

# 2003 Preliminary Results

18 March 2004

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**Jim Leng**

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# Agenda

Welcome

Jim Leng

Financial results

David Lloyd

Restoring success,  
key issues and outlook

Philippe Varin

Conclusions

Jim Leng

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# David Lloyd

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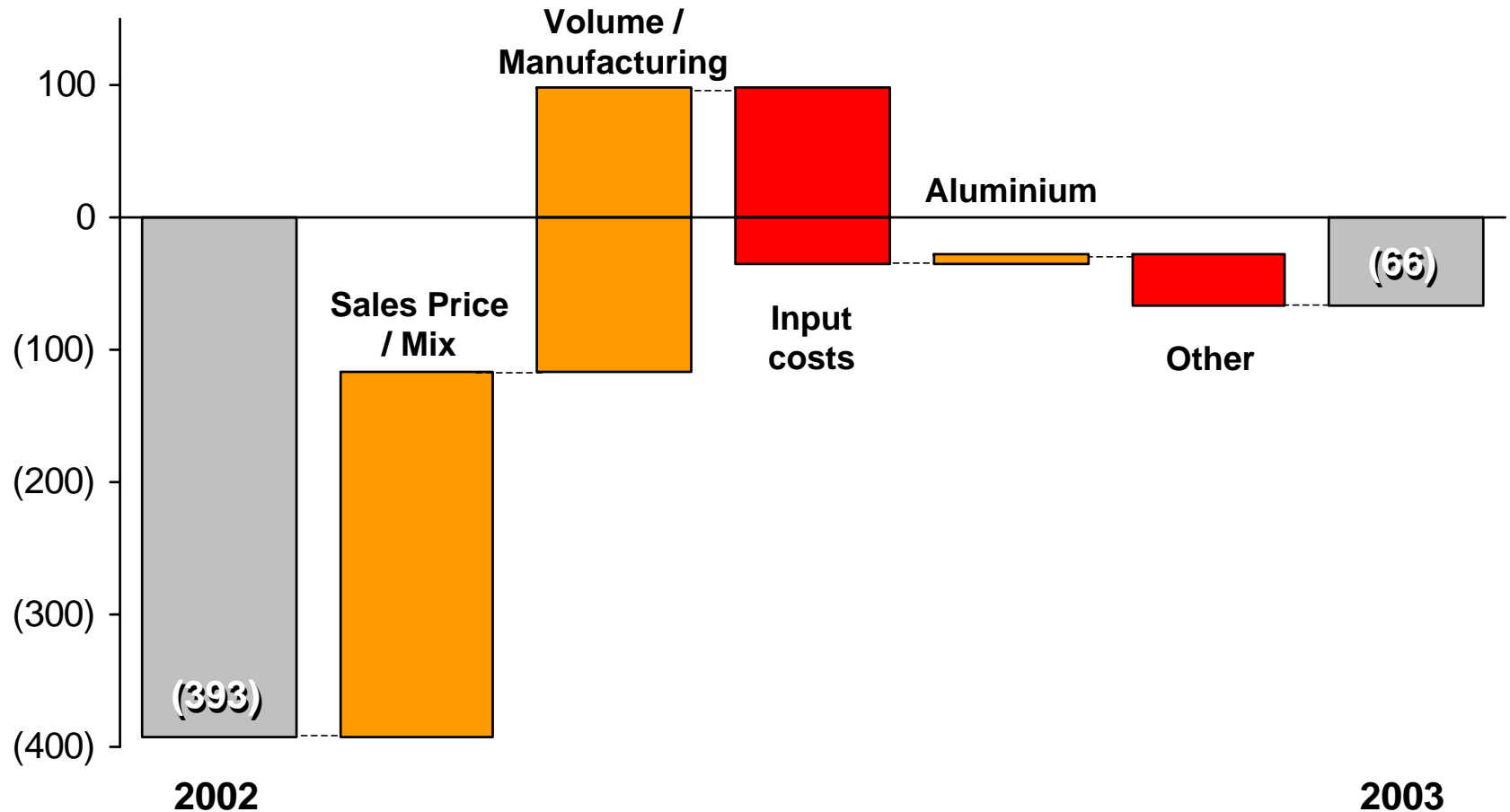
# Financial summary

£ million	2003	2002	H2 2003	H1 2003
Turnover	<b>7,953</b>	7,188	3,930	4,023
EBITDA (pre-exceptionals)	<b>250</b>	(53)	130	120
Operating loss (pre-exceptionals)	<b>(66)</b>	(393)	(30)	(36)
Exceptional items	<b>(142)</b>	(53)	(121)	(21)
Net result	<b>(305)</b>	(458)	(180)	(125)
Net debt	<b>(1,013)</b>	(1,236)	(1,013)	(1,506)

