
Arcelor SA / Corus Group plc merger inquiry**Financial questionnaire**

Corus group history

1. *Please provide a brief history of the Corus group and its predecessor companies (British Steel and Hoogovens) and of the hot rolled steel sheet piling and heavy sections businesses within it, together with a chronology of significant events since 1 January 2000.*

The UK steel industry was nationalised in 1949, substantially denationalised from 1953 onwards and then largely renationalised in 1967, when BSC was formed from fourteen of the major UK steel producing companies. On 5 December 1988, H.M. Government disposed of substantially all of the equity of British Steel in an offering made in the UK, the United States, Canada, Europe and Japan. British Steel's Ordinary shares were traded on the London Stock Exchange and, in the form of American Depositary Shares ("ADSs"), evidenced by American Depositary Receipts ("ADRs"), on the New York Stock Exchange up to and including 5 October 1999.

On 6 October 1999, British Steel merged with Koninklijke Hoogovens to form a new group whose parent company is Corus Group plc. On that date British Steel became a wholly-owned subsidiary of Corus Group plc. On 8 October 1999, British Steel was re-registered as a private company.

The merger was implemented by the acquisition of British Steel by Corus Group plc, the new UK holding company, pursuant to a Scheme of Arrangement of British Steel under section 425 *Companies Act 1985* and a public offer by Corus for the Hoogovens Ordinary shares.

Under the terms of the merger, on 6 October 1999, British Steel shareholders received one Ordinary share in Corus in exchange for each British Steel Ordinary share held and either 35 pence in cash or 35 pence in nominal amount of Corus Floating Rate Unsecured Loan Notes 2006 per existing British Steel share (approximately £694 million in total). Holders of British Steel ADSs received Corus ADSs representing ten Ordinary shares in Corus and \$5.8205 cash for each ADS held. Hoogovens ordinary shareholders received 29.18 Corus Ordinary shares in exchange for each Hoogovens Ordinary share. Upon completion of the merger, the former British Steel shareholders held approximately 65% and the former Hoogovens ordinary shareholders held approximately 35% of the issued Ordinary share capital of Corus. Hoogovens Convertible Bonds, which were convertible into Hoogovens Ordinary shares, became exchangeable for Corus Ordinary shares upon completion of the merger.

Corus was incorporated in the name of BSKH plc in England and Wales on 16 July 1999, and was established for the purpose of the merger. The name was subsequently

changed to Corus Group plc on 28 September 1999, prior to the merger. The corporate headquarters are in London.

From 6 October 1999, Corus Ordinary shares were traded on the London Stock Exchange. They were also traded, in the form of ADSs, evidenced by ADRs, on the New York Stock Exchange.

Prior to October 2003 Corus Group consisted of 20 main business units, focused on specific markets, products and processes. From October 2003 these business units have been structured into four main divisions and a speciality portfolio: Strip Products; Long Products; Aluminium; Distribution and Building Systems and Speciality Portfolio.

At the time of privatisation in 1988, British Steel plc had four section mills that produced beams across the range 127mm to 1016mm and sheet piling. The mills were:

- Teesside Beam Mill (“**TBM**”);
- Scunthorpe Medium Section Mill (“**MSM**”);
- Scunthorpe Heavy Section Mill (“**HSM**”); and
- Shelton Medium Section Mill (Stoke on Trent).

Date	Event
1992	Major development of TBM – new mill stands.
1994	HSM development to roll wide piling.
1997	HSM development to switch from ingot to continuously cast feedstock and to secure finishing end manpower savings. Finishing end development at TBM, including new hot saws.
1999	Shelton mill activity reduced from 15 to 10 shifts/week.
2000	Shelton mill closed, following earlier reductions in shift activity. Mill had previously been strongly focused on European export markets but could not compete because of exchange rates and transport costs.
2003	HSM reduced from 20 to 15 shifts/week operation to limit volume of loss making export sales (see Annex 1). Investment at MSM to install ex-Shelton straightening machine, enabling MSM and TBM to roll full range of sections. Announced in November that HSM would reduce to 10 shifts/week production and focus on sheet piling production (See Annex 2).
2004	HSM closure announced in April following decision to exit sheet piling and sell business to Arcelor who did not require the mill.

2. *Please provide details of all significant acquisitions and disposals by the Corus group and its predecessor companies since 1 January 2000. Please also provide details of any negotiations with other steelmakers concerning potential acquisitions, disposals or strategic alliances.*

It was agreed with the Commission (letter of 6 October 2004) that it was not necessary to provide the details requested in the second part of this question except insofar as relevant to sheet piling. A full account of such negotiations is given in response to question 6. An account of whether the transaction formed part of a wider set of arrangements is provided in response to question 10.

2000

A controlling interest of 60% was acquired in January 2000 in Reycon Inc., a Canadian aluminium rolling operation, in agreement with Reynolds Metals Company and SGF Mineral Inc. for £43 million.

