

Our Ref:Surcharge_oct08



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Dear Customer

We are all aware of the dramatic changes in global energy markets within the last 12 months. Prices for any form of energy; oil, gas, electricity, coal have risen dramatically and beyond expectations. Analysts also talk about increased volatility in the future given growth of emerging market demand for energy and geo-political factors.

Steelmaking is an energy intensive process, and is impacted significantly by these changes in the energy market. In order to reflect these changed market circumstances and future volatility transparently Corus will be introducing an Energy Surcharge for orders acknowledged for delivery from 1st October 2008 onwards.

There is a detailed explanation of the system attached, which in line with other surcharge systems is transparent, auditable and designed to equitably reflect the cost impact.

There are a few key factors that I think are worth bringing to the fore.

- The surcharge is designed to reflect the change in energy costs in steel over the last 12 months, it includes electricity and gas prices on a 2:1 weighted average basis. The total cost of energy in steel remains significantly more than the surcharge.
- The public indices used are European. Energy price changes are not just a UK issue therefore it is appropriate to use publically available European indices.
- The surcharge tiers are designed to reflect the energy impact for a basic product on each of the core process routes. The energy impact for more complex products remains significantly more than the surcharge and this will be discussed on a case-by-case basis.
- The system does look at forward prices for energy, Corus does hedge some energy but this is done as a smoothing activity not a profit-generating tool. As such Corus believes a quarterly surcharge represents an equitable balance of smoothing volatility on energy pricing whilst reflecting true market costs.

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Your usual Corus contact will discuss the application of the surcharges to the business we have with your organisation.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Peter Hogg', with a stylized flourish at the end.

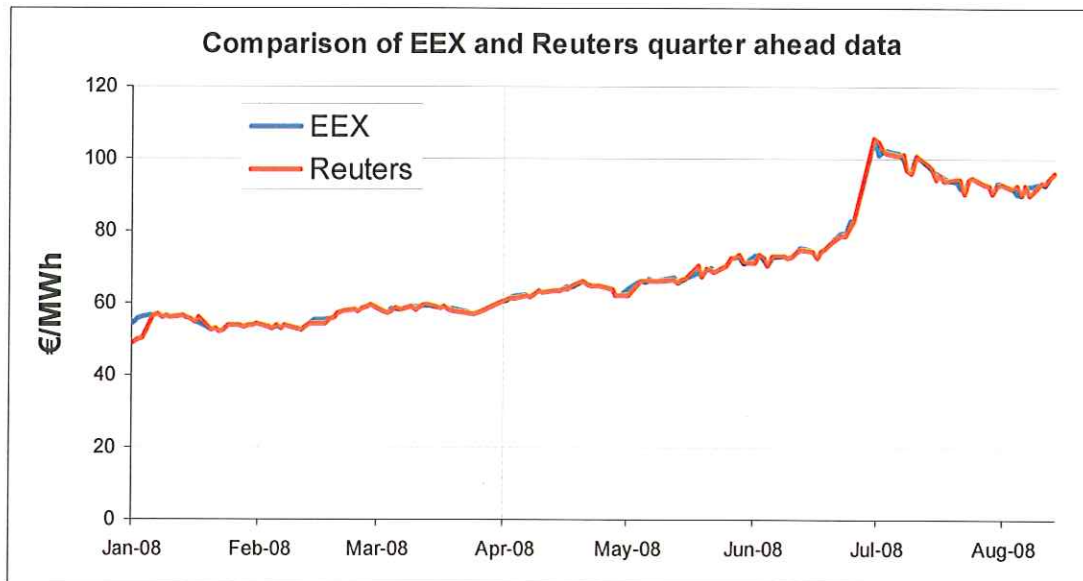
Peter Hogg
Commercial Director
Engineering Steels

Energy surcharge index

The energy surcharge index will be based on the electricity prices quoted on the EEX (European Energy Exchange) for Germany/France equally weight and gas prices quoted at TTF and Zeebrugge gas terminals.

Q4-07 prices will act as the base of the surcharge. The quarter ahead prices will be used to determine the index. A 2 week administration period will be built in to allow for advanced communication of the rates for the coming quarter. (ie 13 weeks worth of data upto but excluding the final weeks in September will be used to calculate the surcharge effective for the October – December quarter). This calculation has been applied to generate a base index of 100 for Q4-07, and future surcharge levels will be calculated from this basis.

Example chart of forward price index.



The indices will be combined by using the gas index with a weight of 1/3 and the electricity index with a weight of 2/3. Representing the typical energy cost split.

This index defines the basic product through each core manufacturing route. Indicative rates are given below but price figures will be issued when all base data is available.

Primary Rolled product (Thrybergh and Aldwarke Primary mill)	-	£69.00/t
Thrybergh Ingot Product	-	£120.98/t
Primary Rolled product (Stocksbridge Primary Mill)	-	£86.26/t
Turned/Ground product (Stocksbridge/Rotherham)	-	£105.16/t