



Corus Energy Issues A Customer Perspective

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Introduction

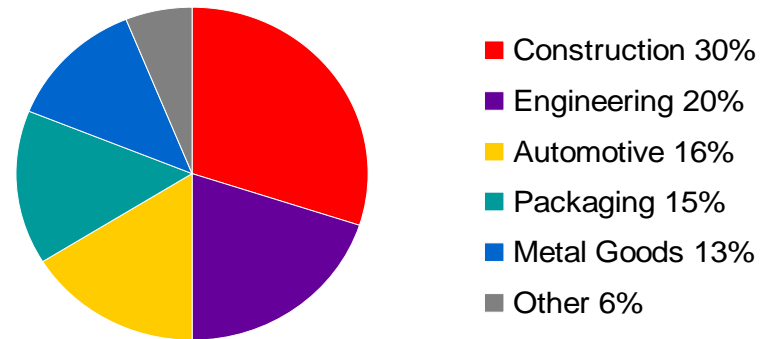


- Corus overview
- Global steel market
- UK energy market issues
- CO2 issues
- Conclusions

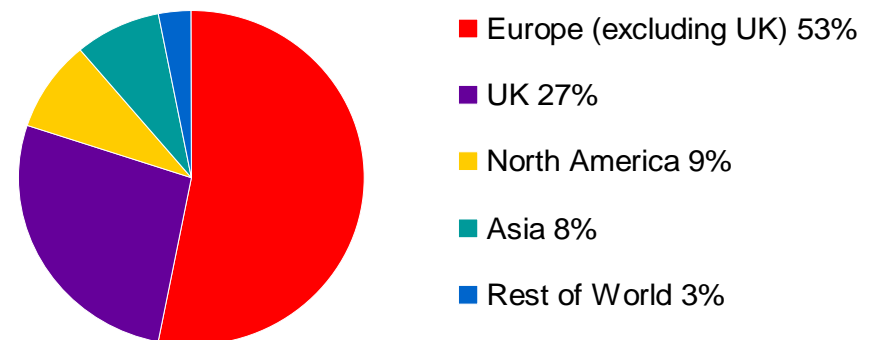
Corus Overview – what we do

- We are the **9th** largest steel producer in the world.
- Annual steel production **18mt** (approximately 10% of EU production).
- We have the **most efficient steel making** in Europe
- We have **leading positions** in the most demanding steel markets
- Corus shares are listed on the London, New York and Amsterdam stock exchanges with a value of **£4,250m**

