

# BBY/Jefferies Resources Conference

Presentation by Geoff Plummer  
Managing Director & CEO OneSteel

9 May 2005

**onesteel**




# Overview of OneSteel

- **Australia's largest manufacturer and leading distributor of steel long products (long & skinny vs flat)**
- **Domestic market niche operator**
- **Production capacity of 1.7 million tonnes per annum**
  - 1.2 million tonnes integrated steelworks
  - 0.5 million tonnes scrap-based electric arc furnace
- **Steel dispatched approx 2.2 million tonnes**
- **Vertically integrated from iron ore mines through steel production, steel product manufacture in rolling mills to distribution**

# OneSteel's Key Statistics

- Revenue approx A\$4.0 billion
- Assets approx A\$2.7 billion
- Funds employed approx A\$1.9 billion
- 7,000 staff
- 30,000 customers
- 40,000 product units
- 200 locations across Australia

# Vertically Integrated Steel Company

- **Iron ore from mines in South Middleback Ranges**
  - Hematite & Magnetite
- **Steel Production**
  - Integrated steelworks – Whyalla blast furnace
  - Scrap-based electric arc furnace
- **Value-add product manufacture – 40,000+ products**
  - Rod and Bar, Pipe and Tube, Wire ,Structural/Rail
- **Distribution – 30%-35% market share - 127 outlets**

# Arbitrage Opportunities - Horizontal Flexibility

- **Flexible steelmaking – integrated blast furnace and electric arc furnace**
- **Long steel products/Flat steel products**  
**Whyalla Steelworks' combi-caster produces billet, bloom and slab**
- **Domestic long product market/International market for slab**

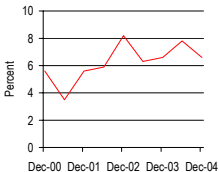


# Market Drivers – OneSteel Key Segments

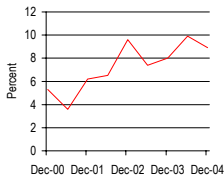
Segment	% of OST Revenues	% Change Dec 03/Dec 04
Non-Res Construction	26	3.1
Engineering	21	6.7
Residential	15	2.6
<b>Total Construction</b>	<b>62</b>	<b>4.1</b>
Other Manufacturing	12	-0.2
Mining	11	1.8
Agricultural	6	5.9
Automotive	5	0.5
<b>Total Weighted Change</b>		<b>3.2</b>

# Key Ratios

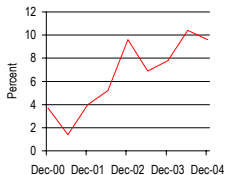
## Sales Margin (EBITA)



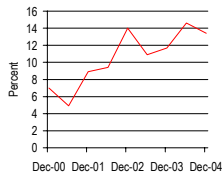
## Return on Assets (EBITA)



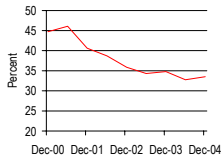
## Return on Equity



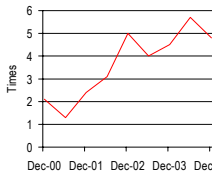
## ROFE (EBITA)



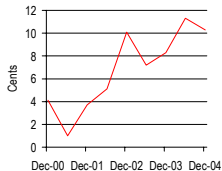
## Gearing Ratio Incl Securitisation



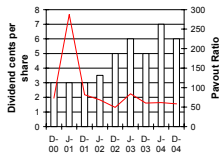
## Interest Cover



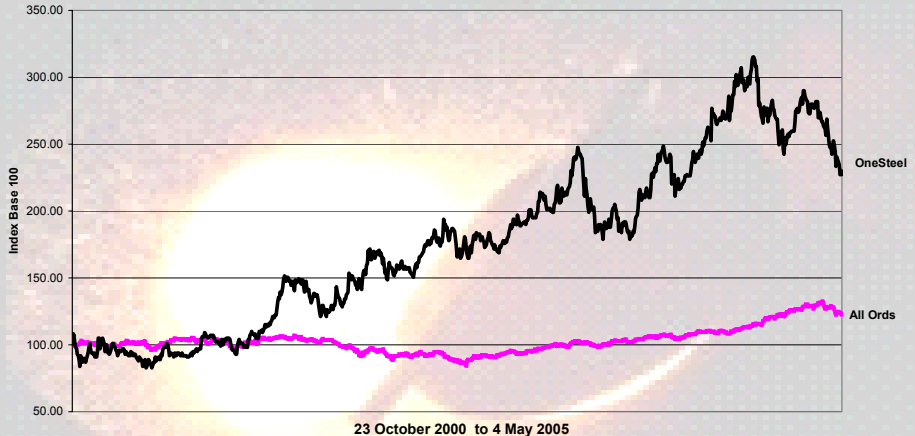
## Earnings Per Share



## Dividends and Payout Ratio



# Share Price Performance



Market Cap has gone from  
**\$350 million to \$1.3 Billion**

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# Steel Environment

## International backdrop

- China's industrialisation has increased the demand for steel
- In turn, driving demand for inputs – scrap, coke, iron ore → setting new price levels for steel

