



5 April 2007

The Manager, Companies
Companies Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
Sydney NSW 2000

[13 pages]

Dear Madam

OneSteel, Smorgon Steel and BlueScope Steel finalise agreement

Please find attached an announcement regarding the agreement reached between OneSteel, Smorgon Steel and BlueScope Steel.

Yours faithfully,

P. V. Liddell
Company Secretary

[Attachment]



ASX ANNOUNCEMENT

5 April 2007

SMORGON STEEL, ONESTEEL AND BLUESCOPE STEEL FINALISE AGREEMENT

Smorgon Steel Group Ltd (ASX: SSX), OneSteel Limited (ASX: OST) and BlueScope Steel Limited (ASX: BSL) announced today that the due diligence investigation and contractual negotiations referred to in their joint announcement of 20 March 2007 have been successfully concluded and formal agreements have been executed.

The agreements are consistent with what was announced to the market on 20 March 2007, the key aspects of which are as follows:

- Smorgon Steel will propose a scheme of arrangement (Scheme) with its shareholders by which OneSteel will acquire all Smorgon Steel shares (other than those held by BlueScope Steel) in return for OneSteel shares and, possibly, some cash, on terms substantially similar to the scheme of arrangement announced on 26 June 2006;
- BlueScope Steel will undertake to vote in favour of the Scheme;
- before the Scheme becomes effective, OneSteel will acquire BlueScope Steel's 19.98% stake in Smorgon Steel for a cash price equivalent to the value payable to Smorgon Steel shareholders under the Scheme;
- BlueScope Steel will acquire Smorgon Steel's metal distribution business ("Smorgon Steel Distribution") for an enterprise value of \$700 million; and
- BlueScope Steel will assume the position of acquirer and resupplier of scrap for OneSteel's Sydney Steel Mill, BlueScope Steel and others.

Under the Scheme, Smorgon Steel shareholders will receive 9 shares in OneSteel for every 22 shares they hold in Smorgon Steel (equivalent to a ratio of 0.4091 OneSteel shares per Smorgon Steel share). In addition, Smorgon Steel shareholders will receive a special dividend of 6.23 cents per share, fully-franked, which will be paid irrespective of whether the Scheme is implemented.

In the event that the volume-weighted average OneSteel share price (OneSteel VWAP) is below \$4.15 (but above \$3.75) over the ten days immediately following the Scheme becoming effective, shareholders will also be entitled to an additional cash component so that the economic value of the transaction to Smorgon Steel shareholders is \$1.76 per Smorgon Steel share.

OneSteel shares have not traded below \$4.15 since 30 October 2006 and have not traded below \$3.75 since 26 July 2006.

On 4 April 2007, OneSteel's closing price was \$5.27. If the OneSteel VWAP was equal to \$5.27, the value of the Scheme consideration would be \$2.16. Smorgon Steel shareholders would



therefore receive the Scheme consideration plus the special dividend of 6.23 cents per share, fully-franked.

If the Scheme is implemented, Smorgon Steel shareholders (excluding BlueScope Steel) will own approximately 34% of OneSteel.

The Scheme is unanimously recommended by the directors of Smorgon Steel, each of whom intends to vote all shares they personally hold in favour of the Scheme. Two Smorgon Steel directors, Graham Smorgon and Laurence Cox, will join the OneSteel Board of Directors if the Scheme becomes effective.

The proposed transactions are interdependent, cross-conditional and subject to a number of conditions. Both the sale of Smorgon Steel Distribution to BlueScope Steel and the merger of OneSteel and Smorgon Steel via the Scheme are subject to approval by the Australian Competition and Consumer Commission ("ACCC"). Submissions will be lodged with the ACCC as soon as practicable.

Other relevant conditions applying to the merger and the sale of Smorgon Steel Distribution include:

- receipt of satisfactory tax rulings from the Australian Taxation Office;
- Smorgon Steel shareholder approval, Court approval and other regulatory consents; and
- the Smorgon Steel Scheme of Arrangement becoming effective.

A summary of some key terms of the significant transaction documents are contained in Attachment A.

Smorgon Steel intends to put the Scheme to its shareholders as soon as practicable after receipt of necessary approvals from the ACCC.

Further announcements regarding the timetable for completion of these transactions will be made as soon as possible.



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Attachment A

Details of the Transaction

1. Overarching Deal Terms – Share Sale & Framework Deed ("the SS&FD")

The SS&FD sets out the overarching terms of the Transaction. The parties to the SS&FD are OneSteel, Smorgon Steel and BlueScope Steel. The key terms of the SS&FD are as follows.

- OneSteel will acquire BlueScope Steel's 19.98% stake in Smorgon Steel for a cash price equivalent to the value payable to Smorgon Steel shareholders under the Scheme
- BlueScope Steel promises to both OneSteel and Smorgon Steel that it will vote all of the shares that it holds in Smorgon Steel in favour of the Scheme
- Each party promises to the other parties (as applicable) to implement the following contractual arrangements: the sale of Smorgon Steel Distribution to BlueScope Steel; the sale of the shares held by BlueScope Steel in Smorgon Steel to OneSteel; the arrangements in respect of the procurement and re-supply of scrap metal; and the Scheme.
- The obligations to complete the various transactions referred to above are interdependent.
- Completion is expected to take place on the date on which the Court approves the Scheme.
- There is a standstill arrangement in respect of dealings in securities in each other party.
- Each party has the right to terminate the SS&FD if certain conditions precedent to the Merger Implementation Agreement (as described more fully below) are not satisfied by 31 August 2007. The conditions precedent include: ACCC approval, shareholder approval and Court approval. However, once the Court makes an order approving the Scheme, the parties will be unable to terminate the SS&FD.



2. Merger Scheme – Merger Implementation Agreement ("the MIA")

The arrangements in respect of the Scheme are governed by the MIA. The parties to the MIA are OneSteel and Smorgon Steel.

The key terms of the MIA are as follows.

2.1 Scheme

Smorgon Steel agrees to propose the Scheme under which OneSteel will acquire all of the Smorgon Steel Shares (other than the Smorgon Steel Shares to be sold by BlueScope Steel to OneSteel under the SS&FD) for the provision of scrip and, possibly, some cash consideration by OneSteel, as described in the announcement.

2.2 Conditions to the Scheme

Implementation of the Scheme is subject to fulfillment of the following conditions:

- (a) ACCC approval of OneSteel's acquisition of the Smorgon Steel Shares and BlueScope Steel's acquisition of Smorgon Steel Distribution;
- (b) Other regulatory consents or approvals (including ASIC and ASX) on terms acceptable to both parties;
- (c) 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;
- (d) ASX approval to listing of OneSteel shares to be issued under the Scheme;
- (e) No Smorgon Steel or OneSteel "Prescribed Occurrence" or "Material Adverse Change" (each being defined terms under the agreement¹);
- (f) S&P/ASX 200 Industrials index not falling below 4,500;
- (g) The independent expert concluding that the Scheme is in the best interests of Smorgon Steel shareholders;
- (h) Shareholder approval of the Scheme by requisite thresholds;
- (i) ATO rulings being made that are reasonably satisfactory to Smorgon Steel and OneSteel; and

¹ See the Schedule to this document for descriptions of Smorgon Steel Prescribed Occurrence, Smorgon Steel Material Adverse Change, OneSteel Prescribed Occurrence and OneSteel Material Adverse Change



- (j) Court approval of the Scheme.

2.3 Smorgon Steel Senior Executive Performance Shares

Remaining Smorgon Steel Senior Executive Performance Shares will be vested in relevant executives, such that they are issued with Smorgon Steel shares ahead of the Scheme meetings.

2.4 Implementation

Each party has discrete implementation obligations, including:

- Preparation and despatch of Scheme booklet, including appointment of an independent expert
- Court applications and convening of shareholder meetings
- Conduct by Smorgon Steel of its business prior to merger in the ordinary course
- The establishment and role of an integration committee.

Unanimous recommendation by the Smorgon Steel Board unless:

- Superior competing transaction(s)
- Independent expert does not conclude that Scheme is in the best interest of Smorgon Steel shareholders
- VWAP of OneSteel shares for the 15 trading day period up to the scheme meeting ("Pre-Meeting VWAP") is less than \$3.75, or
- Fiduciary duties require change in recommendation.

2.5 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 fair view, no breach of continuous disclosure obligations and the accuracy of information provided in the scheme documentation to be dispatched to Smorgon Steel shareholders.



2.6 Exclusivity

- No-shop conditions: until the earlier of the date of termination of the agreement and 31 August 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.
- 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.
- 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.
- 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.
- 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 reasonably determines that failing to respond would constitute a breach of fiduciary duties.

2.7 Termination Rights

The MIA may be terminated:

- by either party for a failure of a Condition Precedent
- by either party for a material breach by the other party of the agreement, including representation or warranty
- by either party if the SS&FD, the SSD Sale Agreement or both are lawfully terminated



- by Smorgon Steel if the Smorgon Steel board endorses a competing proposal
- by Smorgon Steel if a majority of Smorgon Steel directors are unable to continue recommending the Scheme because, based on appropriate advice, to do so would be a breach of their fiduciary duties
- by Smorgon Steel if the independent expert concludes the scheme is not in the best interests of Smorgon Steel shareholders
- by Smorgon Steel if the VWAP of OneSteel shares for the 15 trading day period up to the scheme meeting is less than \$3.75
- by OneSteel if the Smorgon Steel board endorses a competing proposal
- by OneSteel if any Smorgon Steel director is unable to continue recommending the scheme because, based on appropriate advice, to do so would be a breach of their fiduciary duties
- by OneSteel if the independent expert concludes the Scheme is not in the best interests of Smorgon Steel shareholders
- by OneSteel if the VWAP of OneSteel shares for the 15 trading day period up to the scheme meeting is less than \$3.75.

2.8 Reimbursement of Costs

- A reciprocal break fee for reimbursement of costs (including opportunity costs) of \$15 million for a material breach of the agreement or material breach of the SS&FD, the SSD Sale Agreement or both (or the MIA terminates otherwise owing to such material breach)
- Smorgon Steel to pay OneSteel a break fee for reimbursement of costs (including opportunity costs) of \$15 million if:
 - pursuant to a competing transaction another person unconditionally acquires at least 50% of Smorgon Steel
 - Smorgon Steel terminates the agreement because:
 - the Smorgon Steel board endorses a competing transaction, or
 - a majority of Smorgon Steel directors are unable to continue recommending the Scheme 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)

- OneSteel terminates the agreement because:
 - the Smorgon Steel board endorses a competing transaction, or
 - any Smorgon Steel director is unable to continue recommending the scheme 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)
- the scheme does not become effective by 31 August 2007 and the Smorgon Steel board has endorsed a competing transaction; or
- any Smorgon Steel director is unable to continue recommending the Scheme 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).

3. Sale of Smorgon Steel Distribution – Share Sale Agreement ("the SSA")

The sale of Smorgon Steel's core steel and metals distribution business is governed by the SSA. The parties to the SSA are Smorgon Steel and BlueScope Steel.

The key terms of the SSA are as follows:

- Smorgon Steel will sell all of the shares that it holds in Smorgon Steel Distribution Pty Ltd to BlueScope Steel for \$700,000,000



- The sale is subject to a number of conditions precedent, including ACCC approval; an ATO ruling; Smorgon Steel shareholder approval; the Scheme being approved by the Court; no SSD Material Adverse Change occurs before completion; no material breach of the Seller Warranties; and the pre-sale restructure being fully completed
- Completion will occur on the completion date under the SS&FD
- Smorgon Steel will undertake a pre-sale restructure in order to ensure the companies that are to be transferred to Bluescope Steel hold the required assets and liabilities. The parties have agreed to certain contractual obligations and indemnities in relation to this restructure and various liabilities arising after completion
- Smorgon Steel agrees to certain restrictions in respect of carrying on the business in the period until completion of the sale transaction
- Either party can terminate the SSA before completion if: the conditions precedent are not satisfied by 31 August 2007; any of the other interdependent agreements is terminated; completion does not occur because of a failure of a party to satisfy its completion obligations (which are not remedied); or an insolvency event occurs.

4. Ancillary Agreements

The parties have also entered into ancillary agreements relating to distribution rights for LiteSteel Beam and rights regarding certain intellectual property used by the parties.



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;
- (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:

- (c) the payment of the OneSteel 2007 Interim Dividend;
- (d) those required to be done or procured by OneSteel pursuant to this Agreement;
- (e) those which Smorgon Steel and OneSteel agree in writing are not a OneSteel Material Adverse Change;
- (f) 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
- (g) those fairly disclosed by OneSteel to Smorgon Steel in writing prior to the date of this Agreement.

"OneSteel Prescribed Occurrence" means a "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 as previously disclosed or agreed with Smorgon Steel.

"Smorgon Steel 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 Smorgon Steel Group by \$44 million or more; or
- (b) diminish EBITDA of the Smorgon Steel Group, in the financial year of Smorgon Steel in which the matter, event or circumstance occurs, by \$31 million or more;

other than:

- (c) the payment of the Smorgon Steel 2007 Interim Dividend and the Smorgon Steel Special Dividend, provided that the aggregate of such dividends per Smorgon Steel Share (in cents) does not exceed the amount of 11.23 cents;



- (d) those required to be done or procured by Smorgon Steel pursuant to this Agreement;
- (e) those which OneSteel and Smorgon Steel agree in writing are not a Smorgon Steel Material Adverse Change;
- (f) 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
- (g) those fairly disclosed by Smorgon Steel to OneSteel in writing prior to the date of this Agreement.

"Smorgon Steel Prescribed Occurrence" means a "prescribed occurrence" in respect of 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, the acquisition or disposal of business or property in excess of \$10 million or analogous events, other than as previously disclosed or agreed with Smorgon Steel.

"SSD Material Adverse Change" means, in respect of the Smorgon Steel Distribution Business, events or circumstances which are reasonably likely to:

- (a) diminish the value of net assets of the Business by \$25 million or more; or
- (b) diminish EBITDA of the Business by \$6.5 million per annum or more on a recurring basis for a period of not less than 3 financial years following the matter, event or circumstance;

except for those matters, events or circumstances:

- (c) required to be done or procured by the Smorgon Steel Group pursuant to the SSA or any other transaction document, other than any matter, event or circumstance relating to the pre-sale restructure;
- (d) which the Smorgon Steel and BlueScope agree in writing are not a SSD Material Adverse Change;
- (e) arising from changes in general economic or business conditions in Australia or overseas, including the entry of new competitors to the Business, changes in rates of corporate taxation, foreign exchange and interest rates and changes in international or domestic prices for relevant raw materials and/or finished products; or
- (f) disclosed in the due diligence materials.