ONESTEEL LIMITED

ABN 63 004 410 833

APPENDIX 4E

PRELIMINARY FINAL REPORT

12 MONTHS ENDING 30 JUNE 2005

ONESTEEL LIMITED

HIGHLIGHTS OF RESULTS AND DIVIDENDS

12 MONTHS ENDING 30 JUNE 2005

Results for announcement to the market

				A$ Millions
Sales Revenue	up	20.5%	to	3,938.5
Revenues from ordinary activities	up	19.1%	to	3,976.1
Profit from ordinary activities after tax attributable to members (excl tax consolidation adjustment)	up	22.6%	to	132.5
Net profit for the period attributable to members (incl tax consolidation adjustment)	up	3.6%	to	132.5

Dividends	Amount per security	Franked amount per security
Final Dividend	7.5 c	7.5 c
Previous corresponding period	7.0 c	7.0 c
Record date for determining entitlements	16 September 2005	

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

Key Financials for the Twelve Months to June 2005

12 Months Ending 30 June		2005	2004	Statutory 2003	2002	Pro Forma 2001 Excl Rest	2001 Inc Rest	% Change 04/03
Sales Revenue	$m	3,938.5	3,269.2	3,060.6	2,906.0	2,637.7	2,637.7	20.5
Other Revenue	$m	37.6	70.1	39.5	80.5	141.5	141.5	(46.4)
Total Revenue	$m	3,976.1	3,339.3	3,100.1	2,986.5	2,779.2	2,779.2	19.1
Earnings Before Interest, Tax, Depreciation Amortisation (EBITDA)	$m	377.3	324.2	307.6	251.0	202.6	181.7	16.4
Earnings Before Interest, Tax, Amortisation (EBITA)	$m	279.8	237.1	221.1	166.8	118.0	74.7	18.0
Earnings Before Interest & Tax (EBIT)	$m	258.7	216.1	201.3	147.9	103.4	37.7	19.7
Borrowing Cost	$m	53.0	42.2	44.5	54.4	61.8	61.8	25.6
Profit Before Tax	$m	205.7	173.9	156.8	93.5	41.6	(24.1)	18.3
Tax Expense	$m	56.7	53.4	53.3	39.0	12.1	(2.1)	6.2
Net Profit After Tax and minorities (NPAT)	$m	132.5	108.1	94.0	47.1	23.6	(27.9)	22.6
Cash Flow from operations and investing	$m	107.0	84.9	142.5	143.9	170.1		26.0
Free Cash Flow	$m	101.9	43.9	154.9	28.5	220.8		132.1
Total Assets	$m	3,119.6	2,803.2	2,577.0	2,582.0	2,710.8		11.3
Funds Employed	$m	2,102.0	1,842.4	1,755.2	1,794.2	1,878.6		14.1
Liabilities	$m	1,662.9	1,429.8	1,292.0	1,359.4	1,594.6		16.3
Net Debt	$m	645.3	469.0	470.2	571.6	762.4		37.6
Capital & Investment Expenditure	$m	126.8	151.4	130.9	70.8	108.4		(16.2)
Inventories	$m	836.7	704.6	591.0	574.1	540.3		18.7
Employees		7,395	7,272	7,054	6,989	7,379		1.7
Sales per employee	$'000	532.6	449.6	433.9	415.8	357.5		18.5
Net Tangible Asset backing	$ per share	2.07	1.93	1.77	1.69	1.81		
EBITA margin on sales	%	7.1	7.3	7.2	5.7	4.5		
EBITA return on funds employed	%	14.2	13.2	12.5	9.1	6.3		
Return on Equity	%	10.5	9.1	8.3	4.7	2.6		
Gearing (net debt:net debt plus equity)	%	30.7	25.7	26.8	31.9	40.6		
Gearing (net debt:net debt plus equity incl securitisation)	%	30.7	33.1	34.3	38.7	46.3		
Interest times cover (EBIT/Interest)		4.9	5.1	4.50	2.71	1.60		
Earnings per share (based on number of shares at the end of the period)	cents	23.5	19.5	17.2	8.7	5.1		20.5
Full-year Dividend per share	cents	13.5	12.0	11.0	6.5	6.0		
Raw Steel Tonnes produced		1,349,397.0	1,618,855	1,624,399	1,576,650	1,438,770		(16.6)
Tonnes despatched		2,247,379.0	2,159,536	2,224,139	2,176,413	2,125,073		4.1
Export % of tonnes despatched	%	4.1	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 12 Months To June 2005

16 August 2005

Key Points

- Fourth consecutive annual profit improvement
- Strong operating cash flows despite funding high capex and price-related working capital
- Improvement in key financial ratios

Financial

Sales Revenue	$3,938.5m	Up 20.5%
Earnings before interest, tax, depreciation and amortisation **(EBITDA)**	$377.3m	Up 16.4%
Earnings before interest, tax and amortisation **(EBITA)**	$279.8m	Up 18.0%
Net profit after tax and minorities **(NPAT)**	$132.5m	Up 22.6%
Earnings per share **(EPS)**	23.5 cents	Up 20.5%
Operating cash flow	$107.0m	Up 26.0%
Return on funds employed **(ROFE)**	14.2%	Up from 13.2%
Return on equity **(ROE)**	10.5%	Up from 9.1%
The net debt to net debt plus equity ratio	30.7%	Down from 33.1%
Net debt – reflects the discontinuation of a $200 million securitisation program in January 2005	$645m	Up 37.6%
Fully franked final dividend	7.5 cents	Full year of 13.5 cents

Market

All segments that impact OneSteel revenues	**Up 1.1%**	**Strong building cycle continues**
Construction Sector (61% of revenue) • Non-Residential (23% of revenue) • Engineering (24% of revenue) • Residential (14% of revenue)	**Up 2.9%** Up 1.8% Up 7.5% Down 2.7%	Infrastructure and mining construction spending recorded solid increase, more than offsetting residential slowdown.
Other Manufacturing (12% of revenue)	Up 0.9%	
Mining production (10% of revenue)	Up 0.1%	
Auto manufacturing (7% of revenues)	Down 7.6%	
Agriculture (6% of revenues)	Down 5.4%	Reflects ongoing drought

Operational

Total Australian steel tonnes dispatched • domestic tonnes dispatched • exports tonnes dispatched Adjusted domestic tonnes (excluding one-off projects)	2,247,379 2,154,968 92,411 2,090,444	Up 4.1% Up 4.7% Down 8.6% Up 5.7%
Underlying price per tonne for domestic steel sales		Up 13.7%
Cost Increases (FY04 $71m) • Cost reductions (FY04 $50m) • Revenue enhancements (FY04 $28m)	$226m $47m $309m	
Staff numbers • Sales per staff member	7,395 $532,600	Up 1.7% Up 18.5%
Safety Performance (per million man hours worked) • Lost Time Injury Frequency Rate • Medical Treatment Injury Frequency Rate	 1.3 11.4	 Down 50.0% Down 19.7%
Estimated cost of blast furnace production disruptions (EBITDA)	$60m	

Company Overview

Sales revenue for the 12 months to June 2004 grew 20.5% from $3,269.2 to $3,938.5 million when compared with the prior corresponding period.

Underlying Australian domestic revenue from steel sales increased by 20.7%**,** reflecting price increases to recover higher costs, the pick up in sales volumes, and some recovery in market share from imports.

Total Australian tonnes dispatched increased by 4.1% due to the strong domestic market conditions. Underlying domestic tonnes dispatched increased by 5.7%**.** Exports for the period totalled 4.1% of tonnes dispatched compared with 4.7% a year prior. Total raw steel tonnes produced in the year were 269,458 tonnes lower than in the previous year as a result of the blast furnace reline project and the production disruptions in the first half of the financial year.

The underlying price per tonne for domestic steel sales improved by 13.7% reflecting a series of price increases implemented from the beginning of calendar year 2004 to recover significant increases in input material costs.

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

The EBITDA result was impacted by disruptions at the Whyalla Steelworks blast furnace subsequent to the completion of the reline. The estimated cost of the disruption events was approximately $60 million. Management activities to maintain deliveries to customers included ramping up production at Sydney Steel Mill to record levels in excess of 500,000 tonnes, rescheduling production runs at the rolling mills and importing approximately 90,000 tonnes of finished and semi-finished product.

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

On an **earnings before tax** basis, profit increased by 18.3% from $173.9 million to $205.7 million.

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

The **effective tax rate** of 27.6% reflects an adjustment to the 2004 year due to higher R&D claims in the final 2004 tax return and a continuation of the higher level of R&D claim into the 2005 year.

Segment Review

The following numbers for the 2004 and 2005 financial years reflect the business restructure that became effective 1 July 2005 whereby the Reinforcing business moved from Australian Distribution to Manufacturing and the Pipe and Tube business moved from Manufacturing to Australian Distribution.

Australian Distribution revenue was up 16.2% or $248.3 million to $1,785.3 million reflecting the continued strength in the domestic market and price increases to recover higher material costs. Distribution EBITA was up 34.7% to $140.4 million with the sales margin rising from 6.8% to 7.9%, while EBITA return on funds employed increased from 13.0% to 17.0%. Domestic steel tonnes dispatched from Distribution increased by 4.6%, with underlying domestic prices improving by 12.4%.

The first full 12-month impact of the acquisition of **Midalia Steel** in February 2004 was recorded during the period with a higher than expected contribution from the business.

Manufacturing revenue increased 21.5% or $365.6 million to $2,066.5 million reflecting a 14.9% increase in prices and 4.1% rise in tonnes dispatched. Manufacturing EBITA decreased 8.6% to $119.1 million with a fall in sales margin from 7.7% to 5.8%. Manufacturing's EBITA return on funds employed decreased from 12.3% to 10.9%. The falls reflect the impact of the operational disruptions at the Whyalla blast furnace, offsetting the favourable market conditions and excellent operational performance at Market Mills.

International Distribution revenue increased 18.6% or $63.2 million to $403.5 million, while EBITA improved by 31.4% to $56.1 million. The EBITA return on funds employed improved from 31.7% to 37.4%. In New Zealand dollars, sales revenue increased by 12.9%, while EBITA increased by 26.9% to NZ$58.2 million.

OneSteel **management initiatives** delivered a total of $47 million in cost savings along with revenue enhancements of $309 million, offsetting $226 million in cost increases. The revenue enhancements achieved during the year were implemented to recover substantial cost increases starting earlier in calendar 2004. The major cost increases in the most recent 12-month period stemmed from scrap feed, hot rolled coil and alloys.

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

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

Capital and investment expenditure decreased by 16.2% to $126.8 million, a large proportion of which was associated with the blast furnace reline project that was completed during the period. Approximately $24.5 million of the expenditure was related to Project Magnet, the commercialisation of OneSteel's magnetite iron ore resource.

OneSteel's **financial gearing** on a net debt, to net debt plus equity basis (including securitisation), improved from 33.1% to 30.7%. Net debt increased by $176.3 million from $469.0 million to $645.3 million, reflecting the discontinuation of a $200 million securitisation program in January 2005. Adjusting for the discontinued program, net debt was down by $23.7 million. The improvement in gearing was despite relatively high capital expenditure, the 4.1% increase in tonnes dispatched and increased working capital requirements associated with cost and price increases.

Interest Cover declined slightly from 5.1 times to 4.9 times when comparing the two periods.

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

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

The Final dividend was declared at 7.5 cents per share fully franked, bringing the total dividends declared for the year to 13.5 cents, which compares with a 12.0 cent fully franked dividend paid for the 12 months to June 2004. This represents a payout ratio of 57.4%. The record date for the dividend will be 16 September 2005, with the dividend due to be paid on 20 October 2005.

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 arithmetic average of the daily volume weighted average market price during the 10 consecutive trading days commencing on the date which is the second trading day after the Record Date for the relevant dividend.

Initiatives for Improving Profit

Following significant restructuring activities over the last four years, OneSteel is focusing its financial strategies on cash generation and improving returns while undertaking initiatives to take the business forward. These include:

- **Project Magnet** – In May the OneSteel Board gave final approval to the $325 million Project Magnet. Up to 30 June 2005, $30.5 million has been spent, of which $24.5 million was spent in the 2005 financial year. Construction, transhipping and marketing contractors have been appointed, with the mining contractor scheduled to be appointed by the end of the 2005 calendar year.

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

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

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

- **Information Systems** – the rollout of SAP across the Distribution business and parts of the Manufacturing businesses is 95% complete and operating well. The new system provides far more customer and sales information across the business, allowing greater insight into product movements, pricing and margin analysis and customer buying patterns.

- **Debt Refinancing** – in May 2005 OneSteel arranged new bilateral financing worth $200 million. The bilateral facilities will replace the $200 million securitisation program that was discontinued in January 2005 and provides certainty of funding. This follows the refinancing of $900 million of expiring four and five-year bank facilities in September 2004. At the time new three, five and seven-year facilities worth $800 million were put in place which extended the duration of OneSteel's debt facilities to five years and two months from three years and four months.

Significant and Subsequent Events

Since the completion of the financial year four significant events occurred.

1) A number of new appointments were made to the OneSteel senior management team in July 2005 following the appointment of Geoff Plummer as Chief Executive Officer and Managing Director in May 2005. They included:
    - Chris Keast – Executive General Manager Market Mills
    - Mark Parry – Executive General Manager Whyalla Steelworks
    - Andrew Roberts – Executive General Manager Marketing
    - Jim White - General Manager Technology and Environment

2) OneSteel announced the estimated major impact of the changes to the Australian Equivalents of the International Financial Reporting Standards as introduced from the 1st July 2005. The impacts on the opening balance sheet as at 1 July 2004, can be summarised as:

- Net estimated downward adjustment to Retained Profits of $126 million with the main components being:
    - $104 million from the write down of Non-current assets and Goodwill
    - $13 million from a Restatement of Deferred Tax balances
    - $8 million from the recognition of a deficit in the Defined Benefits Superannuation fund

- There will be some write back in property and equipment for the 30th June 2005 accounts associated with improved future cash projections. The amount of write back is currently being determined.

3) The appointment of BHP Billiton as marketing agent in respect of sales of iron ore products associated with Project Magnet.

4) OneSteel has completed enterprise bargaining agreements across its manufacturing business. The agreements are for a 13% increase in wages over a three-year period.

Outlook

Domestic market conditions are expected to remain favourable with expenditure in engineering and non-residential construction forecast to offset the residential slow down.

The mining and other manufacturing sectors are expected to grow offsetting any negative impacts from the automotive and rural sectors. OneSteel management will maintain focus on price leadership in response to the expected, ongoing volatility in raw material costs and international steel markets.

Over the medium term, management will be focussed on delivering Project Magnet and the discipline of tight cash management and cost control will be maintained to ensure OneSteel continues to meet its cash and other financial objectives.

