ONESTEEL LIMITED

ABN 63 004 410 833

APPENDIX 4E

PRELIMINARY FINAL REPORT

12 MONTHS ENDING 30 JUNE 2004

ONESTEEL LIMITED

HIGHLIGHTS OF RESULTS AND DIVIDENDS

12 MONTHS ENDING 30 JUNE 2004

Results for announcement to the market

				A$ Millions
Sales Revenue	up	6.8%	To	3,269.2
Revenues from ordinary activities	up	7.7%	to	3,339.3
Profit from ordinary activities after tax attributable to members (excl tax consolidation adjustment)	up	15.0%	to	108.1
Net profit for the period attributable to members (incl tax consolidation adjustment)	up	36.1%	to	127.9

Dividends	Amount per security	Franked amount per security
Final Dividend	7.0 c	7.0 c
Previous corresponding period	6.0 c	6.0 c
Record date for determining entitlements	17 September 2004	

This report is based on accounts that have been audited and are not subject to any dispute or qualification.

Key Financials for the 12 Months to June 2004

12 Months Ending 30 June		Statutory			Pro Forma		% Change
		2004	2003	2002	2001	2001	04/03
					Excl Rest	Inc Rest	
Sales Revenue	$m	3,269.2	3,060.6	2,906.0	2,637.7	2,637.7	6.8
Other Revenue	$m	70.1	39.5	80.5	141.5	141.5	77.5
Total Revenue	$m	3,339.3	3,100.1	2,986.5	2,779.2	2,779.2	7.7
Earnings Before Interest, Tax, Depreciation Amortisation (EBITDA)	$m	324.2	307.6	251.0	202.6	181.7	5.4
Earnings Before Interest, Tax, Amortisation (EBITA)	$m	237.1	221.1	166.8	118.0	74.7	7.2
Earnings Before Interest & Tax (EBIT)	$m	216.1	201.3	147.9	103.4	37.7	7.4
Borrowing Cost	$m	42.2	44.5	54.4	61.8	61.8	(5.2)
Profit Before Tax	$m	173.9	156.8	93.5	41.6	(24.1)	10.9
Tax Expense	$m	53.4	53.3	39.0	12.1	(2.1)	0.2
Net Profit After Tax and minorities (NPAT)	$m	108.1	94.0	47.1	23.6	(27.9)	15.0
Cash Flow from operations and investing	$m	84.9	142.5	143.9	170.1		(40.4)
Free Cash Flow	$m	43.9	154.9	28.5	220.8		(71.7)
Total Assets	$m	2,803.2	2,577.0	2,582.0	2,710.8		8.8
Funds Employed	$m	1,842.4	1,755.2	1,794.2	1,878.6		5.0
Liabilities	$m	1,429.8	1,292.0	1,359.4	1,594.6		10.7
Net Debt	$m	469.0	470.2	571.6	762.4		(0.3)
Capital & Investment Expenditure	$m	151.4	130.9	70.8	108.4		15.7
Inventories	$m	704.6	591.0	574.1	540.3		19.2
Employees		7,272	7,054	6,989	7,379		3.1
Sales per employee	$'000	449.6	433.9	415.8	357.5		3.6
Net Tangible Asset backing	$ per share	1.93	1.77	1.69	1.81		
EBITA margin on sales	%	7.3	7.2	5.7	4.5		
EBITA return on funds employed	%	13.2	12.5	9.1	6.3		
Return on Equity	%	9.1	8.3	4.7	2.6		
Gearing (net debt:net debt plus equity)	%	25.7	26.8	31.9	40.6		
Gearing (net debt:net debt plus equity incl securitisation)	%	33.1	34.3	38.7	46.3		
Interest times cover		5.1	4.50	2.71	1.60		
Earnings per share (based on number of shares at the end of the period)	cents	19.5	17.2	8.7	5.1		13.4
Full-year Dividend per share	cents	12.0	11.0	6.5	6.0		
Raw Steel Tonnes produced		1,618,855	1,624,399	1,576,650	1,438,770		(0.3)
Tonnes despatched		2,159,536	2,224,139	2,176,413	2,125,073		(2.9)
Export % of tonnes despatched	%	4.7	3.8	7.9	13.2		

2004 NPAT of $108.1 million excludes the one-off tax benefit of $19.8 million from OneSteel's entry into tax consolidation, total profit including this adjustment was $127.9 million.

The Statutory accounts for the 12 months to June 2001 do not include the trading of all the OneSteel group for the 12 months as the purchase of assets was completed at different times between July and October 2000.The pro forma numbers include the results of all businesses as if the assets and operations of all businesses spun out from BHP, were part of the OneSteel Group from 1 July 2000 to 30 June 2001.

A restructuring charge of $51.5 million after tax was provided for in the 2001 accounts. For comparison purposes the 2001 numbers have been calculated on both a post and pre restructuring provision basis.

Review of Operations
For the Twelve Months To June 2004

17 August 2004

Highlights

- Sales Revenue increased 6.8% to $3,269.2 million
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 5.4% to $324.2 million
- Earnings before interest, tax and amortisation (EBITA) increased by 7.2% to $237.1 million
- Net operating profit after tax up and minorities rose by 15% to $108.1 million
- After the tax benefit from entry into tax consolidations, a total net profit after tax of $127.9 million was reported
- Earnings per share increased 13.4% to 19.5 cents per share
- Operating cash flow was $84.9 million
- Safety performance was mixed with the MTIFR improving 10% to a record low rate of 14.2 while the lost time injury frequency rate per million man hours worked rose to 2.6 from a rate of 1.7 in the previous year
- Net debt decreased by $1.2 million to $469.0 million
- The net debt to net debt plus equity ratio decreased from 34.3% to 33.1% including securitisation (the ratios are 26.8% and 25.7% exclusive of securitisation)
- Inventory stock weeks remain under 10 weeks
- Staff numbers increased by 3.1% to 7,272 due to minor “bolt-on” acquisitions and volume-related increases
- Return on funds employed (based on EBITA) increased to 13.2% from 12.5%
- Cost reductions of $50 million and revenue enhancements of $28 million were achieved against inflationary and other cost increases of $71 million.

Note: For the purposes of profit comparisons the net operating profit after tax and minorities of $108.1 million has been used, not the $127.9 million net profit after tax, minorities which includes the one-off tax benefit from entering tax consolidations of $19.8 million.

Market Conditions

During the year international steel markets underwent some of the most turbulent activity experienced in many years with prices for semi-finished and finished steel products increasing to unprecedented levels. The driving force behind this activity is the growth in the Chinese economy that is fuelling demand for steel. China accounts for almost one third of international steel demand. As a result of the rapid price increases, some of OneSteel’s input costs such as scrap steel and hot rolled coil increased significantly, requiring the company to also increase its finished product prices in the six months to June.

In terms of the domestic market, activity in the segments that impact OneSteel remained at strong levels, rising a further 3.5% over the year, building on the previous year’s 11.8% increase. The fastest growing segments were non-residential and residential construction, rising 6.2% and 5.4%, respectively, followed by other manufacturing and automotive, both rising 3.4% and engineering construction up 3.2%. The agricultural and mining segments declined slightly.

Company Overview

Sales revenue for the 12 months to June 2004 grew 6.8% from $3,060.6 million to $3,269.2 million when compared with the prior corresponding period. This increase reflects continued robust underlying market conditions particularly in the construction sector that drives approximately 60% of OneSteel's revenues.

Total steel tonnes dispatched decreased by 2.9%, with the price per tonne increasing by 6.4%. Domestic tonnes dispatched decreased by 3.8%, with the average price per tonne increasing by 7.3%. Total exports for the period were at 4.7% of tonnes dispatched compared with 3.8% a year prior, with the average price per tonne decreasing by 12.6%.

When tonnes dispatched are adjusted for large projects such as the Alice Springs to Darwin rail and oil and gas projects, underlying domestic tonnes dispatched increased by 4.3%, export tonnes by 21% and total tonnes up 5%. Underlying domestic price per tonne increased by 2.4%, export prices decreased by 12.6% with the total underlying price per tonne increasing by 1.7%.

Operating earnings before interest, tax and amortisation (EBITA), increased by 7.2% for the 12 months recording a sales margin of 7.3%, compared with 7.2% for the prior corresponding period. On an **earnings before tax** basis, profit increased by 10.9% from $156.8 million to $173.9 million. Borrowing costs were $42.2 million, down 5.2% from $44.5 million in the previous year.

Operating net profit after tax and minorities was $108.1 million, 15% up from the $94.0 million result a year earlier. Tax expensed totalled $53.4 million, with the effective tax rate falling from 34% to 30.7%. The operating net profit equates to earnings of 19.5 cents per share (based on number of shares at year end), 13.4% higher than the 17.2 cents achieved in the prior year.

On entry to **tax consolidation** OneSteel has been able to gain an uplift in depreciable plant and equipment of $66 million, resulting in a one-off tax benefit of $19.8 million being booked against tax expense. Total profit attributable to members after this adjustment was $127.9 million. This uplift will be recovered as additional tax depreciation (lower tax payments) over the remaining life of these assets.

Safety performance was mixed during the year with the medical treatment injury frequency rate improving 10% to 14.2, the lowest ever, while the lost time injury frequency rate increased from 1.7 to 2.6. In measuring safety performance OneSteel also includes safety outcomes for contractors as well as employees.

Australian Distribution revenue was up 11.3% or $186.0 million to $1,835.6 million reflecting the general improvement in market conditions. Distribution EBITA increased by 17.0% to $99.1 million with sales margins improving from 5.1% to 5.4%. EBITA return on funds employed rose from 10.9% to 12.7%. Total tonnes dispatched increased 6.5% while price per tonne improved 3.6%.

During the year Distribution completed the integration of Marner Steel & Mesh and acquired Midalia Steel, a Western Australian steel and metals distribution business, to provide an extension into the smaller customer/retail channel.

Manufacturing revenue increased 5.0% or $88.1 million to $1,841.9 million driven by stronger demand from the construction sector. Manufacturing EBITA increased 9.1% to $140.2 million with an increase in sales margins from 7.3% to 7.6%. Manufacturing's EBITA return on funds employed increased from 11.8% to 12.9%. Domestic tonnes dispatched decreased 15.2% (an increase of 1.1% after adjusting for major projects) while the average price per tonne increased by 8.7% (an increase of 1.6% after adjusting for major projects).

The **blast furnace reline project** commenced on the 4th June and the construction phase is complete and the commissioning and ramp-up phase has commenced. Operations are due to be back to full production over the next 30 days. The reline component, which was originally scheduled to take 65 days, took 74 days to complete.

The total costs of the project (capital and cash) whilst not finalised will be approximately $110 million. This will not be material on OneSteel's profit or cash performance in the 2004/05 financial year, or on the company's ability to meet market demand.

International Distribution revenue increased 17.0% or $49.5 million to $340.3 million while EBITA improved by 33.4% to $42.7 million. In New Zealand dollars, sales revenue was 18.2% higher at NZ$387.8 million, while EBITA increased by 34.6% to NZ$48.6 million. Sales margins improved from 11.0% to 12.5% while EBITA return on funds employed rose from 27.0% to 31.7%.

Staffing levels rose by 3.1% over the 12 months from 7,054 as at the end of June 2003, to 7,272 by the end of June 2004, as a result of small "bolt-on" acquisitions, notably the acquisition of Midalia Steel. Underlying staff numbers rose 1.7**%** to 7,171 employees.

Operating cash flow for the period was $84.9 million. This was lower than last year mainly as a consequence of funding the blast furnace reline that required $27.4 million in capital expenditure and $48.7 million in inventory. Another major impact on cash flow was the funding of the price increases undertaken in the later part of the year. The estimated impact of these increases was a $30 million increase in inventory.

As a consequence of the blast furnace reline project and the acquisition of Midalia Steel, **capital and investment expenditure** increased by 15.7% to $151.4 million. Stay-in-business capital expenditure remained lower than depreciation at $80.4 million.

OneSteel's **financial gearing** on a net debt, to net debt plus equity basis including $200 million of securitisation fell from 34.3% to 33.1%, with net debt decreasing from $670.2 million to $669.0 million. **Interest cover** has improved to 5.1 times from 4.5 times.

Funds employed rose 5.0% or $87.2 million to $1,842.4 million. The EBITA return on funds employed has increased from 12.5% to 13.2%.

Inventories increased by 19.2% to $704.6 million when compared with the same corresponding period, reflecting $59.3 million of inventory associated with the furnace reline and an increase in the value of inventory associated with price increases. However, inventory stock weeks continue to run under 10.

The Final dividend was declared at 7.0 cents per share fully franked, bringing the total dividends declared for the year to 12.0 cents, which compares with an 11.0 cent fully franked dividend paid for the 12 months to June 2003. This represents a payout ratio of 61.4%. A dividend reinvestment plan exists which provides the facility for shareholders in Australia and New Zealand to reinvest their dividends in shares at a price calculated on the weighted average market price during the five trading days before and including the record date for the relevant dividend. The record date for the dividend will be Friday, 17 September 2004, with the dividend due to be paid on 14 October 2004.

Initiatives for Improving Profit

Increased international steel market activity and associated significant increases in some input costs, such as scrap steel and hot rolled coil, increased OneSteel's cost base by $44 million in the second six months of the year ($71 million for the full year). In response, OneSteel accelerated its cost cutting program achieving a total of $50 million in savings for the year, $31 million of which was in the second six months. There were also price increases across all OneSteel's products in the last quarter, with revenue enhancements of $19 million achieved during this period ($28 million for the full year).

Over the 12 months, a number of strategies were undertaken to improve business performance including:

- **Business Restructuring**
    - Acquisition of Midalia Steel, a Western Australian distribution business
    - Integration of the operations of Purlin and Marner
    - The new galvanised fence post plant was commissioned
    - Work began on the construction of the new eight-strand ropery facility in Newcastle
    - Work began on the new mesh manufacturing facility in Sydney
    - Introduction of flexible shift patterns between mills in Newcastle

- **Debt Refinancing** – Further to OneSteel privately placing US$128 million of seven- and 12-year debt in the US market in April 2003, OneSteel is currently negotiating a refinancing of its bank facilities of $700 million that will replace three and five year facilities with three, five and seven year facilities.

- **Facilities and Logistics Review –** With the completion of the blast furnace project early in the 2004/05 financial year, a facilities and logistics review has been initiated to examine various opportunities to maximise product flow through the organisation. The findings from the review will be considered during the year.

- **Information Systems** – OneSteel's sales and distribution, and business support information systems are being streamlined on a SAP platform. The Steel and Tube and Piping Systems businesses were completed during the year. Work is underway on Metaland, Sheet, Coil & Aluminium business and the Wire businesses.

- **Iron Ore Resource** – The $6 million feasibility study into harnessing the magnetite ore resource as the iron feed into the Whyalla steelworks was completed. The iron ore beneficiation plant to access low grade accumulations began early phase commissioning at the end of June.

Significant and Subsequent Events

Subsequent to year-end, OneSteel announced the successful completion of the feasibility study into its magnetite resource, known as “Project Magnet”, located in the South Middleback Ranges in South Australia.

On August 17, the OneSteel Board approved the commencement of the project committing $30 million for the initiation of detailed design work, securing long lead-time items, further drilling and test work and preparation for initial mine cutback. During this phase there will be a number of matters, which will require Board approval including the construction and marketing contracts. There will also be a number regulatory approvals required. Further announcements will be made over the coming year on project progress.

The total project including mine stripping costs will cost approximately $250 million, and will generate over $1 billion of revenue over the next ten years. It will extend the life of the Whyalla Steelworks beyond the current 2020 life to at least 2027, based on the feasibility drilling. Project Magnet will also provide the advantage of lowering the cost of making steel from OneSteel’s Whyalla operations due to the increased efficiencies associated with magnetite ore.

Outlook

Current strong construction activity is expected to continue into the 2004/05 financial year. Residential housing activity (currently accounts for 15% of OneSteel revenues) turned down in the latter half of last year as expected. However, non-residential and engineering construction activity (accounts for approximately 45% of OneSteel revenues) is offsetting this downturn. Other sectors will be relatively stable, with the exception of rural which is expected to remain affected by the prolonged drought.

International steel markets remain very dynamic, with demand from China continuing to place significant upward pressure on international steel prices. We expect this dynamic to remain for the greater proportion of the year, hence raw material costs and flow-on domestic steel prices will stay high.

In the short term, major focus will be placed on ensuring the blast furnace ramp-up is completed successfully. Over the medium term, with the commencement of Project Magnet, increased emphasis will be placed on tight working capital management and cash generation to ensure OneSteel continues to meet its financial objectives. Management will be highly focussed on delivering Project Magnet so the benefits can flow in the 2006/07 financial year.

Bob Every

Bob Every
Managing Director &
Chief Executive Officer
OneSteel Limited
17th August, 2004

Operations Review for the 12 Months to June 30, 2004

$millions

Australian Distribution

	2004	2003	%
Revenue	1,835.6	1,649.6	11.3
EBITDA	117.0	101.4	15.4
EBITA	99.1	84.7	17.0
Assets	1,094.6	998.0	9.7
Employees	2,712	2,501	8.4
Sales Margin	5.4%	5.1%	5.9
Funds Emp.	803.9	755.2	6.4
ROFE	12.7%	10.9%	16.5

Market Conditions
The construction segment continued to grow. The Australian dollar's appreciation in the first half of the year resulted in increased imports of hollow sections and structural steel. In the second half the currency came off its peak and international steel prices increased rapidly.

