ANSELL LTD
Form 6-K
October 03, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of October 2005 (October 3, 2005)

Commission File Number: 0-15850

ANSELL LIMITED

(Translation of registrant s name into English)

Level 3, 678 Victoria Street, Richmond, Victoria 3121, Australia

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulations S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

This Form 6-K contains forward-looking statements within the meaning of the Securities Exchange Act of 1934 as amended, and information that is based on management s beliefs as well as assumptions made by and information currently available to management. When used in this Form 6-K, the words anticipate, approach, begin, believe, continue, expect, forecast, going forward, improved, likely, look fo outlook, plans, potential, proposal, should and would and similar expressions are intended to identify forward-looking statements. These forward-looking statements necessarily make assumptions, some of which are inherently subject to uncertainties and contingencies that are beyond the Company s control. Should one or more of these uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, expected, estimated or projected. Specifically, the ability of the Company to realize its ongoing commitment to increasing shareholder value through its ongoing restructuring, asset dispositions, strategic review and implementation, and cost cutting initiatives, may be affected by many factors including: uncertainties and contingencies such as economic conditions both in the world and in those areas where the Company has or will have substantial operations; foreign currency exchange rates; pricing pressures on products produced by its subsidiaries; growth prospects; positioning of its business segments; future productions output capacity; and the success of the Company s business strategies, including further structural and operational changes, business dispositions, internal reorganizations, cost cutting, and consolidations.

FINANCIAL REPORT 2005

Financial Report of Ansell Limited and Controlled Entities - 2005

Please note that the Annual Review 2005 contains the Concise Financial Report of Ansell Limited which is derived from the Financial Report 2005. The Annual Review 2005 does not constitute part of this report.

Both the Annual Review 2005 (containing the Concise Financial Report) and the Financial Report 2005 are available from the Company s website (www.ansell.com) or upon request. Information on the web site does not constitute part of this report.

Ansell Limited

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Ansell Limited and Controlled Entities

Financial Statements - 30 June 2005

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Board of Directors

PETER L BARNES, B.COM (HONS), MBA (MELB)

AGE 62. RESIDES SYDNEY.

Appointed Non-executive Director in October 2001 and Chairman in August 2005. Chairman of the Nomination, Remuneration and Evaluation Committee and member of the Audit Committee.

Peter Barnes is a Director of News Corporation and Metcash Limited and is Chairman of Samuel Smith & Son Pty Limited.

Peter Barnes brings to the Board experience in finance, marketing and general management in the international arena. His background includes a long career with Philip Morris International Inc. where he held several senior management positions in Australia and overseas, including Managing Director, Lindeman Holdings Ltd, and President, Asia Region, based in Hong Kong.

The Board considers Peter Barnes to be an independent Director.

DOUGLAS D TOUGH, MBA, BBA

AGE 56. RESIDES NEW JERSEY, USA.

Managing Director and Chief Executive Officer since 1 July 2004.

Prior to joining Ansell, Mr Tough spent 17 years with Cadbury Schweppes plc in a number of international and domestic leadership roles, including President and Chief Executive Officer of its largest division worldwide, Dr Pepper/Seven Up, North America.

Mr Tough has also had 12 years experience with Procter & Gamble in various sales and marketing assignments. He holds an MBA from the University of Western Ontario, Canada, and a BBA from the University of Kentucky, USA.

As an Executive Director, Douglas Tough is not independent.

GLENN L L BARNES, B.AG. SCI (MELB), CPM, FAMI, FAIM, FAICD, FAIBF, FRSA

AGE 58. RESIDES MELBOURNE.

Appointed Non-executive Director in September 2005.

Glenn Barnes is Chairman of Baycorp Advantage Limited and a Director of Lion Nathan Limited. He also serves as Chairman, Director and council member of a number of not-for-profit and private interest organisations. He was formerly a Director of Repco Corporation Limited, National Foods Limited and Banksia Wines Limited.

Glenn Barnes commenced his management career with Unilever Limited and has been involved in banking and financial services for over 30 years in Australia and internationally, including the UK and USA. Since retiring from executive roles in 2002, Mr Barnes has focused on governance and consulting.

The Board considers Glenn Barnes to be an independent Director.

RONALD J S BELL, BA (STRATHCLYDE)

AGE 55. RESIDES GLOUCESTERSHIRE, UK.

Appointed Non-executive Director in August 2005. Member of the Nomination, Remuneration and Evaluation Committee.

Mr Bell is a Director of Gallaher Group Plc and Northern Foods Plc and is Chairman of the Milk Link Co-Operative. Mr Bell is an experienced international consumer industry executive with a background of over 30 years in highly competitive global branded products. He is a former President of Kraft Foods, Europe and served as Executive Vice President of Kraft Foods Inc.

Mr Bell brings to the Board broad general management and marketing skills particularly in the European and North American markets.

The Board considers Ronald Bell to be an independent Director.

L DALE CRANDALL, MBA UC BERKELEY, CPA

AGE 64. RESIDES SAN FRANCISCO, USA.

Appointed Non-executive Director in November 2002. Chairman of the Audit Committee.

Mr Crandall is a Director of Union Bank of California, Covad Communications Group, BEA Systems Inc. and Coventry Health Care Inc. He is also a Trustee of Dodge & Cox Mutual Funds.

Mr Crandall has a background in accounting and finance and is a former Group Managing Partner for Southern California for Price Waterhouse. He was formerly President and Chief Operating Officer of Kaiser Foundation Health Plan and Hospitals in the USA.

The Board considers Dale Crandall to be an independent Director.

HERBERT J ELLIOTT, AC, MBE, MA (CANTAB)

AGE 67. RESIDES PERTH.

Appointed Non-executive Director in February 2001. Member of the Audit and Nomination, Remuneration and Evaluation Committees.

Mr Elliott was appointed Deputy Chairman of Fortescue Metals Group Limited in May 2005, having served as a Director of that company since October 2003. He is Chairman of the Telstra Foundation Limited and a member of the Board of Athletics Australia.

Mr Elliott has experience in marketing and general management, including an appointment as President and Chief Executive of North America for Puma, the sporting goods company.

The Board considers Herb Elliott to be an independent Director.

MICHAEL J McCONNELL, AB, MBA (HONS) VIRGINIA

AGE 39. RESIDES LOS ANGELES, USA.

Appointed Non-executive Director in April 2004. A member of the Nomination, Remuneration and Evaluation Committee until September 2005.

Mr McConnell is Managing Director of Shamrock Capital Advisors Inc. and Chairman of Shamrock s Investment Committee. He serves as a Director of Neo Technology Ventures and La Canada Educational Foundation. He is a former Director of Nuplex Industries Limited and Force Corporation.

Mr McConnell has an investment banking background having served with Kidder Peabody and Merrill Lynch.

The Board considers that Michael McConnell is not an independent Director.

STANLEY P GOLD, AB, JD

(ALTERNATE TO MR McCONNELL)

AGE 63. RESIDES LOS ANGELES, USA.

Non-executive Director from October 2001 to April 2004.

Mr Gold is President and Chief Executive Officer of Shamrock Holdings Inc., President of Shamrock Capital Advisors Inc., Chairman of Tadiran Communications Ltd, a Director of Trefoil International III SPRL and a former Director of the Walt Disney Company.

Mr Gold is a former Managing Partner of a prominent Los Angeles law firm and has specialised in corporate acquisitions, sales and financing. He has served as President and Chairman of a number of companies in the USA and Israel.

The Board considers that Stanley Gold is not an independent Director.

DR EDWARD D TWEDDELL, BSC, MBBS (HONS), FRACGP, FAICD

Chairman and Non-executive Director from October 2001 until his death in August 2005.

Corporate Governance

INTRODUCTION

The Board works under a set of well-established corporate governance policies that reinforce the responsibilities of all Directors in accordance with the requirements of the Corporations Act and the Listing Rules of the Australian Stock Exchange (ASX). In addition, many of the governance elements are enshrined in the Company s Constitution.

The Board regularly reviews and updates its corporate governance policies to ensure that the Company s policies remain in accordance with best practice. The Board is aware of, and has had regard to, developments in Australia and overseas in relation to corporate governance best practice .

The Board has for some time satisfied the recommendations of the ASX Corporate Governance Council and has incorporated its provisions in its periodic review of corporate governance practices.

The corporate governance section of the Company s website, **www.ansell.com**, contains various material relating to corporate governance, including the Board Charter, Committee Charters, Code of Conduct, Social Accountability Policy, core policies regarding dealing in securities and disclosures, and other information.

BOARD RESPONSIBILITIES

The Board has ultimate responsibility for setting policy regarding the business and affairs of the Company and its subsidiaries for the benefit of the shareholders and other stakeholders. The Board is accountable to shareholders for the performance of the Group.

The Board has the following responsibilities and functions, namely, to:

review and approve corporate strategies, budgets, plans and policies developed by management and evaluate performance of the Group against those strategies and plans in order to:

(i) monitor the performance of functions delegated to the executive team including the progress of major capital expenditures, share buy-backs, acquisitions, divestitures and strategic commitments; and

(ii) assess the suitability of the Company s overall strategies, business plans and resource allocation;

appoint a Chief Executive Officer for the ongoing management of the business and its strategies;

- regularly evaluate the performance of the Chief Executive Officer and senior management and ensure appropriate executive succession planning is conducted;
- monitor financial and business results (including the audit process) to understand at all times the financial position of the Group;
- ensure regulatory compliance and maintain adequate risk management processes;
- report to shareholders; and
- implement a culture of compliance with the highest legal and ethical standards and business practices.

In carrying out its duties, the Board meets formally at least five times a year, with additional meetings held as required to address specific issues. Directors also participate in meetings of various Board Committees, which assist the full Board in examining particular areas or issues.

It is also the Company s practice for Directors to visit some of the Company s facilities in each year. During the 2005 financial year, Board meetings were held in conjunction with a visit to Ansell facilities in North America.

The Board delegates management of the Company s resources to the executive team under the leadership of the Chief Executive Officer, to deliver the strategic direction and achieve the goals determined by the Board. Any powers not specifically reserved for the Board have been delegated to the executive team.

RISK MANAGEMENT

Ansell places a high priority on risk identification and management throughout all its operations and has processes in place to review their adequacy. These include:

- a comprehensive risk control program that includes property protection and health, safety and environmental audits using underwriters, self-audits, and engineering and professional advisers; and
- a process to identify and measure business risk.

The Company also has in place a system of internal controls for the identification and management of financial risk including a system of internal sign-offs to ensure the Company is in compliance with its legal obligations, including those which arise under the US Sarbanes-Oxley Act and the Corporations Act. In accordance with this system of internal sign-offs, the Chief Executive Officer and Chief Financial Officer have provided assurances to the Board that, having made appropriate enquiries, they have formed the opinion that:

- the financial records of the Company and its controlled entities are maintained in accordance with the Corporations Act;

the Financial Report for the year ended 30 June 2005 has been prepared in accordance with the relevant accounting standards and gives a true and fair view, in all material respects, of the financial position and performance of the Company and its controlled entities; and

the risk management and internal compliance and control systems of the Company and its controlled entities are, in all material respects:

consistent with the policies adopted by the Board; and

operating effectively and efficiently.

CODE OF CONDUCT

The Company is committed to upholding the highest legal, moral and ethical standards in all of its corporate activities and has adopted a Code of Conduct consisting of both a Statement of Guiding Principles and Policies on Business Conduct, which aim to strengthen its ethical climate and provide basic guidelines for situations in which ethical issues arise.

The Code of Conduct applies to Directors, executives, management and employees, sets high standards for ethical behaviour and business practice beyond complying with the law, and is based on guiding principles whereby the Company:

strives to uphold high ethical standards in all corporate activities;

is committed to competing lawfully, fairly and ethically in the marketplace, consistent with its aim of providing quality products to its customers;

is committed to pursuing sound growth and earnings goals, by operating in the best interests of the Company and shareholders;

strives to treat all employees and applicants with fairness, honesty and respect;

expects all employees to work together for the common good and to avoid placing themselves in a position that is in conflict with the interests of the Company;

is committed to good corporate citizenship and participating actively in and improving the communities in which the

Company does business; and

expects all employees to conduct themselves in accordance with the guiding principles.

It is the Company s policy to comply with the letter and spirit of all applicable laws, including those relating to employment, discrimination, health, safety, medical devices, consumer protection, privacy, intellectual property, antitrust, securities and the environment. The Company has also developed procedures to ensure that employees are aware of and discharge their obligations under relevant privacy laws in their handling of information provided to the Group. No Director, officer, executive or manager of Ansell has authority to violate any law or to direct another employee or any other person to violate any law on behalf of the Company.

The Code of Conduct also sets out the Company s policies in respect of ethical issues such as conflicts of interest, social accountability and fair dealing. In addition, the Company has developed specific policies in relation to several of the matters covered in the Code of Conduct. These policies, along with the Code of Conduct, are publicly available on the Company s website, www.ansell.com.

The Company s ethical practices and procedures are reviewed regularly, and processes are in place to promote and communicate these policies within the Company. In keeping with the Company s commitment to a strong culture of ethics, a computer-based Code of Conduct training program was introduced during the year and implemented across the organisation globally. Employees and Directors are required to participate in the compliance training programs to ensure that they remain up to date regarding relevant legal and industry developments. Assistance is also available to clarify whether particular laws apply and how they may be interpreted.

BOARD COMPOSITION

The Board s policy is that there should be a majority of independent, Non-executive Directors. This is a requirement embodied in the Company s Constitution, ensuring that all Board discussions or decisions have the benefit of predominantly outside views and experience, and that the majority of Directors are free from interests and influences that may create a conflict with their duty to the Company. Maintaining a balance of experience and skills is an important factor in Board composition. Details of the skills, experience and expertise of each Director are set out on page 4.

The requirement under the Constitution is for at least twice as many Non-executive Directors as Executive Directors. As an additional safeguard in preserving independence, an Executive Director cannot hold the office of Chairman.

The Board has adopted the definition of independence set out in the IFSA Blue Book (December 2002).* The Board has developed guidelines to determine materiality thresholds for the purposes of that definition. Broadly speaking these guidelines seek to determine whether the Director is

generally free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director s ability to act in the best interests of the Company.

The Company currently has seven Directors, one of whom is an Executive Director (the Chief Executive Officer who is also the Managing Director). Five of the Non-executive Directors, including the Chairman, are considered to be independent .

The Board considers that, in addition to the Managing Director, Mr M J McConnell is not independent by virtue of his position as an officer of Shamrock Capital Advisors Inc., a related body corporate of Shamrock Holdings of California Inc., which had been a substantial shareholder until 22 October 2004. As previously announced, Mr McConnell will retire at the conclusion of the 2005 Annual General Meeting.

Mr S P Gold, an alternate Director to Mr McConnell, also does not meet the Board s definition of independence due to his financial interest in Trefoil International III L.P., a related body corporate of Shamrock Holdings Inc.

Any Director can seek independent professional advice at the Company s expense in the furtherance of his or her duties, subject to prior discussion with the Chairman. If this occurs, the Chairman must notify the other Directors of the approach, with any resulting advice received to be generally circulated to all Directors.

BOARD REVIEW AND ELECTION PROCESSES

The Board periodically conducts a formal review of its performance. Such reviews include:

- comparing Board performance against agreed external benchmarks;
- assessment and consideration of the effectiveness and composition of the Board;
- an assessment of the performance of the Chief Executive Officer and Managing Director by the Non-executive Directors;
- assessing whether corporate governance principles are appropriate and reflect good practice (by way of self-assessment using a structured approach); and
- assessing whether the expectations of differing shareholder groups have been met.

New Directors are nominated by the Board, as described below, and then stand for election at the next Annual General Meeting in order to be confirmed in office. The criteria for considering new candidates for the Board are set by the Nomination, Remuneration and Evaluation Committee. All Directors other than the Managing Director are required to seek re-election at least once in every three years on a rotating basis.

APPOINTMENT TERMS

In order to ensure that the composition of the Board will change over time, the Board has a general policy that Non-executive Directors should not serve for a period exceeding 12 years, and that the Chairman should not serve in that role for more than 10 years.

In order to ensure that Directors are able to fully discharge their duties to the Company, all Directors must consult with the Chairman of the Board and advise the Nomination, Remuneration and Evaluation Committee, prior to accepting a position as a non-executive director of another company.

* Corporate Governance, *A Guide for Fund Managers and Corporations Blue Book,* Investment and Financial Services Association, December 2002 (copy available at www.ifsa.com.au).

Corporate Governance continued

REMUNERATION

Full details of the remuneration paid to Non-executive and Executive Directors are set out in the Remuneration Report on pages 9 to 16.

DEALING IN SHARES

The Company has adopted a policy on dealing in Ansell shares by Directors and employees generally which is publicly available on the Company s website, www.ansell.com.

Subject to the restriction that persons may not deal in any securities when they are in possession of price-sensitive information, Directors and employees generally may only buy or sell Ansell shares in the period immediately following any price-sensitive announcements, including the half-year and full year results and the Annual General Meeting. At other times, Directors dealing in Ansell shares must obtain prior approval from the Chairman. The relevant interests of each Director in the share capital of the Company as at the date of this Report, as notified to the Australian Stock Exchange Limited pursuant to the Listing Rules and section 205G of the Corporations Act, were:

	1	**2**
P L Barnes	13,024	
G L L Barnes	5,000	
R J S Bell	116	
L D Crandall	9,174	
H J Elliott	10,032	
M J McConnell	6,314	
D D Tough	20,000	640,041
S P Gold (alternate to M J McConnell)		

1. Beneficially held in own name, or in the name of a trust, nominee company or private company.

2. Beneficial, Executive Share Options (525,000) and Performance Share Rights (PSRs) (115,041). These were granted upon Mr Tough s appointment in May 2004. Full details in relation to the Options and PSRs are set out on pages 13 to 15.

CONFLICT OF INTEREST

In order to ensure that any interests of a Director in a particular matter to be considered by the Board are brought to the attention of each Director, the Company has developed protocols, consistent with obligations imposed by the Corporations Act and the Listing Rules, to require each Director to disclose any contracts, offices held, interests in transactions and other directorships which may involve any potential conflict. Appropriate procedures have been adopted to ensure that, where the possibility of a material conflict arises, relevant information is not provided to the Director, and the Director does not participate in discussion on the particular issue or vote in respect of the matter at the meeting where the

matter is considered.

BOARD COMMITTEES

The Board has established two standing Committees, being the:

- Audit Committee; and
- Nomination, Remuneration and Evaluation Committee.

The Board periodically reviews the charter of each Committee. These charters are publicly available on the Company s website, www.ansell.com.

The Board also delegates specific functions to ad hoc Committees of Directors on an as needs basis. The powers delegated to these Committees are set out in Board resolutions.

Senior executives attend Board and Committee meetings by invitation whenever particular matters arise that require management presentations or participation.

AUDIT COMMITTEE

The members of the Audit Committee during the year were all independent Non-executive Directors and comprised:

- L D Crandall (Chair from 9 August 2005);
- P L Barnes (Chair until 8 August 2005); and
- H J Elliott.

Members of the Audit Committee are financially literate and the Board is of the opinion that the members of the Committee possess sufficient financial expertise and knowledge of the industry in which the Company operates. Details of the qualifications of the Audit Committee members are set out on page 4.

The Audit Committee reviews the financial statements, adequacy of financial controls and the annual audit arrangements, both internal and external. It monitors the controls and financial reporting systems, applicable Company policies, national and international accounting standards and other regulatory or statutory requirements.

The Committee also liaises with the Company s internal and external auditors, reviews the scope of their activities, reviews the external auditor s remuneration and independence, and advises the Board on its remuneration, appointment and removal. It is Board policy that the lead external audit partner and review partner are each rotated periodically. The Board has adopted a policy in relation to the provision of non-audit services by the Company s external auditor that is based on the principle that work that may detract from the external auditor s independence and impartiality, or be perceived as doing so, should not be carried out by the external auditor. Details of the amounts paid to the external auditor for non-audit services performed during the year are set out in the Report of the Directors on page 19. The Company s external auditor has also confirmed its independence to the Directors in accordance with applicable laws and standards as set out in the Report of the Directors.

The Committee also reviews the processes in place for the identification, management and reporting of business risk, and reviews the findings reported.

The Chief Executive Officer, Chief Financial Officer, Group Chief Accountant, Director Internal Audit, other relevant Company officers (as required) and the principal external audit partner participate in meetings of the Committee.

NOMINATION, REMUNERATION AND EVALUATION COMMITTEE

The members of the Nomination, Remuneration and Evaluation Committee during the year and at the date of this Report were all Non-executive Directors and comprised:

P L Barnes (Chair from 9 August 2005);

Dr E D Tweddell (Chair until 4 August 2005);

R J S Bell (from 9 August 2005);

M J McConnell (until 5 September 2005); and

H J Elliott (from 5 September 2005),

all of whom, with the exception of Mr McConnell, are independent Non-executive Directors.

This Committee s charter provides for it to periodically review the structure and performance of the Board, Board committees and individual Directors, and to recommend changes when necessary. This includes identifying suitable candidates for appointment as Non-executive Directors.

In doing so, the Committee establishes the policies and criteria for Non-executive Director selection. The criteria include a candidate s personal qualities, professional and business experience, and availability and time to commit to all aspects of the Board s program.

The Committee also considers matters such as succession and senior executive remuneration policy, including short- and long-term incentive plans and the Company s recruitment, retention and termination policies, and advises the Board accordingly. The Committee makes recommendations to the Board regarding the specific remuneration of the Chief Executive Officer (including base pay, incentive payments, equity awards, retirement rights and service contracts). The remuneration of Non-executive Directors is a matter that is determined by the Board, although the Committee may request management or external consultants to provide necessary information upon which the Board may make its determination. The Committee has available to it the services of independent professional advisers to assist in the search for high-calibre people at all levels and ensure that the terms and conditions offered by the Company are competitive with those offered by comparable companies.

DISCLOSURE TO INVESTORS

The Company has implemented procedures to ensure that it provides relevant and timely information to its shareholders and to the broader investment community, in accordance with its obligations under the ASX continuous disclosure regime. The Company s Continuous Disclosure Policy is available on its website, www.ansell.com.

In addition to the Company s obligations to disclose information to the ASX and to distribute information to shareholders, the Company publishes annual and half-year reports, media releases, and other investor relations publications on its website.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and discussion of the Group s strategy and goals. The external auditor attends the Annual General Meeting to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor s report.

ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS DURING THE YEAR ENDED 30 JUNE 2005

	BOARD		**AUDIT**		**NOMINATION, REMUNERATION AND EVALUATION**	
	HELD	**ATTD**	**HELD**	**ATTD**	**HELD**	**ATTD**
E D Tweddell	7	7			4	4
P L Barnes	7	6	4	4	4	4
L D Crandall	7	7	4	4		
H J Elliott	7	7	4	4		
M J McConnell	7	7			4	4
D D Tough	7	7				

Held Indicates the number of meetings held while each Director was in office.

Attd Indicates the number of meetings attended during the period that each Director was in office.

A meeting of a special Board Committee comprising Dr E D Tweddell and Mr L D Crandall was convened on 10 August 2004 in relation to the review and lodgement of the 2004 Full Year Results announcement. A meeting of a special Board Committee comprising Dr E D Tweddell and Mr P L Barnes was convened on 31 August 2004 in relation to the signing of the accounts for the year ended 30 June 2004. Meetings of special Board Committees comprising Dr E D Tweddell and Mr D D Tough, and Dr Tweddell and Messrs P L Barnes and D D Tough, were convened on 5 October 2004 and 9 November 2004, respectively, in relation to the Company s off-market share buy-back program. A special Board Committee comprising Dr E D Tweddell and Mr D D Tough was convened on 9 February 2005 in relation to the review and lodgement of the Half-Year Results announcement, Reports and financial statements for the six months ended 31 December 2004.

Remuneration Report

The Directors of Ansell Limited present the Remuneration Report prepared in accordance with section 300A of the Corporations Act for the Company and the consolidated entity for the year ended 30 June 2005. This Report forms part of the Report of the Directors.

TABLE 1 OVERVIEW OF ELEMENTS OF REMUNERATION

		DIRECTORS			
	ELEMENTS OF REMUNERATION	**NON-EXECUTIVE**	**EXECUTIVE**	**SPECIFIED EXECUTIVES**	**DISCUSSION IN REMUNERATION REPORT (PAGE)**
Fixed remuneration	Fees	ü	X	X	10
	Salary	X	ü	ü	12
	Superannuation	ü	ü	ü	10 16
	Other benefits	X	ü	ü	16
At-risk remuneration	Annual cash bonus	X	ü	ü	13
	Stock Incentive Plan	X	ü	ü	13
Post-employment	Notice periods and termination payments	X	ü	ü	16

Details of the Company s remuneration strategy for the 2005 financial year are set out on the following pages of this Report. In summary:

Non-executive Directors

The fees paid are set at levels which reflect the responsibilities of Directors and the time commitments required to properly discharge their duties. The fees paid to Non-executive Directors are not linked to the performance of the Company in order to maintain their independence and impartiality.

The Non-executive Directors Share Plan is a facility requiring Directors to buy shares on the ASX at market value out of their after-tax fees.

It has no incentive component.

Managing Director and Senior Executives

Remuneration for the executive team is set to attract, retain, motivate and reward appropriately qualified and experienced senior executives.

Executive remuneration comprises both fixed and performance related components, and is tailored to reflect market conditions at each job and seniority level applicable in the countries in which the executives are located.

This Report is signed in accordance with a resolution of the Nomination, Remuneration and Evaluation Committee at its meeting on 16 September 2005.

Peter L Barnes
Chairman of Nomination, Remuneration and Evaluation Committee

SECTION 1

NON-EXECUTIVE DIRECTORS   REMUNERATION

A. POLICY

Non-executive Director remuneration is not linked to performance to maintain independence and impartiality.

DIRECTORS   FEES

Non-executive Directors   fees, including committee fees, are set by the Board within the maximum annual aggregate amount of $750,000, which was approved by shareholders in 1989. The fees paid to Directors are set at levels which reflect both the responsibilities of, and the time commitments required from, each Director to discharge their duties. The remuneration of the Non-executive Directors is not linked to the performance of the Company in order to maintain their independence and impartiality. In setting fee levels, the Nomination, Remuneration and Evaluation Committee, which makes recommendations to the Board, takes into account:

- the Company   s existing remuneration policies;
- fees paid by comparable benchmark companies;
- independent advice from Remuneration consultants and other external advisers;
- the time commitment expected of Directors and the risks connected with discharging the duties attaching to the role of director; and
- the level of remuneration necessary to attract and retain suitable Directors.

Details of the membership of the Nomination, Remuneration and Evaluation Committee and its responsibilities are set out on page 8 of the Corporate Governance Statement.

Until 30 June 2005, Non-executive Directors received a fee of $75,000 per annum in relation to their services as a Director. The Chairman, taking into account the greater time commitment required, received a fee of $225,000 per annum. In addition, Directors participating on the Board   s committees received an additional fee of $7,500 per annum. The Chairs of those committees received a fee of $9,375 per annum. Superannuation contributions are also made on behalf of the Non-executive Directors at a rate of 9% of gross fees to satisfy the Company   s statutory superannuation obligations.

In accordance with rule 35 of the Constitution, Non-executive Directors are also permitted to be paid additional fees for special duties or exertions. Such fees are not included in the aggregate remuneration cap approved by shareholders. No such fees were paid during the year. Directors are also entitled to be reimbursed for all business related expenses, including travel, as may be incurred in the discharge of their duties.

The Board periodically reviews its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

Consequent upon a review by the Nomination, Remuneration and Evaluation Committee after it had taken independent advice, the Board approved and implemented an adjustment to fees subsequent to 30 June 2005. Board fees for Non-executive Directors were increased to $82,500 per annum, however the fee for the new Chairman was reset at $206,250 per annum to be comparable with a relevant peer group. Board committee fees were increased to $8,250 per annum and the Chairs fees increased to $16,500 per annum for the Audit Committee and $10,312 per annum for the Nomination, Remuneration and Evaluation Committee.

NON-EXECUTIVE DIRECTORS SHARE PLAN

In recognising that ownership of Company shares aligns Directors interests with those of shareholders, the Company has adopted a Non-executive Directors Share Plan. Shareholders approved the participation by Non-executive Directors in the Plan in October 2000 and April 2002 (on amended terms).

Under the terms of the Plan, a copy of which is available on the Company s website at **www.ansell.com**, Non-executive Directors are required to reinvest a minimum of 10% of their gross annual fees in acquiring shares in the Company until their shareholding is equal to at least one year s fees. The Plan rules permit Non-executive Directors to elect to apply up to 100% of their fees towards acquiring shares. The fees contributed by the Non-executive Directors are used to purchase shares on the ASX at the prevailing market price. These shares are subject to a restriction on dealing until each Director ceases to hold office and are held in the name of the Director during the restriction period.

The Non-executive Directors Share Plan is not a performance-based share plan, nor is it intended as an incentive component of Non-executive Director remuneration.

Details of securities acquired on the ASX on behalf of Non-executive Directors pursuant to the Ansell Non-executive Directors Share Plan at prevailing market prices during the financial year are set out below in accordance with ASX Listing Rule 10.15A.

TABLE 2 SECURITIES ACQUIRED BY NON-EXECUTIVE DIRECTORS PURSUANT TO THE NON-EXECUTIVE DIRECTORS SHARE PLAN (UNAUDITED)

DIRECTOR	NUMBER OF SHARES ACQUIRED	DATE OF ACQUISITION	ACQUISITION PRICE
P L Barnes	262	17/09/2004	$ 8.68
	246	17/12/2004	$ 9.26
	222	16/03/2005	$ 10.24

	224	23/06/2005	$	10.14
L D Crandall	234	17/09/2004	$	8.68
	221	17/12/2004	$	9.26
	199	16/03/2005	$	10.24
	201	23/06/2005	$	10.14
H J Elliott	235	17/09/2004	$	8.68
	220	17/12/2004	$	9.26
	199	16/03/2005	$	10.24
	201	23/06/2005	$	10.14
M J McConnell	1,557	17/09/2004	$	8.68
	1,460	17/12/2004	$	9.26
	1,327	16/03/2005	$	10.24
	1,334	23/06/2005	$	10.14
Dr E D Tweddell	670	17/09/2004	$	8.68
	629	17/12/2004	$	9.26
	570	16/03/2005	$	10.24
	575	23/06/2005	$	10.14

RETIREMENT BENEFITS

Consistent with best practice, the Company does not pay Non-executive Director retirement benefits in addition to statutorily prescribed superannuation contributions.

Remuneration Report continued

B. REMUNERATION

Details of Non-executive Directors remuneration for the 2005 financial year are set out in the following table.

TABLE 3 REMUNERATION OF NON-EXECUTIVE DIRECTORS

	PRIMARY		POST EMPLOYMENT	TOTAL
	FEES	NON-MONETARY BENEFITS[1]	SUPERANNUATION CONTRIBUTIONS[2]	
	$	$	$	$
P L Barnes	91,875	1,287	8,269	101,431
L D Crandall	82,500	17,690	7,425	107,615
H J Elliott	82,500		7,425	89,925
M J McConnell	82,500	16,034	7,425	105,959
E D Tweddell	234,375	1,044	21,094	256,513

(1) Includes spouse travel incurred in accompanying the Director while on Company business.

(2) Contributions are made on a notional basis upon the advice of the Trustee, as the Company s superannuation fund is currently in surplus.

The total remuneration for all Directors for the 2005 and 2004 financial years is detailed in Note 29 to the financial statements.

SECTION 2

EXECUTIVE DIRECTOR AND SENIOR EXECUTIVE REMUNERATION

The names of the Specified Director and Specified Executives (including a former executive) referred to in this Report are listed below. This group of executives also incorporates the five highest remunerated executives.

Douglas D Tough Managing Director & Chief Executive Officer

Phil W Corke Senior Vice President, Human Resources and Communications

Werner Heintz Senior Vice President & Regional Director, Europe, Middle East and Africa

Rustom F Jilla Senior Vice President & Chief Financial Officer

William Reed Senior Vice President & Regional Director, Americas

William G Reilly Senior Vice President & General Counsel

Peter Soszyn formerly Senior Vice President & Chief Information Officer

Each of the executives mentioned above, except for Mr Soszyn who has ceased employment, and Mr Heintz, are located at the Company s operational headquarters in Red Bank, New Jersey, USA. Mr Heintz is located at the Company s European regional office in Belgium. Their remuneration is determined by reference to the local employment market and conditions, and they are paid in local currency.

A. POLICY

To link management rewards to the creation of value for shareholders.

The Nomination, Remuneration and Evaluation Committee of the Board has recommended, and the Board has adopted, a policy that ensures remuneration will:

(a) align management rewards with the creation of value for shareholders in order to create a common interest between executives and shareholders;

(b) support the short- and long-term objectives of the Company as set out in the strategic business plans endorsed by the Board; and

(c) be competitive in the markets in which the Company operates in order to attract, motivate and retain high calibre executives.

The policy recognises that it is necessary for remuneration packages of senior executives (including Executive Directors and the Company Secretary) to include both a fixed component and an incentive or performance related component. Accordingly, the Board aims to achieve a balance between fixed and performance related components of remuneration that reflect market conditions at each job and seniority level.

In general, between 50% and 70% of the total remuneration packages for Executive Directors and senior management is performance based.

B. REMUNERATION AND COMPANY PERFORMANCE

The graph below shows the Ansell Healthcare segment earnings before interest, tax and amortisation (Segment EBITA) and, in addition, the Ansell Limited profit attributable to shareholders (Profit Attributable). Segment EBITA has been the central performance target for the

Company s incentive plans for executives for the past three years. Profit Attributable, while recognising it has been affected by legacy issues carried over from the previous Pacific Dunlop structure, such as the write-down in 2005 of our investment in South Pacific Tyres (SPT), is also an important measure for our shareholders.

The graph demonstrates that Ansell management has made significant progress in rebuilding and refocusing the Company since 2001. In accordance with the commitments made to shareholders in 2002, Segment EBITA has seen compound growth in excess of 10% per annum for the period 2001 to 2005.

Profit Attributable, having recovered from the Pacific Dunlop era losses of 2001 and 2002 (which were mostly related to the sale of non-core businesses) saw substantial improvement in 2003 and 2004 following the rebirth of the Company as Ansell Limited, before a non-cash write-off of the Company s investment in SPT resulted in 2005 falling away. It should be noted, however, that pre-SPT write-down Profit Attributable in 2005 was 29.1% above that of 2004.

These solid results have provided the basis for strong growth in the Company s share price, which increased 30% in the year ended 30 June 2005.

The table below shows the dividends paid and share buy-backs over the past five years. Both share buy-backs and dividends had been suspended by the former Pacific Dunlop after 2001. Based, however, on the Company s financial strength and operating performance, both share buy-backs and dividends were reintroduced in 2003.

With the exception of the 2005 partially franked interim dividend, dividends paid are unfranked as the Company has no franking credits (because the vast majority of its earnings come from outside Australia). The Company has also, as part of its balanced capital management strategy, conducted a series of substantial on- and off-market buy-backs. This has reduced the number of shares on issue and has had a positive effect on both earnings per share and the share price (as shown in the graphs below).

Dividends and Share Buy-Backs (2001-2005)

Note: The dividends have been allocated to the year they related to, not the year they were paid in.

Note: Earnings per share in 2005 were $0.55 prior to the write-down of the investment in South Pacific Tyres.

C. COMPONENTS OF REMUNERATION

I. FIXED REMUNERATION

The terms of employment for all executive management contain a fixed remuneration component, which is expressed in local currency. This fixed component is set at the mid point of the market rate for a comparable role by reference to appropriate benchmark information and having regard to an individual s responsibilities, performance, qualifications, experience and location. Executive management salaries are also benchmarked against global salary and grade data supplied by Watson Wyatt, and internal equity is monitored using a global broad band grading system.

Fixed remuneration includes contributions to superannuation and pension plans in accordance with relevant legislation or as contractually required.

Remuneration Report continued

II. AT-RISK REMUNERATION

Annual Cash Incentive

The annual short-term incentive program (STI) is a cash-based plan that involves linking specific targets (predominantly financial) with the opportunity to earn incentives based on a percentage of fixed salary. In relation to members of the senior executive team, this generally comprises an amount equal to between 30% and 45% (75% for the CEO) of their fixed annual remuneration for target performance and up to an amount equal to between 60% and 90% (150% for the CEO) of their fixed annual remuneration for performance that is well in excess of target performance.

In general, the performance measures for 2005 were based on annual growth in sales and Segment EBITA, weighted equally. The Board considers these performance measures to be appropriate in respect to delivering profitable growth for the organisation and improving shareholder return. Executives have a clear line of sight to the targets and are able to affect results through their actions.

While also a performance measure for the long-term incentive plan, Segment EBITA was adopted as one of the performance measures for the STI to ensure that the executive team was continually focused on achievement of the 10% year-on-year improvement in profitability required in order for the Company to deliver, by the end of the 2005 financial year, the long-term commitment of 50% cumulative improvement in Segment EBITA made to shareholders in 2002.

The hurdles for the STI in the 2005 financial year were set so that achievement of the internal business plan sales and Segment EBITA objectives would result in 100% of the award being earned. Additional incentive payments would be made for performance exceeding target objectives. Incentives would start to be earned at 50% of the target level once performance measures exceeded levels achieved in the preceding financial year.

Performance against these objectives was determined and incentives paid following the completion of the audit of the financial accounts. In general, the performance measures attaching to the STI were satisfied beyond the target level by 26.4%. Specific information relating to the percentage of the STI payable and the percentage of the awards at target level that was not achieved for the Managing Director and the senior executives of the Group are set out in the table below:

TABLE 4   CASH INCENTIVE PAYMENTS MADE TO SPECIFIED DIRECTOR AND EXECUTIVES PURSUANT TO THE COMPANY S STI PLAN

(UNAUDITED)

	PERCENTAGE OF TARGET AWARD ACHIEVED[1]	PERCENTAGE OF TARGET AWARD NOT ACHIEVED	MAXIMUM TOTAL VALUE OF AWARD AT TARGET LEVEL	
D D Tough	110.1%	Nil	US$	487,500
P W Corke	126.4%	Nil	US$	108,000
R F Jilla	126.4%	Nil	US$	157,500
W Reed	80.6%	19.4%	US$	119,250
W G Reilly	126.4%	Nil	US$	110,250
P Soszyn	126.4%[2]	Nil	US$	67,860
W Heintz	58.8%	41.2%		136,350

(1) Target award is the level at which achievement of the performance measures would result in 100% of the incentive being earned. Achievement of above-target performance measures resulted in above-target payments. The actual amounts paid in relation to performance during the year are set out in Table 7 on page 16.

(2) Award pro-rated for period of service during the year.

The STI performance measures for the 2006 financial year will, in general, be based on a mix of improvement in sales revenues, Segment EBITA, manufacturing profitability and Profit Attributable, with the proportions applicable to each component determined according to the respective executive s level and area of responsibility.

Stock Incentive Plan

The Company s long-term incentive (LTI) arrangements are designed to link executive reward through the grant of equity securities with the key performance drivers which underpin sustainable growth in shareholder value, which comprises both share price and returns to shareholders.

Participation in the Company s Stock Incentive Plan **(the Plan)** is only offered to executives who are able or have the potential to influence the generation of shareholder wealth and thus have a direct impact on the Company s performance against the relevant performance hurdles. In general, these executives are offered a grant under the Plan which is designed to be the equivalent of approximately 30% of their total remuneration (on an annualised basis).

