

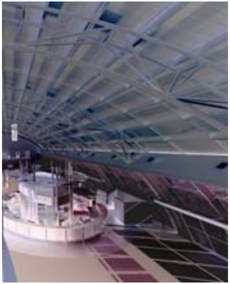


The Steel Market – From Bear to Bull

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American Chamber of Commerce Business Briefing

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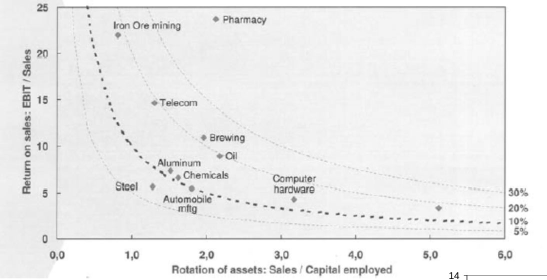
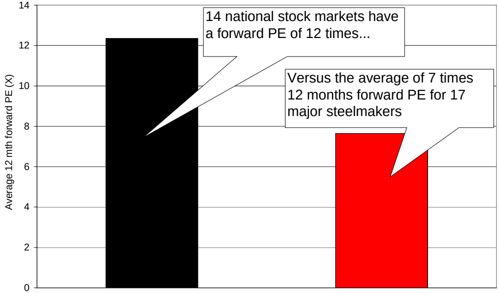
The global steel landscape has changed

- Period from 1970 to 2000
  - Global over-capacity
    - 800 million tonnes demand
    - 950 million tonnes capacity
  - Too much government ownership
    - Almost 75% of global steel industry state-owned and run in late 1980s
  - Fragmented industry
    - 95 players produced more than 2 million tonnes per annum
    - Top player only produced 5% of total production
  - Historically steel companies unable to pay their cost of capital across the cycle
- Today
  - China's industrialisation, on an unprecedented scale, has fuelled one of the biggest resource booms in memory.
  - Demand now exceeds 1.1 billion tonnes, with China accounting for 25% -30%
  - Government ownership dropped to an estimated 23%
  - Some consolidation is occurring
  - Mega or niche to succeed

Historically steel companies haven't paid their cost of capital across the cycle…



…and trade at a discount to other industrial stocks

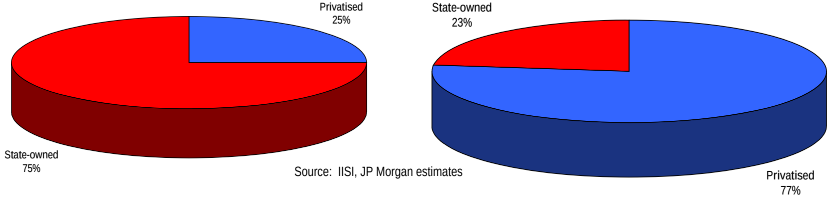


Source: Credit Suisse Equity Research

Structural Changes to the Global Steel Industry

Structural changes to steel sector - Privatisation

Ownership of global steel industry – late 1980s versus today



Source: IISI, JP Morgan estimates

- In the late 1980s almost 75% of the global steel industry was state-owned and run

- Steel production was viewed as part of nation building by several countries and a convenient way of creating employment and development in key political regions

- Access to the government's balance sheet meant that capital costs were often ignored when an investment in new capacity was brought online. This led to a situation of global oversupply

- As governments began to realise that running steel mills for social well being was not sustainable, they began the slow process of reform and privatisation

- Today it is estimated that around 23% of the global steel industry remains under state ownership with the vast majority of those mills located in China

- The industry is now predominantly operated for profit with steel companies weighing the very high capital costs more heavily in the investment decision to bring on new capacity

- Today it is very difficult to economically build a new blast furnace without financial aid from governments

- The privatisation of the steel industry has radically changed the structure of the global steel industry

Source: JP Morgan research 2005

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Structural changes to steel sector - Consolidation

•Regional consolidation has been a key feature of the global steel industry over the last 5 years

•The driver to consolidation was arguably the industry's move to privatisation

•During 2001 more than 36 US steel companies filed for bankruptcy and consolidation began as healthy steel companies began buying the assets of bankrupt steel companies