Geoff Plummer
Managing Director &
Chief Executive Officer
OneSteel Limited
16th August, 2005

Australian Distribution

	2005	2004*	%
Revenue	1,785.3	1,537.0	16.2
EBITDA	164.2	127.1	29.2
EBITA	140.4	104.2	34.7
EBIT	128.2	92.2	39.0
Assets	1,189.2	1,116.2	6.5
Employees	2,483	2,391	3.8
Sales Margin	7.9%	6.8%	16.2
Funds Emp.	827.9	820.0	1.0
ROFE	17.0%	13.0%	30.8

Market Conditions

Domestic market conditions have been very strong, particularly mining and engineering projects in Queensland and Western Australia, which has offset lower activity in the residential market. The rural sector continues to be impacted by the drought.

Performance

Principal drivers of the $248 million growth in revenue were price increases, higher volume of tonnes and new business growth. The biggest increases in tonnage were in merchant bar and steel plate due to strong demand in the construction sector. All major product groups have encountered significant price increases from suppliers during the year. These have been passed across into the market place.

Steel and Tube performed well, with large project activity, particularly in Western Australia, helping to drive higher tonnage in structural steel and plate. Import competition in certain product areas remained reasonably strong although associated prices of imports increased.

Sheet, Coil and Aluminium volumes were boosted by ongoing demand in the commercial construction sector, particularly in New South Wales and Queensland.

Metaland's sales and margins improved as the year progressed with solid demand over all of its main product categories.

Pipe and Tube managed significant challenges during the year in an environment of dramatically increasing raw material costs and ongoing volume and price pressure from imports. The market for Pipe and Tube continued to be strong, particularly in the structural sector. The gas transmission pipeline market continues to have strong underlying demand although the deferral of one project resulted in lower volumes from the previous year.

Activity in **Piping Systems** increased over the year stemming from mining related project activity particularly in Western Australia and Queensland.

Initiatives

The implementation of the SAP system continued during the year with the Metaland rollout completed and the majority of Sheet, Coil and Aluminium undertaken.

Outlook

The outlook remains positive with the general construction market underpinning demand. The residential sector has softened but will be more than offset by growth in engineering and non-residential construction.

Australian Manufacturing

	2005	2004*	%
Revenue	2066.5	1,700.9	21.5
EBITDA	184.7	187.4	(1.4)
EBITA	119.1	130.3	(8.6)
EBIT	112.1	123.3	(9.1)
Assets	1,671.7	1,555.3	7.5
Employees	3,908	3,872	0.9
Sales Margin	5.8%	7.7%	(24.7)
Funds Emp.	1,118.9	1,065.5	5.0
ROFE	10.9%	12.3%	(11.4)

Market Conditions

Substantial movements were seen in international steel prices, driven by substantial raw material price movements along with tight supply and strong demand for certain steel products. Construction demand continued to be strong, particularly engineering construction.

Performance

Performance improved through continued cost reductions delivered from programs implemented across manufacturing sites and was enhanced by increased pricing. However, production difficulties at the Whyalla blast furnace had flow-on implications including revised manufacturing schedules, lost production and importing product at higher cost to meet customer requirements.

Whyalla Steelwork's operations experienced difficulties with over 100,000 tonnes of production lost. Very strong prices for steel slab and hot rolled structurals were positives for Whyalla's performance. Operational improvements enabled the **Sydney Steel Mill** to operate at record levels to build inventory for the reline of the Whyalla blast furnace, maximise recovery of volumes after Whyalla's production disruptions and to optimise opportunities in a period of high slab prices.

Hot rolled structural sales rose amid very strong project activity and increased steel intensity in multi-storey non-residential projects. Despite higher international prices, sales volumes and margins were negatively affected by the blast furnace's production difficulties.

Prices and volumes increased for **Rod and Bar** products, with sales of merchant bar strengthening further in line with marketing strategies and market conditions.

Reinforcing volumes grew, reflecting the continued strong demand for Bar and Mesh on the back of strong residential and non-residential construction markets. Queensland and WA continue to be key markets, and together with the M7 road project in NSW, supported significant growth in Bar.

Wire was affected by flat market activity in the rural sector due to severe drought in many areas, but manufacturing activity was stronger in an environment of rising international prices.

Initiatives

Continued effort will be placed on manufacturing excellence programs and substantial focus will be placed on extracting greater synergies from the vertically integrated nature of OneSteel's businesses.

Outlook

Domestic demand is anticipated to remain favourable. Management will maintain price leadership in the face of higher material input costs and dynamic international markets.

International Distribution

	2005	2004	%
Revenue	403.5	340.3	18.6
EBITDA	61.4	47.6	29.0
EBITA	56.1	42.7	31.4
EBIT	54.2	40.7	33.2
Assets	193.3	172.1	12.3
Employees	804	793	1.4
Sales Margin	13.9%	12.5%	11.2
Funds Emp.	159.9	140.2	14.1
ROFE	37.4%	31.7%	18.0

Market Conditions

Economic conditions in New Zealand remained strong, recording annual growth of 3.2% over the year. The decline in residential construction during the year was more than offset by the growth in commercial construction and infrastructure spending. Activity in the rural and manufacturing sectors remained subdued.

Performance

Steel & Tube posted a record net profit after tax of NZ$36.06 million, an improvement of 27% or NZ$7.6 million over the previous year. Earnings per share increased by 8.7 cents to 41 cents and ordinary dividends increased by 5 cents to 32 cents. All trading divisions performed well, benefiting from favourable conditions, with the exception of Hurricane Wire Products, which was down on the previous year. There were no lost time injuries during the year.

The **Steel Distribution and Processing** business performed extremely well led by strong commercial construction with improved margins across the main product categories. Plate and Coil Processing achieved record production.

The **Roofing Products** business recorded better results over the prior year due to continuing demand for residential and commercial roofing and cladding products.

Reinforcing operations achieved solid volume and margin improvement due to the more favourable type of contracts obtained over the year and growth in infrastructure spending.

The timing and quantum of **Hurricane Wire Products'** raw material price increases resulted in customers bringing forward some of their requirements which had the effect of reducing the volume of orders placed in the first quarter of the financial year. Additionally, Hurricane Wire Products was unable to recover the full effect of the raw material price increases.

Initiatives

Steel and Tube continues to focus on managing its business to deliver superior returns to its shareholders through cost-effective solutions to its customers.

Outlook

New Zealand economic growth is expected to slow in 2005/06. Consumer spending is still strong and while demand for new housing has eased from recent highs, spending on commercial construction and infrastructure continues at high levels.

*** The 2004 results have been restated to reflect the business restructure that came into effect 1 July 2005 whereby the Reinforcing business moved from Australian Distribution to Manufacturing, and the Pipe and Tube business moved from Manufacturing to Australian Distribution.**

OneSteel Financial Summary

	TWELVE MONTHS TO 30 JUNE						
			Statutory		Pro Forma		% Chg
	2005	2004	2003	2002	2001 excl prov	2001 incl prov	2005/2004
	$m	$m	$m	$m	$m	$m	%
PROFIT & LOSS SUMMARY							
Revenue	3,976.1	3,339.3	3,100.1	2,986.5	2,779.2	2,779.2	19.1
EBITDA	377.3	324.2	307.6	251.0	202.6	181.7	16.4
Depreciation/Amortisation	(118.6)	(108.1)	(106.3)	(103.1)	(99.2)	(144.0)	9.7
EBIT	258.7	216.1	201.3	147.9	103.4	37.7	19.7
Interest Expense	(53.0)	(42.2)	(44.5)	(54.4)	(61.8)	(61.8)	25.6
EBT	205.7	173.9	156.8	93.5	41.6	(24.1)	18.3
Tax Expense	(56.7)	(53.4)	(53.3)	(39.0)	(12.1)	2.1	6.2
Profit After Tax	149.0	120.5	103.5	54.5	29.5	(22.0)	23.7
OEI in Operating Profit After Tax	16.5	12.4	9.5	7.4	5.9	5.9	33.1
Profit Attributable to OneSteel	132.5	108.1	94.0	47.1	23.6	(27.9)	22.6

	TWELVE MONTHS TO 30 JUNE				
	2005	2004	2003	2002	2001
	$m	$m	$m	$m	$m
CASH FLOW SUMMARY					
Earnings before tax	203.2	156.9	157.9	86.8	47.5
Depreciation / Amortisation	118.6	108.1	106.3	103.1	99.2
Capital & investment expenditure	(126.8)	(151.4)	(130.9)	(70.8)	(108.4)
Working capital movements	(39.0)	(46.2)	17.5	(76.5)	183.2
Income tax payments	(54.1)	(33.8)	(24.0)	(20.8)	(39.6)
Asset sales	4.9	45.3	16.7	56.2	116.8
Other	0.2	6.0	(1.0)	65.9	(128.6)
Operating cash flow	107.0	84.9	142.5	143.9	170.1
Movement in securitisation	(201.2)				
Dividends paid	(84.8)	(73.3)	(54.1)	(35.1)	(16.0)
Capital movements	18.7	16.7	13.0	66.3	0.0
Total Cash Flow	(160.3)	28.3	101.4	175.1	154.1

	As at 30 June				
	2005	2004	2003	2002	2001
	$m	$m	$m	$m	$m
BALANCE SHEET					
Cash	55.0	54.2	19.5	11.4	14.1
Receivables	643.1	487.8	439.9	452.8	561.5
Inventory	836.7	704.6	591.0	574.1	540.3
Fixed Assets	1,245.5	1,202.8	1,167.4	1,160.0	1,224.2
Other Assets	339.3	353.8	359.2	383.7	370.7
TOTAL ASSETS	3,119.6	2,803.2	2,577.0	2,582.0	2,710.8
Borrowings	700.3	523.2	489.7	583.0	776.5
Creditors	615.7	569.9	467.7	425.1	444.4
Provisions	346.9	336.7	334.6	351.3	373.7
TOTAL LIABILITIES	1,662.9	1,429.8	1,292.0	1,359.4	1,594.6
NET ASSETS	1,456.7	1,373.4	1,285.0	1,222.6	1,116.2
Share Capital	1,115.0	1,096.3	1,079.6	1,066.6	995.0
Outside Equity Interest	61.2	56.7	54.7	53.1	52.1
Retained Profits / Reserves	280.5	220.4	150.7	102.9	69.1
SHAREHOLDER'S EQUITY	1,456.7	1,373.4	1,285.0	1,222.6	1,116.2

FINANCIAL CALENDAR

(subject to change)

Date	Event
16 August 2005	Annual results and final dividend announced
12 September 2005	Ex-dividend share trading commenced
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
31 December 2005	Financial half-year ends
21 February 2006	Half-year results and interim dividend announced
13 March 2006	Ex-dividend share trading commences
17 March 2006	Record date for interim dividend
20 April 2006	Interim dividend paid
30 June 2006	Financial year ends
22 August 2006	Annual results and final dividend announced
11 September 2006	Ex-dividend share trading commences
15 September 2006	Record date for final dividend
19 October 2006	Final dividend paid
19 October 2006	Annual Review mailed to shareholders
20 November 2006	Annual general meeting for 2006

NOTICE OF ANNUAL GENERAL MEETING

The 2005 Annual General Meeting of OneSteel Limited will be held at 2.30 pm, Monday 21 November 2005 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 2005.

DIRECTORS

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

P J Smedley

R B Davis – Appointed 1 December 2004

E J Doyle

R L Every – Resigned 1 May 2005

C R Galbraith

D E Meiklejohn – Resigned 28 February 2005

P G Nankervis – Appointed 1 December 2004

G J Plummer – Appointed 20 December 2004

D A Pritchard

N J Roach

Details of the qualifications, experience and responsibilities of directors are set out on page xx 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 xx to xx of the Annual Review. There were no significant changes in the nature of the principal activities of the OneSteel Group during the 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 xx to xx of the Annual Review.

Net profit after income tax attributable to members of the parent entity, for the financial year was $132.5m (2004: $127.9m) with earnings per share of 23.65 cents (2004: 23.2 cents). The net profit for the financial year ended 30 June 2004 included a tax benefit of $19.8m arising from entry into tax consolidation.

DIVIDENDS

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

	$ m
Final dividend 7.5 cents per share payable on 20 October 2005, fully franked at a 30% tax rate on fully paid shares	42.3
Interim dividend 6 cents per share paid on 21 April 2005, fully franked at a 30% tax rate on fully paid shares	33.7
Final dividend 7 cents per share paid on 14 October 2004, fully franked at a 30% tax rate on fully paid shares	39.0

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 2005. Commentary on the overall state of affairs of the OneSteel Group is set out on pages xx to xx 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 and periodically subjected to internal, independent external and government agency audits and site inspections. The environment report is set out on pages xx and xx of the Annual Review.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since 30 June 2005 and to the date of this report, no other matter or circumstance has arisen that has significantly affected or may significantly affect:

- the OneSteel Group's operations in future financial years; or
- the results of those operations in future years; or
- the 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 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 pages xx and xx of the Annual Review.

TABLE – DIRECTORS' MEETINGS

	Board of Directors	Audit & Compliance Committee	Occupational Health, Safety & Environment Committee	Human Resources Committee	Governance & Nominations Committee
Number of meetings held	12	5	4	3	6
Number of meetings attended					
P J Smedley	12			3	6
R B Davis	6		2		
E J Doyle	12	5	4		
R L Every	10				
C R Galbraith	12	5			6
D E Meiklejohn	9	3		2	
P G Nankervis	6	3			
G J Plummer	6				
D A Pritchard	11	5	4		
N J Roach	12		4	3	

Notes:
1. Dr R L Every and Mr D E Meiklejohn attended all Board and relevant Board Committee meetings held prior to their resignation.
2. Messrs R B Davis, P G Nankervis and G J Plummer attended all Board and relevant Board Committee meetings held since their respective appointments.
3. The Board established an Operational Risk Committee in late June 2005. The Committee held its first meeting in August 2005.

REMUNERATION REPORT

This report outlines OneSteel's philosophy and guiding principles for the remuneration and reward of directors, executives and senior management. The report also details actual remuneration paid to directors and executives during the year ended 30 June 2005.

Remuneration Philosophy

The objective of the company's remuneration framework is to recognise skills and experience, and to reward for performance and results to ensure the achievement of strategic objectives leading to creation of value for shareholders. In achieving this objective a key principle is to provide competitive remuneration that will attract, develop and retain both senior executives and directors.

Human Resources Committee

The Board's Human Resources Committee is responsible for reviewing remuneration policies and practices, including compensation and arrangements for executive directors and senior executives, 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 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 Human Resources Committee. The Human Resources Committee has access to independent advice and comparative studies on the appropriateness of remuneration arrangements. The Human Resources Committee makes recommendations to the Board which makes final remuneration decisions in respect of directors and senior executives.

Remuneration Structure

In accordance with corporate governance best practice, the structure of the company's non-executive director remuneration is separate and distinct from that applicable to executive directors and senior executives.

Non-Executive Directors' Remuneration

The Board, in conjunction with the Human Resources Committee, seeks to establish non-executive director remuneration at a level which enables the company to attract and retain directors of the highest calibre at a cost that is responsible and acceptable to shareholders. The remuneration arrangements now applying are in line with industry practices and guidelines and they affirm the commitment of the company to the principles of good corporate governance.

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

(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 aggregate remuneration under (a) and (b) above must be less than the limit (currently $1,300,000) imposed by Article 9.8 of the Constitution of the company and as approved by shareholders under ASX Listing Rule 10.17.