The Plan provides for senior executives to be granted:

performance share rights (**PSRs**); or

options.

Participants in the Plan are granted PSRs that vest in three annual tranches. PSRs vest immediately upon satisfaction of the performance conditions applicable to the performance period. One fully-paid ordinary share is allocated to the holder of a PSR automatically upon that PSR vesting, at no cost to the executive.

The Chief Executive Officer (current and prior) and Chief Financial Officer were granted options under the Plan upon joining the Company. The options were granted at no cost to the participants and vest upon satisfaction of the performance conditions. Vested options may be exercised at a price based on the average of the Company s share price on the five days preceding the date of grant. The relevant exercise price is $7.40 for the Chief Executive Officer and $6.97 for the Chief Financial Officer. Vested options may not be exercised until 12 months after the date of vesting. Options, if not exercised, will lapse on the tenth anniversary of their issue.

Any PSRs or options that do not vest in a financial year will be added to the PSRs or options otherwise available in the next vesting year and tested against the performance condition applicable to that subsequent year. However, any PSRs or options that have not vested within three years of being granted may not be carried forward, and will lapse.

Participants are entitled to vote their shares and to receive any dividend, bonus issue, return of capital or other distribution made in respect of their shares from the date of allocation of the shares following vesting of the PSRs.

In general, executives are permitted to sell shares allocated on vesting of PSRs to the extent necessary to provide sufficient cash to meet any taxation liabilities arising from the grant or vesting, plus 50% of the balance of the shares from that tranche. The remainder of the shares from that tranche may not be sold within 12 months of their allotment.

Performance measures applicable to the Stock Incentive Plan

In relation to the 2005 financial year, the performance measure applicable to PSRs and options previously granted was for the Segment EBITA for the Ansell Healthcare business to meet or exceed US$115 million. This measure reflected the commitment in relation to the 2005 financial year that was made to shareholders in 2002. It applied equally to all participating management team members, was met and all PSRs and relevant options vested.

The Board is of the view that the achievement of that commitment is directly linked to the creation of shareholder value, as evidenced by the increase in the Company s share price.

Options/PSRs granted and on issue

As part of its remuneration strategy the Company granted PSRs during the year to the executives as set out below. No grants of options were made.

TABLE 5 EQUITY GRANTS MADE TO SPECIFIED DIRECTOR AND EXECUTIVES

	NUMBER OF PSRs GRANTED DURING THE YEAR[1][2]	FUTURE FINANCIAL YEARS THAT GRANT MAY VEST[3]	MAXIMUM TOTAL VALUE OF GRANT[4] ($ PER TRANCHE)
D D Tough	Nil[5]		
P W Corke	20,000	2006	US$ 38,756
		2007	US$ 38,001

		2008	US$	37,240
R F Jilla	50,000	2006	US$	96,897
		2007	US$	95,000
		2008	US$	93,098
W Reed	25,000	2006	US$	48,448
		2007	US$	47,497
		2008	US$	46,552
W G Reilly	20,000	2006	US$	38,756
		2007	US$	38,001
		2008	US$	37,240
W Heintz	25,000	2006		39,497
		2007		38,722
		2008		37,951

(1) Equity grants comprise awards of Performance Share Rights (PSRs) made on 8 August 2004 in accordance with a resolution of the Nomination, Remuneration and Evaluation Committee.

(2) As all PSRs are subject to performance conditions to be tested in future financial periods, no part of the grants awarded during the 2005 financial year vested during that year.

(3) The grants made to the executives during the year constituted 100% of the grants available for the year. As the PSRs only vest on satisfaction of the performance conditions, none of the PSRs detailed above were forfeited during the year.

(4) The values per PSR were calculated as $7.64, $7.49 and $7.34 for the tranches that may vest in 2006, 2007 and 2008, respectively. The values were calculated using a binomial valuation model. The assumptions used in the calculation of these values are set out in Note 26 to the financial statements. The minimum total value of the grant, if the applicable performance conditions are not met, is nil in all cases.

(5) D D Tough received a grant of options and PSRs upon joining the Company in May 2004. In accordance with his employment agreement he will not receive a further grant before May 2006.

Remuneration Report continued

The following table sets out details of the movement in options and PSRs on issue and the number of shares held subject to options and PSRs during the reporting period, as well as the number of options and PSRs that have vested as at the date of this Report and the number of options that have been exercised or are exercisable.

TABLE 6 MOVEMENT IN OPTIONS AND PSRs ON ISSUE

						VESTED AT THE DATE OF THIS REPORT		
	HELD AT 1 JULY 2004	GRANTED DURING THE YEAR[1]	OPTIONS EXERCISED/ PSRs VESTED DURING THE YEAR[2]	LAPSED/ FORFEITED[3]	HELD AT 30 JUNE 2005	OPTIONS VESTED AND EXERCISABLE/ PSRs VESTED[4]	NOT YET EXERCISABLE[5]	TOTAL VESTED
OPTIONS								
D D Tough	525,000				525,000		122,358	122,358
R F Jilla	300,000				300,000	200,000	100,000	300,000
PSRs								
D D Tough	150,000				150,000	34,959		
P W Corke	31,667	20,000	13,333		38,334	20,000		
W Heintz	46,667	25,000	18,333		53,334	26,667		
R F Jilla	50,000	50,000	16,666		83,334	33,333		
W Reed	45,000	25,000	18,333		51,667	26,666		
W G Reilly	31,667	20,000	13,333		38,334	20,000		
P Soszyn	31,667		13,333	9,444	8,890	8,890		
TOTAL SPECIFIED DIRECTORS AND EXECUTIVES								
Options	825,000	Nil	Nil	Nil	825,000	200,000	222,358	422,358
PSRs	386,668	140,000	93,331	9,444	423,893	170,515		
AGGREGATE VALUE OF MOVEMENT IN OPTIONS/PSRs								
Options		Nil	Nil	Nil				
PSRs		$ 1,048,598	$ 726,115	Nil				

(1) The maximum total value of the PSRs granted during the year is set out in Table 5 above.

(2) The value of each PSR on the date of vesting was $7.78 being the closing market price of Ansell Limited shares on ASX on the preceding trading day.

(3) The value of a PSR on the day it lapses or is forfeited, is Nil.

(4) PSRs that have vested since balance date result in the allocation of one fully paid ordinary share to the holder for each PSR that has vested. The date of testing of the performance condition and vesting of the PSRs was 16 August 2005.

(5) Options vest upon satisfaction of the applicable performance condition, but cannot be exercised until 12 months after vesting.

The LTI performance measures for the 2006 financial year will be based on improvement in sales revenues (with the target payout level set at a level above that applicable for the STI) and growth in EPS (with earnings adjusted to remove possible distortion due to significant non-recurring items (if any), and the number of shares on issue adjusted to eliminate the effect of any significant share issues or buy-backs).

D. SERVICE AGREEMENTS

The remuneration and other terms of employment for the Managing Director and the executive management team are covered in formal agreements or letters of offer. Each of these agreements makes provision for performance-related cash incentives (as disclosed above), other benefits and participation, where eligible, in the Company s Stock Incentive Plan (as described above).

The base salary and incentive components of remuneration for the Managing Director and each of the executive management team are reviewed and determined annually by the Nomination, Remuneration and Evaluation Committee.

Details of the duration of executive employment, applicable notice periods and payments on termination provided for under the agreements are summarised below:

MANAGING DIRECTOR

The Managing Director, D Tough, is employed under the terms of an Employment Agreement that provides for termination payments to be made in certain circumstances. In particular, the Company may terminate his employment within the first three years of service upon giving 18 months notice or payment in lieu, and at any time thereafter upon giving 12 months notice or payment in lieu. In certain circumstances, such as a substantial diminution of responsibility, the Company may be deemed to have terminated his employment and would be liable to make a termination payment equivalent to 18 months base salary and target annual incentive. In general, the Managing Director must give the Company at least six months notice of resignation.

Upon termination of employment for any reason, the Managing Director is prohibited from engaging in any activity that would compete with the Company for a period of 18 months if he terminates his employment within the first three years, and 12 months thereafter, in order to protect the Company s business interests.

OTHER SENIOR EXECUTIVES

Each of P Corke, R Jilla, W Reed, and W Reilly, all of whom are USA-based, is employed at will . These executives, once employed for more than 12 months, would, in general, receive payments upon early termination (other than for gross misconduct) equal to 12 months base salary plus certain other benefits. These executives would typically be expected to give the Company four weeks notice of resignation. In certain circumstances, such as a diminution of responsibility, the Company may be deemed to have terminated Mr Jilla s appointment and would be liable to make a termination payment equivalent to 12 months base salary and target annual incentive.

W Heintz is a Europe-based executive and in the event of his termination without cause, he would receive severance calculated by taking into account: notice period in months; seniority in fractions of years; age in years and fractions of years; total annual remuneration; total bonus received in the year prior to termination; and the value of non-monetary benefits.

E. REMUNERATION PAID AND OTHER SPECIFIC DISCLOSURES

DETAILS OF REMUNERATION

Details of the remuneration paid to the Managing Director and Specified Executives, being those with the most authority incorporating those who received the highest remuneration during the 2005 financial year, are set out in the following table.

TABLE 7 - REMUNERATION OF SPECIFIED DIRECTOR AND SPECIFIED EXECUTIVES

		PRIMARY	**POST EMPLOYMENT**		**EQUITY**	**OTHER BENEFITS**	
	FIXED SALARY $	**ANNUAL CASH INCENTIVE $**	**NON-SALARY BENEFITS[1] $**	**SUPER-ANNUATION CONTRIBUTIONS[2] $**	**OPTIONS/ RIGHTS[3] $**	**TERMINATION PAYMENTS[4] $**	**TOTAL $**
D D Tough [5]	US$650,000	US$536,720	US$53,755	US$86,952	US$1,072,986		US$2,400,413
P W Corke [5]	US$239,827	US$136,512	US$45,721	US$45,046	US$101,887		US$568,993
R F Jilla [5]	US$336,500	US$199,080	US$27,086	US$71,945	US$306,867		US$941,478
W Reed [5]	US$264,884	US$96,175	US$123,138	US$63,361	US$134,587		US$682,145
W G Reilly [5]	US$244,885	US$139,356	US$27,590	US$47,432	US$101,887		US$561,150
P Soszyn [5][7]	US$136,127	US$85,775	US$12,876	US$18,915	US$20,443	US$572,869	US$847,005
W Heintz [6]	226,903	80,174	137,048	72,722	112,762		629,609
TOTAL REMUNERATION MANAGING DIRECTOR AND SPECIFIED EXECUTIVES	US$1,872,223	US$1,193,618	US$290,166	US$333,651	US$1,738,657	US$572,869	US$6,001,184
	226,903	80,174	137,048	72,722	112,762		629,609

(1) Includes the cost to the Company of cash benefits such as motor vehicle and travel allowances, telephone expenses, cost of living and relocation allowances and executive insurance.

(2) Includes contributions to USA benefit or non-qualified pension plans or European pension plan, as applicable. For Mr Soszyn, it also includes an imputed notional contribution to the Australian superannuation fund calculated at a notional rate.

(3) Includes a proportion of the fair value of options or PSRs granted or outstanding during the year. The fair value is determined as at grant and is progressively allocated over the vesting period for these securities. The amount included as remuneration is not related to, nor indicative of, the benefit (if any) that individual executives may ultimately realise should the options or PSRs vest. Further details of options and PSRs provided to specific Directors and executives as remuneration, including the basis of valuation, is included in Notes 26 and 29 to the financial statements.

(4) Includes statutory and contractual payments upon cessation of employment.

(5) USA-based officers paid in US$. The average exchange rate for the 2005 financial year is US$0.7610 = A$1.00.

(6) Europe-based officer, paid in . The average exchange rate for the 2005 financial year is 0.6204 = A$1.00.

(7) Ceased employment 28 February 2005.

Report of the Directors

This Report by the Directors of Ansell Limited (the Company) is made for the year ended 30 June 2005 pursuant to Division 1 of Part 2M.3 of the Corporations Act. The information set out below is to be read in conjunction with the section entitled Remuneration Report appearing on pages 9 to 16 and Notes 26 and 29 to the financial statements.

DIRECTORS AND SECRETARY

The name of each person who has been a Director of the Company during or since the end of the financial year, particulars of the qualifications, experience and special responsibilities of each Director as at the date of this Report, and of their other directorships, are as set out on page 4.

Details of the relevant interests of each Director in the share capital of the Company and any related body corporate that have been notified to the Australian Stock Exchange under regulatory requirements are set out in the Corporate Governance Statement on page 7.

Details of meetings of the Company s Directors (including meetings of Committees of Directors) and each Director s attendance are also set out in the Corporate Governance Statement, on page 8. As described on pages 7 and 8 of this Report, the Board has established an Audit Committee and a Nomination, Remuneration and Evaluation Committee.

It was with great sadness that the Board learnt of the death on 4 August 2005 of Dr Ed Tweddell who had been Chairman of the Board of Directors since October 2001. Mr Peter Barnes, the former Chairman of the Audit Committee, was unanimously elected by the Board to succeed Dr Tweddell as Chairman.

The Company Secretary is Robert Bartlett, Dip Com, FCPA, who was appointed to that position in 2001. Mr Bartlett, who joined the Company in 1965, has an accounting, finance and general management background. He has held senior finance and general management positions in the Corporate Head Office as well as in operating business units of the Company in Australia and overseas. Mr Bartlett is aged 59.

PRINCIPAL ACTIVITIES

The activities of the Ansell group of companies (the Group) principally involve the development, manufacturing and sourcing, distribution and sale of gloves and protective products in the Professional Healthcare, Occupational Healthcare and Consumer Healthcare markets.

The Company remains a partner, with The Goodyear Tire and Rubber Company (Goodyear), in the South Pacific Tyres partnership. Under the terms of the partnership agreement, the Company has an option, exercisable between 13 August 2005 and 12 August 2006, to put the business to Goodyear for a price based on a contractual formula. If the Company does not exercise its option within that period, Goodyear has an option during the following six months to purchase the Company s investment for a price based on the same contractual formula. It is the Company s intention to divest its interest in the partnership.

DIVIDENDS AND SHARE BUY-BACK

An interim cash dividend of 7 cents per share (57% franked at the Company tax rate of 30%) was paid in respect of the half-year ended 31 December 2004. A final dividend of 10 cents per share (unfranked) in respect of the year ended 30 June 2005 is payable on 18 October 2005 to shareholders registered on 30 September 2005. These dividends were paid out of Ansell Limited s Profit Attributable of $65.7 million.

As detailed in a Buy-Back Offer booklet dated 11 October 2004, the Company carried out an off-market buy-back of ordinary shares. As the total number of ordinary shares offered into the buy-back resulted in a value exceeding the authorised maximum of $155 million, a scale-back was applied in accordance with the terms set out in the Buy-Back Offer booklet and as amended by announcement to the ASX on 25 November 2004. As a result, the Company purchased 16,847,345 ordinary shares at a price of $9.20 per share.

Due to US Securities and Exchange Commission requirements and cross-jurisdictional issues the scale-back mechanism had to be amended resulting in some shareholders being left with less than a marketable parcel of shares after the scale-back, rather than having those shares bought back as had originally been proposed.

To enable all shareholders with unmarketable parcels of shares to divest their shares at no transactional cost, the Company implemented on 21 July 2005 a minimum holding share buy-back offer. At the close of the offer on 11 August 2005,14,669 shares had been bought back at a cost of $147,672.

Details of the unissued shares under option at the date of this Report and shares issued during or since the end of the year as a result of the exercise of options are set out in Note 5 to the financial statements.

PERFORMANCE IN RELATION TO ENVIRONMENTAL REGULATIONS

Group entities are subject to environmental regulation in the jurisdictions in which they operate. The Group has risk management programs in place to address the requirements of the various regulations. From time to time, Group entities receive notices from relevant authorities pursuant to local environmental legislation. On receiving such notices, the Group evaluates potential remediation or other options, associated costs relating to the matters raised, and where appropriate, makes provision for such costs.

At the date of this Report any costs associated with remediation or changes to comply with regulations in the jurisdictions in which Group entities operate are not considered material.

The Directors are not aware of any material breaches of Australian or international environmental regulations during the year.

REVIEW OF OPERATIONS AND RESULTS

The Group operating profit attributable to shareholders after tax was $11.3 million (US$7.9 million) after the non-cash writedown by $80.0 million (US$60.9 million) of the Company s non-core investment in the South Pacific Tyres partnership. The result compares with profit after tax attributable to shareholders of $70.7 million (US$50.4 million) in the previous year.

Operating profit after tax from operations for the 2005 financial year of $91.3 million (US$68.8 million), before the write-down of the Company s investment in South Pacific Tyres in 2005 and non-recurring costs in 2004, was 29.1% (36.5% in US$ terms) higher than the previous year.

Revenues, expressed in US$ (the Group s operating currency) were higher than the previous year in both the Occupational and Professional Healthcare segments, and slightly lower in the Consumer Healthcare segment. Earnings before interest, tax and amortisation (EBITA) of the Occupational and Professional Healthcare segments were 15.5% and 13.9% (in US$ terms) respectively above the previous year, while EBITA of the Consumer Healthcare segment was 2.7% lower. The results of the Consumer Healthcare segment were stronger in the second half of the financial year.

Costs not allocated to business units, including corporate costs, were 32.8% (29.3% in US$ terms) lower than the previous year.

Free cash flow of $148.1 million (US$93.8 million) was 29% (23% in US$ terms) better than the previous year, before distributing $179.7 million (US$139.4 million) to shareholders by way of dividends and share buy-backs. The improvement in free cash flow came from higher profits, lower working capital days, and a significant reduction in interest expenses.

Net interest bearing debt (inclusive of the effect of exchange rate changes on balances of cash and interest bearing liabilities held in foreign currencies) increased by $27.3 million (US$29.7 million). Gearing (net interest bearing debt as a percentage of net interest bearing debt plus equity) increased to 19.6% from 12.8% in 2004 due to the increased distribution to shareholders. Interest cover improved from 9.5 times in 2004, to 17.6 times.

The Directors consider that matters or circumstances that have significantly affected, or may significantly affect, the operations, results of operations or the state of affairs of the Group in subsequent financial years are:

- The write-down, in the 2005 financial year, from $138 million to $58 million in the carrying value of the Company s investment in South Pacific Tyres reflecting an anticipated shortfall in the realisable value of the investment based on the sale price formula pursuant to the partnership agreement.

- Continued emphasis on a balanced capital management strategy that enabled approximately 9% of the Company s issued capital to be bought back in December 2004 for an outlay of $155 million.

- Restructuring of medium-term credit facilities will provide strong financial flexibility and liquidity.

The major impact of the adoption in the 2006 financial year of the Australian equivalents to International Financial Reporting Standards (AIFRS) is that amortisation of goodwill will be discontinued and replaced by impairment testing on an annual basis.

EVENTS AFTER BALANCE DATE

Since the end of the financial year there have been no matters or circumstances that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the Group in subsequent financial years.

On 16 September 2005 the Company advised the ASX that the United States Food & Drug Administration (FDA) had, following routine random inspection of shipments of condoms manufactured at Ansell s Surat Thani, Thailand, facility, determined that all future shipments from that facility for import to the USA will need to be tested until the facility is released from Level 2 detention. This detention resulted from two lots tested failing to meet the FDA s defined standards. Ansell has taken action to resolve the cause of the failure of the product to meet the required standards and, while there will be some additional costs, the current Level 2 detention is not expected to materially impact the Company s financial results.

The passing of Dr E D Tweddell will not significantly affect the operations, results or state of affairs of the Group.

LIKELY DEVELOPMENTS

A primary goal of the Company over the past four years has been to gain the confidence of shareholders by adopting a highly disciplined approach to its operations and business activities to ensure delivery of the commitments to shareholders made in 2002. Having achieved that objective, the Company is poised to take the next significant steps in its development.

Further improvement in earnings, and therefore shareholder value, is dependent on increasing the Company s revenue base. This is expected to be achieved through a combination of new technologies and products, expansion into non-traditional markets, and strategic acquisitions.

In the opinion of Directors, it would be likely to result in unreasonable prejudice to the Group if further information were to be included.

INDEMNITY

Upon their appointment to the Board, each Director enters into a Deed of Access, Indemnity and Insurance. These Deeds provide for indemnification of the Directors to the maximum extent permitted under law. They do not indemnify for any liability involving a lack of good faith.

No Deeds were entered into by any Director during the financial year. Mr R J S Bell and Mr G L L Barnes, upon their appointment to the Board on 16 August 2005 and 12 September 2005 respectively, entered into a Deed on the same terms previously entered into by each Non-executive Director.

No Director or officer of the Company has received the benefit of an indemnity from the Company during or since the end of the year.

Rule 61 of the Company s Constitution also provides an indemnity in favour of officers (including the Directors and Company Secretary) of the Company against liabilities incurred while acting as such officers to the extent permitted by law. In accordance with the powers set out in the Constitution, the Company maintains a Directors and officers insurance policy. Due to confidentiality obligations and undertakings of the policy, no further details in respect of the premium or policy can be disclosed.

Report of the Directors continued

AUDITOR INDEPENDENCE

The Directors received the Lead Auditor s Independence Declaration under Section 307C of the Corporations Act 2001, as follows:

To: The Directors of Ansell Limited,

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there has been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG
Melbourne
23 September 2005

Peter Jovic
Partner

NON-AUDIT SERVICES

During the year the Company s auditor, KPMG was paid the following amounts in relation to non-audit services provided by KPMG:

Taxation services	$ 72,948
Assurance services	$ 95,746
Consulting services	$ 10,117

The Directors are satisfied, based on the advice of the Audit Committee, that the provision of the non-audit services detailed above by KPMG during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The reasons for forming this opinion are:

the taxation services related predominantly to compliance matters in connection with statutory lodgments;

the assurance services related to the audit of pension or superannuation plans in USA and Australia; and

the consulting services were minor in nature, and did not warrant putting the services out to tender.

ROUNDING

Ansell Limited is a company of the kind referred to in Australian Securities and Investments Commission Class Order 98/100 (as in force on 30 June 2005) and, unless otherwise shown, amounts in this Report have been rounded off to the nearest one hundred thousand dollars.

This Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors.

P L Barnes **Director**	**D D Tough** **Director**

Dated in Melbourne this 23rd day of September 2005.

Discussion And Analysis Of The Financial Statements

Although the Company reports in Australian dollars, the United States (US) dollar is the currency in which the global business is managed. The following discussion and analysis on the results is provided to assist members in understanding the financial report and includes references to Australian dollars ($) and US dollars (US$). Presentation of the results in US dollars can be found in the Supplementary Unaudited U.S. Dollar Financial Information set out on pages 71 to 76.

Statement of Financial Performance

Sales revenue in 2004/2005 from the Healthcare businesses (Occupational, Professional and Consumer) was $1,096.2 million (US$823.9 million) compared with $1,113.3 million (US$791.9 million) in 2003/2004. In US dollar terms Occupational sales increased by 6.8 per cent, Professional sales increased by 2.8 percent while Consumer sales declined by 1.6 per cent. Healthcare Segment EBITA increased by 11.1 per cent from US$104.1 million ($146.3 million) to US$115.7 million ($153.7 million).

The Occupational business accounted for 50 per cent of Ansell s 2004/2005 sales and 53 per cent of Healthcare Segment EBITA. The sales increase of 6.8 per cent in US dollar terms was driven by a 27 per cent volume increase in the Hyflex® range. All three regions reported improved sales and EBITA. Manufacturing costs continued to decline as the Mexican knitting plant made further efficiency gains over the previous year.

The Professional business accounted for 34 per cent of Ansell s 2004/2005 sales and 28 per cent of Healthcare Segment EBITA. Although Professional sales in US dollar terms increased only 2.8 per cent, EBITA improved 14 per cent as the continued move from powdered to powder free, strong synthetic sales growth and European branded surgical glove prices more than offset declining examination glove prices and higher costs of latex and petroleum-based materials such as vinyl and nitrile. Plant restructuring costs of US$0.7 million were incurred during the year to improve the division s productivity in the future.

The Consumer business accounted for 16 per cent of Ansell s 2004/2005 sales and 19 per cent of Healthcare Segment EBITA. Sales and EBITA in US dollar terms declined 1.6 per cent and 2.7 per cent respectively from the previous year due to a difficult first half in branded retail condoms and the cancellation of the Brazil condom tender by the Brazilian government s Ministry of Health. The winning of other tenders in the second half offset the Brazilian shortfall and new product introductions were strong with the roll-out of the European Play sub-brand, Vibe4U® and the US 4Play by LifeStylesTM range. Household glove sales recovered strongly in the second half, in all three regions, as our worldwide marketing partner FHP increased their demand.

A review of the investment in South Pacific Tyres (SPT) indicated that the carrying value, based on the operating performance of SPT in the second half of the 2004/2005 financial year, was in excess of the estimated worth. The investment was therefore written down by $80 million (US$60.9 million) to $58 million. The valuation is partially dependent on future expectations and a shortfall in SPT s future performance, could result in less than full recovery of the investment.

A reduction in net interest expense resulted in interest cover increasing to a strong 17.6 times from 9.5 times last year.

Income tax expense was $21.7 million (US$16.4 million) compared to $20.7 million (US$14.8 million) last year.

The net profit after income tax attributable to shareholders for the year, before the write-down of the SPT investment, was $91.3 million (US$68.8 million) compared to $70.7 million (US$50.4 million) in 2003/2004.

Earnings per share (pre SPT write-down) was 54.5 cents (US 41.1 cents) up on the previous year s 39.1 cents (US 27.9 cents).

Discussion And Analysis Of The Financial Statements (continued)

Statement of Financial Position

Total assets reduced from $1,499.4 million (US$1,032.8) to $1,199.2 million (US$914.6) with available cash reserves decreasing from $307.8 million (US$212.0 million) to $218.9 million (US$167.0 million) as a result of the $156.1 million (US$121.7 million) Off Market Share Buy-Back of 16.8 million shares in December, 2004 which was partially offset by strong cash generation from trading activities. Total liabilities reduced from $687.6 million (US$473.7 million) to $596.4 million (US$454.9 million) predominantly due to a reduction in interest bearing liabilities of $60.9 million (US$14.9 million).

Gearing (net debt to net debt plus equity) is a modest 19.6 per cent compared with 12.8 per cent last year even after the share buy-back and the write-down of the SPT investment. Net debt to equity increased from 14.7 per cent last year to 24.6 per cent while net liabilities to equity increased from 46.3 per cent to 62.6 per cent.

Restricted deposits of $8.4 million (US$6.4 million) have been set aside to cover the provisions established to address any remaining liability to members of the Group to claims arising with respect to the Accufix Pacing Leads. Restricted deposits at 30 June 2004 totalled $10.3 million (US$7.1 million).

Statement of Cash Flows

Net cash provided by operating activities was $152.8 million (US$114.6 million) compared to $179.2 million (US$127.3 million) in 2003/2004. Capital expenditure of $14.1 million (US$10.6 million) was in line with the previous year s $13.8 million (US$9.8 million). During the year the Company returned $179.7 million (US$139.4 million) to shareholders via the share buy-back $156.1 million (US$121.7 million) and dividends $23.6 million (US$17.7 million).

Interest Costs

Net interest expense and borrowing costs for the year were $9.6 million (US$7.3 million) compared with $16.8 million (US$11.9 million) in the previous year. The reduced cost resulted from the continued reduction in net debt, a lower cost of funds as older high cost borrowings matured and a better return on cash. The average cost of debt at 30 June fell from 5.64 per cent last year to 4.94 per cent in the current year.

The Group established a US$250 million revolving credit bank facility on 30 April 2004 of which US$200 million had a five year term and US$50 million had a 364 day term. On 29 April 2005, US$150 million of the US$200 million was extended to 30 April 2010 and US$50 million to 30 April 2012. The US$50 million 364 day facility was extended to 30 April 2006. This facility can be accessed by the parent company and certain USA subsidiaries. US$175 million of the term facilities had been drawn down at 30 June 2005 (June 2004 US$70 million).

This facility when combined with the Group s cash on deposit ensures continuing strong financial flexibility and liquidity. At year end the borrowing portfolio s average maturity was 1,174 days (previous year 816 days) and was approximately 75 per cent fixed and 25 per cent floating interest rate.

Discussion And Analysis Of The Financial Statements (continued)

Ratings

The Group s ratings are as follows:-

	Long Term	Outlook	Short Term
Moody s	Ba1	Positive	Not Prime
Standard & Poor s	BB+	Stable	

Moody s upgraded their rating of the Company during the year.

Working Capital

Ansell Healthcare s days working capital in 2004/2005 was 84.6 days compared to 79.8 days in 2003/2004. This is comprised of the following:

	2005	2004
Inventory days held	65.5	63.8
Days Sales Outstanding	57.2	59.5
Days Payable Outstanding	38.1	43.5

Depreciation

(Including Amortisation of Leasehold Land & Buildings)

	2005 $m	2004 $m	2005 US$m	2004 US$m
Group	25	25	19	18

Factories by Region - Ansell Healthcare

	2005	2004
Asia Pacific	9	9
Americas	5	5
Europe	1	1
Total	**15**	**15**

Assets Employed by Region - Ansell Healthcare

	2005 %	2004 %
Asia Pacific	40	40
Americas	35	35
Europe	25	25

Statements of Financial Performance

of Ansell Limited and its Controlled Entities for the year ended 30 June 2005

		Consolidated		The Company	
	Note	2005 $m	2004 $m	2005 $m	2004 $m
Revenue					
Total revenue	3	1,109.9	1,131.1	240.0	223.1
Expenses					
Cost of goods sold		650.1	662.1	74.8	73.9
Selling, distribution and administration		277.8	289.8	27.6	27.1
Depreciation and amortisation		45.3	46.7	0.2	0.1
Write-down of assets		80.0	9.8	58.7	22.9
Other	4(b)				13.5
Total expenses, excluding borrowing costs		1,053.2	1,008.4	161.3	137.5
Borrowing costs	4(a)	21.9	29.4	13.0	27.6
Profit from ordinary activities before income tax expense		**34.8**	**93.3**	**65.7**	**58.0**
Income tax expense attributable to ordinary activities	8	21.7	20.7		0.2
Net profit from ordinary activities after income tax expense		**13.1**	**72.6**	**65.7**	**57.8**
Outside equity interests in net profit after income tax	10	1.8	1.9		
Net profit after income tax attributable to Ansell Limited shareholders	6	**11.3**	**70.7**	**65.7**	**57.8**
Non-owner transaction changes in equity					
Net exchange difference on translation of financial statements of self-sustaining foreign operations	6	(44.5)	(7.4)		
Total valuation adjustments attributable to Ansell Limited shareholders recognised directly in equity		(44.5)	(7.4)		
Total changes in equity from non-owner related transactions attributable to Ansell Limited shareholders	**7**	**(33.2)**	**63.3**	**65.7**	**57.8**

Earnings per share is based on net profit after income tax attributable to Ansell Limited shareholders

		cents	cents
Basic earnings per share*	35	6.7	39.1
Diluted earnings per share	35	6.7	38.8

* Basic earnings per share in the current period is 54.5 cents excluding the effect of the write-down of the investment in the South Pacific Tyres Partnership.

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of Financial Position

of Ansell Limited and its Controlled Entities as at 30 June 2005

		Consolidated		The Company	
	Note	2005 $m	2004 $m	2005 $m	2004 $m
Current Assets					
Cash on hand	11	0.2	0.9		
Cash at bank and on deposit	11	218.7	306.9	0.5	0.8
Cash assets - restricted deposits	11	8.4	10.3		
Receivables	12	214.1	228.7	321.3	594.2
Inventories	13	157.3	185.8	12.7	13.1
Other	14	14.4	16.4	1.3	1.8
Total Current Assets		**613.1**	**749.0**	**335.8**	**609.9**
Non-Current Assets					
Receivables	12	68.3	63.6	1.4	0.8
Other financial assets	15	59.0	141.4	1,484.3	1,526.6
Property, plant and equipment	16	195.4	227.8	0.2	0.4
Intangible assets	17	246.2	293.4	21.5	
Deferred tax assets	18	15.1	24.2		
Other	19	2.1			
Total Non-Current Assets		**586.1**	**750.4**	**1,507.4**	**1,527.8**
Total Assets		**1,199.2**	**1,499.4**	**1,843.2**	**2,137.7**
Current Liabilities					
Payables	20	132.8	159.4	628.9	628.8
Interest bearing liabilities	21	34.3	190.2	26.2	179.1
Provisions	22	56.7	52.0	3.7	3.6
Current tax liabilities	22	2.3	2.6		
Total Current Liabilities		**226.1**	**404.2**	**658.8**	**811.5**
Non-Current Liabilities					
Payables	20	0.8	3.3		
Interest bearing liabilities	21	331.0	236.0	101.5	134.4
Provisions	22	23.7	23.9	0.3	0.2
Deferred tax liabilities	22	14.8	20.2		
Total Non-Current Liabilities		**370.3**	**283.4**	**101.8**	**134.6**
Total Liabilities		**596.4**	**687.6**	**760.6**	**946.1**
Net Assets		**602.8**	**811.8**	**1,082.6**	**1,191.6**

	Note				
Equity					
Contributed equity	5	1,232.8	1,383.9	1,232.8	1,383.9
Reserves	6	(296.6)	(275.6)		
Accumulated losses	6	(342.5)	(306.7)	(150.2)	(192.3)
Total equity attributable to Ansell Limited shareholders		**593.7**	**801.6**	**1,082.6**	**1,191.6**
Outside equity interests	10	9.1	10.2		
Total Equity		**602.8**	**811.8**	**1,082.6**	**1,191.6**

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of Cash Flows

of Ansell Limited and its Controlled Entities for the year ended 30 June 2005

	Note	Consolidated		The Company	
		2005 $m	**2004 $m**	**2005 $m**	**2004 $m**
Cash Flows Related to Operating Activities					
Receipts from customers (excluding non-recurring and Accufix Research		1,128.6	1,155.9	118.3	127.0
Payments to suppliers and employees (excluding non-recurring and Accufix Research Institute)		(955.8)	(950.6)	(110.3)	(117.7)
Net receipts from customers (excluding non-recurring and Accufix Research		**172.8**	**205.3**	**8.0**	**9.3**
Income taxes paid		(16.1)	(15.9)		
Dividends received				44.9	33.1
Net cash provided by operating activities (excluding non-recurring and Accufix Research Institute)		**156.7**	**189.4**	**52.9**	**42.4**
Non-recurring payments to suppliers and employees			(7.1)		(6.8)
Payments to suppliers and employees net of customer receipts (Accufix Research Institute)		(3.9)	(3.1)		
Net Cash Provided by Operating Activities	31(a)	**152.8**	**179.2**	**52.9**	**35.6**
Cash Flows Related to Investing Activities					
Payments for property, plant and equipment		(14.1)	(13.8)		(0.2)
Payments for brand names				(21.5)	
Proceeds from sale of plant and equipment in the ordinary course of business			5.3		
Loans repaid			3.4		3.4
Net loans to controlled entities	31(c)			238.5	129.9
Proceeds from sale of other investments		1.4			
Payments for other investments			(1.3)		
Net Cash (Used in)/Provided by Investing Activities		**(12.7)**	**(6.4)**	**217.0**	**133.1**
Cash Flows Related to Financing Activities					
Proceeds from borrowings		145.1	104.3		
Repayments of borrowings		(171.5)	(140.9)	(168.1)	(128.1)
Net repayments of borrowings		(26.4)	(36.6)	(168.1)	(128.1)
Proceeds from issues of shares		5.0	1.0	5.0	1.0
Payments for share buy-back		(156.1)	(65.4)	(156.1)	(65.4)
Dividends paid		(24.7)	(32.7)	(23.6)	(31.0)
Interest received		8.5	9.0	85.6	81.7
Interest and borrowing costs paid		(23.3)	(28.7)	(13.0)	(27.5)
Net Cash Used in Financing Activities		**(217.0)**	**(153.4)**	**(270.2)**	**(169.3)**
Net (Decrease)/Increase in Cash Held		**(76.9)**	**19.4**	**(0.3)**	**(0.6)**
Cash at the beginning of the financial year		314.8	297.2	0.8	1.4

Effects of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the financial year		(12.0)	(1.8)		
Cash at the End of the Financial Year	**31(b)**	**225.9**	**314.8**	**0.5**	**0.8**

The above statements of cash flows should be read in conjunction with the accompanying notes.

Industry Segments

of Ansell Limited and its Controlled Entities for the year ended 30 June 2005

	Operating Revenue		Operating Result	
	2005 $m	2004 $m	2005 $m	2004 $m
INDUSTRY				
Ansell Healthcare				
Occupational Healthcare	551.6	545.2	81.3	74.2
Professional Healthcare	371.4	381.8	43.3	40.5
Consumer Healthcare	173.2	186.3	29.1	31.6
Total Ansell Healthcare	**1,096.2**	**1,113.3**	**153.7**	**146.3**
Unallocated items	13.7	17.8	(8.8)	(13.1)
Operating EBITA			**144.9**	**133.2**
Write-down of investment in South Pacific Tyres			(80.0)	
Write-down of Ansell Healthcare assets/Discontinued Businesses adjustments				(1.7)
EBITA			**64.9**	**131.5**
Goodwill amortisation			(20.5)	(21.4)
Earnings before Net Interest and Tax (EBIT)			**44.4**	**110.1**
Borrowing costs net of interest revenue			(9.6)	(16.8)
Operating Profit before Tax			**34.8**	**93.3**
Tax			(21.7)	(20.7)
Outside equity interests			(1.8)	(1.9)
Total Consolidated	**1,109.9**	**1,131.1**	**11.3**	**70.7**
REGIONS				
Asia Pacific	162.9	168.2	38.9	41.4
Americas	527.0	544.7	68.2	65.0
Europe	406.3	400.4	46.6	39.9
Total Ansell Healthcare	**1,096.2**	**1,113.3**	**153.7**	**146.3**

	Assets Employed		Liabilities	
	2005 $m	2004 $m	2005 $m	2004 $m
INDUSTRY				
Ansell Healthcare				

Occupational Healthcare	250.8	274.8	83.5	96.1
Professional Healthcare	230.9	277.4	62.6	68.1
Consumer Healthcare	88.5	110.4	21.1	37.2
Total Ansell Healthcare	**570.2**	**662.6**	**167.2**	**201.4**
Unallocated items [(a)]	155.5	225.3	429.2	486.2
Goodwill and Brand names	246.2	293.4		
Cash	227.3	318.1		
Total Consolidated	**1,199.2**	**1,499.4**	**596.4**	**687.6**
REGIONS				
Asia Pacific	230.4	268.3	60.0	75.3
Americas	196.8	227.5	73.6	90.6
Europe	143.0	166.8	33.6	35.5
Total Ansell Healthcare	**570.2**	**662.6**	**167.2**	**201.4**

(a) Unallocated items includes amounts previously classified as Discontinued Businesses. Prior year comparatives have been adjusted accordingly.

The above Industry Segments report should be read in conjunction with the accompanying notes, including Note 30.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

General

Ansell Limited is a multinational healthcare solutions provider of barrier protection products against injury, infection and contamination. The Company s principal line of business, determined and reported on the basis of differing products and services, is the manufacture and supply of barrier protection products into the Occupational, Professional and Consumer healthcare markets.

The Ansell Healthcare group manufactures industrial gloves, medical gloves and consumer products including household gloves and condoms in the Asia Pacific region and the Americas, and markets these products globally.

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

Basis of Preparation of Financial Report

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

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

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year with the exception of accounting for research and development costs - see Note 2.

