ASX ANNOUNCEMENT
18 December 2006

PLAN TO BRING FORWARD PROPOSED MERGER AND RELATED BENEFITS

OneSteel Limited ("OneSteel") and Smorgon Steel Group Limited ("Smorgon Steel") today announced initiatives designed to bring forward a merger of the two companies and to deliver the anticipated significant benefits to their shareholders.

OneSteel Managing Director and CEO, Geoff Plummer and Smorgon Steel Managing Director and CEO, Ray Horsburgh, said the companies remained committed to completing the merger by Scheme of Arrangement announced on 26 June 2006 ("the Scheme"). Both company boards have unanimously voted to advance the implementation of the merger proposal under a new transaction structure ("New Transaction") if, by 31 January 2007, it becomes evident that completion via the Scheme is unlikely to occur within an acceptable timeframe.

The two companies will not proceed to put the New Transaction to shareholders until after 31 January 2007, allowing sufficient time to assess whether or not implementation of the Scheme can be achieved within an acceptable timeframe. The New Transaction is subject to Australian Competition and Consumer Commission ("ACCC") approval as well as approval from both Smorgon Steel and OneSteel shareholders. Subject to the timing of approval from the ACCC and receipt of appropriate tax rulings, it is expected that the New Transaction would be put to shareholders in late April 2007.

The New Transaction involves OneSteel acquiring all of the assets and liabilities of Smorgon Steel except Smorgon Steel's steel and metals distribution businesses, being Smorgon Steel Metals Distribution, Smorgon Steel Sheet Metal Supplies, Smorgon Steel Pipeline Supplies and Metalcorp Steel (which will remain with Smorgon Steel), and will assume effectively all of Smorgon Steel's debt, in exchange for OneSteel shares. The OneSteel shares would immediately be distributed to existing Smorgon Steel shareholders by way of an equal capital reduction.

Smorgon Steel will continue as an independent listed entity in the hands of its existing shareholders. The business will be a leading Australian steel distributor and will have a strong balance sheet, positioning it well for future growth.

In addition, as part of the commitment to bring forward the realisation of a portion of the synergies that both companies believe will be delivered by the merger, OneSteel and Smorgon Steel will form a 50/50 joint venture covering the manufacture of structural pipe and tube ("Joint Venture").

Implementation of the Joint Venture is independent of the New Transaction and is subject only to ACCC approval. The agreement to form the Joint Venture may be terminated by either party if, on or before 3 January 2007, any third party announces a takeover offer for all the shares in Smorgon Steel at a value in excess of $1.90 per share

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and on conditions which offer equal or superior certainty to Smorgon Steel shareholders as the proposed merger.

In making this announcement, Geoff Plummer, Managing Director and CEO of OneSteel, said “We are pleased to announce an alternative way to progress the merger with Smorgon Steel and to be able to accelerate the realisation of the expected synergies for the benefit of all shareholders. While we have not been able to meet the original timetable we had set ourselves for completion of the merger, the joint venture will enable us to begin realising some of the synergies and still allow us to proceed either via the Scheme or the New Transaction”.

“While we continue to regard the Scheme as the preferred method to complete the merger, the New Transaction will enable us to capture all the merger benefits.”

Ray Horsburgh, Managing Director and CEO of Smorgon Steel, added “at our AGM several weeks ago, we said we would work with OneSteel to bring forward the merger benefits. Today’s announcement outlines a process by which we will achieve that.”

“Our objective is to complete the merger with OneSteel and to ensure that our shareholders achieve the appropriate value for their shares. We believe either the Scheme or the New Transaction will do this”, he added.

In addition, Smorgon Steel and OneSteel have entered into a separate five year commercial agreement for the supply of scrap metal in New South Wales. Under this agreement, Smorgon Steel will supply to OneSteel all the ferrous scrap it collects and processes in New South Wales, except for that which it requires for its Waratah electric arc furnace and to meet the requirements of several foundries.