Markets supplied by Corus 2005
Estimate based on share of turnover



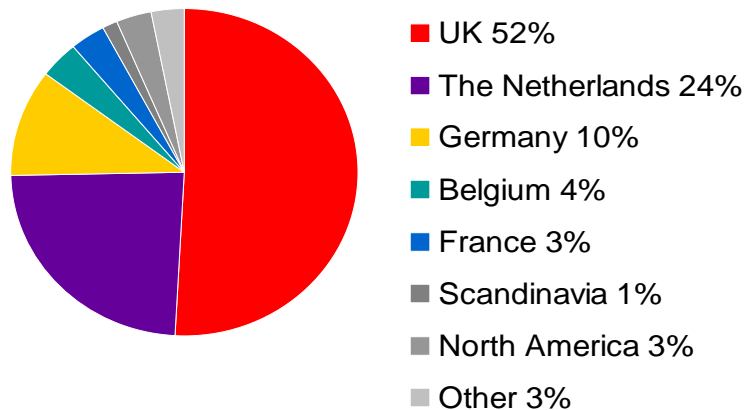
Turnover by destination 2005



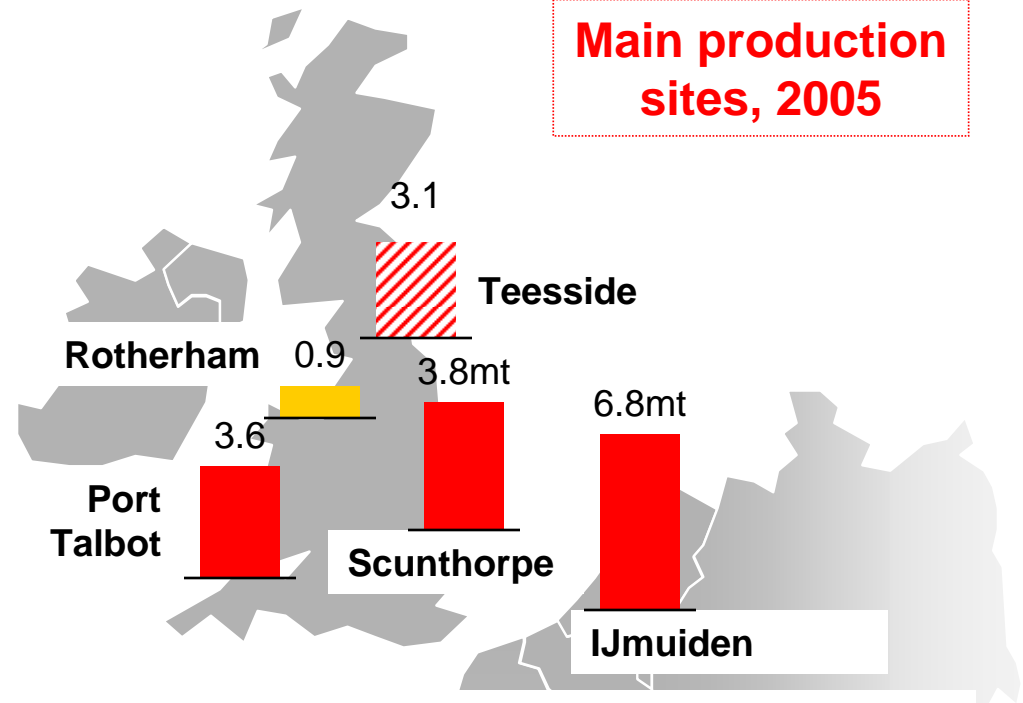
Corus Overview – where we are

Employees, 2005




Corus employs over **47,000** employees in over **40** countries.



Main production sites, 2005



Key

- 3.1 2005 steel production (millions of tonnes)
-  'Integrated' production, Corus owned
-  'Integrated' production, joint venture
-  'Electric arc' production, Corus owned

Global steel market



- Corus operates in a cyclical global market
- Corus is a major energy-intensive user in Europe
- Steel prices are determined by global demand and supply changes
- It is very difficult to pass through increases in locally-driven costs
- Corus is facing increased competition in its home markets from companies with far lower energy costs.....