On 16 August 2000, European Electrical Steels, the 75%-owned subsidiary, acquired the largest laminator of electrical steels in Europe, Kienle & Spiess GmbH, for £61 million.

In 2000 Corus also reached agreement with the French manufacturer of switches and crossings, Cogifer Cie Generale d'Installations Ferroviaires SA, to create an equally owned UK-based joint venture, Corus Cogifer Limited.

In September 2000, Corus announced the creation of AvestaPolarit to be formed by the merger of Corus subsidiary, Avesta Sheffield, with the stainless steel activities of Finnish producer, Outokumpu. AvestaPolarit at that time was the world's second largest stainless steel producer and Corus had a holding of 23%. With effect from 22 January 2001, Avesta Sheffield ceased to be a subsidiary of Corus and, from the same date, AvestaPolarit became an associated undertaking. Pursuant to a share purchase agreement dated 30 June 2002 between Corus UK, Corus and Outokumpu Oyj, Corus UK sold its entire 23% stake in AvestaPolarit Oyj Abp to Outokumpu Oyj for €6.55 in cash per AvestaPolarit Oyj Abp share, equating to approximately €530 million.

2001

On 28 June 2001 the trade and assets of PSW Industries were sold to Tempel Steel for £13 million. In addition, Trico Steel, the Group's 25% owned US joint venture, filed for Chapter 11 protection from creditors on 27 March 2001.

2002

On 28 March 2002, Corus sold its stake in a joint venture company, Galtec NV, to Sidmar for proceeds of £12 million.

On 16 August 2002 Corus announced that it had agreed to sell a 20% interest it had in the Aluminerie Alouette smelter in Canada to Alcan for US\$165 million (approximately £107 million) in cash, with a consideration for working capital on completion. This sale took place in September 2002.

On 21 August 2002, Corus announced the acquisition of Erik Olsson and Söner of Sweden, a profiler of steel sheets for roofing and a supplier of pre-engineered industrial and agricultural buildings, for £9 million.

On 6 November 2002, Corus announced its intention to acquire 100% of the equity of Precoat International plc, one of the leading independent precoated steel service centres in the UK. The recommended cash offer valued the issued share capital of Precoat at approximately £7 million. The offer was declared unconditional as to acceptances on 6 December 2002 and the purchase was completed on 27 December 2002 following acceptance by Precoat's shareholders and regulatory consents.

During 2002, the trade and assets of the Group's 25% US joint venture Trico Steel LLC was sold to Nucor Corporation. Prior to this, Trico had filed for Chapter 11 protection from creditors.

2003

On 17 April 2003 Corus announced that Corus Aluminium Service Centers Inc. in the USA had been sold to Clayton Metals Inc. for a price of US\$8 million (approximately £5 million).

On 19 June 2003 Corus announced that it had completed the purchase of Sollac Méditerranée's (Sollac) 50% share in Lusosider Projectos Siderúrgicos S.A. (Lusosider) for €11 million (approximately £8 million) in cash. Lusosider was a Portuguese 50:50 joint venture between Corus and Sollac, a subsidiary of Arcelor S.A. (Arcelor), producing hot dipped galvanised steel sheet and electrolytic tinsplate. Simultaneously, Corus sold this 50% share to Banco Espírito Santo de Investimento, S.A. (Espírito Santo Investment) of Portugal for the same consideration. Espírito Santo Investment subsequently completed the sale of this 50% share to Companhia Siderúrgica Nacional of Brazil. Corus has retained its original 50% holding. The completion of the purchase from Sollac followed confirmation by the European Commission that this met Arcelor's undertaking to divest its stake in Lusosider.

On 13 October 2003 Corus announced that it had completed the purchase of Arcelor's two-thirds share in Segal SCRL (Segal), a Belgian joint venture (where Corus had previously held only one-third), for €33 million (approximately £23 million) in cash. Simultaneously, Corus completed the sale of a 50% share to Metalinvest, a Dutch investment fund, for €25 million (approximately £18 million) in cash. Segal is a galvanising operation. The completion of the purchase from Arcelor followed confirmation by the European Commission that this met Arcelor's undertaking to divest its stake in Segal.

Corus rationalised its operations in North America through the sale of Corus Metal Profiles, completed on 9 January 2004, and the sale of Corus Coil Products and Corus Metals, completed on 12 March 2004.

On 30 April 2004, Corus completed the sale of its UK hot rolled steel sheet piling sales and technical sales businesses to Arcelor SA.

On 17 July 2004, Corus announced that it had completed the sale of Corus Tuscaloosa, a plate producing mini-mill producer, to Nucor Corporation for a total cash consideration of US\$90 million (approximately £48 million), subject to a working capital adjustment.

3. *Has the Corus group, its predecessor companies, or any of its subsidiaries been the subject of an inquiry by a competition authority (including the ECSC) since 1997? If so, please provide brief details.*

Corus has taken "inquiry" to refer to inquiries undertaken by the UK and EU competition authorities. For mergers, details are provided of Competition Commission and Phase II inquiries. For investigations into agreements, practices or abuses, those that reached Rule 14 or SO stage are described.

