

ONESTEEL LIMITED

**PRO-FORMA FINANCIAL INFORMATION
FOR THE MERGED GROUP**

IN RESPECT OF THE MERGER

OF

ONESTEEL LIMITED

AND

SMORGON STEEL GROUP LIMITED

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Merged Group pro forma financial information

(a) Pro forma financial analysis

The pro forma financial information is based on the historical 30 June 2007 financial statements of Smorgon Steel and OneSteel and assumes the OneSteel Merger took place on 1 July 2006 for the Income Statement and Cash Flow Statement and 30 June 2007 for the Balance Sheet.

The following pro forma financial information is provided for the Merged Group:

- Pro forma summary historical income statement for the financial year ended 30 June 2007;
- Pro forma summary historical balance sheet as at 30 June 2007; and
- Pro forma summary historical cash flows statement for the financial year ended 30 June 2007.

The pro forma information assumes the divestment of the Smorgon Steel Distribution Business is completed before the formation of the Merged Group. It also assumes the Australian Tube Mills joint venture between OneSteel and Smorgon Steel established on 2 March 2007 is a 100% controlled entity of the Merged Group for all of the financial year ended 30 June 2007.

The pro forma information in this section is unaudited and has been presented in abbreviated form. It does not contain all the disclosures usually provided in financial statements prepared in accordance with the Corporations Act.

The unaudited pro forma financial information in this section is for illustrative purposes only. If the OneSteel Merger had occurred in the past, the financial position and operating results of the Merged Group would likely have been different from that presented in the pro forma financial information in this section.

(b) Key Assumptions

The accounting policies of OneSteel and Smorgon Steel are not considered to be materially different, therefore no adjustments have been made to the pro forma financial statements to align accounting policies.

The pro forma information of the Merged Group is based on AIFRS and has been compiled according to the following transaction assumptions:

(i) Merger

Under the OneSteel Merger, Smorgon Steel Shareholders received 0.4091 New OneSteel Shares.

A OneSteel Pricing VWAP of \$5.85 per share has been used in the pro forma financial information, being the OneSteel Pricing VWAP traded on the ASX in the normal course of trading during the 10 consecutive Trading Days following the Effective Date of the Scheme. As at the date of the Merger there were 724,559,853 Smorgon Steel Shares on issue resulting in 296,410,849 New OneSteel Shares being issued.

Prior to the OneSteel Merger becoming effective, OneSteel acquired all of BlueScope Steel's 179,124,278 SSX Shares for a cash price equivalent to \$6.10 per OneSteel

share. The cash payable to BlueScope Steel for its Smorgon Steel Shares was \$447 million.

(ii) **Dividends**

For the purposes of the pro forma financial information it is assumed that the Smorgon Steel Special Dividend of 6.23 cents per Smorgon Steel Share has been paid as at the date the OneSteel Merger is assumed to have taken place being 1 July 2006 for the Income Statement and Cash Flow Statement and 30 June 2007 for the Balance Sheet.

(iii) **Synergies and integration costs**

OneSteel expects the combination of the businesses to generate annual net EBITDA synergies of \$70 million in the third year following completion of the OneSteel Merger. This includes the synergies expected to be generated as part of the Joint Venture.

The synergies have not been included in the pro forma financial information.

The pro forma summary financial statements of the Merged Group do not reflect the costs of integration. One-off costs (excluding any asset write-offs) with an EBITDA impact of \$70 million have been estimated. The integration costs have not been included in the pro forma income statement as they are non-recurring in nature.

(iv) **Transaction costs**

OneSteel transaction costs totalling \$29 million have been included in the pro forma financial information. Of the total estimated cost, \$16 million had been incurred and capitalised as at 30 June 2007. The remaining \$13 million of these estimated costs will be incurred in the 2008 financial year and capitalised as part of the cost of acquisition.

Smorgon Steel transaction costs of \$64 million have been included in the pro forma financial information. These costs were expensed prior to the formation of the Merged Group on 20 August 2007.

Of the transaction costs expected to be incurred by Smorgon Steel, \$47 million are assumed to be deductible at the rate of 20% over each year for the current year and the succeeding four years for income tax purposes. The \$11 million of stamp duty and other Pre-Sale Restructure costs are included in the tax cost bases of the transferred assets as at the date of the Pre-Sale Restructure and form part of the tax cost base of the divested assets of the Smorgon Steel Distribution Business. The remaining transaction costs of \$6 million are assumed to be non-deductible.

