

Leveraging the Unique Perspective of the Finance Function & CFO to add Significant Value

Geoff Plummer, Managing Director & CEO, OneSteel

G100 Congress

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Agenda

- Unique Perspective of the Finance Function
- The Finance Function and OneSteel
- Phases of OneSteel Strategy Development
- OneSteel – Examples of Reform
 - Strategic Capital Allocation Process
 - Strategy-based Performance Reporting
 - Budgetary Process
- OneSteel – Performance Since Listing
- Some Concluding Remarks



The Unique Perspective of the CFO

The OneSteel CFO must view the world differently – a portfolio of businesses & customers

- Responsible for bringing financial discipline
- Must represent the expectations of investors
- Looks across businesses and functions
- Looks across governance and business performance
- Looks across internal business and external stakeholders – banks, investors, auditors, insurers, suppliers

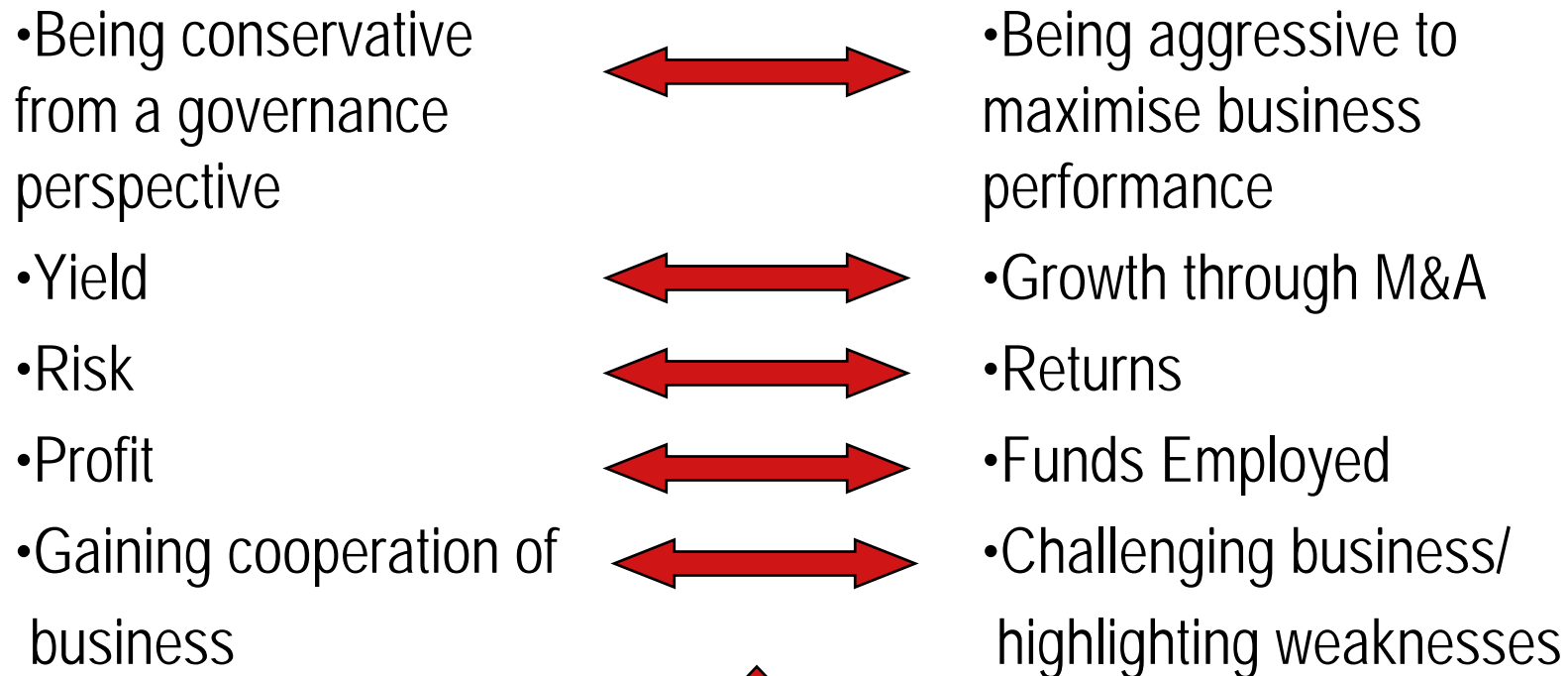
The Unique Perspective of the CFO as a Strategist

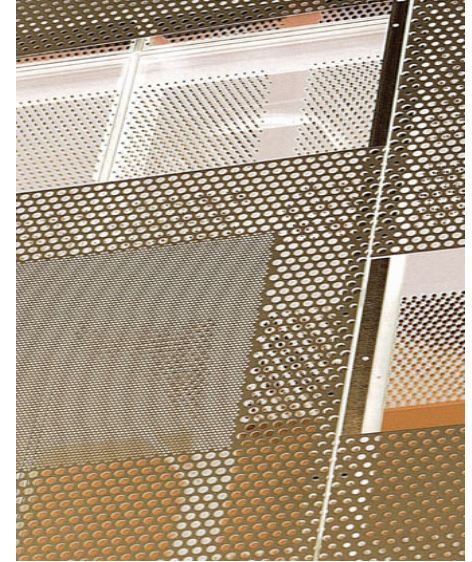
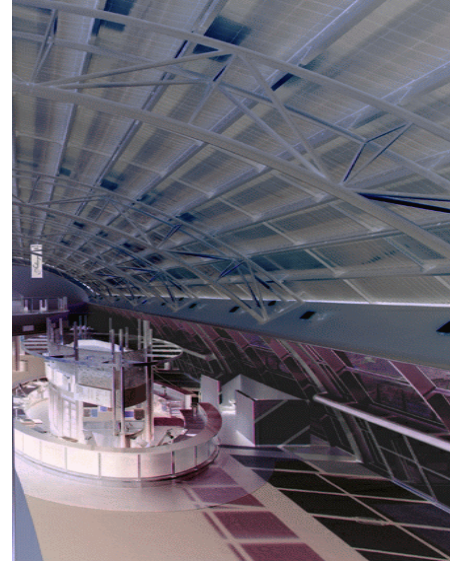
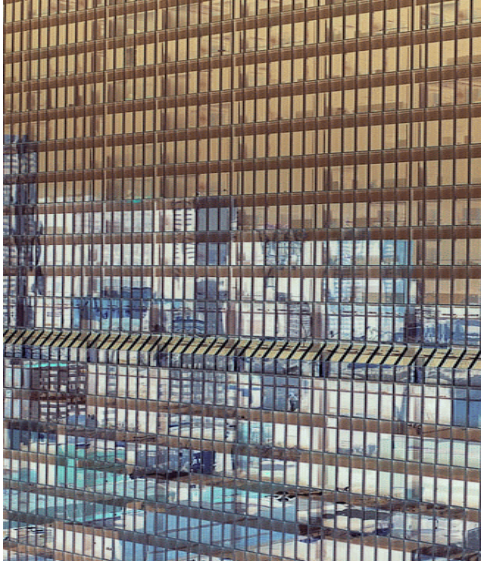
Requirement to filter expansive data and information

- The CFO has to make sense of the infinite amount of data
 - internally-generated
 - externally-provided
- ...And pull out what is important
- The CFO has to develop Data collection and reporting processes that
 - Are efficient and effective
 - Support strategic focus
 - Align the organisation