Corus' acquisition of 30% of Wuppermann Staal Nederland B.V. in 2000 was considered under the ECSC but raised no competition concerns¹.

Other than the current Competition Commission merger inquiry, the Corus Group, its predecessor companies and its subsidiaries have not been the subject of any inquiry by a competition authority (including the ECSC) which has been initiated since 1 January 1997. The following are matters which began before 1997 and which were concluded after that date.

Alloy surcharges: British Steel's subsidiary, Avesta Sheffield AB (then jointly owned by British Steel plc), received an SO in relation to alloy surcharges for hot rolled and cold rolled stainless steel in 1995. In 1998, it and five other European steel undertakings were found to have infringed Article 65(1) of the ECSC. In Avesta's case, the period was from December 1993 to November 1996.² Avesta was fined €2.81 million, reflecting the fact that it had cooperated extensively with the investigation and received a 40% fine reduction.

Carbon steel tubes: In 1994, the European Commission initiated an investigation under Article 81 into the supply of carbon steel tubes by a number of Japanese and European steel producers. This resulted in two SOs addressed to Corus (then British Steel plc) and others on seamless and welded carbon steel tubes. The investigation of welded carbon steel tubes was dropped, but in 1999 the Commission found that Corus and others had breached Article 81 in respect of seamless carbon steel tubes by participating in an agreement to observe each other's domestic markets.³ Corus was fined €12.6 million. On appeal, the Court of First Instance reduced the finding of the duration of the infringement by one year and reduced Corus' fine to €11.7 million.⁴

Steel beams: An investigation begun in 1991 of British Steel led to a Commission decision in 1994⁵ that Corus (then British Steel plc) and sixteen other European steel undertakings and one of their trade associations had participated in a number of inter-related agreements, decisions and concerted practices designed to fix prices, share

¹ Case COMP/ECSC.1329

² OJ L 100 55 of 01/04/1998

³ Commission decision 2003/382/EC of 8 December 1999 on Case IV/E-1/35.860-B

⁴ Case T-48/00 *Corus v Commission of the European Communities*, 2004/07/08

⁵ Commission Decision 94/215/ECSC of 16 February 1994

markets and exchange confidential information on the market for beams in the Community, in breach of Article 65(1) of the ECSC Treaty. The Commission imposed fines on fourteen of the undertakings for infringements committed between 1 July 1988 and 31 December 1990. Corus was fined €32 million. The CFI annulled part of the Commission decision and reduced British Steel's fine to €20 million.⁶ An appeal by Corus to the Court of Justice was dismissed.⁷

Corus group organization

4. (a) *Please provide a list of all group companies (or other entities) engaged in the manufacture and supply of hot rolled steel sheet piling, their country of incorporation, their shareholding structure showing the extent of their ownership by Corus, a description of all the activities they carry out and a description of any significant transactions they have had with other Corus or Arcelor companies.*

The manufacture and supply of HRSSP was undertaken by Corus Construction and Industrial. This was one of a number of operating business units within the Long Products Division of Corus UK Ltd which is a wholly-owned subsidiary of Corus Group plc.

Corus Construction and Industrial now carries out:

- (i) the manufacture and marketing of sections, plate and rods; and
- (ii) the supply of semi-finished product to external customers and the downstream businesses of rail, special profiles and narrow strip.

Corus Construction and Industrial supplies small quantities of finished product to Arcelor to its distribution network in Europe in the same way that Corus Distribution buys small quantities of finished product from Arcelor.

- (b) *Please also supply a list of any other group companies engaged in the manufacture and supply of heavy sections.*

No other group companies are engaged in the supply of heavy sections.

5. *Please provide details of all shareholders in Corus with a holding of 3 per cent or more.*

As at 11 October 2004 the following shareholders in Corus had a holding of 3% or more:

⁶ Case T-151/94 *British Steel v Commission* [1999] ECR II-629

⁷ Case C-199/99 *Corus UK Ltd v Commission*

Shareholder	Shareholding
Brandes Investment Partners, LP	16.00
Gallagher Holdings Limited (and Alisher Usmanov)	13.39
Legal & General Group plc	3.92
CSFB	3.58
Standard Life Investments Limited	3.14

The merger situation

6. *Please describe the reasons why Corus decided to restructure its hot rolled steel sheet piling business and the range of options that it considered over a period of years, including abortive joint ventures with various parties, outright sale, sale of goodwill and closure. Please include a chronology and explain why the eventual decisions to sell the goodwill to Arcelor and close the hot rolled steel sheet piling facilities at Scunthorpe were decided upon. Please let us have copies of board minutes, committee minutes, supporting documents including board and committee papers, slides of presentations or internal or external studies (including the whole of the McKinsey report (or reports) commissioned by Corus and Arcelor) relating to these two decisions (to the extent not already provided).*

Corus invested a total of £[CONFIDENTIAL] in its sheet piling production facility at the Scunthorpe HSM in two phases of development that were physically completed in 1994 and 1997. The objectives of the investment were to:

- (i) enable the mill to roll a wider range of U (Larsen) and Zed products, in response to emerging customer requirements;
- (ii) facilitate the switch from an ingot feedstock to a continuously cast feedstock, with associated benefits from increased yield and improved surface quality; and
- (iii) secure improvements in processing capacity and operating efficiency at the mill finishing end, including 100 manpower reductions.