The amount of aggregate remuneration, and the manner in which it is apportioned amongst directors is reviewed periodically by the Human Resources Committee and the Board. The Board considers advice from independent external consultants and reviews fees paid to non-executive directors from a cross section of comparable companies in making determinations.

Each non-executive director receives a fee for being a director of the company. Additional fees are not paid for additional duties such as sitting on Board Committees. Non-executive directors have not been granted share rights or options, and do not receive any bonus or other compensation linked to the company's performance, apart from the long-term component of remuneration described below.

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 is 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. Dividends in respect of these shares are paid to directors at the time that dividends are paid to shareholders.

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 in existence until 17 November 2003 was approved by shareholders during the 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 foregoing 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 2005 are set out in the Table A on page 6. The table assigns an annualised value to share rights and options allocated to both the current Managing Director, Mr G J Plummer and the previous Managing Director, Dr R L Every. The basis of remuneration of each Managing Director is also included in Table A on page 6.

Senior Executives' Remuneration

The company's remuneration policy for executive directors and senior executives (including the company secretary) 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.

In determining the level and composition of executive director and senior executives' remuneration, the company draws on internal resources and independent external advisers to ensure its practices are market competitive, flexible and in keeping with emerging trends in good corporate governance. Remuneration is reviewed annually in July and changes applied from 1 September. The Human Resources Committee reviews the Managing Director's remuneration arrangements. In the case of senior executives the Managing Director makes recommendations to the Human Resources Committee. The Board approves all remuneration changes for executive directors and senior executives.

For executive directors and senior executives remuneration consists of a fixed annual reward that incorporates consideration for a base salary and other benefits including superannuation and fringe benefits tax, plus an at risk component that comprises:

- a Short–Term Incentive (STI) that rewards the delivering of annual business goals, and
- a Long–Term Incentive (LTI) that periodically allocates shares and options for achieving sustained performance over a three–year period.

The proportions of fixed and at risk reward are established for each executive relative to their position's job size and in terms of the company's policies. The policy is for the remuneration of the Managing Director to be 50% fixed remuneration and 50% at risk while for senior executives the proportions are 60 % fixed remuneration and 40% at risk.

Fixed Annual Reward

The level of base salary is set so as to provide a level of remuneration that is both appropriate to the executive's skills, experience and performance as well as competitive in the market. Salaries are reviewed annually. The process entails review of company, business unit and individual performance, relative comparative remuneration in the market and internal, and as appropriate, independent external advice on policies and practices.

Senior executives are given the opportunity to receive their base or primary remuneration in a variety of forms including cash and fringe benefits such as motor vehicles.

Short Term Incentive (STI)

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

The performance measures used for STI are established each year by the Board for the Managing Director and the senior executives. The specific measures are derived from OneSteel Budgets and Business Plans and include profit, cash and return on funds employed in addition to agreed personal goals. Using these parameters, the Managing Director and senior executives then set the individual safety, business and personal goals for other senior management. Therefore objectives for STI are based on planned/budgeted performance, incorporate stretch targets and are dependent on the achievement of continuous improvement.

Payments under STI are based on a set percentage of salary for achievement of goals. STI payments are not paid for the maintenance of previously attained performance levels. Payments can range from nil to 200% of the target level of 100%. STI is normally paid in cash but individuals may salary sacrifice for example into superannuation and the purchase of OneSteel shares.

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. The actual payment of STI is subject to final Board approval.

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.

Long-Term Incentive (LTI)

The LTI Plan is restricted to senior executives, including senior management, and executive directors. The objective of the LTI is to reward the participating executives in a manner which aligns this element of remuneration with the creation of shareholder wealth over a sustained period.

Allocations of rights to shares or options under the LTI Plan are made on a periodic basis as deemed appropriate by the Board. The same vesting requirements are applied to both rights to shares and options.

Options that were issued to executives during the year ended 30 June 2001 and 30 June 2002 were fully vested during the year ended 30 June 2005. No further options have been issued since those referred to above. Rights to shares have been issued periodically since year ended 30 June in 2001. Details of shares that vested in senior executives during the year ended 30 June 2005 are in the tables supporting this Remuneration Report.

When vesting rules are satisfied, 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 are held in trust during this period and vesting of both shares and options is subject to the company achieving specific performance hurdles at the end of this period. If the shares and options do not vest immediately at the end of the three-year qualifying period, provisions exist that enable re-testing of the performance hurdles quarterly for senior executives and six monthly for the current Managing Director over a two-year period. In addition, all or some of these shares and options may vest to an individual executive on termination when special circumstances apply. At the discretion of the Board these include redundancy, death and permanent disability.

Dividends in respect of rights to shares held by an executive are distributed to executives in accordance with their respective allocations at the time the dividend is paid by the company and before shares vest.

The company granted performance dependent rights to ordinary shares to certain senior executives during the year ended 30 June 2005. Details of the grants made to the five most highly remunerated senior executives including the valuation methodology are shown in Table B on page 7. These executives are identical to the "specified executives" as defined in AASB 1046.

The performance hurdles for the vesting of shares and options allocated under the LTI Plan relate to two comparative groups, namely the Australian Consumer Price Index plus 5% (Base Index) and the S&P/ASX 200 Index excluding banks, media and telecommunications (Comparator Index), that are measured against OneSteel's performance in terms of Total Shareholder Return (TSR) which is broadly share price growth plus dividends. For each instalment, 50% of the shares or options will vest subject to OneSteel's TSR performance to the Base Index and the remaining 50% of shares or options will vest subject to OneSteel's performance to the Comparator Index. The use of a relative TSR hurdle is consistent with market best practice as it ensures an alignment between comparative shareholder return and reward for executives. Prior to the approval of the vesting of shares or options the Board obtains independent external verification that vesting conditions have been satisfied.

The vesting of shares or options allocated under the Comparator Index hurdle applies as follows:

- 50% will vest if OneSteel's TSR performance equates to a 50th percentile ranking with the S&P/ASX200 Index
- if a ranking between the 50th and 75th percentile is achieved, vesting is on a straight-line basis, with all vesting at or above the 75th percentile ranking.

This revised vesting scale was established in 2004 and applied to all rights to shares allocated during the period.

Where rights to shares and options were granted under the LTI Plan prior to 30 June 2004, the performance hurdles then applying were the same measures for the Base Index and the Comparator Index described above. However, the vesting scale applicable for all these shares or options is the same as the vesting scale set out above that currently applies only for the Base Index.

The vesting of shares or options allocated under the Base Index performance hurdle is determined in accordance with the following vesting 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%

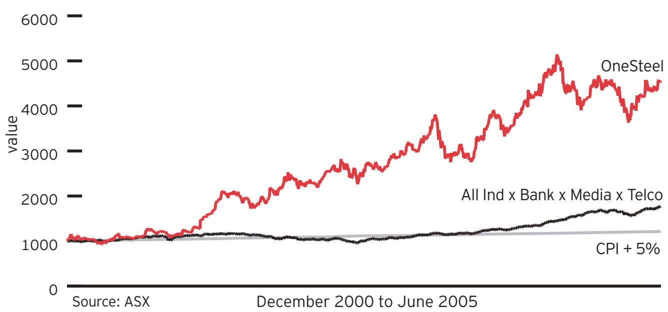
Company Performance

During the period since listing in October 2000 the company has each year progressively delivered profit and dividend growth to members.

Year Ended 30 June	Profit $m	Dividend cents per share	Earnings Per Share cents
2005	132.5	13.5	23.6
2004	127.9	12.0	23.2
2003	94.0	11.0	17.2
2002	47.1	6.5	8.7
2001	(27.9)	6.0	5.1

The graph below clearly demonstrates the out-performance of the designated performance hurdles by the company over the period that the measurement of vesting under the LTI Plan is applicable. The graph compares the OneSteel Total Shareholder Return against the Comparator Index (the S&P/ASX200 Index excluding banks, media and telecommunications) and the Base Index (the Australian Consumer Price Index plus 5%).

OneSteel Share Price



Senior Executives' Remuneration Details

The following people comprised the five most highly remunerated executives of, and the executives with the greatest authority for managing, OneSteel and its subsidiaries during all of the financial year:

N Calavrias, Managing Director & CEO, Steel & Tube Holdings Limited

R W Freeman, Executive General Manager – Distribution

W J Gately, General Manager – Human Resources & Safety

G J Plummer, Executive General Manager – Market Mills (until 20 December 2004)

A J Reeves, Chief Financial Officer

L J Selleck, Executive General Manager – Project Magnet

Details of fixed annual reward payments and short-term incentive payments made to the applicable senior executives for the year ended 30 June 2005 are set out in Table A on page 6. This table also assigns an annualised value to share rights and options allocated under the LTI plan.

The above executives may terminate their employment with three months written notice. The company may terminate the employment of these executives for cause or not for cause. Depending on individual executives' contracts, if the company terminates employment, other than for cause, the company for recently appointed executives (A J Reeves and R W Freeman) may pay up to 1.0 times' annual salary at the time of termination and a pro-rata amount of STI. Other executives are tied to a pre-existing service based company redundancy policy which has a maximum payment of up to 2.0 times' annual salary at time of termination plus a pro-rata amount of STI.

Employment Contract – R L Every

Dr R L Every was the Managing Director and Chief Executive Officer of the company until his retirement on 1 May 2005. His contract of employment was to expire on 20 January 2006. As announced by the company on 20 December 2004, the planned Managing Director and Chief Executive Officer succession process involved the Company and Dr Every agreeing that he retire prior to the expiry of his current contract.

Under Dr Every's contract of employment his remuneration comprised a base salary, other benefits, superannuation, a short-term incentive payment (STI) and participation in a long-term incentive plan (LTI) which allocates shares and options from time to time. Both STI and LTI are explained elsewhere in the Remuneration Report.

The Managing Director's contract of employment on renewal in 2002 included a provision for the company to make a grant of 782,319 performance dependent rights to shares under the LTI provisions. At the annual general meeting held on 18 November 2002 shareholders approved the allocation 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 $653,028 has been charged to the Statement of Financial Performance during the year ended 30 June 2005 in respect of the shares acquired during the current financial year. These shares were to become eligible for vesting in December 2005 subject to the performance hurdles outlined on page 3 of the Remuneration Report.

The Managing Director's remuneration package included provision for an early termination payment of the balance of his contract and any pro-rata payment of applicable STI. The terms of the LTI share issue, approved by shareholders at the annual general meeting on 18 November 2002, also provided the Board with discretion to authorise the early withdrawal of shares in circumstances the Board considered appropriate.

Therefore, in accordance with the terms of his employment contract, Dr Every received an agreed payment of $1,390,768, which included a payment representing his base salary for the balance of his contract period and an amount of $600,000 for short-term incentives up until the expiry of his contract on 20 January 2006. In addition to this payment, Dr Every was paid his statutory entitlements of $495,692 that comprised his accrued annual leave and long service leave. Dr Every was a member of the Defined Benefits Division of the OneSteel Superannuation Fund and received a payment from this fund for his 21 years of service with both OneSteel and its previous owner BHP. The Board also agreed with Dr Every to permit, at the time of retirement, the vesting of the 782,319 shares granted under the OneSteel LTI plan referred to above. The Board determined it was appropriate for these shares to fully vest in Dr Every given that all but six months of the three-year vesting period had elapsed and performance hurdles had been and still continue to be met.

Specific details of all payments and share entitlements of Dr Every are included in Table A on page 6.

Employment Contract – Mr G J Plummer

Mr Geoff Plummer was appointed as Managing Director and Chief Executive Officer on 2 May 2005 for a fixed term of 5 years following a period as Deputy Managing Director from 20 December 2004 until 1 May 2005.

Mr Plummer's remuneration comprises three components. These are base remuneration, short-term incentive and long-term incentives.

He will be paid a base remuneration of $1,200,000 per annum inclusive of superannuation and novated car leases. The base remuneration will be reviewed by the Board's Remuneration Committee each year and may be increased or remain unchanged (but not be decreased) as a result of this review.

The short-term incentive payment in any year will be determined by the Board in consultation with Mr Plummer by assessment of Mr Plummer's performance against financial, business, safety and personal targets set by the Board in consultation with Mr Plummer at the start of each financial year.

For the long-term component of his remuneration, Mr Plummer will be granted two separate allocations of shares during this term. He was allocated the First Instalment on 6 May 2005 when 1,058,040 shares were allocated at the prevailing market price representing two times' base remuneration. A second instalment will be allocated on the second anniversary of his commencement as Managing Director and Chief Executive Officer, with a fair market value intended to represent an amount equivalent to one and one third times' base remuneration. The vesting criteria for these shares are outlined in the section on Long-Term Incentive appearing earlier in this Remuneration Report.

In accordance with the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, Mr Plummer's termination entitlements have been agreed in advance. The Board is satisfied, after considering independent advice, that Mr Plummer's termination entitlements that are set out below are reasonable having regard to current employment practices.

If the employment of Mr Plummer terminates at the end of the fixed term or the end of an extension period, by death, illness, incapacity, or by appropriate notice by either party he will be paid his base remuneration and any accrued untaken statutory leave entitlements calculated to the termination date. Mr Plummer will also be entitled to be paid any amount of short-term incentive which has accrued from the previous financial year. The Board, in its absolute discretion, will determine the amount of the short-term incentive payable for the financial year in which termination occurs, if any.

In addition, if the employment of Mr Plummer terminates at the end of the fixed term or the end of an extension period, by death, by illness, by incapacity, by appropriate notice by OneSteel or by notice from Mr Plummer due to a fundamental change in the business the Board, in its absolute discretion, will determine whether Mr Plummer may be able to withdraw some or all of the shares granted under the LTI Share Plan which have not vested.

In addition, if the employment is terminated during any applicable notice period, Mr Plummer will also be entitled to a payment in lieu of notice of up to the aggregate base remuneration paid to Mr Plummer over the previous 12 months.

Mr Plummer is required to provide six months' notice of termination or a lesser period where there is a fundamental change in the business or OneSteel is in breach or default of its obligations under the service contract. If Mr Plummer terminates his employment within 6 months after the occurrence of a fundamental change, he will be entitled to a payment equivalent to the aggregate base remuneration paid to him over the previous 12 months, in addition to the payments referred to above.

If, during the employment period, Mr Plummer is terminated for cause, OneSteel will have no further obligations other than the amount of base pay due to Mr Plummer through to his termination date plus any unpaid amounts of accrued leave.

Upon termination of Mr Plummer's employment for any reason, Mr Plummer is prohibited from engaging in any activity that would compete with OneSteel for a period of 12 months.

A comprehensive summary of Mr Plummer's employment contract was lodged with the Australian Stock Exchange on 20 December 2004 and a copy of this release is available on the OneSteel website.

Details of Mr Plummer's remuneration and share entitlements of Mr Plummer are included in the tables supporting this Remuneration Report.

