



NATSTEEL LTD
(Incorporated in the Republic of Singapore)

ANNOUNCEMENT

RESPONSE TO SANION ENTERPRISES LIMITED (“SANION”)’S INTENTION TO PURSUE A CASH DISTRIBUTION of \$1.55 PER SHARE

THE BOARD’S POSITION ON DISTRIBUTION

The Board¹ has adopted a prudent position in intending to recommend a distribution of \$0.70 per Share² plus a further distribution of \$0.27 per Share as soon as reasonably practicable thereafter³.

This position strikes a balance between maximising cash distribution to Shareholders⁴ without subjecting the funding of the group’s⁵ business operations and investment requirements to undue risks of:

- business uncertainties and volatility; and
- the discretion of lenders.

In addition to a distribution of \$0.70 per Share plus \$0.27 per Share, the Board intends to continue distributing additional cash back to Shareholders as and when cash is generated from the group’s businesses or from disposals, **and** is surplus to prudent provisions for operational and investment requirements.

SANION’S PROPOSAL ON CASH DISTRIBUTION OF \$1.55 PER SHARE

Sanion stated in its press release dated 15 December 2002 (the “Sanion 15 December Press Release”) that it is confident that NatSteel should be in a position to make a cash distribution of \$1.55 per Share on the basis that:

- \$246 million should not be set aside to cover, amongst other things, capital expenditure (“capex”) or working capital requirements (the “Investment and Operational Reserve”); and
- \$100 million should not be set aside as a temporary reserve to pay banks (the “Temporary Reserve”); and
- Sanion proposes to defer⁶ its entitlement to the distribution of \$1.55 per Share (the “Sanion Bridging Loan”).

However, the Board notes that if these reserves are not set aside, the NatSteel group will depend entirely on cash generated from the businesses and on the discretion of lenders to:

¹ The board of directors (“Board” or “Directors”) of NatSteel Ltd (“NatSteel” or the “Company”)

² Ordinary share of par value \$0.50 each in the capital of the Company (“Share”)

³ As stated in the NatSteel’s announcement on 13 December 2002 (the “NatSteel 13 December Announcement”)

⁴ Shareholders of NatSteel (“Shareholders”)

⁵ NatSteel group

⁶ In the event that the Board agrees to recommend such distribution. Please refer to Sanion 15 December Press Release for further details

- operate day-to-day; and
- respond to day-to-day commercial challenges or threats; and
- fund investments (be they maintenance investment or investment to defend the position / performance of the group or investment for growth).

Cash generated from the businesses can be uncertain in quantum and timing. Banks may be conservative about their level of support for a group with thin financial liquidity (please see the illustrative analysis of funding deficit set out in Attachment I). Such a position may weaken the group's negotiating leverage to secure the support of banks.

Therefore, as stated in the NatSteel 13 December Announcement, the Board does not believe that it is commercially viable for the Company to distribute \$1.55 per Share in the immediate future and still function as a properly capitalised group capable of maintaining its performance and growth prospects.

The Board intends to continue its practice of distributing surplus cash prudently at the appropriate time.

SANION BRIDGING LOAN

If \$1.55 per Share is distributed to the shareholders of NatSteel (the "Shareholders") with a Sanion Bridging Loan in place, the Company will owe Sanion up to approximately \$171 million⁷.

In such a situation, there may be a conflict in the priority of applying any cash available in or generated by the group between:

- repaying the indebtedness owing by NatSteel to Sanion pursuant to the Sanion Bridging Loan⁸; or
- funding operational and investment requirements (which are vital to maintaining the performance and growth prospects of the group's businesses); or
- repaying banks; or
- paying future distributions to Shareholders.

⁷ As referred to in the Sanion 15 December Press Release

⁸ The group's current banking facilities are mostly repayable on demand. The Sanion 15 December Press Release stated that Sanion expects the Sanion Bridging Loan to be substantially upon the same terms and conditions as those agreed between the relevant lender and NatSteel under the original loan

THE BOARD'S POSITION ON DISCLOSURE OF INFORMATION

The Board wishes to stress that the intention of the Board has been (and remains):

- to disseminate relevant information to Shareholders to help Shareholders make informed decisions; and
- to address any perceived misconceptions or incomplete information that may be in the market.