## What does this mean for Australia?

- Increased prices to cover higher input costs
- Reduced import pressure
- Highlights OneSteel's competitive advantage of owning iron ore

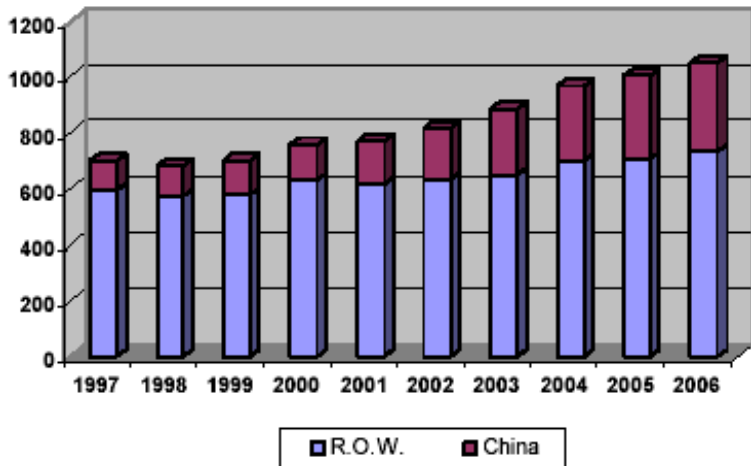
**We are in a new steel environment not witnessed for decades**

# Global Steel Demand Outlook – IISI Perspective

## International Iron and Steel Institute – Board Meeting held in Shanghai 9/10 April

- Forecast for 2005 and 2006 is continuing strong growth in demand in China combined with a small real increase in steel consumption in other parts of the world – total growth of 3.7% in 2005 and 4.8% in 2006
- In many industrialised countries, the first half of 2005 witnessed a pause in apparent steel demand growth due to stock adjustment
- Growth of crude steel production slowed early in 2005 as industry recognised the need to match production with the underlying real demand
- Anticipate a pick-up in general economic activity next year and the forecast for 2006 is better

# Global Steel Demand Outlook – IISI Perspective



# OneSteel's Trading Environment

- **Strong domestic market**
- **Good pricing environment**
- **Challenges**
  - **Offset higher coking coal costs**
- **Project Magnet**
  - **Improve competitiveness of steelmaking**
  - **Leverage iron ore assets**

# Growth – Project Magnet

## As outlined in August 2004

- **A\$250 million-plus expansion of iron ore mining operations to:**
  - Extend the life of Whyalla Steelworks to at least 2027
  - Increase exports of hematite iron ore by 3 million tonnes per annum for ten years
  - Sale of surplus iron ore pellets
  - Sale of up to 90,000 tonnes p.a. of slab steel
  - Lower the cost of making steel by up to 5%
- **Generate over A\$1 billion in additional revenue over 10 years, with pellet and slab sales continuing beyond 10 years**
- **Expected to be fully operational in final quarter 2006/07 financial year**

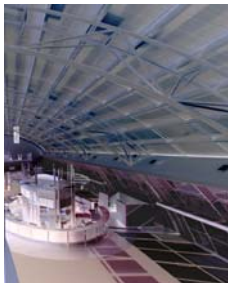
# Project Magnet – Status

- **Stage one - \$30 mln capital allocation for early works - \$7 mln spent in H1 FY05:**
  - **Basic engineering near completion and detailed engineering commenced**
  - **Iron ore and pellet marketing strategy being progressed**
  - **Iron ore transshipping being progressed**
  - **Mine cut back initiated**
  - **Further drilling undertaken**
- **Estimated revenue from the project will be higher**
  - **Project started and made sense in much lower ore price environment**
- **Capital expenditure estimates have increased**
- **The overall value of the project remains extremely attractive**
- **Incorporating lessons from the blast furnace reline project**
- **Some regulatory approvals still being sought**
- **Full ramp up will not occur until towards the end of FY 2006/07**
- **More details will be announced on Board approval of all project elements**