REMUNERATION REPORT

Table A – Remuneration of specified directors and specified executives

		Primary			Post Employment		Equity		Other	
2005		Salary & Fees $	Cash Bonus $	Non Monetary Benefits $	Super-annuation $	Retirement Benefits $	Options $	Shares and share rights $	Termination Benefits $	Total $
Specified directors										
P J Smedley	2005	250,000	–	–	–	–	–	112,500	–	362,500
	2004	250,000	–	–	11,250	91,575	–	67,099	–	419,924
R L Every	2005	1,000,000	600,000	4,272	323,235	–	–	305,104	1,886,460	4,119,071
	2004	1,200,000	1,000,000	–	156,000	–	65,673	768,481	–	3,190,154
G J Plummer	2005	712,588	460,000	4,507	69,065	–	3,000	205,001	–	1,454,161
	2004	–	–	–	–	–	–	–	–	–
R B Davis	2005	49,000	–	–	4,410	–	–	17,640	–	71,050
	2004	–	–	–	–	–	–	–	–	–
E J Doyle	2005	84,000	–	–	7,560	–	–	30,240	–	121,800
	2004	84,000	–	–	7,560	29,319	–	18,765	–	139,644
C R Galbraith	2005	84,000	–	–	7,560	–	–	30,240	–	121,800
	2004	84,000	–	–	7,560	29,319	–	18,765	–	139,644
D E Meiklejohn	2005	61,040	–	–	5,040	–	–	20,160	–	86,240
	2004	84,000	–	–	7,560	29,319	–	18,765	–	139,644
P G Nankervis	2005	49,000	–	–	–	–	–	22,050	–	71,050
	2004	–	–	–	–	–	–	–	–	–
D A Pritchard	2005	84,000	–	–	7,560	–	–	30,240	–	121,800
	2004	84,000	–	–	7,560	29,319	–	18,765	–	139,644
N J Roach	2005	84,000	–	–	7,560	–	–	30,240	–	121,800
	2004	84,000	–	–	7,560	29,319	–	18,765	–	139,644
Total	2005	2,457,628	1,060,000	8,779	431,990	–	3,000	803,415	1,886,460	6,651,272
	2004*	1,870,000	1,000,000	–	205,050	238,170	65,673	929,405	–	4,308,298
Specified executives										
N Calavrias	2005	460,774	355,007	7,358	34,949	–	–	–	–	858,088
	2004	417,604	280,803	7,200	31,500	–	–	–	–	737,107
R W Freeman	2005	515,163	249,000	–	46,365	–	3,000	93,907	–	907.435
	2004	463,908	195,000	–	41,751	–	15,384	125,948	–	841,991
W J Gately	2005	326,413	140,000	4,507	44,067	–	1,000	51,234	–	567,221
	2004	–	–	–	–	–	–	–	–	–
G J Plummer	2005	–	–	–	–	–	–	–	–	–
	2004	397,436	267,000	31,322	51,520	–	9,745	90,469	–	847,492
A J Reeves	2005	505,427	219,000	–	45,488	–	2,916	93,739	–	866,570
	2004	460,904	200,000	–	41,940	–	11,665	103,198	–	817,707
L J Selleck	2005	403,013	180,000	70,136	54,457	–	2,500	86,270	–	796,376
	2004	319,505	195,000	112,569	41,360	–	8,313	74,864	–	751,611
Total	2005	2,210,790	1,143,007	82,001	225,326	–	9,416	325,150	–	3,995,690
	2004*	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) The share rights have been valued using the Monte Carlo simulation option pricing model, modified to incorporate an estimate of the probability of achieving the TSR hurdle and the number of share rights 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 $96,569

(6) The termination amount for R L Every includes an eligible termination payment of $1,390,768 and the payment of outstanding annual leave and long service leave balances of $495,692

(7) Mr G J Plummer was a specified executive in 2004 and was appointed as a director on 20 December 2004. His total remuneration while he was a director was $315,959.

(8) Mr D E Meiklejohn retired as a director on the 28 February 2005. In addition to the above remuneration he was paid a retirement allowance of $247,900 from the retirement plan discontinued on the 17 November 2003.

TABLE B – 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, with the vesting equal to 100% of the options granted.

	Vested Number
Specified directors	
G J Plummer	90,000
Specified executives	
R W Freeman	90,000
W J Gately	30,000
A J Reeves	233,300
L J Selleck	75,000
Total	518,300

TABLE C – Shares issued on exercise of remuneration options

	Shares issued Number	Paid $ per share	Unpaid $ per share	Value of Option $
Specified directors				
R L Every	2,462,735	0.9258	–	4,714,167
G J Plummer	140,420	0.9258	–	284,238
Total	2,603,155			4,998,405
Specified executives				
R W Freeman	241,298	0.8848	–	495,916
A J Reeves	233,300	0.9087	–	420,243
Total	474,598			916,159

TABLE D – Option holdings of specified directors and specified executives

	Balance at 1 July 2004	Granted as remuneration	Options Exercised	Net Change Other	Balance at 30 June 2005	Vested at 30 June 2005 Exercisable
Specified directors						
R L Every	2,462,735	–	(2,462,735)	–	–	–
G J Plummer	230,420	–	(140,420)	–	90,000	90,000
Specified executives						
R W Freeman	331,298	–	(241,298)	–	90,000	90,000
W J Gately	30,000	–	–	–	30,000	30,000
A J Reeves	233,300	–	(233,300)	–	–	–
L J Selleck	75,000	–	–	–	75,000	75,000
Total	3,362,753	–	(3,077,753)	–	285,000	285,000

TABLE E – Remuneration shares rights: granted and vested during the year

During the year the following grants of rights to shares under the Long Term Incentive Scheme were made. Details of the scheme and the performance hurdles are explained in the Remuneration Report.

	Granted Number	Grant Date	Value per share at Grant Date ($)	Fair Aggregate Value at Grant Date $	First Exercise Date	Last Exercise Date
Specified Directors						
G J Plummer	85,086	03-Sep-04	2.9382	190,593	3-Sep-07	3-Sep-09
	1,058,040	06-May-05	2.2683	1,999,696	6-May-08	6-May-10
Specified Executives						
R W Freeman	85,086	03-Sep-04	2.9382	190,593	3-Sep-07	3-Sep-09
W J Gately	45,946	03-Sep-04	2.9382	102,919	3-Sep-07	3-Sep-09
A J Reeves	85,086	03-Sep-04	2.9382	190,593	3-Sep-07	3-Sep-09
L J Selleck	85,086	03-Sep-04	2.9382	190,593	3-Sep-07	3-Sep-09

The following share rights vested during the year based on the achievement of performance hurdles and the expiry of the three year vesting period.

	Vested Number
Specified directors	
R L Every	782,319
G J Plummer	75,000
Specified executives	
R W Freeman	75,000
W J Gately	25,000
A J Reeves	174,975
L J Selleck	60,000
Total	1,192,294

TABLE F – Share rights holdings of specified directors and specified executives

	Balance at 1 July 2004	Granted as remuneration	Vested	Net change other	Balance at 30 June 2005	13-Dec-05	Vesting Date 3-Sep-07	6-May-08
Specified directors								
R L Every	782,319	–	(782,319)	–	–	–	–	–
G J Plummer	143,998	1,143,126	(75,000)	–	1,212,124	68,998	85,086	1,058,040
Specified executives								
R W Freeman	143,998	85,086	(75,000)	–	154,084	68,998	85,086	–
W J Gately	68,280	45,946	(25,000)	–	89,226	43,280	45,946	–
A J Reeves	243,973	85,086	(174,975)	–	154,084	68,998	85,086	–
L J Selleck	116,453	85,086	(60,000)	–	141,539	56,453	85,086	–
Total	1,499,021	1,444,330	(1,192,294)	–	1,751,057	306,727	386,290	1,058,040

TABLE G – Shareholdings of specified directors and specified executives

	Balance at 1 July 2004	Granted as remuneration	On Exercise of Options	On Vesting of Shares	Net Change Other	Balance at 30 June 2005
Specified directors						
P J Smedley	118,719	41,924	–	–	–	160,643
G J Plummer	302,240	–	140,420	75,000	(247,316)	270,344
R B Davis	–	3,678	–	–		3,678
E J Doyle	92,524	11,269	–	–	–	103,793
C R Galbraith	64,822	11,269	–	–	–	76,091
P G Nankervis	–	4,598	–	–	3,000	7,598
D A Pritchard	55,382	11,269	–	–	–	66,651
N J Roach	180,597	11,269	–	–	–	191,866
Specified executives						
N Calavrias	24,145	–	–	–	1,140	25,285
R W Freeman	180,974	–	241,298	75,000	(241,298)	255,974
W J Gately	7,807	–	–	25,000	844	33,651
A J Reeves	28,449	–	233,300	174,975	(230,388)	206,336
L J Selleck	174,021	–	–	60,000	1,671	235,692
Total	1,229,680	95,276	615,018	409,975	(712,347)	1,637,602

The shareholdings of former directors, at the date they retired, was as follows

	Balance at 1 July 2004	Granted as remuneration	On Exercise of Options	On Vesting of Shares	Net Change Other	Balance at Retirement
R L Every	1,954,845	–	2,462,735	782,319	(3,000,000)	2,199,899
D E Meiklejohn	15,382	8,509	–	–	–	23,891
Total	1,970,227	8,509	2,462,735	782,319	(3,000,000)	2,223,790

COMPANY SECRETARY

Information on the qualification and experience of the company secretary is set out on page xx of the Annual Review.

NO OFFICERS ARE FORMER AUDITORS

No officer of the OneSteel Group has been a partner of an audit firm or a director of an audit company that is or was an auditor of any entity in the OneSteel Group during the year ended 30 June 2005.

SHARE RIGHTS AND OPTIONS

During the year there were 1,602,255 rights to shares and 1,051,580 options that vested to management under the terms of the Long Term Incentive Plan. There were 12,000 options forfeited during the year. During, or since the end of the financial year, the company has issued 3,410,111 shares as a result of the exercise of options. Details relating to the exercise of these options are included in Note 24 of the Full Financial Statements. There are no amounts unpaid on the shares issued.

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

Expiry Date	Exercise Price	Number of Shares
15 December 2009	$0.9258	275,435
21 December 2010	$1.0434	617,000

The options do not entitle the holder to participate in any share issue of the company. Shares held in trust under the Long-Term Incentive Plan carry voting rights.

DIRECTORS' INTERESTS

During the financial year, directors acquired ordinary shares in the company at market prices, either directly or indirectly, as set out in the Remuneration Report.

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 other than Dr R L Every and Mr G J Plummer as set out in the Remuneration Report.

The relevant interest of each director in the shares, rights to shares, options or other instruments of the company and related bodies corporate are set out in the Remuneration Report.

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 xx 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 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 $545,627 (2004: $200,131), exclusive of GST, of which $140,897 was outstanding at 30 June 2005 (2004: nil). Mr Galbraith was not personally involved in the provision of these services.

LOANS TO DIRECTORS AND EXECUTIVES

There were no loans made to or outstanding with directors or executives.

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.

NON-AUDIT SERVICES

During the year, OneSteel's auditors, Ernst & Young, provided non-audit services to OneSteel Group entities.

In accordance with advice from OneSteel's Audit & Compliance Committee, the directors are satisfied that the provision of the non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act. Also in accordance with advice from OneSteel's Audit & Compliance Committee, the directors are satisfied that the nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Details of the amounts paid or payable to the auditor, Ernst & Young, for the provision of non-audit services during the year ended 30 June 2005 are as follows:

Tax compliance services	$633,213
Accounting advice	$75,250
Other services	$56,585

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration made under Section 307C of the Corporations Act, set out below, forms part of the Directors' Report.

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 16th day of August 2005 in accordance with a resolution of directors.

Peter Smedley
Chairman

Geoff Plummer
Managing Director

AUDITORS' INDEPENDENCE DECLARATION TO THE DIRECTORS OF ONESTEEL LIMITED

In relation to our audit of the financial report of OneSteel Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Craig M. Jackson
Partner
Sydney, 16 August 2005

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STATEMENT OF **FINANCIAL PERFORMANCE**

FOR THE YEAR ENDED 30 JUNE	Note	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Sales revenue	2	3,938.5	3,269.2	–	–
Cost of sales		(3,156.4)	(2,626.6)	–	–
Gross profit		782.1	642.6	–	–
Other revenues from operating activities	2	29.8	22.9	154.0	66.9
Other revenues from non-operating activities	2	7.8	47.2	–	–
Operating expenses excluding borrowing costs	2	(561.6)	(496.9)	(78.8)	(3.5)
Borrowing costs	2	(53.0)	(42.2)	–	–
Share of net profit of associate accounted for using the equity method	9	0.6	0.3	–	–
Profit from ordinary activities before income tax expense		205.7	173.9	75.2	63.4
Income tax expense relating to operating activities	3	(56.7)	(53.4)	(1.3)	(0.9)
Income tax benefit arising from entering tax consolidation	3	–	19.8	–	–
Total income tax expense from ordinary activities		(56.7)	(33.6)	(1.3)	(0.9)
Net profit from ordinary activities after related income tax		149.0	140.3	73.9	62.5
Net profit attributable to outside equity interests	21	(16.5)	(12.4)	–	–
Net profit attributable to members of the parent entity		**132.5**	**127.9**	**73.9**	**62.5**
Net exchange difference on translation of financial statements of self-sustaining foreign operations	19	0.2	2.2	–	–
Total revenues and expenses attributable to members of the parent entity and recognised directly in equity		0.2	2.2	–	–
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of OneSteel Limited		**132.7**	**130.1**	**73.9**	**62.5**
Basic earnings per share (cents per share)	4	23.65	23.22		
Diluted earnings per share (cents per share)	4	23.63	23.11		
On operating activities before the impact of tax consolidation	4(c)				
Basic earnings per share (cents per share)		–	19.62		
Diluted earnings per share (cents per share)		–	19.54		

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

STATEMENT OF **FINANCIAL POSITION**

AS AT 30 JUNE		CONSOLIDATED		PARENT	
	Note	2005 $m	2004 $m	2005 $m	2004 $m
Current assets					
Cash assets	23(a)	55.0	54.2	–	–
Receivables	6	643.1	487.8	310.2	209.9
Inventories	8	836.7	704.6	–	–
Other	13	8.3	8.5	0.6	–
Total current assets		1,543.1	1,255.1	310.8	209.9
Non-current assets					
Investments accounted for using the equity method	9	7.3	7.4	–	–
Other financial assets	7	8.8	0.3	1,084.2	1,160.2
Property, plant and equipment	10	1,228.4	1,188.2	–	–
Exploration and development expenditures	11	17.1	14.6	–	–
Intangibles	12	226.0	246.9	–	–
Deferred tax assets	3	59.5	61.6	55.5	57.8
Other	13	29.4	29.1	1.6	–
Total non-current assets		1,576.5	1,548.1	1,141.3	1,218.0
Total assets		3,119.6	2,803.2	1,452.1	1,427.9
Current liabilities					
Payables	14	615.7	569.9	–	–
Interest-bearing liabilities	15	48.8	45.7	–	–
Tax liabilities	3	17.4	20.1	17.6	16.7
Provisions	16	96.0	88.9	–	–
Total current liabilities		777.9	724.6	17.6	16.7
Non-current liabilities					
Interest-bearing liabilities	15	651.5	477.5	–	–
Deferred tax liabilities	3	131.8	128.5	131.9	128.5
Provisions	16	101.7	99.2	–	–
Total non-current liabilities		885.0	705.2	131.9	128.5
Total liabilities		1,662.9	1,429.8	149.5	145.2
Net assets		**1,456.7**	**1,373.4**	**1,302.6**	**1,282.7**
Equity					
Contributed equity	18	1,115.0	1,096.3	1,115.0	1,096.3
Reserves	19	3.0	2.8	–	–
Retained profits	20	277.5	217.6	187.6	186.4
Parent entity interest		1,395.5	1,316.7	1,302.6	1,282.7
Outside equity interest	21	61.2	56.7	–	–
Total equity		**1,456.7**	**1,373.4**	**1,302.6**	**1,282.7**

