



Measuring success



Arcelor S.A.

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Chairman of the Board & Chief Executive Officer
Mr. Guy Dollé

Revenues
€ 30 Billion

Employees: 95.000

ROI Study Highlights

- **605% ROI in 5 years**
- **117% IRR in 5 years**
- **€5.993 Million NPV in 5 Years**
- **€220,000 Initial Investment Investment over 5 years**
- **€8.1 Million projected Net Savings over 5 years**

Strategic Benefits

- **Improved Security**
- **Increased Reliability**
- **Enhanced Straight Through Processing (STP)**

Study Scope

- **Arcelor Treasury**
 - Cash Aggregation & reporting
 - Deal settlement % confirmation
 - Intraday balances
- **FileAct**
 - Accounts statements collection
- **Straight Through Processing**
 - Automated integration of account statements
 - Automated generation of group payments
 - Integration to ERP applications

Arcelor Treasury standardizes on SWIFTNet as a single gateway — realizes 605% ROI

Executive Summary

Arcelor was formed, in 2002, by the combination of steel giants Aceralia (Spain) ARBED (Luxembourg), and Usinor (France). Arcelor produces flat carbon steel (coated steel sheet, cold coils and hot coils), long carbon steel (beams, concrete reinforcement bars, merchant steel, sheet piling, and rails for public transport), and stainless steel for the appliance, automotive, construction, and packaging industries. Arcelor manufactures about 47 million metric tons of crude steel per year. It employs 95.000 associates in over 60 countries and is a leading player in the global steel industry.

In 2002, Arcelor Corporate Treasury recognized a fundamental need to streamline its infrastructure to achieve greater visibility into cash receipts. The Arcelor Treasury was spending significant time in maintaining multiple systems and connection points (ETEBAC 3,5, ISABEL, proprietary bank system, fax, telephone, Internet) each with totally different characteristics (i.e., processes, data quality, availability, timeliness, security level). Additionally, Arcelor was spending an inordinate amount of time and money on maintaining Security protocols for the various connections, which were not consistent and required a growing level of resource commitment. Moreover, any expansion process proved to be tedious. New links with banks were difficult to implement, both in terms of time and cost. Finally, Arcelor Treasury had a Disaster Recovery (DR) plan per geographic location. Testing and maintaining each location's DR plan was both costly and time consuming. It was impossible to plan for the infinite combinations of bank availability.

To overcome these challenges, Arcelor Treasury made the insightful decision to work with the Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T.) to create a solution that would deliver a simple, secure and reliable communications platform to transmit financial messages to all of its cooperating banks around the globe.

By migrating to SWIFTNet, Arcelor Treasury increased the automation of its business, including the flow and sharing of information across the enterprise on a global basis. Subsequently, Arcelor Treasury has managed to reduce risks related to manual activities and position itself to handle any growth in future payments or receipts volume.

With SWIFTNet, Arcelor Treasury is experiencing increased reliability, improved security and enhanced Straight Through Processing (STP) all translating into an impressive financial Return On Investment (ROI) of 605% over five years.



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“Reserves management has become significantly easier through SWIFTNet”,

— Pierre Boisselier
General Manager Finance
Arcelor Treasury SNC

Pre-SWIFTNet Operational Challenges

- **Multiple Banks**
 - 750 bank accounts in 40 banks in 14 countries
- **Multiple connections**
 - ISABEL, ETEBAC 3,5 (French protocol)
 - Dedicated line proprietary software (IT, US, etc.)
 - Forwarding banks
 - Other (Fax, Telephone, Internet)
- **Reliability (Business Continuity and Disaster Recovery) was an unresolved issue**
- **Multiple security packages and levels of security**
- **Heavy technical and administrative processes**

Why SWIFTNet?

For Arcelor’s Treasury, SWIFTNet addressed three key issues: **Reliability, Security and Efficiency.**

Reliability

Arcelor Corporate Treasury IT recognized the need to establish a simple, stable, and reliable communications platform to transmit financial messages to its banks.