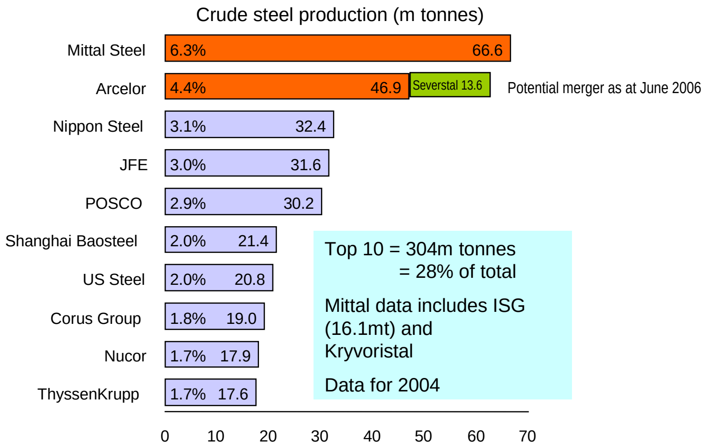
•Consolidation has also accelerated in Europe, Latin America and Asia (ex-China) and several giant, multi-national steel companies including Arcelor and Mittal Steel have emerged

•Consolidation of the Chinese steel industry has not been on a large scale but could gain momentum as capitalism evolves and privatisation occurs

•The consolidation of the global steel industry has been a major factor in the more rational and disciplined approach to bringing on new capacity that has been a feature of this steel cycle.

Source: JP Morgan research 2005

Evidence of 5-company top tier emerging



Top 10 = 304m tonnes
= 28% of total

Mittal data includes ISG (16.1mt) and Kryvoristal

Data for 2004

Source: CRU, CRU Steel Conference, Barcelona, 7 March 2006

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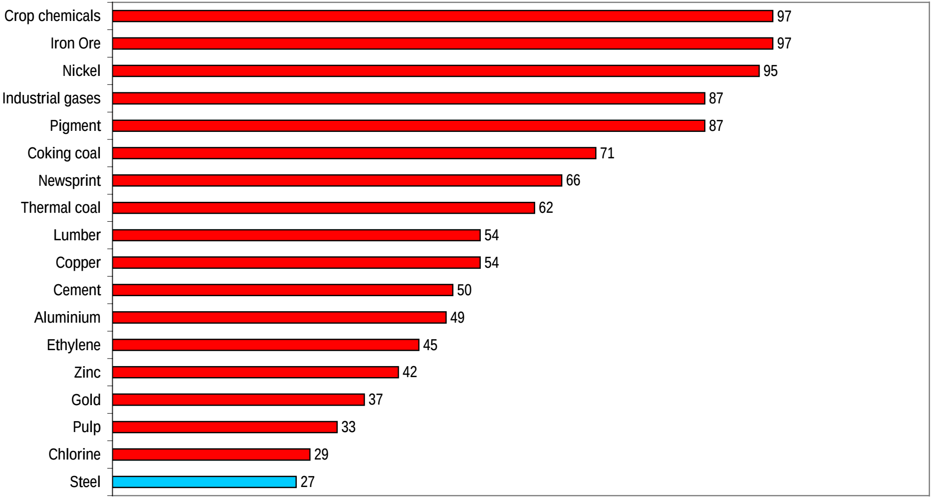
For now steel industry remains less concentrated than other base metal industries

Top 10 Market Share (%)



Source: Hatch Associates, Joint India/OECD/IISI Workshop, New Delhi, India, 16-17 May 2006

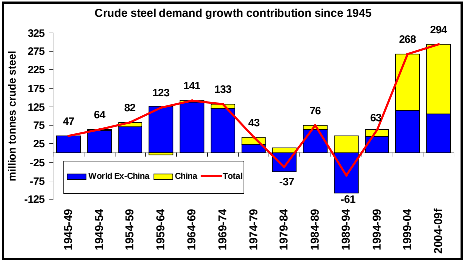
China's industrialisation is having a dramatic impact on the global steel industry

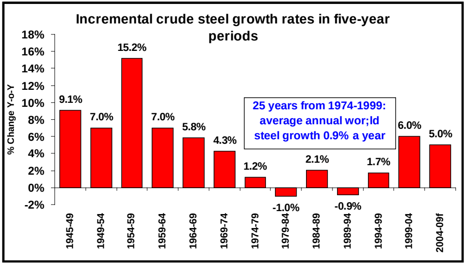
Overview – China's increasingly dominant role

