ONESTEEL LIMITED
ABN 63 004 410 833

# FULL FINANCIAL REPORT

Financial Statements as at 30 June 2003
Together with Directors' and Independent Audit Reports

## CONTENTS



## FINANCIAL CALENDAR

(subject to change)

| **Date** | **Event** |
|---|---|
| **19 August 2003** | Annual results and final dividend announced |
| **15 September 2003** | Ex-dividend share trading commenced |
| **19 September 2003** | Record date for final dividend |
| **16 October 2003** | Final dividend paid |
| **16 October 2003** | Annual Review mailed to shareholders |
| **17 November 2003** | Annual general meeting for 2003 |
| **31 December 2003** | Half-year ends |
| **16 February 2004** | Half-year results and interim dividend announced |
| **22 March 2004** | Ex-dividend share trading commences |
| **26 March 2004** | Record date for interim dividend |
| **22 April 2004** | Interim dividend paid |
| **30 June 2004** | Financial year ends |
| **16 August 2004** | Annual results and final dividend announced |
| **13 September 2004** | Ex-dividend share trading commences |
| **17 September 2004** | Record date for final dividend |
| **14 October 2004** | Final dividend paid |
| **14 October 2004** | Annual Review mailed to shareholders |
| **15 November 2004** | Annual general meeting for 2004 |

## NOTICE OF ANNUAL GENERAL MEETING

**The 2003 Annual General Meeting of OneSteel Limited will be held at 2.30 pm, Monday 17 November 2003 at the Melbourne Exhibition Centre, 2 Clarendon Street, Southbank, Melbourne, Victoria.**

**A formal Notice of Meeting accompanies this report. Additional copies can be obtained from the company's registered office or downloaded from the company's website at www.onesteel.com**

# DIRECTORS' REPORT

**Your directors submit their report for the year ended 30 June 2003.**

## DIRECTORS

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

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

Details of the qualifications, experience and responsibilities of directors are set out on page 30 of the Annual Review.

## PRINCIPAL ACTIVITIES

The principal activities of the OneSteel Group are mining, steel manufacture, and steel and metal products distribution. Further details are set out on pages 1 to 29 of the Annual Review. There were no significant changes in the nature of the principal activities of the OneSteel Group during the year under review.

## REVIEW OF OPERATIONS

A review of the operations of the OneSteel Group during the financial year and the results of those operations is contained in pages 1 to 29 of the Annual Review.

Net profit after income tax attributable to members of the parent entity, for the financial year was $94.0 million (2002: $47.1 million) with earnings per share of 17.3 cents (2002: 9.3 cents – based on the average number of shares).

## DIVIDENDS

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

| | $m |
|---|---|
| **Final dividend**<br>3.5 cents per share paid on 17 October 2002, fully franked at a 30% tax rate on fully paid shares | 18.9 |
| **Interim dividend**<br>5.0 cents per share paid on 24 April 2003, fully franked at a 30% tax rate on fully paid shares | 27.1 |
| **Final dividend**<br>6.0 cents per share payable on 16 October 2003, fully franked at a 30% tax rate on fully paid shares | 32.8 |

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the OneSteel Group that occurred during the financial year ended 30 June 2003.

Commentary on the overall state of affairs of the OneSteel Group is set out on pages 1 to 29 of the Annual Review.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The OneSteel Group is subject to significant environmental regulation in respect of its mining and manufacturing activities. Environmental performance obligations are monitored by management and the Board of directors ("the Board") and subjected, periodically, to internal, independent external and government agency audits and site inspections. The environment report is set out on pages 26 and 27 of the Annual Review.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The sale of the Email Metering business was completed on 11 August 2003 for a total value of $54 million. This sale completes the divestment of the residual Email businesses following the joint acquisition of Email with Smorgon Steel.

Since 30 June 2003 and to the date of this report, no other matter or circumstance has arisen that has significantly affected or may significantly affect:

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

## FUTURE DEVELOPMENTS

Certain likely developments in the operations of the OneSteel Group known to the date of this report have been covered generally within the Annual Review. In the opinion of the directors, any further disclosure of information would be likely to result in unreasonable prejudice to the OneSteel Group.

## DIRECTORS' MEETINGS

The number of directors' meetings held including meetings of committees of directors and number of meetings attended by each of the directors of the company during the financial year are listed at the bottom of the page.

The Governance and Remuneration Committee was replaced during the year by the newly formed Governance and Nominations Committee and the Remuneration Committee.

The roles and membership details of each of the committees are described on pages 32 and 33 of the Annual Review.

TABLE – DIRECTORS' MEETINGS

| | Board of Directors | Governance & Remuneration Committee | Audit & Compliance Committee | Occupational Health, Safety & Environment Committee | Remuneration Committee | Governance & Nominations Committee |
|---|---|---|---|---|---|---|
| **Number of meetings held** | 11 | 2 | 4 | 4 | 2 | 1 |
| **Number of meetings attended** | | | | | | |
| P J Smedley | 11 | 2 | | | 2 | 1 |
| R L Every | 11 | | | | | |
| E J Doyle | 11 | | 4 | 4 | | |
| C R Galbraith | 11 | 2 | 4 | | | 1 |
| D E Meiklejohn | 11 | 2 | 4 | | 2 | |
| D A Pritchard | 11 | | 3 | 4 | | |
| N J Roach | 11 | 2 | | 3 | 2 | |

### DIRECTORS AND SENIOR EXECUTIVES' REMUNERATION

The Board's Remuneration Committee is responsible for reviewing remuneration policies and practices, including compensation and arrangements for executive directors and senior management, the company's superannuation arrangements and, within the aggregate amount approved by shareholders, the fees for non-executive members of the Board. This role also includes responsibility for the company's share and option plans. Executive and senior management performance reviews and succession planning are matters referred to and considered by the Committee. The Committee has access to independent advice and comparative studies on the appropriateness of remuneration arrangements.

### NON-EXECUTIVE DIRECTORS

The company announced new remuneration arrangements for non-executive directors on 20 May 2003. The changes are in line with emerging industry practices and guidelines and they affirm the commitment of the company to the principles of good corporate governance.

### CURRENT NON-EXECUTIVE DIRECTOR ENTITLEMENTS

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

(a) The payment of directors' fees in cash (including statutory superannuation contributions). The total amount of the directors' fees paid must be within the limit (currently $1 million per annum) imposed by Article 9.8 of the Constitution of the company and ASX Listing Rule 10.17.

(b) A cash benefit of an amount determined by the length of service of the non-executive director which is to be paid upon the retirement of the director from the Board ("retirement benefit") under the terms of a Retirement Benefit Deed entered into with each non-executive director.

The retirement benefit was approved as an additional and separate arrangement to the payment of directors' fees by shareholders as part of the process for public listing of the company in 2000. However, under the Constitution and the ASX Listing Rules, the amount of the retirement benefit that is to be paid is excluded from the calculation of directors' remuneration to which the $1 million maximum annual limit applies.

### CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

The Board decided that it should implement new and more appropriate non-executive director remuneration arrangements which are more consistent with emerging market practice and guidelines by discontinuing the ongoing accrual of benefits under the existing retirement benefits arrangements and replacing this ongoing accrual with a new long-term component to the payment of directors' remuneration.

This new long-term component of a non-executive director's fees will be shown as an increase to the total amount of annually declared directors' remuneration. This increase will not be paid directly to the director but applied (excluding any mandatory statutory superannuation contributions) to the on-market purchase of shares in the company. The shares purchased will then be held on behalf of each respective director under the terms of the company's existing non-executive director share plan until the retirement from the Board of the director.

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

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

In summary, the new long-term component of fees for non-executive directors replaces the ongoing accrual of benefits under the existing retirement benefits arrangements. The proposed level of benefit has been set at 45% of fee base which is slightly below the annual average at which retirement allowances accumulate under the current 10 year retirement scheme.

### EFFECTIVE DATE AND TRANSITION ARRANGEMENTS

It is intended that these new arrangements will apply to all non-executive directors immediately following the next annual general meeting of the company on 17 November 2003. The transition to the new arrangements will involve the amount of the retirement benefit accrued by each non-executive director being fixed by reference to length of service up to this date and those directors foregoing the balance of their benefits under that scheme in return for participation in the new arrangements. Any new non-executive director that is subsequently appointed will not receive any entitlements under the existing retirement benefits arrangements and will only receive entitlements under the new arrangements.

### DIRECTORS' REMUNERATION DETAILS

Details of remuneration paid to directors for the year ended 30 June 2003 are set out in the table at the bottom of the page. The table assigns an annualised value to options and share rights allocated to the Managing Director under the long-term incentive plan (LTIP) over the three years since listing. The basis of remuneration of the Managing Director is in the following note.

TABLE – DIRECTORS' REMUNERATION DETAILS

| Directors | Fees/ Salary $ | Other Benefits $ | Retirement Benefit/ Superannuation $ | Incentives $ | Options Value $ | Share Rights Value $ | Total 2002/03 $ | Total 2001/02 $ |
|---|---|---|---|---|---|---|---|---|
| P J Smedley | 250,000 | - | 250,000 | - | - | - | 500,000 | 500,000 |
| R L Every | 1,200,000 | 32,352 | 156,000 | 1,250,000 | 131,346 | 795,456 | 3,565,154 | 3,326,111 |
| E J Doyle | 82,333 | - | 82,333 | - | - | - | 164,666 | 160,000 |
| C R Galbraith | 82,333 | - | 82,333 | - | - | - | 164,666 | 160,000 |
| D E Meiklejohn | 82,333 | - | 82,333 | - | - | - | 164,666 | 160,000 |
| D A Pritchard | 82,333 | - | 82,333 | - | - | - | 164,666 | 160,000 |
| N J Roach | 82,333 | - | 82,333 | - | - | - | 164,666 | 160,000 |
| **Total** | **1,861,665** | **32,352** | **817,665** | **1,250,000** | **131,346** | **795,456** | **4,888,484** | **4,626,111** |

Notes: (1) Options have been valued, at grant date, using the Black-Scholes option pricing model. The value of the options has been apportioned over the three-year vesting period.

(2) Shares rights have been valued based on the market price of the shares at issue date or where purchased on market, the actual purchase price. This value has been apportioned over the three-year vesting period.

(3) The total accrual for the retirement benefit of the non-executive directors as at 30 June 2003 is $1.8 million. This amount has been expensed in the accounts over the three years since listing. The retirement benefit is payable to the non-executive directors on retirement in accordance with a Retirement Benefit Deed between the company and each non-executive director.

(4) Total remuneration for the 2001/02 year is on a comparable basis with the 2002/03 year.

### MANAGING DIRECTOR

The Managing Director's remuneration comprises a base salary, other benefits, superannuation, a short-term incentive plan payment (STIP) and participation in the LTIP which allocates options and share rights from time to time. During the year ended 30 June 2003, arrangements were made to extend the Managing Director's contract of employment. This included provision for the company to make a grant of performance-dependent rights to shares under the LTIP. Shareholders approved the on-market acquisition and allocation of 260,773 shares to the Managing Director at the annual general meeting held on 18 November 2002.

### SENIOR EXECUTIVES

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

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

Remuneration packages for executives therefore comprise:

- a fixed annual reward which includes a base salary and other benefits (including fringe benefits tax and superannuation)
- a variable component. This involves both a STIP that rewards delivery of annual business goals and a LTIP which allocates options and share rights.

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

### SENIOR EXECUTIVES' REMUNERATION DETAILS

Details of fixed annual reward payments and short-term incentive payments made to the most senior executives for the year ended 30 June 2003 are set out in the table at the bottom of the page. This table also assigns an annualised value to options and share rights allocated under the LTIP.

### SHARES AND OPTIONS – LONG-TERM INCENTIVE PLAN

The company granted performance dependent rights to ordinary shares to certain senior executives during the year ended 30 June 2003. Details of the grants made to the most senior executives are:

| Senior Executives | Share Rights Granted |
|---|---|
| R W Freeman | 68,998 |
| G J Plummer | 68,998 |
| A J Reeves | 68,998 |
| L J Selleck | 56,453 |

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

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

The issue price for each right to shares was calculated in a like manner. Their respective prices were calculated based on the weighted average price of OneSteel shares traded on the ASX over a prescribed period of five days applying just prior to the grant of the respective shares.

In previous years, right to options have been issued under the LTIP.

At the date of this report, potential rights to options over ordinary shares of the company are:

| Expiry Date | Exercise Price | Number of Shares |
|---|---|---|
| 15 December 2009 | $0.9258 | 3,736,478 |
| 9 April 2010 | $0.8848 | 241,298 |
| 2 September 2010 | $1.0350 | 35,749 |
| 23 September 2010 | $0.9143 | 29,531 |
| 30 September 2010 | $0.9087 | 233,300 |
| 21 December 2010 | $1.0434 | 765,000 |

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

### TABLE – SENIOR EXECUTIVES' REMUNERATION DETAILS

| Senior Executives | Fees/ Salary $ | Other Benefits $ | Superannuation contributions $ | Incentives $ | Options Value $ | Share Rights Value $ | Total 2002/03 $ | Total 2001/02 $ |
|---|---|---|---|---|---|---|---|---|
| R W Freeman | 440,543 | 11,823 | 39,649 | 214,000 | 17,261 | 98,742 | 822,018 | 719,148 |
| G J Plummer | 361,146 | 31,234 | 46,970 | 290,000 | 13,489 | 78,304 | 821,143 | 746,432 |
| A J Reeves | 420,143 | 51,916 | 39,396 | 219,000 | 11,665 | 72,732 | 814,852 | 488,486 |
| L J Selleck | 299,570 | 118,409 | 38,960 | 242,000 | 11,625 | 65,764 | 776,328 | 655,220 |
| N Calavrias | 373,418 | 8,849 | 28,316 | 185,824 | - | - | 596,407 | 529,565 |
| **Total** | **1,894,820** | **222,231** | **193,291** | **1,150,824** | **54,040** | **315,542** | **3,830,748** | **3,138,851** |

Notes: (1) All officers were employed by subsidiaries of OneSteel Limited for the full year.

