

Notice of Annual General Meeting and Explanatory Statement including the Sale of Atlas Distribution

Date of Meeting
30 October 2008

Time of Meeting
10:00am

Place of Meeting
KPMG Theatre
147 Collins Street
Melbourne



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IMPORTANT NOTICE

This Notice of Annual General Meeting and Explanatory Statement is dated 26 September 2008.

A copy of this Notice of Annual General Meeting and Explanatory Statement has been lodged with the Australian Stock Exchange (ASX). However, neither the ASX nor any of its officers takes any responsibility for the contents of this Notice of Annual General Meeting or Explanatory Statement.

This document contains important information

This Notice of Annual General Meeting, Explanatory Statement, Annexures and accompanying Proxy Form should be read in their entirety before you decide whether or not to vote in favour of the Resolutions in the Notice of Annual General Meeting.

Investment decisions

The Explanatory Statement does not take into account the individual investment objectives, financial situation and particular needs of individual shareholders or any other particular person. If you are in doubt as to what you should do, you should consult your legal, financial or other professional advisor prior to voting.

Forward looking statements

Certain statements in the Explanatory Statement relate to the future. Such statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Atlas Group to be materially different from future results, performance or achievements expressed or implied by such statements. These statements reflect views only as of the date of the Explanatory Statement. Neither Atlas Group nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in the Explanatory Statement will actually occur. As such you are cautioned not to place undue reliance on such forward looking statements.

26 September 2008

Dear Fellow Shareholders

RE: NOTICE OF ANNUAL GENERAL MEETING INCLUDING RESOLUTION TO APPROVE THE SALE OF ATLAS DISTRIBUTION

Attached is the Notice of Annual General Meeting to be held on Thursday 30 October 2008 at 10:00am. The meeting will consider as special business, the sale of Atlas Distribution including changing the company's name. The meeting will also consider the financial statements, election of directors and the remuneration report. The financial statements and reports are included in the Annual Report which is now available on the Company's website at www.atlasgroup.com.au.

Atlas Distribution comprises the Company's Australian and New Zealand distribution businesses, Atlas Metal Processors, Durinox stainless steel reinforcing bars, Schumag wire drawing, New Zealand Tube Mills and centralised support functions. These businesses have experienced extremely difficult trading conditions in the last 2 years and in the Board's opinion, have not provided a satisfactory return to shareholders, leading to the proposed sale.

The benefits of the sale, associated risks and its impact on the Company are explained in more detail in the attached Explanatory Statement. Atlas Group has also appointed an Independent Expert as required by the Listing Rules and an Independent Accountant to assist in your decision. Their reports are included as appendices to the Explanatory Statement and I encourage you to read the statement and the reports in full and attend the meeting. If you are unable to attend the meeting, you may wish to appoint a proxy either by completing and returning the attached Proxy Form or online through the share registry's Investor Centre at www.computershare.com.au.

The other directors and I believe that the sale of Atlas Distribution is in the best interests of all shareholders and unanimously recommend that you approve its terms in the absence of a superior offer for the business or a material change in the current circumstances.

If the sale is approved by shareholders the Company will continue to operate its existing Bisalloy Steels business. The Explanatory Statement includes further details about Bisalloy Steels and how this business is expected to operate following the sale.

Copies of any presentations given at the AGM and the results of the meeting will be announced to the ASX and placed on the Company's website, with the presentations available immediately prior to the AGM and the results available immediately afterwards.

I look forward to seeing you at the meeting.

Yours sincerely



Mr Phil Cave AM

Chairman

4 NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Atlas Group Holdings Ltd (the "Company") will be held on 30 October 2008 at 10:00am at the KPMG Theatre, 147 Collins Street, Melbourne.

SPECIAL BUSINESS – SALE OF ATLAS DISTRIBUTION AND NAME CHANGE

Resolutions to be considered

To consider and, if thought fit, to pass the following as an ordinary resolution:

1. That, for the purposes of Listing Rule 10.1 of ASX Ltd and for all other purposes, approval be given for the sale of all of the shares of Atlas Specialty Metals Pty Ltd to Balron Nominees Pty Ltd, Greenstone Partners Private Capital Pty Ltd, Greenstone Partners Private Capital (Cayman) Ltd, Greenstone Partners Pty Ltd and Wairanu Australia Pty Ltd (together the Balron Consortium).

To consider and, if thought fit, to pass the following as a special resolution:

2. That, subject to completion of the sale of the shares of Atlas Specialty Metals Pty Ltd to the Balron Consortium, the Company change its name from Atlas Group Holdings Ltd to Bisalloy Steel Group Ltd.

Voting exclusion statement:

The Company will disregard any votes cast on Resolution 1 by the Balron Consortium or its associates. However the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form;
- it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

ITEMS OF BUSINESS - AGM

Financial Statements and Reports

To receive and consider the Financial Statements for the Company for the year ended 30 June 2008, together with the Directors' Report and Auditor's Report as set out in the Annual Report which is available on the Company's website at www.atlasgroup.com.au.

Resolutions to be considered

Election of directors

To consider the election of the following directors:

3. **Mr Richard Grellman AM** who retires by rotation in accordance with the Company's Constitution and, being eligible, offers himself for re-election.
4. **Mr Graeme Pettigrew** who retires by rotation in accordance with the Company's Constitution and, being eligible, offers himself for re-election.

Adoption of the Remuneration Report for the year ended 30 June 2008

To consider and put to a non-binding vote, the following resolution:

5. That the Remuneration Report required by section 300A of the *Corporations Act 2001* as set out in the Annual Report of the Company for the year ended 30 June 2008 be adopted.

Information regarding the candidates and details in relation to each of the other resolutions can be found in the accompanying Explanatory Statement.

BY ORDER OF THE BOARD

David Cleland

Company Secretary

26 September 2008

ACTION REQUIRED BY SHAREHOLDERS

Step 1 – Read the Notice of Annual General Meeting and the Explanatory Statement

The Explanatory Statement sets out a detailed summary of the resolutions to be considered by shareholders. This information is important. You should read these documents carefully and, if necessary, seek your own independent advice on any aspects about which you are uncertain.

Step 2 – Vote on the Resolutions

Your vote is important. The Meeting is scheduled for 10:00am on 30 October 2008.

If you are unable to attend the Meeting, we still encourage you to cast your vote by completing and returning the enclosed Proxy Form or online through the share registry's Investor Centre at www.computershare.com.au. The last day for acceptance of proxies is 10:00am (Melbourne time) on 28 October 2008.

This section provides summary answers to some basic questions that shareholders may have in relation to the upcoming meeting. *This section should be read in conjunction with the whole Explanatory Statement.*

When and where will the Meeting be held?	The Meeting will be held at the KPMG Theatre, 147 Collins Street, Melbourne on 30 October 2008 at 10:00am.
Am I entitled to vote?	If you are registered as a shareholder on the Atlas Group register as at 10:00am (Melbourne time) on 28 October 2008 you will be entitled to vote at the Meeting. You may vote in person at the Meeting or by lodging a proxy either by completing the Proxy Form accompanying this Explanatory Statement or online through the Investor Centre at www.computershare.com.au . The Company will disregard any votes cast on Resolution 1 by the Balron Consortium or its associates.
What voting majority is required to pass the resolutions?	A simple majority (more than 50 per cent) of the total votes cast on each resolution is required to pass each resolution other than Resolution 2 which is a special resolution (more than 75 per cent). Votes cast by the Balron Consortium or its associates will be disregarded on Resolution 1.
Should I vote?	You do not have to vote, however the directors believe it's important for shareholders to have their say in the future of the Company and unanimously recommend that you vote "FOR" all the Resolutions.
When will the result of the Meeting be known?	The result of the Meeting will be available shortly after the conclusion of the Meeting and will be announced to the ASX as well as placed on the Company's website.
What will happen to Atlas Group if the sale proceeds?	Atlas Group will remain listed on the ASX but will, subject to Resolution 2 being approved, change its name to Bisalloy Steel Group Limited and will likely also change its stock code in due course. As a consequence of the sale, the Company's debt level will be significantly reduced. Following the sale, the Company will focus on the operation and growth of its Bisalloy Steels business.
What happens if shareholders do not vote in favour of the sale?	The Proposed Transaction will not be implemented. Atlas Distribution will remain as part of the Atlas Group and the Company will continue to operate the Atlas Distribution business. Atlas Group will also continue to operate its Bisalloy Steels business.
What will happen to my AHS Shares if the sale proceeds?	The stock will, subject to Resolution 2 being approved, change its name to Bisalloy Steel Group Limited but there is no other change to your Shares. You will continue to hold your Shares and they will continue to be listed on the ASX.
What will Atlas do with the proceeds from the sale?	The Board will use the proceeds of the sale to reduce the debt level of the Company to approximately \$45 million.

6 EXPLANATORY STATEMENT

This Explanatory Statement is intended to provide shareholders of Atlas Group Holdings Ltd (**Atlas Group** or the **Company**) with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting. The Explanatory Statement is divided into two parts, the first part deals with the proposed sale of Atlas Distribution and second part deals with the ordinary business of the AGM.

The directors of the Company recommend shareholders read this Explanatory Statement in its entirety before making any decision on how to vote on the Resolutions.

Part 1 – SPECIAL BUSINESS – SALE OF ATLAS DISTRIBUTION

INTRODUCTION

On 9 September 2008, Atlas Group announced that it had entered into an agreement with a consortium including Balron Nominees Pty Ltd and Greenstone Partners Private Capital (collectively the **Balron Consortium**) to sell its distribution businesses (**Atlas Distribution** or the **Distribution Business**) via a share sale of Atlas Specialty Metals Pty Ltd for approximately \$90 million (subject to adjustment for changes to net assets at completion) (**Proposed Transaction**).

The Proposed Transaction is conditional upon, amongst other conditions, approval by the Company's shareholders. Shareholder approval is required under ASX Listing Rule 10.1 because the sale involves the sale of a substantial asset to a substantial shareholder.

If the Proposed Transaction is approved, Atlas Group will, subject to Resolution 2 being approved, change its name Bisalloy Steel Group Ltd but remain listed on ASX and will continue to operate its Bisalloy Steels business which includes Bisalloy Steels Pty Ltd and its joint venture interest in Indonesia and Thailand (**Bisalloy Steels**).

DIRECTORS RECOMMENDATIONS AND INTENTIONS

The directors of Atlas Group believe the Proposed Transaction is in the best interests of all shareholders and unanimously recommend that shareholders approve its terms, in the absence of a superior offer or a material change in the current circumstances.

In this regard the directors note the price offered is considered to be an attractive offer for Atlas Distribution as:

- the Distribution Business reported an operating loss before interest, tax and impairment charges of \$17.4 million in the year ended 30 June 2008 and faces an uncertain outlook;
- further significant restructuring is required in order to reduce costs and operating capital employed in the business before an adequate return can be achieved;
- the offer is fair and reasonable in the opinion of the Independent Expert whose full report is included at Appendix 2;

- it is considered unlikely that there will be a competing offer at a higher price and Atlas Group has agreed to a "no shop" obligation and a break fee (further details of which are set out below); and
- proceeds from the sale of Atlas Distribution will be used to re-pay debt and facilitate growth of Bisalloy Steels which is profitable.

The directors have indicated that they intend to vote the shares they own or control in favour of the Proposed Transaction in the absence of a superior offer or a material change in the current circumstances.

OVERVIEW OF THE PROPOSED TRANSACTION

a. Sale of Atlas Distribution

The Proposed Transaction is structured as a share sale of all of the shares of Atlas Specialty Metals Pty Ltd (**ASM**), a wholly owned subsidiary of the Company.

ASM and its subsidiaries own the Distribution Business which comprises the following operations:

- Atlas Specialty Metals Australia
- Atlas Specialty Metals New Zealand
- Atlas Metals Processors
- Durinox stainless steel reinforcing bar
- Shumag bar mill
- New Zealand Tube Mills
- Distribution Support – Senior Management, Finance, Human Resources, Procurement and Information Technology Support Services.

If the Proposed Transaction proceeds, all of the shares in ASM will be acquired by the Balron Consortium in the following proportions:

■ Balron Nominees Pty Ltd	48.34%
■ Greenstone Partners Private Capital Pty	2.83%
■ Greenstone Partners Private Capital (Cayman) Ltd	29.19%
■ Greenstone Partners Pty Ltd	1.7%
■ Waimanu Australia Pty Ltd (associated with Greenstone Partners)	17.94%

b. shareholder approval

Subject to certain exceptions, Listing Rule 10.1 requires the approval of shareholders of a listed company of transactions involving the disposal by that company, or a subsidiary of that company, of a "substantial asset" to a "substantial holder".

A "substantial asset" for the purposes of Listing Rule 10.1 is an asset where the consideration paid for it, or its value, is 5% or more of the "net equity interest" of the listed entity.

A “substantial holder” for the purposes of Listing Rule 10.1, is a person who has a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting shares of the Company.

Balron Nominees Pty Ltd is a substantial holder of the Company for the purpose of ASX Listing Rule 10.1 as it has a relevant interest in more than 10% of the ordinary shares of the Company.

In addition, when the disposal of a substantial asset to related parties is proposed, Listing Rule 10.10 requires the preparation of a report by an independent expert stating whether the Proposed Transaction is fair and reasonable to the non-associated shareholders (i.e. all shareholders except the Balron Consortium). This report is attached at Appendix 2.

c. purchase price

The purchase price payable under the Share Sale Agreement is calculated based on the operating capital employed of the Distribution Business at completion less \$50 million. This currently equates to approximately \$90 million.

The purchase price is made up of \$22.6 million in cash and the remainder through the assumption of debt. The cash amount is fixed, however the debt assumed will vary (see below), with the total purchase price being capped at \$95 million (i.e. the maximum amount of debt assumed will be \$72.4 million).

The amount of debt assumed will be determined by the operating capital employed of the Distribution Business at completion. The operating capital employed must be within a certain range in line with the Balron Consortium's collateral-based borrowing facility used to fund the acquisition.

The operating capital employed will be determined at completion by the preparation of audited Completion Accounts and Ernst & Young will be engaged to conduct the audit.

Atlas Group is able to manage operating capital employed up to completion so that the purchase price is in the fair value range identified by the Independent Expert. In addition, should there be a shortfall between the operating capital employed and the amount of funding permitted under the Balron Consortium's collateral-based borrowing facility at completion, Atlas Group can convert some of the inventory to a consignment stock arrangement to enable the Balron Consortium to repay the inventory on a deferred basis. The maximum amount of consignment stock is \$5m and either party may terminate the Share Sale Agreement if the calculation is in excess of this amount.

The consignment stock arrangement is subject to a sunset clause, with payment due within 3 to 6 months depending upon the value of the consigned stock.

d. conditions precedent

In addition to the shareholder approval mentioned above, the Share Sale Agreement is conditional on:

- the Foreign Investment Review Board confirming that there are no objections under Australia's foreign investment policy to the transaction;
- each party obtaining appropriate financing arrangements for the respective businesses going forward; and
- certain key contracts being transferred and certain consents being granted by third parties to align particular contracts with the respective businesses from completion.

These conditions must be satisfied or waived by 31 December 2008 (or such later date agreed by the parties). Currently the directors see no reason to believe these conditions will not be satisfied and completion occur on 31 October 2008.

e. no shop and break fee

Atlas Group has given a “no shop” undertaking to the Balron Consortium which prevents it seeking alternative offers for the sale of the Distribution Business. Atlas Group may not discuss or negotiate an alternative proposal with another party except to the extent required for the Board to satisfy its statutory or fiduciary duties. Atlas Group has agreed to pay a break fee of \$950,000 to reimburse Balron for a reasonable pre-estimate of its costs if:

- there is a breach of the no shop undertaking;
- Atlas Group enters into an agreement to sell the Distribution Business to another party before 31 March 2009; or
- a takeover bid, scheme of arrangement or similar reorganisation (which does not envisage the sale of ASM to the Balron Consortium) is or becomes unconditional and a third party gains control of Atlas Group.

f. other material terms

The Share Sale Agreement contains warranties given by Atlas Group in relation to the Distribution Business and indemnities in relation to tax and environmental matters for three key properties. The warranties and indemnities are subject to usual limitations and qualifications including appropriate hurdles and limits before a claim can be brought.

g. risks

While steps have been taken to minimise risks associated with the Proposed Transaction, the following risks should be considered by shareholders:

- the transaction remains conditional. There is no guarantee that the conditions will be satisfied and the transaction completed. The directors will provide shareholders with an update on the status of the conditions at the meeting;
- a number of the warranties given relate to matters outside the control of Atlas Group. If there is a breach of warranty or other undertaking or obligation imposed on the Atlas Group, claims may be made by the Balron Consortium against Atlas Group. The Board is confident that it has taken the appropriate steps to minimise the prospects of claims arising after completion of the Proposed Transaction, but cannot guarantee that no claims will be made (or be successfully defended); and
- Atlas Group has guaranteed the obligations of ASM under certain contracts relating to the Distribution Business. These guarantees should be released before completion. However if they are not released, Atlas Group may have an ongoing liability should ASM fail to satisfy its obligations and the guarantee is called upon. Rights in favour of Atlas Group have been included in the Share Sale Agreement to limit this potential exposure.