# Operating bridge

Pre exceptionals

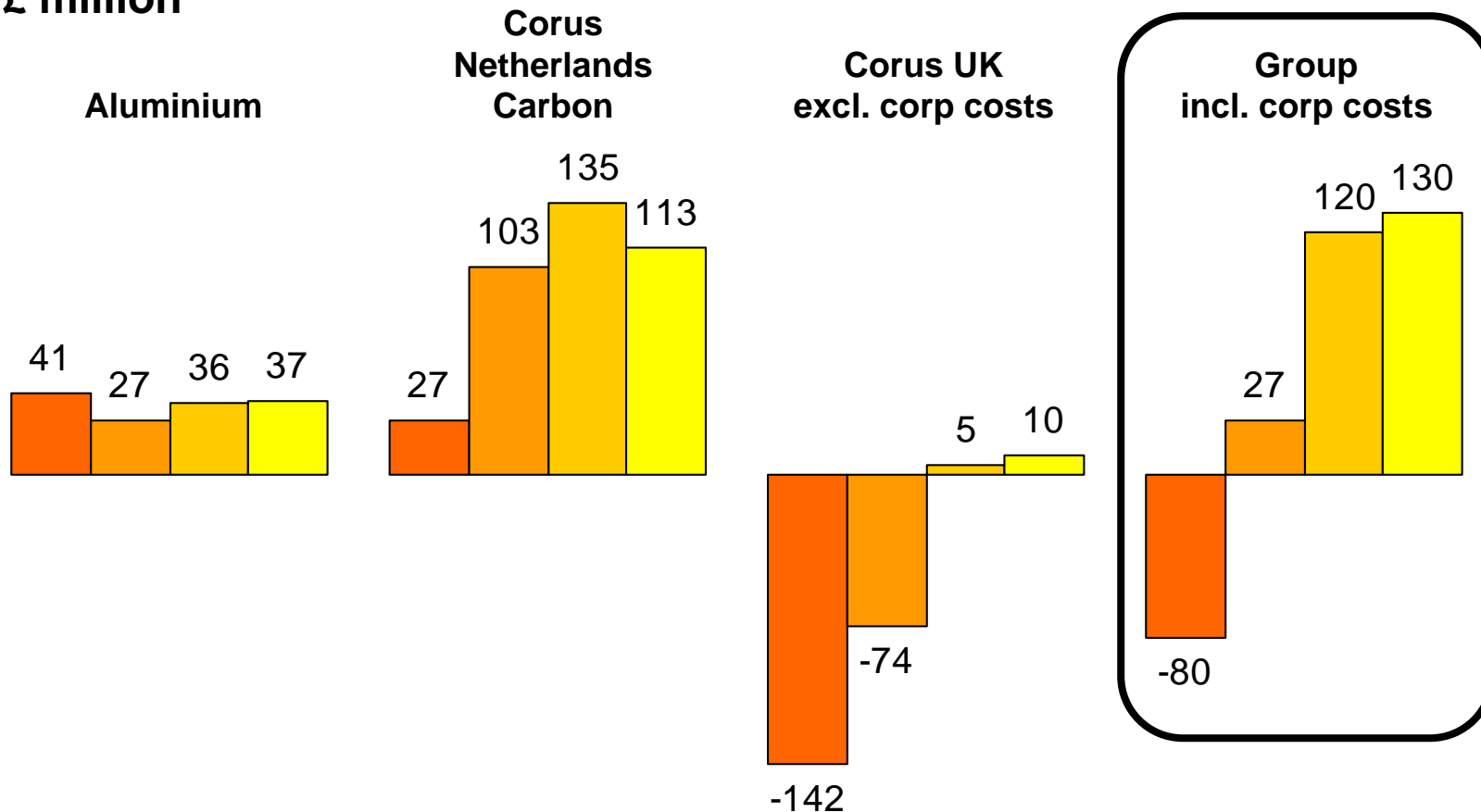
£ million



# Group EBITDA analysis

Pre exceptionals

£ million



■ H1 2002 ■ H2 2002 ■ H1 2003 ■ H2 2003

# Group turnover

£ million	2003	2002	% change	H2 2003	H1 2003
Group turnover	7,953	7,188	11%	3,930	4,023
Distribution etc.	1,549	1,489	4%	759	790
<b>Product turnover</b>	<b>6,404</b>	<b>5,699</b>	<b>12%</b>	3,171	3,233
<i>comprising:</i>					
Carbon steel	5,423	4,742	14%	2,700	2,723
Aluminium	981	957	3%	471	510

# Carbon steel turnover

	2003	2002	% change	H2 2003	H1 2003
Product turnover (£m)	<b>5,423</b>	4,742	14%	2,700	2,723
Deliveries (mt)	<b>17.8</b>	16.6	7%	8.9	8.9
Average revenue (£/t)	<b>305</b>	285	7%	303	306

# Carbon steel prices

£/tonne	2003	2002	% change	H2 2003	H1 2003
<i>Euro/£ (exchange rate)</i>	1.45	1.59	(9)%	1.43	1.46
<b>European market spot prices</b>					
Hot rolled coil	<b>204</b>	160	28%	197	211
Hot dipped galvanised	<b>265</b>	205	29%	262	267
Beam	<b>234</b>	204	15%	241	227
<b>Corus average revenue (all markets)</b>					
Uncoated flat products	<b>259</b>	232	12%	262	257
Coated flat products	<b>405</b>	368	10%	407	403
Sections & plates	<b>288</b>	276	4%	288	288
<b>Total</b>	<b>305</b>	285	7%	303	306

# Group operating costs

£ million	2003	2002	% change	H2 2003	H1 2003
Total as reported	8,161	7,634	7%	4,081	4,080
Exceptional items	(142)	(53)	n/a	(121)	(21)
<b>Underlying costs</b>	<b>8,019</b>	<b>7,581</b>	<b>6%</b>	3,960	4,059
Carbon steel	7,068	6,653	6%	3,504	3,564
Aluminium	951	928	2%	456	495

# Raw material & energy prices

Excluding Aluminium & Tuscaloosa

	Actual spend £m	Underlying increase (before currency)	Currency impact	Net increase £m
Iron Ore (incl. shipping) (US\$)	410	16%	(10)%	23
Coal (incl. shipping) (US\$)	400	2%	(10)%	(34)
Coke (incl. shipping) (US\$)	55	62%	(10)%	19
Scrap (US\$)	170	32%	(10)%	31
Electricity & Natural Gas	290	5%	3%	21
<b>Total</b>	<b>1,325</b>	<b>11%</b>	<b>(7)%</b>	<b>60</b>

- Significant underlying rise in input prices partly offset by US dollar
- Freight costs included above c.£220m