(v) **AASB 3 "Business Combinations"**

The principles of AASB 3 "Business Combinations" have been applied in the pro forma financial information. At this time it is not practicable to perform fair value assessments of all Smorgon Steel assets, liabilities and contingent liabilities. As such, no specific fair value assessments have been made. For the purposes of the pro forma financial information, the current carrying values of the assets and liabilities of Smorgon Steel have been used. OneSteel expects that the most significant fair value assessments to be performed on completion of the OneSteel Merger will include, but not be limited to, the following:

- Fair value of property, plant and equipment and the consequent impact on depreciation expense;
- Identification and fair value determination of identifiable intangible assets and the consequent impact on amortisation expense;
- Deferred tax balances including the impact of tax consolidation;
- Fair value of inventory on hand; and
- Fair value of contingent liabilities.

The value of all consideration under the OneSteel Merger in excess of Smorgon Steel's existing identifiable net assets at book value has been classified within intangible assets. As no fair value assessment of Smorgon Steel's assets, liabilities and contingent liabilities has been performed at this time, no estimate of the depreciation and amortisation impact associated with any fair value adjustments has been reflected in the pro forma Income Statements.

(vi) **Smorgon Steel Distribution Business**

The financial information for the Smorgon Steel Distribution Business has been extracted from the records supporting the audited financial statements of Smorgon Steel for the financial year ended 30 June 2007.

The Smorgon Steel Distribution Business was sold on a debt free basis and as such no Smorgon Steel debt has been attributed to the Smorgon Steel Distribution Business in the financial information. However, for the purposes of the pro forma information, the proceeds from sale of the business of \$730 million (including the effect of a purchase price adjustment of \$30 million) and the associated impact on interest expense have been included in the Smorgon Steel Distribution Business financial information as described in this section.

The effective tax rate applicable to the Smorgon Steel Distribution Business is assumed to be 30%.

(vi) **Australian Tube Mills Joint Venture**

The financial information for the Australian Tube Mills joint venture has been extracted from the draft audited financial statements of Australian Tube Mills Pty Ltd for the financial year ended 30 June 2007.

For the purposes of the financial information, it is assumed the Australian Tube Mills joint venture established on 2 March 2007 is a 100% controlled entity of the Merged Group for all of the financial year ended 30 June 2007.

(vii) **Other**

The financial information used in the pro forma summary income statement has been adjusted for material non-recurring items. The financial information used in the Smorgon Steel 30 June 2007 pro forma summary cashflow statement has been adjusted for a non-recurring item, being the proceeds from a property sale of \$14 million.

The cost of interest bearing liabilities associated with funding the OneSteel Merger, including the proceeds received from the divestment of the Smorgon Steel Distribution Business, the proceeds paid to acquire BlueScope Steel's holding of Smorgon Steel shares, the payment of the Smorgon Steel Special Dividend and the transaction costs incurred by both OneSteel and Smorgon Steel, is assumed to be 7.2% per annum.

(c) Pro forma Summary Income Statement

This section outlines the pro forma summary income statement of the Merged Group for the year ended 30 June 2007. It is based on AIFRS as if the OneSteel Merger took place on 1 July 2006 and incorporates:

- The summary income statement of OneSteel for the financial year ended 30 June 2007, which has been extracted from the audited financial statements of OneSteel for the financial year ended 30 June 2007.
- The summary income statement of Smorgon Steel for the financial year ended 30 June 2007, which has been extracted from the audited financial statements of Smorgon Steel for the financial year ended 30 June 2007.

Normalised net profit refers to statutory profit before the effect of any non-recurring items.

The pro forma summary income statement of the Merged Group for the period is calculated by aggregating the separate line items for OneSteel and Smorgon Steel, net of any adjustments as described below.

- The pro forma income statement has been adjusted for the divestment of the Smorgon Steel Distribution Business.
- The pro forma income statement has been adjusted to include the Australian Tube Mills joint venture established on 2 March 2007 as a 100% controlled entity of the Merged Group for all of the financial year ended 30 June 2007.
- As described in section 1.1(b)(iii), no pro forma adjustment has been made for synergies or any integration costs.
- Interest on funds received from the divestment of the Smorgon Steel Distribution Business, funds paid to acquire BlueScope Steel's holding of Smorgon Steel Shares, payment of the Smorgon Steel Special Dividend and transaction costs incurred by Smorgon Steel and OneSteel in relation to the transaction have been included in the pro forma income statement at an assumed rate of 7.2 % per annum.
- Intercompany sales between Smorgon Steel and the Smorgon Steel Distribution Business of \$293.1 million for the financial year ended 30 June 2007 have been included in Sales Revenue as a pro forma adjustment. It has been assumed that the reversal of unrealised profit in stock will not impact on net profit.
- Intercompany sales between OneSteel and Smorgon Steel (excluding the Smorgon Steel Distribution Business) of \$74.1 million for the financial year ended 30 June 2007 have been eliminated in Sales Revenue as a pro forma adjustment. It has been assumed that the reversal of unrealised profit in stock will not impact on net profit.

Pro forma Summary Income Statement – financial year ended 30 June 2007

	OneSteel \$m	Smorgon Steel \$m	Smorgon Steel Distribution business \$m	Pro forma adjustments \$m	Merged Group \$m
Sales Revenue	4,300.6	3,767.1	(1,435.6)	312.7	6,944.8
EBITDA	436.1	316.6	(80.7)	7.9	679.9
Depreciation	(96.2)	(66.4)	8.0	(3.9)	(158.5)
EBIT	339.9	250.2	(72.7)	4.0	521.4
Net borrowing costs	(55.8)	(81.6)	-	9.5	(127.9)
Net profit before tax	284.1	168.6	(72.7)	13.5	393.5
Income tax expense	(74.7)	(34.2)	21.8	(6.8)	(93.8)
Net profit after tax	209.4	134.4	(50.9)	6.7	299.7
Minority Interests	(11.9)	-	-	-	(11.9)
Normalised net profit attributable to members of Merged Group	197.5	134.4	(50.9)	6.7	287.8

(d) Pro forma Summary Balance Sheet

This section outlines the pro forma balance sheet of the Merged Group as though the OneSteel Merger was effective on 30 June 2007. The pro forma summary balance sheet of the Merged Group as at 30 June 2007 has been based on:

- The consolidated historical balance sheet of OneSteel as at 30 June 2007, which has been extracted from the audited financial statements of OneSteel for the financial year ended 30 June 2007; and
- The consolidated historical balance sheet of Smorgon Steel as at 30 June 2007 which has been extracted from the audited financial statements of Smorgon Steel for the financial year ended 30 June 2007.

The pro forma summary balance sheet of the Merged Group is derived by aggregating the separate line items for OneSteel and Smorgon Steel and after making the pro forma adjustments as described below:

- The pro forma balance sheet has assumed the divestment of the Smorgon Steel Distribution Business.
- The pro forma balance sheet has been adjusted to include the Australian Tube Mills joint venture established on 2 March 2007 as a 100% controlled entity of the Merged Group for all of the financial year ended 30 June 2007.
- The pro forma balance sheet has been adjusted for the Smorgon Steel Special Dividend.
- As described in section 1.1(b)(iii), no pro forma adjustment has been made for synergies or any integration costs.
- The pro forma summary balance sheet includes the transaction costs related to the OneSteel Merger of \$29 million. Taking this into account, together with the acquisition value of the equity issued of \$1,734.9 million and cash paid to acquire BlueScope Steel's holding of Smorgon Steel shares of \$447.3 million, this would result in a total acquisition cost of \$2,211.2 million which is \$1,107.9 million in excess of Smorgon Steel's implied pro forma net assets of \$1,103.3 million. As noted in section 1.1(b)(v) this excess has been classified within intangible assets which has not been split into its individual components at this stage.
- The equity value of the Merged Group is the aggregate of the equity value of OneSteel as at 30 June 2007 of \$1,650.0 million plus \$1,734.9 million of new equity issued at an exchange ratio of 0.4091 OneSteel Shares per Smorgon Steel Share on issue.
- Transaction costs of \$53 million related to the OneSteel Merger expected to be expensed as incurred by Smorgon Steel have been reflected as a pro forma adjustment to retained earnings on a net of tax basis.
- Intercompany debtors and creditors between Smorgon Steel and the Smorgon Steel Distribution Business of \$17.2 million have been included as a pro forma adjustment.
- Intercompany debtors and creditors between OneSteel and Smorgon Steel (excluding the Smorgon Steel Distribution Business) of \$6.2 million have been eliminated as a pro forma adjustment.

- As described in section 1.1(b)(v) for the purposes of the pro forma financial information the current carrying values of the assets and liabilities of Smorgon Steel have been used.

