

onesteel

SMORGONSTEEL



OneSteel / Smorgon Steel recommended proposal

**“Creating the pre-eminent steel and metals
company in Australia”**

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Agenda

- 1** Transaction summary
- 2** Strategic rationale
- 3** Benefits for Smorgon Steel and OneSteel shareholders
- 4** Profile of OneSteel post transaction
- 5** Conclusion
- 6** Appendices

Introduction

- The proposed transaction represents the next step in the restructuring of the Australian steel industry
- The transaction will further streamline the industry providing:
 - Lower cost and more efficient steel production
 - Platform from which to more effectively compete on a global scale
- OneSteel and Smorgon Steel are substantially complementary businesses
- By combining the two businesses OneSteel can:
 - Provide more comprehensive and competitive products and services to both OneSteel and Smorgon Steel customers
 - Leverage the iron ore and recycling businesses to create new opportunities
 - Achieve significant cost savings providing benefits for shareholders and customers
 - Pursue larger and more attractive growth opportunities
- In essence combining the two companies would create a stronger and more competitive entity with new horizons for growth

Transaction summary

- OneSteel and Smorgon Steel have reached an agreement under which OneSteel will acquire all of the shares in Smorgon Steel
 - Transaction to create the pre-eminent steel and metals company in Australia
- Smorgon Steel shareholders to receive a mix of OneSteel shares and cash
 - Implied value of \$1.76¹ per Smorgon Steel share
 - Smorgon Steel shareholders also entitled to the Smorgon Steel final dividend which will be 5 cents per share fully franked
- Transaction to be implemented by way of a Smorgon Steel scheme of arrangement
- The transaction has been unanimously recommended by Smorgon Steel directors, in the absence of a superior proposal
- Each of the Smorgon Steel directors intends to vote in favour of the proposal with respect to all scheme shares they personally hold, in the absence of a superior proposal

Note:

1. Assumes a OneSteel VWAP of between \$3.75 and \$4.15 over the 10 trading days immediately after the effective date of the scheme of arrangement. OneSteel's closing share price was \$3.95 on the ASX on 23 June 2006 (the last trading day prior to the date of this announcement)

Transaction summary (continued)

- Transaction expected to create significant benefits for both OneSteel and Smorgon Steel shareholders
 - Significant premium for Smorgon Steel shareholders (headline 31.8% premium to Smorgon Steel's 1 month VWAP¹)
 - Net EBITDA synergies expected to be \$70 million per annum (by the end of the third full year after the transaction)
 - Expected to be EPS accretive (pre non-recurring items and amortisation) in the first full year
 - Smorgon Steel shareholders would hold 39% of OneSteel post transaction
- Following implementation, OneSteel intends to divest (via demerger) the steel and metal merchandising arm of the Smorgon Steel distribution businesses
- Integration risk is expected to be low as the nature of Smorgon Steel's businesses is generally within OneSteel's areas of expertise
- Graham Smorgon and Laurence Cox to join the OneSteel Board as non-executive directors

Notes:

1 Smorgon Steel 1 month VWAP of \$1.34 as at 23 June 2006

Transaction structure

- Smorgon Steel shareholders will receive a fixed value of \$1.76¹ per Smorgon Steel share provided that OneSteel's VWAP during the 10 trading days immediately after the effective date of the scheme is between \$3.75 and \$4.15
- Smorgon Steel shareholders will receive 9 OneSteel shares plus between \$1.37 and \$4.97 for every 22 Smorgon Steel shares
 - on a per share basis this equates to approximately 0.4091² OneSteel shares plus between 6.2³ and 22.6⁴ cents cash per Smorgon Steel share
- This structure provides downside protection to Smorgon Steel shareholders
 - the implied value of the proposal remains at \$1.76 per Smorgon Steel share while the OneSteel VWAP is between \$3.75 and \$4.15
 - the implied value per Smorgon Steel share will exceed \$1.76 if the OneSteel VWAP exceeds \$4.15
- Smorgon Steel shareholders may be entitled to 'scrip for scrip' CGT rollover relief on the share component of the consideration under the proposal⁵

Notes:

1. Assumes a OneSteel VWAP of between \$3.75 and \$4.15 over the 10 trading days immediately after the effective date of the scheme of arrangement
2. The actual fraction of OneSteel shares received is 9/22 OneSteel shares per Smorgon Steel share
3. The actual fraction of the lower end of this share consideration range is 137/22 cents per Smorgon Steel share
4. The actual fraction of the upper end of this share consideration range is 497/22 cents per Smorgon Steel share
5. The availability of 'scrip for scrip' CGT rollover relief on the share component of the consideration will depend on shareholders' individual tax circumstances

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- 2 **Strategic rationale**
- 3 **Benefits for Smorgon Steel and OneSteel shareholders**
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- 6 **Appendices**

Compelling strategic rationale for the transaction

1 Corporate benefits

- Stronger company
- Growth opportunities
- Financial flexibility

2 Customer and market benefits

- Increased ability to service customers
- New product and service offerings
- Diversity and scope of operations

3 Competitive benefits

- More competitive business
- Improved raw material integration and opportunity
- Diversified revenue streams

1

Corporate benefits—Stronger company

OneSteel would become a more efficient and competitive steel and metals company

- Pro-forma revenues in excess of A\$5.5 billion¹
- EBITDA of approximately \$700 million^{1,2}
- Approximately 10,000 employees
- Expanded steel production capacity of 2.7 million tonnes
- Integrated—from iron ore, scrap recycling through steel long and specialty products to steel and metal merchandising
- Increased production flexibility
- Wider product range
- Enhanced geographical footprint

Notes:

1. Sales and EBITDA are based on the average of current broker estimates for OneSteel and Smorgon Steel for the year ending 30 June 2006 less sales and EBITDA from the steel and merchandising arm of the Smorgon Steel distribution business. For details of the calculation of the average of current broker estimates please refer to footnote 1 on slide 22 of this presentation
2. Includes full pro-forma synergies of \$70 million

1 Corporate benefits—Growth opportunities

Opportunities for improved product range and new business structures

- With a stronger earnings profile and increased financial scale and associated balance sheet strength there is an increased ability to examine and undertake growth opportunities
- OneSteel post transaction would have greater international coverage, exposure and expertise with greater capacity for domestic and overseas expansion
- Opportunities exist for growth in recycling, LiteSteel™ beam and grinding media and also the establishment of a broader footprint in Asia
- Leverage OneSteel's enhanced raw material integration position, hedging opportunities and expanded domestic and international footprint
- Harness the integration of complementary product lines in areas such as rail and mining products