# Outlook, Strategy and Priorities

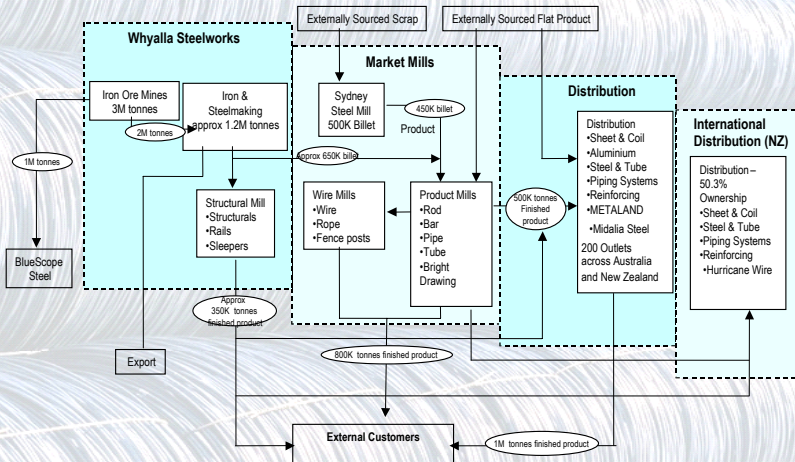
- **Strong domestic and international steel markets**
- **Continued performance improvement from OneSteel initiatives**
- **Company in good financial position**
- **Delivering Project Magnet**
- **Full year FY 2005 guidance - \$110 million to \$125 million NPAT**



# Attachments

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# Product Flow - Vertically Integrated OneSteel



# OneSteel's Major Locations



# Major Project Flow

## Current

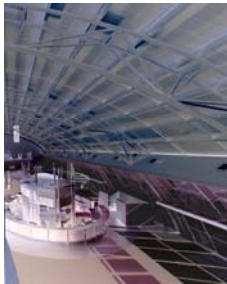
- Eureka Building – Melbourne
- Aurora Tower – Brisbane
- Brighton on Broadwater – Gold Coast
- Ephrim Island – Gold Coast
- **Conder Docklands Melbourne**
- Darling Island (park – Sydney)
- The Village Meriton - George Street
- Dock 5 - Docklands
- **Meadowbank (Sydney)**
- **Macarthur Square redevelopment (Sydney)**
- Ravensthorpe Nickel – WA
- Rio Tinto Parker Point upgrade (Dampier wharf)
- Telfer Mine expansion
- **Darwin LNG**
- Minerva Gas – Victoria
- Burrup Fertiliser – WA
- Woodside "Perseus over Goodwyn" (off WA)
- **Clean-fuel upgrade – BP, Caltex, Mogas (BNE)**
- Comalco WEIPA Refinery - Queensland
- Alcoa Pinjarra Upgrade – WA
- Rhodes Shopping Centre (Stage 2)
- Melbourne Cricket Ground
- Chatswood to Epping Rail Link
- M7 Western Orbital – Sydney
- Sydney CBD Cross-City Tunnel
- Herald Weekly Times Tower – Melbourne
- Spencer Street Station

- Brisbane Airport car park
- Worsley Alumina Refinery Upgrade
- Inco Goro (Queensland)
- Westfield Parramatta

## Upcoming

- Alcan Gove trans-territory pipeline
- **BRAMER gas pipeline (south Queensland)**
- Falcan Bridge (New Caledonia)
- Yabulu Refinery(Queensland)
- **Project Magnet**
- BHP Billiton Mine & Port Development JV Project
- Alcoa Wagerup – Train 3
- Woodside Train 5
- Gorgon LNG – Chevron/Texaco
- Cowal Gold Mine (NSW)
- Comalco Refinery SE Queensland – Car 2
- Brisbane Water Treatment Plant
- Scoresby Bypass
- Lane Cove Tunnel
- **HRFHO – (mine in Ghana Africa)**
- **Perth-Mandurah Rail Link**
- **Convention Centre – Melbourne CBD**
- **Melbourne Showground – Flemington**
- **Woolworths Minchinbury (NSW)**
- **BlueScope Steel Erskine Park Coating line**
- **Woolworths Distribution centre (Queensland)**

NB Red font highlights latest additions to list

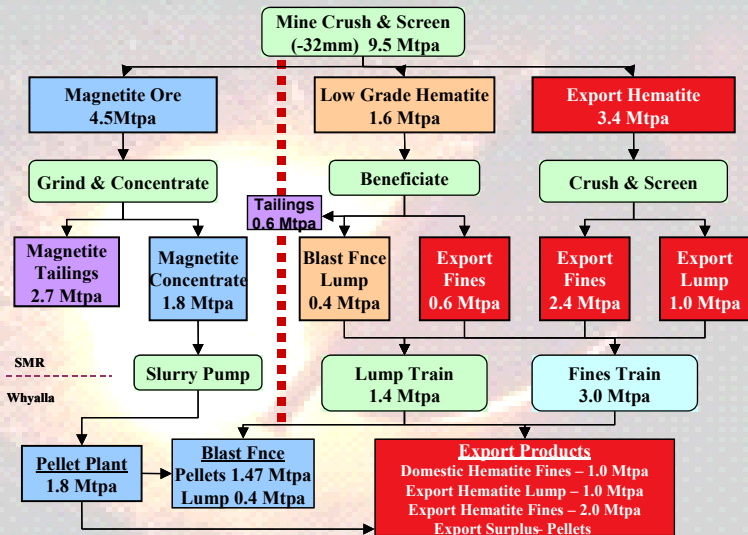


## Attachments – Project Magnet

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# Capacities and Material Flows