Following the developments, a substantial increase in piling sales was achieved, with sales in 1996 reaching 256kt, compared with 118kt in 1992.

Whilst successful in all other respects, the investment failed to enable the mill to roll wide Zed piles to compete with the Arbed (Arcelor) range (see [Annex 3](#)). It was evident that the absence of wide Zeds would put the mill at an increasing disadvantage in mainland Europe where the product was progressively replacing the less efficient U

pile.⁸ Subsequently, this situation has worsened with the issue of new Eurocodes⁹ for piling that favour the Zed design.

A series of alternative ways of addressing the “wide Zed problem” was considered. The chronology of events is as follows :

- (i) In late 1997 and early 1998, work was undertaken to identify what investment was required in the HSM stands to enable the mill to roll wide Zed piles to match the product range offered by Arbed (Arcelor). The capital cost was estimated to be £[CONFIDENTIAL] (see Annex 4), with additional costs for rolls and the prospect of substantial disruption costs. Following internal review, this option was discounted on the basis of the magnitude of the investment required, and attention was switched to alternative options.
- (ii) In mid 1998, having discounted investment in HSM stands, a proposal was developed to produce wide Zed piles by laser welding hot rolled interlocks to cold formed cut to length coil (the Neptune project). Over a period of approaching three years, the design was patented and some piles were produced on a test basis. An assessment was made of the cost to develop a production unit [CONFIDENTIAL], the strengths and weaknesses of the solution were explored, and the production cost estimated. Many of the issues relating to the viability of the process were addressed over the period to March 2001 but there remained concern from senior management that [CONFIDENTIAL].

In view of these concerns, the decision was taken to suspend the Neptune project. Corus has retained the patent.

- (iii) From late 1998, in parallel with much of the work on the Neptune project, British Steel was in discussions with the Polish Government regarding the possible purchase of the state owned Huta Katowice SA (“HK”) integrated iron and steelworks. Following due diligence in early 2000, it was decided to [CONFIDENTIAL] but in October 2000 Corus eventually decided not to proceed. The main interest in acquiring the HK mills was associated with sections and rails.
- (iv) During the first half of 2000, concurrent with the ongoing HK evaluation, discussions took place with Arbed (Arcelor) regarding a possible joint venture on piling. These discussions focused on a deal in which British Steel would have a minority stake but were not progressed beyond an exploratory stage because of its potential impact on the Polish venture. Whilst these discussions

⁸ Zed piles were already the established product in North America where Corus’ narrow (Frodingham) zed pile had minimal sales volume.

⁹ Eurocode 3, part 5. Discussed through 2002 and published in April 2003.

were taking place, Salzgitter acquired the HSP Union Mill in Dortmund from Thyssen Krupp and announced its decision to invest to produce wide Zed piles.

- (v) In 2001, having failed to reach a successful outcome on any of the options that had been explored, an updated assessment was made of the mill stand solution previously identified for wide zed production at the HSM. This identified an alternative approach, based on modifications to existing stands plus one new stand. Whilst it was estimated that the capital cost of this alternative could be up to £[CONFIDENTIAL] than the 1998 figure, it was evident that the case for investment was severely weakened by Salzgitter's move to roll wide zed piling in the HSP Union Mill. It was estimated that Salzgitter and Arbed (Arcelor) would have a combined piling capacity of approaching 1mt/year, over 50% more than European demand. With a home (UK) market of only around 70kt/year, and with a reducing sections load on the HSM, it was concluded that it would not be possible to achieve an adequate return despite the reduced level of investment. Annex 6 is a February 2003 update to an earlier presentation that summarises the technical assessment of the HSM "wide piling problem" and refers to the updated cost estimate.
- (vi) [CONFIDENTIAL].
- (vii) [CONFIDENTIAL].
- (viii) Later in October 2002, following on from the Daylight¹⁰ presentation to the Executive, Corus initiated a further series of discussions between Corus and Arcelor regarding a possible piling JV. Over the following nine months, JV options similar to those identified three years earlier were considered but limited progress was made. Following management changes, Corus decided to suspend discussions and take stock of its options.
- (ix) During 2003, further consideration was given to the cost of developing the TBM to roll wide piling as an alternative to exiting piling production.¹¹ Although it became evident that [CONFIDENTIAL], initial evaluations indicated that, [CONFIDENTIAL]. On the basis of these assessments, [CONFIDENTIAL] (see Annex 9). After adding the cost of rolls and other associated costs, it was evident that the total investment would be c.£[CONFIDENTIAL] and that, after taking into account the two year development programme and the need to retain the HSM over this period, the development would not give an adequate

¹⁰ Daylight was the codename given to the Corus (UK) Restructuring project.