Pro forma Summary Balance Sheet as at 30 June 2007

	OneSteel \$m	Smorgon Steel \$m	Smorgon Steel Distribution business \$m	Pro forma adjustments \$m	Merged Group \$m
Assets					
Cash and cash equivalents	59.5	25.4	-	7.2	92.1
Trade and other receivables	640.9	538.5	(247.2)	120.3	1,052.5
Inventories	836.3	493.8	(254.0)	123.0	1,199.1
Property, plant & equipment	1,564.4	537.3	(79.1)	84.4	2,107.0
Intangible assets	214.3	893.3	(244.4)	1,237.2	2,100.4
Other assets	254.1	260.2	(3.8)	(296.3)	214.2
Total assets	3,569.5	2,748.5	(828.5)	1,275.8	6,765.3
Liabilities					
Trade and other payables	637.8	507.8	(286.5)	147.7	1,006.8
Interest bearing liabilities and derivative financial instruments	900.3	1,123.3	(730.1)	580.9	1,874.4
Provisions	195.2	152.9	(18.3)	(42.0)	287.8
Other liabilities	186.2	17.8	-	7.4	211.4
Total liabilities	1,919.5	1,801.8	(1,034.9)	694.1	3,380.4
Net assets	1,650.0	946.7	206.5	581.7	3,384.9
Equity					
Contributed equity	1,153.6	1,174.7	-	560.2	2,888.5
Reserves	12.8	(5.9)	-	5.9	12.8
Retained profits	420.3	(222.1)	206.5	15.6	420.3
Minority interests	63.3	-	-	-	63.3
Total equity	1,650.0	946.7	206.5	581.7	3,384.9

(e) Pro forma Summary Cash Flow Statement

This section outlines the pro forma summary cash flow statement of the Merged Group for the financial year ended 30 June 2007. It is based on AIFRS as if the OneSteel Merger took place on 1 July 2006 and incorporates:

- The summary cash flow statement of OneSteel for the financial year ended 30 June 2007 which has been extracted from the audited financial statements of OneSteel for the financial year ended 30 June 2007.
- The summary cash flow statement of Smorgon Steel for the financial year ended 30 June 2007 which has been extracted from the audited financial statements of Smorgon Steel for the financial year ended 30 June 2007:

Net cash inflow / (outflow) refers to cashflow before the effect of non-recurring items (as referred to in paragraph (b)(vii) above), the payment of dividends, proceeds from repayment of borrowings and the repayment of finance leases.

The pro forma summary cash flow statement of the Merged Group is calculated by aggregating the separate line items for OneSteel and Smorgon Steel, net of any adjustments as described below.

- The pro forma cash flow statement has been adjusted for the divestment of the Smorgon Steel Distribution Business.
- The pro forma cash flow statement has been adjusted to include the Australian Tube Mills joint venture established on 2 March 2007 as a 100% controlled entity of the Merged Group for all of the financial year ended 30 June 2007.
- As described in section 1.1(b)(iii), no pro forma adjustment has been made for synergies or any integration costs..
- Interest on proceeds received from the divestment of the Smorgon Steel Distribution Business, funds paid to acquire BlueScope Steel's holding of Smorgon Steel Shares, the payment of the Smorgon Steel Special Dividend and transaction costs incurred by Smorgon Steel and OneSteel in relation to the transaction have been included in the pro forma cash flow statement at an assumed rate of 7.2% per annum.

The pro forma summary cash flow statement excludes the cash inflow from the divestment of the Smorgon Steel Distribution Business, the cash paid to acquire BlueScope Steel's holding of Smorgon Steel shares, and the Smorgon Steel Special Dividend as these cash flows are incurred prior to the formation of the Merged Group. In addition, transaction costs related to the OneSteel Merger expected to be paid by OneSteel and Smorgon Steel have been excluded from the pro forma summary cash flow statement.

Pro forma Summary Cash Flow Statement – financial year ended 30 June 2007

	OneSteel \$m	Smorgon Steel \$m	Smorgon Steel Distribution business \$m	Pro forma adjustments \$m	Merged Group \$m
EBITDA	436.1	316.6	(80.7)	7.9	679.9
Working capital and other	(40.3)	(139.1)	(25.7)	1.7	(203.4)
Cash generated from operations	395.8	177.5	(106.4)	9.6	476.5
Interest paid	(52.2)	(86.6)	-	9.5	(129.3)
Tax paid	(67.1)	(33.9)	21.8	(3.4)	(82.6)
Capital expenditure	(357.9)	(88.5)	14.7	(1.8)	(433.5)
Acquisitions, divestments and other	8.8	(21.7)	-	-	(12.9)
Cashflow from shares purchased	(2.0)	-	-	-	(2.0)
Net cash inflow / (outflow) before dividends	(74.6)	(53.2)	(69.9)	13.9	(183.7)