# Employment costs

£ million	2003	2002	% change
Total	1,745	1,568	11%
Exceptional items	51	(14)	—
<b>Underlying costs</b>	<b>1,694</b>	<b>1,582</b>	<b>7%</b>
Average (weekly) employees	50,300	51,600	(3)%
Period end employees	49,400	50,900	(3)%

# Exceptional items

£ million	2003	2002	H2 2003	H1 2003
Total	<b>142</b>	53	121	21
Redundancy	<b>51</b>	(14)	44	7
Accelerated depreciation	<b>48</b>	105	30	18
Other asset write-downs	<b>15</b>	(3)	14	1
Other costs	<b>28</b>	(35)	33	(5)

# Profit & loss account

£ million	2003	2002	H2 2003	H1 2003
Group operating loss	<b>(208)</b>	(446)	(151)	(57)
J/Vs and Associates	<b>9</b>	21	4	5
Disposals	<b>45</b>	115	34	11
Net interest	<b>(101)</b>	(94)	(53)	(48)
Tax	<b>(53)</b>	(61)	(17)	(36)
Net result (inc. minorities)	<b>(305)</b>	(458)	(180)	(125)

# Operating cashflow

£ million	2003	2002	H2 2003	H1 2003
<b>Group operating loss</b>	<b>(208)</b>	<b>(446)</b>	(151)	(57)
Depreciation	364	445	190	174
Rationalisation provisions	94	(52)	91	3
Utilisation of provisions	(44)	(57)	(29)	(15)
Working capital	(10)	162	209	(219)
Other movements (net)	28	(11)	15	13
<b>Operating cash flow</b>	<b>224</b>	<b>41</b>	325	(101)

# Net borrowings

£ million	2003	2002	H2 2003	H1 2003
<b>Opening position</b>	<b>(1,236)</b>	<b>(1,560)</b>	(1,236)	(1,236)
Operating cashflow	224	41	325	(101)
Interest & tax	(169)	(101)	(97)	(72)
Capital expenditure	(163)	(176)	(91)	(72)
Acquisitions & disposals	(20)	445	(7)	(13)
Equity issue (net proceeds)	291	–	291	–
Other movements (net)	60	115	72	(12)
<b>Closing position</b>	<b>(1,013)</b>	<b>(1,236)</b>	(1,013)	(1,506)

# Balance sheet

<b>£ million</b>	<b>2003</b>	<b>2002</b>	<b>H1 2003</b>
Fixed assets	2,984	3,126	3,100
Net working capital	1,546	1,477	1,739
Provisions, accruals, etc.	(673)	(598)	(609)
Net borrowings	(1,013)	(1,236)	(1,506)
Shareholders' funds	2,844	2,769	2,724

# Pensions - FRS 17

£ million	2003
Market value of assets	11,321
Present value of liabilities	(11,203)
<b>Recoverable surplus</b>	<b>118</b>
Deferred tax liability	(32)
<b>Net pension asset</b>	<b>86</b>

# Funding position

## **MARCH 2004**

- Recent equity issue raised net £291m. Proceeds used to:
  - pursue full UK restructuring programme
  - uplift capex to support new initiatives under ‘Restoring Success’
  - strengthen the balance sheet and improve financial flexibility
- Net debt reduced by c.£0.5 billion from H1 2003 to c.£1bn; gearing 37%
- Syndicated facility voluntarily reduced ahead of schedule from EUR1.2 billion to EUR1.0 billion at end December 2003
- S&P credit watch / negative outlook removed

## **OUTLOOK**

- Disposal of non-core assets and surplus property proceeding to plan
- Next stage of refinancing to focus on extending maturity profile

## Financial summary

- Turnover up 11% driven by higher sales volume and selling prices
- Pre-exceptional operating loss reduced by £327m to £66m
- Higher turnover, together with improvements in manufacturing performance and cost efficiency, more than offset rise in input prices
- Exceptional items of £142m include UK restructuring and asset impairment
- Net debt reduced to £1bn and gearing down to 37%
- Disposal programme remains on course
- The next stage of refinancing is aimed at extending the maturity of the Group's debt profile