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

(3) Shares rights have been valued based on the market price of the shares at issue date and this value has been apportioned over the three-year vesting period.

(4) Total remuneration for the 2001/02 year is on a comparable basis to the 2002/03 year.

(5) Mr A J Reeves joined OneSteel on 1 October 2001.

# DIRECTORS' REPORT

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

| Number of Shares | Amount Paid on Each Share | Market Value of Shares on Date of Exercise |
|---|---|---|
| 83,734 | $0.9258 | $1.50 to $1.65 |
| 28,000 | $1.0434 | $1.50 to $1.65 |

There are no amounts unpaid on the shares issued.

Shares held in trust under the LTIP carry voting rights.

## SHARE-BASED REMUNERATION

During the year, shares were issued under the company's Employee Share Plan and rights to shares were granted under the LTIP. An amount of $1.8 million has been charged to the Statement of Financial Performance in respect of these rights to shares granted under the LTIP.

## DIRECTORS' INTERESTS

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

| | Ordinary Shares |
|---|---|
| E J Doyle | 22,080 |
| C R Galbraith | 15,000 |
| N J Roach | 44,161 |

No director, either directly or indirectly, disposed of any ordinary shares, exercised an option over ordinary shares or was granted rights to further shares and options during the financial year other than Dr Every who was granted rights to 260,773 shares.

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

| | OneSteel Limited | | |
|---|---|---|---|
| | Shares | Share Rights(1) | Options(1) |
| P J Smedley | 100,000 | | |
| R L Every | 102,793 | 2,107,825 | 2,462,735 |
| E J Doyle | 79,144 | | |
| C R Galbraith | 59,440 | | |
| D E Meiklejohn | 10,000 | | |
| D A Pritchard | 50,000 | | |
| N J Roach | 165,390 | | |

(1) Refer details of rights to shares and options above.

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

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

Directors of OneSteel Limited have declared their interests in contracts or proposed contracts that may result from their directorships of other corporations, as listed in their personal profiles set out on page 30 of the Annual Review.

Members of the OneSteel Group had normal business transactions with directors (or director-related entities) of the parent entity and its controlled entities during the year, including payments to Allens Arthur Robinson, solicitors, of which firm Mr C R Galbraith is a partner, in respect of legal costs and advice amounting to $282,356 exclusive of GST of which $168,467 amount was outstanding at 30 June 2003. Mr Galbraith was not personally involved in the provision of these services.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

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

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

## ROUNDING OF AMOUNTS

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

Signed in Sydney this 19th day of August 2003 in accordance with a resolution of directors:

**Peter Smedley**
Chairman

**Robert Every**
Managing Director

# STATEMENT OF FINANCIAL PERFORMANCE

| FOR THE YEAR ENDED 30 JUNE | | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | Note | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Sales revenue | 2 | 3,060.6 | 2,906.0 | - | - |
| Cost of sales | | (2,434.4) | (2,377.6) | - | - |
| Gross profit | | 626.2 | 528.4 | - | - |
| Other revenues from ordinary activities | 2 | 39.5 | 80.5 | 53.8 | 36.0 |
| Operating expenses excluding borrowing costs | 2 | (464.4) | (461.0) | (5.5) | (4.5) |
| Borrowing costs | 2 | (44.5) | (54.4) | - | - |
| Profit from ordinary activities before income tax expense | | 156.8 | 93.5 | 48.3 | 31.5 |
| Income tax expense relating to ordinary activities | 3 | (53.3) | (39.0) | (0.6) | (0.4) |
| Net profit from ordinary activities after related income tax | | 103.5 | 54.5 | 47.7 | 31.1 |
| Net profit attributable to outside equity interests | 25 | (9.5) | (7.4) | - | - |
| **Net profit attributable to members of the parent entity** | | **94.0** | **47.1** | **47.7** | **31.1** |
| Net exchange difference on translation of financial statements of self-sustaining foreign operations | 23 | 0.5 | 2.8 | - | - |
| Decrease in retained profits on adoption of revised accounting standard: AASB 1028 "Employee Benefits" | 1, 24 | (0.7) | - | - | - |
| **Total revenues and expenses attributable to members of the parent entity and recognised directly in equity** | | **(0.2)** | **2.8** | **-** | **-** |
| **Total changes in equity other than those resulting from transactions with owners as owners attributable to members of OneSteel Limited** | | **93.8** | **49.9** | **47.7** | **31.1** |
| Basic earnings per share (cents per share) | 4 | 17.34 | 9.33 | | |
| Diluted earnings per share (cents per share) | 4 | 17.27 | 9.30 | | |

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

# STATEMENT OF FINANCIAL POSITION

| AS AT 30 JUNE | Note | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m | PARENT 2003 $m | PARENT 2002 $m |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Cash assets | 26 | 19.5 | 11.4 | - | - |
| Receivables | 6 | 436.6 | 427.2 | 104.4 | 87.9 |
| Other financial assets | 7 | 3.3 | 25.6 | - | - |
| Inventories | 8 | 591.0 | 574.1 | - | - |
| Other | 9 | 8.6 | 9.9 | - | - |
| **Total Current Assets** | | **1,059.0** | **1,048.2** | **104.4** | **87.9** |
| **Non-Current Assets** | | | | | |
| Other financial assets | 10 | 7.1 | 9.0 | 1,160.2 | 1,161.7 |
| Property, plant and equipment | 11 | 1,167.4 | 1,160.0 | - | - |
| Intangibles | 12 | 260.1 | 261.4 | - | - |
| Deferred tax assets | 13 | 55.7 | 80.7 | - | - |
| Other | 14 | 27.7 | 22.7 | - | - |
| **Total Non-Current Assets** | | **1,518.0** | **1,533.8** | **1,160.2** | **1,161.7** |
| **Total Assets** | | **2,577.0** | **2,582.0** | **1,264.6** | **1,249.6** |
| **Current Liabilities** | | | | | |
| Payables | 15 | 467.7 | 425.1 | - | - |
| Interest bearing liabilities | 16 | 40.0 | 33.0 | - | - |
| Tax liabilities | 17 | 1.5 | 0.9 | 0.7 | 0.4 |
| Other provisions | 17 | 113.1 | 130.2 | - | - |
| **Total Current Liabilities** | | **622.3** | **589.2** | **0.7** | **0.4** |
| **Non-Current Liabilities** | | | | | |
| Interest bearing liabilities | 19 | 449.7 | 550.0 | - | - |
| Deferred tax liabilities | 20 | 141.6 | 138.2 | - | - |
| Other provisions | 21 | 78.4 | 82.0 | - | - |
| **Total Non-Current Liabilities** | | **669.7** | **770.2** | **-** | **-** |
| **Total Liabilities** | | **1,292.0** | **1,359.4** | **0.7** | **0.4** |
| **Net Assets** | | **1,285.0** | **1,222.6** | **1,263.9** | **1,249.2** |
| **Equity** | | | | | |
| Contributed equity | 22 | 1,079.6 | 1,066.6 | 1,079.6 | 1,066.6 |
| Reserves | 23 | 0.6 | 0.1 | - | - |
| Retained profits | 24 | 150.1 | 102.8 | 184.3 | 182.6 |
| Parent entity interest | | 1,230.3 | 1,169.5 | 1,263.9 | 1,249.2 |
| Outside equity interest | 25 | 54.7 | 53.1 | - | - |
| **Total Equity** | | **1,285.0** | **1,222.6** | **1,263.9** | **1,249.2** |

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

# STATEMENT OF CASH FLOWS

| FOR THE YEAR ENDED 30 JUNE | Note | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m | PARENT 2003 $m | PARENT 2002 $m |
|---|---|---|---|---|---|
| | | | Inflows/(outflows) | | |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | 3,076.5 | 2,872.0 | 3.5 | 4.5 |
| Payments to suppliers and employees | | (2,753.7) | (2,708.6) | (3.5) | (4.5) |
| Dividends received | | - | - | 47.6 | 30.0 |
| Interest received | | 2.6 | 2.3 | 2.7 | 1.5 |
| Interest and other costs of finance paid | | (43.7) | (52.3) | - | - |
| Operating cash flows before income tax | | 281.7 | 113.4 | 50.3 | 31.5 |
| Income taxes paid | | (24.0) | (20.8) | (0.3) | (0.2) |
| **Net operating cash flows** | 26(b) | **257.7** | **92.6** | **50.0** | **31.3** |
| **Cash flows from investing activities** | | | | | |
| Purchases of property, plant and equipment | | (101.5) | (70.8) | - | - |
| Purchases of investments | | - | - | (0.4) | - |
| Purchases of businesses | | (29.4) | - | - | - |
| Proceeds from sale of property, plant and equipment | | 16.4 | 27.4 | - | - |
| Loan to non-related parties | | (1.0) | - | - | - |
| Repayment of loan by non-related parties | | - | 65.9 | - | - |
| Proceeds from sale of investments | | 0.3 | - | - | - |
| Proceeds from sale of controlled entities net of their cash | 26(c) | - | 28.8 | - | - |
| **Net investing cash flows** | | **(115.2)** | **51.3** | **(0.4)** | **-** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of shares | 22 | 0.1 | 66.3 | 0.1 | 66.3 |
| Proceeds from borrowings | | 275.4 | 349.0 | - | - |
| Repayment of borrowings | | (368.7) | (520.0) | - | - |
| Repayment of loans from related party | | - | - | - | (73.0) |
| Proceeds from loans to related party | | - | - | (16.7) | - |
| Dividends paid | | (41.2) | (35.1) | (33.0) | (24.6) |
| **Net financing cash flows** | | **(134.4)** | **(139.8)** | **(49.6)** | **(31.3)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **8.1** | **4.1** | **-** | **-** |
| Cash and cash equivalents at beginning of year | | 11.4 | 7.3 | - | - |
| **Cash and cash equivalents at end of year** | 26(a) | **19.5** | **11.4** | **-** | **-** |

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE

## NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Preparation**
These general purpose consolidated financial statements have been prepared for the year ended 30 June 2003 in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Urgent Issues Group Consensus Views. It is recommended that this report be read in conjunction with the 30 June 2003 Annual Review and any public announcements made by OneSteel Limited and its controlled entities during the year in accordance with the continuous disclosure obligations of the Corporations Act 2001 and the Australian Stock Exchange.

**Changes in accounting policies**
The accounting policies are consistent with those applied in the previous financial year, except for the first-time application of the following new or revised Australian Accounting Standards.

**AASB 1028 "Employee Benefits" (applicable from 1 July 2002)**
Under this revised Standard, the liability for wages and salaries, annual leave and sick leave are recognised in the financial statements at remuneration rates at which they are expected to be settled, rather than at wage and salary rates current as at reporting date. The adjustments to the consolidated financial report as a result of this change are:

- $1.0mill increase in provision for employee benefits
- $0.3mill increase in future income tax benefit
- $0.7mill decrease in opening retained profits

**AASB 1012 "Foreign Currency Translation" (applicable from 1 July 2002)**
The main impact on the financial statements of this revised Standard has been that US$ debt is carried in the Statement of Financial Position at the spot rate current as at reporting date. The corresponding gain or loss on the cross currency swap is carried as a sundry receivable or sundry creditor. At 30 June 2003 the initial value of the US$ loan has reduced by $17.3m.

**AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" (applicable from 1 July 2002)**
This Standard has had only minor impact on the financial statements, mainly through an expansion of the classifications and disclosure of movements of provisions. Some redundancy provisions held as restructuring provisions in 2002 have been reclassified as employee benefits.

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

**Principles of consolidation**
The consolidated entity referred to as the OneSteel Group includes the chief entity, OneSteel Limited ("OneSteel"), and its controlled entities (together, the "OneSteel Group"). A list of controlled entities is contained in Note 31.

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

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

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

**Foreign currency**

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

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

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

**Translation of financial reports of overseas operations**
Exchange fluctuations arising from the translation of net assets of self-sustaining foreign operations are translated using the current rate method and are taken directly to the foreign currency translation reserve.

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

Dividend income is brought to account as and when received.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Bad debts are written off as incurred.

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

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

**Deferred stripping costs**
The costs associated with removing overburden from mines are initially capitalised as deferred stripping (refer note 14). The costs are then amortised to the Statement of Financial Performance by allocating a cost to each tonne of ore mined based on the waste to ore ratio of the mine over its entire life.

**Other Financial Assets**
Interests in non-subsidiary, non-associated corporations are included in investments at the lower of cost and recoverable amount.

**Property, plant and equipment**

### Valuation in financial statements
Property, plant and equipment are carried at cost and depreciated over their useful economic lives.

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

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

**Employee benefits**
Provision is made for the liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been 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 have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The OneSteel Group contributes to defined benefit and defined contribution superannuation plans. Contributions to these funds are charged against income as they become payable.

No amount is recognised in the Statement of Financial Position, as an asset or liability, for the difference between the employer-established defined benefit superannuation plan's accrued benefits and the net market value of the plan's assets. Details of the plan are included in Note 27.

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

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

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

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

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

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

**Equity based compensation schemes**
Certain employees are entitled to participate in the ownership of shares and options. The details of the schemes are described in Note 27.

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

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

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

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

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

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

**Rounding of amounts**
Amounts in the financial statements have been rounded to the nearest hundred thousand dollars unless specifically stated to be otherwise.

**Comparatives**
Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures as a result of the first-time application of the following new or revised Australian Accounting Standards:

AASB 1012 "Foreign Currency Translation"

AASB 1028 "Employee Benefits"

AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2. PROFIT AND LOSS ITEMS

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Profit from ordinary activities is after crediting the following revenues:** | | | | |
| **Revenues from operating activities:** | | | | |
| Product sales | 3,051.0 | 2,899.2 | - | - |
| Rendering of services | 9.6 | 6.8 | - | - |
| **Total sales revenues** | **3,060.6** | **2,906.0** | **-** | **-** |
| Interest from non-related parties | 2.6 | 2.3 | - | - |
| Interest from controlled entity | - | - | 2.7 | 1.5 |
| Dividends from wholly-owned group | - | - | 47.6 | 30.0 |
| Other | 13.4 | 12.6 | 3.5 | 4.5 |
| **Total revenues from operating activities** | **3,076.6** | **2,920.9** | **53.8** | **36.0** |
| **Revenues from non-operating activities:** | | | | |
| Proceeds from sale of non-current assets | 16.7 | 55.2 | - | - |
| Email management fee | 6.8 | 10.4 | - | - |
| **Total revenues from non-operating activities** | **23.5** | **65.6** | **-** | **-** |
| **Profit from ordinary activities is after charging the following expenses:** | | | | |
| Manufacturing expenses | 70.2 | 67.3 | - | - |
| Distribution expenses | 80.0 | 83.3 | - | - |
| Marketing expenses | 88.5 | 89.7 | - | - |
| Administrative expenses | 157.2 | 147.8 | - | - |
| Other expenses (a) | 52.1 | 25.6 | 5.5 | 4.5 |
| Cost of sale of non-current assets | 16.4 | 47.3 | - | - |
| **Total operating expenses excluding borrowing costs** | **464.4** | **461.0** | **5.5** | **4.5** |

(a) includes amortisation of $19.8m (2002: $18.9m) not attributable to specific functions.

| | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m | PARENT 2003 $m | PARENT 2002 $m |
|---|---|---|---|---|
| **Borrowing costs:** | | | | |
| Interest paid or payable to: | | | | |
| Other unrelated parties | 44.0 | 50.3 | - | - |
| Amortisation of loan facility fees | 2.7 | 4.1 | - | - |
| | 46.7 | 54.4 | - | - |
| less: borrowing costs capitalised | (2.2) | - | - | - |
| **Total borrowing costs** | **44.5** | **54.4** | **-** | **-** |
| **Included in the cost of sales and operating expenses are the following items:** | | | | |
| **Depreciation and amortisation** | | | | |
| Depreciation of property, plant and equipment | | | | |
| Buildings | 10.1 | 9.3 | - | - |
| Plant and equipment | 75.8 | 74.3 | - | - |
| Exploration and development expenditures | 0.6 | 0.6 | - | - |
| Amortisation of goodwill | 19.8 | 18.9 | - | - |
| Write-down of investment – refer note 10 | 1.9 | - | 1.9 | - |
| Restructuring/redundancy costs | 5.8 | 12.2 | - | - |
| Superannuation company contributions (all funds) | 38.6 | 38.6 | - | - |
| **Other expense items:** | | | | |
| Foreign exchange gains/(losses) | 1.4 | - | - | - |
| Net bad debts written off | 3.4 | 1.2 | - | - |
| Net charge to provision for doubtful debts | 3.0 | 0.2 | - | - |
| Research & development costs | 8.9 | 7.1 | - | - |
| Net gain on sale of non current assets | (0.3) | (7.9) | - | - |
| Write down of inventory to net realisable value | 0.6 | 0.5 | - | - |
| Operating lease rentals | 27.4 | 23.4 | - | - |
| Provision for employee entitlements | 76.1 | 75.2 | - | - |
| Provision for restoration and rehabilitation | 1.4 | 0.8 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3. INCOME TAX EXPENSE

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Income tax arising from items taken to operating profit** The prima facie tax on operating profit differs from the income tax provided in the accounts and is calculated as follows: | | | | |
| **Profit from ordinary activities before income tax** | **156.8** | **93.5** | **48.3** | **31.5** |
| Tax calculated at 30 cents in the dollar | 47.0 | 28.0 | 14.5 | 9.4 |
| **Tax effect of permanent and other differences:** | | | | |
| Rebate for dividends | - | - | (14.3) | (9.0) |
| Amounts under/(over) provided in prior years | (2.3) | 2.8 | - | - |
| Research and development incentive | (2.2) | (0.5) | - | - |
| Non-deductible accounting depreciation and amortisation | 7.4 | 7.2 | - | - |
| Tax rate differential - non-Australian income | 1.0 | 0.7 | - | - |
| Employee share plan | (0.2) | - | (0.2) | - |
| Diminution of investment | 0.6 | - | - | - |
| Non-deductible expenses | 0.9 | 0.4 | 0.6 | - |
| Capital gains taxable | 1.1 | 0.4 | - | - |
| **Total income tax expense** | **53.3** | **39.0** | **0.6** | **0.4** |

**Tax consolidation**
Since the substantive enactment of the Tax Consolidation legislation, the OneSteel consolidated group has decided not to enter the tax consolidation regime for the 2003 taxation year. It is possible that an election to enter the tax consolidation regime will be made for the 2004 taxation year. The recoverability of the Company's future income tax benefits as disclosed in note 13 has been assessed taking account of the implications of the Tax Consolidation legislation.

## NOTE 4. EARNINGS PER SHARE

| | CONSOLIDATED | |
|---|---|---|
| | 2003 $m | 2002 $m |
| The following reflects the earnings and share data used in the calculations of basic and diluted earnings per share: | | |
| **(a) Earnings** | | |
| Net profit | 103.5 | 54.5 |
| Net profit attributable to outside equity interest | (9.5) | (7.4) |
| **Earnings used in calculating basic and diluted earnings per share** | **94.0** | **47.1** |

| | Number of Shares | |
|---|---|---|
| **(b) Number of ordinary shares** | | |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 542,051,307 | 504,513,688 |
| Dilutive effect of executive share options (a) | 2,102,079 | 1,470,649 |
| **Weighted average number of ordinary shares used in the calculation of diluted earnings per share** | **544,153,386** | **505,984,337** |

(a) Executive share options relate solely to ordinary shares.

All potential ordinary shares, being options to acquire ordinary shares, are considered dilutive – details are provided in note 27 Employee benefits.

**Issues after 30 June 2003**
There have been no other subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5. SEGMENT INFORMATION

| | AUSTRALIA | | | | | INTERNATIONAL | | CONSOLIDATED |
|---|---|---|---|---|---|---|---|---|
| **2003** | Manufacturing $m | Distribution $m | Unallocated $m | Eliminations $m | Total $m | Distribution $m | Eliminations $m | $m |
| **Segment revenues** | | | | | | | | |
| Revenues from customers outside the consolidated entity | 1,154.7 | 1,645.9 | 8.7 | – | 2,809.3 | 290.8 | – | 3,100.1 |
| Plus: Inter-segment revenues | 599.1 | 3.7 | 11.7 | (593.4) | 21.1 | – | (21.1) | – |
| **Total revenues** | 1,753.8 | 1,649.6 | 20.4 | (593.4) | 2,830.4 | 290.8 | (21.1) | 3,100.1 |
| **Other non-cash expenses** | (0.1) | (2.9) | (1.9) | – | (4.9) | (0.4) | – | (5.3) |
| **EBITDA** | 193.0 | 101.4 | (7.0) | (7.8) | 279.6 | 36.6 | (8.6) | 307.6 |
| **Depreciation and amortisation** | (66.5) | (33.4) | (0.7) | – | (100.6) | (5.7) | – | (106.3) |
| **EBIT** | 126.5 | 68.0 | (7.7) | (7.8) | 179.0 | 30.9 | (8.6) | 201.3 |
| Less: Borrowing costs | | | | | | | | (44.5) |
| Less: Income tax expense | | | | | | | | (53.3) |
| **Profit after tax before minority interests** | | | | | | | | 103.5 |
| **Segment assets** | 1,486.4 | 988.4 | 68.2 | (171.4) | 2,371.6 | 153.2 | (3.5) | 2,521.3 |
| Plus: Tax assets | | | | | | | | 55.7 |
| Total assets | | | | | | | | 2,577.0 |
| **Segment liabilities** | 270.8 | 229.6 | 659.4 | (61.3) | 1,098.5 | 50.4 | – | 1,148.9 |
| Plus: Tax liabilities | | | | | | | | 143.1 |
| Total liabilities | | | | | | | | 1,292.0 |
| **Non-current assets on acquisition** | 60.8 | 32.4 | 15.4 | – | 108.6 | 19.9 | – | 128.5 |

| | AUSTRALIA | | | | | INTERNATIONAL | | CONSOLIDATED |
|---|---|---|---|---|---|---|---|---|
| **2002** | Manufacturing $m | Distribution $m | Unallocated $m | Eliminations $m | Total $m | Distribution $m | Eliminations $m | $m |
| **Segment revenues** | | | | | | | | |
| Revenues from customers outside the consolidated entity | 1,150.3 | 1,526.0 | 21.5 | – | 2,697.8 | 288.7 | – | 2,986.5 |
| Plus: Inter-segment revenues | 577.6 | 5.8 | 12.8 | (580.5) | 15.7 | 0.5 | (16.2) | – |
| **Total revenues** | 1,727.9 | 1,531.8 | 34.3 | (580.5) | 2,713.5 | 289.2 | (16.2) | 2,986.5 |
| **Other non-cash expenses** | (0.2) | (1.0) | – | – | (1.2) | – | – | (1.2) |
| **EBITDA** | 148.8 | 94.5 | (9.2) | (1.2) | 232.9 | 30.7 | (12.6) | 251.0 |
| **Depreciation and amortisation** | (64.5) | (32.7) | (0.3) | – | (97.5) | (5.6) | – | (103.1) |
| **EBIT** | 84.3 | 61.8 | (9.5) | (1.2) | 135.4 | 25.1 | (12.6) | 147.9 |
| Less: Borrowing costs | | | | | | | | (54.4) |
| Less: Income tax expense | | | | | | | | (39.0) |
| **Profit after tax before minority interests** | | | | | | | | 54.5 |
| **Segment assets** | 1,461.3 | 980.1 | 64.6 | (133.5) | 2,372.5 | 131.7 | (2.9) | 2,501.3 |
| Plus: Tax assets | | | | | | | | 80.7 |
| Total assets | | | | | | | | 2,582.0 |
| **Segment liabilities** | 275.1 | 184.7 | 776.6 | (49.6) | 1,186.8 | 33.5 | – | 1,220.3 |
| Plus: Tax liabilities | | | | | | | | 139.1 |
| Total liabilities | | | | | | | | 1,359.4 |
| **Non-current assets on acquisition** | 40.6 | 69.3 | 6.7 | – | 116.6 | 3.0 | – | 119.6 |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5. SEGMENT INFORMATION (CONTINUED)

**Segment activities – Australia**

### Manufacturing

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

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

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

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

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

### Distribution

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

**Segment activities – International**

### Distribution

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

**Intra/inter segment transfers**

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

**Transfer pricing arrangements**

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

## NOTE 6. RECEIVABLES (CURRENT)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Trade receivables due from:** | | | | |
| Other unrelated parties (a) | 387.3 | 383.7 | - | - |
| Provision for doubtful debts | (2.9) | (3.3) | - | - |
| | 384.4 | 380.4 | - | - |
| Trade receivables due from related party | 0.4 | 0.3 | - | - |
| Total trade receivables | 384.8 | 380.7 | - | - |
| **Non-trade receivables due from:** | | | | |
| Other unrelated parties | 51.8 | 46.5 | - | - |
| Controlled entities | - | - | 104.4 | 87.9 |
| **Total current receivables** | **436.6** | **427.2** | **104.4** | **87.9** |

(a) The value of trade receivables at 30 June 2003 would have been $120.6m (2002: $95.7m) higher but for the sale of such receivables under a debtors securitisation programme. Collections of $100.5m (2002 – $125.2m) were held on behalf of the purchasers of the receivables at 30 June 2003 and have been classified as other creditors.

## NOTE 7. OTHER FINANCIAL ASSETS (CURRENT)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Loan to Smorgon Distribution Limited** | **3.3** | **25.6** | **-** | **-** |

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8. INVENTORIES (CURRENT)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Inventories valued at the lower of cost and net realisable value | | | | |
| **Raw materials** | | | | |
| At net realisable value | 0.2 | 0.2 | - | - |
| At cost | 92.5 | 95.2 | - | - |
| | **92.7** | **95.4** | **-** | **-** |
| **Work in progress** | | | | |
| At net realisable value | 2.8 | 4.1 | - | - |
| At cost | 21.1 | 34.5 | - | - |
| | **23.9** | **38.6** | **-** | **-** |
| **Finished goods** | | | | |
| At net realisable value | 15.3 | 16.8 | - | - |
| At cost | 381.2 | 335.3 | - | - |
| | **396.5** | **352.1** | **-** | **-** |
| **Stores, Spares and other** | | | | |
| At net realisable value | 1.7 | 2.2 | - | - |
| At cost | 76.2 | 85.8 | - | - |
| | **77.9** | **88.0** | **-** | **-** |
| **Total current inventories** | | | | |
| At net realisable value | 20.0 | 23.3 | - | - |
| At cost | 571.0 | 550.8 | - | - |
| **Total current inventories** | **591.0** | **574.1** | **-** | **-** |

## NOTE 9. OTHER ASSETS (CURRENT)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Deferred borrowing costs | 1.4 | 2.1 | - | - |
| Prepayments | 7.2 | 6.9 | - | - |
| Other | - | 0.9 | - | - |
| **Total other current assets** | **8.6** | **9.9** | **-** | **-** |

## NOTE 10. OTHER FINANCIAL ASSETS (NON-CURRENT)

| | | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | Note | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Shares in controlled entities** | | | | | |
| Which are not quoted on prescribed stock exchanges | | | | | |
| Shares at cost | 31 | - | - | 1,153.1 | 1,152.7 |
| **Shares in other corporations** | | | | | |
| Which are not quoted on prescribed stock exchanges | | | | | |
| Shares at cost | | 9.0 | 9.0 | 9.0 | 9.0 |
| less: Provision for diminution | 2 | (1.9) | - | (1.9) | - |
| **Total other non-current financial assets** | | **7.1** | **9.0** | **1,160.2** | **1,161.7** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 11. PROPERTY, PLANT AND EQUIPMENT

| 2003 | CONSOLIDATED Land $m | Buildings $m | Plant and Equipment $m | Exploration and Development Expenditures $m | Total $m |
|---|---|---|---|---|---|
| **Movements in carrying amounts** | | | | | |
| **Cost** | | | | | |
| Opening balance | 80.2 | 299.5 | 1,320.8 | 10.7 | 1,711.2 |
| Additions | - | 5.6 | 95.9 | - | 101.5 |
| Disposals | (9.2) | (3.4) | (30.9) | - | (43.5) |
| Additions from businesses acquired | 0.5 | 1.0 | 7.3 | - | 8.8 |
| Closing balance | 71.5 | 302.7 | 1,393.1 | 10.7 | 1,778.0 |
| **Accumulated depreciation** | | | | | |
| Opening balance | - | 78.2 | 472.0 | 1.0 | 551.2 |
| Depreciation for the year | - | 10.1 | 75.8 | 0.6 | 86.5 |
| Disposals | - | (1.1) | (26.0) | - | (27.1) |
| Closing balance | - | 87.2 | 521.8 | 1.6 | 610.6 |
| **Net book value 2003** | **71.5** | **215.5** | **871.3** | **9.1** | **1,167.4** |
| **Net book value 2002 (a)** | **80.2** | **221.3** | **848.8** | **9.7** | **1,160.0** |

(a) Some reclassifications have been made between asset classes with no impact on net values.

| | |
|---|---|
| Current value of land and buildings | 447.7 |

The current value of land & buildings has been determined as follows:

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

## NOTE 12. INTANGIBLES (NON-CURRENT)

| | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m | PARENT 2003 $m | PARENT 2002 $m |
|---|---|---|---|---|
| Goodwill at cost | 431.3 | 412.7 | - | - |
| Accumulated amortisation | (171.2) | (151.3) | - | - |
| **Total non-current intangibles** | **260.1** | **261.4** | **-** | **-** |

Gross goodwill increased by $18.6m representing the purchase of Hurricane Wire Products by Steel & Tube in New Zealand, the Marner Steel & Mesh purchase in Australia and an adjustment to the goodwill associated with the Email acquisition.

## NOTE 13. DEFERRED TAX ASSETS (NON-CURRENT)

| | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m | PARENT 2003 $m | PARENT 2002 $m |
|---|---|---|---|---|
| **Future income tax benefits** | | | | |
| - attributable to timing differences | 55.7 | 73.8 | - | - |
| - attributable to tax losses | - | 6.9 | - | - |
| **Total non-current deferred tax assets** | **55.7** | **80.7** | **-** | **-** |

## NOTE 14. OTHER ASSETS (NON-CURRENT)

| | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m | PARENT 2003 $m | PARENT 2002 $m |
|---|---|---|---|---|
| Deferred borrowing costs | 2.1 | 2.1 | - | - |
| Deferred stripping costs | 25.6 | 20.6 | - | - |
| **Total other non-current assets** | **27.7** | **22.7** | **-** | **-** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15. PAYABLES (CURRENT)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Trade creditors | 304.3 | 257.1 | - | - |
| Other creditors (a) | 163.4 | 168.0 | - | - |
| **Total current payables** | **467.7** | **425.1** | **-** | **-** |

(a) Collections of $100.5m (2002: $125.2m) were held on behalf of the purchasers of receivables under a debtors securitisation programme at 30 June 2003 and have been classified as other creditors.

## NOTE 16. INTEREST BEARING LIABILITIES (CURRENT)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Short term unsecured borrowings** | | | | |
| Bank loans (a) | 40.0 | 33.0 | - | - |
| **Total current interest bearing liabilities** | **40.0** | **33.0** | **-** | **-** |

(a) Bank loans consist of the following:

(i) A drawdown of $25m from a working capital facility provided by the National Australia Bank. The loan has an average interest rate of 5.11% (2002: 5.31%) and is repayable in July 2003.

(ii) The balance of the bank loans represents at call borrowings provided to Steel & Tube Holdings Group by the National Bank of New Zealand at an average interest rate of 5.6% (2002: 5.9%).

## NOTE 17. OTHER PROVISIONS (CURRENT)

| | | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | Note | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Income tax payable** | | **1.5** | **0.9** | **0.7** | **0.4** |
| **Other Provisions** | | | | | |
| Employee benefits | 27 | 88.1 | 86.3 | - | - |
| Restoration and rehabilitation | (i) | 0.4 | 0.3 | - | - |
| Environmental | (ii) | 6.0 | 2.0 | - | - |
| Restructuring | | - | 3.2 | - | - |
| Email restructuring costs | (iii) | 6.7 | 27.6 | - | - |
| Other | (iv) | 11.9 | 10.8 | - | - |
| **Total other current provisions** | | **113.1** | **130.2** | **-** | **-** |

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 18. SELF-INSURANCE WORKERS' COMPENSATION PROVISION

| | CONSOLIDATED | |
|---|---|---|
| | 2003 $m | 2002 $m |
| **Obligations under self-insurers workers' compensation licences included in provision for employee benefits** | | |
| New South Wales | 18.2 | 19.3 |
| Queensland | 2.4 | 4.5 |
| Victoria | 4.2 | 3.2 |
| South Australia | 4.2 | 4.2 |
| Western Australia | 0.7 | 0.9 |
| **Total self-insurance workers' compensation provision** | **29.7** | **32.1** |

## NOTE 19. INTEREST BEARING LIABILITIES (NON-CURRENT)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Long term unsecured borrowings** | | | | |
| Bank loans (a) | 258.7 | 550.0 | - | - |
| US Private placement (b) | 191.0 | - | - | - |
| **Total non-current interest bearing liabilities** | **449.7** | **550.0** | **-** | **-** |

(a) Bank loans consist of the following:

(i) A drawdown of $250m of loans provided to the OneSteel Group by a syndicate of banks. These loans have an average interest rate of 5.7% (2002: 5.7%) with a repayment date of October 2004. The bank loans are subject to the terms and conditions of the loan agreements with the banks.

(ii) The balance of the bank loans comprises $8.7m (NZ$10m) of loans provided to Steel & Tube Holdings Group by the ANZ bank with an average interest rate of 5.86% and with repayment dates between April 2005 and April 2006.

(b) $191m (US$128m) from a US Private Placement undertaken in April 2003. The private placement consists of a seven year tranche (US$68m) repayable in April 2010 swapped back to an average Australian floating interest rate of 6.27% and a twelve year tranche (US$60m) repayable in April 2015, swapped back to an average Australian floating interest rate of 6.17%.

## NOTE 20. DEFERRED TAX LIABILITIES (NON-CURRENT)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Provision for deferred income tax | | | | |
| – attributable to timing differences | 141.6 | 138.2 | - | - |
| **Total non-current deferred tax liabilities** | **141.6** | **138.2** | **-** | **-** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 21. OTHER PROVISIONS (NON-CURRENT)

| | | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | Note | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Employee benefits | 27 | 69.1 | 65.5 | - | - |
| Restoration and rehabilitation | (i) | 7.5 | 6.3 | - | - |
| Environmental | (ii) | 1.8 | 10.2 | - | - |
| **Total other non-current provisions** | | **78.4** | **82.0** | **-** | **-** |

(i) Provision for restoration and rehabilitation

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

(ii) Provision for environmental matters

The environmental provision relates to known site remediation and other costs within the OneSteel Group. The current balance is in relation to costs associated with the Newcastle, Chiswick and Port Melbourne sites.

| MOVEMENTS IN PROVISIONS | Note | 2003 $m |
|---|---|---|
| For combined balances as disclosed in notes 17 and 21 (above) | | |
| **Restoration and rehabilitation** | | |
| Carrying amount at beginning of year | | 6.6 |
| Additional amounts provided | | 1.4 |
| Amounts utilised during the year | | (0.1) |
| **Carrying amount at end of year** | | **7.9** |
| **Environmental** | | |
| Carrying amount at beginning of year | | 12.2 |
| Reversal of unused amounts | | (3.5) |
| Amounts utilised during the year | | (0.9) |
| **Carrying amount at end of year** | | **7.8** |
| **Restructuring** | | |
| Carrying amount at beginning of year | | 3.2 |
| Amounts utilised during the year | | (3.2) |
| **Carrying amount at end of year** | | **-** |
| **Email restructuring** | | |
| Carrying amount at beginning of year | | 27.6 |
| Amounts utilised during the year | | (25.3) |
| Additional amounts provided via goodwill | 12 | 4.4 |
| **Carrying amount at end of year** | | **6.7** |
| **Other** | | |
| Carrying amount at beginning of year | | 10.8 |
| Additional amounts provided | | 1.8 |
| Amounts utilised during the year | | (1.8) |
| Other movements | | 1.1 |
| **Carrying amount at end of year** | | **11.9** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 22. CONTRIBUTED EQUITY

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Issued and paid-up:** | | | | |
| Ordinary shares | 1,079.6 | 1,066.6 | 1,079.6 | 1,066.6 |
| **Total contributed equity** | **1,079.6** | **1,066.6** | **1,079.6** | **1,066.6** |

| | Number of Ordinary Shares | | Value of Ordinary Shares | |
|---|---|---|---|---|
| MOVEMENTS IN CONTRIBUTED EQUITY FOR THE YEAR | 2003 000's | 2002 000's | 2003 $m | 2002 $m |
| On issue at beginning of year | 538,601 | 460,278 | 1,066.6 | 995.0 |
| Issued during the year | | | | |
| under a share placement (a) | - | 69,777 | - | 66.3 |
| less: costs associated with share placement | - | - | - | (1.3) |
| under the Employee Share Ownership Scheme (b) | 137 | 2,008 | - | - |
| under the Executive Long Term Incentive Plan (c) | - | 638 | - | - |
| from the exercise of options (d) | 112 | 1,417 | 0.1 | 1.3 |
| under the Dividend Reinvestment Plan (e) | 8,016 | 4,483 | 12.9 | 5.3 |
| **On issue at end of year** | **546,866** | **538,601** | **1,079.6** | **1,066.6** |

(a) 2002: On 5 December 2001 Onesteel Ltd issued 69,776,868 ordinary shares to investors under a share placement at $0.95 per share.

(b) Refer to note 27 Employee entitlements for details of the Employee Share Ownership Scheme.

(c) Refer to note 27 Employee entitlements for details of the Executive Long Term Incentive Plan.

(d) Issued from the exercise of options under the Executive Long Term Incentive Plan.

(e) The Dividend Reinvestment Plan provides shareholders with an opportunity to acquire additional ordinary shares in lieu of cash dividends. Shares were issued at $1.5883 (Oct 2002) and $1.6244 (April 2003).

(f) Due to the suspension of the option section of the Executive Long Term Incentive Plan, there were no options issued during the year. At the end of the year there were 5,041,356 (2002: 5,260,660) options outstanding as issued from this plan – refer to note 27 Employee entitlements.

### Terms and conditions of contributed equity

#### Ordinary shares

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

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

## NOTE 23. RESERVES

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Foreign Currency Translation Reserve** | | | | |
| Opening balance | 0.1 | 1.8 | - | - |
| Exchange fluctuations on overseas net assets | 0.5 | 2.8 | - | - |
| Transfer to retained profits (a) | - | (4.5) | - | - |
| **Closing balance** | **0.6** | **0.1** | **-** | **-** |

(a) 2002: Realised on divestment of A J Forsyth & Company Limited – refer note 26(c).

### Nature and purpose of reserve

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 24. RETAINED PROFITS AND DIVIDENDS

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Retained profits at the beginning of the financial year | 102.8 | 67.3 | 182.6 | 167.6 |
| Reversal of dividend provided 30 June 2001 (a) | - | 13.8 | - | 13.8 |
| Payment of dividend provided 30 June 2001 (a) | - | (13.8) | - | (13.8) |
| Dividends provided and paid in current year | (46.0) | (16.1) | (46.0) | (16.1) |
| Transfer from foreign currency translation reserve (b) | - | 4.5 | - | - |
| Adjustment arising from adoption of revised accounting standard AASB 1028 "Employee Benefits" | (0.7) | - | - | - |
| Net profit attributable to members of the parent entity | 94.0 | 47.1 | 47.7 | 31.1 |
| **Retained profits at the end of the financial year** | **150.1** | **102.8** | **184.3** | **182.6** |

(a) 2002: Change in accounting policy for dividend recognition.

(b) 2002: Realised on divestment of A J Forsyth & Company Limited - refer note 26(c).

### Dividends

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

| **2003** | On ordinary shares $m | Dividend per ordinary share $ |
|---|---|---|
| Final fully franked dividend for 2002 as recommended and declared by the directors, paid 17 October 2002 | 18.9 | 0.035 |
| Interim fully franked dividend for 2003, paid 24 April 2003 | 27.1 | 0.05 |

| **2002** | On ordinary shares $m | Dividend per ordinary share $ |
|---|---|---|
| Final fully franked dividend for 2001 as recommended and declared by the directors, paid 18 October 2001 | 13.8 | 0.03 |
| Interim fully franked dividend for 2002, paid 24 April 2002 | 16.1 | 0.03 |

### Dividend Franking

All dividends paid were fully franked. The tax rate at which dividends have been franked is 30% (2002: 30%).

As of 1 July 2002, the new imputation system requires a company's franking credits to be expressed on a tax-paid basis. The franking account surplus existing at 30 June 2002 has been reinstated to a tax paid amount by multiplying the Class C franking surplus by 30/70.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| The amount of franking credits available for the subsequent financial year, represented by the franking account balance at 30% are: | 6.2 | 7.0 | 0.9 | 0.3 |

## NOTE 25. OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES

| | CONSOLIDATED | |
|---|---|---|
| | 2003 $m | 2002 $m |
| **Reconciliation of outside equity interests in controlled entities:** | | |
| Opening balance | 53.1 | 52.1 |
| Share of net profit | 9.5 | 7.4 |
| Dividends paid | (8.1) | (10.6) |
| Exchange fluctuations on overseas net assets | 0.2 | 4.2 |
| **Closing balance** | **54.7** | **53.1** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTES 26. NOTES TO THE STATEMENT OF CASH FLOWS

### (a) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Cash | 19.5 | 11.4 | - | - |
| **Total cash and cash equivalents** | **19.5** | **11.4** | **-** | **-** |

### (b) Reconciliation of Net Profit After Income Tax to Net Cash Provided by Operating Activities

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Net profit after income tax | 103.5 | 54.5 | 47.7 | 31.1 |
| **Adjusted for non cash items:** | | | | |
| Depreciation and amortisation | 106.3 | 103.1 | - | - |
| Bad debts written off | 3.4 | 1.2 | - | - |
| Net gain on sale of fixed assets | - | (5.4) | - | - |
| Net gain on sale of investments | (0.3) | (2.5) | - | - |
| Diminution in value of investment | 1.9 | - | 1.9 | - |
| **Changes in assets and liabilities net of effects from purchase and sale of controlled entities and businesses:** | | | | |
| (Increase)/decrease in receivables | (7.7) | (13.2) | - | 0.2 |
| (Increase)/decrease in inventories | (10.7) | (47.0) | - | - |
| (Increase)/decrease in future income tax benefit | 23.9 | (15.1) | - | - |
| (Increase)/decrease in other assets | (3.6) | 7.9 | - | - |
| Increase/(decrease) in deferred tax provision | 3.4 | 2.8 | - | - |
| Increase/(decrease) in payables | 39.3 | (8.3) | - | - |
| Increase/(decrease) in other provisions | (1.7) | 14.6 | 0.4 | - |
| **Net operating cash flow** | **257.7** | **92.6** | **50.0** | **31.3** |

**Non cash Investing and Financing Activities**

During the year dividends of $12.9m (2002: $5.3m) were paid by the issue of shares under a dividend reinvestment plan.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTES 26. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

**(c) Controlled Entities Sold**

Shares in the following controlled entities were sold by the OneSteel Group at the dates stated.

| | | | CONSOLIDATED | |
|---|---|---|---|---|
| ENTITY AND CONSIDERATION GIVEN | Date of disposal | Proportion of shares disposed | 2003 $m | 2002 $m |
| A J Forsyth & Company Limited | 14 October 2001 | 100% | | |
| Cash | | | - | 27.8 |
| **The carrying amounts of assets and liabilities disposed of by major class are:** | | | | |
| Receivables | | | - | 12.8 |
| Inventories | | | - | 13.1 |
| Investments | | | - | 0.2 |
| Property, plant and equipment | | | - | 21.0 |
| Intangibles | | | - | 2.9 |
| Other assets | | | - | 0.7 |
| Payables | | | - | (6.0) |
| Bank overdraft | | | - | (1.0) |
| Borrowings | | | - | (16.4) |
| Provisions | | | - | (2.0) |
| | | | **-** | **25.3** |
| **Inflow of cash on disposal of entities, net of cash disposed:** | | | | |
| Cash proceeds | | | - | 27.8 |
| Bank overdraft disposed | | | - | 1.0 |
| **Inflow of cash** | | | **-** | **28.8** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 27. EMPLOYEE BENEFITS

| | CONSOLIDATED 2003 | CONSOLIDATED 2002 |
|---|---|---|
| The number of employees employed at 30 June are: | 7,054 | 6,989 |
| **(a) Employee entitlements** | $m | $m |
| **The aggregate employee entitlement liability is comprised of:** | | |
| Provisions (current) | 58.4 | 54.2 |
| Provisions (non-current) | 69.1 | 65.5 |
| **Total employee entitlements (excluding workers compensation provision)** | **127.5** | **119.7** |

**(b) Employee Share and Option Ownership Schemes**

OneSteel provides the following share and option plans for employees.

**Employee Share Plans**

Following the initial offers in December 2000 and December 2001, a further offer under the employee share scheme was made in December 2002. Employees with a qualifying period of service of three months as at 1 December 2002 were eligible to participate in either the Tax Exempt or Tax Deferred Share Plans. Both plans provide for a free issue of shares. These shares are progressively purchased on-market over a twelve month period. These purchases are made each month with the actual purchase price determined by the weighted average price of OneSteel shares traded on the Australian Stock Exchange for the five days leading up to the purchase date. The value of the free parcel of shares was $125 for employees participating in the Tax Exempt Plan and $250 for employees participating in the Tax Deferred Plan.

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

**Executive Share Plan**

The executive share plan for senior management provides for the grant of rights to shares and options. During this year the option plan was not applied, with only rights to shares granted. The shares granted were purchased on-market with the cost included in employment cost for the year in the Statement of Financial Performance. There are 44 employees (2002 : 50) eligible to participate in the plans. When granted, the shares and options are held in trust until vested in the participant. Vesting is subject to the company achieving specific performance hurdles and a three year qualifying period. The exercise price of each option is based on the weighted average price of OneSteel shares traded on the Australian Stock Exchange for the five days up to and including the date they are granted.

A total of $1.8m has been recognised as an expense in the Financial Statements for equity based remuneration in relation to the shares bought on-market in the current period.

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

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

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

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

| EMPLOYEE SHARE PLAN | Ordinary Shares 2003 | Ordinary Shares 2002 |
|---|---|---|
| Total number issued to employees during the year ('000's) | 455 | 2,008 |
| Total number issued to employees since the commencement of the scheme ('000's) | 9,607 | 9,152 |
| Total number of employees eligible to participate in the scheme | 6,682 | 6,305 |
| Total market value of issues during the year ($m) | 0.8 | 2.0 |
| Proceeds received and receivable from issues during the year ($m) | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 27. EMPLOYEE BENEFITS (CONTINUED)

| | Held in Trust Ordinary Shares | | Options | |
|---|---|---|---|---|
| EXECUTIVE LONG TERM INCENTIVE PLAN | 2003 | 2002 | 2003 | 2002 |
| Balance at beginning of year ('000's) | 3,922 | 4,179 | 5,261 | 5,571 |
| Total number of shares purchased/issued, options granted during the year ('000's) | 1,064 | 861 | - | 1,107 |
| Total number of options exercised and shares issued ('000's) | - | - | (112) | (1,417) |
| Total number of shares vested ('000's) | (17) | (487) | - | - |
| Total number of shares/options forfeited ('000's) | (102) | (631) | (108) | - |
| Balance at the end of the year ('000's) | 4,867 | 3,922 | 5,041 | 5,261 |
| Total market value of issues/purchases during the year ($m) | 1.8 | 0.7 | - | 0.2 |
| Proceeds received and receivable from issues during the year ($m) | - | - | 0.1 | 1.3 |

**Options exercised**

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

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

(i) The following table summarises information about options exercised by employees during the year ended 30 June 2002.

| Number of Options | Grant Date | Exercise Date | Expiry Date | Exercise Price | Proceeds from shares issued | Number of shares issued | Issue Date | Fair value of shares issued $ per share |
|---|---|---|---|---|---|---|---|---|
| 580,860 | 15-Dec-00 | 27-Nov-01 | 15-Dec-09 | $0.9258 | 537,760 | 580,860 | 27-Nov-01 | 1.07 |
| 439,728 | 15-Dec-00 | 27-Nov-01 | 15-Dec-09 | $0.9258 | 407,100 | 439,728 | 27-Nov-01 | 1.07 |
| 25,924 | 15-Dec-00 | 4-Dec-01 | 15-Dec-09 | $0.9258 | 24,000 | 25,924 | 4-Dec-01 | 1.06 |
| 35,775 | 15-Dec-00 | 10-Dec-01 | 15-Dec-09 | $0.9258 | 33,120 | 35,775 | 10-Dec-01 | 1.06 |
| 166,945 | 15-Dec-00 | 21-Dec-01 | 15-Dec-09 | $0.9258 | 154,558 | 166,945 | 21-Dec-01 | 1.08 |
| 50,000 | 15-Dec-00 | 5-Feb-02 | 15-Dec-09 | $0.9258 | 46,290 | 50,000 | 5-Feb-02 | 1.33 |
| 29,985 | 15-Dec-00 | 27-Feb-02 | 15-Dec-09 | $0.9258 | 27,760 | 29,985 | 27-Feb-02 | 1.46 |
| 50,000 | 15-Dec-00 | 5-Mar-02 | 15-Dec-09 | $0.9258 | 46,290 | 50,000 | 5-Mar-02 | 1.46 |
| 38,163 | 15-Dec-00 | 25-Mar-02 | 15-Dec-09 | $0.9258 | 35,331 | 38,163 | 25-Mar-02 | 1.50 |

**Details of options held in Trust at the end of the reporting period:**

| Issue Date | Earliest Exercise Date | Expiry Date | Exercise Price | Options Available 000's 2003 | 2002 |
|---|---|---|---|---|---|
| 15-Dec-00 | 16-Dec-03 | 15-Dec-09 | $0.9258 | 3,736 | 3,913 |
| 9-Apr-01 | 10-Apr-04 | 9-Apr-10 | $0.8848 | 241 | 241 |
| 2-Sep-01 | 2-Sep-04 | 2-Sep-10 | $1.0350 | 36 | 36 |
| 23-Sep-01 | 24-Sep-04 | 23-Sep-10 | $0.9143 | 30 | 30 |
| 30-Sep-01 | 30-Sep-04 | 30-Sep-10 | $0.9087 | 233 | 233 |
| 21-Dec-01 | 21-Dec-04 | 21-Dec-10 | $1.0434 | 765 | 808 |
| | | | | **5,041** | **5,261** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 27. EMPLOYEE BENEFITS (CONTINUED)

**(c) Superannuation**

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

### Accumulation funds

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

### Defined benefit funds

The benefits provided by defined benefit funds are based on length of service or membership and the salary of the member at or near retirement. Member contributions, based on a percentage of salary, are specified by the rules of the fund.

Employer contributions generally vary based on actuarial advice and may be reduced or even cease when the fund is in actuarial surplus. These contributions are expensed in the period in which they are incurred.

The Defined benefit fund shows a deficiency of $9.5m as at 30 June 2003 (2002: $3.1m) due to the adverse investment returns of the fund. OneSteel is not presently obliged to fund the deficit as current funding arrangements are adequate to progressively fund the deficit.

| | | 2003 | | | |
|---|---|---|---|---|---|
| Name of fund | Fund type | Accrued Benefits $m | Plan Assets $m | Net Surplus (Deficit) $m | Vested Benefits $m |
| OneSteel Superannuation Fund | Defined benefit | 268.0 | 258.5 | (9.5) | 268.0 |

These amounts are calculated at 30 June 2003, based on assumptions as used for the last actuarial review.

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

## NOTE 28. CAPITAL EXPENDITURE AND LEASE COMMITMENTS

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| **Capital expenditure commitments** | | | | |
| Commitments arising from contracts for expenditure in respect of investments and property, plant and equipment to the extent not provided for in the accounts | | | | |
| Due not later than one year | 22.6 | 7.9 | - | - |
| Due within one to two years | 3.0 | - | - | - |
| **Total commitments for capital expenditure** | **25.6** | **7.9** | **-** | **-** |
| **Lease expenditure commitments** | | | | |
| Operating leases | | | | |
| Due not later than one year | 27.5 | 24.8 | - | - |
| Due within one to two years | 23.7 | 21.9 | - | - |
| Due within two to five years | 28.7 | 25.7 | - | - |
| Due later than five years | 34.0 | 29.6 | - | - |
| **Total commitments under operating leases** | **113.9** | **102.0** | **-** | **-** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 29. CONTINGENT LIABILITIES

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

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| Guarantees and indemnities | 2003 $m | 2002 $m | 2003 $m | 2002 $m |
| Bank guarantees covering: | | | | |
| Performance of contracts | 45.6 | 13.4 | 19.6 | 2.5 |
| Workers' compensation self-insurance licences | 41.3 | 43.3 | 41.3 | 43.3 |

As explained in Note 31 OneSteel has entered into a Deed of Cross Guarantee in accordance with a class order issued by the Australian Securities and Investment Commission. OneSteel Limited, and all the the controlled entities which are a party to the deed, have guaranteed the repayment of all current and future creditors in the event any of these companies are wound up.

**Third party claims**

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

## NOTE 30. FINANCING ARRANGEMENTS

| | CONSOLIDATED | | |
|---|---|---|---|
| **2003** | Accessible $m | Drawn Down $m | Unused $m |
| Working capital facilities (a) | 25.0 | 25.0 | - |
| US Private Placement (b) | 191.0 | 191.0 | - |
| Bank loan facilities (c) | 946.8 | 273.7 | 673.1 |
| Bank overdraft (d) | 15.7 | - | 15.7 |
| **Total financing facilities** | **1,178.5** | **489.7** | **688.8** |

| | CONSOLIDATED | | |
|---|---|---|---|
| **2002** | Accessible $m | Drawn Down $m | Unused $m |
| Working capital facility | 65.0 | 25.0 | 40.0 |
| Bank loan facility | 930.2 | 558.0 | 372.2 |
| Bank overdraft | 15.9 | - | 15.9 |
| Total financing facilities | 1,011.1 | 583.0 | 428.1 |

(a) Expiry date of November 2003.

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

(c) Various facilities with a range of expiry dates from November 2003 to March 2006.

(d) Various facilities with a range of expiry dates from October 2003 to March 2004.

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 31. CONTROLLED ENTITIES

The consolidated financial statements at 30 June 2003 include the following entities.

| Entity | Notes | Place of Incorporation | % of Shares Held 2003 | 2002 |
|---|---|---|---|---|
| OneSteel Limited | (a) | Australia | | |
| Aquila Steel Company Pty Ltd | (b) | Australia | 100 | 100 |
| Australian Wire Industries Pty Limited | (b) | Australia | 100 | 100 |
| AWI Holdings Pty Limited | (b) | Australia | 100 | 100 |
| Pipeline Supplies of Australia Pty Limited | (b) | Australia | 100 | 100 |
| J Murray-More (Holdings) Pty Limited | (b) | Australia | 100 | 100 |
| Metpol Pty Limited | (b) | Australia | 100 | 100 |
| OneSteel Building Supplies Pty Limited (formerly John Stansfield-Smith Pty Limited) | (b) | Australia | 100 | 100 |
| OneSteel Finance Pty Limited | | Australia | 100 | 100 |
| OneSteel Investments Pty Limited | (b) | Australia | 100 | 100 |
| OneSteel Insurance Pte Limited | | Singapore | 100 | - |
| OneSteel Manufacturing Pty Limited | (b) | Australia | 100 | 100 |
| OneSteel MBS Pty Limited | (b) | Australia | 100 | 100 |
| OneSteel NSW Pty Limited | (b) | Australia | 100 | 100 |
| OneSteel NZ Limited | | New Zealand | 100 | 100 |
| OneSteel Queensland Pty Limited | (b) | Australia | 100 | 100 |
| OneSteel Reinforcing Pty Limited | (b) | Australia | 100 | 100 |
| Onesteel Trading Pty Limited | (b) | Australia | 100 | 100 |
| OneSteel Wire Pty Limited | (b) | Australia | 100 | 100 |
| Reosteel Pty Limited | (b) | Australia | 100 | 100 |
| Tubemakers of Australia Pty Ltd | (b) | Australia | 100 | 100 |
| Tubemakers Somerton Pty Limited | (b) | Australia | 100 | 100 |
| Tubemakers of New Zealand Limited | | New Zealand | 100 | 100 |
| Steel & Tube Holdings Limited | | New Zealand | 50.3 | 50.3 |
| Steel & Tube New Zealand Limited | | New Zealand | 50.3 | 50.3 |
| Steel & Tube Reinforcing Limited | | New Zealand | 50.3 | 50.3 |
| Steel & Tube Roofing Products Limited | | New Zealand | 50.3 | 50.3 |
| Steel & Tube Structural Limited (de-registered December 2002) | | New Zealand | - | 50.3 |
| David Crozier Limited | | New Zealand | 50.3 | 50.3 |
| EMCO Group Limited | | New Zealand | 50.3 | 50.3 |
| EMCO Group Superannuation Fund Limited | | New Zealand | 50.3 | 50.3 |
| Fastening Supplies Limited | | New Zealand | 50.3 | 50.3 |
| Hurricane Wire Products Limited | (c) | New Zealand | 50.3 | - |
| Macinery Limited (de-registered March 2003) | | New Zealand | - | 50.3 |
| Metal Sales Limited (de-registered December 2002) | | New Zealand | - | 50.3 |
| NZMC Limited | | New Zealand | 50.3 | 50.3 |
| Robt Stone (Malaysia) Sdn Bhd (voluntary liquidation June 2003) | | Malaysia | - | 50.3 |
| Steel Warehouse Limited | | New Zealand | 50.3 | 50.3 |
| Stewart Steel Limited | | New Zealand | 50.3 | 50.3 |
| Stube Industries Limited | | New Zealand | 50.3 | 50.3 |

(a) OneSteel Limited, a public company, is domiciled in Sydney, Australia.

The Registered office is located at:
Level 23
1 York Street
Sydney NSW 2000
Australia

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

The consolidated Statement of Financial Performance and Statement of Financial Position of all entities in the class order "closed group" are set out in footnote (d).

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

(c) This is a shelf company established to protect the trading name Hurricane Wire Products and does not include the net assets acquired as a result of the acquisition of the Hurricane Wire Products business.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 31. CONTROLLED ENTITIES (CONTINUED)

**(d) Financial information for Class Order Closed Group**

**OneSteel Limited Closed Group**
**Statement of Financial Performance**
**for the year ended 30 June**

| | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m |
|---|---|---|
| Sales revenue | 2,800.3 | 2,655.5 |
| Cost of sales | (2,268.9) | (2,221.0) |
| Gross profit | 531.4 | 434.5 |
| Other revenues from ordinary activities | 54.5 | 82.6 |
| Operating expenses excluding borrowing costs | (408.4) | (383.8) |
| Borrowing costs | (45.0) | (54.3) |
| Profit from ordinary activities before income tax | 132.5 | 79.0 |
| Income tax expense relating to ordinary activities | (42.0) | (28.2) |
| **Net profit from ordinary activities after related income tax** | **90.5** | **50.8** |
| **Retained Profits** | | |
| Balance at the beginning of the financial year | 78.9 | 58.0 |
| Net profit | 90.5 | 50.8 |
| Dividends paid | (46.0) | (29.9) |
| Adjustment arising from adoption of revised accounting standard AASB 1028 "Employee Benefits" | (0.7) | - |
| **Balance at the end of the financial year** | **122.7** | **78.9** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 31. CONTROLLED ENTITIES (CONTINUED)

**OneSteel Limited Closed Group**
**Statement of Financial Position**
**at 30 June**

| | CONSOLIDATED | |
|---|---|---|
| | 2003 $m | 2002 $m |
| **Current Assets** | | |
| Cash assets | 52.4 | 9.9 |
| Receivables | 1,066.6 | 1,100.1 |
| Inventories | 543.7 | 533.1 |
| Other | 6.6 | 8.6 |
| **Total Current Assets** | **1,669.3** | **1,651.7** |
| **Non-Current Assets** | | |
| Investments | 33.1 | 34.5 |
| Property, plant and equipment | 1,131.8 | 1,127.1 |
| Intangibles | 244.8 | 256.4 |
| Deferred tax assets | 52.7 | 75.5 |
| Other | 25.6 | 20.6 |
| **Total Non-Current Assets** | **1,488.0** | **1,514.1** |
| **Total Assets** | **3,157.3** | **3,165.8** |
| **Current Liabilities** | | |
| Payables | 424.3 | 397.8 |
| Interest bearing liabilities | 1,198.0 | 1,274.2 |
| Tax liabilities | 1.5 | - |
| Other provisions | 105.3 | 128.3 |
| **Total Current Liabilities** | **1,729.1** | **1,800.3** |
| **Non-Current Liabilities** | | |
| Deferred tax liabilities | 141.6 | 138.2 |
| Other provisions | 84.3 | 81.8 |
| **Total Non-Current Liabilities** | **225.9** | **220.0** |
| **Total Liabilities** | **1,955.0** | **2,020.3** |
| **Net Assets** | **1,202.3** | **1,145.5** |
| **Equity** | | |
| Contributed equity | 1,079.6 | 1,066.6 |
| Retained profits | 122.7 | 78.9 |
| **Total Equity** | **1,202.3** | **1,145.5** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 32. REMUNERATION OF OFFICERS:

| (a) Income of Directors | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m | PARENT 2003 $m | PARENT 2002 $m |
|---|---|---|---|---|
| Amounts received or due and receivable by Directors of OneSteel Limited | - | - | 4.9 | 4.6 |
| Amounts received or due and receivable by Directors of OneSteel Group controlled entities | 9.4 | 10.5 | - | - |

The numbers of directors of the parent entity who were paid, or were due to be paid, income (including brokerage, commissions, bonuses, retirement payments and salaries), directly or indirectly from the company or any related party, as shown in the following bands, were:

| Directors whose total income was between | PARENT 2003 Number | PARENT 2002 Number |
|---|---|---|
| $ 160,000 - 169,999 | 5 | 5 |
| $ 500,000 - 509,999 | 1 | 1 |
| $3,320,000 -3,329,999 | - | 1 |
| $3,560,000 -3,569,999 | 1 | - |

2002 numbers have been restated to be comparable to those used in 2003, adjustments relate to adding share-based remuneration and the annual accrual of the retirement benefit for non-executive directors.

| (b) Income of executives | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m | PARENT 2003 $m | PARENT 2002 $m |
|---|---|---|---|---|
| Amounts received or due and receivable by executive officers (including executive directors) whose income exceeds $100,000 | 8.4 | 9.0 | - | - |

| Executive officers whose total income was between ($) | CONSOLIDATED 2003 Number | CONSOLIDATED 2002 Number | PARENT 2003 Number | PARENT 2002 Number |
|---|---|---|---|---|
| $ 160,000 - 169,999 | - | 1 | - | - |
| $ 280,000 - 289,999 | - | 1 | - | - |
| $ 310,000 - 319,999 | - | 1 | - | - |
| $ 320,000 - 329,999 | - | 1 | - | - |
| $ 330,000 - 339,999 | 1 | - | - | - |
| $ 350,000 - 359,999 | - | 1 | - | - |
| $ 360,000 - 369,999 | - | 1 | - | - |
| $ 380,000 - 389,999 | 1 | - | - | - |
| $ 400,000 - 409,999 | 1 | - | - | - |
| $ 480,000 - 489,999 | 1 | 1 | - | - |
| $ 650,000 - 659,999 | - | 1 | - | - |
| $ 710,000 - 719,999 | - | 1 | - | - |
| $ 740,000 - 749,999 | - | 1 | - | - |
| $ 770,000 - 779,999 | 1 | - | - | - |
| $ 810,000 - 819,999 | 1 | - | - | - |
| $ 820,000 - 829,999 | 2 | - | - | - |
| $1,280,000 -1,289,999 | - | 1 | - | - |
| $3,320,000 -3,329,999 | - | 1 | - | - |
| $3,560,000 -3,569,999 | 1 | - | - | - |

(a) Income of executives comprises amounts paid or payable to executive officers domiciled in Australia, directly or indirectly, by the consolidated entity or any related party in connection with the management of the affairs of the entity or consolidated entity, whether as executive officers or otherwise. The 2003 and 2002 amounts now include the actual cost of shares purchased on-market under the Long Term Incentive Plan and a notional value for previous issues of shares and options. The value of options is based on the Black-Scholes pricing model at grant date and the value of shares is the market value on issue date. These values have been apportioned over the 3-year vesting period.

(b) An executive officer is a person who is directly accountable and responsible for the strategic direction and operational management of the OneSteel Group.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 33. REMUNERATION OF AUDITORS

| | CONSOLIDATED 2003 $ | CONSOLIDATED 2002 $ | PARENT 2003 $ | PARENT 2002 $ |
|---|---|---|---|---|
| **Amounts received or due and receivable by the auditors of the OneSteel Entity for:** | | | | |
| Audit of accounts of OneSteel and its controlled entities (a) | 868,500 | 800,335 | 120,000 | 100,000 |
| Other services (b) | 437,717 | 422,516 | - | - |
| | **1,306,217** | **1,222,851** | **120,000** | **100,000** |
| **Amounts received or due and receivable by the auditors other than the auditors of the OneSteel Entity for:** | | | | |
| Audit of accounts of certain controlled entities | 178,745 | 273,299 | - | - |
| Other services | 165,472 | 214,674 | - | - |
| | **344,217** | **487,973** | **-** | **-** |

(a) The consolidated 2003 amount includes a payment of $90,000 for additional audit work performed in the 2002 audit.

(b) An analysis of the other services provided by the auditors of the OneSteel Entity is as follows:

| | 2003 $ | 2002 $ |
|---|---|---|
| Taxation advisory services | 397,314 | 276,016 |
| Other accounting advice | 40,403 | - |
| Advice on Email acquisition | - | 146,500 |
| | **437,717** | **422,516** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 34. RELATED PARTY DISCLOSURES

**(a) Directors**

The following persons held the position of director of OneSteel Limited throughout the financial year:

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

| (b) Directors' Shareholdings | Number of Shares issued by Parent Entity 2003 | Number of Shares issued by Controlled Entities 2003 |
|---|---|---|
| **Shares and share options acquired during the year:** | | |
| Ordinary shares fully paid | 80,800 | - |
| Ordinary share options | - | - |
| Ordinary share rights | 260,773 | - |
| **Shares and share options held at end of the year:** | | |
| Directly | | |
| Ordinary shares fully paid | 478,325 | 6,000 |
| Ordinary share options | 2,462,735 | - |
| Ordinary share rights | 2,107,825 | - |
| Indirectly | | |
| Ordinary shares fully paid | 88,001 | - |

**(c) Other Director transactions**

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

During the financial year, Colin Galbraith was a partner in the law firm, Allens Arthur Robinson. The firm acted for Onesteel Limited in the provision of legal services on an arms length fee basis during the financial year. The fees for those services as invoiced during the year were $282,536 (2002: $126,337), exclusive of GST, of which an amount of $168,467 was outstanding at 30 June 2003.

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

**(d) Transactions with Related Parties in the Wholly-Owned Group**

In addition to the transactions set out in note 2, the parent entity entered into the following transactions with related parties in the wholly-owned group.

- loans were advanced
- interest was received
- management fees were received and paid

These transactions were undertaken on commercial terms and conditions.

The ownership interests in related parties in the wholly-owned group are set out in note 31.

### NOTE 34. RELATED PARTY DISCLOSURES (CONTINUED)

**(e) Transactions with Related Parties**

| Transaction Type | Class of related party | CONSOLIDATED 2003 $m | CONSOLIDATED 2002 $m | PARENT 2003 $m | PARENT 2002 $m |
|---|---|---|---|---|---|
| **Loans to other related parties** | | | | | |
| Loan advances | Controlled entities | - | - | 104.4 | 87.8 |
| Interest received | Controlled entities | - | - | 2.7 | 1.5 |
| **Other transactions** | | | | | |
| Management fees paid | Controlled entities | - | - | 3.5 | 4.5 |
| Management fees received | Controlled entities | - | - | 3.5 | 4.5 |
| Dividends received | Controlled entities | - | - | 47.6 | 30.0 |

**(f) Other Related Parties**

Bekaert Australia Steel Cord Pty Ltd is 50% owned by Onesteel Limited. Transactions consist of the supply of wire products undertaken on commercial terms and conditions. The value of sales and balances included in the financial statements are:

| | 2003 $m | 2002 $m |
|---|---|---|
| Sale of goods | 3.1 | 2.7 |
| Trade receivables | 0.4 | 0.3 |

**(g) Ultimate Controlling Entity**

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 35. FINANCIAL INSTRUMENTS

### (a) Objectives for Holding Derivative Financial Instruments

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

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

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

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

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

### (b) Interest rate risk exposures

The OneSteel Group is exposed to interest rate risk through primary financial assets and liabilities, modified through derivative financial instruments such as interest rate and cross currency swaps and interest rate options. The table below summarises interest rate risk for the OneSteel Group together with effective interest rates at 30 June 2003.

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

(a) net of of trade receivables sold

| | | Fixed Interest Rate Maturing in | | | | | Average Interest Rate (%pa) | |
|---|---|---|---|---|---|---|---|---|
| **2002** | Floating Interest Rate $m | 1 Year or Less $m | Over 1 to 5 Years $m | More than 5 Years $m | Non-Interest Bearing $m | Total $m | Floating % | Fixed % |
| **Financial assets** | | | | | | | | |
| Cash | 11.4 | - | - | - | - | 11.4 | 3.8 | |
| Trade receivables (a) | 34.6 | - | - | - | 346.1 | 380.7 | 10.2 | |
| Other financial assets | - | - | - | - | 25.6 | 25.6 | | |
| | 46.0 | - | - | - | 371.7 | 417.7 | | |
| **Financial liabilities** | | | | | | | | |
| Trade creditors | - | - | - | - | 257.1 | 257.1 | | |
| Bank loans | 583.0 | - | - | - | - | 583.0 | 5.7 | |
| Interest rate swaps | (475.0) | - | 475.0 | - | - | - | 4.6 | 6.2 |
| | 108.0 | - | 475.0 | - | 257.1 | 840.1 | | |

(a) net of trade receivables sold

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 35. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Foreign exchange

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

| 2003 | Australian Dollars $m | United States Dollars $m | New Zealand Dollars $m | Other $m | Total $m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash | 15.4 | 2.7 | 0.9 | 0.5 | 19.5 |
| Trade receivables (a) | 319.5 | 8.1 | 57.1 | 0.1 | 384.8 |
| Forward exchange contracts | 4.7 | - | (4.7) | - | - |
| | **339.6** | **10.8** | **53.3** | **0.6** | **404.3** |
| (a) Net of trade receivables sold. | | | | | |
| **Financial liabilities** | | | | | |
| Trade creditors | 281.4 | 2.8 | 15.4 | 4.7 | 304.3 |
| Other creditors | 157.5 | - | 5.9 | - | 163.4 |
| Bank loans | 275.0 | - | 23.7 | - | 298.7 |
| US Private Placement | - | 191.0 | - | - | 191.0 |
| Cross currency swap | 191.0 | (191.0) | - | - | - |
| Forward exchange contracts | 39.1 | (19.5) | - | (19.6) | - |
| | **944.0** | **(16.7)** | **45.0** | **(14.9)** | **957.4** |

| 2002 | Australian Dollars $m | United States Dollars $m | New Zealand Dollars $m | Other $m | Total $m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash | 9.1 | - | 2.3 | - | 11.4 |
| Trade receivables[a] | 324.9 | 3.1 | 52.4 | 0.3 | 380.7 |
| Forward exchange contracts | 6.8 | (0.9) | (5.3) | (0.6) | - |
| | **340.8** | **2.2** | **49.4** | **(0.3)** | **392.1** |
| (a) Net of trade receivables sold. | | | | | |
| **Financial liabilities** | | | | | |
| Trade creditors | 237.7 | 1.7 | 14.9 | 2.8 | 257.1 |
| Other creditors | 161.9 | - | 6.1 | - | 168.0 |
| Bank loans | 575.0 | - | 8.0 | - | 583.0 |
| Forward exchange contracts | 28.1 | (18.9) | - | (9.2) | - |
| | **1,002.7** | **(17.2)** | **29.0** | **(6.4)** | **1,008.1** |

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 35. FINANCIAL INSTRUMENTS (CONTINUED)

| Currency | Average Exchange Rate 2003 | Average Exchange Rate 2002 | 2003 Buy $m | 2003 Sell $m | 2002 Buy $m | 2002 Sell $m |
|---|---|---|---|---|---|---|
| **United States dollars:** | | | | | | |
| 3 months or less | 0.663 | 0.542 | 12.5 | - | 18.9 | 0.9 |
| Over 3 to 12 months | 0.632 | - | 7.0 | - | - | - |
| | | | **19.5** | **-** | **18.9** | **0.9** |
| **Japanese Yen** | | | | | | |
| 3 months or less | 69.47 | 68.30 | 5.4 | - | 1.8 | 0.3 |
| Over 3 to 12 months | - | 67.55 | - | - | 0.7 | - |
| | | | **5.4** | **-** | **2.5** | **0.3** |
| **New Zealand dollar** | | | | | | |
| 3 months or less | 1.1383 | 1.1855 | - | 4.7 | - | 4.4 |
| Over 3 to 12 months | - | 1.1639 | - | - | - | 0.9 |
| | | | **-** | **4.7** | **-** | **5.3** |
| **Euro** | | | | | | |
| 3 months or less | 0.5561 | 0.5991 | 12.2 | - | 2.4 | 0.4 |
| Over 3 to 12 months | 0.5621 | 0.5909 | 0.5 | - | 0.4 | - |
| | | | **12.7** | **-** | **2.8** | **0.4** |
| **Pounds Sterling** | | | | | | |
| 3 months or less | 0.3875 | 0.3648 | 0.5 | - | 2.8 | - |
| Over 3 to 12 months | 0.3912 | 0.3692 | 0.9 | - | 0.3 | - |
| Over 12 to 24 months | - | 0.3605 | - | - | 0.2 | - |
| | | | **1.4** | **-** | **3.3** | **-** |

### (d) Credit risk exposures

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 35. FINANCIAL INSTRUMENTS (CONTINUED)

| | CONSOLIDATED | |
|---|---|---|
| **Derivatives** | 2003 $m | 2002 $m |
| Interest rate swaps | (9.8) | (3.7) |
| Cross currency swaps | (15.7) | - |
| Foreign exchange contracts | (1.5) | (0.5) |
| Zinc hedges | (0.2) | - |
| | **(27.2)** | **(4.2)** |

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

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

| | CONSOLIDATED | |
|---|---|---|
| **Location of credit risk** | 2003 $m | 2002 $m |
| Australia | 384.2 | 359.6 |
| New Zealand | 54.6 | 54.7 |
| North America | 8.1 | 3.1 |
| Other | 0.1 | 0.3 |
| | **447.0** | **417.7** |

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

| | CONSOLIDATED | |
|---|---|---|
| **Industry classification** | 2003 % | 2002 % |
| Building and construction industry | 58 | 55 |
| Manufacturing industry | 14 | 18 |
| Mining industry | 12 | 11 |
| Other | 16 | 16 |

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 35. FINANCIAL INSTRUMENTS (CONTINUED)

| | | CONSOLIDATED | | | |
|---|---|---|---|---|---|
| | | 2003 Carrying Value $m | 2003 Net Fair Value $m | 2002 Carrying Value $m | 2002 Net Fair Value $m |
| **Financial liabilities:** | | | | | |
| Long term Syndicated AUD debt | | 250.0 | 250.0 | 550.0 | 550.0 |
| Long term USD private placement | | 191.0 | 192.7 | - | - |
| Long Term NZD debt | | 10.0 | 10.1 | - | - |
| **Derivatives:** | | | | | |
| Foreign exchange contracts | Payables | (1.5) | (1.5) | - | (0.5) |
| Cross currency swaps | Payables | (17.3) | (15.7) | - | - |
| Interest rate swaps | Payables | (1.3) | (9.8) | - | (3.7) |
| Zinc Hedges | Payables | (0.1) | (0.2) | - | - |

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

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

### Short and long term debt

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

### Swaps and options

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

### Foreign exchange contracts and options

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

### (f) Hedges of Anticipated Future Transactions

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

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

| | 2003 | | 2002 | |
|---|---|---|---|---|
| **Expected recognition period** | Gains $m | Losses $m | Gains $m | Losses $m |
| Within one year | 0.1 | 3.8 | 0.3 | 0.8 |

# DIRECTORS' DECLARATION

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

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

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date: and

(ii) complying with Accounting Standards and Corporations Regulations 2001: and

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

(2) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the Company and the subsidiaries identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the directors.

**Peter Smedley**
Chairman

**Robert Every**
Managing Director

Sydney
19 August 2003

# INDEPENDENT AUDIT REPORT

**Full Audit Opinion**

**Independent audit report to members of OneSteel Limited**

## Scope

### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for OneSteel Limited, ("the company") and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

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

### Audit approach

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

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

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

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

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

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

## Independence

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

## Audit opinion

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

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of OneSteel Limited and the consolidated entity at 30 June 2003 and of their performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

**Craig M Jackson**
Partner

Sydney
19 August 2003

# SHAREHOLDER INFORMATION

## NUMBER OF SHAREHOLDERS

There were 103,612 shareholders at 5 September 2003. There is only one class of share, ordinary fully paid shares. All issued shares carry voting rights on a one-for-one basis.

## DISTRIBUTION OF SHAREHOLDINGS AT 5 SEPTEMBER 2003

| Range of Holdings | Number of Shareholders | % of Total Holders | Number of Shares | % of Total Shares |
|---|---|---|---|---|
| 1 – 1,000 | 65,167 | 62.90 | 25,839,361 | 4.72 |
| 1,001 – 5,000 | 28,785 | 27.78 | 63,365,394 | 11.59 |
| 5,001 – 10,000 | 5,412 | 5.22 | 39,691,033 | 7.26 |
| 10,001 – 100,000 | 4,112 | 3.97 | 85,142,982 | 15.57 |
| 100,001 and over | 136 | 0.13 | 332,826,884 | 60.86 |
| **Total** | **103,612** | **100.00** | **546,865,654** | **100.00** |

## UNMARKETABLE PARCELS

There were 19,550 members holding less than a marketable parcel of shares in the company as at 5 September 2003.

## LISTING

The company's shares are quoted on the Australian Stock Exchange.

## TWENTY LARGEST SHAREHOLDERS AT 5 SEPTEMBER 2003

| | Number of Shares | % of Total Shares |
|---|---|---|
| J P Morgan Nominees Australia Limited | 60,510,584 | 11.06 |
| RBC Global Services Australia Nominees Pty Limited | 55,832,775 | 10.21 |
| National Nominees Limited | 44,042,472 | 8.05 |
| Westpac Custodian Nominees Ltd | 42,703,970 | 7.81 |
| OneSteel Share Plans Pty Limited | 21,133,796 | 3.87 |
| ANZ Nominees Limited | 13,366,475 | 2.45 |
| Citicorp Nominees Pty Ltd | 12,631,310 | 2.30 |
| AMP Life Limited | 10,603,363 | 1.94 |
| Cogent Nominees Pty Limited | 7,597,611 | 1.39 |
| Queensland Investment Corporation | 7,552,330 | 1.38 |
| Commonwealth Custodial Services Limited | 6,054,911 | 1.11 |
| Government Superannuation Office | 3,369,586 | 0.62 |
| PSS Board | 2,768,568 | 0.51 |
| UBS Nominees Pty Ltd | 2,648,233 | 0.48 |
| Transport Accident Commission | 2,518,432 | 0.46 |
| CSS Board | 2,431,782 | 0.44 |
| Victorian Workcover Authority | 2,311,052 | 0.42 |
| Health Super Pty Ltd | 1,843,165 | 0.34 |
| Argo Investments Limited | 1,824,707 | 0.33 |
| UCA Growth Fund Limited | 1,750,000 | 0.32 |
| Total | 303,495,122 | 55.49 |
| **Total issued shares** | **546,865,654** | **100.00** |

## SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as defined by the Corporations Act (holding at least 5% of shares):

| | | |
|---|---|---|
| Maple-Brown Abbott Limited | 42,956,177 | 7.85% |
| Barclays Global Investors Australia Limited | 40,042,765 | 7.32% |

## UNQUOTED EQUITY SECURITIES

Options over ordinary shares issued pursuant to the OneSteel executive share/option plan:

- Number of employees participating 45
- Number of securities 5,041,356

## SHARE REGISTRY

Shareholders with queries about anything related to their shareholding should contact the OneSteel Share Registry in Sydney on telephone 1300 364 787 or +61 3 9649 5026. Alternatively, shareholders may wish to write to:

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000
Australia

Or on facsimile: +61 2 8234 5050.

# SHAREHOLDER INFORMATION

Details of individual shareholdings can be checked conveniently and simply through visiting our Registrar's website at www.computershare.com and clicking on the Investor Centre button. For security reasons, you then need to key in your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) plus family name and postcode, to enable access to personal information.

## DIVIDENDS

The company proposes to pay dividends in October and April. Shareholders should retain for taxation purposes full details of dividend payments.

The following options are available to shareholders regarding payment of dividends:

1. By direct deposit to an Australian bank, building society or credit union account.
2. By cheque payable to the shareholder. Lost or stolen cheques should be reported immediately to the OneSteel Share Registry, in writing, to enable stop payment and replacement.

Where shareholders choose to have their dividends paid by direct deposit, payments are electronically credited on the dividend date and confirmed by a payment advice sent to the shareholder. Request forms for this service are available from the OneSteel Share Registry or by visiting www.computershare.com. OneSteel encourages its shareholders to avail themselves of the direct credit facility.

## DIVIDEND REINVESTMENT PLAN

As an alternative to receiving cash dividends, eligible shareholders may elect by notification to the share registry, in writing, to participate in the Dividend Reinvestment Plan ("DRP"). The DRP enables shareholders to use cash dividends to purchase fully paid OneSteel ordinary shares.

## TAX FILE NUMBERS

OneSteel is required to withhold tax at the rate of 48.5% on any unfranked component of dividends or interest paid to investors resident in Australia who have not supplied the company with a tax file number ("TFN") or exemption form. Investors are not required by law to provide their TFN if they do not wish to do so.

## STOCK EXCHANGE LISTING

OneSteel is listed on the Australian Stock Exchange. All shares are recorded on the principal share register, which is located in New South Wales.

## PUBLICATIONS

The company's Annual Review is the main source of information for investors and is mailed to shareholders in October. Other sources of information, which will be available on the internet, are:

1. The Chairman's address to the annual general meeting.
2. The half-year financial report reviewing the July–December half year.
3. The announcement of the full year's results.

Shareholders wishing to receive company information electronically via email, instead of by mail, may register their email address with the company's online shareholder registry as follows:

- visit www.computershare.com
- click on Investor Centre
- click on Registry Service
- click on Your Shareholding
- next, type the company name, OneSteel Limited, or simply the company code, OST
- then, next to Check Your Securities, click the 'Go' button. You will then need to enter your personal security information; Holder Identification Number (HIN) or Securityholder Reference Number (SRN); family or company name and postcode; and click 'Go'
- from there, click on 'Go' for Communication Details and follow the prompts

After you have entered your e-mail address and selected which publications you wish to receive, an e-mail will be sent to you for confirmation purposes.

When you receive it, just click on 'Reply' to confirm your details, then 'Send'.

## INTERNET ADDRESS

Shareholder information may be obtained from the shareholder information section of the OneSteel website **www.onesteel.com.**

## CHANGE OF ADDRESS

Issuer sponsored shareholders should notify the OneSteel Share Registry immediately, in writing, signed by the shareholder(s), of any change to their registered address. For added security, shareholders should quote their previous address and Securityholder Reference Number (SRN). CHESS uncertificated shareholders should advise their sponsoring broker or non-broker participant.

## REMOVAL FROM MAILING LIST

Shareholders who do not wish to receive the Annual Review should advise the OneSteel Registry, in writing, noting their SRN or HIN.

## CHANGE OF NAME

Shareholders who change their name should notify the OneSteel Share Registry, in writing, and attach a certified copy of a relevant marriage certificate or deed poll.

## BUY-BACK

There is no current on-market buy-back in place.

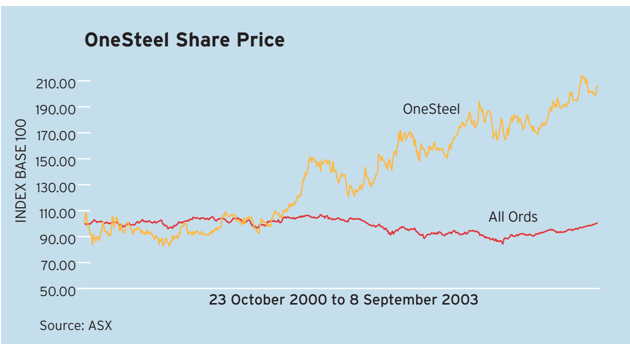
# STATISTICAL SUMMARY

This report has been prepared by comparing the 12 months to June 2002 and 2003 Statutory Accounts with the pro-forma numbers for the corresponding periods in 2001 and 2000. The Statutory Accounts for the 12 months to June 2001 do not include the trading of all the OneSteel Group for the 12 months as the purchase of assets was completed at different times between July and October 2000.

The pro-forma numbers include the results of all businesses as if the assets and operations of all businesses spun out from BHP were part of the OneSteel Group from 1 July 2000 to 30 June 2001.

## KEY FINANCIAL STATISTICS

| 12 Months Ended 30 June<br>A$ millions | 2003<br>Statutory | 2002<br>Statutory | 2001<br>Inc Prov<br>Pro-forma | 2000<br>Pro-forma | % Change<br>03/02 |
|---|---|---|---|---|---|
| Sales Revenue | 3,060.6 | 2,906.0 | 2,637.7 | 2959.1 | 5.3 |
| Other Revenue | 39.5 | 80.5 | 141.5 | 17.4 | (50.9) |
| Total Revenue | 3,100.1 | 2,986.5 | 2,779.2 | 2976.5 | 3.8 |
| Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) | 307.6 | 251.0 | 181.7 | 268.0 | 22.5 |
| Earnings Before Interest, Tax and Amortisation (EBITA) | 221.1 | 166.8 | 74.7 | 171.7 | 32.6 |
| Earnings Before Interest and Tax (EBIT) | 201.3 | 147.9 | 37.7 | 155.2 | 36.1 |
| Borrowing Costs | 44.5 | 54.4 | 61.8 | | (18.2) |
| Profit (Loss) Before Tax | 156.8 | 93.5 | (24.1) | | 67.7 |
| Tax Expense (Benefit) | 53.3 | 39.0 | (2.1) | | 36.7 |
| Net Profit After Tax and Minorities (NPAT) | 94.0 | 47.1 | (27.9) | | 99.6 |
| Cash Flow from Operations | 142.5 | 143.9 | 170.1 | | (1.0) |
| Free Cash Flow | 154.9 | 28.5 | 220.8 | | 443.5 |
| Total Assets | 2,577.0 | 2,582.0 | 2,710.8 | 2,628.4 | (0.2) |
| Funds Employed | 1,755.2 | 1,794.2 | 1,878.6 | 2,019.7 | (2.2) |
| Total Liabilities | 1,292.0 | 1,359.4 | 1,594.6 | 1,465.9 | (5.0) |
| Net Debt | 470.2 | 571.6 | 762.4 | 857.2 | (17.7) |
| Capital and Investment Expenditure | 130.9 | 70.8 | 108.4 | 167.6 | 84.9 |
| Inventories | 591.0 | 574.1 | 540.3 | 608.0 | 2.9 |
| Employees | 7,054 | 6,989 | 7,379 | 7,271 | 0.9 |
| Sales per Employee $'000 | 433.9 | 415.8 | 357.5 | 407.0 | 4.4 |
| Net Tangible Asset Backing, $ per share | 1.77 | 1.69 | 1.81 | 2.03 | |
| EBITA margin on Sales % | 7.2 | 5.7 | 4.5 | 5.8 | |
| EBITA Return on Funds Employed % | 12.5 | 9.1 | 6.3 | 7.7 | |
| Return on Equity % | 8.3 | 4.7 | 2.6 | | |
| Gearing (net debt:net debt plus equity) % | 26.8 | 31.9 | 40.6 | 42.4 | |
| Gearing (net debt:net debt plus equity incl securitisation) % | 34.3 | 38.7 | 46.1 | | |
| Interest Cover, times | 4.52 | 2.71 | 1.60 | | |
| Earnings per Share (cents) – based on no. of shares at year end | 17.2 | 8.7 | 5.1 | | 97.7 |
| Full year Dividend per Share (cents) | 11.0 | 6.5 | 6.0 | | |
| Underlying Market Growth % | 5.2 | 4.6 | -9.2 | | |
| Cost Increases | 68 | 57 | 37 | | |
| Cost Reductions | 56 | 59 | 50 | | |
| Revenue Enhancements | 51 | 20 | 15 | | |
| Raw Steel Tonnes Produced | 1,624,399 | 1,576,650 | 1,438,770 | 1,835,822 | 3.0 |
| Tonnes Dispatched | 2,224,139 | 2,176,413 | 2,125,073 | 2,667,654 | 2.2 |
| Total Domestic Tonnes Dispatched | 2,140,650 | 2,004,716 | 1,846,503 | 2,239,753 | |
| Total Export Tonnes Dispatched | 83,489 | 171,697 | 278,570 | 427,901 | |
| Export % of Tonnes Dispatched | 3.8 | 7.9 | 13.1 | | |



# RESOURCE SUMMARY

## ORE RESERVES AND MINERAL RESOURCES

OneSteel estimates of Ore Reserves and Mineral Resources presented in this report have been produced by Competent Persons in accordance with the current Australasian Code for reporting of Identified Minerals Resources and Ore Reserves (the JORC Code). Each Competent Person (named in the following tables) consents to the inclusion in the report of the matters based on their information in the form and context in which they appear.

All Resource and Reserve figures represent estimates at the end of June 2003 unless otherwise stated. Rounding of tonnes and grade information may result in small differences presented in the totals.

## ORE RESERVES

The table below shows OneSteel's Iron Ore Reserves which consist of three operating deposits located in the South Middleback Ranges. Grades are uncalcined, contain 2% moisture, and Life of Mine Recoveries are 95.6%.

The 2002/03 Reserve increase can be attributed to additional drilling and reinterpretation of the Iron Knight Deposit and adjustment for better than expected mining recoveries.

### Whyalla (Middleback Range) Iron Ore Reserves

| | | As at end June 2003 | | | | | | | | | Compared with 2002 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proved Ore Reserves | | | Probable Ore Reserves | | | Total Ore Reserves | | | Total Ore Reserves | | | OneSteel Interest | Competent Person |
| Category | Ore Type | Tonnes (millions) | Grade | | Tonnes (millions) | Grade | | Tonnes (millions) | Grade | | Tonnes (millions) | Grade | | % | |
| | | | Fe% | P% | | Fe% | P% | | Fe% | P% | | Fe% | P% | | |
| Total Quantity | Hematite, Goethite, Limonite, Minor Magnetite | 24.0 | 63.0 | 0.06% | 14.1 | 62.1 | 0.06 | 38.1 | 62.7 | 0.06 | 38.0 | 62.7 | 0.06 | 100 | P Carter |

## MINERAL RESOURCES

The table below shows OneSteel's insitu resource base adjacent to existing operations at a cut-off of Fe>50%, $SiO_2$<10%, $Al_2O_3$ <5% and P<0.2%.

The Total Mineral Resources include all resources, including those used to derive Ore Reserves.

Mineral Resources that have not been used for estimation of Ore Reserves are shown separately.

The 2002/03 resource increase can be attributed to additional drilling and reinterpretation of the Iron Knight Deposit.

### Whyalla (Middleback Range) Iron Ore Mineral Reserves

| | | As at end June 2003 | | | | | | | | Compared with | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Measured Resources | | Indicated Resources | | Inferred Resources | | Total Resources 2003 | | Total Resources 2002 | | OneSteel Interest | Competent Person |
| Category | Type | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | % | |
| Total Quantity | Hematite, Goethite, Limonite, Minor Magnetite | 26.9 | 63.2 | 38.6 | 61.5 | 5.8 | 60.0 | 71.3 | 62.0 | 71.3 | 62.2 | 100 | P Leevers |
| Quantity excluded from Ore Reserves | Hematite, Goethite, Limonite, Minor Magnetite | 2.9 | 60.1 | 16.0 | 59.8 | 4.4 | 59.5 | 23.3 | 59.8 | 21.8 | 60.7 | 100 | P Leevers |

OneSteel has Magnetite resources located at the Iron Magnet Deposit which is adjacent to and below the Iron Duke and Iron Duchess Deposits, and is outlined in the table below.

### Whyalla (Middleback Range) Magnetite Mineral Reserves

| | | As at end June 2003 | | | | | | | | Compared with | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Measured Resources | | Indicated Resources | | Inferred Resources | | Total Resources 2003 | | Total Resources 2002 | | OneSteel Interest | Competent Person |
| Category | Type | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | % | |
| Total Quantity | Magnetite | - | - | - | - | 300 | 37 | 300 | 37 | 300 | 37 | 100 | P Leevers |

### OneSteel – Iron Knob, Iron Baron and South Middleback Range Ore Beneficiation Stockpiles

Included in the annual report for the first time are resources, currently held in historically built stockpiles that will be beneficiated to yield usable ore. Ore beneficiation is planned to commence in the 2003/04 financial year. The ore beneficiation stockpiles with a mean estimated grade exceeding 45% Fe that can be beneficiated to meet current Whyalla feed specifications comprise the Mineral Resources in the following table. Tonnes are reported before considering beneficiation yield and grades are reported uncalcined. The estimates are valid as of the end of June 2003.

### OneSteel Low-Grade Ore Dumps

| | | Measured Resources | | Indicated Resources | | Inferred Resources | | Total Resources 2003 | | OneSteel Interest | Competent Person |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Category | Type | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | Tonnes (millions) | Fe Grade (%) | % | |
| Total Quantity | Hematite, Goethite, Limonite, Minor Magnetite | 5.3 | 54.4 | 2.8 | 52.2 | 12 | 54.2 | 19.7 | 54.0 | 100 | P. Leevers |

# CORPORATE DIRECTORY

## DIRECTORS

Peter J Smedley
Chairman

Robert L Every
Managing Director and
Chief Executive Officer

Eileen J Doyle

Colin R Galbraith

David E Meiklejohn

Dean A Pritchard

Neville J Roach

## COMPANY SECRETARY

John M Krenich

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

OneSteel Limited
ACN 004 410 833
ABN 63 004 410 833

Level 23, 1 York Street
Sydney NSW 2000 Australia
Telephone: +61 2 9239 6666

Facsimile: +61 2 9251 3042

**Internet: www.onesteel.com**

## SHARE REGISTRY

OneSteel Share Registry
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

Telephone: 1300 364 787 or +61 3 9649 5026

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

## ANNUAL REVIEW AND FULL FINANCIAL REPORT

Both the 2003 Annual Review and
the Full Financial Report are
available on the OneSteel website
www.onesteel.com or
by calling +61 2 9239 6666