Details of the New Transaction

Under the New Transaction, OneSteel will acquire all of the assets and liabilities of Smorgon Steel except Smorgon Steel's steel and metals distribution businesses, being Smorgon Steel Metals Distribution, Smorgon Steel Sheet Metal Supplies, Smorgon Steel Pipeline Supplies and Metalcorp Steel and will assume effectively all of Smorgon Steel’s debt.

Smorgon Steel shareholders will receive between 0.2450 and 0.2711 OneSteel shares for each Smorgon Steel share they own and will retain their shares in Smorgon Steel.

Smorgon Steel will be entitled to declare a special fully franked dividend of 6.2 cents per Smorgon Steel share.

The number of OneSteel shares which Smorgon Steel shareholders will receive as part of the New Transaction will vary depending on the volume weighted average price of OneSteel shares traded in the ordinary course on the Australian Stock Exchange ("ASX") over a period of 10 trading days immediately following the receipt of all shareholder approvals ("the OneSteel VWAP"), as follows:

- If the OneSteel VWAP is between $3.75 and $4.15 per share, the number of OneSteel shares received by Smorgon Steel shareholders for each Smorgon Steel share will be that which is necessary to bring the value per Smorgon Steel share to approximately $1.02 (calculated as this dollar value divided by the OneSteel VWAP).
- If the OneSteel VWAP is less than or equal to $3.75, Smorgon Steel shareholders will receive 0.2711 OneSteel shares per Smorgon Steel share.
- If the OneSteel VWAP is greater than or equal to $4.15, Smorgon Steel shareholders will receive 0.2450 OneSteel shares per Smorgon Steel share.

Under these arrangements the implied value to Smorgon Steel shareholders from the New Transaction is shown below.

OneSteel VWAP	OneSteel shares received per Smorgon Steel share	Value of OneSteel shares received	Cash special dividend	Total
$3.55	0.2711	$0.96	$0.06	$1.02
$3.75	0.2711	$1.02	$0.06	$1.08
$3.95	0.2574	$1.02	$0.06	$1.08
$4.15	0.2450	$1.02	$0.06	$1.08
$4.35	0.2450	$1.07	$0.06	$1.13
$4.50[2]	0.2450	$1.10	$0.06	$1.16
$4.65[3]	0.2450	$1.14	$0.06	$1.20

Notes:
1 Some numbers in the above table have been rounded
2 The 1 month VWAP of OneSteel shares on ASX as at close of business on 15 December 2006 was $4.50
3 The closing price of OneSteel shares on ASX as at 15 December 2006 was $4.65

Additionally, Smorgon Steel shareholders will be entitled to receive the Smorgon Steel interim dividend for the six months ended 31 December 2006 which is expected to be 5.0 cents per share, fully franked.

After the distribution of OneSteel shares to them, Smorgon Steel shareholders will also continue to hold shares in a company which will be a leading Australian steel distributor, having a strong balance sheet and significant prospects for future growth. It is expected that Smorgon Steel will be renamed Smorgon Steel Distribution Limited ("Smorgon Steel Distribution"). Smorgon Steel Distribution is expected to earn (on a pro forma basis) EBITDA of around $80 million in the 12 months to 30 June 2007, and earnings per share of around 5.2 cents.

The New Transaction will be conditional upon two Smorgon Steel ordinary resolutions of shareholders, one to authorise the sale of assets to OneSteel and another to authorise an equal reduction of capital to pass the OneSteel shares issued to Smorgon Steel on to Smorgon Steel shareholders.

In the absence of a superior proposal, the New Transaction is unanimously recommended by the directors of Smorgon Steel, each of whom intends to vote all shares they personally hold in favour of the New Transaction. Two Smorgon Steel

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directors, Graham Smorgon and Laurence Cox, will still join the OneSteel Board of Directors if the New Transaction is approved and will retire from the Smorgon Steel Board.

A OneSteel shareholder vote by ordinary resolution will also be required to authorise the issue of OneSteel shares to Smorgon Steel. The directors of OneSteel unanimously recommend the New Transaction to OneSteel shareholders, and each intend to vote all shares they personally hold in favour of the New Transaction.

The New Transaction is subject to customary no-shop, no-talk, standstill and break fee arrangements. These and other key terms of the New Transaction implementation agreement are summarised in Attachment A.