- Arcelor needed to strengthen the reliability factor of its messaging platform and eliminate volumes of repaired wire messages. **Connectivity was running at 90% prior to SWIFTNet, now it’s almost 100%**
- Working through a forwarding bank imposed a number of legal constraints, including tri-party contracts which were inconsistent, and disputes that were difficult to settle once they had occurred. **Legal fees for contract reviews, and the time required to perform them, have decreased considerably as contracts have been standardized**
- Without real-time acknowledgement of message receipts and transaction confirmations, Arcelor Treasury was forced to dedicate full-time resources to monitoring transactions on a day-to-day basis to ensure that urgent transactions were received and acted upon by various banks. **Through SWIFTNet, staff in areas such as the Treasury Back Office and Commercial Management and Finance has been reduced up to 30%**

Security

As Arcelor Treasury’s message volumes grew, it required a more secure environment in which to operate.

- Arcelor Treasury was spending significant time in maintaining multiple systems and connection points (ETEBAC 3,5, ISABEL, proprietary bank systems, fax, telephone, Internet) each with completely different characteristics (i.e., processes, data quality, availability, timeliness, security level). Currently Arcelor Treasury is in the process of decommissioning a number of its legacy systems globally. For example, **60% of Accounting Statements have been moved to SWIFTNet** and the goal is to have 100% by 2007 resulting in reduced running costs of different systems
- Arcelor Treasury was spending an inordinate amount of time and money on Security protocols which for the various connections were not consistent and required a growing level of resource commitment. **Prior to SWIFTNet, transaction cash movement failures were between 2% and 4%, while with SWIFTNet failures went down to zero percent**

Efficiency

Arcelor Treasury IT realized that the communications platform for financial messaging was a critical component in meeting its controllership roles and responsibilities.

- Arcelor’s fragile connections infrastructure, dictated that all transactions be monitored, not just exceptions. This was further complicated as the majority of transaction statuses were updated on an end-of-day or next day basis. **With SWIFTNet, the Arcelor Treasury is enabled to increase exceptions management four-fold**



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“The SWIFT team in France is doing an excellent support job, working closely with Arcelor”

— Jacques Brax
Head of Information Systems

Arcelor’s Relationship with SWIFT

- Arcelor had a close relationship with the SWIFT organization for a number of years
- Before SWIFTNet, Arcelor, was only using SWIFT for treasury deal confirmations
- When Arcelor decided to centralize all commercial payments, SWIFT was the only and obvious choice as no other competitor could offer such functionality
- SWIFT worked closely with Arcelor, supporting it all through the migration process, in setting up the SWIFTNet solution

Description of the solution

Solution overview

By leveraging the latest web-based technologies, Arcelor’s solution was based on the following:

- SWIFTNet – Arcelor migrated its existing “corporate to bank” messaging infrastructure from the traditional network (based on legacy X25 technology) to SWIFTNet, an IP based environment. With the previous technology platform, Arcelor had to maintain and support a large number of legacy systems globally, resulting in high maintenance and support costs. **Migrating to SWIFTNet, enabled the organization to decrease these costs by approximately € 0.8 million per year**
- MA-CUGs – Arcelor opened communications through its banks using MA-CUGs (Member Administered -Closed User Groups) to better deal with its corporate clients. **Prior to use of MA-CUGs, Arcelor had to maintain multiple links in 14 countries and 40 banks, 20 of which were foreign. This resulted in high maintenance costs for these links, and multiple security protocols**
- XML – Arcelor is leveraging XML (eXtensible Mark-up Language) to reduce message formatting and improve the flow of information between its Payment Factory and ERP system, SAP. Through the use of this technology, Arcelor’s real-time payments and messaging needs were facilitated

The three elements above were the foundation for Arcelor’s “Payment Factory,” which is its proprietary solution to centralize commercial payments. The “Payment Factory” operates as follows:

- All of Arcelor’s Treasury subsidiaries around the globe have a link to Arcelor’s Central Treasury Operations via the company’s Intranet. Each subsidiary is now in a position to send and receive files (e.g., payment messages) through one single channel, and all these files are managed by Arcelor’s Central Treasury Operations
- Through the established MA-CUGs all payment instructions, standardized by XML technology, are sent from Arcelor’s Central Treasury Operations to the forwarding and/or executing banks over the SWIFTNet network, and they in turn initiate all cross-border transfers for Arcelor and its subsidiaries
- Once a cross-border payment is settled and confirmed, a confirmation message from the foreign bank is sent automatically to Arcelor’s forwarding bank, which in turn sends it to Arcelor’s Central Treasury Operations. Once received, the message is sent via the company’s intranet to the appropriate subsidiary



