OneSteel Limited

2005 Annual General Meeting

21st November 2005

Mr Peter Smedley
AGM Address

OneSteel Limited ABN 63 004 410 833
OneSteel Head Office: Level 23, 1 York Street, Sydney, NSW 2000 GPO Box 536, Sydney, NSW 2001, Australia
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Mr Peter Smedley
Chairman

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Introduction

I would like to begin with a review of the 2005 financial year, including changes to the structure of the Board and management, and follow with some commentary on what lies ahead.

The Managing Director, Geoff Plummer will provide further detail on the company's achievements last year. He will also talk about some of the projects that will help to ensure a sustainable future for OneSteel.

I am pleased to report that OneSteel posted its **fourth consecutive annual profit improvement** in the 2005 financial year as China's thirst for steel to fuel its continued growth drew in steel from around the world, pushing up prices for raw materials and finished steel products.

Against a domestic backdrop of strong market conditions, management assumed leadership in implementing price increases to recover significantly higher input costs.

Reorganisation of Board Committees

It was a busy year for the company with **changes to key management, the Board and to the business structures of both**. Geoff Plummer succeeded Bob Every as Managing Director and Chief Executive Officer in May 2005. On behalf of the Board, I would like to thank Bob for his contribution to building a solid company foundation for OneSteel and creating value for our shareholders.

Peter Nankervis, a skilled finance executive, joined OneSteel's Board in December 2004 and assumed leadership of the Board's Audit and Compliance Committee. **Bryan Davis** also joined the Board in December, adding strength to our deliberations through his extensive mining experience. Both of these directors will stand for election at this AGM.

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As announced in September 2004, **David Meiklejohn** retired in February 2005 and on behalf of the Board I would like to thank him for his contribution prior to and since listing.

On 29 June a number of changes were made to the **membership of Board Committees**. Some of the changes were effective immediately and others came into effect in August 2005. In June Eileen Doyle was appointed to the Governance and Nominations Committee and Neville Roach was appointed to the Audit and Compliance Committee. In August Dean Pritchard was appointed to the Human Resources Committee, while Bryan Davis became Chairman of the Occupational Health, Safety and Environment Committee that was previously chaired by Dean Pritchard. Dean Pritchard will remain on the Occupational Health, Safety and Environment Committee but ceased to be a member of Audit and Compliance Committee from 16 August 2005.

In late June 2005 the Board established an **Operational Risk Committee**. The role of this Committee is set out in a charter, which has been approved by the Board. The Committee, which held its first meeting in August 2005, was established to focus on particular operational and business risks referred to it by the Board. Its responsibilities include monitoring and reporting to the Board on critical operational and business risks; ensuring that monitoring, review and audit coverage for all operational and business risks are appropriate; and initiating any investigations or review of processes that are deemed appropriate for any specific critical risk.

Another change is the renaming in July 2005 of the Remunerations Committee to the **Human Resources Committee** to better reflect the breadth of the Committee's role.

There have also been changes to the Board of OneSteel's subsidiary in New Zealand, **Steel & Tube**. Dean Pritchard assumed the Chairmanship of Steel & Tube following the retirement of Bob Every and Eileen Doyle joined the Board to replace Robin Freeman as a non-executive director.

As I foreshadowed at last year's Annual General Meeting, OneSteel again gave **small shareholders** a convenient opportunity to dispose of their shares. Holders of less than a marketable parcel of shares in the company, that is a holding worth less than $500, were able to sell their shares at the average market price during the selling period in early May at no cost. As a result, 441,778 shares held by 5,756 shareholders were sold.

Project Magnet

Another highlight of the 2005 financial year was the Board approval of **Project Magnet** in May 2005. The project is a $325 million capital investment that

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brings many benefits to OneSteel, including underpinning the longevity of the Whyalla Steelworks beyond 2030 and cutting its cost of steelmaking. It also has significant environmental benefits and is a new source of revenue and profit. The project enables the sale of OneSteel's hematite iron ore reserves over 10 years, as well as the sale of extra pellets and additional steel production over the life of the project. In combination, these will generate in excess of $1.5 billion in revenue.