REASONS FOR THE SALE

a. Atlas Group Update

The Annual Report and Appendix 4E have been lodged with ASX and are available on the Company's website. The highlights from the year ended 30 June 2008 are set out below:

- Bisalloy Steels continued its excellent performance exceeding profit actions following record production levels.
- Atlas Distribution delivered improved margins in the second half of the FY08.
- Atlas Distribution achieved operating and administrative expense reductions as planned and announced at the end of the first half. Full year Atlas Distribution EBIT loss contained to \$17.4m.
- Atlas Group returned to positive EBIT delivering a full year result of \$6.2m (before impairment charges), exceeding 24 June 2008 profit forecast of \$5.0m.
- No dividend was declared.

b. Financial Performance of Atlas Distribution

Set out below is a summary of Atlas Distribution's audited financial performance over the last 4 years.¹

	FY05A	FY06A	FY07A	FY08A
	\$m	\$m	\$m	\$m
REVENUE	333.2	334.7	311.8	329.1
EBIT	14.0	3.2	0.7	(17.4)

The performance of the business has deteriorated since 2005 for the following reasons:

- The cost base of the business increased to unsustainable levels. Distribution-related group services costs increased from \$5.1m in FY05 to \$12.7m in FY08 because:
 - The implementation of SAP resulted in much higher IT overheads;
 - The implementation of a flawed supply chain model for Atlas Distribution in FY06 resulted in additional operating costs and poor forecasting of inventory requirements; and
 - Additional costs were incurred from a poorly conceived and designed Centralised Distribution Centres concept.
- Undisciplined procurement from September 2006 to February 2007 left Atlas Distribution with \$136.3m in inventory at 30 June 2007 up from \$79.8m at 30 June 2006. The balance at 30 June 2007 included \$30m of non-core items. This amount reduced to approximately \$20m by 30 June 2008.
- The nickel price peaked on the London Metal Exchange (LME) in May 2007 at US\$57,500 per tonne. By August 2007, the price had fallen to US\$25,600 per tonne – a fall of 55.5 per cent in three months. As a result, management was required to execute a major turnaround of the business at a time of unprecedented volatility in stainless steel prices.

Further significant restructuring to reduce costs and reduce operating capital employed is still required before Atlas Distribution will return to the profitability levels achieved in FY05. Your Board has assessed management's plans for Atlas Distribution and has concluded that the time required to complete the turnaround plan, and the execution risk associated with that plan, means that the Balron Consortium offer provides a better return to shareholders.

The sale of Atlas Distribution will enable Atlas to focus on the high growth and consistently profitable Bisalloy Steels business.

¹ Excludes discontinued Southward's operations in New Zealand from FY06.

IMPACT OF THE PROPOSED TRANSACTION ON THE ATLAS GROUP

a. Impact of the Proposed Transaction on operations

Atlas Group essentially comprises two trading business units – Atlas Distribution and Bisalloy Steels. In recent years, Bisalloy Steels has been the main contributor of profit while Atlas Distribution has been loss making. However, Atlas Distribution accounts for a large proportion of the Company's revenue and operating capital employed and its sale will reduce the size and scale of the Company, but increase its earnings profile.

After the Proposed Transaction, Atlas Group will comprise the corporate office and Bisalloy Steels, including the joint venture interests in Indonesia and Thailand. At 30 June 2008, the operating capital employed of Bisalloy Steels was \$32.0 (2007: \$31.5m) which comprised 19.3% of the total operating capital employed of the consolidated Atlas Group before the impairment booked at 30 June 2008 in relation to the Proposed Transaction. Revenue from the operating activities of Bisalloy Steels for the year to 30 June 2008 was \$138.7m (2007: \$101.5m) which represented 30.3% of the consolidated Atlas Group's revenue.

b. Bisalloy Steels

Bisalloy Steels is Australia's only manufacturer of high tensile and abrasion resistant quenched and tempered steel plate. Bisalloy Steels commenced operations in Unanderra as Bunge Steels in 1980. It was acquired by Email Ltd in 1989 and renamed Bisalloy Steels. Bisalloy Steels and Atlas Distribution came together as part of the break-up of Email Ltd in 2001.

Bisalloy Steels has two distribution joint ventures – Bisalloy Thailand and PT Bima in Indonesia – as well as a representative office in Vietnam.

Bisalloy Steels sources greenfeed (alloyed carbon steel plate) from BlueScope Steel Ltd and a number of Chinese steel mills. The greenfeed is then heated and rapidly cooled so as to alter the grain structure of the steel plate to achieve the desired physical properties.

The move to introduce Chinese greenfeed has been beneficial to Bisalloy Steels. It has enabled Bisalloy Steels to partially defray shortages and rising cost of domestic greenfeed.

Bisalloy Steels manufactures wear plate for mining applications such as dump trucks, structural plate for booms on cranes, and armour plate for armoured personnel carriers. It has an estimated Australian market share² of between 55% and 60% and has a large exposure to the resources sector. It has benefited from strong export demand, especially for armoured plate, and has a significant market in Asia via its joint venture distributors.

At present, Bisalloy Steels is operating at around 53,000 tonnes per annum. In recent years, Bisalloy Steels has grown its revenue through targeted investments designed to increase its production capacity. A second shot blaster became fully

operational in the third quarter of FY07 and a laser guided vehicle was installed in the third quarter of FY08 to increase the efficiency and process flow of the mill. This delivered significant production increases towards the end of FY08. With these investments, Bisalloy Steels is now able to meet future growth in demand by increasing the utilisation of the existing processing equipment by restructuring shift arrangements from 24/5 to 24/6 and 24/7 as required.

The sale of Atlas Distribution and the use of the proceeds to pay down net debt will facilitate the further growth of Bisalloy Steels. Bisalloy Steels has signed a letter of intent with a significant major Chinese steel mill to build a 140,000 tonne heat treatment facility in China. The development of a joint venture facility will allow Bisalloy Steels to supply its Asian business with production from China while focusing its Australian production on the domestic demand and the production of high value armour plate.

c. Bisalloy Steels Financial Performance

With its unique product offering and market position, Bisalloy Steels has a proven track record in earnings growth. In the current financial year to date, Bisalloy Steels has performed strongly and expects to meet previous guidance.

d. Bisalloy Steels Consolidated Financial Information 2005-2009

Set out below is the Bisalloy Steels consolidated financial results for FY05 to FY08 and proforma budget for FY09:

	FY05A	FY06A	FY07A	FY08A	FY09B
	\$m	\$m	\$m	\$m	\$m
TOTAL REVENUE	67.9	89.9	101.5	138.8	191.5
EBIT	13.9	20.6	17.2	28.7	30.2
EBIT %	20.5%	22.9%	16.9%	20.6%	15.8%
OPERATING CAPITAL EMPLOYED	22.5	23.2	32.0	32.7	45.6
ROI - AVERAGE (EBIT/OCE)	61.6%	88.5%	53.6%	87.6%	66.3%

The above:

- exclude corporate costs; and
- are before taking to account minority interest share of profit.

Pro-forma FY09 corporate costs for the Atlas Group post-sale have been calculated at \$2.2m on an annualised basis. Refer Appendix 1 for the proforma budget income statement and balance sheet for the FY09 consolidated Atlas Group, as well as details of the assumptions used in formulating the budget.

² Based on import statistics and management's estimate of the total Australian market for quenched and tempered steel plate.

IMPACT OF THE PROPOSED TRANSACTION ON THE FINANCIAL POSITION OF THE COMPANY

The Proposed Transaction will substantially improve the financial outlook of the Company. Bisalloy Steels is historically a profitable company with positive cash flow and opportunities for growth. The sale of the Distribution Business will mean that Bisalloy Steel's cash flow is available to invest in growth rather than fund the turnaround of the Distribution Business.

	FY05A	FY06A	FY07A	FY08A	FY09B
	\$m	\$m	\$m	\$m	\$m
Accounts receivable and other assets (Net)	16,830	16,124	24,210	32,977	42,700
Inventories (Net)	6,290	10,796	17,702	14,123	19,204
Plant property and equipment (Net)	9,572	9,356	10,808	11,839	14,712
Creditors accruals and provisions	(10,146)	(13,050)	(20,692)	(26,234)	(31,053)
OPERATING CAPITAL EMPLOYED	22,546	23,226	32,028	32,705	45,563

The sale of the Distribution Business at a \$50m discount to operating capital employed combined with write-off of intangibles and costs to sell resulted in Atlas Group taking an impairment charge of \$54.9m at 30 June 2008. Thus total equity at 30 June 2008 was negative \$12.1m. Based on current guidance, directors expect this deficit to be extinguished by the end of the current financial year.

The profitable trading of Bisalloy Steels should also see the Company in a position to declare a dividend in respect of the current year should the Board consider it appropriate.

At 22 September 2008 the Company's three month VWAP was 59 cents.

As such, the transaction may result in a favourable re-rating of the stock and the share price may increase.

Independent Accountant's Opinion

The Company has appointed Ernst & Young as an independent accountant to report on the forecast financial information included in this Explanatory Statement. Their report is attached as Appendix 3 to this explanatory statement.

Independent Expert's Opinion

The Company has appointed Deloitte as an Independent Expert as required under Listing Rule 10.10, to consider the proposed sale of the Distribution Business and to express an opinion as

to whether or not the sale is fair and reasonable to the non-associated shareholders (i.e. all shareholders except the Balron Consortium) (**Non-Associated Shareholders**).

The Independent Expert has concluded that the Proposed Transaction is fair and reasonable to Non-Associated Shareholders, noting that an individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances.

In reaching this opinion the Independent Expert considered the overall effect of the Proposed Transaction on the Non-Associated Shareholders and formed a view as to whether the expected benefits outweighed any disadvantages. In the report the Independent Expert notes the following advantages of the Proposed Transaction:

- the price offered by the Balron Consortium is within the assessed fair market value
- ability to pay down existing debt to reduce gearing
- enhanced focus on Bisalloy Steels
- in the absence of the Proposed Transaction, Atlas Group shares would likely trade below current levels
- divestment of an underperforming business unit
- increased likelihood of dividends
- increased likelihood of a takeover offer for Bisalloy

The following disadvantages are also noted:

- loss of opportunity to participate in any potential growth of Atlas Distribution
- tax and accounting consequences

A full copy of the Independent Expert's Report with a detailed explanation of these points is attached at Appendix 2.

IMPACT OF THE PROPOSED TRANSACTION ON THE BOARD AND MANAGEMENT

The directors in office at the date of this notice of meeting are:

- Mr Philip Cave AM
- Mr Kym Godson (Managing Director)
- Mr Richard Grellman AM
- Mr Graeme Pettigrew

If the transaction is approved on 30 October 2008, Mr Godson is expected to retire as Managing Director of the Company and take a position as a Non-Executive Director of the Company.

The current General Manager of Bisalloy Steels, Mr Robert Terpening, will be appointed to the Board and will assume the position of Managing Director. Mr Terpening joined Bisalloy Steels in 1999 from Brownbuilt Pty Ltd where he was the General Manager. Bisalloy Steels was acquired by Atlas Group in 2001 and Mr Terpening became part of the Atlas senior management team. Mr Terpening is an experienced manager of industrial

businesses having had 18 years in sales & marketing and operations roles followed by 11 years in general management. Mr Terpening's management experience has included operations in Australia, Indonesia, Thailand and New Zealand and he is currently a director of Atlas Group's joint venture companies in Indonesia and Thailand.

Mr John Reid, the Chief Financial Officer, will remain in the short term to see the transition through and transfer the finance function to Bisalloy Steel's Head Office in New South Wales. Similarly Mr Cleland the General Counsel & Company Secretary will also remain in the short-term to ensure the sale of Atlas Distribution is completed efficiently.

All other senior managers will transfer with the Distribution Business, or have chosen to pursue other opportunities.

IMPACT OF THE PROPOSED TRANSACTION ON CAPITAL STRUCTURE

The Company's capital structure will not change as a result of the Proposed Transaction

ADDITIONAL INFORMATION

a. Implications of the Proposed Transaction does not proceed

Should shareholders not approve the Proposed Transaction, Atlas Group will continue to operate Atlas Distribution as it has been previously outlined.

b. Directors Interests

The Non-Executive Directors of the Company will not receive any payment or benefit of any kind as a consequence of the Proposed Transaction other than as shareholders of the Company.

The directors' shareholdings as at 30 June 2008 are disclosed in the 2008 Annual Report

Mr Kym Godson, the Managing Director, is entitled to receive a retention payment of \$500,000 which is conditional on the sale of the Distribution Business. While Mr Godson is not prohibited from voting in respect of the Proposed Transaction, he has elected not to vote given the terms of the retention payment.

c. Other material information

Atlas Group is a "disclosing entity" for the purposes of section 111AC of the Corporations Act 2001 (Cth). As such, it is subject to regular reporting and disclosure obligations. These disclosure obligations require Atlas Group to disclose to the ASX any information that a reasonable person would expect to have a material effect on the price or values of the securities of Atlas Group.

All of Atlas Group's disclosures to ASX are available on the Company's website at www.atlasgroup.com.au and from the ASX (under the ASX code AHS).

There is no other information material to the making of a decision by shareholders whether or not to vote in favour of the resolution approving the Proposed Sale (being information that is known to the directors of the Company which has not

previously been disclosed to holders of Shares in the Company) other than as set of in this document.

Part 2 – ITEMS OF BUSINESS – AGM

Financial Statements and Reports

The Financial Statements, Directors' Report, and Auditor's Report are presented for information purposes only and do not require a vote by shareholders.

Election of directors

The Company's Constitution and the ASX Listing Rules require that an election of directors be held each year and that each director be re-elected at least every three years. The Company's Constitution further requires that a minimum of two directors must retire and stand for re-election each year where there are less than 5 directors. The Company currently has four directors.

1. Re-election of Mr Richard Grellman Cave AM

Mr Richard Grellman AM, FCA, is a non executive director. He was first appointed as a director in February 2003 and last re-elected by shareholders in November 2006.

Mr Grellman brings significant accounting and finance skills to the Company, having had 32 years experience in the accounting profession. He was a partner at KPMG from 1982 to 2000. In addition, he has extensive experience as Chairman of a number of boards including the Board and Council of the NSW Motor Accidents Authority, Trafalgar Corporate Group Ltd, Cryosite Ltd, the Board of Mission Australia and the NSW Lifetime Care and Support Authority. He is also a director of AMP Ltd and Centennial Coal Ltd and the Chairman of the Company's Audit and Risk Committee as well as a member of the Company's Nominations & Remuneration Committee.

Your Board unanimously recommends you vote in favour of the re-election of Mr Grellman. The Chairman intends to vote undirected proxies in favour of the resolution.

2. Re-election of Mr Graeme Pettigrew

Mr Graeme Pettigrew, FPNA, FAIM, FAICD, is a non executive director. Mr Pettigrew was appointed as a director by the Board on 24 April 2006 and last re-elected by shareholders in November 2007.

Mr Pettigrew is an experienced company director. A former Chief Executive Officer of CSR Building Products Pty Ltd, he has extensive experience in manufacturing, supply and distribution in the building products industry both in Australia and Asia. Previously he was the Managing Director of Chubb Australia Ltd and Wormald Security Australia Pty Ltd and involved in the manufacturing, contracting and service industries.

Your Board unanimously recommends you vote in favour of the election of Mr Pettigrew. The Chairman intends to vote undirected proxies in favour of the resolution.

Remuneration Report

3. Adoption of the Remuneration Report for the year ended 30 June 2008

The Annual Report for the year ended 30 June 2008 is available on the Company's website. It contains the Remuneration Report setting out the Company's remuneration policy and reports the remuneration arrangements in place for executive directors, non executive directors and senior executives.

At the meeting there will be a reasonable opportunity for discussion of the Remuneration Report.

The report includes:

- an explanation of the Board's policies in relation to the nature and level of remuneration of directors and executives;
- a discussion of the link between directors and executives' remuneration and the Company's performance;
- details of any element of the remuneration of directors and executives that is dependent upon the satisfaction of a performance condition; and
- details of the total remuneration (as well as a categorised break-down of its components) of each director of the Company and the senior executives of the Company.

Your Board unanimously recommends you vote in favour of the resolution. The Chairman intends to vote undirected proxies in favour of the resolution.

VOTING INSTRUCTIONS

Voting Entitlement

Members on the register as at 10am EST on 28 October 2008 may vote at the meeting by:

- attending in person or appointing a proxy (for individuals and joint holders); or
- appointing a proxy or corporate representative (for companies).

Attending in Person

Please present the Proxy Form accompanying this Notice at the registration desk at the meeting to assist with registration.

Proxies

Pursuant to Section 249X of the Corporations Act, if you are entitled to attend and vote at the General Meeting, you may appoint a proxy to vote on your behalf if you cannot attend in person. Your proxy does not have to be a member of the Company. A member who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes that each proxy is appointed to exercise.