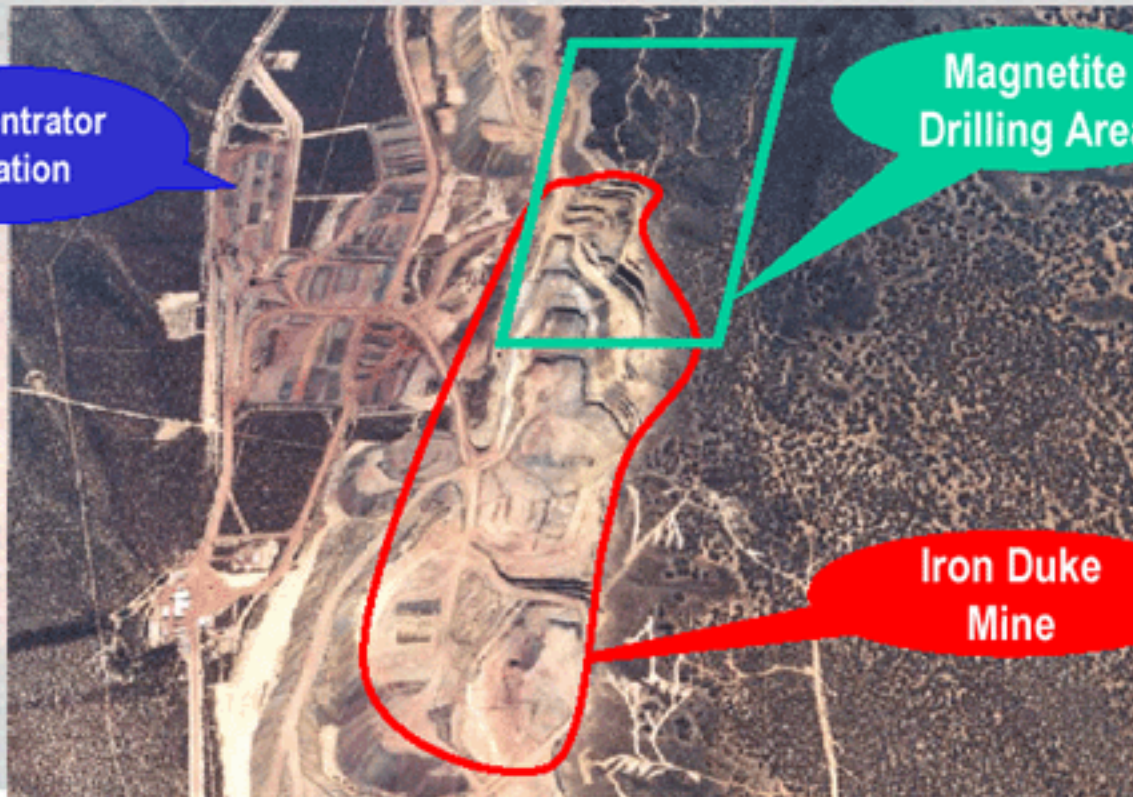


# Project Magnet – Resource Location

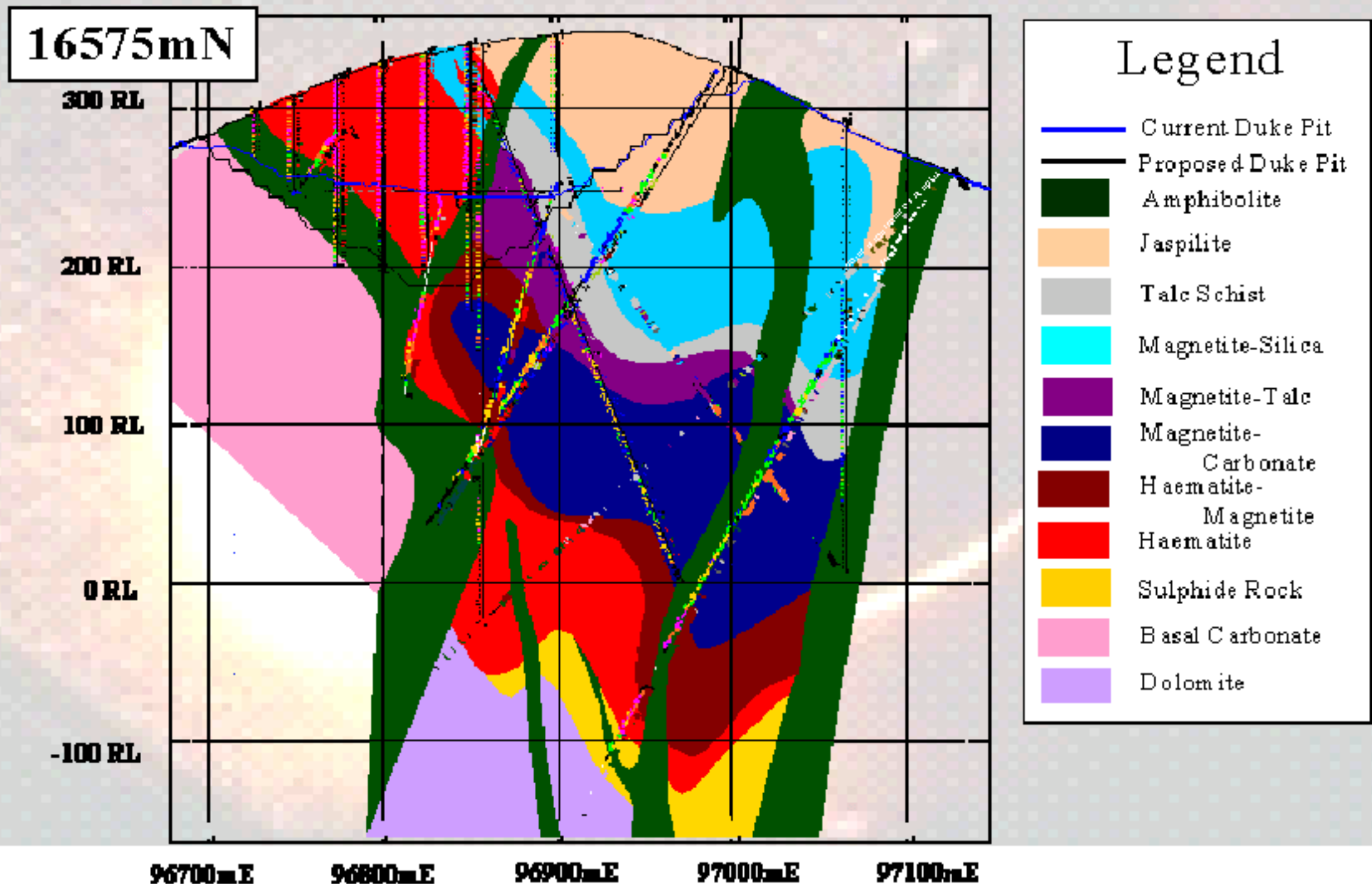
Concentrator  
Location

Magnetite  
Drilling Area

