committee of the Scheme
Three scheduled meetings of the Committee of Management were held during the Scheme Year.

The dates of these meetings were:
- 12/13 June 2001;
- 27 September 2001;
- 12 February 2002.

In addition, a specially convened meeting was held on 17 December 2001 in relation to the Company's review of other pension arrangements within the Group.

The Committee wishes to express its appreciation to Mr R E Butt, Mr L James, and Mr A H McCarthy who retired from the Committee following early retirement from the Company. Mr Butt, Mr James, and Mr McCarthy served for over 11, 6, and 9 years respectively as Trustees. The Committee also wishes to express its appreciation to Dr P A Flippance, who acted as the Scheme's Medical Adviser for part of the year.

Mr R Hill replaced Mr McCarthy and Mr R Hughes replaced the late Mr P A Whyte, who had resigned as a trustee as at 31 March 2001 due to poor health and, sadly, died a few months later. Mr P T Hughes and Mr D Worgan have since been appointed in respect of the vacancies created by Mr Butt and Mr James' retirements.

Scheme Membership
Scheme Membership is not compulsory and employees have the option of participating in the State Second Pension (S2P), taking out a personal pension, or taking out a stakeholder pension. However, the vast majority of Members have chosen to continue their Membership of the Scheme and in the period 1 April 2001 to 31 March 2002, only 22 Members, representing 0.09% of the total Scheme Membership, opted to discontinue Membership of the Scheme. Scheme statistics show that 98% of eligible employees are Members of the Scheme and that the vast majority of non-members are in temporary employment.

Those Members opting out and new employees declining Scheme Membership are reminded by the Pensions Office to consider their decision carefully, as there is normally no entitlement to a further offer of Membership in the same period of employment. Where temporary employees are subsequently given regular conditions of employment, a further offer of Scheme Membership is made at the time of change to their employment status.

Ordinary Contributions
Scheme Members pay ordinary pension contributions of 5% of Pensionable Earnings. Pensionable Earnings are normally gross earnings less £3,328 (subject to review after the outcome of the 2002 Scheme Valuation).

Additional Voluntary Contributions
Members can apply to pay Additional Voluntary Contributions (AVCs) to the Scheme to buy added years of Pensionable Service. The purchase of added years is normally expressed as a percentage of gross earnings. As AVCs qualify for full tax relief they are deducted from gross earnings before assessment of PAYE tax liability.

It may also be possible to purchase added years of Pensionable Service by means of a single lump sum, but tax relief may be restricted and would have to be reclaimed direct from the local tax office by the individual Member. Details of the terms and conditions applicable to the purchase of AVC's can be obtained via local paycentres, or direct by written application to the Pensions Office.

There are 3,135 Members paying AVCs to the Scheme to purchase added years of Pensionable Service and this represents 13.3% of the Membership.

Alternatively, for individuals seeking to make additional contributions outside the Scheme, it is possible to contribute on a personal basis to Free Standing AVC Schemes (FSAVCs). There are currently 924 Members making FSAVC payments to authorised providers, representing 3.9% of the Scheme's Membership.

Members whose earnings are less than £30,000 per annum can make contributions to a

Stakeholder Scheme (this can include a Personal Pension arrangement). In addition to maximum contributions of 15% of gross earnings normally allowed to be made to the Scheme, concurrent contributions can be made up to a limit known as the “earnings threshold” every year. The Government has set the “earnings threshold” at £3,600, but this will be considered for review each year.

Benefit Entitlement Forecasts

In June 2001 Members were issued with annual benefit entitlement forecasts showing entitlements, both as at 1 April 2001 and projected to Normal Pension Age (based on current Pensionable Earnings).

Leaving the Scheme

When leaving the Company or opting out of the Scheme, a deferred pension is preserved in the Fund to be paid at the Scheme’s Normal Pension Age. Should a Deferred Pensioner become permanently incapacitated before Normal Pension Age, the full deferred pension entitlement can be paid immediately without reduction. If a Deferred Pensioner is aged 50 or over and decides to retire early, an application can be made to receive the deferred pension immediately, but it will be reduced to take account of early payment. On retirement, a Deferred Pensioner usually has the option to exchange part of the revalued pension entitlement for a tax-free cash lump sum.

Transfer Values

On leaving Scheme Membership before Normal Pension Age, individuals can request a quotation of the cash equivalent transfer value of their pension rights from the Pensions Office at any time up to age 64. The transfer value will be provided within 3 months of receiving the request and will be guaranteed for a 3 month period commencing on the date at which the transfer value is calculated. The transfer calculation reflects the Minimum Funding Requirement (MFR) under the Pensions Act 1995 and will be determined using factors supplied by the Scheme Actuary relevant to the Member’s age and the various elements of their accrued pension rights. Any pension rights attributable to Pensionable Service later than 5 April 1997 may not be taken as a tax free cash sum on retirement if transferred to either a Personal Pension or a Contracted-Out Defined Contribution Scheme.

There are no discretionary benefits granted under the Scheme and the transfer values for the 235 transfer payments made from the Fund during the year fully reflected the value of benefit entitlements within the Scheme.

Any transfer of pension rights accepted into the Fund will be upon such terms as the Trustee shall decide, after consulting the Scheme Actuary. A total of 320 transfers were received by the Fund from other approved pension arrangements, including 185 active Members transferred into the Scheme following the mergers and subsequent winding-up of the following Corus Schemes:

Scheme	Transfer date	Number of active Members
Cold Drawn Tubes (Staff) Pension Scheme	1 July 01	27
Cold Drawn Tubes (General) Pension Scheme	1 July 01	88
DSRM Group Pension Scheme	1 July 01	47
Hoogovens (UK) Retirement Benefits Plan	28 Feb 02	23

Also, there were 10 reinstatements of current Members’ benefits arising from the national pensions mis-selling review instigated by the Securities and Investments Board (SIB). The providers paid the full actuarial cost of reinstating the Members, as if they had never opted out of Scheme Membership.

Retirement Benefit Options

At retirement, members may take the option to exchange part of the pension entitlement for a tax-free lump sum. They may also give up part of their pension to provide an additional pension on their death for their spouse or a dependant of their choice. This would be payable in addition to any Scheme entitlement for widow/widower’s pensions.

When a Member is to retire early “at the request” or “with the consent” of the Employer, they may have the option to apply under Rule11(4) of the Scheme for what is commonly known as the “high/low pension option”. This arrangement provides for an increased pension payable from the date of retirement to the Scheme’s Normal Pension Age (65). The level of the pension is then reduced by the Scheme’s Lower Earnings

Limit (broadly equivalent to the single person's Basic State Pension before April 2001 and increased annually by an inflation factor only). The "high/low" pension is intended to provide the Pensioner with a steady level of income throughout his/her retirement.

Pension Increases

In the period January 2001 to January 2002, the increase in the Retail Prices Index was 1.3%. In accordance with Scheme Rule 34, this percentage was applied with effect from 1 April 2002, to increase pensions and allowances in payment immediately before that date (except for some pensions that commenced after 30 September 2001 which were due to receive pro-rata increases). The 1.3% increase will also be applied to pensions prospectively payable to Deferred Pensioners. The annual pension increases for the last ten years are shown in the list below:

1993	1.7%
1994	2.5%
1995	3.3%
1996	2.9%
1997	2.8%
1998	3.3%
1999	2.4%
2000	2.0%
2001	2.7%
2002	1.3%

Payments on Death

Lump sum benefits are payable to dependants and/or personal representatives under a discretionary trust. Nomination forms can be obtained on request from the Pensions Office, so that members wishes are known. Members may wish to consider the need to complete a Will in respect of their financial interests generally.

Investment Advice for Members and Beneficiaries

Members who retire with immediate pension benefits and beneficiaries who receive substantial lump sum payments following the death of a Member or Pensioner may consider seeking advice on the investment of lump sums.

Where a reliable source of advice is not readily available, the Committee of Management has an introductory arrangement with Momentum Financial Services Ltd (formerly Aon Consulting Financial Services) a firm of consultants which can provide an advisory service on all aspects of financial planning.

Communications

The fourth edition of the Pensioners' Update was issued in July 2001. It included features of specific interest to Scheme pensioners. This is now an established part of the Scheme's communications programme.