Performance - Effective working capital management and property divestments, combined with margin improvements, resulted in an improved return on funds employed of 12.7%. Programs were introduced to recover market share in the face of rising imports. With input costs increasing to historically high levels, prices were increased to maintain profitability.

The **Steel and Tube** business faced increased import competition and was stretched by the introduction of the new SAP system but stable margins and good cost control enabled delivery of a similar result to the previous year.

Reinforcing's profit improved as positive market conditions led to solid revenue growth. In the second half, the challenge was to realise the price increases implemented to cover increased input costs.

Sheet, Coil & Aluminium increased profit, underpinned by sales growth and a continued drive on operational efficiency.

Metaland's sales growth was good, despite the pressure from imports of hollow sections. Profit however was adversely affected by the consequent reduction in margins.

Piping Systems' also successfully implemented SAP. Profit result was affected by the cancellation or deferral of a number of major projects.

Midalia Steel's financial performance exceeded forecasts, assisted by strong market conditions in Western Australia that were led by the housing and engineering construction segments.

Initiatives
Commissioning of the new expanded reinforcing mesh-making facility in Sydney is underway and will be fully operational in the first six months. The SAP platform will be introduced in the remaining Metaland and Sheet, Coil & Aluminium businesses during the 2005 financial year.

Outlook
With continuing healthy demand in the engineering and non-residential construction sector, overall business conditions should remain favourable. This, combined with business initiatives, should underpin a solid year.

Australian Manufacturing

	2004	2003	%
Revenue	1,841.9	1,753.8	5.0
EBITDA	202.3	193.0	4.8
EBITA	140.2	128.5	9.1
Assets	1,632.7	1,519.6	7.4
Employees	3,562	3,604	(1.2)
Sales Margin	7.6%	7.3%	4.1
Funds Emp.	1,088.1	1,090.6	(0.2)
ROFE	12.9%	11.8%	9.3

Market Conditions
Market conditions were favourable in the construction, manufacturing, mining and automobile sectors while rural activity remained sluggish due to the drought. There was very strong import competition in the first half with international price increases and substantially increased raw material costs in the second half.

Performance improved through targeted programs aimed at regaining market share against imports and on the back of cost cutting and price increases which were put in place to offset rising costs.

Whyalla's operations continued to set new records in the run up to the blast furnace reline project which commenced on 4 June.

Sydney Steel Mill operated at almost maximum capacity, with production up 15% from the previous year, partly due to building billet inventory associated with the reline of Whyalla's blast furnace.

Rail and Structural sales in total were lower for the year reflecting the completion of the Alice Springs to Darwin rail project in August 2003. Underlying activity was robust on the back of strong demand from the construction sector.

Rod and Bar - Continuing strong construction activity helped to offset the impact of imports on volumes and prices and continued soft rural and regional sales. The rod and bar mills' production capacity, reliability and labour utilisation continued to improve, resulting in lower conversion costs.

Pipe and Tube sales were up slightly from the previous year as prices and volumes recovered from the impact of increased imports in the first six months of the year. Conversion costs fell on productivity and yield improvements, assisted by further workplace reform that lowered manning and overtime costs.

Wire's diverse product range and a buoyant mining sector enabled the business to improve results despite the drought's severe impact on rural wire sales. A focus on manufacturing excellence has improved the return from assets.

Initiatives
The Wire business commissioned a new fence post plant and new electro-galvanised Star posts have been well accepted in the market. A new eight-strand heavy mining wire rope machine will be commissioned by the end of 2004, enhancing the market offer to the mining sector.

Outlook
Strong global steel demand and a softer Australian dollar are putting upward pressure on import prices, assisting recovery of higher feed costs. Strong engineering and commercial construction will offset slowing residential.

International Distribution

	2004	2003	%
Revenue	340.3	290.8	17.0
EBITDA	47.6	36.6	30.1
EBITA	42.7	32.0	33.4
Assets	172.2	156.1	10.3
Employees	793	765	3.7
Sales Margin	12.5%	11.0%	13.6
Funds Emp.	140.2	129.5	8.3
ROFE	31.7%	27.0%	17.4

Market Conditions
Higher than expected economic growth led to continuing strong consumer spending and record demand from the construction sector. The adverse impact of the New Zealand dollar's appreciation on the export and manufacturing sectors eased somewhat by year-end.

Performance of International Distribution was very good. Underlying sales in New Zealand dollars improved 18.2% while EBITA profit improved by over 34%. Earnings per share increased by 32% to NZ$0.32 per share.

Steel Distribution and Processing performed well despite the strength of the currency reducing the average selling price of steel products in the first three quarters. However this reversed in the fourth quarter as import prices rose with increased input costs. An increase in volumes and margins in the second half of the year improved earnings substantially compared with the previous year.

Roofing Products benefited from increased demand for new housing driven by growth in net migrants. A buoyant re roof market and steady demand for storage and farm buildings also helped this division to post improved results.

The **Reinforcing** division produced a substantially improved result during the year due to the buoyant construction sector, growing demand from infrastructure spending and a favourable contract mix.

Hurricane Wire Products benefited from strong demand from the construction and rural sectors for its core products of farm fencing systems, nails and reinforcing mesh. This, together with synergy benefits from other divisions of the group enabled Hurricane Wire Products to post improved results.

Initiatives
Steel and Tube will continue to focus on generating excellent returns.

Outlook
The reduction in migrant growth is expected to slow consumer spending and demand for new housing but any near-term softening should be offset by the gain in momentum in commercial construction and infrastructure spending. The rural sector should benefit from the higher commodity prices and recent softening in the currency. This should also assist the manufacturing sector to compete against imports. Overall economic growth will continue although at a slower pace than FY2004.

OneSteel Financial Summary

	TWELVE MONTHS TO 30 JUNE					
		Statutory		Pro Forma		% Chg
	2004	2003	2002	2001	2001	2004/2003
				excl prov	incl prov	
	$m	$m	$m	$m	$m	%
PROFIT & LOSS SUMMARY						
Revenue	3,339.3	3,100.1	2,986.5	2,779.2	2,779.2	7.7
EBITDA	324.2	307.6	251.0	202.6	181.7	5.4
Depreciation/Amortisation	(108.1)	(106.3)	(103.1)	(99.2)	(144.0)	1.7
EBIT	216.1	201.3	147.9	103.4	37.7	7.4
Interest Expense	(42.2)	(44.5)	(54.4)	(61.8)	(61.8)	(5.2)
EBT	173.9	156.8	93.5	41.6	(24.1)	10.9
Tax Expense	(53.4)	(53.3)	(39.0)	(12.1)	2.1	0.2
Profit After Tax	120.5	103.5	54.5	29.5	(22.0)	16.4
OEI in Operating Profit After Tax	12.4	9.5	7.4	5.9	5.9	30.5
Profit Attributable to OneSteel	108.1	94.0	47.1	23.6	(27.9)	15.0

	TWELVE MONTHS TO 30 JUNE			
	2004	2003	2002	2001
	$m	$m	$m	$m
CASH FLOW SUMMARY				
Earnings before tax	156.9	157.9	86.8	47.5
Depreciation / Amortisation	108.1	106.3	103.1	99.2
Capital & investment expenditure	(151.4)	(130.9)	(70.8)	(108.4)
Working capital movements	(46.2)	17.5	(76.5)	183.2
Income tax payments	(33.8)	(24.0)	(20.8)	(39.6)
Asset sales	45.3	16.7	56.2	116.8
Other	6.0	(1.0)	65.9	(128.6)
Operating cash flow	84.9	142.5	143.9	170.1
Dividends paid	(73.3)	(54.1)	(35.1)	(16.0)
Capital movements	16.7	13.0	66.3	0.0
Total Cash Flow	28.3	101.4	175.1	154.1

	As at 30 June			
	2004	2003	2002	2001
	$m	$m	$m	$m
BALANCE SHEET				
Cash	54.2	19.5	11.4	14.1
Receivables	487.8	439.9	452.8	561.5
Inventory	704.6	591.0	574.1	540.3
Fixed Assets	1,202.8	1,167.4	1,160.0	1,224.2
Other Assets	353.8	359.2	383.7	370.7
TOTAL ASSETS	2,803.2	2,577.0	2,582.0	2,710.8
Borrowings	523.2	489.7	583.0	776.5
Creditors	569.9	467.7	425.1	444.4
Provisions	336.7	334.6	351.3	373.7
TOTAL LIABILITIES	1,429.8	1,292.0	1,359.4	1,594.6
NET ASSETS	1,373.4	1,285.0	1,222.6	1,116.2
Share Capital	1,096.3	1,079.6	1,066.6	995.0
Outside Equity Interest	56.7	54.7	53.1	52.1
Retained Profits / Reserves	220.4	150.7	102.9	69.1
SHAREHOLDER'S EQUITY	1,373.4	1,285.0	1,222.6	1,116.2

OneSteel Limited
ABN 63 004 410 833

FULL FINANCIAL REPORT

FINANCIAL STATEMENTS AS AT 30 JUNE 2004
TOGETHER WITH DIRECTORS' AND INDEPENDENT AUDIT REPORTS

CONTENTS

FINANCIAL CALENDAR

(subject to change)

Date	Event
17 August 2004	Annual results and final dividend announced
13 September 2004	Ex-dividend share trading commenced
17 September 2004	Record date for final dividend
14 October 2004	Final dividend paid
14 October 2004	Annual Review mailed to shareholders
15 November 2004	Annual general meeting for 2004
31 December 2004	Half-year ends
22 February 2005	Half-year results and interim dividend announced
14 March 2005	Ex-dividend share trading commences
18 March 2005	Record date for interim dividend
21 April 2005	Interim dividend paid
30 June 2005	Financial year ends
16 August 2005	Annual results and final dividend announced
12 September 2005	Ex-dividend share trading commences
16 September 2005	Record date for final dividend
20 October 2005	Final dividend paid
20 October 2005	Annual Review mailed to shareholders
21 November 2005	Annual general meeting for 2005

NOTICE OF ANNUAL GENERAL MEETING

The 2004 Annual General Meeting of OneSteel Limited will be held at 2.30 pm, Monday 15 November 2004 at the City Recital Hall, Angel Place, Sydney, NSW.
A formal Notice of Meeting accompanies this report. Additional copies can be obtained from the company's registered office or downloaded from the company's website at www.onesteel.com

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2004.

DIRECTORS

The following persons were directors of OneSteel Limited during the whole of the financial year and up to the date of this report:

P J Smedley
R L Every
E J Doyle
C R Galbraith
D E Meiklejohn
D A Pritchard
N J Roach.

Details of the qualifications, experience and responsibilities of directors are set out on page 34 of the Annual Review.

PRINCIPAL ACTIVITIES

The principal activities of the OneSteel Group are mining, steel manufacture, and steel and metal products distribution. Further details are set out on pages 1 to 33 of the Annual Review. There were no significant changes in the nature of the principal activities of the OneSteel Group during the financial year under review.

REVIEW OF OPERATIONS

A review of the operations of the OneSteel Group during the financial year and the results of those operations is contained in pages 1 to 33 of the Annual Review.

Net profit after income tax attributable to members of the parent entity, for the financial year was $127.9m (2003: $94.0m) with earnings per share of 23.2 cents (2003: 17.3 cents). The net profit for the financial year has recognised a tax benefit of $19.8m (2003: nil) arising from entry into tax consolidation.

DIVIDENDS

Dividends paid or declared by the company since the end of the previous financial year were:

	$m
Final dividend 7 cents per share payable on 14 October 2004 , fully franked at a 30% tax rate on fully paid shares	38.8
Interim dividend 5 cents per share paid on 22 April 2004, fully franked at a 30% tax rate on fully paid shares	27.6
Final dividend 6 cents per share paid on 16 October 2003, fully franked at a 30% tax rate on fully paid shares	32.8

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the OneSteel Group that occurred during the financial year ended 30 June 2004. Commentary on the overall state of affairs of the OneSteel Group is set out on pages 1 to 33 of the Annual Review.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The OneSteel Group is subject to significant environmental regulation in respect of its mining and manufacturing activities. Environmental performance obligations are monitored by management and the Board of directors ("the Board") and subjected, periodically, to internal, independent external and government agency audits and site inspections.
The environment report is set out on pages 31 and 32 of the Annual Review.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since 30 June 2004 and to the date of this report, no other matter or circumstance has arisen that has significantly affected or may significantly affect:

- OneSteel Group's operations in future financial years; or
- the results of those operations in future financial years; or
- OneSteel Group's state of affairs in future financial years.

FUTURE DEVELOPMENTS

Certain likely developments in the operations of the OneSteel Group known to the date of this report have been covered generally within the Annual Review.

DIRECTORS' MEETINGS

The number of directors' meetings held, including meetings of committees of directors, and number of meetings attended by each of the directors of the company during the financial year are listed at the bottom of the page. The roles and membership details of each of the committees are described on page 36 and 37 of the Annual Review.

DIRECTORS AND SENIOR EXECUTIVES' REMUNERATION

The Board's Remuneration Committee is responsible for reviewing remuneration policies and practices, including compensation and arrangements for executive directors and senior management, the company's superannuation arrangements and, within the aggregate amount approved by shareholders, the fees for non-executive members of the Board. This role also includes

TABLE – DIRECTORS' MEETINGS

	Board of Directors	Audit & Compliance Committee	Occupational Health, Safety & Environment Committee	Remuneration Committee	Governance & Nominations Committee
Number of meetings held	11	5	4	2	2
Number of meetings attended					
P J Smedley	11			2	2
R L Every	11				
E J Doyle	11	5	4		
C R Galbraith	11	5			2
D E Meiklejohn	11	5		2	
D A Pritchard	11	5	4		
N J Roach	11		4	2	

responsibility for the company's share and option plans. Executive and senior management performance reviews and succession planning are matters referred to and considered by the Committee. The Committee has access to independent advice and comparative studies on the appropriateness of remuneration arrangements.

Additional remuneration information is also included in Notes 23 and 29 of the Full Financial Statements.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The company implemented new remuneration arrangements for non-executive directors from 17 November 2003 when the existing retirement benefits arrangements were discontinued and replaced with a new long-term component to the payment of directors' remuneration. The changes introduced were detailed in our last Annual Review and explained to shareholders at our annual general meeting last year. The new remuneration arrangements are in line with emerging industry practices and guidelines and they affirm the commitment of the company to the principles of good corporate governance.

Under the arrangements now applying, non-executive directors of the company are entitled to:

(a) the payment of directors' fees in cash and statutory superannuation contributions

(b) for service from 17 November 2003 a long-term component of non-executive director fees, to be received by a non-executive director on retirement from the Board, that is linked to the market performance of the company

(c) for directors who held office on 17 November 2003, a cash benefit under the discontinued retirement benefit scheme fixed by reference to length of service up to this date, which is to be paid upon the retirement of the director from the Board.

The total amount of the directors' entitlements under (a) and (b) must be within the limit (currently $1.3m per annum) imposed by Article 9.8 of the Constitution of the company and ASX Listing Rule 10.17.

LONG-TERM COMPONENT OF NON-EXECUTIVE DIRECTORS' REMUNERATION

From 17 November 2003, non-executive directors became entitled to a long-term component of fees that forms part of the total amount of annually declared directors' remuneration. This long-term component is not paid directly to the director but applied, excluding any mandatory statutory superannuation contributions, to the on-market purchase of shares in the company. The shares purchased are then held on behalf of each respective director under the terms of the company's non-executive director share plan until the retirement from the Board of the director.

Thus, the value of the entitlements under the long-term component of non-executive director fees, to be received by a non-executive director upon retirement, is tied directly to the market performance of the company.

The cost of acquiring shares is expensed at the time of purchase in the accounts of the company. This ensures that the cost of providing the long-term component impacts the company's accounts annually rather than at the time of the retirement of the non-executive director.

RETIREMENT BENEFIT – DISCONTINUED SCHEME

The retirement benefit scheme, that was in existence until 17 November 2003, was approved by shareholders as part of the process for public listing of the company in 2000. This retirement benefit was an additional and separate arrangement to the payment of directors' fees.

The transition to the new arrangements involved the amount of the retirement benefit accrued by each non-executive director up to 17 November 2003 being fixed by reference to length of service up to this date and those directors forgoing the balance of their benefits under that scheme in return for participation in the new arrangements.

DIRECTORS' REMUNERATION DETAILS

Details of remuneration paid to directors for the year ended 30 June 2004 are set

TABLE – DIRECTORS' REMUNERATION DETAILS

Directors	Fees/ Salary $	Other Benefits $	Retirement Benefit/ Superannuation $	Short-Term Incentive $	Options Value $	Shares and Share Rights Value $	Total 2003/04 $	Total 2002/03 $
P J Smedley	250,000	–	102,825	–	–	67,099	419,924	500,000
R L Every	1,200,000	–	156,000	1,000,000	65,673	768,481	3,190,154	3,565,154
E J Doyle	84,000	–	36,879	–	–	18,765	139,644	164,666
C R Galbraith	84,000	–	36,879	–	–	18,765	139,644	164,666
D E Meiklejohn	84,000	–	36,879	–	–	18,765	139,644	164,666
D A Pritchard	84,000	–	36,879	–	–	18,765	139,644	164,666
N J Roach	84,000	–	36,879	–	–	18,765	139,644	164,666
Total	1,870,000	–	443,220	1,000,000	65,673	929,405	4,308,298	4,888,484

Notes:

(1) Retirement benefits for directors were discontinued following the annual general meeting on 17 November 2003 and replaced with a new long-term component of remuneration via share purchase (see note (4))

(2) Options have been valued, at grant date, using the Black Scholes option pricing model. The value of the options has been apportioned over the three-year vesting period.