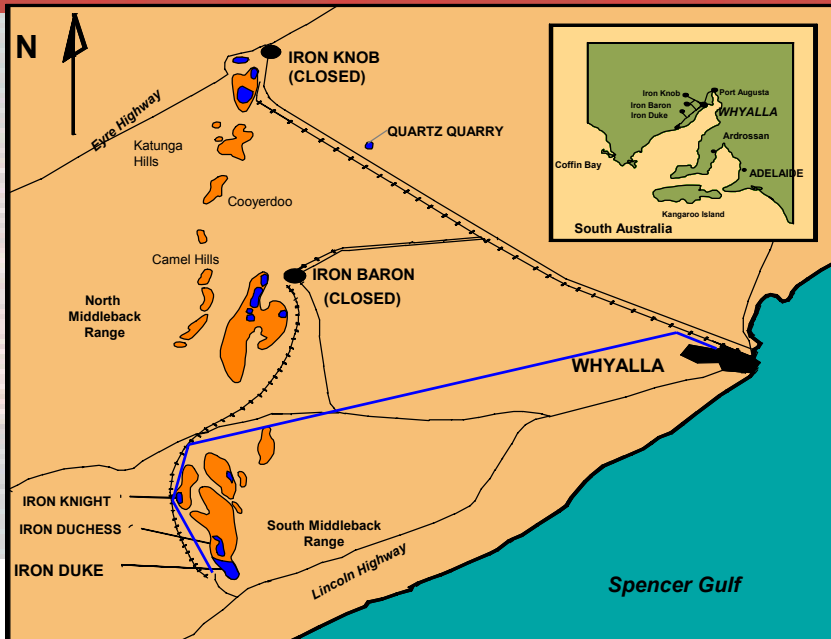
Iron Duke  
Mine



# Project Magnet - Geology



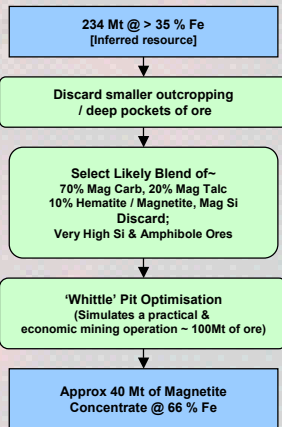
# Project Magnet – Slurry/Water Line Route