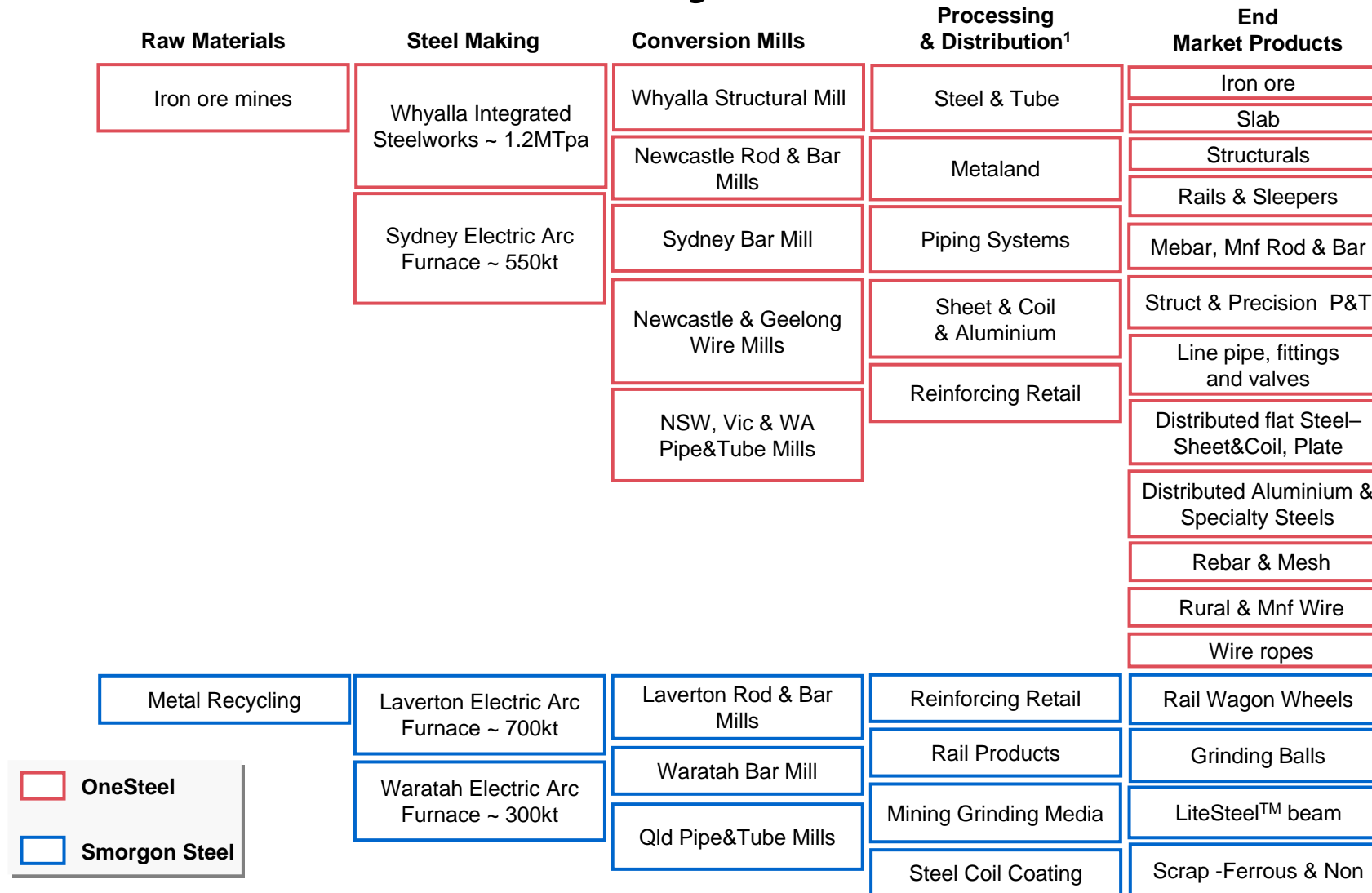
Corporate benefits—Financial flexibility

OneSteel's financial scale increases flexibility and funding options

- OneSteel may be in a position to negotiate more attractive arrangements on company debt going forward
- The transaction would result in OneSteel gaining additional weighting in major indices and additional investor attention
 - OneSteel expected to rank well inside the top 100 companies on the ASX
- With a larger market capitalisation there should be a deeper market for OneSteel shares, with greater liquidity
- Working capital benefits through efficiencies in supply chain management

2

Customer benefits— Increased ability to service customers



Note:

1. Based on OneSteel divesting (via demerger) the steel and metal merchandising arm of the Smorgon Steel distribution businesses

2

Customer benefits—New revenue streams

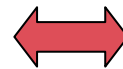
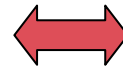
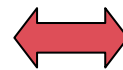
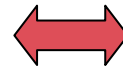
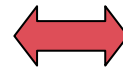
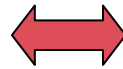
Build on existing product and service offering through extending product range
 Many common customers, markets and service offerings

OneSteel product and service range

- Rail—rail line, sleepers, clips
- Mining—mine mesh, rail, product used in strata control systems, pipes valves and fittings, mining rope, general steel supply
- Construction—reinforcing steel, structural sections, merchant bar, pipe and tube
- Manufacturing—rod and bar, wire, pipe and tube
- Steel making raw materials—iron ore
- International trading—iron ore, slab, steel products

Smorgon Steel additional product offerings

- Rail—rail wheels and axles
- Mining—grinding media
- Construction—LiteSteel™ beam
- Coil Colour Coating business
- Ferrous and non-ferrous scrap recycling
- Ferrous and non-ferrous scrap steel and offshore trading capability