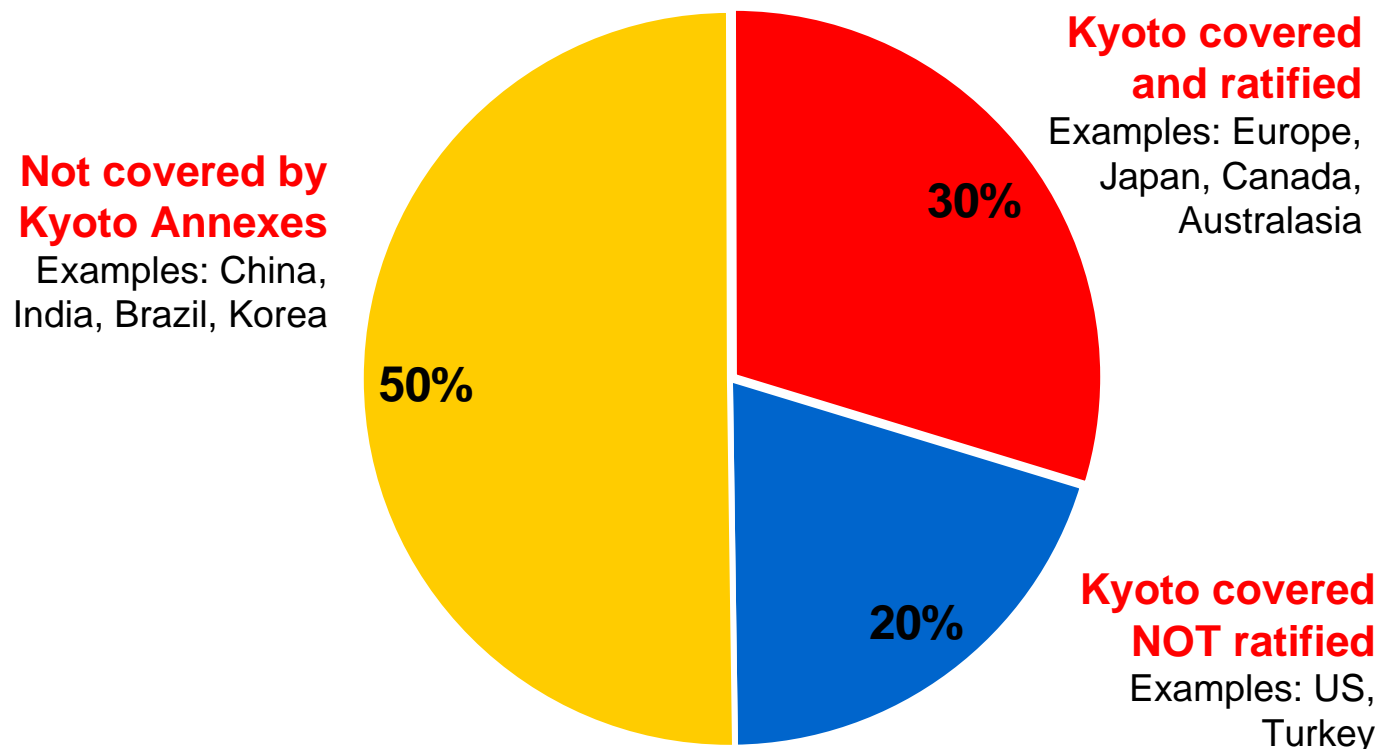
and no EU ETS

Share of steel industry subject to 'Kyoto'



Global steel production (2005) split by national obligations under Kyoto agreement

100% = 1,129mt



Corus requirements from the energy market



Corus needs energy markets:

- With secure supplies