Comparative information is reclassified where appropriate to enhance comparability.

Principles of Consolidation

The consolidated financial statements of the Ansell Limited Group (the consolidated entity) include the financial statements of Ansell Limited (the Company), being the parent entity, and its controlled entities.

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at balance date and the results of all controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside interests in the results and equity of controlled entities are shown separately in the consolidated Statement of Financial Performance and Statement of Financial Position respectively.

Results of controlled entities are included in the consolidated Statement of Financial Performance from the date on which control commences and continue to be included until the date control ceases to exist.

Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sales Revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances which are accrued as expected levels as sales occur) from the provision of products to entities outside the consolidated entity. Sales revenue is recognised when the goods are shipped and title passes.

Interest Income

Interest income is recognised as it accrues.

Asset Sales

The net proceeds of asset sales are included as revenue of the consolidated entity. The profit or loss on disposal of assets is brought to account at the date control passes and a contract of sale has been signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of the disposal and the net proceeds on disposal.

Any related balance in the asset revaluation reserve is transferred to retained profits/accumulated losses on disposal.

Borrowing Costs

Borrowing costs include interest, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and other related charges.

Material ancillary costs incurred in connection with the arrangement of term borrowings are capitalised and amortised over the life of the borrowings.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

Goods and Services Tax

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

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

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

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

Income Tax

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

Income tax expense is calculated at current rates on the accounting profit adjusted for permanent differences and income tax over/under provided in the previous year. The estimated liability for income tax outstanding in respect of the period s operations is included in the Statement of Financial Position as a current liability.

Future income tax benefits and liabilities arising because some items are included in accounting profit in a period different from that in which the items are assessed for income tax, are included in the Statement of Financial Position as a non-current asset and a non-current liability respectively. As provided for in Accounting Standard AASB 1020, these deferred tax balances have been offset, where applicable, in the financial statements of the individual entities.

The eventual recoverability of future income tax benefits and payment of the non-current tax liability is contingent upon taxable income being earned in future periods, continuation of the relevant taxation laws and each relevant company continuing to comply with the appropriate legislation.

Future income tax benefits attributable to tax losses (including capital losses) are only recorded where virtual certainty of recovery exists.

Provision is made for overseas taxes, which may arise in the event of retained profits of foreign controlled entities being remitted to Australia, when the dividend is declared. Provision is made for capital gains tax, which may arise in the event of sale of revalued assets, only when such assets are sold.

Receivables

Trade Debtors

Trade debtors are recognised as at the date they are invoiced and are principally on 30 day terms. A provision for doubtful debts is recognised when collection of the full amount is no longer probable.

Other Amounts Receivable

Other amounts receivable comprise amounts due as a result of transactions outside the normal course of trading.

Inventories

Stock on Hand and Work in Progress

Stock on hand and work in progress are consistently valued on the basis of the lower of cost and net realisable value. The methods generally adopted throughout the consolidated entity in determining costs are:

Raw Materials and Other Stock

Actual costs, determined on a first in, first out basis or standard costs approximating actual costs.

Finished Goods and Work in Progress

Standard costs approximating actual costs include an appropriate allocation of manufacturing overheads. Merchant lines are valued at actual cost into store, determined on a first in, first out or average cost basis.

Obsolete and slow moving stocks are written down to net realisable value where such value is below cost. Net realisable value is determined on the basis of each inventory line s normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

Investments

Controlled Entities

All investments are valued at the lower of cost and recoverable value. Dividends and distributions are brought to account in the Statement of Financial Performance when they are paid by the controlled entities.

Associated Companies

An associate is an entity, other than a partnership, over which the consolidated entity exercises significant influence, where the investment in that entity is material and has not been acquired with a view to disposal in the near future.

The consolidated entity has no investments that meet the criteria for recognition as an associated company.

Other Companies

Investments in other listed and unlisted companies are carried at cost less any amount provided for diminution in value as determined by the Directors. Dividends are recognised when they are received.

Interest in Partnership

The consolidated entity s 50% interest in the South Pacific Tyres Partnership is carried as an investment. The principal activity of the partnership is the manufacture and sale of tyres and related products.

Property, Plant and Equipment

Acquisition

Items of property, plant and equipment are initially recorded at cost and depreciated as set out below. The cost of property, plant and equipment constructed by the consolidated entity includes the cost of materials, direct labour and capitalised interest.

Depreciation and Amortisation

Depreciation and amortisation is calculated on a straight line basis so as to write off the net cost of each item of property, plant and equipment, excluding land, over its estimated useful life.

The expected useful lives are as follows:

Freehold buildings of the Company and all Australian controlled entities	- 40 years
Freehold buildings of overseas controlled entities	- 20 - 40 years
Leasehold buildings	- Life of lease
Plant and equipment	- 3 to 10 years

Depreciation and amortisation rates and methods are reviewed annually for appropriateness.

Leases

Operating lease payments are expensed as incurred on a straight line basis over the term of the lease.

Recoverable Amount of Non-Current Assets Valued on Cost Basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

In assessing recoverable amounts of non-current assets the relevant cash flows have been discounted to their present value.

Brand Names

Brand names acquired since 1 July 1987 are recorded in the financial statements at cost. No amortisation is provided against the carrying value of these brand names on the basis that the lives of these assets are considered unlimited at this point in time.

Brand names have an unlimited legal life and the brand names recorded in the financial statements are not currently associated with products which are likely to become commercially or technically obsolete.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

Payables

Trade and Other Creditors

Trade and other creditors are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company or the consolidated entity. Trade liabilities are normally settled on 60 day terms.

Bills Payable

Bills payable are carried at the principal amount plus accrued interest.

Interest Bearing Liabilities

Bank and other loans are carried at their principal amount, subject to set-off arrangements. Interest is charged as an expense as it accrues.

Employee Entitlements

Wages, Salaries and Annual Leave

Liabilities for employee entitlements to wages, salaries and annual leave represent the amount which the consolidated entity has a present obligation to pay resulting from employees services provided up to the balance date calculated at undiscounted amounts based on expected wage and salary rates that will be paid when the obligation is settled and include related on-costs.

Long Service Leave and Post Retirement Health Benefits

The liability for employee entitlements to long service leave and post retirement health benefits represents the present value of the estimated future cash outflows to be made by the Company and the consolidated entity resulting from employees services provided up to the balance date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the future sacrifice of economic benefits is material, a provision is determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is treated as part of the expense related to the particular provision.

Rationalisation and Restructuring

Provisions for rationalisation and restructuring are only recognised when a detailed plan has been approved and the restructuring has either commenced or been publicly announced, or firm contracts related to the restructuring have been entered into. Costs related to ongoing activities are not provided for.

Contingencies, Accufix Pacing Lead Related Expenses and Insurance Claims

The consolidated entity provides for certain specifically identified or obligated costs when these amounts are reasonably determinable.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared.

Other Liabilities

Amounts due under contract

Amounts due under contract are carried at the outstanding consideration payable.

Superannuation Contributions

The Company and other controlled entities contribute to various defined benefit and accumulation superannuation funds as set out in Note 25. Employer contributions to these funds are charged against the operating profit as they are made. The Company and the controlled entities have no legal or constructive obligation to fund any deficit.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

Employee and Executive Share Plans

The Company currently maintains two plans for employees of the consolidated entity - the Pacific Dunlop Employee Share Plan and the Ansell Limited Stock Incentive Plan. A further Plan, the Pacific Dunlop Executive Share Plan, was discontinued in 1996. Further information on these plans is set out in Note 26.

The consolidated entity has recorded a charge to the profit and loss for the current year of approximately $3.7 million based on the expected vesting of Performance Share Rights issued to executives pursuant to the Ansell Limited Stock Incentive Plan. Australian Accounting Standards do not currently require the recognition of compensation expense in relation to issuance of shares to employees, however the Company considers the recognition of such to be consistent with appropriate accounting criteria given the requirement for the recognition of such compensation under the Australian equivalents of International Financial Reporting Standards (AIFRS) which become effective from 1 July 2005.

Accounting for Acquisitions (Goodwill)

Acquired businesses are accounted for on the basis of the cost method. Fair values are assigned at date of acquisition to all the identifiable underlying assets acquired and to the liabilities assumed. Specific assessment is undertaken at the date of acquisition of any appropriate additional costs to be incurred. A liability for restructuring costs is only recognised as at the date of acquisition when there is a demonstrable commitment to restructuring together with a detailed plan. Further, the liability is only recognised when there is little or no discretion to avoid payment to other parties to settle such costs and a reliable estimate of the amount of the liability can be made.

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired. Acquired goodwill is capitalised and amortised to the Statement of Financial Performance on a straight line basis over the future period of expected benefit.

The benefits from the goodwill acquired may exceed 20 years but the goodwill is written off over periods not exceeding 20 years in compliance with Australian Accounting Standards. The unamortised balance of goodwill is reviewed at least at each reporting date and any material diminution in value is charged to the Statement of Financial Performance. For the purposes of this review process, goodwill is allocated to cash generating units (which equate to the Group s reportable business units i.e. Occupational, Professional and Consumer) upon acquisition. Acquired businesses can readily be allocated to one of the business units on the basis of products manufactured and/or marketed. Such manufacturing and marketing operations tend to cover more than one geographical region.

Foreign Currency Translations

Transactions in foreign currencies are recorded at the rate of exchange ruling on the date of each transaction. At balance date, amounts payable and receivable in foreign currencies are converted at the rates of exchange ruling at that date.

The financial statements of overseas controlled entities that are self sustaining foreign operations are maintained in their functional currencies and are converted to the Group s reporting currency using the current rate method. Equity items are translated at historical rates. Variations occurring from year to year arising from this translation method are transferred to the foreign currency translation reserve until disposal, or partial disposal, of the operations.

Exchange differences arising on foreign currency amounts payable and receivable are brought to account in the Statement of Financial Performance. On consolidation, exchange differences on long term foreign currency amounts payable and receivable that hedge a net investment in an overseas controlled entity are transferred to the foreign currency translation reserve on a net of tax basis where applicable.

Derivatives

The Company and consolidated entity use derivative financial instruments, principally foreign exchange and interest rate related, to reduce their exposure to movements in foreign exchange rate and interest rate movements.

The consolidated entity has adopted certain principles in relation to derivative financial instruments:

(i) it does not trade in a derivative that is not used in the hedging of an underlying business exposure of the consolidated entity;

(ii) derivatives acquired must be able to be recorded on the consolidated entity s treasury management systems, which contain extensive internal controls; and

(iii) the consolidated entity predominantly does not deal with counter-parties rated lower than A- by Standard and Poor s or A3 by Moody s Investors Service.

The Company and consolidated entity follow the same credit policies, legal processes, monitoring of market and operational risks in the area of derivative financial instruments, as they do in relation to financial assets and liabilities on the Statement of Financial Position, where internal controls operate.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments Held or Issued for Purposes Other Than Trading

On a continuing basis, the consolidated entity monitors its anticipated future exposures and on some occasions hedges all or part of these exposures. The transactions which may be covered are future net cash flows of overseas controlled entities, future foreign exchange requirements and interest rate positions.

These exposures are then monitored and may be modified from time to time. The foreign exchange transactions rarely exceed 12 months duration and hedge transactions the consolidated entity expects to occur in this time frame. From time to time minor mismatches occur in the forward book, however these mismatches are managed under strict guidelines, limits and internal controls with stop loss parameters. Interest rate derivative instruments can be for periods up to 7 years.

When hedging an underlying interest rate exposure, with a derivative financial instrument, all gains and losses are accounted for on an accrual basis, thereby adjusting the underlying physical cost to the hedged rate over the life of the transaction. Gains or losses resulting from the termination of an interest rate swap contract where the underlying borrowing remains, are deferred on the Statement of Financial Position and then amortised over the life of the borrowing. Where the transaction is a single event, such as a foreign exchange exposure, the hedge gain or loss is taken to account on the actual exposure date.

Gains and losses on derivative financial instruments which hedge transactions are in the first instance deferred and later recognised in the Statement of Financial Performance when the hedged transaction occurs. Such deferrals only occur where the future transaction remains assured. Where a transaction is modified or extinguished any associated derivative financial instrument is also modified or extinguished and any gain or loss that no longer relates to an actual exposure is immediately taken to the Statement of Financial Performance.

Derivative Financial Instruments Held or Issued for Trading Purposes

The Company and the consolidated entity does not trade in derivative financial instruments or hold them for speculative purposes.

Use of Estimates

The preparation of consolidated financial statements in conformity with Australian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances and are reviewed on an ongoing basis. Actual results could differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Earnings per Share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary and dilutive potential ordinary shares adjusted for any bonus issue.

Notes to the Financial Statements

2. Change in Accounting Policy

Research and Development Costs

Expenditure on research and development is written off in the period in which it is incurred, except for development expenditure on new products or substantially improved existing products which is capitalised only when future recoverability is reasonably assured. Amortisation of the capitalised expenditure commences in the half year period following the product s commercialisation and continues for a three year period. Capitalised costs are regularly reviewed and when the criterion for capitalisation is no longer met, such costs are written off.

This is a change in policy from prior years when all research and development costs were written off in the period in which they were incurred.

The impact of this change in policy on the current year s results was to increase consolidated operating profit before income tax and non-current assets by $2.1 million.

3. Total Revenue

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
Revenue from the Sale of Goods	1,096.2	1,113.3	109.5	108.3
Revenues From Other Operating Activities				
Dividend income				
From shares in wholly owned controlled entities			44.9	33.1
Interest Received or Due and Receivable				
From wholly owned controlled entities			85.6	81.6
From related parties	4.0	3.5		
From others	8.3	9.0		0.1
Total revenue from other operating activities	**12.3**	**12.5**	**130.5**	**114.8**
Revenue from Outside Operating Activities				
Proceeds from the Sale of Non-Current Assets	1.4	5.3		
Total Revenue	**1,109.9**	**1,131.1**	**240.0**	**223.1**

Notes to the Financial Statements

4. Profit from Ordinary Activities Before Income Tax

$ in millions	Consolidated		The Company	
	2005	2004	2005	2004
(a) Profit from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:				
Borrowing Costs				
Interest Paid or Due and Payable:				
To others	20.3	25.4	12.7	24.4
Other Borrowing Costs	1.6	4.0	0.3	3.2
Total Borrowing Costs	21.9	29.4	13.0	27.6
Depreciation				
Buildings	1.5	1.1		
Plant & equipment	21.9	22.7	0.2	0.1
Amortisation				
Leasehold land and buildings	1.4	1.5		
Goodwill	20.5	21.4		
Capitalised research and development costs				
Research and Development Costs				
Expensed as incurred	12.8	12.6		
Previously capitalised costs written off				
Net Bad Debts Expense	0.2	0.4		
Amounts Set Aside to Provision for:				
Doubtful trade debts	(0.1)	1.2	0.1	0.2
Employee entitlements	16.3	13.0	1.2	0.8
Rationalisation and restructuring costs	2.0	9.7		2.9
Accufix Pacing Lead related expenses	2.3			
Rebates, allowances and warranty claims	6.9	9.6	2.3	2.7
Net foreign exchange loss/(gain)	0.4	1.0	1.8	(1.6)
Profits Arising from the Sale of Property, Plant and Equipment		(0.8)		
Losses Arising from Sale of Property, Plant and Equipment	0.1			
Operating Lease Rentals	21.5	20.0	0.8	0.8
Write-down in Value of Inventories	(0.7)	3.7		
(b) Individually significant items included in profit from ordinary activities before income tax expense				
Write-down of investment in South Pacific Tyres partnership	(80.0)			
Refund of sales tax		17.8		
Write-down of Ansell Healthcare fixed assets		(8.8)		
GNB Workers Compensation costs		(7.5)		
Net loss on sale of controlled entities and businesses				(13.5)
Net write-down of investments in and intercompany balances with subsidiaries			(58.7)	(22.9)
(c) Auditors Remuneration ($ in Thousands)				
Audit and review of the financial reports:				

Auditors of Ansell Limited and Australian entities - KPMG	1,050	1,013	1,050	927
Other member firms of KPMG	1,564	1,423		
	2,614	2,436	1,050	927
Other services:				
Other audit and assurance services (including disposals and acquisitions)				
Auditors of Ansell Limited and Australian entities - KPMG	36	131	36	131
Other member firms of KPMG	70	77		
Taxation and other services				
Auditors of Ansell Limited and Australian entities - KPMG	30	40	30	40
Other member firms of KPMG	43	150		
Total other services	179	398	66	171
Total auditors remuneration	2,793	2,834	1,116	1,098

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Notes to the Financial Statements

5. Contributed Equity

$ in millions	Consolidated		The Company	
	2005	2004	2005	2004
Issued and Paid up Capital				
160,125,483 (2004 -176,310,916) ordinary shares, fully paid *	1,232.7	1,383.8	1,232.7	1,383.8
377,800 (2004 - 738,000) ordinary plan shares, paid to 5 cents	0.1	0.1	0.1	0.1
Total Issued and Paid up Capital	**1,232.8**	**1,383.9**	**1,232.8**	**1,383.9**

* includes 135,614 (2004 -149,763) shares issued in accordance with the Employee Share Plan.

	2005	2004	2005	2004
Ordinary Shares Reconciliation				
Balance at the beginning of the financial year	1,383.9	1,448.3	1,383.9	1,448.3
Increase in Contributed Equity:				
Additional capital issued	5.0	1.0	5.0	1.0
Decrease in Contributed Equity:				
Share buy-back [(i)]	(156.1)	(65.4)	(156.1)	(65.4)
Balance at the end of the financial year	**1,232.8**	**1,383.9**	**1,232.8**	**1,383.9**

(i) Current year includes costs associated with the share buy-back of $1.1 million.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation. Refer to Section 2C of the Remuneration Report for details of shares subject to options and Performance Share Rights granted under the Ansell Limited Stock Incentive Plan.

Share Buy-Back

The Company, on 30 April 2004, ceased buying back shares under the on-market buy back announced on 16 April 2003, after buying back 11,199,184 shares for a total outlay of $72.1 million representing 6% of ordinary shares issued on that date. On 3 May 2004, the Company announced that it would undertake a further on-market buy-back of up to 12 million shares over the following 12 month period. As at 30 June 2004, the Company had bought back 198,288 shares for $1.47 million. No further purchases pursuant to this on-market buy-back were made in the current year.

At the Annual General Meeting held on 14 October 2004, shareholders approved an off-market buy-back for up to $155 million, under which 16,847,345 shares were bought back during the year, and also approved a further on-market buy-back for up to 10% of the Company s shares. No purchases under the latter on-market buy-back have yet been made.

Executive Share Plan

As previously reported, the Pacific Dunlop Executive Share Plan was closed to new members effective 12 September 1996, and no further issues of Executive Plan Shares will be made.

During the financial year, the amounts outstanding on 360,200 existing Executive Plan shares were fully paid. Since the end of the financial year, the amounts outstanding on a further 2,000 Executive Plan shares have been fully paid. Shares allotted under the Pacific Dunlop Executive Share Plan have been paid to 5 cents per share. Refer to Note 26 Ownership-Based Remuneration Schemes for details of price payable for shares issued under this plan.

Employee Share Plan

During the financial year, the loan liability of members in respect of 14,149 fully paid ordinary shares of $2.50 each was discharged. Since the end of the financial year, no further payments in respect of Employee Plan shares have been made. Under the Employee Share Plan, 50 cents was payable on subscription for each Plan share allotted to eligible employees, the balance of issue price being funded by way of interest free loans from the Company to the member. No new shares were issued during the financial year or up to the date of this Report under the Pacific Dunlop Employee Share Plan.

Options

During the financial year 500,000 ordinary shares fully paid at $6.32 were issued to satisfy the exercising of 500,000 options granted to the previous Managing Director under the Ansell Limited Stock Incentive Plan. Since the end of the financial year a further 500,000 ordinary shares fully paid at $6.32 were issued to satisfy the exercising of the previous Managing Director s remaining options.

As at the date of this report 825,000 unissued shares in the Company remain under option.

Notes to the Financial Statements

6. Accumulated Losses and Reserves

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
Asset revaluation reserve		0.7		
General reserve	4.1	3.3		
Foreign currency translation reserve	(300.7)	(279.6)		
Total Reserves	(296.6)	(275.6)		
Accumulated losses	(342.5)	(306.7)	(150.2)	(192.3)
Total Accumulated Losses and Reserves	**(639.1)**	**(582.3)**	**(150.2)**	**(192.3)**
Movements during the year:				
Asset Revaluation Reserve				
Balance at beginning of the financial year	0.7	1.5		
Transfer to retained profits	(0.7)	(0.8)		
Balance at the end of the financial year		**0.7**		
General Reserve				
Balance at beginning of the financial year	3.3	1.8		
Transfer from retained profits	0.8	1.5		
Balance at the end of the financial year	**4.1**	**3.3**		
Foreign Currency Translation Reserve				
Balance at the beginning of the financial year	(279.6)	(272.2)		
Transfers to retained profits	23.4			
Exchange fluctuations on assets and liabilities held in foreign currencies				
net loss on translation of net assets	(63.7)	(16.8)		
net gain on hedge borrowings	19.2	9.4		
Balance at the end of the financial year	**(300.7)**	**(279.6)**		
Accumulated Losses				
Balance at the beginning of the financial year	(306.7)	(345.7)	(192.3)	(219.1)
Transfer to/from reserves	(23.5)	(0.7)		
Net profit after income tax attributable to Ansell Limited shareholders	11.3	70.7	65.7	57.8
Dividends provided for or paid	(23.6)	(31.0)	(23.6)	(31.0)
Balance at the end of the financial year	**(342.5)**	**(306.7)**	**(150.2)**	**(192.3)**

Nature and purpose of reserves

General

The amount standing to the credit of the general reserve resulted from prior period allocations of retained profits for non-specific purposes and is available for release to retained profits.

Foreign currency translation

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, the translation of transactions that hedge the Company s net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation. Refer to Summary of Significant Accounting Policies Note 1.

Notes to the Financial Statements

7. Total Equity Reconciliation

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
Total equity at the beginning of the financial year	811.8	844.5	1,191.6	1,229.2
Total changes in equity from non-owner related transactions attributable to Ansell Limited shareholders	(33.2)	63.3	65.7	57.8
Transactions with owners as owners:				
Contributions of equity	5.0	1.0	5.0	1.0
Share buy-back	(156.1)	(65.4)	(156.1)	(65.4)
Dividends	(23.6)	(31.0)	(23.6)	(31.0)
Total changes in outside equity interest	(1.1)	(0.6)		
Total equity at the end of the financial year	**602.8**	**811.8**	**1,082.6**	**1,191.6**

8. Income Tax

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
Prima facie income tax expense calculated at 30% (2004: 30%) on profit from ordinary activities	10.4	28.0	19.7	17.4
Increased taxation arising from:				
Write down of assets	24.0	2.9		
Net restructuring costs		2.9		0.9
Write down of intergroup investments and intercompany balances			17.6	6.9
Goodwill amortisation	0.8	0.9		
Income tax under provided in prior years		2.2		
Net higher overseas tax rates	3.9			
Reduced taxation arising from:				
Net loss on sale of businesses and controlled entities				4.1
Income tax over provided in previous years	(1.6)			
Investment and export incentive allowances	(3.5)	(6.8)		
Net lower overseas tax rates		(0.9)		
Other permanent differences*	(12.3)	(8.5)	(37.3)	(29.1)
Income tax expense attributable to profit from ordinary activities	**21.7**	**20.7**		**0.2**
Income tax expense attributable to operating profit is made up of:				
Provision attributable to current year	21.0	17.2		0.2
(Over)/Under provision in respect of previous years	(1.6)	2.2		
Provision attributable to future years				
Deferred income tax liability	0.2	(1.5)		
Future income tax benefit	2.1	2.8		
	21.7	**20.7**		**0.2**

* Includes recovery of tax losses not previously brought to account.

Notes to the Financial Statements

9. Dividends Paid or Declared

$ in millions	The Company	
	2005	2004
Dividends paid		
The following dividends were paid during the year to Ansell Limited shareholders:		
A final unfranked dividend of 7 cents per share for the year ended 30 June 2004 (June 2003 - 11 cents unfranked) was paid on 14 October 2004 (2003 - 9 October 2003)	12.4	20.4
An interim dividend of 7 cents per share franked to 57% for the year ended 30 June 2005 (June 2004 - 6 cents unfranked) was paid on 8 April 2005 (2004 - 8 April 2004)	11.2	10.6
	23.6	31.0

Dividends Declared

Since the end of the financial year the Directors have declared a final dividend of 10 cents per share unfranked, for the year ended 30 June 2005.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2005 and will be recognised in subsequent financial reports.

Dividend Franking Account

Following the payment of the interim dividend in April 2005 the balance of available franking credits in the franking account as at 30 June 2005 was nil (2004 - $2.7 million).

10. Outside Equity Interests

$ in millions	Consolidated	
	2005	2004
Outside equity interests comprise:		
Contributed equity	2.1	2.1
Reserves	(4.8)	(3.0)
Retained profits at the beginning of the financial year	11.1	10.9

Profits for the year	1.8	1.9
Dividends paid/provided for during the year	(1.1)	(1.7)
Retained profits at the end of the financial year	11.8	11.1
Total Outside Equity Interests	**9.1**	**10.2**

11. Cash Assets

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
Cash on hand	0.2	0.9		
Cash at bank	69.2	69.8	0. 5	0.8
Short-term deposits	149.5	237.1		
	218.9	307.8	0.5	0.8
Restricted deposits	8.4	10.3		
Total Cash Assets	**227.3**	**318.1**	**0.5**	**0.8**

Restricted deposits represent cash set aside to cover the provisions established to address any remaining liability of members of the Group for claims arising with respect to the Accufix Pacing Lead.

Notes to the Financial Statements

12. Receivables

$ in millions	Consolidated		The Company	
	2005	2004	2005	2004
Current				
Trade debtors	191.8	204.7	18.6	17.7
Less provision for doubtful debts	5.8	6.7	0.6	0.5
Less provision for rebates, allowances and warranty claims	15.2	15.0	3.6	2.7
	170.8	183.0	14.4	14.5
Amounts owing by South Pacific Tyres partnership	0.6	0.5		
Amounts owing by wholly owned controlled entities			1,097.4	1,354.7
Less provision for doubtful debts			801.6	785.2
Other amounts receivable	42.7	45.2	11.1	10.2
Total Current	**214.1**	**228.7**	**321.3**	**594.2**
Non-Current				
Interest bearing amount owing by South Pacific Tyres partnership	66.2	62.3		
Other amounts receivable	2.1	1.6	1.4	0.8
Less provision for doubtful debts		0.3		
Total Non-Current	**68.3**	**63.6**	**1.4**	**0.8**
Total Receivables	**282.4**	**292.3**	**322.7**	**595.0**
Included in other amounts receivable are:				
Loans to employees in relation to the employee share plan				
- non-current	1.4	0.8	1.4	0.8

The reconciliations of provision for doubtful debts - trade are presented below:

$ in millions	Consolidated		The Company	
	2005	2004	2005	2004
Balance at the beginning of the financial year	6.7	6.9	0.5	0.3
Amounts charged/(released) to profit from operating activities	(0.1)	1.2	0.1	0.2
Amounts utilised for intended purposes	(0.1)	(1.3)		
Net foreign currency differences on translation of self-sustaining operations	(0.7)	(0.1)		
Balance at the end of the financial year	**5.8**	**6.7**	**0.6**	**0.5**

13. Inventories

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
At Cost				
Raw materials	22.2	20.1	1.4	0.9
Work in progress	9.1	13.6		
Finished goods	113.9	112.0	11.3	12.2
Other stock	1.4	2.2		
Total Inventory at Cost	**146.6**	**147.9**	**12.7**	**13.1**
Net Realisable Value				
Finished goods	10.7	37.9		
Total Inventory at Net Realisable Value	**10.7**	**37.9**		
Total Inventories	**157.3**	**185.8**	**12.7**	**13.1**

Notes to the Financial Statements

14. Current Assets - Other

$ in millions	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
Prepayments	10.2	11.7	1.3	1.8
Engineering Spares	4.2	4.7		
Total Current Assets - Other	**14.4**	**16.4**	**1.3**	**1.8**

15. Other Financial Assets (Investments)

$ in millions	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
Shares in Controlled Entities and Other financial assets				
Controlled entities				
Not quoted on a prescribed stock exchange:				
At cost[1]			2,161.8	2,161.8
Less Provision for diminution in value			677.5	635.2
Other financial assets				
Quoted on a prescribed stock exchange:				
At market value		2.1		
Not quoted on a prescribed stock exchange:				
At cost	1.2	1.3		
South Pacific Tyres N.Z. Ltd	21.4	21.6		
Investment in Partnership				
South Pacific Tyres	116.4	116.4		
Less Provision for diminution in value	80.0			
Total Other Financial Assets	**59.0**	**141.4**	**1,484.3**	**1,526.6**

[1] The Directors have adopted the cost basis of valuation in accordance with AASB 1041 Revaluation of Non-Current Assets .

16. Property, plant and equipment

$ in millions	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
(a) Freehold Land				

At cost	11.4	12.6		
(b) Freehold Buildings				
At cost	35.6	37.7		
Less provision for depreciation	12.0	11.7		
	23.6	**26.0**		
(c) Leasehold Land and Buildings				
At cost	47.9	52.2		
Less provision for amortisation	11.9	12.2		
	36.0	**40.0**		
(d) Plant and Equipment				
At cost	373.6	400.6	1.7	1.7
Less provision for depreciation	254.8	260.2	1.5	1.3
	118.8	**140.4**	**0.2**	**0.4**
(e) Buildings and Plant under construction				
At cost	5.6	8.8		
Total property, plant and equipment	**195.4**	**227.8**	**0.2**	**0.4**

In accordance with the consolidated entity s policy of obtaining an independent valuation of land and buildings every three years, a valuation was carried out as at 31 December 2003 by independent valuers. This valuation was on the basis of Fair Value - Existing Use, subject to continued occupation by the operating entity or, where this was not the case, Fair Value - Alternative Use. With respect to land and buildings owned as at 30 June 2005, this resulted in a valuation of freehold land of $33,527,961 (the Company: Nil) and a valuation of freehold buildings of $52,227,266 (the Company: Nil).

As land and buildings are recorded at cost, the valuation has not been brought to account.

Notes to the Financial Statements

16. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the balances for each class of property, plant and equipment are set out below:

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
Freehold Land				
Balance at the beginning of the financial year	12.6	13.4		
Disposals/Write-downs		(1.5)		
Net foreign currency differences on translation of self-sustaining operations	(1.2)	0.7		
Balance at the end of the financial year	11.4	12.6		
Freehold Buildings				
Balance at the beginning of the financial year	26.0	27.9		
Additions	0.1	0.1		
Disposals/Write-downs		(2.0)		
Transfer from capital works in progress	1.5	0.2		
Depreciation	(1.5)	(1.1)		
Net foreign currency differences on translation of self-sustaining operations	(2.5)	0.9		
Balance at the end of the financial year	23.6	26.0		
Leasehold Land and Buildings				
Balance at the beginning of the financial year	40.0	42.3		
Additions	0.4	0.1		
Disposals/Write-downs		(0.2)		
Transfers from capital works in progress	0.4	0.7		
Amortisation	(1.4)	(1.5)		
Net foreign currency differences on translation of self-sustaining operations	(3.4)	(1.4)		
Balance at the end of the financial year	36.0	40.0		
Plant and Equipment				
Balance at the beginning of the financial year	140.4	170.2	0.4	0.3
Additions	3.3	3.9		0.2
Disposals/Write-downs	(0.3)	(9.7)		
Transfers from capital works in progress	10.3	8.3		
Depreciation	(21.9)	(22.7)	(0.2)	(0.1)
Net foreign currency differences on translation of self-sustaining operations	(13.0)	(9.6)		
Balance at the end of the financial year	118.8	140.4	0.2	0.4
Buildings and Plant under construction				
Balance at the beginning of the financial year	8.8	9.1		
Additions	10.3	9.7		

Transfers to property, plant & equipment	(12.2)	(9.2)		
Net foreign currency differences on translation of self-sustaining operations	(1.3)	(0.8)		
Balance at the end of the financial year	5.6	8.8		

Notes to the Financial Statements

17. Intangible Assets

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
Brand Names				
At cost	106.0	117.4	21.5	
Goodwill				
At cost	341.1	375.3		
Less provision for amortisation	200.9	199.3		
	140.2	**176.0**		
Total Intangibles	**246.2**	**293.4**	**21.5**	

18. Deferred Tax Assets

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
Future income tax benefit arising from:				
Accumulated timing differences	15.1	23.6		
Accumulated tax losses		0.6		
	15.1	**24.2**		

The Group has unrecognised capital tax losses relating to controlled entities of $342.4 million (2004 - $374.9 million). Future income tax benefits of $317.1 million (2004 - $363.9 million) relating to trading tax losses of controlled entities have not been recognised in the financial statements.

The benefit of those trading losses will only be obtained if:

(a) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity; and

(b) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(c) no changes in tax legislation adversely affect the relevant company and/or consolidated entity in realising the benefit.

The tax effect of temporary differences that give rise to significant portions of the future income tax benefit are presented below:

	Consolidated	
$ in millions	**2005**	**2004**
Trading stock tax adjustments	1.6	3.5
Provisions	10.4	17.0
Accruals	1.2	2.7
Accumulated tax losses		0.6
Other	1.9	0.4
Total temporary differences	**15.1**	**24.2**

19. Non-Current Assets - Other

	Consolidated		The Company	
$ in millions	**2005**	**2004**	**2005**	**2004**
Research and development costs				
Expenditure deferred in the current period	2.1			
Provision for amortisation				
Net foreign currency differences on translation of self-sustaining operations				
	2.1			

Notes to the Financial Statements

20. Payables

$ in millions	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
Current				
Amounts owing to wholly owned controlled entities			612.6	611.8
Trade creditors	106.8	124.1	4.3	3.7
Other creditors	26.0	35.3	12.0	13.3
Total Current	**132.8**	**159.4**	**628.9**	**628.8**
Non-Current				
Other creditors	0.8	3.3		
Total Non-Current	**0.8**	**3.3**		
Total Payables	**133.6**	**162.7**	**628.9**	**628.8**

21. Interest Bearing Liabilities

$ in Millions	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
Current				
Bank overdrafts	1.4	3.3		
Bank loans repayable in:				
Canadian dollars	5.3			
Malaysian ringgits		7.0		
Indian rupees	1.4	0.8		
Other loans repayable in:				
Australian dollars		50.0		50.0
U.S. dollars	26.2	129.1	26.2	129.1
Total Current	**34.3**	**190.2**	**26.2**	**179.1**
Non-Current				
Bank loans repayable in:				
U.S. dollars	229.5	101.6		
Other loans repayable in:				
Australian dollars	66.0	66.0	66.0	66.0
U.S. dollars	11.8	68.4	11.8	68.4
Japanese yen	23.7		23.7	
Total Non-Current	**331.0**	**236.0**	**101.5**	**134.4**

Total Interest Bearing Liabilities	**365.3**	**426.2**	**127.7**	**313.5**

At 30 June 2005 bank overdraft and bank loans totalling $1.7 million (2004: $1.4 million) were secured, principally against Group property, plant and equipment having carrying values slightly in excess of the secured amounts payable. These security arrangements relate to acquired controlled entities and were in place prior to the companies concerned becoming part of the Ansell Limited Group.

The Group established a US$250 million revolving credit bank facility on 30 April 2004 of which US$200 million had a five year term and US$50 million had a 364 day term. On 29 April 2005, US$150 million of the US$200 million was extended to 30 April 2010 and US$50 million to 30 April 2012. The US$50 million 364 day facility was extended to 30 April 2006. This facility can be accessed by the parent company and certain USA subsidiaries. US$175 million of the term facilities had been drawn down at 30 June 2005 (June 2004 US$70 million) leaving an unused balance of the total facilities at that date of US$75 million.

There are no restrictions on the access to this facility. There are a number of financial covenants attaching to this facility including restrictions on the level of borrowings of non guarantor subsidiaries, ensuring the assets of the guarantor subsidiaries are in excess of a specified percentage of total group assets and ensuring certain financial ratios are maintained. The interest rate for this facility is determined based on market rates at the time amounts are drawn down. The Company is in compliance with all covenants.

Notes to the Financial Statements

21. Interest Bearing Liabilities (continued)

The following table sets out details in respect of the major components of Interest Bearing Liabilities at 30 June, 2005.

Nature of Borrowing	Amount $m	Interest Rate % p.a.	Maturity Date
Bank Overdrafts			
Indian rupees	0.3	4.50	At Call
United States dollars	1.1	4.00	At Call
Total Bank Overdrafts	**1.4**		
Bank Loans			
Current			
Canadian dollars	5.3	3.89	2006
Indian rupees	1.4	4.50	2006
	6.7		
Non-Current			
United States dollars	26.2	3.99	2008
United States dollars	105.0	4.82	2009
United States dollars	72.1	5.27	2010
United States dollars	26.2	5.28	2012
	229.5		
Total Bank Loans	**236.2**		
Other Loans			
Current			
United States dollars	26.2	4.03	2006
	26.2		
Non-Current			
Australian dollars	50.0	6.72	2007
Australian dollars	16.0	7.96	2007
Japanese Yen	23.7	3.61	2007
United States dollars	11.8	4.26	2010
	101.5		
Total Other Loans	**127.7**		
Total Interest Bearing Liabilities	**365.3**		

Maturity Schedule	
Term to maturity:	
Within one year	34.3
One to two years	89.7
Two to three years	26.2
Three to four years	105.0
Four to five years	83.9
Greater than five years	26.2
Total	**365.3**

	Consolidated		The Company	
$ in Millions	**2005**	**2004**	**2005**	**2004**
Net Interest Bearing Debt				
Current interest bearing liabilities	34.3	190.2	26.2	179.1
Non-current interest bearing liabilities	331.0	236.0	101.5	134.4
Cash at bank and short-term deposits	(218.7)	(306.9)	(0.5)	(0.8)
Net interest bearing debt	**146.6**	**119.3**	**127.2**	**312.7**

Notes to the Financial Statements

22. Provisions

$ in Millions	Consolidated		The Company	
	2005	2004	2005	2004
Current				
Provision for employee entitlements	26.4	17.1	3.7	3.4
Provision for contingencies	4.1	4.6		
Provision for rationalisation and restructuring costs	12.4	13.1		0.2
Provision for Accufix Pacing Lead related expenses	8.9	11.2		
Provision for claims	4.9	6.0		
	56.7	52.0	3.7	3.6
Provision for income tax	2.3	2.6		
Total Current	**59.0**	**54.6**	**3.7**	**3.6**
Non-Current				
Provision for employee entitlements	23.7	23.9	0.3	0.2
Provision for deferred income tax	14.8	20.2		
Total Non-Current	**38.5**	**44.1**	**0.3**	**0.2**
Total Provisions	**97.5**	**98.7**	**4.0**	**3.8**

Reconciliations of the carrying amount of each class of provision, except for employee entitlements, are set out below:

$ in Millions	Consolidated		The Company	
	2005	2004	2005	2004
Provision for contingencies				
Balance at the beginning of the financial year	4.6	4.8		
Net foreign currency differences on translation of self-sustaining operations	(0.5)	(0.2)		
Balance at the end of the financial year	**4.1**	**4.6**		
Provision for rationalisation and restructuring				
Balance at the beginning of the financial year	13.1	13.5	0.2	2.9
Amounts charged to profit from operating activities	2.0	9.7		2.9
Amounts utilised for intended purposes	(2.7)	(10.1)	(0.2)	(5.6)
Balance at the end of the financial year	**12.4**	**13.1**		**0.2**

Provision for Accufix Pacing Lead related expenses				
Balance at the beginning of the financial year	11.2	14.5		
Amounts charged to profit after tax from operating activities	2.3			
Amounts utilised for intended purposes	(3.9)	(3.1)		
Net foreign currency differences on translation of self-sustaining operations	(0.7)	(0.2)		
Balance at the end of the financial year	**8.9**	**11.2**		
Provision for claims (Captive Insurance Company)				
Balance at the beginning of the financial year	6.0	7.0		
Amounts utilised for intended purposes	(1.1)	(1.0)		
Balance at the end of the financial year	**4.9**	**6.0**		

The tax effect of temporary differences that give rise to significant portions of the provision for deferred income tax are presented below:

	Consolidated	
$ in Millions	**2005**	**2004**
Depreciation on plant adjustments	(0.3)	1.8
Amortisation of Intangible Assets	10.2	12.4
Other	4.9	6.0
Total	**14.8**	**20.2**

Notes to the Financial Statements

22. Provisions (continued)

The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:

	Consolidated		The Company	
Employee Entitlements	**2005**	**2004**	**2005**	**2004**
Assumed rate of increase in wage and salary rates	4.0%	2.0%	4.0%	2.0%
Discount rate	1.3%	4.1%	1.3%	4.1%
Settlement term (years)	10-15	10-15	10-15	10-15
Number of employees at year end	11,059	11,530	93	87

23. Dissection of Liabilities

	Consolidated		The Company	
$ in Millions	**2005**	**2004**	**2005**	**2004**
Secured				
Bank overdrafts	0.3	0.6		
Bank loans	1.4	0.8		
Unsecured				
Amounts owing to wholly owned controlled entities			612.6	611.8
Bank overdrafts	1.1	2.7		
Bank loans	234.8	108.6		
Other loans	127.7	313.5	127.7	313.5
Trade creditors	106.8	124.1	4.3	3.7
Other creditors	26.8	38.6	12.0	13.3
Provisions (as per Note 22)	97.5	98.7	4.0	3.8
Total Unsecured Liabilities	594.7	686.2	760.6	946.1
Total Liabilities	**596.4**	**687.6**	**760.6**	**946.1**

24. Expenditure Commitments

	Consolidated		The Company	
$ in Millions	**2005**	**2004**	**2005**	**2004**
(a) Capital expenditure commitments				

Contracted but not provided for in the financial statements:				
Plant and equipment	0.9			
	0.9			
Payable within one year	0.9			
(b) Operating Lease Commitments				
Future operating lease commitments not provided for in the financial statements and payable:				
Within one year	9.5	11.8	3.3	3.7
One year or later and no later than five years	27.0	30.1	5.7	8.7
Later than five years	9.5	14.4	1.8	2.4
	46.0	**56.3**	**10.8**	**14.8**

The Group leases property under operating leases expiring from one to fifteen years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated.