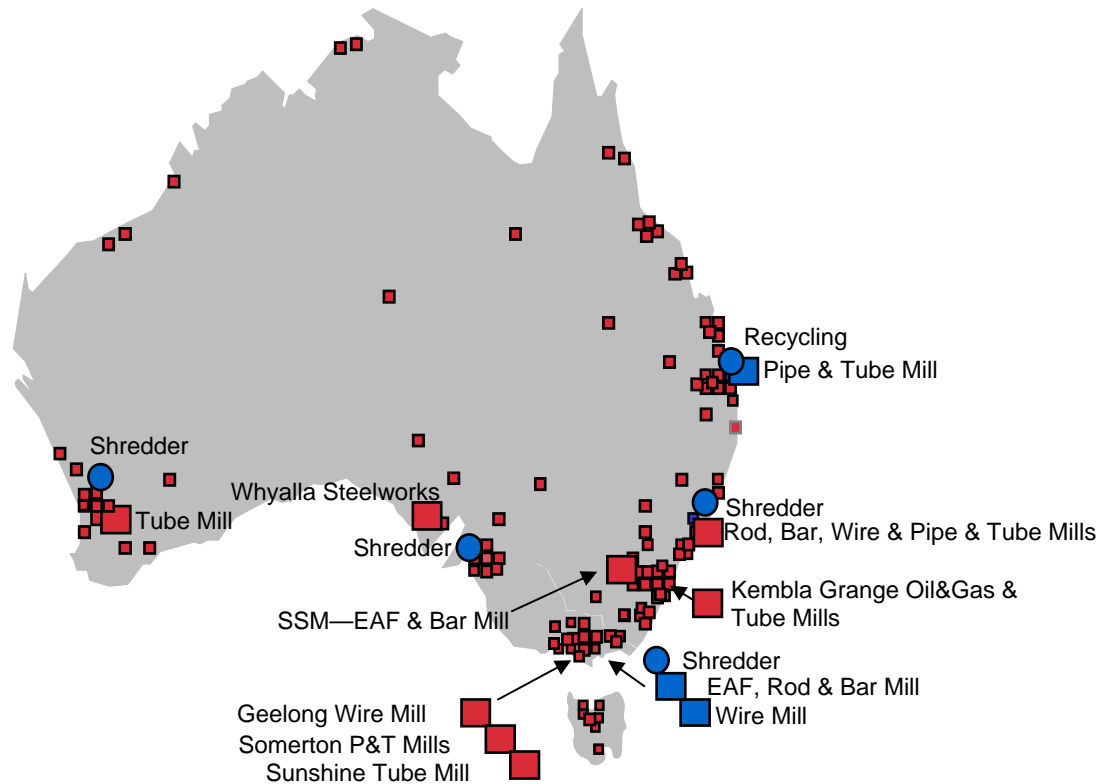


2

Customer benefits— Diversity and scope of operations

Over 200 sites across Australia and more than 10 offshore provides a solid platform for growth

OneSteel operations post transaction



Offshore sites

OneSteel

- NZ Distribution

Smorgon Steel

- Recycling operations—HK, Malaysia, Thailand, Philippines, USA
- Trading offices—Vietnam, China, HK, India, NZ, and England
- Grinding media operations—Indonesia and USA

- Smorgon Steel Recycling key sites
- OneSteel manufacturing
- Smorgon Steel manufacturing sites
- OneSteel Distribution and Reo sites

3

Competitive benefits— More competitive business

Significant synergies are expected to arise as a result of the transaction

- Annualised net EBITDA synergies of \$70 million are expected by the end of the third full year following the transaction
 - The timing of these synergies is expected to be approximately 35% in the first full year, approximately 70% in the second full year and 100% by the third full year following the transaction
 - Synergies are net of asset disposals¹ and potential sales leakage
- Significant benefits in supply chain management
 - Better alignment of operations with customer base
 - Opportunities in relation to logistics
 - Working capital savings
- One-off implementation costs of \$70 million are expected
 - 50% of these one-off implementation costs are expected to be incurred in the first full year and 50% in the second full year following the transaction

Note:

1. Based on OneSteel divesting (via demerger) the steel and metal merchandising arm of the Smorgon Steel distribution businesses