- Where prices are internationally competitive
- Where energy costs are predictable over time

However in the UK energy market:

- Security of supply is questionable
- And prices are neither internationally competitive nor predictable over time

Security of supply - Gas

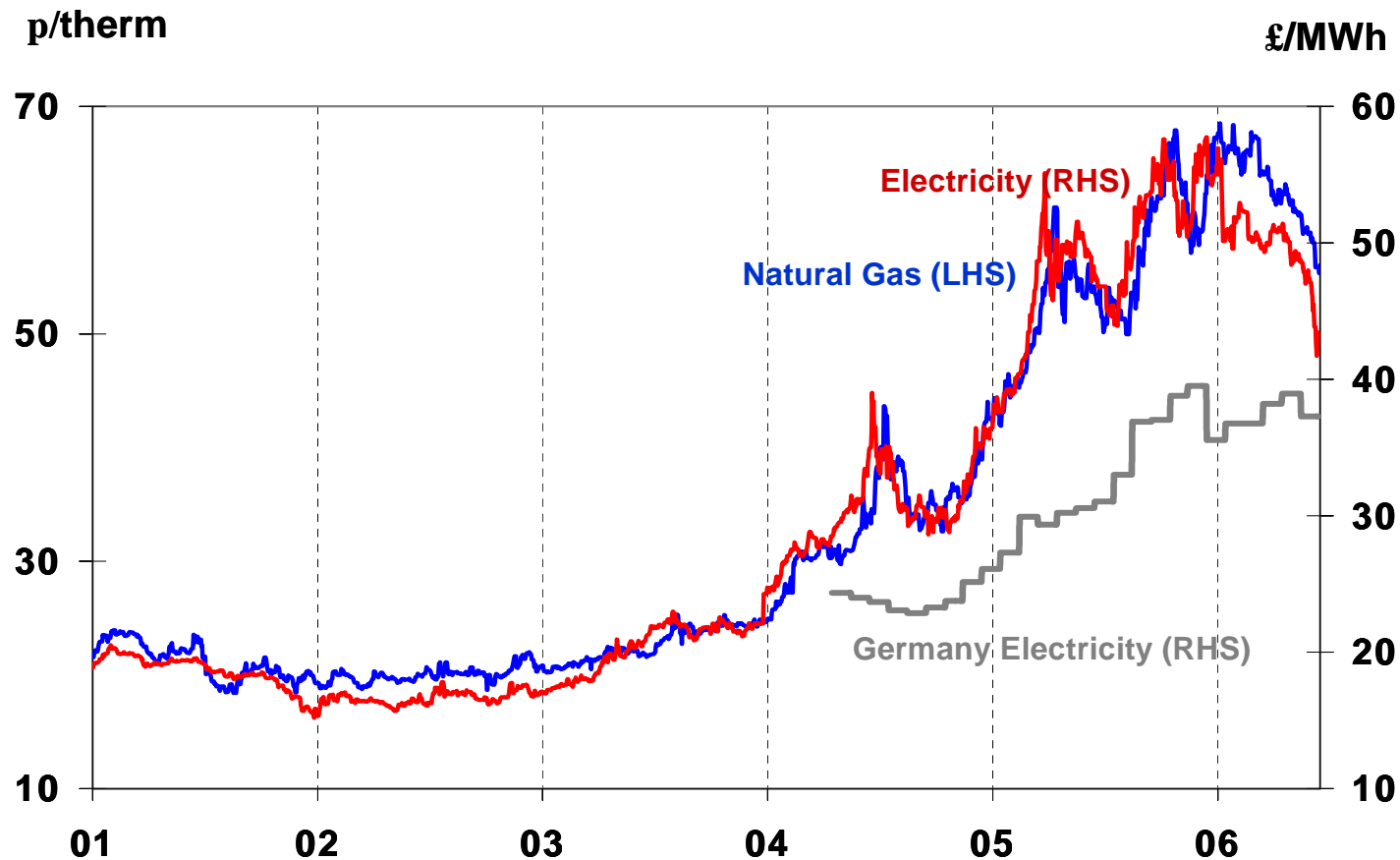
Gas:

- Stretched supply and demand balance natural gas during winter:
 - Gas supply emergency preparations
 - Unpredictable prices with very high peaks
 - Demand side response not acceptable to customers who can get reliable supply from other steelmakers
- Will there be enough gas for coming years (molecules)?
- Will there be enough infrastructure?
 - Interconnection
 - Storage

Security of supply - Electricity

- UK has one of the tightest demand/supply balances of EU
- Generation gap
- ‘Generators being kept in the dark on policy’
- Delay White Paper

Competitive prices



Notes: Wholesale forward prices. £/Eur 1.45.

No 'level playing field' for Corus and its European competitors

Source: Heren

What should be done in the UK to produce competitive predictable prices and secure supply?



- Create a single EU energy market (level playing field)
- Ensure that timely and sufficient investment takes place into electricity generation capacity on the basis of diversified fuels
- Secure the long term gas supply (molecules) to the EU
- Ensure there is sufficient gas infrastructure (interconnection/storage)
- Create a long term and stable system for emissions trading on a level playing field with the rest of the world

Can we create a level playing field within the European Union?



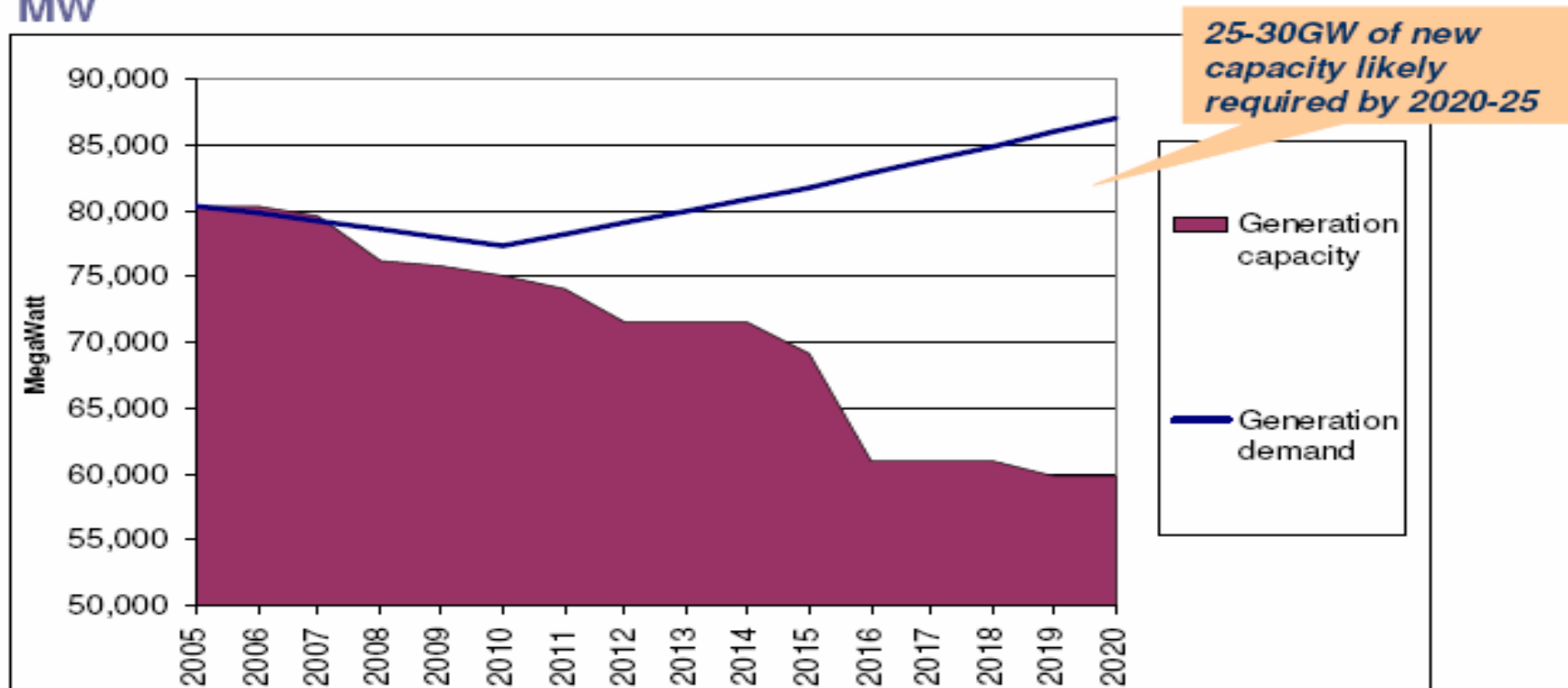
- Creating a single EU energy market comprises issues such as:
 - Integrate the national energy markets within the EU
 - Enforce competition rules
 - Increase transparency
 - Unbundle networks in every Member State
 - Realising common contractual terms
- Considering the present national ‘liberalised’ energy markets within the EU, creating a real single EU energy market will take many years
- In the mean time the UK energy market needs to be brought upon a level playing field

Solving the electricity generation gap is very important and requires urgent attention



Estimated power generation capacity requirement* to 2020

MW



* Assuming an illustrative peak capacity margin of 20%
Source: NG; DTI analysis

Growing Electricity Demand

Retirement of nuclear, coal and oil plant

Substantial requirement for new build starting now: for EU 500 GW !

Electricity generation gap

- Industry does not want to be confronted with high electricity prices, or physical shortages - plans should be turned into action!
- Is the market able to deliver and fill the generation gap and safeguard internationally competitive prices?
- Energy intensive industry thinks urgent action is necessary to facilitate new builds in the UK with a diversified fuel package:
 - Energy intensive industry is willing to consider financing new generation capacity through long term supply contracts on a cost plus basis
 - Government should be facilitating new generation capacity by streamlining planning procedures and providing long term certainty about emission rights – and determine the fuel mix?
 - Some member states facilitate new builds: Germany for example guarantees free allocation of emission rights for 14 years

Is a long term and stable system of emissions trading that minimises distortion of competition possible?