Individuals or companies who wish to appoint a proxy(s) must either:

- complete the Proxy Form accompanying this Notice of Meeting and deposit it with Computershare, the Company's share registry; or
- follow the online appointment process set out in the Proxy Form and register the proxy via Computershare's website and Investor Centre.

To be valid a proxy must:

- be received by Computershare before 10am EST on 28 October 2008;
- be signed by all holders if the shares are jointly held by two or more persons; and
- if the Proxy Form is signed under a power of attorney or any other instrument, include the original or a certified copy of the original power of attorney or other instrument.

You may appoint the Chairman of the meeting as your proxy. If you appoint a proxy other than the Chairman of the meeting, your appointed proxy/proxies should present a copy of the completed Proxy Form/s accompanying this Notice at the registration desk on the day of the meeting.

Corporate Representatives

A Company that has appointed a corporate representative to vote on its behalf at the meeting must either forward evidence of the appointment to the Company's share registry, Computershare, or present evidence of the appointment at the registration desk on the day of the meeting. A Company's appointed representative should also present a copy of the Proxy Form accompanying this Notice at the registration desk on the day of the meeting.

The Proxy Form is enclosed with this Notice.

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APPENDIX 1 – PRO-FORMA BALANCE SHEET AND INCOME STATEMENT 15

BISALLOY LIMITED PRO FORMA BALANCE SHEET AS AT	30/06/2008 \$'000	30/06/2009 \$'000
Fixed assets	11,839	14,712
Receivables and other assets	32,977	42,700
Inventories	14,123	19,204
TOTAL ASSETS	58,939	76,616
Creditors and other provisions	(26,234)	(31,053)
OPERATING CAPITAL EMPLOYED	32,705	45,563
Cash Assets	2,381	0
Borrowings	(47,734)	(33,928)
Tax receivable / (payable)	579	(6,597)
NET ASSETS	(12,069)	5,038
SHAREHOLDERS EQUITY		
Contributed Equity	40,933	40,933
Reserves	(3,122)	(3,122)
Retained Profits/(Accumulated losses)	(52,812)	(36,574)
Total Parent Entity Interest in Equity -	(15,001)	1,237
Total Outside Equity Interest	2,932	3,802
TOTAL SHAREHOLDERS EQUITY	(12,069)	5,038

BISALLOY LIMITED PRO FORMA INCOME STATEMENT FOR THE YEAR ENDED	30/06/2008 \$'000	30/06/2009 \$'000
Revenues	138,777	191,490
Cost of sales	(95,988)	(143,709)
Gross profit	42,789	47,781
Other income	509	0
Operating and admin expenses	(14,644)	(19,747)
Earnings Before Interest & Tax (EBIT)	28,654	28,034
Finance costs		(3,752)
Income tax expense		(7,175)
Minority interests		(869)
Net profit before impairment charges		16,238
Impairment charge		0
Net profit		16,238

Note: Borrowings and Taxation calculations have been performed at a Group Consolidated basis, prior year income can only be disclosed to Earnings Before Interest & Tax. No corporate costs have been included in the 2008 comparatives as no reliable allocation between the Distribution Business and Bisalloy Steels is possible. Corporate costs for FY08 amounted to \$4.7m.

Major assumptions used in deriving the proforma FY09 budget EBIT and net assets for the Consolidated Atlas Group are:

- The forecasts are prepared in accordance with
 - i. the recognition and measurement principles (but not all of the presentation and disclosure requirements) prescribed in Accounting Standards and other professional reporting requirements in Australia;
 - ii. Accounting Policies of Atlas Group as disclosed in the 2008 Annual Report;
 - iii. As if Atlas Specialty Metals Pty Limited had been divested by Atlas Group prior to 1 July 2008.
- 53,000 tonnes produced and sold.
- 270 days of production during the financial year.
- Yield loss of 8% on first pass, giving an average daily production of 204 saleable tonnes. Note that plate which fails to pass quality testing can potentially be reprocessed and recovered.
- Price increases from suppliers can be passed onto customers, based on a continuing world-wide shortage of quenched and tempered plate supply. Note that the budget assumes 26,000 tonnes of Chinese sourced greenfeed at a landed cost less than domestic greenfeed.
- Average interest rate for proforma FY09 budget assumed at 9.5%.
- Total operating expenses are forecast to increase by 20.5%.
- Pro forma corporate costs for the Atlas Group post-sale have been calculated at \$2.2m on an annualised basis.
- Costs associated with the divestment and settlement of intercompany loans has been excluded.
- Corporate costs are assumed to be ongoing normalised costs. All non-recurring costs such as the timing and costs associated with restructuring the management of Atlas Group and moving the corporate office to Unanderra in New South Wales from Brooklyn in Victoria have been excluded.
- Income tax expense has been assumed at 30% of Earnings Before Tax. No income tax instalments have been assumed to be paid in FY09 due to the consolidated group's opening tax loss position.
- Operating capital employed components are as for the FY09 budget:
 - o Accounts receivable is based on budgeted sales and an estimate of sales days outstanding taking into account historical performance and known changes to the customer base.
 - o Accounts payable is based on cost of goods used in production as per the income statement and an estimate of days outstanding, given known changes to the supplier base.
 - o Inventory levels are based on estimated usage as per the income statement and historical safety stock levels adjusted for known changes in supply.
- No dividend assumed to be paid or declared. No changes to capital structure assumed.
- Borrowings are calculated as the balancing item.

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Atlas Group Holdings Limited

Independent expert's report

26 September 2008

Financial services guide

Note: This report consists of both a Financial Services Guide and an independent expert's report

Part 1 - Financial Services Guide

26 September 2008

What is a Financial Services Guide?

This Financial Services Guide (FSG) is an important document whose purpose is to assist you in deciding whether to use any of the general financial product advice provided by Deloitte Corporate Finance Pty Limited (ABN 19 003 833 127). The use of "we", "us" or "our" is a reference to Deloitte Corporate Finance Pty Limited as the holder of Australian Financial Services Licence (AFSL) No. 241457. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

Information about us

We have been engaged by Atlas Group Holdings Limited to give general financial product advice in the form of a report to be provided to you in connection with the divestment of its distribution business to Balron Nominees Pty Limited. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us using the details located above.

Deloitte Corporate Finance Pty Limited is ultimately owned by the Australian partnership of Deloitte Touche Tohmatsu. The Australian partnership of Deloitte Touche Tohmatsu and its related entities provide services primarily in the areas of audit, tax, consulting, and financial advisory services. Our directors may be partners in the Australian partnership of Deloitte Touche Tohmatsu.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com.au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

The financial product advice in our report is provided by Deloitte Corporate Finance Pty Limited and not by the Australian partnership of Deloitte Touche Tohmatsu, its related entities, or the Deloitte Touche Tohmatsu Verein.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Australian partnership of Deloitte Touche Tohmatsu (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide financial product advice in respect of:
 - debentures, stocks or bonds to be issued or proposed to be issued by a government
 - interests in managed investment schemes including investor directed portfolio services
 - securities.
- to deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of:
 - debentures, stocks or bonds issued or to be issued by a government
 - interests in managed investment schemes including investor directed portfolio services
 - securities.

Information about the general financial product advice we provide

The financial product advice provided in our report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant Product Disclosure Statement (PDS) or offer document provided by the issuer of the financial product. The purpose of the PDS is to help you make an informed decision about the acquisition of a financial product. The contents of the PDS will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services guide

How are we and our employees remunerated?

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Deloitte Corporate Finance Pty Limited nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us. Our fee is \$80,000 (plus GST) and will also be disclosed in the relevant PDS or offer document prepared by the issuer of the financial product.

All of our employees receive a salary. Our employees are eligible for annual salary increases and bonuses based on overall performance but do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits in connection with our advice.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

What should you do if you have a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Complaints Officer
Practice Protection Group
Deloitte Corporate Finance Pty Limited
PO Box N250
Grosvenor Place
Sydney NSW 1220

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FOS at:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808
Fax: +61 3 9613 6399
Internet: <http://www.fos.org.au>
Email: info@fos.org.au

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia (ICAA). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants and can be contacted at:

The Institute of Chartered Accountants
GPO Box 3921
Sydney NSW 2001
Telephone: +61 2 9290 1344
Fax: +61 2 9262 1512
<http://www.icaa.org.au>

The Australian Securities and Investments Commission (ASIC) regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630
Email: infoline@asic.gov.au
Internet: <http://www.asic.gov.au/asic/asic.nsf>

The Directors
Atlas Group Holdings Limited
1-23 Lynch Road
Brooklyn VIC 3012

26 September 2008

Dear Directors

Independent expert's report

Introduction

On 24 June 2008, Atlas Group Holdings Limited (Atlas or the Company) announced that it had received an offer from Balron Nominees Pty Limited (Balron) on behalf of a consortium of investors (the Consortium) to acquire its distribution businesses in exchange for consideration up to \$95 million (the Proposed Transaction). Based on the net asset position of the distribution businesses at 31 July 2008, the likely proceeds to Atlas are approximately \$87 million. Balron is a substantial shareholder of Atlas, holding approximately 15.2% of Atlas' outstanding shares.

The Atlas distribution operations consist of the following:

- Australian distribution
- New Zealand distribution
- Atlas Metal Processors
- Durinox stainless steel reinforcing bars
- Schumag bar mill
- New Zealand Tube Mills
- centralised support functions.

The above operations are referred to as Atlas Distribution in this report. An overview of Atlas Distribution is presented in Section 4.5. Refer to Section 1 for a summary of the Proposed Transaction.

Purpose of the report

Chapter 10 of the Listing Rules of the Australian Securities Exchange (ASX) (the Listing Rules) requires, when the disposal of a substantial asset to related parties is proposed, the preparation of a report by an independent expert stating whether the proposed transaction is fair and reasonable to the non-associated shareholders (i.e. all shareholders except Balron, referred to as Non-Associated Shareholders). The directors of Atlas (the Directors) have requested that Deloitte Corporate Finance Pty Limited (Deloitte) provide an independent expert's report advising whether, in our opinion, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

We have prepared this report having regard to Chapter 10 of the Listing Rules and the relevant Australian Securities and Investments Commission (ASIC) Regulatory Guides.

This report is to be included in the explanatory memorandum (Explanatory Memorandum) accompanying the notice of meeting to approve the Proposed Transaction (the Notice of Meeting), which will be sent to Atlas' shareholders (Shareholders), and has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their consideration of the Proposed Transaction. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

Basis of evaluation

In order to assess whether the Proposed Transaction is fair and reasonable we have considered the overall effect of the Proposed Transaction on the Non-Associated Shareholders and formed a judgement as to whether the expected benefits to the Non-Associated Shareholders outweigh any disadvantages that may result. The consideration offered by the Consortium to acquire Atlas Distribution is only one factor we have considered.

In forming our opinion as to whether the Proposed Transaction is 'fair and reasonable', we have treated the concepts of fairness and reasonableness as a single opinion, that is, the Proposed Transaction either is, or is not, fair and reasonable.

In assessing whether the Proposed Transaction is fair and reasonable we have estimated the fair market value of Atlas Distribution and compared this value with the consideration to be paid by the Consortium. We have also considered the other advantages and disadvantages to Non-Associated Shareholders.

Advantages of the Proposed Transaction

The likely advantages to the Non-Associated Shareholders if the Proposed Transaction proceeds include:

The price offered by the Consortium is within our assessed fair market value of Atlas Distribution

We set out in the table below a comparison of our assessment of the fair market value of Atlas Distribution with the consideration offered by the Consortium. Based on Atlas Distribution's net assets at 31 July 2008 (refer Table 10) of approximately \$137 million the consideration offered by the Consortium is approximately \$87 million.

Table 1: Evaluation of fairness

	Section	Low value (\$'m)	High value (\$'m)
Fair market value of Atlas Distribution	6.4	75.0	95.0
Likely proceeds from the Consortium (up to a maximum of \$95 million)	1.1	87.0	87.0

Source: Deloitte analysis

Based on the above analysis, the consideration offered by the Consortium is within the range of our estimate of the fair market value of Atlas Distribution.

Ability to pay down existing debt to reduce gearing

The Proposed Transaction will enable Atlas to reduce debt and interest costs. Atlas' debt to enterprise value ratio prior to the announcement of the Proposed Transaction was approximately 70%, which is considerably higher than the average debt to enterprise value ratios of comparable companies of 17.6% (refer Appendix 2).

Enhanced focus on Atlas' Bisalloy division

Currently Atlas consolidates Atlas Distribution and Bisalloy's financial performance when reporting to Shareholders. Whilst Bisalloy's EBIT contribution is reported in Atlas' segment notes to the financial statements, Atlas Distribution's losses offset Bisalloy's profitability. Divesting Atlas Distribution will enable Atlas to better report the true profitability of Bisalloy in the Company's financial statements. This might improve the market's perception of Atlas, and in turn Atlas' share price, as discussed below.

Based on the market capitalisation of Atlas as at 19 September 2008 (share price of \$0.50), and assuming the Proposed Transaction is approved, Atlas and its remaining business unit, Bisalloy, would be trading at a current multiple of approximately 3.8 times Bisalloy's 2008 EBIT of \$28.6 million (refer Table 8). We note that the average current EBIT multiple of companies comparable to Bisalloy is approximately 6.1 times (refer to Appendix 2). Accordingly, notwithstanding the smaller size of Bisalloy in relation to its comparable companies, if the Proposed Transaction is approved the Atlas shares may be re-rated by the market.

In the absence of the Proposed Transaction Atlas shares would likely trade below current levels

The Atlas share price has risen significantly since the announcement of the Proposed Transaction on 25 June 2008. Should the Proposed Transaction not be approved it is likely that the Atlas share price would decrease.

Divestment of an under performing business unit

Atlas Distribution has historically been under performing. Based on Atlas management's business plan, it may take several years for Atlas Distributions' performance to improve, and there is the potential risk that this "turn around" strategy may not be successful. The Proposed Transaction provides Shareholders with the opportunity to divest this business unit and realise the cash from this sale in a timely manner (which will then be used to reduce debt, as noted above).

Increased likelihood of dividends

Atlas has a history of paying interim and final dividends to Shareholders. However as at the date of this report, no dividends have been declared for 2008. The Proposed Transaction may result in an increased ability to pay dividends to Shareholders. These dividends are dependent on the future profitability of Bisalloy.

Increased likelihood of a takeover offer for Bisalloy

We understand that Atlas has been seeking a potential acquirer for the whole business, consisting of both Atlas Distribution and Bisalloy. The divestment of Atlas Distribution under the Proposed Transaction may increase the likelihood of a takeover offer emerging for Bisalloy.

Disadvantages of the Proposed Transaction

The likely disadvantages to Shareholders if the Proposed Transaction is approved include:

Loss of opportunity to participate in any potential growth of Atlas Distribution

If the Proposed Transaction is approved and to the extent that the “turn around” strategy can be implemented and realised, Shareholders will not be able to participate in any potential growth of Atlas Distribution. However, we note above that these improvements are yet to be fully implemented and there is the potential risk that this “turn around” strategy may not be successful.

Tax and accounting consequences

Acceptance of the Proposed Transaction may result in adverse tax and accounting consequences for Atlas. We note that the following comments in respect of taxation and accounting impacts are general in nature and do not constitute taxation or accounting advice.

- the divestment of Atlas Distribution will require Atlas to deconsolidate Atlas Distribution from its tax consolidated group. As a result, Atlas may be exposed to a higher effective tax rate, due to the fact that it can no longer benefit from the losses associated with Atlas Distribution
- Atlas Distribution may be exposed to a capital gain or loss on the sale of Atlas Distribution, which would be considered a capital gains tax event. We understand that Atlas has received specific tax advice which indicates it would have neither a capital gain or a capital loss on disposal of Atlas Distribution under the terms of the Proposed Transaction
- as Atlas Distribution is being sold at a discount to its net tangible assets, the Proposed Transaction may crystallise a loss on the divestment of Atlas Distribution which will be recorded in the financial accounts of Atlas.

Opinion

In our opinion, the advantages of the Proposed Transaction outweigh the disadvantages and therefore, in the absence of a superior offer, the Proposed Transaction is fair and reasonable to Non-Associated Shareholders. An individual shareholder’s decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. If in doubt the shareholder should consult an independent adviser.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



Hamish Blair

Director



Stephen Reid

Director

Note: All amounts stated in this report are Australian dollars (\$) unless otherwise stated.

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1 Terms of the Proposed Transaction

1.1 Summary

On 24 June 2008, Atlas announced that it had received an offer from the Consortium to acquire its distribution businesses. Atlas Distribution consists of the following operations:

- Australian distribution
- New Zealand distribution
- Atlas Metal Processors
- Durinox stainless steel reinforcing bars
- Schumag bar mill
- New Zealand Tube Mills
- centralised support functions.

An overview of Atlas Distribution is presented in Section 4.5.

The Consortium has offered to acquire Atlas Distribution at a discount of \$50 million to the net operating capital employed in the business, subject to a maximum payment of \$95 million. Based on Atlas Distribution's operating capital employed on 31 July 2008 of approximately \$137 million, the consideration to be received is approximately \$87 million.