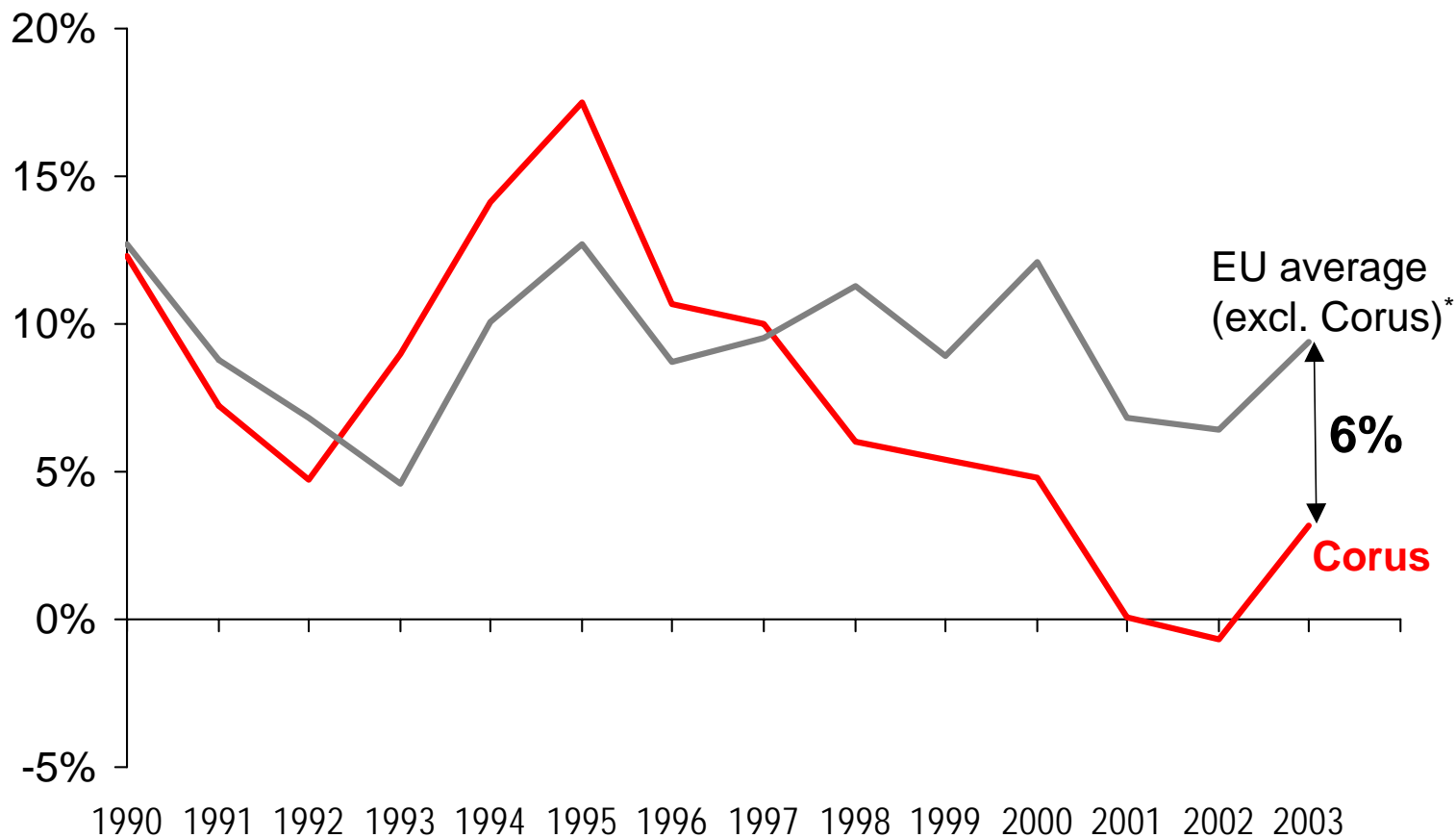
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# Philippe Varin

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# The competitive gap

EBITDA on sales

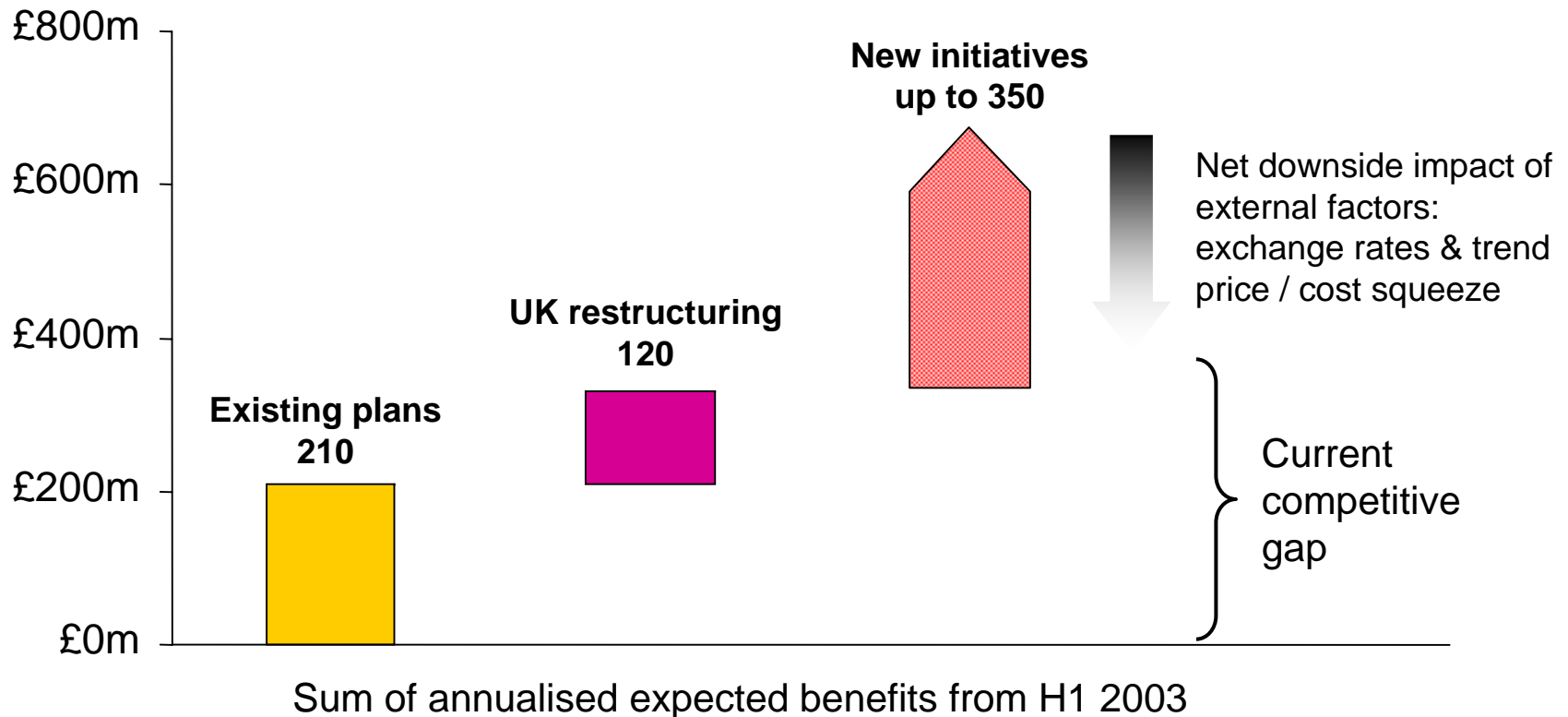


\*EU average consists of Arcelor, Salzgitter, ThyssenKrupp Steel, Voestalpine, Rautaruukki and SSAB