The Unique Perspective of the CFO as a Strategist

There are inherent trade-offs in fulfilling the role that need to be balanced





OneSteel and the Role of the CFO and Finance Team

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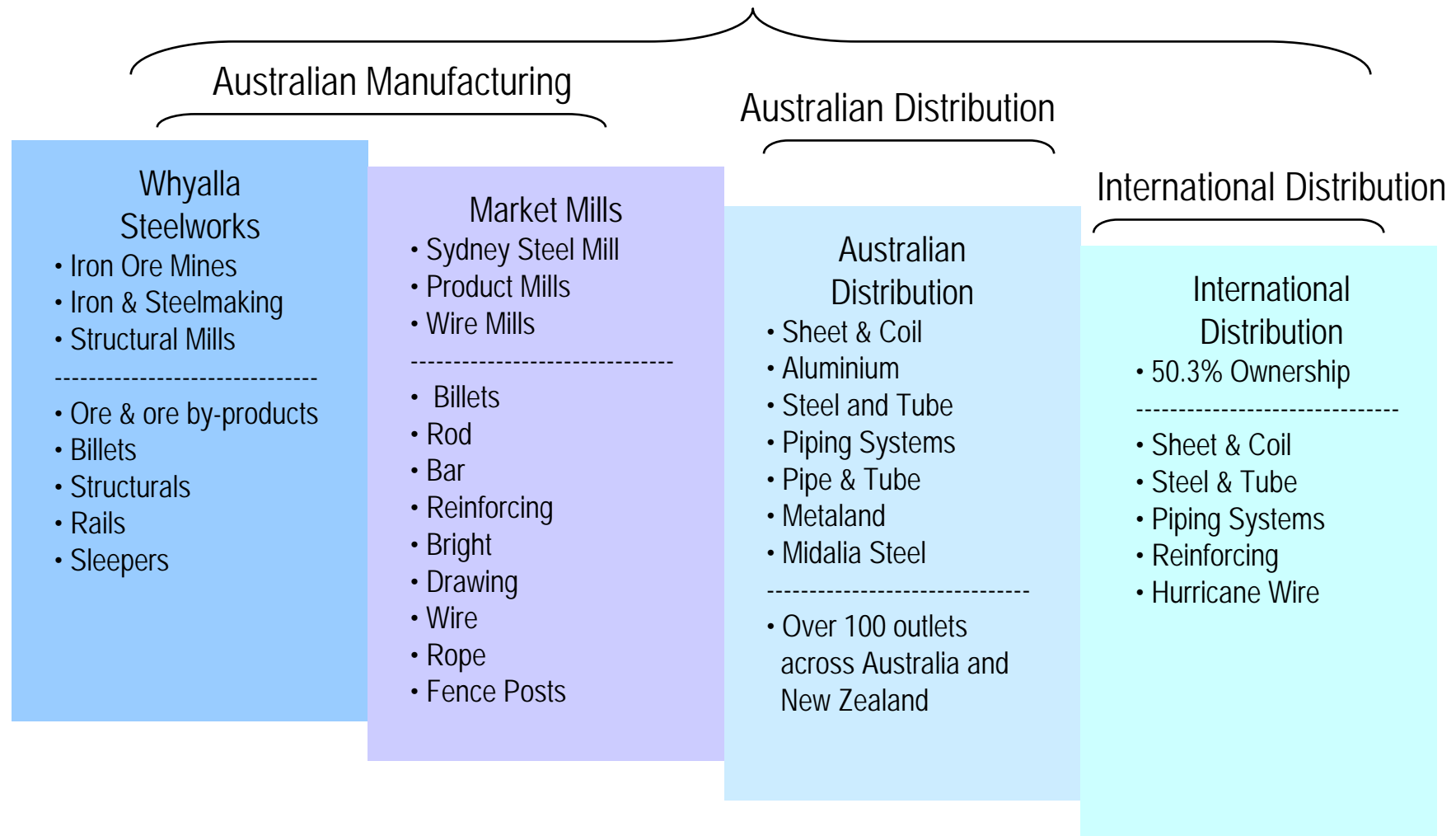
Who is OneSteel?

- Australia's largest steel long products producer
- Sales revenue \$4 billion pa
- EBITDA ~\$400 million
- Market cap ~\$2.4 billion
- Spun out of BHP October 2000