(3) Share rights have been valued, at grant date, using the Black Scholes option pricing model, assuming a zero exercise price, no dividends and incorporating a probability of vesting. The value of the share rights has been apportioned over the three-year vesting period.

(4) The value recorded for non-executive directors in the Shares and Share Rights Value column represents the new long-term component of directors' remuneration that commenced after the annual general meeting on 17 November 2003. This amount has been accrued during the financial year with the purchase of shares occurring at the trading windows available under OneSteel's policy on dealing in company shares.

(5) The value recorded for the executive director in the Shares and Share Rights Value column relates to share rights valued per note (3).

out in the table at the bottom of page 2. The table assigns an annualised value to share rights and options allocated to the Managing Director. The basis of remuneration of the Managing Director is in the following note.

MANAGING DIRECTOR'S REMUNERATION

The Managing Director is engaged under a contract of employment that was renewed in 2002 and expires on 20 January 2006. The Managing Director's remuneration comprises a base salary, other benefits, superannuation, a short-term incentive plan payment (STIP) and participation in a long-term incentive plan (LTIP) which allocates shares and options from time to time. Both STIP and LTIP are explained later in the Directors' Report.

During the financial year 1,847,052 share rights and 2,462,735 options vested to the Managing Director under the LTIP when performance hurdles were achieved at the end of the three-year vesting period. These share rights and options were granted to the Managing Director in the year 2000 at the time of listing of the company.

The Managing Director's contract of employment on renewal in 2002 included a provision for the company to make a further grant of 782,319 performance–dependent share rights under the LTIP. At the annual general meeting held on 18 November 2002, shareholders approved the allocation of the share rights to the Managing Director and the on-market acquisition of these shares over three years at the rate of 260,773 shares per annum. An amount of $0.5m has been charged to the Statement of Financial Performance during the year ended 30 June 2004 in respect of the shares acquired during the current financial year. These shares become eligible for vesting in December 2005 subject to the performance hurdles outlined later in the Directors' Report.

The Managing Director's remuneration includes provision for an early termination payment of the balance of his contract and any pro-rata payment applicable under STIP.

SENIOR EXECUTIVES' REMUNERATION

The company's remuneration policy for senior executives aims to:

- attract, develop and retain executives with the capabilities required to lead the company in the achievement of business objectives
- have a significant proportion of executives' pay at risk to ensure a focus on delivering annual financial, safety and business objectives
- reward executives for maintaining sustained returns to shareholders.

Remuneration packages for executives therefore comprise:

- a fixed annual reward which includes a base salary, other benefits including fringe benefits tax and superannuation
- a variable component. This involves both a STIP payment that rewards delivering of annual business goals and a LTIP which allocates shares and options.

Executives participate in an annual performance review process that assesses performance against key accountabilities and job goals. Performance against these goals impacts directly on short-term incentive payments and salary movements.

SENIOR EXECUTIVES' REMUNERATION DETAILS

Details of fixed annual reward payments and short-term incentive payments made to the most senior executives for the year ended 30 June 2004 are set out at the bottom of the page. This table also assigns an annualised value to share rights and options allocated under the LTIP.

SHORT-TERM INCENTIVE PLAN (STIP)

The STIP is administered over a 12 month period on a financial year cycle. STIP aims to reward participating employees for the achievement of agreed financial, safety, business and personal goals.

The key financial and safety performance measures used for STIP are established by the Board. Using these parameters, the Managing Director and senior management then set the individual safety, business and personal goals. Objectives for STIP are based on planned/budgeted performance, incorporate stretch targets and are linked with continuous improvement. STIP

TABLE – SENIOR EXECUTIVES' REMUNERATION DETAILS

Senior Executives	Salary $	Other Benefits $	Super-annuation $	Incentives $	Options Value $	Share Rights Value $	Total 2003/04 $	Total 2002/03 $
N Calavrias	417,604	7,200	31,500	280,803	–	–	737,107	596,407
R W Freeman	463,908	–	41,751	195,000	15,384	125,948	841,991	822,018
G J Plummer	397,436	31,322	51,520	267,000	9,745	90,469	847,492	821,143
A J Reeves	460,904	–	41,940	200,000	11,665	103,198	817,707	814,852
L J Selleck	319,505	112,569	41,360	195,000	8,313	74,864	751,611	776,328
Total	2,059,357	151,091	208,071	1,137,803	45,107	394,479	3,995,908	3,830,748

Notes:

(1) All officers were employed by subsidiaries of OneSteel Limited for the full year.
(2) Incentive payments are in respect of short-term incentives except for N Calavrias whose payments include a long-term component of $46,800.
(3) Options have been valued, at grant date, using the Black Scholes option pricing model. The value of the options has been apportioned over the three-year vesting period.
(4) Share rights have been valued, at grant date, using the Black Scholes option pricing model, assuming a zero exercise price, no dividends and incorporating a probability of vesting. The value of the share rights has been apportioned over the three-year vesting period.

payments are not paid for the maintenance of previously attained performance levels.

Payments under STIP are based on a set percentage of salary for achievement of goals with a maximum payment equivalent to 200% of target percentage for exceptional performance.

In addition to an annual performance review, there is an on-going process for regular performance review during the financial year. The review process ensures that there is clarity in the communication and understanding of key business drivers and targets. These performance discussions also serve to provide feedback, to plan development initiatives and to aid succession planning.

SHARES AND OPTIONS – LONG-TERM INCENTIVE PLAN (LTIP)

The LTIP is restricted to executives, including senior management and OneSteel executive directors.

The company did not grant performance dependent rights to ordinary shares or options during the year ended 30 June 2004.

In previous years, share rights and options have been granted in accordance with the rules of the company's LTIP. One ordinary share in the company may be obtained for each share right or option after a qualifying period of three years. These shares and options are held in trust during this period and vesting is subject to the company achieving specific performance hurdles at the end of this period. All or some of these shares and options may vest to an individual executive on termination when special circumstances apply.

Dividends in respect of share rights are distributed to participants in accordance with their respective allocations.

The performance hurdles relate to two comparative groups (the Australian Consumer Price Index plus 5% and the S&P/ASX200 Index excluding banks, media and telecommunications) that are measured against OneSteel's performance in terms of Total Shareholder Return (TSR). OneSteel's ranking against these measures will determine whether a participant may draw share rights. For each allocation of shares and options, half are subject to ranking OneSteel's TSR performance to the Base Comparator and the other half to the S&P/ASX200 Index.

The withdrawal of shares or the exercise of options is determined in accordance with the following table:

Performance Ranking Range	% of Shares and Options Available
Up to and including 60%	Nil
61% to 80%	60%
81% to 99%	80%
100% and over	100%

A revised vesting scale for the Base Comparator Index only will be applied to any future allocations of shares and options. Under the change, 50 percent of shares and options will vest if OneSteel's TSR performance equates to a 50th percentile ranking within the S&P/ASX200 Index. The residual shares and options will then progressively vest if a ranking of greater than the 50th percentile is achieved, with all vesting at a 75th percentile ranking. This revised arrangement is in line with emerging industry practice.

During the financial year there were 2,983,337 share rights, 3,736,478 options at an exercise price of $0.9258 and 241,298 options at an exercise price of $0.8848 that vested to management under the terms of the LTIP. There were 726,810 of these options exercised.

At the date of this report, exercisable options and potential options over ordinary shares of the company are:

Expiry Date	Exercise Price	Number of Shares
Exercisable		
15 December 2009	$0.9258	3,009,668
9 April 2010	$0.8848	241,298
Not exercisable		
2 September 2010	$1.0350	35,749
23 September 2010	$0.9143	29,531
30 September 2010	$0.9087	233,300
21 December 2010	$1.0434	765,000

The options do not entitle the holder to participate in any share issue of the company.

During, or since the end of the financial year, the company has issued shares as a result of the exercise of options as follows:

Number of Shares	Amount Paid on Each Share	Market Value Per Share on Date of Exercise
726,810	$0.9258	$1.83 to $2.33

Further details relating to the exercise of these options is included in Note 23 of the Full Financial Statements. There are no amounts unpaid on the shares issued. Shares held in trust under the LTIP carry voting rights.

DIRECTORS' INTERESTS

During the financial year, ordinary shares in the company were acquired at market prices, either directly or indirectly, by directors as follows:

Director	Ordinary Shares
P J Smedley	18,719
E J Doyle	13,380
C R Galbraith	5,381
D E Meiklejohn	5,382
D A Pritchard	5,382
N J Roach	15,207

No director, either directly or indirectly, disposed of any ordinary shares, exercised an option over ordinary shares or was granted rights to further shares and options during the financial year.

The relevant interest of each director in the shares, options or other instruments of the company and related bodies corporate are:

	OneSteel Limited		
	Shares	Share Rights(1)	Options(1)
P J Smedley	118,719		
R L Every	1,954,845	782,319	2,462,735
E J Doyle	92,524		
C R Galbraith	64,820		
D E Meiklejohn	15,382		
D A Pritchard	55,382		
N J Roach	180,597		

(1) Refer details of share rights and options on page 4.

Dr R L Every also holds 6,000 shares in Steel & Tube Holdings Limited.

INTERESTS OF NON-EXECUTIVE DIRECTORS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE COMPANY

Directors of OneSteel Limited have declared their interests in contracts or proposed contracts that may result from their directorships of other corporations, as listed in their personal profiles set out on page 34 of the Annual Review.

Members of the OneSteel Group had normal business transactions with directors (or director-related entities) of the parent entity and its controlled entities during the financial year, including payments to Allens Arthur Robinson, solicitors, of which firm Mr C R Galbraith is a partner, in respect of legal costs and advice amounting to $200,131 (exclusive of GST), of which no amount was outstanding at 30 June 2004. Mr Galbraith was not personally involved in the provision of these services.

INDEMNIFICATION AND INSURANCE OF OFFICERS

The company has agreements with each of the directors of the company in office at the date of this report, and certain former directors, indemnifying these officers against liabilities to any person, other than the company or a related body corporate, that may arise from their acting as officers of the company, notwithstanding that they may have ceased to hold office, except where the liability arises out of conduct involving a lack of good faith.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

TAX CONSOLIDATION

Effective 1 July 2003, for the purpose of income taxation, OneSteel Limited and its 100% owned Australian subsidiaries have formed a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

ROUNDING OF AMOUNTS

The company is of the kind referred to in the ASIC Class Order 98/0100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest one hundred thousand dollars or, where the amount is $50,000 or less, zero, unless specifically stated to be otherwise.

Signed in Sydney this 17th day of August 2004 in accordance with a resolution of directors.

Peter Smedley
Chairman

Bob Every

Robert Every
Managing Director

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE		CONSOLIDATED		PARENT	
	Note	2004 $m	2003 $m	2004 $m	2003 $m
Sales revenue	2	3,269.2	3,060.6	–	–
Cost of sales		(2,626.6)	(2,434.4)	–	–
Gross profit		642.6	626.2	–	–
Other revenues from operating activities	2	22.9	14.1	66.9	53.8
Other revenues from non-operating activities	2	47.2	25.4	–	–
Operating expenses excluding borrowing costs	2	(496.9)	(464.4)	(3.5)	(5.5)
Borrowing costs	2	(42.2)	(44.5)	–	–
Share of net profit of associate accounted for using the equity method	9	0.3	–		
Profit from ordinary activities before income tax expense		173.9	156.8	63.4	48.3
Income tax expense relating to operating activities	3	(53.4)	(53.3)	(0.9)	(0.6)
Income tax benefit arising from entering tax consolidation	3	19.8	–	–	–
Total income tax expense from ordinary activities		(33.6)	(53.3)	(0.9)	(0.6)
Net profit from ordinary activities after related income tax		140.3	103.5	62.5	47.7
Net profit attributable to outside equity interests	20	(12.4)	(9.5)	–	–
Net profit attributable to members of the parent entity		**127.9**	**94.0**	**62.5**	**47.7**
Net exchange difference on translation of financial statements of self-sustaining foreign operations	18	2.2	0.5	–	–
Decrease in retained profits on adoption of revised accounting standard: AASB 1028 "Employee Benefits"	19	–	(0.7)	–	–
Total revenues and expenses attributable to members of the parent entity and recognised directly in equity		2.2	(0.2)	–	–
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of OneSteel Limited		**130.1**	**93.8**	**62.5**	**47.7**
Basic earnings per share (cents per share)	4	23.22	17.34		
Diluted earnings per share (cents per share)	4	23.11	17.27		
On operating activities before the impact of tax consolidation	4(c)				
Basic earnings per share (cents per share)		19.62	N/A		
Diluted earnings per share (cents per share)		19.54	N/A		

The accompanying notes form an integral part of this Statement of Financial Performance.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE		CONSOLIDATED		PARENT	
	Note	2004 $m	2003 $m	2004 $m	2003 $m
Current assets					
Cash assets	22(a)	54.2	19.5	–	–
Receivables	6	487.8	436.6	209.9	104.4
Other financial assets	7	–	3.3	–	–
Inventories	8	704.6	591.0	–	–
Other	12	8.5	8.6	–	–
Total current assets		1,255.1	1,059.0	209.9	104.4
Non-current assets					
Investments accounted for using the equity method	9	7.4	7.1	–	–
Other financial assets	7	0.3	–	1,160.2	1,160.2
Property, plant and equipment	10	1,202.8	1,167.4	–	–
Intangibles	11	246.9	260.1	–	–
Deferred tax assets	3	61.6	55.7	57.8	–
Other	12	29.1	27.7	–	–
Total non-current assets		1,548.1	1,518.0	1,218.0	1,160.2
Total assets		2,803.2	2,577.0	1,427.9	1,264.6
Current liabilities					
Payables	13	569.9	467.7	–	–
Interest bearing liabilities	14	45.7	40.0	–	–
Tax liabilities	3	20.1	1.5	16.7	0.7
Provisions	15	88.9	113.1	–	–
Total current liabilities		724.6	622.3	16.7	0.7
Non-current liabilities					
Interest bearing liabilities	14	477.5	449.7	–	–
Deferred tax liabilities	3	128.5	141.6	128.5	–
Provisions	15	99.2	78.4	–	–
Total non-current liabilities		705.2	669.7	128.5	–
Total liabilities		1,429.8	1,292.0	145.2	0.7
Net assets		**1,373.4**	**1,285.0**	**1,282.7**	**1,263.9**
Equity					
Contributed equity	17	1,096.3	1,079.6	1,096.3	1,079.6
Reserves	18	2.8	0.6	–	–
Retained profits	19	217.6	150.1	186.4	184.3
Parent entity interest		1,316.7	1,230.3	1,282.7	1,263.9
Outside equity interest	20	56.7	54.7	–	–
Total equity		**1,373.4**	**1,285.0**	**1,282.7**	**1,263.9**

The accompanying notes form an integral part of this Statement of Financial Position.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE	Note	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m	PARENT 2004 $m	PARENT 2003 $m
		Inflows/(outflows)			
Cash flows from operating activities					
Receipts from customers		3,244.9	3,076.5	3.5	3.5
Payments to suppliers and employees		(2,981.8)	(2,753.7)	(3.5)	(3.5)
Dividends received		–	–	60.0	47.6
Interest received		2.3	2.6	3.4	2.7
Interest and other costs of finance paid		(43.3)	(43.7)	–	–
Operating cash flows before income tax		222.1	281.7	63.4	50.3
Income taxes paid		(33.8)	(24.0)	(0.7)	(0.3)
Net operating cash flows	22(b)	**188.3**	**257.7**	**62.7**	**50.0**
Cash flows from investing activities					
Purchases of property, plant and equipment		(141.5)	(101.5)	–	–
Purchases of investments		–	–	–	(0.4)
Purchases of businesses		(0.5)	(29.4)	–	–
Purchases of controlled entities net of their cash	22(c)	(9.4)	–	–	–
Proceeds from sale of property, plant and equipment		45.3	16.4	–	–
Loan to non-related parties		–	(1.0)	–	–
Repayment of loan by non-related parties		2.7	–	–	–
Proceeds from sale of investments		–	0.3	–	–
Net investing cash flows		**(103.4)**	**(115.2)**	**–**	**(0.4)**
Cash flows from financing activities					
Proceeds from issue of shares	17	0.7	0.1	0.7	0.1
Proceeds from borrowings		232.8	275.4	–	–
Repayment of borrowings		(226.4)	(368.7)	–	–
Repayment of loans from related party		–	–	(19.0)	–
Proceeds from loans to related party		–	–	–	(16.7)
Dividends paid		(57.3)	(41.2)	(44.4)	(33.0)
Net financing cash flows		**(50.2)**	**(134.4)**	**(62.7)**	**(49.6)**
Net increase in cash and cash equivalents		**34.7**	**8.1**	**–**	**–**
Cash and cash equivalents at the beginning of the year		19.5	11.4	–	–
Cash and cash equivalents at the end of the year	22(a)	**54.2**	**19.5**	–	–

The accompanying notes form an integral part of this Statement of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

REFERENCE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These general purpose consolidated financial statements for the year ended 30 June 2004 have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Urgent Issues Group Consensus Views. It is recommended that this report be read in conjunction with the 30 June 2004 Annual Review and any public announcements made by OneSteel Limited and its controlled entities during the year in accordance with the continuous disclosure obligations of the Corporations Act 2001 and the Australian Stock Exchange.