The tenth annual edition of the News Brief was issued in December 2001 and included articles on the following topics:

- The main features from the Scheme's Annual Report & Accounts for the Scheme Year ended 31 March 2001.
- A report on the seventh Pensions Consultative Meeting which was held on 28 September 2001.

Communications from the Committee of Management will continue to keep everyone informed about their Scheme and any other developments materially affecting pension arrangements.

A Freepost service and local rate telephone numbers are provided for the benefit of members in the UK contacting the Pensions Office. Details are provided in the section headed "Further Information" on page 36.

Merger Agreements

In accordance with the Merger Agreements (to which B.S. Pension Fund Trustee Limited was a party) and the Scheme's Trust Deed & Rules, and as part of the Company's long term pensions review, the assets and liabilities of the following schemes were absorbed into the Scheme.

Scheme	Dates of Mergers
Cold Drawn Tubes (Staff) Pension Scheme	30 June 2001
Cold Drawn Tubes (General) Pension Scheme	30 June 2001
DSRM Group Pension Scheme	30 June 2001
Hoogovens (UK) Retirement Benefits Plan	28 February 2002

Trust Deed & Rules

The Trust Deed and Rules, dated 12 April 2001, is available and incorporates the requirements of the Pensions Act 1995 and its attaching regulations, the benefit improvements made in 2000 and details relating to the Principal Company's name and address.

During the year, amendments to the Trust Deed & Rules were made in respect of pensions sharing on divorce, the operation of Rule 11(4), and the removal of the profit related pay proviso from the Scheme's Earnings definition.

Review of Scheme Advisers

Scheme Officers conduct annual reviews of the 3 main professional Scheme Advisers to ensure that a high standard of service continues to be provided to the Scheme. Following the satisfactory results of the review, the Committee of Management re-appointed Mayer, Brown, Rowe & Maw, Solicitors, Mr C P Burbidge of Watson Wyatt Partners, Consulting Actuaries and KPMG Chartered Accountants.

Trustee Training Courses

All current members of the Committee of Management, as at 31 March 2002, have received up-to-date training on the duties and responsibilities of pension scheme trustees.

Accounts

The Statement of Accounts, together with the Report of the Auditors, is set out on pages 24 to 31 inclusive. These have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

Scheme Valuation

In accordance with Clause 9 of the Trust Deed, a triennial actuarial valuation of the Scheme was undertaken as at 31 March 1999. The immediate and long term financial position of the Scheme, as determined by the 1999 Valuation, is detailed in the Actuarial Statements on pages 32 to 33. Also in accordance with Clause 9, a Triennial actuarial valuation of the Scheme was requested as at 31 March 2002. The report of the Actuary is expected later this year.

Myners Review

A review was carried out into Institutional Investment by Mr Paul Myners on behalf of the Government. The Government indicated in the 2001 Budget statement that it intended to take forward all Myners' recommendations, the main ones being:

- To increase the level of investment expertise required of pension fund trustees and whether payment to trustees should be considered;
- A code of practice on pension fund investment management should be drawn up after consultation. Trustees should be required to produce fuller Statements of Investment Principles describing how they are implementing the principles (the Summary of Statement of Investment Principles on page 11 has been amended in line with this recommendation);
- Pension funds should aim for genuine active management by ensuring that index benchmarks are appropriate, moving towards scheme specific benchmarks and setting risk controls that allow managers sufficient freedom;
- Investment managers should be required by law to intervene in companies in which pension funds are invested if this will promote shareholders' interests;
- Pension funds should have their investment consultants performance formally assessed and they should give fund managers clearer criteria on how performance is to be judged;

- A number of steps should be taken to encourage greater understanding of private equity, establish better performance data and remove some regulatory barriers to investment in this area;
- The Minimum Funding Requirement (MFR) should be abolished and replaced with a scheme specific funding standard.

The Government took early steps in respect of some of the recommendations – it reduced tax on withdrawals of surplus and committed itself to the abolition of the Minimum Funding Requirement.

Although the Fund already complies with many of the Myners principles the Investment Committee has taken action to build on the high standard of investment governance that already exists and has identified areas in which improvements could be made. In particular, more investment training will be provided for Trustees who are members of the Investment Committee and the Fund's investment mandates with Pension Services Limited and Fidelity Pensions Management (see below) will be reviewed to ensure they fully reflect the Myners principles with regard to more explicit investment objectives, benchmarks and risk levels.

Investment Managers

The investments of the Scheme, other than property and cash balances sufficient to meet current liabilities, are managed in accordance with the Customer Agreement dated 28 May 1993, as amended, between B.S. Pension Fund Trustee Limited and Pension Services Limited.

Pension Services Limited, a company wholly owned by the Trustee and regulated by the Financial Services Authority (FSA), acts as the Investment Manager of the Scheme in respect of all securities investments. These services are in compliance with the requirements of the Financial Services and Markets Act 2000. Pension Services Limited is remunerated on a fee basis reflecting the costs incurred in managing the assets, and is an 'in house' pension fund manager for FSA purposes.

Day-to-day management of a portfolio consisting of Pacific Basin securities (excluding Japan) is sub-contracted to Fidelity Pensions Management. The manager is remunerated on a fee basis proportional to assets managed and receives no further remuneration.

Pensions Office

The Pensions Office has a staff of 40 to administer the Scheme. Close links are maintained with personnel and pay departments, as their assistance and co-operation are essential to the successful operation of the Scheme.

The Committee would like to record its appreciation of the service given by all concerned with the administration of the Scheme.

Mr R A Avis
Chairman, Committee of Management

Member and Pensioner Statistics

Analysis of movements to 31 March 2002

		Totals
Members at 1 April 2001		26,222
Additions during year :		
New Entrants		1,028
		27,250
Less:		
Retirements	1,584	
Death in Service	33	
Withdrawals	2,099	(3,716)
Members at 31 March 2002		23,534
Deferred Pensioners at 1 April 2001		54,293
Untraced cases at 1 April 2001		1,024
Additions during the year		2,822
		58,139
Less:		
Maturities and early retirements	1,900	
Deaths	232	
Transfers to other employers' schemes	140	
Transfers to personal pension schemes	69	
Insurance company buy-outs	4	
Deferred pensioner transfer to active	33	
Moved to Unclaimed File	40	(2,418)
Untraced cases		(1,115)
Deferred Pensioners at 31 March 2002		54,606
Pensioners at 1 April 2001		107,287
Additions during year		5,903
		113,190
Cessations during year		6,012
Pensioners analysis at 31 March 2002		
Pensioners	70,482	
Widow(er)s	35,889	
Children	807	
Pensioners at 31 March 2002		107,178

Membership statistics over past five years

	Members	Deferred Pensioners	Pensioners
1998	33,372	58,556	109,753
1999	30,712	56,990	108,669
2000	28,350	54,980	108,326
2001	26,222	54,293	107,287
2002	23,534	54,606	107,178

Contents

The investment policy of the Fund is governed by two guiding principles, the central principle of appropriateness and the subsidiary principle of simplicity. Assets should be appropriate for all the circumstances of the Fund, and should be kept as straight forward as possible for the benefits of lower costs and better control. These principles determine the Fund's approach to all decisions about investments, including the nature of the investments made, the selection and timing of the investments and the way in which they are carried out.

The Kind of Investments to be held, the Balance Between Investments and Risk

Three major factors govern the investment policy of the Fund:

a. The inflation linked nature of the Scheme's liabilities to pay pensions and other benefits.
b. The maturity of the Scheme as a long established scheme with a large number of Pensioners relative to active Members.
c. The nature of the Company's business, which is closely related to the economic cycle.

The inflation linked nature of the liabilities means that the bulk of the Fund's resources should be invested in real assets such as equities, index linked securities, and property, which can be expected to give an investment return which keeps pace with inflation. The maturity of the Scheme means that for security, the investment policy should be conservative, and a high proportion of index linked securities is held for this reason. The nature of the Company's business also points to a conservative investment policy, and the Fund's approach can therefore be summarised as a conservative investment policy strongly orientated towards real assets. A balanced approach is taken recognising that lower risk investments generally yield lower returns.

Risk is addressed by the maintenance in accordance with the recommendation of the Actuary, of a Maturity Portfolio of cash, fixed interest, and index-linked securities to cover all or most of the pensioner and deferred pensioner liabilities of the Scheme, by an appropriate approach to the prudent diversification of the Fund's investments, by the quality of those investments, and by their liquidity. Risk is also limited by frequent review of policies and investments by management, adapting as appropriate to new circumstances. Asset/liability modelling has been and will in the future be used as appropriate to assist in the development of investment policy.

