

A new force in the **metals industry**

background to the proposed merger

 **British Steel**  **Koninklijke Hoogovens**

7 June 1999

Creating a leading

Today we are announcing an ambitious move to merge two companies – British Steel and Koninklijke Hoogovens – creating a leading metals group intended to benefit our customers, our employees and our shareholders.

Our customers are looking for a wider range of products tailored to their needs; they want more service, often with suppliers' teams working alongside them; they want the latest technology; they want more international coverage; and they want different metals for different purposes sometimes in combination with each other. In short, they want value.

British Steel and Hoogovens already operate in a way that looks towards the customer as the driving force for our businesses. Our combined vision is of a group which goes even further in the service of our customers. Individually, we already help them design and optimise the manufacture of their products – such as, aeroplanes, cars, engines, buildings, cans and white goods. Now, together, we will provide services and solutions more internationally, and over a wider range of metals activities. And we will structure ourselves into international business units focusing on products and dedicated services. The focus will not be steel or aluminium, nor UK or Netherlands: it will be what we can do around the world for our customers; how we can expand our business to grow with theirs; how we can use our joint financial strength to create value for them.

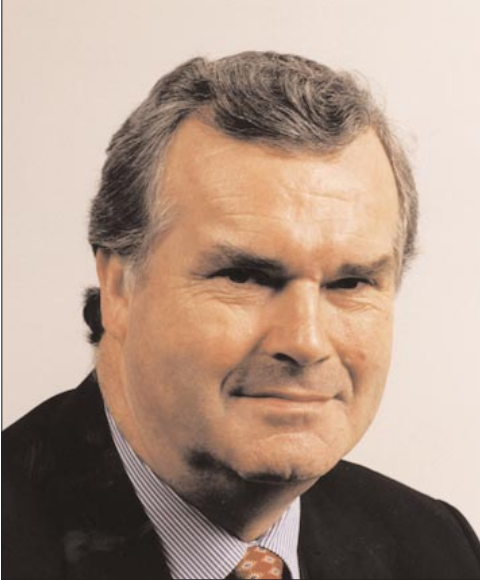
We believe that **for our employees** and their local communities, this exciting new international structure will not only improve our competitive position and help us ensure prosperity for our people, it will also help us to continue to attract quality people to our industry by offering them challenging and stimulating career opportunities. We want this to be a group that looks after its people at home, but opens wider horizons around the world for those who seek them.

For our shareholders, this is a strategy for growth. We will be a financially strong group, with the capacity to achieve synergy benefits from a variety of sources, which we are convinced could not be realised by any other means. Combining our strengths is a way to enhance our competitive edge. It is a bold move which is designed to ensure that we provide growth prospects for our investors well into the future.

Contents

- 1 Introduction from the joint Chief Executives
- 2 The opportunity and the challenge
- 3 Two companies which truly fit
- 6 Questions and Answers
- 8 Further information

metals group



John Bryant



J. Fokko van Duyne

We intend to rise to the challenge of today's global market as **one** business, sharing **one** vision, with **one** set of core values, **one** management team and **one** strategy. We will be committed to high standards of employee relationships, social obligations and stakeholder care, as well as to strong principles of shareholder value and corporate governance.

If the customer is the winner, then our people and our shareholders should win again and again.

This brochure provides an introduction to our vision and the opportunities it presents. As events unfold over the coming weeks and months we will be in touch to update you with our progress. In the autumn we expect the merger to be finalised and we will then launch the new group name and its identity around the world. This is the start of a challenging and exciting time for everyone associated with British Steel and Hoogovens and we look forward to your support.

A handwritten signature in black ink that reads "John Bryant". The signature is written in a cursive style with a long horizontal line extending from the bottom of the name.

John Bryant

Joint Chief Executive

A handwritten signature in black ink that reads "J. Fokko van Duyne". The signature is written in a stylized, blocky cursive style.

J. Fokko van Duyne

Joint Chief Executive

The opportunity and

The market is ready

The world's markets for metals are very competitive and will continue to be challenging as we go forward. But it is obvious that, looking ahead, we have to develop our approach to the market.

International customers. In many industries, customers are growing and consolidating their interests and activities. These customers are looking for suppliers and service providers with a similar international outlook and presence. In the automotive industry, for instance, it is anticipated that within the next ten years there will be only a handful of major manufacturers. Our new focus and combined geographic range will help make us a key player on the world stage.

New metals activities. Innovations in the applications of carbon and stainless steels, combined with state-of-the-art technological use of aluminium, are a feature of the two companies' successes. But customers and consumers demand more in terms of lighter, more environmentally-friendly or adaptable materials. For example, the Guggenheim Museum, in Bilbao, the T'Sing Ma Bridge, in Hong Kong, and sports stadia, such as Wimbledon's new Number One Court, in London, have been built thanks to these new technologies.

Not just metals, but product design. Our customers look to us to help them do business better. Our ability to contribute to their design process is a vital input to this. At the fundamental product design stage, automotive and construction companies want to create lighter, lower-cost and more environmentally-friendly cars and buildings. The group makes a strong contribution to this design process. In the area of graphic design, the decorative and shape possibilities of metal cans allow soft drinks and food companies to present their products in a vibrant, exciting way.

We want to build a leading metals group which answers all these needs and aims to get closer and closer to the customer.

Staying ahead of the curve

Hoogovens and British Steel have already demonstrated their ability to respond to change by independently creating two of the leading metals producers in the world. The merger represents a unique opportunity to create a leading metals group, based in Europe, able to offer customers an extensive range of metal products and solutions on a global basis. We will respond to the market trends in three ways.

- Our wider international reach will enable us to answer more of our customers' needs. The spread of business over many countries and markets will help us to do this wherever our customers' requirements might be.
- We expect our greater size to result in synergies across a range of functions, improving our competitive position. Our financial strength will help us to invest further in our downstream activities to get even closer to our customers.

the challenge

- Our combined expertise and product range will enable us to optimise the effectiveness of our upstream facilities. Our state-of-the-art technology and design will be applied to suit the applications required by our customers; using our capability in carbon steel, stainless steel and aluminium to do the job.

The strategy

A very important factor in the merger is to improve further British Steel's and Hoogovens' effectiveness for our customers. This is not simply about cost reduction. With our larger production base, we will be able to extract improvements through reconfiguring plant to enable greater utilisation of existing capacities. And we will increasingly focus on adding value in our market place. We will market an extensive range of metal products, but will not necessarily need to manufacture all of them ourselves.

We also intend to reinforce our competitive position by seeking greater involvement in customers' design and production processes. This should result in more value-added products and solutions.

We need to do more than just be a low-cost producer. To prosper in today's market place, we must offer breadth, service and innovation. We will seek to give priority to the metal-solutions focus and to business areas which yield the most growth and the highest long-term returns, for all our stakeholders.

The merger

The core of our new approach will be the creation of focused business units, led by international management teams. These business units will work with each other to harness the group's capabilities to the needs of our customers.

The new group will be headquartered in London with top management drawn from both British Steel and Hoogovens. Because this is a merger of cultures as well as companies, there will be a new structure for the executive function. The Chairmen of British Steel and Hoogovens will be Chairman and Deputy Chairman respectively. There will be six other non-executive directors and an Executive Committee comprising the joint Chief Executives, three other executive directors and members drawn from the current senior management of the two companies.

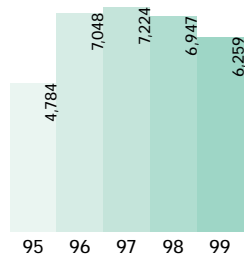
Next steps

The plan is to be in a position to launch the new group name and identity in the autumn. We will need to have the necessary consultations and receive the requisite approvals for the merger, and then we will be working on bringing the two businesses under a unified and fully integrated structure. Come the autumn, all of us will be part of a new group, with a new identity and an enormously exciting future.

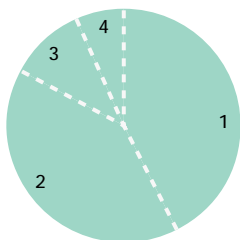
Two companies

Key statistics: British Steel

Turnover – £m

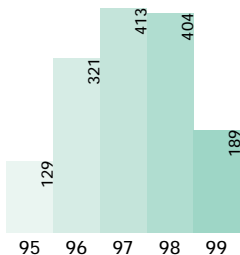


Turnover by
geography



- 1 UK
- 2 Rest of Europe
- 3 North America
- 4 Others

Capital expenditure
– £m



British Steel employs 44,200 people, around 80% of whom are based in the UK.

The new structure

Board

Executive Committee

	Sir Brian Moffat H. de Ruiter, De Sir Nicholas Go R. Hazelhoff, N A. A. Loudon, M B. K. Sanders R. T. Turner, No M. C. van Veen	
	J. M. Bryant	
Other executives	A. P. Pedder	A. van de

Customers and products

Hoogovens serves manufacturers and processors with steel and aluminium products and services. Its core markets are mainly in automotive, car components, aerospace, shipbuilding, rail transport, packaging, building, construction, batteries, furniture, and optics. In 1998 Hoogovens was selected as the only European long-term supplier to Boeing and was also awarded a Corporate Supplier Award by Volkswagen Audi Group, a Toyota achievement award and the Duracell Award for continuous improvement. Its revolutionary "square can" won Can of the Year in 1999.

British Steel's core customers are in the construction, automotive, packaging, aerospace, energy and engineering industries. More than 50% of sales are made outside the UK making British Steel one of the UK's top 10 exporters. The company supplies all of the Japanese car plants in the UK and high-profile construction projects include the T'Sing Ma Bridge and Chep Lap Kok Airport in Hong Kong; Canary Wharf in London; and the Petronas Twin Towers in Kuala Lumpur.