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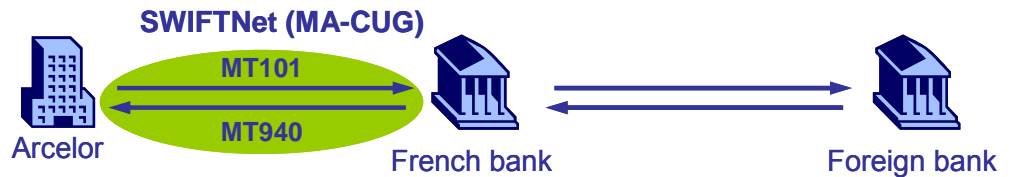
Arcelor's Challenges with Forwarding Banks

- **Communications through a forwarding bank, caused a number of challenges for Arcelor, including:**
 - The forwarding bank needed to translate/map international formats into domestic. Thus, information was (in many occasions) lost, preventing Straight Through Processing (STP)
 - Each forwarding bank translated messages in different ways resulting in a lack of message consistency
 - Working through a forwarding bank imposed constraints in cut-off times. Payment instructions needed to be sent on average 1 hour before cut-off time to the forwarding bank in order to guarantee same day processing; contributing to lost opportunities
 - Problems existed when the forwarding bank had a holiday while the executing bank was open for business

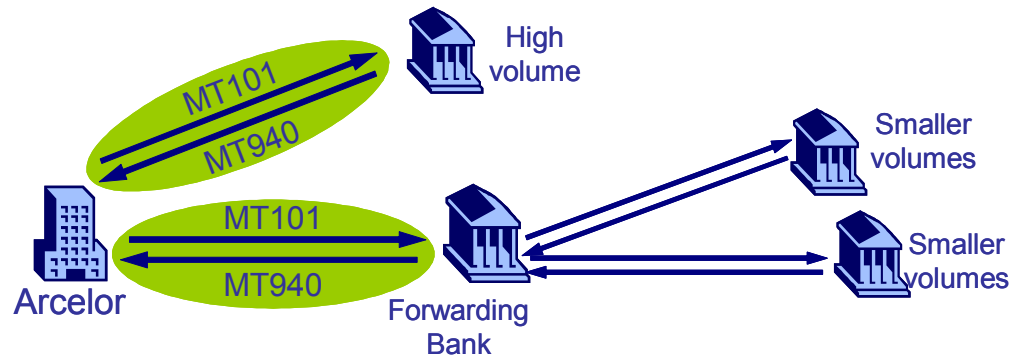
Solution implementation strategy

Implementation was broken down into three phases:

- **Phase I – Cash management pilot:** Arcelor Treasury communicated with one French bank via SWIFTNet through an MA-CUG. The French bank acted as the forwarding bank for all cross-border transfers initiated by Arcelor. A number of issues that existed when using a forwarding bank were successfully addressed



- **Phase II – Roll out cash management:** Arcelor Treasury established direct links with approximately 30 high volume banks and kept forwarding banks for smaller volumes. This resulted in Arcelor having to maintain a significantly lower number of links with its banking partners, thus lowering maintenance costs and fewer staff required to support the links



- **Phase III – Rolling out the payment factory:** Once the cash management phase was under way, Arcelor began to roll out its "Payment Factory," i.e., the centralization of all its commercial payments based on FileAct. This led to increased efficiencies in a number of areas such as the Treasury Back Office headcount. Before SWIFTNet four people could support cash pooling from 200 subsidiaries. ***With SWIFTNet the number of subsidiaries doubled to 400 but headcount remained constant***



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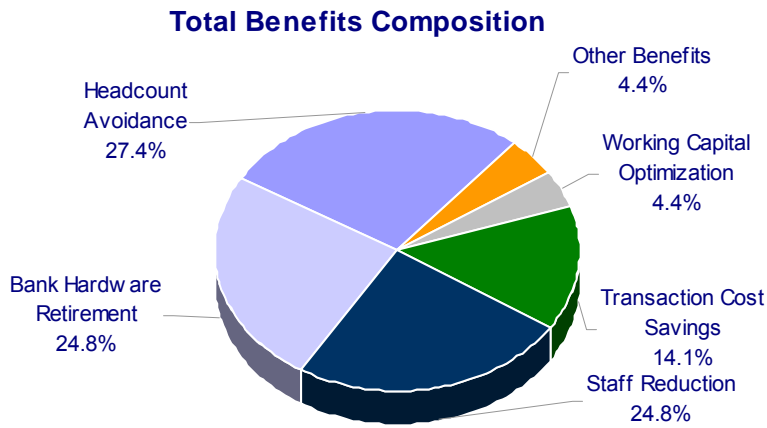


