
ATLAS STEELS GROUP PTY LIMITED

ACN 098 674 545

ANNUAL REPORT

30TH JUNE, 2002

Atlas Steels Group Pty Limited Annual Report 2002

Company Particulars

Directors

Phillip J Cave (Chairman)
Kym B Godson (Managing Director)
Malcolm Mitchell (Finance Director)
Peter K Smaller

Company Secretary

Malcolm Mitchell

Registered Office

Lynch Road
Altona North VICTORIA 3025

Telephone: (03) 9272 9999
Facsimile: (03) 9272 9965

Web Site

www.atlas-steels.com.au

Auditors

Ernst & Young

DIRECTORS REPORT

Your directors submit their report for the period from 7 November 2001 to 30 June, 2002.

Directors

The names and details of directors of Atlas Steels Group Pty Limited ("the Company") in office during the financial period and until the date of this report.

Name	Experience
Mr Phillip Cave B.Bus FCPA	<p>Mr Cave is an experienced Director, Chairman, Board Member and Chief Executive Officer with a career in major corporate turnaround projects, structured finance and corporate advisory services. Over a twenty-year period, Mr Cave has held these positions with PayConnect Solution, Parbury Limited, Wormald International, Reil Corporation and Macquarie Bank (Hill Samuel).</p> <p>Mr Cave's experience combines a mixture of hands-on management expertise across a wide variety of industries supported by an in-depth knowledge of the finance and banking worlds. During his career Mr Cave has raised in excess of \$1,000 million for a number of major corporate acquisitions. Mr Cave is a founding director of the Company</p>
Mr Kym Godson Dip Tech (Bus Admin) FAICD. FAIM	<p>Mr Godson is an experienced Managing Director and General Manager of industrial businesses. His early general management career was spent in several different operations within the ACI/Acmil/PGH group. Most significantly, Mr Godson was the Managing Director of Atlas Steels Limited from 1990 until its takeover by Email Limited in late 1995. During that period Atlas experienced strong growth and development. Mr Godson is a founding director of the Company</p>
Mr Malcolm Mitchell MA, CA	<p>Mr Mitchell is a Chartered Accountant with eighteen years experience in business and financial management, prior to which he had worked for five years in public accounting. During his career Mr Mitchell has had extensive hands-on experience of business reorganisation and financial restructuring. Mr Mitchell was formerly the Finance Director of Parbury Limited, he has also held senior executive roles with Reil Corporation, Wormald International, and Hoyts Cinemas. Mr Mitchell is a founding director of the Company</p>

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Mr Peter Smaller
Bsc (Eng), MBA

Originally from South Africa where he was the managing director of UME (Pty) Ltd a family owned steel service centre, Mr Smaller came to Australia in 1988. Currently Mr Smaller is the principal owner and managing director of Southern Steel, Australia's No. 3 distributor of carbon steel products. Mr Smaller is the chairman of The Steel Institute of Australia and board member of The Australian Institute of Steel Construction. Mr Smaller brings to the company a wealth of valuable knowledge and experience. Mr Smaller was appointed as a director of the Company on 25 March 2002.

Directors meetings

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial period are:

Director	Number of meetings held during the time the director held office	Number of meetings attended
PJ Cave	11	11
KG Godson	11	11
M Mitchell	11	11
P Smaller	4	4

Principal activities

The principal activity of the consolidated entity during the financial period was the manufacture and distribution of specialty steel products.

The Company is incorporated in New South Wales, Australia.

Results and dividends

The net consolidated profit from ordinary activities of the consolidated entity after income tax was \$14,096,000.

The directors do not recommend that a dividend be paid.

Likely developments

The consolidated entity will continue to develop and expand its specialty steel manufacturing and distribution businesses, in Australia, New Zealand and Asia.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

State of affairs

Significant changes to the Company's state of affairs during the financial period were as follows:

- The Company was incorporated on 7 November 2001.
- The Company acquired the Atlas Steels Distribution and Bisalloy Steels businesses from Email Limited on 30 November 2001.
- The Company established Bisalloy Asia Pte Limited, a subsidiary company in Singapore and embarked on a strategy of developing new steel distribution businesses in Asia.
- The Company opened new Atlas Steels Distribution branches in Wodonga, Victoria and Gladstone, Queensland.

The Company is engaged in the manufacturing and distribution of specialty steel products.

Directors' and senior executives' emoluments

The remuneration policy is set to ensure that remuneration packages properly reflect the person's duties and responsibilities; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive directors and officers may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flow).

Details of the amount of the emoluments of directors of the company for the financial period are contained in Note 23 to financial report.

At 30 June 2002 the Group employed a staff of 390 people.

Options

Since the end of the financial period, the Company granted 200,000 options over unissued ordinary shares to Mr Malcolm Mitchell and 200,000 options over unissued ordinary shares to Mr Kym Godson as part of their remuneration. The options were issued under the terms of the Directors and Employees Option Plan, are exercisable at \$1 for each ordinary share issued and expire on 30 August 2007. Shareholders approved the issue under the terms of the Shareholders Agreement dated 30 November 2001.