The Fund's investment in unquoted securities is very small, and the Fund does not invest in overseas property, alternative investments such as paintings and antiques, nor does it engage in stock lending, speculative property investments, or currency hedging. Derivatives are used only for asset allocation purposes. Social, environmental and ethical considerations are taken into account in the selection, retention or realisation of investments to the extent that they are expected to affect long term financial performance. Obligations and rights attached to investments are strictly enforced for the benefit of the Fund, and the Fund acts to maintain shareholder rights, and engages with companies as appropriate to protect or enhance its investments. Care is exercised to ensure that no investment activity puts at risk the Fund's tax exempt status.

The custody of the Fund's assets is undertaken by the Trustee Company, with custody of securities delegated to external custodian banks – JP Morgan Chase Bank and Bank of New York Europe Ltd. A list of high quality financial institutions approved by the Investment Committee is operated for UK cash deposits. Top quality triple 'A' rated money market funds may also be used.

Investment Objective

The investment objective of the Fund is to provide a high level of security of pensions benefits at the lowest reasonable cost, taking account of the nature of the Scheme liabilities, the maturity of the Scheme, and the characteristics of the Company's business. This leads to two sub-objectives, security for the Maturity Portfolio, which seeks to substantially match the Scheme's pensioner and deferred pensioner liabilities with secure bonds, and performance for the Main Fund, which seeks to achieve a higher level of investment return from an equity orientated investment policy.

Expected Returns on Investments
For actuarial valuations a real return on investments of about 4% per annum has been assumed. This rate of return has been comfortably achieved in the past, and the assets of the Fund other than the Maturity Portfolio are invested to give every expectation of achieving close to that overall return over the long term in the future. Given the lower risk associated with the Maturity Portfolio, however, the expected return on that part of the Fund will be somewhat lower.

Returns are compared with the returns of other UK pension funds through both the major performance measurement companies, CAPS and WM. Because of the Fund’s conservative investment policy, overall returns are unlikely to exceed the average or median in the long term, and a realistic performance objective is to achieve returns as close as possible to the WM 50 average return over the long term. The objective for the Main Fund, excluding the Maturity Portfolio, is to exceed the WM50 average return over the long term.

Realisation of Investments
The Fund undertakes all investments with a view to them being long-term investments, and only exceptionally when circumstances change radically or long-term objectives are achieved in a short space of time will consideration be given to realising assets on a shorter time scale. Investments will be realised on a planned basis to cover the requirements of the Scheme to pay benefits, and will be realised from time to time to facilitate asset allocation changes.

Minimum Funding Requirement
The Pensions Act introduced a statutory minimum funding requirement to ensure that pension schemes are funded to at least a minimum level. Given the nature of the Scheme’s liabilities, the cyclicality of the Company’s business and the desirability of retaining a measure of investment flexibility, it would be prudent to plan to maintain a reasonable margin of funding over and above the statutory minimum level. The Trustee Company will review its policies regularly to ensure continuing compliance with the Act.

Policy For Compliance
The Trustee’s policy for compliance with the Pensions Act is through a dedicated internal investment management operation staffed by qualified professionals, reporting to the Investment Committee, a Sub-Committee of the Trustee Company Board. The Investment Committee is advised by three external advisers, one on property and two on general investments, who are experts of high standing in their respective areas. All investment policy matters are determined by the Investment Committee, which meets quarterly.

The Investment Committee reviews policy formally from time to time as appropriate, and reviews the Fund’s portfolio asset allocation guidelines annually. The Committee approves asset allocation moves on a quarterly basis, and monitors their implementation including any derivative positions, approving all investment transactions quarterly in arrears, and major transactions in advance, always having regard to suitability and diversification. The Committee monitors investment performance quarterly, and reviews performance annually based on the reports of the independent external performance measurers, CAPS and WM.

In specialised areas where internal expertise is not retained, external managers who report quarterly are employed to select investments and to keep all investments under review.

The suitability of individual investments, their diversification, and the review of existing investments is the responsibility of the internal investment management operation, and external managers where appropriate, within the framework laid down by the Investment Committee. The internal management company, Pension Services Limited, is regulated by the FSA.

It is the policy of the Trustee Company and the Investment Committee to refer to the statement as and when necessary to ensure that they perform their duties so as to give effect to the principles set out in this statement so far as reasonably practicable.

Policy

After the payment of benefits, the Fund invests the accruing assets to meet the expected pensions of present and future retired employees. The liabilities of the Pension Scheme are currently tied to both retail price inflation and wage inflation, as the pensions of employees are related to earnings prior to retirement, and existing pensions are linked to the Retail Prices Index in accordance with the Rules of the Scheme. To match the liability of future pensions, UK ordinary shares and index linked securities form a high proportion of the portfolio in the expectation that total returns on UK equities should be significantly in excess of inflation and on index linked should be directly related to the Retail Prices Index giving a complementary lower but more secure long term return. Property is held for its similar long-term investment characteristics in terms of increasing rents and resultant capital growth.

Further diversification is provided by fixed interest investments which are held for security and liquidity and, in addition, assets are invested overseas, where economies may be growing faster than the UK, or where investments can be made in a broader spread of industries or new technology companies than is available in the UK.

In 1997 a major asset/liability study was carried out to assess the appropriateness of the Fund's assets in view of the mature nature of the Scheme's liabilities. Arising from this, and following strong recommendations from the Actuary, the proportion of the Fund invested in bonds, both fixed interest and index linked, was significantly increased over the subsequent two years.

This process was completed by 30 June 1999 and to clearly delineate the prudential element of the Fund's investments from the normal mix of assets, the bulk of the bond investments are held in a Maturity Portfolio, separate from the Main Fund. The Maturity Portfolio, established with the concurrence of the Company, is intended to broadly cover all the pensioner and deferred pensioner liabilities of the Scheme, and thus greatly enhances Scheme security. The Maturity Portfolio amounted in value to approximately £3.7 billion at 31 March 2002, and total Fund bond holdings at the year end amounted to £4.0 billion.

Ongoing pensions in payment are now as planned being funded by the Maturity Portfolio, leaving the remaining assets of the Fund, the 'Main Fund', to be invested mainly in equities, with the objective of good investment performance unconstrained by unduly restrictive prudential considerations.

In recognition of the increasing maturity of the Scheme, a further asset/liability study is planned for later in 2002, following the March 2002 actuarial valuation. The results of this study will be incorporated into the Fund's investment policy in the future as appropriate.

Myners review

In 2000, the Government appointed Paul Myners, the then Chairman of Gartmore, to lead an enquiry into institutional investment in the UK. After a period of consultation the wide ranging Myners Review Report was produced in March 2001, and it included a list of ten principles thought to embody best practice in investment governance for pension funds.

Following a further period of consultation the final version of the ten principles was published in October 2001. The Fund contributed formal submissions in respect of both the initial review and the ten principles. The Government's stated intention is to review the extent of the improved compliance of pension funds with the ten principles in the period to mid 2003, before deciding on possible compulsion through legislation.

The Fund aspires to the highest standards of investment governance, and through the Investment Committee has followed the Myners process closely. The Fund was already complying with most aspects of the ten principles, but a thorough review has been undertaken by the Committee and some further improvements have been agreed which are incorporated in this year's Annual Report and Accounts.

The remainder of this section summarises the ten principles and the Fund's position in respect of each one.

1 Effective Decision Making
This principle requires that decisions should only be taken by those with the skills, information and resources necessary to take them effectively. The principle mentions appropriate training, in house support staff, and investment subcommittees.

The Fund is in the fortunate position of having a strong in house support staff and a long established Investment Committee. In order to improve compliance further additional investment training is to be undertaken by members of the Investment Committee.

2 Clear Objectives
This principle requires that trustees should set an overall investment objective for a fund that takes account of the fund's liabilities and their attitude to risk.

These requirements have been central to the Fund's thinking over many years, and are embodied in both the structure and culture of the Fund. In response to Myners, they have now been set out more explicitly in a separate section in the Statement of Investment Principles.

