SMORGON STEEL

ABN 38 082 181 726

ANNUAL REPORT

YEAR ENDED 30 JUNE 2007

FINANCIAL REPORT INDEX

DIRECTORS' REPORT

Merger with OneSteel Limited and sale of Smorgon Distribution Business

On 31 July 2007, Smorgon Steel shareholders voted in favour of the Scheme of Arrangement to effect the merger between OneSteel and Smorgon Steel. The Supreme Court of Victoria subsequently approved it on 3 August 2007. Immediately following the court approval on 3 August 2007, Onesteel Limited acquired 179,124,279 ordinary shares in Smorgon Steel Group Limited (representing 19.96% of total shares on issue) from BlueScope Steel Limited for approximately $447.3 million. In addition, the BlueScope Steel Acquisition of the Smorgon Steel Distribution business was completed.

On 20 August 2007, the Scheme of Arrangement was implemented and OneSteel Limited acquired all remaining shares in Smorgon Steel Group Limited. Under the Scheme, Smorgon Steel shareholders received 9 new OneSteel shares for every 22 Smorgon Steel shares they held, which is equivalent to 0.4091 OneSteel shares for each Smorgon Steel share.

Smorgon Steel shares were suspended from trading on the Australian Stock Exchange as of the close of trading on 3 August 2007. The new OneSteel shares issued to Smorgon Steel shareholders pursuant to the Scheme were traded on the Australian Stock Exchange on a deferred settlement basis from 6 August 2007. Normal trading in OneSteel shares commenced on 21 August 2007.

Directors

The names of the Directors of the Company during or since the end of the financial year are:

G.J. Plummer (appointed 20 August 2007)

A.J. Reeves (appointed 20 August 2007)

A.G. Roberts (appointed 20 August 2007)

G.J. Smorgon, Chairman (resigned 20 August 2007), (Executive Chairman, 30 June 2007 to 20 August 2007)

R.K. Horsburgh, AM, Managing Director & CEO (resigned 30 June 2007)

T.C-E. Bergman (resigned 30 June 2007)

G. Castan (resigned 20 August 2007)

L.G. Cox, AO (resigned 20 August 2007)

B.L. Cusack (resigned 20 August 2007)

P.M. Edwards (resigned 20 August 2007)

R.M. Savage (resigned 20 August 2007)

Company Secretary

J.N. Krenich (appointed 20 August 2007)

P.V. Liddell (resigned 20 August 2007)

The qualifications, experience and special responsibilities of the Directors and the Company Secretary are set out on pages 4 to 6 of this report.

Directors' Meetings

Meetings of the Board of Directors are held both on a regular pre-scheduled basis, usually monthly, and as required at other times in accordance with business demands. Meetings of Board Committees are held periodically as necessary to enable the relevant committee to fulfill its function in accordance with its Charter, or for special appointment committees to undertake the specific responsibilities delegated by the Board. Details of the category and number of meetings held during the year and Directors' attendances, as relevant, are set out below:

Meetings Of Directors

	BOARD OF DIRECTORS				BOARD COMMITTEES							
DIRECTOR	Monthly		Other		Audit & Risk Management Committee		Nomination & Remuneration Committee		Health, Safety & Environment Committee		Special Appointment Committee	
	A#	B	A#	B	A#	B	A#	B	A#	B	A#	B
T. C-E. Bergman	10	8	6	3	-	-	4	2	-	-	-	-
G. Castan*	10	10	6	6	-	-	-	-	-	-	1	1
L.G. Cox, AO	10	10	6	4	4	4	4	4	-	-	-	-
B.L. Cusack	10	9	6	3	-	-	-	-	4	4	-	-
P.M. Edwards	10	8	6	4	-	-	-	-	4	4	-	-
R.K. Horsburgh, AM*	10	10	6	6	-	-	-	-	-	-	1	-
R.M. Savage	10	10	6	4	4	4	-	-	-	-	-	-
G.J. Smorgon*	10	10	6	6	4	3	4	4	-	-	1	1
Maximum number of meetings held	10		6		4		4		4		1	

A Number of meetings held
B Number of meetings attended

* Member of Executive Committee. No formal meetings of the Executive Committee were held during the year.
# Refers to the number of meetings held while the Director was in office.

DIRECTORS' REPORT (continued)

Board of Directors & Company Secretary (continued)

Geoffrey John Plummer (appointed 20 August 2007)

B.Ec

Status:

Managing Director and Chief Executive Officer

Non Independent Executive Director.

Other particulars:

Age 51.

Anthony John Reeves (appointed 20 August 2007)

B.Ec, MComm, FCPA, FTA

Status:

Non Independent Executive Director.

Other particulars:

Age 52.

Andrew Gerard Roberts (appointed 20 August 2007)

BComm

Status:

Non Independent Executive Director.

Other particulars:

Age 40.

Graham Joseph Smorgon

Chairman (Executive Chairman, 30 June 2007 to 20 August 2007)

B.Juris LL.B.

Company appointments:

Non-executive Director and Chairman (Executive Chairman, 30 June 2007 to 20 August 2007). Nine years in office as Chairman. Chairman of the Nomination & Remuneration Committee, Member of the Audit & Risk Management and Executive Committees.

Status:

Independent Non-executive Director. (Executive Chairman, 30 June 2007 to 20 August 2007).

Other particulars:

Age 57.

Raymond Kenneth Horsburgh, AM (resigned 30 June 2007)

Managing Director and Chief Executive Officer

B.Eng (Chem.)

Company appointments:

Managing Director and Chief Executive Officer. Nine years in office. Chairman of the Executive Committee.

Status:

Not independent, being Managing Director and Chief Executive Officer.

Other particulars:

Age 64.

DIRECTORS' REPORT (continued)

Board of Directors & Company Secretary (continued)

Tommie Carl-Erik Bergman (resigned 30 June 2007)
Dip.Eng., Dip.Mktg., FAIM, FAICD.

Company appointments:

Non-executive Director. Eight years in office. Member of the Nomination & Remuneration Committee.

Status:

Independent Non-executive Director.

Other particulars:

Age 62.

George Castan (resigned 20 August 2007)
Company appointments:

Non-executive Director. Nine years in office. Member of the Executive Committee.

Status:

Independent Non-executive Director.

Other particulars:

Age 70.

Laurence Grimes Cox, AO (resigned 20 August 2007)
B.Comm., FCPA, FSIA.

Company appointments:

Non-executive Director. Nine years in office. Chairman of the Audit & Risk Management Committee and Member of the Nomination & Remuneration Committee.

Status:

Independent Non-executive Director.

Other particulars:

Age 68.

Barry Lionel Cusack (resigned 20 August 2007)
BEng(Hons), MEngSc(Hons)

Company appointments:

Non-executive Director. Five years in office. Chairman of the Health, Safety & Environment Committee.

Status:

Independent Non-executive Director.

Other particulars:

Age 65.

Peter Maxwell Edwards (resigned 20 August 2007)
Company appointments:

Non-executive Director. Eight years in office. Member of the Health, Safety & Environment Committee.

Status:

Mr. Edwards is not independent, being associated with a substantial shareholder of the Company.

Other particulars:

Age 36.

DIRECTORS' REPORT (continued)

Board of Directors & Company Secretary (continued)

Robert Murray Savage (resigned 20 August 2007)
FAIM, FCPA

Company appointments:

Non-executive Director. Seven years in office. Member of the Audit & Risk Management Committee.

Status:

Independent Non-executive Director.

Other particulars:

Age 65.

Company Secretary

John Krenich (appointed 20 August 2007)
FCIS, CPA

Company Secretary of OneSteel Limited since April 2002. Previously held Company Secretary with Alcan and Capral Aluminium Limited.

Peter Vernon Liddell (resigned 20 August 2007)
Dip Acct'g, FCPA, FAICD

Nine years in office. Previously held Company Secretary and senior executive positions with Moore Business Systems Australia Limited and Atlas Steels Limited.

Environment & Community

Smorgon Steel has maintained its accreditation to the environmental management standard ISO14001 at three Company facilities: the Company's two steel mills at Laverton, Victoria and Waratah, NSW and a major distribution site in Victoria are now all accredited to this standard.

The Smorgon Steel Great Scrap Round Up, under which the Company has been actively seeking to purchase scrap metal off farms throughout Australia, continued throughout the year. In total, more than 97,000 tonnes of scrap has been collected under the Smorgon Steel Great Scrap Round Up. In addition to paying farmers a fair market price for the scrap, the Company also donates $15 per tonnes of scrap collected to volunteer authorities around Australia. So far, the Great Scrap Roundup has generated over $1,450,000 in Company donations to volunteer rural fire brigades.

Remuneration Report

This Remuneration Report is presented by the Directors as a subsection of the Company's 2007 Annual Report - Directors' Report.

Remuneration Report pages 12 and 13 list non-executive Director key management personnel of the Company and/or the consolidated entity at any time during the reporting period and unless otherwise indicated for the entire period.

Key Management Personnel (audited)

This section of the report applies to non-executive Directors of the Company, senior executives including the Managing Director and CEO being addressed in the section headed Executive Director and Executives below.

Non-executive Director remuneration (audited)

<u>Compensation policy</u> (audited)

Non-executive Directors' fees are determined by the Board, in accordance with the Company's Constitution, within the maximum aggregate amount of $1,500,000 approved by shareholders in 2006. The total of the Directors' fee entitlements in respect of the year was $1,038,025 as detailed on page 13.

The level of non-executive Director remuneration relevant to Board and Board Committee duties is established by reference to market survey data categorised by a range of factors including industry type and company size, for those particular roles. This data is provided by independent remuneration consultants and fee levels are recommended to the Board by the Nomination & Remuneration Committee. It is Company policy that base fee levels are adopted for all non-executive Directors in respect of Board and Committee appointments, and that appropriate additional fees are paid to the Board and Committee Chairmen. Fee levels are reviewed annually.

In order to maintain independence and impartiality, Non-executive Directors do not have any form of incentive payment.

Non-executive Director retirement benefits (audited)

The Board notes the Guideline recommendations relating to retirement benefit payments in respect of Non-executive Directors.

In June 2003, after due consideration, the Board resolved to introduce a non-retirement benefit basis of remuneration for new Board appointees, but not to vary the retirement benefit agreements entered into with present Non-executive Directors.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Non-executive Director retirement benefits (audited) (continued)

In February 2006, the retirement benefit arrangements were further considered and it was resolved that, with the exception of Mr. Cusack, effective from 1 January 2006 the benefit levels as accrued at 31 December 2005 be fixed and thereafter subject only to an indexation increment calculated having regard to the 90 day deposit rate offered by National Australia Bank and adjusted quarterly, payable at retirement. In respect of Mr. Cusack, it was resolved that the retirement benefit basis of remuneration be continued until such time as he had completed the 5 years service (June 2007) requirement for accrual of the maximum benefit entitlement, following which the indexation basis would apply.

Non-executive Director retirement benefits (audited) (continued)

The following factors apply to Non-executive Director retirement benefit component of remuneration as relevant, noting the above changes –

The benefit:

- accrues from the date of appointment;
- is calculated based on a multiple of three times the average remuneration during the 3 years' service pre-dating the date of retirement;
- is accrued pro-rata on service of up to 5 years, with a minimum qualifying period of 3 years; and
- is reduced by the amount of any Company funded superannuation contributions at the minimum statutory rate during the Director's period in office.

The accrued entitlement for Non-executive Director retirement benefits totalled $2,085,861 at 30 June 2007, comprised as follows:

Directors[(i)]	Accrued benefit $
G.J. Smorgon	683,507
G.Castan	283,080
L.G. Cox, AO	305,736
B.L. Cusack	287,806
P.M. Edwards	253,976
R.M. Savage	271,756
TOTAL	2,085,861

[(i)] T. C-E. Bergman's retirement benefits were paid out on 30 June 2007 upon his resignation.

Details of remuneration are shown on pages 12 and 13.

Upon resignation, Directors were paid their retirement benefits.

Executive Director and Executives (audited)

<u>Compensation policy (audited)</u>

The thrust of the Company's executive reward framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The Company intends to compensate individuals equitably, consistently and competitively having regard to market and industry conditions and benchmarks, Company and individual performance, and the Company's capacity to pay.

The objectives are underpinned by the Company's desire to:

- Attract suitably qualified and skilled people;
- Motivate employees to perform to their potential; and
- Preserve the Company by retaining its skilled employees.

In order to achieve these objectives, the executive reward framework:

- conforms to current market best practice for the delivery of reward:
    - the reward structure for senior executives provides for a mix of fixed and performance-linked "at-risk" remuneration, the latter comprising a blend of short and long-term incentives;
    - as executive responsibility increases, the balance of the mix shifts to a higher proportion of at-risk rewards;
- seeks to position Group executive remuneration competitively compared to the market:
    - in ascertaining the relative market positioning of the Group, a view of the compensation market is obtained through specific independent remuneration advice from professional remuneration consultants in relation to fixed remuneration levels, and short and long-term incentive programmes. The Group budgeted remuneration increase is determined each year after giving consideration to a range of elements including economic factors, forecasts from independent remuneration consultants, and networking with other industrial entities;
    - aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders in a transparent fashion, by focusing heavily on the performance of senior executives.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Executive reward framework (audited)

Senior executive remuneration packages comprise three elements: fixed remuneration, performance linked remuneration including short-term incentives, and long-term incentives.

Fixed remuneration (audited)

Fixed remuneration consists of the total cost to the Company of salary, superannuation, and the provision of other benefits (e.g. motor vehicles, optional salary sacrifice superannuation and optional salary sacrifice laptop computer). "On-costs" such as payroll tax and workers compensation insurance are not part of fixed remuneration packages.

Flexibility is allowed as to the mix between salary, superannuation and benefits within a fixed remuneration package, so that it may better meet the needs of the senior executives. Flexibility is such that the total cost to the Company is not changed by the benefit selections. Statutory obligations in relation to superannuation contributions must be met as part of the desired split of remuneration packages.

Fixed remuneration package levels are reviewed annually and adjusted on 1 July each year, and benchmarked against market practice at least annually. Individual performance is taken into account when reviewing the quantum of fixed remuneration packages and determining the amount of increase, if any, to be provided. There are no guaranteed fixed remuneration increases in any senior executives' contracts.

Performance-linked remuneration (audited)

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward senior executives for meeting or exceeding their Company related and personal objectives.

Short and long-term incentive rewards are "at risk" components of senior executive remuneration, entitlements being performance-linked according to the various measures described following, refer pages 8 and 9.

Short-term incentives are provided in cash. Long-term incentives are provided by grants of share rights issued under the terms of the Senior Executive Performance Share Plan. Details of the performance plans are included on pages 20 to 21.

Short-term incentive scheme (audited)

Senior executives (the MD/CEO, direct reports to the MD/CEO and their direct reports) are eligible to participate in the Company's short-term incentive scheme, under which reward entitlements arise annually, subject to meeting specific performance targets that have been agreed in advance.

The targets are a blend of the Company's overall and each divisional segment's results, both financial and operational as appropriate, other measures pertinent to each individual executive, and are comprised of both quantitative and qualitative measures.

Incentive payment entitlements are assessed on a weighted basis, with a percentage weighting being allocated to each target in the quantitative and qualitative categories in accordance with pre-determined objectives.

Quantitative goals are measurable items (such as cash flow, earnings per share, lost time injury rate). Performance for each quantitative performance target is assessed against the following scale:

Definition	Means	Relevant Payment
Achievement Level 1	Achieving 95% of target	33% of target payment for that weighted measure
Achievement Level 2	Achieving 100% of target	100% of target payment for that weighted measure
Achievement Level 3	Achieving 110% of target	167% of target payment for that weighted measure

If achievement against a quantifiable performance target is less than 95%, no amount relating to that performance target is payable. If achievement against a quantifiable performance target is 100%, the full amount relating to that performance target is payable (i.e. 100% of target payment).

If achievement against a quantifiable performance target is 110% or greater, 167% of the target payment is payable. Quantifiable Performance above 110% against a performance target does not generate any additional amount in relation to that performance target above the 167%.

Payments will be made under the Plan for performance between 95% and 110% of each quantifiable performance target.

Qualitative goals are comprised of such items as customer satisfaction and staff development and require subjective assessment as to the achievement level.

Depending on position and level of responsibility, short-term incentive opportunity ranges from 25% to 60% of base salary (being fixed remuneration less motor vehicle entitlement value and statutory superannuation). As the incentive is an at-risk component of remuneration, payment entitlement accrues only on achievement of levels of performance in accordance the above table.

In respect of the report year, short-term incentive entitlements approved and paid to participating senior executives ranged up to 56.5% of total remuneration, the median payment being 21.8% of total remuneration.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Long-term incentive plan (audited)

The eligibility of senior executives to participate in the long-term incentive plan is determined by the Board and is based on the ability of individual senior executives to influence the future growth and direction of the Company, as well as their ongoing contribution to the performance of the consolidated entity.

The current long-term incentive plan is the Smorgon Steel Group Senior Executive Performance Share Plan ("the Plan"). The plan operates by allocating to eligible senior executives rights to receive shares in the Company, at no cost to the individual. The number of shares to which a participant actually becomes entitled (i.e. the number of shares ultimately delivered) is based on the Company's relative Total Shareholder Return (TSR) over a three year performance period, as follows:

1. if the Company's TSR at the end of the performance period is less than the TSR for the three financial years prior to the performance period, there will be no entitlement for senior executives to receive any of the shares the subject of that right; and
2. if the test at 1 above has been met, the TSR is then assessed against a selected comparator group of companies. The comparator group of companies operate in various segments of industry considered by the Board to be appropriate for measurement of the Company's TSR performance. The current comparator group is:

Adelaide Brighton Ltd	BlueScope Steel Limited	Boral Limited	Brickworks Ltd
Capral Aluminium Limited	Clough Limited	Crane Group Limited	CSR Limited
GUD Holdings Limited	Gunns Limited	GWA International Limited	Hills Industries Ltd
James Hardie Industries N.V.	Leighton Holdings Limited	Nufarm Limited	OneSteel Limited
Pacifica Group Limited	Reece Australia Ltd	Simsmetal Limited	United Group Limited
Wattyl Limited	Wesfarmers Limited		

If the Company's TSR over the performance period is:

- Less than the TSR of the company which is at the median of the comparator group ranked by TSR performance, participants will not become entitled to any shares;
- At least equal to the TSR of the company which is at the median of the comparator group ranked by TSR performance, participants will become entitled to 50% of the shares;
- Equal to or greater than the TSR of the company which is at the 75th percentile of the comparator group ranked by TSR performance, participants will become entitled to all of the shares; and
- Pro rata entitlements become available between these levels.

Senior executives have received allocations of share rights under this Plan for the 2003, 2004, 2005 and 2006 years. In the 2007 year, no performance rights to shares were made to senior executives due to the proposed OneSteel Merger.

Relationship between executive remuneration policy and company performance (audited)

Since inception, the Company has paid particular attention to measuring and appropriately rewarding the performance of the Managing Director and CEO ("MD/CEO"), and senior executives.

The MD/CEO conducts performance reviews with senior executives annually, paying particular attention to Key Result Areas (KRA's). The KRA's are established individually for each executive at the start of a financial year, which is the performance year. For the 2007 financial year, KRA's were agreed between the MD/CEO and senior executives at the commencement of the period, July 2006. The KRA's agreed correlate with improving the performance of the Company, and are those likely to have a positive impact on shareholder wealth. They generally include measures relating to the consolidated entity, the relevant segment, and the individual, and include financial, people, customer and strategy and risk measures.

The Board and the Nomination & Remuneration Committee review the performance of the MD/CEO and senior executives through monthly reporting, board presentations, quarterly business reviews and the performance review system.

This structure then allows for the performance of the MD/CEO and senior executives to be reflected in the remuneration actually received, through the use of fixed and performance-linked components, the at-risk component of remuneration paid varying in line with overall Group and Business Unit performance on an annual and longer term basis.

For long-term incentives, allocations are made to senior executives subject to ongoing performance, with the size of the allocation received being subject to achievement against Total Shareholder Return ("TSR") criteria. In this fashion, the long-term incentive is aligned with the creation of shareholder wealth.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Relationship between executive remuneration policy and company performance (audited) (continued)

The following sets out more detail on the Executive Reward Framework that applies to the MD/CEO and senior executives, and how through the selection and application of appropriate performance conditions, this framework aligns with company performance.

A selection of financial results for the 2007 year and as previously reported for the years 2003 to 2006 inclusive is set out in the table below. It is evident that over those years there has been an improving trend in overall group performance, although for reasons discussed in this Annual Report and the reports for each of the previous year, the earnings results have not achieved a consistent year-on-year improvement.