The Consortium's offer is premised on a nil cash and debt position. To the extent any of Atlas' debt is transferred to the Consortium, the consideration will be reduced by an equivalent amount. In addition, in the event that the Consortium can not raise all of its debt financing for the Proposed Transaction, the value of assets transferred and the purchase price will be reduced by the amount that could not be financed by debt, with the remainder of the purchase price to be settled by a transfer of stock to Balron on consignment, at cost, to provide substantially the same net proceeds to Atlas.

Balron is a substantial shareholder of Atlas, holding approximately 15.2% of Atlas' outstanding shares.

Full details of the Proposed Transaction are provided in the Explanatory Memorandum.

1.2 Intentions of Atlas

Atlas intends to utilise the proceeds from the divestment of Atlas Distribution to pay down its existing debt and concentrate on facilitating the growth of Bisalloy Steels Pty Limited (Bisalloy). A description of Bisalloy is provided in Section 4.4.

1.3 Conditions of the Proposed Transaction

The Proposed Transaction is subject to the approval of Non-Associated Shareholders and subject to confirmatory legal due diligence, formal documentation and final financing approval for both parties; Atlas and the Consortium.

2 Scope of the report

2.1 Purpose of the report

Chapter 10 of the Listing Rules requires, when the disposal of a substantial asset to related parties is proposed, the preparation of a report by an independent expert stating whether the proposed transaction is fair and reasonable to the Non-Associated Shareholders.

The Directors have requested that Deloitte provides an independent expert's report advising whether, in our opinion, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

We have prepared this report having regard to Chapter 10 of the Listing Rules and the relevant Australian Securities and Investments Commission (ASIC) Regulatory Guides.

This report is to be included in the Explanatory Memorandum to accompany the Notice of Meeting, seeking Non-Associated Shareholder approval for the Proposed Transaction.

This report has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their consideration of the Proposed Transaction. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

2.2 Basis of evaluation

2.2.1 Guidance

Neither the Listing Rules, nor the Corporations Act 2001 (Cwlth) provide a definition of 'fair and reasonable' for the purposes of ASX Listing Rule 10. In evaluating whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders we have considered the Listing Rules, ASIC's Regulatory Guides (in particular, Regulatory Guide 111 (RG111) issued by ASIC in relation to independent expert's reports) and common market practice.

Listing Rule 10 can encompass a wide range of transactions. Accordingly, 'fair and reasonable' must be capable of broad interpretation to meet the particular circumstances of each transaction. This involves judgement on the part of the expert as to the alternatives available.

RG111 provides guidance in relation to the content of independent expert's reports prepared for various transactions. It does not provide specific guidance on the form and content of the reports prepared in respect of related party transactions. It provides general guidance that an expert, in deciding the appropriate form of analysis for the report, should ensure that the reasonably anticipated concerns of the people affected by the Proposed Transaction are adequately dealt with.

We have therefore had regard to the underlying rationale of the requirement of Listing Rule 10, which is to ensure that, as far as practicable, non-associated security holders are not disadvantaged as a result of a substantial transaction by the company involving persons that are in a position of influence in the company.

2.2.2 Fair and reasonable

In our opinion the most appropriate basis on which to evaluate whether the Proposed Transaction is ‘fair and reasonable’, is to consider the overall effect of the Proposed Transaction on the Non-Associated Shareholders and to form a judgement as to whether the expected benefits to the Non-Associated Shareholders outweigh any disadvantages that may result from the Proposed Transaction. Value is an important element, but not the only element of this assessment given the circumstances of the Proposed Transaction.

In forming our opinion as to whether the Proposed Transaction is ‘fair and reasonable’, we have therefore treated the concepts of fairness and reasonableness as a single opinion, that is, the Proposed Transaction is, or is not, fair and reasonable.

We have assessed whether the price being paid by the Consortium under the Proposed Transaction is commercial by comparing the consideration offered by the Consortium under the Proposed Transaction with the fair market value of Atlas Distribution. We have derived the fair market value of Atlas Distribution using two different valuation methodologies (refer Sections 6.2 and 6.3). Fair market value is defined as the amount at which the business would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of Atlas Distribution has not been premised on the existence of a special purchaser.

We have also considered other potential advantages and disadvantages to the Non-Associated Shareholders of undertaking the Proposed Transaction.

2.2.3 Individual circumstances

We have evaluated the Proposed Transaction for Shareholders as a whole and have not considered the effect of the Proposed Transaction on the particular circumstances of individual shareholders. Due to their particular circumstances, individual shareholders may place a different emphasis on various aspects of the Proposed Transaction from those adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Transaction is fair and reasonable. If in doubt, investors should consult an independent adviser.

2.3 Limitations and reliance on information

The opinion of Deloitte is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 4.

Our procedures and enquiries do not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards.

3 Specialty metals industry

3.1 Overview

Atlas operates in the specialty metals industry which encompasses the importing, processing and distribution of both specialty steels and other metals such as aluminium, copper, brass, bronze, nickel and titanium alloys.

Plain carbon steel is manufactured by alloying carbon with iron. Specialty steels comprise carbon steel alloyed with other elements such as nickel, chromium and manganese to change the physical, chemical and mechanical properties of the steel for specific end use applications. Carbon steel can also be made into specialty steel as a result of precision surface finishing. Low alloy steel, stainless steel and tool steel are generally classified as specialty steels.

The specialty steels market in Australia and New Zealand differs from the structure of the carbon steel market primarily as a consequence of most specialty steels being imported. The last Australian stainless steel mill was closed in 1997 due to the small size of the Australian market, high capital costs and distance to export markets. As a result, nearly all stainless steel is now imported from Asian and European mills by independent distributors. Distributors often then undertake further value added processing of the imported bulk material before delivery to the end user. Value added processing is classified as either ‘primary’ or ‘secondary’ and is outlined in the table below:

Table 2: Value added primary and secondary processing

Primary processing	Secondary processing
<ul style="list-style-type: none">• quench and temper (to provide increased strength and wear resistance to a steel plate)• draw and peel (stretch and remove the shell from a steel bar)• cut to length (cutting to the customers’ required specification)• polishing	<ul style="list-style-type: none">• plasma cutting (cutting via a high velocity jet of ionised gas which increases the speed of the process and the quality of the cut)• break bulk (repackaging bulk imports into smaller quantities for sale)• warehousing• distribution• technical support

Source: Atlas management

End users range from small engineering and machining shops to large industrial customers operating in industries such as automotive, transport, food and beverages, mining, construction and household products.

3.2 Industry outlook

According to IBISWorld Pty Ltd, the outlook for the specialty metals industry will be influenced by the following:

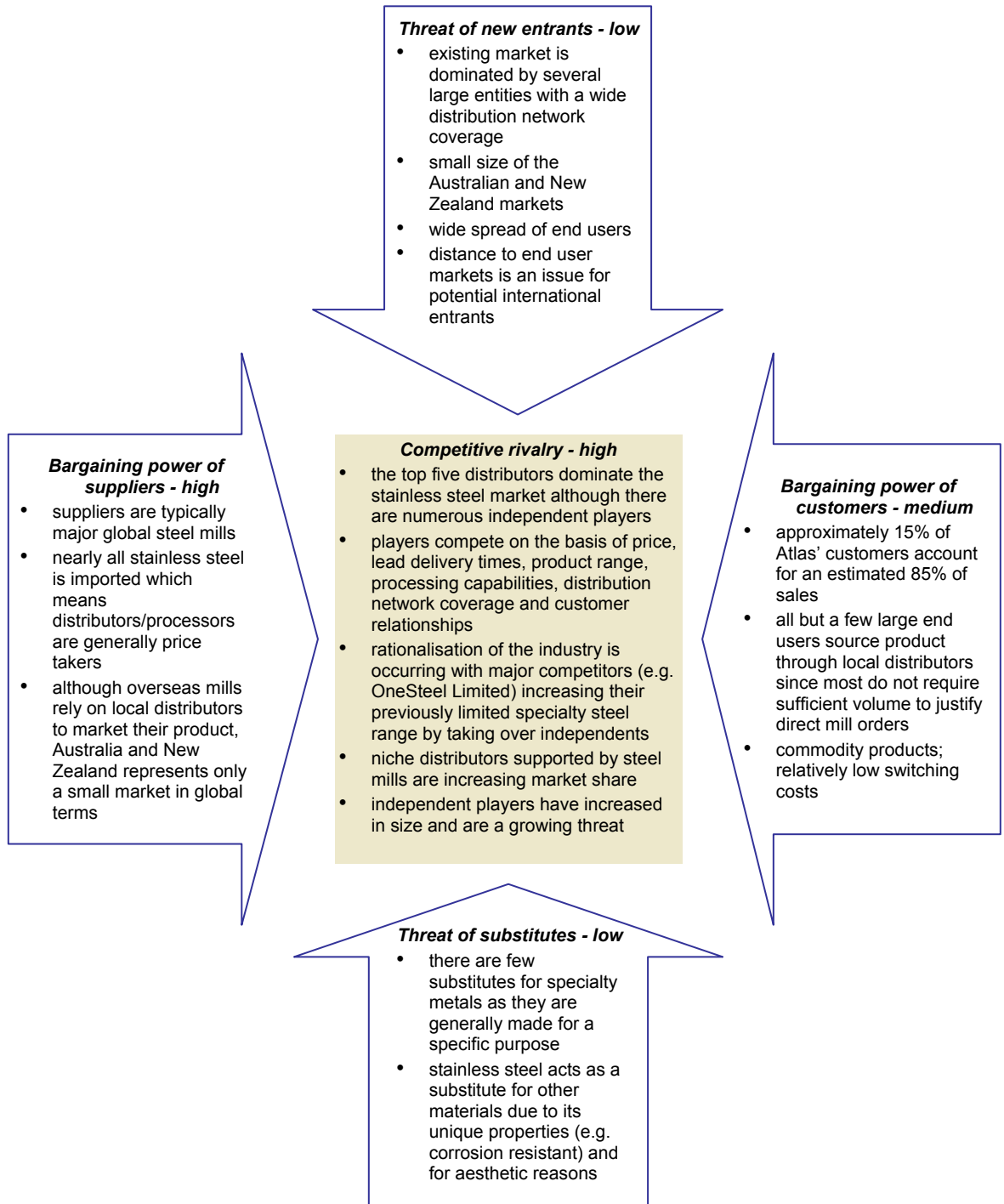
- the construction and mining sectors are expected to be major drivers of growth in the demand for metals over the next five years. Efficiency gains associated with further restructuring and consolidation within the industry are likely to see the industry return to stronger profitability. These gains may, however, be partially offset by continued increases in energy costs which are a major input for metal processors

- emerging economic uncertainty in the sub-prime credit market and wider investment markets in the United States (U.S.) is expected to result in a slight decrease in the growth in commercial construction projects in Australia during 2009 and 2010. However, strong growth in the worldwide demand for metals is likely to drive continued investment in the mining sector and associated construction projects
- downstream demand for metals from the automotive sector is expected to continue to decrease over the next five years, but residential construction is expected to continue buoyant growth as the result of interest rate restraint from the Reserve Bank of Australia, forecast increases in disposable incomes and low unemployment
- investment in new residential development will also generate associated increases in utilities infrastructure, public transport, road works, etc. The net effect will be increasing demand for metals during 2009 and 2010
- stronger growth is forecast for the economy over 2012-13, leading to growth in gross domestic product (GDP), consumer spending and real disposable incomes. Growth in real disposable incomes will support stronger growth in commercial and residential construction activity during the outlook period, and total demand for metals is forecast to rise each year.

3.3 Porter analysis

We have undertaken a Porter’s Five Forces analysis of the Australian and New Zealand specialty metals industry as set out in the figure below.

Figure 1: Porter’s Five Forces analysis of the Australian and New Zealand specialty metals industry



Source: Atlas management and Deloitte analysis

4 Profile of Atlas

Atlas is a processor and distributor of specialty metal products in Australia and New Zealand. Atlas sells and processes stainless steel, engineering steel, quenched and tempered steel plate, carbon tube pipe and fittings and aluminium flat rolled products. Quenched and tempered steel plate is sold under the Bisplate brand of the Bisalloy business whilst all other products are sold under the Atlas and other associated brands. Atlas currently operates:

- 14 distribution centres in Australia
- five distribution centres in New Zealand
- two distribution centres in South East Asia
- four manufacturing sites in Australia and New Zealand.

Specialty steel and metals are purchased in bulk before a number of primary and secondary processes are undertaken to tailor products to specific end user requirements. The activities involved in primary and secondary processing are described in Section 3.

Atlas' two main business units are:

- Bisalloy (see Section 4.4)
- Atlas Distribution (see Section 4.5).

The key operating units of Bisalloy and Atlas Distribution are presented in the table below.

Table 3: Key operating units of Bisalloy and Atlas Distribution

Bisalloy	Atlas Distribution
<ul style="list-style-type: none">• Bisalloy Steels• Bisalloy Asia	<ul style="list-style-type: none">• Atlas Specialty Metals• New Zealand Tube Mills• Atlas Metal Processors• Schumag bar mill• Durinox

Source: Atlas management

4.1 Company history

An overview of Atlas' recent company history, since the leveraged management buy out of Atlas Distribution, Atlas Manufacturing and Bisalloy Steels from Email Limited (Email) in 2001, is provided in the figure below.

Figure 2: Company history

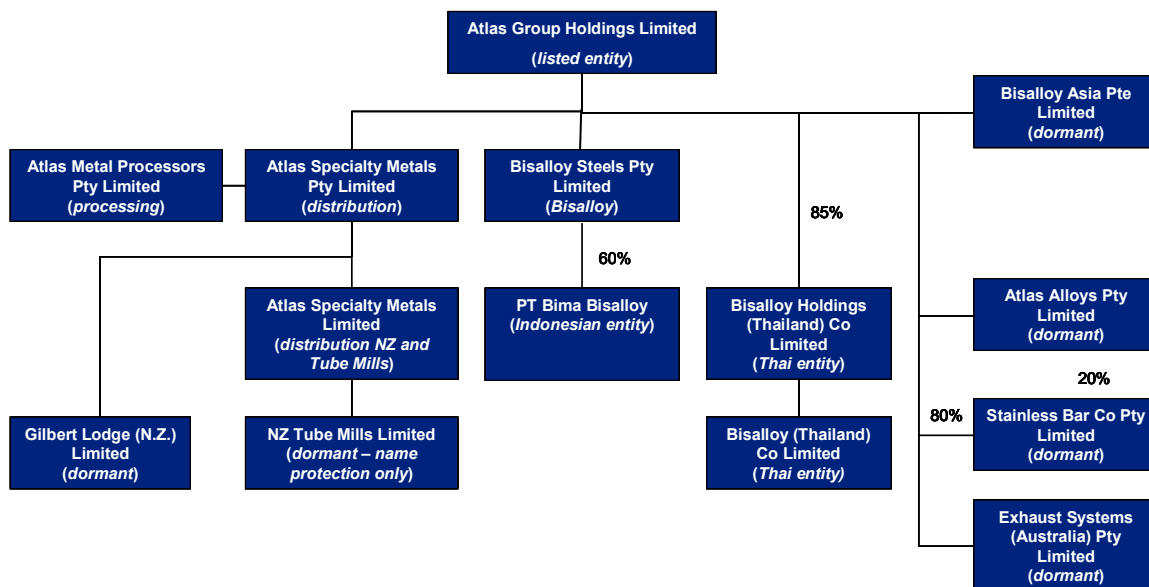


Source: Atlas prospectus, Atlas annual reports and ASX announcements

4.2 Legal structure

The figure below sets out the group structure for Atlas. All entities are 100% owned unless otherwise noted.

Figure 3: Atlas group structure



Source: Atlas management

4.3 Principal activities

Atlas processes and distributes specialty metals within seven core product segments. The table below details Atlas management's estimate of market share, and ranking in the Australian and New Zealand market within each of these product segments.

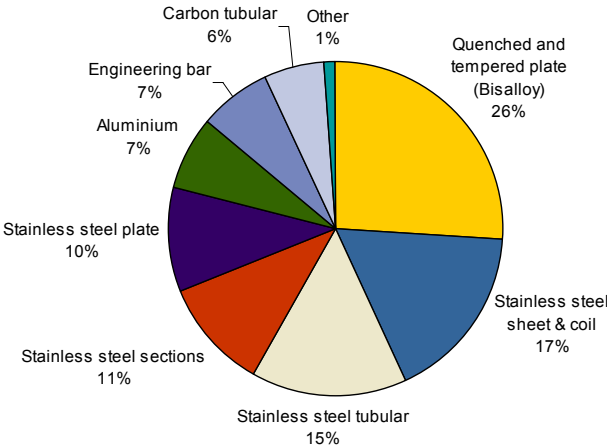
Table 4: Atlas' market share in the seven core product segments

Core product category	Business unit	Market position	Market share
Stainless steel flat products	Atlas Distribution	1	18.2%
Stainless steel sections	Atlas Distribution	1	30.9%
Stainless steel tubular products	Atlas Distribution	1	21.6%
Engineering steels	Atlas Distribution	1	19.7%
Quenched and tempered steel plate	Bisalloy	1	55.0%
Aluminium flat rolled products	Atlas Distribution	5	8.8%
Carbon pipe and fittings	Atlas Distribution	3	4.9%

Source: Atlas management estimates

The core product segments set out above expressed as a percentage of Atlas' 2007 revenue (including both Bisalloy and Atlas Distribution), are presented in the figure below. Approximately 74% of revenues are generated by Atlas Distribution.