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Directors' interests

The relevant interest of each director in the share capital of the Company as at the date of this report is as follows:

Director	Ordinary Shares		Options over Ordinary Shares (a)
	Beneficially Held	As Trustee (b)	
PJ Cave	885,001	350,000	-
KG Godson	535,001	350,000	200,000
M Mitchell	300,001	350,000	200,000
P Smaller	150,000		-

(a) 30 August 2007 options exercisable at \$1.

(b) Shares held jointly as trustees of the AB Steel Management Trust.

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation, other than those set out below. The Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

Atlas Steels (Australia) Pty Ltd holds and complies with the requirements of a Trade Waste Licence and a Building Control Commission Certificate. Bisalloy Steels Pty Limited holds and complies with the requirements of a Dangerous Goods Licence and a Commercial Trade Waste Water Permit.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under AISC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Signed in accordance with a resolution of the directors:



KB Godson
Managing Director
30 September 2002

Corporate Governance Statement

This statement outlines the main Corporate Governance practices that were in place throughout the financial period, unless otherwise stated.

Board of Directors

The Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

The primary responsibilities of the Board include:

- the approval of the annual and half-year financial report
- the establishment of the long term goals of the Company and strategic plans to achieve those goals
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis
- ensuring that the Company has implemented adequate systems of internal control together with appropriate monitoring of compliance activities

The Board carries out its responsibilities according to the following principles:

- the Board shall comprise at least three directors, increasing where additional expertise is considered desirable in certain areas
- the directors should possess a broad range of skills, qualifications and experience
- the Board will endeavour to meet on a monthly basis
- all available information in connection with items to be discussed at a meeting of the Board shall be provided to each director prior to that meeting

The names of the directors of the Company in office at the date of this Statement are set out in the Directors' Report.

The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. Where a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience.

Interests of directors

Directors are required to disclose to the board any interest in a contract or proposed contract with the Company. A director who has a material personal interest in a matter absents himself from any meeting of the Board or a Committee when the matter is considered.

Dealing by directors in the securities of the Company are restricted under the terms of the Shareholders Agreement dated 30 November 2001, to which all Shareholders are party.

Independent professional advice

Each director has the right to seek independent professional advice at the consolidated entity's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

Remuneration

The Board will review the remuneration packages and policies applicable to the executive directors, senior executives and non-executive directors on an annual basis. Remuneration levels will be competitively set to attract qualified, experienced directors and senior executives. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

Business risk

The Board will monitor and if necessary receive advice on areas of operational and financial risk, and consider strategies for appropriate risk management arrangements.

Specific areas of risk, which are identified, will be regularly considered at Board meetings include performance of activities, human resources, the environment and disclosure obligations.

Ethical standards

The Board's policy for the directors and management is to conduct themselves with the highest ethical standards. All directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the economic entity.

Audit committee

Currently it is not considered necessary to have a formally constituted Audit Committee of the consolidated entity. The Board covers the responsibilities normally assumed by such a Committee.

The Board will keep under review the desirability of setting up of an Audit Committee.

Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that includes:

- **Financial reporting** - there is a comprehensive budgeting system with an annual budget approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The consolidated entity reports to shareholders annually.
- **Investment appraisal** - the consolidated entity has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

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Statement of Financial Performance
 Period from 7th November, 2001 until 30th June, 2002

	Notes	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
Revenues from ordinary activities	2	140,967	2,432
Changes in inventories of finished goods and work in progress		(79,270)	-
Raw material and consumables used		(17,184)	-
Depreciation and amortisation expense	3(a)	(1,149)	-
Borrowing costs expense	3(b)	(5,348)	(3,360)
Salaries and employee benefits expense		(12,330)	-
Other expenses from ordinary activities		(11,476)	(1,052)
Share of net profits of associated accounted for entities using the equity method		141	-
Profit/(loss) from ordinary activities before income tax		14,351	(1,980)
Income tax (charge)/benefit attributable to profit/(loss) from ordinary activities	5	(255)	594
Profit/(loss) from ordinary activities after income tax		14,096	(1,386)
Net (Profit)/loss attributable to outside equity interest	17	(263)	-
Net profit/(loss) attributable to members of the Company		13,833	(1,386)
Net exchange difference or translation of financial statements or foreign controlled entity	16, 17	732	-
Total changes in equity other than those resulting from transactions with owners as owners		14,565	(1,386)
Profit/(loss) from ordinary activities after income tax expense comprises:			
Ongoing operations		3,150	469
Net significant items	3(d)	10,946	(1,855)
		14,096	(1,386)