The companies will not proceed to put the New Transaction to shareholders until after 31 January 2007. Subject to the timing of ACCC approvals and receipt of appropriate tax rulings, it is expected that the New Transaction would be put to shareholders in late April 2007.

Details of the structural pipe and tube joint venture

Smorgon Steel and OneSteel will contribute their respective structural pipe and tube manufacturing businesses (excluding land and buildings), being Smorgon Steel's Acacia Ridge plant and OneSteel's plants at Somerton and Newcastle, to form the Joint Venture.

Smorgon Steel's LiteSteel™ beam and OneSteel's precision tube and oil & gas manufacturing facilities will be excluded from the joint venture and will continue to be managed separately by the two respective companies pending implementation of the Scheme or the New Transaction.

The Joint Venture will have production capacity in excess of 500,000 tonnes per annum, and the formation of the joint venture is expected to enable the realisation of net synergies of between $10 million and $20 million per annum.

The Joint Venture would be owned on a 50/50 basis, with equal value being attributed to both businesses.

The Joint Venture will be managed as a standalone business and will deal with all parties (including OneSteel and Smorgon Steel Distribution businesses and other customers) on normal commercial terms. OneSteel and Smorgon Steel will jointly control the Board of Directors of the Joint Venture, appointing 2 directors each. Smorgon Steel will appoint the initial CEO and OneSteel will appoint the initial deputy CEO/CFO. The right to appoint the Chair of the Joint Venture Board will alternate between the parties on an annual basis.

Both OneSteel and Smorgon Steel will have standard pre-emption rights over the Joint Venture, which are as follows:

- Both shareholders must offer shares to the other shareholder before selling to a third party
- The price paid on exercise of pre-emption rights is either the price nominated by the seller or a price determined by an independent expert (at the non-selling shareholder's option)
- The non-selling shareholder may require the third party buyer to buy all of its shares
- If a deadlock on a material matter cannot be resolved by agreement / mediation, either shareholder may offer to sell their shares to the other shareholder at a price at which the other shareholder can either agree to buy or to sell their own shares
- A change in control of either shareholder triggers a right to buy that shareholder's shares at a price determined by an independent expert
- A material competitor, supplier or customer who obtains access to Joint Venture confidential information by agreement with, or through an appointment to the Board of, either shareholder triggers a right to buy that shareholder's shares at a price determined by an independent expert.

The agreement to form the Joint Venture may be terminated by either party if, on or before 3 January 2007, any third party announces a takeover offer for all the shares in Smorgon Steel at a value in excess of $1.90 per share and on conditions which offer equal or superior certainty to Smorgon Steel shareholders as the proposed merger.

OneSteel is advised by Allens Arthur Robinson and UBS.
Smorgon Steel is advised by Clayton Utz and Goldman Sachs JBWere.

For further information, please contact:

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Attachment A – Key Terms of the New Transaction Implementation Agreement ("NTIA")

The NTIA provides the framework for each of Smorgon Steel and OneSteel to implement the New Transaction.

The NTIA comes into effect if the Merger Implementation Agreement signed on 26 June 2006 ("MIA") is terminated by either party if BlueScope Steel Limited ("Bluescope") has not, by 31 January 2007, undertaken in writing and publicly announced its intention to support the Scheme of Arrangement announced by Smorgon Steel and OneSteel on 26 June 2006.

In broad terms, the NTIA provides for the following:

- the convening by each of Smorgon Steel and OneSteel of shareholder meetings to consider a proposal by which:
    - Smorgon Steel sells to OneSteel all of its businesses apart from the steel and metals merchandising arm of Smorgon Steel's steel and metals distribution businesses (which will remain with Smorgon Steel);
    - OneSteel issues new OneSteel ordinary shares to Smorgon Steel in consideration for that sale; and
    - simultaneously, Smorgon Steel distributes those new OneSteel shares to its shareholders via an in specie reduction of capital;
- the preparation of relevant shareholder documentation for the purposes of that shareholder approval;
- continued support for the New Transaction by each Board of Directors;
- relevant OneSteel and Smorgon Steel shareholder approval at a 50% threshold (ie. ordinary resolutions); and
- standstill and exclusivity arrangements not dissimilar in substance to those contained in the MIA, extended for a further period (see below).