Technology Benefits

- **Consolidation onto a single, global financial messaging platform enhanced security, reliability and efficiency**
- Improved security: eliminating security gaps between the global banks and Arcelor Treasury
- Enhanced reliability: connectivity to SWIFT Network is 99.999% “up-and-running” versus 90% of the other existing systems
- The SWIFTNet solution increased efficiency; IT resources are now utilized more productively, (i.e. focusing on increasing automation of STP business processes)
- **Simple expansion process — faster connections at significantly lower costs**
- Prior to SWIFTNet, adding a new bank required from € 15K — € 20K annually (on a standard basis, e.g., ETEBAC5) and up to € 40K — € 50K to establish a new proprietary link. With SWIFTNet connections can be achieved easily and rapidly at a fraction of the original cost
- **Infrastructure costs and operational processes are steadily decreasing**
- Legacy systems are decommissioned, e.g., 60% of Accounting Statements have been moved to SWIFTNet and the goal is to have 100% by 2007, resulting in reduced operational costs of different systems
- Operational processing costs have decreased through improved STP, e.g., reduced the number of “physical transactions”

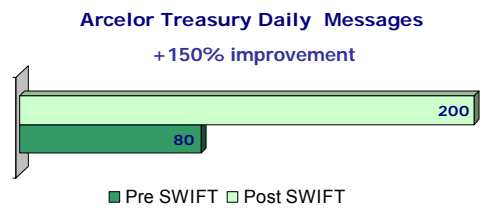
Quantitative Benefits for Arcelor’s Corporate Treasury

Thoughtware Worldwide’s analysis showed Arcelor’s Corporate Treasury generating € 9.8 million in Total Benefits over a period of five years from its investment in SWIFTNet — including significant operational and strategic benefits. Benefits are coming from the following areas as depicted in the following illustrations:



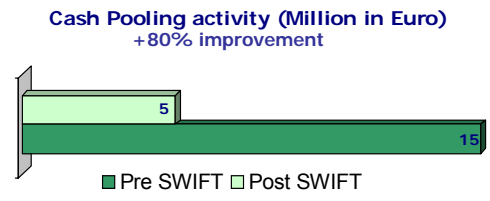
Transaction Cost Savings

Through the SWIFTNet solution, Arcelor Treasury is now performing an average of 200 transactions per day. Before SWIFTNet, it was performing only 80 transactions. By 2007, transaction volume is projected to grow to an average of 300 transaction messages per day. Given the lower cost structure, Arcelor will be able to save considerably on transaction costs, over the five year period, contributing around 14% of the total benefits



Working Capital Optimization

Due to SWIFTNet, cash aggregation volume increased substantially, by almost €10 million per bank, giving Arcelor’s Treasury the opportunity to reduce borrowing requirements or invest the additional capital more effectively. Based on Arcelor’s relationships with 40 major banks, using a conservative estimated gain of five basis points (bps), Arcelor will optimize its working capital by at least €0.43 million, contributing 4.4% of the total benefits





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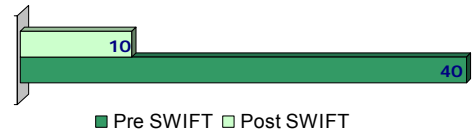
Business Benefits

- With SWIFTNet, Arcelor is better equipped to know exactly what volume goes through its banks, and is able to move its funds with greater efficiency and at a lower cost
- SWIFTNet provides a more accurate and consistent reporting structure. 60% of Account Reporting statements have been moved to SWIFTNet and the goal is to have 100% by 2007
- SWIFTNet improved Risk Management by:
 - Enhancing the monitoring of instrument exposures such as FX Rates
 - Significantly improved trade confirmation times (before SWIFTNet, 25 deals took hours for confirmation, now it takes less than 10 minutes) leading to more efficient trading limits management
 - Improving exceptions management; now performed on average 5 times a day, compared with only once daily prior to SWIFTNet
 - Introducing a fully automated matching process and instant warning on "Non Matching Transactions"
- SWIFTNet has improved cash pooling which has reduced Arcelor's need for capital markets borrowing, thereby reducing the cost of its working capital. The estimated benefit results in approximately €0.150 million per year