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Statement of Financial Position 30 June 2002		Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
	Notes		
Current assets			
Cash		967	2
Receivables	6	52,711	6,796
Inventories	7	60,059	-
Other	8	743	-
Total current assets		114,480	6,798
Non-current assets			
Investments	9	-	3,746
Investments accounted for using the equity method	10	2,430	-
Property, plant and equipment	11	11,622	-
Deferred tax assets	5	2,633	596
Other	8	22	-
Total non-current assets		16,707	4,342
Total assets		131,187	11,140
Current liabilities			
Payables	12	39,169	124
Current tax liabilities	5	438	2
Provisions	13	2,950	400
Total current liabilities		42,557	526
Non current liabilities			
Payables	12	166	-
Interest bearing liabilities	14	67,741	9,000
Provisions	13	2,130	-
Total non current liabilities		70,037	9,000
Total liabilities		112,594	9,526
NET ASSETS		18,593	1,614
Parent entity interest			
Contributed equity	15	3,000	3,000
Reserves	16	648	-
Retained profits	16	13,833	(1,386)
Total parent entity interest in equity		17,481	1,614
Total outside equity interest	17	1,112	-
TOTAL SHAREHOLDERS' EQUITY		18,593	1,614

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Statement of Cash Flows

Period from 7th November, 2001 until 30th June, 2002.

	Notes	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
Cash flows from operating activities			
Receipts from customers		143,324	1,229
Payments to suppliers and employees		(137,586)	(948)
Interest received		49	1,288
Interest paid		(3,493)	(1,505)
Income tax paid		(445)	-
Goods and services tax paid		(8,192)	4
Net cash outflow from operating activities	22(b)	(6,343)	68
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		30	-
Payment for controlled entities (net of cash acquired)	22(c)	(58,709)	(62,720)
Payments for business acquisition costs	22(c)	(2,392)	(2,392)
Payments for plant and equipment		(939)	-
Net cash inflow/(outflow) from investing activities		(62,010)	(65,112)
Cash flows from financing activities			
Proceeds from issue of shares		3,000	3,000
Proceeds from borrowings		69,262	62,364
Repayment of borrowings		(742)	(318)
Loan to associated entity		(2,200)	-
Net cash inflow/(outflow) from financing activities		69,320	65,046
Net increase/(decrease) in cash held		967	2
Cash at the beginning of the financial period		-	-
Cash at the end of the financial period		967	2

1. Summary of significant accounting policies

The significant policies that have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general-purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act, 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values.

(b) Principles of consolidation

The consolidated financial statements of the economic entity include the financial statements of the Company, being the Company, and its controlled entities ("the consolidated entity").

Where an entity either began or ceased to be controlled during the period, the results are included only from the date control commenced or up to the date control ceased.

The financial statements of subsidiaries are prepared for same reporting period as the parent company using consistent accounting policies.

The balances, and effects of transactions, between controlled entities included in the consolidated financial statements have been eliminated.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

(c) Taxation

The consolidated entity adopts the liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is virtually certain. Future income tax benefits relating to entities with tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

To the extent that dividends are proposed by controlled entities incorporated overseas, the consolidated entity has provided for withholding tax.

(d) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the statement of financial performance when they are declared by the controlled entities.

Associates

Investments in associates are carried at the lower of the equity accounted amount and recoverable amount in the consolidated financial report.

(e) Plant and equipment

Acquisition

Items of plant and equipment are initially recorded at cost and depreciated as outlined below.

Subsequent additional costs

Costs incurred on plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Where these costs represent separate components they are accounted for as separate assets and are separately depreciated over their useful lives.

Depreciation and amortisation

Items of plant and equipment are depreciated/amortised using the straight-line method over their estimated useful lives.

The major depreciation periods used for each class of asset are as follows:

- Buildings 50 years
- Plant and equipment 5-10 years
- Leasehold Improvements 5-10 years

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

(f) Non-current assets

The carrying amounts of non-current assets are carried on the cost basis and are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

(g) Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 60 to 180 days.

(h) Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as reduction of the share proceeds received.

(i) Receivables

Trade debtors

Trade debtors are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts. Bad debts are written off as incurred.

Other debtors

Other debtors are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(j) Employee entitlements

Wages, salaries, annual leave and sick leave

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represents the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates and include related on-costs.

Long service leave

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employee's services provided up to the balance date.

Provisions for employee entitlements that are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the provision for employee entitlements, consideration has been given to future increases in wage and salary rates, and the consolidated entity's experience with staff departures. Related on-costs have also been included in the liability.

Superannuation plan

The Company and other controlled entities contribute to several defined contribution superannuation plans. Contributions are charged against income as they are made.

(k) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events. It is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(l) Goods & services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expenses.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to the ATO, are classified as operating cash flows.

(m) Revenue recognition

Revenue is recognised to be extent that is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

Sale of goods

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products to entities outside the consolidated entity. Sales revenue is recognised when the control of goods passes to the customer.

Rendering of services

Revenue from rendering services is recognised in the period in which the service is provided, having regard to the stage of completion of the contract.

Interest income

Interest income is recognised when control of the right to receive the interest payment passes.

Asset sales

The gross proceeds of asset sales not originally purchased for the intention of resale are included as revenue at the date an unconditional contract of sale is signed.

(n) Inventories

Raw materials, Work in Progress and Manufactured stocks are valued at the lower of cost and net realisable value.

The method used to assign cost to inventories is actual costing. For Work in Progress and manufactured finished goods, cost is comprised of materials, labour and an appropriate proportion of fixed and variable overheads on an absorption costing basis.

