OneSteel Limited

2007 Annual General Meeting

19th November 2007

Mr Peter Smedley
AGM Address

OneSteel Limited ABN 63 004 410 833
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Mr Peter Smedley
Chairman

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Introduction

This afternoon I would like to review the outcomes and events of the 2007 financial year. I will also provide you with some commentary on what lies ahead.

The Managing Director and Chief Executive Officer, Geoff Plummer, will update you on the two major growth initiatives that are underway at OneSteel and talk further about the outlook for the current financial year.

I have pleasure in reporting that OneSteel posted its **sixth consecutive annual profit improvement** in 2006/07 with most key financial ratios continuing to improve. The business also performed well operationally, with record steel tonnes produced and iron ore shipments that exceeded the planned ramp-up in ore sales.

However it saddens me to tell you that one of our workers in Brisbane died last month while loading a truck at OneSteel's Eagle Farm site. A detailed investigation is being undertaken and of course we will take all actions to prevent further such tragedies. This incident is particularly disappointing as for the year to June 30 our safety performance had significantly improved, with a 30% reduction in our Medical Treatment Injury Frequency Rate from 11.7 per million man hours worked to 8.1.

Management again achieved cost reductions and price increases to offset inflationary costs and higher costs for raw material inputs. The company also continues to be a strong cash generator. Thus gearing remained at the lower end of OneSteel's target range at the end of the financial year after total investments of approximately $379 million on Project Magnet as at 30 June.

Project Magnet, the commercialisation of OneSteel's magnetite ore reserves for producing steel and the sale of surplus hematite ore reserves, achieved major milestones. The hematite export facilities have been successfully commissioned, with six shipments of iron ore in Cape-size vessels made from Whyalla in 2006/07. Four long-term export ore sales agreements have been signed with Chinese steelmakers. The agreements cover around 23 million tonnes of the approximate 40 million tonnes of ore that are available for sale over roughly 10 years.

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Capital construction work around the magnetite stream of Project Magnet was effectively completed during the 2006/07 financial year. Following a rigorous and comprehensive commission phase, Whyalla Steelworks is targeted to commence the cutover to magnetite feed into the pellet plant around the end of November 2007. This will result in magnetite feed being processed through the pellet plant on a continuous basis from that time and allow us to then proceed to change feed into the blast furnace.

Project Magnet extends the life of the Whyalla Steelworks and provides growth through the export of hematite iron ore and increased steel production. It also lowers the cost of steelmaking at Whyalla Steelworks. In addition to being a new source of revenue and profit, Project Magnet has significant environmental benefits.

The other major growth initiative that the company is working on is the **integration of OneSteel and Smorgon Steel**. This follows completion of the merger on 20 August 2007. I am pleased to confirm that Mr Graham Smorgon and Mr Laurie Cox joined the OneSteel Board in September. The company is now focused on the effective integration of the two businesses and on delivering the expected level of benefits and synergies.

To recap the strategic rationale for the merger:

- Corporate benefits – a stronger and more financially flexible company with enhanced growth opportunities
- Customer and market benefits – increased ability to service customers with new product and service offerings and a greater diversity and scope of operations
- Competitive benefits – a more competitive business with lower costs, improved raw material integration and opportunities with diversified revenue streams.

Furthermore, subsequent to year end OneSteel acquired Fagersta, a stainless steel distribution business to add to OneSteel's existing capability in the stainless business. Operational outcomes of the new business are in line with expectations.

The Year in Review

I would now like to turn to some of the outcomes and achievements of the last financial year.

As I touched on earlier, the business performed well operationally, with **record steel production** at the company's two main steelmaking facilities. OneSteel produced 1,733,406 tonnes of steel in the last financial year, up 6.1% from the previous year.

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It was also pleasing that **export sales of iron ore lump and fines** exceeded 1.8 million tonnes in the last financial year. That was above the planned ramp-up in ore sales to 1.5 million tonnes that was announced in May 2005. The exports included six shipments of iron ore in Cape-size vessels during the second half from the port of Whyalla.

Turning to the financial results, I would first note that the 2006/07 financial year was one of continued volatility in international pricing for steel and key inputs while domestic market conditions were mixed. Demand in the resources and infrastructure segments was solid, contrasting with weakness in manufacturing, automotive and rural segments.

Sales revenue for the 12 months to June 2007 grew 7.4% to $4,300.6 million from $4,004.6 million in the prior corresponding period. The increase reflects price increases to recover higher costs, a more favourable product mix and higher volumes and prices for iron ore exports.

Total Australian tonnes despatched increased by 0.1%, while underlying domestic tonnes despatched increased by 5.6% after adjusting for large one-off projects**.**

Exports of steel during the period fell 156,392 tonnes, to 77,777 tonnes, representing 3.4% of steel tonnes despatched compared with 10.3% a year prior. Total raw steel tonnes produced increased 6.1%, or 99,710 tonnes, from the previous corresponding period. As noted earlier, total raw steel production was a record 1,733,406 tonnes, up more than 99,000 tonnes from the previous year.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA), increased by 9.9% for the twelve months to $436.1 million.

The **sales margin**, based on operating earnings before interest and tax (EBIT), was 7.9%, compared with 7.6% in the prior corresponding period.

On a **profit before tax** basis, profit increased by 15.5% from $246.0 million to $284.1 million.