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

STATEMENT OF **CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE		CONSOLIDATED		PARENT	
	Note	2005 $m	2004 $m	2005 $m	2004 $m
			Inflows/(outflows)		
Cash flows from operating activities					
Receipts from customers		3,894.0	3,244.9	3.5	3.5
Payments to suppliers and employees		(3,562.6)	(2,981.8)	(5.6)	(3.5)
Dividends received		–	–	146.0	60.0
Interest received		2.4	2.3	4.5	3.4
Interest and other costs of finance paid		(50.2)	(43.3)	–	–
Operating cash flows before income tax		283.6	222.1	148.4	63.4
Income taxes paid		(54.1)	(33.8)	(1.2)	(0.7)
Net operating cash flows	23(b)	**229.5**	**188.3**	**147.2**	**62.7**
Cash flows from investing activities					
Purchases of property, plant and equipment		(123.7)	(141.5)	–	–
Exploration and development expenditure		(3.2)	–	–	–
Purchases of businesses		(0.6)	(0.5)	–	–
Purchases of controlled entities net of their cash	23(c)	–	(9.4)	–	–
Proceeds from sale of property, plant and equipment		4.9	45.3	–	–
Proceeds from repayment of preference shares by associate		0.7	–	0.7	–
Repayment of loan by non-related parties		0.1	2.7	–	–
Net investing cash flows		**(121.8)**	**(103.4)**	**0.7**	**–**
Cash flows from financing activities					
Proceeds from issue of shares	18	3.1	0.7	3.1	0.7
Proceeds from borrowings		701.8	232.8	–	–
Repayment of borrowings		(635.1)	(226.4)	–	–
Settlement of the securitisation program		(201.2)	–	–	–
Proceeds from finance leases		105.6	–	–	–
Repayment of principal of finance leases		(11.8)	–	–	–
Repayment of loans from related party		–	–	(93.9)	(19.0)
Dividends paid		(69.3)	(57.3)	(57.1)	(44.4)
Net financing cash flows		**(106.9)**	**(50.2)**	**(147.9)**	**(62.7)**
Net increase in cash and cash equivalents		**0.8**	**34.7**	**–**	**–**
Cash and cash equivalents at the beginning of the year		54.2	19.5	–	–
Cash and cash equivalents at the end of the year	23(a)	**55.0**	**54.2**	**–**	**–**

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

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE

REFERENCE

NOTE	CONTENTS	PAGE

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These general purpose consolidated financial statements for the year ended 30 June 2005 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 2005 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 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

The accounting policies are consistent with those applied in the previous financial year:

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 28.

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.

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.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the present value of the minimum lease payments and classified as capitalised lease assets. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability, with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

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 24.

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 24.

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.

NOTE 2. **PROFIT AND LOSS ITEMS**

	Note	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Profit from ordinary activities is after crediting the following revenues:					
Revenues from operating activities:					
Product sales		3,934.9	3,265.8	–	–
Rendering of services		3.6	3.4	–	–
Total sales revenues		3,938.5	3,269.2	–	–
Interest revenue from non-related parties		2.4	2.3	–	–
Interest revenue from controlled entity		–	–	4.5	3.4
Dividend revenue from controlled entities		–	–	146.0	60.0
Other revenue		27.4	20.6	3.5	3.5
Other revenues from operating activities		29.8	22.9	154.0	66.9
Total revenues from operating activities		3,968.3	3,292.1	154.0	66.9
Revenues from non-operating activities:					
Proceeds from sale of non-current assets		4.9	45.3	–	–
Rental income		2.9	1.4	–	–
Email management fee		–	0.5	–	–
Total revenues from non-operating activities		7.8	47.2	–	–
Profit from ordinary activities is after charging the following expenses:					
Manufacturing expenses		92.3	75.4	–	–
Distribution expenses		105.2	80.9	–	–
Marketing expenses		100.2	90.1	–	–
Administrative expenses		207.3	167.0	–	–
Other expenses (a)		53.6	54.8	3.5	3.5
Carrying value of non-current assets sold		3.0	28.7	–	–
Total operating expenses excluding borrowing costs		561.6	496.9	3.5	3.5

(a) includes goodwill amortisation of $21.1m (2004: $21.0m) not attributable to specific functions.

	Note	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Borrowing costs:					
Interest expense related to:					
Bank loans		44.2	41.6	–	–
Finance leases		8.7	–	–	–
Amortisation of loan facility fees		0.6	2.1	–	–
		53.5	43.7	–	–
Less: Borrowing costs capitalised (b)		(0.5)	(1.5)	–	–
Total borrowing costs		53.0	42.2	–	–

(b) weighted average interest rate of 6.1%.

	Note	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
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	9.7	–	–
Plant and equipment		79.3	76.9	–	–
Leased assets		7.8	–	–	–
Exploration and development expenditures		0.7	0.5	–	–
Amortisation of goodwill		21.1	21.0	–	–
Diminution in carrying value of investment	7	–	–	75.3	–
Restructuring/redundancy costs		4.1	4.7	–	–
Superannuation company contributions (all funds)		43.2	41.4	–	–

NOTE 2. **PROFIT AND LOSS ITEMS (CONTINUED)**

		CONSOLIDATED		PARENT	
	Note	2005 $m	2004 $m	2005 $m	2004 $m
Other items:					
Net foreign exchange (gains)		(0.9)	(4.0)	–	–
Bad debts written off		3.5	1.5	–	–
Charge to provision for doubtful debts		0.5	1.3	–	–
Net (gains) on sale of non-current assets		(1.9)	(16.6)	–	–
Write down of inventory to net realisable value		8.6	0.3	–	–
Minimum operating lease rentals		42.0	36.0	–	–
Charge for provision for employee benefits		86.0	93.4	–	–
Research and development costs		42.0	26.8	–	–

NOTE 3. **TAXATION**

	CONSOLIDATED		PARENT	
	2005 $m	2004 $m	2005 $m	2004 $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	205.7	173.9	75.2	63.4
Prima facie income tax expense calculated at 30%	61.7	52.2	22.6	19.0
Increase in income tax expense due to:				
Non-deductible depreciation and amortisation	7.5	7.6	–	–
Effect of higher tax rate on overseas income	1.6	1.2	–	–
Non-deductible expenses	0.7	1.1	–	–
Diminution of investment	–	–	22.6	–
Decrease in income tax expense due to:				
Rebate for dividends	–	–	–	–
Franking credits on dividends received	–	–	(43.8)	(18.0)
Amounts over provided in prior year (a)	(7.1)	(3.3)	–	–
Research and development allowance	(6.4)	(2.2)	–	–
Capital gains non-taxable	–	(3.0)	–	–
Share of net profit of associate	(0.2)	(0.1)	–	–
Employee share plan	(0.1)	(0.1)	(0.1)	(0.1)
Other items	(1.0)	–	–	–
Income tax expense on profit from operating activities	56.7	53.4	1.3	0.9
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	–	–	38.2	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	–	–	(38.2)	(19.8)
Income tax benefit arising from entering tax consolidation	–	(19.8)	–	–
Total income tax expense from ordinary activities	56.7	33.6	1.3	0.9

(a) The majority of the prior year over–provision relates to the finalisation of research and development claims.

NOTE 3. TAXATION (CONTINUED)

	CONSOLIDATED		PARENT	
	2005 $m	2004 $m	2005 $m	2004 $m
(b) Current tax liabilities				
Income tax payable	17.4	20.1	17.6	16.7
(c) Deferred tax liabilities				
Provision for deferred income tax – attributable to timing differences	131.8	128.5	131.9	128.5
(d) Deferred tax assets				
Future income tax benefits – attributable to timing differences	59.5	61.6	55.5	57.8

(e) Tax consolidation

OneSteel Limited and its 100% owned Australian subsidiaries are a tax consolidated group. 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 was recognised in the 2004 year as a consequence of resetting tax values of certain assets in subsidiaries and which 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	
	2005 $m	2004 $m
The following reflects the earnings and share data used in the calculation of basic and diluted earnings per share:		
(a) Earnings		
Net profit	149.0	140.3
Net profit attributable to outside equity interests	(16.5)	(12.4)
Earnings used in calculating basic and diluted earnings per share	132.5	127.9
(b) Number of ordinary shares		
	Number of shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	560,275,036	550,866,541
Dilutive effect of executive share options (a)	542,717	2,466,903
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	560,817,753	553,333,444

(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 24: Employee benefits.

(c) Impact of entering tax consolidation in 2004

The calculation of earnings per share before the impact of tax consolidation was based on earnings of $108.1m arising from operating activities. The tax consolidation impact on earnings was an increase of $19.8m.

Issues after 30 June 2005

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.

NOTE 5. **SEGMENT REPORTING**

	AUSTRALIA					INTERNATIONAL		CONSOLIDATED
2005	Manufacturing $m	Distribution $m	Unallocated $m	Eliminations $m	Total $m	Distribution $m	Eliminations $m	$m
Segment revenues								
Revenues from customers outside the consolidated entity	1,805.4	1,765.0	2.2	–	3,572.6	403.5	–	3,976.1
Inter-segment revenues	261.1	20.3	15.8	(252.3)	44.9	–	(44.9)	–
Total revenues	2,066.5	1,785.3	18.0	(252.3)	3,617.5	403.5	(44.9)	3,976.1
Share of net profit of equity-accounted associate	–	–	0.6	–	0.6	–	–	0.6
Other non-cash expenses	(0.9)	(2.3)	–	–	(3.2)	(0.3)	–	(3.5)
EBITDA	184.7	164.2	(19.1)	(1.6)	328.2	61.4	(12.3)	377.3
Depreciation and amortisation	(72.6)	(36.0)	(2.8)	–	(111.4)	(7.2)	–	(118.6)
EBIT	112.1	128.2	(21.9)	(1.6)	216.8	54.2	(12.3)	258.7
Borrowing costs								(53.0)
Income tax expense								(56.7)
Profit after tax before minority interests								149.0
Segment assets	1,638.2	1,174.7	100.1	(47.8)	2,865.2	190.8	(3.2)	3,052.8
Equity accounted investment	–	–	7.3	–	7.3	–	–	7.3
Tax assets								59.5
Consolidated assets								3,119.6
Segment liabilities	423.7	315.8	742.1	(43.1)	1,438.5	75.2	–	1,513.7
Tax liabilities								149.2
Consolidated liabilities								1,662.9
Non-current assets acquired	108.7	13.6	16.0	–	138.3	5.2	–	143.5

	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	1,471.8	1,513.7	13.5	–	2,999.0	340.3	–	3,339.3
Inter-segment revenues	229.1	23.3	10.2	(219.1)	43.5	–	(43.5)	–
Total revenues	1,700.9	1,537.0	23.7	(219.1)	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	187.4	127.1	(24.7)	(0.2)	289.6	47.6	(13.0)	324.2
Depreciation and amortisation	(64.1)	(34.9)	(2.2)	–	(101.2)	(6.9)	–	(108.1)
EBIT	123.3	92.2	(26.9)	(0.2)	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	1,519.6	1,102.6	89.0	(142.1)	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	334.3	258.2	675.0	(48.3)	1,219.2	62.0	–	1,281.2
Tax liabilities								148.6
Consolidated liabilities								1,429.8
Non-current assets acquired	99.4	39.7	7.6	–	146.7	4.9	–	151.6

NOTE 5. **SEGMENT REPORTING (CONTINUED)**

Segment activities – Australia

Due to a change in the management structure of OneSteel in the current year, the composition of the segments has changed, with the Pipe & Tube business moving from Manufacturing to Australian Distribution and the Reinforcing business moving from Australian Distribution to Manufacturing. The 2004 comparative numbers have also been restated to reflect this change.

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.

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

The National Reinforcing Business manufactures and distributes reinforcing product around Australia.

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

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 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	2005 $m	2004 $m	2005 $m	2004 $m
Current					
Trade debtors (a)		616.1	437.1	–	–
Less: Provision for doubtful debts		(3.6)	(3.9)	–	–
		612.5	433.2	–	–
Non-trade debtors		30.6	54.6	–	–
Loan to controlled entity	32	–	–	217.2	123.3
Tax related balances with controlled entities	32	–	–	93.0	86.6
		643.1	487.8	310.2	209.9

(a) The value of trade receivables at 30 June 2004 would have been $107.7m higher but for the sale of such receivables under a debtors securitisation program. Collections of $113.4m were held on behalf of the purchasers of the receivables and were classified as other creditors (see note 14). The program was discontinued in February 2005.

Trade debtors (excluding Metalcard receivables within the Australian Distribution operations) are non-interest bearing and are generally on 30 day terms. $32.0m (2004: $30.1m) 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 10.9% (2004: 10.6%). The parent entity loan to its controlled entity is interest bearing at an average interest rate throughout the year of 4.25%.

NOTE 7. **OTHER FINANCIAL ASSETS**

	Note	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Non-current					
Investments in controlled entities – at cost	28	–	–	1,153.1	1,153.1
Less: Provision for diminution		–	–	(76.2)	–
Investment in unlisted associate entity – at cost (a)	9	–	–	8.3	9.0
Less: Provision for diminution		–	–	(1.0)	(1.9)
Interest-bearing loan to associate (b)	32	0.3	0.3	–	–
Investment in partnership (c)		8.5	–	–	–
		8.8	0.3	1,084.2	1,160.2

(a) OneSteel Limited's investment in its associate, Bekaert Australia Steel Cord Pty Limited, was reduced by the receipt of a first installment made on redeemable preference shares. The preference shares are non–interest bearing.

(b) An interest-bearing loan at an average interest rate throughout the year of 6.45% (2004: 6.47%).

(c) Represents OneSteel's share in the partnership involved in the sale & leaseback of items of plant & equipment.

NOTE 8. **INVENTORIES**

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Current				
Raw materials				
At net realisable value	0.2	0.3	–	–
At cost	136.5	127.8	–	–
	136.7	128.1	–	–
Work in progress				
At net realisable value	5.3	3.1	–	–
At cost	40.3	37.2	–	–
	45.6	40.3	–	–
Finished goods				
At net realisable value	7.6	10.1	–	–
At cost	569.6	452.2	–	–
	577.2	462.3	–	–
Stores, Spares and other				
At net realisable value	1.1	1.1	–	–
At cost	76.1	72.8	–	–
	77.2	73.9	–	–
Total inventories				
At net realisable value	14.2	14.6	–	–
At cost	822.5	690.0	–	–
	836.7	704.6	–	–

NOTE 9. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	CONSOLIDATED	
	2005 $m	2004 $m
Investment in associate	7.3	7.4
Interest in associate		
Bekaert Australia Steel Cord Pty Limited		
Principal activity: Manufacture of steel wire products		
Balance date: 31 December		
Ownership interest: 50% (2004: 50%)		
Carrying amount of investment in associate		
Balance at the beginning of the financial year	7.4	7.1
Share of associate's net profit	0.6	0.3
Installment received on redeemable preference shares	(0.7)	–
Balance at the end of the financial year	7.3	7.4
Share of associate's profits		
Net profit before income tax	0.7	0.5
Income tax expense attributable to net profit	(0.1)	(0.2)
Net profit after income tax	0.6	0.3
Share of associate's assets and liabilities		
Current assets	6.7	6.3
Non-current assets	10.1	12.2
Current liabilities	(3.1)	(2.8)
Non-current liabilities	(6.4)	(8.3)
Net assets	7.3	7.4
Retained profits of the consolidated group attributable to associate		
Balance at the beginning of the financial year	0.3	–
Share of associate's net profit	0.6	0.3
Balance at the end of the financial year	0.9	0.3

NOTE 10. **PROPERTY, PLANT AND EQUIPMENT**

	CONSOLIDATED				
2005	Land $m	Buildings $m	Plant and equipment $m	Leased assets $m	Total $m
Movements in carrying amounts					
Cost					
Carrying value at the beginning of the year	63.9	291.8	1,506.1	–	1,861.8
Additions	0.1	4.8	118.8	16.0	139.7
Business assets acquired	–	–	0.1	–	0.1
Disposals	(0.6)	(1.6)	(21.1)	–	(23.3)
Transfer from plant and equipment to leased assets	–	–	(176.1)	97.9	(78.2)
Net foreign currency differences on translation of self-sustaining foreign operations	–	0.1	0.2	–	0.3
Carrying value at the end of the year	63.4	295.1	1,428.0	113.9	1,900.4
Accumulated depreciation					
Carrying value at the beginning of the year	–	91.5	582.1	–	673.6
Depreciation	–	9.7	79.3	7.8	96.8
Disposals	–	(0.8)	(19.5)	–	(20.3)
Transfer from plant and equipment to leased assets	–	–	(78.2)	–	(78.2)
Net foreign currency differences on translation of self-sustaining foreign operations	–	–	0.1	–	0.1
Carrying value at the end of the year	–	100.4	563.8	7.8	672.0
Net book value 30 June 2005	63.4	194.7	864.2	106.1	1,228.4
Net book value 30 June 2004	63.9	200.3	924.0	–	1,188.2
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 were last obtained at June 2003, based on fair value assuming highest and best use.

NOTE 11. **EXPLORATION AND DEVELOPMENT EXPENDITURES**

	CONSOLIDATED
	2005 $m
Movements in carrying amounts	
Cost	
Carrying value at the beginning of the year	16.7
Additions	3.2
Carrying value at the end of the year	19.9
Accumulated depreciation	
Carrying value at the beginning of the year	2.1
Depreciation	0.7
Carrying value at the end of the year	2.8
Net book value 30 June 2005	17.1
Net book value 30 June 2004	14.6

NOTE 12. **INTANGIBLES**

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Goodwill at cost	440.2	439.9	–	–
Accumulated amortisation	(214.2)	(193.0)	–	–
	226.0	246.9	–	–

NOTE 13. **OTHER ASSETS**

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Current				
Deferred borrowing costs	0.6	0.4	–	–
Prepayments	7.7	8.1	0.6	–
	8.3	8.5	0.6	–
Non-current				
Deferred borrowing costs	1.8	1.1	–	–
Deferred stripping costs	24.3	27.6	–	–
Prepayments	3.3	0.4	1.6	–
	29.4	29.1	1.6	–

NOTE 14. **PAYABLES**

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Trade creditors	551.5	405.2	–	–
Other creditors and accruals (a)	64.2	164.7	–	–
	615.7	569.9	–	–

(a) At 30 June 2004 collections of $113.4m were held on behalf of the purchasers of receivables under a debtors securitisatio program and were classified as other creditors. The program was discontinued in February 2005.

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

NOTE 15. **INTEREST–BEARING LIABILITIES**

	Note	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Current					
Finance lease liability	25	21.0	–	–	–
Short term unsecured borrowings					
Bank loans (a)		27.8	45.7	–	–
		48.8	45.7	–	–

(a) Bank loans represents at call borrowings provided to Steel & Tube Holdings Group by the ANZ Bank and the National Bank of New Zealand at an average interest rate of 7.1% (2004: 6.1%).

NOTE 15. **INTEREST–BEARING LIABILITIES (CONTINUED)**

	Note	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Non-current					
Finance lease liability	25	89.5	–	–	–
Long term unsecured borrowings					
Bank loans (a)		353.7	269.1	–	–
US Private placement (b)		169.6	185.1	–	–
Other					
Loss on cross currency hedge (c)		38.7	23.3	–	–
		651.5	477.5	–	–

(a) Bank loans consist of the following:

(i) Drawdowns of $340m of loans provided to the OneSteel Group by a syndicate of banks. The loans have an average interest rate of 6.33% with repayment dates of September 2007 ($200m) and September 2009 ($140m). 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 $13.7m (NZ$15m) of loans provided to Steel & Tube Holdings Group by the ANZ Bank and the National Bank of New Zealand with an average interest rate of 6.73% and with a repayment date of March 2010.

(b) $169.6m (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 7.20% and a twelve year tranche (US$60m) repayable in April 2015, swapped back to an average Australian floating interest rate of 7.11%.

(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 33(c): Financial instruments.

(d) The financial lease liabilities relate to a sale and leaseback arrangement for certain items of manufacturing plant and equipment and for the purchase of mining equipment. The sale and leaseback arrangement has a five year life, while the mining equipment has a lease term of two years. The average discount rate implicit in the leases is 9.6%.

NOTE 16. **PROVISIONS**

	Note	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Current					
Employee benefits	24	79.6	76.1	–	–
Restoration and rehabilitation (i)		0.2	0.2	–	–
Environmental (ii)		0.9	1.6		
Restructuring costs (iii)		0.2	0.8	–	–
Customer claims (iv)		15.1	10.1		
Other		–	0.1	–	–
		96.0	88.9	–	–
Non-current					
Employee benefits	24	92.6	90.8	–	–
Restoration and rehabilitation (i)		9.1	8.4	–	–
		101.7	99.2	–	–

(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 sites.

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

(iv) Provision for customer claims
The customer claims provision relates to estimates of settlement with customers for faulty or defect product and/or legal costs associated with such claims.

NOTE 16. **PROVISIONS (CONTINUED)**

	CONSOLIDATED
	2005 $m
Movements in Provisions	
Restoration and rehabilitation	
Carrying amount at the beginning of the year	8.6
Additional amounts provided	1.0
Amounts utilised	(0.3)
Carrying amount at the end of the year	9.3
Environmental	
Carrying amount at the beginning of the year	1.6
Amounts utilised	(0.7)
Carrying amount at the end of the year	0.9
Restructuring	
Carrying amount at the beginning of the year	0.8
Amounts utilised	(0.6)
Carrying amount at the end of the year	0.2
Customer claims	
Carrying amount at the beginning of the year	10.1
Additional amounts provided	7.6
Amounts utilised	(2.6)
Carrying amount at the end of the year	15.1
Other	
Carrying amount at the beginning of the year	0.1
Amounts utilised	(0.1)
Carrying amount at the end of the year	–

NOTE 17. **SELF-INSURANCE WORKERS' COMPENSATION PROVISION**

	CONSOLIDATED	
	2005 $m	2004 $m
Obligations under self-insurers workers' compensation licences included in provision for employee benefits		
New South Wales	17.2	18.2
Queensland	1.5	2.0
Victoria	2.5	3.8
South Australia	3.0	4.0
Western Australia	0.7	0.6
Total self-insurance workers' compensation provision	24.9	28.6

NOTE 18. **CONTRIBUTED EQUITY**

	CONSOLIDATED		PARENT	
	2005 $m	2004 $m	2005 $m	2004 $m
Share capital				
Number of ordinary shares: 563,821,883 (2004: 554,882,602)				
Issued and paid-up	1,115.0	1,096.3	1,115.0	1,096.3
Total contributed equity	1,115.0	1,096.3	1,115.0	1,096.3

	Number of Ordinary shares		Value of Ordinary shares	
	2005	2004	2005 $m	2004 $m
Movements in contributed equity for the year:				
On issue at the beginning of the year	554,882,602	546,865,654	1,096.3	1,079.6
Issued during the year:				
Under the Employee Share Ownership Scheme (a)	–	–	–	–
From the exercise of options (b)	3,410,111	726,810	3.1	0.7
Under a Dividend Reinvestment Plan (c)	5,529,170	7,290,138	15.6	16.0
On issue at the end of the year	563,821,883	554,882,602	1,115.0	1,096.3

(a) Refer note 24: 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 24: 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 $3.00 (October 2004) and $2.57 (April 2005).

(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 892,435 (2004: 4,314,546) options outstanding as issued from this plan – refer note 24: 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.

NOTE 19. **RESERVES**

	CONSOLIDATED		PARENT	
	2005 $m	2004 $m	2005 $m	2004 $m
Foreign currency translation reserve				
Balance at the beginning of the year	2.8	0.6	–	–
Exchange fluctuations on overseas net assets	0.2	2.2	–	–
Balance at the end of the year	3.0	2.8	–	–

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 20. **RETAINED PROFITS**

	CONSOLIDATED		PARENT	
	2005 $m	2004 $m	2005 $m	2004 $m
Retained profits at the beginning of the year	217.6	150.1	186.4	184.3
Net profit attributable to members of the parent entity	132.5	127.9	73.9	62.5
Dividends provided and paid in the current year	(72.7)	(60.4)	(72.7)	(60.4)
Other	0.1	–	–	–
Retained profits at the end of the year	277.5	217.6	187.6	186.4

NOTE 21. **OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES**

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Movements in outside equity interests in controlled entities:		
Balance at the beginning of the year	56.7	54.7
Share of net profit	16.5	12.4
Dividends paid	(12.2)	(12.9)
Exchange fluctuations on overseas net assets	0.1	2.2
Other	0.1	0.3
Balance at the end of the year	61.2	56.7

NOTE 22. **DIVIDENDS**

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

2005	On ordinary shares $m	Dividend per ordinary share $
Interim fully franked dividend for 2005, paid 21 April 2005	33.7	0.06
Final fully franked dividend for 2004, paid 14 October 2004	39.0	0.07
	72.7	
2004		
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	

Dividend Franking

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

	PARENT 2005 $m	PARENT 2004 $m
The amount of franking credits available for the subsequent financial year, represented by the franking account balance at 30% are:	3.5	1.1

The balance of the franking account balance at year end has been adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years.

NOTE 23. **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 2005 $m	CONSOLIDATED 2004 $m	PARENT 2005 $m	PARENT 2004 $m
Cash and cash equivalents	55.0	54.2	–	–

NOTE 23. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

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

	CONSOLIDATED		PARENT	
	2005 $m	2004 $m	2005 $m	2004 $m
Net profit after income tax	149.0	140.3	73.9	62.5
Adjusted for non cash items:				
Depreciation and amortisation	118.6	108.1	–	–
Bad debts written off	3.5	1.5	–	–
Net gain on sale of fixed assets	(1.9)	(16.6)	–	–
Share of associate profit after tax	(0.6)	–	–	–
Diminution in value of investment	–	–	75.3	–
Changes in assets and liabilities net of effects from purchase and sale of controlled entities and businesses:				
(Increase)/decrease in receivables	(79.7)	(48.6)	(6.4)	(86.6)
(Increase)/decrease in inventories	(131.8)	(109.6)	–	–
(Increase)/decrease in future income tax benefit	2.1	(5.8)	2.3	(57.8)
(Increase)/decrease in other assets	0.6	(1.3)	(2.2)	–
Increase/(decrease) in tax provisions	0.6	5.5	4.3	144.6
Increase/(decrease) in payables	159.5	115.0	–	–
Increase/(decrease) in other provisions	9.6	(0.2)	–	–
Net operating cash flow	229.5	188.3	147.2	62.7

Non-cash investing and financing activities

(i) During the year, dividends of $15.6m (2004: $16.0m) were paid via the issue of shares under a dividend re-investment plan.

(ii) During the year, plant and equipment with an aggregate value of $16.0m (2004: NIL) was acquired by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

(c) Acquisition of controlled entities

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	2005 $m	2004 $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 outflow			–	9.4

NOTE 23. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(d) Acquisition of businesses
Assets arising as a result of minor business acquisitions made by the OneSteel Group during the year were as follows:

	CONSOLIDATED	
ASSETS AND CONSIDERATION GIVEN	2005 $m	2004 $m
Minor business acquisitions		
Cash consideration paid	0.6	0.5
The carrying amounts of assets acquired by major class are:		
Inventories	0.3	–
Plant and equipment	0.1	–
Goodwill arising on acquisition	0.2	0.5
	0.6	0.5
Outflow of cash on minor business acquisitions		
Cash outflow	0.6	0.5

NOTE 24. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2005	2004
The number of employees as at 30 June:	7,395	7,272
(a) Employee entitlements	$m	$m
The aggregate employee entitlement liability (including on-costs) is comprised of:		
Provisions (current)	70.6	63.5
Provisions (non-current)	76.7	74.8
Total employee entitlements (excluding workers compensation provision)	147.3	138.3

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

Employee Share Plans

An offer under the employee share plan was made in May 2004 and those employees who are permanent OneSteel employees (full-time and part-time), in Australia and pay Australian tax, as at 1 April 2004 (excluding OneSteel Directors) 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 purchased on market or 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 May 2005, with the first shares to be purchased in July 2005.

Executive Share Plan (Long Term Incentive Plan)

The executive share plan for senior management provides for the grant of rights to shares and options. During the year grants of share rights were made to eligible executives, however the option plan was not used. The shares granted 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 Limited shares traded on the Australian Stock Exchange for the five days up to and including the date they are granted.

A total of $1.1m has been recognised as an expense in the Statement of Financial Performance for equity based remuneration in relation to shares bought for the long term incentive plan.

The performance hurdles relate to two comparative groups (the Australian Consumer Price Index plus 5% and the SP 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 are included in the remuneration report as contained in the Directors' Report.

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.

