



Final Approval of Project Magnet

23 May 2005

OneSteel Limited Managing Director and Chief Executive Officer, Geoff Plummer, announced today the final Board approval of the \$325 million Project Magnet to commercialise OneSteel's magnetite iron ore resource and upgrade the Whyalla Steelworks. The project will generate in excess of \$1.5 billion in additional revenues over the life of the project.

In announcing the project Geoff Plummer stated, "Project Magnet strongly positions OneSteel as it enters its next phase of growth and development. It currently represents OneSteel's most attractive and value-creating growth option. The project now has a higher net present value than under the proposal that was approved in principle last August, which allowed early works to commence. Project Magnet is a new source of cash and profit for OneSteel and elevates the company's earnings to a higher base through the cycle.

" We are extremely excited about the benefits of the project not only in terms of the additional earnings it generates but also from the point of view that it improves our cost competitiveness and underwrites the operations of Whyalla from the current restraint of 2020 to at least 2027, bringing benefits to the Whyalla and South Australian communities.

" The investment therefore builds on OneSteel's competitive advantage of owning low-cost, high-quality iron ore for producing steel. In an international steel environment where the cost of iron ore has increased significantly, leveraging OneSteel's long-term raw material resource has significant competitive benefits.

" The move from hematite to magnetite as feed for the Whyalla Steelworks provides OneSteel with a lower cost of manufacturing and the ability to produce more steel. The company will therefore benefit from being able to produce more steel at a lower cost, so creating significant value.

" Furthermore, the changed process for iron and steel production and the associated changes to logistics deliver significant environmental benefits. These include moving one of the key elements of production from a dry to a wet process that significantly reduces fugitive dust.

" Early work on the project has progressed since the Board's in-principle approval in August and, following final approval, full project implementation can now commence. It is due for completion in the second half of the 2006/07 financial year. As key milestones of the project are achieved, the current hematite iron ore reserve becomes available for increased sales. It is intended to sell this ore over approximately ten years at a rate of up to four million tonnes per annum.

" OneSteel is close to finalising contracts with a number of the key contractors for the project and has secured an agreement with the South Australian Government for a 10-year environmental license agreement to provide regulatory certainty for the investment," Geoff Plummer said.

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Key Project Dimensions

Project Description

Project Magnet involves using the magnetite ore in a concentrated form to feed the Whyalla Steelworks rather than the hematite ore currently used.

Key Benefits

- Extends the life of Whyalla Steelworks from the current constraint of 2020 imposed by the hematite ore reserves to at least 2027
- Reduce the cost of steelmaking at Whyalla Steelworks by as much as five percent
- Converts Whyalla Steelworks to magnetite feed which frees the hematite ore reserve for accelerated sale. It is planned to increase annual sales from one million tonnes up to a maximum of four million tonnes. Sales at this level could be expected for approximately 10 years
- Enables OneSteel to sell approximately 220,000 tonnes of pellets per annum
- Higher iron content of the pellets made from magnetite ore enables OneSteel to produce extra iron. This will result in up to approximately 100,000 tonnes of additional steel which could be converted into slab
- Converting the pelletising process from a dry to a wet operation, plus the planned changes to logistics, bring environmental benefits because they will significantly reduce fugitive dust from the pellet plant and other sources.

Revenue Generation

- The sale of approximately 30 million tonnes of hematite iron ore over 10 years (in addition to the one million tonnes per annum that OneSteel currently sells)
- The sale of approximately 220,000 additional tonnes of iron pellets per annum over approximately 20 years
- The sale of approximately 100,000 additional tonnes per annum of steel over approximately 20 years.

Project Elements that Have Changed from the Initial Announcement in August 2004

- Projected revenue from the sale of additional hematite iron ore, pellets and slab steel has increased from \$1 billion to over \$1.5 billion due to revised long-term assumptions for prices of iron ore, pellets and slab.
- Capital expenditure of the project has increased from \$250 million to \$325 million as a result of:
 - Changed risk profile of key contracts to lower execution risk of the project
 - Increased cost of materials for the project
 - Higher labour costs for project work
 - The initial estimate of capital expenditure was made prior to the completion of pre-engineering work that was undertaken in the initial phase of the project.
 - Increased provision for OneSteel costs to manage the project.
- The timeline for commencement of the project has been extended such that the project will be fully operational towards the end of the 2007 financial year.

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Key Contracts

Project Magnet's key contracts are:

- Construction works
- Trans-shipping
- Marketing
- Mining

With the exception of the mining contract, we expect these key contracts to be settled over the next month. The mining contract will be finalised after the completion of the mine plan program.

Timing

The upgraded hematite shipping facilities will begin to come on line around the second to third quarter of the 2007 financial year and ramp up thereafter so that the planned running rate of an additional three million tonnes per annum will be reached towards the end of the 2007 financial year. With the project becoming fully operational towards the end of the 2007 financial year, the first full year of benefit from the project, including additional steel production and value-in-use, will be the 2008 financial year.

Updates of the project's progress will be provided as part of OneSteel's regular communications on the company's progress and in accordance with the company's continuous disclosure obligations.

Facts

- OneSteel is Australia's second largest steel manufacturer and Australia's largest long products producer.
- OneSteel has operations in over 150 locations around Australia.
- Whyalla Steelworks manufactures approximately 1.2 million tonnes of steel per annum, around 65 percent of OneSteel's annual raw steel output
- It employs in excess of 2,000 people directly and as contractors
- The mine is 80 kilometres from the Whyalla township and port
- Hematite ore is railed from the mine to the port
- The magnetite will be sent to Whyalla through a slurry pipe
- In total, current mining operations will increase from three to approximately nine million tonnes per annum
- Hematite's composition is Fe_2O_3
- Magnetite's composition is Fe_3O_4

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