Operating net profit after tax and minorities increased by 15.1% to $197.5 million for the 12 months. A tax benefit of $9.5 million was booked on derecognition of deferred tax liabilities associated with the formation of the Australian Tube Mills joint venture between OneSteel and Smorgon Steel. **Statutory net profit after tax and minorities** including this benefit was $207.0 million.

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The net operating profit of $197.5 million equates to earnings of 34.5 cents per share based on the number of shares at the financial year-end. That is up 13.8% from the 30.3 cents achieved in the prior year.

The **effective tax rate,** excluding the $9.5 million tax benefit, was 26.3%. This was largely attributable to the impact of claimable research and development expenditure for the current year and higher-than-expected claimable expenditure for the prior year.

Staffing levels of 7,526 at 30 June 2007 were steady compared with 7,527 at the end of June 2006.

Operating cash flow for the period was $276.5 million, up 10.3% from $250.8 million in the previous corresponding period.

Capital and investment expenditure increased by 58.4% to $360.5 million. Approximately $189 million of the expenditure related to Project Magnet. Project Magnet capital construction work was substantially completed in the 2006/07 financial year, with approximately $379 million spent as at 30 June 2007. The total cost of the project was previously forecast at $390 million, with the current estimate at $395 million.

With around $379 million of the Project Magnet spend complete at the end of the financial year, financial gearing remained at the lower end of the targeted range of 30% to 40%. **Financial gearing** rose from 31.4% to 33.5% and **net debt** including derivatives rose 20.8% to $831.1 million. **Interest Cover** was 6.1 times compared with 5.3 times cover in the prior corresponding period.

Funds employed rose by 13.3% or $291.3 million to $2.48 billion, again reflecting the investment in Project Magnet. The EBIT **return on funds employed** rose to 14.6% from 14.4%.

Inventories increased by 10.2% to $836.3 million when compared with the previous financial year. The increase reflects higher average prices for purchased raw materials and resold materials. Another contributing factor was inventories of pellets and magnetite and hematite iron ore being built in preparation for the Whyalla Steelworks' cutover to magnetite.

There was a 30% improvement in OneSteel's **safety performance**, with the Medical Treatment Injury Frequency Rate falling from 11.7 per million man hours worked, to 8.1. The Lost Time Injury Frequency Rate dropped 44% from 1.6 to 0.9 per million man hours worked. These outcomes build on the considerable improvement in OneSteel's safety performance since it listed in October 2000. .

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It gives me pleasure to report that the OneSteel Board of Directors declared an increased **Final Dividend** of 10.5 cents per share fully franked, bringing the total dividends declared for the year to 18.5 cents. That was up 8.8% from a 17.0 cent fully franked dividend paid for the 12 months to June 2006 and represented a payout ratio of 69.6%. The increased dividend and payout ratio were paid to OneSteel's expanded share base following the issue of shares on completion of the merger with Smorgon Steel on 20 August 2007. The dividend was paid on 18 October 2007 with a record date of 14 September.

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

A **Dividend Reinvestment Plan** provides the facility for shareholders in Australia and New Zealand to reinvest their dividends in shares at a price calculated on the arithmetic average of the daily volume weighted average market price during the 10 consecutive trading days commencing on the date which is the second trading day after the Record Date for the relevant dividend. No discount applies to the DRP. The DRP operated for the final dividend.

Focus for the Next Financial Year

Management's priorities in the financial year now underway remain to further improve returns from current businesses, to complete and realise the benefits of Project Magnet, and to effectively integrate the acquired businesses of Smorgon Steel and to deliver the expected level of benefits and synergies.

Outlook

The domestic market drivers of OneSteel's business continue to be mixed with strength in the non-residential and engineering construction segments contrasting with softness in the residential market and weakness in the manufacturing and automotive sectors. The rural sector continues to be impacted by the drought. International prices for inputs such as coking coal, hot rolled coil and scrap steel are expected to remain volatile.

In terms of trading conditions, there was an increase in imports in to Australia during 2007, and the price of those imports has not kept pace with increases in input costs and international long product prices traded in Asia. This has been compounded by the rapid increase in the Australian dollar. This has placed some margin pressure on OneSteel's domestic business.

Following the release of proforma merged company accounts for the 2007 financial year to the ASX on 25 October and after a review of integration costs and benefits, OneSteel can provide the following clarification in regards to earnings guidance and outlook for the current financial year.

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The range of analysts' forecasts for OneSteel earnings for the 2008 financial year at the EBITDA level is between approximately $700 million and $850 million. Based on initial forecasts for the merged company, the internal OneSteel range is $710 to $780 million.

This compares with comparable proforma earnings in 2007 of $650 million at the EBITDA level if OneSteel and Smorgon were operating as a business in that year.

OneSteel is in the process of determining asset uplift values for the Smorgon Steel assets for the purpose of depreciation adjustments. For this reason, at this stage we can only provide guidance at the EBITDA level. The opening debt position of the combined business at the time of completion of the merger was $2.1 billion dollars.

Earnings for the year will be strongly skewed towards the second half of the year, and Geoff Plummer will provide some details as to the reasons why in his address. Cash generation for the first quarter of the year was strong and we expect this to continue throughout the year.

I would like to thank our shareholders for their support over the past year and I would like to thank my non-executive Board colleagues, Geoff Plummer and his management team and our employees for their contribution to the year's profit improvement. I also welcome our new shareholders who have come on board as a result of the merger with Smorgon Steel, as well as those employees that have joined us from Smorgon Steel to lift OneSteel's employee numbers to over 10,000 in the 2007/08 financial year.

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