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J. F. van Duyne	er Velden J. L. Rennocks	Other executives

Research & Development

Hoogovens spends NLG 118m each year on R&D and employs 490 people to conduct leading research on manufacturing process and a very wide range of applications of steel and aluminium. Hoogovens deliberately uses R&D as a strategic asset in international competition, and maintains many joint working arrangements with other companies – including customers and institutes – in possession of complementary facilities.

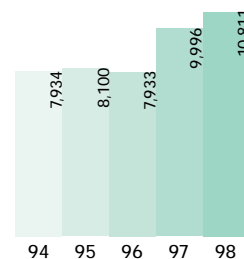
British Steel spends £50m per annum on R&D, and employs 750 people in this area. As well as maintaining R&D activity in areas such as process control and environmental improvement, a particular drive has been to take R&D activity to the interface with customers' activities in all key market sectors. Specifically, the strategy has been to engage with customers at the concept phase of product design in order to ensure that the best steel product is specified for the car, can or building concerned.

A sustainable society

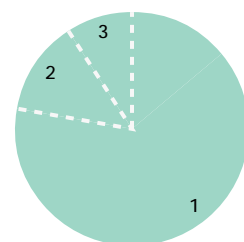
British Steel and Hoogovens place great importance upon the contribution they should make to a sustainable society. Both are committed to improvement in the levels of emissions from their production processes and publish reports which set out policies and future targets. The key to sustainability is, however, in the use of their products. In this area, both companies concentrate on providing advice to designers which will help minimise the use of scarce natural resources and maximise the potential of low-energy, recyclable products.

Key statistics: Hoogovens

Turnover – NLGm



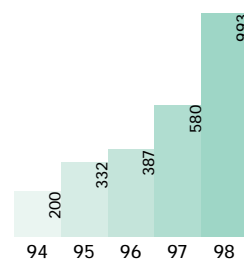
Turnover by geography



- 1 Europe
- 2 USA
- 3 Others

Capital expenditure

– NLGm



Hoogovens employs 22,105 people, around 60% of whom are based in The Netherlands.

Questions

Question 1: Is this really a merger – who's in charge?

Answer: It is a genuine merger forged to harness the expertise and assets of two major international businesses. It is driven by the dynamics of the global marketplace. As you would expect in a merger, the new company will be managed by executives drawn from both businesses.

Question 2: I have read that British Steel will be the majority partner, with over 60%.

Answer: This will be a new group with a single management and a single operating business. The shareholders of both British Steel and Hoogovens will be the owners of that group although, at the outset, British Steel's shareholders will own about 60%.

Question 3: Who will run the business on a day-to-day basis?

Answer: Mr van Duyne and Mr Bryant will be joint Chief Executives until 2003. The roles will be split so that each Chief Executive has responsibility for specific aspects of the group's activities. These will be announced once the merger has been finalised. Mr van Duyne will chair the Executive Committee for the first two years with Mr Bryant taking it on in 2001.

Question 4: Why will the group have its HQ in London?

Answer: London is one of the world's major trading and financial centres, where many multi-national companies are based. It is, therefore, the most convenient and logical place for a leading European business with global aspirations to be located.

Question 5: Will there be total integration or will individual plants continue to operate independently?

Answer: There will be total integration at the business unit level. A new group will be created from the merger with a new approach, culture and style. This will require change, but it will be a stimulating experience for all our people.

Question 6: How will the different cultures be brought together?

Answer: Both managements have been working together on this for many months and have already fostered a tremendous sense of co-operative determination and a shared vision. Don't forget that both companies are already multi-cultural, with operations in many countries and customers from all over the world.

and Answers

Question 7: Will there be opportunities for employees to work in other countries?

Answer: Definitely. We will be a leading player on the world stage and will be encouraging a multi-cultural approach and environment.

Question 8: Will there be job losses and plant closures?

Answer: We would hope to minimise job losses. Inevitably there will be some duplication of central and head office functions which will lead to redundancies. The market for the new group's output is massive and the basis for the merger is to provide a platform for growth, not retrenchment.

Question 9: Some very large figures have been quoted in terms of synergies and other benefits that the new group will enjoy. Where will synergies come from?

Answer: Partly from the elimination of duplicated central and management costs and also from the application of best operating practices across the group. In addition, we expect there to be synergies in areas such as logistics, sales, purchasing, and product and service development.

Question 10: Will there be a common business currency?

Answer: As a UK-registered company, we will initially report in sterling although a move to Euros at a later stage could be envisaged. In any case there will be additional information on Euros in the Annual Report. Trading will be carried out in the currency applicable to country of operation.

Question 11: How will Year 2000 issues impact given the timing of the proposed merger?

Answer: Both companies are satisfied with their own, and each other's, treatment of Year 2000 issues.

Further information on the merger of British Steel and Hoogovens can be sourced on our websites:
www.hoogovens.com and www.britishsteel.co.uk

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