Up to 30 June 2005, $30.5 million has been spent on the project, of which $24.5 million was spent in the 2005 financial year. As at the end of October 2005, the company had committed $108 million of the funds budgeted. Construction, transhipping and marketing contractors have been appointed, with further contracts to be settled for mining, export facilities and ancillary operational equipment.

On 17 October both houses of the South Australian Parliament passed amendments to the Indenture Act that covers the Whyalla Steelworks. The amendments extend the licence for the Whyalla operations for a further 10 years, providing regulatory certainty for Project Magnet. Project Magnet will be fully operational by the beginning of the 2007/08 financial year.

The Year in Review

Turning to the operational and financial outcomes of the last financial year, once again the backdrop for OneSteel's business was one of volatility in international steel markets. As I touched on earlier, the industrialisation of China is having an extraordinary impact on the world, and on the steel industry in particular._ In this environment, management took leadership in implementing price increases to help recover the dramatic rise in key input costs such as for scrap and hot rolled coil.

Another challenge we faced was dumped product, which continues to come into the country without redress. We have displaced some of the import tonnes but at a cost because it is extremely difficult to compete against dumped product. We are prepared to compete with companies that are internationally competitive but on a basis that is fair competition.

As a corporation we are not seeking special compensation or consideration from Government, rather the effective and efficient application of anti-dumping provisions to ensure we are competing on a level playing field.

Sales revenue for the 12 months to June 2005 grew 20.5% from $3,269.2 million to $3,938.5 million when compared with the prior corresponding period. The increase reflects price increases to recover higher costs, a pick up in sales volumes, and some recovery in tonnes from imports.

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Total Australian tonnes dispatched increased by 4.1% due to the strong domestic market conditions. Total raw steel tonnes produced in the year were 269,458 tonnes lower than in the previous year as a result of the blast furnace reline project and the production disruptions in the first half of the financial year.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA), increased by 16.4% for the 12 months to $377.3 million.

The EBITDA result was impacted by **disruptions at the Whyalla Steelworks blast furnace** subsequent to the completion of the reline reflecting a more difficult than anticipated start-up phase. Management activities to maintain deliveries to customers included ramping up production at Sydney Steel Mill to record levels in excess of 500,000 tonnes, rescheduling production runs at the rolling mills and importing approximately 90,000 tonnes of finished and semi-finished product.

International and Australian expertise, together with OneSteel technical resources, worked to address the operational issues and the furnace is now operating in a stable manner and producing in line with historical levels. The furnace is expected to have a long and productive life in line with the previous experience.

The **sales margin**, on an operating earnings before interest, tax and amortisation (EBITA) basis, was 7.1%, marginally down from 7.3% in the prior corresponding period. This reflects the impact of the Whyalla Steelworks blast furnace disruptions in the first half of the period.

Net operating profit after tax and minorities increased by 22.6% to $132.5 million from $108.1 million a year earlier (excluding the impact of tax consolidation). The net operating profit equates to earnings of 23.5 cents per share (based on the number of shares at year end), 20.5% higher than the 19.5 cents achieved in the prior year.

Staffing levels rose by 1.7% over the 12 months from 7,272 as at the end of June 2004 to 7,395 by the end of June 2005. The rise from the prior corresponding period reflects the addition of staff to meet strong market conditions and associated with Project Magnet. Sales per employee rose from $449,600 to $532,600, an increase of 18.5%.

Subsequent to the end of the 2004/05 financial year, OneSteel completed **enterprise bargaining agreements** across its manufacturing business. The agreements are for a 13% increase in wages over a three-year period.

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OneSteel will monitor progress on the Federal industrial relations initiatives and assess the impact, if any, such changes may have on OneSteel's business and report back to shareholders when appropriate.

Operating cash flow for the period was $107.0 million, up from $84.9 million the prior year. This was a solid outcome given **higher working capital requirements** associated with price increases and volume increases in excess of $70 million, on top of capital expenditure funding associated with the blast furnace reline and Project Magnet.

Capital and investment expenditure decreased by 16.2% to $126.8 million, a large proportion of which was associated with the blast furnace reline project that was completed during the period.

