OneSteel Limited

2006 Annual General Meeting

20th November 2006

Mr Peter Smedley
AGM Address

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Chairman

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Introduction

This afternoon I would like to review the outcomes and events of the 2006 financial year. I will also provide you with some commentary on what lies ahead.

The Managing Director and Chief Executive Officer, Geoff Plummer, will talk about some of the developments in the international steel industry. This will help put into context OneSteel's two growth initiatives. Geoff will also update you on these two major projects that are underway at OneSteel.

It pleases me to report that OneSteel posted its **fifth consecutive annual profit improvement** in the 2006 financial year, with several key financial ratios continuing to improve.

Management built on its track record of achieving cost reductions to offset inflationary costs, and of successfully implementing price increases to recover higher costs for raw material inputs.

Another pleasing feature of the result is the strong operating cash flow generated by the business. This enabled a reduction in gearing while continuing to invest in Project Magnet, OneSteel's major expansion project.

Project Magnet represents the commercialisation of OneSteel's magnetite ore reserves for producing steel and the sale of surplus hematite ore reserves. Its benefits include underpinning the longevity of the Whyalla Steelworks and cutting its cost of steelmaking. It also has significant environmental benefits and is a new source of revenue and profit for the company. The project enables the sale of OneSteel's hematite iron ore reserves over approximately 10 years, as well as the sale of surplus pellets and additional steel production over the life of the project. In combination, these will generate in excess of $1.5 billion in revenue.

It is pleasing to report that substantial progress was made on the project during the year, with the ramp up of iron ore sales progressing according to plan. Geoff will give you more detail on the project milestones achieved and outline the next steps. As of 31 October 2006 approximately $295 million of the total planned expenditure of around $355 million was spent or committed,

OneSteel Limited ABN 63 004 410 833
OneSteel Head Office: Level 40, 259 George St, Sydney, NSW 2000 GPO Box 536, Sydney, NSW 2001, Australia
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with the project capital works due to be substantially completed in this financial year that ends in June 2007.

The other major growth initiative that the company is working on is the **proposed merger with Smorgon Steel Group Limited**. On 26 June 2006, OneSteel announced that it had reached an agreement with Smorgon Steel Group Limited under which OneSteel will acquire all of the shares in Smorgon Steel.

A summary of the strategic rationale for the proposed transaction is:

- Corporate benefits, namely a stronger and more financially flexible company with enhanced growth opportunities;
- The transaction will also bring customer and market benefits. OneSteel will increase its ability to service its customers with new product and service offerings. Furthermore, there will be a greater diversity and scope of operations;
- Additionally, the proposed transaction will make OneSteel a more competitive business through lower costs, improved raw material integration and opportunities with diversified revenue streams.

It is intended that the proposed transaction be undertaken via a scheme of arrangement. Smorgon Steel shareholders will receive a combination of OneSteel ordinary shares and cash with an implied value of $1.76 per Smorgon Steel share based on an exchange ratio of 9 OneSteel shares for every 22 Smorgon Steel shares. The implied value of this offer of $1.76 assumes a OneSteel volume-weighted average share price of between $3.75 and $4.15. It will be determined by the volume-weighted average share price of OneSteel shares traded in the ordinary course of trading on the ASX over the 10 trading days following the effective date of the scheme of arrangement.

The proposed transaction is subject to the approval of Smorgon Steel shareholders, the Court, the ACCC and certain other conditions. OneSteel management are currently working towards addressing the concerns raised by the ACCC, so the transaction can be brought to a successful outcome.

Over the past several weeks, discussions have been taking place with BlueScope Steel management regarding their aspirations in respect to BlueScope's shareholding in Smorgon Steel. These discussions were conducted on an exclusive basis. As agreement has not been reached, we will be examining all avenues to complete the transaction.

The transaction is expected to be completed this financial year, and to this extent, the deadline for merger implementation has been extended to 30 June 2007 with commercial terms around the proposed merger remaining unchanged.

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The Year in Review

I would now like to turn to some of the outcomes and achievements of the last financial year, starting with the company's safety performance. OneSteel's safety performance continued its track record of improvement. It recorded a Lost Time Injury Frequency Rate of 1.6 per million man-hours worked in the 2006 financial year. That is a 5.9 percent improvement on the previous year's rate of 1.7. Likewise the Medical Treatment Injury Frequency Rate dropped to 11.7, from 12.1, representing a 3.3 percent improvement. Achieving zero injuries remains a clear objective in all OneSteel businesses.

Turning to financial outcomes, large raw material input cost increases and pricing pressures from imports were features of the year. These occurred against a backdrop of solid Australian engineering construction activity that was driven by the mining and resources segment and which offset softness in the rural, automotive, manufacturing and residential construction segments in Australia.

Sales revenue for the 12 months to June 2006 grew 1.7% from $3.939 billion to $4.005 billion when compared with the prior corresponding period. The increase reflects price increases that were implemented to recover higher costs and also reflects lower domestic steel dispatches, principally in flat products.