Figure 4: Core product segments as a percentage of 2007 revenue

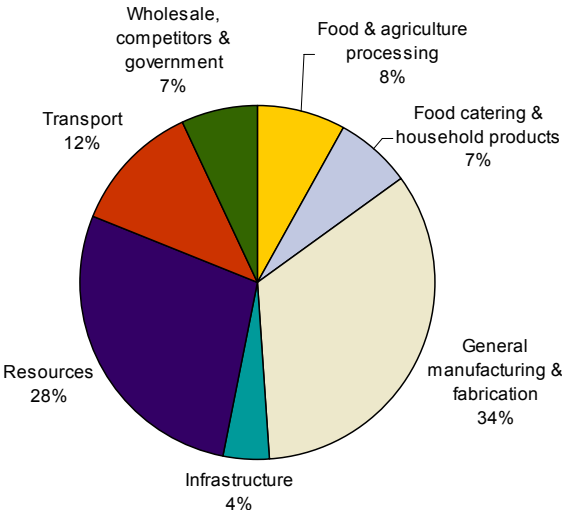


Source: Atlas management

Note: Bisalloy Asia has a portfolio of products, dominated by quenched and tempered plate, but includes stainless steel sheet and coil, and carbon steel plate

Atlas' products are used in a diverse range of industries including resources, transport, manufacturing and food processing. A breakdown of Atlas' 2007 revenue (including both Bisalloy and Atlas Distribution), in percentage terms, by market segment is presented in the figure below.

Figure 5: 2007 percentage sales by market segment



Source: Atlas management

4.4 Bisalloy

The key brands and businesses of Bisalloy are outlined below.

4.4.1 Bisalloy Steels

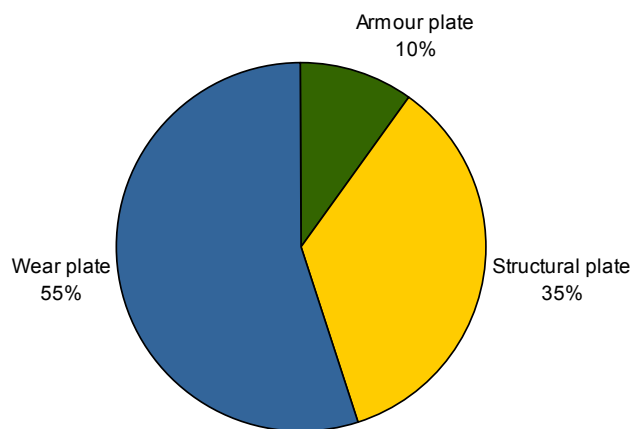
Bisalloy Steels commenced operations in 1980 and is Australia's only manufacturer of quenched and tempered steel plate, which is sold under the brand Bisplate, a high tensile and abrasion resistant product. The business is based in Unanderra, NSW and predominant targets customers in Australia and South East Asia, South America and the Middle East.

The quenched and tempered process involves heating low alloy steel in a gas fired furnace and then quenching in cold water. There are three types of Bisplate offerings:

- wear plate – for mining applications such as dump truck chassis and high strength earth moving blades
- structural plate – for structured applications including booms on cranes
- armour plate – for applications including the production of armoured personnel carriers.

A breakdown of the forecast 2008 Bisplate production by offering is shown in the figure below.

Figure 6: Forecast 2008 Bisplate production by offering, in percentage terms



Source: Atlas management

4.4.2 Bisalloy Asia

Bisplate is marketed and distributed in South East Asia via joint venture arrangements in Thailand (the 85% owned Bisalloy Thailand) and Indonesia (the 60% owned PT Bima Bisalloy). There is also a representative office in Vietnam.

4.4.3 Competitive position

The table below sets out the strengths, weaknesses, opportunities and threats (SWOT) for Bisalloy.

Table 5: SWOT analysis - Bisalloy

Strengths	Weaknesses
<ul style="list-style-type: none"> • Australia’s only manufacturer of quenched and tempered plate • Exposure to the strong performing resources and armaments sectors • Quality product and brand awareness • Exposure to customers in international markets • Strong earnings before interest and tax (EBIT) margins and cash flows has meant that the business is self funding • High barriers to entry (niche product, relatively high start up capital expenditure, technical expertise required) • Increased capacity and improved manufacturing efficiencies from the installation of a second shot blaster and laser guided vehicle • Diversification of supplier base by sourcing green feed steel plate from Chinese mills 	<ul style="list-style-type: none"> • Lack of diversification from being a ‘one product’ business • One operating plant in Unanderra, NSW limits Bisalloy’s operating capacity
Threats	Opportunities
<ul style="list-style-type: none"> • Continuing strength of the Australian dollar which makes imported quenched and tempered plate more price competitive • Any future downturn in the resources and/or armaments sectors • Foreign currency exchange fluctuations with Bisalloy diversifying supply to foreign companies 	<ul style="list-style-type: none"> • Continue to take advantage of opportunities presented by the worldwide shortage in quenched and tempered plate and expand domestic market share • Open a manufacturing facility in China • Expand presence in South East Asia

Source: Atlas management and Deloitte analysis

4.5 Atlas Distribution

The key brands and businesses of Atlas Distribution are outlined below.

4.5.1 Atlas Specialty Metals

Atlas Specialty Metals is a speciality metals distributor with operations in Australia and New Zealand. It is engaged in primary and secondary processing, and offers a range of stainless steel, aluminium, engineering steel bar and carbon tube, pipe and fittings. For the purposes of management reporting, the performance of Atlas Specialty Metals is separately presented as ‘Australian Distribution’ and ‘New Zealand Distribution’.

4.5.2 New Zealand Tube Mills

New Zealand Tube Mills is a fully owned subsidiary of Atlas Specialty Metals and produces a range of mild steel and stainless tubular products at its manufacturing facility in Wellington. The business has a strong position in the New Zealand market for the supply of stainless and thin walled carbon tube.

4.5.3 Atlas Metal Processors

Atlas Metal Processors is based in Warragamba, NSW and engages in the processing of stainless steel and aluminium sheet and coil to support the Atlas Distribution business across Australia and New Zealand. It converts stainless steel and aluminium coil into sheet as well as polishing stainless coil for use in the manufacture of whitegoods and architectural applications.

4.5.4 Durinox

Durinox is a trademark created to brand and market a ferritic (i.e. magnetic) stainless steel product developed over the last two years. Ferritic stainless steels are highly resistant to corrosion and oxidation, and Durinox’s target market is reinforced concrete infrastructure in highly corrosive environments such as, in or adjacent, to seawater. Typical applications for Durinox products are bridges, tunnels, wharfs, footpaths, embankments and drains.

4.5.5 Schumag

The Schumag bar mill is a stainless and high-speed steel bar manufacturer servicing the manufacturing industry in Australia and New Zealand. It is located in Melbourne, Victoria and commenced manufacturing high-speed steel and a small amount of stainless steel in 1962. In particular, the mill produces tool steel for makers of drills, taps and end mills.

4.5.6 Competitive position

The table below sets out the SWOT for Atlas Distribution.

Table 6: SWOT analysis – Atlas Distribution

Strengths	Weaknesses
<ul style="list-style-type: none"> Awareness of the Atlas brand which is synonymous with stainless steel Largest specialty metals distributor in Australia and New Zealand Technical knowledge and expertise Extensive product range and variety Atlas management estimates Atlas Distribution is the market leader in five of the seven core product categories Large customer base of over 9,000 customers provides an opportunity to implement a full service provider strategy and earn a margin from both distribution and value added processing Operates the only specialty bar and wire mill in Australia and New Zealand 	<ul style="list-style-type: none"> Inventory management issues stemming from the poor implementation of Systems Applications and Products in Data Processing (SAP) software 15% of customers account for 85% of Atlas Distribution's revenue. In addition, the majority of customers are project customers and purchase products on an ad-hoc basis Excessive stock on hand and working capital Yet to fully exploit the opportunities presented in Atlas Distribution's large customer base Diversified stock range resulting in low stock turn
Threats	Opportunities
<ul style="list-style-type: none"> Major competitors increasing their previously limited product range in specialty metals by taking over smaller independent distributors Growing size of previously smaller independent players due to consolidation in the industry Further increases in key commodity prices resulting in higher stainless steel prices Foreign currency exchange fluctuations which affects the cost of stainless steel purchased from European and Asian steel mills Any future down turn in the resources, manufacturing and/or food processing sectors 	<ul style="list-style-type: none"> Improve inventory management and decrease in working capital balances Reduce stock range to improve stock turn Improve inventory management and decrease in working capital balances Target opportunities to supply products to public and/or private sector projects Introduction of a new pricing structure to minimise margin fluctuations New product development e.g. Durinox

Source: Atlas management and Deloitte analysis

4.5.7 Key sensitivities

Important indicators affecting the performance of Atlas Distribution include:

- commodity prices (e.g. iron ore, nickel, chromium, molybdenum) which affect the cost of stainless steel. This in turn impacts Atlas Distribution's margins since prices amongst the major global suppliers are driven by global commodity prices and Atlas Distribution is essentially a price taker in respect of these products
- foreign currency fluctuations. Atlas Distribution sources its stainless steel from global steel mills in Europe and Asia which includes ArcelorMittal and Outokumpu Oyj. Consequently, fluctuations in the Australian dollar versus other global currencies will impact the cost of imported stainless steel

- supplier delivery lead times and stock turn levels. Atlas Distribution imports all of its stainless steel from major global steel mills and delivery lead times can vary depending on the overall global demand. This will impact Atlas Distribution's stock turn and its ability to meet customer requirements
- working capital management. The impact of the sensitivities discussed above can be minimised by ensuring that Atlas Distribution is not carrying excessive inventory and reducing the working capital cycle
- the performance of the resources, manufacturing and food processing sectors, as these segments combined are expected to account for most of Atlas Distribution's revenue.

4.6 Capital structure and related party holdings

As at 30 June 2008, total shares on issue was 104.6 million. The following table sets out the top 10 shareholders of Atlas.

Table 7: Top 10 shareholders as at 30 June 2008

Name	Shares held	Percentage of issued capital (%)
Balron	15,878,959	15.2%
RBC Dexia Investor Services Australia Nominees Pty Limited	12,028,851	11.5%
ANZ Nominees Limited	4,915,899	4.7%
Mr Phillip John Cave	3,631,971	3.5%
Citicorp Nominees Pty Limited	2,890,151	2.8%
Clyde Bank Holdings (Aust) Pty Ltd	2,806,893	2.7%
National Nominees Limited	2,238,468	2.1%
Silverstreet Pty Ltd	2,093,692	2.0%
J P Morgan Nominees Australia Limited	1,820,115	1.7%
Mr Kim Brenton Godson	1,194,277	1.1%
Total - top 10 shareholders	49,499,276	47.3%
Other shareholders	55,068,581	52.7%
Total	104,567,857	100.0%

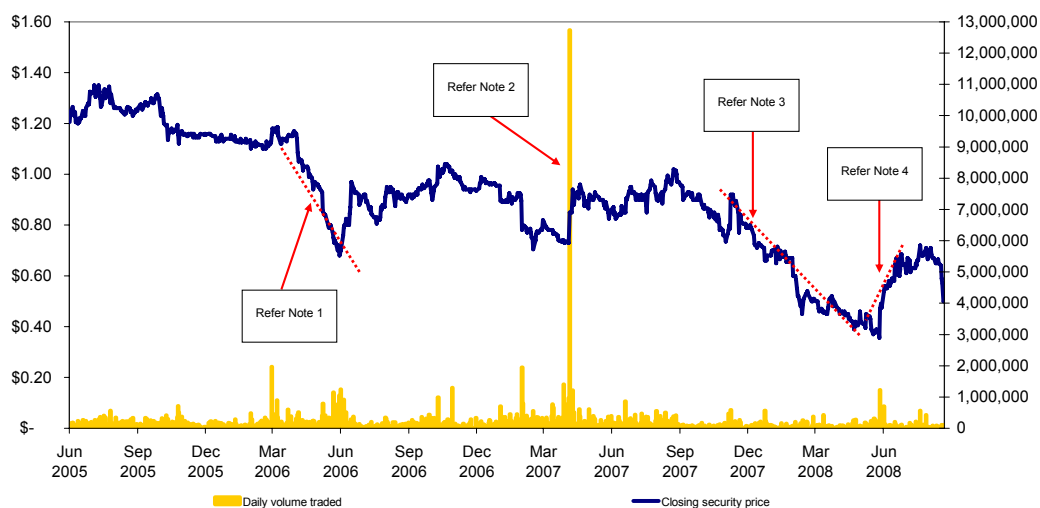
Source: Atlas

As at 30 June 2008, Balron held 15.2% of Atlas' issued capital. On this basis, Balron is a related party of Atlas for the purposes of ASX Listing Rule 10.

4.7 Share price performance

Atlas' share price movements and trading volumes are presented graphically in the figure below, together with our comments on the reasons for key movements in the Atlas share price.

Figure 7: Atlas' share activity on the ASX



Source: Bloomberg

We make the following comments in relation Atlas' share activity on the ASX:

- **Note 1:** Atlas' December 2006 half year report shows a significant decrease in net profits, with the underlying 2006 full year profit projected to remain flat at the 2005 level
- **Note 2:** Peter Smaller and Balron become substantial shareholders
- **Note 3:** Annual report released and highlighted difficulties in the distribution business with high costs and high inventory levels. Directors reject offer from Balron to acquire 100% of Atlas. Atlas announces losses
- **Note 4:** Announcement of profit upgrade for 2008 and offer from the Consortium to acquire Atlas Distribution for \$87 million.

4.8 Financial performance

The unaudited income statements of Atlas and the segment results for Atlas Distribution and Bisalloy, for the financial years ended 30 June 2007 and 30 June 2008 are summarised in the table below.

Table 8: Atlas management accounts for 2007 and 2008

	2007			2008		
	Atlas Distribution (\$'000)	Bisalloy (\$'000)	Consolidated (\$'000)	Atlas Distribution (\$'000)	Bisalloy (\$'000)	Consolidated (\$'000)
Trading revenue	344,138	101,546	430,062	331,284	138,777	459,407
EBIT	(1,031)	17,164	11,259	(17,064)	28,633	5,895
<i>EBIT margin (%)</i>	<i>(0.3)%</i>	<i>16.9%</i>	<i>2.6%</i>	<i>(5.2)%</i>	<i>20.6%</i>	<i>1.3%</i>

Source: Atlas management accounts

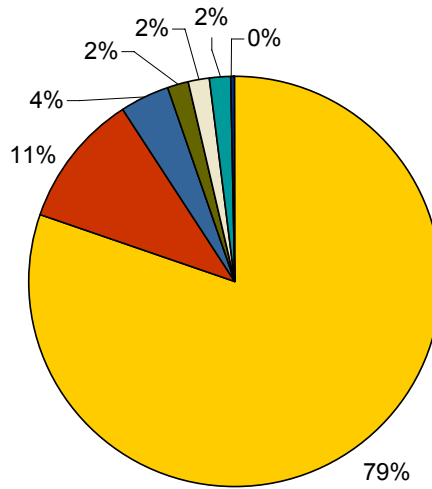
Note: 1. Atlas management has reconciled the 2007 management accounts to the audited 2007 income statement

We make the following comments in relation to the above financial performance:

- **Consolidated**
 - trading revenue increased by \$29.3 million in 2008 primarily as the result of a \$37.2 million increase in Bisalloy revenues
- **Bisalloy**
 - trading revenue increased by 36.7% or \$37.2 million in 2008 due to strong demand from the resources and armaments sectors, as well as the full commissioning of a second shot blaster which increased production capacity
 - EBIT increased by 66.8% or \$11.5 million in 2008, and EBIT margin increased from 16.9% to 20.6%. This is driven by the improved economies of scale from the capacity expansion at Unanderra, NSW, which increased sales by more than the increases in overhead costs
- **Atlas Distribution**
 - trading revenue decreased by 3.7% or \$12.9 million to \$331.3 million in 2008 due to a decrease in market prices and increased competition resulting from consolidation in the industry
 - EBIT decreased by \$16 million in 2008, and EBIT margins declined from (0.3)% in 2007 to (5.2)% in 2008. This was mainly due to the flow on impact of a lower gross margin which was primarily driven by a fall in nickel prices which decreased from an average of United States dollar (US\$) 37,500 per tonne in 2007 to an average of US\$28,500 per tonne in 2008
 - group services costs (marketing, supply and logistics, technical and projects) of approximately \$11.2 million in 2007 and \$12.7 million in 2008, are included in Atlas Distribution's results.

The following figures present a breakdown of the revenue and EBIT for Atlas Distribution by operating unit for 2008.

