ONESTEEL LIMITED

ABN 63 004 410 833

APPENDIX 4E

PRELIMINARY FINAL REPORT

12 MONTHS ENDED 30 JUNE 2007

ONESTEEL LIMITED

HIGHLIGHTS OF RESULTS AND DIVIDENDS

12 MONTHS ENDED 30 JUNE 2007

RESULTS FOR ANNOUNCEMENT TO THE MARKET

				A$ MILLION
SALES REVENUE	UP	7.4%	TO	4,300.6
REVENUE FROM ORDINARY ACTIVITIES	UP	7.3%	TO	4,327.6
PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS	UP	10.4%	TO	207.0
PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS EXCLUDING THE BENEFIT OF DERECOGNITION OF DEFERRED TAX LIABILITIES AND TAX CONSOLIDATION	UP	15.0%	TO	197.5
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO MEMBERS	UP	10.4%	TO	207.0
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO MEMBERS EXCLUDING THE BENEFIT OF DERECOGNITION OF DEFERRED TAX LIABILITIES AND TAX CONSOLIDATION	UP	15.0%	TO	197.5

	JUNE 2007	JUNE 2006
NET TANGIBLE ASSETS PER SHARE ($)	2.40	2.16

DIVIDENDS	FINAL DIVIDEND 2007	FINAL DIVIDEND 2006
AMOUNT PER SECURITY	10.5c	10.0c
FRANKED AMOUNT PER SECURITY	10.5c	10.0c

RECORD DATE FOR DETERMINING ENTITLEMENTS: 14 SEPTEMBER 2007

DIVIDEND PAYMENT DATE: 18 OCTOBER 2007

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 14 September 2007 (the Record Date).

No discount applies to the DRP.

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

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FINANCIAL RATIOS

12 months ended $A millions	Jun-07	Jun-06	Jun-05	AGAAP Jun-04	Jun-03	Jun-02	Jun-01 Excl Prov Proforma	Jun-01 Incl Prov Proforma	% Change Jun07 / Jun06
Sales	4,300.6	4,004.6	3,938.5	3,269.2	3,060.6	2,906.0	2,637.7	2,637.7	7.4%
Other Revenue/Income	33.9	39.0	34.6	70.1	39.5	80.5	141.5	141.5	(13.1%)
Total Revenue/Income	4,334.5	4,043.6	3,973.1	3,339.3	3,100.1	2,986.5	2,779.2	2,779.2	7.2%
Gross Profit	837.2	798.7	787.0	642.6	626.2	528.4	489.6	489.6	4.8%
Operating EBITDA*	436.1	396.7	377.1	324.2	307.6	251.0	202.6	181.7	9.9%
Depreciation & Amortisation (excluding goodwill)	(96.2)	(94.0)	(97.5)	(87.1)	(86.5)	(84.2)	(84.2)	(107.0)	2.3%
Operating EBIT (excluding goodwill amortisation)	339.9	302.7	279.6	237.1	221.1	166.8	118.4	74.7	12.3%
Finance costs	(55.8)	(56.7)	(53.6)	(42.2)	(44.5)	(54.4)	(61.8)	(61.8)	(1.6%)
Operating Earnings before tax (EBT)	284.1	246.0	226.0	194.9	176.6	112.4	56.6	12.9	15.5%
Tax expense	(74.7)	(60.8)	(55.4)	(53.4)	(53.3)	(39.0)	(12.1)	2.1	22.9%
Operating PAT before MI	209.4	185.2	170.6	141.5	123.3	73.4	44.5	15.0	13.1%
Minorities	(11.9)	(13.6)	(17.5)	(12.4)	(9.5)	(7.4)	(5.9)	(5.9)	(12.5%)
Operating PAT**	197.5	171.6	153.1	129.1	113.8	66.0	38.6	9.1	15.1%
Total Assets	3,569.5	3,138.8	3,087.1	2,803.2	2,577.0	2,582.0	2,710.8	2,710.8	13.7%
Inventory	836.3	758.9	836.7	704.6	591.0	574.1	540.3	540.3	10.2%
Total Liabilities	1,919.5	1,637.2	1,698.8	1,429.8	1,292.0	1,359.4	1,594.6	1,594.6	17.2%
Funds Employed	2,481.1	2,189.8	2,033.6	2,042.4	1,955.2	1,994.2	2,069.6	2,069.6	13.3%
Total Equity	1,650.0	1,501.6	1,388.3	1,373.4	1,285.0	1,222.6	1,116.2	1,116.2	9.9%
Net Debt	769.8	638.8	645.3	469.0	470.2	571.6	762.4	762.4	20.5%
Net Debt including Securitisation	769.8	638.8	645.3	669.0	670.2	771.6	953.4	953.4	20.5%
Net Debt incl Derivatives	831.1	688.2	645.3						20.8%
No of shares (at end of period)	572.4	566.2	560.8	554.9	546.9	538.6	460.3	460.3	1.1%
Operating cash flow	276.5	250.8	235.9	188.3	257.7	92.6	290.3		10.3%
Free Cash Flow	(81.4)	36.4	109.0	43.9	156.2	21.8	220.8		(323.6%)
Capital and investment expenditure	360.5	227.6	127.5	151.4	130.9	70.8	108.4	108.4	58.4%
Operating Return on Assets %	10.1%	9.7%	9.7%	8.8%	8.6%	6.3%	4.4%		
Operating Return on Equity %	13.3%	12.9%	13.1%	10.7%	9.8%	6.3%	3.9%	1.3%	
Operating Return on Funds Employed % (ROFE)	14.6%	14.4%	14.2%	11.9%	11.2%	8.2%	5.8%	3.7%	
Operating EBIT to sales	7.9%	7.6%	7.1%	7.3%	7.2%	5.7%	4.5%		
Operating Earnings Per Share (cents) - year end	34.5	30.3	27.3	23.3	20.8	12.3	5.1	(6.0)	13.8%
Dividends per share (cents)	18.5	17.0	13.5	12.0	11.0	6.5	6.0	6.0	8.8%
Dividend payout ratio	69.6%	56.3%	49.6%	51.4%	52.6%	53.0%	71.2%	302.2%	
Gearing (net debt/net debt + equity) including securitisation	31.8%	29.8%	31.7%	32.8%	34.3%	38.7%	46.1%	46.1%	
Gearing (net debt/net debt + equity) incl derivative	33.5%	31.4%	31.7%						
Gross Profit Margin	19.5%	19.9%	20.0%	19.7%	20.5%	18.2%	18.6%	18.6%	
Interest cover	6.1	5.3	5.2	5.6	5.0	3.1	1.9	1.2	
Interest cover including capitalised interest	4.8	5.0							
NTA per share ($)	2.40	2.16	1.95	1.93	1.77	1.69	1.81	1.81	11.1%
Employees	7,526	7,527	7,395	7,272	7,054	6,989	7,379	7,379	(0.0%)
Sales per employee ($000s)	571	532	533	450	434	416	357	357	7.3%
Cost increases	159	267	226	71	68	57	37	37	
Cost reductions	40	39	47	50	56	59	50	50	
Revenue enhancements	150	236	309	28	51	20	15	15	
Raw steel production	1,733,406	1,633,696	1,349,397	1,618,855	1,624,399	1,576,650	1,438,770	1,438,770	6.1%
Steel tonnes despatched	2,278,322	2,275,780	2,264,051	2,159,536	2,224,139	2,176,413	2,125,073	2,125,073	0.1%
Steel exports, % of total steel despatches	3.4%	10.3%	4.1%	4.7%	3.8%	7.9%	13.1%	13.1%	

The financial information presented for the years 2001 - 2004 have not been presented 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.

Note that the financial information presented for the years 2000 - 2003 have been adjusted to exclude goodwill amortisation from earnings.

*June 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
** June2004 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.
** June 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
**June 2007 NPAT excludes the one-off tax benefit of $9.5m aas a result of derecognition of deferred tax liabilities on disposal of shares to a jointly controlled entity. Total profit including this adjustment was $207.0m.

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Review of Operations
For the 12 Months To June 2007

21 August 2007

Key Points

- Net operating profit after tax of $197.5 million up 15.1% from prior corresponding period
- Earnings per share up 13.8% to 34.5 cents from 30.3 cents
- Dividend increased to 18.5 cents, fully franked, from 17 cents
- Gearing remains in lower end of target range at 33.5% after total investments to date of approximately $379 million in Project Magnet
- Strong operating cash flow of $276.5 million
- Iron ore shipments exceeded Project Magnet planned ramp-up, at 1.8 million tonnes
- Record steel production of 1,733,406 tonnes
- 30% improvement in safety performance

Financial

Sales revenue	$4,300.6m	Up 7.4%
Earnings before interest, tax, depreciation and amortisation **(EBITDA)**	$436.1m	Up 9.9%
Earnings before interest and tax **(EBIT)**	$339.9m	Up 12.3%
Net operating profit after tax and minorities **(NPAT)**	$197.5m	Up 15.1%
Earnings per share **(EPS)** based on the number of shares at end of period	34.5 cents	Up 13.8% from 30.3c
Operating cash flow	$276.5m	Up 10.3% from $250.8m
Return on funds employed **(ROFE)**	14.6%	Up from 14.4%
Return on equity **(ROE)**	13.3%	Up from 12.9%
Ratio of net debt to net debt plus equity **(gearing)** inc deriv	33.5%	Up from 31.4%
Net debt (includes derivatives)	$831.1m	Up 20.8% from $688.2m
Fully franked final dividend	18.5 cents	Up from 17.0 cents

Domestic market (based on NIEIR estimates)

All segments that impact OneSteel domestic revenues	Up 2.0%	Value of construction work remains at high levels
Construction Sector (52% of revenue) • Engineering (20% of revenue) • Non-residential (20% of revenue) • Residential (12% of revenue)	Up 4.9% Up 5.0% Up 6.5% Up 2.1%	Infrastructure, project and mining activity offsets softness in manufacturing, agricultural and automotive segments
Mining production (10% of revenue)	Up 3.3%	
Other Manufacturing (10% of revenue)	Down 3.6%	
Agricultural production (5% of revenue)	Down 17.6%	
Auto production (5% of revenue)	Flat	

Operational

Total Australian steel tonnes despatched • Domestic tonnes despatched • Export tonnes despatched Adjusted domestic tonnes (excludes one-off projects)	2,278,322 2,200,545 77,777 2,097,689	Up 0.1% Up 7.8% Down 156,392 tonnes Up 5.6%
Underlying price per tonne for domestic steel sales		Up 2.6%
Cost increases Offset by: • Cost reductions • Revenue enhancements	$159m $40m $150m	
Staff numbers • Sales per staff member	7,526 $571,000	Does not include ATM staff numbers or sales
Safety Performance (per million man hours worked) • Medical Treatment Injury Frequency Rate • Lost Time Injury Frequency Rate	 8.1 0.9	 Down 31% from 11.7 Down 44% from 1.6

Company Overview

Sales revenue for the twelve months to June 2007 grew 7.4% to $4,300.6 million from $4,004.6 million in the prior corresponding period.

Underlying Australian domestic revenue from steel sales, adjusted for large projects, increased 7.9%, reflecting higher despatches, favourable change in product mix and price increases previously implemented to recover higher raw material input costs.

Total Australian tonnes despatched increased by 0.1%. Underlying domestic tonnes despatched increased by 5.6% after adjusting for large one-off projects.

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

The underlying price per tonne for domestic steel sales improved by 2.6%.

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

The **sales margin**, based on operating earnings before interest and tax (EBIT), was 7.9%, compared with 7.6% in the prior corresponding period. On an **earnings before tax** basis, profit increased by 15.5% from $246.0 million to $284.1 million.

Operating net profit after tax and minorities increased by 15.1% to $197.5 million for the 12 months, which is equivalent to 34.5 cents per share, 13.8% higher than the prior year. A tax benefit of $9.5 million was booked on derecognition of deferred tax liabilities associated with the formation of the Australian Tube Mills joint venture between OneSteel and Smorgon Steel. **Statutory net profit after tax and minorities** including this benefit was $207.0 million.

The **effective tax rate** of 26.3% was largely attributable to the impact of claimable research and development expenditure for the current year and higher than expected claimable expenditure for the prior year.

Australian Distribution revenue was up 0.9% or $16.1 million to $1,850.0 million, principally due to price increases implemented to recover higher cost of goods and higher costs for raw materials. Distribution EBIT was up 0.4% at $122.5 million, with the sales margin down slightly from 6.7% to 6.6% due to project delays and increased import competition in some areas. The EBIT return on funds employed rose from 15.1% to 15.4%, assisted by further progress in reducing working capital.

Adjusted for large projects, domestic steel tonnes despatched from Distribution were 845,054, down 1.1%. Underlying domestic prices improved by 3.8% reflecting price increases implemented to recover higher product and input costs. These outcomes have been normalised to include the results from the business that OneSteel contributed to the Australian Tube Mills joint venture as if the business had remained part of the Distribution segment for the full year to enable like-for-like comparisons with the previous financial year.

Manufacturing revenue increased 14.9% or $312.6 million to $2,414.0 million. Underlying domestic prices rose 3.5% while export prices were 62.8% higher as a result of improved product mix. Underlying domestic steel despatches were up 10.7% due to higher structural and reinforcing sales. Export tonnes fell 150,268 tonnes to 63,832 tonnes.

Manufacturing EBIT increased 28.7% to $211.7 million with a rise in sales margin from 7.8% to 8.8%. Manufacturing's EBIT return on funds employed increased from 13.7% to 14.9%.

The **International Distribution** business' earnings were down from the previous corresponding period as a result of a softer New Zealand economy and currency-induced price volatility in a

market that was in retreat for much of the trading year. EBIT profit of the New Zealand-based business fell 7.1% from $43.7 million to $40.6 million and the associated sales margin fell from 11.2% to 10.0%. The business achieved a return on funds employed of 24.4%.

OneSteel's **management initiatives** delivered a total of $40 million in cost savings along with revenue enhancements of $150 million. These offset $159 million in raw material and other cost increases. The most significant elements in the cost increases in the 12 months under review were freight, scrap and wages.

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

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

Inventories increased by 10.2% to $836.3 million when compared with the previous financial year. The increase reflects higher average prices for purchased raw materials and resold materials, as well as a real increase in stock weeks to handle forthcoming activity. Pellet inventories, and those of magnetite and hematite iron ore, were also built in preparation for the Whyalla Steelworks' cutover to magnetite in the first half of the 2008 financial year.

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

Floods at Whyalla in January had an impact on EBITDA of around $17 million, compared with initial estimates of $15 million to $30 million. This impact includes the cost of clean up, production disruptions, restoring rail operations, rescheduling steel product deliveries and deferral of iron ore shipments from the 2007 financial year.

With around $379 million of the Project Magnet spend complete, financial gearing remains at the lower end of the targeted range of 30% to 40%. **Financial gearing** rose from 31.4% to 33.5% and **net debt** including derivatives rose 20.8% to $831.1 million. Net debt excluding derivatives rose 20.5% to $769.8 million.

Interest Cover was 6.1 times compared with 5.3 times cover in the prior corresponding period.

Funds employed have risen by 13.3% or $291.3 million to $2,481.1 million, again reflecting the investment in Project Magnet. The EBIT **return on funds employed** rose to 14.6%.

The Final dividend was declared at 10.5 cents per share fully franked, bringing the total dividends declared for the year to 18.5 cents, up 8.8%, and representing a payout ratio of 69.6%. This compares with a 17.0 cent fully franked dividend paid for the 12 months to June 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. No discount applies to the DRP. The DRP will operate for the final dividend. The record date for the dividend will be 14 September 2007, with the dividend due to be paid on 18 October 2007.

Initiatives for Growth and Building Organisational Capability

OneSteel is currently focusing its financial strategies on cash generation and improving returns while undertaking initiatives to take the business forward. These include:

- **Project Magnet –** Major milestones for this project to commercialise OneSteel's magnetite iron ore deposits are being achieved. One of the two key work streams, the

hematite export facilities, has been successfully commissioned, with six shipments of iron ore in Cape-size vessels made from Whyalla in the period under review. Three long-term export ore sales agreements have been signed with Chinese steelmakers. The agreements cover over 17 million tonnes of the 30 million tonnes of ore available for export over 10 years.

During the period under review, export sales of iron ore lump and fines exceeded 1,800,000 tonnes, above the ramp-up in ore sales that was announced in May 2005. Based on current forecasts, OneSteel expects to sell four million tonnes of iron ore in the 2007/08 financial year, as planned in the Project Magnet schedule of May 2005.

The remaining focus is now on final commissioning, transition and ramp-up phases of the Magnetite stream. The Whyalla Steelworks is progressing the transition from hematite ore feed to magnetite feed through the first half of the 2007/08 financial year.

Project Magnet will provide growth through the export of hematite iron ore, pellets and increased steel production and by lowering the cost of steelmaking at Whyalla Steelworks.

- **OneSteel and Smorgon Steel Merger** – The transaction was completed on 20 August 2007. OneSteel management is now focused on the effective integration of the two businesses and to deliver the expected level of benefits and synergies.

Significant and Subsequent Events

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

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

On 17 August 2007, Australian Tube Mills, a joint venture between OneSteel and Smorgon Steel Group Limited, announced that it is restructuring its pipe and tube operations. Australian Tube Mills became a wholly owned subsidiary of OneSteel on 20 August as part of the completion of the OneSteel and Smorgon Steel merger. The restructuring followed a review of operations that began in March 2007, and OneSteel expects that it will provide $10 to $20 million per annum of net synergy benefits. The benefits form part of the forecast $70 million of net synergies identified by OneSteel as part of the OneSteel and Smorgon Steel merger. The cost of the Australian Tube Mills restructure falls within the $35 million forecast for the first year of restructuring associated with the merger.

On 20 August 2007, OneSteel announced the acquisition of Fagersta Group, Australia's fourth-largest stainless steel distributor with annual sales of around $70 million.

On 20 August 2007, OneSteel announced that the executive service agreement of Managing Director and Chief Executive Officer Geoff Plummer has been amended such that the agreement will not terminate at the end of the initial five year period that arises on 2 May 2009, but instead will continue on an ongoing basis until terminated by either OneSteel or Mr Plummer in accordance with the termination rights presently included in the agreement.

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Outlook

In the period under review OneSteel increased profit and earnings per share. It also improved the return on funds employed, return on equity and sales margin and achieved record raw steel production. These outcomes were achieved in a mixed domestic market with solid demand in the resources and infrastructure segments but weakness in manufacturing, automotive and rural segments, and against a backdrop of volatile international pricing for steel and key inputs. Assisted by continued strong operating cashflow, the gearing ratio has been managed at the lower end of the target range after investing almost $380 million on Project Magnet as at 30 June 2007.

Trading conditions are broadly in line with our expectations. The mining and non-residential and engineering construction segments continue to be solid. There is continued weakness in residential construction activity. The manufacturing and automotive component segments remain soft, as are drought-affected rural segments. Factors such as the higher exchange rate and imports are increasing competitive pressures in certain product lines.

International prices for steel and key inputs such as hot rolled coil are expected to remain volatile while the medium-term outlook for iron ore prices continues to be positive. The underlying market for recycled products is expected to remain robust however a range of factors continues to drive volatility.

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

Geoff Plummer
Managing Director &
Chief Executive Officer
OneSteel Limited
21st August, 2007

Australian Distribution

	2007	2006	%
Revenue	1,850.0	1,833.9	0.9
EBITDA	147.5	146.1	1.0
EBIT	122.5	122.0	0.4
Assets	1,126.2	1,100.6	2.3
Employees	2,358	2,448	(3.7)
Sales Margin	6.6%	6.7%	
Funds Emp.	792.9	797.4	(0.6)
ROFE	15.4%	15.1%	

Market Conditions
Market conditions were mixed with the resources and infrastructure segments remaining strong in Western Australia and Queensland while rural markets continued to be affected by the drought. New South Wales and Victoria were soft due to weak manufacturing and residential segments. In the second half of the financial year there was increased pressure from imports in both long and flat products.

Performance
Cost efficiency initiatives and pricing discipline produced a stable result in a competitive market. Delays in project work timing impacted volumes in the second half. Improved working capital levels and ratios drove a reduction in funds employed and a good cash result.

Steel and Tube volumes were down slightly, due to delays in Western Australia's project market. Price and margins were well managed, albeit at the expense of some volume. Margins were also boosted by higher levels of value add processing.

Sheet, Coil and Aluminium volumes were down slightly with the manufacturing segment declining further, particularly automotive components. Expense management helped to offset the reduced sales contributions.

Metaland sales growth was constrained by the difficult conditions in rural Australia. Competition was intense with margins suffering as a result, particularly in Victoria. Tight expense control mitigated some of the pressure on margins.

Piping Systems sales were down in the second half due to gaps appearing in project timing between completion and commencement. However expense control initiatives offset the profit impact of the reduced revenue. Cash inflows were strong as supply chain initiatives took full effect.

Pipe and Tube experienced continued import competition across structural and precision pipe. Volumes declined in structural, pipeline and precision pipe markets although margin management offset the impact of this. Pipeline project volumes were reduced following the cancellation of the PNG-Queensland gas pipeline.

Initiatives
The business will continue to focus on improving service levels through initiatives around supply chain and enhancing value propositions.

Outlook
The resources sector looks set to continue its solid run and the recent rains in rural New South Wales and Victoria should stimulate demand. This is expected to offset the softness in the residential construction segment, and also in manufacturing where a higher currency is a concern.

Australian Manufacturing

	2007	**2006**	**%**
Revenue	2,414.0	2,101.4	14.9
EBITDA	275.8	225.8	22.1
EBIT	211.7	164.5	28.7
Assets	2,132.7	1,829.2	16.6
Employees	4,278	3,948	8.4
Sales Margin	8.8%	7.8%	
Funds Emp.	1,536.7	1,306.2	17.6
ROFE	14.9%	13.7%	

Market Conditions
Continued strength in key construction markets offset continued softness in the automotive, manufacturing and rural markets. Overall, prices were higher than in the previous corresponding period despite a highly competitive project market.

Performance
The **Whyalla Steelworks** and the **Sydney Steel Mill** operated at record production levels. Higher despatches in most product lines and higher prices were also drivers of Manufacturing's improved results. Favourable product mix at Whyalla Steelworks was also a factor. The Whyalla Steelworks increased iron ore export volumes while higher despatches of **Structural** products more than offset lower **Rail** sales. Higher prices are being achieved across these product lines.

Reinforcing revenue was lifted by higher rebar tonnages particularly due to high volumes to the Connect East project in Melbourne. Prices were down slightly amid intense competition in the project market.

Rod and Bar achieved higher sales volumes, mainly through steel-in-concrete sales. Price increases did not fully recover the surge in scrap prices in the second half of the financial year.

Wire volumes were up with increased steel-in-concrete tonnage to infrastructure projects, particularly in Queensland, and higher rural despatches as a result of marketing efforts in a subdued segment. These more than offset lower despatches to the manufacturing segment. While prices have increased, they did not fully recover the large increase in zinc costs during the year.

Initiatives
Project Magnet capital construction work was substantially completed in the 2006/07 financial year. The hematite export stream was brought on line during the year, facilitating iron ore sales in excess of the ramp-up plan that was announced in May 2005. Commissioning and ramp up of Project Magnet will continue. Manufacturing costs and performance continue to be a focus through the Operational Excellence strategic initiative. Six Sigma tools and waste reduction programs are being used to reduce losses and minimise variation. Maintenance reliability practices are also a focus to reduce delays and improve plant availability.

Outlook
The volume outlook is for solid demand from engineering construction, mining and non-residential construction. International scrap prices have been moving up but are yet to be fully reflected in imported steel product prices, partly because of the strong Australian dollar exchange rate. There will be considerable focus on the transition of the Whyalla Steelworks to magnetite iron ore feed in the coming months. The outlook for iron ore demand and pricing remains positive.

International Distribution

	2007	**2006**	**%**
Revenue	405.2	390.4	3.8
EBITDA	45.9	48.7	(5.7)
EBIT	40.6	43.7	(7.1)
Assets	222.6	178.4	24.8
Employees	881	907	(2.9)
Sales Margin	10.0%	11.2%	
Funds Emp.	186.6	146.5	27.4
ROFE	24.4%	28.4%	

Market Conditions
The impact of the strong currency and high interest rates over the year adversely affected the key industries that the business services. Demand for residential housing lifted total construction activity, offsetting lower commercial construction activity after adjusting for the effect of price increases. The strong New Zealand dollar affected export receipts in the manufacturing and rural sectors, with manufacturers further impacted as cheaper imports replaced locally manufactured product. The currency's steep appreciation also created market volatility via the cost of replacement inventory. These market conditions, together with a competitive environment, affected the business' ability to fully recover cost increases incurred during the year.

Performance
The **Distribution** business, comprising steel distribution, stainless steel, fastening systems, piping systems and industrial products increased earnings, assisted by the addition of the stainless steel business that was acquired in April 2006. Greater focus on industrial products also enabled the business to increase its overall market offer to its expanded customer base. Price volatility for replacement imported product put downward pressure on selling prices and margins at a time of soft domestic demand.

The **Manufacturing** business, comprising roofing products, reinforcing fabrication and Hurricane Wire, did not perform as well as the previous year. The roofing operation posted another solid result amid strong demand for rainwater and cladding products from the light commercial and new residential construction sectors. However subdued demand from the construction sector squeezed margins in reinforcing operations and Hurricane Wire. Hurricane Wire was also hurt by the general downturn in rural spending by farmers.

Outlook
New Zealand's economy is expected to remain soft in the near term amid increased costs of doing business, higher interest charges and a volatile currency. Due to a rapid increase in dairy commodity prices in the March quarter, some positive impact is expected over the next 12 to 18 months as dairy farms' increased earnings flow through the rest of the community. Drought and poor returns associated with the strong currency will continue to adversely affect beef and lamb farm incomes. Commercial construction activity and infrastructure projects associated with the 2011 Rugby World Cup are likely to begin in early 2008 however residential construction activity may slow with lower net migration levels and higher interest costs. International steel prices and supply volatility have had a big impact on the business' financial results for the past few years. World demand for raw materials, led by China's industrialisation, is expected to stay strong for some time, causing a long-term upward pricing trend albeit continued price volatility in the short- to medium-term. Thus trading conditions are expected to remain tough, but with some upside prospect in calendar year 2008.

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FINANCIAL SUMMARY

PROFIT & LOSS SUMMARY 12 MONTHS TO 30 JUNE $A millions	Statutory AIFRS 2007	 2006	 2005	 AGAAP 2004	 2003	 2002	 2001	% Chg 07/06
Revenue/Income	4,334.5	4,043.6	3,973.1	3,339.3	3,100.1	2,986.5	2,779.2	7.2
Earnings before interest, tax, depreciation and amortisation (EBITDA)	436.1	396.7	377.1	324.2	307.6	251.0	202.6	9.9
Depreciation/Amortisation (excl goodwill)	(96.2)	(94.0)	(97.5)	(87.1)	(86.5)	(84.2)	(84.2)	2.3
Earnings before Interest and Tax (EBIT)	339.9	302.7	279.6	237.1	221.1	166.8	118.4	12.3
Finance costs	(55.8)	(56.7)	(53.6)	(42.2)	(44.5)	(54.4)	(61.8)	(1.6)
Earnings before Tax (EBT)	284.1	246.0	226.0	194.9	176.6	112.4	56.6	15.5
Tax Expense	(74.7)	(60.8)	(55.4)	(53.4)	(53.3)	(39.0)	(12.1)	22.9
Profit After Tax (PAT)	209.4	185.2	170.6	141.5	123.3	73.4	44.5	13.1
Minority interests	(11.9)	(13.6)	(17.5)	(12.4)	(9.5)	(7.4)	(5.9)	(12.5)
Profit Attributable to OneSteel (NOPAT)	197.5	171.6	153.1	129.1	113.8	66.0	38.6	15.1

CASH FLOW SUMMARY 12 MONTHS TO 30 JUNE $millions	AIFRS 2007	 2006	 2005	AGAAP 2004	 2003	 2002	 2001
Earnings before tax adjusted for non-cash items	275.6	244.9	226.0	178.3	177.7	105.7	62.5
Depreciation / Amortisation (excl goodwill)	96.2	94.0	97.5	87.1	86.5	84.2	84.2
Capital & investment expenditure	(360.5)	(227.6)	(127.5)	(151.4)	(130.9)	(70.8)	(108.4)
Working capital movements	(28.2)	(34.4)	(33.5)	(46.2)	17.5	(76.5)	183.2
Income tax payments	(67.1)	(53.7)	(54.1)	(33.8)	(24.0)	(20.8)	(39.6)
Asset sales	12.2	6.7	4.9	45.3	16.7	56.2	116.8
Other	(0.8)	1.9	0.8	5.6	(1.0)	65.9	(128.6)
Operating and investing cash flows	(72.6)	31.8	114.1	84.9	142.5	143.9	170.1
Movement in securitisation	-	-	(201.2)	-	-	-	-
Dividends paid	(114.9)	(94.2)	(84.9)	(73.3)	(54.1)	(35.1)	(16.0)
Capital movements	27.4	16.9	12.3	16.7	13.0	66.3	-
Total Cash Flow	(160.1)	(45.5)	(159.7)	28.3	101.4	175.1	154.1

BALANCE SHEET AS AT 30 JUNE $millions	AIFRS 2007	 2006	 2005	AGAAP 2004	 2003	 2002	 2001
Cash	59.5	19.6	55.0	54.2	19.5	11.4	14.1
Receivables	640.9	635.4	643.1	487.8	439.9	452.8	561.5
Inventory	836.3	758.9	836.7	704.6	591.0	574.1	540.3
Property, plant and equipment	1,564.4	1,372.3	1,211.5	1,202.8	1,167.4	1,160.0	1,224.2
Other Assets	468.4	352.6	340.8	353.8	359.2	383.7	370.7
TOTAL ASSETS	3,569.5	3,138.8	3,087.1	2,803.2	2,577.0	2,582.0	2,710.8
Borrowings (including derivatives)	900.3	712.0	700.3	523.2	489.7	583.0	776.5
Creditors	637.8	545.4	615.7	569.9	467.7	425.1	444.4
Provisions	381.4	379.8	382.8	336.7	334.6	351.3	373.7
TOTAL LIABILITIES	1,919.5	1,637.2	1,698.8	1,429.8	1,292.0	1,359.4	1,594.6
NET ASSETS	1,650.0	1,501.6	1,388.3	1,373.4	1,285.0	1,222.6	1,116.2
Contributed equity	1,153.6	1,126.2	1,107.9	1,096.3	1,079.6	1,066.6	995.0
Minority interests	63.3	56.7	61.8	56.7	54.7	53.1	52.1
Retained earnings / Reserves	433.1	318.7	218.6	220.4	150.7	102.9	69.1
TOTAL EQUITY	1,650.0	1,501.6	1,388.3	1,373.4	1,285.0	1,222.6	1,116.2

The finanical information presented for the years 2001 - 2004 have not been presented 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.

Note that the financial information presented for the years 2001 - 2004 have been adjusted to exclude goodwill amortisation from earnings.

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SEGMENTS 12 months to 30 June $A millions	Revenue/Income 2007	 2006	 % Chg	EBITDA 2007	 2006	 % Chg	EBIT 2007	 2006	 % Chg	Assets 2007	 2006	 % Chg
Australian Manufacturing	2,414.0	2,101.4	14.9	275.8	225.8	22.1	211.7	164.5	28.7	2,132.7	1,829.2	16.6
Australian Distribution	1,850.0	1,833.9	0.9	147.5	146.1	1.0	122.5	122.0	0.4	1,126.2	1,100.6	2.3
International Distribution	405.2	390.4	3.8	45.9	48.7	(5.7)	40.6	43.7	(7.1)	222.6	178.4	24.8
Corporate/Unallocated	17.9	15.4	16.2	(11.6)	(15.7)	(26.1)	(10.6)	(19.3)	(45.1)	239.0	82.1	191.1
Inter segment	(335.2)	(297.5)	12.7	(19.1)	(8.2)	132.9	(19.1)	(8.2)	132.9	(55.7)	(51.5)	8.2
TOTAL ONESTEEL GROUP	4,351.9	4,043.6	7.6	438.5	396.7	10.5	345.1	302.7	14.0	3,664.8	3,138.8	16.8

	Australian Distribution 2007	 2006	 % Chg	Australian Manufacturing 2007	 2006	 % Chg	International Distribution 2007	 2006	 % Chg
Revenue/Income	1,850.0	1,833.9	0.9	2,414.0	2,101.4	14.9	405.2	390.4	3.8
EBITDA	147.5	146.1	1.0	275.8	225.8	22.1	45.9	48.7	(5.7)
EBIT	122.5	122.0	0.4	211.7	164.5	28.7	40.6	43.7	(7.1)
Assets	1,126.2	1,100.6	2.3	2,132.7	1,829.2	16.6	222.6	178.4	24.8
Employees	2,358	2,448	(3.7)	4,278	3,948	8.4	881	907	(2.9)
Sales Margin (EBIT)	6.6%	6.7%		8.8%	7.8%		10.0%	11.2%	
Funds Employed	792.9	797.4	(0.6)	1,536.7	1,306.2	17.6	186.6	146.5	27.4
ROFE	15.4%	15.1%		14.9%	13.7%		24.4%	28.4%	

These Segment outcomes have been normalised to include the results from the business that OneSteel contributed to the Australian Tube Mills joint venture as if the business had remained part of the Distribution segment for the full year.

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2007.

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

P J Smedley
R B Davis
E J Doyle
C R Galbraith
P G Nankervis
G J Plummer
D A Pritchard
N J Roach

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

Under Clause 5.7 of the Merger Implementation Agreement between OneSteel Limited and Smorgon Steel Group Limited it was agreed that Messrs G J Smorgon and L G Cox were to be appointed as directors of OneSteel Limited with effect from the date on which the merger of OneSteel and Smorgon Steel was implemented. Accordingly, Messrs Smorgon and Cox have been invited to become directors of OneSteel and it is intended they will join the Board from the September 2007 Board Meeting of the Company.

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.

The following significant changes in the nature of the activities of the Group occurred during the year:

- Formation of a joint venture with Smorgon Steel covering the manufacture of structural pipe and tube
- Commencement of significant exports of hematite iron ore sales as a result of the commercialisation of OneSteel's magnetite ore reserves under Project Magnet

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 $207.0m (2006: $187.5m) with earnings per share of 36.34 cents (2006: 33.27 cents). The net profit for the year includes the impact of a tax benefit arising from the derecognition of deferred tax liabilities of $9.5m. In the prior year, a tax benefit of $15.9m was recognised arising from the further 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 10.5 cents per share payable on 18 October 2007, fully franked at a 30% tax rate on fully paid shares	91.6
Interim dividend 8 cents per share paid on 19 April 2007, fully franked at a 30% tax rate on fully paid shares	45.9
Final dividend 10 cents per share paid on 19 October 2006, fully franked at a 30% tax rate on fully paid shares	56.9

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 2007. 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.

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	14	3	4	4	2	4
Number of meetings attended						
P J Smedley	14	3			2	4
R B Davis	14			4		4
E J Doyle	14	3	4	4		
C R Galbraith	14	3	4			
P G Nankervis	14		4			3
G J Plummer	14					
D A Pritchard	14			4	2	4
N J Roach	14		4	4	2	

Note: 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 Group Limited. The Committee, comprising Messrs Smedley, Galbraith, Nankervis and Plummer, met sixteen times and each of the Committee members attended the majority of the meetings.

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 2007.

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 of $2,000,000 approved at the 2006 Annual General Meeting 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; and
- reward executives for maintaining sustained returns to shareholders.

DIRECTORS' REPORT

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 that 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 40% fixed remuneration and 60% at risk while for senior executives the proportions are approximately 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. The 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 payment. 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 yearly 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 did not grant performance dependent rights to ordinary shares to certain senior executives (with the exception of the Managing Director – see Section E) during the year ended 30 June 2007. An issue is planned to coincide with the implementation of the merger with Smorgon Steel during the second half of 2007. 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. This includes the 5 company and group executives who received the highest remuneration for the year ended 30 June 2007.

N Calavrias	Chief Executive Officer, Steel & Tube Holdings Limited
A J Reeves	Chief Financial Officer
C R Keast	Executive General Manager, Market Mills
M R Parry	Executive General Manager, Whyalla
A H Combe	Executive General Manager, Distribution
A Roberts	Executive General Manager, Marketing
L J Selleck	Executive General Manager, Project Magnet
W J Gately	Corporate General Manager, Human Resources and Safety

The 5 company executives who received the highest remuneration for the year ended 30 June 2007 are:

A J Reeves	Chief Financial Officer
A H Combe	Executive General Manager, Distribution
L J Selleck	Executive General Manager, Project Magnet
A Roberts	Executive General Manager, Marketing
M R Parry	Executive General Manager, Whyalla

The 5 group executives who received the highest remuneration for the year ended 30 June 2007 are:

A J Reeves	Chief Financial Officer
A H Combe	Executive General Manager, Distribution
N Calavrias	Chief Executive Officer, Steel & Tube Holdings Limited
L J Selleck	Executive General Manager, Project Magnet
A Roberts	Executive General Manager, Marketing

(a) Compensation of key management personnel

	Short term benefits			Post-employment	Other long-term benefits	Termination benefits	Share-based payment	Total	Total performance related
	Salary and Fees $	Cash bonus $	Non-monetary benefits [7] $	Superannuation $	Cash bonus $		Shares and share rights [1],[2] $	$	%
2007									
Directors [6]									
P J Smedley	270,000	–	10,239	–	–	–	121,498	401,737	–
G J Plummer	1,219,405	1,400,000	10,703	100,857	–	–	812,910	3,543,875	62.4
R B Davis	90,000	–	3,967	8,100	–	–	32,398	134,465	–
E J Doyle	90,000	–	4,323	8,100	–	–	32,398	134,821	–
C R Galbraith	90,000	–	4,117	8,100	–	–	32,398	134,615	–
P G Nankervis	90,000	–	3,619	6,075	–	–	36,451	136,145	–
D A Pritchard	90,000	–	1,817	8,100	–	–	32,398	132,315	–
N J Roach	90,000	–	3,632	8,100	–	–	32,398	134,130	–
Executives									
N Calavrias [3]	532,184	177,616	6,503	39,914	235,757	–	–	991,974	41.7
A J Reeves	608,487	396,000	42,995	62,391	–	–	111,034	1,220,907	41.5
L J Selleck	434,305	129,000	93,474	58,725	–	–	97,062	812,566	27.8
M R Parry	446,787	184,000	530	40,881	–	–	62,496	734,694	33.6
C R Keast	439,325	135,000	1,660	43,546	–	–	62,496	682,027	29.0
A Roberts	384,728	275,000	1,126	36,861	–	–	53,348	751,063	43.7
A H Combe	546,442	237,000	212	54,104	–	–	34,867	872,625	31.2
W J Gately	373,411	232,000	706	50,521	–	–	62,248	718,886	40.9
Total	5,795,074	3,165,616	189,623	534,375	235,757	–	1,616,400	11,536,845	

DIRECTORS' REPORT

(a) Compensation of key management personnel (continued)

	Short term benefits			Post-employment	Other long-term benefits	Termination benefits	Share-based payment	Total	Total performance related
	Salary and Fees $	Cash bonus $	Non-monetary benefits [7] $	Superannuation $	Cash bonus $		Shares and share rights [1],[2] $	$	%
2006									
Directors [6]									
P J Smedley	266,667	–	8,089	–	–	–	119,625	394,381	–
G J Plummer	1,099,143	765,000	39,708	100,857	–	–	744,008	2,748,716	54.9
R B Davis	89,000	–	–	8,010	–	–	31,950	128,960	–
E J Doyle	89,000	–	8,198	8,010	–	–	31,950	137,158	–
C R Galbraith	89,000	–	2,664	8,010	–	–	31,950	131,624	–
P G Nankervis	89,000	–	2,784	–	–	–	39,938	131,722	–
D A Pritchard	89,000	–	12,219	8,010	–	–	31,950	141,179	–
N J Roach	89,000	–	2,056	8,010	–	–	31,950	131,016	–
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	32,599	56,769	–	–	115,835	1,107,602	39.7
L J Selleck	410,175	253,000	81,728	55,423	–	–	102,014	902,340	39.3
M R Parry	400,582	190,000	13,456	31,872	–	–	56,705	692,615	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	13,051	28,925	–	–	45,310	603,800	35.7
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	232,799	460,220	195,858	–	1,519,570	9,965,909	

Notes

(1) The value recorded for non-executive directors in the share based payment section represents the new long-term component of directors 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) Directors' fees are comprised of Salary and Fees, Superannuation and Shares granted under the long term component of non-executive directors' remuneration.

(7) Non monetary benefits include items such as fringe benefits tax paid on benefits provided, rental assistance, living away from home allowances and health fund premiums.

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

During the financial year no share rights were granted as equity compensation benefits under the long-term incentive plan to key management personnel with the exception of the Managing Director. No share rights have been granted to non-executive directors under this scheme. The share rights were issued free of charge and entitle 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.

No share rights under the Long Term Incentive Plan vested during the year ended 30 June 2007.

	Vested	Granted		Terms and Conditions for each Grant			
	No.	No.	Grant Date	Fair value per right at grant date ($)	Expiry date	First Exercise date	Last Exercise date
2007							
Directors							
G J Plummer	–	305,461	1/5/07	4.88	1/5/10	1/5/10	1/5/12
2006							
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					

(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. All outstanding options from this Plan vested in 2005.

(d) Shares issued on exercise of compensation options

No options were exercised by key management personnel during the year ended 30 June 2007.

	Shares issued No.	Amount paid per share $	Amount unpaid per share $	Value of option $
2006				
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

DIRECTORS' REPORT

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.

D. ADDITIONAL INFORMATION (UNAUDITED)

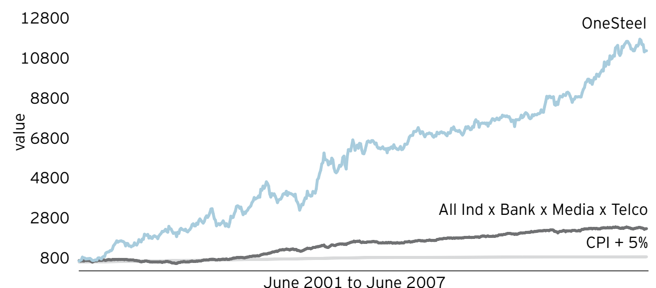
Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

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

Year Ended	Profit $m	Dividend cents	Earnings Per Share cents
30–Jun			
2007	207.0	10.5	36.2
2006	187.5	10.0	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%.

OneSteel Total Shareholder Return



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 $1,350,000 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 has been granted two separate allocations of shares during this term as agreed in his executive employment agreement. 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. The second instalment was allocated on 8 May 2007, being 305,461 shares allocated at the prevailing market price representing one and one third times base remuneration. 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 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 by death, by illness, by incapacity, by appropriate notice by OneSteel or by notice from Mr Plummer due to a fundamental change in the business the Board, in its absolute discretion, will determine whether Mr Plummer may be able to withdraw some or all of the shares granted under the LTI Share Plan which have not vested.

In addition, 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.

Changes to Employment Agreement

In view of the OneSteel and Smorgon Steel merger, specific additional arrangements relating to this employment agreement have been agreed between the Company and Mr Plummer and were effective on 20 August 2007. These changes were determined to be necessary and appropriate providing both certainty and continuity of leadership and incentive for Mr Plummer to deliver the maximum benefits arising from the merger to OneSteel shareholders.

It has been agreed that Mr Plummer's existing Executive Service Agreement will not terminate at the end of the initial five year period (arising on 2 May 2009) but instead, will continue on an ongoing basis until terminated by either OneSteel or Mr Plummer in accordance with the termination rights presently included in the Executive Service Agreement.

Mr Plummer's Executive Service Agreement has also been amended to provide for a third instalment of shares under the Company's Long Term Incentive Plan. The third instalment being of a value equivalent to $133\frac{1}{3}$% of Mr Plummer's base remuneration at the time of allocation. The method used to calculate the price at which these shares were allocated was designed to reflect the value, on Implementation Date, of each OneSteel share received by Smorgon Steel shareholders as consideration under the Scheme of Arrangement, namely the Volume Weighted Average Price of OneSteel Shares Traded during the 10 consecutive trading days immediately following the Court approvals of the Scheme.

The vesting criteria for these shares is the same as applied to the first and second instalments and is outlined earlier in this Remuneration Report.

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. 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.

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 the 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 Share Plan which have not vested.

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 2007.

Share Rights and Options

During the year there were 13,734 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 no shares as a result of the exercise of options. Details relating to the exercise of these options are included in Note 28 of 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	170,896
21 December 2010	$1.0434	289,500

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	26,345
G J Plummer	–
R B Davis	7,025
E J Doyle	7,025
C R Galbraith	7,025
P G Nankervis	8,000
D A Pritchard	7,025
N J Roach	7,025

No director, either directly or indirectly, disposed of any ordinary shares, exercised an option over ordinary shares or was granted rights to further shares and options during the financial year other than Mr G J Plummer who was granted rights to 305,461 ordinary shares under the OneSteel Executive Long-Term Incentive Share Plan. These share rights will vest between 1 May 2010 and 1 May 2012 subject to performance hurdles.

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	230,992	–	–
G J Plummer	339,342	1,448,587	90,000
R B Davis	22,470	–	–
E J Doyle	122,584	–	–
C R Galbraith	94,883	–	–
P G Nankervis	30,306	–	–
D A Pritchard	85,442	–	–
N J Roach	210,657	–	–

Full details are set out in Note 29 to the Full Financial Report.

DIRECTORS' REPORT

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

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

On 20 August 2007, OneSteel announced the acquisition of Fagersta Group, Australia's fourth-largest stainless steel distributor.

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

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 merger with Smorgon Steel Group Limited and the completion of Project Magnet.

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

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.

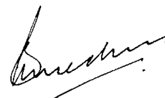
Details of the amounts paid or payable to the auditor, Ernst & Young, for the provision of non-audit services during the year ended 30 June 2007 are as follows:

Tax compliance services	$1,120,775
Accounting advice	$487,917

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.

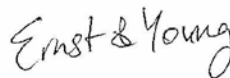
Signed in Sydney this 21st day of August 2007 in accordance with a resolution of directors.



Peter Smedley
Chairman

Geoff Plummer
Managing Director

Auditor's 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 2007, 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

Michael Wright
Partner

21 August 2007

Discussion and analysis of the financial statements
This 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, except for derivative financial instruments that have been measured at fair value, applying generally accepted accounting principles.

Income Statement
Net profit attributable to members of the parent for the financial year was $207.0 million. Excluding the impact of the tax benefit arising on derecognition of deferred tax liabilities, the net profit for the year was $197.5 million.

Sales revenue increased 7.4% to $4,300.6 million, driven by higher despatches, favourable change in product mix and price increases previously implemented to recover higher raw material input costs.

Earnings in the Manufacturing segment increased with underlying price increases as a result of improved product mix and higher domestic steel despatches. Australian Distribution's earnings fell from the previous financial year, with price increases implemented to recover higher product and input costs offset by the impact of the contribution of the Pipe and Tube structural business to the Australian Tube Mills joint venture. 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 13.7% to $3,569.5 million with property, plant and equipment increasing by $197.4 million primarily as a result of investment associated with Project Magnet, the commercialisation of OneSteel's magnetite ore deposits.

Total consolidated liabilities increased by 17.2% to $1,919.5 million, driven by increases in creditors and borrowings.

Contributed equity increased by $27.4 m largely attributable to the dividend reinvestment scheme.

Cash Flow Statement
Consolidated net cash flow from operating activities increased by $25.7 million to $276.5m, reflecting improved cash profits.

Consolidated net cash outflow from investing activities of $349.1 million was $130.1 million higher than 2006, mainly due to higher capital expenditure related to Project Magnet.

Consolidated net cash inflow from financing activities of $112.5 million was higher than the prior year outflow of $67.2 million primarily driven by additional borrowings associated with Project Magnet.

Dividends
The directors have recommended and declared a final fully franked dividend for 2007 of 10.5 cents per share payable on 18 October 2007.

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007		CONSOLIDATED		PARENT	
	Note	2007 $m	2006 $m	2007 $m	2006 $m
Sales Revenue	3	4,300.6	4,004.6	–	–
Cost of sales		(3,463.4)	(3,205.9)	–	–
Gross profit		837.2	798.7	–	–
Other revenue	3	27.0	28.2	128.0	12.6
Other income	3	6.9	10.8	–	–
Operating expenses excluding finance costs	3	(536.0)	(535.2)	(3.1)	(3.2)
Finance costs	3	(55.8)	(56.7)	(2.1)	–
Share of net profit of investment accounted for using the equity method	10	4.8	0.2	–	–
Profit before income tax		284.1	246.0	122.8	9.4
Income tax expense		(74.7)	(60.8)	–	(3.5)
Income tax benefit arising on derecognition of deferred tax liabilities		9.5	–	–	–
Income tax benefit arising from tax consolidation		–	15.9	–	–
Total income tax expense	4	(65.2)	(44.9)	–	(3.5)
Profit after tax		**218.9**	**201.1**	**122.8**	**5.9**
Profit attributable to minority interests		(11.9)	(13.6)	–	–
Profit attributable to members of the parent	20	207.0	187.5	122.8	5.9
Basic earnings per share (cents per share)	5	36.34	33.27		
Diluted earnings per share (cents per share)	5	36.12	33.06		
On operating activities before the tax benefit arising on derecognition of deferred tax liabilities/tax consolidation					
Basic earnings per share (cents per share)	5	34.68	30.45		
Diluted earnings per share (cents per share)	5	34.47	30.26		

The accompanying notes form an integral part of this Income Statement

BALANCE SHEET

AS AT 30 JUNE 2007		CONSOLIDATED		PARENT	
	Note	2007 $m	2006 $m	2007 $m	2006 $m
ASSETS					
Current Assets					
Cash and cash equivalents	23	59.5	19.6	–	–
Receivables	6	640.9	635.4	32.9	178.5
Derivative financial instruments	7	0.3	3.2	–	–
Inventories	8	836.3	758.9	–	–
Other current assets	14	8.3	9.8	–	–
Total Current Assets		1,545.3	1,426.9	32.9	178.5
Non-current Assets					
Investment accounted for using the equity method	10	100.8	7.3	–	–
Derivative financial instruments	7	9.7	4.2	–	–
Other financial assets	9	6.0	7.1	1,332.2	1,088.6
Property, plant and equipment	11	1,537.1	1,339.7	–	–
Mine development expenditures	12	66.3	60.2	–	–
Other intangibles and goodwill	13	214.3	220.2	–	–
Deferred tax assets	4	74.4	72.9	1.1	1.1
Other non-current assets	14	15.6	0.3	–	–
Total Non-current Assets		2,024.2	1,711.9	1,333.3	1,089.7
TOTAL ASSETS		**3,569.5**	**3,138.8**	**1,366.2**	**1,268.2**
LIABILITIES					
Current Liabilities					
Payables	15	635.1	545.4	–	–
Derivative financial instruments	7	2.7	–	–	–
Interest-bearing liabilities	16	69.9	60.1	43.9	–
Tax liabilities		31.3	27.5	32.1	27.8
Provisions	17	168.9	160.5	–	–
Total Current Liabilities		907.9	793.5	76.0	27.8
Non-current Liabilities					
Derivative financial instruments	7	71.0	53.6	–	–
Interest-bearing liabilities	16	759.4	598.3	–	–
Deferred tax liabilities	4	142.6	143.5	–	–
Provisions	17	26.3	35.0	–	–
Retirement benefit obligations	18	12.3	13.3	–	–
Total Non-current Liabilities		1,011.6	843.7	–	–
TOTAL LIABILITIES		1,919.5	1,637.2	76.0	27.8
NET ASSETS		**1,650.0**	**1,501.6**	**1,290.2**	**1,240.4**
EQUITY					
Contributed equity	19	1,153.6	1,126.2	1,153.6	1,126.2
Retained earnings	20	420.3	316.1	132.7	112.7
Reserves	21	12.8	2.6	3.9	1.5
Parent interests		1,586.7	1,444.9	1,290.2	1,240.4
Minority interests		63.3	56.7	–	–
TOTAL EQUITY		**1,650.0**	**1,501.6**	**1,290.2**	**1,240.4**

The accompanying notes form an integral part of this Balance Sheet

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007		CONSOLIDATED		PARENT	
	Note	2007 $m	2006 $m	2007 $m	2006 $m
			Inflows/(outflows)		
Cash flows from operating activities					
Receipts from customers		4,325.4	4,040.8	3.1	3.2
Payments to suppliers and employees		(3,929.6)	(3,681.9)	(3.1)	(3.2)
Interest received		2.3	2.4	4.9	9.4
Interest and other costs of finance paid		(54.5)	(56.8)	–	–
Operating cash flows before income tax		343.6	304.5	4.9	9.4
Income taxes paid		(67.1)	(53.7)	(3.8)	(1.6)
Net operating cash flows	23(b)	**276.5**	**250.8**	**1.1**	**7.8**
Cash flows from investing activities					
Purchases of property, plant and equipment		(356.0)	(199.0)	–	–
Mine development expenditure		(0.2)	(12.8)	–	–
Purchases of finite-life intangibles		(1.7)	(2.6)	–	–
Purchases of businesses	23(d)	(2.6)	(13.2)	–	–
Proceeds from sale of property, plant and equipment		12.2	6.7	–	–
Proceeds from repayment of preference shares by investment accounted for using the equity method		–	0.2	–	0.2
Replayment of loan to non-related parties		(0.8)	–	–	–
Repayment of loan by non-related parties		–	1.7	–	–
Net investing cash flows		**(349.1)**	**(219.0)**	**–**	**0.2**
Cash flows from financing activities					
Purchase of shares under equity-based compensation plans		(2.0)	(2.5)	(2.0)	(2.5)
Proceeds from issue of shares		–	0.4	–	0.4
Proceeds from borrowings		765.0	541.0	–	–
Repayment of borrowings		(554.4)	(509.9)	–	–
Proceeds from finance leases		29.8	–	–	–
Repayment of principal of finance leases		(40.4)	(21.0)	–	–
Repayment of loans from related party		–	–	74.3	57.1
Repayment of loans to related party		(19.7)	–	–	–
Loan from related party		19.7	–	–	–
Dividends paid		(85.5)	(75.2)	(73.4)	(63.0)
Net financing cash flows		**112.5**	**(67.2)**	**(1.1)**	**(8.0)**
Net increase/(decrease) in cash and cash equivalents		**39.9**	**(35.4)**	**–**	**–**
Cash and cash equivalents at the beginning of the year		19.6	55.0	–	–
Cash and cash equivalents at the end of the year	23(a)	**59.5**	**19.6**	**–**	**–**

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

STATEMENT OF CHANGES IN EQUITY

2007	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT									MINORITY INTERESTS	TOTAL EQUITY
	CONTRIBUTED EQUITY				RESERVES						
CONSOLIDATED	Issued capital $m	Employee compen-sation 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 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
Cash flow hedges:											
– gains/(losses) taken to equity	–	–	–	–	–	–	6.3	6.3	6.3	–	6.3
– transferred to profit	–	–	–	–	–	–	(1.9)	(1.9)	(1.9)	–	(1.9)
– transferred to initial carrying amount of hedged items	–	–	–	–	–	–	(2.8)	(2.8)	(2.8)	–	(2.8)
Currency translation differences	–	–	–	–	–	6.2	–	6.2	6.2	6.8	13.0
Total income and expense for the year recognised directly in equity	–	–	–	–	–	6.2	1.6	7.8	7.8	6.8	14.6
Net Profit	–	–	–	207.0	–	–	–	–	207.0	11.9	218.9
Total income/expense for the period	–	–	–	207.0	–	6.2	1.6	7.8	214.8	18.8	233.5
Share-based payments expense	–	–	–	–	2.4	–	–	2.4	2.4	–	2.4
Dividends paid	–	–	–	(102.8)	–	–	–	–	(102.8)	(12.1)	(114.9)
Shares issued under dividend reinvestment plan	29.4	–	29.4	–	–	–	–	–	29.4	–	29.4
Purchase of shares for equity-based compensation	–	(2.0)	(2.0)	–	–	–	–	–	(2.0)	–	(2.0)
At 30 June 2007	**1,163.8**	**(10.2)**	**1,153.6**	**420.3**	**4.4**	**2.9**	**5.5**	**12.8**	**1,586.7**	**63.3**	**1,650.0**
2006											
CONSOLIDATED											
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	–	–	–	(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**

STATEMENT OF CHANGES IN EQUITY

2007	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT									MINORITY INTERESTS	TOTAL EQUITY
	CONTRIBUTED EQUITY				RESERVES						
PARENT	Issued capital $m	Employee compen-sation 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 2006	1,134.4	(8.2)	1,126.2	112.7	1.5	–	–	1.5	1,240.4	–	1,240.4
Net Profit	–	–	–	122.8	–	–	–	–	122.8	–	122.8
Total income/expense for the period	–	–	–	122.8	–	–	–	–	122.8	–	122.8
Share-based payments	–	–	–	–	2.4	–	–	2.4	2.4	–	2.4
Dividends paid	–	–	–	(102.8)	–	–	–	–	(102.8)	–	(102.8)
Shares issued under dividend reinvestment plan	29.4	–	29.4	–	–	–	–	–	29.4	–	29.4
Purchase of shares for equity-based compensation	–	(2.0)	(2.0)	–	–	–	–	–	(2.0)	–	(2.0)
At 30 June 2007	**1,163.8**	**(10.2)**	**1,153.6**	**132.7**	**3.9**	**–**	**–**	**3.9**	**1,290.2**	**–**	**1,290.2**
2006											
PARENT											
At 1 July 2005	1,115.0	(7.1)	1,107.9	188.8	1.0	–	–	1.0	1,297.7	–	1,297.7
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**

NOTES TO THE FINANCIAL STATEMENTS

CONTENTS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 2007 was authorised for issue in accordance with a resolution of the directors on 21 August 2007.

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 2007 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. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

Rounding of amounts

Amounts in the financial statements have been rounded to the nearest hundred thousand dollars, unless specifically stated to be otherwise under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

(b) 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.

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

Accounting Standards issued but not yet effective

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

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

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

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of OneSteel Limited (the parent entity) as at 30 June 2007 and the results of all subsidiaries for the year then ended. OneSteel Limited and its subsidiaries together are referred to in this financial report as the OneSteel Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is ceases. All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. This involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit after tax in the Income Statement and are presented within Equity in the consolidated balance sheet separately from parent shareholder's equity.

Investments in subsidiaries are accounted for at cost or recoverable amount in the individual financial statements of OneSteel Limited.

(d) 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.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all 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 recognised 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.

(e) Significant accounting estimates and assumptions

Significant accounting estimates and assumptions

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumption made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the

judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of the financial statements are outlined below.

(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
Restoration and rehabilitation costs are a normal consequence of mining and the majority of this expenditure is incurred at the end of the mine's life. In determining an appropriate level of production, consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of mine) and the estimated future level of inflation. The ultimate cost of restoration and rehabilitation is uncertain and costs can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in reserves or to production rates. 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. The accounting estimates and assumptions relating to equity settled share based payment would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(d) Defined benefit plans
Various actuarial assumptions are required when determining the Group's defined benefit superannuation plan. These assumptions and the related carrying amounts are disclosed in Note 18.

(f) 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 recognised 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 closing rate 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.

(g) Revenue recognition
Revenue is recognised and measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Amounts disclosed as revenue earned from the sale of products or services are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer or the service has been delivered and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis using the effective interest method.

(h) 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. Finance 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.

(i) 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 balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates which are enacted or substantively enacted for each jurisdiction at balance date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. 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 in a transaction, other than a business combination, that at the time of the transaction affects neither 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.

NOTES TO THE FINANCIAL STATEMENTS

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

The head entity, OneSteel Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

Assets or liabilities arising under tax sharing agreements with the tax consolidated entities are recognised as amounts receivable from or payable to the head entity. Details of the tax sharing agreement are disclosed in Note 4.

Any difference between the amounts assumed and amounts receivable or payable under the tax sharing agreements are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(j) 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. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Balance Sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority is classified as part of operating cash flows.

(k) Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within current interest bearing liabilities on the balance sheet.

(l) Trade and other receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt.

(m) Inventories
Inventories, including raw materials, work in progress and finished goods, 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.

(n) Other financial assets (investments)
The Group classifies investments in the following categories: financial assets at fair value through profit and loss; loans and receivables; 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) 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 above 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 the cumulative gain or loss previously reported in Equity is recognised in the Income Statement.

(o) Investment accounted for using the equity method (jointly controlled entities)
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. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity. Goodwill relating to a jointly controlled entity is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in jointly controlled entities.

The Group's share of the jointly controlled entity's post-acquisition profits or losses is recognised in the Income Statement and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Should the Group's share of losses in a jointly controlled entity equal or exceed its interest in the entity, no further losses are recognised, unless it has incurred obligations or made payments on behalf of the entity.

The jointly controlled entities' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(p) 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. Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of those from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(q) Leased assets
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. The corresponding lease obligation net of finance charges are included in interest bearing liabilities. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Income Statement.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term. Lease incentives are recognised in the Income Statement as an integral part of the total lease expense.

(r) Property, plant and equipment
Property, plant and equipment assets are carried at cost less any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Income Statement during the reporting period in which they are incurred.

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 assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

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.

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 de-recognised.

(s) Exploration and evaluation expenditure
Expenditure on exploration and evaluation is accounted for in accordance with the "area of interest" method. Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Impairment
The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the income statement.

(t) Mine development expenditure
Mine development expenditure represents the costs incurred in preparing mines for production, and includes stripping and waste removal costs incurred before production commences. These costs are capitalised to the extent they are expected to be recouped through successful exploitation of the related mining leases. Once production commences, these costs are amortised using the units of production method based on the estimated economically recoverable reserves to which they relate.

Impairment
The carrying value of capitalised mine development expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

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

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the income statement.

(u) Deferred stripping costs
In mining operations, it is necessary to remove overburden and other barren waste materials to access ore from which minerals can be economically extracted. The process of mining overburden and waste materials is referred to as stripping. Stripping costs incurred before production commences are included within capitalised mine development expenditure and subsequently amortised. The Group defers stripping costs incurred subsequently during the production stage of operation. Stripping ratios are a function of the quantity of ore mined compared with the quantity of overburden or waste required to be removed to mine the ore. Deferral of these post production costs to the Balance Sheet is made, where appropriate, when actual stripping ratios vary from the average life of mine ratio.

Costs which have previously been deferred to the balance sheet are recognised in the Income Statement on a unit of production basis utilising the average stripping ratios. Changes in estimates of average stripping ratios are accounted for prospectively from the date of the change.

As it is not possible to separately identify cash inflows relating to deferred overburden removal costs, such assets are grouped with other assets of a cash generating unit for the purposes of undertaking assessments, where necessary, based on future cash flows for the cash generating unit as a whole.

NOTES TO THE FINANCIAL STATEMENTS

(v) 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 Group's share of the net identifiable net assets of the acquired subsidiary as at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill 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. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units or groups of cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored to internal management; and is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with AASB 114 Segment Reporting.

Impairment losses recognised for goodwill are not subsequently reversed.

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

Research and development costs
Research costs are expensed as incurred.

(w) Trade and other payables
Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and arise when the Group becomes obliged to make future payments in respect of purchase of these goods and services. These amounts are unsecured.

(x) Provisions
Provisions are recognised when the Group has a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre tax discount rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

(y) 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.

Long service leave
The liability for long service leave is recognised in the provision for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match as closely as possible the estimated future cash outflows.

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.

The "corridor approach" is applied in determining the periodic impact on 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.

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.

(z) 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 finance cost representing the unwind of the discounting factor.

(aa) 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.

(bb) 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.

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.

(cc) Derivative financial instruments

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

At the inception of a hedge relationship, the Group formally designates and documents 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.

NOTES TO THE FINANCIAL STATEMENTS

Amounts accumulated in Equity are transferred to 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 carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. 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.

NOTE 2. SEGMENT INFORMATION

	AUSTRALIA					INTERNATIONAL		CONSOLIDATED
	Manufacturing $m	Distribution $m	Unallocated $m	Eliminations $m	Total $m	Distribution $m	Eliminations $m	$m
2007								
Segment revenues								
Revenues from customers outside the consolidated entity	2,093.9	1,802.2	–	–	3,896.1	404.5	–	4,300.6
Inter-segment revenues	304.9	12.8	13.6	(284.3)	47.0	–	(47.0)	–
Other revenue/income	15.2	13.7	4.3	–	33.2	0.7	–	33.9
Total income	2,414.0	1,828.7	17.9	(284.3)	3,976.3	405.2	(47.0)	4,334.5
Share of net profit of investment accounted for using the equity method	–	–	4.8	–	4.8	–	–	4.8
Other non-cash expenses	(3.8)	(3.7)	(2.4)	–	(9.9)	(0.3)	–	(10.2)
Earnings before interest, tax, depreciation & amortisation	275.8	141.9	(6.8)	(6.7)	404.2	45.9	(14.0)	436.1
Depreciation and amortisation	(64.1)	(23.0)	(3.8)	–	(90.9)	(5.3)	–	(96.2)
Earnings before interest & tax	211.7	118.9	(10.6)	(6.7)	313.3	40.6	(14.0)	339.9
Finance costs								(55.8)
Income tax expense								(65.2)
Profit after tax before minority interests								218.9
Segment assets	2,088.8	1,020.2	121.4	(53.1)	3,177.3	219.6	(2.6)	3,394.3
Investment accounted for using the equity method	–	–	100.8	–	100.8	–	–	100.8
Tax assets								74.4
Consolidated assets								3,569.5
Segment liabilities	449.1	295.8	945.8	(45.6)	1,645.1	100.5	–	1,745.6
Tax liabilities								173.9
Consolidated liabilities								1,919.5
Non-current assets acquired	295.0	23.4	8.2	–	326.6	9.0	–	335.6

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. SEGMENT INFORMATION (CONTINUED)

					AUSTRALIA	INTERNATIONAL		CONSOLIDATED
	Manufacturing $m	Distribution $m	Unallocated $m	Eliminations $m	Total $m	Distribution $m	Eliminations $m	$m
2006								
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	15.4	4.5	–	247.6	17.3	–	264.9

The Group's primary segment reporting format is business segments as the Group's risks and rates of return are affected predominantly 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.

Australian Distribution

OneSteel's Australian 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.

NOTE 2. SEGMENT INFORMATION (CONTINUED)

This includes the Pipe & Tube business, which manufactures product for the construction, mining, oil and gas and manufacturing industries from its mills at Melbourne, Port Kembla and Perth. Up until 2 March 2007, this also included the structural business located at Newcastle and Somerton which forms part of the Australian Tube Mills Joint Venture with Smorgon Steel (refer to Note 10).

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 allied 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.

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

		CONSOLIDATED		PARENT	
	Note	2007 $m	2006 $m	2007 $m	2006 $m
(a) Sales revenue					
Product sales		4,295.3	4,001.4	–	–
Rendering of services		5.3	3.2	–	–
Total sales revenue		4,300.6	4,004.6	–	–
(b) Other revenue					
Interest received from unrelated parties		2.3	2.4	–	–
Interest received from controlled entities		–	–	4.9	9.4
Dividends		–	–	120.0	–
Rental revenue		3.2	0.8	–	–
Other revenue		21.5	25.0	3.1	3.2
Total other revenue		27.0	28.2	128.0	12.6
TOTAL REVENUE		4,327.6	4,032.8	128.0	12.6
(c) Other income					
Net gains on disposal of property, plant and equipment		5.1	4.4	–	–
Net gain on foreign currency derivatives not qualifying as hedges		1.8	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		6.9	10.8	–	–
TOTAL INCOME		4,334.5	4,043.6	128.0	12.6
(i) Comprised of					
Gain on financial liability recorded at fair value		17.0	8.4	–	–
Loss on cross-currency interest rate swap at fair value		(17.3)	(8.3)	–	–
		(0.3)	0.1	–	–
(d) Profit from ordinary activities is after charging the following expenses:					
Manufacturing expenses		96.4	93.0	–	–
Distribution expenses		107.6	106.0	–	–
Marketing expenses		127.3	130.6	–	–
Administrative expenses		204.7	205.6	3.1	3.2
Total operating expenses excluding finance costs		536.0	535.2	3.1	3.2

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. PROFIT AND LOSS ITEMS (CONTINUED)

	Note	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	PARENT 2007 $m	PARENT 2006 $m
(e) Finance costs					
Interest expense related to:					
Bank loans		64.3	51.7	–	–
Interest paid to controlled entities		–	–	2.1	–
Finance leases		6.4	8.8	–	–
Restoration and rehabilitation provision discount adjustment		0.8	0.6	–	–
		71.5	61.1	2.1	–
Less: Borrowing costs capitalised [1]		(15.7)	(4.4)	–	–
Total finance costs		55.8	56.7	2.1	–

(1) weighted average interest rate of 7.0% (2006: 6.3%).

	Note	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	PARENT 2007 $m	PARENT 2006 $m
(f) Depreciation, amortisation, foreign exchange differences and other items included in the income statement					
Depreciation of property, plant and equipment					
Buildings		9.6	9.3	–	–
Plant and equipment		66.9	63.6	–	–
Leased assets		8.0	11.0		
Amortisation of mine development expenditure		1.9	0.8	–	–
Amortisation of finite-life intangible assets		9.9	9.3	–	–
Bad debts written off		2.1	1.8	–	–
Write down of inventory to net realisable value		5.6	7.3	–	–
Minimum operating lease rentals		55.3	44.8	–	–
Research and development costs		64.7	72.1	–	–
Net loss on qualifying fair value hedges through profit or loss (i)		0.3	–	–	–
(g) Employee benefits expense					
Included in employee benefits expense are the following items:					
Defined contribution company contributions		36.4	32.1	–	–
Defined benefit plan expense	18	14.1	15.6	–	–
Employee provisions		85.0	84.4	–	–
Share-based payments expense		2.3	1.9	–	–

NOTE 4. INCOME TAX

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $m
(a) Income Statement				
Current income tax charge	73.7	69.6	0.8	2.8
Under/(over) provided in prior years	(3.4)	(6.2)	(0.8)	0.7
Deferred tax relating to the origination and reversal of temporary differences	(5.1)	(18.5)	–	–
Income tax expense reported in the income statement	65.2	44.9	–	3.5
(b) Statement of Changes in Equity				
Deferred tax related to items charged/(credited) to Equity				
Net gain on revaluation of cash flow hedges	(1.3)	2.4	–	–
Share-based payment	0.1	(0.1)	–	–
Total deferred tax charged to Equity	(1.2)	2.3	–	–
(c) Reconciliation of income tax expense to prima facie tax payable				
Profit before tax	284.1	246.0	122.8	9.4
Prima facie income tax expense calculated at 30% (2006: 30%)	85.2	73.8	36.8	2.8
Adjustments in respect of income tax expense of previous years	(3.4)	(6.2)	(0.8)	0.7
Share of net profit of associate	(1.4)	(0.1)	–	–
Franking credits on dividends received	–	–	(36.0)	–
Research and development allowance	(4.8)	(4.2)	–	–
Capital gains non-taxable	–	(1.1)	–	–
Non-deductible expenses	0.3	0.5	–	–
Other items	(2.3)	(3.1)	–	–
Difference in overseas tax rates	1.1	1.2	–	–
Reduction in deferred tax liability upon further reset tax values as a result of entry into tax consolidation (f)	–	(15.9)	–	–
Derecognition of deferred tax liabilities as a result of disposal of shares (h)	(9.5)	–	–	–
Income tax expense reported in the income statement	65.2	44.9	–	3.5
(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	115.3	121.2	–	–
Stores and spares	8.7	9.6	–	–
Deferred charges	12.1	9.0	–	–
Share-based payments	1.3	1.5	–	–
Derivative financial instruments	5.2	2.2	–	–
	142.6	143.5	–	–
Deferred tax assets				
Employee provisions (including retirement benefit obligations)	51.9	50.7	–	–
Other provisions	5.4	5.5	–	–
Inventory provisions	4.0	5.4	–	–
Investments	1.1	1.1	1.1	1.1
Other items	2.1	1.2	–	–
Property, plant and equipment	8.0	8.0	–	–
Derivative financial instruments	1.9	1.0	–	–
	74.4	72.9	1.1	1.1

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. INCOME TAX (CONTINUED)

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $m
(e) Deferred tax amounts recognised in the Income Statement				
Deferred tax liabilities				
Property, plant and equipment	5.9	12.8	–	–
Stores and spares	(0.5)	0.3	–	–
Deferred charges	(3.1)	(1.5)	–	–
Share-based payments	0.1	0.1	–	–
Derivative financial instruments	(1.7)	0.2	–	–
	0.7	11.9	–	–
Deferred tax assets				
Employee provisions (including retirement benefit obligations)	3.9	3.2	–	–
Other provisions	(0.1)	(2.5)	–	–
Inventory provisions	(1.4)	0.1	–	–
Investments	–	–	1.1	1.1
Other items	1.1	0.6	–	–
Property, plant and equipment	–	4.2	–	–
Derivative financial instruments	0.9	1.0	–	–
	4.4	6.6	1.1	1.1

At 30 June 2007, there is no recognised or unrecognised deferred income tax liability (2006: $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.

(f) Tax consolidation

OneSteel Limited and its wholly-owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. OneSteel Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the probability of default is remote.

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 the further reset of tax values of certain assets in subsidiaries with a corresponding reduction in deferred tax liabilities and recognition of deferred tax assets.

(g) Tax effect accounting by members of the tax consolidated group

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The OneSteel Group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) assumed from controlled entities in the tax consolidated group.

The amounts receivable or payable under the tax sharing agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

(h) Derecognition of deferred tax liabilities as a result of disposal of shares

During the year ended 30 June 2007 a tax benefit of $9.5m was recognised on derecognition of deferred tax liabilities. This was the result of the disposal of shares in a controlled entity, P&T JV Subsidiary Co Pty Ltd to Australian Tube Mills Pty Ltd on formation of the joint venture between OneSteel Limited and Smorgon Steel Group Limited.

NOTE 5. EARNINGS PER SHARE

	CONSOLIDATED	
	2007 $m	2006 $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	207.0	187.5
Earnings used in calculating basic and diluted earnings per share	207.0	187.5
	NUMBER OF SHARES	
(b) Number of ordinary shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	569,519,743	563,477,532
Dilutive effect of executive share options [(1)]	365,848	355,447
Dilutive effect of employee compensation shares	3,110,498	3,146,736
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	572,996,089	566,979,715
On operating activities before the derecognition of deferred tax liabilities on disposal of shares in controlled entity [(2)]		
Basic earnings per share (cents per share)	34.68	
Diluted earnings per share (cents per share)	34.47	
On operating activities before the benefit of tax consolidation [(3)]		
Basic earnings per share (cents per share)		30.45
Diluted earnings per share (cents per share)		30.26

(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 derecognition of deferred tax liability on disposal of shares in controlled entity

The calculation of earnings per share before the impact of the derecognition of deferred tax liability on disposal of shares in controlled entity was based on earnings of $197.5m arising from operating activities. The impact of derecognition on earnings was an increase of $9.5m.

(3) Impact of 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 tax consolidation impact on earnings was an increase of $15.9m.

Issues after 30 June 2007

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

NOTE 6. RECEIVABLES

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $m
Current				
Trade debtors [(1)]	575.0	603.5	–	–
Less: Provision for doubtful debts	(2.9)	(2.8)	–	–
	572.1	600.7	–	–
Non-trade debtors	68.8	34.4		
Interest-bearing loan to joint venture entity [(2)]	–	0.3	–	–
Loan to controlled entity [(3)]	–	–	–	153.7
Tax related balances with controlled entities	–	–	32.9	24.8
	640.9	635.4	32.9	178.5

(1) Trade debtors (excluding Metalcard receivables within the Australian Distribution operations) are non interest-bearing and are generally on 30 day terms.

$22.1m (2006: $26.6m) 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 11.75% (2006 11.2%).

(2) An interest-bearing loan at an average interest rate throughout 2006 of 6.45%

(3) The parent entity loan to its controlled entity was interest bearing at an average rate throughout the 2006 of 5.04%.

Fair values

The carrying amount of the Group's receivables approximate their fair value.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $m
Current Assets				
Foreign exchange contracts [3]	0.3	3.2	–	–
Non-current Assets				
Interest rate swaps [1]	9.7	4.2	–	–
Current Liabilities				
Foreign exchange contracts [3]	2.7	–	–	–
Non-current Liabilities				
Cross-currency interest rate swaps [2]	71.0	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 2007, the Group held 14 interest rate swap contracts (2006: 13), 8 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 remaining interest rate swaps have a notional amount of $270.0m and pay a fixed interest rate of of 5.66% 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 2007, a net unrealised gain of $9.7m, with a related deferred tax charge of $2.9m 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.

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

At 30 June 2007, the Group had a series of cross-currency interest rate swaps in place with a notional amount of USD128m (2006: USD128m) 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 USD68m and a twelve-year tranche USD60m – 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, $1.8m net liability (2006: $1.2m net assets) 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.

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED

	2007	2006	2007		2006	
	Average exchange rate		Buy $m	Sell $m	Buy $m	Sell $m
CURRENCY						
United States Dollar						
0–3 months	0.83	0.75	82.7	15.3	82.2	–
Over 3–12 months	0.83	0.74	3.7	–	37.9	–
			86.4	15.3	120.1	–
Japanese Yen						
0–3 months	100.67	84.75	1.7	–	1.8	–
Over 3–12 months	–	82.87	–	–	1.5	–
			1.7	–	3.3	–
New Zealand Dollar						
0–3 months	1.12	1.20	–	7.6	1.2	8.7
Over 3–12 months	–	–	–	–	–	–
			–	7.6	1.2	8.7
Euro						
0–3 months	0.61	0.60	16.0	–	9.0	–
Over 3–12 months	0.59	0.60	4.2	–	2.7	–
1–2 years	–	0.59	–	–	1.9	–
			20.2	–	13.6	–
Swedish Kroner						
0–3 months	–	5.48	–	–	2.3	–
			–	–	2.3	–
Pounds Sterling						
0–3 months	–	0.40	–	–	0.4	–
Over 3–12 months	0.42	–	0.5	–	–	–
			0.5	–	0.4	–
Canadian Dollars						
Over 3–12 months	0.90	–	0.1	–	–	–
			0.1	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. INVENTORIES

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $m
Current				
Raw materials – at cost	131.9	116.4		
Work in progress – at cost	93.1	59.0		
Finished goods				
At net realisable value	4.4	3.6	–	–
At cost	527.9	498.1	–	–
	532.3	501.7	–	–
Stores, spares and other				
At net realisable value	–	1.0	–	–
At cost	79.0	80.8	–	–
	79.0	81.8	–	–
Total inventories				
At net realisable value	4.4	4.6	–	–
At cost	831.9	754.3	–	–
	836.3	758.9	–	–

NOTE 9. OTHER FINANCIAL ASSETS

		CONSOLIDATED		PARENT	
	Note	2007 $m	2006 $m	2007 $m	2006 $m
Non-current					
Investments in controlled entities, net of impairment loss	26	–	–	1,100.2	1,081.5
Investment in unlisted joint venture entities – at cost (1)	10	–	–	233.0	8.1
Less: Provision for diminution		–	–	(1.0)	(1.0)
Investment in partnership (2)		6.0	7.1	–	–
		6.0	7.1	1,332.2	1,088.6

(1) On 2 March 2007, OneSteel disposed of the shares in P&T JV Subsidiary Co Pty Ltd as consideration for 225m $1 shares in Australian Tube Mills Pty Ltd, a joint venture between OneSteel Limited and Smorgon Steel Group Limited's structural pipe and tube businesses. The profit on disposal of the shares of P&T JV Subsidiary Co Pty Ltd was eliminated in full in the consolidated financial statements (refer to Note 10). The original investment is carried at cost as the directors consider the disposal to be integral to the merger with Smorgon Steel Group Limited.

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

Fair values

The carrying amount of the Group's other financial assets approximate their fair value.

NOTE 10. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	CONSOLIDATED	
	2007 $m	2006 $m
Investment in jointly controlled entities		
Bekaert Australia Steel Cord Pty Ltd [(1)]	6.8	7.3
Australian Tube Mills Pty Ltd [(2)]	94.0	–
	100.8	7.3

(1) OneSteel Limited has a 50% ownership interest and voting power in Bekaert Australia Steel Cord Pty Limited (2006: 50%), a company incorporated in Australia involved in the manufacture of steel wire products. Its balance date is 31 December.

(2) OneSteel Limited has a 50% ownership interest and voting power in Australian Tube Mills Pty Limited (2006: nil), a company incorporated in Australia involved in the manufacture of structural pipe and tube product. Its balance date is 30 June.

There were no impairment losses relating to the investment and no commitments or contingencies relating to either jointly controlled entity.

	2007 $m	2006 $m
Share of jointly controlled entities' income, expenses and results		
Income	101.6	16.4
Expenses	(94.7)	(15.9)
Net profit before income tax	6.9	0.5
Income tax expense attributable to net profit	(2.1)	(0.3)
Net profit after income tax	4.8	0.2
Share of jointly controlled entities' assets and liabilities		
Current assets	120.9	5.9
Non-current assets	197.3	9.5
Current liabilities	(74.6)	(2.7)
Non-current liabilities	(6.7)	(5.4)
Net assets	236.9	7.3

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED				
	Land $m	Buildings $m	Plant and Equipment $m	Leased assets $m	Total $m
2007					
Movements in carrying amounts					
Cost					
Carrying value at the beginning of the year	62.3	294.7	1,580.3	111.7	2,049.0
Additions	0.2	22.0	310.1	–	332.3
Transfers from leased assets to plant and equipment (1)	–	–	34.4	(43.3)	(8.9)
Transfers from plant and equipment to leased assets (2)	–	–	(37.6)	20.7	(16.9)
Disposals	(3.7)	(1.3)	(113.8)	(15.9)	(134.7)
Net foreign currency differences on translation of foreign operations	0.5	1.8	7.0	–	9.3
Carrying value at the end of the year	59.3	317.2	1,780.4	73.2	2,230.1
Accumulated depreciation					
Carrying value at the beginning of the year	–	(109.0)	(583.5)	(16.8)	(709.3)
Depreciation	–	(9.6)	(66.8)	(8.0)	(84.4)
Transfers from leased assets to plant and equipment (1)	–	–	–	8.9	8.9
Transfers from plant and equipment to leased assets (2)	–	–	16.9	–	16.9
Disposals	–	0.5	74.2	5.0	79.7
Net foreign currency differences on translation of foreign operations	–	(0.4)	(4.4)	–	(4.8)
Carrying value at the end of the year	–	(118.5)	(563.6)	(10.9)	(693.0)
Net book value 30 June 2007	59.3	198.7	1,216.8	62.3	1,537.1
2006					
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

(1) During the year, leased assets with a book written down value of $34.4m were repurchased by OneSteel.

(2) During the year, plant and machinery with a book written down value of $20.7m was entered into a sale and leaseback agreement.

NOTE 12. MINE DEVELOPMENT EXPENDITURES

	CONSOLIDATED		
	Deferred stripping $m	Pre-production expenditure $m	Total $m
2007			
Movements in carrying amounts			
Cost			
Carrying value at the beginning of the year	27.6	36.5	64.1
Net deferral	11.4	–	11.4
Other movements	–	(3.6)	(3.6)
Additions	–	0.2	0.2
	39.0	33.1	72.1
Accumulated amortisation			
Carrying value at the beginning of the year	–	(3.9)	(3.9)
Amortisation	–	(1.9)	(1.9)
	–	(5.8)	(5.8)
Net carrying amount 30 June 2007	39.0	27.3	66.3
2006			
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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13. OTHER INTANGIBLES AND GOODWILL

	CONSOLIDATED		
	Goodwill $m	Software development costs $m	Total $m
2007			
Movements in carrying amounts			
Cost			
Carrying value at the beginning of the year	192.9	50.0	242.9
Additions	–	1.0	1.0
Disposals	–	(0.6)	(0.6)
Business assets acquired	1.8	–	1.8
Net foreign currency differences on translation of foreign operations	1.6	–	1.6
	196.3	50.4	246.7
Accumulated amortisation and impairment			
Carrying value at the beginning of the year	–	(22.7)	(22.7)
Transfers	–	0.2	0.2
Amortisation	–	(9.9)	(9.9)
	–	(32.4)	(32.4)
Net carrying amount 30 June 2007	196.3	18.0	214.3
2006			
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

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 12.4% (2006: 12.8%), 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% (2006: 2%). 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 12.4% (2006: 12.8%), 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% (2006: 2%). 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 2007 and 30 June 2006

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

	Manufacturing $m	Distribution $m	International Distribution $m	Total $m
2007				
Carrying amount of goodwill	–	181.9	14.4	196.3
2006				
Carrying amount of goodwill	–	180.1	12.8	192.9

NOTE 14. OTHER ASSETS

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $m
Current				
Deferred charges	8.3	9.8	–	–
	8.3	9.8	–	–
Non-current				
Deferred charges [1]	15.6	0.3	–	–
	15.6	0.3	–	–

(1) Primarily comprised of deferred transaction costs incurred in relation to the merger with Smorgon Steel Group Limited.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15. PAYABLES

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $m
Trade creditors [1]	563.0	474.2	–	–
Other creditors and accruals	72.1	71.2	–	–
	635.1	545.4	–	–

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

Fair values

The carrying amount of the Group's payables approximate their fair value.

NOTE 16. INTEREST-BEARING LIABILITIES

	Note	CONSOLIDATED		PARENT	
		2007 $m	2006 $m	2007 $m	2006 $m
Current					
Finance lease liability [1]	24	20.0	29.7	–	–
Loan from controlled entity	27	–	–	43.9	–
Short-term unsecured borrowings					
Bank loans [2]		49.9	24.4	–	–
Bank loans [3]		–	6.0	–	
		69.9	60.1	43.9	–
Non-current					
Finance lease liability [1]	24	46.3	59.8	–	–
Long-term unsecured borrowings					
Bank loans [4]	7, 31	572.8	381.2	–	–
US Private placement [5]	7, 31	140.3	157.3	–	–
		759.4	598.3	–	–

(a) Financing Arrangements

	CONSOLIDATED		
	Accessible $m	Drawn Down $m	Unused $m
2007			
US Private placement [5]	140.3	140.3	–
Bank loan facilities [6]	1,080.6	572.8	507.8
Bank overdraft [7]	15.3	–	15.3
Total financing facilities	1,235.2	713.1	523.1
2006			
US Private Placement	157.3	157.3	–
Bank loan facilities	1,063.3	405.6	657.7
Bank overdraft	15.0	–	15.0
Total financing facilities	1,235.6	562.9	672.7

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. In 2006, finance lease liabilities also included the purchase of mining equipment. The sale and leaseback arrangement has a five year life. The average discount rate implicit in the leases is 8.5% (2006: 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 7.7% (2006: 7.4%).

(3) Represents short-term borrowings at an average interest rate of 5.8% (2006).

(4) Bank loans consist of the following:

(i) Drawdowns of $560m of loans provided to the OneSteel Group by a syndicate of banks. The loans have an average interest rate of 6.8% with repayment dates of September 2009 ($260m) and September 2010 ($300m). The bank loans are subject to the terms and conditions of the loan agreements with the banks.

(ii) The balance of the bank loans comprises $13.7m (NZD15m) 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 ($4.6m/NZD5m) and March 2010 ($9.1m/NZD10m).

(5) US Private Placement undertaken in April 2003 (USD128m). This consists of a fixed interest seven year tranche (USD68m) repayable in April 2010 and twelve year tranche (USD60m) 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) Revolving credit facilities available in three tranches – a three year tranche ($300m) to be repaid September 2010, 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 one year.

The balance of the facility comprises $9.1m (NZD$10m) subject to annual review, $28.5m (NZD$35m) expiring March 2008, $28.5m (NZD$35m) expiring March 2010 provided to the Steel and Tube Holdings Group.

(7) Expiry date October 2007.

Fair values

The carrying amount of the Group's current and non-current borrowings approximate their fair value. The fair values have been calculated by discounting the expected future cash flows at prevailing interest rates.

NOTE 17. PROVISIONS

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $m
Current				
Employee benefits	161.9	152.6	–	–
Restoration and rehabilitation (1)	0.4	0.4	–	–
Customer claims (2)	6.6	7.5	–	–
	168.9	160.5	–	–
Non-current				
Employee benefits	16.5	22.4	–	–
Restoration and rehabilitation (1)	9.8	12.6	–	–
	26.3	35.0	–	–

	Customer claims $m	Restoration and rehabilitation $m	Total $m
2007			
Movements in carrying amounts			
Carrying value at the beginning of the year	7.5	13.0	20.5
Additional amounts provided	0.1	–	0.1
Utilised	(1.0)	–	(1.0)
Reversal of unused amounts	–	(3.6)	(3.6)
Unwinding of discount to present value	–	0.8	0.8
Carrying value at the end of the year	6.6	10.2	16.8

(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 calculated using a discount rate of 6.0% (2006: 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.

NOTES TO THE FINANCIAL STATEMENTS

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	
	2007 $m	2006 $m
Net defined benefit expense		
Current service cost	14.8	17.6
Interest cost on benefit obligation	16.5	13.3
Expected return on plan assets	(23.3)	(19.8)
Salary sacrifice contributions	6.1	4.5
Net actuarial (gains)/losses recognised in the year	–	–
Past service cost	–	–
Effect of curtailments and settlements	–	–
Net defined benefit expense	14.1	15.6
Actual return on plan assets	57.2	60.1
Defined benefit liability included in the balance sheet		
Fair value of plan assets	393.7	348.2
Present value of defined benefit obligation	(356.5)	(340.8)
Surplus/(Deficit) at the end of the year	37.2	7.4
Net actuarial (gains)/losses not yet recognised	(49.5)	(20.7)
Net defined benefit liability – non-current	(12.3)	(13.3)

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 (CONTINUED)

	CONSOLIDATED	
	Defined benefits	
	2007 $m	2006 $m
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	340.8	316.6
Interest cost	16.5	13.3
Current service cost	14.8	17.6
Contributions by plan participants	6.7	5.2
Benefits paid	(27.4)	(28.0)
Actuarial losses on obligation	5.1	16.1
Closing defined benefit obligation	356.5	340.8
Changes in the fair value of plan assets		
Opening fair value of plan assets	348.2	302.1
Expected return	23.3	19.8
Contributions by employer	15.1	13.3
Contributions by plan participants	0.6	0.7
Benefits paid	(27.4)	(28.0)
Actuarial gains	33.9	40.3
Fair value of plan assets	393.7	348.2

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

	%	%
Australian equities	37.0	39.0
International equities	25.0	23.7
Property	8.0	8.6
Bonds	27.0	28.7
Hedge funds	3.0	–

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	
	2007 % pa	2006 % pa
Principal actuarial assumption		
Discount rate	6.3	5.8
Expected rate of return on assets	7.8	7.0
Future salary increases	5.0	5.0
CPI Inflation	3.2	3.0

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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 2007.

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.

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 2008 are $8.9m (2006: $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

	Defined benefits	
	2007 $m	2006 $m
Historic summary		
Defined benefit plan obligation	356.5	340.8
Plan assets	393.7	348.2
Surplus/(deficit)	37.2	7.4
Experience adjustments arising on plan liabilities	(9.3)	(18.2)
Experience adjustments arising on plan assets	33.9	40.3

NOTE 19. CONTRIBUTED EQUITY

	Note	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	PARENT 2007 $m	PARENT 2006 $m
Contributed equity					
Issued capital (a)		1,163.8	1,134.4	1,163.8	1,134.4
Employee compensation shares (b)		(10.2)	(8.2)	(10.2)	(8.2)
Total contributed equity		1,153.6	1,126.2	1,153.6	1,126.2
(a) Share capital					
Number of ordinary shares: 575,734,010 (2006: 569,252,175)					
Issued and paid-up		1,163.8	1,134.4	1,163.8	1,134.4
(b) Employee compensation shares					
Number of ordinary shares: 3,344,814 (2006: 3,042,907)					
Shares held in Trust under equity-based compensation arrangements		(10.2)	(8.2)	(10.2)	(8.2)

	Note	Number of Ordinary shares 2007	Number of Ordinary shares 2006	Value of Ordinary shares 2007 $m	Value of Ordinary shares 2006 $m
Movements in issued capital for the period					
On issue at the beginning of the year		569,252,175	563,821,883	1,134.4	1,115.0
Issued during the year:					
From the exercise of options [(1),(3)]		35,725	396,314	–	0.4
Under a Dividend Reinvestment Plan [(2)]		6,446,110	5,033,978	29.4	19.0
On issue at the end of the year		575,734,010	569,252,175	1,163.8	1,134.4
Movements in employee compensation shares for the period					
Held in Trust at the beginning of the year		(3,042,907)	(2,999,565)	(8.2)	(7.1)
Shares vested and transferred to Other Reserves	21	13,734	689,367	–	1.4
Shares purchased on-market		(315,641)	(732,709)	(2.0)	(2.5)
Held in Trust at the end of the year		(3,344,814)	(3,042,907)	(10.2)	(8.2)

(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 $4.21 (October 2006) and $5.17 (April 2007).

(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 2007 $m	CONSOLIDATED 2006 $m	PARENT 2007 $m	PARENT 2006 $m
Balance at the beginning of the year	316.1	214.2	112.7	188.8
First time adoption of AASB 139 Financial Instruments: Recognition and Measurement	–	(3.6)	–	–
Net profit	207.0	187.5	122.8	5.9
Dividends paid	(102.8)	(82.0)	(102.8)	(82.0)
Balance at the end of the year	420.3	316.1	132.7	112.7

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21. RESERVES

		CONSOLIDATED		PARENT	
	Note	2007 $m	2006 $m	2007 $m	2006 $m
Foreign currency translation reserve		2.9	(3.3)	–	–
Cash flow hedge reserve		5.5	3.9	–	–
Share based payments reserve		4.4	2.0	3.9	1.5
		12.8	2.6	3.9	1.5
(a) Foreign currency translation reserve					
Balance at the beginning of the year		(3.3)	3.0	–	–
Exchange fluctuations on overseas net assets		6.2	(6.3)	–	–
Balance at the end of the year		2.9	(3.3)	–	–
(b) Cash flow hedge reserve					
Balance at the beginning of the year		3.9	–	–	–
Application of AASB 132 and 139		–	(1.7)	–	–
Gains/(losses) taken to equity		6.3	5.6	–	–
Transferred to profit		(1.9)	–	–	–
Transferred to initial carrying amount of hedged items		(2.8)	–	–	–
Balance at the end of the year		5.5	3.9	–	–
(c) Share based payments reserve					
Balance at the beginning of the year		2.0	1.4	1.5	1.0
Expense recognised		2.4	2.0	–	–
Contribution to subsidiary		–	–	2.4	1.9
Transfer from employee compensation shares	19	–	(1.4)	–	(1.4)
Balance at the end of the year		4.4	2.0	3.9	1.5

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:

	On ordinary shares $m	Dividend per ordinary share cents
2007		
Interim fully franked dividend for 2007, paid 19 April 2007	45.9	8.0
Final fully franked dividend for 2006, paid 19 October 2006	56.9	10.0
	102.8	18.0
2006		
Interim fully franked dividend for 2006, paid 20 April 2006	39.7	7.0
Final fully franked dividend for 2005, paid 20 October 2005	42.3	7.5
	82.0	14.5

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 10.5 cents per fully paid ordinary share (2006: 10 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 18 October 2007 but not recognised as a liability at year end is $91.6m (2006: $56.9m).

Dividend Franking

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

	PARENT	
	2007 $m	2006 $m
The amount of franking credits available for the subsequent financial year, represented by the franking account balance at 30% are:	13.1	13.4

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $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	59.5	19.6	–	–
(b) Reconciliation of profit after tax to net cash flows from operations				
Profit after tax	218.9	201.1	122.8	5.9
Adjusted for non-cash items				
Depreciation and amortisation	96.2	94.0	–	–
Net gains on disposal of property, plant and equipment	(5.1)	(4.4)	–	–
Share of net profit of investment accounted for using the equity method	(4.8)	(0.2)	–	–
Net fair value change on derivatives	(2.3)	0.9	–	–
Share based payment expense	2.3	1.9	–	–
Finance costs	1.4	0.7	–	–
Changes in assets and liabilities net of effects of purchase and sale of controlled entities and businesses				
(Increase)/decrease in receivables	(2.6)	4.6	(126.0)	(8.3)
(Increase)/decrease in inventories	(121.5)	88.2	–	–
(Increase)/decrease in deferred tax balances	(4.1)	(8.1)	–	–
(Increase)/decrease in other assets	(26.2)	(5.3)	–	–
Increase/(decrease) in tax provisions	1.7	(0.7)	4.3	10.2
Increase/(decrease) in payables	112.1	(118.2)	–	–
Increase/(decrease) in provisions	10.5	(3.7)	–	–
Net cash flow from operations	276.5	250.8	1.1	7.8

(c) Non-cash investing and financing activities

(1) During the year, dividends of $29.4m (2006: $19.0m) were paid via the issue of shares under a dividend reinvestment plan (refer Note 19).

(2) On 2 March 2007, a joint venture was formed between OneSteel Limited and Smorgon Steel Group Limited's structural pipe and tube businesses. OneSteel Limited acquired a 50% interest in Australian Tube Mills Pty Ltd by contributing its structural pipe and tube manufacturing business as consideration for 225m $1 shares in Australian Tube Mills. Refer to Note 10.

(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	
	2007 $m	2006 $m
Assets and consideration given		
Minor business acquisitions		
Cash consideration paid	2.6	13.2
The carrying amounts of assets acquired by major class are: (1)		
Inventories	0.8	10.5
Plant and equipment	–	0.9
Goodwill arising on acquisition	1.8	1.8
	2.6	13.2
Outflow of cash on minor business acquisitions		
Cash outflow	2.6	13.2

The businesses acquired during the year were as follows:

Name of business	Date of acquisition
Premier Steel Pty Ltd	15-Jul-06
Metaland Lake Macquarie Pty Ltd	25-Jun-07

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

NOTE 24. COMMITMENTS

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $m
Capital commitments				
Commitments contracted for at reporting date but not recognised as liabilities are as follows:				
Property, plant and equipment				
Within one year	35.9	42.5	–	–
After one year but not more than five years	–	–	–	–
Longer than five years	–	–	–	–
Total capital commitments	35.9	42.5	–	–
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	34.0	32.0	–	–
After one year but not more than five years	79.8	68.5	–	–
Longer than five years	31.9	26.3	–	–
Total operating lease commitments	145.7	126.8	–	–
Finance lease commitments				
The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of 5 years.				
Future minimum lease payments under finance leases and hire purchase contracts are as follows:				
Within one year	25.3	38.0		
After one year but not more than five years	49.6	68.8	–	–
Minimum lease payments	74.9	106.8	–	–
Less: Future finance charges	(8.6)	(17.3)	–	–
Total lease liability	66.3	89.5	–	–
Lease liability – current	20.0	29.7	–	–
Lease liability – non-current	46.3	59.8	–	–
Total lease liability	66.3	89.5	–	–

The weighted average interest rate implicit in the leases is 8.5% (2006: 9.6%)

NOTES TO THE FINANCIAL STATEMENTS

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	
	2007 $m	2006 $m	2007 $m	2006 $m
Guarantees and indemnities				
Bank guarantees covering:				
Workers' compensation self-insurance licences (1)	33.7	35.8	33.7	35.8
Performance of contracts	5.6	18.8	–	–

(1) In Australia, OneSteel Limited has given guarantees to various state workers' compensation authorities as a pre-requisite for self-insurance. Of this amount, a total of $18.4m (June 2006: $21.6m) has been provided for in the consolidated financial statements as recommended by independent actuarial advice.

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. Other than amounts already provided for in the accounts, the OneSteel Board does not expect the outcome of the litigation 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

OneSteel made three claims on its insurer and reinsurers under its 2004 and 2005 policies for property damage and business interruption losses arising from disruptions to its blast furnace operations at Whyalla during the 2005 financial year.

For the two claims made under the 2004 policy, OneSteel's reinsurers have offered conditional indemnity and made a progress payment of $5 million during the 2006 financial year. One of OneSteel's reinsurers (responsible for 6.5% of the risk) has disputed indemnity for the third claim and purported to avoid its obligations under the 2005 policy. The rest of OneSteel's reinsurers have reserved their position on indemnity arising from the third claim and are continuing to investigate and assess OneSteel's losses for all three claims.

OneSteel intends to pursue its claims against its insurer and reinsurers in accordance with all of its rights under its insurance policies.

Further proceeds from these claims will not be booked in OneSteel's financial statements until these proceeds can be estimated reliably.

NOTE 26. CONTROLLED ENTITIES

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

ENTITY	Note	Place of incorporation	% of shares held 2007	2006
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
Certified Roofing Specialists Limited		New Zealand	50.3	50.3
Steel & Tube Holdings Limited		New Zealand	50.3	50.3
Steel & Tube New Zealand Limited		New Zealand	50.3	50.3
David Crozier Limited		New Zealand	50.3	50.3
EMCO Group Limited		New Zealand	50.3	50.3
NZMC Limited		New Zealand	50.3	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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26. CONTROLLED ENTITIES (CONTINUED)

Deed Of Cross Guarantee
Financial information for the class order closed group

	CLOSED GROUP	
	2007 $m	2006 $m
Consolidated Income Statement		
Profit before income tax	254.0	205.0
Income tax expense	(49.5)	(27.8)
Profit for the year	204.5	177.2
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	269.1	173.9
Profit for the year	204.5	177.2
Dividends paid	(102.8)	(82.0)
Retained earnings at the end of the year	370.8	269.1
Consolidated Balance Sheet		
Current assets		
Cash and cash equivalents	163.8	100.8
Receivables	1,437.3	1,246.9
Inventories	753.5	694.3
Other assets	7.0	9.1
Total current assets	2,361.6	2,051.1
Non-current assets		
Other financial assets	140.0	47.2
Property, plant and equipment	1,494.1	1,304.5
Mine development expenditure	66.3	60.2
Intangibles	199.9	207.4
Deferred tax assets	69.4	69.1
Other assets	15.6	0.3
Total non-current assets	1,985.3	1,688.7
TOTAL ASSETS	4,346.9	3,739.8
Current liabilities		
Payables	597.7	514.8
Interest-bearing liabilities	1,803.0	1,394.5
Tax liabilities	32.9	27.1
Other provisions	163.5	155.6
Total current liabilities	2,597.1	2,092.0
Non-current liabilities		
Interest-bearing liabilities	46.3	59.8
Deferred tax liabilities	137.3	141.3
Other provisions	38.6	48.3
Total non-current liabilities	222.2	249.4
TOTAL LIABILITIES	2,819.3	2,341.4
NET ASSETS	1,527.6	1,398.4
Equity		
Contributed equity	1,153.6	1,126.2
Retained earnings	370.8	269.1
Reserves	3.2	3.1
TOTAL EQUITY	1,527.6	1,398.4

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:

- loans were advanced
- interest was received and paid
- 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	2007 $000s	2006 $000s	2007 $000s	2006 $000s
Loans to/from controlled entities				
Current receivables (tax sharing agreement) [(3)]	–	–	32,900	24,800
Non-current receivables [(1)]	–	–	–	153,674
Non-current liabilities [(2)]	–	–	43,858	–
Interest received [(1)]	–	–	4,943	9,423
Interest paid [(2)]	–	–	2,061	–
Other transactions				
Management fees received	–	–	3,051	3,190
Management fees paid	–	–	(3,051)	(3,190)
Dividends received	–	–	120,000	–
(b) Transactions with jointly controlled entities				
Sale of wire products	813	942	–	–
Services rendered	2,461	–	–	–
Rental revenue	725	–	–	–
Services received	50	–	–	–
Purchase of structural pipe and tube	68,913	–	–	–
Trade receivables	146	91	–	–
Trade payables	37,303	–	–	–
Loan advances [(4)]	8,250	300	–	–
Loan repaid	8,250	–	–	–
Deposits received [(5)]	28,000	–	–	–
Deposits repaid	28,000	–	–	–

(1) An interest–bearing loan with an average interest rate of 5.5% (2006: 5.04%).
(2) An interest bearing loan with an average interest rate of 6.7% (2006: 6.29%).
(3) Tax related balances with wholly-owned Australian controlled entities under a tax sharing agreement arising from tax consolidation.
(4) An interest bearing loan at an average interest rate of 7.45% (2006: 6.45%).
(5) An interest bearing depositt at an average interest rate of 6.0%.

These transactions were undertaken on commercial terms and conditions.

(c) Ultimate Controlling Entity

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2007	2006
The number of employees as at 30 June:	7,526	7,527
	$m	$m
The aggregate employee benefit liability is comprised of:		
Provisions (current)	161.9	152.6
Provisions (non-current)	28.8	35.7
Total employee benefits	190.7	188.3
(a) Self-insurance workers' compensation provision		
Obligations under self-insurers workers' compensation licences included in provision for employee benefits		
New South Wales	12.4	14.8
Queensland	0.5	0.7
Victoria	2.5	3.0
South Australia	2.5	2.5
Western Australia	0.5	0.6
Total self-insurance workers' compensation provision	18.4	21.6

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 2007 to eligible employees as at 1 April 2007. 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 2006 and 30 June 2007, 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.

	2007	2006
Total number purchased by employees during the year (000s)	1,187	1,720
Weighted average fair value of shares granted during the period ($)	4.78	3.39

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 retesting 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:

	2007		2006	
	Number	Weighted average fair value	Number	Weighted average fair value
	'000s	$	'000s	$
Outstanding at the beginning of the year	3,043	–	3,000	–
Share rights vested during the year	(14)	–	(689)	–
Share rights purchased during the year	315	4.86	732	2.83
Outstanding at the end of the year	3,344		3,043	

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 2006 and 30 June 2007.

	2007	2006
Dividend yield	3.61% – 3.15%	4.24% – 4.36%
Expected volatility	26%	30%
Risk free interest rate	5.93% – 6.40%	5.14% – 5.70%
Expected life	3 years	3 years
Exercise price	–	–
Weighted average share price at grant date	$5.09 – $5.85	$3.37 – $4.01

(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.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28. EMPLOYEE BENEFITS (CONTINUED)

	2007			2006		
	Number	Weighted average exercise price	Weighted average share price at date of exercise	Number	Weighted average exercise price	Weighted average share price at date of exercise
	'000s	$	$	'000s	$	$
Outstanding at the beginning of the year (1)	496	0.9973	–	892	1.0071	–
Exercised during the period	(36)	0.9653	4.25	(396)	1.0194	3.30
Options forfeited during the period	–	–	–	–	–	–
Outstanding at the end of the year (1),(2)	460	0.9999	–	496	0.9973	–
Exercisable at the end of the year	460	0.9999	–	496	0.9973	–

(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 2007 is between 3 and 4 years, with exercise prices of $0.9258 and $1.0434 (2006: $0.9258 and $1.0434).

Steel & Tube Holdings Limited

In 2007, 28,110 shares (2006: 46,570) were purchased whilst 34,630 were vested in the employee share purchase scheme and 20,000 (2006: 48,000) shares were purchased while 42,456 shares were vested in 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. KEY MANAGEMENT PERSONNEL 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
W J Gately	Corporate General Manager, Human Resources & Safety
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
A Roberts	Executive General Manager, Marketing

NOTE 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Compensation of Key Management Personnel

	CONSOLIDATED		PARENT	
	2007 $	2006 $	2007 $	2006 $
Short-term benefits	9,150,313	7,790,261	8,434,010	7,149,190
Post-employment benefits	534,375	460,220	494,461	423,390
Other long-term benefits	235,757	195,858	–	–
Share-based payments	1,616,400	1,519,570	1,616,400	1,519,570
	11,536,845	9,965,909	10,544,871	9,092,150

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 and its related parties or their 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.

(a) Option holdings of key management personnel

2007	Held at 1 July 2006	Granted as remuneration	Options exercised	Net change other	Held at 30 June 2007	Vested and exercisable at 30 June 2007
Directors						
G J Plummer	90,000	–	–	–	90,000	90,000
Executives						
M R Parry	45	–	–	–	45	45
Total	90,045	–	–	–	90,045	90,045

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(b) Share rights holdings of key management personnel

	Held at 1 July 2006	Granted as remuneration	Vested	Net change other	Held at 30 June 2007	Vesting 3 September 2007	Vesting 6 May 2008	Vesting 8 September 2008	Vesting 3 February 2009	Vesting 2 May 2010
2007										
Directors										
G J Plummer	1,143,126	305,461	–	–	1,448,587	85,086	1,058,040	–	–	305,461
Executives										
A J Reeves	135,982	–	–	–	135,982	85,086	–	50,896	–	–
L J Selleck	121,012	–	–	–	121,012	85,086	–	35,926	–	–
M R Parry	71,725	–	–	–	71,725	23,824	–	47,901	–	–
C R Keast	71,725	–	–	–	71,725	23,824	–	47,901	–	–
A Roberts	60,222	–	–	–	60,222	15,315	–	44,907	–	–
A H Combe	33,207	–	–	–	33,207	–	–	–	33,207	–
W J Gately	75,884	–	–	–	75,884	45,946	–	29,938	–	–
Total	1,712,883	305,461	–	–	2,018,344	364,167	1,058,040	257,469	33,207	305,461

	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
2006									
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

(c) Share holdings of key management personnel

2007	Held at 1 July 2006	Granted as remuneration	On exercise of options	On vesting of shares	Net change other	Held at 30 June 2007
Directors						
P J Smedley	204,647	26,345	–	–	–	230,992
G J Plummer	339,342	–	–	–	–	339,342
R B Davis	15,445	7,025	–	–	–	22,470
E J Doyle	115,559	7,025	–	–	–	122,584
C R Galbraith	87,858	7,025	–	–	–	94,883
P G Nankervis	22,306	8,000	–	–	–	30,306
D A Pritchard	78,417	7,025	–	–	–	85,442
N J Roach	203,632	7,025	–	–	–	210,657
Executives						
N Calavrias	26,259	–	–	–	1,040	27,299
A J Reeves	277,841	–	–	–	5,455	283,296
L J Selleck	292,145	–	–	–	6,149	298,294
M R Parry	43,870	–	–	–	287	44,157
C R Keast	14,267	–	–	–	–	14,267
A Roberts	8,519	–	–	–	(6,975)	1,544
A H Combe	–	–	–	–	–	–
W J Gately	77,541	–	–	–	6,415	83,956
	1,807,648	69,470	–	–	12,371	1,889,489

NOTE 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

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

NOTE 30. AUDITORS' REMUNERATION

	CONSOLIDATED		PARENT	
	2007 $m	2006 $m	2007 $m	2006 $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	929,500	1,042,000	120,000	120,000
Other services in relation to the entity and any other entity in the consolidated group				
Tax compliance[(1)]	1,120,775	788,611	–	–
Assurance related[(1)]	487,917	17,500	–	–
	2,538,192	1,848,111	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	175,644	169,643	–	–
Other services	58,558	50,893	–	–
	234,202	220,536	–	–

(1) Includes services relating to the merger with Smorgon Steel Group Limited.

NOTES TO THE FINANCIAL STATEMENTS

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 to the financial statements.

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.

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 (USD68m) and a twelve-year tranche (USD60m). 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.

NOTE 31. **FINANCIAL INSTRUMENTS** (CONTINUED)

(b) 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.

	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
2007								
Floating interest rate								
Financial assets								
Cash	59.5	–	–	–	–	–	59.5	5.1
Trade receivables	22.1	–	–	–	–	–	22.1	11.8
Financial liabilities								
Bank loans	49.9	–	272.8	300.0	–	–	622.7	6.8
Interest rate swaps [1]	(50.0)	(65.0)	(30.0)	(50.0)	(75.0)	–	(270.0)	5.7
Cross-currency interest rate swaps	–	–	35.8	–	–	35.1	70.9	7.1
Fixed interest rate								
Financial liabilities								
Finance lease liabilities	20.0	21.7	24.6	–	–	–	66.3	8.5
US Private Placement	–	–	75.8	–	–	64.5	140.3	5.2
Interest rate swaps [1]	50.0	65.0	30.0	50.0	75.0	–	270.0	5.4
2006								
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	6.5
Financial liabilities								
Bank loans	30.4	369.0	4.1	8.1	–	–	411.6	6.2
Interest rate swaps [1]	(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 [1]	50.0	50.0	65.0	30.0	50.0	–	245.0	5.4

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) Notional principal amounts

NOTES TO THE FINANCIAL STATEMENTS

NOTE 32. EVENTS AFTER BALANCE SHEET DATE

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

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

On 20 August 2007, OneSteel announced the acquisition of Fagersta Group, Australia's fourth-largest stainless steel distributor.

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

DIRECTORS' DECLARATION

In the directors' opinion:

(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; and

  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

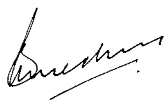
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(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 Standard 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 officer 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
21 August 2007

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of OneSteel Limited
We have audited the accompanying financial report of OneSteel Limited and the entities it controlled during the period, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

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.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

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

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

Independence
In conducting our audit we have met the independence requirements of 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.

Auditor's 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 2007 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and

(b) other mandatory financial reporting requirements in Australia.

2. the consolidated financial statements and notes to the financial report also comply with International Financial Reporting Standards as disclosed in Note 1

3. the remuneration disclosures that are contained in sections A, B, C and E of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures.

Ernst & Young

Michael Wright
Partner

Sydney
21 August 2007