Notes to the Financial Statements

25. Superannuation

Ansell Limited and certain controlled entities contribute to certain defined benefit and accumulation Superannuation Funds maintained to provide superannuation benefits for employees.

The defined benefit funds are listed below. Where applicable, amounts shown have been proportionately determined and are based on values extracted from the most recent financial report of the Fund. In respect of these funds, employer contributions are based on the advice of the plan s actuary.

$ in millions	**2005**				**2004**			
Defined Benefit Plan	**Assets**	**Accrued benefits**	**Excess / (Deficiency)**	**Vested benefits**	**Assets**	**Accrued benefits**	**Excess / (Deficiency)**	**Vested benefits**
Plan sponsored by the Company								
Equipsuper Superannuation Fund	16.6	16.4	0.2	16.4	37.4	26.7	10.7	22.5
Plans sponsored by other entities in the consolidated entity								
Ansell Cash Balance Pension Plan	29.9	40.4	(10.5)	39.2	33.0	44.0	(11.0)	42.7
Ansell Healthcare Products Inc. Union Retirement Plan	7.6	10.8	(3.2)	10.8	7.8	12.0	(4.2)	12.0
Ansell Cash Balance Restoration Plan		1.3	(1.3)	1.2		1.3	(1.3)	1.3
Total for plans sponsored by the consolidated entity	54.1	68.9	(14.8)	67.6	78.2	84.0	(5.8)	78.5

Equipsuper Superannuation Fund

Country	Australia
Benefit type	Defined benefit/ Accumulation
Basis of contribution	Balance of Cost/Defined Contribution
Date of last actuarial valuation	30/06/2004
Actuary	Mercer Human Resource Consulting Pty. Ltd.

Effective 1 April 2004 members were transferred out of the Pacific Dunlop Superannuation Fund to Equipsuper (an independent Superannuation Fund). Plan net assets and vested benefits attributable to Ansell Limited employees have been calculated at 30 June 2004, being the date of the most recent financial statements of the plan. Accrued benefits are based on an actuarial valuation undertaken at 30 June 2004.

Ansell Cash Balance Pension Plan

Country	USA
Benefit type	Defined Benefit

Basis of contribution	Statutory Funding Requirements
Date of last actuarial valuation	31/03/2005
Actuary	Retirement Plan Actuaries, Inc

Ansell Healthcare Products Inc. Union Retirement Plan

Country	USA
Benefit type	Defined Benefit
Basis of contribution	Statutory Funding Requirements
Date of last actuarial valuation	31/03/2005
Actuary	Retirement Plan Actuaries, Inc

Ansell Cash Balance Restoration Plan

Country	USA
Benefit type	Defined Benefit
Basis of contribution	Contributions equal benefits paid
Date of last actuarial valuation	31/03/2005
Actuary	Retirement Plan Actuaries, Inc

The Company and the controlled entities are obliged to contribute to the Superannuation Funds as a consequence of legislation or Trust Deeds; legal enforceability is dependent on the terms of the legislation or the Trust Deeds.

In accordance with the various Trust Deeds, the Company and their controlled entities are under no legal or constructive obligation to make up any shortfall in the plans assets to meet payments due to employees and accordingly no provision has been raised for the deficiencies at 30 June 2005.

The directors, based on the advice of the trustees of the funds, are not aware of any changes in circumstances since the date of the most recent financial statements of the funds which would have a material impact on the overall financial position of the funds.

Notes to the Financial Statements

25. Superannuation (continued)

Definitions

Balance of cost:	The consolidated entity s contribution is assessed by the actuary by taking into account the members contribution and the values of the assets.
Defined contribution:	The consolidated entity s contribution is set out in the appropriate fund rules, usually as a fixed percentage of salary.
Accrued benefits:	The present value of benefits which the fund is presently obliged to transfer in the future to members and beneficiaries as a result of membership of the fund to the calculation date.
Vested benefits:	Benefits which are not conditional upon the continued membership of the respective fund or any factor other than resignation from the fund.

Details of contributions paid to all funds are as follows:

	Consolidated		**The Company**	
$ in millions	**2005**	**2004**	**2005**	**2004**
Contributions to defined benefit funds during the year	5.0	4.8		
Contributions to accumulation funds during the year	4.9	6.2	1.2	1.3

Following the transfer of the members and assets of the Pacific Dunlop Superannuation Fund to Equipsuper, the Company received $8.6 million related to the utilisation of surplus assets.

26. Ownership-Based Remuneration Schemes

Ansell Limited Stock Incentive Plan

The Company only operates one equity incentive plan, the Ansell Limited Stock Incentive plan. Details of the operation of the Plan and the details and number of Performance Share Rights (PSRs) and options granted during the year are set out in Section 2C of the Remuneration Report.

In accordance with the disclosure requirements of Australian Accounting Standards remuneration includes a proportion of the fair value of options and PSRs granted or outstanding during the year. The fair value is determined as at grant date and is progressively allocated over the vesting period for these securities. The amount included as remuneration (as disclosed in the Remuneration Report and Note 29 Director and Executive Disclosures) is not related to, or indicative of, the benefit (if any) that individual executives may ultimately realise should the options or PSRs vest.

The fair value of options and PSRs is calculated at the date of grant using binomial tree techniques. The fair values and the factors and assumptions used in determining the fair values of the tranches of options and PSRs applicable for financial year 2005 are as follows:

Instrument	Number Issued	Grant Date	Expiry Date	Fair Value per Option/PSR	Exercise Price	Share Price on Grant Date	Risk Free Interest Rate	Dividend Yield
Options	300,000	23/9/2002	23/9/2012	$2.66 - $2.70	$ 6.97	$ 6.88	5.3%	0.0%
Options	525,000	30/6/2004	30/6/2014	$2.35 - $2.38	$ 7.40	$ 7.74	6.1%	2.0%
PSRs	437,500	19/2/2003	30/6/2005	$6.07	N/A	$ 6.07	N/A	0.0%
PSRs	515,000	18/12/2003	30/6/2006	$5.89 - $6.12	N/A	$ 6.19	N/A	2.0%
PSRs	150,000	30/6/2004	30/6/2007	$6.94 - $7.22	N/A	$ 7.74	N/A	2.0%
PSRs	391,000	8/8/2005	30/6/2007	$7.34 - $7.64	N/A	$ 7.78	N/A	2.0%

An estimated volatility factor of up to 20% has been applied in the above valuations and is based on an analysis of historical share price data.

Options - Generally

As at the date of this report 825,000 unissued ordinary shares in the Company remain under option (refer to the Section 2C of the Remuneration Report for details).

Notes to the Financial Statements

26. Ownership-Based Remuneration Schemes (continued)

Discontinued Executive and Employee Share Plans

The Company (when it was Pacific Dunlop Limited) historically operated two share plans for employees and Directors of the consolidated entity:

the Pacific Dunlop Executive Share Plan (Executive Plan) - discontinued in 1996, and

the Pacific Dunlop Employee Share Plan (Employee Plan) - discontinued in 1994.

The Employee Plan permitted eligible employees to acquire a number of shares in the Company. The shares were issued at market value, payable as to 50 cents per share by the employee, the balance financed by an interest free loan from the Company repayable, at latest, on cessation of employment. The shares are not transferable while a loan remains outstanding, but carry a voting right and an entitlement to dividends (although dividends are applied in reduction of the loan).

Shares issued under the Executive Plan to selected employees (Executives) were paid up to 5 cents and were subject to restrictions for a period. While partly paid, the shares are not transferable, carry no voting rights and no entitlement to dividends (but are entitled to participate in bonus or rights issues as if fully paid). The price payable for shares issued under the Executive Plan varies according to the event giving rise to a call being made. Once restrictions ceased the price payable upon a call being made is the lesser of $10.00 ($2.50 for issues prior to 13 September 1991) and the last sale price of the Company s ordinary shares on Australian Stock Exchange Limited.

The Company s accounting policy in respect of the Employee Plan was to recognise the paid up capital upon allotment and the receivable created by the loan to employees to acquire the shares. In respect of the Executive Plan, no amount was recognised upon issue, apart from the capital paid up on the shares, as the amount of the call payable was not quantifiable at the time of issue. Once a call had been made upon the shares and paid, the Company recognised the increase in paid up capital. The number of Employee Share Plan Shares and the number of Executive Plan Shares (ordinary plan shares paid to five cents) as at balance date are shown in Note 5. A loss of $13,801 pre-tax in respect of the Employee Share Plan was recognised in the Company and the consolidated financial statements for 2005 (2004 - $4,366 pre-tax).

The market price of the Company s shares as at 30 June 2005 was $10.04.

Notes to the Financial Statements

27. Contingent Liabilities and Contingent Assets

Indemnities and Guarantees

Ansell Limited (the Company) has previously entered into Deeds of Indemnity with each of the Directors of the Company and certain officers of controlled entities, in relation to liabilities that they may incur (other than to Group companies) as Directors of the Company and Directors and officers of certain controlled entities respectively, to the extent permitted by law and the Company s Constitution.

The Company has also guaranteed the performance of certain wholly-owned controlled entities which have negative shareholders funds.

At this time, no liabilities the subject of any such indemnity or guarantee have been identified and, accordingly, it is not possible to quantify any financial obligation of the consolidated entity under these indemnities and of the Company pursuant to its guarantee.

Accufix Litigation

Only a limited number of lawsuits in relation to the Accufix Pacing Leads which have been made against certain Group Companies remain on foot, the majority of which have been brought in France.

As at 30 June 2005, the balance of the provisions made for settlements in relation to claims (as disclosed in Note 22) is considered adequate to address any remaining liability of members of the Ansell Group.

Latex Allergy Litigation

As at 30 June 2005, there were approximately nine product liability cases pending against one or more Ansell Group Companies in the United States in relation to allergic reaction to exposure to natural rubber latex gloves.

In a number of additional cases, distributors of latex gloves, who have also been named as defendants, are pursuing cross-claims and third party claims against several manufacturers of natural rubber latex gloves, including the Ansell Group Companies, in an effort to recover their costs related to the latex litigation. In some cases, judgement has been entered against an Ansell Group Company. The relevant Ansell Group Companies are appealing these decisions. The Company is not a defendant in any cases in the United States.

It is not possible at this time to quantify the potential financial impact of the remaining cases on the Group, however they are not considered to have a material potential impact on the Group results either individually or on an aggregate basis.

Business and Asset Sales

The Company and various Group Companies have, as part of the Group s historical asset and business sale program, provided warranties, indemnities and other undertakings and, in some instances, the Company has guaranteed the warranties, indemnities and other obligations of various Group Companies, to the purchasers of Group assets and businesses. At this time, it is not possible to quantify the potential financial impact of those warranties, indemnities, undertakings or guarantees upon the economic entity. From time to time, the Company has received notices from purchasers of its businesses pursuant to the relevant sale agreements. No formal proceedings are currently on foot and, accordingly, it is not possible at this time to quantify the potential financial impact on the Group.

Exide Corporation

US legal proceedings are continuing against entities in the Exide Group in connection with the sale of the GNB business. Proceedings against those entities in the Exide Group that have not filed for bankruptcy (Non-bankrupt Entities) were transferred to the Delaware bankruptcy court (the Court) where the Court determined that all of the Ansell Group s claims against the Non-bankrupt Entities may only be asserted against Exide Technologies, Inc., a company which has emerged from bankruptcy.

The Ansell Group has requested that the Court reconsider its decision and the Court has denied that request. The Ansell Group has filed an appeal to the appropriate court. The Ansell Group will continue to pursue recovery of the amounts owed by the Exide Group, but as to the reorganised Company (Exide Technologies, Inc) the Ansell Group expects to recover only stock in that Company. The ultimate amount of the Ansell Group s claims has not yet been determined and therefore the amount and value of the stock that may be recovered from Exide Technologies, Inc. is also undetermined.

Notes to the Financial Statements

28. Financial Instruments

Derivative Financial Instruments

The consolidated entity is involved in a range of derivative financial instruments, which can be defined in the following broad categories:

(i) Forward / Future Contracts

These transactions enable the consolidated entity to buy or sell specific amounts of foreign exchange, financial instruments or commodities at an agreed rate/price at a specified future date. Maturities of these contracts are principally between six months and two years.

(ii) Options

This is a contract between two parties, which gives the buyer of a put or call option the right, but not the obligation, to transact at a specified interest rate/exchange rate or commodity price at a future date, generally for a premium. Maturities of these contracts are principally between three months and two years.

(iii) Swaps

These agreements enable parties to swap interest rate (from or to a fixed or floating basis) or currency (from one currency to another currency) positions for a defined period of time. Maturities of the contracts are principally between two and five years.

Interest Rate Risk

The Company s exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

Net Financial Assets/(Liabilities)

$ in millions	Weighted Average Effective Interest Rate %	Floating	Fixed Interest maturing in: 1 year or less	1 to 5 years	Over 5 years	Non Interest Bearing	Total
Financial Assets 2005							
Recognised							
Cash on hand and at bank	1.6%	19.2	6.5			43.7	69.4
Short-term deposits	4.5%	48.8	105.4			3.7	157.9
Receivables - trade	NA					170.8	170.8
Receivables - other	6.1%	66.8				44.8	111.6
Investments	NA					59.0	59.0
Total Financial Assets 2005		**134.8**	**111.9**			**322.0**	**568.7**
Financial Liabilities 2005							
Recognised							
Payables - trade	NA					106.8	106.8
Payables - other	NA					26.8	26.8
Bank overdraft	4.5%	0.3				1.1	1.4
Bank and other loans	5.1%	6.7		357.2			363.9
Provision for employee entitlements	NA					50.1	50.1
Total Financial Liabilities 2005		**7.0**		**357.2**		**184.8**	**549.0**
Net Financial Assets/(Liabilities) 2005		**127.8**	**111.9**	**(357.2)**		**137.2**	**19.7**
Financial Assets 2004							
Recognised							
Cash on hand and at bank	1.1%	20.5				50.2	70.7
Short-term deposits	4.8%	231.8		15.6			247.4
Receivables - trade	NA					183.0	183.0
Receivables - other	6.1%	62.8				46.5	109.3
Investments	NA					141.4	141.4
Total Financial Assets 2004		**315.1**		**15.6**		**421.1**	**751.8**
Financial Liabilities 2004							
Recognised							
Payables - trade	NA					124.1	124.1
Payables - other	NA					38.6	38.6
Bank overdraft	1.5%	3.3					3.3
Bank and other loans	5.6%	321.2		101.7			422.9
Provision for employee entitlements	NA					41.0	41.0
Unrecognised							
Net interest rate swaps	2.0%	(147.4)	121.1	26.3			
Total Financial Liabilities 2004		**177.1**	**121.1**	**128.0**		**203.7**	**629.9**
Net Financial Assets/(Liabilities) 2004		**138.0**	**(121.1)**	**(112.4)**		**217.4**	**121.9**

Provisions, including amounts contained within income tax, deferred income tax, contingencies, rationalisation and restructure, Accufix Pacing Lead related expenses and insurance claims amounting to $47.4 million (2004 - $57.7 million) are not included within the table above as it is considered that they do not meet the definition of a financial instrument.

A separate analysis of debt by currency can be found at Note 21 - Interest Bearing Liabilities.

Notes to the Financial Statements

28. Financial Instruments (continued)

Credit Risk and Net Fair Value

Recognised Financial Instruments

(i) Credit Risk

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognised on the Statement of Financial Position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers and counter parties in various countries.

The consolidated entity is not materially exposed to any individual overseas country or individual customer.

(ii) Net Fair Value

The Directors consider that the carrying amount of recognised financial assets and financial liabilities approximates their net fair value.

Refer to Note 1 for accounting policies in respect of the carrying values of financial assets and financial liabilities.

Unrecognised Financial Instruments

Credit risk on unrecognised derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency. It is not felt that there is a material exposure to any single counterparty or group of counterparties. The consolidated entity s exposure is almost entirely (over 99%) to banks.

The following table displays:

(i) Face Value

This is the contract s value upon which a market rate is applied to produce a gain or loss which becomes the settlement value of the derivative financial instrument.

(ii) Credit Risk

This is the maximum exposure to the consolidated entity in the event that all counterparties who have amounts outstanding to the consolidated entity under derivative financial instruments, fail to honour their side of the contracts. The consolidated entity s exposure is almost entirely to banks (see (v) below). Amounts owed by the consolidated entity under derivative financial instruments are not included.

(iii) Net Fair Value

This is the amount at which the instrument could be realised between willing parties in a normal market in other than a liquidation or forced sale environment. The net amount owed by / (owing to) financial institutions under all derivative financial instruments would have been $3.5 million (2004 - $1.6 million), if all contracts were closed out on 30 June 2005.

	Face Value		**Credit Risk**		**Net Fair Value**	
$ in millions	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Foreign Exchange Contracts						
Purchase/Sale Contracts:						
- U.S. dollars	78.5	77.0	0.5	0.4	0.4	0.2
- Australian dollars	5.0	22.0				
- Euro	20.7	19.9			(0.7)	
- Other currencies	5.3	13.5		0.2	(0.1)	0.1
Cross Currency Swaps:						
- U.S. dollars	23.7	53.8	0.9	1.9	0.9	1.9
Foreign Exchange Options						
Zero Cost Collar						
- Euro/U.S. dollars	99.3	145.4	2.6	1.6	3.3	0.4
- U.S. dollars/Thai baht	16.5	21.5	0.4	0.1	(0.3)	(0.2)
- Australian dollars/U.S. dollars	6.0	11.3		0.4		0.6
- Canadian dollars/U.S. dollars	29.1	6.8	0.2	0.1	(0.1)	(0.1)
- GBP/U.S. dollars	0.9	8.5				
- U.S. dollars/Euro	6.6				(0.2)	
Interest Rate Contracts						
Interest Rate Swaps:						
- U.S. dollars	38.0	141.0	0.4	0.4	0.3	(1.2)
- Australian dollars		50.0				(0.1)
Total	**329.6**	**570.7**	**5.0**	**5.1**	**3.5**	**1.6**

Notes to the Financial Statements

28. Financial Instruments (continued)

From time to time in the ordinary course of business, the consolidated entity enters into forward exchange contracts to hedge a proportion of its purchase and sale commitments denominated in foreign currencies (principally US dollars). Hedge cover does not exceed 12 months.

(iv) Market/Liquidity Risk

The consolidated entity seeks to reduce the risk of:

(a) being forced to exit derivative financial instrument positions at below their real worth; or

(b) finding it cannot exit the position at all, due to lack of liquidity in the market;

by:

(a) dealing only in liquid contracts dealt by many counterparties; and

(b) dealing only in large and highly liquid and stable international markets.

(v) Credit Risk by Maturity

The following table indicates the value of amounts owing by counterparties by maturity. Based on the Group policy of not having overnight exposures to an entity rated lower than A- by Standard & Poor s or A3 by Moody s Investors Service, it is felt the risk to the consolidated entity of the counterparty default loss is not material.

	Foreign Exchange Related Contracts		Interest Rate Contracts		Foreign Exchange Options		Total	
$ in millions	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Term:								
0 to 6 mths	0.5	0.6			2.1	1.1	2.6	1.7
6 to 12 mths		0.1			1.1	1.1	1.1	1.2
1 to 2 yrs	0.9						0.9	

2 to 5 yrs		1.8	0.4	0.4			0.4	2.2
Total	**1.4**	**2.5**	**0.4**	**0.4**	**3.2**	**2.2**	**5.0**	**5.1**

(vi) Historical Rate Rollovers

It is the consolidated entity s policy not to engage in historical rate rollovers except in circumstances where the maturity date falls on a bank holiday. In these instances, settlement occurs on the next trading day.

(vii) Hedges and Anticipated Future Transactions

The following table shows the consolidated entity s deferred gains and (losses), both realised and unrealised, that are currently held on the Statement of Financial Position and the expected timing of recognition as revenue or expense:

	Interest Rate		**Foreign Exchange**	
$ in millions	**2005**	**2004**	**2005**	**2004**
Anticipated Exposures				
Less than 1 year				(0.1)
Realised Swaps Deferred				
Less than 1 year		0.7		
1 to 2 years	(0.3)	0.7		
2 to 5 years	(3.6)	4.9		

Notes to the Financial Statements

29. Director and Executive Disclosures

This note is to be read in conjunction with the Remuneration Report.

Total remuneration

The total remuneration of all directors of Ansell Limited and specified executives of the consolidated entity for the 2005 and 2004 financial years is as follows:

Specified Directors of Ansell Limited

	Primary		Post Employment	Equity	Other Benefits	
	Fees, cash salary, bonus and non-salary benefits $	Non-monetary benefits $	Superannuation Contributions $	Notional value of equity compensation $	Termination payments $	Total $
2005	2,203,809	36,055	165,898	1,409,968		3,815,730
2004 [a]	1,984,875		408,320	537,500	2,895,566	5,826,261

Specified Executives of the consolidated entity

	Primary		Post Employment	Equity	Other Benefits	
	Cash salary, bonus and non-salary benefits $	Non-monetary benefits $	Superannuation Contributions $	Notional value of equity compensation $	Termination payments $	Total $
2005	3,495,806		441,395	1,056,489	752,784	5,746,474
2004 [a]	2,886,724		424,791	900,413		4,211,928

[a] Prior year information has been restated to enhance comparability.

Details of remuneration

Refer to Section 1B of the Remuneration Report for details of the remuneration of Non-executive Directors of Ansell Limited for the 2005 financial year.

Details of the remuneration of all directors of Ansell Limited for the 2004 financial year is set out in the following table:

	Primary		Post Employment	Equity	Other Benefits	
	Cash salary, bonus and non-salary benefits $	Non-monetary benefits $	Superannuation Contributions $	Notional value of equity compensation $	Termination payments $	Total $
Non-executive						
E. D. Tweddell	234,375		21,094			255,469
P. L. Barnes	91,875		8,287			100,162
L. D. Crandall	82,500		7,425			89,925
H. J. Elliott	82,500		7,425			89,925
S. P. Gold (resigned 16 April 2004)	65,625		5,906			71,531
M. J. McConnell (appointed 16 April 2004)	17,187		1,547			18,734
Executive						
H. Boon (CEO and Managing Director) (retired 30 June 2004)	1,410,813		356,636	537,500	2,895,566	5,200,515
Total all specified Directors	1,984,875		408,320	537,500	2,895,566	5,826,261

Notes to the Financial Statements

29. Director and Executive Disclosures (continued)

Details of remuneration (continued)

Refer to Section 2E of the Remuneration Report for details of the remuneration of the Managing Director and specified executives of the consolidated entity for the 2005 financial year.

Details of the remuneration of each of the specified executives of the consolidated entity for the 2004 financial year are set out in the following table:

	Primary		Post Employment	Equity	Other Benefits	
Name	**Cash salary, bonus and non-salary benefits $**	**Non-monetary benefits $**	**Superannuation Contributions $**	**Notional value of equity compensation $**	**Termination payments $**	**Total $**
W. Heintz	837,293		125,923	152,988		1,116,204
R. Jilla	620,415		93,910	407,732		1,122,057
N. O Donnell	290,145		39,004	99,176		428,325
W. Reed	517,278		87,469	142,945		747,692
W. Reilly	496,747		66,173	97,572		660,492
D. Tough (appointed as an executive 11 May 2004 and CEO and Managing Director 1 July 2004)	124,846		12,312			137,158
Total all specified executives	2,886,724		424,791	900,413		4,211,928

Equity Instruments

Refer to the Section 2C of the Remuneration Report for details of options and Performance Share Rights (PSR s) granted as remuneration to the Managing Director and specified executives.

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Ansell Limited held directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2004	Purchases[a]	Received on vesting of PSRs	Sales	Held at 30 June 2005
Specified directors					
E. D. Tweddell	34,220	2,444		20,000	16,664
P. L. Barnes	11,685	954			12,639
L. D. Crandall	8,108	855			8,963
H. J. Elliott	8,976	855			9,831
S. P. Gold [b] (alternate to M. J. McConnell)	16,444,079			16,444,079	
M. J. McConnell	26,406	5,678		26,730	5,354
D. Tough		20,000			20,000
Specified executives					
P. Corke	8,333		13,333	5,561	16,105
W. Heintz	8,333		18,333		26,666
R. Jilla	6,000		16,666		22,666
W. Reed	3,602		18,333	5,453	16,482
W. Reilly	5,545		13,333	3,965	14,913
P. Soszyn	8,333		13,333	16,897	4,769

(a) Includes shares purchased on market pursuant to the Non-executive Directors Share Plan.

(b) Mr Gold had an indirect non-beneficial interest in 16,428,840 shares at 1 July 2004 by virtue of a 10 per cent limited partnership interest in Trefoil International III, L.P., which is a related body corporate of Shamrock Holdings of California Inc a substantial shareholder of Ansell Limited as at 30 June 2004. During the year ended 30 June 2005 Shamrock Holdings divested its shareholding in Ansell Limited.

Service Agreements

The Company has no service agreements with the Non-executive Directors. Refer to Section 2D of the Remuneration Report for details of service agreements with the Managing Director and specified executives.

Other Transactions with specified directors and specified executives

From time to time, specified directors and specified executives of the Company or its controlled entities, or their personally-related entities, may purchase goods from the consolidated entity. These purchases are on terms and conditions no more favourable than those entered into by unrelated customers and are trivial or domestic in nature.

Notes to the Financial Statements

30. Notes to the Industry Segments Report

(a) Unallocated Revenue and Costs

Represents costs of Statutory Head Office, part of the costs of Ansell Healthcare s Corporate Head Office and non-sales revenue.

(b) Cash

Cash also includes Accufix Pacing Leads restricted deposits.

(c) Inter-Segment Transactions

Significant inter-segment sales were made by Asia Pacific - $196.8 million (2004 - $216.3 million) and Americas -$219.9 million (2004 - $233.0 million). Inter-segment sales are predominantly made at the same prices as sales to major customers. Operating revenue is shown net of inter-segment values. Accordingly, the Operating revenues shown in each segment reflect only the external sales made by that segment.

(d) Industry Segments

The consolidated entity comprises the following main business segments:

Occupational Healthcare - manufacture and sale of occupational health and safety gloves.

Professional Healthcare - manufacture and sale of medical, surgical and examination gloves for hand barrier protection and infection control.

Consumer Healthcare - manufacture and sale of condoms, household gloves and other personal products.

(e) Regions

The allocation of Operating Revenue and Operating Results reflect the geographical regions in which the products are sold to external customers. Assets Employed are allocated to the geographical regions in which the assets are located.

Asia Pacific - manufacturing facilities in 4 countries and sales.

Americas - manufacturing facilities in USA and Mexico and significant sales activity.

Europe - principally a sales region with one manufacturing facility in the UK.

	2005 $m	2004 $m
(f) Segment Capital Expenditure		
Occupational Healthcare	5.1	5.4
Professional Healthcare	6.0	4.4
Consumer Healthcare	3.0	3.3
(g) Region Capital Expenditure		
Asia Pacific	8.3	8.7
Americas	4.6	3.4
Europe	1.2	1.0
(h) Segment Depreciation		
Occupational Healthcare	9.1	8.7
Professional Healthcare	11.1	11.5
Consumer Healthcare	4.2	5.1
(i) Segment Other Non Cash Expenses (excluding Provision for Rationalisation and Write-down of Assets separately disclosed)		
Occupational Healthcare	11.3	6.9
Professional Healthcare	2.7	1.5
Consumer Healthcare	1.3	4.9

Notes to the Financial Statements

31. Notes to the Statements of Cash Flows

(a) Reconciliation of Net Cash Provided by Operating Activities to Net Profit after Income Tax

	Consolidated		The Company	
$ in Millions	**2005**	**2004**	**2005**	**2004**
Net profit after income tax	13.1	72.6	65.7	57.8
Add/(less) non-cash items:				
Depreciation	23.4	23.8	0.2	0.1
Amortisation	21.9	22.9		
Provision for doubtful debts - trade	(0.1)	1.2	0.1	0.2
Provision for doubtful debts - wholly owned controlled entities			16.4	87.2
Write down of investments in wholly owned controlled entities/(release of impairment provision)			42.3	(64.3)
Write down of investments in SPT partnership and other companies	80.0	1.0		
Write down of property, plant and equipment		8.8		
Add/(less) items classified as investing/financing activities:				
Interest revenue	(8.5)	(9.0)	(85.6)	(81.7)
Borrowing costs	21.9	29.4	13.0	27.6
Loss/(gain) on sale of investments, properties, plant and equipment	0.1	(0.8)		
Net cash provided by operating activities before change in assets and liabilities	151.8	149.9	52.1	26.9
Change in assets and liabilities net of effect from acquisitions and disposals of controlled entities and businesses:				
(Increase)/Decrease in debtors	10.0	24.9	(1.5)	7.7
(Increase)/Decrease in inventories	28.5	2.1	0.4	(0.6)
Decrease/(Increase) in prepaid expenses/other assets	2.0	(5.5)	0.5	2.4
(Increase)/Decrease in deferred expenses	(2.1)			
Increase/(Decrease) in creditors and bills payable	(17.3)	(6.0)	0.6	(0.8)
(Decrease)/Increase in provisions and other liabilities	(7.3)	7.8	(1.1)	(0.2)
Increase/(Decrease) in provision for deferred income tax	(5.4)	(1.3)		
(Increase)/Decrease in future income tax benefit	9.1	7.8		
(Decrease)/Increase in provision for income tax	(0.3)	(0.5)		
Other non-cash items (including foreign currency impact)	(16.2)		1.9	0.2
Net cash provided by operating activities	**152.8**	**179.2**	**52.9**	**35.6**

(b) Components of Cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and at banks and investments in money market instruments, net of outstanding bank overdrafts. Cash, at the end of the financial year, as shown in the Statements of Cash Flows, comprises:

Consolidated	The Company

$ in Millions		2005	2004	2005	2004
Cash on hand	11	0.2	0.9		
Cash at bank	11	69.2	69.8	0.5	0.8
Short-term deposits	11	149.5	237.1		
Restricted deposits*	11	8.4	10.3		
Bank overdrafts	21	(1.4)	(3.3)		
		225.9	**314.8**	**0.8**	**0.8**

* Refer to note 11 for further details on these amounts.

(c) Net Loans to Controlled Entities

In the Statements of Cash Flows of the Company, loan movements with controlled entities are disclosed as a net movement due to such transactions being large in number and rapid in turnover.

Notes to the Financial Statements

32. Acquisition of Controlled Entities and Material Businesses

	Date of Acquisition	Voting Shares Acquired %	Cost of Acquisition $ million	Net Tangible Assets Acquired $ million	Description of Purchase Consideration
No acquisitions were made during the year					

33. Disposal of Controlled Entities and Material Businesses

	Date of Disposal	Voting Shares Disposed %	Consideration (Cash) $ million	Net Tangible Assets Disposed $ million	Profit/ (Loss) on Disposal $ million
No disposals were made during the year					

34. Non-Director Related Party Disclosures

Ansell Limited is the parent entity of all entities detailed in Note 37 and from time to time has dealings on normal commercial terms and conditions with those related entities, the effects of which are eliminated in the consolidated financial statements.

Disclosures in respect of certain transactions with controlled entities and related parties and amounts paid to or received therefrom are as set out in the details below. Other transactions with related entities, which are eliminated on consolidation, include the lease of certain properties, the supply of materials and labour and the provision of both short and long term finance in the form of varying financial instruments, all of which are conducted on normal commercial terms and conditions.

Notes to the Financial Statements

34. Non-Director Related Party Disclosures (continued)

(a) Transactions with Associates and Other Related Companies

Effective 1 July 2001, the consolidated entity discontinued equity accounting for its interest in South Pacific Tyres N.Z. Ltd. During the course of the year, the consolidated entity received royalties from South Pacific Tyres N.Z. Ltd. as detailed below:

	Consolidated		The Company	
	2005 $m	2004 $m	2005 $m	2004 $m
Royalty revenue				
South Pacific Tyres N.Z. Ltd.	0.6	1.3		

(b) Transactions with Partnerships

The consolidated entity carries on a partnership with Goodyear in Australia under the name of South Pacific Tyres. During the course of the year the Company and the consolidated entity conducted financial transactions with South Pacific Tyres on normal commercial terms and conditions being:

	Consolidated		The Company	
$ in Millions	**2005**	**2004**	**2005**	**2004**
Other revenue				
South Pacific Tyres	4.0	3.5		
Aggregate current amounts receivable [(a)]				
South Pacific Tyres	0.6	0.5		
Aggregate non-current amounts receivable				
South Pacific Tyres [(a)]	66.2	62.3		
	66.2	62.3		

[(a)] Amount included within Other Amounts Receivable (Note 12)

Loans

On 20 December 2000, the Company agreed to make available to the South Pacific Tyres Partnership a loan for $56.3 million for a period of two years pending South Pacific Tyres receipt of this amount from Goodyear. The loan was drawn down in two tranches, $31.3 million on 20 December 2000 and $25.0 million on 5 January 2001.

On 20 December 2000, the Company was assigned a South Pacific Tyres receivable due from Goodyear of $31.3 million as partial settlement of the above loan. During the year ended 30 June 2002 Goodyear repaid the loans.

In October 2001, the Company through a controlled entity agreed to lend South Pacific Tyres up to $56.3 million.

The terms of the further agreements of October 2001 with Goodyear containing put and call options (which enables Ansell to put its investment to Goodyear during the 12 month period commencing 13 August 2005 or for Goodyear to exercise its call option over Ansell s investment during the 6 month period from 13 August 2006) provide the consolidated entity an actionable exit strategy in respect of its investment in the South Pacific Tyres Partnership.

The loans mature at the earlier of:

- the Company exercising the put option (no earlier than August 2005),
- the tenth anniversary of the agreement (October 2011), and
- the dissolution of the partnership (not expected).

Interest is charged at the 90 day bank bill rate plus a margin of 0.6% per annum, and is capitalised to the principal balance quarterly.

Interest brought to account in relation to this loan during the year:

$ in Millions	Consolidated 2005	The Company 2005
Interest revenue	4.0	

In addition, under the partnership agreement, South Pacific Tyres leases certain properties on a basis of equitable rentals mutually agreed by the partners. Lease payments of $0.2 million (2004 - $0.2 million) were made by South Pacific Tyres to the consolidated entity. The Company, through its corporate treasury operations, also provided on the basis of normal commercial terms and conditions, forward exchange cover on behalf of the partnership.

Notes to the Financial Statements

35. Earnings per Share

	Consolidated	
$ in Millions	**2005**	**2004**
Earnings reconciliation		
Net profit	13.1	72.6
Net profit attributable to outside equity interests	1.8	1.9
Basic earnings	**11.3**	**70.7**
Diluted earnings	**11.3**	**70.7**
Weighted average number of ordinary shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	167.5	180.8
Effect of partly paid Executive Plan shares, options and PSR s	1.6	1.3
Number for diluted earnings per share	169.1	182.1

Partly paid Executive Plan shares, options and PSR s have been included in diluted earnings per share in accordance with accounting standards.

Conversion, Call, Subscription or issue after 30 June 2005

Refer to Note 5 for further information.

36. Environmental Matters

The Company and various Group Companies as the occupiers of property receive, from time to time, notices from relevant authorities pursuant to various environmental legislation. On receiving such notices, the Company evaluates potential remediation options and the associated costs. At this time, the Company does not believe that the potential financial impact of such remediation upon the economic entity can be reliably measured.

In the ordinary course of business, the Ansell Group has maintained comprehensive general liability insurance policies covering its operations and assets. Generally such policies exclude coverage for most environmental liabilities.