3 Focus on Asset Allocation
This principle requires that strategic asset allocation receives a high level of attention appropriate to its importance, should be approached with an open mind but should reflect a fund's own particular characteristics.

This Fund has been at the leading edge of this aspect in working with the Actuary over the past twenty years adapting progressively to the Scheme's increasing maturity.

4 Expert Advice
This principle requires that contracts for actuarial services and investment advice should be open to separate competition.

The Fund's structure ensures that it receives independent advice on actuarial matters from the external Actuary and on investment matters from the in house investment manager. An additional level of independent investment advice is provided by the external investment advisers.

5 Explicit Mandates
This principle requires that trustees should agree with both internal and external investment managers on explicit written mandates covering objectives, benchmarks and risk parameters, the manager's approach, and clear timescales of measurement and evaluation.

The Fund has explicit written mandates in place for both the internal and external managers covering objectives, benchmarks and risk parameters to the extent felt appropriate. In response to Myners, these mandates have been reviewed and expanded to make these specific aspects more explicit.

In respect of timescales of measurement and evaluation, the trustees do not believe it appropriate to introduce any clauses which might fetter their freedom to terminate any mandate at any time for any reason.

6 Activism
This principle requires that the mandate and trust deed should incorporate the principle of the US Department of Labor Interpretive Bulletin on activism, which encourages activities intended to monitor or influence the management of corporations, where this is likely to enhance the value of the investment after taking into account costs involved.

The Fund has always taken a strong line on governance issues, particularly shareholder rights, and engages with companies as appropriate to protect or enhance the value of its investments on a cost effective basis. In response to Myners, the Statement of Investment Principles and the main investment mandate with Pension Services Limited have been amended to reflect this policy.

7 Appropriate Benchmarks
This principle requires that care is taken in selecting benchmarks that are appropriate, and that active or passive management is considered separately for each asset class.

The Fund recognises the shortcomings of index benchmarks, and expects its investment managers to use all their skills to achieve the best outcome for the Fund. Active or passive management is used as appropriate, with US equities being managed passively at this time.

8 Performance Measurement
This principle requires that trustees arrange performance measurement, and assess their own, their advisers', and their managers' performance.

The Fund has always placed great emphasis on performance measurement, and keeps its procedures and advisers' and managers' performance under constant assessment. Formal reviews are undertaken on a regular or occasional basis as appropriate.

9 Transparency

This principle requires that the Statement of Investment Principles should include information on the decision taking structure, the investment objective, the planned asset allocation strategy, the mandates and the fee structures.

Most aspects of this principle were already covered in the Statement of Investment Principles or elsewhere in the Annual Report and Accounts, however in response to Myners, a new section has been included in the Statement setting out the investment objective more explicitly.

Planned asset allocation strategy will not be disclosed except in the broadest terms, as for a Scheme our size, disclosure would clearly be against the financial interests of the beneficiaries.

10 Regular Reporting

This principle relates to publishing the Statement of Investment Principles, the results of monitoring of advisers and managers, and the Scheme's compliance with the Myners Principles.

A comprehensive summary Statement of Investment Principles has always been included in the Annual Report and Accounts, and this will continue. Advisers and managers are kept under constant review and the Scheme's main external professional advisers' performance is reviewed annually. In response to Myners, this is now reported in the Annual Report and Accounts, and in the Report of the Committee of Management. Regarding compliance with the Myners Principles, this section of the Investment Report addresses that requirement.

In addition, key further information will be included in the next communication to members, the 2002 Pensions Newsbrief, in appropriate summary form.

In taking the above action, from a position of high priority already being given to investment governance, the Fund believes it has made every reasonable effort to comply with both the letter and the spirit of the Myners Review Principles.

Committee

The members of the Investment Committee who all served throughout the year were Mr P R Strickland (Chairman), Mr S Colley (Manager, Pensions Investments), Mr A Dunbar, Mr L James, Mr A J Johnston and Mr P A Poynter. Mr P J K Ferguson, Mr A H McCarthy and Mr R E Butt retired from the Investment Committee in July, August and October 2001 respectively. Mr R A Avis, Mr J T Lenaghan and Mr D C Davies were appointed in July, September and October 2001 respectively. Mr L James retired from the Committee at the end of the financial year.

Experience over the year

The events of 11 September and the associated military action in Afghanistan dominated the news this year. Predictably, markets reacted negatively to the situation initially, but subsequently recovered sharply. An underlying unease, however, is still present amongst the investment community worldwide as the risks of further terrorist activity remain significant, particularly in view of the destabilising nature of the Palestinian issue.

Although worldwide economic conditions deteriorated in the past year, UK growth in excess of 2% turned out to be the strongest of the world's major industrialised economies. This performance masked the continued pain felt by the manufacturing sector as export markets weakened, and the impact of the foot and mouth epidemic on the broader economy. Once again the consumer proved extremely resilient as falling interest rates and the associated increase in house prices buoyed confidence.

Headline inflation fell fairly steadily over the year to under 2%, and the underlying rate of inflation, as measured by the Retail Prices Index excluding mortgage interest payments (RPIX), remained at or below the government's targeted 2.5%. The monetary authorities across the world continued to follow the lead provided by the US Federal Reserve Board in cutting interest rates. The Monetary Policy Committee of the Bank of England cut interest rates six times from 5.75% to 4% by the year end.

The Sterling Trade Weighted Index finished the twelve months to 31 March 2002 up around 1% and remained within a stable trading range against most major currencies, except the Japanese Yen which continued to weaken.

The UK equity market slid steadily during the first half of the year as world economies slowed and corporate profits disappointed. This culminated with the sell off following the terrorist attacks in the United States. As the shock began to dissipate, share prices staged a significant recovery in the autumn of 2001 and proceeded to remain within a tight trading range for the remainder of the year. Consequently the UK stock market as measured by the FTSE Actuaries All Share Index fell 5.7% in capital terms over the year, which adjusting for income gave a total return of -3.2%.

Bond markets may have appeared a safe haven from volatile equity markets, but despite low inflation and falling interest rates bond markets produced lacklustre returns on the whole. Gilt edged stock continued to benefit from a low level of issuance brought about by strong government finances, but by the final quarter interest rates appeared to have bottomed as the prospects of a cyclical recovery looked more likely and the government began to signal its intention to embark on a significant increase in healthcare spending. Overall, then, the FTSE Actuaries All Stocks Gilts Index gave a total return of 1.6% over the year. Index linked performed slightly better as they were considered less vulnerable to increased inflation in the future, and pension funds continued to switch funds away from equities for prudential reasons. The FTSE Actuaries All Stocks Index Linked Gilts Index provided a total return of 3.3%.

The world's economies generally experienced slowing economic conditions in 2001, but by the first quarter of 2002 some leading indicators were signalling a clear recovery for 2002/3 in the United States. Consumer spending has been relatively resilient in the US as interest rates were reduced eight times from 5% to 1.75% over the year. However, concerns surround the return of the government deficit due to increased military spending and President Bush's tax reductions. Set alongside a continuing significant current account deficit, this now revives memories of the twin deficits which hit sentiment in the late 1980's. Elsewhere, European economic growth was pulled back over the year and the Japanese economy remained depressed.

Throughout the world, the major equity markets had a difficult year as the economic slowdown badly affected corporate profitability, and the events of 11 September hit sentiment. Despite this, towards the end of the year a marked recovery was made from the lows in September 2001. The S&P Composite produced a total return of 0.2%, which was down -0.1% in sterling terms. European markets also had a difficult year giving a total return down 6.4% as measured by the FT World Europe ex UK Index, which adjusted for sterling was down 7.2%. Japanese equity performance was poor as worldwide economic weakness intensified the difficulties already being experienced within Japan. The total return on the Tokyo New SE Index fell 16.2%, which was -21.1% in sterling terms. The remainder of the Asia/Pacific region fared much better based on the prospects of benefiting from a global economic recovery, and the FT World Pacific Basin ex Japan Index returned 5.8% in sterling terms. Despite the problems in Argentina, the emerging markets were surprisingly the best performing equity area, due again to global recovery prospects but also relatively cheap valuations, and the MSCI Emerging Market Free Index gave a total return of 14.6% in sterling terms.