¹¹ Outline engineering work on this option had been completed in 1989 as part of the assessment of TBM development options but costs were estimated to be very high (see Annex 8). Any switch of piling production to the TBM would also have reduced production capacity in the biggest sizes and left the HSM under-loaded.

financial return (indicative post tax DCF yield of 13%, payback 12 years). There were, in addition, concerns that [CONFIDENTIAL].

- (x) In the second half of 2003, having dismissed the mill investment options, technical design work was undertaken on an alternative design of wide zed pile for the HSM involving the use of ball and socket joints¹² instead of “conventional” interlocks. It was thought possible that this type of joint might enable the wide zed pile to be rolled successfully in the existing HSM stands. Five trials were undertaken between November 2003 and March 2004 but no saleable product was made. In parallel, there was a commercial assessment of the impact of the development on order mix based on Annual Plan 2004 assumptions. This indicated that, even if it proved possible to roll the product successfully and gain market acceptance, the piling business would not be profitable on trend 2006 conditions (see [Annex 10](#)). There also remained serious reservations that European customers would not be prepared to switch to a new interlock design or that, at best, the switch would only happen over an extended period of time.
- (xi) In November 2003, there was a discussion between the CEO’s of Arcelor and Corus at which it was decided there should be an exercise conducted by McKinsey to establish the potential benefits from a venture on piling. [CONFIDENTIAL].
- (xii) [CONFIDENTIAL].

7. *Please describe how the terms of the deal with Arcelor were reached, how the price was determined and how the sale to Arcelor interacted with the decision to close the hot rolled steel sheet piling production plant at Scunthorpe. Please include a chronology showing key events and dates in this process. Why was the date for closure of the plant brought forward from October to July?*

Following on from the McKinsey exercise, there were several discussions between Corus and Arcelor regarding the possibility of establishing some form of joint venture on piling.

Those discussions and internal analysis indicated that Corus would have been restricted to a relatively small minority shareholding in any venture. Corus did not favour such a position.

Arcelor then proposed to Corus that it purchase the UK hot rolled steel sheet piling business. It emphasised that it had no interest in the mill assets and that it did not wish

¹² The ball and socket joint is the type rolled by North American mills. European suppliers to the North American market supply “conventional” interlocks as used throughout the rest of the world.

to acquire any Corus activities that were concerned with the marketing of piling in mainland Europe, North America or Rest of World.

It was established that, in any such deal, Corus would satisfy orders that it had accepted prior to completion but take on no new orders following announcement. It was evident that Arcelor regarded such an arrangement and a fast transition as important, presumably in the interests of utilising spare capacity on its piling mill. On the same basis, the transfer of the marketing and technical teams over a short timescale was seen by Arcelor as being important in avoiding customer uncertainty and affording it the best prospect of picking up Corus direct route customers.

From Corus' perspective, the arrangements were seen as helpful in terms of continuity of customer service and support. They also afforded Corus the opportunity to move quickly to close the mill and avoid the risk that fixed costs would be incurred over a long period as activity levels reduced.¹³ Corus was also experiencing problems with raw material supply because of the world shortages resulting from high demand levels from China. Early closure of the HSM would relieve that pressure and enable other outlets to receive their planned allocation of steel.

To support the proposed timescale of announcement on 27 April and completion in the same week, it was recognised that provision would have to be made for Arcelor to purchase piling from Corus to meet any short term requirements that it could not satisfy from its own facility. There would also need to be a similar arrangement for Corus to purchase piling from Arcelor to satisfy the balance of any orders that it could not meet from the HSM prior to its closure. In the event, there has been minimal use of these agreements.

[CONFIDENTIAL].

[CONFIDENTIAL]. Earlier closure was judged to afford a further opportunity to Corus rather than a penalty on the basis that there were forecast to be more profitable outlets for the finite volume of steel available [CONFIDENTIAL]. Corus therefore approached the price negotiation on the basis of its perception of the value of the business to Arcelor. It was concluded from an internal assessment that it could be worth some £[CONFIDENTIAL] / year EBITDA, equivalent to £[CONFIDENTIAL] on the basis of five year earnings (see Annex 13). This assessment was used as a reference by the Corus team, headed by the Long Products Division Director, in negotiating the agreed price.

The division of the sale of the business into two elements was at the request of Corus. [CONFIDENTIAL].

¹³ There was the prospect that there would be a three month consultation period followed by three months' notice, giving a six month timescale between announcement and closure. [CONFIDENTIAL]. In the event, this was achieved in three months.