Following implementation of the NTIA, Smorgon Steel will remain a listed company on the ASX, and focus on the steel and metals merchandising arm of Smorgon Steel's steel and metals distribution businesses (which will remain with Smorgon Steel), whilst OneSteel would merge the acquired metal recycling and manufacturing businesses of Smorgon Steel with its own businesses.

Conditions to the NTIA

Implementation of the New Transaction is subject to fulfilment of the following conditions:

(a) ACCC approval on terms which are acceptable to OneSteel and Smorgon Steel (to the extent that undertakings are required from Smorgon Steel);

(b) The receipt of relevant taxation rulings which are reasonably satisfactory to Smorgon Steel;

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(c) Other regulatory consents or approvals (including ASIC and ASX) on terms acceptable to both parties;

(d) No temporary restraining order, preliminary or permanent injunction or other order is issued by any court and no other legal restraint or prohibition is imposed;

(e) ASX approval to listing of OneSteel shares to be issued under the New Transaction;

(f) Smorgon Steel shareholder approval under ASX Listing Rule 11 and section 256C(1) of the Corporations Act;

(g) OneSteel shareholder approval pursuant to Listing Rule 7.1 and section 611, Item 7 of the Corporations Act being received for the issue of OneSteel shares;

(h) No Smorgon Steel or OneSteel "Prescribed Occurrence" or "Material Adverse Change" (each being defined terms under the NTIA: see attachment);

(i) S&P/ASX 200 Industrials index not falling below 4,500;

(j) An independent expert concluding that the New Transaction is in the best interests of Smorgon Steel shareholders;

(k) If considered necessary, an independent expert concluding that the issue of new OneSteel shares under the New Transaction is fair and reasonable for OneSteel shareholders; and

(l) The parties agree the terms of a Supply Agreement for the provision of products by OneSteel to Smorgon Steel after implementation, on terms consistent with an agreed terms sheet.

Implementation

Each party has discrete implementation obligations, including:

(a) preparation and despatch of respective explanatory memoranda by OneSteel and Smorgon Steel, including an obligation for Smorgon Steel to appoint an independent expert (and OneSteel to appoint a separate independent expert, if considered necessary);

(b) the convening by each of Smorgon Steel and OneSteel of a shareholder meeting;

(c) conduct of the business of each of OneSteel and Smorgon Steel in the ordinary course; and

(d) unanimous recommendation by each of the Boards of OneSteel and Smorgon Steel, subject to limited carveouts of a fiduciary nature and, in the case of Smorgon Steel, subject to the VWAP of OneSteel shares for the 15 trading day period up to the meeting of Smorgon Steel shareholders being less than $3.75.

Warranties and Indemnities

Mutual warranties and indemnities in relation to capacity, authorisation, no breach of or default under constitution and other material documents, financial statements give true and

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fair view, no breach of continuous disclosure obligations and the accuracy of information to be provided in the explanatory memoranda to be dispatched to shareholders.

Exclusivity

The NTIA provides for exclusivity undertakings similar to the MIA as follows:

(a) No-shop conditions: until the earlier of the date of termination of the NTIA and 30 June 2007 ('exclusivity period') each party must ensure that neither it nor any of its representatives take any actions with a view to obtaining any expression of interest or proposal from any person in relation to a competing proposal.

(b) No-talk conditions: subject to a fiduciary duties exception, during the exclusivity period, each party must ensure that neither it nor any of its representatives negotiates or enters into any negotiations or discussions with any person regarding a competing proposal.

(c) No-due diligence: subject to a fiduciary duties exception, during the exclusivity period, each party must not undertake or permit due diligence investigations on it or any of its subsidiaries where this would involve a breach of the no-shop conditions, or make available to any other person any non-public information relating to it or any of its subsidiaries.

(d) Notice of approach: subject to a fiduciary duties exception, during the exclusivity period, if it is approached by another person to engage in any activity that might lead to a breach of the no-shop, no-talk or no due diligence prohibitions, each party must notify the other of that fact, and if it responds to such an approach, of that fact also.