The UK property market remains generally stable due to well-balanced supply and demand, although occupational demand has shown some signs of slowing, particularly from U.S. based hi-tech companies and the telecommunications sector. As interest rates fell, the demand for higher yielding property investments increased, however there was little demand for the standard institutional property and capital values in this sector of the market fell slightly. The retail market recovered from the recent low level of activity and retailers generally reported significant improvements in trading, although rental growth remained subdued. Development activity was modest, with most speculative schemes put on hold after 11 September, thus retaining a stable supply demand balance. With steady returns of 7½ to 8%, 2001/2002 was another solid year for property against a very difficult economic background.

Performance

The investment performance of the Fund is compared with the broad universe of pension funds through the Combined Actuarial Performance Services (CAPS) and with the larger UK pension funds of the WM50 through the WM Company.

2001/2002 proved another difficult year for investors as, against positive economic expectations at the start of the year, equity markets turned down in response to increasing concerns about the US economy, and with confidence low they were hard hit by the events of 11 September. A recovery in markets followed, but still most of the major equity markets ended down over the year.

Thus investment returns generally again were disappointing, however in these conditions the Fund's Maturity Portfolio of bonds continued to prosper in providing stability to the Fund, and the Total Fund achieved a small positive return, +0.5%, well ahead of both the WM50 average of -0.5% and the CAPS median of -1.6%. Within the Total Fund, the Main Fund return was -1.5% and the Maturity Portfolio return was 2.9%.

The Main Fund, with its higher equity positioning would not be expected to do well, particularly against the conservative WM50 universe, in a year when equities generally performed poorly. Whilst behind the WM50 average, however, its return was just ahead of the CAPS median which is a very satisfactory result. Asset allocation was slightly positive against CAPS, but understandably negative against the WM50, and stock selection overall was neutral, or slightly negative on the WM50 comparison. Property made a particularly strong contribution.

The Maturity Portfolio was established primarily for security, however with continuing difficult markets in 2001/2002 it again performed well, being composed entirely of bonds and cash. This year the emphasis on index linked stock was helpful to performance, as liability matching related demand for the stock was maintained, and with the prospect of economic recovery and a possible pick up in inflation, index linked appeared more attractive from an investment point of view.

Over three years the performance of the Total Fund averaged 1.5% per annum and the Main Fund averaged 0.5% per annum, thus their performance was still quite close together in spite of two difficult years for equities.Over this period the WM50 average return was 2.1% per annum and the CAPS median was 1.4% per annum. The Total Fund return was therefore just ahead of the CAPS median but behind the WM50 average, the latter due to switching to bonds by other WM50 funds taking place later than our Fund, thus more of the good equity performance in 1999/2000 was captured by universe. The Main Fund performance was understandably behind the WM50 and the CAPS figures, reflecting two poor years for equity markets.

In addition to providing security, the Maturity Portfolio again performed well over a three year period, its average return being 2.8% per annum due to the good performance of bonds.

Changes in investments

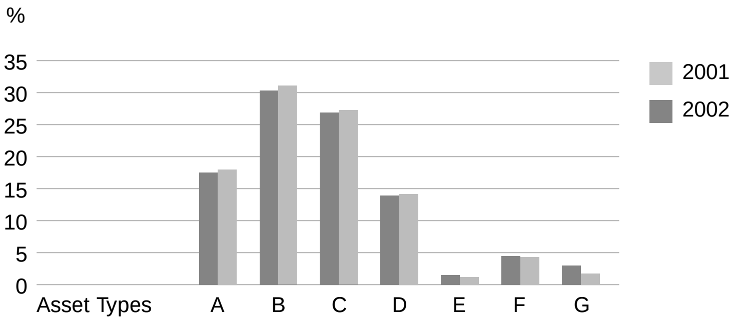
During the year under review the net investment income was £262.5 million. However, expenditure on benefits exceeded contribution and other non-investment receipts by £317.2 million, and the resulting funding requirement of £54.7 million was met as follows:

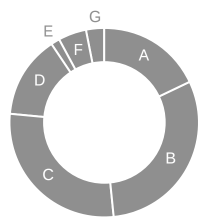
	£m
(Disinvestment) in Fixed Interest Securities	(6.3)
(Disinvestment) in Index Linked Securities	(194.4)
Investment in United Kingdom Equities	39.7
Investment in Overseas Equities	7.1
Investment in Overseas Equity Managed Funds	8.5
Investment in Property	0.0
Investment in Net Current Assets	90.7
Total	(54.7)

Summary of Investments

As at 31 March 2002 was as follows:

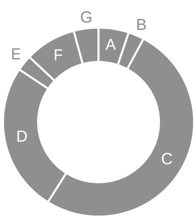
		31 March 2002 £m	%	31 March 2001 %
A	Fixed Interest Securities	1,461.0	17.9	18.1
B	Index-Linked Securities	2,494.8	30.5	31.6
C	United Kingdom Equities	2,296.0	28.1	28.5
D	Overseas Equities	1,148.1	14.1	14.2
E	Overseas Equity Managed Funds	123.3	1.5	1.2
F	Property	390.0	4.8	4.5
G	Net Current Assets	254.8	3.1	1.9
	Total	8,168.0	100.0	100.0



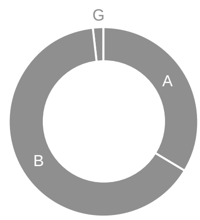


Total Fund

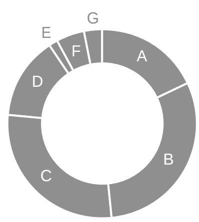
The structure of the Fund at 31 March 2002 was as follows:		Main Fund		Maturity Portfolio		Total Fund	
		£m	%	£m	%	£m	%
A	Fixed Interest Securities	227.3	5.1	1,233.7	33.6	1,461.0	17.9
B	Index-Linked Securities	119.9	2.7	2,374.9	64.6	2,494.8	30.5
C	United Kingdom Equities	2,296.0	51.1			2,296.0	28.1
D	Overseas Equities	1,148.1	25.5			1,148.1	14.1
E	Overseas Equity Managed Funds	123.3	2.7			123.3	1.5
F	Property	390.0	8.7			390.0	4.8
G	Net Current Asset	189.3	4.2	65.5	1.8	254.8	3.1
	Total	4,493.9	100.0	3,674.1	100.0	8,168.0	100.0



Main Fund



Maturity Portfolio



Total Fund

Analysis of UK equities

The 20 largest United Kingdom holdings by market value at 31 March 2002 were	
BP	£209.6m
GlaxoSmithKline	£170.4m
Vodafone Group	£121.1m
AstraZeneca	£98.5m
The "Shell" Transport & Trading Company	£96.8m
Royal Bank of Scotland Group	£90.2m
Lloyds TSB Group	£86.9m
Barclays	£76.7m
HSBC Holdings	£74.5m
Diageo	£54.2m
B.T. Group	£44.9m
Rio Tinto	£36.1m
CGNU	£34.8m
Tesco	£31.7m
Amvescap	£30.0m
Prudential	£29.7m
Legal & General Group	£28.5m
Unilever	£28.2m
BHP Billiton	£27.3m
Compass Group	£26.5m
Total	£1,396.6m

These holdings constitute 60.8% of the total UK Equity portfolio, however, the breakdown by industries on page 20 indicates that a wide spread of investments by sector has been achieved.

The Fund has a holding of ordinary shares in Corus Group plc which amounted to 0.08% of total assets of the Scheme as at 31 March 2002.