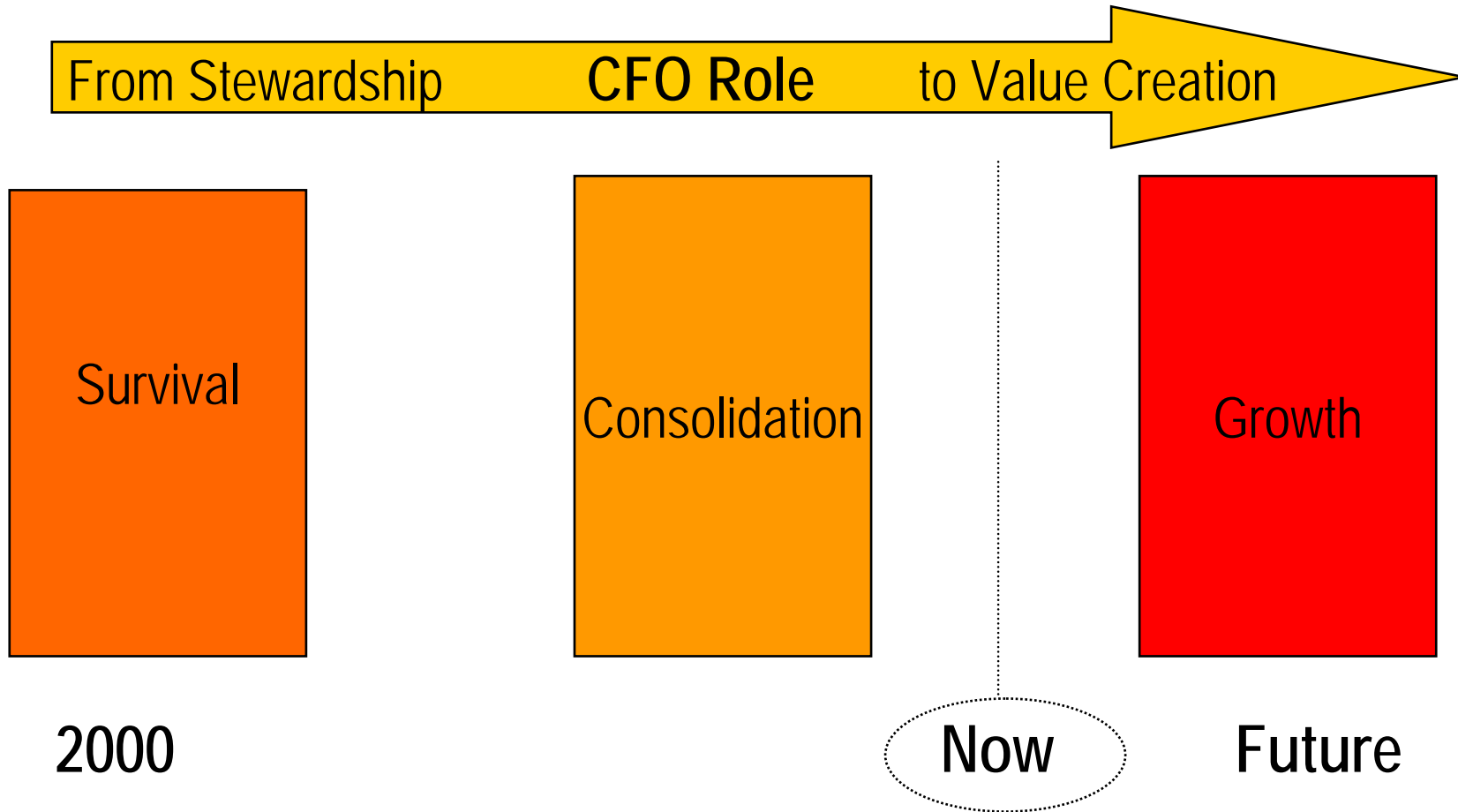


OneSteel Business Divisions

Typical Business Segment Reporting Approach



OneSteel's Journey

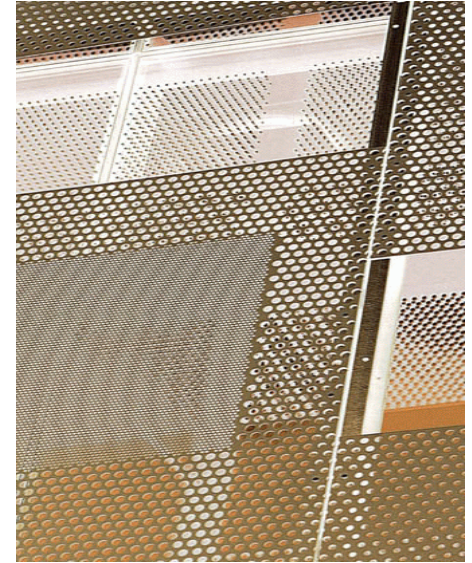
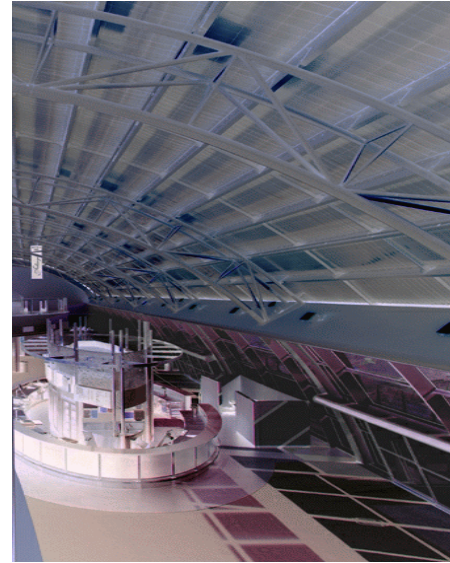
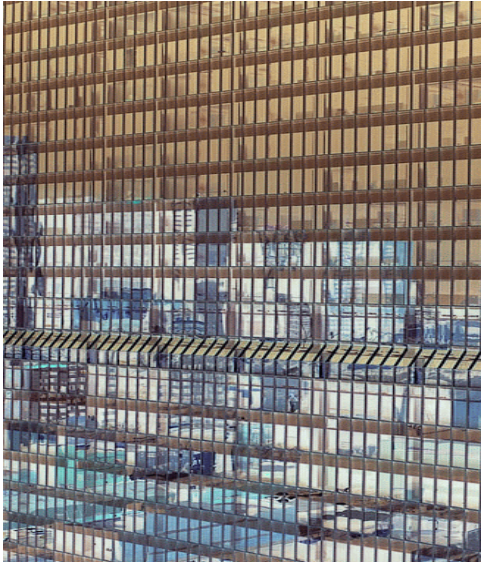


OneSteel's Strategy Development Journey

- At spin out – survival mode
 - Finance team very much in stewardship role and cash generation
 - Focus on spin-out
- Consolidation period
 - Finance team transform into commercial team aligned with business objectives and repairing balance sheet
 - Focus on balance sheet
- Growth Period
 - Key players in developing and implementing strategy
 - Develop more appropriate measures around key drivers and KPIs
 - Commercial team focused on delivering commercial outcomes
 - “Activist and interventionist” operating style
 - Focus on growing shareholder returns

The Unique Perspective of the CFO - OneSteel





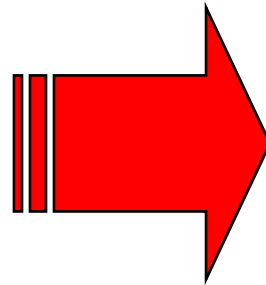
OneSteel
Some Examples of Reform
1) Capital Allocation Process

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Capital Investment Allocation used to be based on Depreciation

Resulting Behaviours

- Business units with high asset bases and depreciation believe they deserve more capital investment regardless of their ROFE
- Businesses focussed on spending the allocated capital whether or not it provided the best returns
- Businesses were not encouraged to invest in growth
- Business leaders defended their allocation of capital with little empathy for other businesses looking for additional capital investment for high returning projects



Resulting Outcomes

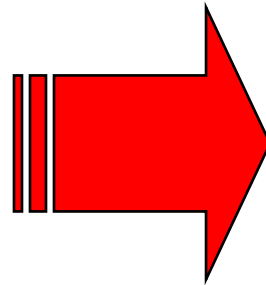
- The large asset based businesses spent more capital than the others
- Investments were biased towards business as usual and operational security
- Capital investments were not linked to or driven by strategy
- Capital investment budgets were generally underspent
- **Capital investment provided little positive impact on the overall business ROFE**

Access to capital was a 'right'

Capital Investment is Now Allocated to Align with Strategy

Process Adopted:

- Business units continue to be allocated a portion of investment for stay-in-business projects
- An investment pool is held at corporate to fund growth and profit improvement projects only
- Business units apply for allocation of funds from the pool
- Projects are prioritised according to set criteria based on link with strategy, PV/I, payback and NPV
- Growth Funds are allocated by the OneSteel Lead Team to the projects that meet the criteria and the highest ranking



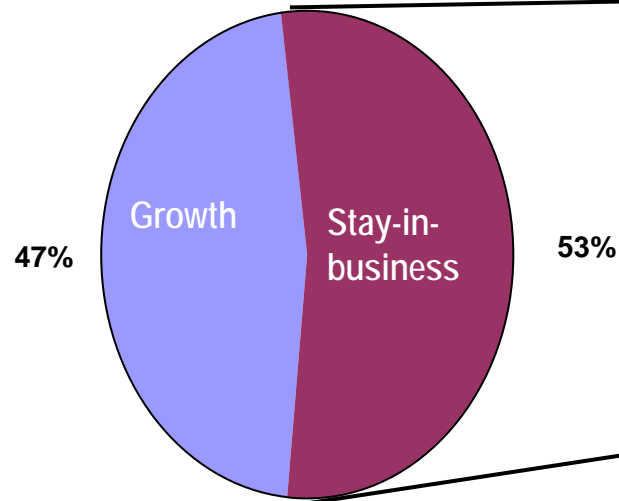
Resulting Outcomes

- Business units continue to perform with reduced stay-in-business capital investment
- Business units are encouraged to seek growth projects to attract funding allocation
- Investment in profit growth excluding Project Magnet (\$355M) has moved from approximately 20% to almost 50%
- The growth pool fund has been approximately 90% utilised
- **Capital investment is now providing improved business ROFE**

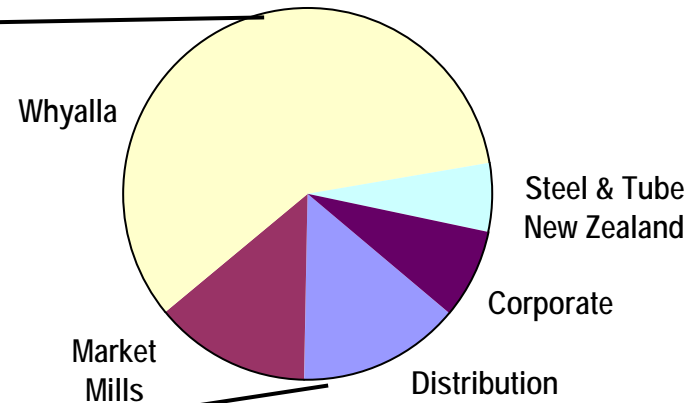
Access to capital is a 'privilege'