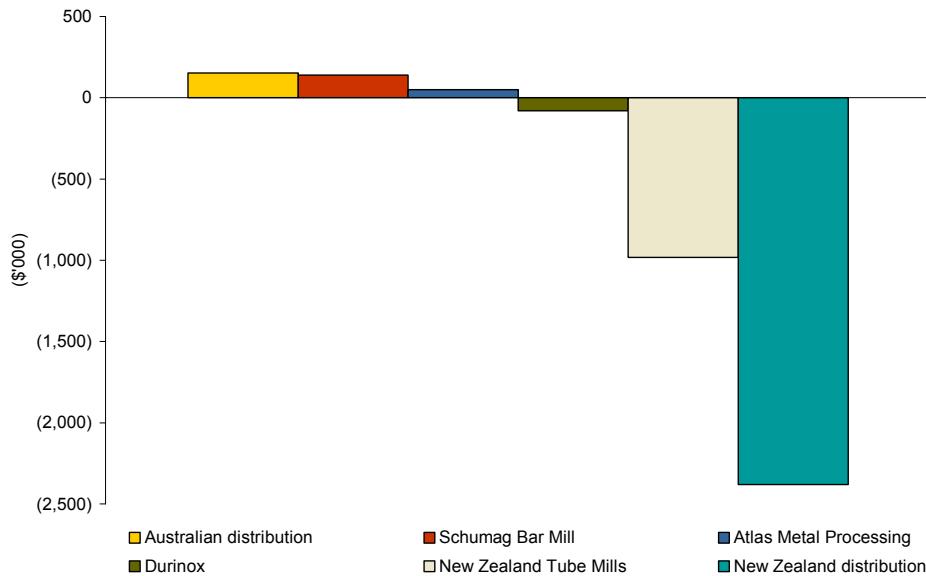
Figure 8: Breakdown of revenue by Atlas Distribution's operating units for 2008



- Australian distribution
- New Zealand distribution
- New Zealand Tube Mills
- Schumag Bar Mill
- Group services (includes group project)
- Atlas Metal Processors
- Durinox

Source: Atlas management accounts

Figure 9: Breakdown of EBIT contribution for Atlas Distribution by operating unit for 2008 (before group services)



Source: Atlas management accounts

Note: Excludes group services

In order to improve the profitability and reduce the amount of working capital invested in Atlas Distribution, Atlas management has developed and commenced implementing a “turn around” strategy which involves:

- improving inventory management in order to reduce the amount of capital employed in the business
- deleting some slow moving stock lines
- introducing a new pricing structure which management projected will increase gross margins earned and translate into positive EBIT
- improving sales force effectiveness to assist in achieving increased margins.

We note that there are significant risks associated with implementing the “turn around” strategy, and there is no certainty that the projected EBIT level and/or reduction in operating capital employed can be achieved in the time frame envisaged.

4.9 Financial position

The unaudited operating capital employed by Atlas and its business units at book value as at 30 June 2007 (audited) and 30 June 2008 (unaudited) are summarised in the table below.

Table 9: Operating capital employed – book value

	2007			2008		
	Atlas Distribution (\$'000)	Bisalloy (\$'000)	Consolidated (\$'000)	Atlas Distribution (\$'000)	Bisalloy (\$'000)	Consolidated (\$'000)
Land and buildings	5,828	4,011	9,839	3,228	3,958	7,186
Plant and equipment	11,744	6,797	21,735	12,837	7,881	19,690
Intangibles	5,074	-	5,074	4,282	-	4,282
Inventory	135,668	17,702	152,857	119,290	14,123	132,745
Debtors	65,793	23,916	88,753	53,897	32,961	87,002
Creditors and provisions	(67,309)	(21,510)	(86,887)	(54,138)	(27,027)	(80,901)
Total	156,798	30,916	191,371	139,396	31,896	170,004

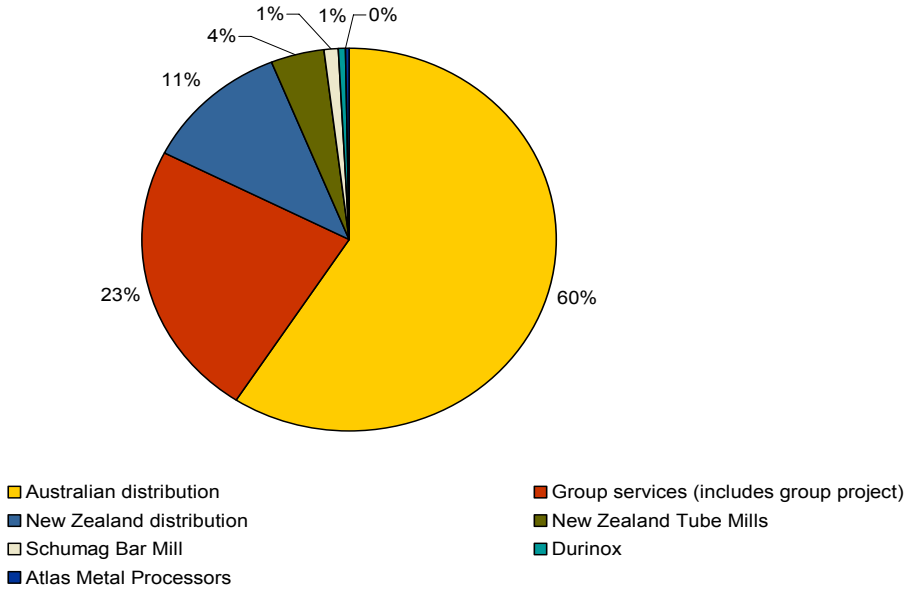
Source: Atlas management accounts

We make the following comments in relation to the above table:

- Atlas Distribution’s debtors made up 74.1% and 61.9% of consolidated debtors for 2007 and 2008 respectively
- inventory of Atlas Distribution was \$16.4 million lower in 2008 as stock levels were artificially high in 2007 due to the following factors:
 - implementation of a centralised supply chain which led to incorrect and excessive stock being ordered
 - the high nickel prices experienced in 2007 (as discussed in Section 4.8) also resulted in an increase in stainless prices, and hence higher inventory values
- provisions primarily consist of employee provisions
- intangibles relate to capitalised SAP software.

The following figure presents a breakdown of the inventory of Atlas Distribution by operating unit as at 30 June 2008.

Figure 10: Breakdown of inventory by Atlas Distribution operating unit as at 30 June 2008



Source: Atlas management

5 Valuation methodology

5.1 Valuation methodologies

To estimate the fair market value of Atlas Distribution we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which deals with the content of independent expert's reports. These are discussed below.

5.1.1 Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

5.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

5.1.3 Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable or generating a return below its cost of capital, a significant proportion of a company's assets are liquid, or for asset holding companies.

5.2 Selection of valuation methodologies

There are limited choices available in selecting a valuation methodology to apply in valuing Atlas Distribution due to the following:

- Atlas Distribution has historically been loss making and is only projecting a small profit in 2009 due to the implementation of the "turn around" strategy
- the asset based nature of its business, which mainly comprises inventory and accounts receivable (net of creditors and provisions)
- Atlas Distribution has a significant amount of invested capital but is projected to generate a low economic return
- there is an inadequate number of publicly listed companies with operations sufficiently similar to those of Atlas Distribution to provide meaningful analysis.

In estimating the fair market value of Atlas Distribution, we have utilised two different valuation methodologies, based on alternatives to accepting the Proposed Transaction available to Atlas (a low and high case), as follows:

- **orderly realisation of assets method (low case scenario):** Atlas Distribution has not been profitable historically, and is not expected to generate any significant profits in the future unless the "turn around" strategy is implemented. In the event that the performance of Atlas Distribution could not be improved, a rational investor would look to realise the assets and liabilities of the business, rather than to continue to generate a less than commercial return. We are of the opinion that the orderly realisation of assets method is appropriate as Atlas Distribution is an asset based business, and we do not consider that it is likely to have any significant valuable intangible assets which would generate an additional return over the return on net assets
- **discounted cash flow approach based on an implemented "turn around" strategy (Discounted Cash Flow Approach) (high case scenario):** Atlas management has prepared projections for Atlas Distribution for the 2009 and 2010 financial year. These projections are based on implementing a "turn around" strategy involving increased stock turns and increased gross margins resulting in projected positive earnings. The "turn around" strategy is yet to be fully implemented, but we are of the opinion that it is appropriate to consider this scenario in determining a fair market value of Atlas Distribution. Accordingly we have utilised these projections in valuing Atlas Distribution using a Discounted Cash Flow Approach.

6 Valuation of Atlas Distribution

In this section we set out the value of Atlas Distribution under the following two scenarios:

- Atlas decides to close Atlas Distribution on the basis it is unable to generate a commercial return and undertakes an orderly realisation of the assets of the business
- Atlas continues to hold Atlas Distribution and implements the “turn around” strategy in order to increase profits to a commercial level and reduce the amount of working capital invested in the business.

6.1 Overview

These two scenarios represent our views as to the alternatives available to Atlas in the event the Proposed Transaction does not proceed. In analysing which alternative to pursue, we would expect a rational investor to select that alternative which is of greater value, having regard to the risks and opportunities under each alternative. We have estimated the fair market value of Atlas Distribution under these two scenarios, thereby developing a low and high case, using the following methods:

- orderly realisation of assets method (low case scenario), which assumes that the entity is wound up in an orderly manner and includes an estimate of any realisation costs on wind-up such as transaction costs and taxes. Under this scenario, we have estimated the fair market value of Atlas Distribution to be in the range from approximately \$70 million to \$90 million
- Discounted Cash Flow Approach (high case scenario), which estimates market value by discounting a company’s future cash flows to a net present value. Under this scenario, we have estimated the fair market value of Atlas Distribution, assuming an implemented “turn around” strategy, to be in the range from \$75 million to \$95 million.

These are discussed in Sections 6.2 and Section 6.3 respectively.

For the purpose of our opinion fair market value is defined as the amount at which the assets would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

6.2 The orderly realisation of assets method

The value derived using the orderly realisation of assets method is determined by estimating the net realisable value of the assets and liabilities. Realisation costs associated with the sale of assets and the closure of the operations are deducted from the value.

A summary of our estimates of the realisable value of assets and liabilities as at 31 July 2008 is presented in the following table.

Table 10: Orderly realisation of assets method

Assets and Liabilities	31 July 2008		Assessed value	
	Unaudited (\$'m)	Realisation factor	Low (\$'m)	High (\$'m)
Cash ¹	n/a		n/a	n/a
Receivables	56.3	75% - 90%	42.2	50.7
Inventories	119.4	75% - 90%	89.6	107.4
Total current assets	175.7		131.8	158.1
Land and buildings ²	3.2	n/a	3.5	3.5
Plant and equipment	12.6	75% - 90%	9.4	11.3
Intangibles	4.2	0%	-	-
Total non-current assets	20.0		12.9	14.8
Total assets			144.7	172.9
Creditors and accruals	51.8	100%	51.8	51.8
Employee leave provisions	4.1	100%	4.1	4.1
Provisions (other)	0.9	100%	0.9	0.9
Finance lease liability	1.5	100%	1.5	1.5
Total current liabilities	58.3		58.3	58.3
Finance lease liability	0.4	100%	0.4	0.4
Total non-current liabilities	0.4		0.4	0.4
Value before realisation costs	137.0		86.0	114.2
Realisation costs				
Lease termination payments/transfer costs			5.2	5.2
Closure plan costs			4.0 ³	5.0 ³
Employee redundancies			5.3	5.3
Operating expenditure during realisation			22.0	22.0
Total realisation costs			36.5	37.5
Net proceeds before income tax benefits			49.5	76.7
Net present value of future income tax benefit			20.6	15.2
Total proceeds from an orderly realisation			70.1	91.9
Deloitte assessed value on an orderly realisation basis			70.0	90.0

Source: Deloitte analysis

Notes:

1. Cash has been ignored as the Proposed Transaction is to be undertaken on a nil cash and debt basis
2. Based on an independent valuation undertaken as at June 2006 by McGees Property as noted in Atlas' 2006 financial statements
3. Based on approximately 3% of the value of total assets realised

6.2.1 Realisation factors

In assessing the realisation factors outlined in Table 10, we note the following:

- in the event of a liquidation process, it is difficult to recover the book value of working capital balances and specialised items of property, plant and equipment. Typical realisation factors can be up to 90% of book value, depending on the process used to liquidate the business and the level of demand for the business' assets
- all liabilities are likely to be payable in the event of a liquidation process as the business would be closed. Creditors would be required to be paid and employee leave provisions would be payable.

We have therefore applied realisation factors in the range from 75% to 90% to the book value of Atlas Distribution's receivables, inventories and plant and equipment, and 100% to the book value of liabilities.

6.2.2 Realisation costs

We have utilised the following assumptions in the calculation of the estimated realisation costs of Atlas Distribution:

- **currently committed orders** – we have assumed that the operating costs incurred in completing currently committed orders will be offset by the revenue generated. Accordingly, we have made no adjustment for currently committed orders
- **contractual obligations** – contractual obligations are comprised of the following components:
 - **operating expenditure during realisation** – based on Atlas Distributions' average stock turn during 2007 and 2008 of 2.7 times and an appropriate allowance of time to implement the realisation process, we have assumed that it will take Atlas Distribution six months to realise the current inventory balances and the remaining assets and liabilities. We have therefore included six months of Atlas Distributions' 2008 administration and operating expenses which are estimated to be incurred during the realisation period, excluding any non-cash expenses (i.e. depreciation). In addition, we have assumed that 75% of employees will be required for the first three months of the realisation period and only 50% of employees will be required for the remaining three months, and their employment would be terminated at the end of each of these periods
 - **lease agreements** – as Atlas Distribution leases facilities at each of its 23 locations, all of these leases will have to be terminated or sub-leased once all the assets and liabilities have been realised. Nearly all of the leases have sub-lease clauses. As such, the contractual obligations of these leases are low, however, this is contingent on the ability to find sub-tenants.

Based on discussions with industrial property managers, we have assumed that it will take approximately 12 months to find a suitable sub-tenant, given the varying demand for these properties in regional and metropolitan areas.

Six months of lease expenditure has already been reflected in the operating expenditure during realisation. We have included a further six months rental expense in the total lease termination payments/transfer costs to reflect a total rental expense for 12 months.

In addition, we have allowed one month's rental payment to account for any necessary costs in subleasing the properties for example legal costs or 'make good' provisions

- **supplier and customer contracts** – we understand that there will be no liabilities incurred as a result of terminating these contracts.
- **closure plan costs** – closure plan costs include administrative costs and external consultants costs in assisting with the closure of the business. We have estimated this to be between approximately \$4 million to \$5 million, which is equivalent to approximately 3% of the assessed proceeds from realising Atlas Distribution's assets
- **employee redundancy** – we have estimated Atlas Distributions' employee redundancy costs as follows:
 - since severance payment entitlements do not vary significantly across Australia and New Zealand, we have applied the 'Scale of Severance Payments' under the NSW Employment Protection Act 1982 to all Atlas Distribution employees
 - to determine the total employee redundancy costs, we have calculated the period of employment of each Atlas Distribution employee and determined the corresponding severance payment entitlement based on tenure and remuneration
- **taxation** – any loss on the realisation of the assets and liabilities of Atlas Distribution is likely to increase net proceeds through the future income tax benefits which could be realised through offsetting the losses against future taxable profits generated by Bisalloy. We have estimated the net present value of the future income tax benefit that could result from the sale of Atlas Distribution to be in the range from \$15 million to \$20 million. This was based on a discount rate of 13% and an effective tax rate of 30%. This discount rate is comparable to the discount rate estimated for Atlas Distribution in Section 6.3, removing the specific company risk premium for the risk associated with achieving the "turn around" strategy.

Sensitivity analysis

If all assets and liabilities were realised for 100% of their book value, the estimated recoverable amount, including tax benefits, will be in the range of \$106.2 million to \$107.5 million, assuming the same realisation costs as shown in Table 10.

6.2.3 Conclusion

We are of the opinion that the value of Atlas Distribution derived from the orderly realisation of assets method is in the range from \$70 million to \$90 million.

6.3 Discounted Cash Flow Approach

The discounted cash flow method estimates market value by discounting a company's future cash flows to their net present value. To value Atlas Distribution using a Discounted Cash Flow Approach requires the determination of the following:

- future cash flows
- an appropriate discount rate to be applied to the cash flows
- an estimate of the terminal value.

Our discounted cash flow analysis for the 2009 to 2013 financial years has been performed on a pre-debt and pre-cash basis, for the purposes of comparison with the Proposed Transaction.

Our considerations on each of the above factors are discussed below.

Atlas Distribution is currently implementing a “turn around” strategy, which has the objective of increasing gross margins and reducing the amount of working capital invested in the business. Atlas Distribution is projecting an increase in gross margins in 2009 and 2010, which is expected to translate into a moderate increase in EBIT in 2009 and a significant increase in EBIT in 2010. The discounted cash flow approach explicitly takes into account these projected increases in earnings and associated movements in net working capital.