Investments

Representing 3% or more of the issued class of share where market value exceeds £5M

	Market Value £m	% of Class of Shares
Templeton Emerging Markets Investment Trust	19.0	3.4
Henderson TR Pacific Investment Trust	16.7	10.2
State Street Emerging Markets Fund	16.5	3.8
Morgan Stanley Dean Witter Latin America Fund	12.4	7.5
The Henderson Smaller Companies Investment Trust	11.5	4.8

A breakdown by industry of the market value of the Fund's UK Main Fund equity holdings at 31 March 2002 is set out below:

		£m	£m	%	%
Resources	Mining	67.4		3.0	
	Oil & Gas	326.6		14.2	
	Sub Total		394.0		17.2
Basic Industries	Chemicals	20.4		0.9	
	Construction & Building Materials	55.5		2.4	
	Steel & Other Metals	6.2		0.3	
	Sub Total		82.1		3.6
General Industries	Aerospace & Defence	22.6		1.0	
	Electronic & Electrical Equipment	13.4		0.6	
	Engineering & Machinery	9.4		0.4	
	Sub Total		45.4		2.0
Cyclical Consumer Goods	Automobiles	7.3		0.3	
	Sub Total		7.3		0.3
Non-Cyclical Consumer Goods	Beverages	65.0		2.8	
	Food Producers & Processors	46.4		2.0	
	Health	32.7		1.4	
	Personal Care/Household Products	8.5		0.4	
	Pharmaceuticals	290.1		12.6	
	Tobacco	8.5		0.4	
	Sub Total		451.2		19.6
Cyclical Services	General Retailers	74.9		3.2	
	Leisure, Entertainment, Hotels	36.8		1.6	
	Media & Photography	127.9		5.6	
	Support Services	99.2		4.3	
	Transport	28.8		1.3	
	Sub Total		367.6		16.0
Non-Cyclical Services	Food & Drug Retailers	39.8		1.7	
	Telecommunications	194.6		8.5	
	Sub Total		234.4		10.2
Utilities	Electricity	40.0		1.7	
	Gas Distribution	26.4		1.1	
	Water	12.7		0.6	
	Sub Total		79.1		3.4
Information Technology	I. T. Hardware	5.0		0.2	
	Software & Computer Services	31.8		1.4	
	Sub Total		36.8		1.6
Financials	Banks	394.2		17.2	
	Insurance	3.7		0.2	
	Life Insurance	93.3		4.0	
	Investment Companies	29.0		1.3	
	Real Estate	27.3		1.2	
	Speciality & Other Finance	50.6		2.2	
	Sub Total		598.1		26.1
Total			2,296.0		100.0

Property

The Fund owns property in all parts of the UK as can be seen in the following distribution of the portfolio by value, location and use.

	£m	%
Scotland	10.6	2.7
North	84.7	21.7
Wales	0.5	0.1
East	32.2	8.3
Midlands	54.7	14.0
Greater London	23.7	6.1
Central London	39.5	10.1
South East	118.8	30.5
South West	25.3	6.5

Geographical Distribution of UK Property Portfolio (£m) as at 31 March 2002

	Office	Industrial	Retail	Agricultural	Total	%
Scotland	2.0	-	8.6	-	10.6	2.7
North	32.6	21.2	30.1	0.8	84.7	21.7
Wales	-	-	0.5	-	0.5	0.1
East	-	-	27.8	4.4	32.2	8.3
Midlands	-	26.1	19.0	9.6	54.7	14.0
Greater London	-	20.1	3.6	-	23.7	6.1
Central London	37.6	-	1.9	-	39.5	10.1
South East	43.1	-	75.5	0.2	118.8	30.5
South West	5.2	-	20.1	-	25.3	6.5
Total	120.5	67.4	187.1	15.0		390.0
%	30.9	17.3	48.0	3.8		100.0

Staff

The Investment Committee wish to record their thanks for the service of all concerned with the investments of the Fund.

P R Strickland
Chairman of Investment Committee
9 May 2002

Statement of Trustee's Responsibilities

The audited accounts are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme Members, Beneficiaries and certain other parties, audited accounts for each Scheme Year which:

i) show a true and fair view of the financial transactions of the Scheme during the Scheme Year and of the amount and disposition at the end of the Scheme Year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme Year; and

ii) contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor), Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommend Practice - “Financial Reports of Pension Schemes”.

The Trustee has supervised the preparation of the accounts and has agreed suitable accounting policies to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for making available each year, commonly in the form of a Trustee’s annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the audited accounts it accompanies.

The Trustee is responsible, under pension legislation, for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active Members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records of contributions received in respect of any active Member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Schedule of Contributions.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

Contents

Fund Account
For the year ended 31 March 2002

	Notes	Year Ended 31 March 2002 £'000	Year Ended 31 March 2001 £'000
Contributions and Benefits			
Contributions receivable	3	46,663	50,176
Transfers in	4	64,825	27,201
		111,488	77,377
Benefits payable	5	422,234	411,202
Leavers	6	4,116	3,898
Administrative expenses	7	2,352	2,283
		428,702	417,383
Net (withdrawals) from dealings with members		(317,214)	(340,006)
Returns on Investments			
Investment income	8	267,289	272,344
Change in market value of investments	9	(229,524)	(578,636)
Investment management expenses	10	(4,809)	(4,301)
Net returns on investments		32,956	(310,593)
Net (Decrease) in the Fund during the year		(284,258)	(650,599)
Net Assets of the Scheme			
At 1 April 2001		8,452,295	9,102,894
At 31 March 2002		8,168,037	8,452,295

The notes on pages 26 to 30 form part of the accounts

Statement of Net Assets
at 31 March 2002

	Notes	As at 31 March 2002 £'000	As at 31 March 2001 £'000
Investments	11		
Fixed interest securities		1,460,940	1,532,241
Index-linked securities		2,494,812	2,665,516
Equities		3,567,385	3,713,015
Property		390,044	377,405
Other investments		11	11
		7,913,192	8,288,188
Current assets and liabilities	12	254,845	164,107
Net Assets of the Scheme at 31 March 2002		8,168,037	8,452,295

The notes on pages 26 to 30 form part of the accounts

The accounts were approved on 11 June 2002

R A Avis
Chairman, Committee of Management

S Colley
Manager, Pensions Investments

J Cumming
Manager, Pensions

1. These accounts summarise the transactions of the British Steel Pension Scheme for the year ended 31 March 2002 and they give details of the net assets at the end of that period. The accounts do not take account of obligations to pay pensions and other benefits in the future. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statement by the actuary on pages 32 to 33 of this report and these accounts should be read in conjunction therewith.

   An actuarial valuation of the Scheme is being carried out at 31 March 2002.

   The accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with Section 2 of the Statement of Recommended Practice, Financial Reports of Pension Schemes.

2. Accounting Policies

a. The accounts have been prepared on an accruals basis.
b. Contributions, including Additional Voluntary Contributions, are accounted for on an accruals basis.
c. Pensions, lump sums and commutations include all valid benefit claims notified to the Trustee during the year.
d. Transfer values to other pension arrangements include all transfers of Scheme entitlements agreed by the Trustees during the year.
e. No value is attributed to insurance policies held by the Scheme.
f. Income from equity investments is recognised in the Fund Account when the investment is declared to be ex-dividend. Interest and property income is recognised as it accrues. Dividends from equities are shown net of the applicable withholding tax or UK tax credit.
g. Foreign dividend income is translated into sterling at the rate ruling on the day that the investment goes ex-dividend. Foreign interest income is translated into sterling at the rate ruling on the date of receipt. Exchange differences are taken to the Fund Account.
h. Property purchases and sales are recognised at the point of completion.
i. The basis of valuation of investments and properties held at 31 March is set out below:
   Listed investments have been included at the middle market prices on the relevant stock exchange at the close of business on the last business day prior to 31 March except for the larger companies traded on the new London Stock Exchange Trading System (SETS) which are included at the latest traded price. Overseas equity managed funds have been included at the latest Manager's valuation prior to 31 March.
   Freehold and long leasehold (over fifty years) property purchased prior to 1 April 2001 has been included at an open-market internal valuation made during the period for each property in the month of the anniversary of purchase. These valuations have been made by a sub-committee comprising the Manager, Pensions Investments, the Pensions Property Manager, and the Pension Investment Surveyor, and have been approved by the Investment Committee. Property purchased on or after 1 April 2001 has been included at cost.
j. Investments, cash, assets and liabilities held in currencies other than sterling have been translated at the exchange rate ruling at 31 March 2002.
   The value of fixed interest and index linked investments is shown net of the applicable accrued interest. Such interest is accrued within current assets. This represents a change in treatment from previous years when the value of investments included the accrued interest. The change has no effect on the total net assets of the Scheme. The comparative figures on the balance sheet for investments and current assets for the previous year have been restated accordingly. The effect of this change in treatment is to reduce the value of investments and increase the value of current assets by £44 million (2001: £46 million).
k. The figure shown in the Fund Account for "Change in market value of investments" represents the realised and unrealised movement in the value of the investments during the period, and adjustments arising from fluctuations in the sterling value of assets and liabilities held in currencies other than sterling.