(o) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance leases

Leases which effectively transfers substantially all of the risk and benefits incidental to ownership of the leased item to the lessee are capitalised at the present value of the minimum lease payments and disclosed as property, plant & equipment under lease. A lease liability of equal value is also recognised.

(p) Cash and cash equivalents

Cash on hand and in banks and short-term deposit are stated at the lower of cost and net realisable value.

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, money market investments readily convertible to cash within 2 working days, net of outstanding overdrafts.

(q) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the consolidated entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

Translation of financial reports of overseas subsidiaries:

All overseas subsidiaries are deemed self sustaining as each is financially and operationally independent of Atlas Steels Group Pty Limited. The financial reports of overseas operations are translated using the current rate method, any exchange differences are taken directly to the foreign currency translation reserve in equity.

Specific hedges:

Where a purchase or sale is specifically hedged, exchange gain or losses on the hedging transaction arising up to the date of purchase or sale and costs, premium and discounts relative to the hedging transaction are included with the purchase or sale. Exchange gains and losses arising on the hedge transaction after their date are taken to the statement of financial performance.

(r) Comparative information

As a result of the company being incorporated on the 7th November, 2001, these financial statements have been prepared from that date, until 30th June, 2002 and there is no comparative information.

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(s) Interest bearing liabilities

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

Finance lease liabilities are determined in accordance with the requirements of AASB 1008 Leases.

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2. Revenue from ordinary activities	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
Revenues from operating activities		
Sales of goods and services	137,956	-
Other revenue	2,920	6
Total revenues from operating activities	140,876	6
Revenues from non-operating activities		
Interest - other parties	49	-
Interest - related entities	-	1,288
Rent revenue	42	-
Management fees received	-	1,138
Total revenues from non-operating activities	91	2,426
Total revenues from ordinary activities	140,967	2,432
Share of net profits of associates accounted for using the equity method.	141	-
3. Expenses and losses/(gains)		
(a) Expenses		
Depreciation of non current assets		
Buildings	55	-
Plant and equipment	1,094	-
Total depreciation and amortisation expenses	1,149	-
Rental - operating leases	1,998	-
Decrement in the value of inventories	711	-
Bad and doubtful debts - trade debtors	335	-
(b) Borrowing costs		
Interest expense	3,388	1,484
Other borrowing costs	1,960	1,876
Total borrowing costs	5,348	3,360
(c) Losses/(gains)		
Loss/(gain) on disposal of plant and equipment	(15)	-
Foreign exchange losses/(gains)	(39)	(74)
(d) Material/significant Items		
Acquisition expenses (including other borrowing costs)	2,617	1,855
Discount on acquisition of assets realised during the period	(13,563)	-

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	Consolidated 30 June 2002 \$	Company 30 June 2002 \$
4. Auditors' remuneration		
Amounts receivable or due and receivable by the auditors, from the Company for:		
Auditing the accounts	160,000	-
Other services	76,991	63,447
	<u>236,991</u>	<u>63,447</u>
5. Income tax		
The prima facie tax, using tax rates applicable in the country of operation, on operating loss differs from the income tax provided in the financial statements as follows:		
Prima facie income tax expense on loss from ordinary activities	4,316	(594)
Tax effect of permanent differences		
Increase in income tax expense due to:		
Share of associates net profit	(42)	-
Entertainment	26	-
Non deductible depreciation	70	-
Discount on acquisition of assets realised during the period	(4,069)	-
Other	(46)	-
Income tax expense attributable to ordinary activities	<u>255</u>	<u>(594)</u>
Deferred tax asset and liabilities		
Current tax payable	438	2
Future income tax benefit	2,633	596
6. Receivables		
Current		
Trade debtors	48,688	7
Less: Provision for doubtful debts	(441)	-
	<u>48,247</u>	<u>7</u>
Other debtors	1,780	254
Loans to controlled entities	-	6,535
Loans to associated entities (See Note 24)	2,684	-
	<u>52,711</u>	<u>6,796</u>

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	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
7. Inventories		
Current		
Raw materials and stores At cost	2,779	-
Work in progress At cost	1,319	-
Finished goods At cost	57,876	-
Provision for diminution in value	(1,915)	-
Total inventories	60,059	-
8. Other assets		
Current		
Prepayments	697	-
Other	46	-
	743	-
Non current		
Prepayments	22	-
	22	-
9. Investments		
Non current		
Controlled entities at cost	-	3,746
10. Investments accounted for using the equity method.		
Investment in associate 10(a)	2,430	-
a. Interest in associate:		
Name	Balance Date	Ownership Interest held by the Consolidated Entity 2002
Pacific Stainless Processors Pty Ltd	31 st March	50%
(i) Principal activity:		
Pacific Stainless Processors Pty Ltd is engaged in the processing of Stainless Steel Sheet & Coil products within Australia		

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10. Investments accounted for using the equity method continued

(ii)	Share of associates profits (losses)	Consolidated 30 June 2002 \$'000
	Share of Associate's	
	- Net profit before income tax	141
	- Income tax expense attributable to net profit	-
	- Net profits after income tax	<u>141</u>

The consolidated entity's share in the retained profits and reserves of the associated company is not available for payment of dividends to shareholders of Atlas Group Pty Limited until such time as those profits and reserves are distributed by the associated company.