3

Competitive benefits—Raw materials

Integration/hedging and growth opportunities

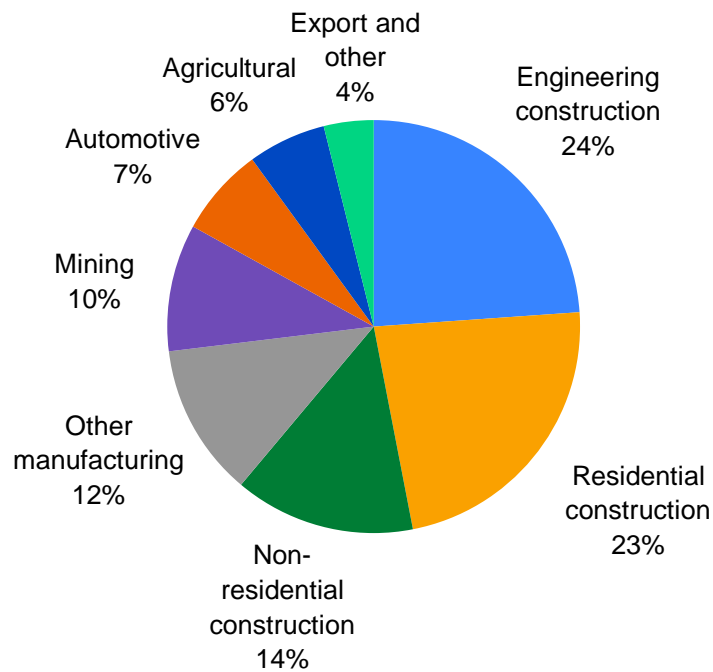
- With planned iron ore production of approximately 6.0 million tonnes per annum and scrap processing of approximately 1.4 million tonnes per annum OneSteel would have a stable supply of raw materials
 - Buffer for steel making against adverse movements in the price of either commodity
 - As an integrated manufacturer this is expected to reduce the variability of OneSteel's input costs
- OneSteel will also be in a position to generate improving returns from the revenue streams associated with iron ore and scrap
 - Long in both iron ore and scrap which are both in attractive markets
 - Current investments in both segments providing platform for future earnings improvement

3

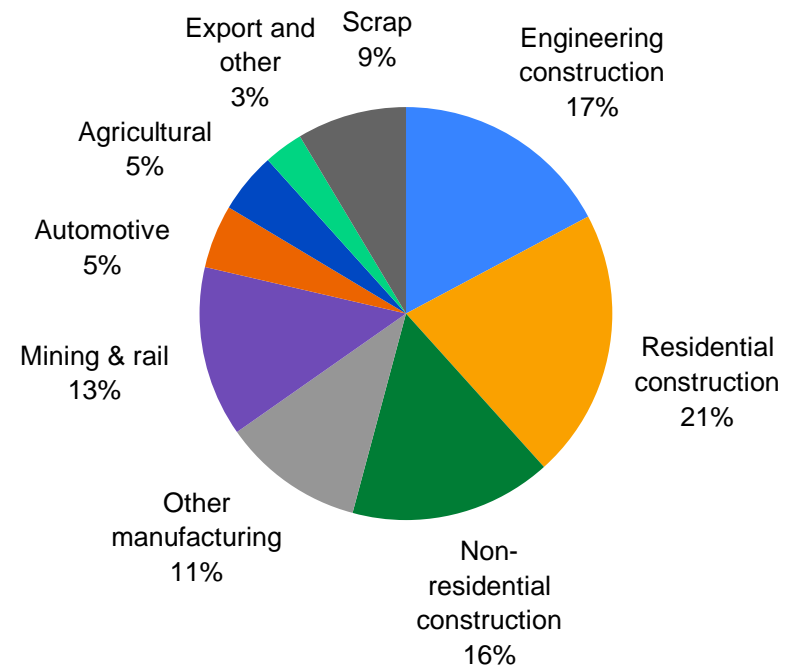
Competitive benefits— Diversified revenue streams

OneSteel's revenue would be more diversified

**OneSteel stand alone FY2005
revenue drivers**



**OneSteel post transaction
pro-forma FY2005 revenue drivers¹**



Note:

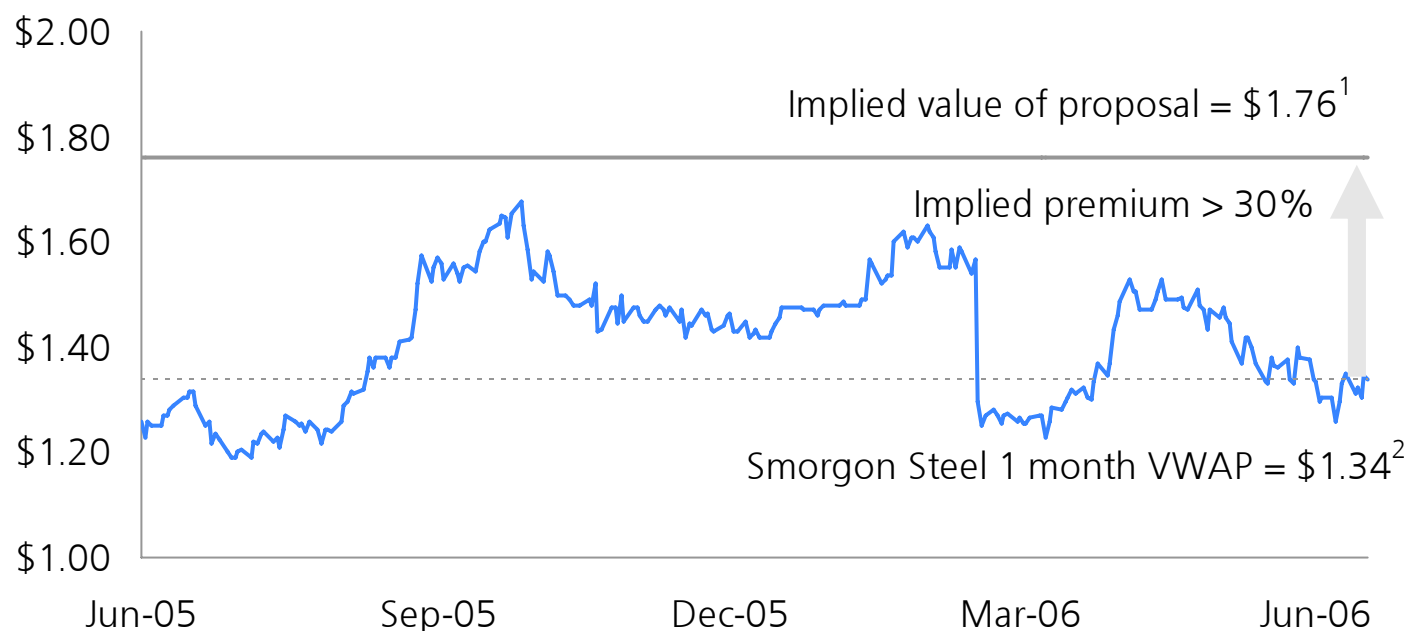
1. Based on OneSteel divesting (via demerger) the steel and metal merchandising arm of the Smorgon Steel distribution businesses

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Significant premium

- The implied value of \$1.76¹ per Smorgon Steel share represents a substantial premium for Smorgon Steel shareholders
 - 31.8% premium to Smorgon Steel's 1 month VWAP of \$1.34 on 23 June 2006
 - Taking into account the Smorgon Steel final dividend of 5 cents per share this is a 35.6% premium to Smorgon Steel's 1 month VWAP



Source: IRESS

Notes:

1 Assuming a OneSteel VWAP of between \$3.75 and \$4.15 over the 10 trading days immediately after the effective date of the scheme of arrangement

2 Smorgon Steel 1 month VWAP as at 23 June 2006

Consideration

Implied value of \$1.76 per Smorgon Steel share

| OneSteel VWAP ¹ | | OneSteel shares ² | | Cash ^{3,4} | = | Implied value of the proposal | Implied premium to 1 month VWAP ⁵ | Implied premium to 1 month VWAP (including final dividend) ^{5,6} |
|----------------------------|---|------------------------------|---|---------------------|---|-------------------------------|--|---|
| \$3.55 | x | 0.4091 | + | \$0.23 | = | \$1.68 | 25.7% | 29.4% |
| \$3.75 | x | 0.4091 | + | \$0.23 | = | \$1.76 | 31.8% | 35.6% |
| \$3.95 | x | 0.4091 | + | \$0.14 | = | \$1.76 | 31.8% | 35.6% |
| \$4.15 | x | 0.4091 | + | \$0.06 | = | \$1.76 | 31.8% | 35.6% |
| \$4.35 | x | 0.4091 | + | \$0.06 | = | \$1.84 | 38.0 % | 41.7 % |

Notes:

- 1 OneSteel VWAP over the 10 trading days immediately after the effective date of the scheme of arrangement
- 2 The actual fraction of OneSteel shares received is 9/22
- 3 The actual fraction of the lower end of this share consideration range is 137/22 cents per Smorgon Steel share
- 4 The actual fraction of the upper end of this share consideration range is 497/22 cents per Smorgon Steel share
- 5 Smorgon Steel one month VWAP as at 23 June 2006 was \$1.34
- 6 Includes Smorgon Steel final dividend of 5 cents per share. One month VWAP as at 23 June 2006 was \$1.34