The financial statements have been prepared in accordance with the historical cost convention and do not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair value of the consideration given in exchange for assets.

Changes in accounting policies

With the following exception, the accounting policies are consistent with those applied in the previous financial year:

Hedge accounting for US Private Placement debt

In the June 2003 financial statements the US$ debt was carried in the Statement of Financial Position at the spot rate current at the reporting date, with the corresponding loss on the hedge carried as a sundry creditor. The loss on the hedge has been reclassified as an interest-bearing liability in the June 2004 Statement of Financial Position to better reflect the economic substance of the transaction. The value of the loss on the hedge as at 30 June 2004 was $23.3m (30 June 2003: $17.3m).

Principles of consolidation

The consolidated entity referred to as the OneSteel Group includes the parent entity, OneSteel Limited ("OneSteel"), and its controlled entities (together, the "OneSteel Group"). A list of controlled entities is contained in Note 27.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Foreign currency

Transactions

Transactions in foreign currencies are translated at rates of exchange that approximate those applicable at the date of each transaction. Foreign currency monetary items that are outstanding at reporting date (other than monetary items arising under foreign currency contracts where the exchange rate is fixed in the contract) are translated using the spot rate at the end of the financial year. A monetary item arising under a foreign exchange contract outstanding at the reporting date, where the exchange rate for the monetary item is fixed in the contract, is translated at the exchange rate fixed in the contract.

Except for certain specific hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year. Any gains and losses on entering a hedge are deferred and amortised over the life of the contract.

Specific hedges

Where a purchase or sale is specifically hedged, exchange gains and losses on the hedging transaction arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction, are deferred and included in the measurement of the purchase or sale. Exchange gains and losses arising on the hedged transaction after that date are taken to net profit.

Translation of financial reports of overseas operations

The net assets of self-sustaining foreign operations are translated at the rates of exchange ruling as at the reporting date. Equity items are translated at historical rates. The Statement of Financial Performance is translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

Revenue

Sales revenue represents revenue earned from the sale of products or services net of returns, trade allowances and duties. Sales revenue is recognised or accrued at the time of the provision of the product or service. The recognition criteria for sale of goods is when control of the goods has passed to the customer. The recognition criteria for rendering of services is upon delivery of the service to the customer.

Dividend income is brought to account as and when it is received.

Interest income is recognised as it accrues, taking account of the effective yield on the financial asset.

Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and finance leases and net receipt or payment from interest rate swaps. Borrowing costs are expensed, except where they relate to the financing of projects under construction, where they are capitalised up to the date of commissioning or sale.

Research expenditure

Expenditure for research is charged against earnings as and when incurred on the basis that continuing research is part of the overall cost of being in business, except to the extent that future benefits deriving from those costs are expected beyond any reasonable doubt to exceed those costs, in which case it is capitalised and amortised over the period of the expected benefit.

Income taxes

The liability method of tax-effect accounting has been applied, whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent that timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, together with money market investments which are readily convertible to cash, net of outstanding bank overdrafts, which are carried at the principal amount. Interest is recognised as an expense as it accrues.

Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. A provision for doubtful debts is recognised to the extent that recovery of the outstanding receivable balance is considered unlikely. Any provision established is based on a review of all outstanding amounts at balance date.

Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

Inventories

Inventories, including work in progress, are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of average cost. For processed inventories, cost, which includes fixed and variable overheads, is derived on an absorption-costing basis.

Deferred stripping costs

The costs associated with removing overburden from mines are initially capitalised as deferred stripping. The costs are then amortised to the Statement of Financial Performance by allocating a cost to each tonne of ore mined, based on the waste to ore ratio of the mine over its entire life.

Other financial assets (Investments)

Investments in both controlled entities and the unlisted shares of associate companies are carried at the lower of cost and recoverable amount.

Investments in associate companies are recognised by applying the equity method of accounting.

Recoverable amount

Non-current assets are generally measured using the cost basis. Recoverable amounts are determined having regard to their anticipated net realisable value on sale, or expected net cash flows from operations, discounted to present value.

Property, plant and equipment

Valuation in financial statements

Property, plant and equipment are carried at cost and depreciated over their useful economic lives.

Disposals

Disposals are taken to account in operating profit in the period in which they are disposed.

Depreciation of property, plant and equipment

Depreciation is provided on buildings, plant, machinery and other items used in producing revenue, at rates based on the useful life of the asset to the OneSteel Group, on a straight-line basis.

The following table indicates the typical expected economic lives of property, plant and equipment on which the depreciation charges are based:

Buildings:	From 20 to 40 years
Plant and equipment:	From 3 to 30 years
Exploration, evaluation and development expenditures carried forward:	Based on the estimated life of reserves on a unit of production basis
Capitalised leased assets:	Up to 30 years or life of lease, whichever is shorter.

The rates are reviewed and reassessed periodically in the light of technical and economic developments.

Leased assets

Operating lease assets are not capitalised, and except as described below, rental payments are charged against net profit in the period in which they are incurred. Provision is made for future operating lease payments in relation to surplus lease space when it is first determined that the space will be of no probable future benefit. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and the liability.

Exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Where the expenditure, together with the relevant development costs are capitalised, the amounts are amortised over the period of benefit. Each area of interest is reviewed regularly to determine its economic viability, and to the extent that it is considered that the relevant expenditure will not be recovered, it is written off in the year in which the shortfall is identified.

Capitalisation of expenses

Expenses are capitalised in relation to capital projects when they are integral to achieving the required outcome of the project. The costs capitalised include full time employees and/or contractors involved in the project (design, engineering, project management) and pre-commissioning costs. Other areas of capitalised expenses are covered under the accounting policies on borrowing costs and deferred stripping.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity. Goodwill is amortised on a straight-line basis over the period during which benefits are expected to be received. The maximum amortisation period applied is twenty years. Unamortised balances are reviewed at each balance date to assess the probability of continuing future benefits exceeding the carrying value.

Payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised on an accrual basis.

Provisions

Provisions are recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain, but for which a reliable estimate can be made.

A provision for dividend is not recognised as a liability unless the dividend is declared, determined or publicly recommended on or before the reporting date.

Employee benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, are measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year, are measured at the present value of the estimated future cash outflows to be made for those benefits.

The OneSteel Group contributes to defined benefit and defined contribution superannuation plans. Contributions to these funds are charged against income as they become payable. No amount is recognised in the Statement of Financial Position, as an asset or liability, for the difference between the employer-established defined benefit superannuation plan's accrued benefits and the net market value of the plan's assets. Details of the plan are included in Note 23.

Equity-based compensation arrangements

Where shares and/or options are issued to qualifying employees under either the Employee Share Plan or the Executive Share Plan, they are progressively purchased on-market and expensed as employment costs. Details of the plans are included in Note 23.

Restoration and rehabilitation

Restoration costs which are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, plant closure and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs, which have not been discounted to their present value. In determining the restoration obligations, there is an assumption that no significant changes will occur in the relevant Federal and State legislation in relation to restoration in the future.

The charge to net profit is generally determined on a units-of-production basis so that full provision is made by the end of the asset's economic life. Estimates are reassessed annually and the effects of changes are recognised prospectively.

Interest-bearing liabilities

Loans, debentures and notes payable are recognised when issued at the amount of the net proceeds received, with the premium or discount on issue amortised over the period to maturity. Interest is recognised as an expense as it accrues.

Contributed equity

Issued and paid-up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the OneSteel shareholders.

Derivative financial instruments

The OneSteel Group is exposed to changes in interest rates, foreign currency exchange rates and commodity prices and uses derivative financial instruments to hedge these risks. Hedge accounting principles are applied, whereby derivatives undertaken for the purpose of hedging, are matched to the specifically identified commercial risks being hedged. These matching principles are applied to both matured and unmatured transactions. Upon recognition of the underlying transaction, derivatives are valued at the appropriate market spot rate.

When an underlying transaction can no longer be identified, gains or losses arising from a derivative that has been designated as a hedge of that transaction will be recognised in the Statement of Financial Performance whether or not such a derivative is terminated.

When a hedge is terminated, the deferred gain or loss that arose prior to termination is:

- deferred and included in the measurement of the anticipated transaction when it occurs; or
- recognised in the Statement of Financial Performance at the date of termination where the anticipated transaction is no longer expected to occur.

Interest rate swaps are recognised as either an asset or liability, measured at the net of the amounts payable and receivable.

Cross currency swaps are recognised as either an asset or liability, measured by reference to amounts payable or receivable and calculated on a proportionate time basis.

Rounding of amounts

Amounts in the financial statements have been rounded to the nearest hundred thousand dollars, unless specifically stated to be otherwise.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. PROFIT AND LOSS ITEMS

		CONSOLIDATED		PARENT	
	Note	2004 $m	2003 $m	2004 $m	2003 $m
Profit from ordinary activities is after crediting the following revenues:					
Revenues from operating activities:					
Product sales		3,265.8	3,051.0	–	–
Rendering of services		3.4	9.6	–	–
Total sales revenues		3,269.2	3,060.6	–	–
Interest from non-related parties		2.3	2.6	–	–
Interest from controlled entity		–	–	3.4	2.7
Dividends from wholly-owned group	31	–	–	60.0	47.6
Other		20.6	11.5	3.5	3.5
Other revenues from operating activities		22.9	14.1	66.9	53.8
Total revenues from operating activities		3,292.1	3,074.7	66.9	53.8
Revenues from non-operating activities:					
Proceeds from sale of non-current assets		45.3	16.7	–	–
Rental income		1.4	1.9	–	–
Email management fee		0.5	6.8	–	–
Total revenues from non-operating activities		47.2	25.4	–	–
Profit from ordinary activities is after charging the following expenses:					
Manufacturing expenses		75.4	70.2	–	–
Distribution expenses		80.9	80.0	–	–
Marketing expenses		90.1	88.5	–	–
Administrative expenses		167.0	157.2	–	–
Other expenses (a)		54.8	52.1	3.5	5.5
Carrying value of non-current assets sold		28.7	16.4	–	–
Total operating expenses excluding borrowing costs		496.9	464.4	3.5	5.5
(a) includes goodwill amortisation of $21m (2003: $19.8m) not attributable to specific functions.					
Borrowing costs:					
Interest paid or payable to:					
Other unrelated parties		41.6	44.0	–	–
Amortisation of loan facility fees		2.1	2.7	–	–
		43.7	46.7	–	–
Less: Borrowing costs capitalised (b)		(1.5)	(2.2)	–	–
Total borrowing costs		42.2	44.5	–	–
(b) weighted average interest rate of 6.1%					
Included in the cost of sales and operating expenses are the following items:					
Depreciation and amortisation					
Depreciation of property, plant and equipment					
Buildings		9.7	10.1	–	–
Plant and equipment		76.9	75.8	–	–
Exploration and development expenditures		0.5	0.6	–	–
Amortisation of goodwill		21.0	19.8	–	–
Diminution in carrying value of investment	7	–	1.9	–	1.9
Restructuring/redundancy costs		4.7	5.8	–	–
Superannuation company contributions (all funds)		41.4	38.6	–	–

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. PROFIT AND LOSS ITEMS (CONTINUED)

		CONSOLIDATED		PARENT	
	Note	2004 $m	2003 $m	2004 $m	2003 $m
Other items:					
Net foreign exchange (gains)/losses		(4.0)	(1.4)	–	–
Bad debts written off		1.5	3.4	–	–
Charge to provision for doubtful debts		1.3	3.0	–	–
Research & development costs		26.8	8.9	–	–
Net (gains)/losses on sale of non current assets		(16.6)	(0.3)	–	–
Write down of inventory to net realisable value		0.3	0.6	–	–
Minimum operating lease rentals		36.0	27.4	–	–
Charge for provision for employee benefits		93.4	76.1	–	–

NOTE 3. TAXATION

	CONSOLIDATED		PARENT	
	2004 $m	2003 $m	2004 $m	2003 $m
(a) Income tax expense				
Income tax arising from items taken to operating profit				
The prima facie tax on operating profit differs from the income tax provided in the accounts and is calculated as follows:				
Profit from ordinary activities before income tax	173.9	156.8	63.4	48.3
Prima facie income tax expense calculated at 30%	52.2	47.0	19.0	14.5
Increase in income tax expense due to:				
Non-deductible depreciation and amortisation	7.6	7.4	–	–
Effect of higher tax rate on overseas income	1.2	1.0	–	–
Non-deductible expenses	1.1	0.9	–	–
Diminution of investment	–	0.6	–	0.6
Decrease in income tax expense due to:				
Rebate for dividends	–	–	–	(14.3)
Franking credits on dividends received			(18.0)	–
Amounts over provided in prior year	(3.3)	(2.3)	–	–
Research and development allowance	(2.2)	(2.2)	–	–
Capital gains non-taxable	(3.0)	1.1	–	–
Share of associate's net profit	(0.1)	–	–	–
Employee share plan	(0.1)	(0.2)	(0.1)	(0.2)
Income tax expense on profit from operating activities	53.4	53.3	0.9	0.6
Impact of entering tax consolidation				
Increase in income tax expense due to:				
Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax-consolidated group	–	–	39.6	–
Decrease in income tax expense due to:				
Recognition of reduction in deferred tax liability upon entry to tax consolidation and resetting tax values	(19.8)	–	(19.8)	–
Recovery of income tax expense under a tax sharing agreement	–	–	(19.8)	–
Income tax benefit arising from entering tax consolidation	(19.8)	–	–	–
Total income tax expense from ordinary activities	33.6	53.3	0.9	0.6

NOTE 3. TAXATION (CONTINUED)

	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m	PARENT 2004 $m	PARENT 2003 $m
(b) Current tax liabilities				
Income tax payable	20.1	1.5	16.7	0.7
(c) Deferred tax liabilities				
Provision for deferred income tax – attributable to timing differences	128.5	141.6	128.5	–
(d) Deferred tax assets				
Future income tax benefits – attributable to timing differences	61.6	55.7	57.8	–

(e) Tax consolidation
OneSteel Limited and its 100% owned Australian subsidiaries elected to form a tax consolidated group effective from 1 July 2003. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly-owned subsidiaries on the same basis as if they were separate tax payers. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is OneSteel Limited.

As a result of forming a tax consolidated group, a tax benefit of $19.8m which has been recognised in the current year as a result of resetting tax values of certain assets in subsidiaries, led to a reduction in deferred tax liabilities. There was no material impact on the future income tax benefits.

NOTE 4. EARNINGS PER SHARE

	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m
The following reflects the earnings and share data used in the calculation of basic and diluted earnings per share:		
(a) Earnings		
Net profit	140.3	103.5
Net profit attributable to outside equity interest	(12.4)	(9.5)
Earnings used in calculating basic and diluted earnings per share	127.9	94.0

	Number of shares	
(b) Number of ordinary shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	550,866,541	542,051,307
Dilutive effect of executive share options (a)	2,466,903	2,102,079
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	553,333,444	544,153,386

(a) Executive share options relate solely to ordinary shares.
All potential ordinary shares, being options to acquire ordinary shares, are considered dilutive – details are provided in note 23: Employee benefits.

(c) Impact of entering tax consolidation
The calculation of earnings per share before the impact of tax consolidation is based on earnings of $108.1m arising from operating activities. The tax consolidation impact on earnings is an increase of $19.8m.