(iii) **Carrying amount of investment in associate:**

Balance at the beginning of financial period	-
Additions through acquisition of entities	2,289
Share of associates net profits for the financial year	<u>141</u>
Carrying amount of investment in associate at the end of the financial year	<u>2,430</u>

The carrying value of the investment in the consolidated accounts has been reduced by \$520,000 being the application of part of the discount on acquisition.

(iv)	Share of associate assets & liabilities	
	Current assets	542
	Non current assets	3,926
	Current liabilities	530
	Non current liabilities	<u>2,225</u>
		<u>1,713</u>

(v) **Retained profits of the consolidated entity attributable to associate.**

Balance at the beginning of the financial period	-
Share of associates net profits	<u>141</u>
Balance at the end of the financial year	<u>141</u>

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11. Property, plant & equipment	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
Freehold - Land		
At cost	805	-
Buildings		
At cost	4,443	-
Accumulated depreciation	(49)	-
	<u>4,394</u>	-
Leasehold - Improvements		
At cost	19	-
Accumulated depreciation	(6)	-
	<u>13</u>	-
Plant and equipment		
At cost	7,403	-
Accumulated depreciation	(1,094)	-
	<u>6,309</u>	-
Finance leased plant & equipment		
At cost	101	-
Total property plant & equipment	<u>11,622</u>	-
Reconciliations		
Freehold Land		
Carrying amount at beginning of financial period	-	-
Additions	-	-
Additions through acquisition of entities	805	-
Disposals	-	-
Net foreign currency movement arising from self sustaining foreign operations	-	-
Depreciation expense	-	-
	<u>805</u>	-
Buildings		
Carrying amount at beginning of financial period	-	-
Additions	1	-
Additions through acquisition of entities	4,442	-
Disposals	-	-
Net foreign currency movement arising from self sustaining foreign operations	-	-
Depreciation expense	(49)	-
	<u>4,394</u>	-
Leasehold - Improvements		
Carrying amount at beginning of financial period	-	-
Additions	13	-
Additions through acquisition of entities	6	-
Disposals	-	-
Net foreign currency movement arising from self sustaining foreign operations	-	-
Depreciation expense	(6)	-
	<u>13</u>	-

Atlas Steels Group Pty Limited Annual Report 2002

11. Property, plant & equipment continued	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
Plant & Equipment		
Carrying amount at beginning of financial period	-	-
Additions	824	-
Additions through acquisition of entities	6,507	-
Disposals	(15)	-
Net foreign currency movement arising from self sustaining foreign operations	87	-
Depreciation expense	(1,094)	-
	<u>6,309</u>	<u>-</u>
The carrying value of property, plant & equipment in the consolidated accounts, has been reduced by \$2,672,000 being the application of part of the discount on acquisition.		
12. Payables		
Current		
Trade creditors	32,282	32
Other creditors and accruals	6,374	118
Goods & services tax	513	(26)
	<u>39,169</u>	<u>124</u>
Non current		
Other creditors and accruals	166	-
	<u>166</u>	<u>-</u>
13. Provisions		
Current		
Employee entitlements	2,293	-
Other	657	400
	<u>2,950</u>	<u>400</u>
Non current		
Employee entitlements	2,070	-
Other	60	-
	<u>2,130</u>	<u>-</u>
14. Interest bearing liabilities		
Non Current		
Lease liability	79	-
Borrowings secured by fixed and floating charges	67,662	9,000
	<u>67,741</u>	<u>9,000</u>

The borrowings consist of a revolving loan facility with an average interest rate of 7.56%, a 4 year term loan with an average interest rate of 7.56% and a 5 year term loan with a fixed interest rate of 15%.

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	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
15. Contributed equity		
(a) Issued and paid up capital	3,000	3,000
	3,000	3,000
(b) Movements in shares on issue	Number of Shares	\$'000
Beginning of financial period	-	-
Issued during the year	4,431,148	3,000
End of financial period	4,431,148	3,000
	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
16. Reserves and retained profits		
Foreign currency translation reserve	648	-
Retained Earnings	13,833	(1,386)
(a) Foreign currency translation:		
Balance at beginning of financial period	-	-
Gain on translation of overseas controlled entities	648	-
Balance at end of period	648	-
(b) Retained earnings:		
Balance at beginning of financial period	-	-
Net profit of the period	13,833	(1,386)
Balance at end of financial period	13,833	(1,386)
17. Outside equity interests		
Reconciliation of outside equity interest in controlled entities		
Opening balance	-	-
Additions through acquisition of entities	765	-
Share of gain on translation of overseas controlled entities	84	-
Share of operating profit	263	-
Closing balance	1,112	-
18. Financial instruments		
(a) Interest rate risk represents the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets is set out below.		

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18. Financial instruments continued	Weighted average interest rate %	Floating interest rate \$'000	Non interest bearing \$'000	Fixed Interest Rate Maturing in over 1 to 5 Years	Total \$'000
2002					
Financial assets					
Cash at bank	3.4	967	-	-	967
Receivables	6.5	2,200	50,511	-	52,711
Unlisted shares	N/A	-	2,430	-	2,430
Total financial assets		3,167	52,941	-	56,108
Financial liabilities					
Accounts payable	N/A	-	39,335	-	39,335
Interest bearing liabilities	8.7	58,741	-	9,000	67,741
Total financial liabilities		58,741	39,335	9,000	107,076

(b) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

(c) Net fair values*Valuation approach*

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

On-balance sheet financial instruments.

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows. The carrying amounts of bank term deposits, receivables, interest bearing liabilities and accounts payable approximate net fair value.

The net fair value of investments in unlisted shares in other corporations is determined by reference to the underlying net assets of the respective corporations.

The carrying amounts and net fair values of financial assets and liabilities at the reporting date are as follows:

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18. Financial instruments continued	Carrying amount \$'000	Net fair value \$'000
Financial assets		
Cash	967	967
Receivables	52,711	52,711
Shares in other corporations – unlisted	2,430	2,430
Financial liabilities		
Accounts payable	39,169	39,169
Interest bearing liabilities	67,741	67,741

All financial assets and liabilities are not readily traded on organised markets in a standardised form.

(d) Hedging instruments

Atlas Steels Group Pty Limited has entered into forward exchange contracts designed as hedges of anticipated future purchases of supplies denominated in US dollars, Euros and British Pounds. All contracts are expected to expire within the next 6 months following the end of the financial period.

These hedges have been treated as specific, in accordance with UIG 33 as the approximate value of the purchases and the entities with whom the transactions will be entered are presently known.

The amount of deferred and unrecognised losses on these contracts amounts to \$1,462,635 and these will be recognised as expenses over the 6 months following the end of the financial period.

19. Employee entitlements and superannuation commitments

	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
Employee entitlements		
The aggregate employee entitlement liability is comprised of:		
Accrued wages, salaries and on costs	174	-
Provisions (Current)	3,903	-
Provisions (Non Current)	460	-
	<u>4,537</u>	<u>-</u>

Superannuation commitments

The Company makes superannuation contributions on behalf of employees to externally managed accumulation superannuation funds. The contributions are defined by the terms of each individual employees employment and fully vest at the time the contributions are made.

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	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
20. Commitments		
Capital expenditure commitments:		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Not later than one year	293	-
	<u>293</u>	<u>-</u>
Operating lease expenditure commitments		
Not later than one year	3,813	-
Later than one year but not later than five years	12,678	-
Later than five years	7,698	-
	<u>24,189</u>	<u>-</u>
Finance lease expenditure commitments		
Later than one year, but not later than five years	79	-
	<u>79</u>	<u>-</u>

Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

21. Particulars in relation to controlled entities

Name of parent	Country of Incorporation	Percentage of equity interest held by the consolidated entity 2002 %	Investment 2002 \$'000
Atlas Group Pty Limited	Australia		
Controlled entities			
Atlas Steels (Australia) Pty Ltd	Australia	100.00	-
Bisalloy Steels Pty Limited	Australia	100.00	3,746
PT Bima Bisalloy	Indonesia	60.00	^ 245
Atlas Steels NZ Limited	New Zealand	100.00	* 891
Gilbert Lodge NZ Limited	New Zealand	100.00	* -
Atlas Alloys Pty Limited	Australia	100.00	-
Bisalloy Asia Pte Ltd	Singapore	100.00	-
Stainless Bar Co Pty Limited	Australia	100.00	# 630

* Investments are held by Atlas Steels (Australia) Pty Limited.

^ Investment is held by Bisalloy Steels Pty Ltd

Investment is held by Atlas Alloys Pty Limited

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21. Particulars in relation to controlled entities continued

Pursuant to Class Order 98/1418, relief has been granted to Atlas Steels (Australia) Pty Limited and Bisalloy Steels Pty Ltd from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order, Atlas Steels Group Pty Limited, Atlas Steels (Australia) Pty Limited and Bisalloy Steels Pty Ltd (the "closed group") entered into a Deed of Cross Guarantee on the 18th April, 2002. The effect of the deed is that Atlas Steels Group Pty Limited has guaranteed to pay any deficiency in the event of winding up of either controlled entity. The controlled entities have also given a similar guarantee in the event the Atlas Steels Group Pty Limited is wound up.

Refer to Note 25, which reflects in material terms the requirements of ASIC practice note 98/1418 to disclose the consolidated profit & loss account and balance sheet of the entities that are members of the closed group.