In relating the Group remuneration strategy to the Group's results and the remuneration of the MD/CEO and senior executives as reported, the impact of short-term variable performance related remuneration rewards is significant in the year-on-year movements in total remuneration. The remuneration figures and relevant percentages for each year are also shown in the following table.

Shareholder Wealth (unaudited)

Details/description	2007	2006(1)	2005(1)	2004(4)	2003(1)(4)
Profit before tax ($ millions)	183.3	189.6	157.0	74.1	103.0
Net profit after tax, before amortisation ($ millions)	155.9	147.3	133.8	103.0	158.6
Net Profit after tax ($ millions)	155.9	147.3	133.8	45.1	103.2
Gearing (net debt / net debt plus equity) %	53.7	50.9	41.2	30.5	33.5
EBITA return on funds employed %	12.7	13.4	13.0	10.7	12.2
Earnings per share (before amortisation)	17.4	16.6	13.6	10.0	16.4
Senior Executive total remuneration ($ millions):					
Managing Director/CEO	7.863	2.705	1.664	1.567	1.814
Senior Executives	4.834	4.069	3.089	2.937	2.698
Senior Executive performance related percentage of total remuneration (2),(3)					
Managing Director/CEO	12.6%	43.0%	15.0%	17.6%	27.4%
Senior Executives (average %)	23.3%	27.5%	15.8%	18.6%	16.1%

(1) Includes tax consolidation benefit of 2006: $4.8 million, 2005: $16.5 million and 2003: $41.1 million.

(2) Remuneration payments under the short-term incentive scheme are made in the year following achievement of performance targets.

(3) Performance related remuneration for 2004 to 2007 includes remuneration payments in relation to the short term incentive scheme and the value of options and performance share rights (long-term incentive scheme). Performance related remuneration for 2003 does not include the value of options and performance share rights as these components of remuneration were not required to be valued and included in total remuneration in those years.

The Remuneration & Nomination Committee considers that the performance-linked remuneration framework is appropriate in promoting a continuing focus on improved performance of all key aspects of operations in the short and longer term which directly and indirectly will reflect in shareholder benefits.

(4) 2003 to 2004 reported under AGAAP.

Remuneration of Key Management Personnel (audited)

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including directors of the Company and other executives. Key management personnel includes directors and the five most highly remunerated S300A executives for the Company and the consolidated entity.

Managing Director and CEO (audited):

The MD/CEO is remunerated on the same basis as senior Company executives, as described above. The incentive programme for the MD/CEO similarly includes short term and long term components.

The MD/CEO's short term programme combines quantitative and qualitative objectives related respectively to approved Company budgets, and the MD/CEO's job position and personal goals for the year, incentive payments being allocated in the proportions 80% to quantitative and 20% to qualitative objectives. For the report year, the MD/CEO's only quantitative objective was based on earnings per share. Varying incentive payment factors ranging from no payment to 60% of base salary apply over the performance achievement range from 95% to 110% of budget, 40% of base salary being payable at 100% of budget achievement. The MD/CEO's qualitative objectives included strategic goals, executive management and development, interpersonal communication, supplier relationships, and customer and investor relations achievements, with assessment of performance being undertaken by the Chairman and reviewed by the Nomination & Remuneration Committee for recommendation to the Board. The same payment factors detailed above relating to quantitative objectives apply.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Other Senior Executives (audited):

Senior Executive remuneration arrangements are individually established on a basis that is considered relevant to job position authority and responsibilities, within the overall management hierarchy of the Group and in accordance with the policy described above.

The executives of Smorgon Steel Group Ltd during the year were:

- N.J. Power (Chief Executive – Smorgon Steel Reinforcing and Steel Products) – employment ceased 30 June 2007
- M.R. Vassella (Chief Executive – Smorgon Steel Distribution) – employment ceased 2 August 2007
- R.M. Smith (Chief Financial Officer) – employment ceased 17 August 2007
- R. Jansen (Chief Executive – Smorgon Steel Recycling) – appointed 6 March 2007
- D.J. George (Group General Manager – Smorgon Steel Business Services) – employment ceased 4 July 2006
- S.M. Grice (Chief Executive – Smorgon Steel Recycling) – employment ceased 15 January 2007

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Directors and Executives' Remuneration (audited)

The following table shows the remuneration of the Key Management Personnel of the consolidated entity. The senior executives listed also comprise the Company's five most highly remunerated personnel.

		SHORT TERM REMUNERATION BENEFITS						POST-EMPLOYMENT						
Name		Salary[1] $	Directors Fees[1] $	Committee Fees[1] $	STI cash bonus[1] $	Non monetary benefits [1] $	Total[1] $	Super'n benefits[1] $	Retirement benefits [2] $	Total [2] $	Other long term benefits $	Terminat'n benefits $	Value of performance share plan share rights[3] [4] $	Total remuneration $
Executive director														
R.K. Horsburgh, AM[(i)(ii) (iii)]	2007	1,463,528	-	-	834,395	119,059	2,416,982	101,300	-	101,300	-	5,183,488[1]	160,784	7,862,554
	- 2006	1,305,338	-	-	991,269	118,316	2,414,923	100,587	-	100,587	17,665	-	171,659	2,704,834
G.J. Smorgon[(i) (ii) (iv)]	- 2007	-	347,887	-	-	-	347,887	105,113	40,807	145,920	-	-	-	493,807
	- 2006	-	263,334	-	-	13,704	277,038	52,666	20,383	73,049	-	-	-	350,087
Non-executive directors												-		
T. C-E. Bergman[(i) (ii)]	- 2007	-	149,267	8,258	-	-	157,525	11,475	15,796	27,271	-	-	-	184,796
	- 2006	-	98,624	8,258	-	244	107,126	9,618	9,805	19,423	-	-	-	126,549
G. Castan[(i) (ii)]	- 2007	-	60,500	-	-	4,673	65,173	69,500	16,901	86,401	-	-	-	151,574
	- 2006	-	107,500	-	-	244	107,744	-	16,179	16,179	-		-	123,923
L.G. Cox, AO[(i) (ii)]	- 2007	-	76,599	9,788	-	-	86,387	105,113	18,253	123,366	-	-	-	209,753
	- 2006	-	105,559	30,850	-	244	136,653	2,591	18,874	21,465	-	-	-	158,118
B.L. Cusack[(i) (ii)]	- 2007	-	160,000	16,000	-	-	176,000	-	37,381	37,381	-	-	-	213,381
	- 2006	-	107,500	16,000	-	244	123,744	-	89,803	89,803	-	-	-	213,547
P.M. Edwards[(i) (ii)]	- 2007	-	149,267	8,258	-	-	157,525	11,475	15,163	26,638	-	-	-	184,163
	- 2006	-	98,624	8,258	-	244	107,126	9,618	10,322	19,940	-	-	-	127,066
R.M. Savage[(i) (ii)]	- 2007	-	94,505	5,505	-	4,939	104,949	71,990	16,224	88,214	-	-	-	193,163
	- 2006	-	98,624	11,010	-	244	109,878	9,866	9,239	19,105	-	-	-	128,983

[1] As a result of the OneSteel Merger, Mr Horsburgh received a retirement payment of $5,183,488 as approved by the Board.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Directors and Executives' Remuneration (audited) (continued)

		SHORT TERM REMUNERATION BENEFITS						POST-EMPLOYMENT						
Name		Salary[1] $	Directors Fees[1] $	Committee Fees[1] $	STI cash bonus[1] $	Non monetary benefits[1] $	Total[1] $	Super'n benefits[1] $	Retirement benefits[2] $	Total[2] $	Other long term benefits $	Terminat'n benefits $	Value of performance share plan share rights[3][4] $	Total remuneration $
Executives														
N.J. Power[ii][iii]	- 2007	644,411	-	-	210,820	13,011	868,242	43,704	-	43,704	-	1,078,458	84,425	2,074,829
	- 2006	606,104	-	-	239,619	34,519	880,242	40,560	-	40,560	7,636	-	80,255	1,008,693
R.M. Smith[ii]	- 2007	458,184	-	-	200,294	62,218	720,696	105,113	-	105,113	6,986	-	72,166	904,961
	- 2006	419,440	-	-	156,581	69,968	645,989	88,748	-	88,748	6,530	-	68,469	809,736
M.R. Vassella[ii]	- 2007	639,713	-	-	145,954	32,653	818,320	41,969	-	41,969	8,148	-	78,610	947,047
	- 2006	596,651	-	-	177,487	36,937	811,075	39,342	-	39,342	7,636	-	68,604	926,657
R. Jansen[ii][v]	- 2007	200,000	-	-	-	-	200,000	-	-	-	-	-	-	200,000
	- 2006	-	-	-	-	-	-	-	-	-	-	-	-	-
Former Executives														
D.J. George[ii][vi]	- 2007	-	-	-	84,608	5,917	90,525	-	-	-	-	-	59,257	149,782
	- 2006	317,992	-	-	102,672	6,531	427,195	88,421	-	88,421	4,841	-	58,046	578,503
S.M. Grice[ii][vii]	- 2007	320,186	-	-	121,638	40,323	482,147	7,309	-	7,309	-	-	67,567	557,023
	- 2006	503,787	-	-	106,886	55,996	666,669	12,139	-	12,139	6,411	-	60,623	745,842
Aggregate – Key management personnel of the Company														
	- 2007	1,463,528	1,038,025	47,809	834,395	128,671	3,512,428	475,966	160,525	636,491	-	5,183,488	160,784	9,493,191
	- 2006	1,305,338	879,765	74,376	991,269	133,484	3,384,232	184,946	174,605	359,551	17,665	-	171,659	3,933,107
Aggregate – Key management personnel of the Consolidated Entity														
	- 2007	3,726,022	1,038,025	47,809	1,597,709	282,793	6,692,358	674,061	160,525	834,586	15,134	6,261,946	522,809	14,326,833
	- 2006	3,749,312	879,765	74,376	1,774,514	337,435	6,815,402	454,156	174,605	628,761	50,719	-	507,656	8,002,538

(i) Key management personnel of the Company
(ii) Key management personnel of the Consolidated Entity
(iii) Employment ceased 30 June 2007
(iv) Executive Chairman from 30 June 2007 to 20 August 2007
(v) Employment commenced 6 March 2007
(vi) Employment ceased 4 July 2006
(vii) Employment ceased 15 January 2007

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Directors and Executives' Remuneration (audited) (continued)

Notes:

(1) Salary and fees are amounts paid for personal exertion. Short term incentives cash bonus include bonuses paid on business results and on achievement of personal performance objectives during the previous year. Other benefits relate to motor vehicles and the net cost of other fringe benefit tax assessable items. Superannuation Fund contributions are paid to a fund or funds at the Director/employees' election and in accordance with agreed total remuneration arrangements.

(2) Retirement benefits as shown are fully accrued after five year's service. Effective from 1 January 2006, fully accrued benefit levels as at 31 December 2005 were fixed and thereafter subject only to indexation increases calculated having regard to 90 day bank bill rates. Benefits are payable only upon retirement. Refer more detailed explanation on page 7 of this Report.

(3) Performance Shares provide for an entitlement to shares in the Company under the long-term incentive programme. The entitlement to shares is conditional on the consolidated entity achieving certain performance criteria. See page 9 for further details.

(4) The fair value of Performance Shares valuation is calculated at the date of grant using Monte-Carlo simulation techniques and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the performance shares allocated to this reporting period. In valuing the performance shares market conditions have been taken into account in both the current and prior periods.

The following factors and assumptions were used in determining the fair value of performance shares on grant date:

Grant Date	Expiry Date	Fair Value per performance share	Exercise Price	Price of Shares on Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
1 July 2003	1 July 2007	$0.72	$0.00	$1.16	25% pa	5.00% pa	7% pa
1 July 2004	1 July 2008	$0.64	$0.00	$1.10	30% pa	5.50% pa	7% pa
1 July 2005	1 July 2009	$0.56	$0.00	$1.23	30% pa	5.10% pa	7% pa

(5) During the financial year Smorgon Steel Group Ltd paid an insurance premium in respect of the indemnity of its Directors and Officers. Officer, for these purposes, is defined to include a director, secretary or a person who is concerned in or takes part in, the management of the entity and includes a former officer. The total cost of the premium was $314,482 (2006: $328,206). This premium is not allocated to specific individuals.

(6) The following table details the proportion of total remuneration that is performance related, short-term incentive payments as a proportion of total remuneration and the value of performance shares as a proportion of remuneration:

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Directors and Executives' Remuneration (audited) (continued)

		Percentage Of Total Remuneration Performance Related	Short-Term Incentive Payments As A Proportion Of Total Remuneration	Value Of Performance Shares As A Proportion Of Total Remuneration
		%	%	%
Director (i)				
Executive Director				
R.K. Horsburgh, AM	2007	12.6	10.6	2.0
	2006	43.0	36.6	6.4
Executives				
N.J. Power	2007	14.3	10.2	4.1
	2006	31.8	23.8	8.0
R.M. Smith	2007	30.1	22.1	8.0
	2006	27.8	19.3	8.5
M.R. Vassella	2007	23.7	15.4	8.3
	2006	26.6	19.2	7.4
D.J. George	2007	96.1	56.5	39.6
	2006	27.7	17.7	10.0
S.M. Grice	2007	33.9	21.8	12.1
	2006	22.4	14.3	8.1

(i) Non-executive Directors do not participate in the short-term or long-term incentive schemes.

Analysis of short-term incentive entitlements for the year (unaudited):

	SHORT-TERM INCENTIVE ENTITLEMENTS		
	Included in remuneration (1) $	% vested	% forfeited (2)
Director			
Executive Director			
R.K. Horsburgh, AM(3)	834,395	143	-
Executives			
N.J. Power(3)	210,820	138	-
R.M. Smith(3)	200,294	155	-
M.R. Vassella	145,954	96	4
Former Executives			
D.J. George	84,608	90	10
S.M. Grice	121,638	96	4

(1) Amounts included in remuneration for the financial year represent the remuneration entitlement for the year based on assessed achievement of personal goals and satisfaction of specified performance criteria. The amounts above represent remuneration paid in the 2007 financial year relating to the 30 June 2006 Short-term Incentive Entitlement Programme.

(2) The incentive proportion of maximum possible entitlement that was forfeited due to non-achievement of performance criteria.

(3) Certain participants in the Company's short-term incentive program are eligible to earn 15% of base salary (defined as 100% of target) for achieving quantitative and qualitative goal targets. For exceeding targets a participant can receive up to the maximum bonus payable of 25% of base salary. As Messrs Horsburgh, Power and Smith achieved combined quantitative and qualitative results greater than target, they became eligible for a payment greater than target.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Equity instruments (audited):

All performance share rights refer to performance share rights over ordinary shares of Smorgon Steel Group Ltd, which are exercisable on a one-for-one basis under the Senior Executive Performance Share Plan.

Rights over equity instruments granted as compensation (audited)

Details on rights over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on rights that were vested during the reporting period are as follows:

2007	Number of rights granted during 2007	Grant Date	Number of rights exercised during 2007	Fair value per rights at grant date ($)	Exercise price per right ($)	Expiry date
Director						
R.K. Horsburgh, AM	-	-	119,678	-	1.77	-
Executives						
N.J. Power	-	-	62,206	-	1.77	-
R.M. Smith	-	-	52,874	-	1.77	-
M.R. Vassella	-	-	47,833	-	1.77	-
Former Executives						
D.J. George	-	-	46,977	-	1.77	-
S.M. Grice	-	-	37,014	-	1.68	-

2006	Number of rights granted during 2006	Grant Date	Number of rights exercised during 2006	Fair value per rights at grant date ($)	Exercise price per right ($)	Expiry date
Director						
R.K. Horsburgh, AM	202,100	1 July 2005	-	0.56	-	1 July 2009
Executives						
N.J. Power	157,665	1 July 2005	-	0.56	-	1 July 2009
R.M. Smith	134,832	1 July 2005	-	0.56	-	1 July 2009
M.R. Vassella	157,665	1 July 2005	-	0.56	-	1 July 2009
Former Executives						
D.J. George	108,689	1 July 2005	-	0.56	-	1 July 2009
S.M. Grice	132,380	1 July 2005	-	0.56	-	1 July 2009

No performance share rights have been granted since the end of the 2006 financial year. Rights previously granted were provided at no cost to the recipients.

All rights expire on the earlier of their expiry date or termination of the individual's employment. The rights convert to shares on satisfaction of vesting conditions. In addition to a continuing employment service condition, the ability to exercise the rights is conditional on the consolidated entity achieving certain performance criteria. Details of the performance criteria are included in the long-term incentives discussion on page 9.

Further details, including grant dates and exercise dates regarding rights granted to executives under the Senior Executive Performance Share plan are in note 36 to the Financial Statements.

Modification of terms of equity-settled share-based payment transactions (audited)

No terms of equity-settled share-based payment transactions (including rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Analysis of long-term share-based entitlements granted as remuneration (unaudited)

The table below summarises details of the interests in long-term incentive plans of the Managing Director and CEO, and executives, including the number of share rights granted under related incentive programmes that affect remuneration in current and future reporting periods. The extent to which share rights vest will be wholly dependent upon the extent to which the performance criteria are met.

	Performance share rights granted				
Name	Number	Date	% vested in year	% forfeited in year [1]	Financial years in which grant expires
R.K. Horsburgh, AM	202,500	30 June 2002	-	100	1 July 2006
	202,500	1 July 2003	59	-	1 July 2007[2]
	400,000	1 July 2004	-	-	1 July 2008
	202,100	1 July 2005	-	-	1 July 2009
N.J. Power	99,983	30 June 2002	-	100	1 July 2006
	105,255	1 July 2003	59	-	1 July 2007[2]
	119,828	1 July 2004	-	-	1 July 2008
	157,665	1 July 2005	-	-	1 July 2009
R.M. Smith	75,459	30 June 2002	-	100	1 July 2006
	89,465	1 July 2003	59	-	1 July 2007[2]
	102,324	1 July 2004	-	-	1 July 2008
	134,832	1 July 2005	-	-	1 July 2009
M.R. Vassella	77,986	30 June 2002	-	100	1 July 2006
	80,937	1 July 2003	59	-	1 July 2007[2]
	92,570	1 July 2004	-	-	1 July 2008
	157,665	1 July 2005	-	-	1 July 2009
D.J. George	76,958	30 June 2002	-	100	1 July 2006
	79,489	1 July 2003	59	-	1 July 2007[2]
	87,561	1 July 2004	-	-	1 July 2008
	108,689	1 July 2005	-	-	1 July 2009
S.M. Grice	69,988	30 June 2002	-	100	1 July 2006
	74,027	1 July 2003	50	50	1 July 2007[2]
	85,057	1 July 2004	-	100	1 July 2008
	132,380	1 July 2005	-	100	1 July 2009

(1) The % forfeited in the year represents the reduction from the maximum number of performance share rights available to vest due to the highest level performance criteria not being achieved.

(2) On 27 June 2007, the Board approved the extension of the expiry date for the 1 July 2003 Performance Share Rights from 1 July 2007 to 30 June 2008 due to the proposed OneSteel Merger.

All performance share rights on hand at 30 June 2007 were converted to performance shares on 20 July 2007 in accordance with a resolution of the Board as a result of the OneSteel Merger.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Analysis of movements in Performance Share Rights for the year (unaudited)

The movement during the reporting period, by value, of performance share rights over ordinary shares in the Company for each of the Managing Director/CEO and Senior Executives is detailed in the following table:

	VALUE OF PERFORMANCE SHARE RIGHTS			
	Granted in year[(1)] $	Exercised in year[(2)] $	Lapsed in year[(3)] $	Total value in year $
R.K. Horsburgh, AM	-	211,563	283,500	495,063
N.J. Power	-	109,966	139,976	249,942
R.M. Smith	-	93,469	105,643	199,112
M.R. Vassella	-	84,557	109,180	193,737
D.J. George	-	83,045	107,741	190,786
S.M. Grice	-	62,184	559,810	621,994

(1) The value of share rights granted in the year is the fair value of the rights calculated at grant date using Monte-Carlo simulation techniques. The value is allocated to remuneration over the vesting period, being the years 2005 to 2007 inclusive.

(2) The value of the share rights exercised during the year is calculated at the market price of the Company's shares on the Australian Stock Exchange as realised on issue.

(3) The value of the share rights that lapsed during the year represents the benefit foregone and is calculated based on the share price of the date the share rights lapsed.