Staff Reduction

SWIFTNet implementation leads to staff & resource reallocation mainly in two major areas: in Treasury Back Office, with benefits in the area of 12.5% of total staff reduction, and, in Treasury Commercial Management and Finance with 87.5% respectively. All in all, staff reduction contributes around 25% to the total benefits gained

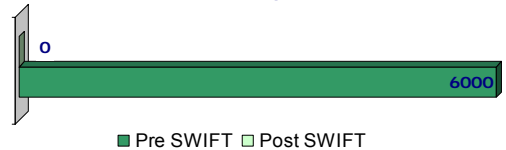
Commercial Management & Finance Headcount
+75% improvement



Paper Wires Cost Avoidance

By implementing SWIFTNet, Arcelor Treasury will be able to forego the 6,000 paper wires per year as all messages will become electronic. This translates to a cost avoidance savings of 2.9% of total benefits in a period of three years

Number Of Paper Wires Per Year
+100% improvement



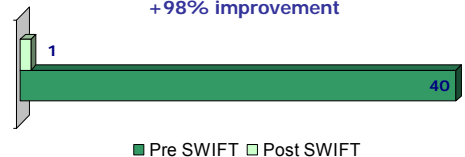
Headcount Avoidance

Major savings were identified from the labor resources needed to support the substantial increase in activities such as cash aggregation, and building the "Payment Factory." Arcelor's Back and Middle Offices would have needed to double the number of labor resources to accommodate the increase activities of cash aggregation from all the subsidiaries. Savings are in the area of 27% of the total benefits achieved

Bank Hardware Retirement

Due to the implementation of the SWIFTNet solution and to the "Payment Factory," Arcelor will be able to retire approximately 40 bank messaging systems, residing in its subsidiaries. Each messaging system cost Arcelor about €20K per year saving approximately 25% of the total benefits in a period of three years

Bank Hardware Retirement
+98% improvement



Other Quantifiable Benefits

Due to centralization of banking services of all group reporting functions, Arcelor is in a position to negotiate better terms with the Banks. This translated to about 1% savings in all banking contracts. Due to standardization of legal contracts, legal fees were reduced by about €16K in a period of three years



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“ SWIFTNet implementation was carried out within Budget and time limits ”

— Guillaume Despres
Head of Back Office
Arcelor Treasury SNC

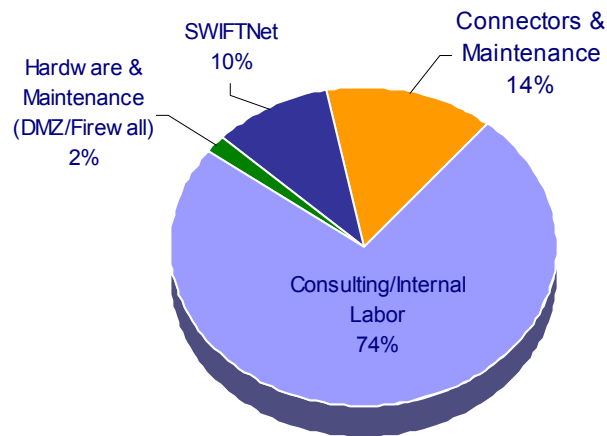
Total Investment Cost Breakdown

- **74% Consulting/Internal labor Cost**
 - 52% Internal Cost
 - 48% Consulting Cost (one full manager to oversee SWIFTNet)
- **16% Hardware Cost**
 - 89% (Connector, implementation, maintenance)
 - 11% Server & Data
- **10% SWIFTNet**