There is significant uncertainty associated with the Company’s ability to implement the “turn around” strategy and achieve the projected increase in EBIT, given the business’ historical financial performance and the specific issues facing the business. Due to this uncertainty, the Directors of Atlas have not formally adopted or endorsed these projections. Therefore there are practical difficulties associated with the application of the discounted cash flow methodology in such circumstances.

Due to these difficulties, the discounted cash flow analysis set out below should be viewed as no more than indicative, and providing essentially secondary evidence as to value. The discounted cash flow analysis was based on a high level financial model developed by Deloitte, based on the financial projections prepared by Atlas Distribution.

We have prepared a cash flow model projecting ungeared after tax cash flows for the period for 2008 to 2013. A terminal value has been estimated as at 30 June 2013. The cash flow model is based on the following assumptions:

- base EBIT is projected to increase to approximately \$3.7 million in 2009 and around \$15.4 million in 2010 respectively, and grow at 5.0% per annum over the period to 2013. We have then undertaken a sensitivity analysis assuming projected EBIT in 2010 reaches 80%, 90% and 100% of \$15.4 million (refer Table 11 below)
- EBIT is then projected to grow in perpetuity at 2.5% per annum, in line with current targets for inflation rates of approximately 2.5% to 3.0% per annum
- projected free cash flows after tax for 2009 to 2013 have been estimated by deducting tax from the EBIT and adjusting for the projected reductions in working capital
- working capital movements reflect a decrease in working capital in line with the projected higher stock turn, in both 2009 and 2010 through improved inventory management and the deletion of some slow moving stock lines
- depreciation and capital expenditure is assumed to be immaterial, reflecting our understanding of the Atlas Distribution business as not being a capital intensive business
- Atlas Distribution’s effective annual tax rate is assumed to be 30%
- the projected cash flows have been discounted to a present value using nominal discount rates in the range from 15.0% to 17.0%. This range of rates reflects our assessment of Atlas Distribution’s cost of capital, plus specific risk premiums to reflect the size of the business plus the risks associated with implementing the “turn around” strategy.

The assumptions used in our discounted cash flow analysis do not represent projections or forecasts made by us as to the actual future performance of Atlas Distribution and we do not give any warranty or undertaking that they will be achieved. The assumptions have been adopted exclusively for the purposes of the discounted cash flow valuation, to provide shareholders with an understanding of the possible value that could be realised by implementing the “turn around” strategy.

There is significant uncertainty associated with implementing this “turn around” strategy, which we have reflected in the discount rate used in the discounted cash flow analysis, by including a specific company risk premium in the range from 2.0% to 3.0% in addition to a size risk premium.

We set out in the table below the value of Atlas Distribution using the DCF methodology, and assuming a range of EBIT outcomes for 2010, based on reaching 80%, 90% and 100% of the projected target of \$15.4 million.

Table 11: Value of Atlas Distribution using the DCF methodology – EBIT sensitivity analysis

% of projected 2010 EBIT achieved	Discount rate	
	17% (\$'m)	15% (\$'m)
100% (\$15.4 million EBIT in 2010)	90.7	103.6
90% (\$13.9 million EBIT in 2010)	83.4	95.1
80% (\$12.3 million EBIT in 2010)	76.1	86.6

Source: Deloitte analysis

The terminal value represents approximately 50% of the total estimated net present value in each of the above scenarios. The net present values under each of the above scenarios imply multiples of 2010 EBIT in the range from 5.9 times to 7.0 times on a control basis. These implied multiples do not appear unreasonable when compared to forecast comparable company EBIT multiples (based on broker consensus projections), however this assumes that Atlas Distribution is able to achieve these projections.

Based on the above sensitivity analysis, and subject to the limitations we have identified, we have assessed a value for Atlas Distribution in the range from \$75 million to \$95 million under the “turn around” scenario using the discounted cash flow methodology. This range of values is based around Atlas Distribution achieving 80% to 90% of the projected 2010 EBIT.

6.4 Summary of valuation methods and conclusion

The valuation of Atlas Distribution derived under each scenario is summarised below.

Table 12: Valuation of Atlas Distribution

	Section	Low value (\$'m)	High value (\$'m)
Orderly realisation of assets (low case scenario)	6.2	70.0	90.0
Discounted cash flow (high case scenario)	6.3	75.0	95.0
Deloitte Assessed Value		75.0	95.0

Source: Deloitte analysis

We would expect a rational investor to select the alternative of greater value having regard to the risks and opportunities under each alternative. On this basis we have estimated the fair market value of Atlas Distribution to be in the range from \$75 million to \$95 million.

7 Evaluation and conclusion

7.1 Summary and conclusion

In our opinion the Proposed Transaction is fair and reasonable to Atlas' Non-Associated Shareholders. In arriving at this opinion, we have had regard to the following factors:

Advantages of the Proposed Transaction

The likely advantages to the Non-Associated Shareholders if the Proposed Transaction proceeds include:

The price offered by the Consortium is within our assessed fair market value

We set out in the table below a comparison of our assessment of the fair market value of Atlas Distribution with the consideration offered by the Consortium. Based on Atlas Distribution's net assets at 30 June 2008 (refer Table 10) of approximately \$137 million the consideration offered by the Consortium is approximately \$87 million.

Table 13: Evaluation of fairness

	Low value (\$'m)	High value (\$'m)
Fair market value of Atlas Distribution	75.0	95.0
Likely proceeds from the Consortium (up to a maximum of \$95 million)	87.0	87.0

Source: Deloitte analysis

Based on the above analysis, the consideration offered by the Consortium is within the range of our estimate of the fair market value of Atlas Distribution.

Ability to pay down existing debt to reduce gearing

The Proposed Transaction will enable Atlas to reduce debt and interest costs. Atlas' debt to enterprise value ratio prior to the announcement of the Proposed Transaction was approximately 70%, which is considerably higher than the average debt to enterprise value ratio for comparable companies of 17.6% (refer Appendix 2).

Enhanced focus on Bisalloy

Currently Atlas consolidates Atlas Distribution and Bisalloy's financial performance when reporting to Shareholders. Whilst Bisalloy's EBIT contribution is reported in Atlas' segment notes to the financial statements, Atlas Distribution's losses offset Bisalloy's profitability. Divesting Atlas Distribution will enable Atlas to better report the true profitability of Bisalloy in the Company's financial statements. This might improve the market's perception of Atlas, and in turn Atlas' share price, as discussed below.

Based on the market capitalisation of Atlas as at 19 September 2008 (share price of \$0.50), and assuming the Proposed Transaction is approved, Atlas and its remaining business unit, Bisalloy, would be trading at a current multiple of approximately 3.8 times Bisalloy's 2008 EBIT of \$28.6 million (refer Table 8). We note that the average current EBIT multiple of companies comparable to Bisalloy is approximately 6.1 times (refer to Appendix 2). Accordingly, notwithstanding the smaller size of Bisalloy in relation to its comparable companies, if the Proposed Transaction is approved the Atlas shares may be re-rated by the market.

In the absence of the Proposed Transaction Atlas shares would likely trade below current levels

The Atlas share price has risen significantly since the announcement of the Proposed Transaction on 25 June 2008. Should the Proposed Transaction not be approved it is likely that the Atlas share price would decrease.

Divestment of an under performing business unit

Atlas Distribution has historically been under performing. Based on Atlas management's business plan, it may take several years for Atlas Distributions' performance to improve, and there is the potential risk that this "turn around" strategy may not be successful. The Proposed Transaction provides Shareholders with the opportunity to divest this business unit and realise the cash from this sale in a timely manner (which will then be used to reduce debt, as noted above).

Increased likelihood of dividends

Atlas had a history of paying interim and final dividends to Shareholders. However as at the date of this report, no dividends have been declared for 2008. The Proposed Transaction may result in an increased ability to pay dividends to Shareholders. These dividends are dependent on the future profitability of Bisalloy.

Increased likelihood of a takeover offer for Bisalloy

We understand that Atlas has been seeking a potential acquirer for the whole business, consisting of both Atlas Distribution and Bisalloy. The divestment of Atlas Distribution under the Proposed Transaction may increase the likelihood of a takeover offer emerging for Bisalloy.

Disadvantages of the Proposed Transaction

The likely disadvantages to Shareholders if the Proposed Transaction is approved include:

Loss of opportunity to participate in any potential growth of Atlas Distribution

If the Proposed Transaction is approved and to the extent that the "turn around" strategy can be implemented and realised, Shareholders will not be able to participate in any potential growth of Atlas Distribution. However, we note above that these improvements are yet to be fully implemented and there is the potential risk that this "turn around" strategy may not be successful.

Tax and accounting consequences

Acceptance of the Proposed Transaction may result in adverse tax and accounting consequences for Atlas. We note that the following comments in respect of taxation and accounting impacts are general in nature and do not constitute taxation or accounting advice.

- the divestment of Atlas Distribution will require Atlas to deconsolidate Atlas Distribution from its tax consolidated group. As a result, Atlas may be exposed to a higher effective tax rate, due to the fact that it can no longer benefit from the losses associated with Atlas Distribution
- Atlas Distribution may be exposed to a capital gain or loss on the sale of Atlas Distribution, which would be considered a capital gains tax event. We understand that Atlas has received specific tax advice which indicates it would have neither a capital gain or a capital loss on disposal of Atlas Distribution under the terms of the Proposed Transaction

- as Atlas Distribution is being sold at a discount to its net tangible assets, the Proposed Transaction may crystallise a loss on the divestment of Atlas Distribution which will be recorded in the financial accounts of Atlas.

7.2 Conclusion

Based on the foregoing, and in the absence of a superior offer, we are of the opinion that the advantages to the Non-Associated shareholders outweigh the disadvantages if the Proposed Transaction proceeds and therefore the Proposed Transaction is fair and reasonable.

Appendix 1: Glossary

Reference	Definition
α	Specific company risk premium
AFSL	Australian Financial Services Licence
AGSM	Australian Graduate School of Management
AMEX	American Stock Exchange
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
Atlas	Atlas Group Holdings Limited
Atlas Distribution	Atlas' distribution business
Atlas Distribution and Bisalloy	The whole business
AUS	Australian Auditing Standards
Balron	Balron Nominees Pty Limited
the Consortium	Balron on behalf of a consortium of investors
Bisalloy	Bisalloy Steels Pty Limited
bps	Basis points
β	Beta
CAPM	Capital Asset Pricing model
Deloitte	Deloitte Corporate Finance Pty Limited
Discounted Cash Flow Approach	Discounted cash flow approach based on implemented "turn around" strategy
EBIT	Earnings before interest and tax
Email	Email Limited
EMRP	Equity Market Risk Premium
Explanatory Memorandum	The explanatory memorandum accompanying the Notice of Meeting
FSG	Financial Services Guide
FOS	Financial Ombudsman Service
GDP	Gross Domestic Product
GST	Goods and Services Tax
ICAA	Institute of Chartered Accountants in Australia
Directors	Directors of Atlas
Listing Rules	Listing Rules of the ASX
NASDAQ	National Association of Securities Dealers Automated Quotation System
Non-Associated Shareholders	Atlas shareholders not associated with Balron
Notice of Meeting	The notice of meeting to approve the Proposed Transaction
NSW	New South Wales
NYSE	New York Stock Exchange
Proposed Transaction	the Consortium's offer to acquire Atlas' distribution business
RBA	Reserve Bank of Australia
RG111	Regulatory Guide 111
ROCE	Return on capital employed
SAP	Systems Applications and Products
Shareholders	Existing Atlas shareholders
Southward Engineering	Southward Engineering Company Limited
SWOT	Strengths, weaknesses, opportunities and threats

Reference	Definition
U.S.	The United States
US\$	United States dollar
WACC	Weighted average cost of capital

Appendix 2: Comparable entities

The following table provides an analysis of selected companies considered to have comparable activities to Atlas Distribution.

Table 14: Comparable companies – share market trading multiples

Comparable Companies	Country	Market capitalisation (\$million)	Enterprise value (\$million)	Debt to enterprise value ratio	Domestic Index		International Index		EBIT times Historical	EBIT times Current	EBIT times Forecast
					Levered beta	Unlevered beta	Levered beta	Unlevered beta			
Onesteel Limited	Australia	4,807	5,640	13.6%	0.8	0.7	0.6	0.6	17.5	5.7	4.9
BlueScope Steel Limited	Australia	6,003	7,799	22.1%	1.0	0.8	0.9	0.7	7.4	5.8	6.0
Crane Group Limited	Australia	812	1,014	19.8%	0.7	0.6	0.7	0.6	9.7	7.7	7.0
Outokumpu Oyj	Finland	2,482	3,838	35.3%	1.2	0.9	1.4	1.0	6.5	9.6	5.9
AK Steel Holding Corporation	U.S.	3,604	3,556	0.0%	1.1	1.1	1.3	1.3	5.4	3.7	3.0
Hitachi Metals Limited	Japan	505,117	680,824	22.5%	1.0	0.9	1.1	0.9	11.4	10.7	9.9
Boehler-Uddeholm	Austria	4,513	4,418	14.7%	0.5	0.4	0.5	0.4	3.8	4.6	4.2
Rautaruukki Oyj	Finland	2,249	2,459	8.4%	1.2	1.1	1.4	1.3	3.8	3.7	3.7
Reliance Steel & Aluminum	U.S.	3,494	4,504	22.4%	1.2	1.0	1.3	1.1	6.1	4.7	4.3
Arcelormittal	Luxembourg	60,742	88,359	25.8%	1.0	0.8	1.2	0.9	6.0	3.6	3.7
Sandvik AB	Scandinavia	96,682	107,725	9.1%	1.1	1.0	1.2	1.1	7.5	7.4	6.9
Average				17.6%	1.0	0.8	1.0	0.9	7.7	6.1	5.4
Median				19.8%	1.0	0.9	1.2	0.9	6.5	5.7	4.9

Source: Bloomberg

Note:

1. Enterprise value is represented in the local currency
2. International accumulation index used is the Morgan Stanley Capital Index

The following table provides an analysis of comparable companies in the mining services sector.

Table 15: Comparable companies – share market trading multiples

Company	Country	Market capitalisation (\$million)	Enterprise value ¹ (\$million)	EBITDA times		EBITDA times		EBIT times			
				Historical	Current	Historical	Current	Historical	Current	Forecast	Forecast
Mineral Resources Ltd	Australia	787	766	9.3	9.7	12.3	12.8	12.3	12.8	9.3	9.3
Index Limited	Australia	266	289	6.8	6.7	8.8	8.7	8.8	8.7	7.1	7.1
Macmahon Holdings Limited	Australia	992	1,023	9.5	8.9	15.2	13.5	15.2	13.5	10.9	10.9
Ausenco Ltd	Australia	1,142	1,049	22.2	13.2	23.8	14.0	23.8	14.0	10.3	10.3
Boart Longyear Group	Australia	2,194	2,763	9.5	6.2	12.0	7.4	12.0	7.4	6.5	6.5
Ausdrill Limited	Australia	344	393	6.0	4.7	10.3	7.6	10.3	7.6	5.8	5.8
Brandrill Limited	Australia	79	135	4.0	4.2	6.6	6.9	6.6	6.9	5.4	5.4
Average				9.6	7.7	12.7	10.1	12.7	10.1	7.9	7.9
Median				9.3	6.7	12.0	8.7	12.0	8.7	7.1	7.1

Source: Bloomberg

Note: 1. Enterprise value is represented in the local currency

We provide the descriptions for each of the selected comparable companies as follows:

OneSteel Limited

OneSteel Limited manufactures steel long products and distributes metals in Australia. The company produces structural, rail, rod, bar, wire, pipe and tube products along with distributing sheet and coil, piping systems, plate and aluminium products. The company's products are utilised by the construction, mining, rail and other manufacturing industries.

BlueScope Steel Limited

BlueScope Steel Limited is a steel company operating in Australia and New Zealand that serves the building and construction, manufacturing, automotive, and packaging industries worldwide. The company manufactures and distributes hot and cold rolled coil, plate, tinplate, and coated products such as pre-painted steel and zinc/aluminium alloy-coated steel.

Crane Group Limited

Crane Group Limited manufactures and distributes non-ferrous metal based products, plastic pipeline systems and plumbing and electrical supplies. The company's products include copper tubes, aluminium and copper alloy rod/bar extrusions, stainless steel plates, sheets and coils and aluminium rolled strips and sheets.

Outokumpu Oyj

Outokumpu Oyj is a metals and technology supplier. The company specialises in stainless steel, fabricated copper products, copper and zinc metals production, and related technology.

Outokumpu Oyj is the parent company to the stainless steel producer AvestaPolarits Oyj. The company sells to various industries including construction, equipment, and electronics. Outokumpu Oyj markets worldwide.

AK Steel Holding Corporation

AK Steel Holding Corporation, through its wholly-owned subsidiary AK Steel Corporation, produces flat rolled carbon steel. The company produces coated, cold rolled, and hot rolled carbon steel for the automotive, appliance, construction, and manufacturing markets. AK Steel Holding Corporation also cold roll and aluminium coat stainless steel for automotive industry customers.