Pre-October 1999 figures based on Pro-forma average of Hoogovens and British Steel

# The route to success

EBITDA impact of restoring success initiatives



Full implementation of all initiatives are designed to close the current competitive gap over the next 3 years

Restoring success

# Existing plans



## Objectives from June 2003

**£210m p.a. EBITDA improvement**

### **Manning programme**

- Target: 1,300 jobs (previously announced, excluding UK restructuring)
- Benefit: £40m p.a by end 2004

### **World Class IJmuiden**

- Performance improvements across the Netherlands carbon flat business
- Target: £50m on 6mt liquid steel by 2004

### **High Performance Strip UK**

- Performance improvement across the UK strip business
- Target: £120m p.a on 5mt HRC by end 2005

## Progress to December 2003

**Savings on track:  
£52m full year EBITDA benefit**

### **Manning programme**

- 350 job reductions
- £12m full year benefit
- Balance by end 2004

### **World Class IJmuiden**

- £12m full year benefit
- Balance in 2004

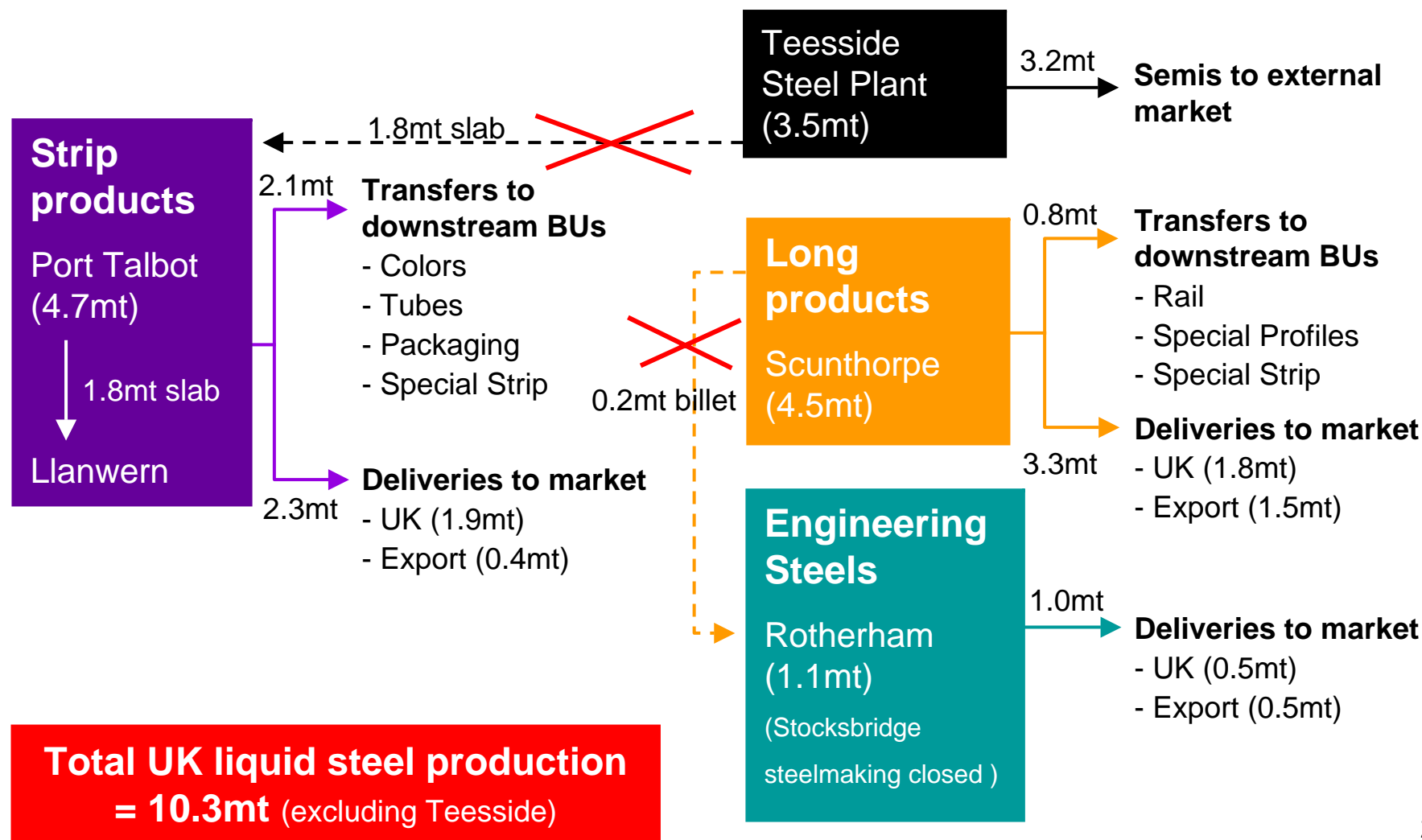
### **High Performance Strip UK**

- £28m full year benefit
- Balance by end 2005

UK restructuring

# Planned UK configuration

Output from major sites



Restoring success

# UK Restructuring



## Objectives from June 2003

### £120m p.a EBITDA improvement

- Steelmaking focused at:
  - Port Talbot for Strip products
  - Scunthorpe for Long products
  - Rotherham for Engineering steels
- Maximum cash costs of £250m

## Progress to December 2003

- **Proceeding in line with plan**
- Launched in Q4 2003
- Approved capital expenditure of £150m over 2004 and 2005
- Implementation / construction underway
- Costs in line with budget
- Initial benefits in 2005

Restoring success

# New initiatives



## Objectives from June 2003

**Up to £350m p.a. EBITDA benefit**

### **Manufacturing & supplies**

- £200m p.a of benefits through manufacturing excellence, purchase savings and supply chain optimisation