Notes to the Financial Statements

37. Particulars Relating to Controlled Entities

Particulars Relating to Controlled Entities	**Country of Incorporation**	**Beneficial 2005 %**	**Interest 2004 %**		
Ansell Limited	Australia				
Ansell Healthcare Japan Co. Ltd.	*Japan	**100**	100		
Ativ Pac Pty. Ltd.	Australia	**100**	100		
BNG Battery Technologies Pty. Ltd.	Australia	**100**	100		
Cliburn Investments Pty. Ltd.	Australia	**100**	100		
Dexboy International Pty. Ltd.	Australia	**100**	100		
Corrvas Insurance Pty. Ltd.	Australia	**100**	100		
Dunlop Olympic Manufacturing Pty. Ltd.	Australia	**100**	100		
FGDP Pty. Ltd.	Australia	**100**	100		
H.C. Sleigh Services Pty. Ltd.	Australia	**100**	100		
N Harvesters Pty. Ltd.	Australia	**100**	100		
PSL Industries Pty. Ltd.	Australia	**100**	100		
International Better Brands Pty. Ltd	Australia	**100**	100		
Licknib Pty. Ltd.	Australia	**100**	100		
Nucleus Ltd.	Australia	**100**	100		
Lifetec Project Pty. Ltd.	Australia	**100**	100		
Medical TPLC Pty. Ltd.	Australia	**100**	100		
N&T Pty. Ltd.	Australia	**100**	100		
Nucleus Trading Pte. Ltd.	*Singapore	**100**	100		
THLD Ltd.	Australia	**100**	100		
TNC Holdings Pte. Ltd.	*Singapore	**100**	100		
TPLC Pty. Ltd.	Australia	**100**	100		
Societe de Management Financier S.A.	*France	**100**	100		
Olympic General Products Pty. Ltd.	Australia	**100**	100		
Foamlite (Australia) Pty. Ltd.	Australia	**100**	100		
Pacific Distribution Properties Pty. Ltd.	Australia	**100**	100		
Pacific Dunlop Finance Pty. Ltd.	Australia	**100**	100		
Pacific Dunlop Holdings (China) Co. Ltd.	*China	**100**	100		
Pacific Dunlop Linings Pty. Ltd.	Australia	**100**	100		
Pacific Dunlop Tyres Pty. Ltd.	Australia	**100**	100		
P.D. Holdings Pty. Ltd.	Australia	**100**	100		
P.D. International Pty. Ltd.	Australia	**100**	100		
Ansell Canada Inc.	*Canada	**100**	100		
Llesna Healthcare Pty. Ltd.	Australia	**100**	100		
Ansell Kemwell Ltd.	*India	**74.9**	74.9		
Ansell Lanka (Pvt.) Ltd.	*Sri Lanka	**100**	100		
Ansell (Thailand) Ltd.	*Thailand	**100**	100		
Medical Telectronics N.V.	*Netherlands Ant.	**100**	100		
Medical Telectronics Holding & Finance (Holland) B.V.	*Netherlands	**100**	100		
Mt Waverley Estates Pty. Ltd.	Australia	**100**	100		
Pacific Dunlop (Hong Kong) Limited	*Hong Kong	**100**	100		
Corrvas Insurance (Singapore) Pte. Ltd.	*Singapore	**100**	100		
Pacific Dunlop Investments (USA) Inc.	*USA	**100**	100		
Ansell Brazil LTDA	*Brazil	**100**	100		
	42,000		(995,000)		
Valuation allowances		3,759,000		(415,000)	2,661,000
Total deferred					

	$ 455,000	$ 1,500,000	$ 3,127,000

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The reconciliation of the income tax provision to the amount that would result from applying the U.S. statutory rate for years ended March 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004
Expected tax at Federal statutory rate	$ 2,033,000	$ 5,656,000	$ 6,433,000
State franchise tax expense and capital taxes, net of Federal taxes	320,000	320,000	948,000
Expiration of capital loss carryforward		5,618,000	
Net increase in cash surrender values of life insurance	(4,732,000)	(6,005,000)	(6,213,000)
Change in valuation allowance	3,759,000	(415,000)	2,661,000
Other	(925,000)	(3,674,000)	(702,000)
Income tax provision	$ 455,000	$ 1,500,000	$ 3,127,000

The change of $2,661,000 in the valuation allowance for deferred tax assets as of March 31, 2004 was due primarily to the generation of a tax loss in fiscal year 2004.

Income before taxes consists primarily of income from the Company s domestic operations. For fiscal years 2002, 2003 and 2004, the Company s foreign operations, including the captive insurance subsidiary, generated pre-tax income (loss) of $(2,369,000), $2,267,000 and $4,342,000, respectively.

Significant components of the Company s deferred income tax assets and liabilities at March 31, 2003 and 2004 were as follows:

	2003	2004
Deferred tax liabilities:		
Tax over book depreciation	$ 7,709,000	$ 8,893,000
Purchase price adjustments	35,846,000	35,210,000
Total deferred tax liabilities	43,555,000	44,103,000
Deferred tax assets:		
Net operating loss and credit carryforwards	19,473,000	21,142,000
Capital loss carryforward		
Workers compensation and other insurance accruals	3,011,000	3,438,000
Inventory and related reserves	4,105,000	5,024,000

Other	1,858,000	2,052,000
Valuation allowance for deferred tax assets	(20,278,000)	(22,939,000)
Net deferred tax assets	8,169,000	8,717,000
Net deferred tax liabilities	$ 35,386,000	$ 35,386,000

At March 31, 2004, the Company had net operating loss carryforwards of $49,214,000 for Federal income tax purposes and $29,870,000 for state income tax purposes. The Federal carryforwards resulted from the Company s losses during 1993, 1996 and 2002, and expire in years 2008, 2011 and 2022, respectively, while the State carryforwards were generated in various states over various years. The ultimate realization of the benefits of these loss carryforwards is dependent on future profitable operations. In addition, use of the Company s net operating loss carryforwards and other tax attributes may be substantially limited if a cumulative change in ownership of more than 50% occurs within any three year period subsequent to a loss year. At March 31, 2004, the Company had an alternative minimum tax carryforward of approximately $2,364,000, which can be utilized over an indefinite period of time.

EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On September 11, 2002, new tax laws were enacted in California that suspend the use of net operating tax carryforwards into years beginning on or after January 1, 2002 and 2003. Accordingly, net operating losses generated in California in prior tax years cannot be used to offset the Company s taxable income for the years ended March 31, 2003 and 2004. This suspension will not apply to tax years beginning on or after January 1, 2004 and did not have a material impact on the Company s results of operations for the year ended March 31, 2004 and nine months ended December 31, 2004.

The Company has not provided for taxes on undistributed earnings from its non-U.S. subsidiaries because such earnings are intended to be re-invested indefinitely. If these earnings were distributed, foreign tax credits may become available under current tax law to reduce the resulting U.S. tax liability.

Income tax expense for the first nine months of fiscal 2005 included provisions for state franchise, federal and foreign income taxes, while fiscal 2004 tax expense included provisions for state franchise and foreign income taxes. The federal rate for the first nine months of fiscal 2005 was 7.6% of domestic taxable income, and was lower than the U.S. federal statutory tax rate primarily due to the recognition of tax benefits associated with the utilization of loss carryforwards. The Company s effective tax rate is based on estimated annual taxable income.

7. Employee Benefit Plans

Stock Bonus Plan

The Company and Holding have a Stock Bonus Plan (the Plan , formerly an employee stock ownership plan (ESOP) prior to April 1, 1999) which covers nonunion employees of the Company who meet certain service requirements. The cost of the Plan is borne by the Company through annual contributions to a trust in amounts determined by the Board of Directors. Prior to an agreement reached with the Department of Labor in January 2003 (see Note 8), contributions were made in cash or shares of Holding s stock as Holding s Board of Directors may from time to time determine. Participants vest at a rate of 20% per year of service and become fully vested at age 65 or upon retirement, disability or death. Upon the occurrence of a participant s termination (as defined), retirement, disability, or death, the Plan is required to either distribute the vested balance in stock or to repurchase the vested balance for cash. If stock is distributed, it is accompanied by a put option to Holding under terms defined in the Plan. Shares of Holding s Series A and B preferred and common stock owned by the Plan totaled 38,282, 28,730 and 2,652,874 at March 31, 2004 and 35,208, 28,697 and 2,506,309 at December 31, 2004, respectively. For fiscal years ended March 31, 2002, 2003, 2004 and the nine months ended January 1, 2004, and December 31, 2004, contributions accrued to the Plan s trust totaled $2,831,000, $2,772,000, $2,783,000, $2,147,000 and $2,876,000 which represented 5% of eligible compensation for each of the respective periods. The contributions payable as of March 31, 2002, 2003 and 2004 and for the nine months ended January 1, 2004 and December 31, 2004 have been or will be paid in cash. The Company recognizes the cost of the Plan as compensation expense with a corresponding amount reflected in its capital for the value of Holding s common stock contributed to the trust by Holding, or as a dividend to Holding for contributions paid in cash.

The Company also has a supplemental stock bonus plan to include highly compensated employees and other employees, who are not eligible to participate in the plan. Contributions payable, vesting and distributions in the supplemental plan are comparable to those under the Plan.

Contributions under this supplemental plan are made in cash and are held in an irrevocable trust. For the fiscal years ended March 31, 2002, 2003 and 2004, contributions payable totaled $76,000, $78,000 and $90,000, respectively.

Although Holding has not expressed any intent to terminate or amend the plan, it has the right to do so at any time. In the event of any termination, participants become fully vested to the extent of the balances in their separate accounts and come under the put options as previously discussed.

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pension Plans

The Company maintains a noncontributory defined benefit pension plan covering substantially all hourly union employees (the Hourly Plan). Benefits under the Hourly Plan vest after five years and are determined based on years of service and a benefit rate that is negotiated with each union. The assets of the Hourly Plan for participants are held in trust and consist of bonds, equity securities and insurance contracts. The Company contributes at least the minimum required annually under ERISA. The Company also maintains an unfunded supplemental pension plan, which provides benefits to highly compensated employees; this plan has been frozen to include only existing participants (the Supplemental Plan).

Components of net periodic pension cost (credit) associated with the Company s pension plans for years ended March 31, 2002, 2003 and 2004 and nine months ended January 1, 2004 and December 31, 2004 are as follows:

				Nine Months Ended	
	2002	2003	2004	January 1, 2004	December 31, 2004
				(unaudited)	
Service cost of benefits earned during the period	$ 433,000	$ 432,000	$ 523,000	$ 392,000	$ 492,000
Interest cost on projected benefit obligation	784,000	843,000	879,000	630,000	733,000
Expected return on plan assets	(1,017,000)	(864,000)	(763,000)	(573,000)	(753,000)
Amortization of prior service cost	(95,000)	(47,000)	(37,000)	(28,000)	84,000
Recognized net (gain) loss	(66,000)	21,000	267,000	181,000	100,000
	$ 39,000	$ 385,000	$ 869,000	$ 602,000	$ 656,000

Categories of plan assets	2003	2004
Bonds	13%	14%
Stocks	87%	86%

During fiscal year 2005, a contribution of $700,000 was made.

The Hourly Plan is 100% invested in Wells Fargo Asset Allocations Collective Investment Fund (the Fund). The Fund seeks long-term total return, consistent with reasonable risk, by shifting investments among stocks and U.S. Treasury long-term bonds using a quantitative asset

allocation strategy. The Fund invests in common stocks that comprise the S&P 500 Index and bonds that comprise the Lehman Brothers 20+ Treasury Bond Index. The Fund will remain near its strategic allocation of 60% stocks and 40% bonds the majority of the time to maximize the probability of achieving its long-term risk and return objectives.

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following provides a reconciliation of the changes in the benefit obligation and fair value of plan assets, and the funded (unfunded) status of the pension plans for the years ended March 31, 2003 and 2004:

	2003	2004
Change in Benefit Obligation:		
Benefit obligation at beginning of year	$ 11,350,000	$ 14,066,000
Service cost	432,000	523,000
Interest cost	843,000	879,000
Change in assumptions	1,414,000	958,000
Amendments	504,000	67,000
Benefit payments	(514,000)	(545,000)
Actuarial loss/(gain)	37,000	(157,000)
Benefit obligation at end of year	14,066,000	15,791,000
Change in Plan Assets:		
Fair value of plan assets at beginning of year	11,203,000	9,297,000
Actual return on assets	(1,434,000)	2,205,000
Benefit payments	(514,000)	(545,000)
Company contributions	92,000	793,000
Fees	(50,000)	(31,000)
Fair value of plan assets at end of year	9,297,000	11,719,000
Unfunded	(4,769,000)	(4,072,000)
Unrecognized prior service cost	(236,000)	(131,000)
Unrecognized net actuarial gain	3,658,000	2,780,000
Net amount recognized	$ (1,347,000)	$ (1,423,000)

The following provides a reconciliation of the changes in the benefit obligation and fair value of plan assets, and the funded (unfunded) status of the pension plans for the years ended March 31, 2003 and 2004:

	2003	2004
Amounts recognized in balance sheets consist of:		
Prepaid cost	$	$
Accrued benefit liability	(4,746,000)	(4,048,000)
Accumulated comprehensive loss-additional minimum liability	3,399,000	2,625,000

Net amount recognized	$ (1,347,000)	$ (1,423,000)
Weighted-average assumptions as of March 31:		
Discount rate	6.50%	6.00%
Expected return on assets	8.25%	8.25%
Rate of compensation increase		
Measurement date for assets and liabilities	1/1/2003	1/1/2004

The return on assets assumption assumes a long term return of 9% on equity investments and 7% on government bond investments with a 60% equity and 40% bond target investment mix. Long-term rates of return on equity investments are trending approximately 7% above current CPI, while long-term rates of return on government bond investments are trending approximately 5% above current CPI. Current CPI has been approximately 2% for the last few years.

EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with union agreements, the Company also contributes to multi-employer defined benefit retirement plans covering substantially all union employees of the Company. At December 31, 2004, three different unions represented approximately 559 of our employees from 15 locations (33% of total employees). Our collective bargaining agreements expire at staggered dates through March 2010; bargaining agreements that will expire in fiscal 2005 represent 1% of total employees. Expenses incurred in connection with these plans totaled $1,015,000, $1,295,000, $1,798,000 and $1,445,000 in fiscal years 2002, 2003 and 2004 and for the nine months ended December 31, 2004, respectively.

Postretirement Benefit Plan

In addition to the Company s defined benefit pension plans, the Company sponsors a defined benefit health care plan that provides postretirement medical and dental benefits to eligible full time employees and their dependents (the Postretirement Plan). The Postretirement Plan is fully insured, with retirees paying a percentage of the annual premium. Such premiums are adjusted annually based on age and length of service of active and retired participants. The Postretirement Plan contains other cost-sharing features such as deductibles and coinsurance. The Company recognizes the cost of future benefits earned by participants during their working careers, as determined using actuarial assumptions. Gains and losses realized from the remeasurement of the plan s benefit obligation are amortized to income over three years.

In December 2003, the FASB issued SFAS No. 132 (revised December 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits* (SFAS 132(R)). This statement amends the disclosure requirements of SFAS No. 132 to require more details about retirement plan assets, benefit obligations, cash flows and other relevant information. SFAS No. 132(R) is effective for years ending after December 15, 2003, except certain benefit payment and international plan disclosures that are effective for fiscal years after June 15, 2004. The adoption of the disclosure provisions of SFAS No. 132(R) did not have a material effect on the Company s consolidated financial statements.

Components of the net benefit cost associated with the Company s Postretirement Plan for years ended March 31, 2002, 2003 and 2004 and for the nine months ended January 1, 2004 and December 31, 2004 are as follows:

	March 31,			Nine Months Ended	
	2002	2003	2004	January 1, 2004	December 31, 2004
					(unaudited)
Service cost of benefits earned during the period	$ 223,000	$ 249,000	$ 293,000	$ 250,000	$ 253,000
Interest cost on projected benefit obligation	211,000	258,000	271,000	238,000	220,000
Recognized net (gain) loss	(185,000)	(9,000)	55,000	75,000	138,000
	$ 249,000	$ 498,000	$ 619,000	$ 563,000	$ 611,000

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables provide a reconciliation of the changes in the benefit obligation and the unfunded status of the Postretirement Plan for the years ended March 31, 2003 and 2004.

	March 31,	
	2003	2004
Change in Benefit Obligation:		
Benefit obligation at beginning of year	$ 3,271,000	$ 4,328,000
Service cost	249,000	293,000
Interest cost	258,000	271,000
Change in assumptions	950,000	262,000
Benefit payments	(208,000)	(151,000)
Actuarial gains	(192,000)	(87,000)
Benefit obligation at end of year	4,328,000	4,916,000
Unfunded	(4,328,000)	(4,916,000)
Unrecognized prior service cost		
Unrecognized net actuarial gain	358,000	478,000
Accrued benefit cost	$ (3,970,000)	$ (4,438,000)
Weighted-average assumptions as of March 31:		
Discount rate	6.50%	6.00%
Healthcare cost trend rate	12.00%	11.00%
Measurement date for assets and liabilities	1/1/2003	1/1/2004

The healthcare cost trend rate of 11.0% used in the calculation of net benefit cost of the Postretirement Plan is assumed to decrease 1.0% per year to 6.0% for 2009 and remain at that level thereafter.

Assumed healthcare trend rates have a significant effect on the amounts reported for the Company s Postretirement Plan. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total service and interest cost components	$ 88,000	$ (74,000)
Effect on postretirement benefit obligation	644,000	(550,000)

8. Commitments and Contingencies

Lease Commitments

The Company leases, under several agreements with varying terms, certain office and warehouse facilities, equipment and vehicles. Rent expense totaled $21,353,000, $21,657,000 and $22,302,000 for the years ended March 31, 2002, 2003 and 2004, respectively. Sublease income for the years ended March 31, 2002, 2003 and 2004 was $456,000, $632,000 and $653,000, respectively. Minimum rentals of certain leases escalate from time to time based on certain indices.

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At March 31, 2004 the Company was obligated under non-cancellable operating leases for future minimum rentals as follows:

Fiscal year:	
2005	$ 18,422,000
2006	14,315,000
2007	10,323,000
2008	7,337,000
2009	5,718,000
Thereafter	43,939,000
Sub-total	100,054,000
Less: Non-cancellable subleases	(7,961,000)
Net lease obligations	$ 92,093,000

Other Commitments

On January 14, 2004, the Company announced that it had reached an agreement with Earle M. Jorgensen Holding Company, Inc. (Holding) and Holding s principal securityholders providing for a restructuring of the combined capital structure. The financial restructuring is being effected pursuant to an Agreement and Plan of Merger and Reorganization dated as of December 18, 2003 among the Company, Holding and EMJ Metals LLC, a newly-formed wholly-owned subsidiary, as well as an Exchange Agreement among the Company, Holding and Kelso Investment Associates IV, L.P. and certain of its affiliates (Kelso). The principal effect of the financial restructuring will be to convert all outstanding debt and equity securities of Holding to the Company s common stock. Kelso is the holder of Holding s outstanding Series A Variable Rate Notes and also is Holding s controlling stockholder.

On May 25, 2004, the Company announced that the proposed restructuring of the combined capital structure of Earle M. Jorgensen Company (EMJ) with Holding, its parent company, had been delayed. Because of the delay, additional negotiations among Holding s securityholders and changes to the structure of the transaction are required before it can proceed. There is no assurance that the transaction will be successfully negotiated or, if negotiated, will be approved by the requisite votes of Holding s stockholders or that the other conditions to completion of such a transaction will be satisfied. Thus there can be no assurance that the merger will be consummated.

In connection with the 1990 merger, the Company agreed to pay Kelso, which owns the majority of Parent s common stock, an annual fee of $1,250,000 each year for financial advisory services and to reimburse it for out-of-pocket expenses incurred in connection with rendering such services. Kelso waived this annual fee for fiscal years 2000, 2001, 2002, 2003 and 2004. The Company also agreed to indemnify Kelso and its affiliates against certain claims, losses, damages, liabilities, and expenses that may arise in connection with the financial restructuring. However, expenses paid to Kelso in fiscal years 2002, 2003 and 2004 were not significant.

Governmental Matters

The Internal Revenue Service (the IRS) conducted an audit of the Company s employee stock ownership plan (the Plan) for the fiscal years ended March 31, 1992, through March 31, 1996, and issued a preliminary report to the Company in which the IRS asserted that certain contributions of stock by the Parent to the Plan violated provisions of the Internal Revenue Code because the securities contributed were not qualifying employer securities as defined by ERISA. In fiscal year 2002, this matter was settled without the Company admitting the allegations of the IRS, and the Company paid $1,919,000 of excise tax to the IRS.

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Department of Labor (the DOL) also investigated the same transactions involving the Plan. In the course of its investigation, the DOL and its advisors reviewed the valuations of the Parent s common and preferred stock prepared for the Plan and challenged the methodology used in preparing the valuations.

On March 8, 2002, the DOL sued the Company, the Parent, the Plan and former members of the Company s benefits committee in the federal district court for the Central District of California. The DOL claims that the valuations of Parent s common stock used to make annual contributions to the Plan in each of the years 1994 through 2000 contained significant errors that resulted in the common stock being overvalued, and that the failure of the members of our benefits committee to detect and correct the errors was a breach of their fiduciary duty under ERISA. As a result of the alleged overvaluations, the DOL contended that the contributions to the Plan were prohibited transactions under ERISA. On January 27, 2003, the Company signed a settlement agreement with the DOL in connection with their lawsuit. The key provisions of the agreement are as follows: (i) the Company is not required to make any payments under the agreement at this time; (ii) the Company is prohibited to make further common stock contributions to the stock bonus plan; (iii) the Company will continue to obtain annual appraisals of Parent stock using methodology consistent with prior appraisals, and use that appraised value as the purchase price for repurchases of common stock as it has done in the past, and; (iv) if the annual appraisal of the Company s common stock is less than $4.25 per share, the Company shall pay a floor price of $4.25 per share in connection with the repurchase of common stock from departing employees for shares that were originally contributed to the stock bonus plan for the plan years 1994 through 2000.

If the Company pays the floor price in connection with the repurchase of common stock from departing employees, the agreement also allows the DOL to assess the Company a penalty equal to 20% of the amount calculated by multiplying the difference between the appraised value and the floor price by the number of shares repurchased at the floor price.

The Company does not believe the settlement will have a material impact on its financial condition or future results of operations, and believes payments under the settlement, if any, will most likely be paid in immaterial amounts which will be spread over many years.

In December 2003, the Company entered into agreements with Holding, a subsidiary and the principal stockholders of Holding providing for a financial restructuring. Prior to approval of the transaction, the DOL initiated a review of the procedures followed by Holding s benefits committee in connection with evaluation of the proposed transaction and other strategic alternatives available to Holding and an assessment of whether or not the proposed transaction complied with the terms of the consent order and the legal requirements applicable to the stock bonus plan. Such review resulted in delays that, combined with other transactional requirements, precluded the consummation of the financial restructuring on the terms originally proposed. The Company is considering changes to the proposed transaction that will achieve the objectives of the original restructuring transaction, while meeting the concerns expressed by the DOL. Holding intends to review any proposed transaction with the DOL in advance under their compliance assistance program to ensure compliance with the terms of the consent order and applicable law. There can be no assurance that a revised transaction will be agreed upon, approved by the Holding stockholders and consummated.

Environmental Contingencies

The Company is subject to extensive and changing federal, state, local and foreign laws and regulations designed to protect the environment and human health and safety, including those relating to the use, handling, storage, discharge and disposal of hazardous substances and the remediation of environmental contamination. As a result, the Company is from time to time involved in administrative and judicial proceedings and inquiries relating to environmental matters.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal years 2002, 2003 and 2004, expenditures made in connection with environmental matters totaled $97,000, $194,000 and $232,000, respectively, principally for settlement of claims, and monitoring, remediation and investigation activities at sites with contaminated soil and/or groundwater and were expensed as incurred. As of March 31, 2004, an accrual of $203,000 exists for future investigation and remediation expenditures related to the following pending environmental matters.

Forge (Seattle/Kent, WA). In November 1998, the Company paid the purchasers of its former Forge facility and an off-site disposal site $2,250,000 as an arbitration award for liabilities related to the remediation of known contamination at the Forge facility. The Company continues to monitor the disposal site for environmental conditions in accordance with a consent decree issued by the Washington Department of Ecology (Ecology). Annual costs associated with such monitoring are not significant, and the Company does not anticipate significant additional expenditures related to this matter.

The Forge property is located on the Lower Duwamish Waterway, which has been identified by the United States Environmental Protection Agency (EPA) as a Superfund Site (the Duwamish Site). Under the Federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), owners or operators of facilities that have released hazardous substances to the environment may be liable for remediation costs and damages to natural resources caused by such releases. Courts have held that such liability may be joint and several; however, in many instances, the costs are allocated among the parties, primarily based on their estimated contribution to the contamination. The EPA has entered into an Administrative Order of Consent (AOC) with four major property owners with potential liability for cleanup of the Duwamish Site that outlines tasks required to be completed to further investigate the nature and extent of the contamination and cleanup alternatives. In November 2001, the current owners of the Forge property notified the Company of a potential claim for indemnification for any liability relating to contamination of the Duwamish Site. The notification stated that the Forge facility, along with other businesses located along the Duwamish Site, are expected to be named as potentially responsible parties for contamination of the Duwamish Site and requested that the Company participate under a joint defense.

On July 10, 2003, pursuant to a request from the EPA, the Company signed an AOC under CERCLA to investigate certain areas of the Duwamish site. A preliminary cost of proposed work under the AOC ranges from $350,000 to $450,000, and is subject to approval by the EPA. On April 15, 2003, the Company signed a funding and participation agreement with the current owners of the Forge property, which requires it to fund 85% of costs to be incurred in connection with the investigation activities to be performed under the AOC. As of March 31, 2004, the Company has accrued $203,000 for remaining costs that are expected to be incurred in future years.

The Company is continuing to evaluate this matter and remedies it may have, including insurance recoveries for any monies to be spent as part of the investigation or cleanup of the Duwamish Site. Because the Duwamish Site is still being investigated and clean up alternatives and responsibility for clean up are still being evaluated at this time, the Company cannot determine what ultimate liability it may have relating to this matter.

Union (New Jersey). During fiscal year 1994, the Company was notified by the current owner that it has potential responsibility for the environmental contamination of a property formerly owned by a subsidiary and disposed of by such subsidiary prior to its acquisition by the Company. The prior owner of such subsidiary has also been notified of its potential responsibility. On March 27, 1997, the current owner of the property informed the Company that it estimated the cost of investigation and cleanup of the property at $875,000 and requested contribution to

such costs from the Company and the prior owner. The Company has contested responsibility and commented on the cleanup plan and has not received any further demands or notifications. The Company does not have sufficient information to determine what potential liability it has, if any.

Although it is possible that new information or future developments could require the Company to reassess its potential exposure relating to all pending environmental matters, management believes that, based upon all

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

currently available information, the resolution of such environmental matters will not have a material adverse effect on the Company s financial condition, results of operations or liquidity. The possibility exists, however, that new environmental legislation and/or environmental regulations may be adopted, or other environmental conditions may be found to exist, that may require expenditures not currently anticipated and that may be material.

9. Legal

On April 22, 2002, the Company was sued by Champagne Metals, a small metals service center distributing aluminum coil products in Oklahoma, alleging that the Company had conspired with other metal service centers to induce or coerce aluminum suppliers to refuse to designate Champagne Metals as a distributor, which resulted in unspecified damages. EMJ and the other defendants filed motions for summary judgment, and on June 15, 2004, the federal District Court for the Western District of Oklahoma entered an order granting the motions for summary judgment of each of the defendants including EMJ and dismissed the case. The time for an appeal expires on July 15, 2004.

The Company is involved in other litigation or legal matters in the normal course of business. In the opinion of management, these matters will be resolved without a material impact on the Company s financial position or results of operations.

10. Subsequent Events (unaudited)

The Department of Labor In December 2003, the Company entered into a merger agreement and an exchange agreement with Holding, EMJ Metals LLC, a wholly owned subsidiary of the Company, and the principal stockholders of Holding that provided for a financial restructuring pursuant to which Holding would cease to exist as the parent company of the Company and the stockholders and noteholder of Holding would receive shares of Company common stock based on a fixed exchange ratio. Prior to approval of the transaction, the U.S. Department of Labor (DOL) initiated a review of the procedures followed by Holding s benefits committee in connection with evaluation of the proposed transaction and other strategic alternatives available to Holding and an assessment of whether or not the proposed transaction complied with the terms of the consent order entered on January 29, 2003 and the legal requirements applicable to Holding s stock bonus plan. The investigation and related discussions with the DOL resulted in delays that, combined with other transactional requirements, precluded the consummation of the financial restructuring on the terms originally proposed. The parties to the merger agreement and exchange agreement executed an agreement terminating the merger agreement and the exchange agreement as of July 30, 2004. Notwithstanding such termination, representatives of Holding s special committee, Kelso & Company (Kelso), the Company and the benefits committee continued to work on an alternative transaction to restructure the combined capital structure of Holding and the Company and negotiate a financial restructuring transaction.

In August 2004, Holding and the benefits committee submitted a proposal to the DOL for the amendment of the consent order to change the methodology used in preparing annual valuations for Holding s stock bonus plan. In connection with the change in valuation methodology, Holding also determined that it would be in the best interests of the plan to make a special contribution of additional shares of Holding common stock with respect to the shares of Holding common stock held by the stock bonus plan. This contribution (which would be converted into a contribution of Company common stock upon consummation of the financial restructuring) would offset the adverse effect on participants in the

stock bonus plan, because the change in methodology would cause a significant decrease in the appraised value of the Holding common stock. This proposal was approved by the DOL on November 17, 2004. On December 16, 2004, the board of directors of Holding approved the amended consent order and the program documents committing to make the special contribution to the stock bonus plan, and on December 17, 2004, the amended consent order was executed by Holding, the benefits committee and the DOL, and on January 3, 2005, the amended consent order was entered by the district court and became effective.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Holding has authorized a special contribution of additional shares of Holding common stock or common stock equivalents to (1) the stock bonus plan, (2) the supplemental stock bonus plan and (3) a cash bonus plan. The special contribution will consist of 1.0817 shares of Holding common stock or its equivalent with respect to each share of Holding common stock held in the stock bonus plan. This amount is equal to (a) the difference between the appraised value as of March 31, 2004 using the old methodology and the appraised value as of March 31, 2004 using the new methodology, divided by (b) the appraised value as of March 31, 2004 using the new methodology, adjusted for the dilutive effect of such contribution. After giving effect to the special contribution, the stock bonus plan participants holding Holding common stock will continue to have shares of Holding common stock with the same aggregate value, notwithstanding the change in valuation methodology which otherwise would have had the effect of reducing the aggregate value of their equity interests. As of January 12, 2005, there were 2,454,119 shares of Holding common stock in the stock bonus plan of which 2,275,628 shares of Holding common stock were allocated to the accounts of participants who are still Company employees and are eligible to receive the special contribution in the form of common stock contributed to the plan. The special contribution will consist of up to 2,461,547 shares of Holding common stock or its equivalent and cash bonuses paid through a new cash bonus plan of approximately $1,056,000 in the aggregate to participants who are no longer employed by the Company. The Company charged approximately $17,327,000 in the aggregate to expense with respect to the commitment to make the special contribution in December 2004.

To ensure compliance with the Internal Revenue Code and ERISA requirements, the first contribution will be made after the completion of the plan year ending March 31, 2005. Due to certain Internal Revenue Service rules limiting the amount of contributions that can be made in a single year, the contributions will be made over two years, and affected participants who are no longer employed by the Company will receive the program benefits in cash payments outside the stock bonus plan. Other Internal Revenue Service rules limit contributions that discriminate in favor of highly compensated employees. Holding has adopted an amendment to the stock bonus plan that provides for stock contributions for the plan years ending March 31, 2005 and March 31, 2006. To the extent legally permissible, each participant will receive the special contribution of 1.0817 additional shares of Holding common stock for each share of Holding common stock which remained in their account as of the date of the amended consent order in two contributions. To the extent participants do not receive their full allocation under the stock bonus plan over the two years, the program benefits will be provided under a cash bonus plan or through credits of units under a phantom stock plan called the supplemental stock bonus plan. The program has been designed to ensure that each participant will receive the equivalent value of their allocation of the special contribution determined as of the date of the amended consent order, whether or not they continue to be employed by the Company or continue to be a plan participant.

If the financial restructuring and the public offering are consummated, the Company will assume Holding s obligations under all aspects of the program and the stock contributions will be made in the Company s common stock.

Financial Restructuring The Company, Holding and Kelso have negotiated a financial restructuring transaction (approved by the boards of the Company and Holding on December 16, 2004) to be consummated concurrently with this offering (approved by the Company s board on September 27, 2004). The transaction will involve a merger between Holding and a wholly owned subsidiary of the Company pursuant to a merger agreement dated as of December 17, 2004, as amended as of January 28, 2005, and further amended as of March 3, 2005. Pursuant to the merger agreement (1) all issued and outstanding shares of Holding s common stock will be converted into shares of the Company s common stock and (2) all issued and outstanding shares of Holding s 13% Cumulative Preferred Stock, or the series A preferred stock, and Holding s Variable Rate Cumulative Preferred stock, or the series B preferred stock, will be converted into a combination of cash and shares of the Company s common stock. In addition, pursuant to an exchange agreement dated as of December 17, 2004, and amended as of March 3, 2005, Kelso Investment Associates IV, L.P. (KIA IV) will, concurrently

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

with and subject to the completion of the merger, exchange all of the outstanding Series A Variable Rate Notes of Holding, or the Holding notes, for a combination of cash and shares of the Company s common stock and will exchange all rights pursuant to warrant agreements executed by Holding entitling KIA IV to purchase shares of the common stock of Holding for shares of the Company s common stock. Each of the Kelso funds will vote all shares of Holding capital stock held by it in favor of the adoption and approval of the merger agreement and the merger. The value of the shares of our common stock for use as merger consideration will be determined by the price at which a share of our common stock is sold in our initial public offering to be consummated concurrently with the merger. The net proceeds of this offering will be allocated to the payment of the cash consideration for the series A preferred stock, series B preferred stock and Holding notes upon consummation of the merger and financial restructuring in accordance with the terms of the merger agreement and the exchange agreement.

The consummation of the financial restructuring is subject to various remaining conditions, including the approval of the financial restructuring by the holders of Holding s common stock and series B preferred stock voting together as a class (including and excluding shares held by the Kelso funds and other Kelso affiliates) and the holders of the series A preferred stock voting separately as a class (including and excluding shares held by the Kelso funds and other Kelso affiliates). In addition, the consummation of the financial restructuring and this offering are conditioned upon one another. There is no assurance that the financial restructuring will be approved by the requisite vote of Holding s stockholders, that this offering will be completed successfully or that the other conditions to completion of the transaction will be satisfied.

Contingencies As soon as practicable after, and conditioned upon consummation of, this offering, the Company has committed to pay a taxable initial public offering bonus to its employees on the closing date who are also participants in the stock bonus plan. The initial public offering bonus plan provides for the payment of a bonus of $7,500,000 in the aggregate to participants and a bonus of $1,000,000 in the aggregate to a certain subset of participants, which will be allocated to each group s participants in accordance with the plan and based on the number of shares of Holding common stock owned in the stock bonus plan.

The Company s obligation in regards to the stock contribution discussed in Note 10 is to contribute up to 2,461,547 shares of the Company s common stock to the stock bonus plan. The per share price of common stock used in determining the value of the contribution was $6.61 per share. In fiscal 2006 and 2007, when the stock contributions are made, if the market price of the common stock is greater than (less than) the price used for the initial valuation of the contribution, the Company is required to record an additional expense (benefit) for the difference between the then current market price and the initial share price. The Company will adjust its remaining stock contribution obligation on a quarterly basis until the share contribution has been fulfilled.

Stock-Based Compensation During December 2004, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation,* using the modified-prospective transition method, for all employee awards granted, modified or settled after April 1, 2004, as permitted by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure-An Amendment of FASB Statement No. 123.* In accordance with SFAS No. 123, the Company estimated the fair value of options using an option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, and the expected life of the options. The Company s common stock is not currently traded on a national securities exchange or an over-the-counter market, and therefore an effectively zero percent volatility was used. The dividend yield is excluded from the calculation, as it is the Company s intention to retain all future earnings. All stock options had fully vested prior to the adoption of SFAS No. 123.

Subsequent to the adoption of SFAS No. 123, the Company modified, as defined in SFAS No. 123, the terms of its outstanding stock options by adjusting the number of shares that can be purchased pursuant to each

EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

option and the exercise price per share to offset the reduction in the appraised value of the Holding common stock resulting from the change in valuation methodology required by the amended consent order for Holding s stock bonus plan. As a result of this change, options to purchase 1,731,000 shares of Holding common stock at a weighted average exercise price of $5.92 per share were converted into options to purchase 3,053,668 shares of Holding s common stock at a weighted average exercise price of $3.35 per share. In accordance with SFAS No. 123, modifications made to outstanding options require a stock compensation charge for the difference between the intrinsic value of the outstanding stock options before the modifications and the fair value of the stock options after the modifications, using an option pricing model described above. As a result of the modifications to the outstanding stock options, the Company recorded a stock compensation charge of $1,557,000 during the three months ended December 31, 2004. In connection with the financial restructuring, all of the issued and outstanding options to purchase shares of Holding common stock will be converted into options to purchase an equal number of shares of the Company s common stock at the same exercise price.

On December 16, 2004, and prior to the modification of the outstanding options, Holding agreed to pay the chief executive officer a cash payment of $3,006,000 (equal to the difference between the appraised value of the Holding common stock as of March 31, 2004 of $13.76 and the exercise price of $5.41 per share) in consideration of the redemption of options to purchase 360,000 shares of Holding common stock held by the Company s chief executive officer.

Clinton Drive (Houston, TX) In connection with the sale of a surplus facility in Houston, Texas, an environmental investigation of the site detected benzene in the groundwater at the site that we believe came from previously removed diesel/gasoline underground storage tanks. Based on additional sampling and tests, traces of chlorinated solvents were also detected in the groundwater at the site. In connection with the sale of the property, on December 9, 2004, the Company entered into an agreement with the buyer that provides for us to do the following:

- file a voluntary clean-up application with the Texas Commission for Environmental Quality, or TCEQ, that commits us to clean-up the soil and groundwater at the site for the benzene and chlorinated solvents to acceptable levels in accordance with TCEQ requirements;
- fund an escrow account with $0.5 million to be available to complete required clean-up and subsequent monitoring activities; and
- indemnify the buyer for pre-existing environmental issues on the site based on applicable TCEQ industrial/commercial standards.

The Company has accrued $0.5 million for the estimated liability from this issue.

Related Party Transaction On December 16, 2004, the Company amended its advisory agreement with Kelso and paid Kelso a fee of $6,250,000 in connection with termination of the Company s obligation to pay fees to Kelso under the advisory agreement. The obligations of Kelso to provide financial advisory services and of the Company to reimburse expenses of and provide indemnification to Kelso remained in effect.

Credit Agreement The Company amended its Credit Agreement on March 3, 2005, to permit maximum borrowings of $300.0 million. Borrowings under the Credit Agreement bear interest at a base rate (generally defined as the greater of the bank s prime lending rate or 0.5% over the Federal Funds rate) plus 1.00% or the adjusted Eurodollar rate plus 2.00%. The applicable margin will increase or decrease based on the leverage ratio (as defined) of the Company. In addition, borrowings under the revolving loans are limited to an amount equal to 85% of eligible trade receivables (as defined) plus 60% of eligible inventories (as defined). The amended credit agreement matures March 3, 2010 and is secured by a lien on all domestic inventory and accounts receivable of the Company.

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the Credit Agreement, the Company is obligated to pay certain fees including an unused commitment fee of 0.375%, payable quarterly in arrears, and letter of credit fees at a rate equal to the applicable Eurodollar margin per annum, payable quarterly in arrears, plus issuance, fronting, amendment and other standard fees.

The Credit Agreement contains a financial covenant in respect of maintenance of a fixed charge coverage ratio (as defined). The Credit Agreement also limits, among other things, the incurrence of liens and other indebtedness, mergers, consolidations, the sale of assets, annual capital expenditures, advances, investments and loans by the Company and its subsidiaries, dividends and other restricted payments by the Company and its subsidiaries in respect to their capital stock, and certain transactions with affiliates.