Opportunity to hold shares in expanded OneSteel

- Opportunity to hold shares in a more efficient and competitive manufacturer and distributor of long products throughout Australia
 - Smorgon Steel shareholders can participate in the value expected to be created by the transaction including the significant synergies and strategic benefits
 - Smorgon Steel shareholders can also share in the benefits of Project Magnet - an attractive, value-creating long-term project, that builds on OneSteel's competitive advantage of owning low-cost, high-quality iron ore
- OneSteel and Smorgon Steel shareholders benefit from expected earnings per share accretion
- Sharemarket benefits also exist
 - Smorgon Steel shareholders would hold shares in company with greater weighting in indices and greater investor attention
 - Smorgon Steel shareholders would also have greater liquidity in their shares with a larger free-float
- Smorgon Steel shareholders may be entitled to 'scrip for scrip' CGT rollover relief¹
- Smorgon Steel shareholders would also not incur any brokerage costs or stamp duty in relation to the transfer of shares under the proposal

Note:

1. The 'scrip for scrip' CGT rollover relief is available only on the share component of the consideration under the proposal. The availability of 'scrip for scrip' CGT rollover relief on the share component of the consideration will depend on shareholders' individual tax circumstances

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Profile of OneSteel post transaction

Indicative key statistics—pro-forma FY2006

| | OneSteel ¹ | Smorgon Steel ¹ | Subtotal ² | Less Distribution adjustment ^{3,4} | Pro forma ^{4,5} |
|----------------------|-----------------------|----------------------------|-----------------------|---|--------------------------|
| External sales (\$m) | 4,068 | 3,127 | 7,195 | ~ 1,400 | ~ 5,700 |
| EBITDA (\$m) | 408 | 312 | 720 | ~ 90 | ~ 700 |
| EBIT (\$m) | 314 | 248 | 562 | ~ 80 | ~ 550 |
| Employees | 7,400 | 5,800 | 13,200 | ~ 1,700 | ~ 11,500 |

Source: Average of current broker estimates, company announcements, OneSteel, Smorgon Steel

Notes:

1. External sales, EBITDA and EBIT for OneSteel and Smorgon Steel are based on the average of current broker estimates for the year ending 30 June 2006. For OneSteel these are calculated from nine broker research reports available to OneSteel and Smorgon Steel dated over the period 21 February 2006 to 21 June 2006 (based on the most recent available report for each broker where more than one report has been released over this period). The range of broker sales estimates was \$3,936 million – \$4,313 million, with an average of \$4,068 million. The range of broker EBITDA estimates was \$396 million – \$414 million, with an average of \$408 million. The range of broker EBIT estimates was \$301 million – \$319 million, with an average of \$314 million. For Smorgon Steel these are calculated from nine broker research reports available to OneSteel and Smorgon Steel dated over the period 4 April 2006 to 21 June 2006 (based on the most recent available report for each broker where more than one report has been released over this period). The range of broker sales estimates was \$2,895 million – \$3,289 million, with an average of \$3,127 million. The range of broker EBITDA estimates was \$294 million – \$329 million, with an average of \$312 million. The range of broker EBIT estimates was \$225 million – \$264 million, with an average of \$248 million. No other broker reports from that period of which OneSteel is aware (other than any which were not available to OneSteel and Smorgon Steel) were omitted from the calculation of this average. The Directors of OneSteel and Smorgon Steel do not adopt this average as their own forecast in relation to OneSteel or Smorgon Steel, and are not providing any such forecast
2. Excludes synergies
3. Based on OneSteel divesting (via demerger) the steel and metal merchandising arm of the Smorgon Steel distribution businesses
4. Approximation only. Further detail to be provided in the Explanatory Memorandum to the scheme
5. Full pro-forma synergies of \$70 million included in pro-forma EBITDA and EBIT

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Conclusion

The proposed transaction is expected to create significant benefits

-
- Net EBITDA synergies expected to be \$70 million per annum
 - EPS accretive (pre non-recurring items and amortisation) in the first full year
 - Significant premium to Smorgon Steel shareholders