### **Support function review:**

- £70m p.a. of savings through support function rationalisation

### **Volume & mix opportunities**

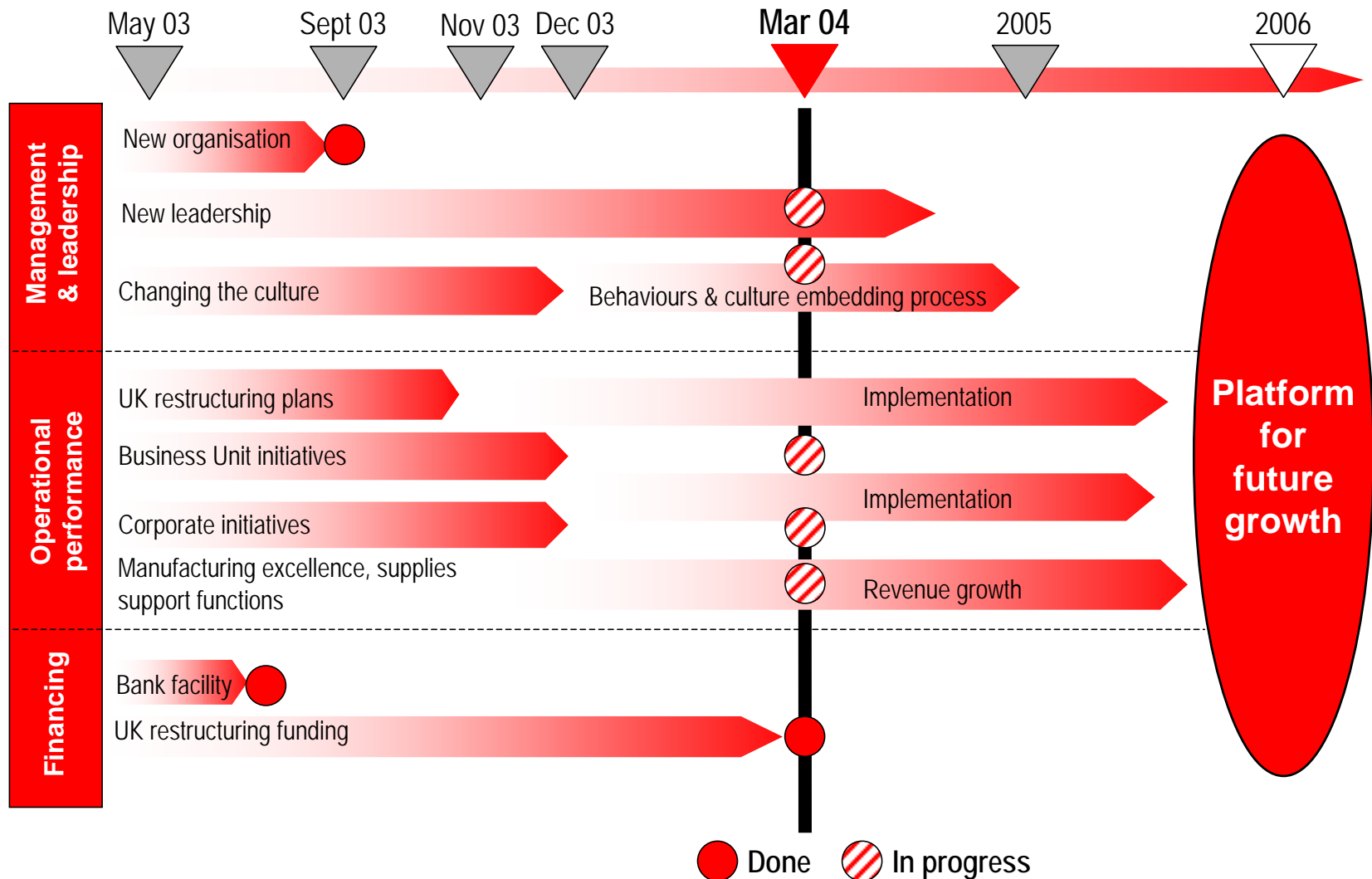
- £80m p.a. improvement through rebalancing customers and product mix towards premium end markets

## Progress to December 2003

**All elements embedded in 3 year plan**

- Capital expenditure increased from Jan '04
- Manufacturing excellence resources to foster exchange and implementation of best practice
- Downstream rationalisation
- Suppliers review completed (roll-out of purchasing initiatives underway – single purchasing hub in UK)
- Review of IT and shared financial services underway
- Specific volume & mix opportunities pursued:
  - Segal: Automotive (HDG line)
  - Koblenz: Aerospace (Aluminium Rolling)

# Path to restoring success



# Key issues

## **Aluminium businesses**

- Currently actively considering all options
- Entering discussions with third parties