Initial Public Offering If the financial restructuring and the initial public offering contemplated by this prospectus are consummated under the terms presently anticipated as described above, the following sets forth the Company s unaudited pro forma capitalization as of December 31, 2004:

	December 31, 2004		
	Actual	Pro Forma	Pro Forma As Adjusted
		(unaudited)	
	(in thousands, except per share data)		
Debt			
Short-term debt	$ 2,320	$ 2,320	$ 2,320
Long-term debt			
Revolver	91,558	91,558	91,558
9 3/4% senior secured notes due June 1, 2012	250,000	250,000	250,000
Industrial development bonds	2,870	2,870	2,870
Variable rate senior notes due June 30, 2013		245,882	
Total long-term debt	344,428	590,310	344,428
Total debt	346,748	592,630	346,748
Stockholders equity (deficit)			
Holding preferred and common stock subject to redemption in certain circumstances		75,494	
Holding series A preferred stock, not subject to redemption		21,217	
Holding series B preferred stock, not subject to redemption		2,316	
Holding common stock		107	
Capital in excess of par value	21,194	78,441	350,516
Reclassification to value		(16,641)	
Preferred stock, $.01 par value; 200 shares authorized and no shares issued, actual and adjusted			
			38

Common stock, $.01 par value; 2,800 shares authorized and 128 shares issued and outstanding, actual; 80,000,000 shares authorized and 37,848,598 shares ($.001 par value) issued and outstanding, as adjusted			
Foreign currency translation adjustment	1,268	1,268	1,268
Additional minimum pension liability	(2,625)	(2,625)	(2,625)
Accumulated deficit	(11,232)	(335,150)	(343,004)
Treasury stock		(65,441)	
Total stockholders equity (deficit)	8,605	(241,014)	6,193
Total capitalization	$ 355,353	$ 351,616	$ 352,941

The pro forma capitalization gives effect to the financial restructuring to account for the transfer of assets and exchange of shares between entities, the Company and Holding, under common control. As such, the transaction will be accounted for in a manner similar to a pooling-of-interests. Accordingly, subsequent to the

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

completion of the financial restructuring, the financial position and results of operations of Holding will be included in the Company s consolidated financial statements on a historical basis.

The adjustments to effect the financial restructuring (based on shares and values at December 31, 2004), assuming that the public offering price will be $15.00 per share of EMJ common stock (the mid-point of the range described on the cover of this prospectus) and net proceeds of the public offering are $279,750,000 (before taking into account estimated offering expenses payable by us, as set forth under Use of Proceeds in this prospectus) include the following:

Exchange of all issued and outstanding Holding debt and accrued interest thereon totaling $257,069,318 for $214,864,512 in cash and 2,813,654 shares of EMJ common stock.

Exchange of warrants to purchase 2,937,915 shares of Holding common stock for 2,935,956 shares of EMJ common stock, net of the exercise price of $0.01 per share.

Conversion of 11,249,312 issued and outstanding shares (not including 2,089,224 shares held in treasury and retired) of Holding common stock into 11,249,312 shares of EMJ common stock. The difference between the number of shares of Holding common stock converted into EMJ common stock at December 31, 2004 and the number of shares converted at the date of the financial restructuring is attributable to the shares repurchased from former employees who cashed out their stock bonus plan and former employees who exercised put rights pursuant to Holding s stockholders agreement.

Conversion of 59,893 shares of Holding s series A preferred stock (not including 187,654 shares held in treasury and retired) for $682.60 in cash and 8.94 shares of EMJ common stock. The difference between the number of shares of Holding s series A preferred stock at December 31, 2004 and the number of shares at the date of the financial restructuring is attributable to the shares repurchased from former employees who cashed out their stock bonus plan.

Conversion of 28,718 shares of Holding s series B preferred stock (not including 2,300 held in treasury and retired) for $835.82 in cash and 10.95 shares of EMJ common stock. The difference between the number of shares of Holding s series B preferred stock at December 31, 2004 and the number of shares at the date of the financial restructuring is attributable to the shares repurchased from former employees who cashed out their stock bonus plan.

The adjustment to the caption reclassification to value represents the cumulative changes in the market value, based on annual appraisals, related to the shares of Holding s preferred stock and common stock which are converted in the financial restructuring. This will be eliminated as a result of the existing Holding preferred stock and common stock being converted for a combination of cash and EMJ s common stock.

Upon completion of the financial restructuring and the public offering, subject to the assumptions herein, 37,848,598 shares of EMJ common stock will be issued and outstanding.

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EARLE M. JORGENSEN COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Additionally, if the financial restructuring and the initial public offering contemplated by this prospectus are consummated under the terms described in this Note 10, the Company s pro forma net income and pro forma earnings per share are as follows:

	Twelve Months Ended March 31, 2004	Nine Months Ended December 31, 2004
	(unaudited)	(unaudited)
	(in thousands, except per share data)	
Net income	$ 15,252,000	$ 52,932,000
Holding interest, net	38,834,000	21,442,000
Preferred dividends	10,628,000	5,818,000
Other	(20,000)	
Pro forma net income (loss) available to common stockholders	$ (34,190,000)	$ 25,672,000
Interest on variable notes	(38,834,000)	(21,442,000)
Preferred dividends	(10,628,000)	(5,818,000)
Pro forma net income available to common stockholders as adjusted	$ 15,272,000	$ 52,932,000
Pro forma net income available to common stockholders per share as adjusted		
Basic	$ 0.85	$ 2.98
Diluted	$ 0.79	$ 2.80
Number of shares used in net income available to common stockholders per share as adjusted		
Basic	17,972,000	17,782,000
Diluted	19,399,000	18,901,000

The total pro forma adjustments to net income are approximately $20 and none for the fiscal year ended March 31, 2004 and the nine months ended December 31, 2004, respectively. The adjustments consist of certain management fees paid by EMJ to Holding that are not eliminated in consolidation. The financial restructuring will be accounted for in a manner similar to a pooling-of-interests because it constitutes a transfer of assets and exchange of shares between entities, EMJ and Holding, under common control. Accordingly, the financial position and results of operations of Holding will be included in EMJ s consolidated financial statements on a historical basis. However, unaudited pro forma net income does not reflect interest expense of Holding in connection with the Holding notes because we will be using a portion of the net proceeds from this offering and shares of our common stock to repay the Holding notes.

Pro forma net income (loss) available to common stockholders per share information reflects EMJ s operations as if the financial restructuring occurred at the beginning of the periods reported. Excluded from net income (loss) available to stockholders are net interest expense for

Holding, dividend accruals for the Holding series A preferred stock and dividends declared and paid in-kind for the Holding series B preferred stock. The pro forma basic as adjusted share information reflects the shares of EMJ common stock issuable upon consummation of the financial restructuring as follows: 2,695,862 shares for the Holding notes; 493,083 shares for the Holding series A preferred stock; 292,394 shares for the Holding series B preferred stock; and 2,935,956 shares for the Holding warrants.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Earle M. Jorgensen Holding Company, Inc.

We have audited the accompanying consolidated balance sheets of Earle M. Jorgensen Holding Company, Inc. as of March 31, 2003 and 2004, and the related consolidated statements of operations, consolidated statements of preferred and common stock subject to redemption in certain circumstances, series A preferred stock, series B preferred stock, common stock, capital in excess of par value, stock subscribed, reclassification to value preferred and common stock subject to redemption in certain circumstances to its redemption price, accumulated other comprehensive loss, accumulated deficit and treasury stock and cash flows for each of the three years in the period ended March 31, 2004. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Earle M. Jorgensen Holding Company, Inc. at March 31, 2003 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2004 in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Orange County, California

August 20, 2004

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share and per share data)

	March 31,		December 31,
	2003	2004	2004
			(unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 45,413	$ 15,646	$ 6,133
Accounts receivable, less allowance for doubtful accounts	97,292	133,092	173,871
Inventories	213,590	225,248	281,307
Other current assets	6,402	7,655	8,976
Total current assets	362,697	381,641	470,287
Net property, plant and equipment, at cost	113,037	112,190	117,896
Cash surrender value of life insurance policies	31,007	34,689	31,820
Debt issue costs, net of accumulated amortization	8,232	6,909	5,920
Other assets	1,607	1,762	3,184
Total assets	$ 516,580	$ 537,191	629,107
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 119,815	$ 162,648	$ 158,060
Accrued employee compensation and related taxes	12,592	19,207	17,007
Accrued employee benefits	10,766	12,756	13,052
Accrued interest	25,750	27,607	17,815
Accrued stock bonus plan special contribution			12,601
Other accrued liabilities	6,097	8,678	9,224
Deferred income taxes	19,450	17,517	17,517
Current portion of long-term debt	2,330	3,976	2,320
Total current liabilities	196,800	252,389	247,596
Long-term debt	540,747	531,135	590,310
Deferred income taxes	15,936	17,869	17,869
Other long-term liabilities	8,268	9,093	14,346
Commitments and contingencies			
Stockholders equity:			
Preferred and common stock subject to redemption in certain circumstances, stated at redemption price	68,336	95,525	75,494
Series A preferred stock, $.01 par value, 13% cumulative (liquidation value of $24,755); 600,000 shares authorized; 247,546 shares issued (206,426 and 209,023 shares at stated value not subject to redemption at March 31, 2003 and 2004, respectively)	20,643	20,902	21,217
	12	14	2,316

Series B preferred stock, $.01 par value, variable rate cumulative (liquidation value of $28,747); 100,000 shares authorized; 27,080, and 28,747 shares issued at March 31, 2003 and 2004, respectively (12 and 14 shares at stated value not subject to redemption at March 31, 2003 and 2004, respectively)			
Common stock, $.01 par value; 19,500,000 shares authorized; 13,338,536 shares issued at March 31, 2003 and 2004 (10,355,602 and 10,582,586 shares at $.01 par value not subject to redemption at March 31, 2003 and 2004, respectively)	104	106	107
Capital in excess of par value	74,867	77,188	78,441
Reclassification to value preferred and common stock subject to redemption in certain circumstances to its redemption price	(6,628)	(34,735)	(16,641)
Accumulated other comprehensive (loss) income			
Foreign currency translation adjustment	(485)	(73)	1,268
Additional minimum pension liability	(3,399)	(2,625)	(2,625)
Accumulated deficit	(342,823)	(370,953)	(335,150)
Less treasury stock at cost (181,905 and 184,502 shares of Series A preferred stock; 0 and 0 shares of Series B preferred stock, and; 1,701,693 and 1,933,676 shares of common stock at March 31, 2003 and 2004, respectively)	(55,798)	(58,644)	(65,441)
Total stockholders equity (deficit)	(245,171)	(273,295)	(241,014)
Total liabilities and stockholders equity	$ 516,580	$ 537,191	$ 629,107

See accompanying notes.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands)

	Year Ended March 31,			Nine Months Ended	
	2002	2003	2004	January 1, 2004	December 31, 2004
				(unaudited)	
Revenues	$ 895,058	$ 919,927	$ 1,040,367	$ 718,301	$ 1,152,589
Cost of sales	641,991	658,562	754,266	518,394	828,735
Gross profit	253,067	261,365	286,101	199,907	323,854
Expenses:					
Warehouse and delivery	124,457	127,080	135,421	98,657	116,052
Selling	31,932	32,329	38,254	25,031	34,972
General and administrative	48,295	50,841	42,934	31,261	69,067
Total expenses	204,684	210,250	216,609	154,949	220,091
Income from operations	48,383	51,115	69,492	44,958	103,763
Interest expense, net	72,433	82,486	89,927	63,587	61,976
Income (loss) before income taxes	(24,050)	(31,371)	(20,435)	(18,629)	41,787
Income tax expense	455	1,500	3,127	1,448	3,713
Net income (loss)	$ (24,505)	$ (32,871)	$ (23,562)	$ (20,077)	$ 38,074

See accompanying notes.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

Consolidated Statements of Preferred and Common Stock Subject to Redemption in Certain Circumstances, Series A Preferred Stock, Series B Preferred Stock, Common Stock, Capital in Excess of Par Value, Stock Subscribed, Reclassification to Value Preferred and Common Stock Subject to Redemption in Certain Circumstances to its Redemption Price, Accumulated Other Comprehensive (Loss)/Income, Accumulated Deficit and Treasury Stock

(dollars in thousands)

	Preferred and common stock subject to redemption in certain circumstances	Series A preferred stock	Series B preferred stock	Common stock	Capital in excess of par value	Stock subscribed	Reclassification to value preferred and common stock subject to redemption in certain circumstances to redemption price	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Treasury Stock	Total
Balance at March 31, 2001	$ 85,479	$ 19,016	$ 9	$ 92	$ 63,553	$ 3	$ (10,833)	$ (1,833)	$ (276,660)	$ (39,018)	$ (160,192)
Comprehensive loss:											
Net loss									(24,505)		(24,505)
Foreign currency translation adjustment								(133)			(133)
Minimum pension liability								32			32
Comprehensive loss											(24,606)
Adjustment to shares of common stock subscribed under stock bonus plan					3	(3)					
Stock dividend on Series B 4,405 shares	4,405		(4,405)						(4,405)	4,405	
Loss on interest rate swap agreement								(2,925)			(2,925)
Repurchase of stock for treasury	(14,963)	996	5,402	9	6,525		2,029			(14,963)	(14,965)
Reclassification to value preferred and common stock subject to redemption in certain circumstances to its redemption value	859				2,025		(2,886)				(2)
Balance at March 31, 2002	75,780	20,012	1,006	101	72,106		(11,690)	(4,859)	(305,570)	(49,576)	(202,690)
Comprehensive loss:											
Net loss									(32,871)		(32,871)
Foreign currency translation adjustment								1,200			1,200
Minimum pension liability								(3,150)			(3,150)

Comprehensive loss										(34,821)
Stock dividend on Series B 4,382 shares	4,382		(4,382)					(4,382)	4,382	
Issuance of Series B 17 shares			17						(17)	
Reversal of loss on interest rate swap agreement recognized in net loss							2,925			2,925
Repurchase of stock for treasury	(10,587)	631	3,371	3	2,741	3,843			(10,587)	(10,585)
Reclassification to value preferred and common stock subject to redemption in certain circumstances to its redemption value	(1,239)				20	1,219				

See accompanying notes.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

Consolidated Statements of Preferred and Common Stock Subject to Redemption in Certain Circumstances, Series A Preferred Stock, Series B Preferred Stock, Common Stock, Capital in Excess of Par Value, Stock Subscribed, Reclassification to Value Preferred and Common Stock Subject to Redemption in Certain Circumstances to its Redemption Price, Accumulated Other Comprehensive (Loss)/Income, Accumulated Deficit and Treasury Stock (continued)

(dollars in thousands)

	Preferred and common stock subject to redemption in certain circumstances	Series A preferred stock	Series B preferred stock	Common stock	Capital in excess of par value	Stock subscribed	Reclassification to value preferred and common stock subject to redemption in certain circumstances to its redemption price	Accumulated Other Comprehensive (Loss)/Income	Accumulated Deficit	Treasury Stock	Total
Balance at March 31, 2003	68,336	20,643	12	104	74,867		(6,628)	(3,884)	(342,823)	(55,798)	(245,171)
Comprehensive loss:											
Net loss									(23,562)		(23,562)
Foreign currency translation adjustment								412			412
Minimum pension liability								774			774
Comprehensive loss											(22,376)
Stock dividend on Series B 4,568 shares including the issuance of 1,667 shares			1,667						(4,568)	2,901	
Reclassification of stock dividend on Series B for shares subject to redemption	4,566		(4,566)								
Issuance of Series A for management 2 shares	1						(1)			1	1
Issuance of Series B for	3		(3)							3	3

management 3 shares											
Issuance of common stock 5,585 shares	31				(58)		26			31	30
Repurchase of stock for treasury	(5,754)	259	2,904	2	2,379		210			(5,782)	(5,782)
Reclassification to value preferred and common stock subject to redemption in certain circumstances to its redemption value	28,342						(28,342)				
Balance at March 31, 2004	95,525	20,902	14	106	77,188		(34,735)	(2,698)	(370,953)	(58,644)	(273,295)
Comprehensive income:											
Net income									38,074		38,074
Foreign currency translation adjustment								1,341			1,341
Comprehensive income											39,415
Stock dividend on Series B 2,271 shares issued			2,271						(2,271)		
Issuance of Series A for management 1 share	1						(1)			1	1
Issuance of Series B for management 2 shares	2		(2)							2	2
Issuance of common stock 17 shares	1				(1)					1	1
Repurchase of stock for treasury	(6,805)	315	2,302	1	1,591		2,596			(6,801)	(6,801)
Exercise of stock options, net tax effect					(1,894)						(1,894)
Stock-based compensation					1,557						1,557
Reclassification of stock dividend on Series B shares subject to redemption	2,269		(2,269)								
Reclassification to value common stock subject to redemption to certain	(15,499)						15,499				

circumstances to its redemption value											
Balance at December 31, 2004 (unaudited)	75,494	21,217	2,316	107	78,441		(16,641)	(1,357)	(335,150)	(65,441)	(241,014)

See accompanying notes.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended March 31,			Nine Months Ended	
	2002	2003	2004	January 1, 2004	December 31, 2004
Operating activities:					
Net income (loss)	$ (24,505)	$ (32,871)	$ (23,562)	$ (20,077)	$ 38,074
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:					
Special contribution to stock bonus plan					17,327
Loss on early retirement of debt		12,278			
Depreciation and amortization	11,449	11,369	11,284	8,488	8,780
Amortization and write-off of debt issue costs included in interest expense	1,792	1,416	1,323	992	989
Accrued postretirement benefits	249	498	619	563	611
Gain on sale of property, plant and equipment	(36)	(183)	(1,335)	(1,194)	(1,452)
Stock-based compensation					1,557
Provision for bad debts	2,434	2,649	2,880	2,338	2,153
Increase in cash surrender value of life insurance over premiums paid	(2,174)	(2,242)	(5,276)	929	4,016
Interest paid in kind on senior subordinated note principal	28,601	34,059	38,223	19,235	20,509
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable	15,510	(10,662)	(38,680)	(10,568)	(42,932)
Decrease (increase) in inventories	31,712	(26,722)	(11,658)	(13,952)	(56,059)
Decrease (increase) in other current assets	1,012	134	(1,932)	(904)	(1,321)
(Decrease) increase in accounts payable and accrued liabilities and expenses	(52,163)	42,090	55,912	(14,666)	(15,738)
Decrease (increase) in non-trade receivables	1,681	(1,637)	679	(425)	
Other	(967)	1,109	1,144	2,056	793
Net cash provided by (used in) operating activities	14,595	31,285	29,621	(27,185)	(22,693)
Investing activities:					
Additions to property, plant and equipment	(24,531)	(15,335)	(10,530)	(6,781)	(19,606)
Proceeds from the sale of property, plant and equipment	116	2,440	1,535	1,388	6,714
Premiums paid on life insurance policies	(1,461)	(1,335)	(1,298)	(1,198)	(1,271)
Proceeds from redemption of life insurance policies	1,124	195	2,892	2,300	124
Net cash used in investing activities	(24,752)	(14,035)	(7,401)	(4,291)	(14,039)
Financing activities:					
Net borrowings (payments) under revolving loan agreements	25,111	(9,958)	(19,399)	25,000	39,125
Repayment of senior subordinated notes			(25,390)	(25,390)	
Proceeds from issuance of senior notes		250,000			
Repayment of term loan		(96,000)			
Repayment of senior notes		(105,000)			

Payment of debt issue costs		(10,669)			
Other costs paid in connection with early retirement of debt		(9,596)			
Other debt payments, net	(2,400)	(1,400)	(1,400)	(1,400)	(2,115)
Purchase of stock, net	(14,963)	(10,587)	(5,781)	(4,762)	(9,866)
Net cash provided by (used in) financing activities	7,748	6,790	(51,970)	(6,552)	27,144
Effect of exchange rate changes on cash	2	1	(17)	28	75
Net increase (decrease) in cash and cash equivalents	(2,407)	24,041	(29,767)	(38,000)	(9,513)
Cash and cash equivalents at beginning of period	23,779	21,372	45,413	45,413	15,646
Cash and cash equivalents at end of period	$ 21,372	$ 45,413	$ 15,646	$ 7,413	$ 6,133

See accompanying notes.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information as of December 31, 2004 and for the nine months ended January 1, 2004 and December 31, 2004 is unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation The accompanying consolidated financial statements include the accounts of Earle M. Jorgensen Holding Company, Inc. (the Company or Holding) and its wholly-owned subsidiary Earle M. Jorgensen Company (EMJ), and EMJ s subsidiaries, Earle M. Jorgensen (Canada) Inc. (EMJ (Canada)) and Stainless Insurance Ltd., a captive insurance subsidiary (EMJ (Bermuda)). In fiscal years 2002, 2003, 2004 and the nine months ended January 1, 2004 and December 31, 2004, EMJ (Canada) generated net income (loss) of $(325,000), $1,153,000, $3,282,000, $2,104,000 and $6,496,000, respectively. In fiscal years 2002, 2003 and 2004 and the nine months ended January 1, 2004 and December 31, 2004, EMJ (Bermuda) generated net income (loss) of $(2,056,000), $540,000, $(609,000), $(39,000) and $(27,000), respectively, including investment income and intercompany fees. The loss in fiscal years 2002 and 2004 and the first nine months of fiscal years 2004 and 2005 was attributable to higher loss reserves established in connection with the Company s self-insured workers compensation program. All significant intercompany accounts and transactions have been eliminated.

Company Background and Segment Information EMJ distributes a broad line of bar, tubular, plate and various other metal products and value added services through a network of 35 service centers and processing operations strategically located throughout North America. Metals products sold by EMJ are purchased from various primary metal producers and suppliers, none of which provided more than 10% of EMJ s total purchases in fiscal year 2004. EMJ has over 35,000 customers, none of which represented more than 2% of EMJ s gross revenues in fiscal year 2004.

For financial reporting purposes, EMJ operates in one reportable segment the metals service center industry as determined in accordance with SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*.

Reclassification Certain amounts reported in prior years have been reclassified to conform to the 2004 presentation.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results could differ significantly from those estimates and judgments under different assumptions and conditions.

Interim Financial Information (Unaudited) The accompanying consolidated financial statements at December 31, 2004 and for the nine months ended January 1, 2004 and December 31, 2004 are unaudited. In the opinion of management, these consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements included herein and include all adjustments, consisting of only

normal recurring adjustments, necessary for the fair statement of results of the interim period.

Revenue Recognition EMJ recognizes revenue associated with a sales order when product is shipped, title is passed and collectibility is reasonably assured.

Shipping and Handling Costs Costs incurred in connection with shipping and handling EMJ s products are classified as warehouse and delivery expenses in the accompanying statements of operations.

Accounts Receivable and Concentration of Credit Risk EMJ sells the majority of its products throughout the United States and Canada. Sales to EMJ s recurring customers are generally made on open account terms

EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

while sales to occasional customers are made on a C.O.D. basis when collectibility is not assured. EMJ performs periodic credit evaluations of its ongoing customers and generally does not require collateral. EMJ establishes an allowance for potential credit losses based upon factors surrounding the credit risk for specific customers, historical trends and other information; such losses have been within management s expectations, and were higher in fiscal year 2004 when compared to fiscal years 2002 and 2003. EMJ s allowance for doubtful accounts at March 31, 2003 and 2004 and at December 31, 2004, was $390,000, $601,000 and $1,868,000, respectively. Management believes there are no significant concentrations of credit risk as of March 31, 2004 and December 31, 2004.

Property, Plant and Equipment Property, plant and equipment is recorded at cost. Additions, renewals and betterments are capitalized; maintenance and repairs, which do not extend useful lives, are expensed as incurred. Gains or losses from disposals are reflected in income and the related costs and accumulated depreciation are removed from the accounts. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of 10 to 40 years for buildings and improvements and three to 20 years for machinery and equipment. Leasehold improvements are amortized over the terms of the respective leases. Depreciation expense was $9,787,000, $9,703,000 and $7,594,000 in fiscal 2003 and 2004 and the nine months ended December 31, 2004, respectively.

EMJ capitalizes certain costs incurred during the development of software used internally and amortizes such costs over their estimated useful lives. During fiscal years 2002, 2003, 2004 and for the nine months ended December 31, 2004 such costs totaling $414,000, $220,000, $274,000 and $141,000, respectively, were capitalized.

Long-lived assets, primarily land, buildings, leasehold improvements and certain equipment, used in operations or which are expected to be disposed of are reviewed for impairment whenever events or changes in circumstances indicate that full recoverability is questionable. Factors used in the evaluation include, but are not limited to, future plans for the operations, recent operating results and forecasted cash flows. When indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying value of the assets, the assets are written down and an impairment loss is recognized. There were no impairment losses recorded in fiscal years 2002, 2003, 2004 and the first nine months ended December 31, 2004.

Debt Issue Costs Debt issue costs are deferred and amortized to interest expense over the life of the underlying indebtedness. For the fiscal years ended March 31, 2002, 2003 and 2004, amortization of debt issue costs were $1,792,000, $1,416,000 and $1,323,000, respectively. Accumulated amortization of debt issue costs was $1,263,000 and $2,586,000 at March 31, 2003 and 2004, respectively.

Stock-Based Compensation During December 2004, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* using the modified-prospective transition method, for all employee awards granted, modified or settled after April 1, 2004, as permitted by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure- An Amendment of FASB Statement No. 123*. In accordance with SFAS No. 123, the Company estimated the fair value of options using an option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, and the expected life of the options. The Company s common stock is not currently traded on a national securities exchange or an over-the-counter market, and therefore an effectively zero percent volatility was used. The dividend yield is excluded from the calculation, as it

is the Company s intention to retain all future earnings. All stock options had fully vested prior to the adoption of SFAS No. 123.

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EARLE M. JORGENSEN HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Until the adoption of SFAS No. 123 in December 2004, stock options granted to directors, officers and other key employees of the Company under the stock option plan adopted in January 1997 were accounted for in accordance with APB No. 25. As all stock option grants were made at fair value on the date of grant, no compensation cost has been recognized by the Company for the fiscal years ended March 31, 2001, 2002 and 2003. Had compensation expense for stock options granted been recorded based on the fair value method under SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the effect on the Company s net income for fiscal years 2002, 2003 and 2004 and the nine months ended January 1, 2004 and December 31, 2004 would have been as follows:

	Year Ended March 31,			Nine Months Ended	
	2002	2003	2004	January 1, 2004	December 31, 2004
				(unaudited)	
Net income (loss), as reported	$ (24,505,000)	$ (32,871,000)	$ (23,562,000)	$ (20,077,000)	$ 38,074,000
Deduct: total stock-based compensation expense determined using fair value method for all awards, net of tax	(209,000)	(138,000)	(74,000)	(62,000)	
Net income (loss), as adjusted	$ (24,714,000)	$ (33,009,000)	$ (23,636,000)	$ (20,139,000)	$ 38,074,000

Subsequent to the adoption of SFAS No. 123, the Company modified, as defined in SFAS No. 123, the terms of its outstanding stock options by adjusting the number of shares that can be purchased pursuant to each option and the exercise price per share to offset the reduction in the appraised value of the Holding common stock resulting from the change in valuation methodology required by the amended consent order for Holding s stock bonus plan (see Note 12). As a result of this change, options to purchase 1,731,000 shares of common stock at a weighted average exercise price of $5.92 per share were converted into options to purchase 3,053,668 shares of Holding s common stock at a weighted average exercise price of $3.35 per share. In accordance with SFAS No. 123, which provides that modifications made to the outstanding options require a stock compensation charge for the difference between the intrinsic value of the outstanding stock options before the modifications and the fair value of the stock options after the modifications to the outstanding stock options, the Company recorded a stock compensation charge of $1,557,000 during the three months ended December 31, 2004. In connection with the financial restructuring (see Note 12), all of the issued and outstanding options to purchase shares of Holding common stock will be converted into options to purchase an equal number of shares of the Company s common stock at the same exercise price.

EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income Taxes The Company includes EMJ in its consolidated tax returns and calculates its tax provision as though it files on a separate basis. The consolidated tax liability of the Company and EMJ is allocated to each of these entities pursuant to a Tax Allocation Agreement between the Company and EMJ (Tax Allocation Agreement). Under the Tax Allocation Agreement, the Company pays all taxes and is reimbursed by EMJ for the lesser of (i) EMJ s allocated portion of taxes due, or (ii) the tax that would be payable if EMJ filed its own returns.

The Company records deferred taxes based upon differences between the financial statement and tax basis of assets and liabilities pursuant to SFAS No. 109, *Accounting for Income Taxes*, as though it files on a separate basis. Any differences in deferred taxes determined on a separate basis and the actual payments made or received under the Tax Allocation Agreement are accounted for as an equity adjustment between the Company and EMJ. There were no such differences in fiscal year 2004. Deferred taxes are also recorded for the future benefit of Federal and state tax losses and tax credit carryforwards. Consistent with SFAS No. 109, a valuation allowance has been recognized for certain deferred tax assets, which management believes are not likely to be realized (see Note 6).

Foreign Currency Translation The financial statements of foreign subsidiaries are translated into U.S. dollars in accordance with SFAS No. 52, *Foreign Currency Translation*. Balance sheet accounts are translated using the period-end exchange rates while income statement amounts are translated using the average exchange rates for each year. Adjustments resulting from translation of foreign currency financial statements are included in accumulated other comprehensive loss in stockholders equity. No significant exchange gains and losses were recorded during fiscal 2002, 2003 and 2004.

Cash and Statements of Cash Flows Cash includes disbursements and deposits not yet funded by or applied to EMJ s Revolving Credit Facility as of a balance sheet date and cash and cash equivalents totaling $2,940,000 and $2,004,000 as of March 31, 2003 and 2004, respectively, held by EMJ (Bermuda) in connection with providing insurance to EMJ. EMJ considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

For the years ended March 31, 2002, 2003 and 2004 cash paid for interest on borrowings was $39,942,000, $37,674,000, and $48,623,000 and net cash paid (refunded) for income taxes was $403,000, $(551,000) and $671,000, respectively.

Comprehensive Income Components of EMJ s comprehensive income include foreign currency translation adjustments, additional minimum pension liability and accounting for certain derivatives.

Impact of Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Statements (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)). SFAS No. 123(R), which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in SFAS No. 123, which the Company adopted in December 2004. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values (i.e., pro forma disclosure is no longer an alternative to financial statement recognition). SFAS No. 123(R) is effective for public companies at the beginning of the first interim or annual period beginning after June 15, 2005. Nonpublic companies will be required to adopt SFAS No. 123(R) at the beginning of the first annual

EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

period beginning after December 15, 2005. The adoption of this revision to SFAS No. 123 is not expected to have a material impact on the consolidated financial statements.

In December 2003, FASB issued SFAS No. 132 (revised December 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits* (SFAS No. 132(R)). This statement amends the disclosure requirements of SFAS No. 132 to require more details about retirement plan assets, benefit obligations, cash flows and other relevant information. SFAS No. 132(R) is effective for years ending after December 15, 2003, except certain benefit payment and international plan disclosures that are effective for fiscal years after June 15, 2004. The adoption of the disclosure provisions of SFAS No. 132(R) did not have a material effect on the Company s consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equities. The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003. This statement did not have an effect on the accompanying consolidated condensed financial statements as of and for the periods ending March 31, 2004 and December 31, 2004.

In April 2003, FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Transaction*, which amends and clarifies financial accounting and reporting for derivative instruments, including those embedded in other contracts, and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The provisions of SFAS No. 149 are effective for contracts entered into or modified after June 30, 2003. As of March 31, 2004 and December 31, 2004, the Company had no such instruments.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised), *Consolidation of Variable Interest Entities* (FIN No. 46(R)). FIN No. 46(R) provides the principles to consider in determining when variable interest entities must be consolidated in the financial statements of the primary beneficiary. In general, a variable interest entity used for business purposes that either (1) does not have equity investors with voting rights or (2) has equity investors that are not required to provide sufficient financial resources for the entity to support its activities without additional subordinated financial support. FIN No. 46(R) requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. This statement did not have an effect on the accompanying consolidated financial statements as of and for the periods ended March 31, 2004 and December 31, 2004.

2. Inventories

Substantially all inventories are held for sale at EMJ s service center locations and are valued at the lower of cost (using the last-in, first-out (LIFO) method) or market. If the Company had used the first-in, first-out (FIFO) method of inventory valuation, inventories would have been lower by $11,786,000 at March 31, 2003 and higher by $2,557,000 and $45,062,000 at March 31, 2004 and December 31, 2004, respectively.

Any reduction of inventory quantities that liquidates LIFO inventories carried at costs lower or higher than costs prevailing in prior years may have a significant effect on EMJ s gross profit. Such a reduction and liquidation occurred during fiscal year 2002 and fiscal year 2004 but did not have a significant effect on gross profit. There were no such reductions in fiscal year 2003.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Net Property, Plant and Equipment

Property, plant and equipment (including in-process costs for assets not yet placed in service) and accumulated depreciation at March 31, 2003 and 2004 and December 31, 2004 consisted of the following:

	March 31, 2003	March 31, 2004	December 31, 2004
			(unaudited)
Land	$ 19,558,000	$ 19,329,000	$ 18,476,000
Buildings and leasehold improvements	55,725,000	57,274,000	59,479,000
Machinery and equipment	129,120,000	131,539,000	125,156,000
In-process costs	6,807,000	1,921,000	4,069,000
	211,210,000	210,063,000	207,180,000
Less accumulated depreciation	98,173,000	97,873,000	89,284,000
Net property, plant and equipment	$ 113,037,000	$ 112,190,000	$ 117,896,000

The in-process costs at March 31, 2004 and December 31, 2004 are primarily attributable to progress payments made on equipment for EMJ s tube honing facility in Tulsa, Oklahoma and building renovation in EMJ s Tulsa, Oklahoma service center. December 31, 2004 in-process costs also include costs associated with renovation of the Company s replacement facility in Houston, Texas, expansion of EMJ s Wrightsville, Pennsylvania facility and the new construction of EMJ s building in Birmingham, Alabama. As of March 31, 2004 and December 31, 2004 such costs include $1,300,000 and $9,038,000, respectively. Estimated remaining costs to be incurred in connection with these projects totaled $800,000 at March 31, 2004 and at December 31, 2004 these projects were essentially completed.

4. Cash Surrender Value of Life Insurance

EMJ is the owner and beneficiary of life insurance policies on all former nonunion employees of a predecessor company including certain current employees of EMJ. EMJ is also the owner and beneficiary of key man life insurance policies on certain current and former executives of EMJ and predecessor companies. These policies are designed to provide cash to EMJ to repurchase shares held by employees in the Plan and shares held individually by employees upon the termination of their employment. Cash surrender value of the life insurance policies increases by a portion of the amount of premiums paid and by dividend income earned under the policies. Dividend income earned under the policies totaled $13,521,000, $17,156,000, $17,751,000, $12,411,000 and $15,381,000 in fiscal years 2002, 2003, 2004 and the nine months ended January 1, 2004 and December 31, 2004, respectively, and is recorded as an offset to general and administrative expense in the accompanying statements of operations.

EMJ has borrowed against the cash surrender value of certain policies to pay a portion of the premiums and accrued interest on those policies and to fund working capital needs. Interest rates on borrowings under the life insurance policies are fixed at 11.76%. As of March 31, 2004 and December 31, 2004, approximately $10,295,000 and $3,538,000, respectively, was available for future borrowings. The following table provides the cash surrender value and the loans outstanding at March 31, 2003 and 2004.

	Cash Surrender value before loans	Loans Outstanding	Net cash surrender value
Balance at March 31, 2003	$ 195,976,000	$ 164,969,000	$ 31,007,000
Balance at March 31, 2004	217,320,000	182,631,000	34,689,000

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest on cash surrender value borrowings totaled $15,996,000, $17,796,000, $20,082,000, $15,055,000 and $16,747,000 in fiscal years 2002, 2003, 2004 and the nine months ended January 1, 2004 and December 31, 2004, respectively, and is included in net interest expense in the accompanying statements of operations.

5. Long-Term Debt

Long-term debt at March 31, 2003 and 2004 and December 31, 2004 consisted of the following:

	March 31, 2003	March 31, 2004	December 31, 2004
			(unaudited)
Revolving Loans (including $1,195,000, $1,861,000 and $1,105,000 at March 31, 2003 and 2004 and December 31, 2004, respectively, related to a Canadian facility)	$ 72,937,000	$ 53,538,000	$ 92,663,000
9 3/4% Senior Secured Notes due June 1, 2012	250,000,000	250,000,000	250,000,000
Variable Rate Senior Notes due June 30, 2013	212,540,000	225,373,000	245,882,000
Industrial Development Revenue Bonds:			
Payable in annual installments of $500,000 commencing June 1, 1998, interest at 9%	1,500,000	1,000,000	500,000
Payable in annual installments of $715,000 commencing December 1, 2004, interest at 5.25%	4,300,000	4,300,000	3,585,000
Payable in annual installments of $900,000 commencing September 1, 2000, interest at 8.5%	1,800,000	900,000	
	543,077,000	535,111,000	592,630,000
Less current portion	2,330,000	3,976,000	2,320,000
	$ 540,747,000	$ 531,135,000	$ 590,310,000

Aggregate maturities of long-term debt are as follows: $3,976,000 in fiscal year 2005; $1,215,000 in fiscal year 2006; $52,392,000 in fiscal year 2007, $715,000 in fiscal year 2008, $715,000 in 2009 and $476,098,000 thereafter.

The fair value of the 9 3/4% Senior Secured Notes at March 31, 2004 was $280,000,000 based on the quoted market prices as of that date. The carrying values of all other long-term debt and other financial instruments at March 31, 2004 approximate fair value.

On May 22, 2002, EMJ completed the issuance and sale of 9 3/4% senior secured notes due 2012 totaling $250,000,000, the proceeds from which were used to (i) redeem $105 million in aggregate principal amount of the outstanding 9 1/2% senior secured notes, plus call premium and accrued interest, (ii) prepay $96 million of the term loan plus accrued interest, (iii) terminate the interest rate swap agreement. As a result of this refinancing transaction, EMJ recorded a loss of $12,278,000 related to the early retirement of debt, consisting of the call premium paid, a payment to terminate the interest rate swap agreement, the write-off of deferred financing costs, and certain other expenses incurred in connection with the refinancing transaction. No tax benefit was recorded in connection with this loss due to the uncertainty in realizing the resulting deferred tax asset.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Agreements

EMJ s revolving credit facility (Credit Agreement), allows maximum borrowings of $200 million, including letters of credit ($8,560,000 outstanding at March 31, 2004 and $9,429,000 outstanding at December 31, 2004). Borrowings under the Credit Agreement bear interest at a base rate (generally defined as the greater of the bank s prime lending rate or 0.5% over the Federal Funds Rate) plus 1.25% or the adjusted Eurodollar rate plus 2.50%. At March 31, 2004, the bank s prime lending rate was 4.00% and the Eurodollar rate was 1.09%. In addition, borrowings under the revolving loans are limited to an amount equal to 85% of eligible trade receivables (as defined) plus 55% of eligible inventories (as defined). Unused available borrowings under the revolving loans totaled $139,763,000 at March 31, 2004 and $99,013,000 at December 31, 2004. The Credit Agreement matures on April 7, 2006 and is secured by a lien on all domestic inventory and accounts receivable of EMJ.

Under the Credit Agreement, EMJ is obligated to pay certain fees including an unused commitment fee of 0.5%, payable quarterly in arrears, and letter of credit fees of 2.50% per annum of the maximum amount available to be drawn under each letter of credit, payable quarterly in arrears, plus issuance, fronting, amendment and other standard fees. EMJ paid loan commitment fees totaling $480,000, $584,000, $447,000, $303,000 and $339,000, respectively, in fiscal years 2002, 2003, 2004 and for the nine months ended January 1, 2004 and December 31, 2004.