22. Notes to the statement of cash flows

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial period as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows:

	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
Cash at bank	943	2
Cash at hand	24	-
	<u>967</u>	<u>2</u>

(b) Reconciliation of operating loss after income tax to net cash provided by operating activities

Net Profit/(loss) from ordinary activities after income tax	14,096	(1,386)
Non cash items		
Depreciation	1,149	-
Acquisition costs	1,855	1,855
Share of associate's net (profits)/losses	(141)	-
(Profit)/Loss on disposal of plant and equipment	(15)	-
Discount on acquisition of assets realised during the period	(13,563)	-
Change in operating assets and liabilities		
(Increase)/decrease in receivables & other assets	(3,779)	(6,542)
(Increase)/decrease in inventories	(931)	-
(Increase)/decrease in tax assets & liabilities	(185)	(594)
Increase/(decrease) in trade creditors	(5,187)	6,335
Increase/(decrease) in provisions	358	400
Net cash used in operating activities	<u>(6,343)</u>	<u>68</u>

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22. Notes to the statement of cash flows continued	Consolidated 30 June 2002 \$'000	Company 30 June 2002 \$'000
(c) Acquisition of controlled entities		
On the 30 th November, 2001 the Company acquired a 100% interest in Atlas Steels (Australia) Pty Limited, Bisalloy Steels Pty Limited and Tube & Pipe Pty Limited and an 80% interest in Stainless Bar Co Pty Limited.		
Total consideration:		
Consideration paid for share capital		3,695
Consideration paid for loans receivable		59,025
Other consideration payable		118
Claims receivable		(254)
Total consideration		62,584
Fair value of net operation assets of the entities required:		
Property, plant and equipment	14,431	
Investments in associates	2,809	
Cash	4,010	
Debtors	46,801	
Inventories	59,128	
FITB	1,399	
Other assets	529	
Accounts payable	(44,619)	
Provisions	(4,111)	
Loans	80,377	
Outside equity interest in acquisition	(765)	
	79,612	
Total consideration	62,584	
Discount	17,028	
Restructuring and acquisition costs		
Acquisition expenses & provisions	2,605	
Capitalised acquisition expenses	187	
Total restructuring and acquisition cost	2,792	
Net discount	14,236	
Net cash effect		
Cash consideration paid	62,720	62,720
Cash included in net assets acquired	(4,010)	-
Cash paid for purchase of controlled entity as reflected in the consolidated financial report	58,710	62,720
Restructuring and acquisition costs paid in cash	2,391	2,391

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22. Notes to the statement of cash flows continued	Consolidated	Company
	30 June 2002 \$'000	30 June 2002 \$'000

The total consideration includes a provision for restructuring of \$750,000, primarily for site rationalisation, staff redundancies and retraining.

(d) Financing facilities available

At balance date the Group had financing facilities available of \$83,258,000 of which \$67,662,000 were used, leaving an unused facility of \$19,220,000 available.

(e) Non cash financing and investing activities

During the period part of the loan facilities of Atlas Steels Group Pty Limited were assigned to Atlas Steels (Australia) Pty Limited (\$53,046,000) and Atlas Steels NZ Limited (\$2,456,000).

23. Directors' remuneration

Total income paid or payable, or otherwise made available, in respect of the financial period, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party:

473,915

Total income paid or payable, or otherwise made available, in respect of the financial period, to all directors of the Company, directly or indirectly, from the entity or any related party:

215,000

The number of directors of the Company whose income from the entity or any related party falls within the following bands:

	No.
\$10,000 - \$19,999	1
\$90,000 - \$99,999	1
\$140,000 - \$149,999	1
\$240,000 - \$249,999	1

24. Related parties

	Consolidated 2002 Number held Ordinary Shares	Company 2002 Number held Ordinary Shares
PJ Cave	885,001	885,001
K Godson	535,001	535,001
M Mitchell	300,001	300,001
P Smaller	150,000	150,000
PJ Cave, KB Godson and M Mitchell as Trustees	350,000	350,000

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24. Related parties continued

A director of the Company, Mr PJ Cave, has an interest in and is a director of InterBank Capital Partners Pty Ltd, which provided consulting services to the Company.

A director of the Company, Mr KB Godson, has an interest in and is a director of Paula's Choice Consulting Pty Ltd, which provided consulting services to the Company.

A director of the Company, Mr M Mitchell, has an interest in and is a director of Finsgate Finance Pty Ltd, which provided consulting services to the Company.

Other than outlined above, the terms and conditions of the transactions with directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on arm's length basis.

The value of the transactions during the period with director related entities were as follows:

		<u>Consolidated</u>	<u>Company</u>
		2002	2002
		\$	\$
Director	Director-related entity		
PJ Cave	Interbank Capital Partners Pty Ltd	90,000	90,000
KB Godson	Paula's Choice Consulting Pty Ltd	75,000	75,000
M Mitchell	Finsgate Finance Pty Ltd	61,000	50,000

The above amounts are also included in director's remuneration at Note 23.

The following amounts are payable to directors and their director-related entities at balance date arising from transactions with the consolidated entity.

Current payable

Interbank Capital Partners Pty Ltd	11,000	11,000
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Wholly owned group

Details of interests in wholly owned controlled entities are set out in Note 21. Details of dealings are set out below:

Loans

Loans to Atlas Steels (Australia) Pty Ltd are unsecured and are charged monthly interest at a rate equivalent to the 30day bank bill rate plus 5% pa. Loans between entities within the wholly owned group are repayable upon reasonable notice having regard to the financial stability of the borrowing entity.