(e) Fiduciary duties exception: none of the above restrictions (other than the no-shop condition) apply in respect of unsolicited superior proposal where the Smorgon Steel Board or the OneSteel Board (as the case may be) reasonably determines that failing to respond to an approach would constitute a breach of fiduciary duties.

Termination Rights:

The NTIA contains the following termination rights:

(a) by either party for a failure of a Condition Precedent

(b) by either party for a material breach by the other party of the agreement, including representation or warranty

(c) by Smorgon Steel or OneSteel if the Smorgon Steel board endorses a superior competing proposal

(d) by Smorgon Steel if a majority of Smorgon Steel directors are unable to continue recommending the New Transaction because, based on appropriate advice, to do so would be a breach of their fiduciary duties

(e) by Smorgon Steel or OneSteel if the independent expert concludes the New Transaction is not in the best interests of Smorgon Steel shareholders

(f) by Smorgon Steel or OneSteel if the VWAP of OneSteel shares for the 15 trading day period up to the meeting of Smorgon Steel shareholders is less than $3.75.

(g) by OneSteel if any Smorgon Steel director is unable to continue recommending the New Transaction because, based on appropriate advice, to do so would be a breach of their fiduciary duties

(h) by Smorgon Steel or OneSteel if a OneSteel director is unable to continue recommending the New Transaction because, based on appropriate advice, to do so would be a breach of their fiduciary duties

(i) by OneSteel if the independent expert concludes the "Purchase Consideration" (being the number of OneSteel shares issued to Smorgon Steel under the New Transaction) is not fair and reasonable to OneSteel shareholders

(j) by OneSteel if a 2 week period of tax due diligence unveils material tax issues for OneSteel.

Standstill

(a) Until the NTIA is terminated, each of OneSteel and Smorgon Steel agree:

   (i) that they will not offer to purchase or otherwise acquire any shares in the other party until the NTIA is terminated; and

   (ii) that they will not co-operate with or assist any other person to acquire any shares in the other party,

   subject to the following ("**Standstill Exceptions**") not being publicly announced in good faith by a person which is not a party or a Related Entity or Representative of a party to this Agreement:

   (iii) a takeover offer for the other party;

   (iv) any other form of merger (whether by way of or involving a scheme of arrangement, reduction of capital, shareholder approval, constitutional change, reorganisation, issue or consolidation of capital) which involves a significant change (either directly or indirectly) to the nature or scale of the other party's activities; or

   (v) an acquisition of more than 10% of the shares in the capital of the other party by an unrelated third party (not being an institutional investor).

(b) Following the termination of the NTIA and until 16 August 2007, but subject to the Standstill Exceptions, OneSteel agrees that it will not buy any Smorgon Steel shares for consideration having a value of less than $1.90 per Smorgon Steel fully paid ordinary share.

(c) Until 6 months after the termination of the NTIA, OneSteel agrees it will not act in concert with BlueScope to make a takeover bid for Smorgon Steel at a price of less than $1.90.

Reimbursement of Costs

(a) OneSteel to pay Smorgon Steel a break fee for reimbursement of costs (including opportunity costs) of $15 million if Smorgon Steel terminates because:

(i) of a material breach by OneSteel;

(ii) of a change in OneSteel directors' recommendation;

(iii) a competing superior offer for OneSteel and the new Transaction does not complete; or

(iv) a OneSteel director is unable to continue recommending the New Transaction because, based on appropriate advice, to do so would be a breach of their fiduciary duties.

(b) Smorgon Steel to pay OneSteel a break fee for reimbursement of costs (including opportunity costs) of $15 million if Smorgon Steel terminates because:

(i) of a material breach by Smorgon Steel;

(ii) pursuant to a Competing Transaction another person unconditionally acquires at least 50% of Smorgon Steel;

(iii) Smorgon Steel terminates the agreement because:

(A) the Smorgon Steel board endorses a competing proposal; or

(B) a majority of Smorgon Steel directors are unable to continue recommending the New Transaction because, based on appropriate advice, to do so would be a breach of their fiduciary duties (except in circumstances where an independent expert's report concludes that the transaction is not in the best interests of Smorgon Steel shareholders, unless in response principally to a competing transaction or solely in response to a change in a director's recommendation);

(iv) OneSteel terminates the agreement because:

(A) the Smorgon Steel board endorses a competing proposal;

(B) a majority of Smorgon Steel directors are unable to continue recommending the New Transaction because, based on appropriate advice, to do so would be a breach of their fiduciary duties (except in circumstances where an independent expert's report concludes that the transaction is not in the best interests of Smorgon Steel shareholders, unless in response principally to a competing transaction or solely in response to a change in a director's recommendation);

(C) any Smorgon Steel director is unable to continue recommending the New Transaction because, based on appropriate advice, to do so would be a breach of their fiduciary duties (except in circumstances where an independent expert's report concludes

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that the transaction is not in the best interests of Smorgon Steel shareholders, unless in response principally to a competing transaction or solely in response to a change in a director's recommendation);

(D) a competing superior offer for Smorgon Steel and the New Transaction does not complete; or

(E) any Smorgon Steel director changes its recommendation and the New Transaction does not complete.

(c) Neither party will have to pay a break fee for reimbursement of costs if the relevant independent expert has made an unfavourable finding in relation to the New Transaction (i.e. that the New Transaction is not fair and reasonable to the Smorgon shareholders or that the purchase consideration being offered is not fair and reasonable to the OneSteel shareholders).

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SCHEDULE

"**OneSteel Material Adverse Change**" means matters, events or circumstances (including any change in law) which individually have or are reasonably likely to:

(a) diminish the value of net assets of the OneSteel Group by $72 million or more; or

(b) diminish EBITDA of the OneSteel Group, in the financial year of OneSteel in which the matter, event or circumstance occurs, by $38 million or more,

other than:

(i) the payment of the OneSteel 2006 Final Dividend and the OneSteel 2007 Interim Dividend;

(ii) those required to be done or procured by OneSteel pursuant to the NTIA;

(iii) those which Smorgon Steel and OneSteel agree in writing are not a OneSteel Material Adverse Change;

(iv) those arising from changes in general economic or business conditions in Australia or overseas, including changes in rates of corporate taxation and interest rates; or

(v) those fairly disclosed by OneSteel to Smorgon Steel in writing prior to the date of this Agreement.

"**OneSteel Prescribed Occurrence**" there being no “prescribed occurrence” in respect of OneSteel (broadly, the events listed in s652C of the Corporations Act) or disposal of the whole or a substantial part of the business or property, the acquisition or disposal of business or property in excess of $10 million or analogous events, other than similar exceptions to OneSteel Material Adverse Change.

"**Sale Group Material Adverse Change**" means matters, events or circumstances (including any change in law) which individually have or are reasonably likely to:

(a) diminish the value of net assets of the companies within the Smorgon Steel group that conduct the metal recycling and manufacturing businesses to be acquired by OneSteel ("Sale Group") by $44 million or more; or

(b) diminish EBITDA of the Sale Group, in the financial year of Smorgon Steel in which the matter, event or circumstance occurs, by $31 million or more; or

other than:

(i) those required to be done or procured by Smorgon Steel pursuant to NTIA, MIA or the joint venture shareholder's agreement;

(ii) those which OneSteel and Smorgon Steel agree in writing are not a Sale Group Material Adverse Change;

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(iii) those arising from changes in general economic or business conditions in Australia or overseas, including changes in rates of corporate taxation and interest rates; or

(iv) those fairly disclosed by Smorgon Steel to OneSteel in writing prior to the date of this Agreement.

"**Sale Group Prescribed Occurrence**" there being no “prescribed occurrence” in respect of the Sale Group or in certain circumstances Smorgon Steel (broadly, the events listed in s652C of the Corporations Act) or disposal of the whole or a substantial part of the business or property of the Sale Group, the acquisition or disposal by the Sale Group of business or property in excess of $10 million or analogous events, other than restructuring steps or other similar exceptions to Sale Group Material Adverse Change.

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