It is the next step in the streamlining of the Australian steel industry

-
- Provides a stronger platform to compete domestically and internationally

A stronger company is established

-
- Revenues in excess of \$5.5 billion, EBITDA in excess of \$700 million, over 10,000 employees and 200 sites across Australia and over 10 offshore with greater diversification

Increased ability to service customers

-
- Wider product range, more extensive geographical manufacturing footprint, streamlined supply chain management

Improved security of raw material supply

-
- The addition of a scrap recycling business alongside OneSteel's iron ore business

Growth opportunities through new revenue streams

-
- New businesses and products with scrap, railway wheels and axles, grinding media and LiteSteel™ beam

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Appendices

- 1** Transaction structure
- 2** Conditions
- 3** Funding structure
- 4** Timetable

1

Transaction structure

- Smorgon Steel shareholders will receive a fixed value of \$1.76¹ per Smorgon Steel share
- Smorgon Steel shareholders will receive 9 OneSteel shares plus between \$1.37 and \$4.97 for every 22 Smorgon Steel shares
- Smorgon Steel shareholders will also receive the final dividend for FY2006 of 5 cents per share fully franked
- The size of the cash component will vary with the OneSteel VWAP
 - if the OneSteel VWAP is between \$3.75 and \$4.15 per share, the Cash Component will be equal to \$1.76 less the value of the share component. Smorgon Steel shareholders will receive a fixed value of \$1.76 per share, comprised of 0.4091² OneSteel shares plus the cash component;
 - if the OneSteel VWAP is less than \$3.75, Smorgon Steel shareholders will receive 0.4091² OneSteel shares plus a cash component of 22.6³ cents per Smorgon Steel share; and
 - if the OneSteel VWAP is greater than \$4.15, Smorgon Steel shareholders will receive 0.4091² OneSteel shares plus a cash component of 6.2⁴ cents per Smorgon Steel share

Notes:

1. Assumes an OneSteel VWAP of between \$3.75 and \$4.15 over the 10 trading days immediately after the effective date of the scheme of arrangement
2. The actual fraction of OneSteel shares received is 9/22 OneSteel shares per Smorgon Steel share
3. The actual fraction of the upper end of this share consideration range is 497/22 cents per Smorgon Steel share
4. The actual fraction of the lower end of this share consideration range is 137/22 cents per Smorgon Steel share

2

Conditions

- All regulatory and governmental approvals and consents, including ACCC clearance
- No Smorgon Steel or OneSteel "Prescribed Occurrence" or "Material Adverse Change"
- 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
- ASX approval to listing of OneSteel shares to be issued under scheme
- S&P/ASX 200 Industrials index not falling below 4,500
- Independent expert determines in best interests of Smorgon Steel shareholders
- Shareholder approval of the scheme by requisite thresholds
- Court approval of the scheme

3

Funding structure

Sources and uses funds¹

Uses

| | |
|--|---------------|
| No. of Smorgon Steel shares (m) ² | 904 |
| Implied value per share | <u>\$1.76</u> |
| Equity value (\$m) | 1,590 |
| Net debt (\$m) ^{3,4} | <u>1,073</u> |
| Enterprise value (\$m) ⁴ | <u>2,663</u> |

Sources

| | | |
|---------------------------------------|--------------|-------------|
| Equity (\$m) | 1,460 | 53% |
| Smorgon Steel debt (\$m) ³ | 1,073 | 40% |
| External debt (\$m) ⁴ | <u>130</u> | <u>7%</u> |
| Total funding (\$m) | <u>2,663</u> | <u>100%</u> |

Notes:

1. Assumes an OneSteel VWAP of \$3.95 over the 10 trading days immediately after the effective date of the scheme of arrangement (equivalent to OneSteel's closing share price on the ASX on 23 June 2006, the last trading day prior to the date of this announcement)
2. Includes Smorgon Steel Senior Executive Performance Shares
3. Net debt as at 31 December 2005
4. Excludes transaction costs

4

Timetable

- The proposed timetable is
 - the Scheme Booklet expected to be issued by early September 2006
 - Smorgon Steel Shareholder meeting to approve scheme of arrangement expected to be in October
 - the process of demerging the Smorgon Steel distribution business expected to begin in November following the implementation of the merger
- Timetable above is subject to ACCC assessment