# Magnetite Resource Evaluation – Concept

## Magnetite Ore to Concentrate

- Total Magnetite Resource in South Middleback Ranges
- Select target area of most likely mineable magnetite deposit
- Select ore types that are 'usable' in beneficiation process, in percentages that are achievable
- Pit Optimisation Process (What is economically minable)
- Beneficiation process with 40% mass recovery, producing concentrate at ~ 66% Fe

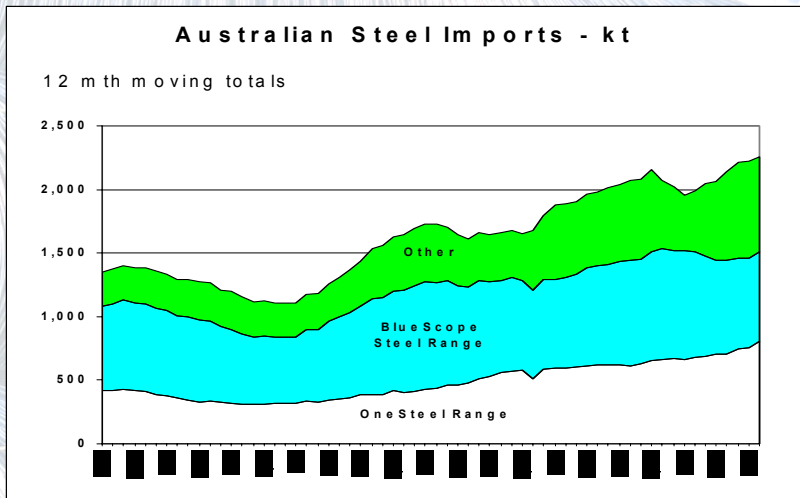


# Attachments – Trading Conditions



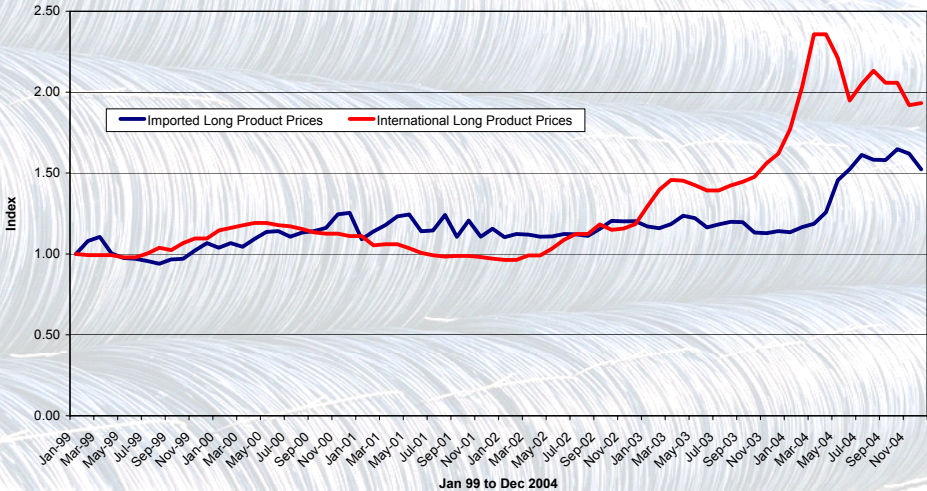


# Imports into Australia



Source: Australian Bureau of Statistics and OST data

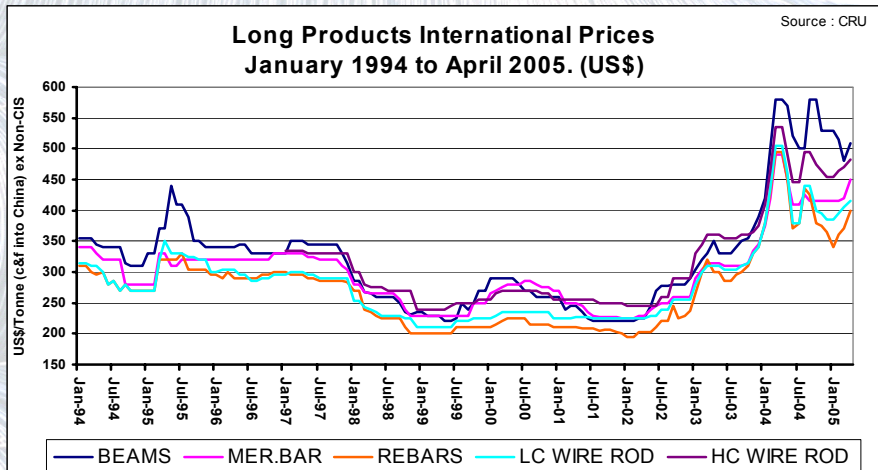
# Import versus International Prices



# Scrap Prices



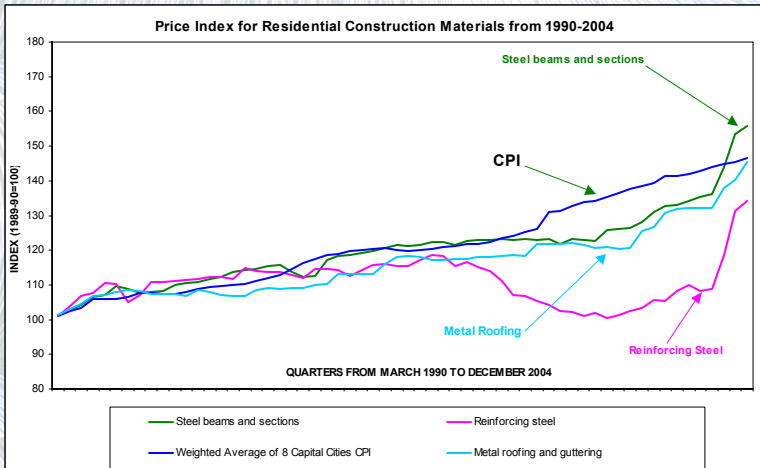
# Trends in International Long Product Prices

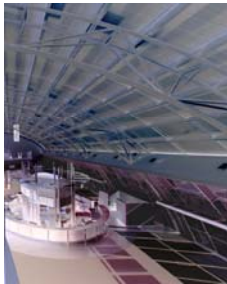


# OneSteel Price Increases since January 2004

- Steel In Concrete - 4% Feb 04 + 6% Apr 04 + 16% rebar May 04 + 5% Oct 04
- Whyalla Structurals – 7% Apr 04, 10% Jul 04
- Merchant Bar – 10% Mar 04
- Manufacturers Wires – 4% Mar 04
- Structural Pipe & RHS – 6.5% Apr 04, 9.3% Jul 04, 11.3% Jan 05
- Rural Wire – 5% May 04
- Fence Posts – 8% Apr 04
- General Manufacturing – 8% - 10% Q2 2005
- Automotive – 8% - 10% Q2 2005

# Australian Steel Price Index





## Attachments – Financials

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# Interim December 2004 Highlights

- Domestic market activity continues to run at high levels
- Interim profit of \$57.9 million, up 27% from first half FY2004
- Revenue boosted by higher volumes, price increases and recovery of market share from imports
- Earnings and tonnes produced impacted by Whyalla disruptions