OneSteel's **financial gearing** on a net debt, to net debt plus equity basis (including securitisation), improved from 33.1% to 30.7%. Net debt increased by $176.3 million from $469.0 million to $645.3 million, reflecting the discontinuation of a $200 million securitisation program in January 2005. The securitisation program was replaced by new bilateral financing worth $200 million that was arranged in May 2005.

Adjusting for the discontinued securitisation program, **net debt** was down by $23.7 million. The improvement in gearing was despite relatively high capital expenditure, the 4.1% increase in tonnes dispatched and increased working capital requirements associated with cost and price increases. Interest cover declined slightly from 5.1 times to 4.9 times when comparing the two periods.

Funds employed have risen by 14.1% or $259.6 million to $2,102.0 million, largely reflecting the discontinuation of securitisation. The EBITA return on funds employed has increased from 13.2% to 14.2%.

Inventories increased by 18.7% to $836.7 million when compared with the previous corresponding period, primarily due to cost increases and a more conservative stocking policy in light of volatile international market conditions. Stock weeks remain under 10.

The Final Dividend was declared at 7.5 cents per share fully franked, bringing the total dividends declared for the year to 13.5 cents, which compares with a 12.0 cent fully franked dividend paid for the 12 months to June 2004. It represents a payout ratio of 57.4%.

As I mentioned earlier, the former Managing Director, Bob Every, retired some seven months prior to the expiry of his contract term and this required the company to pay him early termination benefits in line with this contract. This was advised to the Australian Stock Exchange and covered in our Remuneration Report in the Annual Review.

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On 21 September 2004 the Board advised the Stock Exchange that a succession process was underway because, as advised at the 2003 Annual General Meeting, Bob Every would not be extending his term. The Board wanted his successor in place to take up the running of Project Magnet that was announced in August 2004, as well as the 2005/06 business plan around the middle of the 2005 calendar year. The Board concluded that this transition timing was critical to the smooth running of the business and therefore in the best interests of all shareholders. Thus Geoff Plummer's appointment was moved forward to May 2005, the month in which Project Magnet was finalised for Board approval.

Focus for the Next Financial Year

Management is devoting considerable resources to the successful delivery of Project Magnet, the company's single largest investment. It is a long-term project and is OneSteel's most attractive, value-creating growth option.

On 1 July 2005 OneSteel's Reinforcing business moved to the Manufacturing segment from the Distribution segment, and the OneSteel Pipe and Tube business, previously part of the Manufacturing segment, became part of OneSteel Distribution. The **business restructure** will allow the company to make improvements in supply chain management, customer service, manufacturing and logistics costs, marketing and related production scheduling, as well as better aligning market activities.

The new **eight-strand ropery plant** was commissioned which allows OneSteel to manufacture heavy mining and conveyor ropes suitable for the latest and largest equipment deployed in mining and other industries. New contracts have been secured as a result of this investment.

OneSteel's **reinforcing mesh facilities** have been rationalised and consolidated in the eastern states to lower the cost of production and improve capacity utilisation. Central to this project was the purchase of new mesh machines providing state-of-the-art manufacture for this product line.

The rollout of a **SAP platform** across the Distribution business and parts of the Manufacturing businesses is complete and operating well. The new system provides far more customer and sales information across the business, allowing greater insight into product movements, pricing and margin analysis and customer buying patterns.

Outlook

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Domestic market conditions are expected to remain favourable with expenditure in engineering and non-residential construction forecast to offset the slow down in residential construction. However, we are monitoring closely the potential impact higher oil prices may have on the segments that OneSteel serves.

The first four months of business trading are broadly consistent with OneSteel's internal expectations.

OneSteel management will maintain focus on price leadership in response to the expected, ongoing volatility in raw material costs and international steel markets. Over the medium term, management will be focussed on delivering Project Magnet and the discipline of tight cash management and cost control will be maintained to ensure OneSteel continues to meet its cash and other financial objectives.

I would like to thank my Board colleagues, management and our 7,395 employees for their contribution to this year's record profit.

Thank you ladies and gentlemen and I will now pass over to the Managing Director, Geoff Plummer.

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