Hitachi Metals Limited

Hitachi Metals Limited manufactures a wide range of specialty steel and metal products, including industrial machinery, magnetic and electronic materials and parts, and aluminium castings and wheels. The company's products are marketed to a variety of users including the automobile, aerospace, nuclear, and computer industries worldwide. The company is a subsidiary of Hitachi Limited.

Boehler-Uddeholm AG

Boehler-Uddeholm AG manufactures and sells specialty steels and customized products worldwide. The company produces long products, welding consumables, strip steel and forgings. Boehler-Uddeholm AG sells its products to the automotive, aircraft, consumer goods, electronics, power and petrochemical industries, primarily in Europe, the Americas and Asia.

Rautaruukki Oyj

Rautaruukki Oyj manufactures steel products and systems. The company's product line includes tubes, pipes, plates, and sheets, such as welded steel tubes, line pipes, and steel building products. Rautaruukki Oyj sells customised pre-fabricated steel components, as well as aluminium and stainless steel. The company has production facilities throughout Europe and markets internationally.

Reliance Steel & Aluminium Co.

Reliance Steel & Aluminium Co. distributes and processes steel and aluminium. The company's products include carbon, alloy, stainless and specialty steel, aluminium, brass, and copper. Reliance Steel & Aluminium Co. operates processing and distribution centres throughout the U.S.

ArcelorMittal

ArcelorMittal produces steel. The company manufactures cold rolled, electro-galvanised and coated steels, slabs, special quality bars, and wire rods. ArcelorMittal has steel making operations in Europe, North and South America, Asia, and Africa.

Sandvik AB

Sandvik AB is a high-technology engineering group. The company develops, manufactures, and markets tools for metalworking applications, machinery and tools for rock excavation, stainless steel products, special alloys, and resistance heating materials and process systems. Sandvik AB markets to industrial companies throughout the world, and tools can also be purchased online.

Mineral Resources Limited

Mineral Resources Limited offers services in the specialist fields of civil contracting, pipe-laying and fabrication, contract crushing, mine services and mineral processing to the Australian mining industry. The Company serves gold, iron ore, tantalum, and coal companies.

Imdex Limited

Imdex Limited provides drilling fluids and technical services to the mineral exploration, civil and water well, oil and gas and horizontal directional drilling industries throughout the world. The Company also mines for vermiculite, micaceous iron oxide, zircon sand, silica, alumina, spodumene and attapulgite along with providing sand packs for water filtration and water wells.

Macmahon Holdings Limited

Macmahon Holdings Limited is a civil engineering and contract mining company. The Company offers contract engineering services for areas including roadwork, mining, ports, dams, railways, airports and bridges. The Company also provides mining services which include drilling and blasting, crushing, support services and mine refurbishment. Macmahon Holdings Limited also provides equipment reconditioning services.

Ausenco Limited

Ausenco Limited provides engineering and project management services to the global mining and minerals processing industry. The Company specializes in engineering, procurement, construction management, project management, and the operation of mineral processing plants.

Boart Longyear Group

Boart Longyear Group provides contract drilling services to the mining, environmental and infrastructure, and energy industries, and manufactures drilling, coring, grinding tools and equipment, and wear components.

Ausdrill Limited

Ausdrill Limited provides specialist drilling services. The Company operates drill, blast, and exploration rigs and its services include contract drilling and blasting, exploration drilling, ground support, contract open pit mining and earthmoving, mining equipment supplies, and logistics management. The Group also provides trenching, cable and pipeline rollout services.

Brandrill Limited

Brandrill Limited provides drilling and blasting services under contract to open cut and underground mining industries. The Company's underground services also includes loading and hauling of the blasted materials as well as providing drilling and blasting services to the civil construction and quarrying industries along with developing better rock-breaking methods and equipment.

Appendix 3: Sources of information

In preparing this report we have had access to the following principal sources of information:

- Atlas' initial public offering prospectus
- management accounts for Atlas for the years ending 30 June 2006, 30 June 2007 and 30 June 2008
- Atlas Distribution business plan
- various internal management presentations
- draft copies of the Explanatory Memorandum
- draft copies of the Share Sale Agreement
- annual reports for Atlas for the year ending 30 June 2006 and 30 June 2007
- company websites for Atlas and comparable companies
- various Atlas ASX announcements
- publicly available information on comparable companies and market transactions published by ASIC, Thompson research, Bloomberg Financial markets, SDC Platinum and Mergermarket
- IBIS World Pty Limited company and industry reports
- other publicly available information, media releases and brokers reports on Atlas, comparable companies and the metal and mineral wholesaling industry in Australia.

In addition, we have had discussions and correspondence with certain directors and executives, including John Reid, Chief Financial Officer; Andrew Luxton, Chief Operating Officer; Martin Matoricz, Group Financial Controller; and Paul Norman, Group Manager – Marketing; in relation to the above information and to current operations and prospects.

Appendix 4: Qualifications, declarations and consents

The report has been prepared at the request of the Directors of Atlas and is to be included in the Explanatory Memorandum to be given to Shareholders for approval of the Proposed Transaction in accordance with ASX Listing Rule 10. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Explanatory Memorandum in their assessment of the Proposed Transaction outlined in the report and should not be used for any other purpose. We are not responsible to you, or any one else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Transaction.

The report represents solely the expression by Deloitte of its opinion as to whether the Proposed Transaction is fair and reasonable in relation to Chapter 10 of the ASX Listing Rules.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte has relied upon the completeness of the information provided by Atlas and its officers, employees, agents or advisors which Deloitte believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Atlas management for confirmation of factual accuracy.

In recognition that Deloitte may rely on information provided by Atlas and its officers, employees, agents or advisors, Atlas has agreed that it will not make any claim against Deloitte to recover any loss or damage which Atlas may suffer as a result of that reliance and that it will indemnify Deloitte against any liability that arises out of either Deloitte's reliance on the information provided by Atlas and its officers, employees, agents or advisors or the failure by Atlas and its officers, employees, agents or advisors to provide Deloitte with any material information relating to the Proposed Transaction.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of Atlas personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards.

Based on these procedures and enquiries, Deloitte considers that there are reasonable grounds to believe that the prospective financial information for Atlas Distribution included in this report has been prepared on a reasonable basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of Atlas Distribution referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte holds the appropriate Australian Financial Services Licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte principally involved in the preparation of this report were Hamish Blair, Director, B.Com (Hons), M.Com, CA, F.Fin; Stephen Reid, Director, MAppFin, BEc, F Fin, CA; and Renee Daus, Client Manager, B.Com, CA. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte will receive a fee of \$80,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Proposed Transaction.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 180 Lonsdale Street, Melbourne Victoria 3000 acknowledges that:

- Atlas proposes to issue an Explanatory Memorandum in respect of the Proposed Transaction being the divestment of Atlas Distribution to the Consortium
- the Explanatory Memorandum will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Explanatory Memorandum for review
- it is named in the Explanatory Memorandum as the 'independent expert' and the Explanatory Memorandum includes its independent expert's report in Appendix 1 of the Explanatory Memorandum.

On the basis that the Explanatory Memorandum is consistent in all material respects with the draft Explanatory Memorandum received, Deloitte Corporate Finance Pty Limited consents to it being named in the Explanatory Memorandum in the form and context in which it is so named, to the inclusion of its independent expert's report in Appendix 1 of the Explanatory Memorandum and to all references to its independent expert's report in the form and context in which they are included, whether the Explanatory Memorandum is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Explanatory Memorandum and takes no responsibility for any part of the Explanatory Memorandum, other than any references to its name and the independent expert's report as included in Appendix 1 of the Explanatory Memorandum.

About Deloitte

In Australia, Deloitte has 12 offices and over 4,500 people and provides audit, tax, consulting, and financial advisory services to public and private clients across the country. Known as an employer of choice for innovative human resources programs, we are committed to helping our clients and our people excel. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

For more information, please visit Deloitte's web site at www.deloitte.com.au

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26 September 2008

The Directors
Atlas Group Holdings Limited
1 Lynch Road
ALTONA NORTH VIC 3025

Dear Directors

Independent Accountant's Report on Forecast Financial Information

PART 1 - INDEPENDENT ACCOUNTANT'S REPORT ON FORECAST FINANCIAL INFORMATION

We have prepared this Independent Accountant's Report (the "Report") on the forecast financial information of Atlas Group Holdings Limited ("Atlas") for the financial year ending 30 June 2009 for inclusion in an Explanatory Statement to be dated on or about 26 September 2008 (the "Explanatory Statement") relating to the proposed sale of Atlas Specialty Metals Pty Ltd (the "transaction").

Expressions defined in the Explanatory Statement have the same meaning in this Report.

The nature of this Report is such that it can be given only by an entity, which holds an Australian Financial Services Licence under the Corporations Act. Ernst & Young Transaction Advisory Services Limited holds the appropriate Australian Financial Services Licence.

Scope

You have requested Ernst & Young Transaction Advisory Services Limited to prepare a report for inclusion in the Explanatory Statement covering the pro-forma forecast income statement of Atlas for the year ending 30 June 2009 (referred to as the "Directors' Forecasts") prepared as if Atlas Specialty Metals Pty Ltd had been divested by Atlas prior to 1 July 2008, as set out in Part 2 of the Explanatory Statement.

The Directors are responsible for the preparation and presentation of the Directors' Forecasts, including the best-estimate assumptions, which include the pro-forma transactions, on which they are based. The Directors' Forecasts have been prepared for inclusion in the Explanatory Statement. We disclaim any assumption of responsibility for any reliance on this Report or on the Directors' Forecasts to which it relates for any purposes other than for which it was prepared.

Review of Directors' Forecasts

Our review of the Directors' Forecasts was conducted in accordance with the Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports". Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary. These procedures included discussion with the Directors and management of Atlas and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that:

- (a) the Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Directors' Forecasts;
- (b) in all material respects, the Directors' Forecasts are not properly compiled on the basis of the best-estimate assumptions; and
- (c) the Directors' Forecasts are not presented fairly in accordance with (i) the recognition and measurement principles (but not all of the presentation and disclosure requirements) prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia (ii) the accounting policies of Atlas disclosed in the 2008 Annual Report and (iii) in the case of the pro forma forecast, as if Atlas Specialty Metals Pty Ltd had been divested by Atlas prior to 1 July 2008.

The Directors' Forecasts have been prepared by the Directors to provide investors with a guide to Atlas's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Directors' Forecasts. Actual results may vary materially from those Directors' Forecasts and the variation may be materially positive or negative. Accordingly, investors should have regard to the Risk Factors set out in Part 1 of the Explanatory Statement.

Our review of the Directors' Forecasts, that are based on best-estimate assumptions, is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Directors' Forecasts included in the Explanatory Statement.

Review Statement

Based on our review of the Directors' Forecasts as set out in Part 2 of the Explanatory Statement; which is not an audit, and based on an investigation of the reasonableness of the Directors' best-estimate assumptions giving rise to the prospective financial information, nothing has come to our attention which causes us to believe that:

- (a) the Directors' best-estimate assumptions set out in Appendix 1 of the Explanatory Statement do not provide a reasonable basis for the preparation of the Directors' Forecasts;
- (b) the Directors' Forecasts are not properly compiled on the basis of the Directors' best-estimate assumptions; and
- (c) the Directors' Forecasts are not presented fairly in accordance with (i) the recognition and measurement principles (but not all of the presentation and disclosure requirements) prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia (ii) the accounting policies of Atlas disclosed in the 2008 Annual Report and (iii) in the case of the pro forma forecast, as if Atlas Specialty Metals Pty Ltd had been divested by Atlas prior to 1 July 2008.

The underlying assumptions are subject to significant uncertainties and contingencies often outside the control of Atlas and the Directors. If events do not occur as assumed, actual results achieved and distributions provided by Atlas may vary significantly from the Directors' Forecasts. Accordingly, we do not confirm or guarantee the achievement of the Directors' Forecasts, as future events, by their very nature, are not capable of independent substantiation. Investors should have regard to the Risk Factors detailed in Part 2 of the Explanatory Statement.

Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of Atlas have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services Limited does not have any interest in the outcome of the transaction, other than in connection with the preparation of this Report and participation in due diligence procedures. Ernst & Young Transaction Advisory Services Limited will receive a professional fee for the preparation of this Report. Ernst & Young acted as statutory auditor of Atlas for the year ended 30 June 2008 for which we received a market based fee.

The Directors of Atlas have agreed to indemnify and hold harmless Ernst & Young Transaction Advisory Services Limited, Ernst & Young and its employees from claims arising out of misstatement or omissions in any material or information supplied by the Directors.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink, appearing to read 'Jenny Rayner'.

Jenny Rayner
Representative

A handwritten signature in black ink, appearing to read 'Stephen Lomas'.

Stephen Lomas
Director and Representative

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT ACCOUNTANT'S
REPORT**

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Accountant's Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

Contacting Ernst & Young Transaction Advisory Services AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Contacting the Independent Dispute Resolution Scheme: Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

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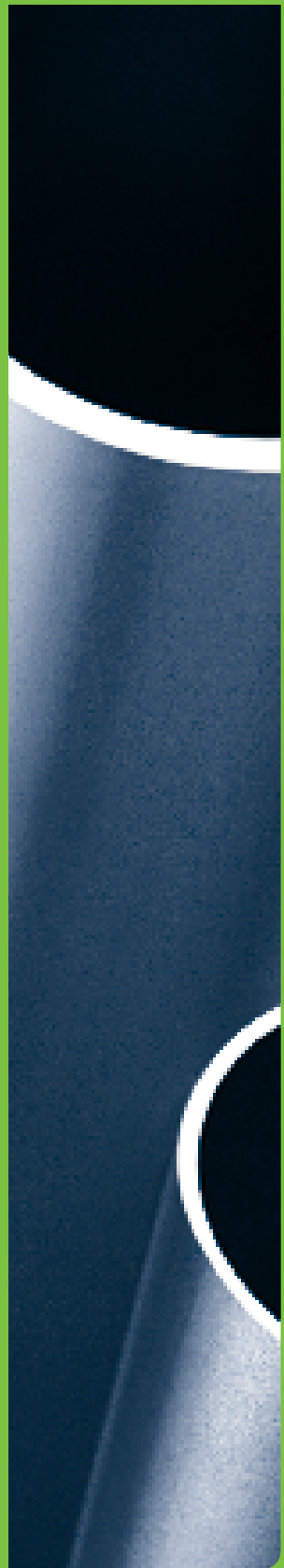
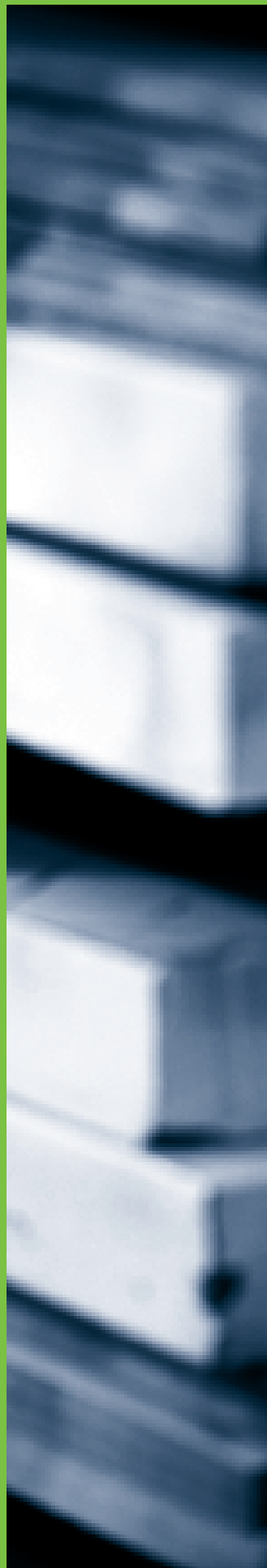
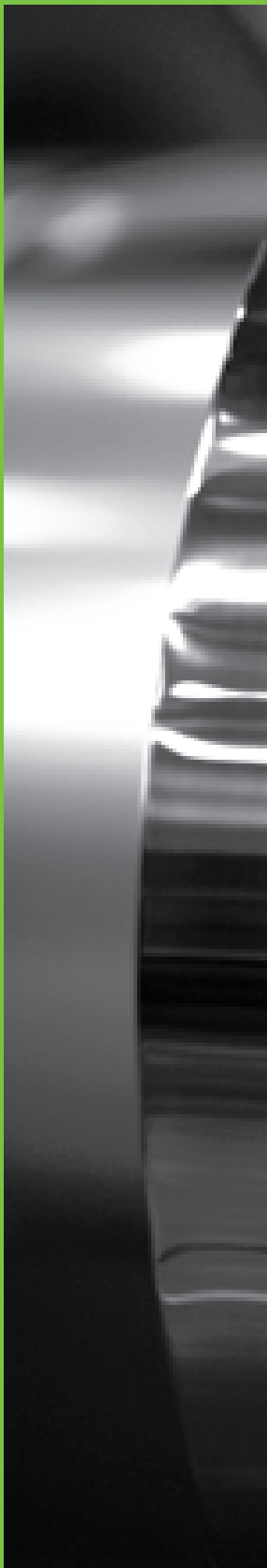
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