8. *Please explain the financial rationale behind the two decisions. Please let us have two copies of any internal or external documents, including DCF analyses and other financial appraisals, justifying the economic case for the sale and closure by comparison with alternative courses of action.*

Previous assessments of the hot rolled steel sheet piling business had established that it would lose money from 2003 onwards as piling sales volume declined; sections were transferred to lower cost mills; and piling prices were discounted to compete with the superior Zed range offered by Arcelor and Salzgitter. The most recent financial forecast was provided as 3(ii) in the papers provided on 6 October to the Competition Commission and confirms the earlier assessments.

The following analysis was completed in July 2003. It sets out projected 2005 EBITDA returns for sections and piling for 15 shift and 10 shift operations at the HSM, for closure (with sections production at the TBM and MSM, and no piling production), and for two alternative investment options (TBM and HSM wide Zed piling).

[CONFIDENTIAL]

Source: Corus, July 2003

Comparison of EBITDAs indicates that closure was projected to be some £[CONFIDENTIAL], and £[CONFIDENTIAL]. It also illustrates that HSM wide piling development was only marginally better (£0.1 million) than closure, confirming there was no case for HSM investment. However, for 2005 conditions, the TBM development offered a £[CONFIDENTIAL]. The eventual cost of the TBM investment was estimated to be £[CONFIDENTIAL] (see question 6 of this response) plus c.£4 million for rolls and other one-off revenue costs, giving a post tax DCF yield of c.13% and payback of 12 years.¹⁴ On this basis, closure was favoured over all of the alternative options to retain piling. Clearly, realising £[CONFIDENTIAL] for the sale of the business over and above the cost benefits from closure represented an attractive outcome.

The factors favouring early closure are covered in question 7 of this response.

9. *In particular please explain what investment would have been needed in order to have provided the hot rolled steel sheet piling business with a viable future and provide us with a financial projection assuming this course of action had been pursued. Please state clearly your key assumptions such as demand, capacity utilisation, selling price, the life expectancy of the new plant and the effect on steel requirements and the production of other products.*

¹⁴ After allowing for a two year period to develop the mill and complete proving trials of each piling section (see [Annex 14](#)).

The alternative options to develop the hot rolled steel sheet piling business are outlined in response to question 6 of this questionnaire. The financial evaluation of some of the options appears in response to question 8.

10. *Please describe any other transactions that were discussed with Arcelor at about the same time. Is it or was it Corus' intention that the disposal and closure should form part of a wider transaction or be one of a series of transactions and if so what the overall results and purpose of these transactions would be.*

In November 2003, the CEO's of Arcelor and Corus agreed to a McKinsey exercise to establish the extent to which synergy benefits might exist in [CONFIDENTIAL]. The remit is included as Annex 15.

During January 2004, a draft report was issued setting out the results of the exercise. The results from the piling study were accepted and formed the basis for subsequent discussions and the eventual sale of Corus' UK hot rolled steel sheet piling business. The results from the [CONFIDENTIAL] and it was agreed that McKinsey should undertake follow up work to examine this area. A further draft report was produced in February 2004 and is included as Annex 16.

Initially, there was debate between Arcelor and Corus regarding the possibility of establishing joint ventures [CONFIDENTIAL]. However, following internal discussion and legal advice it was decided to consider only direct acquisitions: [CONFIDENTIAL] (see Annex 17).

11. *Please describe what would have been Corus' future strategy in its hot rolled steel sheet piling business if the merger had not proceeded. Please indicate what time frame you consider to be relevant to your answer and the reasons for your answer.*

The answer to this question has already been dealt with in response to several other questions (see questions 6 and 7 of this submission and the information sent to the Competition Commission on 6 October in response to question 4 of the letter of 20 September 2004).

[CONFIDENTIAL].

12. *Please describe the actions of Corus after the sale to Arcelor to date to effect the handover of the business acquired, to fulfil existing contracts and to dismantle, sell or dispose of the Scunthorpe heavy section mill and any other plant. Please describe Corus's alternative uses for the blooms that would have been supplied to the Scunthorpe heavy section mill and how this fits into your wider strategy for long products and for steelmaking at Scunthorpe and Teesside.*

On announcement of the sale (27 April 2004) Corus informed its customers it would not accept any new orders for HRSSP after 30 April 2004. A letter (see Annex 18) was sent to customers informing them of Corus' decision and indicating that Arcelor would be getting in contact directly. The employees transferred on 30 April. From the 4 May (3 May was a Bank Holiday) the employees transferred to Arcelor were free to contact their

old customers to solicit business on behalf of their new employer. From 4 May to July 6 2004 Corus continued to manufacture its remaining order book. After this the mill was closed and employees redeployed or made redundant except for a small number needed to despatch material which customers had had to order prior to their on site required date. In the event that a customer was unable to specify his precise requirements to allow Corus to manufacture, but where Corus was still contracted to supply, provision was made in the sale agreement for Corus to buy from Arcelor. There was only one occasion when this was necessary and this was for a German customer.