- Sales margin steady
- Improved return on funds employed and return on equity
- Increased earnings per share to 10.3 cents from 8.3 cents
- Distribution, International Distribution and Market Mills continue to improve operational performance
- Net debt steady
- Bank facilities refinanced cost-effectively - added flexibility and duration
- 6.0 cents fully franked interim dividend, up from 5.0 cents in prior corresponding period



# Interim Dec 2004 Highlights - Detail

- **Market activity remains robust – up in OneSteel segments by 3.2%**
  - **Underlying domestic tonnes up 6.6% - recapturing tonnes lost to imports**
- **Underlying domestic price per tonne (excl. special projects) increased 11.6%**
- **Business Performance**
  - **Sales Margin steady at 6.6% despite production disruptions**
- **Business Improvement**
  - **Cost reductions of \$30 million**
  - **Revenue enhancements of \$114 million**
  - **Cost increases of \$94 million**
- **Safety performance improved 24%**

# Financial Performance

\$A Million 6 months to Dec	2004	2003	2002	2001	2000	% chg 03/04
<b>Sales</b>	<b>1,890.5</b>	1,566.7	1,525.0	1,473.2	1,267.0	<b>20.7</b>
<b>EBITDA</b>	<b>173.6</b>	146.9	168.2	125.6	111.6	<b>18.2</b>
<b>Dep and Amort</b>	<b>58.4</b>	53.4	53.2	52.6	48.6	<b>9.4</b>
<b>EBITA</b>	<b>125.7</b>	103.8	124.9	82.2	70.6	<b>21.1</b>
<b>Interest</b>	<b>23.9</b>	20.8	22.9	30.6	29.6	<b>14.9</b>
<b>PBT</b>	<b>91.3</b>	72.7	92.1	42.4	33.4	<b>25.6</b>
<b>Tax Expense</b>	<b>24.9</b>	22.0	32.5	19.1	12.0	<b>13.2</b>
<b>NPAT</b>	<b>57.9</b>	45.5	54.9	19.7	18.8	<b>27.3</b>
<b>EPS (cents)</b>	<b>10.3</b>	8.3	10.1	3.7	4.1	
<b>ROFE %</b>	<b>13.4</b>	11.7	14.0	8.9	7.0	
<b>Dividend (cents/share)</b>	<b>6.0</b>	5.0	5.0	3.0	3.0	