Employment Agreements (audited)

Managing Director and CEO – employment ceased 30 June 2007

The following terms set out the employment agreement of the Managing Director and CEO of Smorgon Steel Group Ltd, Mr. R.K. Horsburgh, AM.

Term of Employment Agreement

Mr. Horsburgh's, AM employment agreement with the Group is dated 7 December 1998. The agreement is not for a specified period of employment. By agreement with the Company, Mr Horsburgh's, AM employment ceased on 30 June 2007.

Notice Provisions

The employment agreement provided that the employment of Mr. Horsburgh, AM may be terminated by either party giving 3 months written notice of termination to the other.

The Company may also terminate the employment of the Mr. Horsburgh, AM with immediate effect by giving 3 months pay (total remuneration) in lieu of notice.

Termination Payments

In addition to any payment in lieu of notice, the Managing Director and CEO would receive:
- A pro-rata short-term incentive payment, having regard to the Board's assessment of performance to the date of termination; and
- Statutory entitlements in respect of unused annual and long-service leave.

Effective 30 September 2003, the Company introduced an additional employment agreement provision, which operates where the existing position of Managing Director and CEO is made redundant.

The payments that would be made to the Managing Director and CEO in the above circumstance are:

a) 3 months notice of termination, or payment in lieu in total or part thereof for shorter notice;

b) A redundancy payment being an amount equal to 18 months total fixed remuneration; and

c) Payment of a short-term incentive for an 18-month period to be calculated by measuring pro rata performance against agreed goals in the year of redundancy extrapolated for 18 months. For example if the Managing Director and CEO had worked 6 months in the financial year, the short-term incentive for the worked period (6 months) multiplied by three (or 18 months), would be paid.

Statutory entitlements in respect of unused annual and long-service leave would be paid in addition to the above amounts.

As a result of the OneSteel Merger, Mr Horsburgh received a retirement payment of $5,183,488 as approved by the Board.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Employment Agreements (audited) (continued)

Executive Chairman – Mr. G.J. Smorgon (30 June 2007 to 20 August 2007)

Term of Employment Agreement
Upon the retirement of the Managing Director and CEO on 30 June 2007, Mr Smorgon became the Executive Chairman of the Company.

Executives –Mr. R.M. Smith (employment ceased 17 August 2007), Mr. N.J. Power (employment ceased 30 June 2007), Mr. M.R. Vassella (employment ceased 2 August 2007)

Term of Employment Agreement

Each of R.M. Smith, N.J. Power and M.R. Vassella (the "Executives") has a signed and dated employment agreement. The agreements are not for a specified period of employment.

Notice Provisions

The current employment agreements with the Executives provide that employment may be terminated by either party giving 3 months written notice of termination to the other.

The Company may also terminate the employment of the Executives with immediate effect by paying 3 months pay (total remuneration) in lieu of notice.

Termination Payments

In addition to any payment in lieu of notice, the Executives would receive:
- A pro-rata short-term incentive payment having regard to the Board's assessment of performance to the date of termination; and
- Statutory entitlements in respect of unused annual and long-service leave.

Effective 7 July 2003 (Mr. R.M. Smith effective 5 May 2006), the Company introduced an additional employment agreement provision to the employment agreements of the Executives. This provision operates where there is a termination of employment initiated by the Company on the grounds of redundancy or where any of the Executives resigns following a material change in their employment circumstances.

Redundancy occurs if the Company determines that the need for the work of a particular kind in a particular place being performed by the Executives has ceased or diminished but does not occur if the senior executive is offered work of a similar kind at a different place within a reasonable distance of the Executives residence (as determined by the Company).

Material change in circumstances means:

a) A substantial reduction by the Company of the Executives remuneration or other benefits taking into account only elements not at risk;
b) A substantial reduction in the status or level of responsibility attached to the Executives position on an indefinitely continuing basis;
c) A substantial reduction of the scope of the Executives position or duties required to be performed by the Executives on an indefinitely continuing basis.

For the avoidance of doubt, a change in ownership or control or in the constitution of the Board of Directors of the Company does not in itself amount either to redundancy or to a material change in circumstances.

The payments that would be made to the Executives in cases of redundancy are:
a) 3 months notice of termination, or payment in lieu, or a shorter period of notice and payment in lieu of the balance of the entitlement to 3 months notice;
b) A redundancy payment being an amount equal to 12 months total fixed remuneration; and
c) A pro-rata bonus amount calculated in accordance with the Company's short-term incentive program.

Statutory entitlements in respect of unused annual and long-service leave would be paid in addition to the above amounts.

Where material change in circumstances occurs, the Executives are entitled to:

a) Resign by giving 3 months written notice within 2 months of the change occurring, such period of notice to be worked or waived (with payment of remuneration in lieu) at the discretion of the Company;
b) A redundancy payment being an amount equal to 12 months total remuneration; and
c) A pro rata bonus amount calculated in accordance with the Company's short-term incentive program.

As a result of the OneSteel Merger, the following payments were approved by the Board:
Mr Smith, $1,329,194;
Mr Power, $1,078,458; and
Mr Vassella, $1,078,458

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Employment Agreements (audited) (continued)

Executives – Mr. R.Jansen

Term of Employment Agreement

Mr Jansen has an 18 months fixed term employment agreement. This is extendable by mutual agreement between Mr Jansen and the Company. Under the Term of the Employment Agreement, Mr Jansen is not entitled to participate in the Company's equity compensation schemes.

Termination Payments

The employment agreement provides that, if Mr Jansen's employment is not extended, the Executive would receive 4 months pay in lieu of notice.

Principal Activities

The principal activities of the Company and the entities controlled by the Company (the "consolidated entity") are as an Australian based steel recycling, manufacturing and distribution business. Smorgon Steel's fully integrated activities extend from collecting and processing steel scrap to steel making, steel tube manufacturing, processing and distributing a wide range of metal products.

Review and Results of Operations

Smorgon Steel achieved a net profit after tax for the 2006/7 financials year of $155.9 million. Sales revenue for the year were $3,767.1 million 17.7% higher than in 2005/6.

The higher sales revenue was driven by higher ferrous and non-ferrous scrap prices during the year, which resulted in a higher profit contribution from the Recycling division at the expense of the Reinforcing and Steel Products division whose major input is ferrous scrap metal.

Non recurring items recognised during the period contributed $21.5 million after tax to the statutory result and included the gain on entering the Australian Tube Mill joint venture, the profit on sale of a property and costs associated with the merger with OneSteel.

Dividends

In respect of the financial year ended 30 June 2006, a final dividend of 5.0 cents per share, fully franked at 30%, was paid to the holders of fully paid ordinary shares on 31 October 2006.

In respect of the financial year ended 30 June 2007:

i) an interim dividend of 5.0 cents per share, fully franked at 30%, was paid to holders of fully paid ordinary shares on 30 April 2007;

ii) a special dividend of 6.23 cents per share, fully franked at 30%, was paid to holders of fully paid ordinary shares on 3 August 2007.

Shares and Performance Shares

Executive & Employee Share Plans

The Company has an ownership based remuneration scheme for employees and executives, which extends as relevant to equity based plans as approved by shareholders at Annual General Meetings. The plans are as follows:

Smorgon Steel Group Executive Share Acquisition Plan

This Plan provides, at the discretion of the Board, that the remuneration of executives and Directors of the consolidated entity may be delivered partially in the form of ordinary shares in the Company. The shares may, at the discretion of the Board, be either newly issued shares or shares purchased for this purpose on the Australian Stock Exchange ("ASX"). The shares are held in trust on the participating employees' behalf and are liable to forfeiture in the event of fraud or defalcation. The shares are subject to dealing restrictions for up to ten years. On 3 August 2007, the Board approved the release of dealing restrictions associated with the Plan due to the OneSteel Merger.

Smorgon Steel Group Employee Share Ownership Plan

This Plan provides, at the discretion of the Board, that offers of ordinary shares in the Company may be made from time to time to full and part time employees of the consolidated entity. The shares may, at the discretion of the Board, be either newly issued shares or shares purchased for this purpose on the ASX, to be held in Trust on the participating employees' behalf. Dealing in the shares is restricted for up to three years or earlier upon an employee's termination. Due to the OneSteel Merger, the Board has approved the release of dealing restrictions associated with the Plan.

DIRECTORS' REPORT (continued)

Shares and Performance Shares (continued)

Smorgon Steel Group Senior Executive Performance Share Plan

The Plan, approved by shareholders at the Annual General Meeting held October 2003, provides at the discretion of the Board for eligible senior executives to earn an entitlement to shares in the Company under the long-term incentive component of the Company's executive remuneration programme. Under the terms of the Plan the Board may, on an annual basis, offer to senior executives a right to receive a specified number of fully paid shares in the Company subject to any applicable conditions, including vesting conditions. The Plan provides for the Company's total shareholder return to be compared with that of a group of companies in industries related to those in which the Company operates over a period of years as determined by the Board. The Board has specified a vesting period of between 3 and 4 years. On satisfaction of the vesting conditions, the shares the subject of the right, will be delivered to the executive either by way of a new issue of shares or by the purchase of shares on market. Any such shares are subject to forfeiture for a period as determined by the Board, but not exceeding 10 years from the date of grant of the rights. During this period the shares may not be disposed of by the executive and may be forfeited by the Board under certain circumstances including fraud, defalcation or gross misconduct relating to the executive's employment with the Company.

Shares and performance share plan rights may not be issued under any of the Plans if any such issue, together with both the total number of shares issued plus share options issued and unexpired and unvested performance share plan rights, plus any outstanding offers to subscribe for shares under the Plans during the previous five years, would, in aggregate, exceed 5% of the total number of issued ordinary shares in the Company.

During the year, no entitlements to Performance Share Plan rights in respect of the Managing Director/CEO were approved by security holders at the Annual General Meeting held 20 November 2006, and entitlements to 993,181 Performance Shares were approved by the Board in respect of senior executives, in accordance with the terms of the Plan.

During or since the end of the financial year, the Company has granted no share rights over unissued ordinary shares in the Company to Directors and Senior Executive as part of their remuneration.

On 12 July 2007, the Board approved that the vesting conditions applicable to all performance shares at 30 June 2007 be waived and the shares be issued and delivered to relevant participants.

Upon implementation of the OneSteel Merger, the plan was terminated.

Unissued shares under performance share rights

At the date of this report, there are no unissued ordinary shares of the Company under performance share rights.

On 20 July 2007, 6,095,433 ordinary shares were issued for $nil consideration for the number of performance share rights as at 30 June 2007 (refer note 27).

Directors' Shareholdings

At the date of this report, Directors and Non-executive Directors have no shareholding in the Company.

Events Subsequent To Reporting Date

On 31 July 2007, Smorgon Steel shareholders voted in favour of the Scheme of Arrangement to effect the merger between OneSteel and Smorgon Steel. The Supreme Court of Victoria subsequently approved it on 3 August 2007. Immediately following the court approval on 3 August 2007, Onesteel Limited acquired 179,124,279 ordinary shares in Smorgon Steel Group Limited (representing 19.96% of total shares on issue) from BlueScope Steel Limited for approximately $447.3 million. On 20 August 2007, the Scheme of Arrangement was implemented and OneSteel Limited acquired all remaining shares in Smorgon Steel Group Limited. Under the Scheme, Smorgon Steel shareholders received 9 new OneSteel shares for every 22 Smorgon Steel shares they held, which is equivalent to 0.4091 OneSteel shares for each Smorgon Steel share. In addition, the BlueScope Steel Acquisition of the Smorgon Steel Distribution business was completed.

Smorgon Steel shares were suspended from trading on the Australian Stock Exchange as of the close of trading on 3 August 2007. The new OneSteel shares issued to Smorgon Steel shareholders pursuant to the Scheme were traded on the Australian Stock Exchange on a deferred settlement basis from 6 August 2007. Normal trading in OneSteel shares commenced on 21 August 2007.

On 17 August 2007, OneSteel announced that as part of the merger process with the Smorgon Steel Group Limited, Australian Tube Mills Pty Limited (ATM), a joint venture between OneSteel and Smorgon Steel, will restructure its pipe and tube operations. ATM became a wholly owned subsidiary of OneSteel Limited from 20 August 2007 as part of the completion of the merger between OneSteel and Smorgon Steel.

DIRECTORS' REPORT (continued)

Likely Developments

The Directors are of the opinion, further or specific information as to the likely developments in the operations of the consolidated entity or the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity in future financial years and has not been included in this Financial Report.

Indemnification and Insurance – Directors and Officers

Under Article 35 of the Company's Constitution, to the extent permitted by law, the Company must indemnify each Officer of the Company and each Officer of each wholly owned subsidiary of the Company on a full indemnity basis out of the assets of the Company against any liability (including costs and expenses) incurred by the Officer in the Officer's capacity as an officer of the Company or a wholly owned subsidiary of the Company (as the case may be).

Officer, for these purposes, is defined to include a Director, secretary or a person who is concerned in or takes part in, the management of the relevant entity (regardless of the person's designation and whether or not the person is a Director of a relevant entity) and includes a former Officer.

The indemnity operates only to the extent and for the amount that the liability in question is not covered by insurance and, where the liability arises out of the conduct of the business of another corporation or in the discharge of the duties of the Officer to that corporation, only to the extent and for the amount that the Officer is not entitled to be indemnified by the relevant corporation and is not actually indemnified out of the assets of that corporation or its insurer.

The Company has entered into a Deed of Indemnity, Insurance and Access with each of the Directors, whereby, as provided for in the Company's Constitution and in accordance with the Corporations Act 2001, the Company undertakes to provide the above indemnities, to obtain and maintain appropriate insurance cover, and to ensure a Director's rights of access to Company records.

Lead Auditor's Independence Declaration

The Lead auditor's independence declaration is set out on page 23 and forms part of the Directors' Report for financial year ended 30 June 2007.

Non-Audit Services

During the year, KPMG the Company's auditor has not performed any other services that were in addition to their statutory duties, other than services provided in relation to the OneSteel Merger as disclosed in Note 8.

Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of directors:

Geoffrey J Plummer	Anthony J Reeves
Managing Director	Executive Director

Sydney, 24 October 2007

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Smorgon Steel Group Ltd
I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have 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

Don Pasquariello
Partner
Sydney, 24 October 2007

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

		CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
	NOTE	$'000	$'000	$'000	$'000
Sales revenue					
Sale of goods	2	3,767,100	3,200,393	-	-
Cost of sales		(2,992,383)	(2,418,123)	-	-
Gross profit		774,717	782,270	-	-
Other income	4	41,516	6,240	9,867	15,263
Distribution expenses		(219,583)	(220,531)	-	-
Marketing expenses		(90,278)	(90,886)	-	-
Occupancy expenses		(26,816)	(25,094)	-	-
Administration expenses		(190,522)	(184,474)	(3,002)	(13,068)
Other expenses	5	(29,388)	(3,536)	(19,746)	(1,474)
		259,646	263,989	(12,881)	721
Share of profit of equity accounted investees	18	5,264	-	-	-
Results from operating activities		264,910	263,989	(12,881)	721
Financial income		1,213	2,992	213,232	269,467
Financial expenses		(82,851)	(77,422)	(62,337)	(58,455)
Net Financing income/(costs)	7	(81,638)	(74,430)	150,895	211,012
Profit before income tax		183,272	189,559	138,014	211,733
Income tax (expense)/benefits	9	(27,334)	(42,242)	13,886	(2,138)
Profit for the year attributable to equity holders of the Smorgon Steel Group		155,938	147,317	151,900	209,595

		Cents	Cents
Earnings per share			
Basic earnings per share attributable to ordinary equity holders	11	17.4	16.6
Diluted earnings per share attributable to ordinary equity holders	11	17.4	16.6

The accompanying notes form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED						COMPANY					
30 June 2007 ($'000)	Issued Capital[(i)]	Hedge Reserve	Translation Reserve	Equity Compensation Reserve	Accumulated Losses	Total Equity	Issued Capital	Hedge Reserve	Translation Reserve	Equity Compensation Reserve	Retained Earnings	Total Equity
Balance at 1 July 2006	1,174,143	(10,298)	(2,839)	2,763	(231,996)	931,773	1,174,143	(10,298)	-	2,763	131,338	1,297,946
Foreign exchange translation gains / (losses)	-	-	(4,629)	-	-	(4,629)	-	-	-	-	-	-
Revaluation of cash flow hedges	-	8,358	-	-	-	8,358	-	8,358	-	-	-	8,358
Transfer to the initial carrying value of hedged items	-	(285)	-	-	-	(285)	-	(285)	-	-	-	(285)
Total income / (expense) recognised directly in equity	-	8,073	(4,629)	-	-	3,444		8,073	-	-		8,073
Profit for the period	-	-	-	-	155,938	155,938	-	-	-	-	151,900	151,900
Total income / (expense)	-	8,073	(4,629)	-	155,938	159,382	-	8,073	-	-	151,900	159,973
Equity based compensation	-	-	-	1,604	-	1,604	-	-	-	1,604	-	1,604
Conversion of performance shares	521	-	-	(529)	-	(8)	521	-	-	(529)	-	(8)
Equity dividends	-	-	-	-	(146,010)	(146,010)	-	-	-	-	(146,010)	(146,010)
Balance at 30 June 2007	1,174,664	(2,225)	(7,468)	3,838	(222,068)	946,741	1,174,664	(2,225)	-	3,838	137,228	1,313,505

	CONSOLIDATED						COMPANY					
30 June 2006 ($'000)	Issued Capital[(i)]	Hedge Reserve	Translation Reserve	Equity Compensation Reserve	Accumulated Losses	Total Equity	Issued Capital	Hedge Reserve	Translation Reserve	Equity Compensation Reserve	Retained Earnings	Total Equity
Balance at 1 July 2005	1,243,631	-	(2,429)	1,307	(287,672)	954,837	1,243,631	-	-	1,307	13,384	1,258,322
Implementation of accounting standards AASB 132 and 139	(83,057)	(6,107)	-	-	(16,122)	(105,286)	(83,057)	(6,107)	-	-	(16,122)	(105,286)
Restated balance at 1 July 2005	1,160,574	(6,107)	(2,429)	1,307	(303,794)	849,551	1,160,574	(6,107)	-	1,307	(2,738)	1,153,036
Foreign exchange translation gains / (losses)	-	-	(410)	-	-	(410)	-	-	-	-	-	-
Revaluation of cash flow hedges	-	(4,548)	-	-	-	(4,548)	-	(4,548)	-	-	-	(4,548)
Transfer to the initial carrying value of hedged items	-	357	-	-	-	357	-	357	-	-	-	357
Gain / (losses) on cash flow hedges	-	(4,191)	-	-	-	(4,191)	-	(4,191)		-	-	(4,191)
Total income / (expense) recognised directly in equity	-	(4,191)	(410)	-	-	(4,601)	-	(4,191)	-	-	-	(4,191)
Profit for the period	-	-	-	-	147,317	147,317	-	-	-	-	209,595	209,595
Total income / (expense)	-	(4,191)	(410)	-	147,317	142,716	-	(4,191)	-	-	209,595	205,404
Equity based compensation	-	-	-	1,456	-	1,456	-	-	-	1,456	-	1,456
Exercise of options	5,153	-	-	-	-	5,153	5,153	-	-	-	-	5,153
Equity dividends	8,416	-	-	-	(75,519)	(67,103)	8,416	-	-	-	(75,519)	(67,103)
Balance at 30 June 2006	1,174,143	(10,298)	(2,839)	2,763	(231,996)	931,773	1,174,143	(10,298)	-	2,763	131,338	1,297,946

Amounts recognised in equity are stated net of tax.

[(i)] Refer to Note 28 for split of issued capital.

The accompanying notes form part of these financial statements.

BALANCE SHEETS AS AT 30 JUNE 2007

		CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
	NOTE	$'000	$'000	$'000	$'000
Current Assets					
Cash and cash equivalents	12	25,415	46,363	1	1
Trade and other receivables	13	538,538	513,315	851,826	700,210
Inventories	14	493,785	422,769	-	-
Current tax assets	24	1,661	-	1,661	-
Other assets	15	15,022	15,273	1,729	1,884
Total Current Assets		1,074,421	997,720	855,217	702,095
Non-Current Assets					
Trade and other receivables	13	1	11	-	-
Investments	16	-	-	1,350,506	1,350,506
Property, plant & equipment	17	537,305	573,450	-	-
Investments in equity accounted investees	18	207,802	-	-	-
Intangible assets	19	893,254	947,334	-	-
Deferred tax assets	20	35,670	49,116	4,147	6,656
Other assets	15	102	135	-	-
Total Non-Current Assets		1,674,134	1,570,046	1,354,653	1,357,162
Total Assets		2,748,555	2,567,766	2,209,870	2,059,257
Current Liabilities					
Trade and other payables	22	507,767	452,200	8,267	13,924
Interest bearing borrowings	23	4,504	635	8,427	8,393
Current tax liabilities	24	2,890	15,546	-	12,437
Provisions	25	111,312	78,896	59,094	6,858
Other liabilities	26	3,168	14,663	3,168	14,663
Total Current Liabilities		629,641	561,940	78,956	56,275
Non-Current Liabilities					
Trade and other payables	22	73,925	41,876	73,925	41,876
Interest bearing borrowings	23	1,044,883	969,967	741,190	659,993
Deferred tax liabilities	20	11,748	19,110	2,294	2,501
Provisions	25	41,617	43,100	-	666
Total Non-Current Liabilities		1,172,173	1,074,053	817,409	705,036
Total Liabilities		1,801,814	1,635,993	896,365	761,311
Net Assets		946,741	931,773	1,313,505	1,297,946
Equity					
Issued capital	28	1,174,664	1,174,143	1,174,664	1,174,143
Reserves	29	(5,855)	(10,374)	1,613	(7,535)
Retained earnings/(Accumulated losses)		(222,068)	(231,996)	137,228	131,338
Total Equity		946,741	931,773	1,313,505	1,297,946

The accompanying notes form part of these financial statements.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2007

		CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
	NOTE	$'000	$'000	$'000	$'000
Cash Flows From Operating Activities					
Receipts from customers		3,744,798	3,171,795	-	-
Payments to suppliers and employees		(3,568,639)	(2,777,930)	(25,783)	(8,415)
Cash generated from operations		176,159	393,865	(25,783)	(8,415)
Interest received		1,213	2,992	617	1,162
Interest paid		(86,607)	(77,763)	(65,557)	(58,796)
Net income tax paid		(33,852)	(37,557)	-	-
Net cash from operating activities	34	56,913	281,537	(90,723)	(66,049)
Cash Flows From Investing Activities					
Payments for property, plant and equipment		(88,482)	(66,327)	-	-
Proceeds from sale of property, plant and equipment		24,395	9,976	-	-
Payments for intangibles		(1,404)	(3,041)	-	-
Payments for equity investments		(2,549)	-	-	-
Payments for businesses acquired	33	(42,121)	(40,690)	-	-
Net cash from investing activities		(110,161)	(100,082)	-	-
Cash Flows From Financing Activities					
Dividends paid		(89,702)	(67,103)	(89,702)	(67,103)
Proceeds from borrowings		707,802	546,624	694,469	546,624
Repayment of borrowings		(589,158)	(633,470)	(583,388)	(614,180)
Repayment of loans from controlled entities		-	-	69,310	190,274
Proceeds from issue of shares (net of costs)		-	5,153	-	5,153
Payment of finance lease liabilities		(610)	(295)	-	-
Net cash from financing activities		28,332	(149,091)	90,689	60,768
Net increase / (decrease) in cash and cash equivalents		(24,916)	32,364	(34)	(5,281)
Cash and cash equivalents net of overdraft at 1 July		46,331	13,967	(8,392)	(3,111)
Cash and cash equivalents net of overdraft at 30 June	12	21,415	46,331	(8,426)	(8,392)

The accompanying notes form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Smorgon Steel Group Ltd (the "Company") is a company domiciled in Australia. The consolidated Financial Report of the Company for the year ended 30 June 2007 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

The Financial Report was authorised for issue by the Directors on 24 October 2007.

(a) Statement of compliance

The Financial Report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the consolidated entity also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

(b) Basis of Preparation

The Financial Report is prepared on the historical cost basis except for derivative financial instruments that have been stated at fair value.

The Financial Report is presented in Australian dollars.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with the Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of the Financial Report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. 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.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the Financial Report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(w).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by each entity in the consolidated entity.

In the prior financial year the consolidated entity adopted AASB 132: *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards*. The change has been accounted for by adjusting the opening balance of reserves and retained earnings and reserves at 1 July 2005, as disclosed in the Statements of Changes in Equity.

(c) Issued standards and Amendments not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company and the consoldiated entity's assessment of the impact of these new standards and interpretations are set out below:

(i) AASB 7 "Financial Instruments: Disclosures" and AASB 2005-10 "Amendments to Australian Accounting Standards" are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements but will impact the type of information disclosed in relation to the Company and the consolidated entity's financial instruments

(ii) AASB 1-10 "Interim Financial Reporting and Impairment is applicable to reporting periods commencing on or after 1 November 2006. Application of the interpretation will have no impact on the Company or consolidated entity's financial statements.

(iii) AASB 8 Segment Reporting is applicable to reporting periods commencing on or after 1 January 2009. This may impact the financial and descriptive information disclosed in relation to the consolidated entity's reportable segments.

The initial application of the amendments could have an impact on the financial results of the Company and the consolidated entity. The quantification of the impact is not known or reasonably estimable in the current financial year as such an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company.

The Consolidated Financial Statements have been prepared by combining the Financial Statements of all the entities that comprise the consolidated entity, being Smorgon Steel Group Ltd and its subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Consolidated Financial Statements include the information and results of each subsidiary entity from the date on which the Company obtains control and until such time as the Company ceases to control such entities.

In preparing the Consolidated Financial Statements, all intercompany balances and transactions, and unrealised profits / losses arising within the consolidated entity are eliminated in full. Consistent accounting policies have been employed in the preparation and presentation of the Consolidated Financial Statements.

Associates and joint ventures (equity accounted investees)

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the consolidated entity's share of the income and expenses of equity accounted investees from the date that significant influence or joint venture commenced.

(e) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the fair value of the purchase consideration determined as at the date of acquisition plus incidental costs directly attributable to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of the acquisition.

For property, plant and equipment refer note 1(i).

(f) Intangibles

(i) Goodwill

Business combinations since 1 July 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested at least annually for impairment (see note 1(k)).

Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

(ii) Computer software

Computer software that is acquired by the consolidated entity is stated at cost less accumulated amortisation (see below) and impairment losses see (note 1(k)).

(iii) Brand names

Intangible assets also include brand names. The consolidated entity's brand names are initially recorded at cost of acquisition. Directors give due consideration to the technical and commercial life of each brand name to determine their useful lives. In the opinion of the Directors the consolidated entity's brand names do not have finite useful lives and, accordingly, they have not been subject to amortisation and are therefore tested for impairment at least annually (refer note 1(k)).

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Other

Other intangibles are recognised at the cost of acquisition and are amortised over the life of the expected benefits.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Intangibles (continued)

(vi) Amortisation

Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each Balance Sheet date or when there is an impairment trigger. Other intangible assets will be amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

Goodwill	Indefinite
Brand names	Indefinite
Computer software	8 years

Brand names are assessed as having an indefinite life as they are core to the continuing operations of the consolidated entity (refer to note 19).

(g) Inventories

Raw materials, stores, work in progress and manufactured stocks are valued at the lower of cost and net realisable value. Cost is comprised of materials, labour and an appropriate proportion of fixed and variable overheads, on an absorption costing basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The methods used to assign costs to inventories are actual invoiced cost or standard costs.

(h) Investments

Investments in subsidiaries are recorded at cost less any impairment losses.

(i) Property Plant and Equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation (see below) and impairment losses (see note 1(k)). Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land.

(ii) Leased Assets

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and rewards of ownership of the leased assets.

Leased assets classified as finance leases are capitalised as fixed assets. The amount initially brought to account is the lower of the assets fair value and present value of the minimum lease payments.

Capitalised leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Finance lease payments are allocated between the finance charge and the reduction of the lease liability over the term of the lease. The finance charge is allocated to each period during the lease term so as to produce a periodic rate of interest on the remaining balance of the liability.

Operating lease payments are charged to the Income Statement on a straight line basis over the term of the lease.

(iii) Depreciation

Depreciation is charged to the Income Statement on a straight line basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

Buildings	10- 40 years
Plant and equipment	3- 20 years
Equipment under finance lease	3-5 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Trade and other receivables

Trade receivables and other receivables are stated at their amortised cost less impairment losses.

(k) Impairment of assets

At each Balance Sheet date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at each annual Balance Sheet date or when there is an impairment trigger. An impairment loss in respect of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Any impairment loss in respect of cash-generating units is first allocated to the carrying amount of any goodwill that has been allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis with a corresponding adjustment recognised in the Income Statement.

An impairment loss is reversed where there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the Income Statement.

(l) Employee Benefits

(i) Wages, salaries, annual leave and sick leave

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and sick leave when it is probable that settlement will be required and the entitlements are capable of being measured reliably. Provisions made in respect of wages and salaries, annual leave and sick leave expected to be settled within 12 months are measured at their nominal values using the remuneration rates expected to apply at the time of settlement including related on-costs.

(ii) Long service leave benefits

The consolidated entity's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the Balance Sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Share-based payment transactions

Executive Performance Share Plan

The fair value of performance shares granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become entitled to the performance shares (the vesting period). The fair value is calculated using Monte Carlo simulation techniques (refer note 27).

(iv) Defined benefit funds

The superannuation charge to the Income Statement for defined benefit funds is the movement in the difference between the accrued benefits and the net market value of the funds assets between balance dates. Accrued benefits are the present value of the expected future payments arising from membership of the plan.

The accumulated surplus/deficit in relation to the defined benefit funds' assets are recognised in the Balance Sheet as an asset/liability.

All actuarial gains and losses are recognised in the Income Statement.

(v) Defined contribution funds

Contributions to defined contribution superannuation plans are recognised as an expense in the Income Statement as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Income Tax

(i) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(ii) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Smorgon Steel Group Ltd.

Income tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate Financial Statements of the members of the tax-consolidated group using the “separate taxpayer within group” approach by reference to the carrying amounts of assets and liabilities in the separate Financial Statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable/(receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

(iii) Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangement requires payments to/from the head entity equal to the current tax (liability)/asset assumed by the head entity and any tax–loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax (liability)/asset assumed. The inter-entity receivables/(payables) are repayable at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity’s obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the Financial Statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(n) Foreign Currency

(i) Foreign Currency Transactions

All foreign currency transactions during the financial year have been brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. All exchange differences are brought to account in the Income Statement of the financial year in which they arise except that:

- exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services up to the date of transaction are deferred and recognised in equity until the forecast transaction occurs then included in the measurement of the purchase or sale (refer note 1(p)).

(ii) Foreign Currency Translation

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity’s functional currency to the consolidated entity’s presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the dates of the transactions.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Share capital

(i) Reset Preference Share Capital

Preference share capital is classified as a liability as it is redeemable on a specific date or at the option of the shareholders and the dividend payments are not discretionary. Dividends on preference share capital classified as liabilities are recognised in the Income Statement as interest expense.

The last of the Reset Preference Shares were bought back on 31 March 2006.

(ii) Transaction costs

Transaction costs directly attributable to an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(p) Derivative financial instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, such as interest rate swaps, cross currency swaps and forward foreign exchange contracts. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(q)).

The fair value of interest rate cross currency swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the Balance Sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(q) Hedging

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects the Income Statement. The ineffective part of any gain or loss is recognised immediately in the Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

(ii) Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the Income Statement.

(r) Trade and other payables

Trade payables and other payables are stated at amortised cost. Trade payables are non interest bearing and are normally settled on 60-day terms.

(s) Revenue Recognition

Sale of Goods - Revenue from the sale of goods and disposal of other assets is recognised in the Income Statement when the significant risks and rewards of ownership have been transferred to the buyer.

Interest - Interest is taken to income on an accruals basis using the effective interest rate method.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of current trade and other receivables or current trade and other payables.

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

(u) Net financing costs

Finance costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange differences net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Finance costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, finance costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of finance costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, finance costs are capitalised using a weighted average capitalisation rate.

Interest income is recognised in the Income Statement as it accrues, using the effective interest rate method. Dividends are taken to the Income Statement when declared by the subsidiary.

(v) Provisions

Provisions are recognised in the Balance Sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Contract completion, claims and warranties
The provision for contract completion, claims and warranties represents the directors' best estimate of the costs directly associated with outstanding contracts.

Restructuring
A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Dividends
A provision for dividends is recognised in relation to ordinary shares when they have been declared.

(w) Accounting estimates and judgements

Where necessary, senior management discusses with the Audit and Risk Management Committee estimates or judgements that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities as at 30 June 2007 and for the next financial year. Key areas requiring estimates and judgement are:

Impairment of goodwill and intangibles with indefinite lives
The consolidated entity assesses whether goodwill and intangibles with indefinite useful lives are impaired at least annually in accordance with the accounting policy in note 19. These calculations involve an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

Defined benefit superannuation fund obligations
Various actuarial assumptions are utilised in the determination of the consolidated entity's defined benefit superannuation fund obligations. These assumptions are discussed in note 27.

Provisions for Contract Completion, Claims & Warranties / Restructuring / Other
Various assumptions are utilised in measuring the consolidated entity's best estimates of such provisions. Should these assumptions or actual outcomes significantly differ there may be a significant impact on the results of the consolidated entity. For further discussion concerning these provisions refer note 25.

2. SEGMENT REPORTING

Information on Business Segments

The consolidated entity operates within the steel industry, focusing on the manufacture and distribution of steel products.

	RECYCLING	REINFORCING & STEEL PRODUCTS	DISTRIBUTION	SUB TOTAL	UNALLOCATED	ELIMINATIONS	TOTAL GROUP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2007							
Revenue from external customers	1,149,236	1,069,736	1,548,128	3,767,100	-	-	3,767,100
Inter-segment revenue	360,256	139,363	12,506	512,125	-	(512,125)	-
Other income	522	23,475	1,073	25,070	16,446	-	41,516
Total Revenue	1,510,014	1,232,574	1,561,707	4,304,295	16,446	(512,125)	3,808,616
Profit before income tax expense	70,245	117,228	74,513	261,986	(83,978)	-	178,008
Share of profit of equity accounted investees	298	-	4,966	-	-	-	5,264
Income tax expense							(27,334)
Profit for the period							155,938
Segment assets	427,875	1,017,206	1,113,036	2,558,117	190,438	-	2,748,555
Segment liabilities	96,767	159,304	318,074	574,145	1,227,669	-	1,801,814
Capital expenditure	21,930	35,788	30,913	88,631	1,255	-	89,886
Depreciation and amortisation	9,927	40,439	11,385	61,751	2,667	-	64,418

	RECYCLING	REINFORCING & STEEL PRODUCTS	DISTRIBUTION	SUB TOTAL	UNALLOCATED	ELIMINATIONS	TOTAL GROUP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2006							
Revenue from external customers	712,512	988,504	1,499,377	3,200,393	-	-	3,200,393
Inter-segment revenue	270,545	147,655	18,005	436,205	-	(436,205)	-
Other income	1,314	1,205	3,721	6,240	-	-	6,240
Total Revenue	984,371	1,137,364	1,521,103	3,642,838	-	(436,205)	3,206,633
Profit before income tax expense	62,428	115,846	85,715	263,989	(74,430)	-	189,559
Income tax expense							(42,242)
Profit for the period							147,317
Segment assets	321,261	1,011,069	1,018,240	2,350,570	217,196	-	2,567,766
Segment liabilities	76,099	165,371	277,825	519,295	1,116,698	-	1,635,993
Capital expenditure	16,677	30,642	20,559	67,878	1,490	-	69,368
Depreciation and amortisation	7,468	39,547	11,817	58,832	2,597	-	61,429

Recycling

The Recycling division sources scrap metal from the rural sector and the mining, demolition and manufacturing industries as well as from the general public. Collection branches are located in Australia, Asia and the United States. The Recycling segment includes a 20% equity investment in Suntech Metals Company (refer note 18).

Reinforcing & Steel Products

The Reinforcing and Steel Products division manufactures a range of steel products including reinforcing, grinding media and rail products and distributes to the commercial and domestic construction sectors, the mining sector and rural markets. Manufacturing facilities are located in Australia, Indonesia and the United States.

Distribution Group

The Distribution division markets and distributes Smorgon Steel products, and products sourced from others, to customers in the construction, manufacturing, transport, mining and rural sectors. Distribution outlets are located in Australia. The Distribution segment includes a 50% equity investment in Australian Tube Mills Pty Ltd (refer note 18).

It is the consolidated entity's policy that inter-segment pricing is determined on a market rate basis.

Unallocated

Other income – Gain on entering Australian Tube Mills joint venture.
Profit / (loss) before tax – Gain on entering Australian Tube Mills joint venture, merger related expenses and net financing costs.
Total assets – cash and other corporate assets including taxation balances.
Total liabilities – corporate interest bearing borrowings and other corporate liabilities including taxation balances.
Capital expenditure – corporate assets.
Depreciation – depreciation of corporate assets.

2. SEGMENT REPORTING (continued)

Geographical segments

	AUSTRALIA	ASIA	OTHER REGIONS	CONSOLIDATED
	$'000	$'000	$'000	$'000
30 June 2007				
Revenue from external customers	2,415,500	1,119,900	231,700	3,767,100
Segment assets	2,541,207	56,804	150,544	2,748,555
Capital expenditure	74,095	1,764	14,027	89,886

	AUSTRALIA	ASIA	OTHER REGIONS	CONSOLIDATED
	$'000	$'000	$'000	$'000
30 June 2006				
Revenue from external customers	2,266,346	726,479	207,568	3,200,393
Segment assets	2,425,600	48,383	93,783	2,567,766
Capital expenditure	66,482	2,295	591	69,368

3. NON-RECURRING ITEMS – INCOME / (EXPENSES)

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Non-recurring items before related income tax benefit / (expense)				
Gain arising from sale of tube mills into Australian Tube Mills joint venture (net of costs associated with its establishment)	16,446	-	-	-
Gain arising from sale of property	14,000	-	-	-
Recovery of legal claim	7,144	-	-	-
Loss from production interruption (Laverton)	(4,160)	-	-	-
Merger expenses and equity compensation	(18,787)	-	(18,669)	-
	14,643	-	(18,669)	-
Income tax benefit/(expense) on non-recurring items				
Gain arising from sale of tube mills into Australian Tube Mills joint venture (net of costs associated with its establishment)	2,525	-	-	-
Gain arising from sale of property	-	-	-	-
Recovery of legal claim	(2,143)			
Loss from production interruption (Laverton)	1,248			
Merger expenses	5,272	-	5,236	-
	6,902	-	5,236	-

Gain arising from sale of tube mills into Australian Tube Mills joint venture with One Steel
On 2 March 2007, Smorgon Steel Group Limited and OneSteel contributed their respective structural pipe and tube manufacturing businesses (excluding land and buildings), being Smorgon Steel's Acacia Ridge plant and OneSteel's plants at Somerton and Newcastle, to form the Australian Tube Mills joint venture. The total consideration of the sale of tube mills into the Australian Tube Mills joint venture was $225m, resulting in a gain of $16.5m ($2.5m tax benefit) (refer note 18).

4. OTHER INCOME

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Gain arising from sale of tube mills into Australian Tube Mills joint venture (net of costs associated with its establishment (refer Note 3))	16,446	-	-	-
Net gain on disposal of property, plant and equipment [(i)]	15,045	3,036	-	-
Movement in defined benefit superannuation plans surplus	1,088	1,005	-	-
Rent	1,793	2,142	-	-
Intercompany management fees	-	-	9,867	15,263
Legal Claim (refer Note 3)	7,144	-	-	-
Other	-	57	-	-
	41,516	6,240	9,867	15,263

(i) Net gain on disposal of property, plant and equipment includes a $14m gain from a property sale (refer Note 3).

5. OTHER EXPENSES

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Equity compensation [(i)]	1,604	1,456	1,604	1,456
Merger expenses	18,222	-	18,104	-
Loss from production interruption (Laverton) (refer Note 3)	4,160	-	-	-
Other	5,402	2,080	38	18
	29,388	3,536	19,746	1,474

(i) Includes $565 thousand of equity compensation expenses related to the OneSteel Merger. Total merger Consolidated expenses are $18,787 thousand and Company expenses are $18,669 thousand (refer Note 3).

6. PERSONNEL EXPENSES

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Wages and salaries	382,076	363,657	2,449	2,312
Other associated personnel expenses	31,117	33,605	75	88
Contributions to defined contribution superannuation funds	25,998	25,872	-	-
Employee benefits charge	35,346	34,119	134	194
Equity compensation	1,604	1,456	1,604	1,456
	476,141	458,709	4,262	4,050

7. NET FINANCING INCOME/(COSTS)

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Dividends from wholly-owned controlled entities	-	-	177,560	205,000
Interest income:				
- Wholly-owned controlled entities	-	-	35,056	63,305
- Other entities	1,213	2,992	616	1,162
Finance income	1,213	2,992	213,232	269,467
Interest expense	(82,640)	(77,333)	(62,337)	(58,455)
Finance lease charges	(211)	(89)	-	-
Finance expense	(82,851)	(77,422)	(62,337)	(58,455)
Net financing income/(costs)	(81,638)	(74,430)	150,895	211,012

8. REMUNERATION OF AUDITORS

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$	$	$	$
Audit Services				
Parent entity auditors	1,067,513	1,122,699	221,418	189,700
Other auditors	38,780	27,173	-	-
	1,106,293	1,149,872	221,418	189,700
Other Services				
Parent entity auditors	132,418	110,000	-	-
	1,238,711	1,259,872	221,418	189,700

9. INCOME TAX EXPENSE

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Recognised in the Income Statement as follows:				
Current tax expense				
Current year	34,872	26,285	(14,842)	5,981
Adjustments for prior years	(4,903)	(1,402)	(191)	(3,094)
	29,969	24,883	(15,033)	2,887
Deferred tax expense				
Origination and reversal of temporary differences	(2,635)	20,959	1,147	(749)
Benefit of tax losses recognised	-	(3,600)	-	-
	(2,635)	17,359	1,147	(749)
Total income tax expense / (benefit) in Income Statement	27,334	42,242	(13,886)	2,138
Numerical reconciliation between tax expense and pre-tax net profit:				
Profit before income tax	183,272	189,559	138,014	211,733
Income tax expense calculated at 30% (2006: 30%)	54,982	56,868	41,404	63,520
Increase/(decrease) in income tax expense due to:				
Dividends received from controlled entities	-	-	(53,268)	(61,500)
Research and development allowances	(3,627)	(3,257)	-	-
Share of net profit of joint venture entity accounted for using the equity method	(1,490)	-	-	-
Tax losses utilised	-	(1,338)	-	-
Non tax deductible expenses / assessable items	(987)	1,799	636	3,018
Non assessable book profits on divestments	(11,669)	-	-	-
Other	1,013	(1,015)	(1,958)	-
Effect of tax losses recognised	-	(3,600)	-	-
Temporary differences written off/(written back)	(5,985)	(1,013)	(509)	194
Income tax expense on profit before non-recurring income tax items	32,237	48,444	(13,695)	5,232
Implementation of the tax consolidation system:				
Income tax related to the implementation of the tax consolidation regime	-	(4,800)	-	-
	32,237	43,644	(13,695)	5,232
Over provision of income tax in previous years	(4,903)	(1,402)	(191)	(3,094)
Income tax expense / (benefit)	27,334	42,242	(13,886)	2,138

10. DIVIDENDS

		CONSOLIDATED		COMPANY	
30 June 2007	Date of payment[3]	Cents Per Share	Total Amount $'000	Cents Per Share	Total Amount $'000
Recognised Amounts:					
Ordinary Shares					
Interim Dividend:					
Fully franked at 30%	30 Apr 2007	5.0	44,872[1]	5.0	44,872[1]
Final Dividend 2006:					
Fully franked at 30%	31 Oct 2006	5.0	44,830[1]	5.0	44,830[1]
Special Dividend 2007:					
Fully franked at 30%	3 Aug 2007	6.23	56,308[1]	6.23	56,308[1]
		16.23	146,010	16.23	146,010

		CONSOLIDATED		COMPANY	
30 June 2006	Date of payment[3]	Cents Per Share	Total Amount $'000	Cents Per Share	Total Amount $'000
Recognised Amounts:					
Ordinary Shares					
Interim Dividend:					
Fully franked at 30%	28 Apr 2006	4.0	35,546[1]	4.0	35,546[1]
Final Dividend 2005:					
Fully franked at 30%	31 Oct 2005	4.5	39,973[2]	4.5	39,973[2]
		8.5	75,519	8.5	75,519
Unrecognised amounts[i]:					
Ordinary shares					
Final dividend:					
Fully franked at 30%		5.0	44,830[1]	5.0	44,830[1]

(1) Paid out of AIFRS profits.
(2) Paid out of previous AGAAP profits.
(3) The date of dividend payment is consistent for both the consolidated entity and the Company.

(i) The final dividend in respect of ordinary shares for the year ended 30 June 2006 was not recognised in this Financial Report as at June 2006, because the final dividend was declared subsequent to 30 June 2006.
(ii) The special dividend in respect of ordinary shares for the year ended 2007 was recognised in this Financial Report as at June 2007 as the special dividend was declared on 21 June 2007.

The Smorgon Steel Group had a franking account balance of $19,487 thousand at 30 cents in the dollar available at 30 June 2007 (2006:$74,524 thousand at 30 cents in the dollar) after taking into account franking credits that will arise from the payment of the current tax liability.

11. EARNINGS PER SHARE

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	CONSOLIDATED	
	2007	2006
	$'000	$'000
Earnings used in the calculation of basic EPS	155,938	147,317

	CONSOLIDATED	
	2007	2006
	No	No
Issued ordinary shares at 1 July	896,595,517	884,845,097
Weighted Average Shares issued under Senior Executive Performance Share Plan during the year	587,618	-
Weighted Average Shares issued under Senior Executive Share Option Plan during the year	-	3,299,820
Weighted Average Shares issued under Dividend Reinvestment Plan during the year	-	1,173,451
Weighted average number of ordinary shares used in the calculation of basic EPS	897,183,135	889,318,368

Diluted earnings per share

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

	CONSOLIDATED	
	2007	2006
	$'000	$'000
Earnings used in the calculation of diluted EPS	155,938	147,317

	CONSOLIDATED	
	2007	2006
	No	No
Weighted average number of ordinary and potentially ordinary shares	897,183,135	889,318,368

	CONSOLIDATED	
	2007	2006
	CENTS	CENTS
Basic earnings per share	17.4	16.6
Diluted earnings per share	17.4	16.6

12. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Cash on hand	1,031	497	1	1
Cash at bank	24,384	45,866	-	-
Cash and cash equivalents	25,415	46,363	1	1
Bank overdrafts (refer note 23)	(4,000)	(32)	(8,427)	(8,393)
Cash and cash equivalents in the Statements of Cash Flows	21,415	46,331	(8,426)	(8,392)

13. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		COMPANY	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current Trade and Other Receivables				
Trade receivables [(i)]	508,644	491,777	-	-
Other debtors [(ii)]	29,894	21,538	-	-
Amounts owing by wholly owned controlled entities (Note 37)	-	-	851,826	700,210
	538,538	513,315	851,826	700,210
Non Current Trade and Other Receivables				
Other debtors	1	11	-	-

(i) Trade receivables are shown net of impairment losses amounting to $1,848,000 (2006: $3,872,000).

(ii) Other debtors include the surplus in relation to the superannuation defined benefit plans refer note 27.

14. INVENTORIES

	CONSOLIDATED		COMPANY	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Raw materials and stores – at cost	122,315	100,902	-	-
Work in progress – at cost	33,729	23,257	-	-
Finished goods – at cost	340,867	301,237	-	-
	496,911	425,396	-	-
Provision for inventory obsolescence	(3,126)	(2,627)	-	-
	493,785	422,769	-	-

15. OTHER ASSETS

	CONSOLIDATED		COMPANY	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current Other Assets				
Prepayments	9,436	10,126	104	823
Other	5,586	5,147	1,625	1,061
	15,022	15,273	1,729	1,884
Non Current Other Assets				
Prepayments	102	135	-	-

16. INVESTMENTS

	CONSOLIDATED		COMPANY	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Non Current				
Shares in controlled entities	-	-	1,350,506	1,350,506

Shares in controlled entities are shown net of impairment losses $49,281,000 (2006: $49,281,000).

17. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED			
	Freehold Land & Buildings $'000	Plant & Equipment $'000	Equipment Under Finance Lease $'000	Total $'000
Cost				
Balance at 1 July 2005	185,316	900,585	4,221	1,090,122
Additions	4,357	65,182	2,422	71,961
Disposals / retirements	(6,397)	(12,146)	(75)	(18,618)
Effects of movement in foreign exchange	266	904	5	1,175
Balance at 30 June 2006	183,542	954,525	6,573	1,144,640
Balance at 1 July 2006	183,542	954,525	6,573	1,144,640
Additions	21,480	80,848	-	102,328
Disposals / retirements	(23,980)	(116,912)	(89)	(140,981)
Effects of movement in foreign exchange	(2,202)	(5,772)	(23)	(7,997)
Transfers between classes of assets	836	(839)	3	-
Balance at 30 June 2007	179,676	911,850	6,464	1,097,990
Depreciation				
Balance at 1 July 2005	48,496	473,630	3,985	526,111
Depreciation expense	5,263	51,388	106	56,757
Disposals / retirements	(757)	(10,846)	(75)	(11,678)
Balance at 30 June 2006	53,002	514,172	4,016	571,190
Balance at 1 July 2006	53,002	514,172	4,016	571,190
Depreciation expense	5,396	56,002	169	61,567
Impairment (i)	-	2,122	-	2,122
Disposals / retirements	(6,963)	(67,195)	(36)	(74,194)
Balance at 30 June 2007	51,435	505,101	4,149	560,685
Carrying amounts				
At 30 June 2006	130,540	440,353	2,557	573,450
At 30 June 2007	128,241	406,749	2,315	537,305

(i) The impairment of $2,122 thousand relates to the write down of plant and equipment in Tube Street Pty Ltd to its recoverable amount.

Although the consolidated entity owns and leases property, plant and equipment, the parent entity does not and hence there is no note disclosure required for the Company.

18. EQUITY ACCOUNTED INVESTMENTS

		OWNERSHIP INTEREST	
		2007	2006
		%	%
NAME OF ENTITY	PRINCIPAL ACTIVITY		
Suntech Metals Company (associate)	Collection and sale of non-ferrous scrap metal	20	-
Australian Tube Mills Pty Limited (joint venture)	Manufacture and sale of structural pipe and tube	50	-

	CONSOLIDATED			
	Investment in Associate 2007 $'000	Investment in Joint Venture 2007 $'000	Total 2007 $'000	2006 $'000
Equity Accounted Investment				
Equity accounted amount of investment at the beginning of the financial year	-	-	-	-
Acquisition of interest in associate / joint venture (i)	2,549	199,989	202,538	-
Share of net profit	298	4,966	5,264	-
Equity accounted amount of investment at the end of the financial year (i)	2,847	204,955	207,802	-
Share of Assets and Liabilities				
Current assets	2,296	115,754	118,050	-
Non-current assets	1,940	188,345	190,285	-
Current liabilities	(1,355)	(71,917)	(73,272)	-
Non-current liabilities	(34)	(2,216)	(2,250)	-
Net Assets (i)	2,847	229,966	232,813	-
Share of Operating Profit				
Revenue from ordinary activities	24,977	85,655	110,632	-
Expenses from ordinary activities	(24,552)	(78,561)	(103,113)	-
Profit from ordinary activities before income tax	425	7,094	7,519	-
Income tax attributable to profit from ordinary activities	(127)	(2,128)	(2,255)	-
Profit from ordinary activities after income tax	298	4,966	5,264	-
Net Profit	298	4,966	5,264	-
Share of Reserves				
Retained profits				
At the beginning of the financial year	-	-	-	-
At the end of the financial year	298	4,966	5,264	-

(i) The $199,989 thousand investment in Tube Mills JV represents the initial investment of $225,000 thousand (representing the fair value of the business sold to the Australian Tube Mills JV) net of the $25,011 thousand unrealised gain on the establishment of the joint venture in accordance with AASB 131 *Interest in Joint Ventures*.

On 7 July 2006, a subsidiary of Smorgon Steel Group Ltd acquired a 20% interest in Suntech Metals Company, a subsidiary of the listed Thai company SunTech Group. On 2 March 2007, a subsidiary of Smorgon Steel Group Ltd acquired a 50% interest in Australian Tube Mills Pty Limited, a joint venture with One Steel Limited comprising the two companies' structural pipe and tube businesses.

19. INTANGIBLE ASSETS

	CONSOLIDATED				
	Goodwill $'000	Brand names $'000	Computer Software $'000	Other $'000	Total $'000
Cost					
Balance at 1 July 2005	1,192,277	123,000	25,706	-	1,340,983
Additions	40,486	-	621	2,420	43,527
Effect of movements in foreign exchange	229	-	-	-	229
Balance at 30 June 2006	1,232,992	123,000	26,327	2,420	1,384,739
Balance at 1 July 2006	1,232,992	123,000	26,327	2,420	1,384,739
Additions	25,956	-	291	1,113	27,360
Disposals	(100,828)	-	-	-	(100,828)
Effect of movements in foreign exchange	(5,443)	-	-	-	(5,443)
Balance at 30 June 2007	1,152,677	123,000	26,618	3,533	1,305,828
Amortisation					
Balance at 1 July 2005	417,176	-	15,557	-	432,733
Amortisation for the year	-	-	4,672	-	4,672
Balance at 30 June 2006	417,176	-	20,229	-	437,405
Balance at 1 July 2006	417,176	-	20,229	-	437,405
Amortisation for the year	-	-	2,689	162	2,851
Disposals	(27,682)	-	-	-	(27,682)
Balance at 30 June 2007	389,494	-	22,918	162	412,574
Carrying Amounts					
At 30 June 2006	815,816	123,000	6,098	2,420	947,334
At 30 June 2007	763,183	123,000	3,700	3,371	893,254

The parent entity does not own intangible assets and hence there is no note disclosure required for the Company.

Amortisation charge

The amortisation charge is recognised in the following line items in the Income Statement:

	CONSOLIDATED	
	2007 $'000	2006 $'000
Administration expenses	2,734	4,557
Other expenses	117	115
	2,851	4,672

All cash generating units were tested for impairment at 30 June 2007. No impairment was identified (2006: $nil). Brand names are considered recoverable as the valuation of all CGUs is in excess of the carrying value of non-current assets of those CGUs plus the carrying value of the Brand names.

19. INTANGIBLE ASSETS (continued)

Impairment tests for cash generating units containing goodwill

The recoverable amount of all cash-generating units (CGU's) are based on value in use calculations. These calculations use cash flow projections based on actual operating results and three year forecasts with a terminal value applied, which is appropriate as CGU's are significant long-term businesses. The growth rate applied is 1.5% p.a. A pre-tax discount rate of 10.2% has been used in discounting the projected cash flows.

The following CGUs have significant carrying amounts of goodwill:

	CONSOLIDATED	
	2007 $'000	2006 $'000
Recycling Australia	74,525	74,675
Smorgon Hartwell Recycling	19,907	19,907
SSR Inc (ITI)	18,339	20,966
IMR	24,305	-
Laverton Steel Mill	186,151	186,151
Waratah Steel Mill	142,413	142,413
Reinforcing	25,770	25,770
Grinding Systems America	8,784	9,991
Tube Mills	-	72,996
Metalcorp Steel	27,783	27,783
Metals Distribution	235,206	235,164
	763,183	815,816
Group Brand names	123,000	123,000
	886,183	938,816

20. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	CONSOLIDATED					
	Assets		Liabilities		Net	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Property, Plant and equipment	-	-	(3,569)	(4,555)	(3,569)	(4,555)
Trade and other receivables	794	1,141	-	-	794	1,141
Inventories	867	1,313	(4,539)	(5,107)	(3,672)	(3,794)
Employee benefits	22,312	20,820	-	-	22,312	20,820
Provisions	7,966	17,376	-	-	7,966	17,376
Value of tax losses recognised	2,781	3,600	-	-	2,781	3,600
Other items	-	467	(3,640)	(9,448)	(3,640)	(8,981)
Other liabilities	950	4,399	-	-	950	4,399
Tax assets / (liabilities)	35,670	49,116	(11,748)	(19,110)	23,922	30,006

	COMPANY					
	Assets		Liabilities		Net	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Employee benefits	-	235	-	-	-	235
Provisions	836	2,022	-	-	836	2,022
Other items	2,361	-	(2,294)	(2,501)	67	(2,501)
Other liabilities	950	4,399	-	-	950	4,399
Tax assets / (liabilities)	4,147	6,656	(2,294)	(2,501)	1,853	4,155

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Capital losses $120,850 thousand

The deductible temporary differences do not expire under current tax legislation. However tax losses are subject to continuity of ownership tests. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits.

20. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences during the year

	CONSOLIDATED				COMPANY			
	Balance 1 July 2006 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 2007 $'000	Balance 1 July 2006 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 2007 $'000
Property, plant and equipment	(4,555)	986	-	(3,569)	-	-	-	-
Trade and other receivables	1,141	(347)	-	794	-	-	-	-
Inventories	(3,794)	122	-	(3,672)	-	-	-	-
Employee benefits	20,820	1,492	-	22,312	235	(235)	-	-
Provisions	17,376	(9,410)	-	7,966	2,022	(1,186)	-	836
Value of tax losses recognised	3,600	(819)	-	2,781	-	-	-	-
Other items	(8,981)	5,341	-	(3,640)	(2,501)	2,568	-	67
Other liabilities	4,399	-	(3,449)	950	4,399	-	(3,449)	950
	30,006	(2,635)	(3,449)	23,922	4,155	1,147	(3,449)	1,853

	CONSOLIDATED				COMPANY			
	Balance 1 July 2005 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 2006 $'000	Balance 1 July 2005 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 2006 $'000
Property, plant and equipment	10,708	(15,263)	-	(4,555)	-	-	-	-
Trade and other receivables	1,843	(702)	-	1,141	-	-	-	-
Inventories	(3,064)	(730)	-	(3,794)	-	-	-	-
Employee benefits	20,116	704	-	20,820	222	13	-	235
Provisions	22,642	(5,266)	-	17,376	982	1,040	-	2,022
Value of tax losses recognised	-	3,600	-	3,600	-	-	-	-
Other items	(9,279)	298	-	(8,981)	(2,197)	(304)	-	(2,501)
Other liabilities	-	-	4,399	4,399	-	-	4,399	4,399
	42,966	(17,359)	4,399	30,006	(993)	749	4,399	4,155

21. CAPITALISED BORROWING COSTS

	CONSOLIDATED		COMPANY	
	2007	2006	2006	2005
	$'000	$'000	$'000	$'000
Borrowing costs capitalised during the financial year	558	1,366	-	-
	%	%	%	%
Weighted average capitalisation rate on funds borrowed generally	7.1	6.7	-	-

22. TRADE AND OTHER PAYABLES

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Current Trade and Other Payables				
Trade payables	426,662	363,168	5,795	11,176
Other payables	81,105	89,032	2,472	2,748
	507,767	452,200	8,267	13,924
Non Current Trade and Other Payables				
Swap payable (i)	73,925	41,876	73,925	41,876

(i) Relates to cross currency swaps undertaken as a result of the US Private Placement Issuances on 12 June 2003 for $US150 million and 30 July 2004 for $US80 million. Refer to Notes 23 and 30 for further details.

23. INTEREST BEARING BORROWINGS

This note provides information about the contractual terms of the consolidated entity's interest-bearing borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, refer to Note 30.

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Current liabilities				
Bank overdrafts	4,000	32	8,427	8,393
Secured finance lease liabilities	504	603	-	-
	4,504	635	8,427	8,393
Non-current liabilities				
Unsecured bank loans	1,043,090	967,663	741,190	659,993
Secured finance lease liabilities	1,793	2,304	-	-
	1,044,883	969,967	741,190	659,993

23. INTEREST BEARING BORROWINGS (continued)

Financing facilities

The consolidated entity has access to the following lines of credit:

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Facilities available				
Bank overdrafts	15,710	16,385	8,427	8,393
Secured finance lease liabilities	2,297	2,907	-	-
Unsecured bank loans	1,279,722	1,319,986	1,267,946	1,313,490
	1,297,729	1,339,278	1,276,373	1,321,883
Facilities utilised at reporting date (1)				
Bank overdrafts	4,000	32	8,427	8,393
Secured finance lease liabilities	2,297	2,907	-	-
Unsecured bank loans	1,047,497	974,234	1,047,497	967,738
	1,053,794	977,173	1,055,924	976,131
Facilities not utilised at reporting date				
Bank overdrafts	11,710	16,353	-	-
Secured finance lease liabilities	-	-	-	-
Unsecured bank loans	232,225	345,752	220,449	345,752
	243,935	362,105	220,449	345,752

(1) Exclusive of debt establishment costs.

Financing arrangements

i) Bank overdrafts

The bank overdrafts are reviewed annually and are payable at call. They are regulated and managed by various banking set-off arrangements in place with the appropriate transactional bank.

ii) Finance lease facility

The consolidated entity's lease liabilities are secured by the leased assets, in the event of default, the assets revert to the lessor.

iii) Bank loans

Syndicated loan note facility

The facility is provided by a panel of banks administered by the National Australia Bank acting in its capacity as facility agent. As at reporting date $425 million is drawn under a $550 million Syndicated Revolving Loan Note Facility dated 29 October 2004, with terms of 1, 3 and 5 years. A US$40 million Tranche was added to this facility on 31 January 2006. As at reporting date US$17 million was drawn. Drawings under the Australian Dollar facilities bear interest at Bank Bill Swap Reference Rate (BBSY) plus an applicable credit margin. Drawings under the United States Dollar facilities bear interest at LIBOR plus an applicable credit margin.

US Private Placement Issuance

Comprise two US Private Placement Issuances of USD Senior Notes to institutional investors. The first issue occurred on 12 June 2003 for US$150 million and the second on 30 July 2004 for US$80 million. The USD Senior Notes have maturity dates in 2010, 2011, 2013, 2014 and 2015. The US$230 million Private Placement Issuance is equivalent to $AUD 271 million using a spot rate of 0.8492 at 30 June 2007. These were converted via cross-currency swaps and interest rates fixed where appropriate. Refer Note 22 for details of Swap Payable.

Debtors securitisation programme

The facility is provided by a member of the Company's banking panel. As at reporting date $302 million drawn under a $350 million Receivables Acquisition and Servicing Facility dated 1 June 2001.

23. INTEREST BEARING BORROWINGS (continued)

Terms and debt repayment schedule

Finance lease liabilities

Finance lease liabilities of the consolidated entity are payable as follows:

	CONSOLIDATED		COMPANY	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Less than one year	603	824	-	-
Between one year and five years	2,304	2,666	-	-
Minimum lease repayments	2,907	3,490	-	-
Less: Future finance charges	(610)	(583)	-	-
Finance lease liabilities[(i)]	2,297	2,907	-	-

(i) Finance leases relate to plant and equipment and have an average lease term between 1 to 3 years.

24. CURRENT TAX ASSETS AND LIABILITIES

	CONSOLIDATED					
	Assets		Liabilities		Net	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Income tax attributable to:						
- Entities in the tax consolidated[(i)]	1,661	-	-	(12,437)	1,661	(12,437)
- Other entities	-	-	(2,890)	(3,109)	(2,890)	(3,109)
	1,661	-	(2,890)	(15,546)	(1,229)	(15,546)

	COMPANY					
	Assets		Liabilities		Net	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Income tax attributable to:						
- Entities in the tax consolidated[(i)]	1,661	-	-	(12,437)	1,661	(12,437)
- Other entities	-	-	-	-	-	-
	1,661	-	-	(12,437)	1,661	(12,437)

(i) Entities in the tax consolidated group have entered into a tax sharing agreement effective 1 July 2002.

The Company liability includes the income tax payable by all members of the tax consolidated group.

25. PROVISIONS

	CONSOLIDATED		COMPANY	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current Provisions				
Employee benefits (Note 27)	24,890	26,384	-	118
Provision for dividend	56,308	-	56,308	-
Provision for contract completion, claims and warranties	2,882	24,514	-	-
Provision for restructuring	8,276	9,810	-	-
Other	18,956	18,188	2,786	6,740
	111,312	78,896	59,094	6,858
Non Current Provisions				
Employee benefits (Note 27)	41,617	43,100	-	666

25. PROVISIONS (continued)

CONSOLIDATED	Dividend $'000	Contract Completion, Claims & Warranties $'000	Restructuring $'000	Other $'000
Balance at 1 July 2006	-	24,514	9,810	18,188
Additional provisions recognised	146,010	-	712	39,244
Business acquired	-	-	-	191
Payments made during the period	(89,702)	(12,013)	(1,355)	(34,215)
Provisions reversed during the period	-	(9,619)	(891)	(4,163)
Foreign exchange	-	-	-	(289)
Balance at 30 June 2007	56,308	2,882	8,276	18,956

COMPANY	Dividend $'000	Contract Completion, Claims & Warranties $'000	Restructuring $'000	Other $'000
Balance at 1 July 2006	-	-	-	6,740
Additional provisions recognised	146,010	-	-	161
Payments made during the period	(89,702)	-	-	(944)
Provisions reversed during the period	-	-	-	(3,171)
Balance at 30 June 2007	56,308	-	-	2,786

(i) The provision for dividends represents the aggregate amount of dividends declared, determined or publicly recommended on or before the reporting date, which remain undistributed as at reporting date, regardless of the extent to which they are expected to be paid in cash.
(ii) The provision for contract completion, claims and warranties represents the directors' best estimate of the costs directly associated with outstanding contracts.
(iii) The provision for other includes such items as workers compensation, director's retirement benefits and environmental provisions.
(iv) The provision for restructuring represents the directors' best estimate of the costs directly and necessarily caused by the restructuring that are not associated with the ongoing activities of the entity. The closing balance relates to the following acquisitions:

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
ANI Limited	4,054	4,758	-	-
Metalcorp Limited	3,000	3,000	-	-
Email Proprietary Limited	1,222	2,052	-	-
	8,276	9,810	-	-

26. CURRENT OTHER LIABILITIES

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Fair value of derivative financial instruments	3,168	14,663	3,168	14,663

27. EMPLOYEE BENEFITS

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Current				
Employee benefits (Note 25)	24,890	26,384	-	118
Non-current				
Employee benefits (Note 25)	41,617	43,100	-	666
Recognised asset for defined benefit obligations(i) (ii) (iii)				
Present value of defined benefit obligation	(27,525)	(28,051)	-	-
Fair value of plan assets	31,269	30,707	-	-
	3,744	2,656	-	-

(i) The recognised asset for defined benefit obligations is included in the other debtors balance, refer to Note 13.
(ii) The consolidated entity and the Company have used the AASB 1.20A exemption and disclosed amounts under AASB 119.120A(p) above for each annual reporting period prospectively from the transition date.
(iii) The recognised asset for defined benefit obligations is based on the most recent actuarial assessments and Financial Statements as outlined below, updated based on actuarial assumptions.

Consolidated entity

Fund	Plan Assets(i)		Accrued Benefits (i) (ii)		Plan Excess / (Deficit)		Contribution Recommendations (per year) (iii)	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Smorgon Steel Employees Superannuation Fund (Defined Benefit) (iv)	23,278	20,998	23,132	20,873	146	125	-	-
Smorgon Steel Staff Superannuation Fund (Defined Benefit) (iv)	57,689	54,692	55,450	52,887	2,239	1,805	818	804
Smorgon Steel Executive Superannuation Fund (Defined Benefit) (iv)	59,891	54,039	58,920	52,976	971	1,063	-	-
Smorgon Steel Retirement Fund (Combination) (iv)	97,885	82,531	97,024	81,236	861	1,295	-	-
Total	238,743	212,260	234,526	207,972	4,217	4,288	818	804

(i) Net market value of assets and accrued benefits as disclosed above were determined by reference to the most recent Financial Statements of the respective funds as at 30 June 2006 (2006: 30 June 2005) or more recent actuarial assessments.
(ii) Accrued benefits and market value of plan assets are benefits which the plans are presently obliged to pay at some future date, as a result of membership of the plans and calculated in accordance with AAS 25. Accordingly, the excess / (deficit) does not always equal the defined benefit obligation.
(iii) Contribution recommendations are based on a funding methodology that will result in adequate funding for payments expected to be made over the next five years. The levels of the contributions to the plans are reassessed annually.
(iv) Recommended contributions for these funds are as per the accumulation categories for the funds with the Company to make additional contributions as required to ensure that the fund remains in a sound financial position.
(v) Contributions are based on actual contributions made in accordance with the actuarial recommendation.

a) Superannuation commitments

The consolidated entity contributes to four Company sponsored superannuation funds. The majority of members in these funds have accumulation accounts only. Some of the funds, although called Defined Benefit Funds, have a nominal defined benefit exposure.

Final benefits in the funds are dependent upon the type of fund. Defined benefit superannuation funds in some circumstances provide defined benefits that are based on years of membership and final average salary. Accumulation funds provide individuals with their accumulated balance. The combination fund provides a combination of accumulation accounts and defined benefits that are based on years of membership and final average salary. Some employees contribute to the funds at varying rates while for others contributions are voluntary. Entities in the consolidated entity also contribute to the defined benefit funds at rates determined from time to time by the funds' actuaries. Contributions by the consolidated entity to the accumulation funds are at a pre-set percentage of members' salaries.

The funds' actuaries make actuarial assessments of the funds at regular intervals. Based on calculations made as part of those assessments, the assets of the funds are sufficient to satisfy all benefits that would have been vested under the funds in the event of termination of the funds or voluntary or compulsory termination of employment of each member as at balance date.

In preparation for the merger with OneSteel all members in the Distribution business were transferred to the Smorgon Steel Executive Superannuation Fund and non Distribution members in the Smorgon Steel Executive Superannuation Fund were transferred to the Smorgon Steel Retirement Fund under the Successor fund provisions.

27. EMPLOYEE BENEFITS (continued)

Actuarial data reflects changes in membership to the date of the last audited accounts of the funds being 30 June 2006 (2006: 30 June 2005).

Full actuarial assessments of the funds were last made as follows:

		2007	2006
Smorgon Steel Employees Superannuation Fund	Nick Callil FIA, Watson Wyatt	30 June 2006	30 June 2003
Smorgon Steel Staff Superannuation Fund	Nick Callil FIA, Watson Wyatt	30 June 2006	30 June 2003
Smorgon Steel Executive Superannuation Fund	Nick Callil FIA, Watson Wyatt	30 June 2005	30 June 2005
Smorgon Steel Retirement Fund (i)	Nick Callil FIA, Watson Wyatt	30 June 2006	30 June 2005

(i) In addition to a full actuarial review being performed every 3 years, the Smorgon Steel Retirement Fund is also subject to an abbreviated actuarial review on an annual basis.

The consolidated entity also contributes to other superannuation funds as follows:

(a) Superannuation Trust of Australia, Nationwide Superannuation Fund and Labour Unions Co-operative Retirement Fund for Superannuation Guarantee obligations in respect of a large number of employees.

(b) Various complying superannuation funds for a small number of employees under arrangements such as the Western Australian choice of fund legislation.

b) Liability for defined benefit obligation

Those members of the above funds that are defined benefit members give rise to a defined benefit obligation. The movements in the defined benefit obligations are presented in the following tables.

Movements in the net asset for defined benefit obligations recognised in the Balance Sheet:

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Net asset for defined benefit obligations at 1 July	2,656	1,651	-	-
Net benefit recognised in the Income Statement	1,088	1,005	-	-
Net asset for defined benefit obligations at 30 June	3,744	2,656	-	-

Changes in the present value of the defined benefit obligation are as follows:

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Opening defined benefit obligations	28,051	28,501	-	-
Service cost	611	2,296	-	-
Interest cost	635	652	-	-
Actuarial losses / (gains)	1,656	(473)	-	-
Benefits paid	(3,428)	(2,925)	-	-
Closing defined benefit obligation	27,525	28,051	-	-

Changes in the fair value of defined benefit fund plan assets are as follows:

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Opening fair value of plan assets	30,707	30,152	-	-
Expected return on plan assets	2,456	2,412	-	-
Additional return on plan assets	2,752	2,987	-	-
Actuarial gains	3,217	1,559	-	-
Intra-fund transfers	(4,435)	(3,478)	-	-
Benefits paid	(3,428)	(2,925)	-	-
Closing fair value of plan assets	31,269	30,707	-	-

27. EMPLOYEE BENEFITS (continued)

The major categories of defined benefit plan assets as a percentage of total plan assets are as follows:

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	%	%	%	%
Australian Equities	32.18	23.28	-	-
International Equities	31.00	24.33	-	-
Emerging Market Equities	4.61	3.25	-	-
Long/short International Equities	4.32	3.01	-	-
Alternative Investments	10.62	8.52	-	-
Global Property Investments	7.62	5.94	-	-
Fixed Interest Investments	9.65	19.99	-	-
Cash investments	0.00	11.68	-	-
	100.00	100.00	-	-

The consolidated entity's investment goals are to maximise returns subject to specific risk management policies. Its risk management policies permit investments in mutual funds, and prohibit direct investments in debt and equity securities and derivative financial instruments. The consolidated entity engaged Towers Perrin to conduct an Asset-Liability study in December 2003 in relation to its Defined Benefit liabilities and it concluded that the current strategy of investing assets in accordance with the Equity Growth option objectives was appropriate for the Company.

Income recognised in the Income Statement:

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Current service costs	(611)	(2,296)	-	-
Interest on obligation	(635)	(652)	-	-
Expected return on plan assets	2,456	2,412	-	-
Additional return on plan assets	2,752	2,987	-	-
Actuarial gains	1,561	2,032	-	-
Intra-fund transfers	(4,435)	(3,478)	-	-
Total included in employee benefits expense	1,088	1,005	-	-

The income is recognised in the following line items in the Income Statement:

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Other Income (refer note 4)	1,088	1,005	-	-

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages):

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
Expected return on plan assets at 30 June	8.0%	8.0%	-	-
Future salary increases	5.0%	5.0%	-	-
Future pension increases	4.0%	4.0%	-	-

The overall expected long-term rate of return on assets is 8%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

(c) Defined contribution plans

For the year ended 30 June 2007 the consolidated entity contributed $25,998,391 (2006: $25,872,095) to defined contribution funds. The amount was expensed as incurred.

27. EMPLOYEE BENEFITS (continued)

(d) Executive and employee share plans

The Company has an ownership based remuneration scheme for employees and executives. Executives may participate in the following share plans, in accordance with the provisions of the scheme and as approved at Annual General Meetings.

Smorgon Steel Group Executive Share Acquisition Plan

The Smorgon Steel Group Executive Share Acquisition Plan provides that the remuneration of senior executives and directors of the consolidated entity may be delivered partially in the form of ordinary shares in the Company. The shares may be either newly issued shares or those bought on Australian Stock Exchange, at market value. The shares are held in trust and are subject to dealing restrictions for up to ten years. Dividends and voting rights are held by the employees.

Details of share movements in the plan:

Consolidated and Company

Grant Date	Number Of Shares at 1 July 2006	Acquisition of Ordinary Shares on Market	Fair Value Per Share ($)	Distribution from the Plan	Number of Shares at 30 June 2007	Fair Value Aggregate ($)
10/01/99	71,331	-	-	-	71,331	186,887
02/02/99	106,787	-	-	-	106,787	279,782
16/01/01	1,010	-	-	-	1,010	2,646
21/09/01	27,811	-	-	-	27,811	72,865
27/08/02	20,634	-	-	-	20,634	54,061
30/08/02	4,972	-	-	-	4,972	13,027
01/10/02	34,188	-	-	-	34,188	89,573
18/11/02	9,615	-	-	-	9,615	25,191
01/09/03	1,826	-	-	-	1,826	4,784
	278,174	-	-	-	278,174	728,816

The amount recognised in the Income Statement in relation to the Executive Share Acquisition Plan during 2007 is $nil (2006: $nil).

On 3 August 2007, the shares related to the plan were released from the trust and issued to relevant employees due to the OneSteel Merger being approved by the Supreme Court of Victoria.

Smorgon Steel Group Senior Executive Performance Share Plan

The Smorgon Steel Group Senior Executive Performance Share Plan is determined on a progressive basis according to Smorgon Steel Group's relative Total Shareholder Return (TSR) performance over a Performance Period against a selected comparator group of companies.

Details of performance shares rights granted under the Senior Executive Performance Share Plan are as follows:

Consolidated and Company

Grant Date	Expiry Date	Number of Performance Shares at 1 July 2006	Performance Shares Exercised	Performance Shares Expired/Forfeited	Number of Performance Shares at 30 June 2007	Performance Shares exercisable at 30 June 2007
30/06/02	01/07/06	1,584,013	-	(1,584,013)	-	-
01/07/03	01/07/07	1,706,695	(993,181)	(37,139)	676,375	-
01/07/04	01/07/08	2,325,084	-	(26,098)	2,298,986	-
01/07/05	01/07/09	3,189,478	-	(69,406)	3,120,072	-
		8,805,270	(993,181)	(1,716,656)	6,095,433	-

The fair value of the performance shares at grant date is determined using Monte Carlo simulation techniques. The fair value of the liability is remeasured each Balance Sheet date. The model inputs were as follows:

Fair value of performance shares and assumptions	2007	2006
Fair value at measurement date	-	$0.56
Expected volatility	-	30%
Dividend yield	-	7%
Risk-free interest rate (based on national government bonds)	-	5.1%

The notional number of ordinary shares that would be issued under the plan if all performance criteria were met is 6,095,433. The fair value of these notional shares as at 30 June 2007 is $15,970,034.

27. EMPLOYEE BENEFITS (continued)

The market price of the Company's ordinary shares as at 30 June 2007 was $2.62.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

During the financial year, 993,181 share rights were vested (2006: nil).

All performance share rights on hand at 30 June 2007 were converted to performance shares on 20 July 2007 in accordance with a resolution of the Board as a result of the OneSteel Merger.

Employee expenses

	CONSOLIDATED		COMPANY	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Expense arising from Senior Executive Performance Share Plan	1,604	1,456	1,604	1,456

28. ISSUED CAPITAL

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Issued share capital				
897,588,698 fully paid ordinary shares (2006: 896,595,517)	1,174,664	1,174,143	1,174,664	1,174,143

	30 JUNE 2007		30 JUNE 2006	
	No. of Shares	$'000	No. of Shares	$'000
Fully Paid Ordinary Share Capital				
Balance at the beginning of the financial period	896,595,517	1,174,143	884,845,097	1,176,738
RPS Reclassification	-	-	-	(16,164)
Issue of ordinary shares under Senior Executive Performance Share Plan	993,181	521	-	-
Issue of ordinary shares under Senior Executive Share Option Plan	-	-	4,951,852	5,153
Issue of ordinary shares under Dividend Reinvestment Plan	-	-	6,798,568	8,416
Balance at the end of the financial period	897,588,698	1,174,664	896,595,517	1,174,143

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Since 30 June 2006, 993,181 ordinary shares were issued under the Senior Executive Performance Share Plan. Transaction costs associated with this issue were $8 thousand.

29. RESERVES

Nature and purpose of reserves

a) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations where their functional currency is different to the presentation currency of the Reporting Entity as described in note 1(n), as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary per note 1(q).

b) Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred, as described in note 1(q).

c) Equity compensation reserve

The equity compensation reserve comprises the fair value of performance shares recognised over the period during which the employees become unconditionally entitled to the performance shares as described in note 1(l). A corresponding expense is charged to the Income Statement. Such accounts will transfer to issued capital when the underlying shares vest in the employee.

30. FINANCIAL INSTRUMENTS

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

(b) Objectives of derivative financial instruments

The Company and consolidated entity's financial instruments include bank loans, finance leases and hire purchase contracts, cash and bank overdrafts. The consolidated entity has various other financial instruments such as trade receivables and trade payables, which arise directly from its day to day operations.

The consolidated entity enters into derivative financial instruments to manage its exposure to foreign exchange rate, interest rate and commodity risk. The types of financial instruments utilised are as follows:
- forward foreign exchange contracts and cross currency swaps to manage foreign exchange rate risk;
- commodity swaps to hedge against rising zinc prices; and
- interest rate swaps and collars are used to manage interest rate risk.

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with counterparties that meet predetermined credit criteria and where practical, obtains sufficient collateral or other security as a means of mitigating the risk of financial losses from defaults.

In the case of recognised financial assets, the carrying amount of the assets recorded in the Financial Statements, net of any applicable impairment loss, represents the consolidated entity's maximum exposure to credit risk.

Credit risk also arises from the possibility that the counterparty to a derivative financial instrument will not adhere to the terms of the contract with the consolidated entity when settlement becomes due. The consolidated entity's credit exposure to derivative financial instruments has been quantified on a replacement cost basis, that is, the sum of the net fair values of all derivative contracts that are in a profitable position at the reporting date. The quantification of credit risk does not take into account the potential credit exposure arising from the derivatives' remaining term to maturity.

The following tables show the credit equivalent of all derivative financial instruments as at reporting date:

	CREDIT EQUIVALENT	CREDIT EQUIVALENT
	2007	2006
	$'000	$'000
Forward foreign exchange contracts	1,642	765
Commodity swaps	-	654
Total	1,642	1,419

30. FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk management

The consolidated entity's exposure to interest rates and the effective interest rates of financial assets and interest-bearing financial liabilities at balance date are as follows:

		REPRICING PERIOD			
	Effective Interest Rate % PA	1 Year or less $'000	Over 1 to 5 years $'000	More than 5 years $'000	Total $'000
2007 Financial Year					
Assets					
Cash and cash equivalents	5.7%	25,415	-	-	25,415
Liabilities					
Borrowings(1)	7.0%	(45,579)	(862,089)	(135,422)	(1,043,090)
Bank overdrafts	10.1%	(4,000)	-	-	(4,000)
Lease liabilities	8.7%	(504)	(1,793)	-	(2,297)
		(24,668)	(863,882)	(135,422)	(1,023,972)
2006 Financial Year					
Assets					
Cash and cash equivalents	5.2%	46,363	-	-	46,363
Liabilities					
Borrowings(1)	6.6%	(53,530)	(705,647)	(208,486)	(967,663)
Bank overdrafts	9.3%	(32)	-	-	(32)
Lease liabilities	8.7%	(603)	(2,304)	-	(2,907)
		(7,802)	(707,951)	(208,486)	(924,239)

(1) Includes both fixed and floating borrowings.

Cross currency interest rate swaps were undertaken in the 2003 and 2005 financial year to fix the exposure to both Australian and United States interest rates and the related foreign currency exposure resulting from a US Private Placement Issuance. The interest payment dates under the cross currency interest rate swaps coincide with the dates on which interest is payable on the underlying debt.

30. FINANCIAL INSTRUMENTS (continued)

The following interest rate swaps and interest rate options are instruments utilised by the Company and consolidated entity in the management of interest rate risk with the objective of reducing the volatility of interest costs between financial reporting periods. The purpose of these instruments is to maintain the Company and consolidated entity's preferred mix of fixed and floating rate debt.

The maturity profile of interest rate derivatives at 30 June 2007 was as follows:

	FIXED INTEREST MATURING IN			
	1 Year or less $'000	Over 1 to 5 years $'000	More than 5 years $'000	Weighted Average Fixed Interest Payer Interest Rate % PA
AUD cross currency interest rate swaps				
Fixed rate payer	-	177,473	120,192	7.2%
USD cross currency interest rate swaps				
Fixed rate receiver	-	115,000	75,000	5.6%

The maturity profile of interest rate derivatives at 30 June 2006 was as follows:

	FIXED INTEREST MATURING IN			
	1 Year or less $'000	Over 1 to 5 years $'000	More than 5 years $'000	Weighted Average Fixed Interest Payer Interest Rate % PA
AUD cross currency interest rate swaps				
Fixed rate payer	-	120,289	177,376	7.2%
USD cross currency interest rate swaps				
Fixed rate receiver	-	75,000	115,000	5.6%

The Company and consolidated entity classifies cross currency interest rate swaps as cash flow hedges and states them at fair value.

The fair value of cross currency interest rate swaps at 30 June 2007 was $76,695,000 (2006: $56,994,000) and recognised on the Balance Sheet as a net liability within various Balance Sheet accounts.

30. FINANCIAL INSTRUMENTS (continued)

(e) Foreign exchange and commodity risk management

The consolidated entity is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the AUD. The currency giving rise to this risk is primarily U.S. Dollars.

Foreign exchange contracts, cross currency swaps and commodity swap contracts are used by the consolidated entity to hedge sales and payments denominated in foreign currencies and for the purchase of raw materials and capital equipment.

The consolidated entity's exposure to foreign currencies and commodity risk at balance date is as follows (all forward foreign exchange contracts are against the Australian Dollar):

		MATURITY LESS THAN 1 YEAR		MATURITY GREATER THAN 1 YEAR		WEIGHTED AVERAGE EFFECTIVE EXCHANGE RATE	
		2007	2006	2007	2006	2007	2006
		'000	'000	'000	'000		
		DENOTED IN FOREIGN CURRENCY					
1. Forward Foreign Exchange Contracts							
USD	Buy	26,503	24,043	567	-	0.80	0.74
USD	Sell	56,686	70,726	-	2,268	0.83	0.74
EUR	Buy	2,789	284	82	-	0.59	0.60
EUR	Sell	91	-	-	-	0.61	-
GBP	Buy	409	-	-	-	0.41	-
GBP	Sell	50	-	-	-	0.41	-
JPY	Buy	12,158	7,412	-	-	96.69	82.02
NZD	Buy	3,738	991	-	-	1.12	1.18
2. Cross Currency Swaps							
USD	Fixed	-	-	190,000	190,000	0.64	0.64
		TONNES		TONNES		PRICE/T	
1. Commodity swaps							
AUD LME/Zinc	Buy	-	240	-	-	-	A$1,632

The consolidated entity uses forward foreign exchange contracts to hedge its foreign currency risk arising from trade receivables and trade payables denominated in a foreign currency. The consolidated entity also uses forward foreign exchange to hedge its estimated foreign currency exposure in respect of forecasted sales over the following three months.

Majority of the forward foreign exchange contracts have maturities of less than one year after the Balance Sheet date and cross currency swaps have maturities that coincide with the underlying debt.

The consolidated entity classifies its forward foreign exchange contracts hedging expected future sales and purchases as cash flow hedges and states them at fair value.

The net fair value of forward foreign exchange contracts used as hedges of forecasted transactions at 30 June 2007 was $398,000 loss (2006: $199,000 loss), comprising assets of $1,605,000 gain and (2006: $86,000 gain) and liabilities of $2,003,000 loss (2006: $285,000 loss) that were recognised in fair value derivatives.

Hedge of net investment in foreign subsidiary

A portion of the US Private Placement Issuance is designated as a hedge of its controlled entity in America, Smorgon Steel Grinding Systems America Inc (see note 35). The carrying amount of the loan at 30 June 2007 was $47,103,000 (2006: $53,850,000).

A borrowing under the Syndicated Revolving Loan Note Facility is in United States Dollars and is designated as a hedge of the consolidated entity's purchase of businesses within the United States. Gains or losses on the retranslation of these borrowings are transferred to equity to offset any gains or losses on translation of the net investments in the subsidiaries.

30. FINANCIAL INSTRUMENTS (continued)

(f) Net fair value

The carrying amount of financial assets and financial liabilities recorded in the Financial Statements of the consolidated entity represents their respective net fair values. The fair values of derivative instruments are as follows (which are also recorded in the Financial Statements):

	CARRYING AMOUNT	NET FAIR VALUE	CARRYING AMOUNT	NET FAIR VALUE
	2007	2007	2006	2006
	$'000	$'000	$'000	$'000
Financial Assets / (Liabilities)				
Forward foreign exchange contracts	(398)	(398)	(199)	(199)
Commodity swaps	-	-	654	654
Cross currency interest rate swaps	(76,695)	(76,695)	(56,994)	(56,994)
Total	(77,093)	(77,093)	(56,539)	(56,539)

Derivatives

Forward foreign exchange contracts are marked to market using listed market prices via the forward net present value method.

Cross currency interest rate swaps are marked to market using listed market prices via the discounted cash flow method. Inputs are based on market related data at the Balance Sheet date.

Trade and other receivables / payables

For receivables and payables with a remaining life of less than one year, the notional amount (less any impairment adjustments) is deemed to reflect the fair value.

31. OPERATING LEASES

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Operating Leases				
Non cancellable operating leases				
Payable:				
Less than one year	50,622	47,174	-	-
Between one year and five years	124,675	128,652	-	-
More than five years	70,933	72,011	-	-
	246,230	247,837	-	-

Operating leases relating to motor vehicles and plant and equipment have an average lease term of between 3 to 5 years. Property leases generally have terms that range between 3 to 15 years and have market review, CPI and fixed incremental rate clauses affecting future rental payments.

During the year ended 30 June 2007, $58,962,321 was recognised as an expense in the Income Statement in respect of operating leases (2006: $53,670,695).

32. COMMITMENTS FOR CAPITAL EXPENDITURE

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Capital Expenditure Commitments				
Committed but not provided for and payable				
Plant and equipment:				
Less than one year	20,399	4,360	-	-
Land & Buildings:				
Less than one year	4,662	404	-	-
	25,061	4,764	-	-

33. ACQUISITION OF BUSINESSES

30 June 2007

The consolidated entity purchased the operating assets of IMR, Inc on 19 March 2007. IMR operates a metal recycling business in Maine USA with collection and processing facilities at 4 sites in Maine. In the approximate four months to 30 June 2007 the subsidiary contributed earnings of $1,654 thousand to the consolidated entity for the year. If the acquisition had occurred on 1 July 2006, the consolidated entity's revenue would have increased by $41,050 thousand and earnings would have increased by $5,861 thousand (12 month impact based on extrapolation of results from actual period of ownership to 30 June 2007). The values outlined below are preliminary. The Company has 12 months from the date of acquisition to finalise the acquisition accounting.

30 June 2006

The consolidated entity purchased the operating assets of ITI, Inc and Steelport of Florida, Inc (together, 'ITI') on 31 January 2006. ITI operates a metal recycling business in the USA with collection and processing facilities at Norfolk, Virginia and Tampa, Florida. In the five months to 30 June 2006 the subsidiary contributed earnings of $3,817 thousand to the consolidated entity for the year. If the acquisition had occurred on 1 July 2005, the consolidated entity's revenue would have increased by $50,727 thousand and earnings would have increased by $9,288 thousand (12 month impact based on extrapolation of results from actual period of ownership to 30 June 2006).

The consolidated entity purchased the operating assets of Australian Colour Coaters (ACC) on 31 March 2006. ACC operates a steel coating business in Sydney. The business predominately coats steel for use in fencing, shed and cool room panel applications. In the three months to 30 June 2006 the subsidiary contributed earnings of $55 thousand to the consolidated entity. If the acquisition had occurred on 1 July 2005, the consolidated entity's revenue would have increased by a further $41,043 thousand and earnings would have increased by a further $222 thousand (12 month impact based on extrapolation of results from actual period of ownership to 30 June 2006).

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Businesses and controlled entities acquired				
Fair value of net assets acquired:				
Cash and cash equivalents	22	-	-	-
Trade and other receivables	-	144	-	-
Inventories	4,096	6,097	-	-
Other assets	35	-	-	-
Property, plant and equipment	12,265	5,634	-	-
Deferred tax asset	-	167	-	-
Creditors and accruals	(188)	(9,022)	-	-
Interest bearing borrowings	-	(2,711)	-	-
Employee entitlements	-	(105)	-	-
	16,230	204	-	-
Goodwill on acquisition	25,913	40,486	-	-
Consideration paid	42,143	40,690	-	-
Cash acquired	(22)	-	-	-
Cash consideration net of cash acquired	42,121	40,690	-	-

34. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Reconciliation of profit for the period to net cash from operating activities				
Profit for the period	155,938	147,317	151,900	209,595
Adjustments for:				
Gain on sale of non-current assets and businesses	(36,614)	(3,036)	-	-
Share of joint venture entities net profit	(5,264)	-	-	-
Income tax benefit on the implementation of Tax Consolidation Legislation	-	(4,800)	-	-
Equity compensation	1,597	1,456	1,597	1,456
Debt establishment cost amortisation	2,164	1,812	2,164	1,812
Depreciation, amortisation and asset impairment	66,540	61,429	-	-
Change in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase) / decrease in assets:				
Current receivables	(31,492)	(33,002)	(220,926)	(265,371)
Current inventories	(111,920)	87,500	-	-
Taxation balances	(5,342)	9,132	(15,217)	(16,230)
Other assets	284	(1,633)	155	(154)
Non-current other assets	(418)	11	-	-
Increase / (decrease) in liabilities:				
Current trade payables and accruals	35,149	27,296	(5,658)	(1,930)
Employee benefits	586	1,766	(118)	42
Provisions and other	(14,295)	(13,711)	(4,620)	4,731
Net cash from operating activities	56,913	281,537	(90,723)	(66,049)

35. CONTROLLED ENTITIES

			OWNERSHIP INTEREST	
		COUNTRY OF INCORPORATION	2007 %	2006 %
Parent Entity				
Smorgon Steel Group Ltd		Australia		
Controlled Entities				
A.G. Healing Agency Inc.	(a)	USA	-	100
A.N.I. Nominees Pty Ltd	(a)	Australia	-	100
A.T. Pty Ltd	(c),(n)	Australia	100	100
AB Metal Pty Ltd		Australia	100	100
ANI Australia Ltd	(n)	Australia	100	100
ANI Construction (WA) Pty Ltd		Australia	100	100
ANI Engineering Services Pty Ltd	(a)	Australia	-	100
ANI Finance (UK) Ltd		England	100	100
ANI Metal Products LLC		USA	100	100
ANI Mineral Processing LLC		USA	100	100
ANI Mining Services Pty Ltd	(c),(n)	Australia	100	100
ANI Monosteel Pty Ltd	(a)	Australia	100	100
ANI New Zealand Ltd	(d)	New Zealand	-	100
ANI US Distribution Inc.	(a)	USA	-	100
ANI Xatal Pty Ltd		Australia	100	100
Arnall's Engineering Pty Ltd		Australia	100	100
Ashland Investments Pty Ltd		Australia	100	100
Austral Steel Holdings Ltd	(n)	Australia	100	100
Australian National Industries Pty Ltd		Australia	100	100
Banana Coast Recyclers Pty Ltd		Australia	100	100
Bradken Consolidated Ltd	(n)	Australia	100	100
Brookside International Ltd	(a)	Hong Kong	-	100
Cockatoo Dockyard Pty Ltd		Australia	100	100
Coil Coaters Pty Ltd (formerly Island Holding Company Pty Ltd)	(b),(h),(m)	Australia	100	-
Commonwealth Steel Company Ltd	(n)	Australia	100	100
Comsteel Pty Ltd	(n)	Australia	100	100
Dane Taylor Holdings Pty Ltd		Australia	100	100
E & G Products Pty Ltd	(n)	Australia	100	100
E & G Steel Pty Ltd	(c),(n)	Australia	100	100
Eagle & Globe Limited		Australia	100	100
Email Pty Ltd (refer details of the Email Pty Ltd Group below)		Australia	100	100
GSF Management Pty Ltd		Australia	100	100
Helix Cables International Pty Ltd		Australia	100	100
HP Metal Recycling Inc		Philippines	100	100
HP Metal Recycling (HK) Limited		Hong Kong	100	100
HPR Industrial (JB) Sdn Bhd		Malaysia	100	100
Investment Acceptance Ltd	(n)	Australia	100	100
John McGrath (Canberra) Pty Ltd	(a)	Australia	-	100
John McGrath (QP) Pty Ltd		Australia	100	100
John McGrath Pty Ltd	(n)	Australia	100	100
M-Asia Enterprise (KL) Sdn Bhd		Malaysia	100	100
Metalcorp Ltd	(m)	Australia	100	100
Metalcorp Manufacturing Pty Ltd		Australia	100	100
Metalcorp Recyclers Pty Ltd	(m)	Australia	100	100
Metalcorp Recyclers New Zealand Pty Ltd		Australia	100	100
Metalcorp Steel (Vic) Pty Ltd		Australia	100	100
Metalcorp Steel Pty Ltd	(m)	Australia	100	100
Metalstores Ltd	(n)	Australia	100	100
MI Steel (NSW) Pty Ltd		Australia	100	100
MI Steel (Qld) Pty Ltd		Australia	100	100
MI Steel (Sydney) Pty Ltd		Australia	100	100
MI Steel (Tas) Pty Ltd		Australia	100	100

35. CONTROLLED ENTITIES (continued)

			OWNERSHIP INTEREST	
		COUNTRY OF INCORPORATION	2007 %	2006 %
MI Steel (Vic) Pty Ltd		Australia	100	100
Ming Sing Electronics Ltd	(a)	Hong Kong	100	100
Mittagong Engineering Pty Ltd		Australia	100	100
Northern Service Supplies Pty Ltd		Australia	100	100
P & T Tube Mills Pty Ltd (formerly Smorgon Steel Tube Mills Pty Ltd)	(f),(g)	Australia	-	100
Palmer Tube Mills (NZ) Ltd	(d)	New Zealand	100	100
Palmer Tube Mills Ltd	(f)	Australia	-	100
PT Commonwealth Steel Indonesia		Indonesia	100	100
QMR Inc		Philippines	100	100
Smorgon Distribution Limited		Australia	100	100
Smorgon Hartwell Recycling Limited		Hong Kong	100	100
Smorgon Hartwell Recycling (HK) Limited		Hong Kong	100	100
Smorgon Slab Systems Pty Ltd	(a)	Australia	-	100
Smorgon Steel (Acquisitions) Pty Ltd	(m)	Australia	100	100
Smorgon Steel (Holdings) Pty Ltd	(n)	Australia	100	100
Smorgon Steel (International) Pty Ltd	(m)	Australia	100	100
Smorgon Steel Distribution Pty Ltd	(m)	Australia	100	100
Smorgon Steel Distribution Superannuation Fund Pty Ltd (formerly ESF Management Pty Ltd)	(l)	Australia	100	100
Smorgon Steel Grinding Systems America LLC		USA	100	100
Smorgon Steel Group (Services) Pty Ltd	(m)	Australia	100	100
Smorgon Steel Group (US Holdings) Inc		USA	100	100
Smorgon Steel Litesteel Products Pty Ltd		Australia	100	100
Smorgon Steel Litesteel Technologies America LLC	(b)	USA	100	-
Smorgon Steel Litesteel Technologies Pty Ltd		Australia	100	100
Smorgon Steel Recycling Inc		USA	100	100
Smorgon Steel Recycling (Fiji) Ltd		Fiji	100	100
Smorgon Steel Recycling (Hong Kong) Ltd		Hong Kong	100	100
Smorgon Steel Recycling (New Zealand) Ltd		New Zealand	100	100
Smorgon Steel Recycling (Overseas) Pty Ltd		Australia	100	100
Smorgon Steel Recycling (PNG) Ltd		PNG	100	100
Smorgon Steel Singapore Pte Ltd		Singapore	100	100
Smorgon Steel Technologies Pty Ltd		Australia	100	100
Somerville Rehabilitation Services Pty Ltd		Australia	100	100
SSG Investments Pty Ltd		Australia	100	100
SSG No 2 Pty Ltd	(n)	Australia	100	100
SSG No 3 Pty Ltd	(n)	Australia	100	100
Steelmark Properties Pty Ltd		Australia	100	100
Tasco Superannuation Management Pty Ltd		Australia	100	100
Thai Metal Recycling Limited		Thailand	100	100
The ANI Corporation Ltd	(n)	Australia	100	100
The Australian Steel Company (Operations) Pty Ltd	(m)	Australia	100	100
Titan Mining & Engineering Pty Ltd		Australia	100	100
TMR Loha Holdings Limited		Thailand	100	100
Tube Estates Pty Ltd	(f)	Australia	-	100
Tube Street Pty Ltd (formerly Australian Tube Mills Pty Ltd)	(k),(n)	Australia	100	100
Tube Technology Pty Ltd	(f)	Australia	-	100
WA Mining Engineering Services Pty Ltd		Australia	100	100
Western Consolidated Industries Pty Ltd	(n)	Australia	100	100
Wilkinson Callon Ltd	(d)	New Zealand	-	100
X.C.E. Pty Ltd	(c),(n)	Australia	100	100
X.C.H. Pty Ltd	(c),(n)	Australia	100	100
X.D.I.R. Pty Ltd		Australia	100	100
X.M.A.L. Pty Ltd		Australia	100	100
X.P. Pty Ltd		Australia	100	100
Zaparo Pty Ltd	(a)	Australia	-	100
Zinctek Pty Ltd	(f)	Australia	-	100
Details of the Email Group				
A.C.N. 006 769 035 Pty Ltd (formerly Impact Steel Pty Ltd)	(j),(o)	Australia	100	100

35. CONTROLLED ENTITIES (continued)

			OWNERSHIP INTEREST	
		COUNTRY OF INCORPORATION	2007 %	2006 %
A.C.N. 124 092 173 Pty Ltd (formerly Coil Coaters Pty Ltd)	(b),(i)	Australia	100	-
Akkord Pty Ltd	(o)	Australia	100	100
BGJ Holdings Pty Ltd	(o)	Australia	100	100
Email Industries Ltd	(d)	New Zealand	-	100
Email Metals Pty Ltd	(o)	Australia	100	100
Emwest Holdings Pty Ltd	(o)	Australia	100	100
Emwest (NZ) Ltd	(d)	New Zealand	-	100
Emwest Properties Pty Ltd	(o)	Australia	100	100
Kelvinator Australia Pty Ltd	(o)	Australia	100	100
Malleys Pty Limited	(a),(e)	Australia	100	-
Metals Properties Pty Ltd	(o)	Australia	100	100
National Valve and Engineering Co Pty Ltd		Australia	100	100
NKS (Holdings) Pty Ltd	(o)	Australia	100	100
O Dee Gee Co Pty Ltd	(o)	Australia	100	100
Overseas Corporation (Australia) Pty Ltd	(o)	Australia	100	100
Pipeline Supplies Malaysia Sdn Bhd		Malaysia	100	100
Roentgen Ray Pty Ltd	(o)	Australia	100	100
Wembley Insurance Pte Ltd		Singapore	100	100
XEM (Aust) Pty ltd	(o)	Australia	100	100
XJM (Malaysia) Sdn Bhd		Malaysia	100	100
XLA Pty Ltd	(o)	Australia	100	100
XLL Pty Ltd	(o)	Australia	100	100

(a) Liquidated or in the process of being liquidated and dissolved.

(b) Formed / incorporated during the financial year.

(c) These entities changed their status from Ltd companies to Pty Ltd companies during the year.

(d) These entities were amalgamated into Palmer Tube Mills (NZ) Ltd during the year.

(e) Malleys Pty Limited was reinstated during the year.

(f) These entities were placed into the Australian Tube Mills Pty Limited joint venture with Onesteel Limited on 2 March 2007.

(g) Smorgon Steel Tube Mills Pty Ltd changed its name to P & T Tube Mills Pty Ltd during the year.

(h) Island Holding Company Pty Ltd changed its name to Coil Coaters Pty Ltd during the year.

(i) Coil Coaters Pty Ltd changed its name to A.C.N. 124 092 173 Pty Ltd during the year.

(j) Impact Steel Pty Ltd changed its name to A.C.N. 006 769 035 Pty Ltd during the year.

(k) Australian Tube Mills Pty Ltd changed its name to Tube Street Pty Ltd during the year.

(l) ESF Management Pty Ltd changed its name to Smorgon Steel Distribution Superannuation Fund Pty Ltd during the year.

(m) These wholly owned controlled entities have entered into a Deed of Cross Guarantee with Smorgon Steel Group Ltd pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare an audited Financial Report.

(n) These wholly owned controlled entities have entered into a Deed of Cross Guarantee with Smorgon Steel (Holdings) Pty Ltd pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare an audited Financial Report.

(o) These wholly owned controlled entities have entered into a Deed of Cross Guarantee with Email Pty Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare an audited Financial Report.

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed above (m,n,o) are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of Financial Reports, and Directors' Report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

35. CONTROLLED ENTITIES (continued)

	CONSOLIDATED	
	2007	2006
	$'000	$'000
The entities which are party to the Deed of Cross Guarantee (refer (m)) and are part of the closed group have:		
Profit before income tax	163,205	226,475
Income tax (expense) / benefit	2,342	(16,075)
Profit after income tax	165,547	210,400
Accumulated losses at the beginning of the financial year	(187,687)	(306,446)
Adjustment to retained profits on transition to AIFRS, net of tax	-	(16,122)
Total available for appropriation	(22,140)	(112,168)
Dividends provided for or paid	(146,010)	(75,519)
Accumulated losses at the end of the financial year	(168,150)	(187,687)
Current Assets		
Cash and cash equivalents	-	19,624
Trade and other receivables	435,185	426,909
Inventories	403,376	317,564
Current tax assets	15,348	3,028
Other assets	11,583	11,967
Total Current Assets	865,492	779,092
Non-Current Assets		
Trade and other receivables	4,983,363	4,042,320
Investments	1,352,924	1,352,924
Property, plant and equipment	378,821	328,986
Intangible assets	679,232	684,244
Deferred tax assets	41,067	52,265
Total Non-Current Assets	7,435,407	6,460,739
Total Assets	8,300,899	7,239,831
Current Liabilities		
Trade and other payables	440,496	362,117
Interest bearing borrowings	1,133	(375)
Provisions	83,579	29,870
Other liabilities	14,663	14,663
Total Current Liabilities	539,871	406,275
Non-Current Liabilities		
Trade and other payables	5,672,919	4,867,592
Interest bearing borrowings	1,027,306	935,390
Deferred tax liabilities	20,954	23,940
Provisions	31,722	27,713
Total Non-Current Liabilities	6,752,901	5,854,635
Total Liabilities	7,292,772	6,260,910
Net Assets	1,008,127	978,921
Equity		
Issued capital	1,174,664	1,174,143
Reserves	1,613	(7,535)
Accumulated losses	(168,150)	(187,687)
Total Equity	1,008,127	978,921

36. RELATED PARTIES - KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive director

R.K. Horsburgh, AM, Managing Director & CEO (resigned 30 June 2007)

Non-executive directors

G.J. Smorgon, Chairman (Executive Chairman, 30 June 2007 to 20 August 2007)

T. C-E. Bergman (resigned 30 June 2007)

G. Castan (resigned 20 August 2007)

L.G. Cox, AO (resigned 20 August 2007)

B.L. Cusack (resigned 20 August 2007)

P.M. Edwards (resigned 20 August 2007)

R.M. Savage (resigned 20 August 2007)

Executives

N.J. Power, Chief Executive, RSPD – employment ceased 30 June 2007

R.M. Smith, Chief Financial Officer – employment ceased 17 August 2007

M.R. Vassella, Chief Executive, Distribution – employment ceased 2 August 2007

R. Jansen, Chief Executive, Recycling – appointed 6 March 2007

D.J. George, Group General Manager, Smorgon Steel Business Services – employment ceased 4 July 2006

S.M. Grice, Chief Executive, Recycling – employment ceased 15 January 2007

Key management personnel compensation

The key management personnel compensation included in Note 6 personnel expenses are as follows:

	CONSOLIDATED		COMPANY	
	2007 $	2006 $	2007 $	2006 $
Short-term remuneration benefits	6,692,358	6,815,402	3,512,428	3,384,232
Post-employment benefits	834,586	628,761	636,491	359,551
Other long term benefits	15,134	50,719	-	17,665
Termination benefits	6,261,946	-	5,183,488	-
Share-based payments	522,809	507,656	160,784	171,659
	14,326,833	8,002,538	9,493,191	3,933,107

Key management personnel's loans

No loans existed at reporting date.

For detailed remuneration disclosures and some equity instrument disclosures permitted by the Corporations Regulations, see pages 6 to 20 of Directors' Report.

36. RELATED PARTIES - KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Transactions with the Company or its controlled entities

The aggregate amounts recognised during the year relating to key management personnel and their personally-related entities, were total expense of $220,166 (2006: $197,015). Details of the transactions are as follows:

It is the consolidated entity's policy that terms and conditions of these transactions are on an arms' length basis.

a) During the financial year a total of $396 (2006: $2,270) was paid to a personally-related entity of Mr. Edwards for the purchase of scrap metal.

b) During the financial year a total of $89,180 (2006: $61,103) was paid to an Australian Football League (AFL) club on which Mr. Smorgon was a Board member for sponsorship and other services.

c) During the financial year a total of $130,590 (2006: $87,442) was paid to an AFL club on which Mr. Horsburgh, AM is a Board member for sponsorship and other services.

d) During the year, $nil (2006: $46,200) was paid to Mr. Castan for consulting fees and additional services provided during the year in relation to various advisory and other assignments of a strategic nature undertaken at the direction of the Chief Executive and as authorised by the Chairman.

Performance share rights over equity instruments

The movement during the reporting period in the number of Performance Shares over ordinary shares in Smorgon Steel Group Ltd held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

PERFORMANCE SHARES – 30 JUNE 2007							
	Held at 1 July 2006	Granted as compensation	Exercised	Other changes*	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Director							
R.K. Horsburgh, AM	1,007,100	-	119,678	202,500	684,922	119,678	-
Executives							
N.J. Power	482,731	-	62,206	24,278	396,247	62,206	-
R.M. Smith	402,080	-	52,874	10,856	338,350	52,874	-
M.R. Vassella	409,158	-	47,833	77,986	283,339	47,833	-
Former Executives							
D.J. George	352,697	-	46,977	76,958	228,762	46,977	-
S.M. Grice	361,452	-	37,014	324,438	-	37,014	-

PERFORMANCE SHARES – 30 JUNE 2006							
	Held at 1 July 2005	Granted as compensation	Exercised	Other changes*	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Director							
R.K. Horsburgh, AM	805,000	202,100	-	-	1,007,100	-	-
Executives							
N.J. Power	325,066	157,665	-	-	482,731	-	-
R.M. Smith	267,248	134,832	-	-	402,080	-	-
M.R. Vassella	251,493	157,665	-	-	409,158	-	-
Former Executives							
D.J. George	244,008	108,689	-	-	352,697	-	-
S.M. Grice	229,072	132,380	-	-	361,452	-	-

* Other changes represent Performance Shares that expired, were forfeited or reallocated during the year.

During the year, 993,181 (2006: nil) Performance Shares were exercised.

Refer Note 27 for further details.

36. RELATED PARTIES - KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Performance share rights over equity instruments (continued)

The movement during the reporting period in the number of ordinary shares issued under the Executive Share Acquisition Scheme to each key management personnel including their personally related entities is as follows:

EXECUTIVE SHARE ACQUISITION SCHEME - 30 JUNE 2007						
	Balance 1 July 2006 No.	Granted as remuneration No.	Received upon release from restriction No.	Compulsory acquisition by offeror No.	Other change No.	Balance 30 June 2007 No.
N.J. Power	55,685	-	55,685	-	-	-
R.M. Smith	65,001	-	-	-	-	65,001

EXECUTIVE SHARE ACQUISITION SCHEME - 30 JUNE 2006						
	Balance 1 July 2005 No.	Granted as remuneration No.	Received upon release from restriction No.	Compulsory acquisition by offeror No.	Other change No.	Balance 30 June 2006 No.
N.J. Power	55,685	-	-	-	-	55,685
R.M. Smith	65,001	-	-	-	-	65,001

These shares are held in trust and are subject to dealing restrictions for up to ten years. Dividends and voting rights are held by the key management personnel.

Refer to Note 27 for further details.

36. RELATED PARTIES - KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Movements in Ordinary Shares

The movement during the reporting period in the number of ordinary shares in Smorgon Steel Group Ltd held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

FULLY PAID ORDINARY SHARES – 30 JUNE 2007							
	Held at 1 July 2006	Purchases	Received under Senior Executive Performance Share Plan	Executive Shares released from restriction	Sales	Held at 30 June 2007[ii]	Balance held nominally
Director							
R.K. Horsburgh, AM	957,411	-	119,678	-	-	1,077,089	56,325
G.J. Smorgon [i]	17,180,000	-	-	-	-	17,180,000	17,180,000
Non-executive Directors							
T.C-E. Bergman	100,000	-	-	-	-	100,000	-
G. Castan	-	-	-	-	-	-	-
L.G. Cox, AO	648,906	-	-	-	-	648,906	438,750
B.L. Cusack	30,969	-	-	-	-	30,969	30,969
P.M. Edwards	114,927,276	-	-	-	-	114,927,276	114,927,276
R.M. Savage	20,000	-	-	-	-	20,000	20,000
Executives							
N.J. Power	2,467	-	62,206	55,685	-	120,358	2,467
R.M. Smith	467	12,285	52,874	-	-	65,626	12,285
M.R. Vassella	-	-	47,833	-	-	47,833	-
Former Executives							
D.J. George	-	-	46,977	-	-	46,977	-
S.M. Grice	-	-	37,014	-	(37,014)	-	-

(i) Executive Chairman since 30 June 2007
(ii) As at 20 August 2007, these shares have been converted to OneSteel Ltd shares due to the OneSteel Merger.

FULLY PAID ORDINARY SHARES – 30 JUNE 2006							
	Held at 1 July 2005	Purchases	Received on exercise of options	Executive Shares released from restriction	Sales	Held at 30 June 2006	Balance held nominally
Director							
R.K. Horsburgh, AM	157,411	-	1,250,000	-	(450,000)	957,411	56,325
Non-executive Directors							
T.C-E. Bergman	100,000	-	-	-	-	100,000	-
G. Castan	-	-	-	-	-	-	-
L.G. Cox, AO	648,906	-	-	-	-	648,906	438,750
B.L. Cusack	30,000	969	-	-	-	30,969	30,969
P.M. Edwards	114,927,276	-	-	-	-	114,927,276	114,927,276
R.M. Savage	20,000	-	-	-	-	20,000	20,000
G.J. Smorgon	17,180,000	-	-	-	-	17,180,000	16,930,000
Executives							
N.J. Power	2,467	-	439,560	-	(439,560)	2,467	2,467
R.M. Smith	467	-	320,187	-	(320,187)	467	-
M.R. Vassella	-	-	342,857	-	(342,857)	-	-
Former Executives							
D.J. George	-	-	-	-	-	-	-
S.M. Grice	-	-	-	-	-	-	-

During the reporting period, 366,582 (2006: nil) shares were granted to key management personnel as compensation.

37. RELATED PARTIES - NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

Identity of related parties

The parent entity in the consolidated entity is Smorgon Steel Group Ltd. Smorgon Steel Group Ltd is also the ultimate parent entity. The parent entity has a related party relationship with its wholly-owned controlled entities. Details of interests in controlled entities are set out in Note 35.

Other related party transactions

Transactions on commercial terms and conditions between the Company and its wholly-owned controlled entities include:
- Interest
- Rental
- Foreign exchange transactions on behalf of those entities
- Payments/receipts under a tax sharing agreement

Aggregate amounts of revenue included in the determination of operating profit before income tax of the Company that resulted from transactions with wholly-owned controlled entities are included in Note 4 and 7.

Contributions to superannuation funds on behalf of employees are disclosed in Notes 6 and 27.

Loans between the Company and its wholly-owned controlled entities are repayable on demand. Aggregate amounts receivable from and payable to wholly-owned controlled entities by the Company at balance date are included in Notes 13 and 22 respectively.

38. CONTINGENT LIABILITIES

Company

(a) Unsecured guarantees and undertakings have been given by the Company in the normal course of business in respect of financial, trade, commercial and lease arrangements entered into by its controlled entities. At 30 June 2007, the Company assessed the fair value of the unsecured guarantees and undertakings to be $nil.

(b) Under the terms of a Class Order issued by the Australian Securities and Investments Commission, certain wholly-owned Australian controlled entities have obtained relief from specified accounting and reporting requirements. The Company has entered into an approved Deed of Cross Guarantee of liabilities in the event of liquidation of such controlled entities. The names of such controlled entities are disclosed in Note 35. The total liabilities of the wholly–owned controlled entities (excluding amounts owed to the parent) are $3,108,103,565 (2006: $2,559,410,439).

Consolidated Entity

(a) Various performance and other guarantees provided to third parties totals $51,728,069 (2006: $66,609,598). The majority of these guarantees relate to performance guarantees for construction contracts and other general undertakings. The issuance of performance guarantees is common for major construction projects as they are instruments that allow progress claims to be received.

(b) Cockatoo Dockyard Pty Ltd (Codock) was established as a special purpose company which leased and operated the Commonwealth owned naval dockyard at Cockatoo Island from 1933 to 1992. The dockyard is now closed. Codock was acquired with the acquisition of Australian National Industries Limited (ANI) in 1999 and has been a controlled entity of ANI since 1986. It is not party to any Deed of Cross Guarantee of liabilities with the Company or any controlled entity. Codock is the subject of personal injury claims from some former workers and contractors at the dockyard. Some of the claims are insured or partially insured but others are not. Codock's future exposure to claims has previously been assessed on an actuarial basis to be $3 million to $5 million. In December 1995, an award was made in arbitration proceedings between Codock and the Commonwealth in respect of the period up to 31 October 1995. The Arbitrator held, among other things, that Codock was entitled to recover the uninsured portion of the personal injuries claims costs from the Commonwealth plus costs incurred in defending these matters. However, since the arbitration award, the Commonwealth has refused to pay further costs incurred by Codock. In October 2001, Codock commenced proceedings in the Supreme Court of New South Wales against the Commonwealth seeking reimbursement of amounts paid in relation to those costs (plus interest and the costs of these proceedings). Amounts claimed by Codock in these proceedings to date total $3.9m (excluding interest and costs). The hearing in these proceedings commenced before Justice McDougall in the Supreme Court of NSW on 19 July 2004. The Commonwealth appealed two preliminary findings made by Justice McDougall and the Supreme Court of NSW delayed hearing the remainder of the case until these appeals have been decided. The Court heard the Commonwealth's appeal during May/June 2006 and on 23 November 2006 the Court of Appeal handed down its decision in favour of Codock. During December 2006 the Commonwealth filed an application for special leave to appeal the Court of Appeal's decision to the High Court. During April 2007 the High Court refused the Commonwealth's application for special leave. As a result the Commonwealth will not be able to re-litigate the contractual points previously determined by the Arbitrator. The matter now reverts to the Supreme Court of New South Wales to decide the remaining issues, which include some points of contractual interpretation which relate to the amount of the claim Codock can recover, as well as questions of the reasonableness of particular costs for which Codock has sought reimbursement. The Commonwealth has been directed by the Supreme Court to identify the costs which it no longer disputes by 26 October 2007 and the case will then be listed for further hearing by the Supreme Court to determine the remaining disputes. This hearing is likely to occur in early 2008. Codock believes that it has strong prospects of recovery from the Commonwealth for the amount of both past and future claims costs. At 30 June 2007, the amount claimed and associated interest and costs have been brought to account as an asset in the Consolidated Financial Statements.

(c) The consolidated entity is subject to various actual and pending claims arising in the normal course of business. The directors are of the view that adequate provision has been made in respect of these claims.

39. SUBSEQUENT EVENTS

On 31 July 2007, Smorgon Steel shareholders voted in favour of the Scheme of Arrangement to effect the merger between OneSteel and Smorgon Steel. The Supreme Court of Victoria subsequently approved it on 3 August 2007. Immediately following the court approval on 3 August 2007, Onesteel Limited acquired 179,124,279 ordinary shares in Smorgon Steel Group Limited (representing 19.96% of total shares on issue) from BlueScope Steel Limited for approximately $447.3 million. On 20 August 2007, the Scheme of Arrangement was implemented and OneSteel Limited acquired all remaining shares in Smorgon Steel Group Limited. Under the Scheme, Smorgon Steel shareholders received 9 new OneSteel shares for every 22 Smorgon Steel shares they held, which is equivalent to 0.4091 OneSteel shares for each Smorgon Steel share. In addition, the BlueScope Steel Acquisition of the Smorgon Steel Distribution business was completed.

Smorgon Steel shares were suspended from trading on the Australian Stock Exchange as of the close of trading on 3 August 2007. The new OneSteel shares issued to Smorgon Steel shareholders pursuant to the Scheme were traded on the Australian Stock Exchange on a deferred settlement basis from 6 August 2007. Normal trading in OneSteel shares commenced on 21 August 2007.

On 17 August 2007, OneSteel announced that as part of the merger process with the Smorgon Steel Group Limited, Australian Tube Mills Pty Limited (ATM), a joint venture between OneSteel and Smorgon Steel, will restructure its pipe and tube operations. ATM became a wholly owned subsidiary of OneSteel Limited from 20 August 2007 as part of the completion of the merger between OneSteel and Smorgon Steel.

Dividends

In respect of the financial year ended 30 June 2007, a special dividend of 6.23 cents per share, fully franked at 30%, was paid to holders of fully paid ordinary shares on 3 August 2007.

DIRECTORS' DECLARATION FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

1. In the opinion of the directors of Smorgon Steel Group Ltd ("the Company"):

   a) the Financial Statements and notes and the remuneration disclosures in sections identified as audited within the Remuneration Report in the Directors' Report, set out on pages 6 to 20, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2007 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   b) the remuneration disclosures that are contained in the Remuneration Report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

   c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the controlled entities identified in Note 35 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

Signed in accordance with a resolution of the directors.

Geoffrey J Plummer	Anthony J Reeves
Managing Director	Executive Director

SYDNEY 24 October 2007

Independent auditor's report to the members of Smorgon Steel Group Ltd

Report on the financial report and AASB 124 remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Smorgon Steel Group Ltd (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 39 and the directors' declaration set out on pages 24 to 74 of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in sections of the directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001.* This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the Company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of Smorgon Steel Group Ltd is in accordance with the *Corporations Act 2001*, including:

- (i)giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in sections of the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

Don Pasquriello
Partner
Sydney, 24 October 2007