An inventory of the HSM equipment has been compiled to see if any can be utilised elsewhere in Corus before a decision is taken on disposal options.

Corus's alternative uses for the blooms that would have been supplied to the HSM is covered in the response to question 4 of the market questionnaire.

13. *Please explain whether it is, would or could be the intention of Corus to re-enter production of hot rolled steel sheet piling. If so please describe under what circumstances, how and why. What would be required to adapt the heavy section mill at Teesside (or any other suitable Corus mill) to produce these products? Roughly how much would it cost and what would be the approximate financial implications after allowing for any other production displaced?*

It is not Corus' intention to re enter production of HRSSP. It is, in any event, prevented from doing so for two years from completion under its sales agreements with Arcelor. Requirements to equip the TBM for the purpose are described in the answer to question 6 of the financial questionnaire.

Corus retains a patent for a cold formed piling product manufactured from plate with a welded interlock (see response to question 6 of the financial questionnaire).

Financial performance and projections

14. *Please provide two copies of the statutory accounts for the companies listed in response to question 4 for the two most recent financial years (to the extent not already provided).*

Corus Construction and Industrial is a division of Corus UK Ltd and as such does not have separate accounts. Accounts for Corus UK Ltd and Corus Group plc are attached at Annex 19.

15. *Please provide a copy of the management accounts of the business unit that contained your hot rolled steel sheet piling business (reconciled to the statutory accounts) for the two most recent financial year ends. These should include profit and loss account, balance sheet and cash flow statements and comprise the reports produced for the board and senior management at the end of the years in question, which enable management to monitor and assess the performance of the hot rolled steel sheet piling business.*

We would expect the accounts to show the business performance in terms of sales volume and sales value, operating profit (EBITDA), profit before tax and the key

performance indicators used by management and to enable us to analyse information (as appropriate) by:

- (i) different types of activity;*
- (ii) different types of customer; and*
- (iii) different geographical areas.*

The HRSSP business formed part of the Construction & Industrial Business Unit and this is the lowest level for which management accounts are available. A reconciliation showing the movement of profit and loss for the two most recent financial years between the business unit management accounts and the feed into the company statutory accounts follows.

[ALL FIGURES DELETED AS CONFIDENTIAL]

The management accounts at Annex 20 show a cut of profitability within Construction & Industrial by product line within which HRSSP is identifiable. The profit shown as attributable to HRSSP in the management accounts differs marginally from that identified in the fuller analysis provided in the response to Q 3 (ii) submitted on 6 October 2004. This arises from differing methods of cascading upstream and allocated costs.

Data in £ million	Submission 6 October 2004	Management accounts
2002 profit / (loss)	[.]	[.]
2003 profit / (loss)	[.]	[.]

[ALL FIGURES DELETED AS CONFIDENTIAL]

16. *Please provide a copy of the latest monthly management accounts (i.e. for the current financial year) for the same entity on the same basis to date (or up to closure).*

Attached at Annex 21.

17. *Please analyse any significant intra group transactions (for example management charges, transfer prices or charges for goods and services) within the accounts of the hot rolled steel sheet piling business unit indicating their nature, amount and basis. Please explain the impact of such transactions on the financial results of the unit and the extent to which they are subjective. In the case of internal transfer prices, are the same prices charged universally, are market prices available for the intermediate products concerned and how do these compare? If they are based on production costs, please provide a breakdown between depreciation, fixed operating costs and variable operating costs.*

The HRSSP business steel feedstock was manufactured within the Construction & Industrial Business Unit. All transactions between processes within Construction and Industrial are carried out at the standard cost for the year. The tables accompanying the response to the question 21 of the market questionnaire show the breakdown of the through cost of piling production.

The HRSSP business transferred a small volume of finished product to Construction & Industrial's Hydrobarrier operation (2003 : [CONFIDENTIAL] tonnes ([CONFIDENTIAL]% of sales) and 2004 : [CONFIDENTIAL] tonnes ([CONFIDENTIAL]% of sales)). This volume was transferred at the standard manufactured cost for the year.

18. *Could any steps have been taken to improve the profitability of Corus' hot rolled steel sheet piling business, such as eliminating export sales and/or increasing the quantity of other section mill products rolled on the Scunthorpe heavy section mill? Please analyse the effect of any such strategies and explain why they were not adopted?*

Steps were taken to reduce the foreseen losses of the HRSSP business. Firstly a reduction in shifts to reduce effective capacity and then to eliminate the heavily loss making manufacture of sections on HSM. Relative to Corus' other two mills, the HSM had a higher cost structure so that displaced section sales were financially better on these other mills. Export piling sales were necessary to give an economic volume for the HSM but the UK market size was such that it could only provide about a third of a ten shift load. Dropping a further shift to five per week would have dropped output to a level where the overheads would have driven the manufacturing cost to an even higher level bringing a closure decision even closer and reducing our capability to give the market the service it had come to expect. [CONFIDENTIAL].