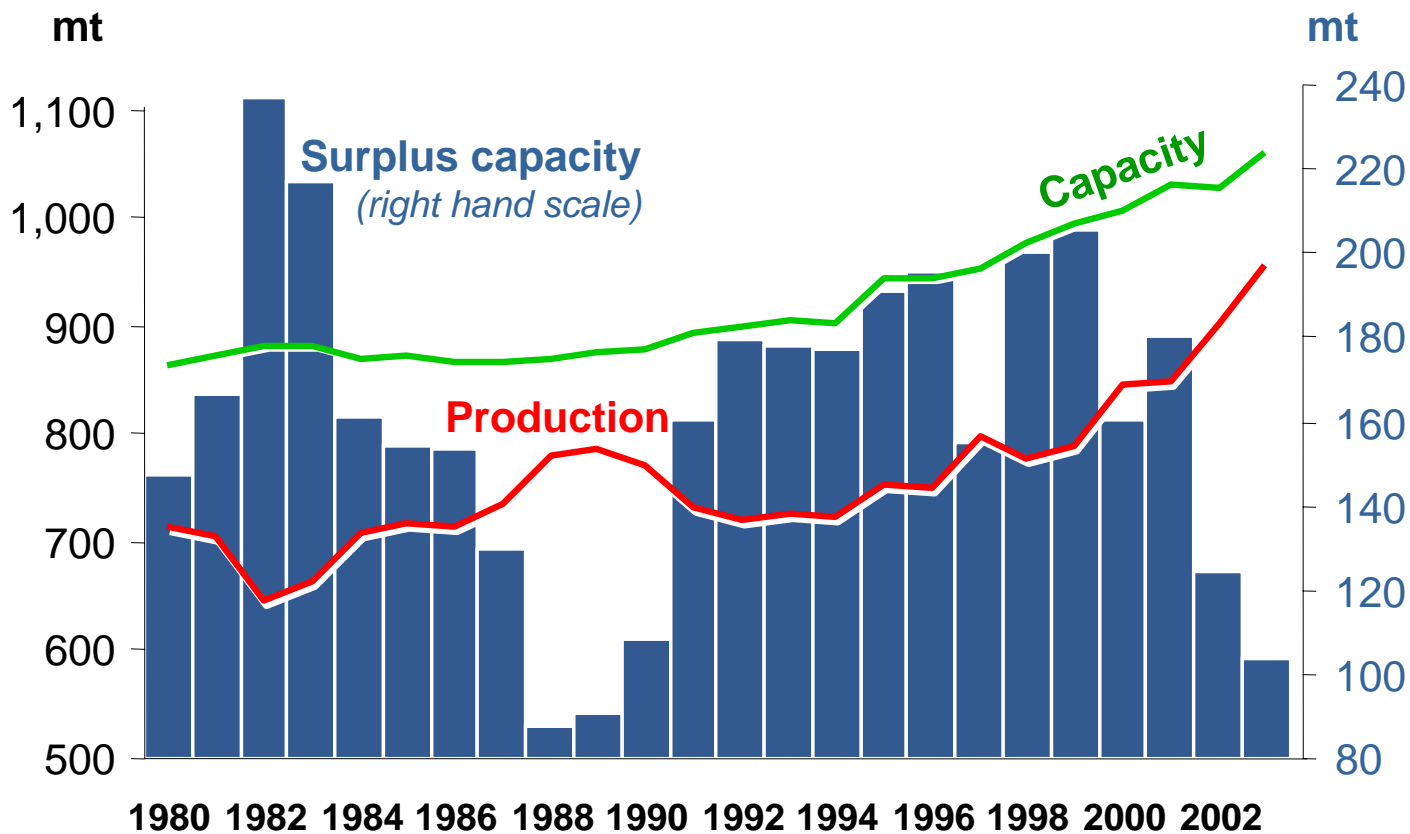
## **Teesside**

- Steelmaking facilities expected to become surplus to internal needs in 2006
- Teesside Cast Products established in Jan '04, with objective to be cash generative slab exporter
- Joint venture opportunities are being explored

**Non core asset disposals proceeding according to plan**

# Market background, outlook and summary

# Market background & outlook



Source: IISI / Corus

# Selling prices and raw materials

## **Significant rise in raw materials and freight input prices**

- Iron ore FOB US\$ prices up 18.6%
- Coal FOB US\$ prices up 20-28% from 1 April
- Coke FOB US\$ prices up 100% since December
- Spot freight rates currently three times early 2003 levels

## **Corus' response**

- Selling prices raised in Q1 by 5-8% and Q2 by 10%
- Extend / renew key supply contracts (e.g. CVRD iron ore)
- Optimise the use of raw materials in steelmaking
- Rationalising order book to eliminate low margin business

## Summary & outlook

- Steel demand is improving
- Selling price increases are offsetting input cost pressure
- Continued benefit from 'Restoring Success' initiatives
- Main risk is raw material prices and supply – closely linked to Chinese demand

**We are on balance confident about the outlook for 2004**

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# Jim Leng

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Conclusions

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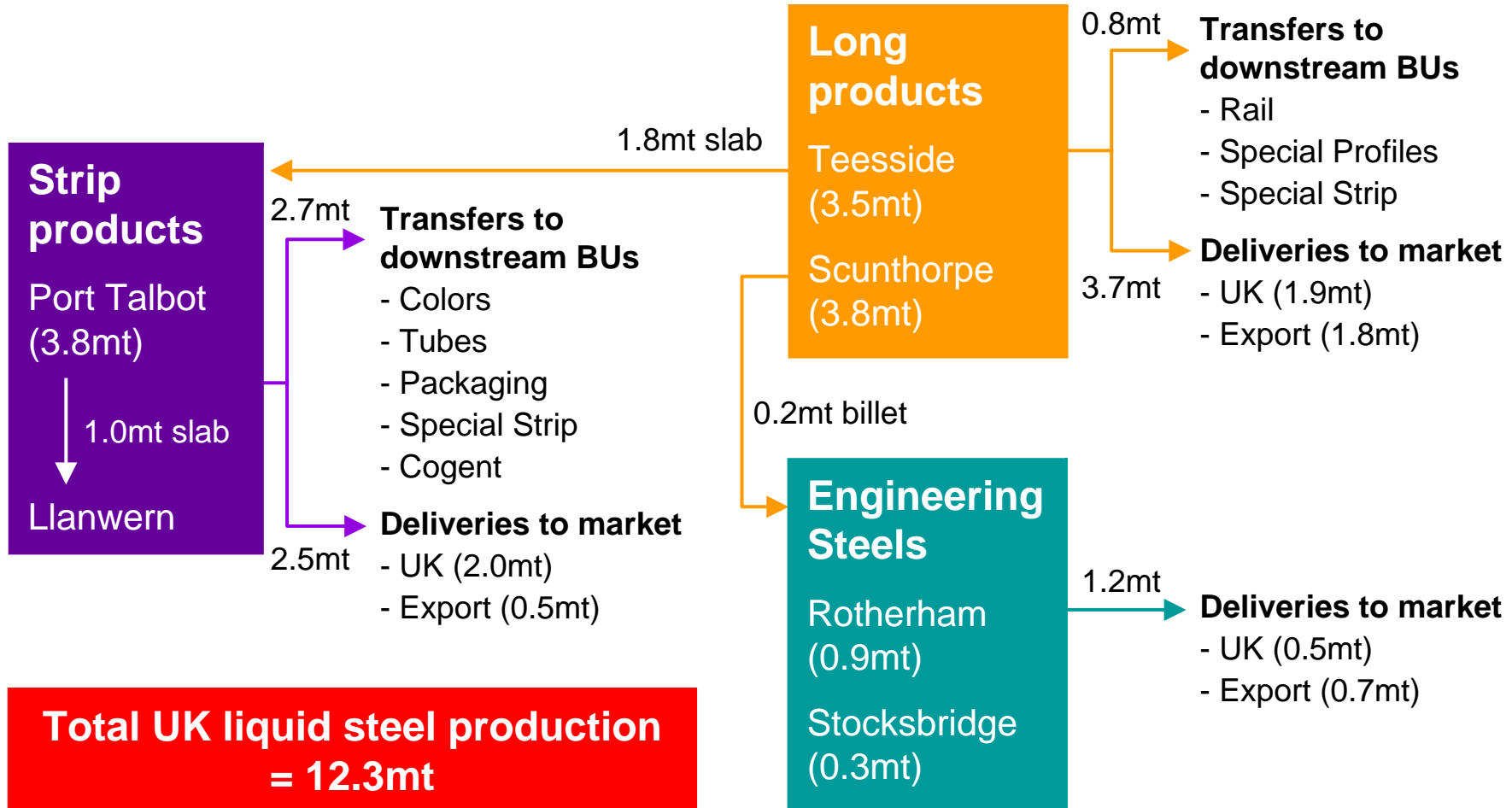
# Appendix

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UK restructuring

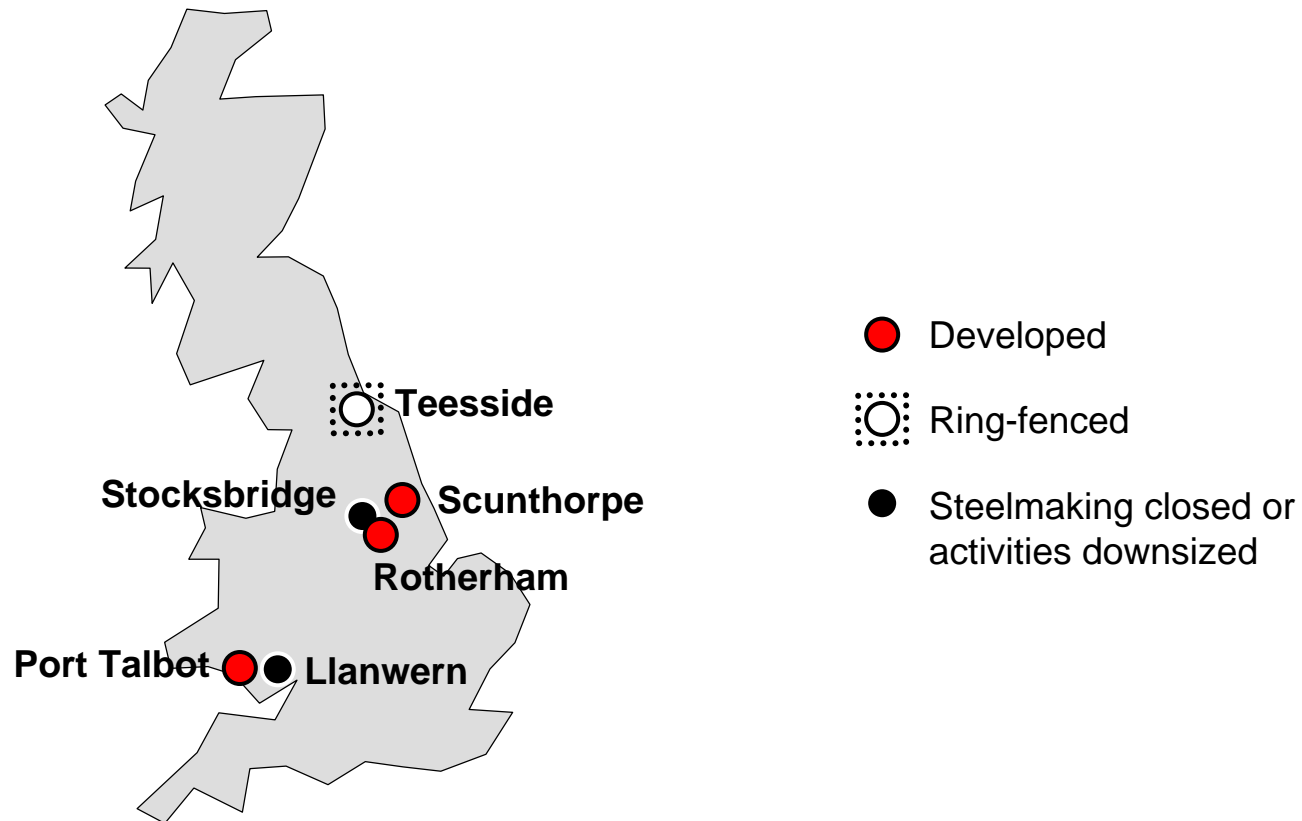
# Current UK configuration

Output from major sites



# UK restructuring

## Relevant sites



# Organisation

## Four Divisions and a Speciality Portfolio