		2002 £'000	2001 £'000
3	Contributions receivable		
	Employee		
	Normal	28,755	31,108
	Additional voluntary	3,308	3,382
	Employer		
	Normal	13,697	14,323
	Special	903	1,363
		46,663	50,176
4	Transfers in		
	Group transfers in from other schemes	59,570	22,033
	Individual transfers in from other schemes	5,255	5,168
		64,825	27,201
5	Benefits payable		
	Lump sum death benefits	5,831	6,596
	Lump sum retirement benefits	42,120	52,549
	Monthly pensions	372,867	350,725
	Commutations	1,416	1,332
		422,234	411,202
6	Payments to and on account of leavers		
	Group transfers to other schemes	-	-
	Individual transfers to other schemes	2,072	1,705
	Transfers to personal pension arrangements	2,044	2,193
		4,116	3,898
7	Administrative expenses		
	Staff costs	817	819
	Establishment costs	408	265
	Legal, audit & other professional fees	338	261
	Computer system costs	169	359
	Communication costs	316	232
	Other expenditure	304	347
		2,352	2,283

		2002 £'000	2001 £'000
8	**Investment income**		
	Income from fixed interest securities	88,864	91,906
	Income from index-linked securities	68,271	70,952
	Net dividends from equities	76,433	76,001
	Net income from properties	28,930	27,567
	Underwriting commission	18	63
	Income from cash balances	4,773	5,855
		267,289	272,344

		Opening Value £'000	Purchase Cost £'000	Sale Proceeds £'000	Change in MV £'000	Closing Value £'000
9	**Change in market value of investments**					
	Fixed interest Securities	1,532,241	90,095	(96,437)	(64,959)	1,460,940
	Index Linked Securities	2,665,516	88,118	(282,540)	23,718	2,494,812
	UK Equities	2,409,630	193,516	(153,806)	(153,358)	2,295,982
	Overseas Equities	1,303,385	355,027	(339,457)	(47,552)	1,271,403
	Properties	377,405	8,808	(8,796)	12,627	390,044
	Other Investments	11	-	-	-	11
		8,288,188	735,564	(881,036)	(229,524)	7,913,192

		2002 £'000	2001 £'000
10	**Investment management expenses**		
	Fees paid to Pension Services Ltd	429	393
	Fees paid to external managers	635	655
	Fees paid to custodian	831	710
	Other investment expenses	11	14
	IT project costs	200	58
	Other management expenses	2,571	2,403
	Non-recoverable VAT	132	68
		4,809	4,301

Pension Services Ltd is an in-house investment manager.

	2002 £'000	2001 £'000
11 Investments		
Fixed interest securities:		
UK public sector quoted	982,063	1,135,981
UK other quoted	180,476	119,002
Overseas sterling quoted	298,401	277,258
	1,460,940	1,532,241
Index-linked securities:		
UK public sector quoted	2,293,246	2,534,159
UK other quoted	163,427	103,831
Overseas sterling quoted	38,139	27,526
	2,494,812	2,665,516
Equities:		
UK quoted	2,295,982	2,409,630
Overseas quoted	1,148,115	1,203,094
Overseas managed funds	123,288	100,291
	3,567,385	3,713,015
Properties:		
UK freehold	314,631	302,092
UK long leaseholds (over fifty years)	75,413	75,313
	390,044	377,405
Subsidiary Companies	11	11
Total	7,913,192	8,288,188

Additional Voluntary Contributions are used to purchase added years' service, and the value of AVC investments is included in the Main Fund.

The Scheme's property title deeds are held at a Corus UK Ltd records centre, under the control of the Scheme.

		2002 £'000	2001 £'000
12	Current assets and liabilities		
	Current assets		
	Due from Corus UK Ltd	1	13
	Contributions due:		
	Employee	236	217
	Employer	124	126
	Dividends & interest accrued	65,136	66,112
	Amounts due from stockbrokers	12,143	3,348
	Cash balances:		
	UK	128,131	94,229
	Overseas	33,735	36,018
	Other debtors and prepayments	53,676	34,347
		293,182	234,410
	Current liabilities		
	Amounts due to stockbrokers	(18,797)	(34,576)
	Unpaid benefits	(8,663)	(22,349)
	Transfers payable	(280)	-
	Other creditors and accruals	(8,990)	(8,516)
	Bank overdraft	(1,607)	(4,862)
		(38,337)	(70,303)
	Net Current Assets	254,845	164,107
13	Outstanding capital commitments		
	Property:		
	Authorised and contracted for	477	231
	Authorised and not contracted for	-	240
	Investments:		
	Underwriting and Calls	1,513	-
		1,990	471
14	Employer related investments		
	The following investments were held at the year end by the Scheme:		
	Ordinary Shares in Corus Group plc	6,201	4,506
	As a proportion of Scheme net assets	0.08%	0.05%

Independent Auditor's Report to the Trustee and Members of The British Steel Pension Scheme We have audited the accounts on pages 24 to 30.

Respective Responsibilities of Trustee and Auditors

As described on page 22 the Scheme Trustee is responsible for obtaining audited accounts which comply with applicable United Kingdom law and Accounting Standards. It is also responsible for making available, commonly in the form of a Trustee report, certain other information about the Scheme which complies with applicable United Kingdom law. Further, as described on page 22, it is responsible for ensuring that a Schedule of Contributions payable to the Scheme is prepared and maintained, and for procuring that contributions are made to the Scheme in accordance with that Schedule. Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also report to you our opinion as to whether the contributions have been paid in accordance with the Schedule of Contributions certified by the Actuary and if we have not received all the information and explanations we require for our audit.

We read the Trustee report and other information accompanying the accounts and consider whether it is consistent with those accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Bases of Opinions

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustee in the preparation of the accounts, and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed. The work that we carried out also included examination, on a test basis, of evidence relevant to the amounts of contributions paid to the Scheme and the timing of those payments.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error, and that contributions have been paid in accordance with the Schedule of Contributions re-certified by the Actuary on 4 March 2002 prepared in accordance with the Pensions Act 1995. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinions

In our opinion the accounts give a true and fair view of the financial transactions of the Scheme during the Scheme Year ended 31 March 2002 and of the amount and disposition at that date of the assets and liabilities (other than liabilities to pay pensions and benefits after the end of the Scheme Year) and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pension Act 1995.

In our opinion, contributions payable to the Scheme for the year ended 31 March 2002 have been paid in accordance with the Schedule of Contributions re-certified by the actuary on 4 March 2002.

KPMG
Chartered Accountants
Registered Auditors
8 Salisbury Square
London, EC4Y 8BB

11 June 2002

A Occasional or Periodical Certification of Contributions (Section 57(1)(b), Pensions Act 1995).

1 **Adequacy of rates of contributions**
I hereby certify that, in my opinion, the rates of the contributions payable in accordance with the Schedule of Contributions dated 6 March 2000 are adequate for the purpose of securing that the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995 will continue to be met throughout the remainder of the period covered by the Schedule of Contributions.

In forming this opinion I have complied with the requirements imposed by section 56(3) and 57 of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries, and have made the assumptions prescribed by them.

2 **Relevant changes since the last actuarial valuation**
Since the last actuarial valuation of the Scheme was prepared under section 57 of the Pensions Act 1995 no changes which are relevant have occurred.

Note: The certification of the adequacy of rates of contributions for the purpose of securing the meeting of the minimum funding requirement is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

A C P Burbidge
Fellow of the
Institute of Actuaries,
Partner in the Firm
of Watson Wyatt
4 March 2002

B Made for the purposes of Regulation 30 of the Occupational Pension Schemes (Minimum Funding Requirements and Actuarial Valuations) Regulations 1996

Effective Date of Valuation: 31 March 1999

Security of Prospective Rights
In my opinion, the resources of the Scheme are likely in the normal course of events to meet in full the liabilities of the Scheme as they fall due. In giving this opinion, I have assumed that the following amounts will be paid to the Scheme:

Description of contributions:
by the Members:
5% of Pensionable Earnings

by the Employer:
for members of the Acquisition Section 11.6% of Pensionable Earnings;
for other members, 5% of Pensionable Earnings to 30 September 1999 and 2% thereafter;
plus 1.75% of Earnings in respect of Members of the Supplementary Section;
subject to review at future actuarial valuations.

For the purposes of this statement I have assumed that the Scheme will continue. The liabilities referred to relate to the benefits which are expected to become payable under the normal operation of the Scheme. They take account of future benefits accruals and include appropriate allowance for future salary increases.