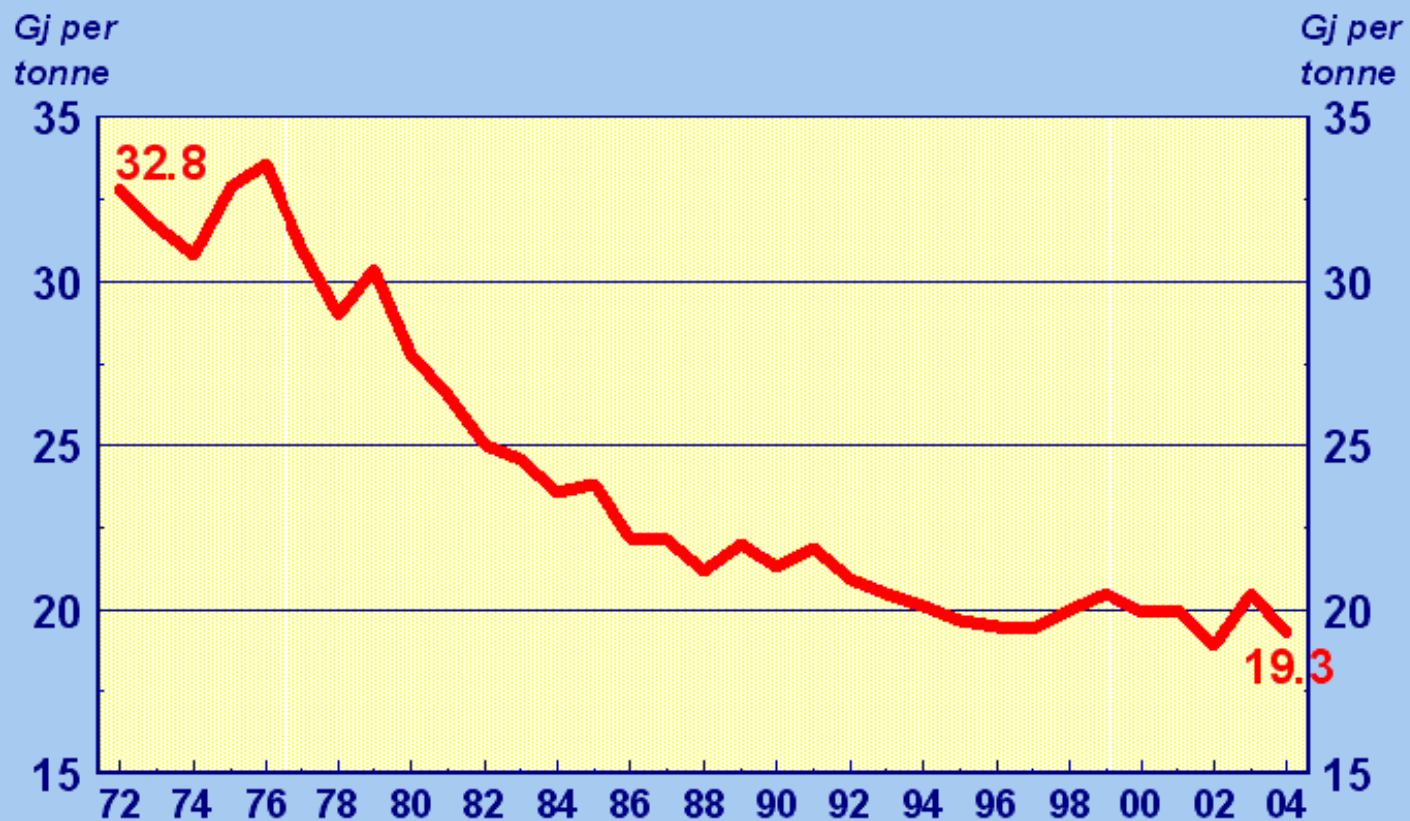


- UK Steel industry contributes to minimising carbon emissions by increasing its energy efficiency
- Output of steel and volume of CO₂ emitted are however closely linked: very little further improvement based on current technology
- €44 million R&D project looking for new technologies to seek to reduce CO₂ intensity by 50% by 2050
- However EU ETS:
 - Does not favour the most energy efficient producers
 - Distorts global competition
 - Allows the electricity generating sector to gain ‘windfall profits’
 - And auctioning of all emission rights would make matters worse:
 - Electricity generators are able to bid for rights whatever the cost and pass through these costs to market

Energy consumption per tonne of steel



UK STEEL INDUSTRY ENERGY CONSUMPTION : 1972 - 2004



Principles sustainable ETS

- An emissions trading scheme:
 - Should reward the most energy efficient producer by:
 - allocating emission rights per product unit actually produced
 - on the basis of energy efficiency benchmarks per industry sector
 - Should be long term and lead to stable emission prices that can be taken into account when taking investment decisions

and should be GLOBAL

Conclusions

- Energy intensive industry needs secure supplies, internationally competitive prices and energy costs that are predictable over time
- Creating a single EU energy market (level playing field) is necessary but will take many years
- Investment in UK energy assets cannot wait for the level playing field to arrive and requires urgent action
- An emissions trading scheme should reward the most energy efficient producer and be based upon free allocation of emission rights per unit of product actually produced and should be global