19. *What did Corus management consider to be the key performance indicators for its hot rolled steel sheet piling business? Please provide information showing performance against these indicators for the past three years.*

There were two types of KPI – commercial and manufacturing:

- (i) Piling Commercial KPI's started to be reported from April 2003 onwards on a weekly basis, as follows:
- orders and bookings;
 - deliveries and performance; and
 - market share.

Please see examples in [Annex 22](#).

- (ii) Manufacturing KPI's were reported as follows:
- availability;

- yield;
- speed of work; and
- spending.

Please see examples dating back to 2000 in [Annex 23](#).

20. *How did Corus benchmark or measure the efficiency of its hot rolled steel sheet piling operations?*

Corus benchmarked the HSM firstly against its own mills where it had a significantly higher conversion cost than the MSM and TBM. Secondly, a model was developed of the cost structure of competing sheet piling mills notably Arcelor's Esch Belval mill and HSP (Salzgitter) Dortmund mill. Inputs were gleaned from trade and technical press, national statistics, website information, Corus' knowledge of their operations etc. to build up the picture.

Corus was also able to benchmark its product range against the wider profiles its competitors could offer. It was found that on the basis of cost per unit of modulus and on installation cost we had to discount our prices per tonne on the continent by up to 15% to compensate for the technical inefficiency of our range.

21. *Using information from the relevant accounts, please calculate your profit margin on hot rolled steel sheet piling (divided between different product segments and different markets as appropriate) for each of the last three years and the current year to date (or up to closure). Please show your workings. Please comment on any changes or trends in margins over time and on how these compare with other heavy section mill products.*

Profit and Loss data for HRSSP covering the last three years and the current year was provided in submission dated 6 October 2004 as a response to question 3 (ii).

The profit margin against standard cost for each of the years 2002, 2003 and 2004 to date for all both HRSSP and HSM products are shown in the attached management accounts.

22. *Please provide details of any subsidies, grants or other forms of aid received by Corus and affecting the hot rolled steel sheet piling business in the last three financial years and the current year to date (or up to closure).*

The Corus UK Limited HRSSP business was not in receipt of subsidies, grants or other forms of aid.

23. *Please provide summary details of the capital expenditure undertaken by Corus on its hot rolled steel sheet piling business in the last ten years, identifying the nature of the major items involved.*

A table showing the capital investments in the HRSSP business over the last 10 years is attached at [Annex 24](#). The track identifies both the year commissioned and the total

cost of individual investments. The actual phasing of capital spend may therefore not precisely match the years.

The total investment over the 10 years is £[CONFIDENTIAL] million. In recent years, total capital investment in Construction & Industrial was [CONFIDENTIAL] (management accounts show £[CONFIDENTIAL] million 2002, £[CONFIDENTIAL] million 2003).

ARCELOR SA / CORUS GROUP PLC

**RESPONSE TO THE
FINANCIAL QUESTIONNAIRE
DATED 29 SEPTEMBER 2004**

SLAUGHTER AND MAY
One Bunhill Row
London EC1Y 8YY

WJS/TAM

18 October 2004

Arcelor SA / Corus Group plc merger inquiry**Financial questionnaire – list of annexes**

1. HSM reduced from 20 to 15 shifts per week operation to limit volume of loss making export sales.
2. Announced in November that HSM would reduce to 10 shifts/week production and focus on sheet piling production.
3. "HSM – wide piling development" status report by works manager.
4. Strategy for sections and sheet piling discussion paper (November 1997, Dr T J Pike) and manufacturing strategy slides (December 1997).
5. Presentation pack covering fabricated piling (18 February 2003 slides covering earlier work).
6. Slide presentation on wide Zed piling at HSM (updated version dated 20 February 2003 of earlier presentation).
7. Summary of annual sales figures from 1990 to 2002.
8. TBM piling options (April 2003).
9. Note from A Metcalfe on TBM piling option (15 May 2003).
10. Sales of ball and socket (kt).
11. McKinsey report dated 22 January 2004.
12. Estimate of cost to roll wide piling at Scunthorpe Bloom and Billet mill.
13. Extract showing piling valuation from 4 March 2004 spreadsheet.
14. TBM wide Zed piling development timetable.
15. McKinsey "Providing a neutral view on the strategic rational and synergies of cooperation between Artemis and Cupid".
16. McKinsey report dated 25 February 2004.
17. Letter from Philippe Varin to Guy Dollé dated 23 April 2004.
18. Letter of 27 April 2004 sent to customers informing them of the sale.

19. Accounts for Corus UK Ltd and Corus Group plc.
20. Construction and Industrial Management Accounts - extract from BU management accounts for y/e December 2002 and y/e December 2003.
21. Construction and Industrial Management Accounts - extract from BU management accounts.
22. Examples of commercial KPIs from April 2003.
23. Examples of manufacturing KPIs from 2000.
24. Table showing the capital investments in the HRSSP business over the last 10 years.