Strategic Capital Allocation Result

Total Business Capital Spend FY07

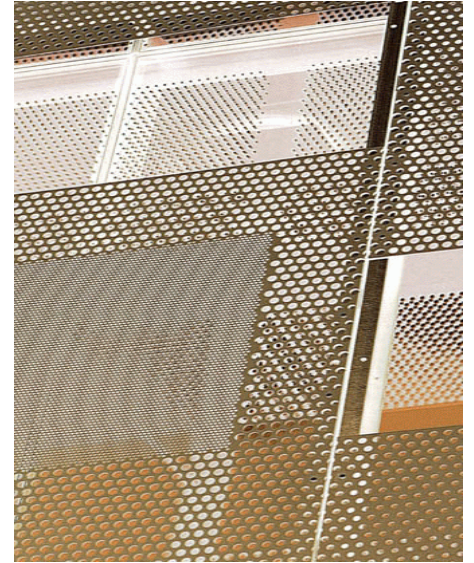
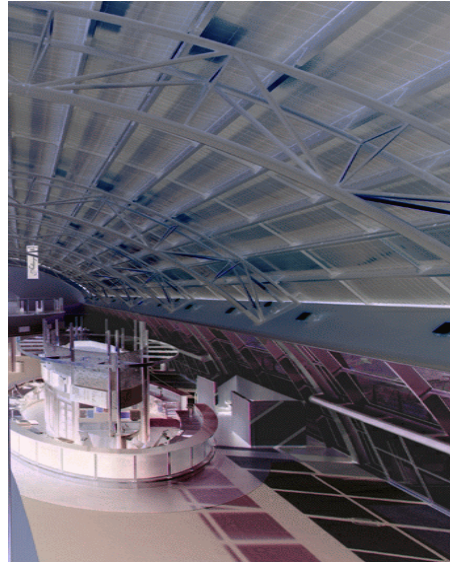
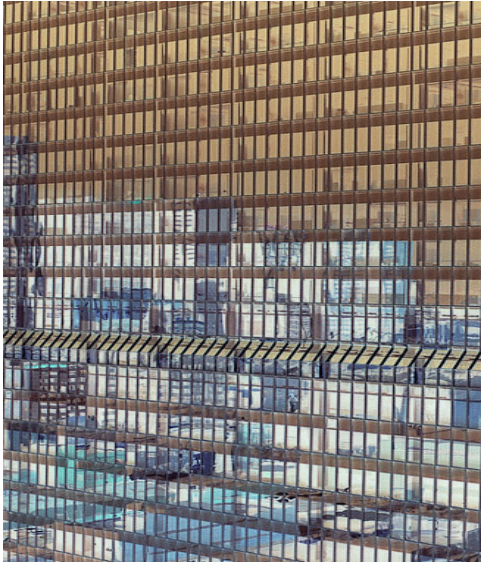


Stay-in-business Base Spend FY07



Total OneSteel capital excluding Project Magnet

Total OneSteel stay-in-business capital



OneSteel

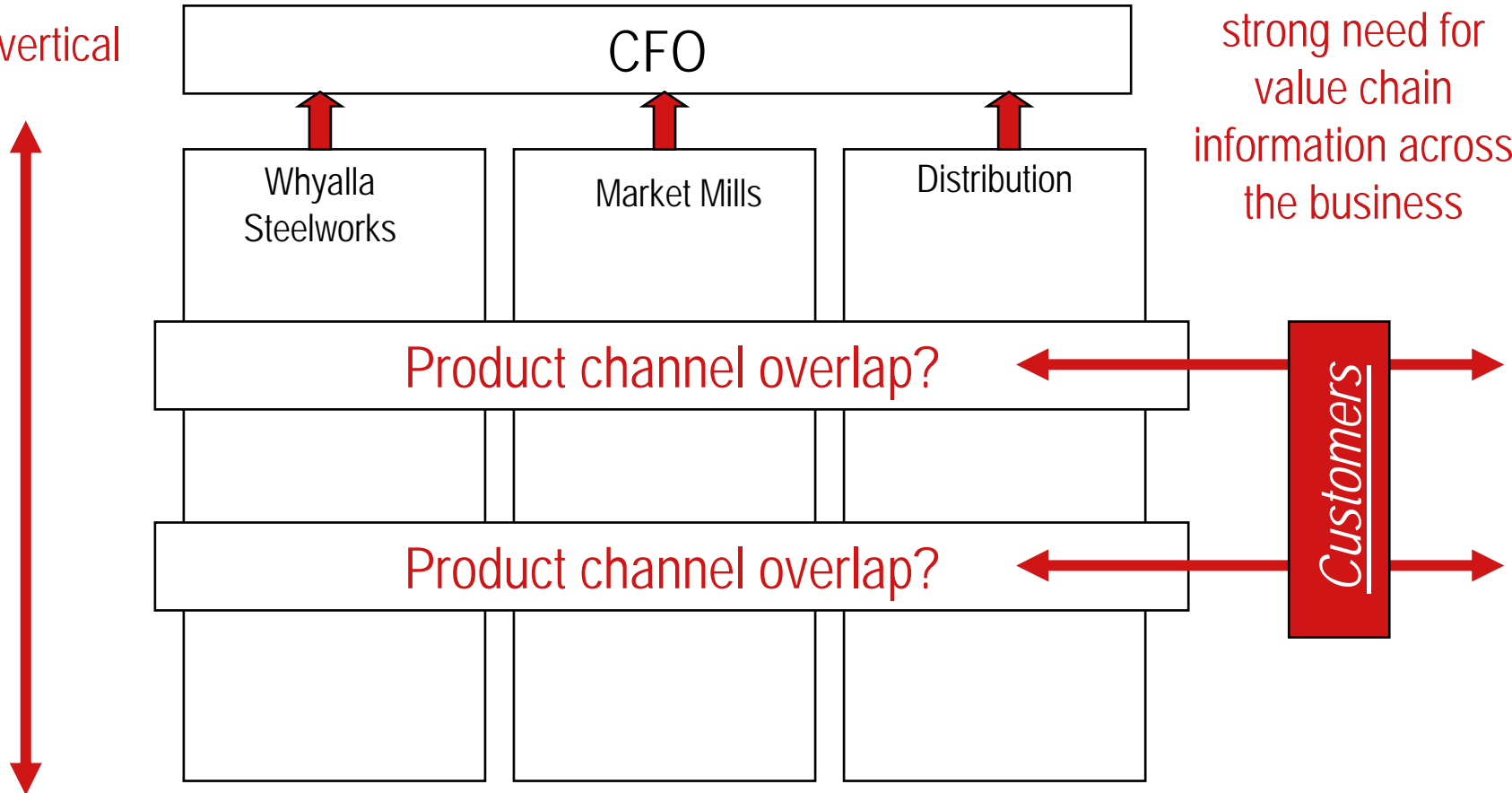
Some Examples of Reform

2) Commercial Rather than Financial Information

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Information Flows

Information flow
was vertical



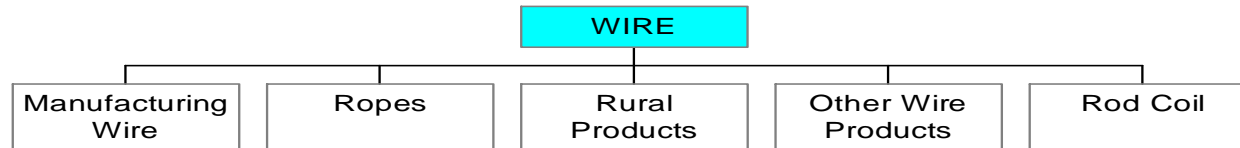
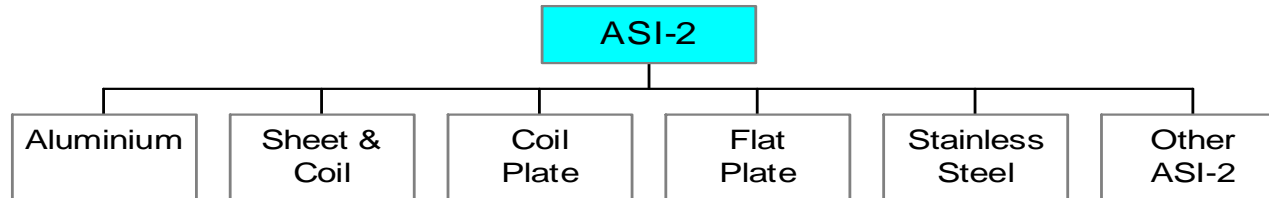
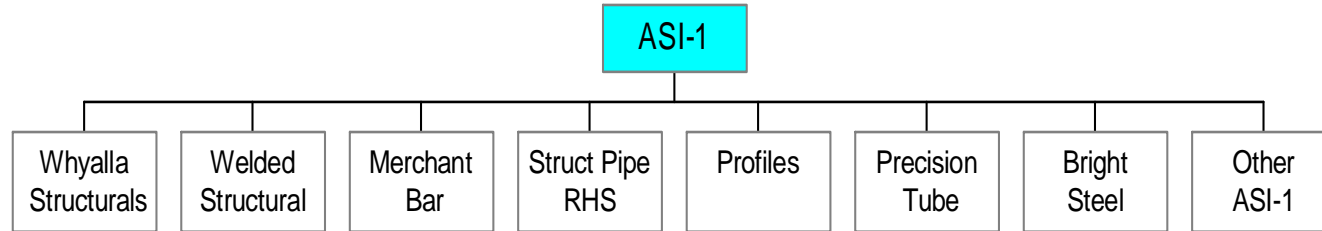
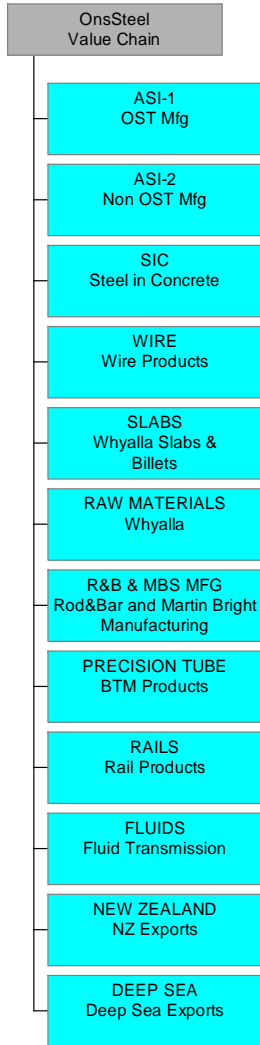
There was also a strong need for value chain information across the business

Streamlined Information System

- New value chain information system delivers product, segment, state, location and customer profitability
 - Product and segment by EBIT and ROFE
 - 30,000 customers
 - 40,000 SKUs
- Covers over 200 locations from manufacturing to distribution
- Supports key strategies around customer and market insight and supply chain

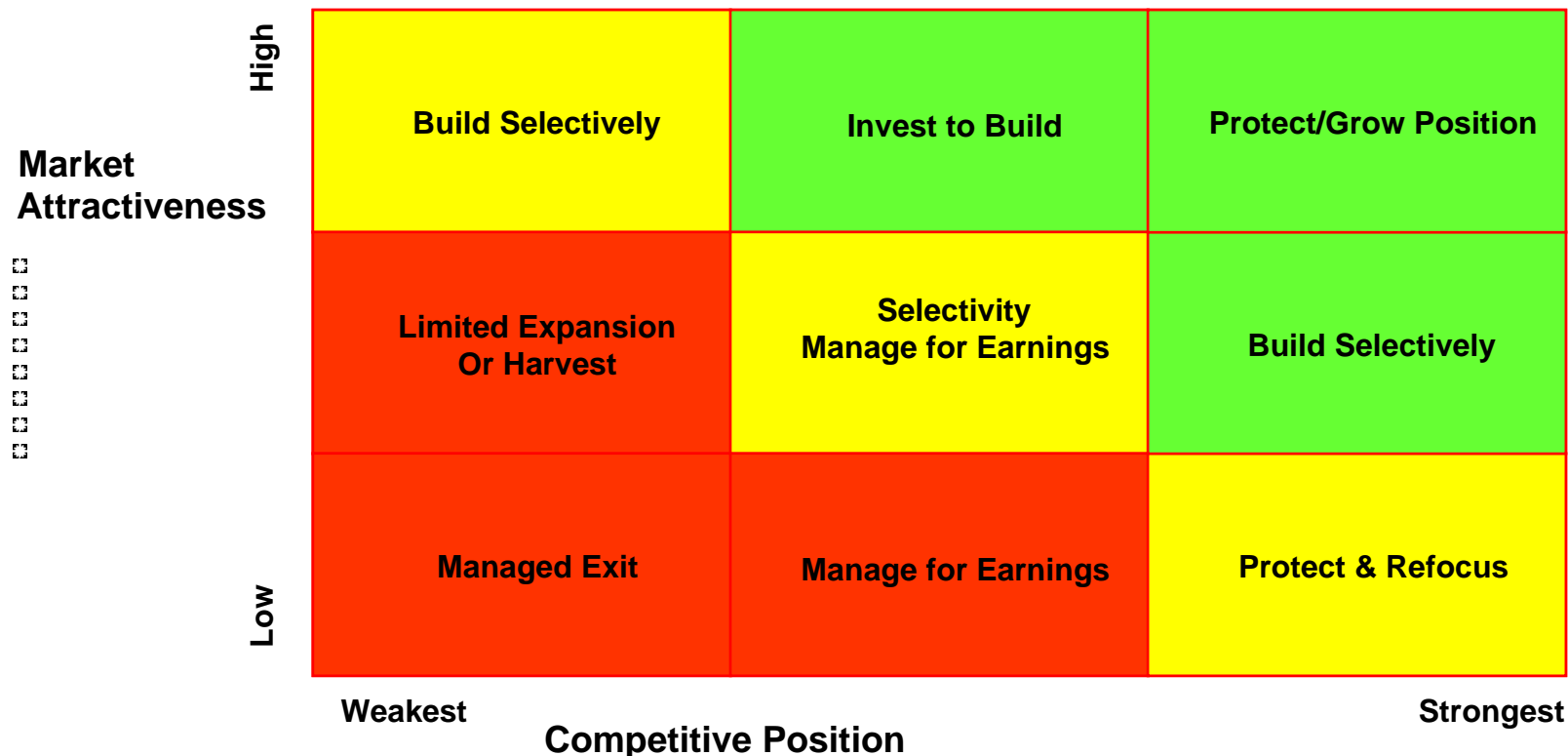
Information Flows – Value Chains

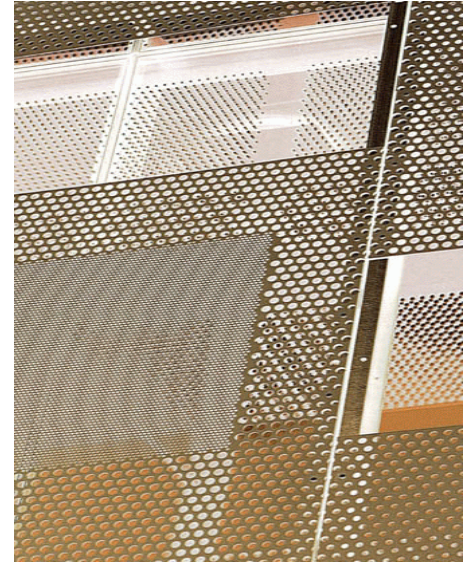
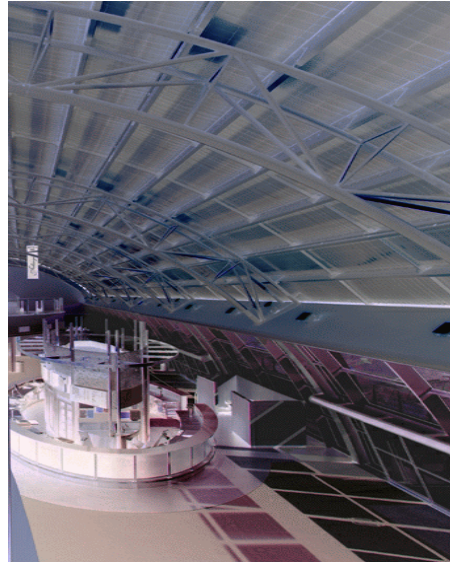
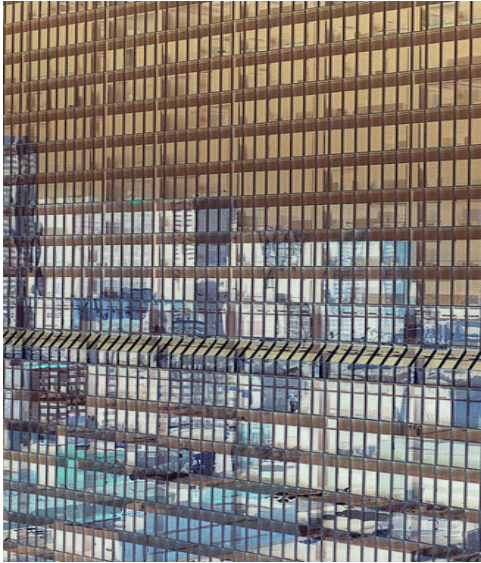
PORTFOLIO VIEW



Leveraging the benefits of the Vertical Value Chain

Having value chain data has allowed OneSteel to develop a portfolio positioning matrix for its businesses to extract more value from its operations and improve strategic focus and extent





OneSteel
Some Examples of Reform
3) Budget Focus

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Budget Process- Protracted Time Absorbing and Detailed

OneSteel Budget process used to start in January and finish in May after numerous iterations.

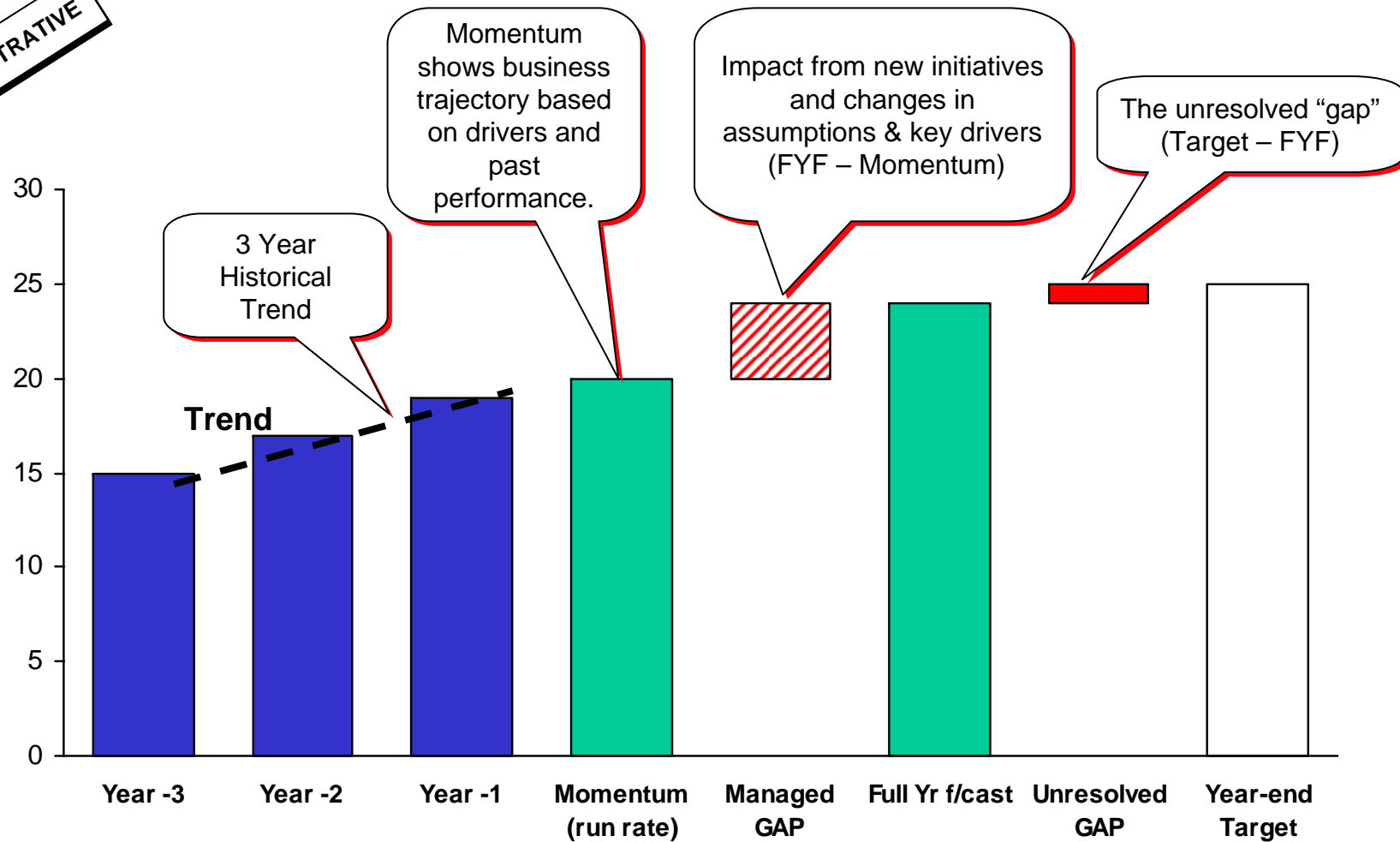
- The 5 yr plan was rolled out from the 1 yr budget – Rather than a plan it was a 5yr budget.
- The 5yr plan bore little relationship to the strategic plan.
- Tactically focussed with :-
 - Name and shame reporting
 - Budget forming the strategy
 - Inflexible to environmental changes
 - Time spent on solving today's problems
 - Mostly only high level financial measures in place

Move to Strategy Linked, Target and Driver based Forecasting

- Strategic plan and 5 year forecast used to set the target for the annual forecast.
- Driver based rolling 18 month forecasting models updated quarterly.
- Forecast models are:
 - Driver based
 - Allow scenarios
 - Apply consistent company wide assumptions eg market plans, forex, awote.
 - Allow building and tracking the impact of initiatives.
 - Built on a single system platform (Hyperion Strategic Finance)
 - Same models used for 5 yr plan and rolling forecast.
- The “Budget” for the next financial year is the April quarterly forecast.
- Business units focus on generating initiatives required to achieve the target and build these into the forecast.
- Initiatives are linked to strategic themes running across the company.
- For operational management purposes the “Budget Systems” where required are populated once only after the driver based forecast has been signed off.
- The top down approach effectively sets targets for the budget systems and saves hundreds of employee hours previously caused by bottom up iterations.

The Rolling Annual Forecast Focuses on "The Gap" in Forecast Performance

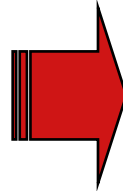
ILLUSTRATIVE



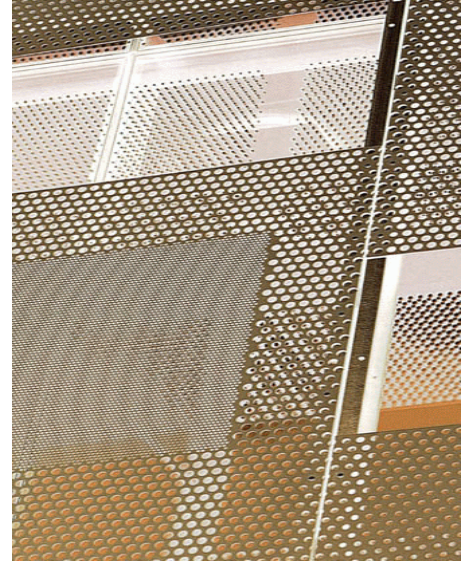
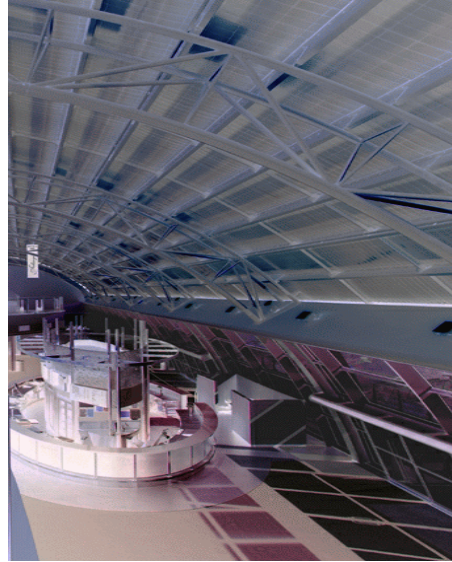
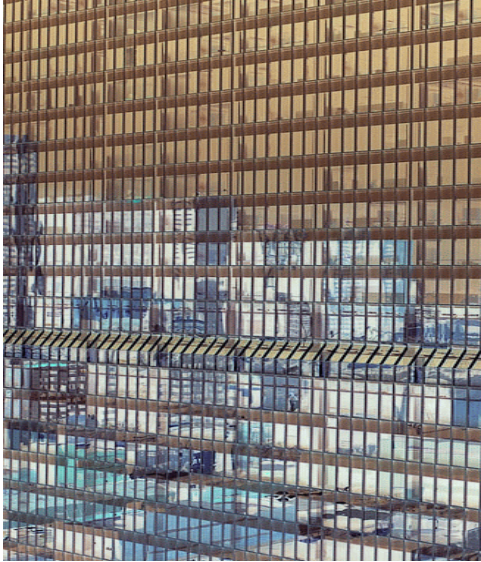
The Focus on the “Forecast Gap” provides a Forward Focus.

FROM Looking in the rear view mirror **TO** Looking forward taking note of what was behind.

- Post mortem behaviour with energy applied to explaining and justifying performance against budget.
- Lack of recovery focus.
- Forecasts viewed as administration rather than management tools.
- Forecasts often left as budget ignoring actual performance, changing environment and actions required.
- Belief that detail means better and more accurate.
- Achieving budget does not always achieve the possible performance as the assumptions in the budget are fixed – “could be money left on the table”



- Target and “Gap” focused
- The underlying momentum forecast (based on actual performance trends) helps to expose and analyse the gap in future performance.
- Quarterly reviews with CEO and CFO focus on the initiatives to improve rather than defending performance to date.
- Forecasting tool is a valuable management tool to assess initiatives and scenarios.
- Belief that focus on key business drivers provides improved guidance for prioritisation vs being lost in the detail.
- Focus on targets for key drivers can highlight when performance should exceed budget/target when the external environment is favourable.

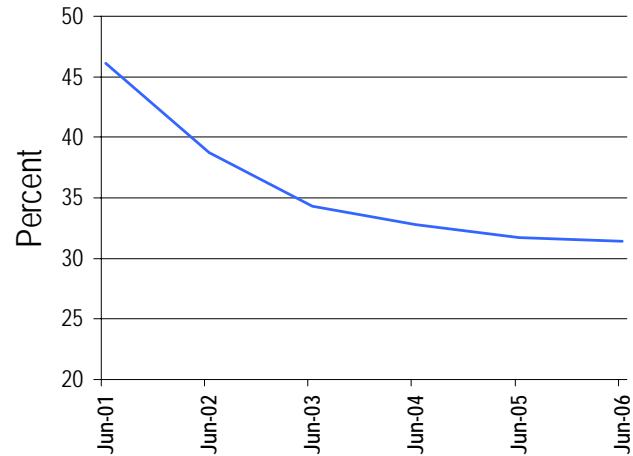


OneSteel – Performance Since Listing

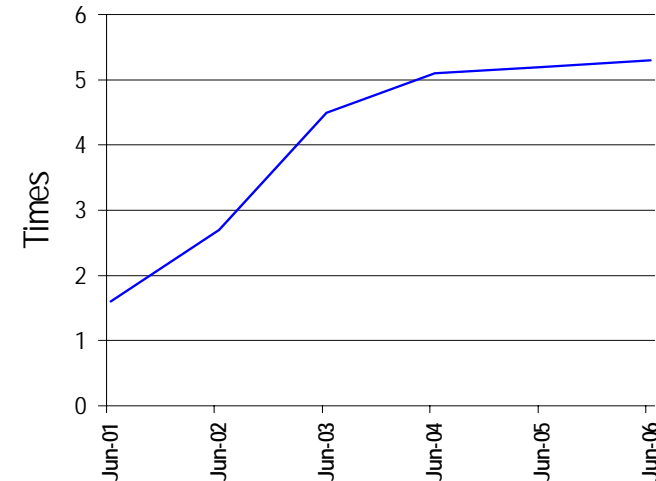
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Trends in Key Financial Ratios

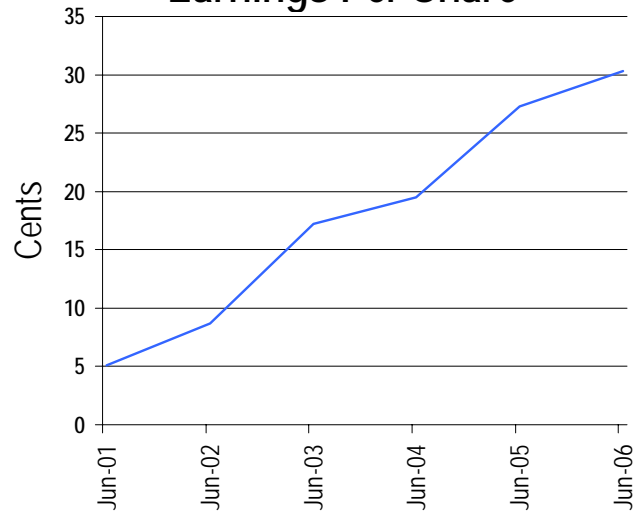
Gearing



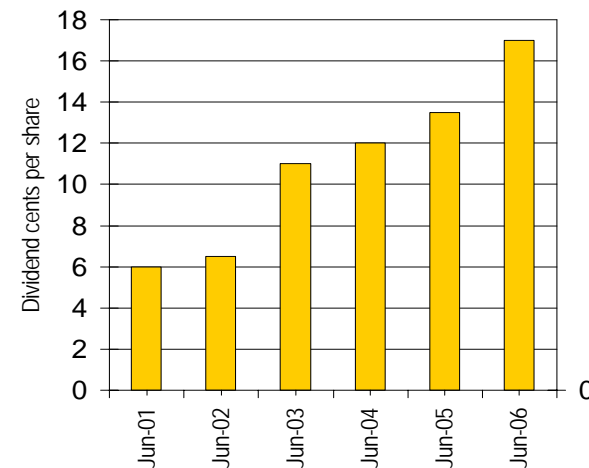
Interest Cover



Earnings Per Share



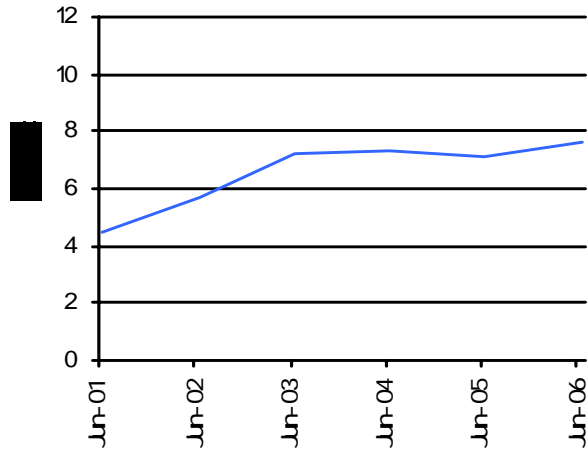
Dividends



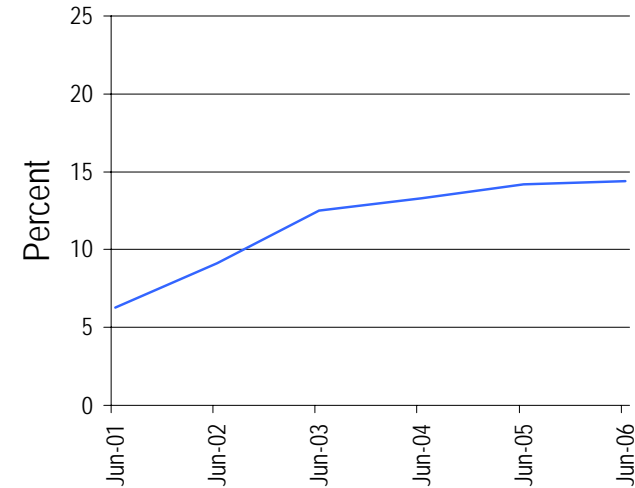
* Calculated under AIFRS for June 2005 and June 2006, and under AGAAP for earlier financial years

Trends in Key Operating Ratios

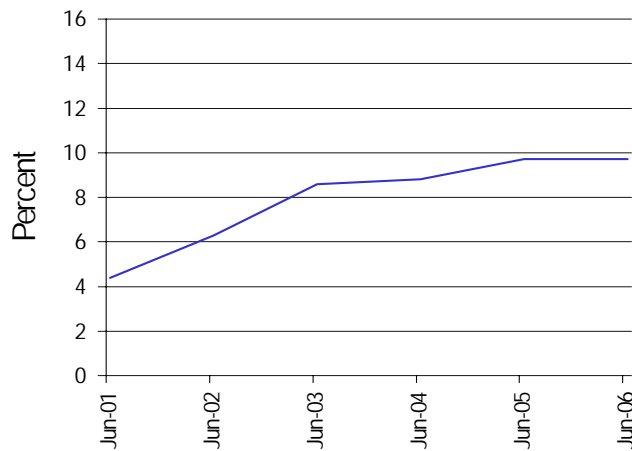
Sales Margin (EBIT)*



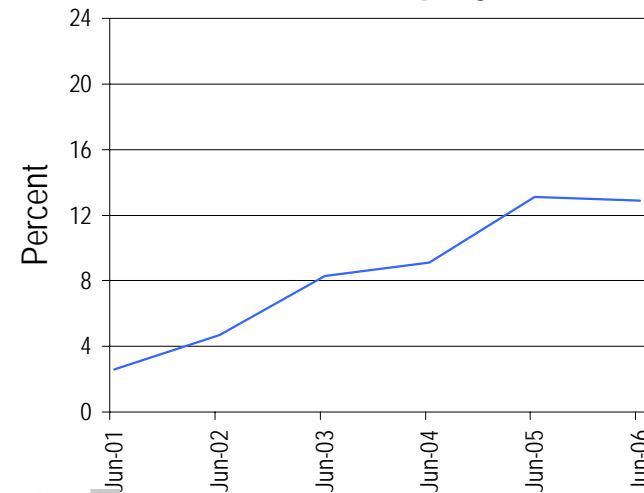
ROFE (EBIT)*



Return on Assets (EBIT)*



Return on Equity*



* Calculated against EBIT and under AIFRS for FY05 and FY06, and against EBITA under AGAAP for earlier periods

10th Highest TSR over 5 years

Best Total Shareholder Returns on the Australian Stock Exchange over 5 years					
Rank	Company	Industry	5yr TSR (% pa)	1yr TSR (%)	Market cap (A\$ bln)*
1	Oxiana	Resources	90.3	75.8	2.386
2	Macquarie Goodman	Real estate infrastructure	86.0	20.5	6.955
3	Metcash	Retail	71.5	50.2	3.353
4	Caltex Australia	Telco/utilities	60.3	84.4	5.233
5	Unitab	Media/entertainment	48.3	24.1	1.812
6	Newcrest Mining	Resources	41.9	39.7	8.061
7	Toll Holdings	Transport	41.2	10.5	4.944
8	Boral	Industrial/materials	35.9	23.7	4.747
9	Alinta	Telco/utilities	35.7	42.3	2.899
10	OneSteel	Industrial/materials	35.5	36.4	1.900
11	Orica	Industrial/materials	34.8	7.1	6.341
12	Origin Energy	Telco/utilities	33.9	14.5	5.945
13	Sims Group	Industrial/materials	33.2	5.0	1.606
14	DCA Group	Health care	33.1	124	1.884
15	Downer EDI	Industrial/materials	32.3	25.2	2.118

Source: Boston Consulting Group April 2006

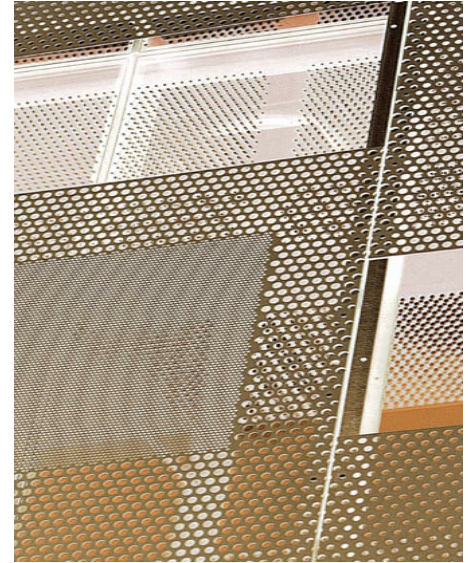
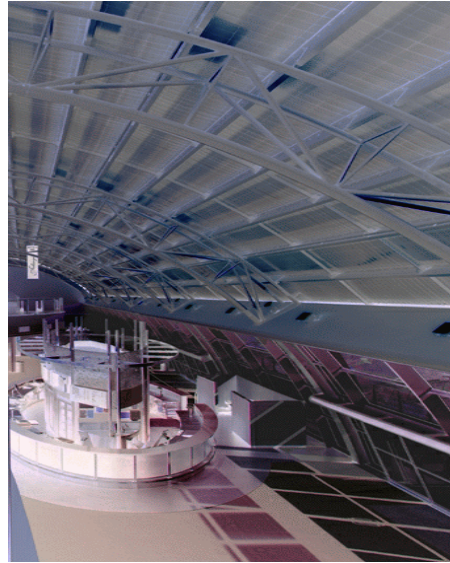
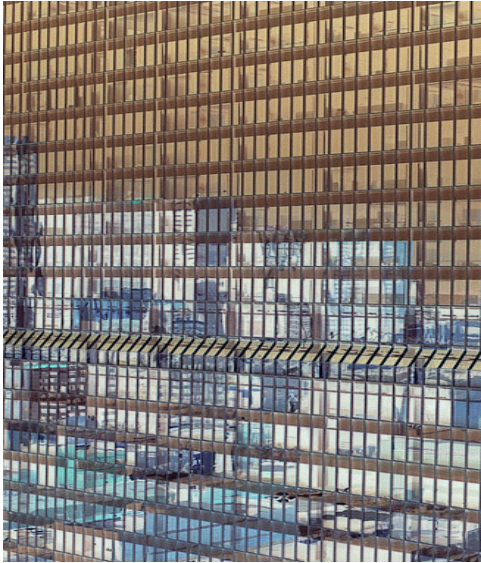
* Market capitalisation as at December 2005

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Slide 29

Some Concluding Comments

- CFO/Finance function role has grown beyond stewardship and reporting
- Today's CFO must be an integral part in driving corporate strategy and putting in place processes to support execution
- This requires taking on greater responsibility
- It also requires managing between conflicting objectives to find the right balance at the right time
- The OneSteel finance team is transforming into a commercial team focussed on delivering commercial outcomes
- How is success measured?



Leveraging the Unique Perspective of the Finance Function & CFO to add Significant Value

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