Summary of Methods and Assumptions used
Funding method: Projected Unit

Main financial assumptions:	% per annum
Return on assets	6.50
General pay increases	4.25
Pensions increases	2.50
Increases in the Lower Earnings Limit	2.50
Increases in equity dividends	3.00

Further details of the methods and assumptions used are set out in my report on the actuarial valuation dated 28 January 2000.

C Supplementary Actuarial Statement
The last formal valuation of the Scheme was made as at 31 March 1999 and the actuarial statements given in connection with that valuation are set out in our Report dated 28 January 2000.

I have been provided with the summary details of Members, Pensioners, and Deferred Pensioners, assets of the Scheme as at 31 March 2002 and transactions of the Scheme since 31 March 1999. Based on this information it is my opinion that, had a valuation of the Scheme been made as at 31 March 2002, the value of the assets of the Scheme would have been more than sufficient to meet the liabilities of the Scheme, measured by the Minimum Funding Requirement.

Furthermore, in my opinion, there is no need at the present time to review the contribution rates set following the last valuation. The contribution rates will be reviewed at the next valuation as at 31 March 2002.

B J M Hill
Fellow of the
Institute of Actuaries,
Partner in the Firm
of Watson Wyatt
28 January 2000

C C P Burbidge
Fellow of the
Institute of Actuaries,
Partner in the Firm
of Watson Wyatt
12 June 2002

The Scheme

Status

The British Steel Pension Scheme is:

- constituted by a Definitive Trust Deed and Rules dated 12 April 2001; and
- classified by the Inland Revenue Savings, Pensions, Share Schemes (IRSPSS) as being exempt approved under Section 591 of the Income and Corporation Taxes Act 1988

As a result of formal approval, various tax concessions are allowed. Pension contributions are allowable for full tax relief which is immediately provided under the net pay arrangement operated by the Employer. In addition, there is no tax on retirement lump sums or lump sum death benefits paid under the Trustee's discretion.

Integration with State Benefits

Members of the British Steel pension arrangements are contracted-out of the State Earnings Related Pension Scheme (commenced 6 April 1978) and, as a result, pay a reduced rate of National Insurance (NI) contributions on the earnings in the table below. These figures are subject to annual review, generally in line with changes in the level of the State pension. The reduction to NI contributions is subject to regular investigation by the Government Actuary. Currently, Members pay National Insurance contributions at a reduced rate of 8.4% instead of the standard rate of 10%. The relevant contracting-out terms are shown in the chart below:

Minimum	Weekly (£)	Monthly (£)
6 April 2001-5 April 2002	87.00	377.00
6 April 2002- 5 April 2003	89.00	385.67

Maximum	Weekly (£)	Monthly (£)
6 April 2001- 5 April 2002	575.00	2,491.67
6 April 2002- 5 April 2003	585.00	2,535.00

Under the terms of contracting-out, applicable for the period up to 5 April 1997, the Scheme must pay a pension at State Pension Age broadly equivalent to the reduction in the Member's State Earnings Related Pension in respect of that period. This amount is known as the Guaranteed Minimum Pension (GMP) and forms part of the Scheme pension. As a result of the Pensions Act 1995, no GMP accrues in respect of service after April 1997 but schemes still have to recognise GMP for pre-April 1997 service.

After State Pension Age, the Department for Work and Pensions (DWP) becomes partly responsible for payment of the increases on the GMP element of the Scheme pension. These increases are added to Basic State Pension payments from the DWP.

From April 1997, schemes which contract-out on a defined benefit basis have to provide overall benefits which are at least as good as those of a theoretical reference scheme which is defined by the DWP. The benefits provided by the Scheme fully meet these requirements and the Scheme is contracted-out on the basis of the reference scheme test.

Occupational Pensions Regulatory Authority (Opra)

Opra* is the independent regulator of occupational pension schemes in the UK and was established by the Pensions Act 1995. Its aim is to ensure that the interests of members of occupational pension schemes are protected. It can enforce penalties on those involved with the management of schemes where trustees, employers or professional advisers seem to be failing in their duties.

A copy of the booklet "A guide to help occupational pension scheme trustees understand their duties and responsibilities" has been issued to each member of the Committee of Management. The booklet is available for inspection at the Pensions Office.

*The Occupational Pensions
Regulatory Authority,
Invicta House
Trafalgar Place
BRIGHTON, BN1 4DW
Telephone: 01273 627600

Scheme Registration

(Scheme Registration Number: 101106385)

In accordance with the Pensions Schemes Act 1993, full information on the Scheme, including a contact address, has been provided to the Registrar of Pension Schemes. The Registrar's main purpose is to provide a tracing service for ex-members of pension schemes with deferred benefit entitlements who are unable to contact their earlier employers. Opra is also responsible for the Registrar of Occupational and Personal Pension Schemes.

An enquiry may be addressed to:
Pension Schemes Registry
PO Box 1NN
NEWCASTLE UPON TYNE,
NE99 1NN

As required by the Pensions Act 1995, a levy will be paid to the Registrar to cover Scheme registration. The Pensions Act 1995 also required that a further levy in respect of the newly created Pensions Compensation Board be paid on an annual basis to the Registrar. It has been decided, however, that due to the lack of claims to the Compensation Fund, to discontinue this levy until further notice.

Internal Dispute Procedures

If you have a specific complaint please tell the Pensions Office. If you are not satisfied with the response you receive there are internal dispute procedures which meet with the requirements under the Pensions Act 1995 and the Occupational Pension Schemes (Disclosure of Information) Regulations 1996. The dispute procedures are as follows:

Stage 1

Complaints should be made in writing to:

Mr I Kelly
Pensions Secretary
British Steel Pension Scheme
FREEPOST (MOO188)
GLASGOW, G2 7BR

A written response will be given within two months. It will explain the situation and refer to any relevant Scheme Rules and/or legislation.

Stage 2

If you are not content with the Stage 1 reply you have the right to take the dispute to Stage 2 within six months of the reply. At the second stage, individuals may write to the Committee of Management, asking them to further consider the first stage decision.
This request should be in writing to:

"For consideration by the Committee
of Management".
British Steel Pension Scheme
FREEPOST (MOO188)
GLASGOW, G2 7BR

The Committee of Management aim to reply within two months of receipt of your request. Depending on when the Committee meets it may not be possible for you to receive a reply as soon as this. Should this situation arise the Pensions Office will let you know when you can expect a full reply.

You have the opportunity of raising your complaint directly with the Office of the Pensions Advisory Service (OPAS) rather than going through the Scheme's internal dispute procedures. However it is generally recognised that it may be better to raise the matter with the Scheme administrators first.

External Investigation

If you wish to contact OPAS the details are as follows:

OPAS – The Pensions Advisory Service
11 Belgrave Road
LONDON, SW1V 1RB

Telephone: 0845 601 2923

OPAS is an independent voluntary organisation with local experts in pension matters, who will assist members of occupational pension schemes not satisfied with the information given by scheme administrators. If OPAS cannot resolve the dispute you can refer it to:

The Pensions Ombudsman
11 Belgrave Road
LONDON, SW1V 1RB

Telephone: 020 7834 9144

The Pensions Ombudsman is appointed under section 145(2) of the Pension Schemes Act 1993 to deal with complaints against and disputes with occupational pension schemes. He is independent and may act as an impartial adjudicator in disputes which occur within his remit. (In practice, OPAS will normally advise if the matter should be referred to the Pensions Ombudsman.)

Further Information

Pensions Publications

Information regarding the British Steel Pension Scheme is available in the following publications which can normally be obtained locally or by direct request to the Pensions Office:

- Definitive Trust Deed and Rules (dated 12 April 2001)
- Members' Handbook and associated explanatory leaflets
- Annual Report and Accounts
- Annual News Brief
- The latest Actuarial Valuation Report

You can also visit the Scheme website at www.bspensions.com

For further information about the Scheme or details of your own benefits, please contact:

Pensions Secretary
British Steel Pension Scheme
FREEPOST (MOO188)
GLASGOW, G2 7BR

You can phone the Pensions Office from anywhere in the UK at the cost of a local rate call on 0845 - 274 0901. The telephone lines are open from Monday to Friday from 9 am to 4.45 pm. Outside these times, there is a telephone answering service.