Sanion stated in its Sanion 15 December Press Release that NatSteel has taken into account projected or budgeted cash outflows but made no mention of projected or budgeted cash inflows.

In the NatSteel 13 December Announcement, the **positive** cash generation of the group for the first nine months of 2002 had already been reflected in the analysis supporting the Board's proposal to distribute \$0.70 per Share plus \$0.27 per Share⁹ to Shareholders.

In the NatSteel 13 December Announcement, the Board had set out the anticipated working capital movements in the fourth quarter of 2002 and the anticipated funding requirements of the group (including for example committed and budgeted capex), to explain to Shareholders the basis of the Board's proposal on cash distribution. However, given the volatility of the group's businesses and markets, its past performance history and certain risk factors referred to in the IFA reports¹⁰, there is no certainty on the future operating cashflow of the group. Accordingly and to be prudent, the Board had not speculated on future operating cash inflow nor future operating cash outflow in its analysis on 13 December 2002. As stated above, as and when cash is generated from the group's businesses or from disposals, **and** is surplus to prudent provisions for operational and investment requirements, the Board intends to continue distributing such additional cash to Shareholders.

The Sanion 15 December Press Release questioned why NatSteel should not be able to manage the group's businesses in a similar manner to Crown Central Assets Limited ("CCL"). The Board wishes to highlight that it is not aware of the proposed business plans, financing plans or the risk profile of CCL. The Board notes that these factors may be very different for CCL (which is a private entity¹¹), than for a publicly listed company, which the Board views should be prudently managed for its Shareholders as a whole.

Finally, the Board's intention in this and previous announcements is (and has been) to inform Shareholders appropriately. At the same time, the Board does not intend to engage in a protracted public debate on the group's operations, finances or strategies that may be detrimental to the interest of the Company and that may divert the focus of the Board and the management team.

⁹ Please refer to the NatSteel 13 December Announcement

¹⁰ Reports of ANZ Singapore Limited, the independent financial advisers to the independent Directors of NatSteel, dated 6 November 2002 and 14 December 2002 contained in NatSteel circulars to Shareholders dated 6 November 2002 (EGM circular) and 14 December 2002 respectively

¹¹ Please refer to CCL announcement dated 3 June 2002

SHAREHOLDERS' CHOICE

The Board reminds Shareholders that they have the following choices:

- Accept the 98 Holdings Offer¹² for \$2.06 per Share in cash

OR

- Sell their Shares

OR

- Keep their Shares

A supplemental circular setting out, amongst other things, the advice and recommendation of ANZ Singapore Limited, the independent financial adviser to the independent Directors of the Company and the recommendation of the independent Directors of the Company in relation to the 98 Holdings Offer will be despatched to Shareholders shortly.

IF SHAREHOLDERS KEEP THEIR SHARES

If Shareholders keep their Shares, the Board wishes to emphasise that the current Board intends to recommend a distribution of \$0.70 per Share to be paid in early 2003 plus \$0.27 per Share thereafter when reasonably practicable¹³.

Sanion has proposed an alternative distribution proposal of \$1.55 per Share (Please see above for the Board's response to this proposal.)

On 18 December 2002, 98 Holdings stated in its press statement that it had "reservations about any premature and substantial depletion of the company's assets and resources, without a clear understanding and evaluation of the NatSteel group's operational, financial and strategic requirements". The Board notes that 98 Holdings is currently the largest shareholder in NatSteel.

Given the above, Shareholders should therefore NOT assume that if they keep their Shares, they will receive a distribution of \$1.55 per Share in the immediate future.

Furthermore, the Board reiterates that it is unclear how a distribution of \$1.55 per Share will impact the future Share price of NatSteel post distribution.