NOTE 24. **EMPLOYEE BENEFITS (CONTINUED)**

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 2005 Steel & Tube did not purchased any shares under its employee share plan while 50,000 shares were purchased during the year for its executive share plan. 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	
	2005	2004
Employee Share Plan		
Total number issued to employees during the year ('000's)	185	188
Total number issued to employees since the commencement of the scheme ('000's)	9,980	9,795
Total number of employees eligible to participate in the scheme	6,360	–
Total market value of issues during the year ($m)	0.5	0.4
Proceeds received and receivable from issues during the year ($m)	–	–

	Held in Trust (000's)			
	Ordinary Shares		Options	
	2005	2004	2005	2004
Executive Long Term Incentive Plan				
Balance at the beginning of the year	2,135	4,867	4,314	5,041
Total number of shares purchased, options granted during the year	2,467	261	–	–
Total number of options exercised and shares issued	–	–	(3,410)	(727)
Total number of shares vested	(1,602)	(2,983)	–	–
Total number of shares/options forfeited	(37)	(10)	(12)	
Balance at the end of the year	2,963	2,135	892	4,314
Total market value of issues/purchases during the year ($m)	6.4	0.5	–	–
Proceeds received and receivable from issues during the year ($m)	–	–	3.1	0.7

Options exercised

(i) The following table summarises information about options exercised by employees during the year ended 30 June 2005.

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
2,462,735	15-Dec-00	26-Aug-04	15-Dec-09	0.9258	2,280,000	2,462,735	26-Aug-04	2.84
241,298	9-Apr-01	27-Aug-04	9-Apr-10	0.8848	213,500	241,298	27-Aug-04	2.94
34,889	15-Dec-00	31-Aug-04	15-Dec-09	0.9258	32,300	34,889	31-Aug-04	2.90
30,200	15-Dec-00	8-Sep-04	15-Dec-09	0.9258	27,959	30,200	8-Sep-04	2.98
61,958	15-Dec-00	9-Sep-04	15-Dec-09	0.9258	57,361	61,958	9-Sep-04	3.01
35,749	3-Sep-01	9-Sep-04	3-Sep-10	1.0350	37,000	35,749	9-Sep-04	3.01
140,420	15-Dec-00	15-Sep-05	15-Dec-09	0.9258	130,001	140,420	15-Sep-05	2.95
3,088	15-Dec-00	17-Sep-04	15-Dec-09	0.9258	2,859	3,088	17-Sep-04	2.90
17,000	21-Dec-01	6-Oct-04	21-Dec-10	1.0434	17,738	17,000	6-Oct-04	3.12
5,931	24-Sep-01	25-Nov-04	25-Sep-10	0.9143	5,423	5,931	25-Nov-04	2.68
8,600	24-Sep-01	2-Dec-04	25-Sep-10	0.9143	7,863	8,600	2-Dec-04	2.57
27,000	21-Dec-01	22-Feb-05	21-Dec-10	1.0434	28,172	27,000	22-Feb-05	2.82
15,000	21-Dec-01	24-Feb-05	21-Dec-10	1.0434	15,651	15,000	24-Feb-05	2.75
7,500	24-Sep-01	24-Feb-05	25-Sep-10	0.9143	6,857	7,500	24-Feb-05	2.75
18,000	21-Dec-01	2-Mar-05	21-Dec-10	1.0434	18,781	18,000	2-Mar-05	2.79
7,500	24-Sep-01	10-Mar-05	25-Sep-10	0.9143	6,857	7,500	10-Mar-05	2.77
943	15-Dec-00	14-Mar-05	15-Dec-09	0.9258	873	943	14-Mar-05	2.67
18,000	21-Dec-01	14-Mar-05	21-Dec-10	1.0434	18,781	18,000	14-Mar-05	2.67
41,000	21-Dec-01	16-Mar-05	21-Dec-10	1.0434	42,779	41,000	16-Mar-05	2.71
233,300	1-Oct-01	16-Mar-05	1-Oct-10	0.9087	212,000	233,300	16-Mar-05	2.71

NOTE 24. **EMPLOYEE BENEFITS (CONTINUED)**

(ii) 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

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

				Shares (000's)		Options (000's)	
Grant Date	Earliest Vesting Date	Option Expiry Date	Option Exercise Price	2005	2004	2005	2004
15-Dec-00	15-Dec-03	15-Dec-09	$0.9258	–	–	275	3,009
9-Apr-01	9-Apr-04	9-Apr-10	$0.8848	–	–	–	241
3-Sep-01	3-Sep-04	3-Sep-10	$1.0350	–	27	–	36
24-Sep-01	24-Sep-04	23-Sep-10	$0.9143	–	22	–	30
1-Oct-01	1-Oct-04	30-Sep-10	$0.9087	–	175	–	233
21-Dec-01	21-Dec-04	21-Dec-10	$1.0434	–	596	617	765
13-Dec-02	13-Dec-05	–	–	773	1,054	–	–
12-Dec-03	12-Dec-06	–	–	–	261	–	–
3-Sep-04	3-Sep-07	–	–	1,126	–		
31-Jan-05	31-Jan-08	–	–	7	–		
6-May-05	6-May-08	–	–	1,058	–		
				2,964	2,135	892	4,314

Of the 0.892m options held, all have vested.

(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.

		2005			
		Accrued Benefits	Plan Assets	Net Surplus	Vested Benefits
Name of fund	Fund type	$m	$m	$m	$m
OneSteel Superannuation Fund	Defined benefit	303.9	306.4	2.5	303.6

The June 2005 numbers are based on actuarial estimates performed by the Russell Investment Group as at March 2005 rolled forward to June using the same assumptions.

The most recent triennial actuarial investigation was performed by Russell Investment Group on 30 June 2004. As the valuations are normally performed every three years, the next one is to be based on 30 June 2007 balances.

NOTE 25. CAPITAL EXPENDITURE AND LEASE COMMITMENTS

	CONSOLIDATED		PARENT	
	2005 $m	2004 $m	2005 $m	2004 $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	228.2	42.5	–	–
Due later than one year and not later than five years	4.9	0.5	–	–
Total commitments for capital expenditure	233.1	43.0	–	–
Lease expenditure commitments				
Operating leases				
Due not later than one year	25.8	31.2	–	–
Due later than one year and not later than five years	49.8	59.3	–	–
Due later than five years	10.8	28.4	–	–
Total commitments under operating leases	86.4	118.9	–	–
Finance leases				
Due not later than one year	31.1	–	–	–
Due later than one year and not later than five years	108.6	–	–	–
Minimum lease payments	139.7	–	–	–
Less: Future finance charges	(29.2)	–	–	–
Total lease liability	110.5	–	–	–
Lease liability – current	21.0	–	–	–
Lease liability – non-current	89.5	–	–	–
Total lease liability	110.5	–	–	–

NOTE 26. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

(a) Contingent liabilities

	CONSOLIDATED		PARENT	
	2005 $m	2004 $m	2005 $m	2004 $m
Guarantees and indemnities:				
Bank guarantees covering:				
Workers compensation self-insurance licences	38.4	39.0	38.4	39.0
Performance of contracts	21.6	35.1	2.8	2.8

As explained in Note 28, 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:

OneSteel has a contract dispute with United KG over work undertaken for the reline of the Whyalla blast furnace. OneSteel stands by its expenditure estimates that have been included in the financial statements for the total project and intends to vigorously defend any action undertaken by United KG.

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.

(b) Contingent assets

An insurance claim, relating to incidents that have occurred at the Whyalla blast furnace during the first half of the financial year, is being prepared. Insurers have been advised of the incidents and work is progressing on quantification of the claim. Recovery under the Group's insurance policy will not be booked in the financial statements until the claim is accepted by the insurers and it can be properly quantified.

NOTE 27. FINANCING ARRANGEMENTS

	CONSOLIDATED		
2005	Accessible $m	Drawn Down $m	Unused $m
Working capital facilities (a)	25.0	–	25.0
US Private Placement (b)	169.6	169.6	–
Bank loan facilities (c)	1,067.5	381.5	686.0
Bank overdraft (d)	15.7	–	15.7
Total financing facilities	1,277.8	551.1	726.7

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

(a) Various facilities with expiry dates ranging from one to three years.

(b) US$ senior notes facilities available in two tranches – a seven year tranche (US$68m) to be repaid April 2010 and a twelve year tranche (US$60m) to be repaid April 2015.

(c) Revolving credit facilities available in three tranches – a three year tranche ($300m) to be repaid September 2007, a five year tranche ($300m) to be repaid September 2009 and a seven year tranche ($200m) to be repaid September 2011 together with other bilateral facilities with expiry dates of up to three years.

(d) Expiry date of October 2005.

NOTE 28. **CONTROLLED ENTITIES**

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

ENTITY	Notes	Place of incorporation	% of shares held 2005	% of shares held 2004
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
J Murray-Moore (Holdings) Pty Limited	(b)	Australia	100	100
Metpol Pty Limited	(b)	Australia	100	100
Midalia Steel Pty Limited	(b)	Australia	100	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
Pipeline Supplies of Australia 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 29.

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

NOTE 29. **DEED OF CROSS GUARANTEE**

Financial information for class order closed group

	CONSOLIDATED 2005 $m	2004 $m
Condensed Statement of Financial Performance for the year ended 30 June		
Profit from ordinary activities before income tax	154.9	140.6
Income tax expense relating to ordinary activities	(36.9)	(37.7)
Income tax benefit relating to tax consolidation	–	19.8
Net profit from ordinary activities after related income tax	118.0	122.7
Retained Profits		
Retained profits at the beginning of the year	185.0	122.7
Net profit	118.0	122.7
Dividends paid	(72.7)	(60.4)
Retained profits at the end of the year	230.3	185.0
Statement of Financial Position as at 30 June		
Current assets		
Cash assets	146.3	88.5
Receivables	1,264.7	1,235.1
Inventories	767.0	653.1
Other	7.0	7.5
Total current assets	2,185.0	1,984.2
Non-current assets		
Investments	33.2	33.4
Property, plant and equipment	1,170.4	1,151.5
Exploration and development expenditures	38.5	14.6
Intangibles	213.8	232.8
Deferred tax assets	55.5	58.1
Other	36.1	28.1
Total non-current assets	1,547.5	1,518.5
Total assets	3,732.5	3,502.7
Current liabilities		
Payables	580.1	537.6
Interest-bearing liabilities	1,374.4	1,350.3
Tax liabilities	16.3	18.8
Other provisions	93.4	85.2
Total current liabilities	2,064.2	1,991.9
Non-current liabilities		
Interest-bearing liabilities	89.5	–
Deferred tax liabilities	131.8	128.6
Other provisions	101.7	100.9
Total non-current liabilities	323.0	229.5
Total liabilities	2,387.2	2,221.4
Net assets	**1,345.3**	**1,281.3**
Equity		
Contributed equity	1,115.0	1,096.3
Retained profits	230.3	185.0
Total equity	**1,345.3**	**1,281.3**

NOTE 30. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of specified directors and specified executives

(i) Specified directors

P J Smedley	Chairman (non-executive)
G J Plummer	Managing Director and Chief Executive Officer – appointed as director 20 December 2004
R L Every	Managing Director and Chief Executive Officer – retired 1 May 2005
R B Davis	Director (non-executive) – appointed 1 December 2004
E J Doyle	Director (non-executive)
C R Galbraith	Director (non-executive)
D E Meiklejohn	Director (non-executive) – retired 28 February 2005
P G Nankervis	Director (non-executive) – appointed 1 December 2004
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
W Gately	Corporate General Manager, Human Resources & Safety
A J Reeves	Chief Financial Officer
G J Plummer	Executive General Manager, Market Mills – until 20 December 2004
L J Selleck	Executive General Manager, Project Manager

(b) Remuneration of specified directors and specified executives

As per the relief allowed under "Corporations Amendments Regulation 2005 (No. 4)", the remuneration section of the Directors Report includes remuneration information for all persons required to be identified both by Section 300A and AASB 1046 "Director and Executive Disclosures by Disclosing Entities", as the five highest paid executives are also the specified executives under AASB 1046. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report, designated as audited.

(c) Loans to specified directors and specified executives

There were no loans made or outstanding to specified directors or specified executives

(d) 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 $545,627 (2004: $200,131), exclusive of GST, of which $140,897 was outstanding at 30 June 2005 (2004 nil). Mr Galbraith was not personally involved in the provision of these services.

NOTE 31. REMUNERATION OF AUDITORS

	CONSOLIDATED		PARENT	
	2005 $	2004 $	2005 $	2004 $
Amounts received or due and receivable by the auditors of the OneSteel entity for:				
Audit of accounts of OneSteel and its controlled entities	813,000	805,000	120,000	120,000
Other advisory services (a)	765,048	547,264	–	–
	1,578,048	1,352,264	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	157,270	153,902		
Other services	22,993	66,600		
	180,263	220,502		
(a) An analysis of the other advisory services provided by the auditors of the OneSteel entity is as follows:				
Taxation advisory services	633,213	469,764		
Accounting advice	75,250	20,000		
Other services	56,585	57,500		
	765,048	547,264		

NOTE 32. **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 within the tax consolidated group

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 28.

		CONSOLIDATED		PARENT	
Transaction type	Class of related party	2005 $m	2004 $m	2005 $m	2004 $m
Loans to controlled entities					
Loan advances	Controlled entities	–	–	217.2	123.3
Interest received (i)	Controlled entities	–	–	4.5	3.4
Loan Receivable – tax related balances (ii)	Controlled entities	–	–	93.0	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	
		2005 $m	2004 $m	2005 $m	2004 $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	–	–	146.0	60.0

(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:

		$m	$m	$m	$m
Sale of goods	Associate	1.2	3.3	–	–
Trade receivables	Associate	–	0.3	–	–
Loan advances (i)	Associate	0.3	0.3	–	–

(i) An interest-bearing loan at an average interest rate throughout the year of 6.45% (2004: 6.47%).

(c) Ultimate Controlling Entity

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

NOTE 33. **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 balance date.

		Fixed interest rate maturing in						
2005	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	Weighted average Floating %pa	Interest rate Fixed %pa
Financial assets								
Cash	55.0	–	–	–	–	55.0	5.2	
Trade receivables	32.0	–	–	–	580.5	612.5	10.9	
Other financial assets	0.3	–	–	–	8.5	8.8	6.5	
	87.3	–	–	–	589.0	676.3		
Financial liabilities								
Trade creditors	–	–	–	–	551.5	551.5		
Finance lease liabilities	–	21.0	89.5	–	–	110.5		9.6
Bank loans	381.5	–	–	–	–	381.5	6.3	
US Private Placement	–	–	90.1	79.5	–	169.6		5.2
Cross currency swap	169.6	–	(90.1)	(79.5)	–	–	7.3	5.2
Interest rate swaps	(340.0)	225.0	115.0	–	–	–	5.7	5.9
	211.1	246.0	204.5	–	551.5	1,213.1		

		Fixed interest rate maturing in						
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	Weighted average Floating %pa	Interest rate 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

NOTE 33. **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.

2005	Australian dollars $m	United States dollars $m	New Zealand dollars $m	Other $m	Total $m
Financial assets					
Cash	49.5	–	5.1	0.4	55.0
Trade receivables	534.3	5.4	72.7	0.1	612.5
Forward exchange contracts	16.0	(4.4)	(10.2)	(1.4)	–
	599.8	1.0	67.6	(0.9)	667.5
Financial liabilities					
Trade creditors	429.5	90.7	27.9	3.4	551.5
Other creditors	64.2	–	–	–	64.2
Bank loans	340.0	–	41.5	–	381.5
US Private Placement	–	169.6	–	–	169.6
Cross currency swap	169.6	(169.6)	–	–	–
Forward exchange contracts	146.7	(127.6)	–	(19.1)	–
	1,150.0	(36.9)	69.4	(15.7)	1,166.8

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

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

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.