# Non-Trading Items - NPAT

## At the Net Profit after Tax Level

<b>Additions</b>	<b>Millions</b>
• Profit on sale of assets	\$ 0.8
• Tax adjustments	\$ 5.5
<b>Total</b>	<b>\$ 6.3</b>
<b>Subtractions</b>	
• Restructuring costs	\$ 2.1
• Blast furnace (reline & incidents) net	<u>\$ 24.7</u>
<b>Total</b>	<b>\$ 26.8</b>
<b>Net Benefit/(Loss)</b>	<b>(\$ 20.5)</b>

# Financial Position

\$A Million	Dec 2004	Dec 2003	Dec 2002	Dec 2001	% Chg 03/04
Total Assets	2,861.5	2,609.6	2,602.9	2,625.4	9.7
Liabilities	1,453.6	1,305.5	1,331.8	1,424.7	11.3
Net Assets	1,407.9	1,304.1	1,271.1	1,200.7	8.0
Net Debt	509.0	496.9	512.6	622.2	2.4
Inventory	758.8	646.5	626.0	608.0	17.4
Funds Employed	1,916.9	1,801.0	1,783.7	1,822.9	6.4
Gearing % (net debt/net debt plus equity)	26.6	27.6	28.7	34.1	
Gearing % (including securitisation)	33.5	34.9	35.9	40.6	
Interest Cover - times	4.8	4.5	5.0	2.4	
NTA /Share \$	2.0	1.8	1.8	1.7	

# Cash Flow

\$A Million	Six months to			
	Dec 2004	Dec 2003	Dec 2002	Dec 2001
Earnings before Tax	89.7	65.1	92.1	41.1
Dep. & Amort.	58.4	53.4	53.2	52.6
Capital and Inv Exp	( 63.6)	( 45.0)	(26.4)	(22.1)
Working Cap movement	(71.8)	(48.8)	(30.1)	(83.3)
Income Tax Payments	(24.2)	(13.7)	( 6.1)	(9.4)
Asset Sales	3.6	5.0	2.6	31.0
Other (SDL Loan)	0.7	6.0	(9.2)	66.6
Operating Cash Flow	(7.2)	22.0	76.1	76.5
Free Cash Flow	(11.5)	11.4	82.7	(21.1)

# Cash Flow Reconciliation

Six months to:

Statutory

\$A Million	Dec 2004	Dec 2003	Dec 2002	Dec 2001
<b>EBITDA (Adjusted for Profit on Asset Sales)</b>	<b>172.0</b>	<b>139.7</b>	<b>168.2</b>	<b>125.6</b>
<b>Interest</b>	<b>(23.9)</b>	<b>(20.8)</b>	<b>(22.9)</b>	<b>(30.6)</b>
<b>Tax</b>	<b>(24.2)</b>	<b>(13.7)</b>	<b>(6.1)</b>	<b>(9.4)</b>
<b>Capital Expenditure</b>	<b>(63.6)</b>	<b>(45.0)</b>	<b>(26.4)</b>	<b>(22.1)</b>
<b>Working Capital</b>	<b>(71.8)</b>	<b>(48.8)</b>	<b>(30.1)</b>	<b>(84.6)</b>
<b>Free Cash Flow</b>	<b>(11.5)</b>	<b>11.4</b>	<b>82.7</b>	<b>(21.1)</b>
<b>- Investments</b>	<b>0.8</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>- Plus Asset Sales</b>	<b>3.6</b>	<b>5.0</b>	<b>2.6</b>	<b>31.0</b>
<b>- Other</b>	<b>(0.1)</b>	<b>5.6</b>	<b>(9.2)</b>	<b>66.6</b>
<b>Operating Cash Flow</b>	<b>(7.2)</b>	<b>22.0</b>	<b>76.1</b>	<b>76.5</b>

# International Financial Reporting Standards

## Major impacts are

- **Goodwill**
  - No Amortisation
  - Subject to annual impairment testing, including revised definitions of “cash generating units” and applicable discount rates
- **Financial instruments**
  - Hedge accounting may not apply in some areas
  - Increased volatility in earnings via fair valuing of all financial instruments
  - Securitisation is being repaid early in 2005 so no IFRS impact
- **Defined benefit superannuation fund**
  - Surplus/deficit to be recognised in OneSteel's balance sheet
  - Corridor approach will lessen impact on OneSteel's results
- **Business Combinations**
  - Restricted ability to create restructuring provisions for acquisitions
- Further information refer to Note 7 to the Statutory Accounts