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24. Related parties continued	Consolidated 2002 \$'000	Company 2002 \$'000
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Balances with entities in the wholly-owned group:

Receivables - current

-	6,535
-	6,535

Associated Entities

Details of interests in associated entities are set out in Note 10. Details of dealings are set out below.

Loans

Loans to Pacific Stainless Processors Pty Limited are unsecured and are charged interest at a rate equivalent to the 30 day bank bill rate plus 3% pa. The loan is repayable at call.

Loan to associated entities

2,684	-
2,684	-

25. Closed group

The consolidated profit and loss statement and balance sheet of the entities which are members of the "Closed Group" (refer to Note 21) are as follows:

	Closed Group 30 June 2002 \$'000
(a) Consolidated profit & loss statement	
Operating profit before income tax	11,664
Income tax benefit (charge) attributable to operating profit	151
Operating profit after income tax	11,815
Gain on extraordinary items	-
Operating profit and extraordinary items after income tax	11,815
Retained profit at the beginning of the financial period	-
Retained profit at the end of the financial period	11,815

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25. Closed group continued	Closed Group 30 June 2002 \$'000
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(b) Consolidated balance sheet**Current assets**

Cash	10
Receivables	56,194
Inventories	47,338
Other	501
Total current assets	<u>104,043</u>

Non-current assets

Investments	3,608
Intangibles	
Property, plant and equipment	10,383
Deferred tax assets	2,399
Total non-current assets	<u>16,390</u>

Total assets**120,433****Current liabilities**

Payables	36,998
Current tax liabilities	84
Provisions	2,707
Total current liabilities	<u>39,789</u>

Non current liabilities

Interest bearing liabilities	64,038
Provisions	1,791
Total non current liabilities	<u>65,829</u>

Total liabilities**105,618****NET ASSETS****14,815****Shareholders' equity**

Contributed equity	3,000
Retained profits	11,815

TOTAL SHAREHOLDERS' EQUITY**14,815**

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26. Segment information – primary segment
Geographic segments

	Australia	Asia	New Zealand	Eliminations	Consolidated
<i>Revenue:</i>					
Sales to customers outside the consolidated entity	118,978	4,289	14,688		137,955
Other revenue from customers outside the economic entity	5,199	222	16	(2,426)	3,012
Intersegment revenues	6,156			(6,156)	
Revenue from ordinary activities	130,333	4,511	14,705	(8,582)	140,967
Share of net profit of equity accounted investments	141				141
Total revenue	130,474	4,511	14,705	(8,582)	141,108

Results:

Segment result	11,255	1,310	1,786		14,351
Consolidated entity profit from ordinary activities before income tax expense					255
Income tax expense					<u>14,096</u>
Consolidated entity profit from ordinary activities after income tax expense					

Assets:

Segment assets	115,991	5,148	17,388	(7,340)	131,187
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Liabilities:

Segment liabilities	104,201	2,400	7,822	(1,829)	112,594
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Other Segment Information:

Equity accounted investments included in segment assets	2,430				2,430
Acquisition of property, plant and equipment and other non current assets	14,729	(105)	822		15,446
Depreciation	974	34	141		1,149

Segment information – secondary segment
Business segments

	Distribution	Manufacturing	Other	Eliminations	Consolidated
Segment revenue	117,548	29,569	2,432	(8,582)	140,967
Segment assets	98,031	26,575	11,139	(4,558)	131,187
Acquisition of property, plant and equipment and other non current assets	9,710	6,366		(630)	15,446

Director's Declaration

In the opinion of the directors of Atlas Steels Group Pty Limited:

the financial statements and notes of the Company and the consolidated entity are in accordance with the Corporations Act, 2001 including:

giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the period from 7th November, 2001 to 30th June, 2002;

complying with Accounting standards and the Corporations Regulations 2001; and

there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 21 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the Directors.



Kym Godson
Managing Director
30th September, 2002

ERNST & YOUNG■ 360 Elizabeth Street
Melbourne VIC 3000
Australia■ Tel 61 3 8650 7200
Fax 61 3 8650 7300
DX 288 MelbourneGPO Box 5151AA
Melbourne VIC 3001**INDEPENDENT AUDIT REPORT**

To the members of Atlas Steels Group Pty Limited

Scope

We have audited the financial report of Atlas Steels Group Pty Limited for the period ended 30 June 2002, as set out on pages 11 to 38, including the Directors' Declaration. The financial report includes the financial statements of Atlas Steels Group Pty Limited, and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at period's end or from time to time during the financial period. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

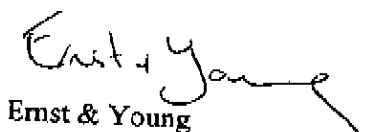
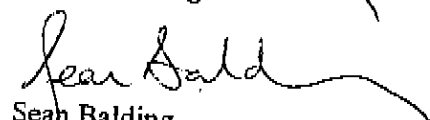
Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Atlas Steels Group Pty Limited is in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the period ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.


Ernst & Young
Sean Balding
Partner
Melbourne

Date: 2 October 2002