The Credit Agreement contains financial covenants in respect of maintenance of minimum working capital and a fixed charge coverage ratio (as defined). The Credit Agreement also limits, among other things, the incurrence of liens and other indebtedness, mergers, consolidations, the sale of assets, annual capital expenditures, advances, investments and loans by EMJ and its subsidiaries, dividends and other restricted payments by EMJ and its subsidiaries in respect to their capital stock, and certain transactions with affiliates.

EMJ s Canadian subsidiary maintains a one year renewable credit facility (the Canadian Facility) totaling C$9,000,000 including (i) a revolving credit facility of C$5,500,000, (ii) a term financial instruments facility of C$3,000,000 for hedging foreign currency and rate fluctuations (unused as of March 31, 2004), and (iii) a special credit facility for the issuance of a letter of guarantee up to C$500,000 in connection with the lease for the Toronto facility. Borrowings under the revolving credit facility are limited to an amount equal to 80% of eligible trade receivables (as defined) plus 40% of eligible inventories (as defined, and limited to C$1,500,000), are repayable on demand, and bear interest at the bank s annual prime lending rate plus 0.50%. At March 31, 2004, the interest rate on the revolving credit facility was 4.50%. The revolving credit facility contains financial covenants in respect of maintenance of minimum equity and a debt-to-equity ratio (as defined) and has other restrictions similar to those under the amended Credit Agreement, as described above.

Senior Secured Notes

On May 22, 2002, EMJ refinanced its 9 1/2% senior notes and variable rate term loan by issuing $250 million of 9 3/4% Senior Secured Notes due June 2012. The 9 3/4% Senior Secured Notes were issued at par and interest payments are made semi-annually on June 1 and December 1,

commencing on December 1, 2002. The 9 3/4% Senior Secured Notes are secured by a first-priority lien (subject to permitted liens) on substantially all of EMJ s existing and future acquired unencumbered property, plant and equipment and may be redeemed by EMJ under certain conditions and with certain restrictions at varying redemption prices. The Indenture to the 9 3/4% Senior Secured Notes contains certain covenants which limit, among other things, the incurrence of liens and other indebtedness, mergers, consolidations, the sale of assets, investments and loans, dividends and other distributions, and certain transactions with affiliates.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Variable Rate Senior Notes

In fiscal 1993, the Company and EMJ entered into an agreement with Kelso Investment Associates IV, LP (KIA IV), wherein KIA IV agreed to surrender $55 million of subordinated notes issued by EMJ in fiscal 1991 in exchange for $55 million in principal amount of variable rate senior notes due March 20, 2001 (Old Notes) issued by the Company and warrants entitling KIA IV to purchase up to 10% of the common stock of the Company on a fully diluted basis at an exercise price of $.01 per share, exercisable immediately. On March 24, 1998, an amendment to the agreement between the Company and KIA IV was consummated, whereby the Old Notes, including interest paid in kind, were exchanged for two variable rate senior notes totaling $92,181,000 (Notes). The Notes are due on June 30, 2013 and bear interest at a variable rate ranging from 18% to 20% (18% as of March 31, 2004). The Notes are structurally subordinated to the indebtedness of EMJ and payments of principal and interest on the Notes is dependent on the ability of EMJ to make dividends to the Company, which ability is restricted by covenants contained in the Credit Agreement and the indenture governing the Senior Secured Notes. The Company pledged all of the outstanding common stock of EMJ as collateral securing the repayment of the Notes.

Derivative Instrument

In June 1998, EMJ entered into an interest rate swap agreement with Deutsche Bank Trust Company Americas (DBTCA) that effectively fixed the interest rate on the variable rate term loan at approximately 9.05% through June 2003 (the Fixed Rate). Such agreement required DBTCA to make payments to EMJ each quarter in an amount equal to the product of the notional amount of $95 million and the difference between the three month London Interbank Offered Rate and 3.25% (Floating LIBOR) and the Fixed Rate, if the Floating LIBOR was greater than the Fixed Rate on a per diem basis. If Floating LIBOR was lower than the Fixed Rate, EMJ was required to pay DBTCA an amount equal to the product of the notional amount and the difference between the Fixed Rate and Floating LIBOR on a per diem basis. Under the provisions described above, net payments (receipts) in fiscal years 2001 and 2002 were $(721,000) and $2,248,000, respectively. Because the interest rate swap agreement was terminated in May 2002 in connection with the prepayment of EMJ s term loan resulting from the issuance and sale of the 9 3/4% senior secured notes described above, no quarterly settlements were required in fiscal year 2003.

The interest rate swap agreement was considered a highly effective cash flow hedge under the provisions of SFAS No. 133, as amended, which was adopted by EMJ effective April 1, 2001. Under SFAS No. 133, the effective portion of gain or loss resulting from changes in the fair value of the interest rate swap agreement is reported in other comprehensive income while the ineffective portion is recognized in net income. For the year ended March 31, 2002, a loss of $2,925,000 was recognized in other comprehensive income and a loss of $100,000 was recognized in net income. As of March 31, 2002, the interest rate swap agreement represented a long-term liability with a fair market value of $3,025,000, as calculated under the provisions of SFAS No. 133. In connection with the issuance and sale of the 9 3/4% senior secured notes, EMJ paid $3,025,000 to terminate the interest rate swap agreement, which was recognized as part of the loss of $12,278,000 related to the early retirement of debt.

Other

EMJ s industrial revenue development bonds were issued in connection with significant facility improvements or construction projects.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Income Taxes

Significant components of the provision for income taxes attributable to continuing operations for the years ended March 31, 2001, 2002 and 2003 were as follows:

	2002	2003	2004
Current:			
Federal	$ (49,000)	$ 435,000	$
State	492,000	492,000	1,458,000
Foreign	12,000	573,000	1,669,000
Total current	455,000	1,500,000	3,127,000
Deferred:			
Federal	(8,957,000)	(998,000)	(10,267,000)
State	(1,067,000)	(623,000)	(733,000)
Valuation allowances	10,024,000	1,621,000	11,000,000
Total deferred			
	$ 455,000	$ 1,500,000	$ 3,127,000

The reconciliation of the income tax provision differs from that which would result from applying the U.S. statutory rate for the years ended March 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004
Expected tax (benefit) at Federal statutory rate	$ (8,426,000)	$ (6,683,000)	$ (7,152,000)
State franchise tax expense and capital taxes, net of Federal taxes	320,000	320,000	947,000
Disallowed applicable high yield debt interest expense	4,136,000	4,925,000	5,385,000
Expiration of capital loss carryforward		5,618,000	
Net increase in cash surrender values of life insurance	(4,732,000)	(6,005,000)	(6,213,000)
Change in valuation allowance	10,024,000	1,621,000	11,000,000
Other	(867,000)	1,704,000	(840,000)

Income tax provision	$ 455,000	$ 1,500,000	$ 3,127,000

The change of $11,000,000 in the valuation allowance for deferred tax assets as of March 31, 2004 was due to the generation of a current year tax loss, offset by the expiration of a capital loss carryforward in fiscal year 2004.

Income before taxes consists primarily of income from EMJ s domestic operations. For fiscal years 2002, 2003 and 2004, the Company s foreign operations, including the captive insurance subsidiary, generated pre-tax income (loss) of $(2,369,000), $2,267,000 and $4,342,000, respectively.

EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of the Company s deferred income tax assets and liabilities at March 31, 2003 and 2004 were as follows:

	2003	2004
Deferred tax liabilities:		
Tax over book depreciation	$ 7,342,000	$ 8,889,000
Purchase price adjustments	35,846,000	35,210,000
Total deferred tax liabilities	43,188,000	44,099,000
Deferred tax assets:		
Applicable high yield debt interest	36,690,000	39,678,000
Net operating loss and credit carryforwards	22,860,000	31,625,000
Workers compensation and other insurance accruals	4,278,000	3,438,000
Inventory and related reserves	4,105,000	5,024,000
Other	1,096,000	1,175,000
Valuation allowance for deferred tax assets	(61,227,000)	(72,227,000)
Net deferred tax assets	7,802,000	8,713,000
Net deferred tax liabilities	$ 35,386,000	$ 35,386,000

At March 31, 2004, EMJ had net operating loss carryforwards of $79,167,000 for Federal income tax purposes and $29,870,000 for State income tax purposes. The Federal carryforwards resulted from EMJ s losses during 1993, 1996, 2002 and 2003, and expire in years 2008, 2011, 2022 and 2023, respectively, while the State carryforwards were generated in various states over various years. The ultimate realization of the benefits of these loss carryforwards is dependent on future profitable operations. In addition, use of EMJ s net operating loss carryforwards and other tax attributes may be substantially limited if a cumulative change in ownership of more than 50% occurs within any three year period subsequent to a loss year. At March 31, 2004, EMJ had an alternative minimum tax carryforward of approximately $2,116,000 which can be utilized over an indefinite period of time.

On September 11, 2002, new tax laws were enacted in California that suspend the use of net operating tax carryforwards into years beginning on or after January 1, 2002 and 2003. Accordingly, net operating losses generated in California in prior tax years cannot be used to offset EMJ s taxable income for the years ending March 31, 2003 and 2004. This suspension will not apply to tax years beginning on or after January 1, 2004 and did not have material impact on EMJ s results of operations for the year ended March 31, 2004.

The Company has not provided for taxes on undistributed earnings from its non-U.S. subsidiaries because such earnings are intended to be re-invested indefinitely. If these earnings were distributed, foreign tax credits may become available under current tax law to reduce the resulting U.S. tax liability.

Income tax expense for the first nine months of fiscal 2005 included provisions for state franchise and foreign income taxes, while fiscal 2004 tax expense included provisions for state franchise and foreign income taxes. The federal tax rate for the first nine months of fiscal 2005 was 1% of domestic taxable income, and was lower than the U.S. federal statutory tax rate primarily due to the recognition of tax benefits associated with the utilization of loss carryforwards. The federal tax provision for the first nine months of fiscal 2004 was offset by the recognition of tax benefits associated with loss carryforwards, which for Holding were greater than the loss carryforwards for EMJ on a consolidated basis. Income tax expense has been provided for the nine months ended December 31, 2004 based on the Company s estimated effective income tax rate for fiscal 2005.

EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Employee Benefit Plans

Stock Bonus Plan

The Company has a stock bonus plan (the Plan, formerly an employee stock ownership plan (ESOP) prior to April 1, 1999) which covers nonunion employees of EMJ who meet certain service requirements. The cost of the Plan is borne by EMJ through annual contributions to a trust in amounts determined by the Board of Directors. Prior to an agreement reached with the Department of Labor in January 2003 (see Note 10), contributions were made in cash or shares of the Company s stock as the Company s Board of Directors may from time to time determine. Participants vest at a rate of 20% per year of service and become fully vested at age 65 or upon retirement, disability or death. Upon the occurrence of a participant s termination (as defined), retirement, disability, or death, the Plan is required to distribute the vested balance in stock and to repurchase the vested balance for cash. If stock is distributed, it is accompanied by a put option to the Company under terms defined in the Plan. Shares of the Company s Series A and B preferred and common stock owned by the Plan totaled 38,282, 28,730 and 2,652,874 at March 31, 2004, and 35,208, 28,697, 2,506,309 at December 31, 2004, respectively. For fiscal years ended March 31, 2002, 2003, 2004 and the nine months ended January 1, 2004 and December 31, 2004, contributions accrued to the Plan s trust totaled $2,831,000, $2,772,000, $2,783,000, $2,147,000 and $2,876,000 which represented 5% of eligible compensation for each of the respective periods. The contributions payable as of March 31, 2002, 2003, 2004, have been or will be paid in cash. EMJ recognizes the cost of the Plan as compensation expense with a corresponding amount reflected in its capital for value of the Company s common stock contributed to the trust by the Company, or as a dividend to the Company for contributions paid in cash.

Although the Company has not expressed any intent to terminate or amend the plan, it has the right to do so at any time. In the event of any termination, participants become fully vested to the extent of the balances in their separate accounts and come under the put options as previously discussed.

Pension Plans

EMJ maintains a noncontributory defined benefit pension plan covering substantially all hourly union employees (the Hourly Plan). Benefits under the Hourly Plan are vested after five years and are determined based on years of service and a benefit rate that is negotiated with each union. The assets of the Hourly Plan for participants are held in trust and consist of bonds, equity securities and insurance contracts. EMJ contributes at least the minimum required annually under ERISA. EMJ also maintains an unfunded supplemental pension plan, which provides benefits to highly compensated employees; this plan has been frozen to include only existing participants (the Supplemental Plan).

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of net periodic pension cost (credit) associated with EMJ s pension plans for years ended March 31, 2002, 2003, 2004 and nine months ended January 1, 2004 and December 31, 2004 are as follows:

				Nine Months Ended	
	2002	2003	2004	January 1, 2004	December 31, 2004
				(unaudited)	
Service cost of benefits earned during the period	$ 433,000	$ 432,000	$ 523,000	$ 392,000	$ 492,000
Interest cost on projected benefit obligation	784,000	843,000	879,000	630,000	733,000
Expected return on plan assets	(1,017,000)	(864,000)	(763,000)	(573,000)	(753,000)
Amortization of prior service cost	(95,000)	(47,000)	(37,000)	(28,000)	84,000
Recognized net (gain) loss	(66,000)	21,000	267,000	181,000	100,000
Net periodic pension cost (credit)	$ 39,000	$ 385,000	$ 869,000	$ 602,000	$ 656,000

Categories of Plan assets	2003	2004
Bonds	13%	14%
Stocks	87%	86%

During fiscal year 2005, a contribution of $700,000 was made.

The plan is 100% invested in Wells Fargo Asset Allocations Collective Investment Fund (the Fund). The Fund seeks long-term total return, consistent with reasonable risk, by shifting investments among stocks and U.S. Treasury long-term bonds using a quantitative asset allocation strategy. The Fund invests in common stocks that comprise the S&P 500 Index and bonds that comprise the Lehman Brothers 20+ Treasury Index. The Fund will remain near its strategic allocation of 60% stocks and 40% bonds them majority of the time to maximize the probability of achieving its long-term risk and return objectives.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following provides a reconciliation of the changes in the benefit obligation and fair value of plan assets, and the funded (unfunded) status of the pension plans for the years ended March 31, 2003 and 2004.

	2003	2004
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	$ 11,350,000	$ 14,066,000
Service cost	432,000	523,000
Interest cost	843,000	879,000
Change in assumptions	1,414,000	958,000
Amendments	504,000	67,000
Benefit payments	(514,000)	(545,000)
Actuarial losses/(gain)	37,000	(157,000)
Benefit obligation at end of year	14,066,000	15,791,000
Change in Plan Assets:		
Fair value of plan assets at beginning of year	11,203,000	9,297,000
Actual return on assets	(1,434,000)	2,205,000
Benefit payments	(514,000)	(545,000)
Company contributions	92,000	793,000
Fees	(50,000)	(31,000)
Fair value of plan assets at end of year	9,297,000	11,719,000
Unfunded	(4,769,000)	(4,072,000)
Unrecognized prior service cost	(236,000)	(131,000)
Unrecognized net actuarial gain	3,658,000	2,780,000
Net amount recognized	$ (1,347,000)	(1,423,000)

The following provides a reconciliation of the changes in the benefit obligation and fair value of plan assets, and the funded (unfunded) status of the pension plans for the years ended March 31, 2003 and 2004:

	2003	2004
Amounts recognized in balance sheets consist of:		
Prepaid cost	$	$

Accrued benefit liability	(4,746,000)	(4,048,000)
Accumulated comprehensive loss additional minimum liability	3,399,000	2,625,000
Net amount recognized	$ (1,347,000)	(1,423,000)
Weighted-average assumptions as of March 31:		
Discount rate	6.50%	6.00%
Expected return on assets	8.25%	8.25%
Rate of compensation increase		
Measurement date for assets and liabilities	1/1/2003	1/1/2004

The return on assets assumption assumes a long-term return of 9% on equity investments and 7% on government bond investments with 60% equity and 40% bond target investment mix. Long-term rates of return on equity investments are trending approximately 7% above current CPI, while long-term rates of return on government bong investments are trending approximately 5% above current CPI. Current CPI has been approximately 2% for the last few years.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with union agreements, EMJ also contributes to multi-employer defined benefit retirement plans covering substantially all union employees of EMJ. At December 31, 2004, three different unions represented approximately 559 of our employees from 15 locations (33% of total employees). Our collective bargaining agreements expire at staggered dates through March 2010; bargaining agreements that will expire in fiscal 2005 represent 1% of total employees. Expenses incurred in connection with these plans totaled $1,015,000, $1,295,000, $1,798,000 and $1,445,000 in fiscal years 2002, 2003, and 2004 and for the first nine months ended December 31, 2004, respectively.

Postretirement Benefit Plan

In addition to EMJ s defined benefit pension plans, EMJ sponsors a defined benefit health care plan that provides postretirement medical and dental benefits to eligible full time employees and their dependents (the Postretirement Plan). The Postretirement Plan is fully insured, with retirees paying a percentage of the annual premium. Such premiums are adjusted annually based on age and length of service of active and retired participants. The Postretirement Plan contains other cost-sharing features such as deductibles and coinsurance. EMJ recognizes the cost of future benefits earned by participants during their working careers, as determined using actuarial assumptions. Gains and losses realized from the remeasurement of the plan s benefit obligation are amortized to income over three years.

In December 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 132 (revised December 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits* (SFAS No. 132(R)). This statement amends the disclosure requirements of SFAS No. 132 to require more details about retirement plan assets, benefit obligations, cash flows and other relevant information. SFAS No. 132(R) is effective for years ending after December 15, 2003, except certain benefit payment and international plan disclosures that are effective for fiscal years after June 15, 2004. The adoption of the disclosure provisions of SFAS No. 132(R) did not have a material effect on the Company s consolidated financial statements.

Components of the net periodic pension cost (credit) associated with EMJ s Postretirement Plan for years ended March 31, 2002, 2003, 2004 and the nine months ended January 1, 2004 an December 31, 2004 are as follows:

				Nine Months Ended	
	2002	2003	2004	January 1, 2004	December 31, 2004
				(unaudited)	
Service cost of benefits earned during the period	$ 223,000	$ 249,000	$ 293,000	$ 250,000	$ 253,000
Interest cost on projected benefit obligation	211,000	258,000	271,000	238,000	220,000
Recognized net (gain)/loss	(185,000)	(9,000)	55,000	75,000	138,000

Net periodic pension cost (credit)	$ 249,000	$ 498,000	$ 619,000	$ 563,000	$ 611,000

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables provide a reconciliation of the changes in the benefit obligation and the unfunded status of the Postretirement Plan for the years ended March 31, 2003 and 2004.

	March	
	2003	**2004**
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	$ 3,271,000	$ 4,328,000
Service cost	249,000	293,000
Interest cost	258,000	271,000
Change in assumptions	950,000	262,000
Benefit payments	(208,000)	(151,000)
Actuarial gains	(192,000)	(87,000)
Benefit obligation at end of year	4,328,000	4,916,000
Unfunded	(4,328,000)	(4,916,000)
Unrecognized prior service cost		
Unrecognized net actuarial gain	358,000	478,000
Accrued benefit cost	$ (3,970,000)	$ (4,438,000)
Weighted-average assumptions as of March 31:		
Discount rate	6.50%	6.00%
Healthcare cost trend rate	12.00%	11.00%
Measurement date for assets and liabilities	1/1/2003	1/1/2004

The healthcare cost trend rate of 11.0% used in the calculation of net benefit cost of the Postretirement Plan is assumed to decrease 1.0% per year to 6.0% for 2009 and remain at that level thereafter.

Assumed healthcare trend rates have a significant effect on the amounts reported for EMJ s Postretirement Plan. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	1% Increase	**1% Decrease**

Effect on total service and interest cost components	$ 88,000	$ (74,000)
Effect on postretirement benefit obligation	644,000	(550,000)

8. Stockholders Equity

Preferred and Common Stock Subject to Redemption

Preferred stock and common stock subject to put rights , which are exercisable under certain limited circumstances under EMJ s stock bonus plan and under an agreement entered into with certain employees who purchased shares of the Company s common and preferred stock (the Stockholders Agreement), are presented separately from preferred stock and common stock which are not subject to put rights in order to distinguish the shares from permanent capital in the legal sense. Further, the Company is required to present such shares in the financial statements at the amount which would be paid if the shares were to be redeemed. Accordingly, in the accompanying consolidated balance sheets, Preferred and common stock subject to redemption has been stated at its redemption price. The account Reclassification to value preferred and common stock subject to redemption in certain circumstances is adjusted annually as a result of changes in the market value of the related stock based on annual appraisals.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At March 31, 2004 a total of 38,524 shares of series A preferred stock, 28,733 shares of series B preferred stock and 2,755,950 shares of common stock and at December 31, 2004 a total of 35,371 shares of series A preferred stock, 28,702 shares of series B preferred stock and 2,600,402 shares of common stock are subject to put rights in the event of the death, disability, retirement, (or termination in certain circumstances) of an employee holding shares beneficially or directly under either the Plan or the Stockholders Agreement.

EMJ has life insurance policies on the lives of certain management stockholders and stock bonus plan participants to provide funding for share repurchases in the event of a stockholder s death; these policies had a net cash surrender value of approximately $31,007,000 at March 31, 2003, $34,689,000 at March 31, 2004 and $31,820,000 at December 31, 2004 (see Note 4).

Series A Preferred Stock

Series A preferred stock is senior to series B preferred stock and common stock with respect to dividends and liquidation preferences and to any other preferred stock which may be issued by the Company from time to time. The series A preferred stock may be redeemed at the Company s option at any time at its stated value of $100 per share plus cumulative unpaid dividends.

Shares of series A preferred stock have a stated liquidation value of $100 per share and were entitled to a minimum cumulative 13% dividend, based on such stated liquidation value. Because the series A preferred stock was not redeemed on or prior to the eleventh anniversary of its original issuance, the dividend rate increased 500 basis points (to 18%) beginning fiscal 2002, and such rate will remain in effect until the series A preferred stock is redeemed. Dividends may be paid in cash or shares of preferred stock provided that not less than 35% of any dividend must be paid in cash. Undeclared dividends in arrears totaled $33,429,000 and $35,146,000 at March 31, 2004 and December 31, 2004, respectively. The Notes, the Credit Agreement and the 9 3/4% Senior Secured Notes preclude the payment of any cash dividends on series A preferred stock. At any time when the Company has not paid dividends on the series A preferred stock for two consecutive periods, the holders of the series A preferred stock are entitled to elect one director to the Board of Directors of the Company. The holders of the series A preferred stock have elected a director to the Board of Directors of the Company.

The series A preferred stock has no right to vote except for certain matters that would affect the preferential rights of the series A preferred stockholders or in matters related to mergers, consolidations or other business combinations (as defined).

Series B Preferred Stock

Series B preferred stock is senior to the common stock with respect to dividends and liquidation preferences. The series B preferred stock has a stated liquidation value of $1,000 per share. The series B preferred stock may be redeemed at the Company s stated value of $1,000 per share plus cumulative unpaid dividends.

Shares of series B preferred stock are entitled to cumulative dividends at varying rates (15.0% at March 31, 2004 and 14.0% at December 31, 2004) payable quarterly in additional shares of series B preferred stock, common stock or cash. The dividend rate of the series B preferred stock is reset annually in advance as of each April 1 to a rate that would maintain its fair market value at an amount equal to its stated value. Beginning with the quarter ended March 31, 1997, such dividend rate shall be increased by 150 basis points for dividends not paid in cash (to an effective rate of 16.5% at March 31, 2004 and 15.5% at December 31, 2004). The Notes, the Credit Agreement and the 9 $^{3}/4$% Senior Secured Notes preclude the payment of cash dividends on the series B preferred stock and therefore all dividends declared were paid in kind as of March 31, 2004. Undeclared but accumulated dividend in arrears totaling $2,287,000 at March 31, 2004 were declared and paid in July 2004. There were no undeclared dividends in arrears at December 31, 2004.

EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Common Stock

Each outstanding share is entitled to one vote on each matter submitted to a vote of stockholders except as otherwise provided in the Stockholders Agreement with respect to the election of directors. Holders of the common stock are entitled to share equally in such cash dividends as may be declared by the Board of Directors out of funds legally available therefore, and upon liquidation will be entitled to receive pro rata all assets of the Company available for distribution to such holders. The Notes, the Credit Agreement and the 9 3/4% senior secured notes preclude payment of any cash dividends on EMJ common stock. The Series A and Series B preferred stock prohibit the payment of cash dividends on the Company common stock unless all accumulated preferred dividends have been paid.

9. Stock Option Plan

In January 1997, the Company adopted a stock option plan that provides the granting of qualified and nonqualified options to purchase shares of the Company s common stock to directors, consultants, officers and other key employees at a price not less than the fair market value on the date of grant. Options are generally granted for a period not to exceed ten years and are exercisable under terms and conditions as determined by the Company s Executive Committee. Since adopting the stock option plan, the Company has only granted options to directors, officers and other key employees.

The maximum number of shares of the Company s common stock to be issued under the stock option plan is 2,500,000, subject to adjustment upon the occurrence of certain events. The following table summarizes activity for shares subject to options as of and for the fiscal years ended March 31, 2002, 2003, 2004 and the nine months ended December 31, 2004:

	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2001	1,962,500	$ 5.60
Granted	168,500	$ 8.06
Exercised, Canceled or Expired	(88,000)	$ 5.93
Outstanding at March 31, 2002	2,043,000	$ 5.79
Granted	121,000	$ 7.78
Exercised, Canceled or Expired	(27,500)	$ 8.05
Outstanding at March 31, 2003	2,136,500	$ 5.87

Granted		
Exercised, Canceled or Expired	(35,500)	$ 7.83
Outstanding at March 31, 2004	2,101,000	$ 5.84
Granted		
Exercised, Canceled or Expired	(370,000)	$ 5.47
Outstanding at December 31, 2004	1,731,000	$ 5.92
Modified outstanding at December 31, 2004	3,053,668	$ 3.35

Exercise prices for options outstanding as of March 31, 2004 and December 31, 2004 ranged from $3.34 to $8.16. The weighted-average remaining contractual life of those options is 3.91 years at March 31, 2004 and 4.12 years at December 31, 2004. As of March 31, 2004, there were 399,000 options available for future grants and 1,994,000 options exercisable at a weighted average exercise price of $5.73 per share. At December 31, 2004 there were 769,000 options available for future grants and 1,731,000 options exercisable at a weighted average exercise price of $5.92 per share.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2004 the Company modified the terms of its outstanding stock options by adjusting the number of shares that can be purchased pursuant to each option and the exercise price per share to offset the reduction in the appraised value of the Holding common stock resulting from the change in valuation methodology required by the amended consent order for Holding s stock bonus plan (see Note 12). As a result of this change, options to purchase 1,731,000 shares of Holding common stock at a weighted average exercise price of $5.92 per share were converted into options to purchase 3,053,668 shares of Holding s common stock at a weighted average exercise price of $3.35 per share. The maximum number of shares to be issued under the stock option plan was increased to 4,000,000.

Had compensation cost for the stock option plan been determined based on the fair value of the options at the grant date in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company s net income (loss) for fiscal years 2002, 2003, 2004 and the nine months ended January 1, 2004 and December 31, 2004 would have been $(24,714,000), $(33,009,000), $(23,636,000), $(20,139,000) and $38,074,000, respectively. Such proforma effects are not likely to be indicative of the effects on the Company s results in future years.

Under SFAS No. 123, the fair value of each option is estimated on the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for fiscal years 2002 and 2003, respectively: risk-free interest rate 4.37% and 3.00%; no dividend yield; no volatility factor; and an expected life of four years. There were no stock options issued in fiscal year 2004 and during the first nine months of fiscal 2005. Using these assumptions, the weighted average fair value of options granted during fiscal years 2002 and 2003 was $1.29 and $0.88, respectively.

In December 2004, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation,* using the modified-prospective transition method, for all employee awards granted, modified or settled after April 1, 2004, as permitted by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure-An Amendment of FASB Statement No. 123.* In accordance with SFAS No. 123, the Company estimated the fair value of options using an option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, and the expected life of the options. The Company s common stock is not currently traded on a national securities exchange or an over-the-counter market, and therefore an effectively zero percent volatility was used. The dividend yield is excluded from the calculation, as it is the Company s intention to retain all future earnings. All stock options had fully vested prior to the adoption of SFAS No. 123.

10. Commitments and Contingencies

Lease Commitments

EMJ leases, under several agreements with varying terms, certain office and warehouse facilities, equipment and vehicles. Rent expense totaled $21,353,000, $21,657,000 and $22,302,000 for the years ended March 31, 2002, 2003 and 2004, respectively. Sublease income for the years ended March 31, 2002, 2003 and 2004 was $456,000, $632,000 and $653,000, respectively. Minimum rentals of certain leases escalate from

time to time based on certain indices.

EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At March 31, 2004 EMJ was obligated under non-cancellable operating leases for future minimum rentals as follows:

Fiscal year:	
2005	$ 18,422,000
2006	14,315,000
2007	10,323,000
2008	7,337,000
2009	5,718,000
Thereafter	43,939,000
Sub-total	100,054,000
Less: Non-cancellable subleases	(7,961,000)
Net lease obligations	$ 92,093,000

Other Commitments

On January 14, 2004, EMJ announced that it had reached an agreement with the Company and the Company s principal securityholders providing for a restructuring of the combined capital structure. The financial restructuring is being effected pursuant to an Agreement and Plan of Merger and Reorganization dated as of December 18, 2003 among EMJ, the Company and EMJ Metals LLC, a newly-formed wholly-owned subsidiary, as well as an Exchange Agreement among EMJ, the Company and Kelso Investment Associates IV, L.P. and certain of its affiliates (Kelso). The principal effect of the financial restructuring will be to convert all outstanding debt and equity securities of the Company to EMJ s common stock. Kelso is the holder of the Company s outstanding Series A Variable Rate Notes and also is the Company s controlling stockholder.

On May 25, 2004 EMJ announced that the proposed restructuring of the combined capital structure of EMJ with the Company, its parent company, had been delayed. Because of the delay, additional negotiations among the Company s securityholders and changes to the structure of the transaction are required before it can proceed. There is no assurance that the transaction will be successfully negotiated or, if negotiated, will be approved by the requisite votes of the Company s stockholders or that the other conditions to completion of such a transaction will be satisfied. Thus there can be no assurance that the merger will be consummated.

In connection with the 1990 merger, EMJ agreed to pay Kelso, which owns the majority of the Company s common stock, an annual fee of $1,250,000 each year for financial advisory services and to reimburse it for out-of-pocket expenses incurred in connection with rendering such services. EMJ also agreed to indemnify Kelso and its affiliates against certain claims, losses, damages, liabilities, and expenses that may arise in connection with the merger. However, no such annual fee was payable for fiscal years 2002, 2003, and 2004 and other expenses paid to Kelso in

fiscal years 2002, 2003 and 2004 were not significant.

Governmental Matters

The Internal Revenue Service (the IRS) conducted an audit of the Company s employee stock ownership plan (the Plan) for the fiscal years ended March 31, 1992, through March 31, 1996, and issued a preliminary report to the Company in which the IRS asserted that certain contributions of stock by the Parent to the Plan violated provisions of the Internal Revenue Code because the securities contributed were not qualifying employer securities as defined by ERISA. In fiscal year 2002, this matter was settled without the Company admitting the allegations of the IRS, and the Company paid $1,919,000 of excise tax to the IRS.

EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Department of Labor (the DOL) also investigated the same transactions involving the Plan. In the course of its investigation, the DOL and its advisors reviewed the valuations of the Company s common and preferred stock prepared for the Plan and challenged the methodology used in preparing the valuations.

On March 8, 2002, the DOL sued the Company, EMJ, the Plan and former members of the Company s benefits committee in the federal district court for the Central District of California. The DOL claimed that the valuations of Company s common stock used to make annual contributions to the Plan in each of the years 1994 through 2000 contained significant errors that resulted in the common stock being overvalued, and that the failure of the members of our benefits committee to detect and correct the errors was a breach of their fiduciary duty under ERISA. As a result of the alleged overvaluations, the DOL contended that the contributions to the Plan were prohibited transactions under ERISA. On January 27, 2003, the Company signed a settlement agreement with the DOL in connection with the lawsuit. The key provisions of the agreement are as follows: (i) the Company has not been required to make any payments under the agreement at this time; (ii) the Company is prohibited to make further common stock contributions to the Plan; (iii) the Company will continue to obtain annual appraisals of Company stock using methodology consistent with prior appraisals, and use that appraised value as the purchase price for repurchases of common stock as it has done in the past, and; (iv) if the annual appraisal of the Company s common stock is less than $4.25 per share, the Company shall pay a floor price of $4.25 per share in connection with the repurchase of common stock from departing employees for shares that were originally contributed to the Plan for the plan years 1994 through 2000.

If the Company pays the floor price in connection with the repurchase of common stock from departing employees, the agreement also allows the DOL to assess the Company a penalty equal to 20% of the amount calculated by multiplying the difference between the appraised value and the floor price by the number of shares repurchased at the floor price.

The Company does not believe the settlement will have a material impact on its financial condition or future results of operations, and we believe payments under the settlement, if any, will most likely be paid in immaterial amounts which will be spread over many years.

In December 2003, the Company entered into agreements with EMJ, a subsidiary and the principal stockholders of Holding providing for a financial restructuring. Prior to approval of the transaction, the DOL initiated a review of the procedures followed by the Company s benefits committee in connection with evaluation of the proposed transaction and other strategic alternatives available to the Company and an assessment of whether or not the proposed transaction complied with the terms of the consent order and the legal requirements applicable to the stock bonus plan. Such review resulted in delays that, combined with other transactional requirements, precluded the consummation of the financial restructuring on the terms originally proposed. The Company is considering changes to the proposed transaction that will achieve the objectives of the original restructuring transaction, while meeting the concerns expressed by the DOL. The Company intends to review any proposed transaction with the DOL in advance under their compliance assistance program to ensure compliance with the terms of the consent order and applicable law. There can be no assurance that a revised transaction will be agreed upon, approved by the Company s stockholders and consummated.

Environmental Contingencies

EMJ is subject to extensive and changing federal, state, local and foreign laws and regulations designed to protect the environment and human health and safety, including those relating to the use, handling, storage, discharge and disposal of hazardous substances and the remediation of environmental contamination. As a result, EMJ is from time to time involved in administrative and judicial proceedings and inquiries relating to environmental matters.

EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal years 2002, 2003 and 2004, expenditures made in connection with environmental matters totaled $97,000, $194,000 and $232,000, respectively, principally for settlement of claims, and monitoring, remediation and investigation activities at sites with contaminated soil and/or groundwater and were expensed as incurred. As of March 31, 2004, an accrual of $203,000 exists for future investigation and remediation expenditures related to the following pending environmental matters.

Forge (Seattle/Kent, WA). In November 1998, EMJ paid the purchasers of its former Forge facility and an off-site disposal site $2,250,000 as an indemnification settlement for liabilities related to the remediation of known contamination at the Forge facility. EMJ continues to monitor the disposal site for environmental conditions in accordance with a consent decree issued by the Washington Department of Ecology (Ecology). Annual costs associated with such monitoring are not significant, and EMJ does not anticipate significant additional expenditures related to this matter.

The Forge property is located on the Lower Duwamish Waterway, which has been identified by the United States Environmental Protection Agency (EPA) as a Superfund Site (the Duwamish Site). Under the Federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), owners or operators of facilities that have released hazardous substances to the environment may be liable for remediation costs. Courts have held that such liability may be joint and several; however, in many instances, the costs are allocated among the parties, primarily based on their estimated contribution to the contamination. The EPA, along with Ecology, have entered into an Administrative Order of Consent (AOC) with four major property owners with potential liability for cleanup of the Duwamish Site that outlines tasks required to be completed to further investigate the nature and extent of the contamination and cleanup alternatives. In November 2001, the current owners of the Forge property notified the Company of a potential claim for indemnification for any liability relating to contamination of the Duwamish Site. The notification stated that the Forge facility, along with other businesses located along the Duwamish Site, are expected to be named as potentially responsible parties for contamination of the Duwamish Site and requested that EMJ participate under a joint defense.

On July 10, 2003, EMJ received a request from the EPA to sign an AOC under CERCLA to investigate certain areas of the Duwamish Site. A preliminary cost of proposed work under the AOC ranges from $350,000 to $450,000, and is subject to approval by the EPA. On April 15, 2003, the Company signed a funding and participation agreement with the current owners of the Forge property, which requires it to fund 85% of costs to be incurred in connection with the investigation activities to be performed under the AOC. As of March 31, 2004, EMJ has accrued $203,000 for remaining costs that are expected to be incurred in future years.

EMJ is continuing to evaluate this matter and remedies it may have, including insurance recoveries for any monies to be spent as part of the investigation or cleanup of the Duwamish Site. Because the Duwamish Site is still being investigated and clean up alternatives and responsibility for clean up are still being evaluated at this time, EMJ cannot determine what ultimate liability it may have relating to this matter.

Union (New Jersey). During fiscal year 1994, EMJ was notified by the current owner that it has potential responsibility for the environmental contamination of a property formerly owned by a subsidiary and disposed of by such subsidiary prior to its acquisition by EMJ . The prior owner of such subsidiary has also been notified of its potential responsibility. On March 27, 1997, the current owner of the property informed the Company that it estimated the cost of investigation and cleanup of the property at $875,000 and requested contribution to such costs from EMJ

and the prior owner. EMJ has contested responsibility and commented on the cleanup plan and has not received any further demands. EMJ does not have sufficient information to determine what potential liability it has, if any.

Although it is possible that new information or future developments could require EMJ to reassess its potential exposure relating to all pending environmental matters, management believes that, based upon all

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

currently available information, the resolution of such environmental matters will not have a material adverse effect on EMJ s financial condition, results of operations or liquidity. The possibility exists, however, that new environmental legislation and/or environmental regulations may be adopted, or other environmental conditions may be found to exist, that may require expenditures not currently anticipated and that may be material.

11. Legal

On April 22, 2002, EMJ was sued by Champagne Metals, a small metals service center distributing aluminum coil products in Oklahoma, alleging that the Company had conspired with other metal service centers to induce or coerce aluminum suppliers to refuse to designate Champagne Metals as a distributor, which resulted in unspecified damages. EMJ and the other defendants filed motions for summary judgment, and on June 15, 2004, the federal District Court for the Western District of Oklahoma entered an order granting the motions for summary judgment of each of the defendants including EMJ and dismissed the case. Plaintiffs filed a notice of appeal on July 13, 2004 and the plaintiffs and defendants are in the process of briefing the appeal.

The Company is involved in other litigation or legal matters in the normal course of business. In the opinion of management, these matters will be resolved without a material impact on the Company s financial position or results of operations.

12. Subsequent Events (unaudited)

The Department of Labor In December 2003, the Company entered into a merger agreement and an exchange agreement with EMJ, EMJ Metals LLC, a wholly owned subsidiary of EMJ, and the principal stockholders of the Company that provided for a financial restructuring pursuant to which the Company would cease to exist as the parent company of EMJ and the stockholders and noteholder of the Company would receive shares of EMJ common stock based on a fixed exchange ratio. Prior to approval of the transaction, the U.S. Department of Labor (DOL) initiated a review of the procedures followed by the Company s benefits committee in connection with evaluation of the proposed transaction and other strategic alternatives available to the Company and an assessment of whether or not the proposed transaction complied with the terms of the consent order entered on January 29, 2003 and the legal requirements applicable to the Company s stock bonus plan. The investigation and related discussions with the DOL resulted in delays that, combined with other transactional requirements, precluded the consummation of the financial restructuring on the terms originally proposed. The parties to the merger agreement and exchange agreement executed an agreement terminating the merger agreement and the exchange agreement as of July 30, 2004. Notwithstanding such termination, representatives of the Company s special committee, Kelso & Company (Kelso), EMJ and the benefits committee continued to work on an alternative transaction to restructure the combined capital structure of the Company and EMJ and negotiate a financial restructuring transaction.

In August 2004, the Company and the benefits committee submitted a proposal to the DOL for the amendment of the consent order to change the methodology used in preparing annual valuations for the Company s stock bonus plan. In connection with the change in valuation

methodology, the Company also determined that it would be in the best interests of the plan to make a special contribution of additional shares of the Company s common stock with respect to the shares of the Company s common stock held by the stock bonus plan. This contribution (which would be converted into a contribution of EMJ common stock upon consummation of the financial restructuring) would offset the adverse effect on participants in the stock bonus plan, because the change in methodology would cause a significant decrease in the appraised value of the Company s common stock. This proposal was approved by the DOL on November 17, 2004. On December 16, 2004, the board of directors of the Company approved the amended consent order and the program documents committing to make the special contribution to the stock bonus plan, and on December 17, 2004, the amended

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

consent order was executed by the Company, the benefits committee and the DOL, and on January 3, 2005, the amended consent order was entered by the district court and became effective.

The Company has authorized a special contribution of additional shares of the Company s common stock or common stock equivalents to (1) the stock bonus plan, (2) the supplemental stock bonus plan and (3) a cash bonus plan. The special contribution will consist of 1.0817 shares of the Company s common stock or its equivalent with respect to each share of the Company s common stock held in the stock bonus plan. This amount is equal to (a) the difference between the appraised value as of March 31, 2004 using the old methodology and the appraised value as of March 31, 2004 using the new methodology, divided by (b) the appraised value as of March 31, 2004 using the new methodology, adjusted for the dilutive effect of such contribution. After giving effect to the special contribution, the stock bonus plan participants holding the Company s common stock will continue to have shares of the Company s common stock with the same aggregate value, notwithstanding the change in valuation methodology which otherwise would have had the effect of reducing the aggregate value of their equity interests. As of January 12, 2005, there were 2,454,119 shares of the Company s common stock in the stock bonus plan of which 2,275,628 shares of the Company s common stock were allocated to the accounts of participants who are still EMJ employees and are eligible to receive the special contribution in the form of common stock contributed to the plan. The special contribution will consist of up to 2,461,547 shares of the Company s common stock or its equivalent and cash bonuses paid through a new cash bonus plan of approximately $1,056,000 in the aggregate to participants who are no longer employed by EMJ. EMJ charged approximately $17,327,000 in the aggregate to expense with respect to the commitment to make the special contribution in December 2004.

To ensure compliance with the Internal Revenue Code and ERISA requirements, the first contribution will be made after the completion of the plan year ending March 31, 2005. Due to certain Internal Revenue Service rules limiting the amount of contributions that can be made in a single year, the contributions will be made over two years, and affected participants who are no longer employed by EMJ will receive the program benefits in cash payments outside the stock bonus plan. Other Internal Revenue Service rules limit contributions that discriminate in favor of highly compensated employees. The Company has adopted an amendment to the stock bonus plan that provides for stock contributions for the plan years ending March 31, 2005 and March 31, 2006. To the extent legally permissible, each participant will receive the special contribution of 1.0817 additional shares of the Company s common stock for each share of the Company s common stock which remained in their account as of the date of the amended consent order in two contributions. To the extent participants do not receive their full allocation under the stock bonus plan over the two years, the program benefits will be provided under a cash bonus plan or through credits of units under a phantom stock plan called the supplemental stock bonus plan. The program has been designed to ensure that each participant will receive the equivalent value of their allocation of the special contribution determined as of the date of the amended consent order, whether or not they continue to be employed by EMJ or continue to be a plan participant.

If the financial restructuring and this offering are consummated, EMJ will assume the Company s obligations under all aspects of the program and the stock contributions will be made in EMJ s common stock.

Financial Restructuring The Company, EMJ and Kelso have negotiated a financial restructuring transaction (approved by the boards of the Company and EMJ on December 16, 2004) to be consummated concurrently with this offering (approved by EMJ s board on September 27, 2004). The transaction will involve a merger between the Company and a wholly owned subsidiary of EMJ pursuant to a merger agreement dated as of December 17, 2004, amended as of January 28, 2005, and further amended as of March 3, 2005. Pursuant to the merger agreement

(1) all issued and outstanding shares of the Company s common stock will be converted into shares of EMJ s common stock and (2) all issued and outstanding shares of the Company s 13% Cumulative Preferred Stock, or the series A preferred stock, and the Company s Variable Rate Cumulative Preferred stock, or

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the series B preferred stock, will be converted into a combination of cash and shares of EMJ s common stock. In addition, pursuant to an exchange agreement dated as of December 17, 2004, and as amended as of March 3, 2005 Kelso Investment Associates IV, L.P. (KIA IV) will, concurrently with and subject to the completion of the merger, exchange all of the outstanding Series A Variable Rate Notes of the Company, or the Company notes, for a combination of cash and shares of EMJ s common stock and will exchange all rights pursuant to warrant agreements executed by the Company entitling KIA IV to purchase shares of the common stock of the Company for shares of EMJ s common stock. Each of the Kelso funds will vote all shares of the Company s capital stock held by it in favor of the adoption and approval of the merger agreement and the merger. The value of the shares of EMJ s common stock for use as merger consideration will be determined by the price at which a share of EMJ s common stock is sold in its initial public offering to be consummated concurrently with the merger. The net proceeds of the initial public offering will be allocated to the payment of the cash consideration for the series A preferred stock, series B preferred stock and Holding notes upon consummation of the financial restructuring in accordance with the terms of the merger agreement and the exchange agreement.

The consummation of the financial restructuring is subject to various remaining conditions, including the approval of the financial restructuring by the holders of the Company s common stock and series B preferred stock voting together as a class (including and excluding shares held by the Kelso funds and other Kelso affiliates) and the holders of the series A preferred stock voting separately as a class (including and excluding shares held by the Kelso funds and other Kelso affiliates). In addition, the consummation of the financial restructuring and this offering are conditioned upon one another. There is no assurance that the financial restructuring will be approved by the requisite vote of the Company s stockholders, that this offering will be completed successfully or that the other conditions to completion of the transaction will be satisfied.

Contingencies As soon as practicable after, and conditioned upon consummation of, this offering, EMJ has committed to pay a taxable initial public offering bonus to its employees on the closing date who are also participants in the stock bonus plan. The initial public offering bonus plan provides for the payment of a bonus of $7,500,000 in the aggregate to participants and a bonus of $1,000,000 in the aggregate to a certain subset of participants, which will be allocated to each group s participants in accordance with the plan and based on the number of shares of the Company s common stock owned in the stock bonus plan.

EMJ s obligation in regards to the stock contribution discussed in Note 12 is to contribute up to 2,461,547 shares of EMJ s common stock to the stock bonus plan. The per share price of common stock used in determining the value of the contribution was $6.61 per share. In fiscal 2006 and 2007, when the stock contributions are made, if the market price of the common stock is greater than (less than) the price used for the initial valuation of the contribution, EMJ is required to record an additional expense (benefit) for the difference between the then current market price and the initial share price. EMJ will adjust its remaining stock contribution obligation on a quarterly basis until the share contribution has been fulfilled.

Stock-Based Compensation In December 2004, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, using the modified-prospective transition method, for all employee awards granted, modified or settled after April 1, 2004, as permitted by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123*. In accordance with SFAS No. 123, the Company estimated the fair value of options using an option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, and the expected life of the options. The Company s common stock is not currently traded on a national securities exchange or an over-the-counter market, and therefore an effectively zero percent volatility was used. The dividend yield is excluded from the calculation, as it is the Company s intention to retain all future earnings. All stock options had fully vested prior to the adoption of SFAS No. 123.

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Subsequent to the adoption of SFAS No. 123, the Company modified, as defined in SFAS No. 123, the terms of its outstanding stock options by adjusting the number of shares that can be purchased pursuant to each option and the exercise price per share to offset the reduction in the appraised value of the Company s common stock resulting from the change in valuation methodology required by the amended consent order for the Company s stock bonus plan. As a result of this change, options to purchase 1,731,000 shares of the Company s common stock at a weighted average exercise price of $5.92 per share were converted into options to purchase 3,053,668 shares of Holding s common stock at a weighted average exercise price of $3.35 per share. In accordance with SFAS No. 123, modifications made to outstanding options require a stock compensation charge for the difference between the intrinsic value of the outstanding stock options before the modifications and the fair value of the stock options after the modifications, using an option pricing model described above. As a result of the modifications to the outstanding stock options, the Company recorded a stock compensation charge of $1,557,000 during the three months ended December 31, 2004. In connection with the proposed merger and financial restructuring, all of the issued and outstanding options to purchase shares of the Company s common stock will be converted into options to purchase an equal number of shares of EMJ s common stock at the same exercise price.

On December 16, 2004, and prior to the modification of the outstanding options, the Company agreed to pay the chief executive officer a cash payment of $3,006,000 (equal to the difference between the appraised value of the Company s common stock as of March 31, 2004 of $13.76 and the exercise price of $5.41 per share) in consideration of the redemption of options to purchase 360,000 shares of the Company s common stock held by the chief executive officer.

Clinton Drive (Houston, TX) In connection with the sale of a surplus facility in Houston, Texas, an environmental investigation of the site detected benzene in the groundwater at the site that we believe came from previously removed diesel/gasoline underground storage tanks. Based on additional sampling and tests, traces of chlorinated solvents were also detected in the groundwater at the site. In connection with the sale of the property, on December 9, 2004, EMJ entered into an agreement with the buyer that provides for us to do the following:

- file a voluntary clean-up application with the Texas Commission for Environmental Quality, or TCEQ, that commits us to clean-up the soil and groundwater at the site for the benzene and chlorinated solvents to acceptable levels in accordance with TCEQ requirements;
- fund an escrow account with $0.5 million to be available to complete required clean-up and subsequent monitoring activities; and
- indemnify the buyer for pre-existing environmental issues on the site based on applicable TCEQ industrial/commercial standards.

EMJ has accrued $0.5 million for the estimated liability from this issue.

Related Party Transaction On December 16, 2004, EMJ amended its advisory agreement with Kelso and paid Kelso a fee of $6,250,000 in connection with termination of EMJ s obligation to pay fees to Kelso under the advisory agreement. The obligations of Kelso to provide financial advisory services and of EMJ to reimburse expenses of and provide indemnification to Kelso remained in effect.

Credit Agreement EMJ amended its Credit Agreement on March 3, 2005, to permit maximum borrowings of $300.0 million. Borrowings under the Credit Agreement bear interest at a base rate (generally defined as the greater of the bank s prime lending rate or 0.5% over the Federal Funds rate) plus 1.00% or the adjusted Eurodollar rate plus 2.00%. The applicable margin will increase or decrease based on the leverage ratio (as defined) of EMJ. In addition, borrowings under the revolving loans are limited to an amount equal to 85% of eligible trade receivables (as defined) plus 60% of eligible inventories (as defined). The amended credit

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EARLE M. JORGENSEN HOLDING COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

agreement matures March 3, 2010 and is secured by a lien on all domestic inventory and accounts receivable of EMJ.

Under the Credit Agreement, EMJ is obligated to pay certain fees including an unused commitment fee of 0.375%, payable quarterly in arrears, and letter of credit fees at a rate equal to the applicable Eurodollar margin per annum, payable quarterly in arrears, plus issuance, fronting, amendment and other standard fees.

The Credit Agreement contains a financial covenant in respect of maintenance of a fixed charge coverage ratio (as defined). The Credit Agreement also limits, among other things, the incurrence of liens and other indebtedness, mergers, consolidations, the sale of assets, annual capital expenditures, advances, investments and loans by EMJ and its subsidiaries, dividends and other restricted payments by EMJ and its subsidiaries in respect to their capital stock, and certain transactions with affiliates.

Initial Public Offering The consummation of the financial restructuring and this offering are subject to various conditions, the approval of the financial restructuring by the holders of the Company s common stock and series B preferred stock voting together as a class, and the consent of the lenders under EMJ s credit facility and are conditioned upon one another. There is no assurance that the proposed financial restructuring will be approved by the requisite vote of the Company s stockholders, that this offering will be completed successfully or that the other conditions to completion of the transaction will be satisfied.

For accounting purposes, the restructuring will be accounted for as a transfer of assets and exchange of shares between entities, EMJ and the Company, under common control. As such, the transaction will be accounted for in a manner similar to a pooling-of-interests. Accordingly, subsequent to the completion of the financial restructuring, the financial position and results of operations of the Company will be included in EMJ s consolidated financial statements on a historical basis.

Pursuant to the financial restructuring, assuming that the public offering price will be $15.00 per share of EMJ common stock and net proceeds of the public offering are $279,750,000 the following will occur:

Exchange of all outstanding Company debt and accrued interest thereon totaling $257,069,318 for $216,631,383 in cash from initial public offering proceeds and 2,695,862 shares of EMJ s common stock.

Exchange of warrants to purchase 2,937,915 shares of Company common stock for 2,935,956 shares of EMJ s common stock, net of the exercise price of $0.01 per share.

Conversion of 11,197,122 issued and outstanding shares (not including 2,141,414 shares held in treasury and retired) of Company common stock into 11,197,122 shares of EMJ common stock.

Conversion of 57,573 shares of the Company s series A preferred stock (not including 189,973 shares held in treasury and retired) for $688.21 in cash from initial public offering proceeds and 8.56 shares of EMJ s common stock.

Conversion of 27,882 shares of the Company s series B preferred stock (not including 3,136 shares held in treasury) for $842.70 in cash from initial public offering proceeds and 10.49 shares of EMJ s common stock.

The adjustment to the caption reclassification to value represents the cumulative changes in the market value, based on annual appraisals, related to the shares of the Company s preferred stock and common stock that will be redeemed in the financial restructuring. This will be eliminated as a result of the existing Company preferred stock and common stock being converted for a combination of cash and EMJ s common stock.

Upon completion of the financial restructuring and the public offering, subject to the assumptions herein, 37,848,598 shares of EMJ s common stock will be issued and outstanding.

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Earle M. Jorgensen Company

Credit Suisse First Boston

Goldman, Sachs & Co.

Citigroup

ABN AMRO Rothschild LLC

William Blair & Company

CIBC World Markets

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

Set forth below is an estimate (except as indicated) of the amount of fees and expenses (other than underwriting commissions and discounts) payable by the registrant in connection with the issuance and distribution of the common stock pursuant to the prospectus contained in this registration statement. The registrant will pay all of these expenses.

	Amount
SEC registration fee (actual)	$ 42,857
NASD filing fee (actual)	30,500
The New York Stock Exchange listing fee (actual)	36,800
Accountants fees and expenses	225,000
Legal fees and expenses	950,000
Printing and engraving expenses	647,140
Transfer agent fees	20,000
Miscellaneous expenses	56,953
Total	$ 2,009,250

Item 14. Indemnification of Directors and Officers.

The registrant s certificate of incorporation provides that the registrant shall indemnify, to the fullest extent permitted by the provisions of the Delaware General Corporation Law, as now or hereafter in effect, all persons whom it may indemnify under such provisions, including directors and officers. The registrant s bylaws, however, provide that the registrant shall not be obligated to indemnify any such person (1) with respect to any threatened, pending or completed claims, suits or actions, whether civil, criminal, investigative or otherwise (Proceedings) initiated or brought voluntarily by any such person and not by way of defense (other than, subject to certain exceptions, proceedings brought to establish or enforce a right to indemnification under the bylaws), or (2) for any amounts paid in settlement of a Proceeding without the prior written consent of the registrant. The registrant has entered into indemnification agreements with each of its directors and officers. These agreements may require the registrant, among other things, to indemnify such directors or officers against certain liabilities that may arise by reason of their status or service as directors or officers, to advance expenses to them as they are incurred, provided that they undertake to repay the amount advanced if it is ultimately determined that such director or officer is not entitled to indemnification, and to obtain directors and officers liability insurance whether or not the registrant would have the power to indemnify such director or officer under the applicable provisions of the registrants charter or bylaws. The registrant has directors and officers liability insurance and will obtain amended coverage in connection with this offering.

In addition, the registrant s certificate of incorporation provides that a director of the registrant shall not be personally liable to the registrant or its stockholders for monetary damages for breach of his or her fiduciary duty as a director, except for liability (1) for any breach of the director s duty of loyalty to the registrant or its stockholders, (2) for acts or omissions not in good faith or which involve intentional misconduct or a

knowing violation of law, (3) for willful or negligent conduct in paying dividends or repurchasing stock out of other than lawfully available funds, or (4) for any transaction from which the director derives an improper personal benefit.

Reference is made to Section 145 of the Delaware General Corporation Law which provides for indemnification of directors and officers in certain circumstances.

Under the terms of the underwriting agreement, the underwriters have agreed to indemnify, under certain conditions, the registrant, its directors, certain of its officers and persons who control the registrant within the meaning of the Securities Act of 1933.

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Item 15. Recent Sales of Unregistered Securities.

On May 22, 2002, EMJ issued $250 million worth of 9 3/4% Senior Secured Notes to Credit Suisse First Boston Corporation, Deutsche Bank Securities, Inc. and J. P. Morgan Securities. Discounts and commissions payable to these initial purchasers were $6.9 million in the aggregate. The 9 3/4% senior secured notes issued in the transaction described above were issued by us in reliance upon the exemption from registration available under Section 4(2) of the Securities Act, as a transaction by an issuer not involving a public offering, and the initial purchasers resold the Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to persons outside the United States under Regulation S under the Securities Act. Appropriate legends were affixed to the Notes.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits

1**	Form of Underwriting Agreement by and among Earle M. Jorgensen Company (the Company), Earle M. Jorgensen Holding Company, Inc. (Holding), Credit Suisse First Boston LLC and Goldman, Sachs & Co. on behalf of themselves and as representatives of the several underwriters.
2.1	Agreement and Plan of Merger, dated as of December 17, 2004, amended as of January 28, 2005, and further amended as of March 3, 2005, by and among Earle M. Jorgensen Company, Holding and EMJ Metals LLC. Incorporated by reference to Exhibit 2.1 to the Company s Amendment No. 5 to Registration Statement on Form S-4 as filed on March 11, 2005 (Registration No. 33-111882) (the Amendment No. 5 to the Company s 2004 Registration Statement).
2.2	Exchange Agreement, dated as of December 17, 2004, and amended March 3, 2005, by and among the Company, Holding, Kelso Investment Associates, L.P. (KIA I), Kelso Equity Partners II, L.P. (KEP II), KIA III-Earle M. Jorgensen, L.P. (KIA III-EMJ), and Kelso Investment Associates IV, L.P. (KIA IV). Incorporated by reference to Exhibit 2.2 to Amendment No. 5 to the Company s 2004 Registration Statement.
2.3	First Amendment to Agreement and Plan of Merger and Reorganization, dated as of January 28, 2005, by and among the Company, Holding and EMJ Metals LLC. Incorporated by reference to Exhibit 10.24 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2004 (the Company s December 31, 2004 Form 10-Q).
2.4	Second Amendment to Agreement and Plan of Merger and Reorganization, dated as of March 3, 2005, by and among the Company, Holding and EMJ Metals LLC. Incorporated by reference to Exhibit 2.4 to the Company s Amendment No. 4 to Registration Statement on Form S-4 as filed on March 8, 2005 (Registration No. 33-111882) (the Amendment No. 4 to the Company s 2004 Registration Statement).
2.5	First Amendment to Exchange Agreement, dated as of March 3, 2005, by and among the Company, Holding, KIA II, KEP II, KIA III-EMJ, and KIA I. Incorporated by reference to Exhibit 2.5 to Amendment No. 4 to the Company s 2004 Registration Statement.
3.1	Amended and Restated Certificate of Incorporation of the Company. Incorporated by reference to Exhibit 3.1 to Amendment No. 5 to the Company s 2004 Registration Statement.
3.2	Amended and Restated Bylaws of the Company. Incorporated by reference to Exhibit 3.2 to Amendment No. 5 to the Company s 2004 Registration Statement.
4.1	Specimen stock certificate representing the Company s common stock. Incorporated by reference to Exhibit 4.1 to the Company s Amendment No. 3 to Registration Statement on Form S-4 as filed on February 11, 2005 (Registration No. 33-111882) (the Amendment No. 3 to the Company s 2004 Registration Statement).
4.2	Form of Restructuring Agreement among Holding, the Company and KIA IV. Incorporated by reference to Exhibit 4.25 to Amendment No. 3 filed on March 3, 1993 to the Company s 1993 Registration Statement on Form S-1 as filed on January 15, 1993 (Registration No. 33-57134) (the Company s 1993 Registration Statement).

4.3	Amendment to Restructuring Agreement, dated as of March 3, 1993, and amended as of March 24, 1998, by and between Holding and KIA IV. Incorporated by reference to Exhibit 4.8 to the Company s Annual Report on Form 10-K for the fiscal year end March 31, 1998.
4.4	Amendment to Restructuring Agreement, dated as of March 3, 1993, and amended as of May 22, 2002, by and between Holding and KIA IV. Incorporated by reference to Exhibit 4.3 to the Company s Annual Report on Form 10-K for the fiscal year end March 31, 2003 (the Company s 2003 Form 10-K).
4.5	Second Amendment to Restructuring Agreement, dated as of March 3, 1993, and amended as of May 22, 2002, by and between Holding and KIA IV. Incorporated by reference to Exhibit 4.4 to the Company s 2003 Form 10-K.
4.6	Third Amendment to Restructuring Agreement, dated as of March 3, 1993, and amended as of June 28, 2002, by and between Holding and KIA IV. Incorporated by reference to Exhibit 4.5 to the Company s 2003 Form 10-K.
4.7	Fourth Amendment to Restructuring Agreement, dated as of March 3, 1993, and amended as of September 30, 2002, by and between Holding and KIA IV. Incorporated by reference to Exhibit 4.6 to the Company s 2003 Form 10-K.
4.8	Fifth Amendment to Restructuring Agreement, dated as of March 3, 1993, and amended as of December 31, 2002, by and between Holding and KIA IV. Incorporated by reference to Exhibit 4.7 to the Company s 2003 Form 10-K.
4.9	Second Amended and Restated Credit Agreement, dated as of March 3, 1993, amended and restated as of March 24, 1998, and further amended and restated as of April 12, 2002 (the Credit Agreement), by and among the Company, Holding, Various Financial Institutions, BT Commercial Corporation, as agent, and Deutsche Bank Alex. Brown Incorporated, as Lead Arranger and Sole Book Runner. Incorporated by reference to Exhibit 4.16 to the Company s Registration Statement on Form S-4 as filed on July 3, 2002 (Registration No. 333-91866) (the Company s 2002 Registration Statement).
4.10	Form of Indenture with respect to the Company s 9/4% Senior Secured Notes due 2012. Incorporated by reference to Exhibit 4.17 to the Company s 2002 Registration Statement.
4.11	Form of certificate for the Company s 9/4% Senior Secured Notes, Series A, $248,435,000. Incorporated by reference to Exhibit 4.18(a) to the Company s 2002 Registration Statement.
4.12	Form of certificate for the Company s 9/4% Senior Secured Notes, Series A, $1,565,000. Incorporated by reference to Exhibit 4.18(b) to the Company s 2002 Registration Statement.
4.13	Purchase Agreement, dated as of May 17, 2002, by and among the Company, Credit Suisse First Boston Corporation, Deutsche Bank Securities, Inc. and J.P. Morgan Securities, Inc., for an aggregate of $250,000,000 in principal amount of the Company s 9/4% Senior Notes due 2012. Incorporated by reference to Exhibit 4.19 to the Company s 2002 Registration Statement.
4.14	First Amendment to the Credit Agreement and Consent, dated as of May 22, 2002, by and among the Company, Holding, the banks and other financial institutions signatory thereto and Deutsche Bank Trust Company Americas, as agent. Incorporated by reference to Exhibit 4.21 to the Company s 2002 Registration Statement.
4.15	Security Agreement, dated as of May 22, 2002, by and among the Company and other Grantors signatory thereto and The Bank of New York, as trustee. Incorporated by reference to Exhibit 4.22 to the Company s 2002 Registration Statement.
4.16	Intercreditor Amendment, dated as of May 22, 2002, by and among The Bank of New York, as Trustee under the Indenture with respect to the Company s 9/4% Senior Notes, and Deutsche Bank Trust Company Americas, as agent under the Credit Agreement. Incorporated by reference to Exhibit 4.23 to the Company s 2002 Registration Statement.

4.17	Second Amendment to the Credit Agreement and Consent, dated as of February 19, 2004, by and among the Company, Holding, the banks and other financial institutions signatory thereto and Deutsche Bank Trust Company Americas, as agent. Incorporated by reference to Exhibit 4.17 to the Company s Form 10-K for the fiscal year ended March 31, 2004 (the Company s 2004 Form 10-K).
4.18	Consent to Increased Capital Expenditures, dated June 30, 2004, by and among the Company, Holding, the banks and other financial institutions signatory thereto and Deutsche Bank Trust Company Americas, as agent. Incorporated by reference to Exhibit 4.18 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004.
4.19	Form of Amended and Restated Second Amendment to Second Amended and Restated Credit Agreement and Consents, dated as of December 14, 2004, by and among the Company, Holding, the banks and other financial institutions signatory thereto and Deutsche Bank Trust Company Americas, as agent. Incorporated by reference to Exhibit 4.17 to Amendment No. 2 to the Company s 2004 Registration Statement.
4.20	Consent to Payment of Advisory Fee, dated as of December 20, 2004, by and among the Company, Holding, the financial institutions party thereto and Deutsche Bank Trust Company, as agent. Incorporated by reference to Exhibit 4.1 to the Company s December 31, 2004 Form 10-Q.
4.21	Form of Third Amended and Restated Credit Agreement, dated as of March 3, 1993, amended and restated as of March 24, 1998, further amended and restated as of April 12, 2002, and further amended and restated as of March 3, 2005, by and among Holding, the Company, each of those financial institutions listed from time to time on Schedule I thereto, and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), acting as Agent (the Third Amended and Restated Credit Agreement). Incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K as filed on March 7, 2005.
4.22	Form of Borrower Reaffirmation and Amendment to Security Agreement, dated as of March 3, 2005, by and among the Company, Holding, each of those financial institutions listed from time to time on Schedule I to the Third Amended and Restated Credit Agreement, and Deutsche Bank Trust Company Americas, acting as Agent. Incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K as filed on March 7, 2005.
5**	Opinion of Katten Muchin Zavis Rosenman as to the legality of the securities being registered (including consent).
10.1	Stockholders Agreement, amended and restated as of September 14, 1990, by and among Holding, KIA III-EMJ, KIA IV, KEP II and the Management Stockholders and Other Investors named therein. Incorporated by reference to Exhibit 4.1 to Holding s Post-Effective Amendment No. 1 to Holding s Registration Statement on Form S-1 as filed on October 12, 1990 (Registration No. 33-35022).
10.2	Amendment to the Stockholders Agreement, dated as of January 20, 1992. Incorporated by reference to Exhibit 10.2 to Amendment No. 3 to the Company s 1993 Registration Statement.
10.3	Second Amendment to the Stockholders Agreement, dated as of September 30, 1994. Incorporated by reference to Exhibit 10.41 to Amendment No. 1 filed June 2, 1995, to Holding s Registration Statement on Form S-1 as filed on October 19, 1994 (Registration No. 33-85364).
10.4	Third Amendment to the Stockholders Agreement, dated as of July 23, 1998. Incorporated by reference to Exhibit 10.4 to the Company s 2003 Form 10-K.
10.5	Services Agreement, dated March 19, 1990, by and between EMJ Acquisition, Inc. and Kelso. Incorporated by reference to Exhibit 10.2 to Holding s Registration Statement on Form S-1 as filed May 30, 1990 (Registration No. 33-35022).
10.6	Holding s ESOP Trust Agreement. Incorporated by reference to Exhibit 10.32 to Holding s Annual Report on Form 10-K for the fiscal year ended March 31, 1991.

10.7	Lease and Agreement, dated as of August 1, 1991, by and between Advantage Corporate Income Fund L.P. and the Company, relating to the sale and lease-back of Kilsby s Kansas City, Missouri property. Incorporated by reference to Exhibit 10.30 to Amendment No. 3 to the Company s 1993 Registration Statement.
10.8	Industrial Building Lease, dated as of October 16, 1991, by and between Ira Houston Jones and Helen Mansfield Jones, Roderick M. Jones and Cherilyn Jones, Roger G. Jones and Norma Jean Jones, Robert M. Jones and Olga F. Jones and the Company, relating to the sale and lease-back of the Alameda Street property in Lynwood, California. Incorporated by reference to Exhibit 10.32 to Amendment No. 3 to the Company s 1993 Registration Statement.
10.9	Stock Purchase Agreement, dated as of June 30, 1992, by and among Forge Acquisition Corporation, The Jorgensen Forge Corporation and the Company, relating to the sale of the Company s Forge division. Incorporated by reference to Exhibit 10.35 to Amendment No. 3 to the Company s 1993 Registration Statement.
10.10	Form of Management Agreement between the Company and Holding. Incorporated by reference to Exhibit 10.46 to Amendment No. 2 filed on February 24, 1993 to the Company s 1993 Registration Statement.
10.11	Form of Tax Allocation Agreement between the Company and Holding. Incorporated by reference to Exhibit 10.47 to Amendment No. 3 to the Company s 1993 Registration Statement.
10.12	Holding s 401(a)(17) Supplemental Contribution Plan, effective April 1, 1994. Incorporated by reference to Exhibit 10.54 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1995 (the Company s 1995 Form 10-K).
10.13	Holding s Deferred Compensation Plan, effective April 1, 1994. Incorporated by reference to Exhibit 10.55 to the Company s 1995 Form 10-K.
10.14	Holding Stock Option Plan effective January 30, 1997. Incorporated by reference to Exhibit 10.57 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1997 (the Company s 1997 Form 10-K).
10.15	Form of Holding Incentive and Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit 10.58 to the Company s 1997 Form 10-K.
10.16	Earle M. Jorgensen Company Management Incentive Compensation Plan. Incorporated by reference to Exhibit 10.62 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 1997.
10.17	Earle M. Jorgensen Company Employee Stock Ownership Plan, as amended and restated effective as of April 1, 2001. Incorporated by reference to Exhibit 10.57 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2002 (the Company s December 31, 2002 Form 10-Q).
10.18	First Amendment to the Earle M. Jorgensen Company Employee Stock Ownership Plan (as amended and restated effective as of April 1, 2001), effective as of January 15, 2002. Incorporated by reference to Exhibit 10.58 to the Company s December 31, 2002 Form 10-Q.
10.19	Second Amendment to the Earle M. Jorgensen Company Employee Stock Ownership Plan (as amended and restated effective as of April 1, 2001), effective as of April 1, 2001. Incorporated by reference to Exhibit 10.59 to the Company s December 31, 2002 Form 10-Q.
10.20	Third Amendment to the Earle M. Jorgensen Company Employee Stock Ownership Plan (as amended and restated effective as of April 1, 2001), effective as of January 1, 2002. Incorporated by reference to Exhibit 10.60 to the Company s December 31, 2002 Form 10-Q.
10.21	Registration Rights Agreement, dated as of May 17, 2002, by and among the Company, Credit Suisse First Boston Corporation, Deutsche Bank Securities, Inc. and J.P. Morgan Securities, Inc. Incorporated by reference to Exhibit 4.20 to the Company s 2002 Registration Statement.

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10.22	Fourth Amendment to the Earle M. Jorgensen Company Employee Stock Ownership Plan (as amended and restated effective as of April 1, 2001), effective as of April 1, 2003. Incorporated by reference to Exhibit 10.21 to the Company s 2003 Form 10-K.
10.23	Fifth Amendment to the Earle M. Jorgensen Employee Stock Ownership Plan (as amended and restated effective as of April 1, 2001), effective as of April 1, 2004. Incorporated by reference to Exhibit 10.23 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended September 29, 2004.
10.24	Lease and Agreement, dated as of September 1, 1991, by and between Advantage Corporate Income Fund L.P. and the Company, relating to the sale and lease-back of the Cincinnati, Ohio property. Incorporated by reference to Exhibit 10.31 to the Company s 1993 Registration Statement.
10.25	Amendment to Holding s Stock Bonus Plan Trust Agreement, dated as of November 18, 2003. Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended November 15, 2003.
10.26	Form of Indemnification Agreement of the Company. Incorporated by reference to Exhibit 3.3 of Amendment No. 1 filed on April 8, 2004 to the Company s 2004 Registration Statement to the Company s Registration Statement on Form S-4 as filed on January 13, 2004 (Registration No. 33-111882) (the Company s 2004 Registration Statement).
10.27	Earle M. Jorgensen Company 2004 Stock Incentive Plan. Incorporated by reference to Exhibit 10.27 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.28	Form of Incentive Stock Option Grant Agreement under the Earle M. Jorgensen Company 2004 Stock Incentive Plan. Incorporated by reference to Exhibit 10.28 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.29	Form of Non-Qualified Stock Option Grant Agreement under the Earle M. Jorgensen Company 2004 Stock Incentive Plan. Incorporated by reference to Exhibit 10.29 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.30	Form of Restricted Stock Agreement under the Earle M. Jorgensen Company 2004 Stock Incentive Plan. Incorporated by reference to Exhibit 10.30 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.31	Form of Registration Rights Agreement by and among the Company, Maurice S. Nelson, Jr., KIA I, KEP II, KIA III-EMJ and KIA IV. Incorporated by reference to Exhibit 10.31 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.32	Form of Nominating Agreement by and among the Company, KIA I, KEP II, KIA III-EMJ and KIA IV. Incorporated by reference to Exhibit 10.32 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.33	Amendment to Advisory Agreement, dated as of December 17, 2004, by and between the Company and Kelso & Company, L.P. Incorporated by reference to Exhibit 10.33 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.34	Termination of Merger Agreement and Exchange Agreement, dated as of July 30, 2004. Incorporated by reference to Exhibit 10.28 to the Company s Quarterly Report on Form 10-Q Commission File No. 1-7537 for the fiscal quarter ended June 30, 2004.
10.35	Sixth Amendment to the Earle M. Jorgensen Company Employee Stock Ownership Plan (as amended and restated effective as of April 1, 2001), effective as of April 1, 2004. Incorporated by reference to Exhibit 10.35 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.36	Seventh Amendment to the Earle M. Jorgensen Stock Bonus Plan (as amended and restated effective as of April 1, 2001). Incorporated by reference to Exhibit 10.36 of Amendment No. 2 to the Company s 2004 Registration Statement.

10.37	Supplemental SBP of Earle M. Jorgensen Holding Company, Inc., effective as of March 31, 2006. Incorporated by reference to Exhibit 10.37 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.38	Amended Consent Order and Release, dated as of December 12, 2004, by and among the Company, Holding, the Earle M. Jorgensen Employee Stock Ownership Plan, the Benefits Committee of Holding s Board of Directors, and the United States Department of Labor, as filed on January 3, 2005 with the United States District Court for the Central District of California. Incorporated by reference to Exhibit 10.38 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.39	Retention Bonus; Transfer Restrictions Letter, dated as of December 17, 2004, by and between the Company and Maurice S. Nelson, Jr. Incorporated by reference to Exhibit 10.39 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.40	Amendment to the Earle M. Jorgensen Holding Company, Inc. Option Plan, effective as of December 16, 2004. Incorporated by reference to Exhibit 10.40 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.41	Adjustment to Outstanding Stock Option Letter, dated as of December 17, 2004, by and between the Company and Maurice S. Nelson, Jr. Incorporated by reference to Exhibit 10.41 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.42	Form of Adjustment to Outstanding Stock Options Letter from the Company to Option Holders of Holding. Incorporated by reference to Exhibit 10.42 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.43	Form of Transfer Restriction Agreement. Incorporated by reference to Exhibit 10.43 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.44	Form of Disposition of Stock Options Letter from the Company to Option Holders of Holdings. Incorporated by reference to Exhibit 10.44 of Amendment No. 2 to the Company s 2004 Registration Statement.
10.45	Earle M. Jorgensen Company IPO Cash Bonus Plan. Incorporated by reference to Exhibit 10.23 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2004.
12	Statement of Computation of Ratio of Earnings to Fixed Charges. Incorporated by reference to Exhibit 12 to Amendment No. 3 to the Company s 2004 Registration Statement.
21	Subsidiaries of the Company. Incorporated by reference to Exhibit 21 to the Company s Form 10-K for the fiscal year ended March 31, 2004.
23.1*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
23.2**	Consent of Katten Muchin Zavis Rosenman.
24.1	Power of Attorney (previously filed on signature page of the initial filing of this Registration Statement).
24.2**	Power of Attorney executed by Joseph T. O Donnell, Jr.

* Included in this filing.
** Previously filed.

(b) Financial Statement Schedule

Schedule Number	Description of Schedules*
Schedule II	Valuation and Qualifying Accounts and Reserves

* All other schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

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EARLE M. JORGENSEN COMPANY

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Column A	Column B	Column C	Column D	Column E
Description	Balance at beginning of period	Charges to costs and expenses	Amounts charged off (net of recoveries)	Balance at end of period
Allowance for doubtful accounts				
Year ended March 31, 2002	$ 427,000	$ 2,434,000	$ (2,409,000)	$ 452,000
Year ended March 31, 2003	452,000	2,649,000	(2,711,000)	390,000
Year ended March 31, 2004	390,000	2,880,000	(2,669,000)	601,000
Reserve for inventory				
Year ended March 31, 2002	$ 2,231,000	$ 2,705,000	$ (2,411,000)	$ 2,525,000
Year ended March 31, 2003	2,525,000	2,321,000	(1,669,000)	3,177,000
Year ended March 31, 2004	3,177,000	1,123,000	(912,000)	3,388,000

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Item 17. Undertakings.

(1) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(2) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions referenced in Item 14 of this Registration Statement, or otherwise, the registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(3) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, (i) the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective and (ii) each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lynwood, and State of California on the 30th day of March, 2005.

EARLE M. JORGENSEN COMPANY

By: /s/ William S. Johnson

William S. Johnson

Chief Financial Officer and Vice President

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed below by the following persons in the capacities indicated on March 30, 2005.

Signature	Title
* **David M. Roderick**	Chairman of the Board and Director
* **Maurice S. Nelson, Jr.**	Chief Executive Officer, Chief Operating Officer and President and Director (Principal Executive Officer)
/s/ William S. Johnson **William S. Johnson**	Chief Financial Officer, Vice President and Secretary (Principal Financial Officer and Accounting Officer)
* **Frank T. Nickell**	Director
* **William A. Marquard**	Director
* **Dr. John Rutledge**	Director
* **Earl L. Mason**	Director
*	Director

David I. Wahrhaftig

*	Director
Joseph T. O Donnell, Jr.	

*By: /s/ WILLIAM S. JOHNSON
William S. Johnson

(Attorney-in-fact)

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EXHIBIT INDEX

Exhibit Number	Description
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm