ONESTEEL LIMITED

ABN 63 004 410 833

APPENDIX 4E

PRELIMINARY FINAL REPORT

12 MONTHS ENDING 30 JUNE 2006

ONESTEEL LIMITED

12 MONTHS ENDING 30 JUNE 2006

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		A$ MILLION	%		A$ MILLION
SALES REVENUE	UP	66.1	1.7%	TO	4,004.6
REVENUE FROM ORDINARY ACTIVITIES	UP	62.5	1.6%	TO	4,032.8
PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS	DOWN	15.3	7.5%	TO	187.5
PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS EXCLUDING TAX CONSOLIDATION AND THE REVERSAL OF IMPAIRMENT LOSS	UP	18.5	12.1%	TO	171.6
NET PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS	DOWN	15.3	7.5%	TO	187.5
NET PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS EXCLUDING TAX CONSOLIDATION AND THE REVERSAL OF IMPAIRMENT LOSS	UP	18.5	12.1%	TO	171.6

	2006 ($)	2005 ($)
NET TANGIBLE ASSETS PER SHARE	2.16	1.95

DIVIDENDS	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Final Dividend	10.0 cents	10.0 cents
Previous Corresponding Period	7.5 cents	7.5 cents

RECORD DATE FOR DETERMINING DIVIDEND ENTITLEMENTS: 1 SEPTEMBER 2006

DIVIDEND REINVESTMENT PLAN (DRP)

The DRP will operate for the final dividend. DRP election notices must be received at OneSteel's Share Registry, at Computershare, Level 3, 60 Carrington St Sydney NSW 2000 (Postal: GPO Box 7045, Sydney NSW 2001) by 5.00pm on 1 September 2006 (the Record Date).

DIVIDEND PAYMENT DATE: 19 OCTOBER 2006

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

ONESTEEL FINANCIAL RATIOS

12 months ended 30 June

$A millions	AIFRS		AGAAP				% Change
	Jun-06	Jun-05	Jun-04	Jun-03	Jun-02	Jun-01 Excl Prov Proforma	06/05
Sales	4,004.6	3,938.5	3,269.2	3,060.6	2,906.0	2,637.7	1.7%
Other Revenue/Income	39.0	34.6	70.1	39.5	80.5	141.5	12.7%
Total Revenue/Income	4,043.6	3,973.1	3,339.3	3,100.1	2,986.5	2,779.2	1.8%
Gross Profit	798.7	787.0	642.6	626.2	528.4	489.6	1.5%
Operating EBITDA*	396.7	377.1	324.2	307.6	251.0	202.6	5.2%
Depreciation & Amortisation (excluding goodwill)	(94.0)	(97.5)	(87.1)	(86.5)	(84.2)	(84.2)	(3.6%)
Operating EBIT (excluding goodwill amortisation)	302.7	279.6	237.1	221.1	166.8	118.4	8.3%
Finance costs	(56.7)	(53.6)	(42.2)	(44.5)	(54.4)	(61.8)	5.8%
Operating Earnings before tax (EBT)	246.0	226.0	194.9	176.6	112.4	56.6	8.8%
Tax	(60.8)	(55.4)	(53.4)	(53.3)	(39.0)	(12.1)	9.7%
Operating PAT before MI	185.2	170.6	141.5	123.3	73.4	44.5	8.6%
Minorities	(13.6)	(17.5)	(12.4)	(9.5)	(7.4)	(5.9)	(22.3%)
Operating PAT**	171.6	153.1	129.1	113.8	66.0	38.6	12.1%
Total Assets	3,138.8	3,087.1	2,803.2	2,577.0	2,582.0	2,710.8	1.7%
Total Liabilities	1,637.2	1,698.8	1,429.8	1,292.0	1,359.4	1,594.6	(3.6%)
Funds Employed	2,189.8	2,033.6	1,842.4	1,755.2	1,794.2	1,878.6	7.7%
Total Equity	1,501.6	1,388.3	1,373.4	1,285.0	1,222.6	1,116.2	8.2%
Net Debt	638.8	645.3	469.0	470.2	571.6	762.4	(1.0%)
Net Debt including Securitisation	638.8	645.3	669.0	670.2	771.6	953.4	(1.0%)
Net Debt incl Derivative	688.2	645.3					6.6%
No of shares (at end of period)	566.2	560.8	554.9	546.9	538.6	460.3	1.0%
Operating cash flow	250.8	235.9	188.3	257.7	92.6	290.3	6.3%
Free Cash Flow	36.4	109.0	43.9	154.9	28.5	220.8	(66.6%)
Capital and investment expenditure	227.6	127.5	151.4	130.9	70.8	108.4	78.5%
Operating Return on Assets %	9.7%	9.7%	8.8%	8.6%	6.3%	4.4%	
Operating Return on Equity %	12.9%	13.1%	10.7%	9.8%	6.3%	3.9%	
Return on Equity %	12.9%	13.1%	9.1%	8.3%	4.7%	2.6%	
Operating Return on Funds Employed % (ROFE)	14.4%	14.2%	13.3%	12.5%	9.1%	6.1%	
Operating EBIT to sales	7.6%	7.1%	7.3%	7.2%	5.7%	4.5%	
Operating Earnings Per Share (cents) - year end	30.3	27.3	23.3	20.8	12.3	5.1	11.0%
Dividends per share (cents)	17.0	13.5	12.0	11.0	6.5	6.0	
Dividend payout ratio	56.3%	49.6%	51.4%	52.6%	53.0%	71.2%	
Gearing (net debt/net debt + equity) including securitisation	29.8%	31.7%	32.8%	34.3%	38.7%	46.1%	
Gearing (net debt/net debt + equity) incl derivative	31.4%	31.7%					
Gross Profit Margin	19.9%	20.0%	19.7%	20.5%	18.2%	18.6%	
Interest cover	5.3	5.2	5.6	5.0	3.1	1.6	
NTA per share ($)	2.16	1.95	1.93	1.77	1.69	1.81	10.8%
Employees	7,527	7,395	7,272	7,054	6,989	7,379	1.8%
Sales per employee ($000s)	532	533	450	434	416	357	(0.2%)
Cost increases	267	226	71	68	57	37	
Cost reductions	39	47	50	56	59	50	
Revenue enhancements	236	309	28	51	20	15	
Raw steel production	1,633,696	1,349,397	1,618,855	1,624,399	1,576,650	1,438,770	21.1%
Steel tonnes dispatched	2,287,067	2,264,051	2,159,536	2,224,139	2,176,413	2,125,073	1.0%
Steel exports, % of total steel dispatches	9.9%	4.1%	4.7%	3.8%	7.9%	13.1%	

The financial information presented for years 2001 - 2004 have not been prepared under Australian equivalents to International Financial Reporting Standards (AIFRS). The nature of the main adjustments to make the information comply with AIFRS include:

- recognition of additional provisions relating to rehabilitation and make good;
- restatement of deferred tax balances using the balance sheet method;
- recognition of the deficit in the defined benefits superannuation fund;
- consolidation of the employee share plan trust; and
- recognition of derivative financial instruments on balance sheet at fair value and application of hedge accounting.

*2005 results exclude the one-off benefit relating to the reversal of impairment loss on transition to AIFRS of $49.7m after tax. NPAT including this adjustment was $202.8m

**2004 NPAT excludes the one-off tax benefit of $19.8m arising from OneSteel's entry into the tax consolidation regime. Total profit including this adjustment was $127.9m.

**2006 NPAT excludes the one-off tax benefit of $15.9m arising from finalisation of tax consolidation values. Total profit including this adjustment was $187.5m

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Review of Operations For the 12 Months To June 2006

Key Points

- Net operating profit after tax up 12.1% from prior corresponding period
- Strong operating cash flow enabled gearing to fall while spending approximately $170 million on Project Magnet
- Sales margin, earnings per share and return on funds employed continue to improve despite $267 million increase in costs
- Dividend increased to 17 cents, fully franked, from 13.5 cents

Financial

Sales revenue	$4,004.6m	Up 1.7%
Earnings before interest, tax, depreciation and amortisation **(EBITDA)**	$396.7m	Up 5.2%
Earnings before interest and tax **(EBIT)**	$302.7m	Up 8.3%
Net operating profit after tax and minorities **(NPAT)**	$171.6m	Up 12.1%
Net profit after tax and minorities including tax consolidation	$187.5m	
Earnings per share **(EPS)**	30.3 cents	Up 11.0% from 27.3 cents
Operating cash flow	$250.8m	Up 6.3% from $235.9m
Operating EBIT to sales	7.6%	Up from 7.1%
Return on funds employed **(ROFE)**	14.4%	Up from 14.2%
Return on equity **(ROE)**	12.9%	Down from 13.1%
Ratio of net debt to net debt plus equity **(gearing)** incl deriv	31.4%	Down from 31.7%
Net debt including derivatives	$688.2	Up $42.9m
Fully franked final dividend	17.0 cents	Up from 13.5 cents

Market (based on NIEIR estimates)

All domestic segments that impact OneSteel sales revenues*	**Up 5.5%**	**Value of work done continues at high levels**
Construction Sector (59% of sales revenue) • Engineering (23% of sales revenue) • Non-residential (22% of sales revenue) • Residential (14% of sales revenue)	Up 9.4% Up 16.0% Up 10.4% Down 3%	Infrastructure and project activity still outweighing softness in residential construction
Other Manufacturing (11% of sales revenue)	Down 3.0%	
Mining production (10% of sales revenue)	Up 1.8%	
Auto manufacturing (6% of sales revenue)	Down 2.8%	
Agricultural production (6% of sales revenue)	Down 2.2%	

*Steel exports (5%) and ore products (3%) drive the remainder of OneSteel's sales revenues.

Operational

Total Australian steel tonnes dispatched • Domestic tonnes dispatched • Export tonnes dispatched Adjusted domestic tonnes (excludes one-off projects)	2,287,067 2,061,618 225,449 2,005,556	Up 1.0% Down 5.1% Up 133,038 tonnes Down 5.8%
Underlying price per tonne for domestic steel sales		Up 6.9%
Cost increases Offset by: • Cost reductions • Revenue enhancements	$267m $39m $236m	(FY05 $226m) (FY05 $47m) (FY05 $309m)
Staff numbers • Sales per staff member	7,527 $532,000	Up 1.8% Down 0.2%
Safety Performance (per million man hours worked) • Medical Treatment Injury Frequency Rate • Lost Time Injury Frequency Rate	 11.7 1.6	 Down 3.3% from 12.1 Down 5.9% from 1.7

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Please note that the financial information for the previous corresponding period has been restated under Australian equivalents to International Financial Reporting Standards (AIFRS). The main adjustments include: goodwill is no longer amortised; recognition of additional provisions relating to rehabilitation and make good; restatement of deferred tax balances using the balance sheet method; recognition of the deficit in the defined benefits superannuation fund; consolidation of the employee share plan trust; and recognition of derivative financial instruments on-balance sheet at fair value and application of hedge accounting from 1 July 2005.

Company Overview

Sales revenue for the twelve months to June 2006 grew 1.7% from $3,938.5 million to $4,004.6 million when compared with the prior corresponding period.

Underlying Australian domestic revenue from steel sales, adjusted for large projects, increased 0.7%, with the underlying domestic price per tonne increasing by 6.9% and underlying domestic tonnes dispatched decreasing 5.8%. The fall in domestic dispatches was mainly driven by lower sales of sheet, plate and coil by Australian Distribution. Dispatches of these flat products were down more than 70,000 tonnes from the previous year.

Exports of steel during the period increased 133,038 tonnes, to 225,449 tonnes, representing 9.9% of steel tonnes dispatched compared with 4.1% a year prior. Total raw steel tonnes produced increased 21.1%, or 284,299 tonnes, from the previous corresponding period. Steel production in the prior period was affected by the blast furnace reline project and the production disruptions in the latter part of calendar year 2004.

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

The **sales margin**, based on operating earnings before interest and tax (EBIT), was 7.6%, compared with 7.1% in the prior corresponding period. On an **earnings before tax** basis, profit increased by 8.8% from $226.0 million to $246.0 million.

Net operating profit after tax and minorities increased by 12.1% to $171.6 million for the 12 months, which is equivalent to 30.3 cents per share, 11.0% higher than the prior year. When a one-off tax benefit of $15.9 million arising from finalisation of tax consolidation values is included, net profit after tax and minorities was $187.5 million.

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

Segment Review

The following numbers for the 2005 and 2006 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 2.8% or $50.6 million to $1,833.9 million reflecting a 9.3% increase in underlying prices previously implemented to recover higher raw material costs and lower sales volumes, primarily in flat-related products. Distribution EBIT was down 13.2% at $122.0 million with the sales margin falling from 7.9% to 6.7%. The EBIT return on funds employed fell from 17.5% to 15.1%. Adjusted for large projects, domestic steel tonnes dispatched from Distribution decreased 8.2% as the volume of flat products sold dropped by more than 70,000 tonnes from the previous year.

Manufacturing revenue increased 1.7% or $35.7 million to $2,101.4 million. Underlying domestic prices rose 5.3% and export prices were 30.0% lower. After adjusting for large one-off projects, tonnes dispatched were up 5.9%, with domestic dispatches down 3.9% on softness in the automotive, manufacturing and rural sectors. Export tonnes rose 135,000 tonnes to 214,100 tonnes, returning to more normal levels.

Manufacturing EBIT increased 38.6% to $164.5 million with a rise in sales margin from 5.7% to 7.8%. Manufacturing's EBIT return on funds employed increased from 11.5% to 13.7%. The rise in EBIT, sales margin and return on funds employed from the previous year reflects cost reductions, price increases that were implemented late in the 2005 financial year to recover higher raw material input costs and the return to normal production levels after the blast furnace reline and the operational disruptions at the Whyalla Steelworks in the first half of the previous financial year.

The **International Distribution** business continued to post excellent returns albeit they were lower than the prior corresponding period as certain segments of the New Zealand economy slowed and also due to the impact of foreign exchange movements. EBIT profit of the New Zealand-based business fell 22.1% from $56.1 million to $43.7 million and the associated sales margin fell from 13.9% to 11.2%. The business achieved an EBIT return on funds employed of 28.4%.

OneSteel's **management initiatives** delivered approximately $39 million in cost savings which offset inflationary costs of a similar magnitude. Additionally, there were significant increases in raw material input costs that lifted total cost increases to over $265 million and against which management achieved more than $235 million of revenue enhancements. The most significant elements in the raw material input cost increases in the 12 months under review were coking coal and hot rolled coil.

Staffing levels at 7,527 were up 1.8% from 7,395 at the end of June 2005, principally reflecting over 100 extra employees from acquisitions by International Distribution and extra personnel at Whyalla for Project Magnet.

Net operating cash flow during the period was $250.8 million, enabling OneSteel to fund approximately $170 million of capital expenditure on Project Magnet, the commercialisation of OneSteel's magnetite iron ore resource, and over $50 million in other capital and investment expenditure, with minimal debt impact.

Inventories decreased by 9.3% to $758.9 million when compared with the previous financial year, with stock weeks falling from the previous corresponding period.

Capital and investment expenditure increased by 78.5% to $227.6 million. Around $170 million of the expenditure related to Project Magnet which received Board approval in May 2005. Total funds spent or committed on Project Magnet during the 2006 financial year was $204.7 million.

OneSteel's **financial gearing** on a net debt, to net debt plus equity basis including derivatives, fell to 31.4% compared with 31.7% a year earlier. Net debt, including derivatives, increased by almost $43 million or 6.6%, to $688.2 million from $645.3 million in June 2005.

Interest Cover was 5.3 times compared with 5.2 times cover in the prior corresponding period.

Funds employed have risen by 7.7% or $156 million to $2,189.8 million. The EBIT return on funds employed rose to 14.4% from 14.2%.

The Final dividend was declared at 10.0 cents per share fully franked, bringing the total dividends declared for the year to 17.0 cents, which compares with a 13.5 cent fully franked dividend paid for the 12 months to June 2005. This represents a payout ratio of 56%. The record date for the dividend will be 1 September 2006, with the dividend due to be paid on 19 October 2006.

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. The DRP will operate for the final dividend. DRP election notices must be received at OneSteel's Share Registry, at Computershare, Level 3, 60 Carrington St Sydney NSW 2000 (Postal: GPO Box 7045, Sydney NSW 2001) by 5.00pm on 1 September 2006 (the Record Date).

Initiatives for Growth

- **Project Magnet –** Project Magnet represents the commercialisation of OneSteel's magnetite ore reserves for producing steel and the sale of surplus hematite ore reserves. As of 30 June 2006, $229.2 million of the total expenditure of approximately $355 million had been spent or committed. On the hematite export stream the export storage facilities are nearing commissioning, the rail upgrade to the mine is complete, installation of all process equipment is substantially complete, site works are underway on the crushing plant upgrade and delivery of 56 new fines wagons and upgrade of 75 existing RSK wagons is complete. Two of the three barges have been launched in China. On the magnetite stream the slurry pipeline was completed and tested during the year, work is well underway on the concentrator and the tailing dam and modifications works to the existing pellet plant are in design phase. Desulphurisation plant site work has commenced with steel piling complete and key long lead time items ordered, while negotiation of the new mining contract is progressing. The project capital works are due to be substantially completed in the 2006/07 financial year.

- **Proposed transaction with Smorgon Steel Group** – OneSteel announced on 26 June 2006 that it had reached an agreement with Smorgon Steel Group Limited under which OneSteel will acquire all of the shares in Smorgon Steel. The strategic rationale for the proposed transaction can be summarised as:
  - Corporate benefits – a stronger and more financially flexible company with enhanced growth opportunities
  - Customer and market benefits – increased ability to service the customer with new product and service offerings and a greater diversity and scope of operations
  - Competitive benefits – a more competitive business with lower costs, improved raw material integration and opportunities with diversified revenue streams.

  The proposed transaction is subject to the approval of Smorgon Steel shareholders, the Court, the ACCC and certain other conditions. On 14 August the ACCC published a Statement of Issues in relations to the proposed transaction that set out its preliminary views. OneSteel is continuing to provide additional evidence to the ACCC of the strong import competition that exists in the Australian market.

Significant and Subsequent Events

On 26 June 2006, OneSteel announced that it had reached an agreement with Smorgon Steel Group Limited under which OneSteel will acquire all of the shares in Smorgon Steel. It is intended that the proposed transaction be undertaken via a scheme of arrangement. Smorgon Steel shareholders will receive a combination of OneSteel ordinary shares and cash with an implied value of $1.76[1] per Smorgon Steel share based on an exchange ratio of 9 OneSteel shares for every 22 Smorgon Steel shares.

1. The implied value of OneSteel's offer is $1.76 assuming a OneSteel volume-weighted average price (VWAP) of between $3.75 and $4.15. The OneSteel VWAP will be the volume-weighted average share price of OneSteel shares traded in the ordinary course of trading on the ASX over the 10 trading days following the effective date of the scheme of arrangement.

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Outlook

The improved profit result is pleasing against a backdrop of large raw material input cost increases and pricing pressure from imports, particularly in the second half. The strong operating cash flow allowed OneSteel to reduce its debt gearing level while spending approximately $170 million on the significant growth opportunity of Project Magnet and also allowed the OneSteel Board to declare an increased dividend payment to shareholders.

Over the next 12 months, domestic market conditions are expected to be similar to the previous 12 months with continued strength in engineering construction and the mining and resources sector, along with solid non-residential construction activity. The rural, automotive, manufacturing and residential construction segments are expected to continue to be soft. International steel pricing and the cost of key inputs such as scrap and hot rolled coil are expected to be fluid while the outlook for iron ore prices continues to be positive.

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

Geoff Plummer
Managing Director &
Chief Executive Officer
OneSteel Limited
22nd August, 2006

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Australian Distribution

	2006	2005*	%
Revenue	1,833.9	1,783.3	2.8
EBITDA	146.1	164.3	(11.1)
EBIT	122.0	140.5	(13.2)
Assets	1,100.6	1,187.4	(7.3)
Employees	2,448	2,483	(1.4)
Sales Margin	6.7%	7.9%	
Funds Emp.	797.4	813.4	(2.0)
ROFE	15.1%	17.5%	

Market Conditions
The domestic market has been mixed with a slight softening of prices in the second half and increased pressure from imports. Activity levels were flat in manufacturing and housing, particularly in New South Wales and Victoria, but stronger in resources and infrastructure in Western Australia and Queensland.

Performance
The $50 million increase in sales revenue was a solid performance. Margins were effectively managed through cost efficiency initiatives and pricing discipline, albeit at the expense of some volume. Volume differences were marked, with outsourced flat products declining substantially while long product tonnes grew marginally. An improvement in working capital levels and ratios drove a reduction in funds employed and a good cash result.
Pipe and Tube managed significant challenges during the year with fluctuating raw material costs and continued import competition. Overall market volumes were steady in structurals, while pipeline volumes excluding projects increased slightly from the previous year.
Steel and Tube volumes were solid in a market influenced by lower project activity in New South Wales and a delay in Western Australia projects coming on stream. Margins were well managed.
Sheet and Coil and Aluminium volumes declined during the year, driven by pricing volatility, with substantial fluctuations in hot rolled coil and aluminium. Margins were well managed to stay on top of this. The decline in volume also partly reflects the contraction of the Australian manufacturing sector, particularly in automotive.
Metaland's sales growth was acceptable in a highly competitive rural market. Margins were pressured but this was partially mitigated by tight expense control.
Piping Systems enjoyed a strong year with healthy volumes driven by the resource sector in Western Australia and Queensland.

Initiatives
The SAP implementation was completed in the merchandising business with Sheet, Coil and Aluminium finishing the rollout in the first half of 2005/06 financial year. Focus has moved to improving supply chain capability across the group.

Outlook
The resources sector looks set to continue its solid run and this is expected to offset the softness in the manufacturing and residential construction sectors.

Australian Manufacturing

	2006	2005*	%
Revenue	2,101.4	2,065.7	1.7
EBITDA	225.8	184.3	22.5
EBIT	164.5	118.7	38.6
Assets	1,829.2	1,638.7	11.6
Employees	3,948	3,908	1.0
Sales Margin	7.8%	5.7%	
Funds Emp.	1,306.2	1,094.5	19.3
ROFE	13.7%	11.5%	

Market Conditions
Demand remained strong in non-residential and engineering construction and mining throughout the year. However, the automotive, manufacturing and rural segments remained soft. Scrap prices were volatile during the year.

Performance
Key areas of effort were recovering cost increases through price management, competing with imports and improving delivery performance. There was continued focus on building a better offer to our customers as well as on the supply chain to further grow value within the segments in which we compete, so improving the competitiveness of OneSteel and its customers.
Whyalla Steelworks continued to fine tune operating parameters on the relined blast furnace, with output slightly above the historical average. Project Magnet continues to progress well, with resources focused on construction and preparation for commissioning. Further growth in global demand for steelmaking raw materials supported a 27% increase in the volume of iron ore products exported to China.
Rail dispatches were above the previous year based on continued strong demand for resources and spending on rail system maintenance, while **Hot rolled structural** sales were slightly lower on deferral of projects into the 2006/07 financial year.
Operational improvements enabled the **Sydney Steel Mill** to continue to operate at high levels to meet market demand. **Reinforcing** tonnages were steady in core markets and increased in niche areas reflecting continued strong demand for Bar and Mesh amid strong engineering and non-residential construction markets. Queensland and Western Australia remain key markets. Reduced demand for automotive, manufacturing and rural products led to slightly lower **Rod and Bar** despatches.
Wire volumes continued to be affected by flat market activity in the rural sector due to severe drought in many areas.

Initiatives
Continued effort will be placed on manufacturing excellence programs and supply chain activities with an increased focus on improving customer service levels.

Outlook
Domestic demand is anticipated to remain at similar levels. Management intends to maintain price leadership in the face of high material input costs and dynamic international markets.

International Distribution

	2006	2005*	%
Revenue	390.4	403.3	(3.2)
EBITDA	48.8	61.4	(20.5)
EBIT	43.7	56.1	(22.1)
Assets	178.4	196.1	(9.0)
Employees	907	804	12.8
Sales Margin	11.2%	13.9%	
Funds Emp.	146.5	160.9	(8.9)
ROFE	28.4%	37.4%	

Market Conditions
New Zealand economic growth slowed to 0.7% in the nine months to March 2006 from the 2.8% rate in the 2004/05 financial year. Total construction activity remained at similar levels to the prior year. Residential building approvals fell 2% after falling 16% in the previous year, while the number of apartments reduced by 28%. The manufacturing and rural sectors continued to suffer from a strong New Zealand dollar. This combined with considerable volatility in the international steel market that caused substantial steel price fluctuations during the year, impacted the business' ability to pass on the full effect of cost increases incurred during the period.

Performance
The business posted a profit of NZ$30.82 million after tax. Although the result did not match that of the prior year, the company performed very well in a volatile market that was in retreat for much of the trading year.
Replacement cost of steel fell as steel mills internationally faced a market correction after the previous year's unsustainably high level of global demand. This put downward pressure on selling prices and margins for **Steel Distribution** at a time of declining domestic steel consumption. Volumes were affected by customers encountering unexpected delays between construction projects and lower volumes to the manufacturing and rural sectors.
Roofing Products continued its strong performance on the back of strong demand for steel roofing and cladding products from both the light commercial and new residential construction segments.
The **Reinforcing** operations also posted excellent results, albeit down from the previous financial year amid a more competitive market.
Hurricane Wire Products produced similar volumes to the prior year but competitive pressures and a different product mix adversely affected margins.

Initiatives
Two acquisitions were made during the year amounting to NZ$11 million, a chain and rigging specialist and a distributor of stainless steel products. These are expected to contribute to the business' profit as inventory becomes more balanced and the expected synergies within the group are achieved.

Outlook
In the short term New Zealand's economy is expected to suffer from the impact of higher inflation, interest rates and energy costs. However, economic growth is expected to recover over the next 12 to 18 months as the benefits of the weakened currency flow through to the export and manufacturing sectors.

*** The 2005 results have been restated from AGAAP to AIFRS.**

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OneSteel Financial Summary

PROFIT & LOSS SUMMARY	Statutory					Pro Forma		% Chg
12 MONTHS TO 30 JUNE	AIFRS		AGAAP			excl prov	incl prov	
$millions	2006	2005	2004	2003	2002	2001	2001	06/05
Revenue/Income	4,043.6	3,973.1	3,339.3	3,100.1	2,986.5	2,779.2	2,779.2	1.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	396.7	377.1	324.2	307.6	251.0	202.6	181.7	5.2
Depreciation/Amortisation	(94.0)	(97.5)	(108.1)	(106.3)	(103.1)	(99.2)	(144.0)	(3.6)
Earnings before Interest and Tax (EBIT)	302.7	279.6	216.1	201.3	147.9	103.4	37.7	8.3
Finance costs	(56.7)	(53.6)	(42.2)	(44.5)	(54.4)	(61.8)	(61.8)	5.8
Earnings before Tax (EBT)	246.0	226.0	173.9	156.8	93.5	41.6	(24.1)	8.8
Tax Expense	(60.8)	(55.4)	(53.4)	(53.3)	(39.0)	(12.1)	2.1	9.7
Profit After Tax (PAT)	185.2	170.6	120.5	103.5	54.5	29.5	(22.0)	8.6
Minority interests	13.6	17.5	12.4	9.5	7.4	5.9	5.9	(22.3)
Profit Attributable to OneSteel (NOPAT)	171.6	153.1	108.1	94.0	47.1	23.6	(27.9)	12.1

CASH FLOW SUMMARY	AIFRS		AGAAP			
12 MONTHS TO 30 JUNE						
$millions	2006	2005	2004	2003	2002	2001
Earnings before tax adjusted for non-cash items	244.9	231.8	156.9	157.9	86.8	47.5
Depreciation / Amortisation	94.0	91.7	108.1	106.3	103.1	99.2
Capital & investment expenditure	(227.6)	(127.5)	(151.4)	(130.9)	(70.8)	(108.4)
Working capital movements	(34.4)	(33.5)	(46.2)	17.5	(76.5)	183.2
Income tax payments	(53.7)	(54.1)	(33.8)	(24.0)	(20.8)	(39.6)
Asset sales	6.7	4.9	45.3	16.7	56.2	116.8
Other	1.9	0.8	6.0	(1.0)	65.9	(128.6)
Operating and investing cash flows	31.8	114.1	84.9	142.5	143.9	170.1
Movement in securitisation	-	(201.2)				
Dividends paid	(94.2)	(84.9)	(73.3)	(54.1)	(35.1)	(16.0)
Capital movements	16.9	12.3	16.7	13.0	66.3	0.0
Total Cash Flow	(45.5)	(159.7)	28.3	101.4	175.1	154.1

BALANCE SHEET	AIFRS		AGAAP			
As at 30 June						
$millions	2006	2005	2004	2003	2002	2001
Cash	19.6	55.0	54.2	19.5	11.4	14.1
Receivables	635.4	643.1	487.8	439.9	452.8	561.5
Inventory	758.9	836.7	704.6	591.0	574.1	540.3
Fixed Assets	1,372.3	1,211.5	1,202.8	1,167.4	1,160.0	1,224.2
Other Assets	352.6	340.8	353.8	359.2	383.7	370.7
TOTAL ASSETS	3,138.8	3,087.1	2,803.2	2,577.0	2,582.0	2,710.8
Borrowings	658.4	700.3	523.2	489.7	583.0	776.5
Creditors	545.4	615.7	569.9	467.7	425.1	444.4
Provisions	379.8	382.8	336.7	334.6	351.3	373.7
Other Liabilities	53.6	-	-	-	-	-
TOTAL LIABILITIES	1,637.2	1,698.8	1,429.8	1,292.0	1,359.4	1,594.6
NET ASSETS	1,501.6	1,388.3	1,373.4	1,285.0	1,222.6	1,116.2
Contributed equity	1,126.2	1,107.9	1,096.3	1,079.6	1,066.6	995.0
Minority interests	56.7	61.8	56.7	54.7	53.1	52.1
Retained Profits / Reserves	318.7	218.6	220.4	150.7	102.9	69.1
EQUITY	1,501.6	1,388.3	1,373.4	1,285.0	1,222.6	1,116.2

SEGMENTS 12 MONTHS TO 30 June 2006 ($millions)	Revenue/Income			EBITDA			EBIT			Assets		
	2006	2005	% Chg	2006	2005	% Chg	2006	2005	% Chg	2006	2005	% Chg
Manufacturing	2,101.4	2,065.7	1.7	225.8	184.3	22.5	164.5	118.7	38.6	1,829.2	1,638.7	11.6
Distribution - Aust	1,833.9	1,783.3	2.8	146.1	164.3	(11.1)	122.0	140.5	(13.2)	1,100.6	1,187.4	(7.3)
Distribution - Int	390.4	403.3	(3.2)	48.8	61.4	(20.5)	43.7	56.1	(22.1)	178.4	196.1	(9.0)
Corporate activities	15.4	18.0	(14.4)	(15.7)	(19.0)	(17.4)	(19.3)	(21.8)	(11.5)	82.1	115.7	(29.0)
Inter segment	(297.5)	(297.2)	0.1	(8.3)	(13.9)	(40.3)	(8.2)	(13.9)	(41.0)	(51.5)	(50.8)	1.4
TOTAL ONESTEEL GROUP	4,043.6	3,973.1	1.8	396.7	377.1	5.2	302.7	279.6	8.3	3,138.8	3,087.1	1.7

The financial information presented for years 2001 - 2004 have not been prepared under Australian equivalents to International Financial Reporting Standards (AIFRS). The nature of the main adjustments to make the information comply with AIFRS include:
- goodwill is no longer amortised;
- recognition of additional provisions relating to rehabilitation and make good;
- restatement of deferred tax balances using the balance sheet method;
- recognition of the deficit in the defined benefits superannuation fund;
- consolidation of the employee share plan trust; and
- recognition of derivative financial instruments on balance sheet at fair value and application of hedge accounting.

Notes

2006 NPAT excludes the one-off tax benefit of $15.9m arising from finalisation of tax consolidation values. NPAT including this adjustment was $187.5m.

2005 results exclude the one-off benefit relating to the reversal of the impairment loss on transition to AIFRS of $49.7m after tax. NPAT including this adjustment was $202.8m.

2006 Net debt includes the cross-currency interest rate swaps that were previously classified as interest-bearing liabilities under AGAAP and interest rate swaps that were not recognised on-balance sheet.

Your directors submit their report for the year ended 30 June 2006.

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	P G Nankervis
R B Davis	G J Plummer
E J Doyle	D A Pritchard
C R Galbraith	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 $187.5m (2005: $202.8m) with earnings per share of 33.27 cents (2005: 36.36 cents). The net profit for the financial year has recognised a tax benefit of $15.9m (2005: nil) arising from the final reset of tax values as a result of 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 10 cents per share payable on 19 October 2006, fully franked at a 30% tax rate on fully paid shares	56.9
Interim dividend 7 cents per share paid on 20 April 2006, fully franked at a 30% tax rate on fully paid shares	39.7
Final dividend 7.5 cents per share paid on 20 October 2005, fully franked at a 30% tax rate on fully paid shares	42.3

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 2006. 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

On 26 June 2006, OneSteel Limited ("OneSteel") and Smorgon Steel Group Limited ("Smorgon Steel") announced that they have reached an agreement under which OneSteel will acquire all of the shares in Smorgon Steel (the "proposed transaction").

It is intended that the proposed transaction be undertaken via a scheme of arrangement to be voted on by Smorgon Steel shareholders. The timing of this transaction is uncertain and is subject to approval by the Australian Competition and Consumer Commission ("ACCC") and other corporate activity.

Smorgon Steel shareholders will receive a combination of OneSteel ordinary shares and cash with an implied value of $1.76 per Smorgon Steel share.

Smorgon Steel shareholders will receive 9 shares for in OneSteel for every 22 shares they hold in Smorgon Steel. In addition, Smorgon Steel shareholders will receive between 6.2 and 22.6 cents per share.

Since 30 June 2006 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 including the proposed merger with Smorgon Steel Limited.

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.

Director	Board of Directors	Governance & Nominations Committee	Audit & Compliance Committee	Occupational, Health Safety & Environment Committee	Human Resources Committee	Operational Risk Committee
Number of meetings held	15	2	4	4	2	4
Number of meetings attended						
P J Smedley	15	2			2	4
R B Davis	15			4		4
E J Doyle	15	1	4	4		
C R Galbraith	15	2	4			
P G Nankervis	15		4			4
G J Plummer	15					
D A Pritchard[2]	15		1	4	1	4
N J Roach	15		3	3	2	

Notes:

1. In addition to the above a special purpose Due Diligence Committee was appointed by the Board to undertake assignments in relation to the proposed merger with Smorgon Steel Limited. The Committee, comprising Messrs Smedley, Galbraith, Nankervis and Plummer, met three times and each of the Committee members attended all of the meetings.
2. Mr Pritchard attended all meetings of the Audit & Compliance Committee and the Human Resources Committee held while he was a member of each Committee.

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 2006.

The remuneration report is set out under the following main sections:

A. Principles used to determine the nature and amount of remuneration

B. Details of remuneration

C. Equity based compensation

D. Additional information

E. Employment contracts

The information provided under sections A, B, C and E includes remuneration disclosures that are required under accounting standard AASB 124 "Related Party Disclosures". These disclosures have been audited. The disclosures in Section D are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 that have not been audited.

A. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION (AUDITED)

Remuneration Philosophy

The objective of the company's remuneration framework is to pay market competitive remuneration (recognising skills and experience), and to reward for performance and the achievement of strategic objectives leading to creation of value for shareholders. OneSteel seeks 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 associated 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.

Performance reviews, succession planning and remuneration recommendations for the Chief Executive Officer and Managing Director and executives directly reporting to the CEO & MD 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

The Board, in conjunction with the Human Resources Committee, seeks to establish non-executive director remuneration at a level that 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

(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 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 ultimately 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.

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, customer 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 July for the CEO and 1 September for all other executives. 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 personal contribution to delivery of annual business goals, plus
- 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 used as a guide 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 provided flexibility to receive their Fixed Annual Reward remuneration in a variety of forms, including cash, superannuation 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 the 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 the STI are based on planned/budgeted performance, incorporate stretch targets and are dependent on the achievement of continuous improvement.

Payments under the 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 range. The STI is normally paid in cash but individuals may salary sacrifice for example into superannuation or 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 STI payments. STI payments may be reduced or withheld if the executive is assessed to fall substantially short of performance expectations or has failed to demonstrate minimum required leadership behaviours or operating style. The actual payment of the 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 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 sustained creation of shareholder wealth. Allocations under the company's Share Plan and/or the Executive Option 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 the year ended 30 June 2001.

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 instruments 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 prior to vesting are distributed to executives in accordance with their respective allocations at the time the dividend is paid by the company.

The company granted performance dependent rights to ordinary shares to certain senior executives during the year ended 30 June 2006. Details of equity based compensation provided to each director of OneSteel Limited and each of the other key management personnel of the Group are shown in section C of this report.

B. DETAILS OF REMUNERATION (AUDITED)

Details of remuneration paid to directors and senior executives meeting the definition of key management personnel under AASB 124 "Related Party Disclosures" of OneSteel Limited and the OneSteel Group are set out below.

The key management personnel of the Group are the directors of OneSteel Limited and those executives that report directly to the managing director, and also the CEO of Steel and Tube Holdings Limited, a New Zealand listed company in which OneSteel holds a 50.3% interest as set out below. These are persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. This includes the 5 company and group executives who received the highest remuneration for the year ended 30 June 2006.

N Calavrias, Chief Executive Officer, Steel & Tube Holdings Limited
A J Reeves, Chief Financial Officer
L J Selleck, Executive General Manager, Project Magnet
C R Keast, Executive General Manager, Market Mills
M R Parry, Executive General Manager, Whyalla
A H Combe, Executive General Manager, Distribution (from 30 January 2006)
W J Gately, Corporate General Manager, Human Resources and Safety
A Roberts, Executive General Manager, Marketing (from 18 July 2005)
R W Freeman, Executive General Manager, Distribution (until 5 August 2005)

The 5 company executives who received the highest remuneration for the year ended 30 June 2006 are:

A J Reeves, Chief Financial Officer
L J Selleck, Executive General Manager, Project Magnet
C R Keast, Executive General Manager, Market Mills
M R Parry, Executive General Manager, Whyalla
A Roberts, Executive General Manager, Marketing

The 5 group executives who received the highest remuneration for the year ended 30 June 2006 are:

N Calavrias, Chief Executive Officer, Steel & Tube Holdings Limited
A J Reeves, Chief Financial Officer
L J Selleck, Executive General Manager, Project Magnet
C R Keast, Executive General Manager, Market Mills
M R Parry, Executive General Manager, Whyalla

(a) Compensation of key management personnel

	SHORT TERM BENEFITS			POST-EMPLOYMENT	OTHER LONG-TERM BENEFITS	TERMINATION BENEFITS	SHARE-BASED PAYMENT	TOTAL	TOTAL PERFORMANCE RELATED
2006	Salary and Fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Cash Bonus $	$	Shares and share rights(1), (2) $	$	%
Directors									
P J Smedley	266,667	–	–	–	–	–	119,625	386,292	–
G J Plummer	1,099,143	765,000	–	100,857	–	–	744,008	2,709,008	55.7
R B Davis	89,000	–	–	8,010	–	–	31,950	128,960	–
E J Doyle	89,000	–	–	8,010	–	–	31,950	128,960	–
C R Galbraith	89,000	–	–	8,010	–	–	31,950	128,960	–
P G Nankervis	89,000	–	–	–	–	–	39,938	128,938	–
D A Pritchard	89,000	–	–	8,010	–	–	31,950	128,960	–
N J Roach	89,000	–	–	8,010	–	–	31,950	128,960	–
Executives									
N Calavrias(3)	491,071	142,857	7,143	36,830	195,858	–	–	873,759	38.8
A J Reeves	578,399	324,000	33,030	56,769	–	–	115,835	1,108,033	39.7
L J Selleck	410,175	253,000	86,493	55,423	–	–	102,014	907,105	39.1
M R Parry	400,582	190,000	13,999	31,872	–	–	56,705	693,158	35.6
C R Keast	402,795	212,000	4,552	36,875	–	–	56,705	712,927	37.7
A Roberts	346,514	170,000	21,326	28,925	–	–	45,310	612,075	35.2
A H Combe(4)	342,214	109,000	–	21,368	–	–	14,064	486,646	25.3
W J Gately	342,875	123,000	4,552	46,378	–	–	65,616	582,421	32.4
R W Freeman(5)	54,170	–	–	4,873	–	–	–	59,043	–
Total	5,268,605	2,288,857	171,095	460,220	195,858	–	1,519,570	9,904,205	

2005	Salary and Fees $	SHORT TERM BENEFITS Cash bonus $	Non-monetary benefits $	POST-EMPLOYMENT Superannuation $	OTHER LONG-TERM BENEFITS Cash Bonus $	TERMINATION BENEFITS $	SHARE-BASED PAYMENT Shares and share rights(1), (2) $	TOTAL $	TOTAL PERFORMANCE RELATED %
Directors									
P J Smedley	250,000	–	–	–	–	–	112,500	362,500	–
R L Every[6]	1,000,000	600,000	4,272	323,235	–	1,390,768	610,208	3,928,483	30.8
G J Plummer	712,588	460,000	4,507	69,065	–	–	205,001	1,451,161	45.8
R B Davis	49,000	–	–	4,410	–	–	17,640	71,050	–
E J Doyle	84,000	–	–	7,560	–	–	30,240	121,800	–
C R Galbraith	84,000	–	–	7,560	–	–	30,240	121,800	–
D E Meiklejohn[7]	61,040	–	–	5,040	–	–	20,160	86,240	–
P G Nankervis	49,000	–	–	–	–	–	22,050	71,050	–
D A Pritchard	84,000	–	–	7,560	–	–	30,240	121,800	–
N J Roach	84,000	–	–	7,560	–	–	30,240	121,800	–
Executives									
N Calavrias[3]	460,774	258,438	7,358	34,949	96,569	–	–	858,088	41.4
R W Freeman	515,163	249,000	–	46,365	–	–	93,907	904,435	37.9
W J Gately	326,413	140,000	4,507	44,067	–	–	51,234	566,221	33.8
A J Reeves	505,427	219,000	–	51,520	–	–	93,739	869,686	36.0
L J Selleck	403,013	180,000	70,136	54,457	–	–	86,270	793,876	33.5
Total	4,668,418	2,106,438	90,780	663,348	96,569	1,390,768	1,433,669	10,449,990	

Notes

(1) The value recorded for non-executive directors in the share based payment section represents the new long-term component of directors's remuneration commenced after the annual general meeting on 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.

(2) The share rights have been valued using a 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.

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

(4) Included in the salary and fees for Mr A H Combe was a sign-on payment of $125,000 upon joining the company.

(5) Mr R W Freeman was also paid outstanding annual leave balances of $49,932 on leaving the company.

(6) Mr R L Every was also paid outstanding leave balances of $495,692.

(7) Mr D E Meiklejohn retired as a director on 28 February 2005. In addition to the above remuneration for the year ended 30 June 2005 he was paid a retirement allowance of $247,900 from the retirement plan discontinued on 17 November 2003.

(b) Share rights provided as compensation – granted and vested

During the financial year, share rights were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed above. No share rights have been granted to non-executive directors under this scheme. The share rights were issued free of charge and entitles the holder to one fully paid ordinary share in the entity. For details of the vesting conditions and further details relating to the share rights refer to Section C of this report.

2006	VESTED No.	GRANTED No.	TERMS AND CONDITIONS FOR EACH GRANT Grant Date	Fair value per right at grant date ($)	Expiry date	First Exercise date	Last Exercise date
Directors							
G J Plummer	68,998	–					
Executives							
A J Reeves	68,998	50,896	8/9/05	2.80	8/9/10	8/9/08	8/9/10
L J Selleck	56,453	35,926	8/9/05	2.80	8/9/10	8/9/08	8/9/10
M R Parry	13,800	47,901	8/9/05	2.80	8/9/10	8/9/08	8/9/10
C R Keast	13,800	47,901	8/9/05	2.80	8/9/10	8/9/08	8/9/10
A Roberts	–	44,907	8/9/05	2.80	8/9/10	8/9/08	8/9/10
A H Combe	–	33,207	3/2/06	3.15	3/2/11	3/2/09	3/2/11
W J Gately	43,280	29,938	8/9/05	2.80	8/9/10	8/9/08	8/9/10
Total	265,329	290,676					

2005	VESTED No.	GRANTED No.	Grant Date	Fair value per right at grant date ($)	Expiry date	First Exercise date	Last Exercise date
Directors							
R L Every	782,319	–					
G J Plummer	75,000	1,058,040	6-May-05	1.89	6-May-10	6-May-08	6-May-10
G J Plummer	–	85,086	3-Sep-04	2.24	3-Sep-09	3-Sep-07	3-Sep-09
Executives							
A J Reeves	174,975	85,086	3-Sep-04	2.24	3-Sep-09	3-Sep-07	3-Sep-09
L J Selleck	60,000	85,086	3-Sep-04	2.24	3-Sep-09	3-Sep-07	3-Sep-09
W J Gately	25,000	45,946	3-Sep-04	2.24	3-Sep-09	3-Sep-07	3-Sep-09
R W Freeman	75,000	85,086	3-Sep-04	2.24	3-Sep-09	3-Sep-07	3-Sep-09
Total	1,192,294	1,440,330					

Note: "TERMS AND CONDITIONS FOR EACH GRANT" spans the Grant Date through Last Exercise date columns.

(c) Compensation 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 2005 year, with vesting equal to 100% of the options granted. These options have not been recognised as part of compensation of key management personnel for the year ended 30 June 2005 or recognised in the Income Statement as the options were granted prior to 7 November 2002. OneSteel has applied the requirements of AASB 2 "Share–based Payments" to equity instruments granted after 7 November 2002 and that had not vested on or before 1 January 2005. All outstanding options vested in 2005.

2005	Vested No.
Directors	
G J Plummer	90,000
Executives	
A J Reeves	233,300
L J Selleck	75,000
W J Gately	30,000
R W Freeman	90,000
Total	518,300

(d) Shares issued on exercise of compensation options

2006	Shares issued No.	Amount paid per share $	Amount unpaid per share $	Value of option $
Executives				
L J Selleck	75,000	1.0434	–	170,745
M R Parry	8,000	1.0434	–	18,213
C R Keast	18,500	1.0434	–	43,042
W J Gately	30,000	1.0434	–	62,598
Total	131,500			294,598
2005				
Directors				
R L Every	2,462,735	0.9258	–	4,714,167
G J Plummer	140,420	0.9258	–	284,238
Executives				
A J Reeves	233,300	0.9087	–	420,243
R W Freeman	241,298	0.8848	–	495,916
Total	3,077,753			5,914,564

C. EQUITY BASED COMPENSATION (AUDITED)

Share rights and options

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 will vest subject to OneSteel's TSR performance to the Base Index and the remaining 50% of shares 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 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%

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.

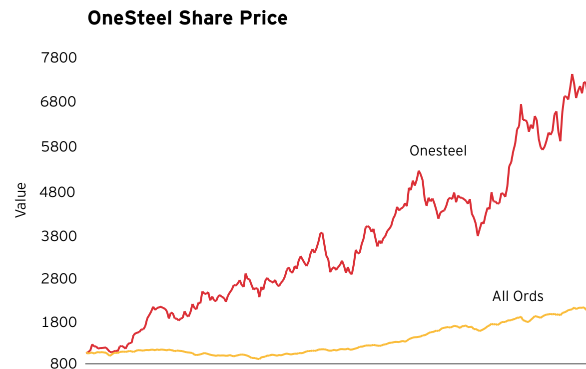
D. ADDITIONAL INFORMATION (UNAUDITED)

Principles used to determine the nature and amount of remuneration: relationship between remuneration and 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
2006 (AIFRS)	187.5	???	33.3
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 outperformance 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 TSR 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%.



E. EMPLOYMENT CONTRACTS (AUDITED)

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 is paid a base remuneration of $1,200,000 per annum inclusive of superannuation and novated car leases. The base remuneration is 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. Mr Plummer's contract provides for a second instalment to be allocated on the second anniversary of Mr Plummer's 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. However, in view of the proposed merger with Smorgon Steel Group Limited, in order to align Mr Plummer's long term incentive with the performance of the merged entity, the Directors have agreed to bring forward the allocation date of the second instalment. The shares will be acquired over the course of the 10 consecutive trading days starting on the day following the day that the Scheme comes into effect, assuming that the scheme is approved by Smorgon shareholders and the Court, and will be allocated to Mr Plummer at the conclusion of that period. The method used to calculate the price at which these shares are to be allocated will be the same as will be used in the formula to determine the consideration payable for each Smorgon Steel Share under clause 4.2 of the Scheme namely the volume weighted average price of OneSteel shares traded in that period subject to certain adjustments. The vesting criteria for these shares as outlined in the section on Long-Term Incentive appearing earlier in this Remuneration Report does not change and the 3 year qualifying period will commence on the date of allocation.

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 that 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 Plan which have not vested.

In the event the termination is as a result of 12 months' notice from OneSteel then 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.

Other key management personnel – senior executives

Senior executives may terminate their employment with three months' written notice. The company may terminate employment for cause or not for cause. Depending on individual executives' contracts, if the company terminates employment, other than for cause, the company may pay up to 1.0 times' fixed annual reward at the time of termination and a pro-rata amount of STI for recently appointed executives. Other executives are tied to a pre-existing company redundancy policy which has a maximum payment of up to 2.0 times' base salary at time of termination by cause of redundancy plus a pro-rata amount of STI.

In addition, if the employment of an individual senior executive 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 the individual due to a fundamental change in business, the Board, in its absolute discretion, will determine whether the individual may be able to withdraw some or all of the shares granted under the LTI Plan which have not vested.

Recently appointed executives are also bound by "non-compete" clauses generally restraining them for a period of 12 months from taking up employment or engaging in activities which would be to the detriment of OneSteel.

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 2006.

Share Rights and Options
During the year there were 689,367 rights to shares and nil options that vested to management under the terms of the Long-Term Incentive Plan. There were nil options forfeited during the year. During, or since the end of the financial year, the company has issued 396,314 shares as a result of the exercise of options. Details relating to the exercise of these options are included in Note 28 to the Full Financial Report. 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 Share Options
15 December 2009	$0.9258	194,621
21 December 2010	$1.0434	301,500

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 follows:

Director	Ordinary shares
P J Smedley	44,004
G J Plummer	–
R B Davis	11,767
E J Doyle	11,766
C R Galbraith	11,767
P G Nankervis	14,708
D A Pritchard	11,766
N J Roach	11,766

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

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

Director	Shares	Share rights	Options
P J Smedley	204,647	–	–
G J Plummer	339,342	1,143,126	90,000
R B Davis	15,445	–	–
E J Doyle	115,559	–	–
C R Galbraith	87,858	–	–
P G Nankervis	22,306	–	–
D A Pritchard	78,417	–	–
N J Roach	203,632	–	–

Full details are set out in Note 29 to the Full Financial 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 the legal firm Allens Arthur Robinson. During the period 1 July 2005 to 31 January 2006 Mr C R Galbraith was an equity partner in Allens Arthur Robinson and then from 1 February 2006 to 30 June 2006 he was engaged by that firm as a special adviser in a salaried role. In the financial year to 30 June 2006, Allens Arthur Robinson billed OneSteel a total of $1,200,892 of which $578,275 remained unpaid at 30 June 2006. These fees were billed in respect of legal work performed by the firm and were charged on normal arm's length commercial terms. 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.

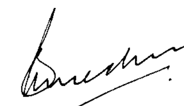
Details of the amounts paid or payable to the auditor, Ernst & Young, for the provision of non-audit services during the year ended 30 June 2006 are as follows:

Tax compliance services	$ 788,611
Accounting advice	$ 17,500
Other services	$ nil

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.

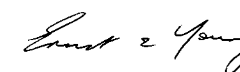
Signed in Sydney this 22nd day of August 2006 in accordance with a resolution of directors.



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 2006, 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

Sydney, 22 August 2006

Craig M Jackson
Partner

xx Discussion and Analysis of the Financial Statements
xx Income Statement
xx Balance Sheet
xx Cash Flow Statement
xx Statement of Changes in Equity
xx Notes to the Financial Statements
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xx Independent Audit Report
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xx Statistical Summary
xx Resource Statement
xx Corporate Directory

Discussion and analysis of the financial statements

The discussion and analysis is provided to assist readers in understanding the Full Financial Report.

OneSteel Limited and its controlled entities (together, the "OneSteel Group") comprise the consolidated entity.

The principal activities of the OneSteel Group during the financial year were:

- Mining of iron ore
- Production of steel
- Manufacture and distribution of steel products.

The consolidated financial statements are prepared on the basis of historical cost, applying generally accepted accounting principles.

The Full Financial Report is the first annual OneSteel Limited financial report to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS). AASB 1 "First Time Adoption of Australian Equivalents to International Financial Reporting Standards" has been applied in preparing the Full Financial Report.

When preparing OneSteel Limited's 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. The significant accounting policies meeting those requirements are described in Note 1 to the Full Financial Report.

Income Statement

Net profit attributable to members of the parent for the financial year was $187.5 million. Excluding the impact of the tax benefit arising from the finalisation of reset tax values on entry into tax consolidation, the net profit for the year was $171.6 million.

Sales revenue increased 1.7% to $4,004.6million, driven by higher prices to recover higher raw material costs and by higher steel dispatches.

Earnings in the Manufacturing segment increased as a result of cost reductions, price increases that were implemented late in the 2005 financial year to recover higher raw material input costs and the return to normal production after the reline of the blast furnace and the operational disruptions at the Whyalla Steelworks in the first half of the previous financial year. Australian Distribution's earnings fell from the previous financial year, partly reflecting lower dispatches of flat steel products. International Distribution's earnings were also down from the prior period as the pace of economic growth in New Zealand slowed.

Balance Sheet

Total consolidated assets increased by 1.7% to $3,138.8 million with fixed assets increasing by $160.8 million primarily as a result of investment associated with Project Magnet, the commercialisation of OneSteel's magnetite ore deposits.

Total consolidated liabilities decreased by 3.6% to $1,637.2 million, driven by reductions in creditors and provisions partially offset by a moderate increase in borrowings.

Contributed equity increased by $18.3m largely attributable to the dividend reinvestment scheme.

Cash Flow Statement

Consolidated net cash flow from operating activities increased by $14.9m to $250.8m, reflecting improved cash profits.

Consolidated net cash outflow from investing activities of $219.0m was $97.2m higher than 2005, mainly due to higher capital expenditure related to Project Magnet.

Consolidated net cash outflow from financing activities of $67.2m was lower than prior year $113.3m, which included the repayment of the securitisation facility, offset by higher finance lease repayments and dividend payments.

Dividends

The directors have recommended and declared a final fully franked dividend for 2006 of xx cents per share payable on 19 October 2006.

FOR THE YEAR ENDED 30 JUNE 2006		CONSOLIDATED		PARENT	
	Note	2006 $m	2005 $m	2006 $m	2005 $m
Sales Revenue	3	4,004.6	3,938.5	–	–
Cost of sales		(3,205.9)	(3,151.5)	–	–
Gross profit		798.7	787.0	–	–
Other revenue	3	28.2	31.8	12.6	154.0
Other income	3	10.8	2.8	–	–
Operating expenses excluding finance costs and reversal of impairment loss	3	(535.2)	(536.8)	(3.2)	(3.4)
Reversal of impairment loss on property, plant and equipment	3	–	65.2	–	–
Finance costs	3	(56.7)	(53.6)	–	–
Share of net profit of investment accounted for using the equity method	10	0.2	0.6	–	–
Profit before income tax		246.0	297.0	9.4	150.6
Income tax expense		(60.8)	(76.7)	(3.5)	(1.3)
Income tax benefit arising from tax consolidation		15.9	–	–	–
Total income tax expense	4	(44.9)	(76.7)	(3.5)	(1.3)
Profit after tax		201.1	220.3	5.9	149.3
Profit attributable to minority interests		(13.6)	(17.5)	–	–
Profit attributable to members of the parent	20	**187.5**	**202.8**	**5.9**	**149.3**
Basic earnings per share (cents per share)	5	33.27	36.36		
Diluted earnings per share (cents per share)	5	33.06	36.16		
On operating activities before the benefit of tax consolidation					
Basic earnings per share (cents per share)	5	30.45			
Diluted earnings per share (cents per share)	5	30.26			
On operating activities before the benefit relating to the reversal of impairment loss					
Basic earnings per share (cents per share)	5		27.45		
Diluted earnings per share (cents per share)	5		27.30		
Dividends per share (cents per share)	22	14.5	13.0		

The accompanying notes form an integral part of this Income Statement.

AS AT 30 JUNE 2006

	Note	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m	PARENT 2006 $m	PARENT 2005 $m
ASSETS					
Current Assets					
Cash and cash equivalents	23	19.6	55.0	–	–
Receivables	6	635.4	643.1	178.5	227.4
Derivative financial instruments	7	3.2	–	–	–
Inventories	8	758.9	836.7	–	–
Other current assets	14	9.8	6.5	–	–
Total Current Assets		1,426.9	1,541.3	178.5	227.4
Non-current Assets					
Investment accounted for using the equity method	10	7.3	7.3	–	–
Derivative financial instruments	7	4.2	–	–	–
Other financial assets	9	7.1	8.8	1,088.6	1,086.8
Property, plant and equipment	11	1,339.7	1,190.9	–	–
Mine development expenditures	12	60.2	44.9	–	–
Other intangibles and goodwill	13	220.2	226.7	–	–
Deferred tax assets	4	72.9	64.9	1.1	1.1
Other Non-current assets	14	0.3	2.3	–	–
Total Non-current Assets		1,711.9	1,545.8	1,089.7	1,087.9
TOTAL ASSETS		3,138.8	3,087.1	1,268.2	1,315.3
LIABILITIES					
Current Liabilities					
Payables	15	545.4	615.7	–	–
Interest-bearing liabilities	16	60.1	48.8	–	–
Tax liabilities		27.5	17.4	27.8	17.6
Provisions	17	160.5	166.0	–	–
Total Current Liabilities		793.5	847.9	27.8	17.6
Non-current Liabilities					
Derivative financial instruments	7	53.6	–	–	–
Interest-bearing liabilities	16	598.3	651.5	–	–
Deferred tax liabilities	4	143.5	152.9	–	–
Provisions	17	35.0	35.5	–	–
Retirement benefit obligations	18	13.3	11.0	–	–
Total Non-current Liabilities		843.7	850.9	–	–
TOTAL LIABILITIES		1,637.2	1,698.8	27.8	17.6
NET ASSETS		**1,501.6**	**1,388.3**	**1,240.4**	**1,297.7**
EQUITY					
Contributed equity	19	1,126.2	1,107.9	1,126.2	1,107.9
Retained earnings	20	316.1	214.2	112.7	188.8
Reserves	21	2.6	4.4	1.5	1.0
Parent interests		1,444.9	1,326.5	1,240.4	1,297.7
Minority interests		56.7	61.8	–	–
TOTAL EQUITY		**1,501.6**	**1,388.3**	**1,240.4**	**1,297.7**

The accompanying notes form an integral part of this Balance Sheet.

FOR THE YEAR ENDED 30 JUNE 2006		CONSOLIDATED		PARENT	
	Note	2006 $m	2005 $m	2006 $m	2005 $m
			Inflows/(outflows)		
Cash flows from operating activities					
Receipts from customers		4,040.8	3,894.0	3.2	3.5
Payments to suppliers and employees		(3,681.9)	(3,556.2)	(3.2)	(3.5)
Interest received		2.4	2.4	9.4	4.5
Interest and other costs of finance paid		(56.8)	(50.2)	–	–
Operating cash flows before income tax		304.5	290.0	9.4	4.5
Income taxes paid		(53.7)	(54.1)	(1.6)	(1.2)
Net operating cash flows	23(b)	**250.8**	**235.9**	**7.8**	**3.3**
Cash flows from investing activities					
Purchases of property, plant and equipment		(199.0)	(114.2)	–	–
Mine development expenditure		(12.8)	(6.7)	–	–
Purchases of finite-life intangibles		(2.6)	(6.0)	–	–
Dividends received		–	–	–	146.0
Purchases of businesses	23(d)	(13.2)	(0.6)	–	–
Proceeds from sale of property, plant and equipment		6.7	4.9	–	–
Proceeds from repayment of preference shares by investment accounted for using the equity method		0.2	0.7	0.2	0.7
Repayment of loan by non-related parties		1.7	0.1	–	–
Net investing cash flows		**(219.0)**	**(121.8)**	**0.2**	**146.7**
Cash flows from financing activities					
Purchase of shares under equity-based compensation plans		(2.5)	(6.4)	(2.5)	(6.4)
Proceeds from issue of shares		0.4	3.1	0.4	3.1
Proceeds from borrowings		541.0	701.8	–	–
Repayment of borrowings		(509.9)	(635.1)	–	–
Settlement of the securitisation program		–	(201.2)	–	–
Proceeds from finance leases		–	105.6	–	–
Repayment of principal of finance leases		(21.0)	(11.8)	–	–
Repayment of loans from related party		–	–	57.1	–
Loan to related party		–	–	–	(89.6)
Dividends paid		(75.2)	(69.3)	(63.0)	(57.1)
Net financing cash flows		**(67.2)**	**(113.3)**	**(8.0)**	**(150.0)**
Net (decrease)/increase in cash and cash equivalents		**(35.4)**	**0.8**	**–**	**–**
Cash and cash equivalents at the beginning of the year		55.0	54.2	–	–
Cash and cash equivalents at the end of the year	23(a)	**19.6**	**55.0**	**–**	**–**

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

2006

CONSOLIDATED	Issued capital $m	Employee compensation shares $m	Total contributed equity $m	Retained earnings $m	Share-based payments $m	Foreign currency translation $m	Cash flow hedges $m	Total Reserves $m	Total Parent Interests $m	MINORITY INTERESTS $m	TOTAL EQUITY $m
	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT										
	CONTRIBUTED EQUITY				RESERVES						
At 1 July 2005	1,115.0	(7.1)	1,107.9	214.2	1.4	3.0	–	4.4	1,326.5	61.8	1,388.3
Adoption of AASB 139 (Note 33(d))	–	–	–	(3.6)	–	–	(1.7)	(1.7)	(5.3)	–	(5.3)
Cash flow hedges:											
– gains/(losses) taken to equity	–	–	–	–	–	–	5.6	5.6	5.6	–	5.6
Currency translation differences	–	–	–	–	–	(6.3)	–	(6.3)	(6.3)	(6.5)	(12.8)
Total income and expense for the year recognised directly in equity	–	–	–	(3.6)	–	(6.3)	3.9	(2.4)	(6.0)	(6.5)	(12.5)
Net Profit	–	–	–	187.5	–	–	–	–	187.5	13.6	201.1
Total income/expense for the period	–	–	–	183.9	–	(6.3)	3.9	(2.4)	181.5	7.1	188.6
Share-based payments expense	–	–	–	–	2.0	–	–	2.0	2.0	–	2.0
Dividends paid	–	–	–	(82.0)	–	–	–	–	(82.0)	(12.2)	(94.2)
Shares issued under dividend reinvestment plan	19.0	–	19.0	–	–	–	–	–	19.0	–	19.0
Shares issued on exercise of options	0.4	–	0.4	–	–	–	–	–	0.4	–	0.4
Vested shares	–	1.4	1.4	–	(1.4)	–	–	(1.4)	–	–	–
Purchase of shares for equity-based compensation	–	(2.5)	(2.5)	–	–	–	–	–	(2.5)	–	(2.5)
At 30 June 2006	**1,134.4**	**(8.2)**	**1,126.2**	**316.1**	**2.0**	**(3.3)**	**3.9**	**2.6**	**1,444.9**	**56.7**	**1,501.6**

2005

CONSOLIDATED	Issued capital $m	Employee compensation shares $m	Total contributed equity $m	Retained earnings $m	Share-based payments $m	Foreign currency translation $m	Cash flow hedges $m	Total Reserves $m	Total Parent Interests $m	MINORITY INTERESTS $m	TOTAL EQUITY $m
	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT										
	CONTRIBUTED EQUITY				RESERVES						
At 1 July 2004	1,096.3	(2.3)	1,094.0	84.1	0.8	2.8	–	3.6	1,181.7	56.3	1,238.0
Currency translation differences	–	–	–	–	–	0.2	–	0.2	0.2	0.2	0.4
Total income and expense for the year recognised directly in equity	–	–	–	–	–	0.2	–	0.2	0.2	0.2	0.4
Net Profit	–	–	–	202.8	–	–	–	–	202.8	17.5	220.3
Total income/expense for the period	–	–	–	202.8	–	0.2	–	0.2	203.0	17.7	220.7
Share-based payments expense	–	–	–	–	2.2	–	–	2.2	2.2	–	2.2
Dividends paid	–	–	–	(72.7)	–	–	–	–	(72.7)	(12.2)	(84.9)
Shares issued under dividend reinvestment plan	15.6	–	15.6	–	–	–	–	–	15.6	–	15.6
Shares issued on exercise of options	3.1	–	3.1	–	–	–	–	–	3.1	–	3.1
Vested shares	–	1.6	1.6	–	(1.6)	–	–	(1.6)	–	–	–
Purchase of shares for equity-based compensation	–	(6.4)	(6.4)	–	–	–	–	–	(6.4)	–	(6.4)
At 30 June 2005	**1,115.0**	**(7.1)**	**1,107.9**	**214.2**	**1.4**	**3.0**	**–**	**4.4**	**1,326.5**	**61.8**	**1,388.3**

The accompanying notes form an integral part of this Statement of Changes in Equity.

2006	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT									MINORITY INTERESTS	TOTAL EQUITY
	CONTRIBUTED EQUITY				RESERVES						
PARENT	Issued capital $m	Employee compensation shares $m	Total contributed equity $m	Retained earnings $m	Share-based payments $m	Foreign currency translation $m	Cash flow hedges $m	Total Reserves $m	Total Parent Interests $m	$m	$m
At 1 July 2005	1,115.0	(7.1)	1,107.9	188.8	1.0	–	–	1.0	1,297.7	–	1,297.7
Total income and expense for the year recognised directly in equity	–	–	–	–	–	–	–	–	–	–	–
Net Profit	–	–	–	5.9	–	–	–	–	5.9	–	5.9
Total income/expense for the period	–	–	–	5.9	–	–	–	–	5.9	–	5.9
Share-based payments	–	–	–	–	1.9	–	–	1.9	1.9	–	1.9
Dividends paid	–	–	–	(82.0)	–	–	–	–	(82.0)	–	(82.0)
Shares issued under dividend reinvestment plan	19.0	–	19.0	–	–	–	–	–	19.0	–	19.0
Shares issued on exercise of options	0.4	–	0.4	–	–	–	–	–	0.4	–	0.4
Vested shares	–	1.4	1.4	–	(1.4)	–	–	(1.4)	–	–	–
Purchase of shares for equity-based compensation	–	(2.5)	(2.5)	–	–	–	–	–	(2.5)	–	(2.5)
At 30 June 2006	**1,134.4**	**(8.2)**	**1,126.2**	**112.7**	**1.5**	**–**	**–**	**1.5**	**1,240.4**	**–**	**1,240.4**

2005	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT									MINORITY INTERESTS	TOTAL EQUITY
	CONTRIBUTED EQUITY				RESERVES						
PARENT	Issued capital $m	Employee compensation shares $m	Total contributed equity $m	Retained earnings $m	Share-based payments $m	Foreign currency translation $m	Cash flow hedges $m	Total Reserves $m	Total Parent Interests $m	$m	$m
At 1 July 2004	1,096.3	(2.3)	1,094.0	112.2	0.7	–	–	0.7	1,206.9	–	1,206.9
Total income and expense for the year recognised directly in equity	–	–	–	–	–	–	–	–	–	–	–
Net Profit	–	–	–	149.3	–	–	–	–	149.3	–	149.3
Total income/expense for the period	–	–	–	149.3	–	–	–	–	149.3	–	149.3
Share-based payments	–	–	–	–	1.9	–	–	1.9	1.9	–	1.9
Dividends paid	–	–	–	(72.7)	–	–	–	–	(72.7)	–	(72.7)
Shares issued under dividend reinvestment plan	15.6	–	15.6	–	–	–	–	–	15.6	–	15.6
Shares issued on exercise of options	3.1	–	3.1	–	–	–	–	–	3.1	–	3.1
Vested shares	–	1.6	1.6	–	(1.6)	–	–	(1.6)	–	–	–
Purchase of shares for equity-based compensation	–	(6.4)	(6.4)	–	–	–	–	–	(6.4)	–	(6.4)
At 30 June 2005	**1,115.0**	**(7.1)**	**1,107.9**	**188.8**	**1.0**	**–**	**–**	**1.0**	**1,297.7**	**–**	**1,297.7**

The accompanying notes form an integral part of this Statement of Changes in Equity.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
This financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, and applicable Australian Accounting Standards.

The financial report of OneSteel Limited for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 22 August 2006.

It is recommended that the financial report be considered together with any public announcements made by OneSteel Limited and its controlled entities during the year ended 30 June 2006 in accordance with the continuous disclosure obligations of the Corporations Act 2001.

Historical cost convention
These financial statements have been prepared under the historical cost convention, except for derivative financial instruments that have been measured at fair value.

Statement of compliance
The financial report complies with Australian Accounting Standards, which includes Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

This is the first financial report prepared under AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly, with the exception of those under AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" as OneSteel has taken the exemption available under AASB 1.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the OneSteel Group's equity and profit are provided in Note 33.

Accounting Standards issued but not yet effective
Except for the revised AASB 119 "Employee Benefits" (issued December 2004), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006. No changes to current accounting policies are anticipated on application of these issued or revised Standards.

AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards"
OneSteel has made the following elections in relation to the transitional exemptions permitted by the Accounting Standard AASB 1:

Business combinations
AASB 3 "Business Combinations" has not been applied retrospectively to past business combinations i.e. business combinations that occurred before the date of transition to AIFRS. Accumulated amortisation on goodwill arising on business combinations prior to 1 July 2004 has therefore not been reversed.

Property, plant and equipment
OneSteel has elected to use property, plant and equipment carrying values under AGAAP as "deemed cost" under AASB 116 "Property, Plant and Equipment" on transition to AIFRS.

Foreign currency translation
OneSteel has not elected to reset its foreign currency translation reserve on transition to AIFRS.

Defined benefit obligations
On transition to AIFRS, the cumulative actuarial losses to 1 July 2004 on the defined benefit section of the OneSteel Superannuation Fund have been recorded in Retained Earnings.

Financial instruments
OneSteel has elected to not apply the requirements of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" to its comparative information as the effective date is the first annual reporting period beginning on or after 1 January 2005.

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"). 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. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Business combinations
The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange, unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuations methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in Equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Significant accounting estimates and assumptions
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant accounting estimates and assumptions
The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(a) Impairment of goodwill and intangibles with indefinite useful lives
The Group determines whether goodwill and intangibles with indefinite useful lives are impaired on at least an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are detailed in Note 13.

(b) Provision for restoration and rehabilitation
Provision for restoration and rehabilitation obligations in relation to reclamation, site closure and other costs associated with the restoration of the mine sites in Whyalla requires an estimation of the costs incurred and the life of the mines. The assumptions used in the estimation of this provision are detailed in Note 17.

(c) Share-based payment transactions
The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date of grant. The fair value is determined by an external valuer using a Monte-Carlo Simulation option pricing model, using the assumptions detailed in Note 28.

(d) Defined benefit plans
Various actuarial assumptions are required when determining the Group's pension schemes and post employment medical benefit obligations. These assumptions and the related carrying amounts are disclosed in Note 18.

Foreign currency

Transactions
Transactions in foreign currencies are translated into the functional currency using exchange rates that approximate those prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Income Statement, except when deferred in Equity as qualifying cash flow hedges.

Translation differences arising on non-monetary items such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

Translation of financial reports of overseas operations
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional' currency'). The functional currency of Steel & Tube Holdings Limited (the principal overseas subsidiary within the OneSteel Group) is New Zealand dollars. The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of OneSteel Limited.

The net assets for all foreign operations are translated at the rates of exchange ruling as at the balance date. Equity items are translated at historical rates. The Income Statement is translated at a weighted average exchange rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve. On disposal of a foreign operation, the balance of the foreign currency translation reserve applicable to that operation is recognised directly in the Income Statement.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue earned from the sale of products or services are 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 recognised when the right to receive payment is established.

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

Finance costs
Finance 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 in the Income Statement, 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 on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the Income Statement as an expense when it is incurred.

Income taxes
The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and the carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or the liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction at balance date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit and loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in Equity, are also recognised directly in Equity.

OneSteel Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

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 Balance Sheet are shown inclusive of GST.

NOTE 1. SUMMARY 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 Cash Flow Statement, cash includes cash on hand and in banks with an original maturity of 3 months or less, together with money market investments which are readily convertible to cash, net of outstanding bank overdrafts, which are carried at the principal amount.

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 there is objective evidence that the outstanding balance will not be able to be recovered.
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.

Cost of inventories includes the transfer from equity of gains/losses on qualifying cash flow hedges of purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Other financial assets (investments)

Prior to 1 July 2005
OneSteel has taken the exemption available under AASB 1 to not apply AASB 132 and AASB 139 to its comparative period.

Investments in both controlled entities and the unlisted shares of jointly controlled entities were carried at the lower of cost and recoverable amount.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held to maturity investments and loans and receivables which are measured at amortised cost, fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the Income Statement or an Equity Reserve. At the date of transition, changes to carrying amounts are taken to Retained Earnings or Reserves.

From 1 July 2005
The Group classifies investments in the following categories: financial assets at fair value through profit and loss; loans and receivables; held to maturity investments; and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(a) Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in this category, and are classified as such if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the Income Statement.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(c) Held to maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity.

(d) Available for sale investments
Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition, available for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time amounts previously reported in Equity are recognised in the Income Statement.

Investments in controlled entities and jointly controlled entities
Investments in controlled entities and jointly controlled entities are carried at the lower of cost and recoverable amount in the separate financial statements of OneSteel Limited, the parent entity.

Investment accounted for using the equity method (jointly controlled entity)
Investments in jointly controlled entities are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements by applying the equity method of accounting, after initially being recognised at cost.

The Group's share of the jointly controlled entity's post-acquisition profits or losses is recognised in the Income Statement. Should the Group's share of losses in a jointly controlled entity equal or exceed its interest in the entity, then no further losses are recognised.

Impairment of assets
Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. This is determined for an individual asset, unless the asset's value-in-use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash flows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value-in-use, forecast future cash flows are discounted by the use of a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the asset or cash-generating unit(s).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill is allocated to cash-generating units (or groups of such units), for the purpose of asset impairment testing. Each of the cash-generating units is no larger than a segment as classified by the primary reporting segments.

Leased assets

Operating lease assets are not capitalised and rental payments are charged to the Income Statement 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. Where fixed rental increases are incorporated into operating lease terms, the rental expense is allocated on a straight-line basis over the lease period.

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item are classified as finance leases. These are initially recognised at the fair value of the leased asset, or if lower, the present value of the minimum lease payments as determined at the inception of the lease. 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 the Income Statement.

Property, plant and equipment

Valuation in financial statements

Property, plant and equipment assets are carried at cost less any accumulated impairment losses and depreciated over their useful economic lives.

Disposals

Any gain or loss arising from disposal, calculated as the difference between net disposal proceeds and the carrying amount of the asset, is included in the Income Statement in the period in which the asset is disposed or derecognised.

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 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
Capitalised leased assets:	Up to 30 years or life of lease, whichever is shorter.

The rates are reviewed and re-assessed periodically in the light of technical and economic developments.

The carrying amount of an asset (or groups of assets) is written down to its recoverable amount if, as a result of impairment testing, an indicator of impairment exists.

Mine development expenditure

Pre-production expenditure

Mine 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 that 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.

Mine development expenditure is amortised based on the estimated life of the reserves on a unit of production 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 Income Statement by allocating a cost to each tonne of ore mined, based on the waste to ore ratio of the mine over its entire life.

Goodwill and other intangible assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets (including contingent liabilities), acquired at the time of acquisition of a business or shares in a controlled entity.

Goodwill acquired in business acquisitions is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses recognised for goodwill are not subsequently reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

System development costs

Internally developed computer software and licences associated with major externally purchased software are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over 5 years.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

Payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. These amounts are unsecured.

Provisions

Provisions are recognised when there is a present obligation (either legal or constructive) 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. The unwinding of any discount relating to the calculation of the carrying value of provisions is recognised as a borrowing cost.

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

Employee benefits

Wages and salaries, annual leave and long service leave

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 and annual 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit obligations
All employees of the Group are entitled to benefits on retirement, disability or death from the Group's superannuation plan. The Group has a defined benefit section and a defined contribution section within its plan. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of the defined benefit section of the plan is recognised in the Balance Sheet, and is measured as the present value of the defined benefit obligation (using the projected unit credit method) at the reporting date plus unrecognised actuarial gains (less any unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries. Consideration is given to expected future salary levels, experience of employee departures and periods of service.

OneSteel has elected to apply AASB 119 "Employee Benefits" (issued in December 2004) to the annual reporting period beginning 1 July 2005. This includes applying AASB 119 to the comparatives in accordance with AASB 108 "Accounting Policies, Changes in Accounting Estimates and Errors". The "corridor approach" is applied in determining the periodic impacton the Income Statement. Under this approach, cumulative actuarial gains/losses greater than 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets are recognised through the Income Statement over the average remaining service period of the employees in the plan on a straight-line basis.

Contributions to the defined contribution fund are recognised as an expense as they become payable.

Equity-based compensation arrangements
The OneSteel Group provides benefits to employees (including directors) in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares or options (equity-settled transactions). These rights are held in Trust and are subject to certain performance conditions.

OneSteel has applied the requirements of AASB 2 "Share-based Payments" to equity instruments granted after 7 November 2002 and that had not vested on or before 1 January 2005.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments or rights granted at the date of the grant. The fair value is determined by an external valuation using a Monte Carlo Simulation option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than those conditions that are linked to the price of the shares of OneSteel Limited (market conditions).

The cost of the equity-settled transactions is recognised together with a corresponding increase in Equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- the extent to which the vesting period has expired, and
- the number of equity instruments that are estimated to ultimately vest, based on the best available information at the reporting date

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market conditions being met, as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is solely based upon a market condition.

The dilutive effect, if any, of outstanding options, is reflected as additional share dilution in the computation of earnings per share.

Shares in the Group reacquired on-market and held by the OneSteel Employee Share Plan Trust are classified and disclosed as Employee Compensation Shares and deducted from Equity.

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. 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. 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 estimated restoration costs for which the entity has a present obligation are discounted to their net present value. To the extent that the activity that creates this obligation relates to the construction of an asset, a corresponding amount is added to the related asset. Otherwise, the amount is incurred as a current period expense.

Changes in the measurement of the existing provision that result from changes in the estimated timing or amount of cash flows, or a change in the discount rate, are adjusted on a prospective basis against the asset to which the restoration relates. Where the related asset has reached the end of its useful life, all subsequent changes in the provision are recognised in the Income Statement as they occur.

The charge to the Income Statement is a combination of the depreciation of the asset over the estimated mine life and an interest expense representing the release of the discounting factor.

Interest-bearing liabilities
Borrowings are initially recognised at fair value less any transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost . Any difference between the proceeds (net of the transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current Interest-bearing liabilities where there is an obligation to settle the liability within twelve months, and as Non-current Interest-bearing liabilities where the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance date.

Contributed equity

Issued capital
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.

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 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee compensation shares
Shares in the OneSteel Group purchased for equity based compensation arrangements are held in Trust and deducted from Contributed Equity in Employee Compensation Shares. Upon vesting, the shares are transferred from Employee Compensation Shares into Other Reserves.

These shares carry voting rights and the beneficial holder is entitled to any dividends paid during the vesting period.

Derivative financial instruments

Prior to 1 July 2005
OneSteel has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

(a) Forward exchange contracts
The Group enters into forward exchange contracts where by it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchase in foreign currencies to protect the Group against the possibility of loss from future exchange rate fluctuations. Forward exchange contracts were recognised at the date the contract was entered into. Exchange gains/losses on forward exchange contracts were recognised in net profit except those relating to hedges of specific commitments, which were deferred and included in the measurement of the sale or purchase.

(b) Interest rate swaps
The Group enters into interest rate swap agreements that are used to convert the variable interest rate of its borrowings to fixed interest rate. The swaps are entered into with the objective of reducing the risk of rising interest rates. It was OneSteel's policy not to recognise interest rate swaps in the financial statements. Net receipts and payments were recognised as an adjustment to interest expense.

(c) Cross-currency interest rate swaps
Cross-currency interest rate swaps are used to convert the fixed interest rate of its USD denominated borrowings to AUD denominated variable rate. Cross-currency interest rate swaps were recognised on the balance sheet measured by reference to the exchange rate at balance date and classified as part of Non-current Interest-bearing liabilities.

Adjustments at transition date: 1 July 2005
The nature of the main adjustments to ensure that the information complies with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are taken to the Income Statement or an Equity reserve. At the date of transition, changes in the carrying amounts of derivatives have been taken to either Retained Earnings or Reserves, depending on whether the criteria for hedge accounting at balance date constituted either a fair value or a cash flow hedge.

From 1 July 2005
Derivatives are initially recognised at fair value on the date that a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative qualifies for hedge accounting, and if so, the nature of the item being hedged. The OneSteel Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments – fair value hedges;
- hedges of highly probable forecast transactions – cash flow hedges

The OneSteel Group documents at inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group also documents its assessment, both at inception and on an on-going basis, of whether the hedges have been, and will continue to be, highly effective in offsetting changes in the fair values or the cash flows of hedged items throughout the financial reporting periods for which they were designated.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset, liability or firm commitment that are attributable to the hedged risk. The Group discontinues fair value hedge accounting if the hedging instrument expires, or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the profit or loss.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Equity as a hedging reserve. The change in fair value relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in Equity are recycled through the Income Statement in the periods when the hedged item affects profit or loss such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold or terminated or exercised without replacement or rollover, any amounts recognised in Equity remain in Equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, amounts recognised in Equity are immediately transferred to the Income Statement.

Derivatives that do not qualify for hedge accounting
Certain derivatives instruments do not qualify for hedge accounting. Changes in the fair value of any such derivatives are recognised immediately in the Income Statement.

Fair value estimation
The fair value of financial assets and liabilities must be estimated for recognition and measurement and for disclosure purposes.

The fair value of derivative financial instruments that are not traded in active markets is determined using valuation techniques. The OneSteel Group uses a variety of methods and assumptions that are based on market conditions existing at balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair values of the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at balance date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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. SEGMENT INFORMATION

					AUSTRALIA	INTERNATIONAL		CONSOLIDATED
2006	Manufacturing $m	Distribution $m	Unallocated $m	Eliminations $m	Total $m	Distribution $m	Eliminations $m	$m
Segment revenues								
Revenues from customers outside the consolidated entity	1,812.1	1,802.2	–	–	3,614.3	390.3	–	4,004.6
Inter-segment revenues	266.9	17.8	12.8	(252.2)	45.3	–	(45.3)	–
Other revenue/income	22.4	13.9	2.6	–	38.9	0.1	–	39.0
Total income	2,101.4	1,833.9	15.4	(252.2)	3,698.5	390.4	(45.3)	4,043.6
Share of net profit of investment accounted for using the equity method	–	–	0.2	–	0.2	–	–	0.2
Other non-cash expenses	(7.6)	(1.2)	(1.9)	–	(10.7)	(0.3)	–	(11.0)
Earnings before interest, tax, depreciation & amortisation	225.8	146.1	(15.7)	3.9	360.1	48.7	(12.1)	396.7
Depreciation and amortisation	(61.3)	(24.1)	(3.6)	–	(89.0)	(5.0)	–	(94.0)
Earnings before interest & tax	164.5	122.0	(19.3)	3.9	271.1	43.7	(12.1)	302.7
Finance costs								(56.7)
Income tax expense								(44.9)
Profit after tax before minority interests								201.1
Segment assets	1,786.2	1,087.6	60.7	(46.9)	2,887.6	175.1	(4.1)	3,058.6
Investment accounted for using the equity method	–	–	7.3	–	7.3	–	–	7.3
Tax assets								72.9
Consolidated assets								3,138.8
Segment liabilities	410.8	266.4	768.4	(48.3)	1,397.3	68.9	–	1,466.2
Tax liabilities								171.0
Consolidated liabilities								1,637.2
Non-current assets acquired	227.7	16.9	4.8	–	249.4	17.5	–	266.9

NOTE 2. SEGMENT INFORMATION

					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	1,786.7	1,749.0	–	–	3,535.7	402.8	–	3,938.5
Inter-segment revenues	261.1	20.3	15.8	(252.3)	44.9	–	(44.9)	–
Other revenue/income	17.9	14.0	2.2	–	34.1	0.5	–	34.6
Total income	2,065.7	1,783.3	18.0	(252.3)	3,614.7	403.3	(44.9)	3,973.1
Share of net profit of investment accounted for using the equity method	–	–	0.6	–	0.6	–	–	0.6
Other non-cash expenses	(9.5)	(2.4)	(1.9)	–	(13.8)	(0.3)	–	(14.1)
Reversal of impairment loss	65.2	–	–	–	65.2	–	–	65.2
Earnings before interest, tax, depreciation & amortisation	249.5	164.3	(19.0)	(1.6)	393.2	61.4	(12.3)	442.3
Depreciation and amortisation	(59.8)	(23.8)	(2.8)	–	(86.4)	(5.3)	–	(91.7)
Earnings before interest & tax	189.7	140.5	(21.8)	(1.6)	306.8	56.1	(12.3)	350.6
Finance costs								(53.6)
Income tax expense								(76.7)
Profit after tax before minority interests								220.3
Segment assets	1,604.7	1,172.9	95.5	(47.8)	2,825.3	192.8	(3.2)	3,014.9
Investment accounted for using the equity method	–	–	7.3	–	7.3	–	–	7.3
Tax assets								64.9
Consolidated assets								3,087.1
Segment liabilities	426.9	316.2	753.1	(43.1)	1,453.1	75.4	–	1,528.5
Tax liabilities								170.3
Consolidated liabilities								1,698.8
Non-current assets acquired	108.7	13.6	16.0	–	138.3	5.2	–	143.5

The Group's primary segment reporting format is business segments as the Group's risks and rates of return are predominantly affected by differences in the products produced. Secondary segment information is reported geographically.

The operating businesses are organised and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Segment activities – Australia

Manufacturing

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

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

Rod & Bar manufactures products in its Bar Mill and Rod Mill at Newcastle which are 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 at Newcastle and Geelong.

The 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, sheet steel and coil, a range of aluminium products, pipes, fittings, valves and other industrial products.

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

Segment activities – International

Distribution

This comprises the 50.3% shareholding in Steel and Tube Holdings Limited, 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 to the New

Zealand market. Products include specialist pipe, valves and fittings, metal fasteners, longrun roofing, cladding and rainwater systems, fabricated reinforcing steel and wire products.

NOTE 2. SEGMENT INFORMATION (CONTINUED)

Intra/intersegment transfers
The Australian Manufacturing segment sells manufactured products such as structural steel, angles, channels, flats, reinforcing bar and mesh to the Australian Distribution and International Distribution segments.

All sales between 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 3. PROFIT AND LOSS ITEMS

	Note	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m	PARENT 2006 $m	PARENT 2005 $m
(a) Sales revenue					
Product sales		4,001.4	3,934.9	–	–
Rendering of services		3.2	3.6	–	–
Total sales revenue		4,004.6	3,938.5	–	–
(b) Other revenue					
Interest received from unrelated parties		2.4	2.4	–	–
Interest received from controlled entities		–	–	9.4	4.5
Dividend revenue from controlled entities		–	–	–	146.0
Rental revenue		0.8	2.9	–	–
Other revenue		25.0	26.5	3.2	3.5
Total other revenue		28.2	31.8	12.6	154.0
TOTAL REVENUE		4,032.8	3,970.3	12.6	154.0
(c) Other income					
Net gains on disposal of property, plant and equipment		4.4	1.9	–	–
Net foreign exchange gains		–	0.9		
Net gain on foreign currency derivatives not qualifying as hedges		1.3	–	–	–
Net gains on qualifying fair value hedges through profit or loss (i)		0.1	–	–	–
Insurance recovery	25(b)	5.0	–	–	–
Total other income		10.8	2.8	–	–
TOTAL INCOME		4,043.6	3,973.1	12.6	154.0
(i) Comprised of					
Gain on financial liability recorded at fair value		8.4	–	–	–
Loss on cross-currency interest rate swap at fair value		(8.3)	–	–	–
		0.1	–	–	–
(d) Profit from operating activities is after charging the following expenses:					
Manufacturing expenses		(94.0)	(91.8)	–	–
Distribution expenses		(106.0)	(105.2)	–	–
Marketing expenses		(101.6)	(100.2)	–	–
Administrative expenses		(233.6)	(239.6)	(3.2)	(3.4)
Total operating expenses excluding finance costs and reversal of impairment loss		(535.2)	(536.8)	(3.2)	(3.4)

NOTE 3. PROFIT AND LOSS ITEMS (CONTINUED)

	Note	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m	PARENT 2006 $m	PARENT 2005 $m
(e) Finance costs					
Interest expense related to:					
Bank loans		51.7	44.2	–	–
Finance leases		8.8	8.7	–	–
Amortisation of deferred borrowing costs		–	0.6	–	–
Restoration and rehabilitation provision discount adjustment		0.6	0.6	–	–
		61.1	54.1	–	–
Less: Borrowing costs capitalised[1]		(4.4)	(0.5)	–	–
Total finance costs		56.7	53.6	–	–

(1) weighted average interest rate of 6.3%.

	Note	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m	PARENT 2006 $m	PARENT 2005 $m
(f) Depreciation, amortisation, foreign exchange differences and other items included in the income statement					
Depreciation of property, plant and equipment					
Buildings		9.3	9.1	–	–
Plant and equipment		63.6	68.7	–	–
Leased assets		11.0	7.8	–	–
Amortisation of mine development expenditure		0.8	0.7	–	–
Amortisation of finite-life intangible assets		9.3	5.4	–	–
Bad debts written off		1.8	3.5	–	–
Write down of inventory to net realisable value		7.3	8.6	–	–
Minimum operating lease rentals		42.2	42.0	–	–
Research and development costs		54.8	55.3	–	–
Reversal of impairment loss on property, plant and equipment	11	–	(65.2)	–	–
(g) Employee benefits expense					
Included in employee benefits expense are the following items:					
Defined contribution company contributions		32.1	33.1	–	–
Defined benefit plan expense	18	15.6	13.6	–	–
Employee provisions		84.4	84.4	–	–
Share-based payments expense		1.9	1.9	–	–

NOTE 4. INCOME TAX

	Note	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m	PARENT 2006 $m	PARENT 2005 $m
(a) Income Statement					
Current income tax charge		69.6	97.4	2.8	1.3
Under/(over) provided in prior years		(6.2)	(7.1)	0.7	–
Deferred tax relating to the origination and reversal of temporary differences		(18.5)	(13.6)	–	–
Income tax expense reported in the income statement		44.9	76.7	3.5	1.3
(b) Statement of Changes in Equity					
Deferred tax related to items charged/(credited) to Equity					
Net gain on revaluation of cash flow hedges		2.4	–	–	–
Share-based payment		(0.1)	(0.3)	–	–
Total deferred tax charged to Equity		2.3	(0.3)	–	–

NOTE 4. INCOME TAX (CONTINUED)

	Note	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m	PARENT 2006 $m	PARENT 2005 $m
(c) Reconciliation of income tax expense to prima facie tax payable					
Profit before tax		246.0	297.0	9.4	150.6
Prima facie income tax expense calculated at 30% (2005: 30%)		73.8	89.1	2.8	45.2
Adjustments in respect of income tax expense of previous years		(6.2)	(7.1)	0.7	–
Share of net profit of associate		(0.1)	(0.2)	–	–
Franking credits on dividends received		–	–	–	(43.8)
Research and development allowance		(4.2)	(6.4)	–	–
Capital gains non-taxable		(1.1)	–		
Non-deductible expenses		0.5	0.7		
Other items		(3.1)	(1.0)	–	(0.1)
Difference in overseas tax rates		1.2	1.6	–	–
Reduction in deferred tax liability upon final reset tax values as a result of entry into tax consolidation	4(e)	(15.9)	–	–	–
Income tax expense reported in the income statement		44.9	76.7	3.5	1.3
(d) Deferred income tax					
Deferred income tax recognised on the balance sheet at 30 June relates to the following:					
Deferred tax liabilities					
Property, plant and equipment		121.2	134.0	–	–
Stores and spares		9.6	9.9	–	–
Deferred charges		9.0	7.5	–	–
Share-based payments		1.5	1.5	–	–
Derivative financial instruments		2.2	–	–	–
		143.5	152.9	–	–
Deferred tax assets					
Employee provisions (including retirement benefit obligations)		50.7	47.5	–	–
Other provisions		10.9	11.9	–	–
Investments		1.1	1.1	1.1	1.1
Other items		1.2	0.6	–	–
Property, plant and equipment		8.0	3.8	–	–
Derivative financial instruments		1.0	–	–	–
		72.9	64.9	1.1	1.1

At 30 June 2006, there is no recognised or unrecognised defered income tax liability (2005: $nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability for additional taxation should such amounts be remitted.

(e) Tax consolidation

OneSteel Limited and its wholly-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 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.

For the year ended 30 June 2006, a further $15.9m was recognised as a tax benefit as a consequence of finalisation of the reset of tax values of certain assets in subsidiaries with a corresponding reduction in deferred tax liabilities and recognition of deferred tax assets.

NOTE 4. INCOME TAX (CONTINUED)

(f) Tax effect accounting by members of the tax consolidated group
Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group as if each entity in the tax consolidated group was a separate taxable entity in its own right. Deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 "Income Taxes".

The allocation of current taxes is recognised as an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head entity, OneSteel Limited.

NOTE 5. EARNINGS PER SHARE

	CONSOLIDATED	
	2006 $m	2005 $m
The following reflects the earnings and share data used in the calculation of basic and diluted earnings per share:		
(a) Earnings		
Profit attributable to members of the parent	187.5	202.8
Earnings used in calculating basic and diluted earnings per share	187.5	202.8
	NUMBER OF SHARES	
(b) Number of ordinary shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	563,477,532	557,796,324
Dilutive effect of executive share options[1]	355,447	542,717
Dilutive effect of employee compensation shares	3,146,736	2,478,712
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	566,979,715	560,817,753
On operating activities before the benefit of tax consolidation[2]		
Basic earnings per share (cents per share)	30.45	
Diluted earnings per share (cents per share)	30.26	
On operating activities before the benefit relating to the reversal of impairment loss[3]		
Basic earnings per share (cents per share)		27.45
Diluted earnings per share (cents per share)		27.30

Issues after 30 June 2006
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.

(1) Executive share options relate solely to ordinary shares. All potential ordinary shares, being options to acquire ordinary shares, are considered dilutive.

(2) Impact of entering tax consolidation – 2006
The calculation of earnings per share before the impact of tax consolidation was based on earnings of $171.6m arising from operating activities. The consolidation impact on earnings was an increase of $15.9m.

(3) Reversal of impairment loss – 2005
The calculation of earnings per share before the benefit relating to the reversal of impairment loss was based on earnings of $153.1m arising from operating activities. The impact of the reversal of the impairment loss was an increase of $49.7m after tax.

NOTE 6. RECEIVABLES

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
Current				
Trade debtors[1]	603.5	616.1	–	–
Less: Provision for doubtful debts	(2.8)	(3.6)	–	–
	600.7	612.5	–	–
Non-trade debtors	34.4	30.6		–
Interest-bearing loan to joint venture entity[2]	0.3	–	–	–
Loan to controlled entity[3]	–	–	153.7	210.8
Tax related balances with controlled entities	–	–	24.8	16.6
	635.4	643.1	178.5	227.4

(1) Trade debtors (excluding Metalcard receivables within the Australian Distribution operations) are non Interest-bearing and are generally on 30 day terms.
$26.6m (2005: $32.0m) of the Australian Distribution external trade debtors are known as Metalcard receivables whereby interest is charged on the outstanding balance at an average interest throughout the year of 11.2% (2005 10.9%).

(2) An Interest-bearing loan at an average interest rate throughout the year of 6.45% (2005 6.45%)

(3) The parent entity loan to its controlled entity is interest bearing at an average rate throughout the year of 5.04% (2005 4.25%).

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

		CONSOLIDATED		PARENT	
	Note	2006 $m	2005 $m	2006 $m	2005 $m
Current Assets					
Foreign exchange contracts[3]	31	3.2	–	–	–
Non-current Assets					
Interest rate swaps[1]	31	4.2	–		–
Non-current Liabilities					
Cross-currency interest rate swaps[2]	31	53.6	–	–	–

Instruments used by the Group
The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to Note 31).

(1) Interest rate swap contracts – Cash flow hedges
At 30 June 2006, the Group held 13 interest rate swap contracts, 6 of which have forward start dates, designated as hedges of interest rate risk whereby it receives variable rate equal to BBSW and pays a fixed interest rate. The 7 remaining interest rate swaps have a notional amount of $245.0m and pay a fixed interest rate of 5.4% on the notional amount.

The swaps are being used to hedge the exposure to changes in the BBSW yield curve component of the interest rate that is equal to the repricing period on the interest rate swap designated as the hedging instrument in relation to its AUD denominated debt (Refer to Note 16).

The cash flow hedge of the forecast interest cash flows were assesed to be highly effective and as at 30 June 2006, a net unrealised gain of $4.2m, with a related deferred tax charge of $1.2m is included in equity in respect of these contracts.

The contracts require settlement of net interest receivable or payable at 90 day intervals. The contracts are settled on a net basis where master netting agreements are in place.

The gain or loss from remeasuring hedge instruments at fair value is deferred in equity in the Cash Flow Hedge Reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the Income Statement immediately.

NOTE 7. **DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

(2) Cross-currency interest rate swap contracts - Fair value hedge

At 30 June 2006, the Group had a series of cross-currency interest rate swaps in place with a notional amount of USD $128m where by it receives a fixed rate of interest of 5.2% in USD and pays a floating rate of interest equal to BBSW in AUD on the notional amount quarterly.

The swaps are being used to hedge the exposure to changes in the fair value of its US private placement, fixed interest, USD denominated senior notes raised in April 2003 (a seven-year tranche USD$68m and a twelve-year tranche USD$60m –refer to Note 16). Interest payments on the debt are made semi-annually.

The expiration of the cross-currency interest rate swaps is matched to the expiry of the underlying debt.

(3) Forward exchange contracts

The OneSteel Group is exposed to foreign exchange risk through primary financial assets and liabilities and anticipated future transactions, modified through derivative financial instruments such as forward exchange agreements, currency options and currency swaps.

Of this balance, $1.2m relate to hedges of highly probable or committed purchases for the ensuing financial year. The contracts are timed to mature when payments for the purchases are scheduled to be made. The cash flows are expected to occur at various dates of up to 6 months from the balance date.

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. Gains or losses from remeasuring forward exchange contracts at fair value are recognised in the Income Statement, with the exception of those forward exchange contracts qualifying as cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be effective is recognised directly in Equity. When the transaction occurs, the initial measurement of the amount recognised in the balance sheet is adjusted by the related amount deferred in Equity.

The "buy" amounts represent the Australian dollar equivalent of commitments to purchase foreign currencies. The "sell" amounts represent 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 manage the Group's foreign exchange exposure.

In 2005, the net fair value of open foreign exchange contracts was recorded in other receivables ($1.7m).

	2006	2005	2006		2005	
	AVERAGE EXCHANGE RATE		BUY $m	SELL $m	BUY $m	SELL $m
CURRENCY						
United States Dollar						
0 – 3 months	0.746	0.765	82.2	–	123.2	4.4
Over 3 – 12 months	0.737	0.759	37.9	–	4.4	–
			120.1	–	127.6	4.4
Japanese Yen						
0 – 3 months	84.75	82.90	1.8	–	3.2	1.4
Over 3 – 12 months	82.87	82.90	1.5	–	1.4	–
			3.3	–	4.6	1.4
New Zealand Dollar						
0 – 3 months	1.204	1.074	1.2	8.7	–	10.2
Over 3 – 12 months	–	–	–	–	–	–
			1.2	8.7	–	10.2
Euro						
0 – 3 months	0.602	0.600	9.0	–	9.7	–
Over 3 – 12 months	0.598	0.624	2.7	–	4.0	–
1 – 2 years	0.588	–	1.9	–		
			13.6	–	13.7	–
Swedish Kroner						
0 – 3 months	5.483	–	2.3	–	–	–
Over 3 – 12 months	–	–	–	–	–	–
			2.3	–	–	–
Pounds Sterling						
0 – 3 months	0.400	0.415	0.4	–	0.8	–
Over 3 – 12 months	–	–	–	–	–	–
			0.4	–	0.8	–

NOTE 8. INVENTORIES

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
CURRENT				
Raw materials				
At net realisable value	–	0.2	–	–
At cost	116.4	136.5	–	–
	116.4	136.7	–	–
Work in progress				
At net realisable value	5.0	5.3	–	–
At cost	54.0	40.3	–	–
	59.0	45.6	–	–
Finished goods				
At net realisable value	3.6	7.6	–	–
At cost	498.1	569.6	–	–
	501.7	577.2	–	–
Stores, spares and other				
At net realisable value	1.0	1.1	–	–
At cost	80.8	76.1	–	–
	81.8	77.2	–	–
Total inventories				
At net realisable value	9.6	14.2	–	–
At cost	749.3	822.5	–	–
	758.9	836.7	–	–

NOTE 9. OTHER FINANCIAL ASSETS

		CONSOLIDATED		PARENT	
	Note	2006 $m	2005 $m	2006 $m	2005 $m
Non-current					
Investments in controlled entities, net of impairment loss	26	–	–	1,081.5	1,079.5
Investment in unlisted jointly controlled entity – at cost[(1)]	10	–	–	8.1	8.3
Less: Provision for diminution		–	–	(1.0)	(1.0)
Interest-bearing loan to jointly controlled entity		–	0.3	–	–
Investment in partnership[(2)]		7.1	8.5	–	–
		7.1	8.8	1,088.6	1,086.8

(1) OneSteel Limited's investment in the jointly controlled entity, Bekaert Australia Steel Cord Pty Limited.

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

NOTE 10. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m
Investment in jointly controlled entity	7.3	7.3

OneSteel Limited has a 50% interest in Bekaert Australia Steel Cord Pty Limited, a company incorporated in Australia involved in the manufacture of steel wire products. Its balance date is 31 December.

There were no impairment losses relating to the investment and no capital committments or other committments relating to the entity.
The following information illustrates summarised financial information relating to the Group's investment in Bekaert Australia Steel Cord Pty Limited:

	2006 $m	2005 $m
Share of the entity's profit or loss:		
Revenue	16.4	18.1
Net profit before income tax	0.5	0.7
Income tax expense attributable to net profit	(0.3)	(0.1)
Net profit after income tax	0.2	0.6
Share of the entity's assets and liabilities		
Current assets	5.9	6.7
Non-current assets	9.5	10.1
Current liabilities	(2.7)	(3.1)
Non-current liabilities	(5.4)	(6.4)
Net assets	7.3	7.3

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED				
2006	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	63.4	295.1	1,376.8	113.9	1,849.2
Additions	0.7	2.1	235.5	–	238.3
Business assets acquired	–	–	0.9	–	0.9
Disposals	(1.3)	(0.8)	(25.4)	(2.2)	(29.7)
Net foreign currency differences on translation of foreign operations	(0.5)	(1.7)	(7.5)	–	(9.7)
Carrying value at the end of the year	62.3	294.7	1,580.3	111.7	2,049.0
Accumulated depreciation					
Carrying value at the beginning of the year	–	(100.4)	(550.1)	(7.8)	(658.3)
Depreciation	–	(9.3)	(63.6)	(11.0)	(83.9)
Disposals	–	0.4	25.0	2.0	27.4
Net foreign currency differences on translation of foreign operations	–	0.3	5.2	–	5.5
Carrying value at the end of the year	–	(109.0)	(583.5)	(16.8)	(709.3)
Net book value 30 June 2006	62.3	185.7	996.8	94.9	1,339.7

NOTE 11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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	1,460.0	–	1,815.7
Additions	0.1	4.8	113.7	16.0	134.6
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 foreign operations	–	0.1	0.2	–	0.3
Carrying value at the end of the year	63.4	295.1	1,376.8	113.9	1,849.2
Accumulated depreciation					
Carrying value at the beginning of the year, net of impairment	–	(100.8)	(635.5)	–	(736.3)
Depreciation	–	(9.1)	(68.7)	(7.8)	(85.6)
Reversal of impairment loss (a)	–	8.7	56.5	–	65.2
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 foreign operations	–	–	(0.1)	–	(0.1)
Carrying value at the end of the year	–	(100.4)	(550.1)	(7.8)	(658.3)
Net book value 30 June 2005	63.4	194.7	826.7	106.1	1,190.9

(a) Reversal of impairment loss on property, plant and equipment – 2005

As a result of impairment testing performed on transition to AIFRS at 1 July 2004, an impairment loss of $71.0m was recognised to reduce certain items of property, plant and equipment to their recoverable amount. The recoverable amount estimation was based on value in use and was determined at the cash generating unit level, being assets relating to the Australian Manufacturing Segment as disclosed in Note 2. This adjustment was recognised in retained earnings on transition. The impairment loss was allocated to the assets of the cash generating unit (excluding goodwill) on a pro-rata basis with the carrying amounts of those assets.

As a result of the inclusion of forecasted cash flows related to Project Magnet and improved economic outlook of the Australian economy used in the impairment testing performed at 30 June 2005 to determine the recoverable amount of the cash generating unit, the impairment loss arising on plant and equipment was subsequently reversed. The impairment reversal was allocated to the assets of the cash generating unit (excluding goodwill) on a pro-rata basis with the carrying amounts of those assets and recognised in the Income Statement.

In allocating the reversal of the impairment loss, the carrying amounts of the assets have not been increased above the lower of their recoverable amount and the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised for the asset on transition.

In determining value in use for the cash generating unit, the cash flows were discounted at at rate of 13% (2005) on a pre-tax basis.

NOTE 12. MINE DEVELOPMENT EXPENDITURES

	CONSOLIDATED		
2006	Deferred stripping $m	Pre-production expenditure $m	Total $m
Movements in carrying amounts			
Cost			
Carrying value at the beginning of the year	24.3	23.7	48.0
Net deferral	3.3	–	3.3
Additions	–	12.8	12.8
	27.6	36.5	64.1
Accumulated amortisation			
Carrying value at the beginning of the year	–	(3.1)	(3.1)
Amortisation	–	(0.8)	(0.8)
	–	(3.9)	(3.9)
Net carrying amount 30 June 2006	27.6	32.6	60.2

	CONSOLIDATED		
2005	Deferred stripping $m	Pre-production expenditure $m	Total $m
Movements in carrying amounts			
Cost			
Carrying value at the beginning of the year	27.6	17.0	44.6
Net deferral	(3.3)	–	(3.3)
Additions	–	6.7	6.7
	24.3	23.7	48.0
Accumulated amortisation			
Carrying value at the beginning of the year	–	(2.4)	(2.4)
Amortisation	–	(0.7)	(0.7)
	–	(3.1)	(3.1)
Net carrying amount 30 June 2005	24.3	20.6	44.9

NOTE 13. OTHER INTANGIBLES AND GOODWILL

	CONSOLIDATED		
2006	Goodwill $m	Software development costs $m	Total $m
Movements in carrying amounts			
Cost			
Carrying value at the beginning of the year	192.7	47.4	240.1
Additions	–	2.6	2.6
Business assets acquired	1.8	–	1.8
Net foreign currency differences on translation of foreign operations	(1.6)	–	(1.6)
	192.9	50.0	242.9
Accumulated amortisation and impairment			
Carrying value at the beginning of the year	–	(13.4)	(13.4)
Amortisation	–	(9.3)	(9.3)
	–	(22.7)	(22.7)
Net carrying amount 30 June 2006	192.9	27.3	220.2

	CONSOLIDATED		
2005	Goodwill $m	Software development costs $m	Total $m
Movements in carrying amounts			
Cost			
Carrying value at the beginning of the year	192.5	41.4	233.9
Additions	–	6.0	6.0
Business assets acquired	0.2	–	0.2
	192.7	47.4	240.1
Accumulated amortisation and impairment			
Carrying value at the beginning of the year, net of impairment	–	(8.0)	(8.0)
Amortisation	–	(5.4)	(5.4)
	–	(13.4)	(13.4)
Net carrying amount 30 June 2005	192.7	34.0	226.7

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following groups of cash generating units (CGUs), which are reportable segments, for impairment testing as follows:

- Australian Distribution
- International Distribution

Australian Distribution

The recoverable amount of the Australian Distribution unit has been determined based on a value in use calculation using the cash flow projections based on the 5 year forecast approved by the Board.

The discount rate applied to cash flow projections is 12.8% (2005: 13%), and cash flows beyond the 5 year period are extrapolated using the average of the cashflows from years 1 to 5.

The growth rate used to extrapolate the cash flows of the Distribution unit beyond the five year period is 2% (2005: nil). This growth rate does not exceed the growth rate of the market to which the group of CGUs is dedicated.

NOTE 13. OTHER INTANGIBLES AND GOODWILL (CONTINUED)

International Distribution
The recoverable amount of the International Distribution unit has been determined based on a value in use calculation using the cash flow projections based on the 5 year forecast approved by the Board.

The discount rate applied to cash flow projections is 12.8% (2005: 13%), and cash flows beyond the 5 year period are extrapolated using the average of the cashflows from years 1 to 5.

The growth rate used to extrapolate the cash flows of the International Distribution unit beyond the five year period is 2% (2005: nil). This growth rate does not exceed the growth rate of the market to which the CGU is dedicated.

Key assumptions used in value in use calculations for the cash generating units for 30 June 2006 and 30 June 2005

The following describes each key assumption on which management has based its cash flow projections when determining the value in use for its cash generating units:

Australian economic conditions – assumptions including GDP, CPI and wages escalation are consistent with external sources of information.

Market conditions – assumptions on key domestic market segment activity including construction, mining, agriculture and manufacturing are consistent with external sources of information.

Exchange rates – long term forecast AUD/USD and NZD exchange rates are used which are consistent with external sources of information.

Raw materials prices – values assigned to this key assumption are consistent with external sources of information except for OneSteel owned mines where the value assigned is in line with mining contracts and other cost escalators such as oil.

Manufacturing prices – values assigned are influenced by raw material prices and international steel prices. These are consistent with external sources of information.

Budgeted margins – the basis used to determine the value assigned to the margins in the Australian Distribution and International Distribution CGUs are the actual margins achieved increased for expected efficiency improvements. Thus, values assigned reflect past experience and efficiency improvements.

Bond rates – the 90 day bank bill rate is used.

Carrying amount of goodwill allocated to each of the cash generating units

2006	Manufacturing $m	Distribution $m	International Distribution $m	Total $m
Carrying amount of goodwill	–	180.1	12.8	192.9
2005				
Carrying amount of goodwill	–	178.6	14.1	192.7

NOTE 14. OTHER ASSETS

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
Current				
Deferred borrowing costs[1]	–	0.6	–	–
Prepayments	9.8	5.9	–	–
	9.8	6.5	–	–
Non-current				
Deferred borrowing costs[1]	–	1.8	–	–
Prepayments	0.3	0.5	–	–
	0.3	2.3	–	–

(1) From 1 July 2005, deferred borrowing costs have been classified as a reduction in Interest-bearing liabilities.

NOTE 15. PAYABLES

	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m	PARENT 2006 $m	PARENT 2005 $m
Trade creditors[1]	474.2	551.5	–	–
Other creditors and accruals	71.2	64.2	–	–
	545.4	615.7	–	–

(1) Trade creditors are non Interest-bearing and are generally settled on 30 to 60 day terms. Other creditors are non Interest-bearing.

NOTE 16. INTEREST-BEARING LIABILITIES

	Note	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m	PARENT 2006 $m	PARENT 2005 $m
Current					
Finance lease liability[1]	24	29.7	21.0	–	–
Short-term unsecured borrowings					
Bank loans[2]		24.4	27.8	–	–
Bank loans[3]		6.0	–		
		60.1	48.8	–	–
Non-current					
Finance lease liability[1]	24	59.8	89.5	–	–
Long-term unsecured borrowings					
Bank loans[4]	7, 31	381.2	353.7	–	–
US Private placement[5]	7, 31	157.3	169.6	–	–
Other					
Loss on cross currency hedge[6]		–	38.7	–	–
		598.3	651.5	–	–

OneSteel has elected not to apply the requirements of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" to its comparative information as the effective date is the first annual reporting period beginning on or after 1 January 2005.

(a) Financing Arrangements

2006	CONSOLIDATED Accessible $m	CONSOLIDATED Drawn Down $m	CONSOLIDATED Unused $m
US Private placement[5]	157.3	157.3	–
Bank loan facilities[7]	1,063.3	405.6	657.7
Bank overdraft[8]	15.0	–	15.0
Total financing facilities	1,235.6	562.9	672.7

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

NOTE 16. INTEREST-BEARING LIABILITIES (CONTINUED)

(1) The finance 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 leasback arrangement has a five year life. The mining equipment has a lease term of two years. The average discount rate implicit in the leases is 9.6%.

(2) 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 7.4% (2005: 7.1%).

(3) Represents short-term borrowings at an average interest rate of 5.8%.

(4) Bank loans consist of the following:
(i) Drawdowns of $370m of loans provided to the OneSteel Group by a syndicate of banks. The loans have an average interest rate of 6.2% with repayment dates of September 2007 ($170m) and May 2008 ($200m). 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 $12.2m (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 7.1% and repayment dates of April 2009 ($4.1m/NZD$5m) and March 2010 ($8.1m/NZD$10m).

(5) US Private Placement undertaken in April 2003 (USD$128m). This consists of a fixed interest seven year tranche (US$68m) repayable in April 2010 and twelve year tranche (US$60m) repayable in April 2015. This has been hedged using a series of cross-currency interest rate swaps – refer to Note 7 Derivative Financial Instruments for further details on the cross-currency interest rate swap and Note 31 Financial Instruments.

(6) In 2005, the cross-currency interest rate swap hedging the US Private Placement at (5) was classified as an Interest-bearing liability.

(7) 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 two years. The balance of the facility comprises $7.3m (NZD$9m) subject to annual review, $28.5m (NZD$35m) expiring March 2008, $28.5m (NZD$35m) expiring March 2010 provided to Steel Tube Holdings Group.

(8) Expiry date October 2006.

NOTE 17. PROVISIONS

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
Current				
Employee benefits	152.6	149.2	–	–
Restoration and rehabilitation(1)	0.4	0.6	–	–
Other provisions	–	1.1		
Customer claims(2)	7.5	15.1	–	–
	160.5	166.0	–	–
Non-current				
Employee benefits	22.4	23.2	–	–
Restoration and rehabilitation(1)	12.6	12.3	–	–
	35.0	35.5	–	–

2006	Customer claims $m	Restoration and rehabilitation $m	Other $m	Total $m
Movements in carrying amounts				
Carrying value at the beginning of the year	15.1	12.9	1.1	29.1
Additional amounts provided	–	–	–	–
Utilised	(1.1)	(0.5)	(0.2)	(1.8)
Reversal of unused amounts	(6.5)	–	(0.9)	(7.4)
Unwinding of discount to present value	–	0.6	–	0.6
Discount rate adjustment	–	–	–	–
Carrying value at the end of the year	7.5	13.0	–	20.5

(1) Provision for restoration and rehabilitation
Restoration and rehabilitation provisions comprise obligations relating to reclamation, site closure and other costs associated with restoration of the mine sites in Whyalla.
Because of the long term nature of the liability, there is uncertainty in estimating the costs that will ultimately be incurred. The provision has been calclated using a discount rate of 5.7%.

(2) 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 18. RETIREMENT BENEFIT OBLIGATIONS

The OneSteel Group 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 dependants on death.

Accumulation funds

The benefits provided by accumulation funds are based on 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 fund rules. These contributions are expensed in the period in which they are incurred. Contributions by the group of 9% of employee's wages and salaries are legally enforceable in Australia.

Defined benefit funds

The Group has one superannuation plan with a defined benefit section and a defined contribution section. The benefits provided by the defined benefits section of the plan are based on the length of service or member and the salary of the member at or near retirement. Member contributions, based on a percentage of salary, are specified by the fund rules. The defined benefit section has 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.

The following tables summarise the components of the net defined benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated balance sheet for the respective plans.

	CONSOLIDATED	
	Defined benefits	
	2006 $m	2005 $m
Net defined benefit expense		
Current service cost	17.6	14.2
Interest cost on benefit obligation	13.3	14.9
Expected return on plan assets	(19.8)	(19.6)
Salary sacrifice contributions	4.5	4.1
Net actuarial (gains)/losses recognised in the year	–	–
Past service cost	–	–
Effect of curtailments and settlements	–	–
Net defined benefit expense	15.6	13.6
Actual return on plan assets	60.1	30.6
Defined benefit liability included in the balance sheet		
Fair value of plan assets	348.2	302.1
Present value of defined benefit obligation	(340.8)	(316.6)
Surplus/(Deficit) at the end of the year	7.4	(14.5)
Net actuarial (gains)/losses not yet recognised	(20.7)	3.5
Net defined benefit liability – Non-current	(13.3)	(11.0)

The Group has no legal obligation to settle the defined benefit superannuation liability with an immediate contribution or additional one-off contributions. The Group intends to continue to contribute to the defined benefit section of the plan at a rate of 13.5% of salaries in line with the actuary's latest recommendations.

NOTE 18. RETIREMENT BENEFIT OBLIGATIONS

	CONSOLIDATED Defined benefits	
	2006 $m	2005 $m
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	316.6	300.8
Interest cost	13.3	14.9
Current service cost	17.6	14.2
Contributions by plan participants	5.2	4.9
Benefits paid	(28.0)	(32.7)
Actuarial losses on obligation	16.1	14.5
Closing defined benefit obligation	340.8	316.6
Changes in the fair value of plan assets		
Opening fair value of plan assets	302.1	289.2
Expected return	19.8	19.6
Contributions by employer	13.3	14.2
Contributions by plan participants	0.7	0.8
Benefits paid	(28.0)	(32.7)
Actuarial gains	40.3	11.0
Fair value of plan assets	348.2	302.1

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	CONSOLIDATED Defined benefits	
	2006 %	2005 %
Australian equities	39.0	36.5
International equities	23.7	24.8
Property	8.6	8.4
Bonds	28.7	27.5
Hedge funds	–	2.8

The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories.

The principal actuarial assumptions used in determining defined benefit obligations for the Group's defined benefit plan is shown below:

	CONSOLIDATED Defined benefits	
	2006 %pa	2005 %pa
Discount rate	5.8	5.1
Expected rate of return on assets	7.0	6.8
Future salary increases	5.0	4.5
CPI Inflation	3.0	2.5

Employer contributions

Employer contributions to the defined benefit section of the superannuation plan are based on recommendations by the plan's actuary. Actuarial assessments are made annually, and the last such assessment was made as at 30 June 2006.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of member's salaries over their working lives.

NOTE 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Using the funding method described above and the actuarial assumptions as to the plan's future experience, the plan's actuary has not recommended that additional contributions beyond the current contribution level be made.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2007 are $9.3m.

Funding recommendations made by the actuary are based on assumptions of various matters such as future salary levels, mortality rates, membership turnover and interest rates. Details of the Group's defined benefit section of the plan as extracted from the plan's most recent financial report at 30 June 2005 are as follows:

	Defined benefits 2005 $m
Accrued benefits	303.9
Net market value of plan assets	306.4
Surplus of net market value of plan assets over accrued benefits	2.5

In accordance with AAS 25 Financial Reporting by Superannuation Plans, the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets.

The surplus, as at 30 June 2005, under AAS 25 differs from the net liability of $11.0m recognised in the balance sheet at 30 June 2005 due to different measurement rules in the relevant accounting standards AAS 25 and AASB 119 "Employee Benefits" and different measurement dates.

The principal financial assumptions used in the most recent funding valuation are as follows:

	Defined benefits superannuation plan 2005 %pa
Investment returns	7.0
Future salary increases	4.5

Historic summary

	Defined benefits	
	2006 $m	2005 $m
Defined benefit plan obligation	340.8	316.6
Plan assets	348.2	302.1
Surplus/(deficit)	7.4	(14.5)
Experience adjustments arising on plan liabilities	(18.2)	(4.8)
Experience adjustments arising on plan assets	40.3	11.0

Information for years prior to 2005 is not available.

NOTE 19. CONTRIBUTED EQUITY

	Note	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m	PARENT 2006 $m	PARENT 2005 $m
Contributed equity					
Issued capital (a)		1,134.4	1,115.0	1,134.4	1,115.0
Employee compensation shares (b)		(8.2)	(7.1)	(8.2)	(7.1)
Total contributed equity		1,126.2	1,107.9	1,126.2	1,107.9
(a) Share capital					
Number of ordinary shares: 569,252,175 (2005: 563,821,883)					
Issued and paid-up		1,134.4	1,115.0	1,134.4	1,115.0
(b) Employee compensation shares					
Number of ordinary shares: 3,042,907 (2005: 2,999,565)					
Shares held in Trust under equity-based compensation arrangements		(8.2)	(7.1)	(8.2)	(7.1)

	Note	NUMBER OF ORDINARY SHARES 2006	NUMBER OF ORDINARY SHARES 2005	VALUE OF ORDINARY SHARES 2006 $m	VALUE OF ORDINARY SHARES 2005 $m
Movements in issued capital for the period					
On issue at the beginning of the year		563,821,883	554,882,602	1,115.0	1,096.3
Issued during the year:					
From the exercise of options[(1),(3)]		396,314	3,410,111	0.4	3.1
Under a Dividend Reinvestment Plan[(2)]		5,033,978	5,529,170	19.0	15.6
On issue at the end of the year		569,252,175	563,821,883	1,134.4	1,115.0
Movements in employee compensation shares for the period					
Held in Trust at the beginning of the year		(2,999,565)	(2,135,020)	(7.1)	(2.3)
Shares vested and transferred to Other Reserves	21	689,367	1,602,319	1.4	1.6
Shares purchased on-market		(732,709)	(2,466,864)	(2.5)	(6.4)
Held in Trust at the end of the year		(3,042,907)	(2,999,565)	(8.2)	(7.1)

(1) Issued from the exercise of options under the Executive Long Term Incentive Plan – refer to Note 28 Employee Benefits.

(2) The dividend reinvestment plan provides shareholders with an opportunity to acquire additional ordinary shares in lieu of cash dividends. Shares were issued at $3.62 (October 2005) and $4.01 (April 2006).

(3) Due to the suspension of the option section of the Executive Long Term Incentive Plan, there were no options issued during the year.

Terms and conditions of contributed equity

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 20. **RETAINED EARNINGS**

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
Balance at the beginning of the year	214.2	84.1	188.8	112.2
First time adoption of AASB 139 Financial Instruments: Recognition and Measurement	(3.6)	–	–	–
Net profit	187.5	202.8	5.9	149.3
Dividends paid	(82.0)	(72.7)	(82.0)	(72.7)
Balance at the end of the year	316.1	214.2	112.7	188.8

NOTE 21. **RESERVES**

		CONSOLIDATED		PARENT	
	Note	2006 $m	2005 $m	2006 $m	2005 $m
Foreign currency translation reserve		(3.3)	3.0	–	–
Cash flow hedge reserve		3.9	–	–	–
Share based payments reserve		2.0	1.4	1.5	1.0
		2.6	4.4	1.5	1.0
(a) Foreign currency translation reserve					
Balance at the beginning of the year		3.0	2.8	–	–
Exchange fluctuations on overseas net assets		(6.3)	0.2	–	–
Balance at the end of the year		(3.3)	3.0	–	–
(b) Cash flow hedge reserve					
Balance at the beginning of the year		–	–	–	–
Application of AASB 132 and 139		(1.7)	–	–	–
Gains/(losses) taken to equity		5.6	–	–	–
Transferred to profit		–	–	–	–
Balance at the end of the year		3.9	–	–	–
(c) Share-based payments reserve					
Balance at the beginning of the year		1.4	0.8	1.0	0.7
Expense recognised		2.0	2.2	–	–
Contribution to subsidiary		–	–	1.9	1.9
Transfer from employee compensation shares	19	(1.4)	(1.6)	(1.4)	(1.6)
Balance at the end of the year		2.0	1.4	1.5	1.0

Nature and purpose of reserves

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Cash flow hedge reserve
The cash flow hedge reserve is used to record the portion of the gain or loss on a hedge instrument in a cash flow hedge that is determined to be an effective hedge.

Share-based payments reserve
The share-based payments reserve is used to record the value of equity based compensation provided to employees and senior executives as part of their remuneration. Refer to Note 28 for further details of these plans.

NOTE 22. DIVIDENDS

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

2006	On ordinary shares $m	Dividend per ordinary share $
Interim fully franked dividend for 2006, paid 20 April 2006	39.7	0.07
Final fully franked dividend for 2005, paid 20 October 2005	42.3	0.075
	82.0	0.145

2005		
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	0.13

Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 10 cents per fully paid ordinary share (2005 – 7.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 19 October 2006 but not recognised as a liability at year end is $56.9m (2005 – $42.3m).

Dividend Franking

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

	PARENT	
	2006 $m	2005 $m
The amount of franking credits available for the subsequent financial year, represented by the franking account balance at 30% are:	13.4	3.5

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 CASH FLOW STATEMENT

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
(a) Reconciliation to Cash Flow Statement				
Cash at the end of the financial year as shown in the Cash Flow Statement, is reconciled to the related items in the Balance Sheet as follows:				
Cash and cash equivalents	19.6	55.0	–	–

NOTE 23. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
(b) Reconciliation of profit after tax to net cash flows from operations				
Profit after tax	201.1	220.3	5.9	149.3
Adjusted for non-cash items				
Depreciation and amortisation	94.0	91.7	–	–
Net gain on disposal of property, plant and equipment	(4.4)	(1.9)	–	–
Share of net profit of investment accounted for using the equity method	(0.2)	(0.6)	–	–
Reversal of impairment loss	–	(65.2)	–	–
Net fair value change on derivatives	0.9	–	–	–
Share based payment expense	1.9	1.9	–	–
Finance costs	0.7	0.6	–	–
Changes in assets and liabilities net of effects of purchase and sale of controlled entities and businesses				
(Increase)/decrease in receivables	4.6	(76.2)	(8.3)	(146.9)
(Increase)/decrease in inventories	88.2	(131.8)	–	–
(Increase)/decrease in deferred tax balances	(8.1)	25.3	–	–
(Increase)/decrease in other assets	(5.3)	4.5	–	–
Increase/(decrease) in tax provisions	(0.7)	(2.7)	10.2	0.9
Increase/(decrease) in payables	(118.2)	160.0	–	–
Increase/(decrease) in provisions	(3.7)	10.0	–	–
Net cash flow from operations	250.8	235.9	7.8	3.3

(c) Non-cash investing and financing activities

During the year, dividends of $19.0m (2005: $15.6m) were paid via the issue of shares under a dividend reinvestment plan (refer Note 19).

In 2005, plant and equipment with an aggregate value of $16.0m was acquired by means of finance leases. These acquisitions are not reflected in the cash flow statement.

(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	2006 $m	2005 $m
Minor business acquisitions		
Cash consideration paid	13.2	0.6
The carrying amounts of assets acquired by major class are:		
Inventories	10.5	0.3
Plant and equipment	0.9	0.1
Goodwill arising on acquisition	1.8	0.2
	13.2	0.6
Outflow of cash on minor business acquisitions		
Cash outflow	13.2	0.6

The businesses acquired during the year were as follows:[1]

Name of business	Date of acquisition
MetMore Pty Ltd	1-Sep-05
Inverell Steel Supplies Pty Ltd	1-Nov-05
Arthur Pipe & Steel Australia Pty Ltd	1-May-05
NZ Fasteners Group	3-Apr-06

(1) The carrying amounts are consistent with the carrying amounts of each of the classes of assets immediately before the combination.

NOTE 24. COMMITMENTS

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
Capital commitments				
Commitments contracted for at reporting date but not recognised as liabilities are as follows:				
Property, plant and equipment				
Within one year	42.5	228.2	–	–
After one year but not more than five years	–	4.9	–	–
Total capital commitments	42.5	233.1	–	–
Operating lease commitments				
The OneSteel Group has entered into various non-cancellable operating leases on property, plant and equipment. The leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.				
The Group also leases various plant and machinery under cancellable operating leases.				
Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:				
Within one year	32.0	31.5	–	–
After one year but not more than five years	68.5	73.7	–	–
Longer than five years	26.3	32.1	–	–
Total operating lease commitmens	126.8	137.3	–	–
Finance lease commitments				
The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of 2 to 5 years.				
Future minimum lease payments under finance leases and hire purchase contracts are as follows:				
Within one year	38.0	31.1		
After one year but not more than five years	68.8	108.6	–	–
Minimum lease payments	106.8	139.7	–	–
Less: Future finance charges	(17.3)	(29.2)	–	–
Total lease liability	89.5	110.5	–	–
Lease liability – current	29.7	21.0	–	–
Lease liability – Non-current	59.8	89.5	–	–
Total lease liability	89.5	110.5	–	–

The weighted average interest rate implicit in the leases is 9.6% (2005: 9.6%)

NOTE 25. CONTINGENCIES

(a) Contingent liabilities

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

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
Guarantees and indemnities				
Bank guarantees covering:				
Workers' compensation self-insurance licences	35.8	38.4	35.8	38.4
Performance of contracts	18.8	21.6	–	2.8

As explained in Note 26, 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 Group Infrastructure Pty Limited ("United") over payment for the work undertaken in the reline of the Whyalla blast furnace. This dispute has not been resolved and OneSteel is vigorously defending legal action commenced by United for payment of its claims. The outcome of the litigation is not expected to have a material impact on OneSteel's financial statements.

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

Insurance claims for property damage and business interruption losses arising from disruptions to blast furnace operations at Whyalla in 2005 have been provided to the Company's insurers. The insurers have agreed to indemnify OneSteel for losses covered under the relevant insurance policies and have made a progress payment of $5m. The insurers are continuing to assess OneSteel's losses and additional payments are likely. However, further proceeds from these claims will not been booked in the financial statements until the likely proceeds can be reliably estimated.

NOTE 26. CONTROLLED ENTITIES

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

Entity	Note	Place of incorporation	% of shares held 2006	% of shares held 2005
OneSteel Limited	(a)	Australia		
Aquila Steel Company Pty Ltd	(b)	Australia	100.0	100.0
Australian Wire Industries Pty Limited	(b)	Australia	100.0	100.0
AWI Holdings Pty Limited	(b)	Australia	100.0	100.0
J Murray-Moore (Holdings) Pty Limited	(b)	Australia	100.0	100.0
Metpol Pty Limited	(b)	Australia	100.0	100.0
Midalia Steel Pty Limited	(b)	Australia	100.0	100.0
OneSteel Building Supplies Pty Limited	(b)	Australia	100.0	100.0
OneSteel Finance Pty Limited		Australia	100.0	100.0
OneSteel Insurance Pte Limited		Singapore	100.0	100.0
OneSteel Investments Pty Limited	(b)	Australia	100.0	100.0
OneSteel Manufacturing Pty Limited	(b)	Australia	100.0	100.0
OneSteel MBS Pty Limited	(b)	Australia	100.0	100.0
OneSteel NSW Pty Limited	(b)	Australia	100.0	100.0
OneSteel NZ Limited		New Zealand	100.0	100.0
OneSteel Queensland Pty Limited	(b)	Australia	100.0	100.0
OneSteel Reinforcing Pty Limited	(b)	Australia	100.0	100.0
Onesteel Trading Pty Limited	(b)	Australia	100.0	100.0
OneSteel Wire Pty Limited	(b)	Australia	100.0	100.0
Pipeline Supplies of Australia Pty Limited	(b)	Australia	100.0	100.0
Reosteel Pty Limited	(b)	Australia	100.0	100.0
Tubemakers of Australia Pty Ltd	(b)	Australia	100.0	100.0
Tubemakers Somerton Pty Limited	(b)	Australia	100.0	100.0
Tubemakers of New Zealand Limited		New Zealand	100.0	100.0
Armco Fasteners Limited		New Zealand	50.3	–
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
Steel & Tube Roofing Products Limited		New Zealand	–	50.3
David Crozier Limited		New Zealand	50.3	50.3
EMCO Group Limited		New Zealand	50.3	50.3
Fastening Supplies Limited		New Zealand	–	50.3
Hurricane Wire Products Limited		New Zealand	–	50.3
NZMC Limited		New Zealand	50.3	50.3
Stewart Steel Limited		New Zealand	–	50.3
Stube Industries Limited		New Zealand	50.3	50.3

(a) OneSteel Limited is a public company limited by shares, incorporated and domiciled in Australia. The registered office is located at Level 40, 259 George St, 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 financial years of all controlled entities are the same as that of the parent entity, OneSteel Limited.

NOTE 26. CONTROLLED ENTITIES (CONTINUED)

DEED OF CROSS GUARANTEE
Financial information for the class order closed group

	CLOSED GROUP	
	2006 $m	2005 $m
Consolidated Income Statement		
Profit before income tax	205.0	244.2
Income tax expense	(26.3)	(56.9)
Profit for the year	178.7	187.3
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	166.5	51.9
Profit for the year	178.7	187.3
Dividends provided for or paid	(82.0)	(72.7)
Retained profits at the end of the year	263.2	166.5
Consolidated Balance Sheet		
Current assets		
Cash and cash equivalents	100.8	146.3
Receivables	1,246.9	1,264.7
Inventories	694.3	767.0
Other assets	9.1	5.2
Total current assets	2,051.1	2,183.2
Non-current assets		
Investments	33.2	33.2
Property, plant and equipment	1,304.5	1,154.4
Mine development expenditure	60.2	44.9
Intangibles	207.4	212.5
Deferred tax assets	69.1	59.7
Other assets	7.4	8.9
Total Non-current assets	1,681.8	1,513.6
TOTAL ASSETS	3,732.9	3,696.8
Current liabilities		
Payables	515.3	580.1
Interest-bearing liabilities	1,394.5	1,374.4
Tax liabilities	25.6	16.3
Other provisions	155.6	163.1
Total current liabilities	2,091.0	2,133.9
Non-current liabilities		
Interest-bearing liabilities	59.8	89.5
Deferred tax liabilities	141.3	151.1
Other provisions	48.3	46.5
Total Non-current liabilities	249.4	287.1
TOTAL LIABILITIES	2,340.4	2,421.0
NET ASSETS	1,392.5	1,275.8
Equity		
Contributed equity	1,126.2	1,107.9
Retained earnings	263.2	166.5
Reserves	3.1	1.4
TOTAL EQUITY	1,392.5	1,275.8

NOTE 27. 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.

		CONSOLIDATED		PARENT	
Transaction type	Class of related party	2006 $m	2005 $m	2006 $m	2005 $m
Loans to/from controlled entities					
Loan advances[1]	Controlled entities	–	–	153.7	210.8
Interest received[1]	Controlled entities	–	–	9.4	4.5
Loan Receivable – tax related balances[2]	Controlled entities	–	–	24.8	16.6

(1) An Interest-bearing loan with an average interest rate of 5.04% (2005 4.25%).
(2) Tax related balances with wholly-owned Australian controlled entities under a tax fundng agreement arising from entry into tax consolidation.

		CONSOLIDATED		PARENT	
Transaction type	Class of related party	2006 $m	2005 $m	2006 $m	2005 $m
Other transactions					
Management fees received	Controlled entities	–	–	3.2	3.5
Management fees paid	Controlled entities	–	–	(3.2)	(3.5)
Dividends received	Controlled entities	–	–	–	146.0

(b) Transactions with jointly controlled 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 jointly controlled entity. The value of sales revenue, trade receivables and loan balance contained within the financial statements are as follows:

		CONSOLIDATED		PARENT	
Transaction type	Class of related party	2006 $m	2005 $m	2006 $m	2005 $m
Sale of goods	Jointly controlled entity	0.9	1.2	–	–
Trade receivables	Jointly controlled entity	–	–	–	–
Loan advances[3]	Jointly controlled entity	0.3	0.3	–	–

(3) An interest bearing loan at an average interest rate throughout the year of 6.45% (2005: 6.45%).

(c) Ultimate Controlling Entity
The ultimate controlling entity of the OneSteel Group is OneSteel Limited.

NOTE 28. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2006	2005
The number of employees as at 30 June:	7,513	7,395
	$m	$m
The aggregate employee benefit liability is comprised of:		
Provisions (current)	152.6	149.2
Provisions (Non-current)	35.7	34.2
Total employee benefits	188.3	183.4

(a) Self-insurance workers' compensation provision

	CONSOLIDATED	
	2006 $m	2005 $m
Obligations under self-insurers workers' compensation licences included in provision for employee benefits		
New South Wales	14.8	17.2
Queensland	0.7	1.5
Victoria	3.0	2.5
South Australia	2.5	3.0
Western Australia	0.6	0.7
Total self-insurance workers' compensation provision	21.6	24.9

OneSteel provides the following share and option plans for employees:

(b) Employee Share Plans

OneSteel has a two share plans under which eligible employees may acquire ordinary shares in the company. The most recent offer under the employee share plan was made in May 2006 to eligible employees as at 1 April 2006. All Australian resident permanent employees (excluding OneSteel Directors) are eligible to participate in either the Tax Exempt or Tax Deferred Share Plans. Both the Tax Exempt and Tax Deferred Plans enable participating employees to make salary sacrifice contributions to purchase shares on-market on a monthly basis. Under both plans, the company also grants to contributing participants a parcel of fully paid ordinary shares to the value of $125 for employees participating in the Tax Exempt Plan and $250 for employees participating in the Tax Deferred Plan for no cash consideration. The shares must be held in the Plan for a minimum of three years whilst the participant remains an employee of OneSteel for the Tax Exempt Plan. For the Tax Deferred Plan, employee contribution shares must be held in the Plan for a minimum of 12 months, and company contribution shares must be held in the plan for 24 months before they can be withdrawn.

During the years ended 30 June 2005 and 30 June 2006, the matching shares granted by the company have been purchased on-market or allocated from surplus shares forfeited under either the employee share plan or the executive share plan. The matching shares are allocated each month using the same allocation employee contributed shares, which are purchased on the 15th of each month, and the number of shares allocated to the employees is the offer amount divided by the weighted average price at which the company's shares are traded on the Australian Stock Exchange on the date of the puchase.

Offers under the scheme are at the discretion of the Company. All OneSteel shares acquired under the tax exempt and tax deferred plans rank equally with all other OneSteel shares and carry dividend and voting rights.

All plan management and administration costs relating to the plans are met by the company.

	2006	2005
Total number purchased by employees during the year (000s)	1,720	1,861
Weighted average fair value of shares granted during the period ($)	3.39	2.70

NOTE 28. EMPLOYEE BENEFITS (CONTINUED)

(c) Executive Share Plan (Long-Term Incentive Plan)
The executive share plan for senior management provides for the grant of rights to shares. During the year grants of share rights were made to eligible executives. 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. If the shares do not vest immediately at the end of the three-year qualifying period, provisions exist that enable re-testing of the performance hurdles. In addition, all or some of these shares may vest to an individual on termination when special circumstances apply. At the discretion of the Board these include redundancy, death and permanent disability. There are no cash settlement alternatives.

The shares held in trust carry voting rights and the holder is entitled to any dividends paid during the vesting period.

The performance hurdles 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. For each instalment, 50% of the shares will vest subject to OneSteel's TSR performance to the Base Index and the remaining 50% of shares will vest subject to OneSteel's performance to the Comparator Index.

The expense recognised in the Income Statement in relation to share-based payments is disclosed in Note 3.

Shares held in trust in the LTIP are as follows:

	2006		2005	
	Number '000s	Weighted average fair value $	Number '000s	Weighted average fair value $
Outstanding at the beginning of the year	3,000	–	2,396	–
Share rights vested during the year	(689)	–	(1,602)	–
Share rights purchased during the year	732	2.83	2,206	2.07
Outstanding at the end of the year	3,043		3,000	

The fair value of the equity settled share rights granted under the LTIP is estimated as at the date of grant using a Monte-Carlo Simulation analysis taking into account the terms and conditions upon which the share rights were granted.

The following table lists the inputs to the model used for the years ended 30 June 2005 and 30 June 2006.

	2006	2005
Dividend yield	4.24% – 4.36%	5%
Expected volatility	30%	30%
Risk free interest rate	5.14% – 5.70%	5.31%
Expected life	3 years	3 years
Exercise price	–	–
Weighted average share price at grant date	$3.37 – $4.01	$2.28 – $2.91

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

(d) Executive Option Plan
Prior to the year ended 30 June 2002, rights to options were issued to executives as part of the Executive Option Plan. 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.

The performance hurdles 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. For each instalment, 50% of the shares will vest subject to OneSteel's TSR performance to the Base Index and the remaining 50% of shares will vest subject to OneSteel's performance to the Comparator Index.

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

The contractual life of each option granted is 9 years. There are no cash settlement alternatives.

The options do not entitle the holder to participate in any share issues of the Company.

These options were all fully vested during the year ended 30 June 2005. No further options have been issued since those referred to above. No expense in relation to options have been recognised in the current year or prior periods as OneSteel has taken the exemption available under AASB 1 "First time Adoption of Australian Equivalents to International Financial Reporting Standards" to not apply AASB 2 "Share-based Payment" to equity based instruments granted on or before 7 November 2002 or granted after 7 November 2002 and vesting before 1 January 2005.

NOTE 28. EMPLOYEE BENEFITS (CONTINUED)

The following table illustrates the number and weighted average exercise price of and movements in the executive option plan:

	2006			2005		
	Number '000s	Weighted average exercise price $	Weighted average share price at date of exercise $	Number '000S	Weighted average exercise price $	Weighted average share price at date of exercise $
Outstanding at the beginning of the year[1]	892	1.007	–	4,314	0.944	–
Exercised during the period	(396)	1.019	3.30	(3,410)	0.927	2.85
Options forfeited during the period	–	–	–	(12)	1.043	–
Outstanding at the end of the year[1],[2]	496	0.997	–	892	1.007	–
Exercisable at the end of the year	496	0.997	–	892	1.007	–

(1) All options within this balance have not been recognised in accordance with AASB 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with AASB 2.

(2) The weighted average remaining contractual life for the share options outstanding and exercisable as at 30 June 2006 is between 4 and 5 years, with exercise prices of $0.9258 and $1.0434 (2005: $0.9258 and $1.0434).

Steel & Tube Holdings Limited

In 2006, 46,570 shares were purchased under the employee share purchase scheme and 48,000 shares under the executive share plan. Both schemes have a vesting period of a minimum of 3 years from grant date. The employee share scheme provides financial assistance, to a maximum of $2,340 in any three-year period, to eligible employees to purchase Company shares. Rights to shares in the executive share scheme vest upon achieving Board approved targets based on total shareholder returns.

NOTE 29. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

Directors

P J Smedley	Chairman (Independent, non–executive)
G J Plummer	Managing Director and Chief Executive Officer
R B Davis	Director (Independent, non-executive)
E J Doyle	Director (Independent, non-executive)
C R Galbraith	Director (Independent, non-executive)
P G Nankervis	Director (Independent, non-executive)
D A Pritchard	Director (Independent, non-executive)
N J Roach	Director (Independent, non-executive)

Executives

N Calavrias	Chief Executive Officer, Steel & Tube Holdings Limited
A J Reeves	Chief Financial Officer
L J Selleck	Executive General Manager, Project Magnet
C R Keast	Executive General Manager, Market Mills
M R Parry	Executive General Manager, Whyalla Steelworks
A H Combe	Executive General Manager, Distribution – from 30 January 2006
W J Gately	Corporate General Manager, Human Resources & Safety
A Roberts	Executive General Manager, Marketing – from 18 July 2005
G J Plummer	Executive General Manager, Market Mills – until 20 December 2004
R W Freeman	Executive General Manager, Distribution – until 5 August 2005

Compensation of Key Management Personnel

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
Short-term benefits	7,728,557	6,865,636	7,087,486	6,139,066
Post-employment benefits	460,220	663,348	423,390	628,399
Other long-term benefits	195,858	96,569	–	–
Termination benefits	–	1,390,768	–	1,390,768
Share-based payments	1,519,570	1,433,669	1,519,570	1,433,669
	9,904,205	10,449,990	9,030,446	9,591,902

NOTE 29. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Compensation of key management personnel
The company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing detailed remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 "Related Party Disclosures". These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report designated as audited.

Loans to key management personnel
There were no loans made or outstanding to key management personnel.

Other transactions and balances with key management personnel
Key management personnel of OneSteel Limited, its related parties or its 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 key management personnel or their 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 period 1 July 2005 to 31 January 2006, Colin Galbraith was an equity partner in the law firm Allens Arthur Robinson. From 1 February 2006 to 30 June 2006, Mr Galbraith was engaged by the law firm as a special advisor which is a salaried position. In the financial year to 30 June 2006, the firm billed OneSteel a total of $1,200,892 of which $578,275 remained unpaid at 30 June 2006. These fees were billed in respect of legal work performed by the firms and were charged on normal arms' length commercial terms. Mr Galbraith was not personally involved in the provision of any of these services.

(a) Option holdings of key management personnel

2006	Held at 1 July 2005	Granted as remuneration	Options exercised	Net change other	Held at 30 June 2006	Vested and exercisable at 30 June 2006
Directors						
G J Plummer	90,000	–	–	–	90,000	90,000
Executives						
L J Selleck	75,000	–	(75,000)	–	–	–
M R Parry	8,045	–	(8,000)	–	45	45
C R Keast	18,500	–	(18,500)	–	–	–
W J Gately	30,000	–	(30,000)	–	–	–
R W Freeman[1]	90,000	–	(90,000)	–	–	–
Total	311,545	–	(221,500)	–	90,045	90,045

(1) Mr Freeman's options were exercised subsequent to leaving the company on 5 August 2005.

2005	Held at 1 July 2004	Granted as remuneration	Options exercised	Net change other	Held at 30 June 2005	Vested and exercisable at 30 June 2005
Directors						
R L Every	2,462,735	–	(2,462,735)	–	–	–
G J Plummer	230,420	–	(140,420)	–	90,000	90,000
Executives						
A J Reeves	233,300	–	(233,300)	–	–	–
L J Selleck	75,000	–	–	–	75,000	75,000
W J Gately	30,000	–	–	–	30,000	30,000
R W Freeman	331,298	–	(241,298)	–	90,000	90,000
Total	3,362,753	–	(3,077,753)	–	285,000	285,000

NOTE 29. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Share rights holdings of key management personnel

2006	Held at 1 July 2005	Granted as remuneration	Vested	Net change other	Held at 30 June 2006	Vesting 3 September 2007	Vesting 6 May 2008	Vesting 8 September 2008	Vesting 3 February 2009
Directors									
G J Plummer	1,212,124	–	(68,998)	–	1,143,126	85,086	1,058,040	–	–
Executives									
A J Reeves	154,084	50,896	(68,998)	–	135,982	85,086	–	50,896	–
L J Selleck	141,539	35,926	(56,453)	–	121,012	85,086	–	35,926	–
M R Parry	37,624	47,901	(13,800)	–	71,725	23,824	–	47,901	–
C R Keast	37,624	47,901	(13,800)	–	71,725	23,824	–	47,901	–
A Roberts	15,315	44,907	–	–	60,222	15,315	–	44,907	–
A H Combe	–	33,207	–	–	33,207	–	–	–	33,207
W J Gately	89,226	29,938	(43,280)	–	75,884	45,946	–	29,938	–
R W Freeman	154,084	–	–	(154,084)	–	–	–	–	–
Total	1,841,620	290,676	(265,329)	(154,084)	1,712,883	364,167	1,058,040	257,469	33,207

2005	Held at 1 July 2004	Granted as remuneration	Vested	Net change other	Held at 30 June 2005	Vesting 13 December 2005	Vesting 3 September 2007	Vesting 6 May 2008
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
Executives								
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	–
W J Gately	68,280	45,946	(25,000)	–	89,226	43,280	45,946	–
R W Freeman	143,998	85,086	(75,000)	–	154,084	68,998	85,086	–
Total	1,499,021	1,444,330	(1,192,294)	–	1,751,057	306,727	386,290	1,058,040

NOTE 29. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(c) Share holdings of key management personnel

2006	Held at 1 July 2005	Granted as remuneration	On exercise of options	On vesting of shares	Net change other	Held at 30 June 2006
Directors						
P J Smedley	160,643	44,004	–	–	–	204,647
G J Plummer	270,344	–	–	68,998	–	339,342
R B Davis	3,678	11,767	–	–	–	15,445
E J Doyle	103,793	11,766	–	–	–	115,559
C R Galbraith	76,091	11,767	–	–	–	87,858
P G Nankervis	7,598	14,708	–	–	–	22,306
D A Pritchard	66,651	11,766	–	–	–	78,417
N J Roach	191,866	11,766	–	–	–	203,632
Executives						
N Calavrias	25,285	–	–	–	974	26,259
A J Reeves	206,336	–	–	68,998	2,507	277,841
L J Selleck	235,692	–	75,000	56,453	(75,000)	292,145
M R Parry	37,732	–	8,000	13,800	(15,662)	43,870
C R Keast	26,639	–	18,500	13,800	(44,672)	14,267
A Roberts	7,639	–	–	–	880	8,519
A H Combe	–	–	–	–	–	–
W J Gately	33,651	–	30,000	43,280	(29,390)	77,541
	1,453,638	117,544	131,500	265,329	(160,363)	1,807,648

2005	Held at 1 July 2005	Granted as remuneration	On exercise of options	On vesting of shares	Net change other	Held at 30 June 2005
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
Executives						
N Calavrias	24,145	–	–	–	1,140	25,285
A J Reeves	28,449	–	233,300	174,975	(230,388)	206,336
L J Selleck	174,021	–	–	60,000	1,671	235,692
W J Gately	7,807	–	–	25,000	844	33,651
R W Freeman	180,974	–	241,298	75,000	(241,298)	255,974
Total	1,229,680	95,276	615,018	409,975	(712,347)	1,637,602

NOTE 29. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

The shareholdings of former key management personnel, at the date they retired or resigned was as follows:

2006	Held at 1 July 2005	Granted as remuneration	On exercise of options	On vesting of shares	Net change other	Held at resignation date
Executives						
R W Freeman	255,974	–	–	–	–	255,974
Total	255,974	–	–	–	–	255,974

2005	Held at 1 July 2005	Granted as remuneration	On exercise of options	On vesting of shares	Net change other	Held at retirement date
Directors						
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

NOTE 30. AUDITORS' REMUNERATION

	CONSOLIDATED		PARENT	
	2006 $m	2005 $m	2006 $m	2005 $m
Amounts paid or payable to the auditor of OneSteel Limited, Ernst & Young for:				
An audit or review of the financial report of the entity and any other entity in the consolidated group	1,042,000	813,000	120,000	120,000
Other services in relation to the entity and any other entity in the consolidated group				
Tax compliance	788,611	633,213	–	–
Assurance related	17,500	131,835	–	–
	1,848,111	1,578,048	120,000	120,000
Amounts paid or payable to other auditors for:				
An audit or review of the financial report of certain controlled entities in the consolidated group	169,643	157,270	–	–
Other services	50,893	22,993	–	–
	220,536	180,263	–	–

NOTE 31. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, a US private placement, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations. The Group also enters into derivative transactions, including principally interest rate swaps, cross-currency interest rate swaps and forward exchange contracts. The purpose is to manage specifically identified interest rate, commodity and currency risks arising from the Group's operations and sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk, commodity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

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

Cash flow and fair value interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt borrowings. The objective of Group policy is to neutralise exposures within levels of tolerance acceptable to the Board, minimising interest expense whilst ensuring that an appropriate level of flexibility exists to accommodate potential changes in funding requirements.

NOTE 31. FINANCIAL INSTRUMENTS (CONTINUED)

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to manage its interest cost using a mix of fixed and floating interest rate debt. The Group's policy is to keep 30% to 70% of the lesser of the expected usage of borrowings or the committed exposure to a minimum of five years at fixed rates of interest. This policy has been complied with at the year end.

To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

Foreign currency risk
The Group's primary sources of foreign currency risk are sales of product and purchases of inventory by business units in a currency other than the Australian dollar; purchases of commodity inputs priced in USD or with an AUD price determined by a USD based international price; capital expenditure denominated in foreign currency, or denominated in AUD with rise and fall clauses related to exchange rate movements.

The Group requires all business units to use forward currency contracts to eliminate the currency exposures on any individual transactions in excess of USD$100,000. Committed exposures will be 100% covered when the transaction is contracted, whilst projected exposures (contract underpinning) will be 50% covered where there are ongoing sales or purchases and the transaction is relatively certain.

The forward currency contracts must be in the same currency as the underlying exposure.

OneSteel also has foreign currency exposure arising from its US private placement. In April 2003, OneSteel raised $128m of USD denominated, fixed rate debt via a private placement of senior notes in two tranches, a seven-year tranche (USD$68m) and a twelve-year tranche (USD$60m). This has been hedged using a series of cross-currency interest rate swaps (refer to Note 7).

The Group also has exposure to foreign exchange translation risk in relation to NZD denominated assets and liabilities of its 50.3% share of Steel and Tube Holdings. The Group does not seek to hedge this exposure, but instead monitors the position so as to ensure that the movement in the Foreign Currency Translation Reserve does not impact equity so adversely as to place any financial covenants at risk.

Commodity price risk
The primary sources of commodity risk for the Group are coal and zinc purchases in USD; aluminium purchases which are made in AUD but with prices set in USD; energy purchases made in AUD that can be subject to long-term contracts and scrap purchases made outside the OneSteel Group. Commodity price risk is managed by either putting in place fixed price contracts, fixed price swaps or options.

Credit risk
The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available for sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The 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.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, US private placement and finance leases. In addition to committed facilities, OneSteel has 11am money market lines and an overdraft facility that assists with intra-month cash management. Debt maturities will be spread out to limit risk on debt rollover.

(b) Fair values
Set out here is a comparison by category of carrying amounts and fair values of all the Group's financial instruments recognised in the financial statements.

The fair values of derivatives and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of loan notes and other financial assets have been calculated using market interest rates and foreign exchange rates.

The carrying values of cash, receivables and payables approximate fair value and as such have not been disclosed.

NOTE 31. FINANCIAL INSTRUMENTS (CONTINUED)

	CONSOLIDATED			
	Carrying amount		Fair value	
	2006 $m	2005[1] $m	2006 $m	2005[1] $m
Financial assets				
Forward currency contracts	3.2	4.8	3.2	4.9
Interest rate swaps	4.2	–	4.2	–
Other financial assets	7.4	8.8	7.4	8.8
Financial liabilities				
Interest rate swaps	–	0.1	–	1.7
Interest-bearing loans and borrowings				
Obligations under finance leases	89.5	110.5	89.5	110.5
Floating rate borrowings	411.6	381.5	411.6	381.5
US Private Placement	158.2	169.6	158.2	179.2
Cross-currency interest rate swaps	53.6	38.7	53.6	31.0

(c) Interest rate risk

The following table sets out the carrying amount, by maturity of the financial instruments exposed to interest rate risk for the OneSteel Group. There is no interest rate risk borne by OneSteel Limited and as such no disclosures have been made for the parent entity.

2006	1 year or less $m	1 – 2 years $m	2 – 3 years $m	3 – 4 years $m	4 – 5 years $m	More than 5 years $m	Total $m	Weighted average effective interest rate %
Floating interest rate								
Financial assets								
Cash	19.6	–	–	–	–	–	19.6	4.9
Trade receivables	26.6	–	–	–	–	–	26.6	11.2
Other financial assets	0.3	–	–	–	–	–	0.3	6.8
Financial liabilities								
Bank loans	30.4	369.0	4.1	8.1	–	–	411.6	6.2
Interest rate swaps[2]	(50.0)	(50.0)	(65.0)	(30.0)	(50.0)	–	(245.0)	5.4
Cross-currency interest rate swaps	–	–	–	26.9	–	26.7	53.6	7.1
Fixed interest rate								
Financial liabilities								
Finance lease liabilities	29.7	19.4	21.4	19.0	–	–	89.5	9.6
US Private Placement	–	–	–	84.5	–	72.8	157.3	5.2
Interest rate swaps[2]	50.0	50.0	65.0	30.0	50.0	–	245.0	5.4

NOTE 31. FINANCIAL INSTRUMENTS (CONTINUED)

2005(1)	Floating interest rate $m	Fixed interest maturing in: 1 year or less $m	Over 1 to 5 years $m	More than 5 years $m	Total $m	Weighted average interest rate %pa: Floating	Fixed
Financial assets							
Cash	55.0	–	–	–	55.0	5.2	–
Trade receivables	32.0	–	–	–	32.0	10.9	–
Other financial assets	0.3	–	–	–	0.3	6.5	–
	87.3	–	–	–	87.3	–	–
Financial liabilities							
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 interest rate swaps(2)	169.6	–	(90.1)	(79.5)	–	7.3	5.2
Interest rate swaps(2)	(340.0)	225.0	115.0	–	–	5.7	5.9
	211.1	246.0	204.5	–	661.6		

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and therefore not subject to interest rate risk.

(1) The 2005 disclosures for financial instruments are in accordance with the previous AGAAP standard AASB 1033 "Financial Instruments: Presentation and Disclosure", as OneSteel has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005.

(2) Notional principal amounts

NOTE 32. EVENTS AFTER BALANCE SHEET DATE

On 26 June 2006, OneSteel Limited ("OneSteel") and Smorgon Steel Group Limited ("Smorgon Steel") announced that they have reached an agreement under which OneSteel will acquire all of the shares in Smorgon Steel (the "proposed transaction").

It is intended that the proposed transaction be undertaken via a scheme of arrangement to be voted on by Smorgon Steel shareholders. The timing of this transaction is uncertain and is subject to approval by the Australian Competition and Consumer Commission ("ACCC") and other corporate activity.

Smorgon Steel shareholders will receive a combination of OneSteel ordinary shares and cash with an implied value of $1.76 per Smorgon Steel share.

Smorgon Steel shareholders will receive 9 shares for in OneSteel for every 22 shares they hold in Smorgon Steel. In addition, Smorgon Steel shareholders will receive between 6.2 and 22.6 cents per share.

There have been no other circumstances arising since 30 June 2006 that have significantly affected or may significantly affect:
- the operations;
- the results of those operations; or
- the state of affairs of the entity or consolidated entity in future financial years.

NOTE 33. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian Generally Accepted Accounting Principles (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is requried to prepare in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 "First Time Adoption of Australian Equivalents to International Financial Reporting Standards".

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

NOTE 33. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Reconciliation of total Equity as presented under previous AGAAP to that under AIFRS

	Note	CONSOLIDATED		PARENT	
		30 Jun 05 $m	1 Jul 04 $m	30 Jun 05 $m	1 Jul 04 $m
Contributed equity under previous AGAAP		1,115.0	1,096.3	1,115.0	1,096.3
Adjustments to contributed equity					
Consolidation of Employee Share Plan Trusts	(vii)	(7.1)	(2.3)	(7.1)	(2.3)
Contributed equity under AIFRS		1,107.9	1,094.0	1,107.9	1,094.0
Retained earnings under previous AGAAP		277.5	217.6	187.6	186.4
Adjustments to retained earnings, net of tax					
Recognition of additional mine rehabilitation provision	(i)	(2.2)	(1.5)	–	–
Recognition of defined benefits superannuation deficit	(ii)	(7.7)	(8.1)	–	–
Recognition of impairment losses (including goodwill)	(iii)	(104.1)	(104.1)	–	(75.3)
Adjustment to depreciation due to impairment at 1 July 2004	(iii)	4.1	–	–	–
Reversal of impairment loss	(iii)	45.6	–	–	–
Reversal of goodwill amortisation	(iv)	20.1	–	–	–
Recognition of lease make good and other provisions	(v)	(0.4)	(0.4)	–	–
Revision to share-based payments expense	(vi)	0.7	1.1	0.1	–
Recognition of deferred tax balances	(viii)	(19.4)	(20.5)	1.1	1.1
Total AIFRS adjustments to retained earnings		(63.3)	(133.5)	1.2	(74.2)
Retained earnings under AIFRS		214.2	84.1	188.8	112.2
Reserves under previous AGAAP		3.0	2.8	–	–
Adjustments to other reserves, net of tax					
Recognition of share-based payments	(vi)	1.4	0.8	1.0	0.7
Reserves under AIFRS		4.4	3.6	1.0	0.7
Minority interests under previous AGAAP		61.2	56.7	–	–
Recognition of share of AIFRS adjustments		0.6	(0.4)	–	–
Minority interests under AIFRS		61.8	56.3	–	–
TOTAL EQUITY AS REPORTED UNDER AGAAP		1,456.7	1,373.4	1,302.6	1,282.7
Impact of AIFRS adjustments		(68.4)	(135.4)	(4.9)	(75.8)
TOTAL EQUITY AS REPORTED UNDER AIFRS		1,388.3	1,238.0	1,297.7	1,206.9

NOTE 33. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Reconciliation of profit after tax under previous AGAAP to that under AIFRS

	Note	CONSOLIDATED 2005 $m	PARENT 2005 $m
Profit after tax under previous AGAAP		132.5	73.9
Adjustments to profit, net of tax			
Revised mine rehabilitation expense	(i)	(0.7)	–
Defined benefits superannuation fund benefit	(ii)	0.4	–
Revised depreciation on impaired assets	(iii)	4.1	–
Asset impairment	(iii)	45.6	75.3
Revised lease make good provisions	(v)	(0.1)	–
Reversal of goodwill amortisation	(iv)	20.1	–
Revision to share-based payments expense	(vi)	(0.4)	0.1
Adjustments to income tax expense	(viii)	1.3	–
Total AIFRS adjustments to profit after tax		70.3	75.4
Profit after tax under AIFRS		202.8	149.3

Notes to the reconciliations

(i) Mine site rehabilitation
The application of AASB 116 "Property, Plant and Equipment" requires future site remediation costs to be capitalised and depreciated over the life of the asset. A corresponding liability is then recognised in accordance with AASB 137 "Provisions, Contingent Liabilities and Contingent Assets". A net present value calculation is used in the determination of the asset and liability. On transition to AIFRS, a re-assessment of the rehabilitation asset associated with the iron ore mine site resulted in an additional $2.1m ($1.5m net of tax) for the projected remediation cost. This provision has been reviewed at each subsequent reporting date under AIFRS.

(ii) Retirement benefit obligations
Under AGAAP, actuarial gains and losses on the defined benefit section of the superannuation plan were not recognised on the Balance Sheet. Under AASB 119 "Employee Benefits", OneSteel recognised the net deficit in its employer sponsored defined benefit superannuation fund on transition to AIFRS as a liability on the Balance Sheet with a corresponding entry to retained earnings. OneSteel has elected to adopt the 'corridor approach' to account for actuarial gains/losses in the plan. Under this approach, cumulative actuarial gains/losses greater than 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets, are amortised in the Income Statement over the average remaining service period of the employees in the plan.

(iii) Impairment of assets
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 (CGUs). The CGUs (or groups of CGUs) assets, including goodwill allocation, were tested for impairment on transition and at each subsequent annual reporting date.

On transition to AIFRS, an impairment loss of $125.4m ($104.1m net of tax) was recorded as a result of the impairment testing performed. This comprised a write-down in goodwill of $54.4m, which cannot be reversed in subsequent periods, and $71.0m ($49.7m net of tax) in plant and equipment. The depreciation expense for the impaired assets was reduced by $5.8m ($4.1m net of tax) subsequent to the impairment write-down as at 30 June 2005.

As a result of the inclusion of forecasted cash flows related to Project Magnet and improved economic outlook of the Australian economy used in the impairment testing performed at 30 June 2005, the impairment loss arising on plant and equipment was subsequently reversed, net of the depreciation adjustment recorded.

A write-down of the parent's investment in subsidiaries of $75.3m that had been booked in the year ended 30 June 2005 under AGAAP was made on transition to AIFRS.

(iv) Reversal of goodwill amortisation
Goodwill is no longer amortised but is subject to annual impairment testing or whenever there are indications of impairment.

(v) Leasehold improvements
Under AASB 116 "Property, Plant and Equipment", OneSteel has recognised as part of the cost of leasehold improvements, the costs associated with lease make-good clauses upon termination of certain leased premises, where such an obligation exists to the lessor. These costs were not recognised under AGAAP. A corresponding liability has also been recognised in the Balance Sheet in accordance with AASB 137 "Provisions, Contingent Liabilities and Contingent Assets".

(vi) Share-based payments
Under AASB 2 "Share–based Payments", the fair value of shares and/or options granted to employees as remuneration are required to be recognised as an expense over the vesting period with a corresponding adjustment to Equity. While share-based payments were not recognised under AGAAP, OneSteel's policy was to purchase on market any shares granted to senior executives under the long-term incentive plan and to expense the cost of those shares in the Statement of Financial Performance. Under AIFRS, this past expense for the shares has been reversed and only the amount applicable under AASB 2 has been recognised in the Income Statement with a corresponding entry to Equity.

(vii) Consolidation of Employee Share plan Trusts
Under AASB 127 "Consolidated and Separate Financial Statements" and UIG 112 "Consolidation of Special Purpose Entities", OneSteel is required to consolidate the Employee Share Plan Trusts. This has the impact of reducing contributed equity by the amount of the unvested shares held in Trust at the reporting date.

(viii) Deferred tax assets and liabilities
Under AASB 112 "Income Taxes", a Balance Sheet approach is used to calculate deferred tax assets/liabilities, which differs to the Income Statement method approach under AGAAP. This method recognises deferred tax balances where there is a difference between the accounting carrying value of assets/liabilities and their tax base. This has resulted in the recognition of deferred tax balances in relation to previously revalued assets. Under AGAAP the tax effect of asset revaluations was not recognised.

NOTE 33. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(c) Reconciliation of Cash Flow Statement

The adoption of AIFRS has not resulted in any material adjustments to the Cash Flow Statement.

(d) Other impacts

AASB 139 "Financial Instruments: Recognition and Measurement" and AASB 132 "Financial Instruments: Disclosure and Presentation".

OneSteel has adopted the exemption available under AASB 1 whereby comparatives are not required to be restated under AASB 132 and AASB 139. These standards have been applied from 1 July 2005. Therefore no AIFRS adjustments have been made to the comparative period ending 30 June 2005. On transition at 1 July 2005, a loss of $3.6m was recognised in Retained Earnings in relation to fair value hedges and the ineffective portion of any cash flow hedges. A loss of $1.7m was recognised in a cash flow hedge reserve in relation to the effective portion of cash flow hedges.

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

(a) the financial statements and accompanying notes are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

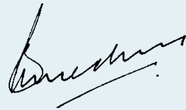
(b) there are reasonable grounds to believe that the company will be able to pay its debts as when they become due and payable; and

(c) the audited remuneration disclosures set out under the heading "Remuneration Report" in sections A, B, C and E of the directors' report comply with Accounting Standards AASB 124 "Related Party Disclosures" and the Corporations Regulations 2001; and

(d) at the date of this declaration there are reasonable grounds to believe that the members of the Closed Group identified in Note 26 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 26.

The directors have been given the declarations by the chief executive officer and chief financial offer required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.



Peter Smedley
Chairman

Geoff Plummer
Managing Director

Sydney
22 August 2006

Independent audit report to members of OneSteel Limited

Scope

The financial report, remuneration disclosures and directors' responsibility
The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for OneSteel Limited and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 Related Party Disclosures ("remuneration disclosures"), under the heading "Remuneration Report", in sections A, B, C and E of the Directors' Report, as permitted by Corporations Regulation 2M.6.04.

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

The directors are also responsible for the remuneration disclosures contained in the Directors' Report.

Audit approach
We conducted an independent audit of the financial report in order to express an opinion 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 and the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures. 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 and whether the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

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 the remuneration disclosures; 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 and the remuneration disclosures. 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 the consolidated entity 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 Auditor's Independence Declaration a copy of which is included in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, 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:

1. 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 2006 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.
2. the remuneration disclosures that are contained in Sections A, B, C & E of the Directors' Report comply with Accounting Standard AASB 124 Related Party Disclosures.

Ernst & Young

Craig M Jackson
Partner

Sydney
22 August 2006