¹² The mandatory conditional cash offer by and on behalf of 98 Holdings Pte. Ltd. ("98 Holdings") for, inter alia, the Shares at an offer price of \$2.06 per Share

¹³ Please refer to NatSteel 13 December Announcement

98 HOLDINGS OFFER

The Board reminds Shareholders that, at the time of this announcement, the 98 Holdings Offer is the only general offer available to Shareholders and is still open for acceptances.

The closing date of the Revised 98 Holdings Offer is 3.30pm on 3 January 2003¹⁴.

The Board notes that Sanion has decided not to make a general offer for NatSteel, at this time.

REMINDER

The Board will continue to keep Shareholders informed as developments warrant. In the meantime, Shareholders are advised to refrain from taking any action in relation to their shares in NatSteel which may be prejudicial to their interests.

DIRECTORS' RESPONSIBILITY

The Directors of the Company (including those who have delegated detailed supervision of this announcement) have taken all reasonable care to ensure that the facts stated in this announcement are fair and accurate, and that no material facts have been omitted and they jointly and severally accept responsibility accordingly.

Where any information has been extracted from published or otherwise publicly available sources or is otherwise provided by or on behalf of other parties, the sole responsibility of the Directors of the Company has been to ensure that such information has been accurately and correctly extracted from such sources or as the case may be, accurately reflected or reproduced in this announcement.

This announcement should be read in conjunction with all previous NatSteel announcements and circulars relating to the 98 Holdings Offer and Sanion, in their entirety. Persons in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser.

BY ORDER OF THE BOARD

LIM SU-LING
COMPANY SECRETARY
22 DECEMBER 2002

- End -

¹⁴ Unless the 98 Holdings Offer becomes or is declared unconditional as to acceptances at or before 3.30 p.m. on 3 January 2002 or unless upon an application by 98 Holdings, permission is obtained from the Securities Industry Council of Singapore for an extension of the offer period of the 98 Holding Offer. Please refer to 98 Holdings' announcement on 18 December 2002 for further details

For further information, please contact:

Communications Advisers

Weber Shandwick Singapore
Tel: +65 6825 8000

Andrew Pirie (Co-President, Asia Pacific)
Peter Poulos (Senior Vice President)
Ng Chip Keng (Account Director)
DID: +65 6825 8084, Mobile: +65 9623 2166, Email: ckng@webershandwick.com

Financial Advisers

Salomon Smith Barney Singapore Pte Ltd
Tel: +65 6432 1240

Richard Seow (Managing Director)
Chang Tou-Chen (Director)
Feisal Zahir (Vice President)

Attachment I – Illustrative Funding Deficit

	Board's Proposal ¹⁵ \$m	Sanion's Proposal \$m
Source of funds		
Proceeds from sale of NatSteel Broadway and NatSteel Brasil	587	587
Net cash at parent company level ¹⁶	17	17
	<u>604</u>	<u>604</u>
Utilisation of Funds		
First distribution	258	403 ¹⁷
Second distribution ¹⁸	100	-
Investment and Operational Reserve ¹⁶	246	-
"Surplus" cash	-	201
	<u>604</u>	<u>604</u>
Medium term possible funding deficit		
Anticipated investment and operational requirements	(246)	(246)
Debt owed to Sanion: Sanion Bridging Loan	-	(171) ¹⁹
Less "surplus" cash above	-	201
Investment and Operational Reserve ¹⁶	246	-
Medium term possible funding deficit	<u>-</u>	<u>(216)</u>

¹⁵ Please refer to NatSteel 13 December Announcement

¹⁶ As at 30 September 2002

¹⁷ Assuming 370,643,237 Shares in issue, as at 9 December 2002

Assuming Sanion owns 110.4 million Shares, as disclosed in Sanion 15 December Press Release

Assuming Sanion Bridging Loan is in place

¹⁸ When Temporary Reserve is no longer required

¹⁹ Please refer to Sanion 15 December Press Release