- China has fuelled one of the biggest resource booms in memory in steel, steelmaking raw materials, coal, coke and a wide range of commodities
  - China went from 7–10% of world demand for the main base metals in 1993 to 20–25% of world demand in 2003. Generally around 25% in 2005
  - Even allowing for a slowdown from current growth rates, China is likely to account for over 30% of world demand by 2010 and more than 40% by 2020
- China is treading a well-worn path to development already trodden by most Western countries – only difference is the size
- The Chinese government has espoused hugely ambitious goals for development out to 2020 (quadrupling GDP)

Source: Macquarie Research Commodities, China's impact on world freight markets – role of bulk commodities, McCloskey's European Coal Outlook Conference, Nice, France, 22-23 May 2006

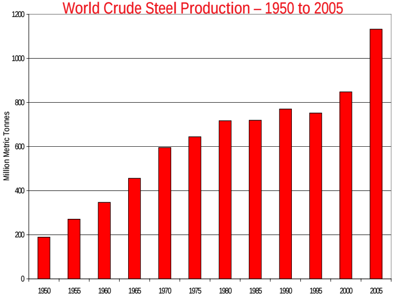
China has caused a massive acceleration in world steel demand growth since 1999





Source: Macquarie Research Commodities, China's impact on world freight markets – role of bulk commodities, McCloskey's European Coal Outlook Conference, Nice, France, 22-23 May 2006

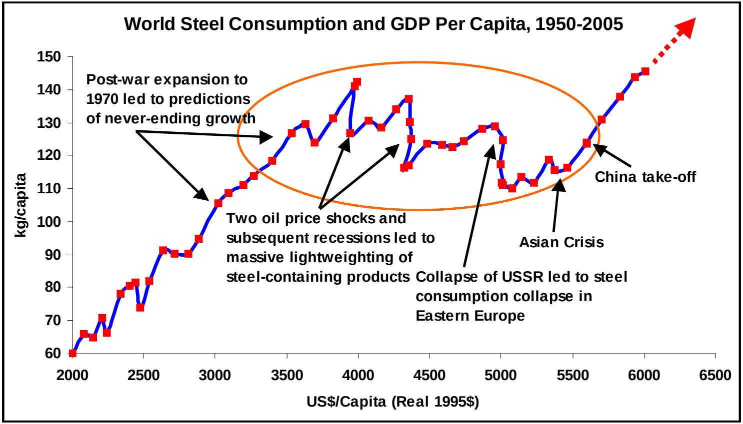
- Annual world steel demand growth back to 5–6% for first time since the 1960s
- Quantum of growth in five year periods is now huge, leading to large investment requirements in steel and raw material capacity
- Trend rate of growth may accelerate in next decade…



Source: International Iron and Steel Institute, World Steel in Figures 2006

China's impact on global steel demand…

…and 2005 was a slowdown year



Source: IISI, World Bank, Macquarie Research, May 2006

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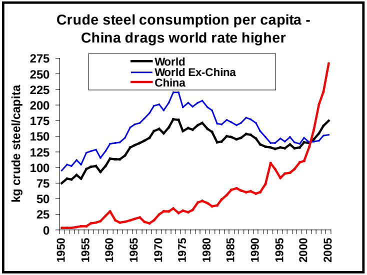
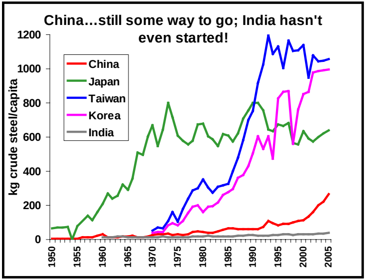
Chinese growth – stronger, protected and sustainable

- Drivers of growth are the same as for other developing economies – urbanisation, huge pent up demand for infrastructure and consumer durables, exports/import substitution – Chinese underlying trends still strong for steel, at least as strong as GDP growth of 7–8% pa trend
- Main issue in China is relieving bottlenecks to allow growth to proceed – problems arise when bottlenecks become binding, as they did last year (power, coal, rail, raw materials, etc)
- Sources of investment funding – domestic savings/retained earnings – insulated from vagaries of global financial system
- Large trade surplus and foreign exchange reserve base are hugely positive for sustainability of growth
- China is essentially profitable with huge productivity gains continuing to offset margin erosion – overcapacity is needed and encourages productivity improvements