Issues after 30 June 2004
There have been no other subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. SEGMENT REPORTING

	AUSTRALIA					INTERNATIONAL		CONSOLIDATED
2004	Manufacturing $m	Distribution $m	Unallocated $m	Eliminations $m	Total $m	Distribution $m	Eliminations $m	$m
Segment revenues								
Revenues from customers outside the consolidated entity	1,159.4	1,826.2	13.4	–	2,999.0	340.3	–	3,339.3
Inter-segment revenues	682.5	9.4	10.6	(659.0)	43.5	–	(43.5)	–
Total revenues	1,841.9	1,835.6	24.0	(659.0)	3,042.5	340.3	(43.5)	3,339.3
Share of net profit of equity accounted associate	–	–	0.3	–	0.3	–	–	0.3
Other non-cash expenses	(0.1)	(1.2)	–	–	(1.3)	(0.2)	–	(1.5)
EBITDA	202.3	117.0	(24.7)	(5.0)	289.6	47.6	(13.0)	324.2
Depreciation and amortisation	(64.0)	(35.0)	(2.2)	–	(101.2)	(6.9)	–	(108.1)
EBIT	138.3	82.0	(26.9)	(5.0)	188.4	40.7	(13.0)	216.1
Borrowing costs								(42.2)
Income tax expense								(33.6)
Profit after tax before minority interests								140.3
Segment assets	1,598.6	1,082.1	96.0	(207.6)	2,569.1	168.9	(3.8)	2,734.2
Equity accounted investment	–	–	7.4	–	7.4	–	–	7.4
Tax assets								61.6
Consolidated assets								2,803.2
Segment liabilities	372.1	269.7	677.6	(100.2)	1,219.2	62.0	–	1,281.2
Tax liabilities								148.6
Consolidated liabilities								1,429.8
Non-current assets on acquisition	88.2	50.9	7.6	–	146.7	4.9	–	151.6

	AUSTRALIA					INTERNATIONAL		CONSOLIDATED
2003	Manufacturing $m	Distribution $m	Unallocated $m	Eliminations $m	Total $m	Distribution $m	Eliminations $m	$m
Segment revenues								
Revenues from customers outside the consolidated entity	1,154.7	1,645.9	8.7	–	2,809.3	290.8	–	3,100.1
Inter-segment revenues	599.1	3.7	11.7	(576.3)	38.2	–	(38.2)	–
Total revenues	1,753.8	1,649.6	20.4	(576.3)	2,847.5	290.8	(38.2)	3,100.1
Share of net profit of equity accounted associate	–	–	–	–	–	–	–	–
Other non-cash expenses	(0.1)	(2.9)	(1.9)	–	(4.9)	(0.4)	–	(5.3)
EBITDA	193.0	101.4	(7.0)	(7.8)	279.6	36.6	(8.6)	307.6
Depreciation and amortisation	(66.5)	(33.4)	(0.7)	–	(100.6)	(5.7)	–	(106.3)
EBIT	126.5	68.0	(7.7)	(7.8)	179.0	30.9	(8.6)	201.3
Borrowing costs								(44.5)
Income tax expense								(53.3)
Profit after tax before minority interests								103.5
Segment assets	1,486.4	988.4	61.1	(171.4)	2,364.5	153.2	(3.5)	2,514.2
Equity accounted investment	–	–	7.1	–	7.1	–	–	7.1
Tax assets								55.7
Consolidated assets								2,577.0
Segment liabilities	270.8	229.6	659.4	(61.3)	1,098.5	50.4	–	1,148.9
Tax liabilities								143.1
Consolidated liabilities								1,292.0
Non-current assets on acquisition	60.8	32.4	15.4	–	108.6	19.9	–	128.5

NOTE 5. SEGMENT REPORTING (CONTINUED)

Segment activities – Australia

Manufacturing

Whyalla Steelworks produces steel billets as feedstock for OneSteel's Market Mills operations together with rail products, structural steels and slabs for external sale.

Sydney Steel Mill produces steel billets for the manufacture of reinforcing and bar products on its own rolling mills as well as steel billet to be used as feed in OneSteel's other rolling facilities.

Rod & Bar manufactures products in its Bar Mill and Rod Mill at Newcastle used in a range of applications such as manufacturing, construction mining and automotive industries.

Pipe & Tube manufactures product for the construction, mining, oil & gas and manufacturing industries from its mills in Newcastle, Melbourne, Port Kembla and Perth.

Wire manufactures wire and steel rope for use in the construction, mining, manufacturing and agricultural industries from its mills in Newcastle and Geelong.

Distribution

OneSteel's Distribution business has centres located throughout Australia in capital cities and regional areas, providing a wide range of products to resellers and end users. Products include structural steel, steel plate, angles, channels, flat steel, reinforcing steel, steel sheet and coil, a range of aluminium products, pipes, fittings, valves and other industrial products.

Segment activities – International

Distribution

Comprises the 50.3% shareholding in Steel & Tube Holdings Ltd, a public listed company in New Zealand, which processes and distributes a comprehensive range of steel and associated products in the construction, manufacturing and rural industries.

Intra/inter segment transfers

The Australian manufacturing segment sells manufactured products such as structural steel, angles, channels, flats, reinforcing bar and mesh, pipe and tube products to the Australian and New Zealand Distribution segments.

Transfer pricing arrangements

All sales between the segments are conducted on an arms length basis, with terms and conditions no more favourable than those which it is reasonable to expect when dealing with an external party.

NOTE 6. RECEIVABLES

		CONSOLIDATED		PARENT	
	Note	2004 $m	2003 $m	2004 $m	2003 $m
Current					
Trade debtors (a)		437.1	387.7	–	–
Less: Provision for doubtful debts		(3.9)	(2.9)	–	–
		433.2	384.8	–	–
Non-trade debtors		54.6	51.8	–	–
Loan to controlled entity	31	–	–	123.3	104.4
Tax related balances with controlled entities	31	–	–	86.6	–
		487.8	436.6	209.9	104.4

(a) The value of trade receivables at 30 June 2004 would have been $107.7m (2003: $120.6m) higher but for the sale of such receivables under a debtors securitisation program. Collections of $113.4m (2003 – $100.5m) were held on behalf of the purchasers of the receivables at 30 June 2004 and have been classified as other creditors.

Trade debtors (excluding Metalcard receivables within the Australian Distribution operations) are non-interest bearing and are generally on 30 day terms. $30.1m (at 30 June 2004) of the Australian Distribution external trade debtors are known as Metalcard receivables where interest is charged on the outstanding balance at an average interest rate throughout the year of 10.6%. The parent entity loan to its controlled entity is interest bearing at an average interest rate throughout the year of 4.25%.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. OTHER FINANCIAL ASSETS

	Note	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m	PARENT 2004 $m	PARENT 2003 $m
Current					
Loan to Smorgon Distribution Limited (a)		–	3.3	–	–
Non-current					
Investments in controlled entities – at cost	27	–	–	1,153.1	1,153.1
Investment in unlisted associate entity – at cost		–	–	9.0	9.0
Less: Provision for diminution		–	–	(1.9)	(1.9)
Interest-bearing loan to associate (b)	31	0.3	–	–	–
		0.3	–	1,160.2	1,160.2

(a) The loan to Smorgon Distribution Limited (SDL) represented the balance remaining from the $285.8m initially contributed for the joint bid for Email Limited by OneSteel Ltd and Smorgon Steel Ltd in 2001. The loan was interest free.

(b) An interest bearing loan at an average interest rate throughout the year of 6.47%.

NOTE 8. INVENTORIES

	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m	PARENT 2004 $m	PARENT 2003 $m
Current				
Raw materials				
At net realisable value	0.3	0.2	–	–
At cost	127.8	92.5	–	–
	128.1	92.7	–	–
Work in progress				
At net realisable value	3.1	2.8	–	–
At cost	37.2	21.1	–	–
	40.3	23.9	–	–
Finished goods				
At net realisable value	10.1	15.3	–	–
At cost	452.2	381.2	–	–
	462.3	396.5	–	–
Stores, Spares and other				
At net realisable value	1.1	1.7	–	–
At cost	72.8	76.2	–	–
	73.9	77.9	–	–
Total inventories				
At net realisable value	14.6	20.0	–	–
At cost	690.0	571.0	–	–
	704.6	591.0	–	–

NOTE 9. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	CONSOLIDATED	
	2004 $m	2003 $m
Associate (a)	7.4	7.1
Interest in associate		
Bekaert Australia Steel Cord Pty Limited		
Principal activity: Manufacture of steel wire products		
Balance date: 31 December		
Ownership interest: 50% (2003: 50%)		
Carrying amount of investment in associate		
Balance at the beginning of the financial year	7.1	7.1
Share of associate's net profit	0.3	–
Balance at the end of the financial year	7.4	7.1
Share of associate's profits		
Net profit before income tax	0.5	–
Income tax expense attributable to net profit	(0.2)	–
Net profit after income tax	0.3	–
Share of associate's assets and liabilities		
Current assets	6.3	6.1
Non-current assets	12.2	12.8
Current liabilities	(2.8)	(2.5)
Non-current liabilities	(8.3)	(9.3)
Net assets	7.4	7.1
Retained profits of the consolidated group attributable to associate		
Balance at the beginning of the financial year	–	–
Share of associate's net profit	0.3	–
Balance at the end of the financial year	0.3	–

(a) OneSteel's 50% investment in Bekaert Australia Steel Cord Pty Ltd was written down to its share of net assets in the June 2003 financial statements. As from the current financial year, the investment is being accounted for using the equity method as per Australian Accounting Standard AASB 1016: "Accounting for Investments in Associates".

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

2004	Note	CONSOLIDATED Land $m	Buildings $m	Plant and Equipment $m	Exploration and Development Expenditures $m	Total $m
Movements in carrying amounts						
Cost						
Opening balance		71.5	302.7	1,392.6	11.2	1,778.0
Additions		1.1	3.5	131.4	5.5	141.5
Disposals		(12.1)	(17.7)	(23.1)	–	(52.9)
Additions from entities acquired	22(c)	3.2	2.6	4.3	–	10.1
Net foreign currency differences on translation of self-sustaining foreign operations		0.2	0.7	0.9		1.8
Closing balance		63.9	291.8	1,506.1	16.7	1,878.5
Accumulated depreciation						
Opening balance		–	87.2	521.8	1.6	610.6
Depreciation for the year		–	9.7	76.9	0.5	87.1
Disposals		–	(5.5)	(18.7)	–	(24.2)
Additions from entities acquired	22(c)	–	0.1	2.1	–	2.2
Closing balance		–	91.5	582.1	2.1	675.7
Net book value 30 June 2004		63.9	200.3	924.0	14.6	1,202.8
Net book value 30 June 2003		71.5	215.5	870.8	9.6	1,167.4
Current value of land and buildings						417.7

The current value of land & buildings has been determined as follows:
1. For the Whyalla Steelworks, a combination of land values from the Valuer General and book values for buildings.
2. For properties in the process of disposal, valuations have been based on current offers.
3. For all other properties, independent valuations have been obtained as at June 2003, based on fair value assuming highest and best use.

NOTE 11. INTANGIBLES

	CONSOLIDATED 2004 $m	2003 $m	PARENT 2004 $m	2003 $m
Goodwill at cost	439.9	431.3	–	–
Accumulated amortisation	(193.0)	(171.2)	–	–
	246.9	260.1	–	–

NOTE 12. OTHER ASSETS

	CONSOLIDATED 2004 $m	2003 $m	PARENT 2004 $m	2003 $m
Current				
Deferred borrowing costs	0.4	1.4	–	–
Prepayments	8.1	7.2	–	–
	8.5	8.6	–	–
Non-current				
Deferred borrowing costs	1.1	2.1	–	–
Deferred stripping costs	27.6	25.6	–	–
Prepayments	0.4	–	–	–
	29.1	27.7	–	–

NOTE 13. PAYABLES

	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m	PARENT 2004 $m	PARENT 2003 $m
Trade creditors	405.2	304.3	–	–
Payable to Smorgon Distribution Limited (a)	2.6	–	–	–
Other creditors and accruals (b)	162.1	163.4	–	–
	569.9	467.7	–	–

(a) The payable to Smorgon Distribution limited (SDL) represents OneSteel's share of remaining liabilities in the Email Group following the sale of all remaining businesses and assets.

(b) Collections of $113.4m (2003: $100.5m) were held on behalf of the purchasers of receivables under a debtors securitisation program at 30 June 2004 and have been classified as other creditors.

Trade creditors are non-interest bearing and are generally settled on 30 day terms.
Other creditors are non-interest bearing.

NOTE 14. INTEREST-BEARING LIABILITIES

	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m	PARENT 2004 $m	PARENT 2003 $m
Current				
Short term unsecured borrowings				
Bank loans (a)	45.7	40.0	–	–

(a) Bank loans consist of the following:

(i) A drawdown of $25m from a working capital facility provided by the National Australia Bank. The loan has an average interest rate of 5.83% (2003: 5.11%) and is repayable in July 2004.

(ii) The balance of the bank loans represents at call borrowings provided to Steel & Tube Holdings Group by the ANZ Bank and the National Bank of NZ at an average interest rate of 6.1% (2003: 5.6%).

	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m	PARENT 2004 $m	PARENT 2003 $m
Non-current				
Long term unsecured borrowings				
Bank loans (a)	269.1	258.7	–	–
US Private placement (b)	185.1	191.0	–	–
Other				
Loss on cross currency hedge (c)	23.3	–	–	–
	477.5	449.7	–	–

(a) Bank loans consist of the following:

(i) A drawdown of $260m of loans provided to the OneSteel Group by a syndicate of banks. These loans have an average interest rate of 6.42% (2003: 5.7%) with a repayment date of October 2005. The bank loans are subject to the terms and conditions of the loan agreements with the banks.

(ii) The balance of the bank loans comprises $9.1m (NZ$10m) of loans provided to Steel & Tube Holdings Group by the ANZ Bank with an average interest rate of 6.16% and with repayment date of April 2006.

(b) $185.1m (US$128m) from a US Private Placement undertaken in April 2003. The private placement consists of a seven year tranche (US$68m) repayable in April 2010 swapped back to an average Australian floating interest rate of 6.27% and a twelve year tranche (US$60m) repayable in April 2015, swapped back to an average Australian floating interest rate of 6.17%.

(c) The US private placement shown in (b) is carried at the spot rate current at the reporting date. The corresponding gain or loss on the cross currency hedge used to swap the borrowings back to A$ is shown as an interest bearing liability. Refer note 1: Changes in accounting policies and note 32(c): Financial instruments.

NOTE 15. PROVISIONS

	Note	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m	PARENT 2004 $m	PARENT 2003 $m
Current					
Employee benefits	23	76.1	88.1	–	–
Restoration and rehabilitation (i)		0.2	0.4	–	–
Environmental (ii)		1.6	6.0		
Restructuring costs (iii)		0.8	6.7	–	–
Other (iv)		10.2	11.9	–	–
		88.9	113.1	–	–
Non-current					
Employee benefits	23	90.8	69.1	–	–
Restoration and rehabilitation (i)		8.4	7.5	–	–
Environmental (ii)		–	1.8	–	–
		99.2	78.4	–	–

(i) Provision for restoration and rehabilitation
Restoration and rehabilitation provisions comprise obligations relating to reclamation, waste site closure and other costs associated with restoration of the mine sites in Whyalla. The provision is accumulated based on a charge per unit of production.

(ii) Provision for environmental matters
The environmental provision relates to known site remediation and other costs within the OneSteel Group. The current balance is in relation to costs associated with the Newcastle and Port Melbourne sites.

(iii) Provision for restructuring
The restructuring provision represents the balance remaining from the provisions established at the time of the Email and Midalia acquisition. The balance comprises future rental costs of vacated premises, site make-good costs and other liabilities of the residual Email businesses.

(iv) Other provisions
Other provisions relate primarily to customer claims and legal matters.

	CONSOLIDATED 2004 $m
Movements in Provisions	
Restoration and rehabilitation	
Carrying amount at beginning of year	7.9
Additional amounts provided	1.1
Amounts utilised during the year	(0.4)
Carrying amount at end of year	8.6
Environmental	
Carrying amount at beginning of year	7.8
Additional amounts provided	0.8
Amounts utilised during the year	(7.6)
Amounts reclassified from Other	0.6
Carrying amount at end of year	1.6
Restructuring	
Carrying amount at beginning of year	6.7
Amounts raised via goodwill for Midalia acquisition	0.7
Amounts utilised during the year	(5.1)
Amounts released via goodwill for Email acquisition	(1.5)
Carrying amount at end of year	0.8
Other	
Carrying amount at beginning of year	11.9
Amounts utilised during the year	(1.1)
Amounts reclassified to Environmental	(0.6)
Carrying amount at end of year	10.2

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16. SELF-INSURANCE WORKERS' COMPENSATION PROVISION

	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m
Obligations under self-insurers workers' compensation licences included in provision for employee benefits		
New South Wales	18.2	18.2
Queensland	2.0	2.4
Victoria	3.8	4.2
South Australia	4.0	4.2
Western Australia	0.6	0.7
Total self-insurance workers' compensation provision	28.6	29.7

NOTE 17. CONTRIBUTED EQUITY

	CONSOLIDATED		PARENT	
	2004 $m	2003 $m	2004 $m	2003 $m
Share capital				
Number of ordinary shares: 554,882,602 (2003: 546,865,654)				
Issued and paid-up	1,096.3	1,079.6	1,096.3	1,079.6
Total contributed equity	1,096.3	1,079.6	1,096.3	1,079.6

	Number of Ordinary shares		Value of Ordinary shares	
	2004 000's	2003 000's	2004 $m	2003 $m
Movements in contributed equity for the year:				
On issue at the beginning of the year	546,866	538,601	1,079.6	1,066.6
Issued during the year:				
Under the Employee Share Ownership Scheme (a)	–	137	–	–
From the exercise of options (b)	727	112	0.7	0.1
Under a Dividend Reinvestment Plan (c)	7,290	8,016	16.0	12.9
On issue at the end of the year	554,883	546,866	1,096.3	1,079.6

(a) Refer note 23: Employee benefits for details of the Employee Share Ownership Scheme.

(b) Issued from the exercise of options under the Executive Long Term Incentive Plan – refer note 23: Employee benefits.

(c) The Dividend Reinvestment Plan provides shareholders with an opportunity to acquire additional ordinary shares in lieu of cash dividends. Shares were issued at $2.0852 (Oct 2003) and $2.3932 (April 2004).

(d) Due to the suspension of the option section of the Executive Long Term Incentive Plan, there were no options issued during the year. At the end of the year there were 4,314,546 (2003: 5,041,356) options outstanding as issued from this plan – refer note 23: Employee benefits.

Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. RESERVES

	CONSOLIDATED		PARENT	
	2004 $m	2003 $m	2004 $m	2003 $m
Foreign currency translation reserve				
Balance at the beginning of the year	0.6	0.1	–	–
Exchange fluctuations on overseas net assets	2.2	0.5	–	–
Balance at the end of the year	2.8	0.6	–	–

Nature and purpose of the reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of self-sustaining foreign operations.

NOTE 19. RETAINED PROFITS

	CONSOLIDATED		PARENT	
	2004 $m	2003 $m	2004 $m	2003 $m
Retained profits at the beginning of the year	150.1	102.8	184.3	182.6
Dividends provided and paid in current year	(60.4)	(46.0)	(60.4)	(46.0)
Adjustment arising from adoption of revised accounting standard AASB 1028 "Employee Benefits"	–	(0.7)	–	–
Net profit attributable to members of the parent entity	127.9	94.0	62.5	47.7
Retained profits at the end of the year	217.6	150.1	186.4	184.3

NOTE 20. OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES

	CONSOLIDATED	
	2004 $m	2003 $m
Movements in outside equity interests in controlled entities:		
Balance at the beginning of the year	54.7	53.1
Share of net profit	12.4	9.5
Dividends paid	(12.9)	(8.1)
Exchange fluctuations on overseas net assets	2.2	0.2
Other	0.3	–
Balance at the end of the year	56.7	54.7

NOTE 21. DIVIDENDS

The following dividends have been paid, declared or recommended since the end of the preceding financial year:

2004	On ordinary shares $m	Dividend per ordinary share $
Interim fully franked dividend for 2004, paid 22 April 2004	27.6	0.05
Final fully franked dividend for 2003, paid 16 October 2003	32.8	0.06
	60.4	

2003	On ordinary shares $m	Dividend per ordinary share $
Interim fully franked dividend for 2003, paid 24 April 2003	27.1	0.05
Final fully franked dividend for 2002, paid 17 October 2002	18.9	0.035
	46.0	

Dividend Franking

All dividends paid were fully franked. The tax rate at which dividends have been franked is 30%.

	PARENT	
	2004 $m	2003 $m
The amount of franking credits available for the subsequent financial year, represented by the franking account balance at 30% are:	1.1	6.2

On 1 July 2003, OneSteel Limited and its wholly-owned Australian subsidiaries adopted the Tax Consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax consolidated group) disclosed at 30 June 2004 has been measured under the new legislation as those available from the tax-consolidated group.

The comparative information has not been restated for this change in measurement.

NOTE 22. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts.

Cash at the end of the financial year as shown in the Statement of Cash Flows, is reconciled to the related items in the Statement of Financial Position as follows:

	CONSOLIDATED		PARENT	
	2004 $m	2003 $m	2004 $m	2003 $m
Cash and cash equivalents	54.2	19.5	–	–

NOTE 22. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of profit from ordinary activities to net cash provided by operating activities

	CONSOLIDATED		PARENT	
	2004 $m	2003 $m	2004 $m	2003 $m
Net profit after income tax	140.3	103.5	62.5	47.7
Adjusted for non cash items:				
Depreciation and amortisation	108.1	106.3	–	–
Bad debts written off	1.5	3.4	–	–
Net gain on sale of fixed assets	(16.6)	–	–	–
Net gain on sale of investments	–	(0.3)	–	–
Diminution in value of investment	–	1.9	–	1.9
Changes in assets and liabilities net of effects from purchase and sale of controlled entities and businesses:				
(Increase)/decrease in receivables	(48.6)	(7.7)	86.6	–
(Increase)/decrease in inventories	(109.6)	(10.7)	–	–
(Increase)/decrease in future income tax benefit	(5.8)	23.9	57.8	–
(Increase)/decrease in other assets	(1.3)	(3.6)	–	–
Increase/(decrease) in tax provisions	5.5	3.4	(144.2)	–
Increase/(decrease) in payables	115.0	39.3	–	–
Increase/(decrease) in other provisions	(0.2)	(1.7)	–	0.4
Net operating cash flow	188.3	257.7	62.7	50.0

Non-cash investing and financing activities
During the year, dividends of $16.0m (2003: $12.9m) were paid via the issue of shares under a dividend reinvestment plan.

(c) Controlled entities acquired
Shares in the following controlled entities were acquired by the OneSteel Group at the dates stated.

			CONSOLIDATED	
ENTITY AND CONSIDERATION GIVEN	Date of acquisition	Voting shares acquired	2004 $m	2003 $m
Midalia Steel Pty Ltd	2-Feb-2004	100%		
Cash consideration paid			9.4	–
The carrying amounts of assets and liabilities acquired by major class are:				
Receivables			3.9	–
Inventories			4.0	–
Other assets			0.3	
Property, plant and equipment			7.9	–
Goodwill arising on acquisition			7.7	–
Deferred tax asset			0.2	–
Payables			(3.6)	–
Interest bearing liabilities			(9.9)	–
Provision for employee benefits			(0.4)	–
Provision for restructuring			(0.7)	–
			9.4	–
Outflow of cash on acquisition of entity, net of cash acquired:				
Cash consideration paid			9.4	–
Outflow of cash			9.4	–

NOTE 23. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2004	2003
The number of employees as at 30 June:	7,272	7,054
(a) Employee entitlements	$m	$m
The aggregate employee entitlement liability (including on-costs) is comprised of:		
Provisions (current)	63.5	58.4
Provisions (non-current)	74.8	69.1
Total employee entitlements (excluding workers compensation provision)	138.3	127.5

(b) Employee Share and Option Ownership Schemes
OneSteel provides the following share and option plans for employees.

Employee Share Plans

The last offer under the employee share plan was made in December 2002 and those employees with a qualifying period of service of three months as at 1 December 2002 were eligible to participate in either the Tax Exempt or Tax Deferred Share Plans. Both plans provide for a free issue of shares. During this financial period the matching shares have been allocated from surplus shares forfeited under either the employee share plan or the executive share plan. These matching shares are allocated each month using the same allocation price as the employee contributed shares, which are purchased on the 15th of each month. The value of the free parcel of shares was $125 for employees participating in the Tax Exempt Plan and $250 for employees participating in the Tax Deferred Plan.

Both the Tax Exempt and Tax Deferred Plans also provide for participating employees to salary sacrifice contributions to purchase shares on-market on a monthly basis.

A further offer under the employee share plan, based on the same terms as the last offer, was made in June 2004, with the first shares to be purchased in July 2004.

Executive Share Plan

The executive share plan for senior management provides for the grant of rights to shares and options. During this year neither the option plan or the share rights plan were applied. When granted, the shares and options are held in trust until vested to the participant. Vesting is subject to the company achieving specific performance hurdles and a three year qualifying period. The exercise price of each option is based on the weighted average price of OneSteel shares traded on the Australian Stock Exchange for the five days up to and including the date they are granted.

A total of $0.5m has been recognised as an expense in the Financial Statements for equity based remuneration in relation to shares bought on-market in the current period.

The performance hurdles relate to two comparative groups (the Australian Consumer Price Index plus 5% and the S&P 200 Index excluding banks, media and telecommunications) which are measured against OneSteel's performance in terms of total shareholder return. Further details of the hurdles is included in note 29.

All options expire on the earlier of their expiry date or termination of the employee's employment. No options expired during the year. The OneSteel Remuneration Committee has a discretion to allow early access to OneSteel shares or options if the participant dies, retires or his or her employment is terminated as a consequence of redundancy.

The options do not entitle the holder to participate in any share issues of the Company. The shares held in trust carry voting rights and the holder is entitled to any dividends paid.

Steel & Tube Holdings Limited

In 2004 Steel & Tube have purchased shares under an employee share plan (45,250 shares) and an executive share plan (57,280 shares). The employee share plan provides financial assistance to enable eligible employees to purchase up to NZ$2,340 of shares in any three year period, while the executive share plan shares are subject to performance hurdles and a three year vesting period.

Details of the Employee Share and Option Plans are as follows:

	Ordinary Shares	
	2004	2003
Employee Share Plan		
Total number issued to employees during the year ('000's)	188	455
Total number issued to employees since the commencement of the scheme ('000's)	9,795	9,607
Total number of employees eligible to participate in the scheme	–	6,682
Total market value of issues during the year ($m)	0.4	0.8
Proceeds received and receivable from issues during the year ($m)	–	–

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. EMPLOYEE BENEFITS (CONTINUED)

	Held in Trust (000's)			
	Ordinary Shares		Options	
	2004	2003	2004	2003
Executive Long Term Incentive Plan				
Balance at the beginning of the year	4,867	3,922	5,041	5,261
Shares purchased	261	1,064	–	–
Options exercised	–	–	(727)	(112)
Shares vested	(2,983)	(17)	–	–
Shares/options forfeited	(10)	(102)	–	(108)
Balance at the end of the year	2,135	4,867	4,314	5,041
Total market value of purchases during the year ($m)	0.5	1.8	–	–
Proceeds received and receivable from exercises during the year ($m)	–	–	0.7	0.1

Options exercised

(i) The following table summarises information about options exercised by employees during the year ended 30 June 2004

Number of Options	Grant Date	Exercise Date	Expiry Date	Exercise Price	Proceeds from shares issued $	Number of shares issued	Issue Date	Fair value of shares issued $ per share
30,914	15-Dec-00	13-Jan-04	15-Dec-09	$0.9258	28,620	30,914	13-Jan-04	1.83
33,204	15-Dec-00	6-Feb-04	15-Dec-09	$0.9258	30,740	33,204	6-Feb-04	1.80
134,220	15-Dec-00	19-Feb-04	15-Dec-09	$0.9258	124,261	134,220	19-Feb-04	2.11
65,329	15-Dec-00	23-Feb-04	15-Dec-09	$0.9258	60,482	65,329	23-Feb-04	2.11
29,597	15-Dec-00	24-Feb-04	15-Dec-09	$0.9258	27,401	29,597	24-Feb-04	2.06
37,315	15-Dec-00	25-Feb-04	15-Dec-09	$0.9258	34,546	37,315	25-Feb-04	2.10
60,000	15-Dec-00	3-Mar-04	15-Dec-09	$0.9258	55,548	60,000	3-Mar-04	2.15
20,566	15-Dec-00	4-Mar-04	15-Dec-09	$0.9258	19,040	20,566	4-Mar-04	2.12
124,015	15-Dec-00	9-Mar-04	15-Dec-09	$0.9258	114,813	124,015	9-Mar-04	2.08
25,838	15-Dec-00	18-Mar-04	15-Dec-09	$0.9258	23,921	25,838	18-Mar-04	2.26
64,217	15-Dec-00	19-Mar-04	15-Dec-09	$0.9258	59,452	64,217	19-Mar-04	2.30
69,095	15-Dec-00	22-Mar-04	15-Dec-09	$0.9258	63,968	69,095	22-Mar-04	2.25
32,500	15-Dec-00	25-Mar-04	15-Dec-09	$0.9258	30,089	32,500	25-Mar-04	2.33

(ii) The following table summarises information about options exercised by employees during the year ended 30 June 2003

Number of Options	Grant Date	Exercise Date	Expiry Date	Exercise Price	Proceeds from shares issued $	Number of shares issued	Issue Date	Fair value of shares issued $ per share
24,455	15-Dec-00	12-Jul-02	15-Dec-09	$0.9258	22,640	24,455	12-Jul-02	1.50
12,000	21-Dec-01	12-Jul-02	21-Dec-10	$1.0434	12,521	12,000	12-Jul-02	1.50
25,319	15-Dec-00	12-Aug-02	15-Dec-09	$0.9258	23,440	25,319	12-Aug-02	1.54
33,960	15-Dec-00	10-Sep-02	15-Dec-09	$0.9258	31,440	33,960	10-Sep-02	1.65
16,000	21-Dec-01	11-Sep-02	21-Dec-10	$1.0434	16,694	16,000	11-Sep-02	1.65

Details of share rights and options held in Trust at the end of the reporting period:

Issue Purchase Date	Earliest Exercise Date	Option Expiry Date	Option Exercise Price	Shares (000's) 2004	Shares (000's) 2003	Options (000's) 2004	Options (000's) 2003
15-Dec-00	16-Dec-03	15-Dec-09	$0.9258	–	2,812	3,009	3,736
9-Apr-01	10-Apr-04	9-Apr-10	$0.8848	–	181	241	241
2-Sep-01	2-Sep-04	2-Sep-10	$1.0350	27	27	36	36
23-Sep-01	24-Sep-04	23-Sep-10	$0.9143	22	22	30	30
30-Sep-01	30-Sep-04	30-Sep-10	$0.9087	175	175	233	233
21-Dec-01	21-Dec-04	21-Dec-10	$1.0434	596	596	765	765
13-Dec-02	14-Dec-05	–	–	1,054	1,054	–	–
12-Dec-03	14-Dec-05	–	–	261	–	–	–
				2,135	4,867	4,314	5,041

Of the 4.314m options held, 3.250m have vested.

NOTE 23. EMPLOYEE BENEFITS (CONTINUED)

(c) Superannuation

OneSteel Limited and its controlled entities participate in a number of superannuation funds in Australia and New Zealand. The funds provide benefits either on a defined benefit or cash accumulation basis, for employees on retirement, resignation, disablement, or to their dependents on death.

Accumulation funds

The benefits provided by accumulation funds are based on the contributions and income thereon held by the fund on behalf of the member. Contributions are made by the member and the company based on a percentage of the member's salary, as specified by the rules of the fund. These contributions are expensed in the period in which they are incurred.

Defined benefit funds

The benefits provided by defined benefit funds are based on length of service or membership and the salary of the member at or near retirement. Member contributions, based on a percentage of salary, are specified by the rules of the fund. The defined benefit funds have been closed to new members since 1997.

Employer contributions are made each month to the fund in accordance with the advice of the actuary to the fund, at levels deemed to be adequate to fund benefit payments in accordance with the Fund's Trust Deed. These contributions are expensed in the period in which they are incurred.

		2004			
		Accrued Benefits	Plan Assets	Net Surplus (Deficit)	Vested Benefits
Name of fund	Fund type	$m	$m	$m	$m
OneSteel Superannuation Fund	Defined benefit	279.2	291.7	12.5	290.8

The June 2004 numbers are based on actuarial estimates performed by Towers Perrin as at March 2004 rolled forward to June using the same assumptions.

The most recent actuarial investigation was performed by Kevin O'Sullivan FIAA on 30 June 2001. Valuations are normally performed every three years, with the next one to be based on June 2004 balances.

NOTE 24. CAPITAL EXPENDITURE AND LEASE COMMITMENTS

	CONSOLIDATED		PARENT	
	2004 $m	2003 $m	2004 $m	2003 $m
Capital expenditure commitments				
Commitments arising from contracts for expenditure in respect of investments and property, plant and equipment to the extent not provided for in the accounts				
Due not later than one year	42.5	22.6	–	–
Due later than one year and not later than five years	0.5	3.0	–	–
Total commitments for capital expenditure	43.0	25.6	–	–
Lease expenditure commitments				
Operating leases				
Due not later than one year	31.2	27.5	–	–
Due later than one year and not later than five years	59.3	52.4	–	–
Due later than five years	28.4	34.0	–	–
Total commitments under operating leases	118.9	113.9	–	–

NOTE 25. CONTINGENT LIABILITIES

Contingent liabilities at balance date not otherwise provided for in the financial statements are categorised as follows:

	CONSOLIDATED		PARENT	
	2004 $m	2003 $m	2004 $m	2003 $m
Guarantees and indemnities:				
Bank guarantees covering:				
Performance of contracts	35.1	45.6	2.8	19.6
Workers compensation self-insurance licences	39.0	41.3	39.0	41.3

As explained in Note 27, OneSteel has entered into a Deed of Cross Guarantee in accordance with a class order issued by the Australian Securities and Investment Commission. OneSteel Limited, and all the controlled entities which are a party to the deed, have guaranteed the repayment of all current and future creditors in the event any of these companies are wound up.

Third party claims:
The OneSteel Group has been involved from time to time in various claims and lawsuits incidental to the ordinary course of business, including claims for damages and commercial disputes relating to its products and services. Based on legal advice obtained, other than amounts already provided for in the accounts, the directors do not expect any material liability to eventuate.

NOTE 26. FINANCING ARRANGEMENTS

	CONSOLIDATED		
2004	Accessible $m	Drawn Down $m	Unused $m
Working capital facilities (a)	25.0	25.0	–
US Private Placement (b)	185.1	185.1	–
Bank loan facilities (c)	941.1	289.8	651.3
Bank overdraft (d)	15.0	–	15.0
Total financing facilities	1,166.2	499.9	666.3

	CONSOLIDATED		
2003	Accessible $m	Drawn Down $m	Unused $m
Working capital facilities	25.0	25.0	–
US Private Placement	191.0	191.0	
Bank loan facilities	946.8	273.7	673.1
Bank overdraft	15.7	–	15.7
Total financing facilities	1,178.5	489.7	688.8

(a) Expiry date of November 2004

(b) Two tranches, the seven year tranche (US$68m) to be repaid April 2010, the twelve year tranche (US$60m) to be repaid in April 2015.

(c) Various facilities with a range of expiry dates from October 2004 to April 2006.

(d) Expiry date of October 2004

(e) In addition to the above facilities, there is an uncommitted securitisation facility of $200m.

NOTE 27. CONTROLLED ENTITIES

The consolidated financial statements at 30 June 2004 include the following controlled entities:

ENTITY	Notes	Place of incorporation	% of shares held 2004	2003
OneSteel Limited	(a)	Australia		
Aquila Steel Company Pty Ltd	(b)	Australia	100	100
Australian Wire Industries Pty Limited	(b)	Australia	100	100
AWI Holdings Pty Limited	(b)	Australia	100	100
Pipeline Supplies of Australia Pty Limited	(b)	Australia	100	100
J Murray-More (Holdings) Pty Limited	(b)	Australia	100	100
Metpol Pty Limited	(b)	Australia	100	100
Midalia Steel Pty Limited (acquired 2 February 2004)	(b)	Australia	100	–
OneSteel Building Supplies Pty Limited	(b)	Australia	100	100
OneSteel Finance Pty Limited		Australia	100	100
OneSteel Insurance Pte Limited		Singapore	100	100
OneSteel Investments Pty Limited	(b)	Australia	100	100
OneSteel Manufacturing Pty Limited	(b)	Australia	100	100
OneSteel MBS Pty Limited	(b)	Australia	100	100
OneSteel NSW Pty Limited	(b)	Australia	100	100
OneSteel NZ Limited		New Zealand	100	100
OneSteel Queensland Pty Limited	(b)	Australia	100	100
OneSteel Reinforcing Pty Limited	(b)	Australia	100	100
Onesteel Trading Pty Limited	(b)	Australia	100	100
OneSteel Wire Pty Limited	(b)	Australia	100	100
Reosteel Pty Limited	(b)	Australia	100	100
Tubemakers of Australia Pty Ltd	(b)	Australia	100	100
Tubemakers Somerton Pty Limited	(b)	Australia	100	100
Tubemakers of New Zealand Limited		New Zealand	100	100
Steel & Tube Holdings Limited		New Zealand	50.3	50.3
Steel & Tube New Zealand Limited		New Zealand	50.3	50.3
Steel & Tube Reinforcing Limited		New Zealand	50.3	50.3
Steel & Tube Roofing Products Limited		New Zealand	50.3	50.3
David Crozier Limited		New Zealand	50.3	50.3
EMCO Group Limited		New Zealand	50.3	50.3
EMCO Group Superannuation Fund Limited		New Zealand	50.3	50.3
Fastening Supplies Limited		New Zealand	50.3	50.3
Hurricane Wire Products Limited		New Zealand	50.3	50.3
NZMC Limited		New Zealand	50.3	50.3
Robt Stone (Malaysia) Sdn Bhd – voluntary liquidation June 2003		Malaysia	50.3	50.3
Steel Warehouse Limited		New Zealand	50.3	50.3
Stewart Steel Limited		New Zealand	50.3	50.3
Stube Industries Limited		New Zealand	50.3	50.3

(a) OneSteel Limited, a public company, is domiciled in Sydney, Australia
The Registered office is located at:
Level 23
1 York Street
Sydney NSW 2000
Australia

(b) These companies have entered into a deed of cross guarantee dated 26 March 1993 with OneSteel Limited, as amended by assumption deeds dated 22 May 2001 and 21 June 2004, which provides that all parties to the deed will guarantee to each creditor, payment in full of any debt of each company participating in the deed on winding up of that company. As a result of Class Order 98/1418 issued by the Australian Securities and Investment Commission, these companies are relieved from the requirement to prepare financial statements.

The condensed consolidated Statement of Financial Performance and Statement of Financial Position of all entities in the class order "closed group" are set out in Note 28.

The financial years of all controlled entities are the same as that of the parent entity.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28. DEED OF CROSS GUARANTEE

Financial information for class order closed group

	CONSOLIDATED 2004 $m	CONSOLIDATED 2003 $m
Condensed Statement of Financial Performance for the year ended 30 June		
Profit from ordinary activities before income tax	140.6	132.5
Income tax expense relating to ordinary activities	(37.7)	(42.0)
Income tax benefit relating to tax consolidation	19.8	–
Net profit from ordinary activities after related income tax	122.7	90.5
Retained Profits		
Retained profits at the beginning of the year	122.7	78.9
Net profit	122.7	90.5
Dividends paid	(60.4)	(46.0)
Adjustment arising from adoption of revised accounting standard AASB 1028 "Employee Benefits"	–	(0.7)
Retained profits at the end of the year	185.0	122.7
Statement of Financial Position as at 30 June		
Current assets		
Cash assets	88.5	52.4
Receivables	1,235.1	1,066.6
Inventories	653.1	543.7
Other	7.5	6.6
Total current assets	1,984.2	1,669.3
Non-current assets		
Investments	33.4	33.1
Property, plant and equipment	1,166.1	1,131.8
Intangibles	232.8	244.8
Deferred tax assets	58.1	52.7
Other	28.1	25.6
Total non-current assets	1,518.5	1,488.0
Total assets	3,502.7	3,157.3
Current liabilities		
Payables	537.6	424.3
Interest bearing liabilities	1,350.3	1,198.0
Tax liabilities	18.8	1.5
Other provisions	85.2	105.3
Total current liabilities	1,991.9	1,729.1
Non-current liabilities		
Deferred tax liabilities	128.6	141.6
Other provisions	100.9	84.3
Total non-current liabilities	229.5	225.9
Total liabilities	2,221.4	1,955.0
Net assets	**1,281.3**	**1,202.3**
Equity		
Contributed equity	1,096.3	1,079.6
Retained profits	185.0	122.7
Total equity	**1,281.3**	**1,202.3**

NOTE 29. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of specified directors and specified executives

(i) Specified directors

P J Smedley	Chairman (non-executive)
R L Every	Managing Director and Chief Executive Officer
E J Doyle	Director (non-executive)
C R Galbraith	Director (non-executive)
D E Meiklejohn	Director (non-executive)
D A Pritchard	Director (non-executive)
N J Roach	Director (non-executive)

(ii) Specified executives

N Calavrias	Chief Executive Officer, Steel & Tube Holdings Limited
R W Freeman	Executive General Manager, Distribution
G J Plummer	Executive General Manager, Market Mills
A J Reeves	Chief Financial Officer
L J Selleck	Executive General Manager, Steelmaking & Technology

(b) Remuneration of specified directors and specifies executives

(i) Remuneration Policy

The Board's Remuneration Committee is responsible for reviewing remuneration policies and practices, including compensation and arrangements for executive directors and senior management. Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior management. Remuneration structures are shown below.

Non-executive directors

Under the arrangements now applying non-executive directors of the company are entitled to:

(a) The payment of directors' fees in cash and statutory superannuation contributions.

(b) For service from 17 November 2003 a long-term component of non-executive director fees, to be received by a non-executive director on retirement from the Board, that is linked to the market performance of the company via the on market purchase of shares in the company. The level of this long-term component, that includes both the share purchase and superannuation components, is set at 45% of the base fee.

(c) For directors who held office on 17 November 2003 a cash benefit under the discontinued retirement benefit scheme fixed by reference to length of service up to this date, which is to be paid upon the retirement of the director from the Board.

Senior executives

Remuneration packages for executives comprise:

(a) a fixed annual reward which includes a base salary, other benefits including fringe benefits tax and superannuation.

(b) a variable component. This involves both a short term incentive scheme (STIP) that rewards delivering of annual business goals and a long term incentive scheme (LTIP) which allocates shares and options.

STIP

Executives participate in an annual performance review process that assesses performance against key accountabilities and job goals. STIP aims to reward participating employees for the achievement of agreed financial, safety, business and personal goals over a 12 month period. Payments under STIP are based on a set percentage of salary for achievement of goals with a maximum payment equivalent to 200% of target percentage for exceptional performance.

LTIP

The LTIP is restricted to executives, including senior management and executive OneSteel directors.

The company did not grant performance dependent rights to ordinary shares or options during the year ended 30 June 2004.

In previous years rights to shares and options have been granted in accordance with the rules of the company's LTIP. One ordinary share in the company may be obtained for each right to shares or option after a qualifying period of three years. These shares and options are held in trust during this period and vesting is subject to the company achieving specific performance hurdles at the end of this period. All or some of these shares and options may vest to an individual executive on termination when special circumstances apply. Dividends in respect of rights to shares are distributed to participants in accordance with their respective allocations.

NOTE 29. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

The performance hurdles relate to two comparative groups (the Australian Consumer Price Index plus 5% and the S&P 200 Index excluding banks, media and telecommunications) that are measured against OneSteel's performance in terms of Total Shareholder Return (TSR). OneSteel's ranking against these measures will determine whether a participant may draw rights to shares. For each allocation of shares and options half are subject to ranking OneSteel's TSR performance to the Base Comparator and the other half to S & P/ASX 200 Index.

The withdrawal of shares or the exercise of options is determined in accordance with the following table:

Performance ranking range % of shares and options available:

Up to and including 60%	Nil
61% to 80%	60%
81% to 99%	80%
100% and above	100%

The Managing Director's contract of employment includes provision for an early termination payment of the balance of his contract (which expires on 20 January 2006), and any pro-rata payment applicable under the Company's Short Term Incentive Plan (STIP).

(ii) Remuneration of specified directors and specified executives

	Primary			Post Employment		Equity		
2004	Salary & Fees $	Cash Bonus $	Non Monetary Benefits $	Super-annuation $	Retirement Benefits $	Options $	Shares and share rights $	Total $
Specified directors								
P J Smedley	250,000	–	–	11,250	91,575	–	67,099	419,924
R L Every	1,200,000	1,000,000	–	156,000	–	65,673	768,481	3,190,154
E J Doyle	84,000	–	–	7,560	29,319	–	18,765	139,644
C R Galbraith	84,000	–	–	7,560	29,319	–	18,765	139,644
D E Meiklejohn	84,000	–	–	7,560	29,319	–	18,765	139,644
D A Pritchard	84,000	–	–	7,560	29,319	–	18,765	139,644
N J Roach	84,000	–	–	7,560	29,319	–	18,765	139,644
Total	1,870,000	1,000,000	–	205,050	238,170	65,673	929,405	4,308,298
Specified executives								
N Calavrias	417,604	280,803	7,200	31,500	–	–	–	737,107
R W Freeman	463,908	195,000	–	41,751	–	15,384	125,948	841,991
G J Plummer	397,436	267,000	31,322	51,520	–	9,745	90,469	847,492
A J Reeves	460,904	200,000	–	41,940	–	11,665	103,198	817,707
L J Selleck	319,505	195,000	112,569	41,360	–	8,313	74,864	751,611
Total	2,059,357	1,137,803	151,091	208,071	–	45,107	394,479	3,995,908

Notes:

(1) Retirement benefits for directors were discontinued following the annual general meeting on the 17 November 2003 and replaced with a new Long term component of remuneration via share purchase – see note 4.

(2) Options have been valued, at grant date, using the Black Scholes option pricing model. The value of the options has been apportioned over the three-year vesting period.

(3) Share rights have been valued, at grant date, using the Black Scholes option pricing model, assuming a zero exercise price, no dividends and incorporating a probability of vesting. The value of the share rights has been apportioned over the three-year vesting period.

(4) The value recorded for non-executive directors in the equity section represents the new long term component of directors remuneration commenced after the annual general meeting on the 17 November 2003. This amount has been accrued during the year with the purchase of shares occurring at the trading windows available under OneSteel's policy on dealing in company shares. The value for executive directors and specified executives relates to share rights as per note 3.

(5) Cash bonuses are in respect of short-term incentives except for N Calavrias whose payments include a long-term component of $46,800.

NOTE 29. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(c) Remuneration options: granted and vested during the year

Due to the suspension of the Executive Option Plan there were no grants of options during the year. The following options vested during the year

	Vested Number
Specified directors	
R L Every	2,462,735
Specified executives	
R W Freeman	241,298
G J Plummer	140,420
L J Selleck	124,217
Total	2,968,670

(d) Shares issued on exercise of remuneration options

	Shares issued Number	Paid $ per share	Unpaid $ per share
Specified executives			
L J Selleck	124,217	0.9258	–
Total	124,217		

(e) Option holdings of specified directors and specified executives

	Balance at 1 July 2003	Granted as remuneration	Options Exercised	Net Change Other	Balance at 30 June 2004	Vested at 30 June 2004 Exercisable
Specified directors						
R L Every	2,462,735	–	–	–	2,462,735	2,462,735
Specified executives						
R W Freeman	331,298	–	–	–	331,298	241,298
G J Plummer	230,420	–	–	–	230,420	140,420
A J Reeves	233,300	–	–	–	233,300	–
L J Selleck	199,217	–	(124,217)		75,000	–
Total	3,456,970	–	(124,217)	–	3,332,753	2,844,453

(f) Remuneration share rights: granted and vested during the year

During the year there were no grants of rights to shares under the Long Term Incentive Scheme. Details of the scheme and the performance hurdles are shown in note (b). Share rights vested during the year based on the achievement of performance hurdles and expiry of the three year vesting period.

	Vested Number
Specified directors	
R L Every	1,847,052
Specified executives	
R W Freeman	180,974
G J Plummer	105,315
L J Selleck	93,163
Total	2,226,504

NOTE 29. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(g) Share rights holdings of specified directors and specified executives

	Balance at 1 July 2003	Granted as remuneration	Vested	Net Change Other	Balance at 30 June 2004
Specified directors					
R L Every	2,629,371	–	(1,847,052)	–	782,319
Specified executives					
R W Freeman	324,972	–	(180,974)	–	143,998
G J Plummer	249,313	–	(105,315)	–	143,998
A J Reeves	243,973	–	–	–	243,973
L J Selleck	209,616	–	(93,163)	–	116,453
Total	3,657,245	–	(2,226,504)	–	1,430,741

(h) Shareholdings of specified directors and specified executives

	Balance at 1 July 2003	Granted as remuneration	On Exercise of Options	On Vesting of Shares	Net Change Other	Balance at 30 June 2004
Specified directors						
P J Smedley	100,000	18,719	–	–	–	118,719
R L Every	107,793	–	–	1,847,052	–	1,954,845
E J Doyle	79,144	13,380	–	–	–	92,524
C R Galbraith	59,439	5,381	–	–	–	64,820
D E Meiklejohn	10,000	5,382	–	–	–	15,382
D A Pritchard	50,000	5,382	–	–	–	55,382
N J Roach	165,390	15,207	–	–	–	180,597
Specified executives						
N Calavrias	22,988	–	–	–	1,157	24,145
R W Freeman	–	–	–	180,974	–	180,974
G J Plummer	195,932	–	–	105,315	993	302,240
A J Reeves	25,843	–	–	–	2,606	28,449
L J Selleck	14,820	–	124,217	93,163	(58,179)	174,021
Total	831,349	63,451	124,217	2,226,504	(53,423)	3,192,098

(i) Loans to specified directors and specified executives
There were no loans made or outstanding to specified directors or specified executives.

(j) Other transactions and balances with specified directors and specified executives
Directors of OneSteel Limited and directors of its related parties, or their director-related entities, conduct transactions with entities within the OneSteel Group that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at an arm's length in similar circumstances. These transactions include the following and have been quantified below where the transactions are considered to be of interest to users of these financial statements.

During the financial year, Colin Galbraith was a partner in the law firm, Allens Arthur Robinson. The firm acted for OneSteel Limited in the provision of legal services on an arms length fee basis during the financial year. The fees for those services as invoiced during the year were $200,131 (2003: $282,536), exclusive of GST, of which no amount was outstanding at 30 June 2004.

Mr Galbraith was not personally involved in the provision of these services.

NOTE 30. REMUNERATION OF AUDITORS

	CONSOLIDATED		PARENT	
	2004 $	2003 $	2004 $	2003 $
Amounts received or due and receivable by the auditors of the OneSteel entity for:				
Audit of accounts of OneSteel and its controlled entities	805,000	868,500	120,000	120,000
Other advisory services (a)	547,264	437,717	–	–
	1,352,264	1,306,217	120,000	120,000
Amounts received or due and receivable by the auditors other than the auditors of the OneSteel entity for:				
Audit of accounts of certain controlled entities	153,902	178,745		
Other services	66,600	165,472		
	220,502	344,217		
(a) An analysis of the other services provided by the auditors of the OneSteel entity is as follows:				
Taxation advisory services	469,764	397,314		
Accounting advice	20,000	40,403		
Other services	57,500	–		
	547,264	437,717		

NOTE 31. RELATED PARTY DISCLOSURES

(a) Transactions with related parties in the wholly-owned group

Throughout the year, the parent entity OneSteel Limited, entered into the following transactions with members of the wholly-owned group:

Loan was advanced

Interest was received

Management fees were received and paid

Dividends were received

Tax-related transactions occurred upon entry into tax consolidation

These transactions were undertaken on commercial terms and conditions.
The ownership interests in related parties in the wholly-owned group are set out in note 27.

		CONSOLIDATED		PARENT	
Transaction type	Class of related party	2004 $m	2003 $m	2004 $m	2003 $m
Loans to controlled entities					
Loan advances	Controlled entities	–	–	123.3	104.4
Interest received (i)	Controlled entities	–	–	3.4	2.7
Loan Receivable – tax related balances (ii)	Controlled entities	–	–	86.6	–

(i) An interest bearing loan with an average interest rate of 4.25%.

(ii) Tax related balances with wholly-owned Australian controlled entities under a tax fundng agreement arising from entry into tax consolidation.

		CONSOLIDATED		PARENT	
Transaction type	Class of related party	2004 $m	2003 $m	2004 $m	2003 $m
Other transactions					
Management fees received	Controlled entities	–	–	3.5	3.5
Management fees paid	Controlled entities	–	–	(3.5)	(3.5)
Dividends received	Controlled entities	–	–	60.0	47.6

(b) Transactions with associate entity

Bekaert Australia Steel Cord Pty Ltd is 50% owned by Onesteel Limited. Throughout the year, members of the wholly-owned group were engaged for the supply of wire products, with the transactions undertaken on commercial terms and conditions. In addition, an interest bearing loan was advanced to the associate entity.

The value of sales revenue, trade receivables and loan balance contained within the financial statements are as follows:

		CONSOLIDATED		PARENT	
Transaction type	Class of related party	2004 $m	2003 $m	2004 $m	2003 $m
Sale of goods	Associate	3.3	3.1	–	–
Trade receivables	Associate	0.3	0.4	–	–
Loan advances (i)	Associate	0.3	–	–	–

(i) An interest bearing loan at an average interest rate throughout the year of 6.47%.

(c) Ultimate Controlling Entity

The ultimate controlling entity of the OneSteel Group is OneSteel Limited.

NOTE 32. FINANCIAL INSTRUMENTS

(a) Objectives for Holding Derivative Financial Instruments

The OneSteel Group uses derivative financial instruments to manage specifically identified interest rate, foreign currency and commodity risks. The OneSteel Group is primarily exposed to the risk of adverse movements in the Australian dollar relative to certain foreign currencies, including the United States dollar, Japanese yen and New Zealand dollar, movements in interest rates and commodities such as zinc, coal, aluminium etc. The purpose for which specific derivative instruments are used are as follows:

Forward exchange contracts are transacted to hedge the Australian dollar value of foreign currency receipts or payments arising from both anticipated export sales and the purchase of raw materials and products for resale. All foreign currency forward contracts are denominated in a single foreign currency and contracted against Australian and New Zealand dollars.

The OneSteel Group raises short and long term debt at both fixed and floating rates. Interest rate swap agreements are used to convert floating interest rate exposures on a portion of the debt to fixed rates. These swaps entitle the OneSteel Group to receive, or oblige it to pay, the amounts, if any, by which actual interest payments on nominated loan amounts exceed or fall below specified interest amounts.

In April 2003 OneSteel raised USD denominated debt via a private placement of senior notes in two tranches, a seven year tranche (US$68m) and a twelve year tranche (US$60m). These borrowings were immediately swapped back to floating AUD based debt by way of a cross currency swap.

Zinc hedges are used to lock in prices for future month's purchases.

(b) Interest rate risk exposures

The OneSteel Group is exposed to interest rate risk through primary financial assets and liabilities, modified through derivative financial instruments such as interest rate and cross currency swaps and interest rate options. The table below summarises interest rate risk for the OneSteel Group together with effective interest rates at 30 June 2004.

		Fixed interest rate maturing in					Average Interest rate	
2004	Floating interest rate $m	1 year or less $m	Over 1 to 5 years $m	More than 5 years $m	Non-interest bearing $m	Total $m	Floating %pa	Fixed %pa
Financial assets								
Cash	54.2	–	–	–	–	54.2	4.3	
Trade receivables (a)	30.1	–	–	–	403.1	433.2	10.6	
Other financial assets	0.3	–	–	–	–	0.3	6.5	
	84.6	–	–	–	403.1	487.7		
Financial liabilities								
Trade creditors	–	–	–	–	405.2	405.2		
Bank loans	314.8	–	–	–	–	314.8	6.3	
US Private Placement	–	–	–	185.1	–	185.1		5.2
Cross currency swap	185.1	–	–	(185.1)	–	–	7.0	5.2
Interest rate swaps	(340.0)	–	340.0	–	–	–	5.5	5.9
	159.9	–	340.0	–	405.2	905.1		

(a) net of trade receivables sold

		Fixed interest rate maturing in					Average Interest rate	
2003	Floating interest rate $m	1 year or less $m	Over 1 to 5 years $m	More than 5 years $m	Non-interest bearing $m	Total $m	Floating %pa	Fixed %pa
Financial assets								
Cash	19.5	–	–	–	–	19.5	3.3	
Trade receivables (a)	34.4	–	–	–	350.4	384.8	10.4	
Other financial assets	–	–	–	–	3.3	3.3		
	53.9	–	–	–	353.7	407.6		
Financial liabilities								
Trade creditors	–	–	–	–	304.3	304.3		
Bank loans	298.7	–	–	–	–	298.7	5.7	
US Private Placement				191.0		191.0		5.2
Cross currency swap	191.0			(191.0)		–	6.2	5.2
Interest rate swaps	(475.0)	250.0	225.0	–	–	–	4.8	6.2
	14.7	250.0	225.0	–	304.3	794.0		

(a) net of trade receivables sold

NOTE 32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Foreign exchange

The OneSteel Group is exposed to foreign currency exchange risk through primary financial assets and liabilities, and anticipated future transaction modified through derivative financial instruments such as forward exchange agreements, currency options and currency swaps. The following table summarises by currency, in Australian dollars, the foreign exchange risk in respect of recognised financial assets, liabilities and derivatives entered to hedge anticipated future transactions. Financial assets and liability captions in which all amounts are denominated in Australian dollars are not included in these tables.

2004	Australian dollars $m	United States dollars $m	New Zealand dollars $m	Other $m	Total $m
Financial assets					
Cash	47.1	2.6	4.5	–	54.2
Trade receivables (a)	355.2	4.9	71.5	1.6	433.2
Forward exchange contracts	12.4	–	(12.4)	–	–
	414.7	7.5	63.6	1.6	487.4

(a) net of trade receivables sold

2004	Australian dollars $m	United States dollars $m	New Zealand dollars $m	Other $m	Total $m
Financial liabilities					
Trade creditors	377.9	7.0	19.2	1.1	405.2
Other creditors	155.0	–	7.1	–	162.1
Bank loans	285.0	–	29.8	–	314.8
US Private Placement	–	185.1	–	–	185.1
Cross currency swap	185.1	(185.1)	–	–	–
Forward exchange contracts	59.8	(40.1)	–	(19.7)	–
	1,062.8	(33.1)	56.1	(18.6)	1,067.2

2003	Australian dollars $m	United States dollars $m	New Zealand dollars $m	Other $m	Total $m
Financial assets					
Cash	15.4	2.7	0.9	0.5	19.5
Trade receivables (a)	319.5	8.1	57.1	0.1	384.8
Forward exchange contracts	4.7	–	(4.7)	–	–
	339.6	10.8	53.3	0.6	404.3

(a) net of trade receivables sold

2003	Australian dollars $m	United States dollars $m	New Zealand dollars $m	Other $m	Total $m
Financial liabilities					
Trade creditors	281.4	2.8	15.4	4.7	304.3
Other creditors	157.5	–	5.9	–	163.4
Bank loans	275.0	–	23.7	–	298.7
US Private Placement	–	191.0	–	–	191.0
Cross currency swap	191.0	(191.0)	–	–	–
Forward exchange contracts	39.1	(19.5)	–	(19.6)	–
	944.0	(16.7)	45.0	(14.9)	957.4

NOTE 32. FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarises by currency the Australian dollar value of forward foreign exchange agreements and foreign currency options. Foreign currency amounts are translated at rates current at the reporting date. The 'buy' amounts represent the Australian dollar equivalent of commitments to purchase foreign currencies, and the 'sell' amount represents the Australian dollar equivalent of commitments to sell foreign currencies. Contracts to buy and sell foreign currency are entered into from time to time to offset purchase and sale obligations so as to maintain a desired hedge position.

	2004	2003	2004		2003	
	Average exchange rate					
CURRENCY			Buy $m	Sell $m	Buy $m	Sell $m
United States dollars:						
3 months or less	0.690	0.663	40.1	–	12.5	–
Over 3 to 12 months	–	0.632	–	–	7.0	–
			40.1	–	19.5	–
Japanese Yen						
3 months or less	77.82	69.47	1.7	–	5.4	–
Over 3 to 12 months	72.55	–	0.6	–	–	–
			2.3	–	5.4	–
New Zealand dollar						
3 months or less	1.1324	1.1383	–	12.4	–	4.7
Over 3 to 12 months	–	–	–	–	–	–
			–	12.4	–	4.7
Euro						
3 months or less	0.5724	0.5561	12.8	–	12.2	–
Over 3 to 12 months	–	0.5621	–	–	0.5	–
			12.8	–	12.7	–
Pounds Sterling						
3 months or less	0.3871	0.3875	1.7	–	0.5	–
Over 3 to 12 months	0.3884	0.3912	2.8	–	0.9	–
			4.5	–	1.4	–

(d) Credit risk exposures

Credit exposure represents the extent of credit related losses that the OneSteel Group may be subject to on amounts to be exchanged under derivatives or to be received from financial assets. The notional amounts of derivatives are not a measure of this exposure. The OneSteel Group, while exposed to credit related losses in the event of non-performance by counterparties to financial instruments, does not expect any counterparties to fail to meet their obligations given their high credit ratings. Where appropriate, collateral is obtained in the form of rights to securities and master netting agreements. The credit exposure is represented by the net fair value of contracts with a positive fair value at balance date, reduced by the effects of master netting agreements.

The OneSteel Group's exposures to on-balance sheet credit risk are as indicated by the carrying amounts of its financial assets. Concentrations of credit risk (whether on-balance sheet or off-balance sheet) that arise from derivative instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The consolidated entity does not have a significant exposure to any individual counterparty.

NOTE 32. FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarises the OneSteel Group's credit exposure on derivative financial instruments with a positive net fair value and has been reduced by unfavorable contracts with the same counterparty pursuant to master netting agreements, which will not be settled before the favorable contracts:

	CONSOLIDATED	
	2004 $m	2003 $m
Derivatives		
Interest rate swaps	1.0	(9.8)
Cross currency swaps	(27.9)	(15.7)
Foreign exchange contracts	0.1	(1.5)
Zinc hedges	(0.1)	(0.2)
	(26.9)	(27.2)

The OneSteel Group minimises concentration of credit risk by undertaking transactions with a large number of debtors in various countries and industries.

The major geographic concentrations of credit risk arise for the location of the counterparties to the OneSteel Group's financial assets as shown in the following table:

	CONSOLIDATED	
	2004 $m	2003 $m
Location of credit risk		
Australia	420.3	384.2
New Zealand	65.9	54.6
North America	4.9	8.1
Other	1.6	0.1
	492.7	447.0

Concentration of credit risk on financial assets are indicated in the following table by percentages of the total balance receivable from customers in the specified categories.

	CONSOLIDATED	
	2004 %	2003 %
Industry classification		
Building and construction industry	62	58
Manufacturing industry	12	14
Mining industry	11	12
Other	15	16

The credit risk amounts do not take into account the value of any collateral or security. Receivables due from major counterparties are not normally secured by collateral, however the creditworthiness of counterparties is regularly monitored. The amounts of credit risk shown, therefore, do not reflect expected losses.

NOTE 32. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Net fair value of financial assets and liabilities

The carrying amounts and estimated net fair values of financial assets and financial liabilities (including derivatives) held at balance date are given below. Short term instruments where carrying amounts approximate net fair values, are omitted. The net fair value of financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

	CONSOLIDATED			
	2004		2003	
	Carrying Value $m	Net Fair Value $m	Carrying Value $m	Net Fair Value $m
Financial liabilities:				
Long term Syndicated AUD debt	260.0	260.0	250.0	250.0
Long term USD private placement	185.1	180.5	191.0	192.7
Long Term NZD debt	9.1	9.0	10.0	10.1
Derivatives:				
Foreign exchange contracts	0.1	0.1	(1.5)	(1.5)
Cross currency swaps	(23.3)	(27.9)	(17.3)	(15.7)
Interest rate swaps	(0.2)	1.0	(1.3)	(9.8)
Zinc Hedges	–	(0.1)	(0.1)	(0.2)

The carrying amounts in the table are included in the Statement of Financial Position under the indicated captions.

The following methods and assumptions were used to estimate the net fair value of each class of financial instrument:

Short and long term debt

The net fair value of short and long term debt is estimated by discounting expected cash flows at the interest rate currently offered to the OneSteel Group for debt of the same remaining maturities and security plus costs expected to be incurred were the liability settled.

Swaps and options

The net fair value is estimated by discounting the anticipated future cash flows to their present value, based on interest rates existing at the respective balance dates less an allowance for estimated disposal costs.

Foreign exchange contracts and options

The net fair value of forward foreign exchange contracts is determined by reference to amounts quoted by the OneSteel Group's banks.

(f) Hedges of Anticipated Future Transactions

The following table summarises deferred realised and unrealised gains and losses on forward exchange contracts entered as hedges of future anticipated purchases and sales, showing the periods in which they are expected to be recognised as a component of the purchase or sale transaction when it occurs.

Where foreign currency hedges are terminated prior to their maturity date, the gain or loss on termination is not brought to account until the hedged transaction occurs. At the time that the hedged transaction is no longer expected to occur, both realised and unrealised gains and losses on the hedged transaction are immediately recognised in the Statement of Financial Performance.

	2004		2003	
EXPECTED RECOGNITION PERIOD	Gains $m	Losses $m	Gains $m	Losses $m
Within one year	0.4	1.3	0.1	3.8

NOTE 33. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Transition to Australian equivalents of IFRS

OneSteel has commenced the transition of its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). A Steering Committee has been established to oversee progress and to provide regular updates to the Board Audit Committee. Resources have been allocated and expert consultancy advice sought in order to identify those key areas that will be impacted by the transition to IFRS. The individual Standards have been ranked based on their impact on OneSteel, and project teams have been established to address each of the areas in order of priority.

As OneSteel has a 30 June balance date, priority has been given to considering the preparation of the opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting under IFRS in the future and is required when OneSteel prepares its first fully IFRS compliant full financial report for the year ended 30 June 2006. The first set of comparative figures (for the year ended 30 June 2005) which will be contained in that first IFRS compliant financial report, will be impacted by the opening IFRS balance sheet as at 1 July 2004.

Impact of IFRS on significant accounting policies

The following list indicates the primary areas where OneSteel's accounting policies will be impacted by IFRS adoption. At this stage the company has not been able to reliably quantify the impacts on the financial report.

Goodwill

Lower expense as amortisation of goodwill will cease

Amortisation of goodwill incurred in business acquisitions will cease and will be replaced by annual impairment testing, which may impact future earnings (see Impairment of assets). There will be a change to the Group's current accounting policy which amortises goodwill over a maximum of 20 years.

Impairment of assets (including goodwill)

Potential for impact on retained profits as at 1 July 2004

Volatility in future earnings in the event of any impairment

Changes to the Group's accounting policy will be required to conform with the new requirements for impairment testing under IFRS using value in use calculations based on discounted cash flows. The change in the policy could result in earnings volatility reflected in the income statement.

Financial instruments and hedging

Volatility in future earnings

New assets/liabilities to be recognised

There will be a change to the Group's accounting policy as many of the current hedge contracts are of a general nature and do not meet the IFRS requirements that would enable them to qualify for hedge accounting. The change to the policy will result in earnings volatility reflected in the income statement associated with the mark-to market of certain derivative financial instruments, as well as the ineffective portion of any qualifying hedges. New processes around the identification of, effectiveness testing and tracking of hedges are currently being considered.

The derecognition of trade receivables under the debtors securitisation program may not qualify for derecognition under IFRS. If so, this would cause the recognition of trade receivables and borrowings.

Post-employment benefits

Impact on retained profits as at 1 July 2004

Volatility in future earnings

New assets/liabilities recognised

Under IFRS, employer sponsors are required to recognise the net surplus or deficit in their defined benefit superannuation funds, as an asset or liability, respectively. This will result in a change to the Group's accounting policy which does not currently recognise the net assets/liabilities of the defined benefit fund. The initial adjustment will be through retained profits with subsequent adjustments to the income statement for the period.

Share-based payments

Possible volatility in future earnings

There is a requirement under IFRS to recognise an expense for all share-based remuneration (shares and options).

The OneSteel option plan has been discontinued and current OneSteel policy, for shares, is to purchase on-market and expense the cost as employment costs in the Statement of Financial Performance. As a result, there will be no anticipated material impact on total future earnings on adoption of IFRS.

Income tax

New assets/liabilities recognised

Under IFRS there will be a requirement to adopt a balance sheet approach to income tax accounting, under which temporary differences are identified for each asset and liability rather than accounting for the effects of timing and permanent differences arising between taxable income and accounting profit.

Extractive Industries

Under IFRS exposure drafts, entities can elect to "grandfather" their existing accounting policy in relation to exploration and development expenditure. Therefore, OneSteel can continue to capitalise these costs in accordance with current accounting policy. However, the capitalised expenditure and development costs will be subject to annual impairment testing, which may impact on future earnings (see Impairment of assets). If the existing accounting policy is not grandfathered, this will result in the expensing of most of the future exploration and development costs. In addition, there may be changes to the manner in which restoration and rehabilitation costs are accounted for.

DIRECTORS' DECLARATION

(1) In the opinion of the directors of OneSteel Limited ("the Company") :

(a) the financial statements and associated notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 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 Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) 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) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the Company and the subsidiaries identified in Note 27 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.

Signed in accordance with a resolution of the directors.

Peter Smedley
Chairman

Bob Every

Robert Every
Managing Director

Sydney
17 August 2004

INDEPENDENT AUDIT REPORT

Full Audit Opinion

Independent audit report to members of OneSteel Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for OneSteel Limited (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of OneSteel Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of OneSteel Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Craig M. Jackson

Partner

Sydney

17 August 2004