Total Australian tonnes dispatched increased by 1.0% as volumes of steel exports returned to more normal levels. Underlying domestic tonnes dispatched decreased by 5.8% as dispatches of flat products such as plate, sheet and coil declined by approximately 70,000 tonnes from the previous period.

Exports for the period totalled 9.9% of tonnes dispatched, compared with 4.1% a year earlier. Total raw steel tonnes produced in the year were 21.1% or 284,299 tonnes higher than in the previous year. Steel production in the prior period was affected by the blast furnace reline project and the production disruptions in the latter part of calendar 2004.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 5.2% for the 12 months to $396.7 million.

The **sales margin**, on an operating earnings before interest and tax basis, was 7.6%, up from 7.1% in the prior corresponding period.

On an **earnings before tax** basis, profit increased by 8.8% from $226 million to $246 million.

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Net operating profit after tax and minorities increased by 12.1% to $171.6 million from $153.1 million a year earlier. When a one-off tax benefit of $15.9 million arising from tax consolidation values is included, net profit after tax and minorities was $187.5 million

As a matter of principle OneSteel reports management numbers prior to accounting adjustments such as revaluations of assets and tax consolidations. We believe that shareholders want to understand the true operational performance of companies, rather than statutory numbers, which have accounting based profits or losses contained within them. The graph on the slide currently showing highlights in red the net operating profit after tax and minorities which measures the true underlying operational performance of the business. The profit numbers in the yellow section for 2005 and 2006 show the reported net profit after tax and minorities which includes accounting adjustments arising from tax consolidation and the reversal of impairment loss on transition to the new accounting standards.

The net operating profit equates to earnings of 30.3 cents per share based on the number of shares at year-end. That is 11% higher than the 27.3 cents achieved in the prior year.

The **effective tax rate**, excluding the impact of tax consolidation in the year, was 24.7%, largely reflecting the impact of claimable research and development expenditure for the current year and higher-than-expected claimable expenditure for the prior year.

Staffing levels rose by 1.8% over the 12 months from 7,395 as at the end of June 2005 to 7,527 by the end of June 2006. The increase arose principally from over 100 extra employees through acquisitions by International Distribution and extra personnel at Whyalla for Project Magnet.

Net operating cash flow for the period was $250.8 million, up 6.3% from $235.9 million in the prior year. This enabled OneSteel to fund approximately $170 million of capital expenditure on Project Magnet, and over $50 million in other capital and investment expenditure, with minimal debt impact.

Thus **capital and investment expenditure** increased by 78.5% to $227.6 million. Total funds spent or committed on Project Magnet during the 2005/06 financial year was $204.7 million.

OneSteel's **financial gearing**, as measured by net debt to net debt plus equity, improved from 31.7% to 31.4%. The calculation includes derivatives that are included in the net debt figure. Net debt, including derivatives, increased by $42.9 million from $645.3 million to $688.2 million. **Interest cover** improved slightly from 5.2 times to 5.3 times when comparing the two periods.

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Funds employed have risen by 7.7% or $156.2 million to $2.19 billion while the return on funds employed, on an operating earnings before interest and tax basis, increased from 14.2% to 14.4%.

Inventories decreased by 9.3% to $758.9 million when compared with the previous corresponding period, with a corresponding reduction in stock weeks.

It gives me great pleasure to report that the OneSteel Board of Directors declared an increased **Final Dividend** of 10 cents per share fully franked. That brings the total dividends declared for the year to 17 cents and compares with a 13.5 cent fully franked dividend paid for the year to June 2005. The year's dividend of 17 cents represents a payout ratio of 56.3%. The dividend was paid on 19 October with a record date of 1 September 2006.

The increased dividend reflects the Board's growing confidence that management can deliver as promised on Project Magnet and the demonstrable cash flow that is being generated from the existing business.

OneSteel has a **Dividend Reinvestment Plan** that provides a facility for its shareholders in Australia and New Zealand to reinvest their dividends in shares. The price is calculated on the arithmetic average of the daily volume-weighted average market price during the 10 consecutive trading days commencing on the date which is the second trading day after the Record Date for the relevant dividend. The Dividend Reinvestment Plan operated for the final dividend.

Focus for this Financial Year

Management's main priorities in the financial year now underway will be to continue to improve returns from existing businesses, completion of Project Magnet's construction activities and realising its benefits, and the completion and effective integration of the proposed Smorgon Steel transaction to deliver the expected level of benefits.

Outlook

Domestic market conditions in the 2006/07 financial year now underway are expected to be similar to those of the previous 12 months, with continued strength in engineering construction and the mining and resources sector, along with solid non-residential construction activity. The rural, automotive and manufacturing segments are expected to continue to be soft, as is the residential construction segment, particularly in light of the latest increase in interest rates on 8 November.

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International steel pricing and the cost of key inputs such as scrap and hot rolled coil are expected to be fluid while the outlook for iron ore prices continues to be positive. The first four months of business trading are broadly consistent with OneSteel's internal expectations.

I thank our shareholders for their support over the past year and I would like to thank my non-executive Board colleagues, Geoff Plummer and his management team and our 7,527 employees for their contribution to this year's profit improvement.

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