Source: Macquarie Research Commodities, Metal Bulletin's Iron Ore Conference, Athens, 30 May – 1 June 2006

China per capita consumption – still some way to go by Asian standards





- China's per capita consumption has grown dramatically over the past 10 years and is now well above the world average
- Some suggest saturation in urban areas and a likely sharp slowdown in future growth

- Experience of Japan, Korea and Taiwan suggests that if current growth momentum continues there is still at least another 10 years of rapid growth to go…
- India hasn't really started yet…

Source: IISI, World Bank, Macquarie Research, May 2006

The Australian Steel Industry

The Australian Steel Market

The Australian steel industry has capacity of 7.6 million tonnes

- Long products – domestic market less fragmented than international markets
  - 2 major players
  - 2.6 million tonnes
  - Aligned to domestic market
  - Both long products players have significant downstream distribution businesses
- Flat products
  - One major player
  - 5.0 million tonnes
  - Large proportion exported

Benefits of proposed transaction between OneSteel and Smorgon Steel

- Growth
  - Both OneSteel and Smorgon Steel have recently announced exciting and complementary growth options including Project Magnet, the LiteSteel™ beam and expansions in metal recycling that offer shareholders diverse sources of potential earnings growth into the future

- Stronger company
  - With pro forma revenue in excess of $5.5 billion[1], EBITDA in excess of $700 million[1] and more than 10,000 employees, the combined entity will become the pre-eminent domestic manufacturer and distributor of steel and metal products

- More competitive business
  - Various long-term strategic benefits are expected to be realised through efficiencies in manufacturing operations, improved facility utilisation, improved supply chain management, production, distribution and other savings providing benefits to customers and enabling improved ability to compete against imports

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. EBITDA includes full pro forma synergies of $70 million. Approximate only. Further detail will be provided in the Explanatory Memorandum to the scheme of arrangement.

Benefits of proposed transaction between OneSteel and Smorgon Steel

- Increased ability to service customers
  - A more diverse geographical manufacturing footprint and wider range of products and services provides the ability to streamline and improve the efficiency of the combined supply chains of the companies
  - In addition it is also expected to increase the products and services being offered to customers

- Diversity and size of operations
  - Following the proposed transaction, OneSteel expects to have an enhanced regional footprint with over 200 sites across Australia and more than 10 offshore offices and operations. This presence is expected to provide a solid platform for growth in new and existing markets

- Expected synergies
  - The combination of the businesses is expected to generate net EBITDA synergies of $70 million per annum by the third full year after completion of the proposed transaction. These synergies are net of expected asset disposals and potential sales leakage from combining the two businesses

Benefits of proposed transaction between OneSteel and Smorgon Steel

- New revenue streams developed
  - The combination of OneSteel and Smorgon Steel's operations will allow OneSteel to offer an extended product offering to customers and will facilitate the development of new business structures (e.g. a "rail infrastructure" business unit covering wheels and bogeys, rails, sleepers, etc) generating greater value for customers and the potential for new revenue opportunities

- Improved security of raw material supply
  - The combined business will enjoy improved security of raw material supply via OneSteel's long term iron ore resources through Project Magnet and Smorgon Steel's scrap recycling business. It is also expected to be more competitive through the natural hedges associated with these improved raw material supply arrangements

- Increased liquidity
  - Following the proposed transaction, OneSteel will be a stronger Australian company which is expected to rank well inside the top 100 companies on the ASX. This should provide greater liquidity for investors and facilitate greater interest from domestic and international investors

Conclusion

The proposed transaction is expected to create significant benefits	•Net EBITDA synergies expected to be $70 million pa •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[1], 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 footing, 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

1. Excludes expected synergies

The global steel landscape has changed

- In the past steel companies were unable to cover their cost of capital through the cycle
- Privatisation and consolidation have resulted in an improved industry structure. This has created a situation in which companies are now more profit-focused instead of being focused on tonnes as they were in the past. This change is evident by the production-constraint seen this cycle
- China's industrialisation brings much greater supply/demand balance albeit with periods of price volatility arising from over-supply and over-demand
- India, Brazil and Eastern Europe are expected to follow a similar path of industrialisation, meaning steel could enjoy a prolonged period of strong growth in demand
- The fundamentals of the steel industry have improved significantly over the last 10 years or so
- Looking at the international market and at what is happening in China we need to ensure that we keep up with the pace of change