ONESTEEL LIMITED

ABN 63 004 410 833

APPENDIX 4D

HALF YEAR REPORT

6 MONTHS ENDING 31 DECEMBER 2005

ONESTEEL LIMITED

HIGHLIGHTS OF RESULTS AND DIVIDENDS

6 MONTHS ENDING 31 DECEMBER 2005

RESULTS FOR ANNOUNCEMENT TO THE MARKET

				A$ MILLION
SALES REVENUE	**UP**	**5.2%**	**TO**	**1,988.8**
REVENUE FROM ORDINARY ACTIVITIES	**UP**	**5.1%**	**TO**	**2,005.1**
PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS	**UP**	**19.6%**	**TO**	**84.1**
NET PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS	**UP**	**19.6%**	**TO**	**84.1**

DIVIDENDS	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Interim Dividend	**7.0c**	**7.0c**
Previous Corresponding Period	**6.0c**	**6.0c**

RECORD DATE FOR DETERMINING ENTITLEMENTS: 17 MARCH 2006

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

OneSteel Financial Ratios

	AIFRS			AGAAP								
	Dec-05 $m	Jun-05 $m	Dec-04 $m	Jun-04 $m	Dec-03 $m	Jun-03 $m	Dec-02 $m	Jun-02 $m	Dec-01 $m	Jun-01 $m	Dec-00 $m	% Change Dec 05/ Dec 04
Sales	1,988.8	2,048.0	1,890.5	1,702.5	1,566.7	1,535.6	1,525.0	1,432.8	1,473.2	1,370.7	1,267.0	5.2%
Other Revenue	16.3	17.1	17.5	34.7	35.4	25.5	14.0	43.7	36.8	129.0	12.5	(6.9%)
Total Revenue	2,005.1	2,065.1	1,908.0	1,737.2	1,602.1	1,561.1	1,539.0	1,476.5	1,510.0	1,499.7	1,279.5	5.1%
Gross Profit	432.3	374.5	407.6	326.6	316.0	285.1	341.1	257.8	270.6	249.1	240.5	6.1%
EBITDA	203.5	274.4	173.7	177.3	146.9	139.4	168.2	125.4	125.6	91.0	111.6	17.2%
Depreciation	(47.4)	(52.5)	(45.0)	(44.0)	(43.1)	(43.2)	(43.3)	(40.8)	(43.4)	(43.2)	(41.0)	5.3%
EBITA incl impairment recovery		221.9										21.3%
Operating EBITA	156.1	150.9	128.7	133.3	103.8	96.2	124.9	84.6	82.2	47.8	70.6	
Amortisation (goodwill only)	0.0	0.0	0.0	(10.7)	(10.3)	(9.9)	(9.9)	(9.7)	(9.2)	(7.4)	(7.6)	
EBIT including impairment recovery	156.1	221.9	128.7	122.6	93.5	86.3	115.0	74.9	73.0	40.4	63.0	21.3%
Operating EBIT	156.1	150.9	128.7	133.3	103.8	96.2	124.9	84.6	82.2	47.8	70.6	
Borrowing costs	(29.4)	(29.7)	(23.9)	(21.4)	(20.8)	(21.6)	(22.9)	(23.8)	(30.6)	(32.2)	(29.6)	23.0%
EBT including impairment recovery	126.7	192.2	104.8	101.2	72.7	64.7	92.1	51.1	42.4	8.2	33.4	20.9%
Operating EBT	126.7	121.2	104.8	111.9	83.0	74.6	102.0	60.8	51.6	15.6	41.0	
Tax	(34.5)	(51.2)	(25.5)	(31.4)	(22.0)	(20.8)	(32.5)	(19.9)	(19.1)	(0.1)	(12.0)	35.3%
PAT including impairment recovery	92.2	141.0	79.3	69.8	50.7	43.9	59.6	31.2	23.3	8.1	21.4	16.3%
Operating PAT before MI	92.2	91.3	79.3	80.5	61.0	53.8	69.5	40.9	32.5	15.5	29.0	
Minorities	(8.1)	(8.5)	(9.0)	(7.2)	(5.2)	(4.8)	(4.7)	(3.8)	(3.6)	(3.3)	(2.6)	(10.0%)
PAT & Minorities incl impairment recovery	84.1	132.5	70.3	62.6	45.5	39.1	54.9	27.4	19.7	4.8	18.8	19.6%
Operating PAT	84.1	82.8	70.3	73.3	55.8	49.0	64.8	37.1	28.9	12.2	26.4	
Total Assets	3,058.3	3,087.1	2,748.1	2,803.2	2,609.6	2,577.0	2,602.9	2,582.0	2,625.4	2,710.8	2,666.2	11.3%
Total Liabilities	1,619.9	1,698.8	1,465.9	1,429.8	1,305.5	1,292.0	1,331.8	1,359.4	1,424.7	1,594.6	1,493.5	10.5%
Funds Employed	2,098.4	2,033.6	1,791.2	1,842.4	1,801.0	1,755.2	1,783.7	1,794.2	1,822.9	1,878.6	1,990.8	17.2%
Total Equity	1,438.4	1,388.3	1,282.2	1,373.4	1,304.1	1,285.0	1,271.1	1,222.6	1,200.7	1,116.2	1,172.7	12.2%
Net Debt	660.0	645.3	509.0	469.0	496.9	470.2	512.6	571.6	622.2	762.4	818.1	29.7%
Net Debt including Securitisation	660.0	645.3	709.0	669.0	696.9	670.2	712.6	771.6	822.2	953.4	946.1	
Net Debt incl Derivative	707.4											
No of shares (at end of period)	564.3	560.8	558.4	554.9	551.4	546.9	542.2	538.6	535.9	460.3	454.8	1.1%
Cash flow from operations & investing	(21.2)	114.2	(7.2)	62.9	22.0	66.4	76.1	67.4	76.5	135.0	35.1	194.4%
Free Cash Flow	(23.6)	113.4	(11.5)	22.4	11.4	72.2	82.7	49.6	(21.1)	189.4	31.4	105.2%
Capex	117.3	65.6	67.6	106.4	45.0	104.5	26.4	48.7	22.1	92.5	15.9	73.5%
ROA (EBIT) incl impairment recovery		15.2%										
Operating ROA (EBIT)	10.2%	9.8%	9.5%	9.1%	7.2%	6.7%	8.9%	5.8%	5.5%	3.0%	4.8%	
ROE including impairment recovery		21.1%										
Operating ROE	13.1%	13.7%	12.6%	10.4%	7.8%	6.9%	9.6%	5.2%	4.0%	1.4%	3.7%	
ROFE (EBIT) including impairment recovery		23.2%										
Operating ROFE	15.1%	15.8%	14.7%	14.6%	11.7%	10.9%	14.0%	9.4%	8.9%	4.9%	7.0%	
EBIT to sales incl impairment recovery		10.8%										
Operating EBIT to sales	7.8%	7.4%	6.8%	7.8%	6.6%	6.3%	8.2%	5.9%	5.6%	3.5%	5.6%	
EPS (cents) - year end, incl impairment recovery		23.6										18.4%
Operating EPS (cents) - year end	14.9	14.8	12.6	13.2	10.1	9.0	12.0	6.9	5.4	2.7	5.8	
DPS	7.0	7.5	6.0	7.0	5.0	6.0	5.0	3.5	3.0	3.0	3.0	
Dividend payout ratio	47.2%	51.1%	47.9%	52.9%	49.5%	66.9%	41.8%	50.9%	55.7%	113.1%	51.9%	
Gearing (net debt/net debt + equity) including securitisation	31.5%	31.7%	35.6%	32.8%	34.9%	34.3%	35.9%	38.7%	40.6%	46.1%	44.7%	
Gearing (net debt/net debt + equity) incl derivative	33.0%											
Gross Profit Margin	21.7%	18.3%	21.6%	19.2%	20.2%	18.6%	22.4%	18.0%	18.4%	18.2%	19.0%	
Interest cover	5.3	7.5	5.4	6.2	5.0	4.5	5.5	3.6	2.7	1.5	2.4	
NTA per share	2.1	2.0	1.8	1.9	1.8	1.8	1.8	1.7	1.7	1.8	2.1	
Employees	7,269	7,395	7,262	7,272	7,078	7,054	6,899	6,989	7,012	7,379	6,896	0.1%
Sales per employee	274	277	260	234	221	218	221	205	210	186	184	5.4%
Cost increases	165.8	131.7	94.3	43.8	27.2	36.1	31.9	37.2	19.8	37.0		
Cost reductions	20.8	17.2	29.8	31.0	19.0	27.3	28.7	35.4	23.6	26.0	24.0	
Revenue enhancements	166.4	195.4	113.6	19.4	8.6	22.5	28.5	14.6	5.4	15.0		
Raw steel production	800,603	810,399	538,998	799,347	819,508	792,495	831,904	783,561	793,089	747,099	691,671	48.5%
Steel tonnes dispatched	1,099,395	1,140,269	1,107,110	1,085,901	1,073,635	1,113,010	1,111,129	1,075,745	1,100,668	1,125,058	1,000,015	(0.7%)
Steel exports, % of total steel dispatches	8.6%	4.8%	3.4%	4.2%	5.1%	3.8%	3.7%	7.9%	7.9%	17.8%	7.9%	

Review of Operations
For the Six Months To December 2005

21 February 2006

Key Points - (6 months to December 2005 compared with 6 months to December 2004)

- Profit up 19.6% from prior corresponding period
- Key financial ratios continue to improve – sales margin, return on funds employed
- Strong operating cash flow after adjusting for capital expenditure associated with Project Magnet

Financial

Sales revenue	$1,988.8m	Up 5.2%
Earnings before interest, tax, depreciation and amortisation **(EBITDA)**	$203.5m	Up 17.2%
Earnings before interest and tax **(EBIT)**	$156.1m	Up 21.3%
Net profit after tax and minorities **(NPAT)**	$84.1m	Up 19.6%
Earnings per share **(EPS)**	14.9 cents	Up 18.4% from 12.6c
Operating cash flow impacted by $117 million capex	($21.2m)	
Return on funds employed **(ROFE)**	15.1%	Up from 14.7%
Return on equity **(ROE)**	13.1%	Up from 12.6%
Ratio of net debt to net debt plus equity **(gearing)**	33.0%	Down from 35.6%
Net debt	$707.4m	Includes $47.4m in derivatives adjustments
Fully franked interim dividend	7.0 cents	Up from 6.0 cents

Market (based on NIEIR estimates)

All segments that impact OneSteel revenues	**Up 7.0%**	**Value of work done continues at high levels**
Construction Sector (60% of revenue) • Non-residential (23% of revenue) • Engineering (23% of revenue) • Residential (14% of revenue)	Up 10.1% Up 10% Up 17.2% Down 1.2%	Infrastructure and project activity still outweighing softness in residential construction
Other Manufacturing (11% of revenue)	Down 0.9%	
Mining production (10% of revenue)	Up 2.9%	
Auto manufacturing (7% of revenue)	Up 9%	
Agricultural production (6% of revenue)	Down 5.5%	

Operational

Total Australian steel tonnes dispatched • Domestic tonnes dispatched • Export tonnes dispatched Adjusted domestic tonnes (excludes one-off projects)	1,099,395 1,004,306 95,089 987,762	Down 0.7% Down 6.1% Up 57,136 tonnes Down 6.5%
Underlying price per tonne for domestic steel sales		Up 11.9%
Cost increases Offset by: • Cost reductions • Revenue enhancements	$165.8m $20.8m $166.4m	
Staff numbers • Sales per staff member	7,269 $274,000	Up 0.1% Up 5.4%
Safety Performance (per million man hours worked) • Medical Treatment Injury Frequency Rate • Lost Time Injury Frequency Rate	 Down 3.2% from 12.5 to 12.1 Up 5% from 2.0 to 2.1	Both comparisons are between the 12-months to Dec 2005 and the 12-months to Dec 2004

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

Company Overview

Sales revenue for the six months to December 2005 grew 5.2% from $1,890.5 million to $1,988.8 million when compared with the prior corresponding period.

Underlying Australian domestic revenue from steel sales, adjusted for large projects associated with oil and gas pipelines and the M7 toll road in New South Wales, increased 2.2%, reflecting price increases previously implemented to recover higher raw material input costs.

Total Australian tonnes dispatched decreased by 0.7%. Underlying domestic tonnes dispatched decreased by 6.5% after adjusting for large one-off projects. Lower dispatches of sheet, plate and coil by Australian Distribution mainly drove the fall in domestic dispatches.

Exports of steel during the period increased 57,000 tonnes, to 95,000 tonnes, representing 8.6% of steel tonnes dispatched compared with 3.4% a year prior. Total raw steel tonnes produced increased 48.5%, or 261,605 tonnes, from the previous corresponding period. Steel tonnages in the previous corresponding period were affected by the blast furnace reline project and the production disruptions in the latter part of calendar 2004.

The underlying price per tonne for domestic steel sales improved by 11.9%.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA), increased by 17.2% in the six months to $203.5 million.

The **sales margin**, on an operating earnings before interest and tax (EBIT) basis, was 7.8%, compared with 6.8% in the prior corresponding period. On an **earnings before tax** basis, profit increased by 20.9% from $104.8 million to $126.7 million.

Operating net profit after tax and minorities increased by 19.6% to $84.1 million for the six months, which is equivalent to 14.9 cents per share, 18.4% higher than the prior year.

The **effective tax rate** of 27.2% reflects the impact of higher levels of claimable R&D expenditure and a prior year adjustment.

Australian Distribution revenue was up 6.9% or $59.4 million to $923.2 million reflecting an 18% increase in underlying prices and lower sales volumes, primarily in flat related products. Distribution EBIT was down 9.9% at $64.6 million with the sales margin falling from 8.3% to 7.0% primarily as a result of lower dispatches of flat-related products and increased costs for hot rolled coil. Elsewhere in the business the volume of dispatches was steady to slightly higher. The EBIT return on funds employed fell from 17.7% to 15.7%.

Adjusted for large projects, domestic steel tonnes dispatched from Distribution decreased 10.2%. The main product lines impacted were sheet, coil and plate, which were down approximately 50,000 tonnes. During the comparable period in 2004, customers were building stocks in a period of tight supply and rising prices. With supply returning to more normal levels and easing of prices in some products, sales were affected by a run down in stocks in the period to December 2005. Underlying domestic prices improved by 17.8% reflecting price increases previously implemented to recover higher raw material input costs.

Manufacturing revenue increased 3.9% or $38.4 million to $1,020.9 million. Underlying domestic prices rose 7% and export prices were 32.8% lower. After adjusting for large one-off projects, tonnes dispatched were up 4.9%, with domestic dispatches down 3.5%. Export tonnes

rose 55,000 tonnes to 87,000 tonnes, returning to normal levels after being affected by the reline of the Whyalla blast furnace and disruptions to production in the latter part of calendar 2004.

Manufacturing EBIT increased 69.4% to $81.5 million with a rise in sales margin from 4.9% to 8.0%. Manufacturing's EBIT return on funds employed increased from 9.8% to 14.2%. The improvement in EBIT, sales margin and return on funds employed from the previous corresponding period reflects the return to normal production after the reline and the operational disruptions at the Whyalla blast furnace in the latter part of the 2004 calendar year, operational improvements and price increases that were implemented to recover higher raw material input costs.

The **International Distribution** business continued to post excellent returns albeit they were lower than the prior corresponding period as certain segments of the New Zealand economy slowed. EBIT profit of the New Zealand-based business fell 8.5% from $28.2 million to $25.8 million and the associated sales margin fell from 14.2% to 12.6%. The business achieved a return on funds employed of 32.5%.

OneSteel's **management initiatives** delivered a total of $20.8 million in cost savings along with revenue enhancements of $166.4 million, offsetting $165.8 million in raw material and other cost increases. The revenue enhancements achieved during the period were implemented to recover substantial cost increases, particularly for raw materials, that commenced in calendar 2004. The most significant element in the cost increases in the most recent six-month period was coking coal.

The first full six-month impact of the **business restructure** in July 2005 whereby the OneSteel Reinforcing business moved to the Manufacturing segment from the Distribution segment and the OneSteel Pipe and Tube business, previously part of the Manufacturing segment, became part of OneSteel Distribution, was recorded during the period.

Staffing levels at 7,269 were little changed from 7,262 at the end of December 2004.

Operating cash flow for the period was negative $21.2 million as higher capital expenditure associated with Project Magnet, the commercialisation of OneSteel's magnetite iron ore resource, increased the cash requirements of the business. After adjusting for that expenditure, operating cash flow was in excess of $40 million.

Inventories increased by 10.7% to $840.2 million when compared with the previous corresponding period. This reflected higher prices of inventory, with stock weeks steady compared with the previous corresponding period.

Capital and investment expenditure increased by 73.5% to $117.3 million. More than $70 million of the expenditure related to Project Magnet which received Board approval in May 2005. Major milestones for this project are being achieved. The slurry pipeline to convey magnetite concentrate from the mines to the Whyalla Steelworks, and the associated return waterline, have been successfully completed. Construction is progressing well on the hematite export facilities.

OneSteel's **net debt**, once adjusted for AIFRS treatment of derivative arrangements, remained steady while financial gearing improved from 35.6% to 33.0%. The improvement in gearing and reduction in net debt was achieved while funding an increase in capital expenditure for Project Magnet and higher working capital associated with increased prices.

Interest Cover was 5.3 times compared with 5.4 times cover in the prior corresponding period.

Funds employed have risen by 17.2% or $307.2 million to $2,098.4 million. The EBIT return on funds employed has increased from 14.7% to 15.1%.

The Interim dividend was declared at 7.0 cents per share fully franked, up 16.7%, representing a payout ratio of 47.2% of the first half profits. This compares with a 6.0 cent fully franked dividend paid for the six months to December 2004.

A dividend reinvestment plan exists which provides the facility for shareholders in Australia and New Zealand to reinvest their dividends in shares at a price calculated on the arithmetic average of the daily volume weighted average market price during the 10 consecutive trading days commencing on the date which is the second trading day after the Record Date for the relevant dividend. The record date for the dividend will be 17 March 2006, with the dividend due to be paid on 20 April 2006.

Initiatives for Growth and Profit Improvement

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

Growth

- **Project Magnet –** Time and cost milestones for this project to commercialise OneSteel's magnetite iron ore deposits are being achieved. The slurry pipeline to convey magnetite concentrate from the mines to the Whyalla Steelworks**,** and the associated return waterline, have been successfully completed. Construction is progressing well on the hematite export facilities.

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

  The project received Board approval for a mixture of direct capital costs and a number of outsourced operating contracts. One of the contracts to be outsourced, for ore export storage and related facilities, will now be directly funded by OneSteel because the prospective change of ownership of the proposed contractor introduced an unacceptable degree of risk. The resultant capital costs of the project to be funded by OneSteel will now total $355 million. Based on the original costs and economics of the project, the value of the project is marginally improved and the capital costs remain the same.

Profit Improvement

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

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

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

- **Information Systems** –the rollout of SAP across the Distribution business and parts of the Manufacturing business is complete and operating well, and providing benefits beyond the original business case. The system provides visibility of customer and product information across these operating units with greatly enhanced analysis and reporting capability. Advanced functionality in areas such as the warehouse has allowed a reduction in operating costs while improving customer service. The SAP platform presents further opportunities for reduction in inventory and operating costs through improved information and the ability to consolidate support functions through using a common system.

Significant and Subsequent Events

No significant events have occurred subsequent to the end of the reporting period.

Outlook

Amid continued high levels of expenditure in the markets that drive the majority of OneSteel's revenue, the Australian business segments were supported by steel price increases that were previously implemented to recover higher costs for raw material inputs.

The improvement in profit and strong cash flow adjusted for Magnet were pleasing, reflecting continued improvement in underlying performance in a domestic market that remains generally favourable but where the international steel market remains very volatile and less favourable than in the previous corresponding period.

Over the medium term, Management will be focused on implementing Project Magnet and the discipline of tight cash management will be maintained to ensure OneSteel continues to meet its financial objectives.

For the remainder of the current financial year, market and operating activity is expected to be similar to the first half.

Geoff Plummer
Managing Director &
Chief Executive Officer
OneSteel Limited
21st February, 2006

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Australian Distribution

	2005	2004	%
Revenue	923.2	863.8	6.9
EBITDA	76.4	83.5	(8.5)
EBIT	64.6	71.7	(9.9)
Assets	1,123.9	1,144.4	(1.8)
Employees	2,467	2,416	2.1
Sales Margin	7.0%	8.3%	
Funds Emp.	833.8	825.6	1.0
ROFE	15.7%	17.7%	

Market Conditions

Expenditure in the underlying market remains at relatively high levels however in the six-month period competitive activity increased, particularly in plate and sheet and coil which was down approximately 50,000 tonnes period on period**.** During the comparable period in 2004, customers were building stocks in a period of short supply and rising prices. With supply returning to more normal levels and easing of prices in some products, sales were affected by a run down in stocks in the period to December 2005. .There was also some delays to some major projects, particularly in Western Australia. Demand in other market segments was generally favourable.

Performance

Distribution improved revenue as higher selling prices partially offset lower flat product dispatches. However, earnings, sales margin and return on funds employed were lower as a result of the change in product mix and higher costs for hot rolled coil.

Pipe and Tube tonnage was down slightly. Selling prices increased but not by enough to fully recover the higher cost of hot rolled coil as imports exerted downward pricing pressure.

Steel and Tube volumes were down due to lower sales of steel plate. Other product lines benefited from a strong project market in Western Australia and Queensland.

Sheet and Coil and Aluminium volumes declined significantly chiefly due to aggressive pricing and increased volumes of imported products. There was a softening in some segments such as manufacturing, auto, residential construction and rural.

Metaland's dispatches were steady and price increases were achieved despite continued weakness in drought-affected areas.

Piping Systems' results improved on the back of a strong project market in Western Australia and Queensland in the mineral and mining processing and oil and gas segments. It significantly improved prices and product mix.

Initiatives

The business will continue to look for opportunities to improve its service and market offer as a way to maintain premiums. Benefits from the implementation of the SAP platform continue to be delivered. Synergistic benefits will continue to be extracted from the integration of the Pipe and Tube division into Distribution.

Outlook

Market conditions are expected to be similar to those in the six-months to December, namely with some regions and products at strong levels (Western Australia Queensland, mining and oil and gas segments) while others continue to have more difficult trading environments (New South Wales, Sheet & Coil and Pipe and Tube).

Australian Manufacturing

	2005	2004	%
Revenue	1,020.9	982.5	3.9
EBITDA	113.1	77.2	46.5
EBIT	81.5	48.1	69.4
Assets	1,684.4	1,480.3	13.8
Employees	3,786	3,831	(1.2)
Sales Margin	8.0%	4.9%	
Funds Emp.	1,195.4	1,004.0	19.1
ROFE	14.2%	9.8%	

Market Conditions

Market conditions were mixed with strong demand from the engineering construction, mining and non-residential construction segments while conditions in the automotive, rural, manufacturing and the New South Wales and Victorian residential segments were more challenging.

Performance

Manufacturing's results benefited from the return to normal production after the blast furnace reline the production disruptions at the **Whyalla Steelworks** in the latter part of the 2004 calendar year. The **Sydney Steel Mill** operated at record levels during the period. Earnings and sales margin were further supported by higher domestic selling prices across the product range to offset increased raw material input costs.

Rail dispatches were higher than the corresponding period last year, while **Structural** sales were lower.

Reinforcing tonnages were down slightly overall as sales of rebar slowed with the completion of the M7 tollway in NSW while sales of reo mesh and niche mesh increased.

Rod and Bar total tonnes were down, with gains in the mining roof segment, grinding media and steel-in-concrete offset by lower volumes of merchant bar and less sales into the automotive and manufacturing segments.

Wire volumes were affected by softness in the rural segment due to continuing affects of poor seasonal conditions amid continued drought.

Initiatives

Major milestones for Project Magnet are being achieved. Reinforcing mesh facilities in the eastern states have been rationalised and consolidated and new mesh machines purchased which will lower the cost of production and improve capacity utilisation. The new eight-strand ropery plant, which allows OneSteel to manufacture heavy mining and conveyor ropes suitable for the latest and largest equipment deployed in mining and other industries, is complete with sales ahead of expectation.

Outlook

The outlook for Reinforcing products remains positive with the Connect East project in Melbourne and niche mesh sales boosted by the current mining boom. Reo mesh sales remain strong with any housing softness being offset by commercial construction activity. Overall, demand for rod and bar products continues to be favourable notwithstanding some signs of softening in the automotive, manufacturing and residential sectors. International steel markets remain volatile and are expected to continue to impact the domestic competitive environment.

International Distribution

	2005	2004	%
Revenue	204.4	198.6	2.9
EBITDA	28.3	30.9	(8.4)
EBIT	25.8	28.2	(8.5)
Assets	187.9	181.5	3.5
Employees	805	803	0.2
Sales Margin	12.6%	14.2%	
Funds Emp.	156.9	146.9	6.8
ROFE	32.5%	39.5%	

Market Conditions

Activity in the construction sector is at all-time highs, with record levels of commercial construction and infrastructure activity and demand for new residential housing remained strong, albeit at lower levels than last year. The Manufacturing and Rural sectors continued to suffer from higher interest rates and a strong New Zealand dollar.

Performance

Volumes remained healthy, however the New Zealand economy expanded by just 2.6% in the 12 months to September, down substantially from the 4.3% pace a year earlier.

Although **Steel Distribution** experienced strong demand from the construction sector, there was reduced volume to the manufacturing and rural sector. The change in product mix affected margins as high-volume, lower-priced construction product replaced sales from the manufacturing sector.

Roofing Products continued its strong performance amid strong demand for roofing and cladding products from the light commercial construction and new residential property sectors.

Record levels of construction activity and infrastructure spending, together with a better mix of available contracts, enabled the **Reinforcing** operations to post better results than the previous corresponding period.

Hurricane Wire Products produced similar volumes to last year but competitive pressures and a change in product mix adversely affected margins compared with the previous year. Sales to the rural sector were slightly lower but this was offset by an increase in revenue to the building and construction sectors.

Initiatives

On 16 February, Steel & Tube Holdings Limited reached agreement, subject to completion of due diligence, to acquire the trading assets of the New Zealand Fasteners Group, a distributor of stainless steel products, for a cash consideration of approximately NZ$11 million. The likely acquisition is expected to provide opportunity to grow the stainless steel business through Steel & Tube's large customer base and obtain synergy benefits with its fastening, piping systems and processing operations.

Outlook

The overall trading environment for the second half of the 2006 financial year will continue to be challenging as the economy is expected to soften further. Commercial construction is expected to remain strong while the rural and manufacturing sectors will continue to struggle. Slowing consumer spending may further affect demand for new housing as well as the industries that are reliant on an active residential housing sector. International steel prices have also softened somewhat although the impact may be softened if the New Zealand dollar continues to weaken.

onesteel

OneSteel Financial Summary

	SIX MONTHS TO 31 DECEMBER		Statutory				Pro Forma	% Chg
	2005 AIFRS $m	2004 AIFRS $m	2004 AGAAP $m	2003 AGAAP $m	2002 AGAAP $m	2001 AGAAP $m	2000 AGAAP $m	05/04 %
PROFIT & LOSS SUMMARY								
Revenue	2,005.1	1,908.0	1,910.4	1,602.1	1,539.0	1,510.0	1,279.5	5.1
EBITDA	203.5	173.7	173.6	146.9	168.2	125.6	111.6	17.2
Depreciation/Amortisation	(47.4)	(45.0)	(58.4)	(53.4)	(53.2)	(52.6)	(48.6)	5.3
EBIT	156.1	128.7	115.2	93.5	115.0	73.0	63.0	21.3
Borrowing costs	(29.4)	(23.9)	(23.9)	(20.8)	(22.9)	(30.6)	(29.6)	23.0
EBT	126.7	104.8	91.3	72.7	92.1	42.4	33.4	20.9
Tax Expense	(34.5)	(25.5)	(24.9)	(22.0)	(32.5)	(19.1)	(12.0)	35.3
Profit After Tax	92.2	79.3	66.4	50.7	59.6	23.3	21.4	16.3
OEI in Operating Profit After Tax	(8.1)	(9.0)	(8.5)	(5.2)	(4.7)	(3.6)	(2.6)	(10.0)
Profit Attributable to OneSteel	84.1	70.3	57.9	45.5	54.9	19.7	18.8	19.6

	SIX MONTHS TO 31 DECEMBER					
	2005 AIFRS $m	2004 AIFRS $m	2004 AGAAP $m	2003 AGAAP $m	2002 AGAAP $m	2001 AGAAP $m
CASH FLOW SUMMARY						
Earnings before tax	126.9	103.8	89.7	65.1	92.1	41.1
Depreciation / Amortisation	47.4	45.0	58.4	53.4	53.2	52.6
Capital & investment expenditure	(117.3)	(67.6)	(63.6)	(45.0)	(26.4)	(22.1)
Working capital movements	(47.5)	(68.5)	(71.8)	(48.8)	(30.1)	(83.3)
Income tax payments	(33.0)	(24.2)	(24.2)	(13.7)	(6.1)	(9.4)
Asset sales	0.5	3.6	3.6	5.0	2.6	31.0
Other	1.8	0.7	0.7	6.0	(9.2)	66.6
Operating cash flow	(21.2)	(7.2)	(7.2)	22.0	76.1	76.5
Dividends paid	(48.9)	(45.1)	(45.1)	(41.1)	(22.6)	(18.9)
Capital movements	11.3	12.3	12.3	9.6	5.4	66.2
Total Cash Flow	(58.8)	(40.0)	(40.0)	(9.5)	58.9	123.8

	As at 31 December					
	2005 AIFRS $m	2004 AIFRS $m	2004 AGAAP $m	2003 AGAAP $m	2002 AGAAP $m	2001 AGAAP $m
BALANCE SHEET						
Cash	37.0	12.9	12.9	14.5	25.3	26.9
Receivables	567.1	525.4	525.4	437.8	390.6	378.5
Inventory	840.2	758.8	758.8	646.5	626.0	608.0
Fixed Assets	1,273.6	1,109.1	1,216.4	1,153.5	1,143.6	1,179.3
Other Assets	340.4	341.9	348.0	357.3	417.4	432.7
TOTAL ASSETS	3,058.3	2,748.1	2,861.5	2,609.6	2,602.9	2,625.4
Borrowings	697.0	521.9	521.9	511.4	537.9	649.1
Creditors	551.2	601.0	601.0	455.9	419.3	403.6
Provisions	371.7	343.0	330.7	338.2	374.6	372.0
TOTAL LIABILITIES	1,619.9	1,465.9	1,453.6	1,305.5	1,331.8	1,424.7
NET ASSETS	1,438.4	1,282.2	1,407.9	1,304.1	1,271.1	1,200.7
Share Capital	1,118.2	1,102.3	1,108.6	1,089.3	1,072.0	1,063.1
Outside Equity Interest	64.0	59.7	59.6	51.5	57.6	48.9
Retained Profits / Reserves	256.2	120.2	239.7	163.3	141.5	88.7
SHAREHOLDER'S EQUITY	1,438.4	1,282.2	1,407.9	1,304.1	1,271.1	1,200.7

SEGMENTS 6 MONTHS TO 31 DECEMBER ($millions)	Revenue			EBITDA			EBIT			Assets		
	2005	2004	% Chg	2005	2004	% Chg	2005	2004	% Chg	2005	2004	% Chg
Manufacturing	1,020.9	982.5	3.9	113.1	77.2	46.5	81.5	48.1	69.4	1,684.4	1,480.3	13.8
Distribution - Aust	923.2	863.8	6.9	76.4	83.5	(8.5)	64.6	71.7	(9.9)	1,123.9	1,144.4	(1.8)
Distribution - Int	204.4	198.6	2.9	28.3	30.9	(8.4)	25.8	28.2	(8.5)	187.9	181.5	3.5
Corporate activities	8.3	10.5	(21.0)	(2.6)	(2.0)	30.0	(4.1)	(3.4)	20.6	100.7	(8.7)	(1,257.5)
Inter segment	(151.7)	(147.4)	2.9	(11.7)	(15.9)	(26.4)	(11.7)	(15.9)	(26.4)	(38.6)	(49.4)	(21.8)
TOTAL ONESTEEL GROUP	2,005.1	1,908.0	5.1	203.5	173.7	17.2	156.1	128.7	21.3	3,058.3	2,748.1	11.3

The financial information presented for years 2000 - 2003 have not been prepared under Australian equivalents to International Financial Reporting Standards (AIFRS). The nature of the main adjustments to make the information comply with AIFRS include:

- goodwill is no longer amortised;
- recognition of additional provisions relating to rehabilitation and make good;
- restatement of deferred tax balances using the balance sheet method;
- recognition of the deficit in the defined benefits superannuation fund;
- consolidation of the employee share plan trust; and
- recognition of derivative financial instruments on balance sheet at fair value and application of hedge accounting

OneSteel Limited

ABN 63 004 410 833

Financial Report

for the half-year ended 31 December 2005

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Directors' Report

The Board of Directors of OneSteel Limited has pleasure in submitting its report in respect of the financial half-year ended 31 December 2005.

DIRECTORS

The names of the directors in office during or since the end of the half-year are:

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

Unless otherwise indicated, all directors held their position as a director throughout the entire half-year and up to the date of this report.

PRINCIPAL ACTIVITIES

The principal activities of the OneSteel Group during the financial half-year were the manufacture and distribution of steel long products.

The OneSteel Group manufactures and distributes a wide range of products including structural, rail, rod, bar, wire and pipe and tube products. In addition, OneSteel distributes sheet and coil, piping systems, plate and aluminium products. OneSteel owns 50.3% of the ordinary shares of Steel & Tube Holdings Limited, a listed New Zealand steel distribution company.

RESULTS

The consolidated profit of the OneSteel Group for the half-year was $84.1 million (half-year 2004 under AIFRS: $70.3 million) after income tax and minority interests.

REVIEW OF OPERATIONS

Refer to the attached report on the review of operations.

EVENTS SUBSEQUENT TO BALANCE DATE

There have been no circumstances arising since 31 December 2005 that have significantly affected or may significantly affect:

- the operations;
- the results of those operations; or
- the state of affairs of the entity or consolidated entity in future financial years

ROUNDING OF AMOUNTS

The parent entity is a company of the kind specified in Australian Securities and Investments Commission Class Order 98/0100. In accordance with that class order, amounts in the consolidated financial statements and the Directors' report have been rounded to the nearest hundred thousand dollars unless specifically stated otherwise.

AUDITOR INDEPENDENCE

In relation to the review of the financial report for the half-year ended 31 December 2005, the auditors have issued the directors with an independence declaration. Refer page 3 for the specific representation.

This report has been made in accordance with a resolution of the directors.

Peter Smedley	Geoff Plummer
Chairman	Managing Director

Sydney
21 February 2006

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

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Sydney NSW 2001

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DX Sydney Stock Exchange 10172

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF ONESTEEL LIMITED

In relation to our review of the financial report of OneSteel Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Craig M. Jackson
Partner
21 February 2006

Condensed Income Statement

		CONSOLIDATED	
HALF-YEAR ENDED 31 DECEMBER 2005	**Note**	**2005 $m**	**2004 $m**
Sales revenue	2	1,988.8	1,890.5
Cost of sales		(1,556.5)	(1,482.9)
Gross profit		432.3	407.6
Other income	2	16.3	17.5
Operating expenses		(293.0)	(296.8)
Finance costs		(29.4)	(23.9)
Share of net profit of associate accounted for using the equity method		0.5	0.4
Profit before income tax		126.7	104.8
Income tax expense		(34.5)	(25.5)
Net profit after related income tax expense		92.2	79.3
Net profit attributable to minority interests		(8.1)	(9.0)
Net profit attributable to members of OneSteel Limited		84.1	70.3
Basic earnings per share (cents per share)		14.97	12.65
Diluted earnings per share (cents per share)		14.96	12.64

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

Balance Sheet

AS AT 31 DECEMBER 2005	Note	CONSOLIDATED December 2005 $m	 June 2005 $m
CURRENT ASSETS			
Cash and cash equivalents		37.0	55.0
Receivables		559.0	643.1
Derivative financial instruments		1.9	-
Inventories		840.2	836.7
Other		14.0	6.5
TOTAL CURRENT ASSETS		1,452.1	1,541.3
NON-CURRENT ASSETS			
Investment accounted for using the equity method		7.5	7.3
Derivative financial instruments		1.2	-
Other financial assets		8.1	8.8
Property, plant and equipment		1,249.4	1,190.0
Exploration and development expenditures		24.2	17.1
Intangibles		230.6	231.1
Deferred tax assets		61.0	64.9
Other		24.2	26.6
TOTAL NON-CURRENT ASSETS		1,606.2	1,545.8
TOTAL ASSETS		3,058.3	3,087.1
CURRENT LIABILITIES			
Payables		503.7	615.7
Interest-bearing liabilities		38.8	48.8
Derivative financial instruments		0.1	-
Tax liabilities		13.0	17.4
Provisions		101.4	111.3
TOTAL CURRENT LIABILITIES		657.0	793.2
NON-CURRENT LIABILITIES			
Interest-bearing liabilities		658.2	651.5
Derivative financial instruments		47.4	-
Deferred tax liabilities		154.8	152.9
Provisions		91.5	90.2
Retirement benefit obligations		11.0	11.0
TOTAL NON-CURRENT LIABILITIES		962.9	905.6
TOTAL LIABILITIES		1,619.9	1,698.8
NET ASSETS		1,438.4	1,388.3
EQUITY			
Contributed equity	5	1,118.2	1,107.9
Reserves		3.8	4.4
Retained earnings		252.4	214.2
Parent interests		1,374.4	1,326.5
Minority interests		64.0	61.8
TOTAL EQUITY		1,438.4	1,388.3

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

Condensed Statement of Cash Flows

HALF-YEAR ENDED 31 DECEMBER 2005	CONSOLIDATED December 2005 $m	 December 2004 $m
	Inflows/(Outflows)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	2,086.4	1,868.6
Payments to suppliers and employees	(1,932.1)	(1,766.1)
Interest received	1.2	1.2
Interest and other costs of finance paid	(28.8)	(23.4)
Income taxes paid	(33.0)	(24.2)
NET OPERATING CASH FLOWS	93.7	56.1
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment, exploration and development expenditure and finite-life intangibles	(110.9)	(63.6)
Proceeds from sale of property, plant and equipment	0.5	3.6
Proceeds from repayment of preference shares by associate	0.3	0.8
Net repayment/(advances) of loan by/(to) non-related parties	1.6	(0.1)
Purchase of businesses	(4.0)	-
Purchase of shares under equity-based compensation plans	(2.4)	(4.0)
NET INVESTING CASH FLOWS	(114.9)	(63.3)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares and options	0.4	2.8
Net proceeds from/(repayment of) borrowings	50.4	(103.5)
Proceeds from finance leases	-	105.8
Repayment of finance lease principal	(9.7)	(3.6)
Dividends paid	(37.9)	(35.6)
NET FINANCING CASH FLOWS	3.2	(34.1)
NET DECREASE IN CASH HELD	(18.0)	(41.3)
Cash at the beginning of the financial period	55.0	54.2
Cash at the end of the financial period	37.0	12.9

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

Statement of Changes in Equity

HALF-YEAR ENDED 31 DECEMBER 2005

	Attributable to equity holders of the parent									*Minority Interests*	*Total Equity*
	Contributed equity				*Reserves*						
	Issued Capital	*Employee compensation shares*	**Total contributed equity**	**Retained earnings**	*Share-based payments*	*Foreign Currency translation*	*Cash Flow Hedge Reserve*	**Total Reserves**	**Total Parent Interests**		
CONSOLIDATED	$m	$m	**$m**	**$m**	*$m*	*$m*	*$m*	**$m**	**$m**	**$m**	**$m**
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	-	-	**-**	**-**	**-**	**-**	0.7	**0.7**	**0.7**	**-**	**0.7**
- transferred to profit	-	-	**-**		**-**	**-**	-	**-**	**-**	**-**	**-**
Currency translation differences	-	-	**-**	**-**	**-**	0.9	-	**0.9**	**0.9**	**0.6**	**1.5**
Total income and expense for the year recognised directly in equity	-	-	**-**	**(3.6)**	-	0.9	(1.0)	**(0.1)**	**(3.7)**	**0.6**	**(3.1)**
Profit for the half-year	-	-	**-**	**84.1**	-	-	-	**-**	**84.1**	**8.1**	**92.2**
Total income/expense for the period	-	-	**-**	**80.5**	-	0.9	(1.0)	**(0.1)**	**80.4**	**8.7**	**89.1**
Share-based payments expense	-	-	**-**	**-**	0.9	**-**	**-**	**0.9**	**0.9**	**-**	**0.9**
Dividends paid	-	-	**-**	**(42.3)**	**-**	**-**	**-**	**-**	**(42.3)**	**(6.5)**	**(48.8)**
Shares issued under dividend reinvestment plan	10.9	-	**10.9**	**-**	**-**	**-**	**-**	**-**	**10.9**	**-**	**10.9**
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	-	(2.4)	**(2.4)**	**-**	-	-	-	**-**	**(2.4)**	-	**(2.4)**
At 31 December 2005	1,126.3	(8.1)	**1,118.2**	**252.4**	0.9	3.9	(1.0)	**3.8**	**1,374.4**	**64.0**	**1,438.4**

HALF-YEAR ENDED 31 DECEMBER 2004

	Attributable to equity holders of the parent									*Minority Interests*	*Total Equity*
	Contributed equity				*Reserves*						
	Issued Capital	*Employee compensation shares*	**Total contributed equity**	**Retained earnings**	*Share-based payments*	*Foreign Currency translation*	*Cash Flow Hedge Reserve*	**Total Reserves**	**Total Parent Interests**		
CONSOLIDATED	$m	$m	**$m**	**$m**	$m	$m	$m	**$m**	**$m**	**$m**	**$m**
At 1 July 2004	1,096.3	(2.3)	**1,094.0**	**84.1**	0.8	2.8	-	**3.6**	**1,181.7**	**56.3**	**1,238.0**
Currency translation differences	-	-	-	**-**	-	0.5	-	**0.5**	**0.5**	**0.5**	**1.0**
Total income and expense for the year recognised directly in equity	-	-	-	**-**	-	0.5	-	**0.5**	**0.5**	**0.5**	**1.0**
Profit for the half-year	-	-	-	**70.3**	-	-	-	**-**	**70.3**	**9.0**	**79.3**
Total income/expense for the period	-	-	-	**70.3**	-	0.5	-	**0.5**	**70.8**	**9.5**	**80.3**
Share-based payments expense	-	-	-	**-**	0.7	-	-	**0.7**	**0.7**	**-**	**0.7**
Dividends paid	-	-	-	**(39.0)**	-	-	-	**-**	**(39.0)**	**(6.1)**	**(45.1)**
Shares issued under dividend reinvestment plan	9.5	-	**9.5**	-	-	-	-	-	**9.5**	-	**9.5**
Shares issued on exercise of options	2.8	-	**2.8**	-	-	-	-	-	**2.8**	-	**2.8**
Vested shares	-	-	**-**	**-**	-	**-**	-	**-**	-	**-**	-
Purchase of shares for equity-based compensation	-	(4.0)	**(4.0)**	**-**	-	-	-	**-**	**(4.0)**	-	**(4.0)**
At 31 December 2004	1,108.6	(6.3)	**1,102.3**	**115.4**	1.5	3.3	-	**4.8**	**1,222.5**	**59.7**	**1,282.2**

Notes to the financial statements

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NOTES (CONTINUED)

31 DECEMBER 2005

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

This general purpose consolidated financial report for the half-year ended 31 December 2005 has been prepared in accordance with applicable Accounting Standards, including AASB 134 “Interim Financial Reporting”, the Corporations Act 2001 and other mandatory professional reporting requirements.

As this half-year financial report does not include all the notes of the type normally included within the annual financial report, it is recommended that this report be read in conjunction with the 30 June 2005 Annual Review and Full Financial Report, which were prepared based on Australian Accounting Standards applicable before 1 January 2005 (AGAAP). It is also recommended that the half-year financial report be considered together with any public announcements made by OneSteel Limited and its controlled entities during the half-year ended 31 December 2005, 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, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which includes Australian equivalents to International Financial Reporting Standards (“AIFRS”). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

This is the first half-year financial report prepared under AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the OneSteel Group’s equity and profit are provided in Note 8.

AASB 1 “First-time Adoption of Australian Equivalents to International Financial Reporting Standards”

OneSteel has made the following elections in relation to the transitional exemptions permitted by the Accounting Standard AASB 1:

Business combinations
AASB 3 “Business Combinations” has not been applied retrospectively to past business combinations i.e. business combinations that occurred before the date of transition to AIFRS.

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

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

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Share-based payments
AASB 2 "Share-based Payments" is applied only to equity instruments granted after 7 November 2002 and that had not vested on or before 1 January 2005.

Financial instruments
OneSteel has elected to not apply the requirements of AASB 132 "Financial Instruments: Presentation and Disclosure" and AASB 139 "Financial Instruments: Recognition and Measurement" to its comparative information.

Principles of consolidation

The consolidated entity referred to as the OneSteel Group includes the parent entity, OneSteel Limited ("OneSteel"), and its controlled entities (together, the "OneSteel Group").

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

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

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

Foreign currency

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

Translation differences arising on non-monetary items such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. In the event of translation differences arising on non-monetary items such as equities classified as available-for-sale equities, these would be included in a reserve in Equity.

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.

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue earned from the sale of products or services are net of returns, trade allowances and duties. Sales revenue is recognised or accrued at the time of the provision of the product or service. The recognition criteria for sale of goods is when control of the goods has passed to the customer. The recognition criteria for rendering of services is upon delivery of the service to the customer.

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

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

Borrowing costs

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

Research expenditure

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

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically or commercially feasible and adequate resources are available to complete development. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the costs over the period of the expected benefit.

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.

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Goods and services tax (GST)

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

Cash and cash equivalents

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

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

Receivables

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

Bad debts are written off as incurred.

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

Inventories

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

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred stripping costs

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

Other financial assets (investments)

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

Investments in associate companies are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements by applying the equity method of accounting, after initially being recognised at cost.

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

Recoverable amount

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

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

Leased assets

Operating lease assets are not capitalised, and except as described below, rental payments are charged to the Income Statement in the period in which they are incurred. Provision is made for future operating lease payments in relation to surplus lease space when it is first determined that the space will be of no probable future benefit. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and the liability. Where fixed rental increases are incorporated into operating lease terms, the rental expense is allocated on a straight-line basis over the lease period.

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

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

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

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

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

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

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

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

Exploration and development expenditure

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

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

Capitalisation of expenses

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

Any expenditure carried forward is amortised over the period of expected future benefit from the related project.

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets

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

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets (including contingent liabilities), acquired at the time of acquisition of a business or shares in a controlled entity. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill acquired in business acquisitions is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is written down as a result of impairment when its carrying value exceeds its recoverable amount. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Internally-developed computer software and licenses
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 the estimated future lives.

Payables

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

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

Provisions

Provisions are recognised when there is a present obligation (either legal or constructive) as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain, but for which a reliable estimate can be made. The unwinding of any discount relating to the calculation of the carrying value of provisions is recognised as a borrowing cost.

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

Employee benefits

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

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

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

A liability or asset in respect of the defined benefit section of the plan is recognised in the Balance Sheet, and is measured as the present value of the defined benefit obligation 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.

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 binomial 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 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.

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restoration and rehabilitation

Restoration costs which are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. The costs include obligations relating to reclamation, waste site closure, plant closure and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs. In determining the restoration obligations, there is an assumption that no significant changes will occur in the relevant Federal and State legislation in relation to restoration in the future.

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

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

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

Interest-bearing liabilities

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

Contributed equity

Issued capital
Issued and paid-up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in Equity as a reduction of the share proceeds received.

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

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

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

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.

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments

Prior to 1 July 2005
OneSteel has taken the exemption available under AASB 1 to not apply AASB 132 and AASB 139 to its comparative period. For the comparative periods presented, derivatives were not recognised at fair value on the balance sheet and hedge accounting was not applied.

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

On transition at 1 July 2005, $3.6m was recognised in retained earnings in relation to fair value hedges and the ineffective portion of any cash flow hedges. $1.7m was recognised in a cash flow hedge reserve in relation to the effective portion of cash flow hedges.

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

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

The OneSteel Group documents at inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in the fair values or the cash flows of hedged items.

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 or liability that are attributable to the hedged risk.

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

Amounts accumulated in Equity are recycled through the Income Statement in the periods when the hedged item affects profit or loss e.g. when a forecast sale that is hedged actually takes place. When the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in Equity are transferred from Equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

NOTES (CONTINUED)

31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments (continued)

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in Equity at that time remains in Equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in Equity is immediately transferred and recognised in the Income Statement.

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

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

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

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

Rounding of amounts

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

NOTES (CONTINUED)

31 DECEMBER 2005

	2005 $m	2004 $m
2. REVENUE AND EXPENSES		
Specific items:		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
(a) Sales Revenue		
Product Sales	1,987.8	1,888.7
Rendering of services	1.0	1.8
Total sales revenue	1,988.8	1,890.5
(b) Other Income		
Interest income	1.2	1.2
Profit on sale of non-current assets	0.2	1.2
Other	14.9	15.1
	16.3	17.5
Included in the cost of sales and operating expenses are the following items:		
Depreciation of property, plant and equipment	42.7	40.8
Depreciation of exploration and development expenditures	0.3	0.3
Amortisation of finite-life intangibles	4.4	3.9
Share-based payment expense	0.9	0.7

NOTES (CONTINUED)

31 DECEMBER 2005

3. DIVIDENDS

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

December 2005	On ordinary shares $m	Dividend per ordinary share $
Dividends proposed and not recognised as a liability		
Interim fully franked dividend for 2006 as recommended and declared by the directors, payable 20 April 2006	39.7	0.07
Dividends paid during the half- year		
Final fully franked dividend for 2005 as recommended and declared by the directors, paid 20 October 2005	42.3	0.075

December 2004	On ordinary shares $m	Dividend per ordinary share $
Dividends proposed and not recognised as a liability		
Interim fully franked dividend for 2005 as recommended and declared by the directors, paid 21 April 2005	33.7	0.06
Dividends paid during the half- year		
Final fully franked dividend for 2004 as recommended and declared by the directors, paid 14 October 2004	39.0	0.07

NOTES (CONTINUED)

31 DECEMBER 2005

4. SEGMENT INFORMATION

December 2005			Australia			International		Consolidated
	Manufacturing $m	Distribution $m	Unallocated $m	Eliminations $m	Total $m	Distribution $m	Eliminations $m	$m
Segment revenues								
Revenues from customers outside the consolidated entity	885.8	913.7	1.2	-	1,800.7	204.4	-	2,005.1
Plus: Inter-segment revenues	135.1	9.5	7.1	(128.1)	23.6	-	(23.6)	-
Total revenues	1,020.9	923.2	8.3	(128.1)	1,824.3	204.4	(23.6)	2,005.1
Share of net profits of equity accounted associate	-	-	0.5	-	0.5	-	-	0.5
Earnings before depreciation and amortisation	113.1	76.4	(2.6)	(4.3)	182.6	28.3	(7.4)	203.5
Depreciation and amortisation	(31.6)	(11.8)	(1.5)	-	(44.9)	(2.5)	-	(47.4)
Earnings before interest and tax	81.5	64.6	(4.1)	(4.3)	137.7	25.8	(7.4)	156.1
Less: Finance costs								(29.4)
Less: Income tax expense								(34.5)
Profit after tax before minority interests								92.2
Segment assets	1,652.1	1,110.2	81.1	(35.2)	2,808.2	184.8	(3.2)	2,989.8
Plus: Equity accounted investment in associate	-	-	7.5	-	7.5	-	-	7.5
Plus: Tax assets								61.0
Total assets								3,058.3
Segment liabilities	371.3	230.2	822.6	(30.8)	1,393.3	61.7	(2.9)	1,452.1
Plus: Tax liabilities								167.8
Total liabilities								1,619.9
Capital and investment expenditure	99.7	7.0	5.0	-	111.7	5.3	-	117.0

NOTES (CONTINUED)

31 DECEMBER 2005

4. SEGMENT INFORMATION (CONTINUED)

December 2004			**Australia**			**International**		**Consolidated**
	Manufacturing	**Distribution**	**Unallocated**	**Eliminations**	**Total**	**Distribution**	**Eliminations**	
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Segment revenues								
Revenues from customers outside the consolidated entity	854.0	854.1	1.3	-	1,709.4	198.6	-	1,908.0
Plus: Inter-segment revenues	128.5	9.7	9.2	(122.8)	24.6	-	(24.6)	-
Total revenues	982.5	863.8	10.5	(122.8)	1,734.0	198.6	(24.6)	1,908.0
Share of net profits of equity accounted associate	-	-	0.4	-	0.4	-	-	0.4
Earnings before depreciation and amortisation	77.2	83.5	(2.0)	(8.5)	150.2	30.9	(7.4)	173.7
Depreciation and amortisation	(29.1)	(11.8)	(1.4)	-	(42.3)	(2.7)	-	(45.0)
Earnings before interest and tax	48.1	71.7	(3.4)	(8.5)	107.9	28.2	(7.4)	128.7
Less: Finance costs								(23.9)
Less: Income tax expense								(25.5)
Profit after tax before minority interests								79.3
Segment assets	1,446.3	1,130.3	50.9	(124.6)	2,502.9	178.9	(4.7)	2,677.1
Plus: Equity accounted investment in associate	-	-	7.2	-	7.2	-	-	7.2
Plus: Tax assets								63.8
Total assets								2,748.1
Segment liabilities	326.8	261.5	708.4	(37.8)	1,258.9	62.9	(3.5)	1,318.3
Plus: Tax liabilities	-	-	-	-	-	-	-	147.6
Total liabilities								1,465.9
Capital and investment expenditure	53.0	4.4	7.3	-	64.7	2.9	-	67.6

NOTES (CONTINUED)

31 DECEMBER 2005

	December 2005 $m	June 2005 $m

5. CONTRIBUTED EQUITY

	December 2005 $m	June 2005 $m
Issued capital (a)	1,126.3	1,115.0
Employee Compensation Shares (b)	(8.1)	(7.1)
Total Contributed Equity	1,118.2	1,107.9

(a) Issued Capital

	December 2005 $m	June 2005 $m
Share capital		
Number of ordinary shares: 567,203,163 (June 2005: 563,821,883)		
Issued and paid-up	1,126.3	1,115.0

	Number of ordinary shares	Value of ordinary shares $m
Movements in issued capital for the period:		
On issue at the beginning of the year	563,821,883	1,115.0
Issued during the period:		
From the exercise of options	351,069	0.4
Under a Dividend Reinvestment Plan	3,030,211	10.9
On issue at the end of the period	567,203,163	1,126.3

(b) Employee Compensation Shares

	December 2005 $m	June 2005 $m
Number of ordinary shares: 2,921,134 (2005: 2,999,565)		
Shares held in Trust under equity-based compensation arrangements	(8.1)	(7.1)

	Number of shares	Value of shares $m
Movements in employee compensation shares for the period:		
Held in Trust at the beginning of the year	(2,999,565)	(7.1)
Shares vested and transferred to Other Reserves	793,474	1.4
Shares purchased on-market	(715,043)	(2.4)
Held in Trust at the end of the period	(2,921,134)	(8.1)

NOTES (CONTINUED)

31 DECEMBER 2005

6. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent Liabilities

	December 2005 $m	June 2005 $m
Contingent liabilities at balance date not otherwise provided for in the financial statements are categorised as follows:		
Guarantees and indemnities:		
Bank guarantees covering:		
Performance of contracts	21.9	21.6
Workers' compensation self insurance licences (i)	35.8	38.4
Total contingent liabilities	57.7	60.0

(i) 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 $24.8m (June 2005: $24.9m) has been provided for in the consolidated financial statements as recommended by independent actuarial advice.

Third party claims:

OneSteel has a contract dispute with United KG over work undertaken for the reline of the Whyalla blast furnace. This dispute has not been resolved and OneSteel intends to vigorously defend any legal action commenced by United KG. The outcome of any litigation is not expected to have a material impact on OneSteel's financial statements

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

(b) Contingent Assets

Insurance claims for property damage and business interruption losses arising from the disruptions to blast furnace operations at Whyalla last year have been provided to the Company's insurers. Proceeds from each claim will not be booked in the financial statements until indemnity has been granted by the insurers and the likely proceeds can be reliably estimated.

7. EVENTS SUBSEQUENT TO BALANCE DATE

There have been no circumstances arising since 31 December 2005 that have significantly affected or may significantly affect:

- the operations;
- the results of those operations; or
- the state of affairs of the entity or consolidated entity in future financial years

NOTES (CONTINUED)

31 DECEMBER 2005

8. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

		CONSOLIDATED		
		30 June 2005	**31 December 2004**	**1 July 2004**
	Notes	**$m**	**$m**	**$m**
Contributed equity under previous AGAAP		1,115.0	1,108.6	1,096.3
Adjustments to contributed equity				
Consolidation of Employee Share Plan Trusts	(vii)	(7.1)	(6.3)	(2.3)
Contributed equity under AIFRS		**1,107.9**	**1,102.3**	**1,094.0**
Retained earnings under previous AGAAP		277.5	236.4	217.6
Adjustments to retained earnings, net of tax				
Recognition of additional mine rehabilitation provision	(i)	(2.2)	(1.7)	(1.5)
Recognition of defined benefits superannuation deficit	(ii)	(7.7)	(8.1)	(8.1)
Recognition of impairment losses (including goodwill)	(iii)	(104.1)	(104.1)	(104.1)
Reversal of impairment loss	(iii)	49.7	-	-
Revision of depreciation on impaired assets	(iii)	-	2.0	-
Reversal of goodwill amortisation	(iv)	20.1	10.0	-
Recognition of lease make-good and other provisions	(v)	(0.4)	(0.5)	(0.4)
Revision of share-based payments expense	(vi)	0.7	1.4	1.1
Recognition of deferred tax balances	(viii)	(19.4)	(20.0)	(20.5)
Total AIFRS adjustments to retained earnings		(63.3)	(121.0)	(133.5)
Retained earnings under AIFRS		**214.2**	**115.4**	**84.1**
Reserves under previous AGAAP		3.0	3.3	2.8
Adjustments to other reserves, net of tax				
Recognition of share-based payments	(vi)	1.4	1.5	0.8
Reserves under AIFRS		**4.4**	**4.8**	**3.6**
Minority interests under previous AGAAP		61.2	59.6	56.7
Recognition of share of AIFRS adjustments		0.6	0.1	(0.4)
Minority interests under AIFRS		**61.8**	**59.7**	**56.3**
TOTAL EQUITY AS REPORTED UNDER AGAAP		1,456.7	1,407.9	1,373.4
Impact of AIFRS adjustments		**(68.4)**	**(125.7)**	**(135.4)**
TOTAL EQUITY AS REPORTED UNDER AIFRS		**1,388.3**	**1,282.2**	**1,238.0**

NOTES (CONTINUED)

31 DECEMBER 2005

8. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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

		CONSOLIDATED	
		Year ended 30 June 2005	Half-year ended 31 Dec 2004
	Notes	$m	$m
Profit after tax under previous AGAAP		132.5	57.9
Adjustments to profit, net of tax			
Revised mine rehabilitation expense	(i)	(0.7)	(0.2)
Defined benefits superannuation fund benefit	(ii)	0.4	-
Reversal of asset impairment	(iii)	49.7	-
Revised lease make good provisions	(v)	(0.1)	-
Revised depreciation on impaired assets	(iii)	-	2.0
Reversal of goodwill amortisation	(iv)	20.1	10.0
Revised share-based payment expense	(vi)	(0.4)	0.3
Adjustments to income tax expense	(viii)	1.3	0.3
Total AIFRS adjustments to profit after tax		**70.3**	**12.4**
Profit after tax under AIFRS		**202.8**	**70.3**

Notes to the reconciliations

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

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

NOTES (CONTINUED)

31 DECEMBER 2005

8. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Notes to the reconciliations (continued)

(iii) Impairment of assets
Under AASB 136 “Impairment of Assets”, the recoverable amount of assets is determined as the higher of net selling price and value-in-use. OneSteel's accounting policy is to determine the recoverable amount of assets on the basis of discounted cash flows arising from identifiable cash-generating units (CGU's). The CGU's (or groups of CGU's) assets, including goodwill allocation, were tested for impairment on transition and at each subsequent annual reporting date.

On transition to AIFRS, an impairment loss of $125.4m ($104.1m net of tax) was recorded as a result of the impairment testing performed. This comprised a write-down in goodwill of $54.4m, which cannot be reversed in subsequent periods, and $71.0m ($49.7m net of tax) in plant and equipment. The depreciation expense for the impaired assets was reduced by $2.9m ($2.0m net of tax) subsequent to the impairment write-down as at 31 December 2004.

As a result of stronger forecasted cash flows used in the impairment testing performed at 30 June 2005, the impairment loss arising on plant and equipment was subsequently reversed as was any depreciation adjustment recorded.

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

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

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

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

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

NOTES (CONTINUED)

31 DECEMBER 2005

8. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(c) Reconciliation of Statement of Cash Flows

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

(d) Other impacts

AASB 139 "Financial Instruments – Recognition and Measurement" and AASB 132 "Financial Instruments – Presentation and Disclosure"

OneSteel has adopted the exemption available under AASB 1 whereby comparatives are not required to be restated under AASB 132 and AASB 139. These standards have been applied from 1 July 2005. Therefore no AIFRS adjustments have been made to the periods presented in Note 8. On transition at 1 July 2005, $3.6m was recognised in Retained Earnings in relation to fair value hedges and the ineffective portion of any cash flow hedges. $1.7m was recognised in a cash flow hedge reserve in relation to the effective portion of cash flow hedges.

Directors' Declaration

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

(a) the financial statements and accompanying notes:

(i) give a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

(ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the directors.

Peter Smedley
Chairman

Geoff Plummer
Managing Director

Sydney
21 February 2006

Independent review report

To members of OneSteel Limited

Scope

The financial report and directors' responsibility
The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both OneSteel Limited (the company) and the entities it controlled during the six months, and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach
We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included by reference in the Directors' Report. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising OneSteel Limited and the entities it controlled during the six months ended 31 December 2005 is not in accordance with:

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the six months ended on that date; and
- (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Craig M. Jackson
Partner
Sydney
21 February 2006

Corporate Directory

DIRECTORS

Peter J Smedley
Chairman

Geoffrey J Plummer
Managing Director
Chief Executive Officer

R Bryan Davis
Eileen J Doyle
Colin R Galbraith
Peter G Nankervis
Dean A Pritchard
Neville J Roach

COMPANY SECRETARY

John M Krenich

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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SHARE REGISTERY

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Sydney NSW 2000 Australia

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Facsimile: +61 2 8234 5050
Internet: www.computershare.com

AUDITORS

Ernst & Young

STOCK EXCHANGE LISTING

OneSteel Limited shares are quoted on the Australian Stock Exchange.