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)

CURRENCY	2005 Average exchange rate	2004 Average exchange rate	2005 Buy $m	2005 Sell $m	2004 Buy $m	2004 Sell $m
United States dollars:						
3 months or less	0.7646	0.6896	123.2	4.4	40.1	–
Over 3 to 12 months	0.7591	–	4.4	–	–	–
			127.6	4.4	40.1	–
Japanese Yen						
3 months or less	82.90	77.82	3.2	1.4	1.7	–
Over 3 to 12 months	82.90	72.55	1.4	–	0.6	–
			4.6	1.4	2.3	–
New Zealand dollar						
3 months or less	1.0739	1.1324	–	10.2	–	12.4
			–	10.2	–	12.4
Euro						
3 months or less	0.5999	0.5724	9.7	–	12.8	–
Over 3 to 12 months	0.6235	–	4.0	–	–	–
			13.7	–	12.8	–
Pounds Sterling						
3 months or less	0.4149	0.3871	0.8	–	1.7	–
Over 3 to 12 months	–	0.3884	–	–	2.8	–
			0.8	–	4.5	–

(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.

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 unfavourable contracts with the same counterparty pursuant to master netting agreements, which will not be settled before the favourable contracts:

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Derivatives		
Interest rate swaps	(1.7)	1.0
Cross currency swaps	(31.0)	(27.9)
Foreign exchange contracts	4.9	0.1
Zinc hedges	–	(0.1)
	(27.8)	(26.9)

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

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)

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	
	2005 $m	2004 $m
Location of credit risk		
Australia	574.6	420.3
New Zealand	70.3	65.9
North America	5.5	4.9
Other	0.1	1.6
	650.5	492.7

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	
	2005 %	2004 %
Industry classification		
Building and construction industry	61	62
Manufacturing industry	12	12
Mining industry	10	11
Other	17	15

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.

(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			
	2005		2004	
	Carrying Value $m	Net Fair Value $m	Carrying Value $m	Net Fair Value $m
Financial liabilities:				
Long term Syndicated AUD debt	340.0	340.0	260.0	260.0
Long term USD private placement	169.6	179.2	185.1	180.5
Long Term NZD debt	13.7	13.8	9.1	9.0
Derivatives:				
Foreign exchange contracts	4.8	4.9	0.1	0.1
Cross currency swaps	(38.7)	(31.0)	(23.3)	(27.9)
Interest rate swaps	(0.1)	(1.7)	(0.2)	1.0
Zinc Hedges	–	–	–	(0.1)

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

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)

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.

	2005		2004	
EXPECTED RECOGNITION PERIOD	Gains $m	Losses $m	Gains $m	Losses $m
Within one year	1.9	0.6	0.4	1.3

NOTE 34. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

OneSteel is in the process of transitioning its accounting policies and financial reporting from current Australian Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ending 30 June 2006. A Steering Committee has been established to oversee progress and to provide regular updates to the Board Audit and Compliance 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 AIFRS. 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 the preparation of the opening balance sheet in accordance with AIFRS as at 1 July 2004. This will form the basis of accounting under AIFRS in the future and is required when OneSteel prepares its first fully AIFRS compliant full financial report for the year ended 30 June 2006. The first set of comparative figures (for the year ended 30 June 2005) will be contained in that first AIFRS compliant financial report.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and the best estimate of the quantitative impact of the changes on total equity as at the date of transition (1 July 2004) and at 30 June 2005, on net profit for the year ended 30 June 2005 and a restated 30 June 2005 balance sheet. The values disclosed are management's best estimate of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from these estimates due to:

(a) potential amendments to AIFRS's and interpretations being issued by the standard-setters and IFRIC;

(b) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations; and

(c) ongoing work being undertaken by the OneSteel AIFRS project teams.

The OneSteel New Zealand subsidiary, Steel & Tube Holdings Limited, will early-adopt NZIFRS to coincide with the timing of Australian adoption. Adjustments that will be made to that subsidiary's accounts are included in the Group's numbers as estimated below.

NOTE 34. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

		CONSOLIDATED		PARENT	
	Notes	30 June 2005 $m	1 July 2004 $m	30 June 2005 $m	1 July 2004 $m
		**	*	**	*
Total Equity under AGAAP		1,456.7	1,373.4	1302.6	1,282.7
Adjustments to Retained Profits (net of tax)					
Recognition of impairment loss (including goodwill)	(i)	(58.1)	(103.7)	–	(18.3)
Adjustment to depreciation due to impairment at 1 July 2004	(i)	4.1	–	–	–
Reversal of goodwill amortisation	(ii)	21.1	–	–	–
Recognition of defined benefits superannuation fund deficit	(iii)	(7.7)	(8.1)	–	–
Recognition of "make good" and other provisions	(iv)	(1.0)	(0.7)	–	–
Recognition of deferred tax on revalued assets and other items	(v)	(20.7)	(21.2)	–	–
Recognition of revised amortisation of share-based payments expense	(vi)	1.6	0.9	–	–
		(60.7)	(132.8)	–	(18.3)
Adjustments to other equity items (net of tax)					
Recognition of share-based payment expense	(vi)	1.8	1.0	0.1	1.0
Elimination of Treasury shares held in Share Plan Trusts	(vii)	(8.7)	(2.3)	(2.3)	–
		(6.9)	(1.3)	(2.2)	1.0
Total Equity under AIFRS		1,389.1	1,239.3	1,300.4	1,265.4

* This column represents the adjustments as at the date of transition to AIFRS.
** This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.

Notes:

(i) Under AASB 136 *Impairment of Assets*, the recoverable amount of assets is determined as the higher of net selling price and value in use. OneSteel's accounting policy is to determine the recoverable amount of assets on the basis of discounted cash flows arising from identifiable cash-generating units (CGU's). The CGU (or groups of CGU's) assets including goodwill allocation, were tested for impairment on transition and at each subsequent reporting date. This revised calculation would result in impairment losses (and subsequent partial reversals), together with reduced depreciation expense, being recognised under AIFRS.

(ii) Under AASB 3 *Business Combinations*, goodwill would not be permitted to be amortised but would be subject to impairment testing on an annual basis or whenever the occurrence of triggers indicate potential impairment. Currently, OneSteel amortises goodwill over its useful life but not exceeding 20 years. OneSteel has elected not to apply AASB 3 retrospectively, so prior year amortisation would not be written back as at the date of transition.

(iii) Under AASB 119 *Employee Benefits*, OneSteel would recognise the net deficit in its employer-sponsored defined benefit superannuation fund as a liability on the balance sheet. Actuarial calculations were completed at 30 June 2004 and 30 June 2005. OneSteel has elected to adopt the "corridor approach" to the recognition of future actuarial gains/losses.

(iv) Under AASB 116 *Property, Plant and Equipment*, OneSteel would be required to include as part of the cost of its leasehold improvements, an estimate of the costs associated with lease make-good clauses upon termination of certain leased premises within its property portfolio, where such an obligation exists to the lessor. These costs are not currently recognised under AGAAP. A corresponding liability would also be recognised under AIFRS in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

(v) Under AASB 112 *Income Taxes*, OneSteel would be required to adopt a balance sheet approach to the calculation of deferred tax assets/liabilities. This method recognises deferred tax balances where there is a difference between the accounting carrying value of assets/liabilities and their tax base. This would result in the recognition of deferred tax balances in relation to previously revalued assets. Under AGAAP, the tax effect of assets revaluations are not recognised.

(vi) Under AASB 2 *Share based Payments*, OneSteel would recognise the fair value of shares and/or options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the Income statement with a corresponding adjustment to equity. While share-based payments are not recognised under AGAAP, OneSteel's policy has been to purchase on-market any shares granted to senior executives under the long-term incentive plan and to expense the cost of these shares in the Statement of Financial Performance. Under AIFRS, this past expensing of the shares would need to be reversed and only the amounts applicable under the new standard to each reporting period would be recognised in the Income Statement with a corresponding entry in Equity.

(vii) Under AASB 127 *Consolidated and Separate Financial Statements*, OneSteel would be required to consolidate the OneSteel Share Plan Trusts. This would result in the elimination of the Treasury shares held in the Trusts.

(viii) OneSteel has elected to apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, which permits entities not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosure* and AASB 139 *Financial instruments: Recognition and Measurement* for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. The Financial Instruments project team is in the process of determining the impact that adopting the standards will have on the financial statements.

NOTE 34. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

(b) Reconciliation of net profit as reported under AGAAP to that under AIFRS

		CONSOLIDATED	PARENT
FOR THE YEAR ENDED 30 JUNE 2005	Notes	$m	$m
Net profit under AGAAP		132.5	73.9
Reversal of amortisation of goodwill	(i)	21.1	–
Adjustment to depreciation due to impairment at 1 July 2004	(ii)	4.1	–
Reversal of impairment losses on PP&E	(iii)	45.6	18.3
Charge under the 'corridor approach' associated with the recognition of the defined benefits superannuation fund deficit	(iv)	0.4	–
Adjustment to the expense recognised for share-based payments	(v)	0.7	–
Charge for the recognition of additional provisions	(vi)	(0.3)	–
Adjustment to income tax expense	(vii)	0.5	–
Net profit under AIFRS		204.6	92.2

Notes:

(i) Under AASB 3 *Business Combinations*, goodwill is not permitted to be amortised but instead is subject to annual impairment testing. Currently, OneSteel amortises goodwill over its useful life (not exceeding 20 years). Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent that it becomes impaired.

(ii) Adjustment to depreciation expense in relation to the property, plant and equipment written down on transition as at 1 July 2004.

(iii) Under AASB 136 *Impairment of Assets*, property, plant and equipment assets previously written down can be subsequently written up when the recoverable amount of the assets increases. Impairment testing completed at June 2005 has shown an increased recoverable value of some assets due to improved cash flows, allowing a write-back to occur.

(v) Under AASB 2 *Share based Payments*, OneSteel would recognise the fair value of shares granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the Income Statement. The difference between this approach and the current method of amortising the purchase cost of shares granted, results in an increase in profit under AIFRS.

(vi) Under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, OneSteel would recognise an additional provision associated with the rehabilitation of the iron ore mine site. The liability is offset by an additional asset on the balance sheet. The increase in provisions will decrease the profit under AIFRS.

(vii) The adjustment to income tax expense relates to the reversal of the deferred tax liability which would be recognised on the date of transition under AIFRS in relation to revalued assets.

NOTE 34. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

(c) Estimated Balance Sheet under AIFRS

AS AT 30 JUNE 2005		CONSOLIDATED 2005 $m	PARENT 2005 $m
Current assets			
Cash assets		55.0	–
Receivables		643.1	310.2
Inventories		836.7	–
Other		6.6	–
Total current assets		1,541.4	310.2
Non-current assets			
Investment accounted for using the equity method		7.3	–
Other financial assets		8.8	1,084.2
Property, plant and equipment	(i),(ii)	1,156.6	–
Exploration and development expenditures		19.1	–
Intangibles	(iii)	264.8	–
Deferred tax assets		64.0	55.5
Other		26.5	–
Total non-current assets		1,547.1	1,139.7
Total assets		3,088.5	1,449.9
Current liabilities			
Payables		615.7	–
Interest-bearing liabilities		48.8	–
Tax liabilities		17.3	17.6
Other provisions		96.7	–
Total current liabilities		778.5	17.6
Non-current liabilities			
Interest-bearing liabilities		651.5	–
Deferred tax liabilities		154.4	131.9
Other provisions		104.0	–
Defined benefit superannuation liability		11.0	–
Total non-current liabilities		920.9	131.9
Total liabilities		1,699.4	149.5
Net assets		**1,389.1**	**1,300.4**
Equity			
Contributed equity		1,108.1	1,112.8
Reserves		3.0	–
Retained profits		216.8	187.6
Parent entity interest		1,327.9	1,300.4
Outside equity interest		61.2	–
Total equity		**1,389.1**	**1,300.4**

Note:
The actual effects of transition to AIFRS may differ from these estimates due to:
(a) ongoing work being undertaken by the OneSteel AIFRS project teams;
(b) potential amendments to AIFRS's and interpretations being issued by the standard-setters and IFRIC; and
(c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

NOTE 34. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

(d) Additional balance sheet recognition items under AIFRS

In addition to the effects on equity and net profit as reported previously in this note, the following items are required to be recognised or reclassified under AIFRS as indicated in the balance sheet above:

(i) Under AASB 116 *Property, plant and equipment*, there is a requirement to include as part of the cost of any leasehold improvements, an estimate of the costs to remove those improvements at the end of the lease term, where such an obligation clearly exists with the lessee. OneSteel will recognise approximately $0.5m of such costs on transition to AIFRS as an additional item of property, plant and equipment with a corresponding charge to Retained Profits as indicated in Note (a)(iv) above. Following transition, when any such assets are identified and capitalised, a corresponding liability would then be recognised in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

(ii) Under AASB 116 *Property, plant and equipment*, future site remediation costs are required to be capitalised and depreciated over the life of the asset. A corresponding liability would then be recognised in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. A net present value calculation is to be used in the determination of the asset and liability. On transition to AIFRS OneSteel has re-assessed the rehabilitation asset associated with the iron ore mine site and capitalised an additional $2m for remediation offset by a corresponding liability. The asset/liability will be reviewed at each reporting period.

(iii) Under AASB 138 *Intangible Assets*, separately identifiable intangible assets need to be disclosed in the balance sheet. OneSteel will need to reclassify software development costs of approximately $35m, currently capitalised as plant and equipment, into a separate finite life intangible asset class. It is expected that the amortisation of this asset class over its useful life would be equivalent to the current plant and equipment depreciation charge on the assets involved.

(e) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

DIRECTORS' DECLARATION

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

(a) the financial report and the additional disclosures included in the Directors' Report designated as audited, 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 2005 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) The directors have been given the declarations by the chief executive officer and the chief financial officer as required by section 295A of the Corporations Act 2001.

(3) 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 28 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

Geoff Plummer
Managing Director

Sydney
16 August 2005

INDEPENDENT **AUDIT REPORT**

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 2005. 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 and the additional disclosures (Human Resources Committee; Remuneration Structure; Non-Executive Directors' Remuneration; Long-Term Component of Non-Executive Directors' Remuneration; Retirement Benefit – Discontinued Scheme; Directors' Remuneration Details; Senior Executives' Remuneration; Fixed Annual Reward; Short-Term Incentive (STI); Long-Term Incentive (LTI); Senior Executives' Remuneration Details; Employment Contract – R.L. Every and G.J. Plummer and Tables A to G) included in the Remuneration Report pages 2 to 8 designated as audited ('the additional disclosures') 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 and the additional disclosures.

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. We have given to the directors of the company a written Auditors' Independence Declaration, a copy of which is included in the Directors' Report. 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 2005 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
16 August 2005