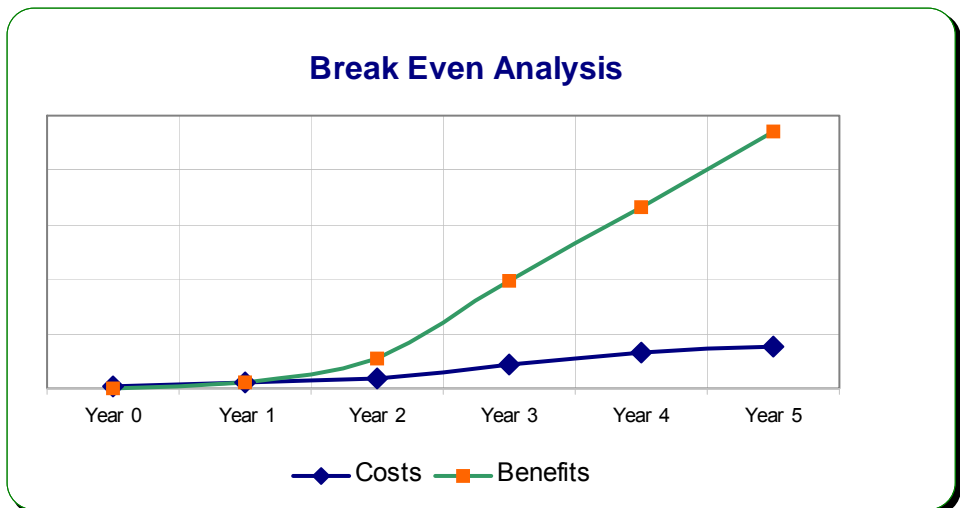
Quantifying the SWIFTNet investment — Costs Investment Costs

The total investment cost for the SWIFTNet implementation and maintenance reached €1.576 million. Its composition is depicted in the following illustration with the bulk of the investment cost driven by the implementation services (e.g., internal labor and consulting services)

Total Investment Cost Structure



- Internal labor costs represent approximately 52% of the total labor cost, while consulting costs represent 48%. One full time manager was assigned by the consulting firm, UTSIT, to oversee the implementation and maintenance of the project
- Total hardware cost needed for the SWIFTNet implementation amounted to 16% of the total investment cost, including SIDE costs (connector, implementation, maintenance and service) and Dell servers implementation and maintenance
- Finally, the initial SWIFTNet implementation cost contributed 10% to total investment cost, including administration costs, documentation and traffic messaging (domestic 20% and international 80%)





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Lessons Learned

About the Value Measurement Series

This study is one of a series of investigations into the costs and business returns of SWIFTNet investments. It is intended to serve business executives and managers who are evaluating investment options to improve the way they conduct Cash and Treasury Management.

This case study is based on original research and analysis conducted by Thoughtware Worldwide, LLC, an independent research and consulting firm. Thoughtware Worldwide's research included on-site interviews with members of Arcelor Corporate Treasury and reviews of company financial and planning documents.

Information contained in the publication has been obtained from sources considered reliable, but is not warranted by Thoughtware Worldwide, LLC, or S.W.I.F.T..

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For more information about this study, please visit: ThoughtwareWorldwide.com or contact your local SWIFT office.



Key success factors

- Efficient project management and coordination between Arcelor Treasury, SWIFTNet team, external consultants and its banks
- Transparency in project requirements and clear definition of project scope
- In-depth knowledge and experience within the project team of the banks' systems, capabilities, limitations, and each country's local requirements
- Obtain buy-in from all major project sponsors and stakeholders. Identify areas of possible resistance and address each in a timely and coordinated manner

Watch-outs

- Customization by banks and corporates can prevent Straight Through Processing
- Cooperating banks must have detailed understanding of both SWIFT and their internal bank systems
- Setting up specific agreements and contracts with banks can be time consuming and can cause delay in project implementation

Future Opportunities: Looking Forward

Achieving STP is only possible when the global financial community speaks the same language. Standard platforms, communication protocols, information definitions and usage will allow information to flow freely. The Thoughtware Worldwide, LLC study identified a number of areas where Arcelor Treasury can expect to harvest additional value (e.g., commercial payments, real time cash reporting) assuming the following challenges are overcome:

Bank Legacy Systems

Not all banks are able to provide a complete, data rich message back to the customer. Some fields are eliminated, others are truncated rendering the data useless and blocking the potential for STP by the corporates and banks. (elimination of data = reduced automation opportunities)

"Standards" need to become STANDARDS

"Full automation" and STP cannot be achieved when different message standards exist between entities. A single set of standards needs to exist between all links of the wing-to-wing payments and receipts value chain:

