Mr Peter Smedley
Chairman

OneSteel Limited AGM Address
18 November 2002

Introduction

Once again, welcome to OneSteel's second Annual General Meeting and our first full year as a separately listed Steel company.

I would like to outline the main highlights of the year to you followed by some commentary on what we can expect looking ahead.

The Managing Director, Bob Every will provide a more in-depth analysis of what the company has achieved since its listing in 2000, where it is currently positioned and some issues it faces in the future.

The 2002 financial year represented an encouraging performance for OneSteel, through a combination of better market conditions and further management initiatives.

OneSteel achieved a much improved result of double the net operating profit after tax, compared to the prior year.

From a **strategic viewpoint**, the year was important.

The integration of the Email Metals business which was acquired in late 2000/01 was completed. This acquisition adds approximately 10% growth to OneSteel's revenues, a significant addition to the company in its first year.

As I mentioned at last year's Annual General Meeting, the Email acquisition was strategically important for OneSteel to protect future earnings. I can inform shareholders that the integration process was completed on time and to plan with the identified synergistic benefits of the acquisition assisting the 2002 financial year earnings.

I also mentioned in last year's Annual General Meeting the need for the business to undertake an accelerated **restructuring program** to overcome some of the debt pressure associated with the OneSteel spin out and the Email acquisition.

I am pleased to report the completion of several major restructuring initiatives including the :

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- sale of the Canadian distribution business in October
- the reduction of a shift from the Newcastle Rod Mill in March
- the streamlining of the maintenance and engineering function at Newcastle in April
- and closure of the Brisbane Bar Mill in May.

The initiatives within the Australian operations will provide a full year benefit in the 2003 financial year.

The Year In Review

I will now turn to a brief outline of OneSteel's results for the 2002 financial year.

The first area I would like to focus on is OneSteel's safety record. OneSteel places enormous importance on safety forming part of the company's culture.

OneSteel's safety record is "World Class", something that Bob Every will elaborate on in his speech today. During the year, there was some improvement in OneSteel's safety outcomes, even with the acquisition and integration of Email Metals combined with the significant restructuring that was undertaken during the year.

As I mentioned earlier, results improved strongly over the year.

Market conditions improved significantly from the 2001 financial year, which in the steel industry was considered to be one of the lowest points in the industry for many years.

Activity across those segments that make up OneSteel's revenues increased by 4.6%, with big improvements in residential construction investment which increased by 17%, non-residential construction which increased at 4.8% and engineering construction which increased by 1.7%.

These three segments account for more than 55% of OneSteel's revenues. The segments where there is marginal improvement included engineering, while mining, agriculture, and automotive industry investment were either flat or declined slightly.

Sales revenue for the 12 months to June 2002 grew at 10% from $2,637.7 to $2,906.0 million when compared with the prior corresponding period.

Operating earnings before interest and tax (EBIT), increased by 43.0% for the 12 months recording a sales margin of 5.1%, compared with 3.9% for the

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prior corresponding period. On an **earnings before tax** basis, profit increased by 124.8% from $41.6 million to $93.5 million.

A higher effective tax rate stemming from some prior year adjustments, the sale of AJ Forsyth and increased amortisation, diminished the increase in **Operating net profit after tax** and minorities to 99.6% or $47.1 million for the 12 months, which is equivalent to 8.7 cents per share, 71% higher than the prior year.

Restructuring generated a total of $59 million dollars in cost savings along with revenue enhancements of $20 million. **Staffing levels** declined over the 12 months from 7,379 as at the end of June 2001, to 6,989 by the end of June 2002, a decrease of 390 or 5.3%. Approximately one third of this reduction stemmed from the sale of the AJ Forsyth business, the Canadian distribution business.

Operating cash flow for the period was $143.9 million while **Capital and investment expenditure** decreased by 34.7% to $70.8 million and is in line with OneSteel's stated objective of keeping capital expenditure at levels lower than depreciation.

OneSteel's **financial gearing** on a net debt, to net debt plus equity basis, improved significantly from 40.6% to 31.9% with net debt decreasing 25% or $191 million from $762.4 million to $571.6 million.

The significant decline in debt stems from an equity placement completed in December which raised $66 million, OneSteel asset sales of $56.2 million, net Email asset sales of $65.9 million, with the remainder generated from trading.

With the improved result, the Board declared a **final dividend** of 3.5 cents per share fully franked, bringing the total dividends declared for the year to 6.5 cents. This represents a payout ratio of 74.3 %.

Focus for the 2003 Financial Year

In the foreseeable future, management will continue their focus on reducing debt, increasing cash generation, reducing costs through closer business integration and further develop channels to market.

Despite a significant increase in OneSteel's 2002 financial year result over the prior year, there is still room for improved business performance. To date much of management's effort has been focused on the more obvious larger restructuring initiatives such as mill closures and the sale of non-core and surplus assets.

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The challenge over the next 12 months is to identify those areas where management can improve the business in a more micro sense, through initiatives such as maximising plant configuration, reducing product complexity and providing value add services to a number of the company's product offerings.

One of the key initiatives to assist in this process over the next period is the development and implementation of a streamlined business support information system on a SAP information technology platform. The new platform will enhance communication between systems across the business providing further integration benefits.

OneSteel will progress the Whyalla Blast Furnace reline project during the 2003 financial year. The Whyalla Blast Furnace has been operating successfully for over 20 years. The reline project will extend the life of the furnace for a further 16 or more years beyond 2004. The project is currently in the detailed planning stage and some of the long-lead time items required for the project will be ordered this financial year.

The Blast Furnace will be shut down for a period of approximately 60 days in calendar year 2004, during which the reline will be undertaken for a total capital cost of $70 to $ 80 million. To cover the shutdown period, OneSteel will be accumulating stock to ensure continuity of supply during the outage period.

Corporate Governance

Before I turn to trading in 2003, I would like to outline to shareholders that the Board undertook a full review of OneSteel's corporate governance policies during the year. The review took into account the recent public debate surrounding issues of audit independence and non-audit services, a number of issues concerning ASIC surveillance areas and Board Committee Structures.

I want to briefly touch on these areas, focussing firstly on Board Committee Structures.

A review of the Committee structure of the Board has recently been undertaken to ensure that the Board is well resourced to deal comprehensively with the whole range of governance issues.

It has been decided to split the duties of the Governance and Remuneration Committee through the formation of two separate Committees, namely a Governance and Nominations Committee to be chaired by Mr Colin Galbraith, and a Remuneration Committee to be chaired by Mr Neville Roach.

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These newly formed Committees, coupled with the existing Audit and Compliance Committee chaired by Mr David Meiklejohn; the Occupational Health Safety and Environment Committee, chaired by Mr Dean Pritchard; and, the company's Superannuation Fund Policy Committee chaired by Dr Eileen Doyle will provide OneSteel with a broad and soundly based Committee structure which provides each non-executive director with a leadership role of an important aspect of OneSteel's operation. This will allow the Board to utilise their specialist abilities and knowledge to review in depth specific areas of OneSteel's operations.

The Board has also recently adopted a new policy in respect of audit independence and non-audit independence, a summary of which will be in next year's Annual Review. In summary the policy states:

- The external audit engagement partner will sign an annual declaration to the full Board as to their independence and lack of any conflicts.
- The lead audit partner shall spend no more than 7 years on the engagement, after which time he or she will be replaced by another in the firm.
- The quality of the accounts, the accounts presentation process and the audit process will be evaluated each year, by both the auditors and management, against appropriate benchmarks. The findings will be presented to the Audit and Compliance Committee.

- Every half year, management will provide a detailed description of other services provided by the external auditors covering audit related assignments, permitted services and restricted services. In reference to this element of the policy, OneSteel recently put its tax services out to tender.

I will now briefly turn to ASIC Surveillance areas. In July this year public companies were advised by ASIC that it had changed its accounting surveillance work to focus on key areas where investor and public confidence in the reliability of financial reporting by listed companies is at risk.

The three areas identified by ASIC were capitalised expenses, revenue recognition and recognition of controlled entities and assets.

Each of these areas was specifically addressed by the company as part of the accounts preparation process and comments on each element are contained in the Director's Report on page 33 of the Annual Review.

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First Four Months Trading

I will now turn my attention to trading for the first four months of this financial year.

Market activity continues to build momentum into the 2003 financial year. Activity in the non-residential and engineering segments, which accounts for more than 40% of OneSteel revenues continue to improve and are in line with company expectations.

We expect these segments will continue to improve assisted by a number of projects already underway including the Alice Springs to Darwin rail line, the Gladstone Alumina Refinery, the Woodside Fourth Train and the Queen Victoria building in Melbourne.

Residential construction, which accounts for 13% of OneSteel revenues remains more robust than the company anticipated, while all other segments are tracking in line with management's expectations.

As a result, company performance has been above our internal budget in the first four months of the year. We expect the first half result will be in the range of $39 to $45 million.

We do not expect the second half to be as strong as the first due to less working days and planned maintenance shutdowns.

At this stage Management is continuing to assess the projected outcome for the full year taking into account factors such as the impact of the drought, the slowing in residential activity and general world events which could have an impact on the Australian economy. We would expect to give further guidance on the second half when we announce our mid year results in February.

Suffice to say the company is performing well.

Summary and Conclusion

So ladies and gentlemen in conclusion:

The 2002 financial year result is encouraging, particularly coming off the lows of the prior year.

However, overall returns still require improvement and management are keenly focused on initiatives to achieve better performance.

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Over the next year, OneSteel will continue its focus on safety, generating cash, sales growth, improving capital management, managing costs down and retiring debt to improve profitability. This will also increase the company's ability, through increased balance sheet flexibility, to examine further growth options.

I would like to take this opportunity to thank my fellow Directors for their efforts during the year in what has been a year of major restructuring.

I would also like to thank the management led by Bob Every who continues to produce results and improve the business with the support of OneSteel's 7,000 staff.

The challenge is to continue to deliver improved performance as the company enters a more productive period of market activity.

OneSteel is in better shape than the prior year and I believe focus will be maintained to continue the progress that has already been achieved.

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