OneSteel Limited Annual Review **2006**

TAKING **A LONG VIEW**^{2}

onesteel

OneSteel Limited
ABN 63 004 410 833
OneSteel was listed on the Australian Stock Exchange on 23 October 2000.

THE 2006 ANNUAL REVIEW IS THE SECOND IN A SERIES OF "TAKING A LONG VIEW". ONESTEEL HAS CONTINUED WITH ITS RECORD OF CONSECUTIVE PROFIT IMPROVEMENTS AND MAKING INVESTMENTS WHICH WILL UNDERPIN THE COMPANY'S ABILITY TO GENERATE SUSTAINABLE RETURNS OVER THE LONG TERM.

HIGHLIGHTS

- **Fifth consecutive year of improving net profit after tax**
- **Dividend of 17.0 cents per share, up from 13.5 cents**
- **Continued gains in OneSteel share price**
- **Fifth consecutive year of double-digit earnings per share growth**
- **Strong operating cash flow allowed gearing to fall while continuing to invest in Project Magnet, the company's major expansion project**

TAKING A LO

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WHAT'S NEW IN THIS REVIEW

New Mission Statement 1

New Strategic Framework Scorecard 12

Key Business Drivers section expanded to include iron ore with ramp up of Project Magnet. It also now includes an index of activity in the market segments that drive OneSteel's domestic revenue and an index of OneSteel's domestic steel prices. 16–20

More comprehensive Environment section 30–31

Expanded Community section 32–33

Front Cover: The sequence of images on the front cover is a photographic representation of OneSteel's value chain. The first image is a picture of OneSteel's mines in the South Middleback Ranges. The second picture shows one stage of the steelmaking process and the third image is of finished product that has been converted from billet at a rolling mill. Wire rope, one of the finished products that OneSteel manufactures is depicted in the fourth image while the final image is of OneSteel product being used in a building.

Geoff Plummer
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
ONESTEEL LIMITED

OUR MISSION

OneSteel's mission is to deliver superior and sustainable returns through leading market positions in the construction, resource and industrial markets predominantly in Australasia through our people, manufacturing and distribution capabilities.

WHAT WE DO

We are the largest steel long products producer in Australia, with leading market positions in each of our key segments.

OneSteel is integrated from mining, steel production and value-add manufacturing through to distribution of steel and metals products.

We manufacture products ranging from structural steel, pipe and tube, rails, reinforcing steel, rod and bar through to wire.

OneSteel is primarily focused on the Australasian market, employing over 7,500 people across major cities and regional areas of Australia and New Zealand.

We have in excess of 30,000 customers ranging from large construction companies to automobile component suppliers through to small farm owners.

OneSteel has approximately 89,000 shareholders, primarily residing in Australia, but with many from around the world.

The theme for this year's Annual Review is "Taking a Long View" Part 2. It was outlined in last year's review that the international steel industry is undergoing structural change driven by surging Chinese industrial demand.

The oversupply imbalance, which characterised the international steel markets in the decades prior to the year 2000, has since corrected. Steel companies around the world are amalgamating within regions which is giving rise to mega steel companies. One such company has capacity of over 100 million tonnes, more than 13 times Australia's total steel industry capacity.

With an eye to the future and developing a sustainable business model that will position OneSteel to compete more effectively over time, OneSteel currently has two major investment projects which form the company's growth priorities: Project Magnet, the commercialisation of OneSteel's magnetite resource, and the recently announced proposed merger of OneSteel and Smorgon Steel.

These two growth projects provide a platform for OneSteel to reduce its cost base, grow its revenue and earnings stream and expand its current product and service offering, both in terms of range and geography.

Project Magnet extends the life of our main steel making facility at Whyalla in South Australia to 2027. The proposed merger with Smorgon Steel will provide a catalyst for reconfiguring long products production facilities in Australia to lower costs, streamline and enhance the supply chain and logistics, and improve the range of products and services available to customers.

A summary of the benefits and status of Project Magnet is provided on pages two and three, and on the proposed merger on pages four and five. The table below highlights that OneSteel was one of Australia's top 10 performing stocks, as measured by total shareholder returns, in the five years to December 2005.

BEST TOTAL SHAREHOLDER RETURNS ON THE AUSTRALIAN STOCK EXCHANGE OVER 5 YEARS

Rank	Company	Industry	5yr TSR (% pa)	1yr TSR (%)	Market cap (A$ billion)*
1	Oxiana	Resources	90.3	75.8	2.386
2	Macquarie Goodman	Real estate infrastructure	86.0	20.5	6.955
3	Metcash	Retail	71.5	50.2	3.353
4	Caltex Australia	Telco/utilities	60.3	84.4	5.233
5	Unitab	Media/entertainment	48.3	24.1	1.812
6	Newcrest Mining	Resources	41.9	39.7	8.061
7	Toll Holdings	Transport	41.2	10.5	4.944
8	Boral	Industrial/materials	35.9	23.7	4.747
9	Alinta	Telco/utilities	35.7	42.3	2.899
10	**OneSteel**	**Industrial/materials**	**35.5**	**36.4**	**1.900**
11	Orica	Industrial/materials	34.8	7.1	6.341
12	Origin Energy	Telco/utilities	33.9	14.5	5.945
13	Sims Group	Industrial/materials	33.2	5.0	1.606
14	DCA Group	Health care	33.1	124	1.884
15	Downer EDI	Industrial/materials	32.3	25.2	2.118

Source: Boston Consulting Group April 2006

* Market capitalisation as at December 2005


PRO

PROJECT MAGNET, WHICH RECEIVED BOARD APPROVAL IN MAY 2005, IS ONESTEEL'S LARGEST INVESTMENT TO DATE TO ENSURE THE LONGEVITY OF ITS BUSINESS AND TO EXTRACT MAXIMUM VALUE FROM ITS PORTFOLIO OF ASSETS.

Project Magnet represents the commercialisation of OneSteel's magnetite ore reserves for producing steel and the sale of surplus hematite ore reserves.

This $355 million project improves OneSteel's competitive position by:

- extending the life of the Whyalla Steelworks from the current hematite iron ore reserve restraint of 2020 to 2027 by converting the steelworks from a hematite ore feed to magnetite ore feed
- lowering the cost of steel production at Whyalla by up to 5%. This saving adds to OneSteel's competitive advantage of owning iron ore mines as prices for raw materials continue to increase. As discussed in the Managing Director's Review on pages 10 and 11, a lower cost structure is critical amid the consolidation and rationalisation occurring in the global steel industry.

Additionally, Project Magnet is an attractive investment through:

- the creation of a new earnings stream by exporting an additional three million tonnes of hematite iron ore per annum over approximately 10 years, as well as producing and selling approximately 220,000 tonnes of extra pellets and 100,000 tonnes of additional steel each year over the life of the project. In total, this will generate over $1.5 billion in revenue, creating an earnings stream that is less cyclical than that of the current business
- the change from a "dry" pellet production process to a "wet" one will significantly lower the potential for fugitive dust that has impacted a section of the Whyalla community. Other pieces of equipment and process changes associated with Project Magnet will also be beneficial to the local environment.

There was good progress in the construction of the two main streams of the project. As of 30 June 2006, almost $230 million of the total expenditure had been spent or committed, with the project capital works due to be substantially completed in the 2006/07 financial year. Furthermore, OneSteel sold approximately two million tonnes of ore and ore by-products in the 2005/06 financial year, in line with the schedule for the ramp-up of iron ore sales that was announced in May 2005. The project is on track to lift ore sales to around 2.5 million tonnes in the 2006/07 financial year.

In preparation for plans for annual external ore sales to reach four million tonnes in the 2007/08 financial year, the rail upgrade to the mine is complete. The export storage facilities are nearing commissioning, site works are underway on the crushing plant upgrade and delivery of 56 new wagons for carrying iron ore fines and the upgrade of 75 existing wagons are complete. Seven of 11 scheduled shutdowns to upgrade the ship loader are complete and two of the three barges that will be used to trans-ship the export ore approximately 10 kilometres from the Whyalla port to ships up to Cape size sitting in the Spencer Gulf have been launched. Trans-shipping allows ore transport in the largest ships, so maximising the number of potential customers and lowering freight costs.

The other major stream of work is converting the Whyalla Steelworks from hematite ore feed to magnetite ore feed. Construction is progressing to achieve commissioning of new capital equipment for transition to magnetite feed for the 2007/08 financial year. The slurry pipeline that will convey the beneficiated magnetite concentrate to the steelworks was completed and tested during the year. High pressure grinding rolls have been installed and steel erection of the concentrator is underway at the mine, as is the structural steel installation of the filter and flux plant. The two slurry receiving tanks have been completed and both the 132KV transmission line and the 132/11 KV transformer were energised in August.

Design of the tailing dam is complete and construction is due to start in the first quarter of the 2006/07 financial year. Modification works to the existing pellet plant are in design phase, with installation scheduled during the annual shutdown of the pellet plant. Desulphurisation plant site work has commenced, with steel piling complete and key long lead time items ordered. Meanwhile, negotiation of the new mining contract is progressing.

Completing Project Magnet and realising the expected level of benefits is one of the current priorities of OneSteel management. In the 2006/07 financial year focus will be directed towards completion of the capital works program, commissioning and transition, marketing of ore, finalisation of the mining contract and the ramp-up of external ore sales to 2.5 million tonnes. With the current higher than average international iron ore and steel prices, Project Magnet is expected to provide significant value in the early years.

ON 26 JUNE 2006, ONESTEEL AND SMORGON STEEL GROUP ANNOUNCED THEY HAD REACHED AN AGREEMENT UNDER WHICH ONESTEEL WILL ACQUIRE ALL OF THE SHARES IN SMORGON STEEL.

The proposed transaction represents the next step in the restructuring of the Australian steel industry. It will further consolidate the sector, leading to a lower cost and more efficient steel industry. This will provide a platform from which to effectively compete in the world steel market for years to come. As such it represents another significant investment for OneSteel to ensure the longevity of its business and to extract greater value from its portfolio of assets.

OneSteel and Smorgon Steel are largely complementary operations. The combination would allow OneSteel to provide a more comprehensive and competitive product and service offering to customers of both companies. It would also provide greater security of raw material supply and material cost savings, thereby providing significant benefits for shareholders.

The expected benefits to be generated include:

Growth – Both OneSteel and Smorgon Steel have recently announced exciting and complementary growth options, including Project Magnet, the LiteSteel™ beam and expansions in metal recycling, grinding media and railway wheels that offer shareholders diverse sources of potential earnings growth into the future

Stronger company – With pro forma revenue in excess of $5.5 billion[1, 2], earnings before interest, tax, depreciation and amortisation (EBITDA) of approximately $700 million[1, 2] and more than 10,000 employees, the combined entity will become Australia's pre-eminent domestic manufacturer and distributor of steel and metal products

More competitive business – Various long-term strategic benefits are expected to be realised through efficiencies in manufacturing operations, improved facility utilisation, improved supply-chain management, production, distribution and other savings. This will provide benefits to customers and improve the ability to compete against imports

Increased ability to service customers – A more diverse geographical manufacturing footprint and wider range of products and services provides the ability to streamline and improve the efficiency of the combined supply chains of the companies. Additionally, it is also expected to increase the range of products and services being offered to customers (refer to table on page five)

Diversity and size of operations – Following the proposed transaction, OneSteel is expected to have an enhanced regional footprint with more than 200 sites across Australia and more than 10 offshore offices and operations. This presence is expected to provide a solid platform for growth in new and existing markets (refer to map on page five)

Expected synergies – The combination of businesses is expected to generate net EBITDA synergies of $70 million per annum by the end of the third full year after completion of the proposed transaction. These synergies are net of expected asset disposals and potential sales leakage from combining the two businesses

New revenue streams developed – The combination of OneSteel's and Smorgon Steel's operations will allow OneSteel to offer an extended product offering to customers and will facilitate the development of new business structures (e.g. a "rail infrastructure" business unit covering wheels and bogeys, rails, sleepers, etc) generating greater value for customers and the potential for new revenue opportunities (refer to table on page five)

Improved security of raw material supply – The combined business will enjoy improved security of raw material supply via OneSteel's long-term iron ore resources through Project Magnet and Smorgon Steel's scrap recycling business. It is also expected to be more competitive, through the natural hedges associated with these improved raw material supply arrangements

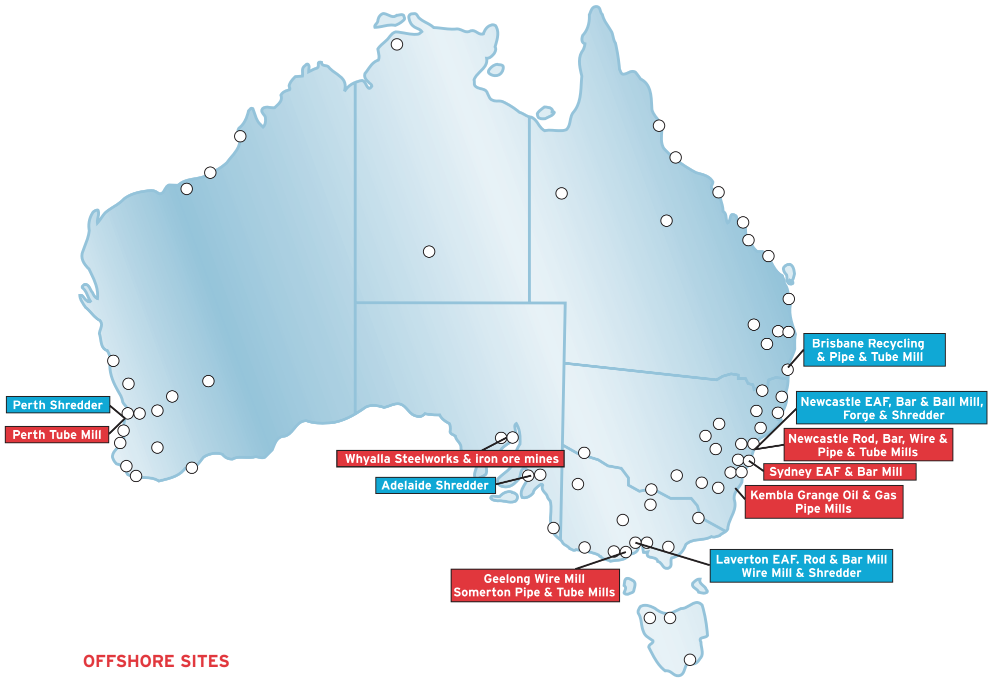
Increased liquidity – Following the proposed transaction, OneSteel will be a stronger Australian company which is expected to rank well inside the top 100 companies on the Australian Stock Exchange. This should provide greater liquidity for investors and facilitate greater interest from domestic and international investors.

1 Sales and EBITDA are based on the average of current stockbroker estimates for OneSteel and Smorgon Steel for the year ending 30 June 2006 less sales and EBITDA from the steel and merchandising arm of the Smorgon Steel distribution business. EBITDA includes full pro forma synergies of $70 million. The average of current stockbroker estimates for OneSteel and Smorgon Steel for the year ending 30 June 2006 was calculated from the most recent research reports from nine stockbroking companies available to OneSteel and Smorgon Steel dated over the period 21 February 2006 to 21 June 2006.

2 Approximation only, further detail will be provided in the Explanatory Memorandum to the scheme of arrangement.

DIVERSITY AND SCOPE OF OPERATIONS

OVER 200 SITES ACROSS AUSTRALIA AND MORE THAN 10 OFFSHORE PROVIDE A SOLID PLATFORM FOR GROWTH



OneSteel manufacturing sites
Smorgon Steel manufacturing & recycling sites
OneSteel Distribution and Reo sites

OFFSHORE SITES

ONESTEEL
NZ Distribution

SMORGON STEEL
- Recycling operations – Hong Kong, Malaysia, Thailand, Philippines and USA
- Trading offices – Vietnam, China, Hong Kong, India, New Zealand and England
- Grinding media operations – Indonesia and USA

INCREASED ABILITY TO SERVICE CUSTOMERS

CUSTOMER BENEFITS – INCREASED ABILITY TO SERVICE CUSTOMERS

ONESTEEL

Raw Materials	Steel Making	Conversion Mills	Processing & Distribution[1]	End Market Products
Iron ore mines South Middleback Ranges South Australia	Whyalla Integrated Steelworks ~ 1.2mtpa Sydney Electric Arc Furnace ~ 550kt	Whyalla Structural Mill Newcastle Rod & Bar Mills Sydney Bar Mill Newcastle & Geelong Wire Mills New South Wales, Victoria & Western Australia Pipe & Tube Mills	Steel & Tube Metaland Piping Systems Sheet, Coil & Aluminium Reinforcing Retail	Iron ore Slab Structurals Rails & Sleepers Mebar, Manufacturing Rod & Bar, rounds Structural & Precision Pipe & Tube Line pipe, fittings and valves Distributed flat steel – Sheet & Coil, Plate Distributed Aluminium & Specialty Steels Rebar & Mesh Rural & Manufacturers Wire Wire ropes & Bright bar

SMORGON STEEL

Raw Materials	Steel Making	Conversion Mills	Processing & Distribution[1]	End Market Products[2]
Metal Recycling Brisbane, Newcastle, Laverton, Adelaide, Perth	Laverton Electric Arc Furnace ~ 700kt Waratah Electric Arc Furnace ~ 300kt	Laverton Rod & Bar Mills Waratah Bar Mill Queensland Pipe & Tube Mills Laverton & Jindera Wire Mills	Reinforcing Retail Reinforcing Retail Mining Grinding Media Sheet & Coil & Aluminium	Rail Wagon Wheels Grinding Balls LiteSteel™ beam Scrap – Ferrous & Non

1 Based on OneSteel divesting the steel and metal merchandising arm of the Smorgon Steel distribution businesses.
2 This is not Smorgon Steel's entire range of end market products but a list of those products that are additional to OneSteel's range.

NEW REVENUE STREAMS

BUILD ON EXISTING PRODUCT AND SERVICE OFFERING THROUGH EXTENDING PRODUCT RANGE

MANY COMMON CUSTOMERS, MARKETS AND SERVICE OFFERINGS

ONESTEEL Product and service range		SMORGON STEEL Additional product offerings
• Rail – rail line, sleepers, clips	↔	• Rail – rail wheels and axles
• Mining – mine mesh, rail, product used in strata control systems, pipes, valves and fittings, mining rope, general steel supply	↔	• Mining – grinding media
• Construction – reinforcing steel, structural sections, merchant bar, pipe and tube, wire, strand	↔	• Construction – LiteSteel™ beam
• Manufacturing – rod and bar, wire, pipe and tube, Bright bar	↔	• Coil Colour Coating business
• Steel making raw materials – iron ore, dolomite	↔	• Ferrous and non-ferrous scrap recycling
• International trading – iron ore, slab, steel products	↔	• Ferrous and non-ferrous scrap steel and offshore trading capability

STEEL

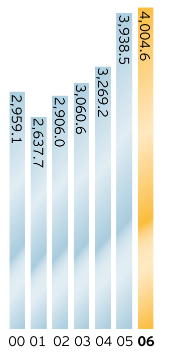
FINANCIAL HIGHLIGHTS

FINANCIALS
- Sales revenue increased 1.7% to $4,004.6 million
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased 5.2% to $396.7 million
- Earnings before interest and tax (EBIT) increased 8.3% to $302.7 million
- Net operating profit after tax and minorities (NOPAT) increased 12.1% to $171.6 million
- Net profit after tax and minorities including tax consolidation of $187.5 million
- Earnings per share (EPS) up 11.0% to 30.3 cents
- Operating cash flow up 6.3% to $250.8 million
- Operating sales margin based on EBIT improved to 7.6% from 7.1%
- Operating return on funds employed (ROFE) based on EBIT rose to 14.4% from 14.2%
- Operating return on equity (ROE) decreased to 12.9% from 13.1%
- Net debt to net debt plus equity gearing ratio, inclusive of derivatives, down to 31.4% from 31.7%
- Net debt, including derivatives, increased 6.6% to $688.2 million
- Fully franked final dividend of 10.0 cents, taking total dividends for the year to 17.0 cents

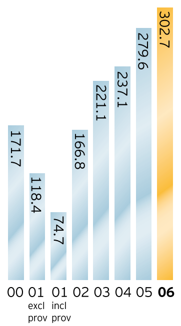
MARKET
- Activity in the segments that impact OneSteel revenues rose 5.5%
- The construction sector that drives 59% of OneSteel's revenue grew 9.4%, with engineering construction (23% of revenue) up 16.0%, non-residential construction (22% of revenue) expanding 10.4%, and residential construction (14% of revenue) down 3.0%
- The segment of Other Manufacturing, which drives 11% of revenue, fell 3.1%
- Mining production, which drives 10% of revenue, expanded 1.8%
- Auto manufacturing, which drives 6% of revenues, fell 2.8%
- Agriculture, the segment that drives 6% of OneSteel's revenue, was down 2.2% reflecting the ongoing drought

OPERATIONAL
- Total Australian steel tonnes dispatched increased 1.0% to 2,287,067 tonnes
- Domestic tonnes dispatched decreased 5.1% to 2,061,618 tonnes
- Exports tonnes dispatched rose by 133,038 tonnes to 225,449 tonnes, representing 9.9% of total steel dispatches
- After adjusting for one-off projects, domestic tonnes decreased 5.8% to 2,005,556 tonnes
- Underlying price per tonne for domestic steel sales increased 6.9%
- Cost reductions of $39 million offset inflationary costs of between $35 million and $40 million. Additionally raw material input costs increased significantly, which lifted total cost increases to over $260 million and against which management initiatives achieved around $236 million of revenue enhancements.
- Staff numbers increased 1.8% to 7,527 principally reflecting over 100 extra employees from acquisitions by International Distribution and extra personnel at Whyalla for Project Magnet
- Sales per staff member down 0.2% to $532,000
- The Lost Time Injury Frequency Rate (per million man hours worked) improved by 5.9% to 1.6
- The Medical Treatment Injury Frequency Rate (per million man hours worked) improved by 3.3% to 11.7

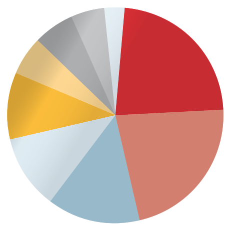
Sales Revenue
$ million



EBIT
$ million

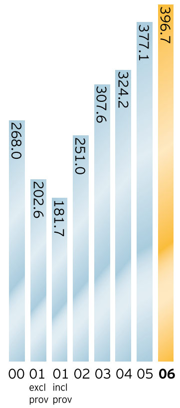


Revenue By Source

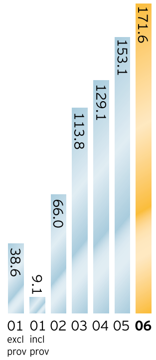


- Engineering Construction 23%
- Non-Residential Construction 22%
- Residential Construction 14%
- Other Manufacturing 11%
- Mining 10%
- Automotive 6%
- Agriculture 6%
- Export Steel 5%
- Iron Ore Products 3%

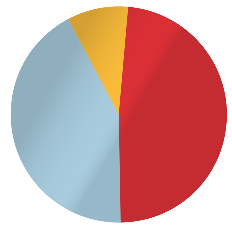
EBITDA
$ million



Net Operating Profit after Tax
$ million

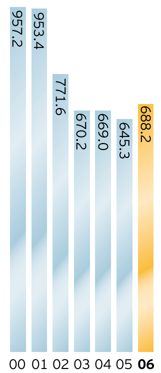


Revenue By Segment $m

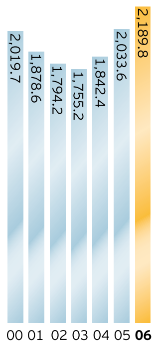


- Manufacturing $2,101.4
- Australian Distribution $1,833.9
- International Distribution $390.4
- Unallocated/Eliminations ($281.9)

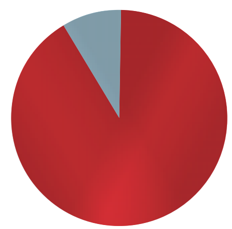
Net Debt
$ million



Funds Employed
$ million



Revenue By Markets $m

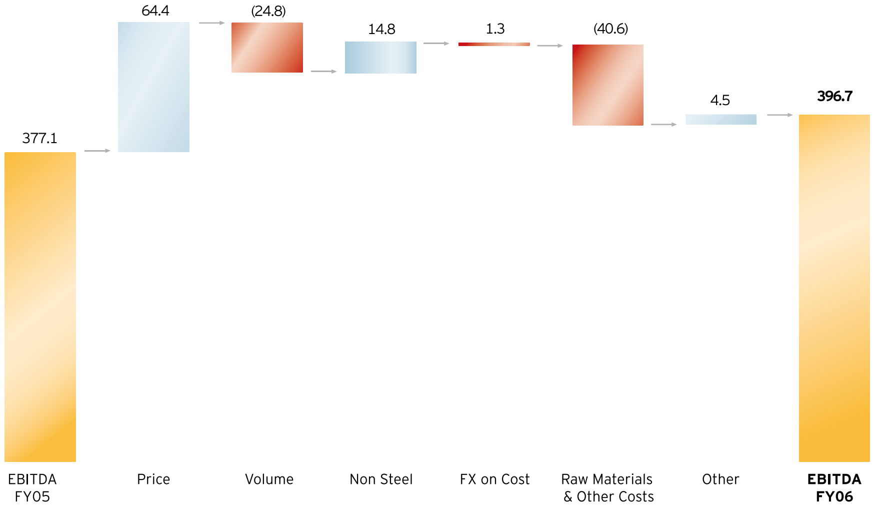


- Australia $3,698.5
- International $390.4
- Unallocated/Eliminations ($45.3)

FIGURE ONE

2005/06 EBITDA versus 2004/05 EBITDA

$ millions



CALENDAR OF SIGNIFICANT EVENTS

JULY 2005
- OneSteel 2005 Safety Excellence Awards
- OneSteel announces management changes
- Impact of changes to International accounting standards announced
- Newcastle eight-strand wire rope facility officially opened

AUGUST 2005
- Steel & Tube NZ announces full-year financial results
- OneSteel announces net operating profit after tax and minorities of $153.1 million for 2004/05
- Appointment of BHP Billiton as marketing agent for Project Magnet

OCTOBER 2005
- Final dividend of 7.5 cents fully franked paid on 20 October
- OneSteel's fifth anniversary as a publicly listed company

NOVEMBER 2005
- OneSteel announces appointment of EGM Australian Distribution
- OneSteel holds its fifth Annual General Meeting in Sydney

JANUARY 2006
- Contract for new power connection assets for Project Magnet awarded to ETSA Utilities

FEBRUARY 2006
- OneSteel and Steel & Tube NZ announce interim results for six months ended 31 December 2005
- Segment Reporting Realignment announced

MARCH 2006
- Steel & Tube Holdings Limited in New Zealand announces takeover of NZF Stainless Steel Group

APRIL 2006
- Interim dividend of 7.0 cents fully franked paid on 20 April

JUNE 2006
- OneSteel announces proposed transaction with Smorgon Steel to create the pre-eminent steel and metals company in Australasia

JULY 2006
- OneSteel 2006 Safety Excellence Awards

AUGUST 2006
- Steel & Tube NZ announces full-year financial results
- OneSteel announces net operating profit after tax and minorities of $171.6 million for 2005/06

KEY FINANCIALS

12 Months Ending 30 June A$ millions	2006	2005	% Change 06/05
Sales	4,004.6	3,938.5	1.7
Other Revenue	39.0	34.6	12.7
Total Revenue	4,043.6	3,973.1	1.8
Operating Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	396.7	377.1	5.2
Operating Earnings Before Interest and Tax (EBIT)	302.7	279.6	8.3
Finance Costs	56.7	53.6	5.8
Operating Earnings Before Tax	246.0	226.0	8.8
Tax Expense	60.8	55.4	9.7
Net Operating Profit After Tax and Minorities (NOPAT)	171.6	153.1	12.1
Net Profit After Tax and Minorities including tax consolidation	187.5		
Operating Cash Flow	250.8	235.9	6.3
Free Cash Flow	36.4	109.0	(66.6)
Total Assets	3,138.8	3,087.1	1.7
Funds Employed	2,189.8	2,033.6	7.7
Total Liabilities	1,637.2	1,698.8	(3.6)
Net Debt including Derivatives	688.2	645.3	6.6
Capital and Investment Expenditure	227.6	127.5	78.5
Inventories	758.9	836.7	(9.3)
Employees	7,527	7,395	1.8
Sales per Employee $'000	532	533	(0.2)
Net Tangible Asset Backing, $ per share	2.16	1.95	
Operating EBIT Margin to Sales %	7.6	7.1	
Operating EBIT Return on Funds Employed %	14.4	14.2	
Operating Return on Equity %	12.9	13.1	
Gearing (net debt/net debt + equity) including derivatives %	31.4	31.7	
Interest Cover, times	5.3	5.2	
Operating Earnings per Share (cents) – based on no. of shares at year end	30.3	27.3	11.0
Full-year Dividend per Share (cents)	17.0	13.5	
Underlying Market Growth %	5.5	3.3	
Cost Increases	267	226	
Cost Reductions	39	47	
Revenue Enhancements	236	309	
Raw Steel Tonnes Produced	1,633,696	1,349,397	21.1
Tonnes Dispatched	2,287,067	2,264,051	1.0
Export % of Tonnes Dispatched	9.9	4.1	

This is the first OneSteel annual reporting period under Australian equivalents to International Financial Reporting Standards (AIFRS). The 2005 comparative figures presented on pages 6 to 33 and page 62 of the 2006 Annual Review have also been restated under AIFRS. One-off benefits relating to the reversal of impairment loss on transition to AIFRS or arising from tax consolidation have been excluded from the financial information presented to enable direct comparison with the 2006 operating numbers.

The financial information presented for the years 2000 to 2004 on pages 6 to 33 and on page 62 of the 2006 Annual Review are based on information prepared under AGAAP and have been adjusted to exclude goodwill amortisation from earnings. Securitisation is included in the debt figures.

In 2006 net debt includes the cross-currency interest rate swaps that were previously classified as interest-bearing liabilities under AGAAP and interest rate swaps that were not recognised on-balance sheet. This has been done to enable comparison with the previous years' figures.

Pro forma numbers are used for the 2000 and 2001 numbers and 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.

THE INCREASED DIVIDEND REFLECTS THE BOARD'S GROWING CONFIDENCE THAT MANAGEMENT CAN DELIVER AS PROMISED ON PROJECT MAGNET AND THE DEMONSTRABLE CASH FLOW THAT IS BEING GENERATED FROM THE BUSINESS.

Welcome to OneSteel's Annual Review, our sixth since listing in October 2000.

It pleases me to report that the company posted its **fifth consecutive annual profit improvement** in 2005/06, with several key financial ratios continuing to improve. Management built on its track record of achieving cost reductions to offset inflationary costs, and of successfully implementing price increases to recover higher costs for raw material inputs. Another pleasing feature of the result is the strong operating cash flow generated by the business. This enabled a reduction in gearing while continuing to invest in Project Magnet, OneSteel's major expansion project.

Project Magnet represents the commercialisation of OneSteel's magnetite ore reserves for producing steel and the sale of surplus hematite ore reserves. Its benefits include underpinning the longevity of the Whyalla Steelworks and cutting its cost of steelmaking. It also has significant environmental benefits and is a new source of revenue and profit. The project enables the sale of OneSteel's hematite iron ore reserves over approximately 10 years, as well as the sale of surplus pellets and additional steel production over the life of the project. In combination, these will generate in excess of $1.5 billion in revenue.

It is pleasing to report that substantial progress was made on the project during the year, with the ramp up of iron ore sales progressing according to plan. As of 30 June 2006, approximately $230 million of the total planned expenditure of around $355 million was spent or committed, with the project capital works due to be substantially completed in the 2006/07 financial year.

The other major growth initiative that the company is working on is the **proposed merger with Smorgon Steel Group Limited.** On 26 June 2006 OneSteel announced that it had reached an agreement with Smorgon Steel Group Limited under which OneSteel will acquire all of the shares in Smorgon Steel.

A summary of the strategic rationale for the proposed transaction is:

- Corporate benefits – a stronger and more financially flexible company with enhanced growth opportunities
- Customer and market benefits – increased ability to service the customer with new product and service offerings and a greater diversity and scope of operations
- Competitive benefits – a more competitive business with lower costs, improved raw material integration and opportunities with diversified revenue streams.

It is intended that the proposed transaction be undertaken via a scheme of arrangement. Smorgon Steel shareholders will receive a combination of OneSteel ordinary shares and cash with an implied value of $1.76[1] per Smorgon Steel share based on an exchange ratio of 9 OneSteel shares for every 22 Smorgon Steel shares.

The proposed transaction is subject to the approval of Smorgon Steel shareholders, the Court, the ACCC and certain other conditions.

The Year in Review

Large raw material input cost increases and pricing pressures from imports were features of the 2005/06 financial year against a backdrop of solid Australian engineering construction activity that was driven by the mining and resources segment. This offset softness in the rural, automotive, manufacturing and residential construction segments in Australia.

Sales revenue for the 12 months to June 2006 grew 1.7% from $3,938.5 million to $4,004.6 million when compared with the prior corresponding period. The increase reflects price increases to recover higher costs and lower domestic steel dispatches, principally in flat products.

Total Australian tonnes dispatched increased by 1.0% as volumes of steel exports returned to more normal levels. Underlying domestic tonnes dispatched decreased by 5.8% as dispatches of flat products such as plate, sheet and coil declined by approximately 70,000 tonnes from the previous period. Exports for the period totalled 9.9% of tonnes dispatched compared with 4.1% a year prior. Total raw steel tonnes produced in the year were 21.1% or 284,299 tonnes higher than in the previous year. Steel production in the prior period was affected by the blast furnace reline project and the production disruptions in the latter part of calendar 2004.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA), increased by 5.2% for the 12 months to $396.7 million.

The **sales margin**, on an operating earnings before interest and tax (EBIT) basis, was 7.6%, up from 7.1% in the prior corresponding period.

On an **earnings before tax** basis, profit increased by 8.8% from $226.0 million to $246.0 million.

Net operating profit after tax and minorities increased by 12.1% to $171.6 million from $153.1 million a year earlier. When a one-off tax benefit of $15.9 million arising from tax consolidation values is included, net profit after tax and minorities was $187.5 million. The net operating profit equates to earnings of 30.3 cents per share (based on the number of shares at year end), 11.0% higher than the 27.3 cents achieved in the prior year.

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

Staffing levels rose by 1.8% over the 12 months from 7,395 as at the end of June 2005 to 7,527 by the end of June 2006. The increase arose principally from over 100 extra employees through acquisitions by International Distribution and extra personnel at Whyalla for Project Magnet.

Net operating cash flow for the period was $250.8 million, up 6.3% from $235.9 million the prior year. This enabled OneSteel to fund approximately $170 million of capital expenditure on Project Magnet, and over $50 million in other capital and investment expenditure, with minimal debt impact.

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

CHAIRMAN'S **REVIEW**

Thus **capital and investment expenditure** increased by 78.5% to $227.6 million. Total funds spent or committed on Project Magnet during the 2005/06 financial year was $204.7 million.

OneSteel's **financial gearing** on a net debt, to net debt plus equity basis (including derivatives that are included in the net debt figure), improved from 31.7% to 31.4%. Net debt, including derivatives, increased by $42.9 million from $645.3 million to $688.2 million. **Interest cover** improved slightly from 5.2 times to 5.3 times when comparing the two periods.

Funds employed have risen by 7.7% or $156.2 million to $2,189.8 million while the EBIT return on funds employed increased from 14.2% to 14.4%.

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

It gives me great pleasure to report that the OneSteel Board of Directors declared an increased **Final Dividend** of 10.0 cents per share fully franked, bringing the total dividends declared for the year to 17.0 cents. This compares with a 13.5 cent fully franked dividend paid for the 12 months to June 2005 and represents a payout ratio of 56.3%. The record date for the dividend is 1 September 2006, with the dividend due to be paid on 19 October 2006.

This reflects the Board's growing confidence that management can deliver as promised on Project Magnet and the demonstrable cash flow that is being generated from the existing business.

The Dividend Reinvestment Plan provides a facility for shareholders in Australia and New Zealand to reinvest their dividends in shares. The price is calculated on the arithmetic average of the daily volume weighted average market price during the 10 consecutive trading days commencing on the date which is the second trading day after the Record Date for the relevant dividend. The Dividend Reinvestment Plan will operate for the final dividend.

Focus for the Next Financial Year

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

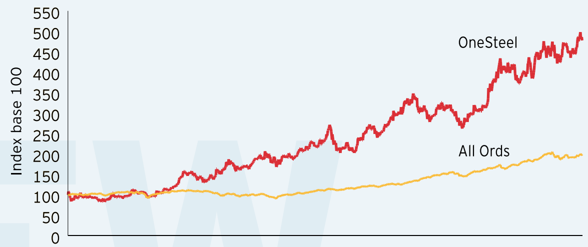
Outlook

Domestic market conditions in the 2006/07 financial year are expected to be similar to the previous 12 months, with continued strength in engineering construction and the mining and resources sector, along with solid non-residential construction activity. The rural, automotive, manufacturing and residential construction segments are expected to continue to be soft. International steel pricing and the cost of key inputs such as scrap and hot rolled coil are expected to be fluid while the outlook for iron ore prices continues to be positive.

I thank our shareholders for their support over the past year and I would like to thank my non-executive Board colleagues, Geoff Plummer and his management team and our 7,527 employees for their contribution to this year's profit improvement.

Peter Smedley
CHAIRMAN

FIGURE TWO
Total Shareholder Return
23 October 2000 to 11 September 2006



WE MUST BALANCE THE NEED TO DELIVER INCREASED VALUE TO MEET GROWING CUSTOMER REQUIREMENTS AND DEMANDS WHILE ALSO CREATING VALUE FOR OUR SHAREHOLDERS.

It gives me great pleasure to report to shareholders in my first full year as Managing Director and Chief Executive Officer for OneSteel Limited. This is OneSteel's sixth Annual Review, and I am pleased to say that the company has achieved its fifth consecutive improvement in profit and another year of solid cash generation.

The result was achieved in a backdrop of continued strength in the engineering construction segment, driven off high levels of activity in the resources segment. The international steel markets remained fluid with continued input cost increases, particularly in the areas of coking coal and hot rolled coil. Management was able to offset the cost increases through adjusting prices and cost reductions.

The main highlights of the year were:

- another increase in net operating profit after tax to $171.6 million and improvement in key financial ratios
- reduction in gearing after investing a further $170 million in Project Magnet
- strong cash generation with operating cash flow of $250.8 million
- good progress on Project Magnet
- announcement of the proposed merger with Smorgon Steel
- dividends totalling 17 cents, fully franked, for the year.

It was particularly pleasing that the Board could announce a 26% increase in the dividend for the year from 13.5 cents for 2005 to 17 cents, fully franked, for 2006. This reflects the strong cash generation performance achieved during the year and the growing confidence of the Board in relation to Project Magnet.

Taking a Long View

This year's Annual Review forms the second part of "Taking a Long View". Last year I focused on Project Magnet and the benefits that will accrue to the company through this exciting initiative. An update of Project Magnet is provided for you on page 3.

I also spoke of the changing international steel markets and the impact of China and how OneSteel had positioned its business for the long term with the blast furnace reline and Project Magnet.

Over the last 12 months, the international steel market has seen further evolution with the continued consolidation of steel companies on a regional level. During the year Mittal Steel merged with European-based Arcelor to form the world's single largest steel company with over 100 million tonnes of steel production.

To put this into context, the Australian steel industry produces approximately 7.5 million tonnes per annum, of which 1.6 million tonnes is produced by OneSteel.

China continues to accelerate international steel demand and production and now represents approximately 30% of world steel demand compared with 7-10% in 1993. According to Macquarie Research, the Chinese government has espoused very ambitious goals for its national development out to 2020 which, if successful, would quadruple China's Gross Domestic Product over that period. Such high levels of demand require continued high levels of steel supply for these ambitions to be met.

The Australian steel industry on the other hand, is small and the ability of domestic steel companies to influence global or regional trends is negligible.

In some respects however, the Australian steel industry is relatively advanced in that it is less fragmented than other international markets, relatively innovative and has ready access to good quality raw material inputs. Australian steel companies have to compete against imported and fabricated products and provide a return for shareholders.

The industry is also characterised by the ability to produce a wide range of products with associated small runs at a competitive cost. This is necessary to meet the increasingly sophisticated and demanding requirements of our customers.

Imports are a reality for the Australian steel industry at all levels from semi-finished steel to manufactured steel goods.

The choices that are available to customers have increased markedly over the last 10 years. With customers now looking beyond price and availability, competing on price alone will not provide sufficient returns for the longevity of the steel industry.

To continue to compete into the future OneSteel will need to not only be more cost competitive, but also more efficient in the way that product is delivered through each component of the value chain whether it be raw materials, manufacturing, distributing, processing or fabricating.

We must balance the need to deliver increased value to meet growing customer requirements and demands while also creating value for our shareholders.

Building OneSteel's Organisational Capabilities

To meet this balance and actively compete into the future, OneSteel is investing to build on the following organisational capabilities:

- **Customer and Market Insight** – understanding the needs of customers and OneSteel's markets and using this knowledge to build superior value propositions and market offers that are aligned to OneSteel's business capability
- **Supply Chain Transformation** – the effective and efficient alignment of systems, processes, information and operations to deliver products and services that our customers require. This covers activities from securing raw materials through to manufacturing and processing and delivery to our customers
- **Operational Excellence** – means that OneSteel will have reliable, capable and internationally competitive processes which are sustainable and that align and underpin OneSteel's market offers and competitive position.

During the year OneSteel management has invested in each of these areas to develop and build these capabilities. A number of programs are running through the organisation to recognise and develop existing and new skill sets.

By continuing to invest in building these capabilities, OneSteel can develop a truly customer and market responsive organisation that manages the right balance between customer requirements and generating the level of returns necessary to have a successful sustainable business.

Proposed Smorgon Steel Transaction

The proposed Smorgon Steel transaction provides OneSteel with the opportunity to develop a more cost competitive, diverse and stronger organisation from which to meet future challenges. A summary of the benefits of the transaction is outlined on pages four and five.

In essence, the transaction would add more products and services to OneSteel's existing lines, provide a larger geographical footprint from which to service OneSteel customers, develop efficiencies by combining the production and associated supply chains of both organisations, improve OneSteel's security of raw materials and provide the company with further growth potential.

OneSteel would become a larger listed entity on the Australian Stock Exchange, providing increased liquidity and greater interest from domestic and international shareholders.

The proposed transaction is subject to the approval of Smorgon Steel shareholders, the Court, the ACCC and certain other conditions. At the time of publishing the Annual Review, the expectation is to have the transaction completed during the 2006/07 financial year.

The Year Ahead

Domestic trading activity is expected to be similar to that in the last financial year, driven mainly by the strength of the resources sector and the impact it is having on engineering construction, coupled with solid activity in the non-residential construction segment. The residential construction, rural, manufacturing and auto sectors are expected to remain soft over the coming period.

There has been a noticeable difference in activity between the states, with Western Australia and Queensland exhibiting strong levels of activity whilst New South Wales and Victoria have been impacted by tough conditions faced by the manufacturing sector and rather sluggish activity in residential home building. These regional differences are expected to prevail into the 2006/07 financial year.

International steel markets are expected to remain fluid during the year, driven by continuing high levels of growth in China. Raw material inputs, such as scrap steel and hot rolled coil, are expected to continue to fluctuate within a wide price band. However the outlook for iron ore prices continues to be positive.

Management attention will focus on continuing to achieve productivity and performance gains to offset inflationary costs, manage pricing and associated strategies to minimise the impact of raw material input costs and maintain tight working capital outcomes to maximise cash generation during the year.

Capital works for Project Magnet will be substantially completed during the year with approximately $230 million of the $355 million either spent or committed at 30 June 2006. The commissioning phase will commence later in the financial year, with management attention focused on ensuring a smooth transition from hematite to magnetite iron ore feed at our Whyalla Steelworks and the continued ramp up in the volume of hematite ore sales.

During the last financial year approximately two million tonnes of iron ore and iron ore by-products were sold, in line with the iron ore sales ramp up schedule that was announced in May 2005. Over the coming year sales of iron ore are expected to reach 2.5 million tonnes and be at a running rate of four million tonnes by the start of the next financial year.

Management attention will also be focused on completing the proposed Smorgon Steel transaction and beginning the process of delivering the substantial synergies we believe the transaction brings to OneSteel, its customers and other stakeholders.

I wish to thank our shareholders for their continued support during the year. OneSteel has provided improved earnings and returns to shareholders for a further year and we look forward to meeting the challenges ahead with the same vigour and discipline that management exhibited over the last year. I also extend my thanks to the Board for their support in my first full year as Managing Director and Chief Executive Officer of the company.

I would also like to thank our customers who have supported us during the year by choosing to purchase OneSteel products and services.

To all who work for OneSteel, I thank you for your efforts in helping to build a stronger company and I look forward to working with you all to meet the challenges ahead of us.

Geoff Plummer
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Improve returns from existing businesses

- Net operating profit after tax improved 12.1% to $171.6 million
- Sales margin improved to 7.6% from 7.1%
- Return on funds employed improved to 14.4% from 14.2%
- Return on equity decreased slightly from 13.1% to 12.9%
- Earnings per share improved to 30.3 cents from 27.3 cents, up 11.0%
- Dividend per share increased to 17.0 cents from 13.5 cents.

During the year management initiatives delivered approximately $39 million in cost reductions, which offset inflationary cost increases of a similar magnitude. Additionally there were significant increases in raw material input costs that lifted total cost increases to $267 million and against which management achieved more than $235 million of revenue enhancements. It was through cost containment and price management that OneSteel was able to improve the underlying sales margin to 7.6%.

Return on equity decreased slightly as a result of significant capital expenditure on Project Magnet increasing OneSteel's asset base. The full returns from this investment are due in the 2007/08 financial year.

Achieve strong cash generation

- Operating cash flow of $250.8 million, up 6.3% for the year
- Free cash flow of $36.4 million after investing approximately $170 million in Project Magnet
- Inventory decreased by 9.3% to $758.9 million with an associated reduction in stock weeks
- As a result of strong cash flow, financial gearing on a net debt to net debt to equity basis, including derivatives, improved to 31.4%.

OneSteel's underlying cash generation continues to support the significant funding of OneSteel's growth initiative Project Magnet while decreasing OneSteel's overall gearing level. The strong cash generation can be attributed to a solid profit performance combined with good working capital management, particularly in the area of inventory management.

The value of inventory declined 9.3% to $758.9 million after taking into account higher underlying value stock as a result of cost increases associated with higher material input costs. The higher cost stock was more than offset by a reduction in stock weeks.

Growing and diversifying earnings

- During the year approximately $170 million was invested in Project Magnet, an initiative which represents the commercialisation of OneSteel's magnetite ore reserves (detailed on page three). Total planned expenditure for this project is approximately $355 million, with almost $230 million spent or committed at the end of the 2005/06 financial year. The commission phase for this project is due later in the 2006/07 financial year
- On the 26 June 2006 OneSteel announced a proposed merger between OneSteel and Smorgon Steel (detailed on pages four and five).

Both Project Magnet and the proposed Smorgon Steel transaction represent growth initiatives that will significantly add to, and diversify, OneSteel's revenue and earnings stream. Project Magnet provides the sale of an additional three milliion tonnes of iron ore per annum for ten years, and approximately 220,000 tonnes of surplus pellets and an additional 100,000 tonnes of slab steel each year over the life of the project to 2027. These sales will provide a significant addition to revenue, earnings and cash, while diversifying OneSteel's income stream.

The proposed Smorgon Steel transaction will provide further security around raw material supply through the addition of a scrap recycling business, the opportunity to reduce costs by reconfiguring production facilities, the addition of complementary products and services and it extends the geographical footprint of OneSteel's existing operations.

Building organisational capability

- Three main areas form the basis of building organisational capability:
  - Customer and Market Insight
  - Supply Chain Transformation
  - Operational Excellence.
- During the year a number of activities were undertaken to build capability in these three areas:
  - Defining key competencies required in each area
  - Undertaking development programs for key personnel using internationally recognised experts and proven methodologies
  - Selective external recruitment of leaders with specific skills and experience
  - Selection and development of internal experts to assist business leaders in identifying opportunities
  - Creation of project teams to develop new insights and to share learning.

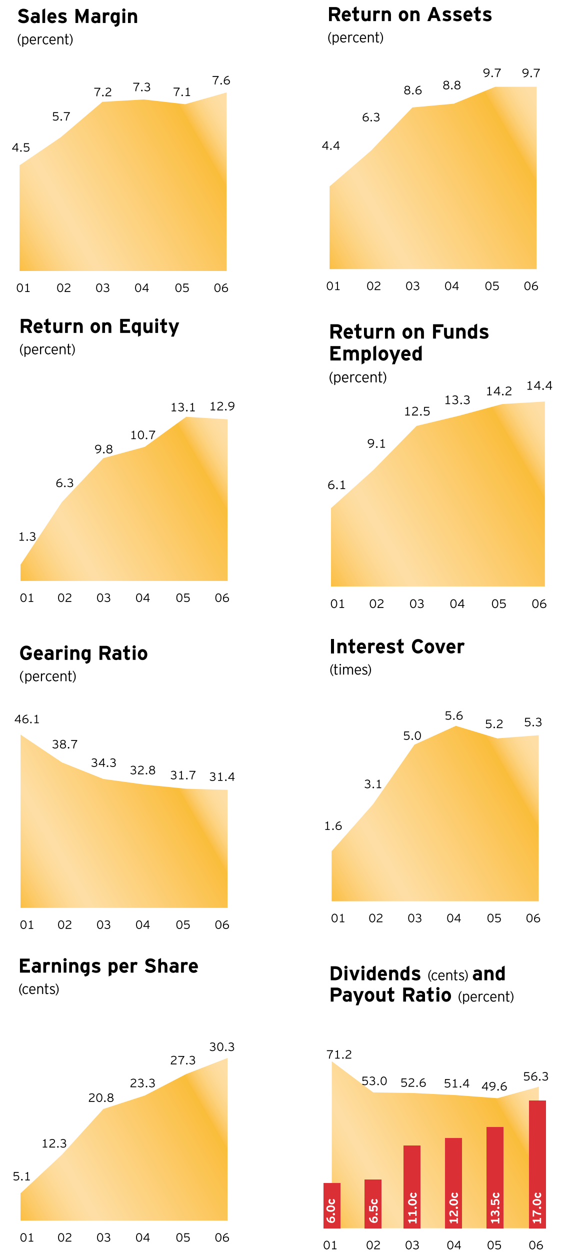
Across the business further work has been undertaken on leadership development, succession planning, performance management and the development of internal capability for executing change and business improvement.

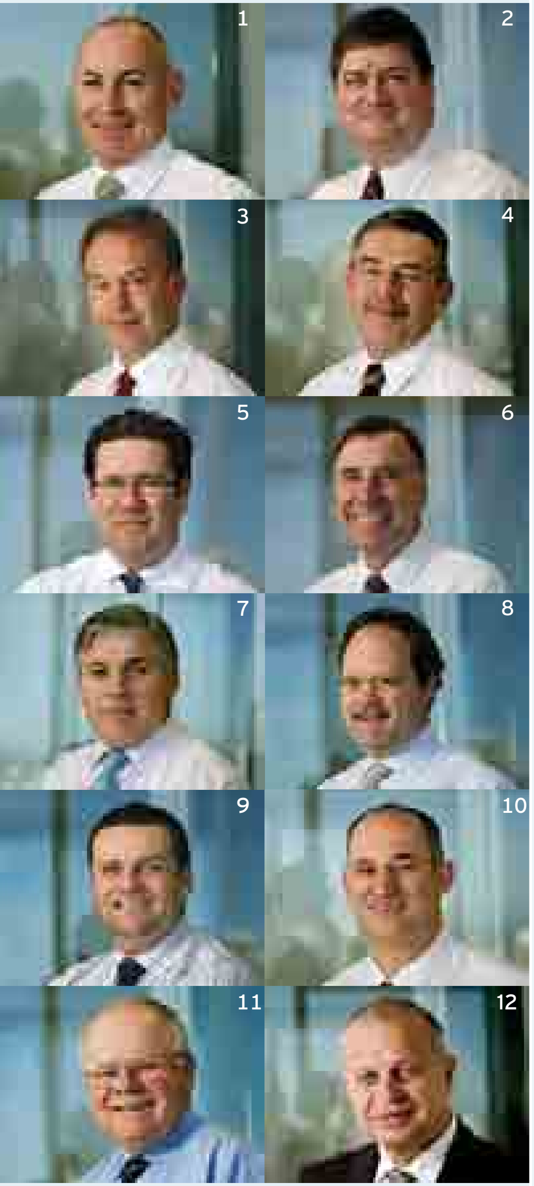
There has been continued focus on building a performance culture through:
- clearly linking each individual's objectives to OneSteel's strategic plan and targets
- 300 leaders participated in a two-day program to extend their skills in engaging their teams and eliciting high performance
- broader participation in "calibration" processes to ensure consistent standards are applied
- more comprehensive audit and review processes to ensure that challenging and engaging discussions have occurred
- increased focus on regular performance feedback to provide clarity to individuals regarding expectations and to provide support to meet these expectations.

OneSteel's remuneration systems continue to increasingly differentiate on the basis of performance and value in the external market.

A high priority in building organisational capability is in the area of occupational health and safety. During the year OneSteel further improved the Lost Time Injury Frequency Rate to 1.6 per million man hours worked and the Medical Treatment Injury Frequency Rate to 11.7.

FIGURE THREE
Key Financial Ratios





OneSteel Limited Management Structure

GEOFF PLUMMER
Managing Director and Chief Executive Officer

AUSTRALIAN OPERATIONS

MARK PARRY
Executive GM
Whyalla Steelworks

WHYALLA STEELWORKS
- Mining
- Integrated Steelworks
- Structural Rolling Mills
- Rail Products Facilities

CHRIS KEAST
Executive GM Market Mills

MARKET MILLS
- Sydney Steel Mill
- Rod Mill
- Bar Mills
- Wire Mills
- Wire Ropery
- 39 Reinforcing mesh and rebar sites

TONY COMBE
Executive GM Distribution

DISTRIBUTION
- 50 Metaland sites
- 11 Piping Systems sites
- 11 Sheet, Coil & Aluminium sites
- 12 Midalia Steel sites
- 5 Pipe and Tube sites
- 18 Steel and Tube sites

INTERNATIONAL OPERATIONS

NICK CALAVRIAS
Chief Executive Officer (NZ)

STEEL & TUBE HOLDINGS (NZ)
- 50.3% Shareholding
- 17 Steel Distribution and Processing sites
- 14 Roofing Products and Reinforcing sites
- 4 Piping Systems sites
- 6 Fastening Systems sites and 3 Chain & Rigging sites
- 8 Stainless Steel service centres
- 2 Hurricane Wire Products sites

CORPORATE STAFF

TONY REEVES
Chief Financial Officer

LEO SELLECK
Executive GM Project Magnet

ANDREW ROBERTS
Executive GM Marketing

RAY JARMAN
General Counsel

BILL GATELY
Corporate GM Human Resources & OHS

MARK GELL
GM Corporate Development

MICHAEL DINES
GM E-Commerce & Information Technology

JOHN KRENICH
Company Secretary

Lead Team

MARK PARRY[1]
BComm

Executive GM Whyalla Steelworks

Age 44. Mr Parry joined OneSteel from BHP after working in a number of roles since 1984. Prior to his current role, Mr Parry was GM Manufacturing Pipe & Tube. He has served as General Manager of the joint venture company Bekaert-BHP Steel Cord and held the position of Manager Geelong Wire Mill.

CHRIS KEAST[2]
BComm

Executive GM Market Mills

Age 45. Mr Keast joined OneSteel from BHP where he served in a variety of roles since 1982. Mr Keast was previously General Manager of Wire from 1999 to 2005. Prior to this he ran the Bekaert-BHP Steel Cord joint venture. Mr Keast has previously worked in a number of senior positions in BHP in rail and road freight, shipping, stevedoring and human resources.

TONY COMBE[3]
BBus (Mktg)

Executive GM Distribution

Age 44. Mr Combe was appointed Executive GM Distribution on 1 February 2006. Prior to this Mr Combe spent most of his career with A$4 billion consumer packaging company, Huhtämaki Oyi, in a number of management positions in Australia, Spain and Belgium. For the last five years Mr Combe was responsible for Huhtämaki's regional business in Asia, Oceania and Africa, where as Executive Vice President he led and developed the division that employed over 4,000 people across 15 countries.

LEO SELLECK[4]
BSc

Executive GM Project Magnet

Age 57. Mr Selleck has had 34 years experience in the Australian steel industry, joining OneSteel from BHP where he had served in a variety of roles since 1972. Mr Selleck has significant experience in the integrated steelmaking business. He has also held corporate roles in the fields of safety and environment. Prior to his current role, Mr Selleck was responsible for the Whyalla Steelworks.

ANDREW ROBERTS[5]
BComm

Executive GM Marketing

Age 39. Mr Roberts joined OneSteel from BHP Steel, starting in 1989. He has held a number of roles in marketing, sales and general business management across the Australian Manufacturing and Distribution businesses. His previous position was General Manager Sales – Distribution for OneSteel Market Mills.

TONY REEVES[6]
BEc, MComm, FCPA, FTA

Chief Financial Officer

Age 51. Mr Reeves joined OneSteel in October 2001, responsible for accounting, risk management, treasury, business planning, legal and strategic sourcing. Previous roles include finance, marketing and IT positions in Australia, UK and USA with ICI and Orica, and finance and commercial positions with Allied Mills, Vinidex and Unilever.

BILL GATELY[7]
BEc

Corporate GM Human Resources & OHS

Age 45. Mr Gately joined OneSteel from BHP where he had worked since 1979 in a range of human resource and employee relations positions. During that period he worked for BHP Minerals and in the Newcastle and Port Kembla Steel operations, where he played a key role in significant change and business improvement initiatives.

RAY JARMAN[8]
BSc, LLB

General Counsel

Age 44. Mr Jarman has over 20 years corporate legal experience and joined OneSteel from BHP where he was Lead Counsel, BHP Steel. Mr Jarman joined BHP in 1995 as Legal Manager for the Port Kembla Steelworks. Prior to joining BHP, he worked as a corporate lawyer for Unilever and has also worked for several Sydney law firms including Baker & McKenzie.

MARK GELL[9]
BEc, GMQ, EMBA, GAICD

GM Corporate Development

Age 45. Mr Gell joined OneSteel in January 2001 following over 20 years in the government, banking and business sectors for companies such as Citibank, ANI, TNT, Boral and Telstra. He has held senior general management positions in strategy, public policy, investor relations, marketing and corporate affairs.

MICHAEL DINES[10]
DipAirEng (Avionics)

GM E-Commerce & Information Technology

Age 44. Mr Dines joined OneSteel from BHP where since 1990 his career spanned many operational and management areas focusing on the IT aspects of manufacturing and distribution functions. Prior to joining BHP, Mr Dines worked for the Royal Australian Air Force (RAAF) in airborne avionics support and logistics.

JOHN KRENICH[11]
FCIS, CPA

Company Secretary

Age 61. Mr Krenich joined OneSteel in April 2002 as Company Secretary after working in the aluminium industry for his entire career. He was Company Secretary for Alcan from 1980 and then Capral from 1995 prior to joining OneSteel.

NICK CALAVRIAS[12]

CEO and Non-independent Director – Steel & Tube Holdings Limited

Age 57. Mr Calavrias was appointed a Director in September 1990 and Chief Executive Officer in July 1991. He is a director of the group's subsidiary companies, Rangatira Ltd and Contract Resources Ltd. He is a member of the NZ Business Roundtable, Institute of Directors and a fellow of the NZ Institute of Management.

Transition to Australian Equivalents of International Financial Reporting Standards (AIFRS)

The 2006 OneSteel Limited Full Financial Report is the first to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

A Steering Committee oversaw the transition from Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS. The Committee provided regular updates to the Board's Audit & Compliance Committee, which in turn provided advice to the Board.

For further detail on the effect of the transition from AGAAP to AIFRS on OneSteel refer to Note 7 of the Concise Financial Report.

Debt Management

OneSteel is committed to maintaining an investment-grade profile for its debt.

The targeted range for debt considered appropriate in normal circumstances is 30% to 40%, on a net debt/net debt plus equity basis, including derivatives. OneSteel's gearing level at the end of June 2006 was 31.4%.

OneSteel's core debt facilities are a 2005 $800 million syndicated loan provided by a group of domestic banks with tranches of three, five and seven years; a 2005 $200 million bilateral three year committed loan; and a 2003 US Private Placement with tranches of seven and 12 years.

Interest Rate Management

OneSteel's objective in managing interest rate risk is to minimise interest expense while ensuring that an appropriate level of flexibility exists to accommodate changes in funding requirements. To achieve this OneSteel uses a mix of "fixed" and "floating" interest rate swaps where "fixed" is defined as 12 months or longer.

The average interest rate paid during the year was 6.48%. Duration of debt facilities at 30 June 2006 was 3.2 years. The proportion of debt drawn at fixed rates was 50%.

Equity Management

By the end of June 2006, there were 569.3 million shares on issue providing a contributed equity of $1,126.2 million (including employee compensation shares) which, when added to retained earnings and outside equity interests, provided total shareholders' equity of $1,501.6 million.

Since listing, the main additions to contributed equity have been a private placement completed in December 2001 of 69.7 million shares and a further 33.2 million shares under the dividend reinvestment plan. There has been healthy participation in the dividend reinvestment plan since April 2002 of 18% to 29% of eligible shareholders. Additionally, since listing, 5.9 million shares have been issued following the exercise of options by senior management.

Foreign Exchange Exposure

OneSteel is a domestically focused business so direct foreign exchange exposure is not a major driver of Treasury policy. However, the main sources of foreign exchange risk include:

- sale of product in export markets which is predominantly in US dollars
- inventory purchases in foreign currency
- purchase of commodity inputs
- capital expenditure denominated in foreign currency, or in Australian dollars with rise and fall clauses related to exchange rate movements.

The group requires all business units to use forward currency contracts to eliminate the currency exposures on any individual transactions in excess of US$100,000. Committed exposures will be 100% covered when the transaction is contracted.

OneSteel also has foreign currency exposure arising from its US private debt placement which has been hedged using a series of cross-currency interest rates swap and which qualifies as a fair value hedge under AASB 139. Changes in the fair value of the cross-currency interest rate swaps and underlying debt obligations are recorded in the Income Statement.

OneSteel also has exposure to foreign exchange translation risk in relation to New Zealand dollar-denominated assets and liabilities of its 50.3% share in Steel & Tube Holdings. The group does not seek to hedge this exposure.

Dividend Policy

In recognition of the cyclicality and seasonality of OneSteel's earnings, combined with the investment market's preference for a smooth and relatively predictable dividend stream, the OneSteel Board sets a dividend after taking a view of a sustainable level of dividends having regard to future expected profit outcomes and cash requirements.

Dividends have been maintained at a 100% franking level since OneSteel listed in October 2000.

Financial Reporting Control Assurance

The company has an established risk-based process for assessing the effectiveness of internal controls. This process provides support for the Chief Executive Officer and Chief Financial Officer statements to the Board on the effectiveness of the system of internal control for ensuring the integrity of financial statements.

In summary, this financial reporting control focused process includes:

- verification of efficiency and effectiveness of controls using a four-step process
  - identify the processes
  - assess the inherent and residual risk of each process
  - identify key controls where an inherent/residual risk gap indicates significant reliance on control
  - testing of key controls
- process basics of
  - risk-based identification of key controls
  - KPMG verification of the efficiency and effectiveness of key controls
  - business unit risk owner/management sign-off to support Chief Executive Officer and Chief Financial Officer sign-offs
  - one standard across the company.

Internal and External Audit

OneSteel has a full-time risk and internal audit manager, with the balance of the function outsourced to KPMG. The internal audit program is aimed at providing assurance to management and the Board over the effectiveness of the company's risk management and internal compliance and control system, and the effectiveness of its implementation.

KPMG works with the company's external auditors, Ernst & Young, to minimise any duplication of effort and to maximise knowledge sharing between assurance providers.

Risk Factors Relating to OneSteel

OneSteel has an established business risk profiling system for identifying, assessing, monitoring and managing material risk. The system, which is based on AS/NZS 4360, provides ongoing risk review that is capable of responding promptly to new and evolving risk.

The company's risk systems include comprehensive practices that help ensure:

- key risks are identified and mitigating strategies are put in place
- management systems are monitored and reviewed to achieve high standards of performance and compliance in areas such as safety and environment

- capital expenditure and revenue commitments above a certain size obtain prior Board approval
- financial exposures are controlled, including the use of derivatives
- business transactions are properly authorised and executed.

Project Magnet

The Project Magnet governance process includes a rigorous approach to risk management and the development of risk mitigation strategies. A Project Magnet Steering Committee chaired by the Chief Executive Officer and comprising senior management of the company has been in place since project authorisation and meets approximately fortnightly. This committee reviews progress and arising issues for key elements of the project including safety, cost, time, readiness to operate and risk management processes. This Committee is supported by an underlying structure represented by the Project Team, the Integration Team and the Steelworks Operations Team. Each of these teams has clear objectives that are collectively designed to deliver a project that has both systems and processes capable of producing a complete range of products at the Whyalla Steelworks.

The Board Operational Risk Committee monitors and reports to the full Board on critical Project Magnet risks.

Whyalla Steelworks Blast Furnace

A Blast Furnace Stability Steering Committee chaired by the Chief Executive Officer and comprising senior management and an external specialist oversee the management of the ongoing operation of the blast furnace.

The Board Operational Risk Committee monitors and reports to the full Board on critical blast furnace stability risks.

Proposed Transaction with Smorgon Steel Group Limited

OneSteel has identified key potential risks attached to the implementation of the proposed merger. Risks can be mitigated using appropriate safeguards, controls and systems, but some are outside the control of the merged group and its directors and cannot be mitigated.

Key potential risks include integration risk and realisation of synergies; volatility of the merged group's share price; loss of sales to imports; impact of clauses in Smorgon Steel's supply and customer contracts and departure of key Smorgon Steel personnel.

OneSteel management has established a number of integration teams reporting to a central steering committee with part of their brief being to identify and mitigate potential integration risks.

KEY ONESTEEL RISKS

In relation to long-term risks associated with OneSteel's underlying business, the following key risks have been identified as having the potential to impact both positively and negatively on the company's earnings stream.

Nature of Risk	Description	Management of Risk
Cyclical nature of industries	OneSteel's revenues and earnings are sensitive to the level of activity in the cyclical Australian construction, manufacturing, mining and agricultural industries and, to a lesser extent, the same industries in Asia and New Zealand.	The cyclical nature of the industries that drive OneSteel earnings will never be fully overcome. OneSteel focuses on lowering fixed costs to lessen the downside impact of a slowing cycle. Furthermore, Project Magnet is expected to reduce the impact of industry cycles on the company's earnings.
Competition	Competition in the steel long products markets in Australia and in New Zealand is based primarily on price, timely customer service, distribution capabilities and the ability to provide value-adding products and services. OneSteel also faces competition from imports and international steel prices have a direct impact on OneSteel's revenue. In addition, globalisation is resulting in increased competition from imported fabricated steel for some large engineering projects. In general, an appreciating Australian dollar is favourable to imports. A number of OneSteel's products also compete with other forms of building products.	OneSteel constantly reviews its market offer in terms of pricing structures, channel to market, product uniqueness, value-adding services and the ability to deliver ancillary products and services. In some areas there are opportunities for steel where the product has low intensity compared with substitute products such as in multi-level buildings. While the appreciating dollar can lead to higher imports, it also reduces the cost of some of OneSteel's raw materials.
Dependence on key customer and supply relationships	OneSteel relies on various key customer and supplier arrangements in certain of its businesses.	Generally the greater percentage of OneSteel's business is driven by a large number of low tonnage transactions. In areas where the company has large customers and suppliers, dedicated teams within the sourcing and customer management areas of the business provide management.
Changes in steel industry structure	Changes to the structural dynamics of the steel industry through acquisitions, joint ventures and other alliances between, or by OneSteel, its competitors or other participants in the steel industry.	OneSteel has stated that it will be a participant in industry restructuring should it occur. Examples of this are the joint takeover of Email Metals with Smorgon Steel Limited in 2001 and the recent announcement of an agreement between OneSteel and Smorgon Steel Limited under which OneSteel will acquire all of the shares in Smorgon Steel Limited.
Compliance	OneSteel's operations are subject to numerous laws and regulations including occupational health and safety, environmental, trade practices, taxation and corporations law.	OneSteel has detailed programs internally to monitor, train and educate OneSteel people to ensure they are aware of relevant laws, regulations and company obligations and standards. In many areas, such as safety, environment, trade practices etc, best practice principles are applied. The over-arching framework for OneSteel's approach is the company's Code of Conduct which is on display on the company's website.
Plant performance and operational risk	The production of iron and steel products involves a number of inherent risks relating to the operation of, in particular, OneSteel's key manufacturing facilities.	OneSteel has spent in excess of $150 million per annum over the past two financial years on repairs and maintenance. The company also has a significant investment in stay-in-business capital expenditure. The company has agreements in place with leading international manufacturers that help ensure OneSteel is employing world's best practice principles in its operations.
Project risk	The company regularly undertakes large capital and other business improvement projects.	OneSteel has a rigorous capital approval process and has strengthened processes for continuously monitoring performance against plans and risk mitigation.
Product risk	Due to the nature of its operations, claims against OneSteel could arise from defects in materials or products manufactured and/or supplied by OneSteel.	OneSteel maintains an internal risk management process and also follows quality assurance procedures in relation to the manufacture of its materials and products.
Commodity Price Fluctuations	Hot rolled coil, scrap and coking coal price volatility can affect margins. See page 18 for more detailed information.	OneSteel management enters fixed price contracts for coking coal. OneSteel's pricing strategy is predicated on recovery of cost increases for raw material inputs.

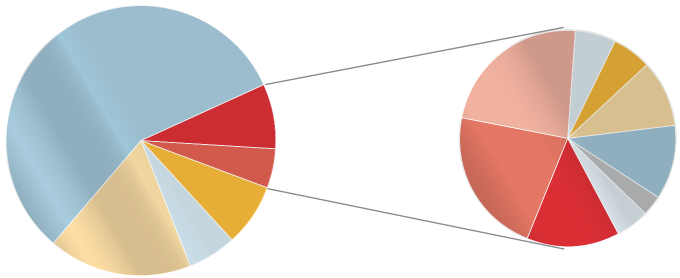
The following graphs illustrate the trend in some of the major drivers of OneSteel's business such as key sectors of the domestic economy, domestic steel prices, prices of international steel and key inputs into steelmaking, OneSteel's project list and the volume of steel imports into Australia. There is also a map highlighting the location of OneSteel's major manufacturing and distribution sites and two diagrams that illustrate the product processes and value chain of OneSteel's operations.

Figure Four compares the revenue drivers of OneSteel's business with those of the broader Australian economy and Figure Five charts the growth in activity in OneSteel's domestic revenue drivers.

Figures Six through to Twelve on these two pages represent the major business sector drivers of OneSteel's domestic revenues.

FIGURE FOUR

Australian Gross Domestic Product | **OneSteel Revenue Drivers**



- Household Consumption 60%
- Residential 8%
- Non-residential & Engineering 5%
- Equipment Investment 8%
- Other Investment 6%
- Public Demand 18%

Source: GDP data: ABS, data for 2005
Revenue Drivers' data: OneSteel management estimates for the 12 months ended June 2006

- Residential construction 14%
- Non-residential construction 22
- Engineering construction 23%
- Agriculture 6%
- Auto 6%
- Mining 10%
- Other Manufacturing 11%
- Iron ore 3%
- Export 5%

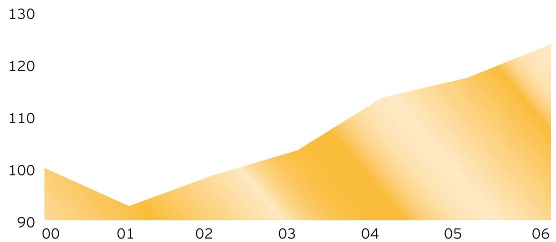
ONESTEEL REVENUE DRIVERS

Figure Four illustrates that the drivers of OneSteel's business are quite different from those of the broader Australian economy. Consumer demand makes up 60% of Australian gross domestic product while the construction segment accounts for just 13%. In terms of OneSteel's revenue drivers, construction accounts for almost 60%. As such, OneSteel's revenue is less affected by swings in the level of consumer demand, and more by the construction markets.

FIGURE FIVE

OneSteel Domestic Sales Revenue Drivers

Indexed



Source: NIEIR

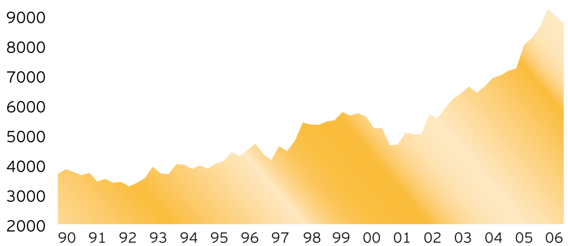
DOMESTIC REVENUE DRIVERS

Figure Five is an index of activity in the segments that drive OneSteel's domestic revenue. Overall, all the domestic market segments improved by 5.5%, accelerating from the previous year's pace of 3.3%. The construction sector, which accounts for 59% of OneSteel's revenue, improved by 9.4%. Continued strength in the non-residential and engineering segments continues to offset the softness in residential construction.

FIGURE SIX

Engineering Construction ($ millions 2003/04)

June quarter 1990 to June quarter 2006



Source: NIEIR

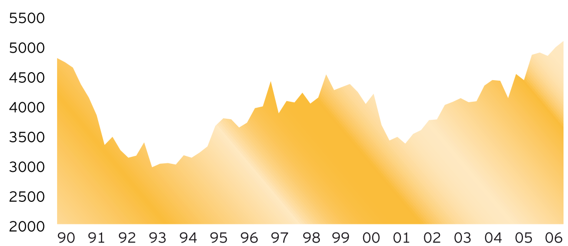
ENGINEERING CONSTRUCTION

Engineering construction encompasses the value of building or upgrading major infrastructure such as roads, bridges, railways, highways, pipelines, telecommunications, harbour and marine facilities, water and sewerage, and electricity. This sector makes up a significant proportion of OneSteel sales in any given year and currently provides approximately 23% of OneSteel's revenues. As Figure Six indicates, activity in this sector increased by 16.0% when comparing the 2005/06 and 2004/05 financial years.

FIGURE SEVEN

Non-Residential Construction ($ millions 2003/04)

June quarter 1990 to June quarter 2006

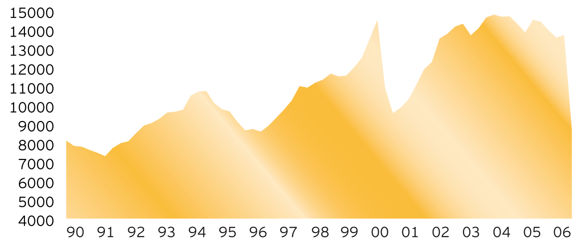


Source: NIEIR

NON-RESIDENTIAL CONSTRUCTION

The non-residential construction sector represents the value of work done in building and altering hotels, offices, shopping centres, factories, and education, health and other social facilities. This sector currently accounts for 22% of revenue. As Figure Seven indicates, the value of activity in this sector increased by 10.4% when comparing the 2005/06 financial year with the prior year.

FIGURE EIGHT
Residential Construction ($ millions 2003/04)
June quarter 1990 to June quarter 2006

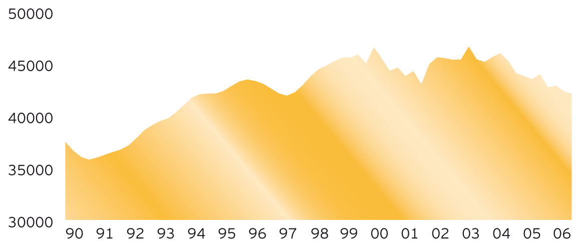


Source: NIEIR

RESIDENTIAL CONSTRUCTION

Residential construction covers investment for the building and altering of private and public units and houses. OneSteel currently derives 14% of its revenues from this segment. As can be seen from Figure Eight, residential construction activity continues to contract. As a consequence, activity decreased 3.0% from the previous year.

FIGURE NINE
Manufacturing Underlying Activity for Steel Products ($ millions 2003/04)
June quarter 1990 to June quarter 2006

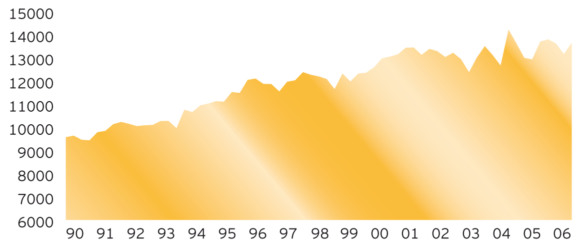


Source: NIEIR

OTHER MANUFACTURING

Other manufacturing represents all manufacturing with the exception of automotive products. This sector represents 11% of OneSteel revenues and activity levels declined by 3.1% over the year, as outlined in Figure Nine.

FIGURE TEN
Mining Production ($ millions 2003/04)
June quarter 1990 to June quarter 2006

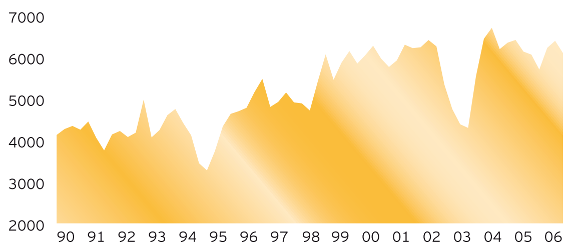


Source: NIEIR

MINING PRODUCTION

Mining production currently represents approximately 10% of OneSteel revenues. Activity in this sector rose 1.8% (refer to Figure Ten) over the 2005/06 financial year from the prior year.

FIGURE ELEVEN
Agricultural Production ($ millions 2003/04)
June quarter 1990 to June quarter 2006

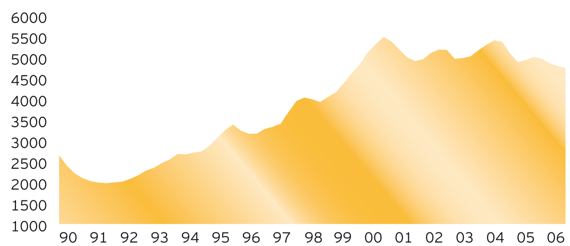


Source: NIEIR

AGRICULTURAL PRODUCTION

Agricultural production represents 6% of OneSteel revenues and declined by 2.2% from the prior year as a result of continued drought conditions in many areas (refer to Figure Eleven).

FIGURE TWELVE
Automotive Underlying Activity for Steel Products ($ millions 2003/04)
June quarter 1990 to June quarter 2006

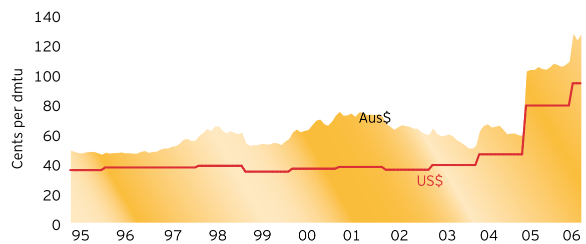


Source: NIEIR

AUTOMOTIVE OUTPUT

Automotive output includes production for domestic automotive manufacturers including component part manufacturers. This sector represents 6% of OneSteel's revenues. Activity declined 2.8% from the prior year (refer to Figure Twelve).

FIGURE THIRTEEN
Iron Ore Prices
Japan Contract Hamersley Lump fob
July 1995 to June 2006



Source: SBB

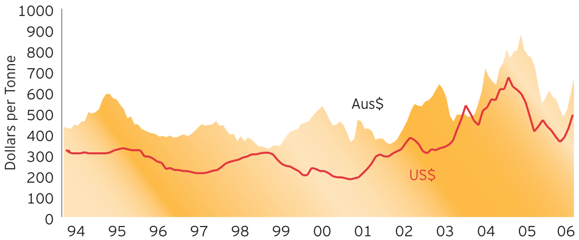
IRON ORE PRICE

OneSteel has high-quality iron ore reserves in the South Middleback Ranges that it uses to both feed the Whyalla Steelworks and to sell to external parties as an additional source of revenue. Through Project Magnet, the volume of external sales of hematite iron ore is being ramped up from one million tonnes per annum to reach four million tonnes in the 2007/08 financial year. Thus iron ore sales are becoming a greater proportion of OneSteel's revenue base. Sales of iron ore and related by-products contributed approximately 3% of total revenue in the 2005/06 financial year. Figure Thirteen shows the international movement in iron ore prices in both US and Australian dollars. Benchmark iron ore prices increased 19% in April 2006 following a 71.5% price increase in April 2005.

FIGURE FOURTEEN

Hot Rolled Coil Price – Far East Imports non–CIS c&f South China

April 1994 to June 2006

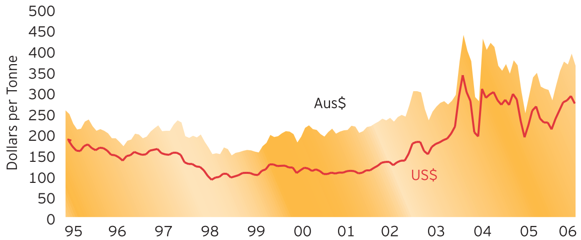


Source: CRU

FIGURE FIFTEEN

Scrap Price (Asian)

July 1995 to June 2006

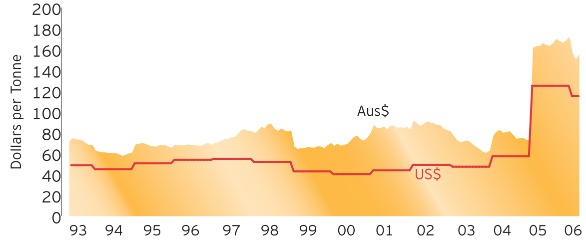


Source: TEX Report

FIGURE SIXTEEN

Hard Coking Coal (Japan contract price)

August 1993 to June 2006



Source: CRU

HOT ROLLED COIL (HRC) PRICE

The graph represents prices in US and Australian dollars for HRC, a major semi-finished steel flat product that is used primarily by OneSteel in the manufacture of pipe and tube. In any given year, OneSteel purchases between 400,000 and 450,000 tonnes of HRC. Figure Fourteen depicts the volatile nature of prices of HRC for imports into Asia.

SCRAP PRICE

Figure Fifteen shows prices for scrap steel in US and Australian dollars. OneSteel uses approximately 500,000 tonnes per annum of externally sourced scrap feed for its Sydney Steel Mill operation. The other 1.2 million tonnes of steel produced by OneSteel is predominantly converted from iron ore at Whyalla Steelworks. Scrap price volatility has been influenced by some speculative buying as well as by inventory levels.

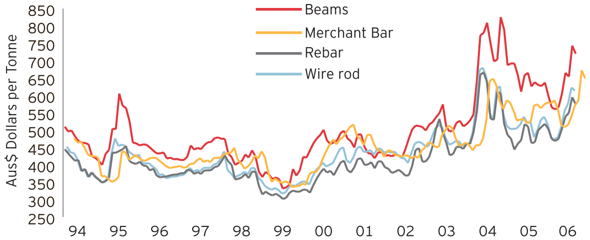
COKING COAL PRICE

Figure Sixteen shows the international movement in contract coking coal prices in US and Australian dollars. Whyalla Steelworks uses coking coal in the manufacturing process at the Whyalla Steelworks to make iron. OneSteel purchases approximately 1,000,000 tonnes of coking coal per annum. OneSteel generally buys coking coal at "Contract" prices. The graph illustrates that coking coal prices increased by more than 100% to US$125 per tonne in April 2005. More recently, in April 2006, the price decreased to US$115 per tonne. Contract coal prices are generally set in line with the Japanese fiscal year that runs from 1 April to 31 March.

FIGURE SEVENTEEN

Long Products International Prices

January 1994 to July 2006

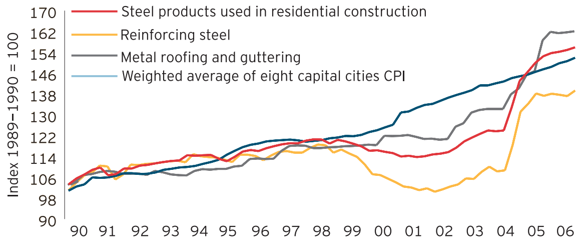


Source: CRU

FIGURE EIGHTEEN

Prices for Steel Residential Construction Materials

June quarter 1990 to June quarter 2006

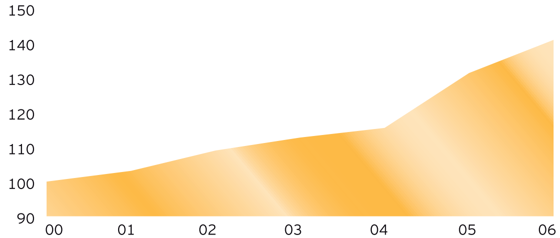


Source: ABS

FIGURE NINETEEN

OneSteel Domestic Steel Price per Tonne

Indexed



Source: NIEIR

LONG PRODUCTS INTERNATIONAL PRICES

Figure Seventeen represents the international prices for long products such as structural beams used for construction, merchant bar that is used in a wide range of applications including machinery and manufacturing equipment, rebar that is used as reinforcing for concrete, and lastly wire that is used for anything from springs to fencing. The graph is in Australian dollars. International prices for long products have a direct impact on OneSteel's revenue because they influence both the export and domestic price at which OneSteel's products can be sold.

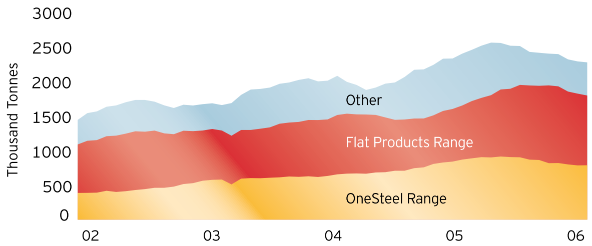
PRICES FOR STEEL RESIDENTIAL CONSTRUCTION MATERIALS

This graph represents prices of steel products used in Australian residential construction as measured against an index. OneSteel produces structural steel and reinforcing products. The rise in steel prices depicted in Figure Eighteen reflects strong international demand for steel that pushed up prices for steelmaking inputs such as scrap steel, iron ore and coking coal.

ONESTEEL DOMESTIC PRICES

In response to the rise in raw material input costs that are depicted in Figures Fourteen, Fifteen and Sixteen, OneSteel has been implementing price increases since February 2004 to recover those higher costs. Figure Nineteen represents an index of OneSteel's domestic steel prices. In the 2005/06 financial year OneSteel achieved a 3.1% increase in the average price of steel per tonne, or a 6.9% increase excluding exports and special projects.

FIGURE TWENTY
Steel Imports Into Australia
January 2002 to June 2006



Source: ABS and OneSteel data 12-month moving average

VOLUME OF IMPORTS INTO AUSTRALIA

A higher volume of steel imports into Australia puts downward pressure on domestic steel prices. The volume of imports in some of OneSteel's product lines remains at higher than historical levels as illustrated in Figure Twenty. The data include approximately 90,000 tonnes of OneSteel imports of finished and semi-finished product associated with production disruptions at the Whyalla Steelworks blast furnace in the latter part of the 2004 calendar year.

PRODUCT PROCESSES

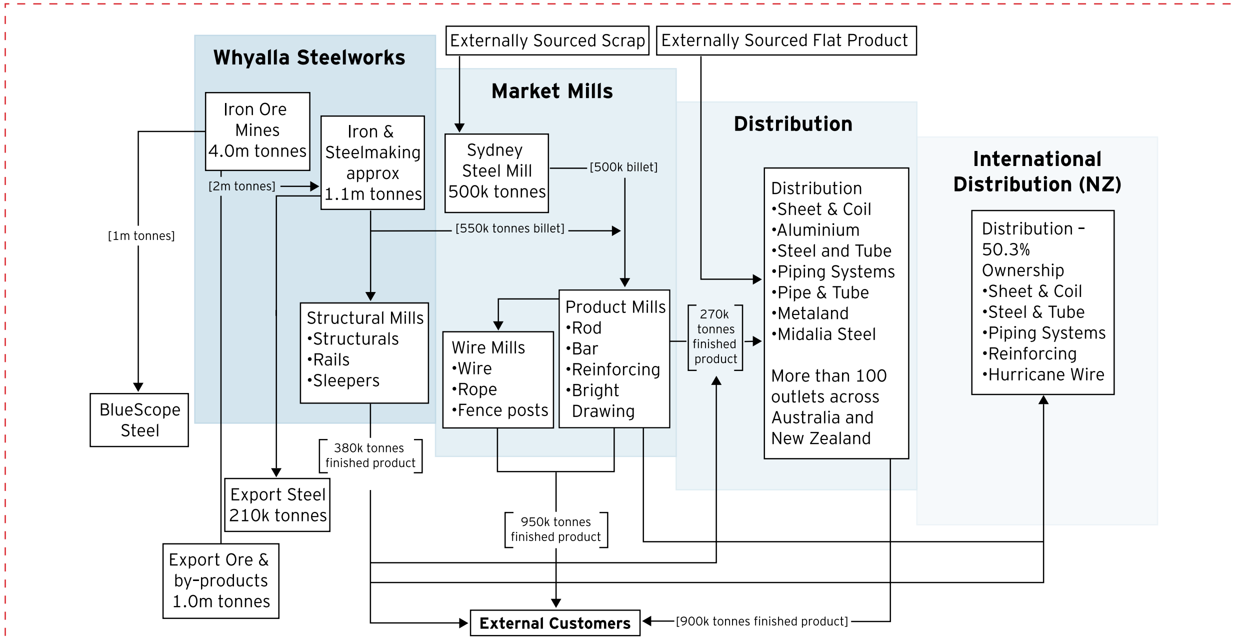
Typical steel companies tend to be only manufacturers of steel, meaning they have to purchase raw materials and also sell product through independent distribution networks. As a result such companies can be squeezed by both raw material providers and distributors, and some of the value that can be created in the manufacturing process gets transferred. For that reason, OneSteel was established with its own iron ore as raw material to feed the Whyalla Steelworks, as well as with its own distribution network (refer to Figure Twenty One).

One of OneSteel's key competitive advantages is its low-cost, high quality iron ore mines that are situated just 60 kilometres from its main production facility, the Whyalla Steelworks in South Australia. Two-thirds of the 1.7 million tonnes of steel OneSteel produces each year is made at the Whyalla Steelworks using iron ore. OneSteel's other main production facility is an electric arc furnace at Sydney Steel Mill that makes steel by melting scrap.

At the other end of the chain, OneSteel has a network of more than 100 outlets through which it distributes its own products, as well as externally sourced metal products, to over 30,000 customers.

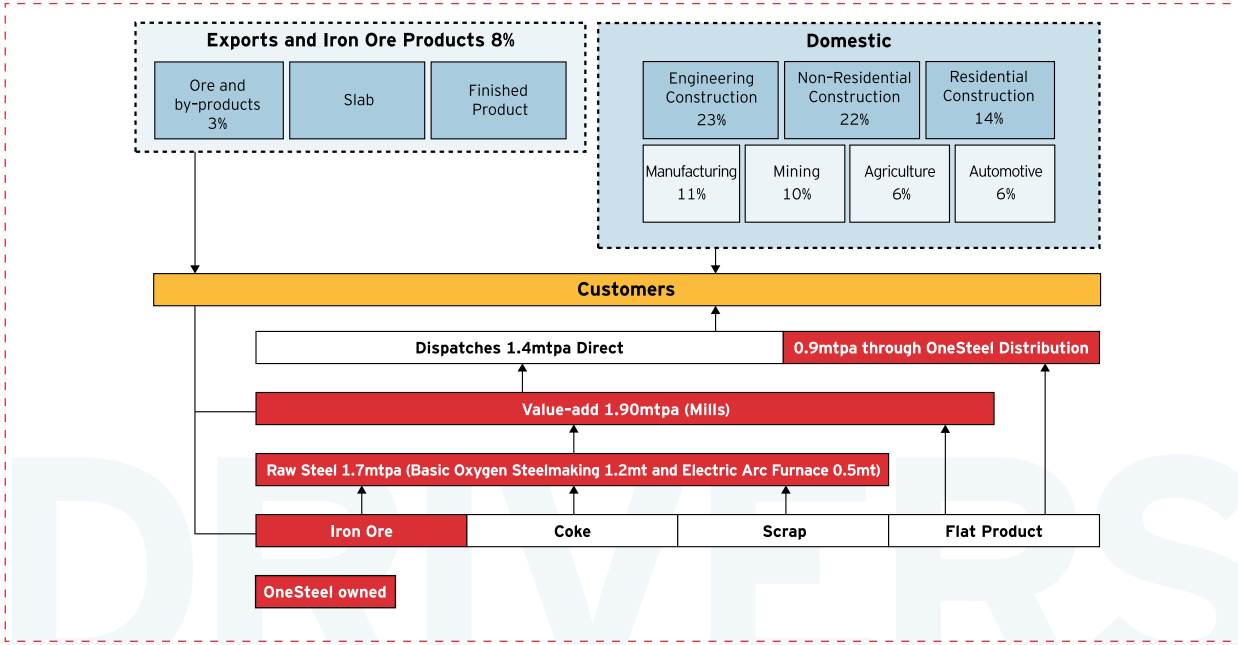
Figure Twenty Two demonstrates the interaction between OneSteel's value chain and the market drivers of the company's revenue.

FIGURE TWENTY ONE
Product Processes[1]



[1] Figure is indicative of approximate tonnes of raw steel and steel and non-steel products produced in the 2005/06 financial year.

FIGURE TWENTY TWO
Value Chain of OneSteel's Australian Operations



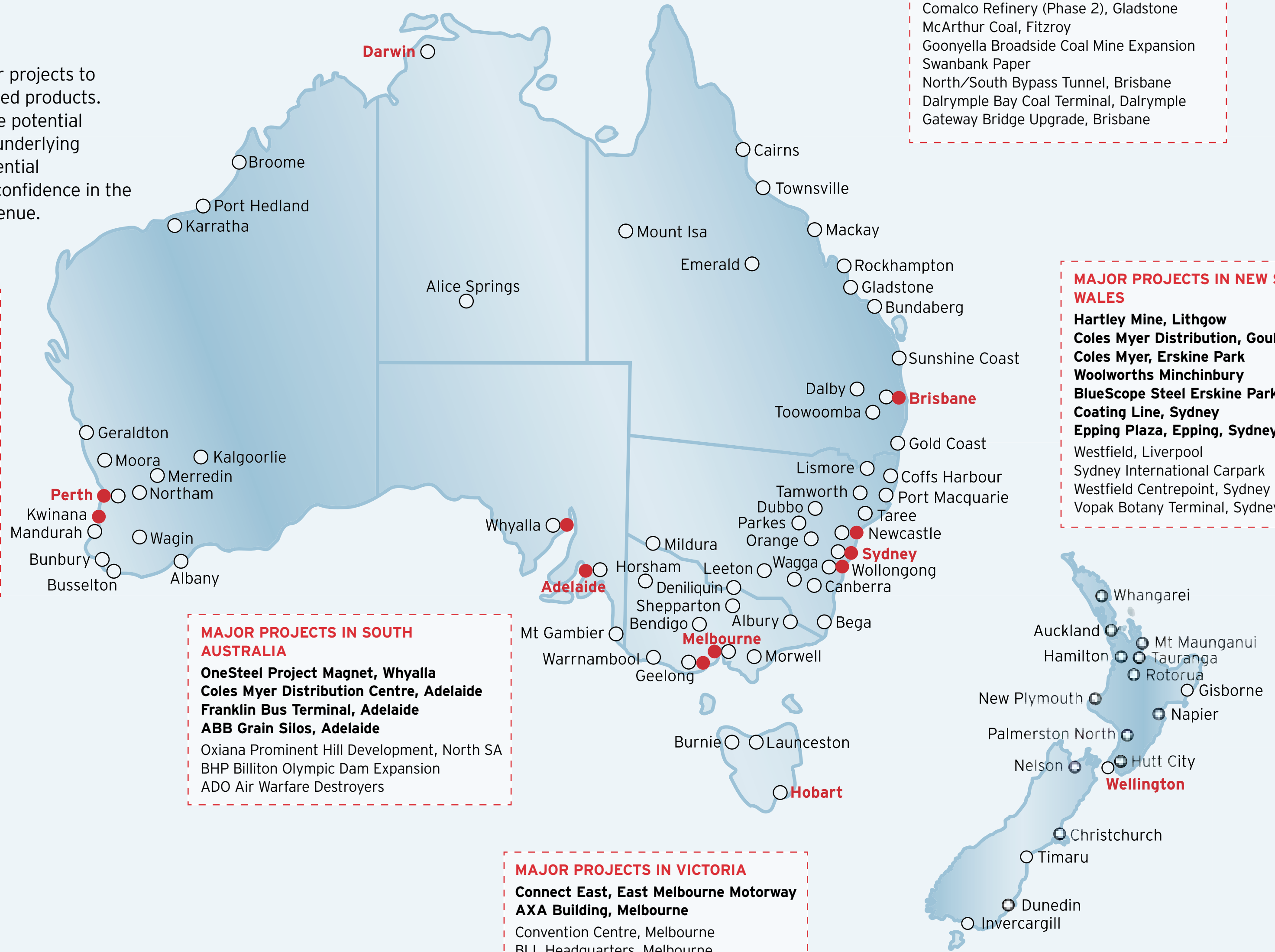
ONESTEEL MAP OF OPERATIONS

OneSteel has over 200 operating locations throughout Australia and New Zealand servicing many large regional communities. Major manufacturing facilities are located in Whyalla, Newcastle and Western Sydney in Australia, with the remaining smaller manufacturing and distribution facilities located throughout Australia and New Zealand.

MAJOR PROJECT FLOW

Figure Twenty Three also depicts the major projects to which OneSteel is supplying steel and related products. Current projects are listed in bold type. The potential projects, listed in plain type, illustrate the underlying strength of the engineering and non-residential construction segment, and give OneSteel confidence in the level of demand from key drivers of its revenue.

FIGURE TWENTY THREE
OneSteel Map of Operations and Major Projects



MAJOR PROJECTS IN NORTHERN TERRITORY

Alcan Gove Expansion
Natural Fuels Australia – Bioprocessing plant, East Arm

MAJOR PROJECTS IN QUEENSLAND

Abbot Point Coal Terminal Expansion
Hay Point Expansions
Comalco Weipa Project
QNI Yabulu Expansion, Brisbane
Gladstone Nickel Project, Yarwun
Comalco Refinery (Phase 2), Gladstone
McArthur Coal, Fitzroy
Goonyella Broadside Coal Mine Expansion
Swanbank Paper
North/South Bypass Tunnel, Brisbane
Dalrymple Bay Coal Terminal, Dalrymple
Gateway Bridge Upgrade, Brisbane

MAJOR PROJECTS IN WESTERN AUSTRALIA

Newcrest Boddington Gold Mine, Boddington
Rio Tinto Parker Point Upgrade – Dampier Wharf
Rio Tinto Yandi Upgrade
BHP Billiton Dampier Port Development JV
Woodside Angel Project, Topsides, NW Shelf
Santos DPCU Project, Perth
Gorgon LNG – Chevron/Texaco, NW Shelf
Worsley Alumina Refinery Upgrade, Worsley
Tyco Water Pipe Racks
Worsley Alumina DCP Expansion, Collie
Woodside Train 5, NW Shelf
Alcoa Wagerup Stage III
Rio Tinto Hope Downs Development
Linxfox Warehouse

MAJOR PROJECTS IN NEW SOUTH WALES

Hartley Mine, Lithgow
Coles Myer Distribution, Goulburn
Coles Myer, Erskine Park
Woolworths Minchinbury
BlueScope Steel Erskine Park Coating Line, Sydney
Epping Plaza, Epping, Sydney
Westfield, Liverpool
Sydney International Carpark
Westfield Centrepoint, Sydney
Vopak Botany Terminal, Sydney

MAJOR PROJECTS IN SOUTH AUSTRALIA

OneSteel Project Magnet, Whyalla
Coles Myer Distribution Centre, Adelaide
Franklin Bus Terminal, Adelaide
ABB Grain Silos, Adelaide
Oxiana Prominent Hill Development, North SA
BHP Billiton Olympic Dam Expansion
ADO Air Warfare Destroyers

MAJOR PROJECTS IN VICTORIA

Connect East, East Melbourne Motorway
AXA Building, Melbourne
Convention Centre, Melbourne
BLL Headquarters, Melbourne
Water Front City, Melbourne

○ Major Distribution Sites

● Key Manufacturing Facilities

Note the projects in bold are **CURRENT** projects.
The remainder are potential projects.

AUSTRALIAN DISTRIBUTION

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

Market Conditions

Domestic market conditions were mixed. Prices softened slightly in the second half of the financial year and there was increased pressure from imports. Activity increased in the resources and infrastructure segments in Western Australia and Queensland, while the manufacturing and residential construction segments were flat, particularly in New South Wales and Victoria.

Performance

Sales revenue increased by $50 million despite the volume of outsourced flat products dispatched falling substantially while dispatches of long products were marginally higher. Cost efficiency initiatives combined with pricing discipline were used to effectively manage margins, albeit at the expense of some volume. An improvement in working capital levels and ratios drove a reduction in funds employed and a good cash result.

Steel and Tube volumes were solid in a market influenced by lower project activity in New South Wales and by delays to Western Australia projects coming on stream. Margins were well managed.

Sheet, Coil and Aluminium volumes declined during the year, driven by pricing volatility, with substantial fluctuations in hot rolled coil and aluminium. Margins were well managed to stay on top of this. The decline in volume also partly reflects the contraction of the Australian manufacturing sector, particularly in automotive.

Metaland's sales growth was acceptable in a highly competitive rural market. Tight expense control partially mitigated pressure on margins.

Piping Systems' volumes received a healthy boost from the resource sector in Western Australia and Queensland.

During the year **Pipe and Tube** had to manage fluctuating raw material costs and continued import competition. Despite these challenges, overall market volumes were steady in structurals and pipeline volumes excluding projects were up slightly from the previous year.

Initiatives

Sheet, Coil and Aluminium finished the rollout of the SAP platform in the first half of the 2005/06 financial year. With the implementation of SAP now complete in the merchandising business, focus has moved to improving supply-chain capability across the group.

Outlook

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

AUSTRALIAN MANUFACTURING

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

Market Conditions

Demand remained strong throughout the year in non-residential and engineering construction, as well as in the mining segment. However, the automotive, manufacturing and rural segments continued to be soft. Scrap prices were volatile during the year.

Performance

Considerable emphasis was placed on recovering cost increases through price management, competing with imports and improving delivery performance. The three main areas of focus were improving market offers to customers, supply chain capability and cost reduction.

Output at the relined blast furnace at the **Whyalla Steelworks** was slightly above historical averages as work continued on fine-tuning its operating parameters. Project Magnet continues to progress well with resources now focused on construction and preparation for commissioning. The volume of iron ore products exported to China was up 27% from the previous year amid further growth in global demand for steelmaking raw materials.

Rail dispatches exceeded those of the previous year as demand for resources and spending on rail system maintenance remained at high levels. **Hot rolled structural** sales however were slightly lower on deferral of projects into the 2006/07 financial year.

Operational improvements enabled the **Sydney Steel Mill** to remain operating at high levels to meet market demand. **Reinforcing** tonnages were steady in core markets while continued strong demand for Bar and Mesh in the strong engineering and non-residential construction markets led to higher volumes of reinforcing products in niche areas. Queensland and Western Australia remain key markets. Reduced demand for automotive, manufacturing and rural products led to slightly lower dispatches of **Rod and Bar.**

Wire volumes continued to be affected by flat market activity in the rural sector due to severe drought in many areas.

Initiatives

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

Outlook

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

INTERNATIONAL DISTRIBUTION

	2006 $m	2005 $m	%
Revenue	390.4	403.3	(3.2)
EBITDA	48.8	61.4	(20.5)
EBIT	43.7	56.1	(22.1)
Assets	178.4	196.1	(9.0)
Employees	907	804	12.8
Sales Margin	11.2%	13.9%	
Funds Employed	146.5	160.9	(8.9)
Return on Funds Employed	28.4%	37.4%	

Market Conditions

Economic growth slowed in New Zealand in the 2005/06 financial year. The total value of construction activity remained at similar levels to the previous year, despite residential building approvals falling 2% after falling 16% in the previous year and the number of apartments dropping by 28%. The manufacturing and rural sectors continued to suffer from a strong New Zealand dollar. This, combined with considerable volatility in the international steel market that caused substantial steel price fluctuations during the year, impacted the business' ability to fully pass on cost increases incurred during the period.

Performance

The business posted a profit of NZ$30.82 million after tax. Although the result did not match that of the prior year, the business performed very well in a volatile market that was in retreat for much of the trading year.

Replacement cost of steel dropped as steel mills internationally faced a market correction following unsustainably high global demand a year earlier. This put downward pressure on selling prices and margins for **Steel Distribution** at a time of declining domestic steel consumption. Volumes were affected by customers encountering unexpected delays between construction projects and lower volumes to the manufacturing and rural sectors.

Roofing Products continued its strong performance on the back of strong demand for steel roofing and cladding products from both the light commercial and new residential construction segments.

The **Reinforcing** operations also posted excellent results, albeit down from the previous financial year given a more competitive market.

Hurricane Wire Products produced similar volumes to the prior year but competitive pressures and a different product mix adversely affected margins.

Initiatives

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

Outlook

In the short-term the New Zealand economy is expected to suffer from the impact of higher inflation, interest rates and energy costs. Over the next 12 to 18 months however the economy is expected to recover as the benefits of the lower exchange rate flow through to exporters and the manufacturing sector.

MARGINS WERE EFFECTIVELY MANAGED THROUGH COST EFFICIENCY INITIATIVES AND PRICING DISCIPLINE, WHILE A FOCUS ON WORKING CAPITAL MANAGEMENT LED TO A GOOD CASH RESULT.

Safety performance improved during the year with the Lost Time Injury Frequency Rate (LTIFR) down 10% to 2.7 and the Medical Treatment Injury Frequency Rate (MTIFR) 5% lower at 14.4.

Revenue increased 2.8% over the prior year to $1,833.9 million. The housing and rural segments remained soft, while the manufacturing and automotive markets were flat with the rise of imported components. Engineering and non-residential construction remained firm and the resources segment performed strongly. Reflecting this mix, sales were challenging in the states of New South Wales and Victoria and demand was robust in Queensland and Western Australia.

Prices remained firm in the first half of 2005/06 following the previous strong year but they softened slightly in the second half. Continued import competition, particularly in pipe and tube, and also in flat products, kept downward pressure on volumes and prices. Sales of flat steel products, sourced externally to the group, were down by approximately 70,000 tonnes from the previous year.

Funds employed were managed tightly during the year with good progress shown in reducing both inventory and receivables throughout the business. Return on funds employed declined slightly to 15.1% from 17.5% reflecting the lower earnings.

AUSTRALIAN DISTRIBUTION

	2006 $m AIFRS	2005 $m AIFRS	2004 $m AGAAP	2003 $m AGAAP	2002 $m AGAAP
Revenue	1,833.9	1,783.3	1,537.0	1,430.9	1,417.6
EBITDA	146.1	164.3	127.1	116.4	109.0
EBIT	122.0	140.5	104.2	90.6	73.4
Assets	1,100.6	1,187.4	1,116.2	1,004.4	1,010.2
Employees	2,448	2,483	2,391	2,286	2,349
Sales Margin	6.7%	7.9%	6.8%	6.3%	5.2%
Funds Employed	797.4	813.4	820.0	785.2	825.7
Return on Funds Employed	15.1%	17.5%	13.0%	11.5%	8.9%
Steel Dispatches – tonnes	916,353	981,409	938,157	917,800	900,500

Photos from top to bottom: Rhodes Waterside Shopping Centre; Adelaide Airport and the BIZTEK building in Brookvale, New South Wales. The photos illustrate the innovative application of steel products to architectural design. There are many advantages of using steel including faster construction, column free space, flexibility for future tenants, cost competitive and attractive and unique structures.

The Business	The Market	Performance	Developments
STEEL AND TUBE Steel and Tube operates from facilities in major metropolitan areas, providing a range of products including structural steel, plate, hollow sections and merchant bar. This product range, together with extensive processing capabilities, provides customers with a leading market offer. The prime segments serviced are engineering and non-residential construction, automotive and manufacturing. The major facilities are supported by a small network of "Many Solution" stores focused on providing a complete steel product range to trade and do-it-yourself (DIY) markets.	After price rises in the early part of the year, the market weakened slightly and was increasingly competitive in the second half. The non-residential and engineering construction segments were generally strong with the exception of New South Wales. The manufacturing and automotive segments continued to present a challenge given the growth of imported components and finished products.	Sales volumes were affected by tougher trading conditions in New South Wales and Victoria and by delays to the commencement of major projects in Western Australia. Value-add was maintained through an increase in the penetration of processing revenues. Operating costs were tightly controlled at around the prior year's levels. Working capital initiatives were successfully implemented to deliver a strong cash flow position. Safety performance continued to improve with fewer injuries being reported.	Three new outlets catering for the smaller end of the market opened in the 2005/06 financial year. More outlets are planned from 2006/07 onwards. Additionally, there are plans for significant upgrades of processing capabilities over the next three years and further innovations in processing and warehousing are constantly being considered. Customer service levels will receive a continued focus following pleasing survey results in 2006.
PIPE AND TUBE Manufactures pipe and tube for the construction, mining and manufacturing segments for application in oil and gas pipelines, reticulation pipe, buildings, fencing, machinery, furniture, shop fittings, automotive production, agricultural implements and outdoor material handling equipment.	Market conditions were difficult during the year with a slowing in the residential construction and rural segments, plus continued import competition. The automotive market also softened further as component manufacturers seek offshore options. The cancellation of the Trans Territory pipeline affected project activity in the oil and gas pipeline segment. Steel raw material costs commenced the year on the rise before moving into a downward trend in line with the influences of the world market.	Initiatives focused on improving manufacturing performance continued in the year with OneSAP successfully implemented across the business. This allowed a fundamental redesign of maintenance procedures and practices. Trading margins remained tight reflecting a volatile market for raw materials that impacted both supply and price. Strategies focused on matching capacity to market demand enabled a reduction in manning and overtime while improving productivity levels from the previous year.	There will be a continued focus on improving reliability and operational and organisational capability across the business, leveraging off the OneSAP investment. While global steel prices will remain volatile, the business has developed greater production flexibility to match movement in demand.
SHEET, COIL AND ALUMINIUM A processor and distributor of three product groups from dedicated metropolitan facilities – carbon steel sheet and coil, aluminium and stainless steel. Product is sourced from major Australian and offshore manufacturers and used to service customers in the construction and manufacturing sectors. Major markets are metal roofing and accessories, steel building sections, road and marine transport equipment, metal cabinets, automotive components and whitegoods industries.	Significant price volatility in steel sheet and coil affected the market. The reduction in prices resulted in a highly competitive market, with business being lost to cheaper imported bulk coil and with an increasing percentage of imported components being used by customers. This was partially offset by strong pricing in aluminium and stainless steel amid relative stability in domestic demand for these products.	The price volatility for steel sheet and coil, and subsequent impact on demand from import competition, adversely impacted profits and led to a result lower than expectations. Efforts were focused on lowering the cost base of the business, to align with changes in demand, and also on improving cash management.	In the year ahead there will be attention on improving the core business through cost and working capital improvements and through consolidating and realising the benefits from the SAP investment.
METALAND Metaland services customers in regional markets of Australia. The network comprises around 50 outlets complemented by an extensive franchise network throughout Australia. Local managers are empowered to provide a full range of metal products and solutions relevant to their local market conditions.	Market conditions in regional areas were underpinned by a strong mining segment. Volatile prices increased competition both domestically and from imports. This influenced inventory practices and subsequently customer service.	Sales volume growth was strong across products manufactured by OneSteel. Overall, a solid financial performance in a competitive market, highlighted by significant improvements in working capital management.	Focus will continue to be directed towards upgrading selected sites in regional Australia and expanding the network.
PIPING SYSTEMS OneSteel Piping Systems supplies steel pressure pipes, fittings and valves for liquid and gas conveyance. Customers include construction companies involved in major infrastructure project work, those in the mining and mineral processing industries, oil and gas companies, mechanical contractors and export customers principally in the Pacific Rim. The division also services the fire prevention market through specialist businesses in metropolitan centres.	Strong demand from a number of major infrastructure and resource segment projects drove the generally favourable market conditions during the year. The business has been involved with the QNI project in Queensland, the Woodside Train 5 project and the Dampier to Bunbury gas pipeline in Western Australia, and the Port Waratah Coal Loader in New South Wales. The building services market, including fire protection, remained strong.	Sales growth and margin management resulted in an improved profit result. However, there were cost increases and some product shortages in the year that placed pressure on margins and customer service. The majority of the product that Piping Systems sells comes from overseas suppliers.	Initiatives to improve customer relationships were implemented and as a result, step change advances in stock availability, delivery performance and customer relationship management were achieved. Supply agreements with major mining and gas customers were established or renewed. Growth plans for the building services segment are being progressively rolled out.
MIDALIA STEEL Midalia Steel operates four facilities in Perth and eight regional locations in Western Australia. Target customers include small builders, metalworkers, farmers, and the DIY sector.	Industrial, rural and retail market segments all grew in revenue terms as a result of greater market penetration. The retail market, once again driven by the buoyant home improvement sector, continued to provide solid growth and this was supported by a positive year in the rural sector. Continued strong market conditions in the resources sector fed through to demand in small general engineering customers.	Revenue growth has continued to exceed expectations. The addition of another branch helped contribute to the increased market penetration and the year's strong result. Safety continued to be a major area of investment in terms of both financial resources and management time.	The outlook for 2006/07 remains favourable. Further expansion of the network is planned for 2006/07, along with improvements to the service offer to further capitalise on the strong market in Western Australia.

THE THREE MAIN AREAS OF FOCUS WERE IMPROVING MARKET OFFERS TO CUSTOMERS, SUPPLY CHAIN CAPABILITY AND COST REDUCTION.

WHYALLA STEELWORKS

Output at the Whyalla Steelworks' blast furnace was slightly above the historical average following a return to more stable operations after the reline undertaken in the 2004/05 financial year.

Mines, coke ovens and the structural mill all performed well operationally. Pellet plant output was below plan due to maintenance issues prior to the annual cold shut.

The market for ore and mill products, particularly rail, remained high. This is based on continued strong demand for resources and strong spending on rail system maintenance.

Project Magnet remains on schedule to achieve commissioning of new capital works progressively during the 2006/07 financial year, with full production to commence as scheduled in the 2007/08 financial year. The project extends the life of the Whyalla Steelworks, lowers the cost of steel production and creates an additional revenue stream via the export of hematite ore, pellets and additional steel.

Safety performance improved slightly throughout the year, with the Medical Treatment Injury Frequency Rate (MTIFR) finishing at 10.3.

MARKET MILLS

Demand remained strong in the non-residential and engineering construction segments, as well as in the mining segment. However the automotive, manufacturing and rural segments continued to be soft. Considerable effort was placed on recovering cost increases through price management, competing with imports and improving delivery performance.

During the year there was a continued focus on building a better offer to customers and looking at the supply chain to further grow value within the segments in which OneSteel competes with an aim to improve the competitiveness of OneSteel and its customers.

Across the manufacturing operations, a continued focus on increasing reliability and driving process efficiencies has delivered improved cost competitiveness and market responsiveness.

AUSTRALIAN MANUFACTURING	2006 $m AIFRS	2005 $m AIFRS	2004 $m AGAAP	2003 $m AGAAP	2002 $m AGAAP
Revenue	2,101.4	2,065.7	1,700.9	1,583.1	1,445.8
EBITDA	225.8	184.3	187.4	175.7	133.7
EBIT	164.5	118.7	130.3	126.0	67.1
Assets	1,829.2	1,638.7	1,555.3	1,439.0	1,398.8
Employees	3,948	3,908	3,872	3,818	3,857
Sales Margin	7.8%	5.7%	7.7%	8.0%	4.6%
Funds Employed	1,306.2	1,094.5	1,065.5	1,056.4	1,062.7
Return on Average Funds Employed	13.7%	11.5%	12.3%	11.9%	6.3%
Steel Dispatches – external tonnes	1,370,714	1,282,642	1,221,379	1,306,346	1,280,875
Steel Dispatches – internal tonnes	272,141	270,719	257,266	259,854	252,325
Tonnes Produced	1,633,696	1,349,397	1,618,855	1,624,399	1,576,650

Photos from top to bottom: Rhodes Waterside Shopping Centre; Adelaide Airport and the BIZTEK building in Brookvale, New South Wales. These photos are of the insides of the buildings featured in the Distribribution photo spread on Page 22. The pictures highlight the versatility of internal design associated with buildings manufactured from steel. The wide open spaces provide for space efficiencies and visual aesthetics difficult to achieve using other building materials.

WHYALLA STEELWORKS

The Business

Whyalla Steelworks is located in Whyalla, South Australia. It is an integrated steelworks producing up to 1.2 million tonnes of steel per annum from iron ore sourced from OneSteel's mines. Whyalla produces billet for OneSteel's Market Mills operations and manufactures rail products, structural steel and slab for external re-rolling. Besides steel products, substantial amounts of iron ore, pellets and other non-steel products are produced.

The Market

The domestic and New Zealand structural steel markets softened slightly from the previous year. Volumes were down 6% as projects were deferred into the 2006/07 financial year, hence there are forecasts for strong demand in the new financial year. Rail and steel sleeper dispatch volumes increased 19% and 9% respectively, reflecting the increased investment in railway track infrastructure by both the government and private sectors. Continued growth in global demand for steelmaking raw materials supported a 27% increase in the volume of iron ore products exported to China.

Performance

Following a return to stable operations, output at the Whyalla blast furnace was slightly above the historical average. The mines, coke oven and structural mills continued to perform well. Export shipments of iron ore lump, fines, and iron ore by-products were maximised in conjunction with equipment upgrades in the ore products stream associated with capital works being undertaken as part of Project Magnet.

Developments

The iron ore market remains positive based on continued strong demand within China. Project Magnet capital works are due to be substantially completed in the 2006/07 financial year, with full production to commence as scheduled in the 2007/08 financial year. Operating initiatives over the coming year will focus on improving process capability and equipment reliability to improve delivery performance and reduce costs.

ROD AND BAR

The Business

Produces approximately 500,000 tonnes per annum of commercial grade billet at the Sydney Steel Mill (scrap-fed electric arc furnace and billet caster). Together with approximately 550,000 tonnes supplied by Whyalla Steelworks, the billets are rolled into a wide range of selected rod and bar products in the Newcastle Rod Mill and Bar Mill, and Sydney Bar Mill, for supply to downstream OneSteel businesses and to external domestic and export customers.

The Market

Higher non-residential construction, engineering construction and mining sales were offset by reduced demand for automotive, manufacturing and rural products. Thus overall sales were down slightly from the previous year. Scrap prices were volatile through the year.

Performance

Sydney Steel billet output was in line with targeted production. The rod and bar mills continued to improve production capacity, reliability and labour utilisation, resulting in overall lower conversion costs.

Developments

The market outlook for the 2006/07 financial year suggests that strong engineering and non-residential construction and mining sectors will more than offset slowing in the residential construction, automotive and manufacturing segments. Operating initiatives over the coming year will continue to focus on improving plant reliability, availability, delivery performance and labour utilisation. A licence upgrade of the Sydney Steel Mill is currently before the New South Wales state government. The upgrade will take the facility's permitted output from the current level of 550,000 tonnes to 660,000 tonnes per annum.

REINFORCING

The Business

Reinforcing steel is used for concrete reinforcement, mining strata control, agricultural and industrial mesh products and reinforcing steel fibres. Reinforcing has 39 centres located throughout Australia that manufacture wire and mesh, process bar and sell related accessories. Customers include large and small builders, concreters, pool builders, formworkers, precasters and mining companies.

The Market

The overall market remained favourable this year, with activity in the non-residential and engineering construction segments further strengthening to more than offset a weakening in housing commencements. Infrastructure developments remain a major driver for Reinforcing, with major projects of ConnectEast (Melbourne), Westlink (Sydney) and Brunswick and Tugun Bypass (Gold Coast) being processed.

Performance

Profit levels again improved with higher margins from a recovery of scrap input costs and tight cost control. Total sales volumes were similar to 2004/05 financial year. Sales of products in non-core areas also grew significantly as new product and market initiatives came to fruition.

Developments

Product development initiatives and strategies are progressing as planned. These include the ONESLAB® housing package and the TRUSSDEK® structural decking system.

WIRE

The Business

With facilities in Newcastle in New South Wales, and Geelong and Somerton in Victoria, the Wire business services a diverse steel wire, rope and bar market. Major product segments are Rural (fencing, livestock and horticultural wires), Manufacturing (bright, galvanised, bedding, mechanical spring and concrete reinforcing wires, nail wires), Mining (heavy mining rope) and Bright Bar (automotive and machining applications).

The Market

The overall sales volume in the 2005/06 financial year was below the previous year. A strong Australian dollar facilitated an increase in imported finished products that lowered demand for manufacturers' wire and bright bar. Sales of steel reinforcing wires and heavy mining rope were strong due to high levels of activity in the engineering construction and resources sectors. Rural volumes were weaker reflecting tough rural conditions throughout the year.

Performance

A clear focus on the separate Rural, Manufacturing, Mining rope and Bright bar product segments has lowered manufacturing costs and improved delivery performance in a subdued market environment.

Developments

The new Rope machine and fence post plant are now operating at design capacity resulting in an improved ability to meet the market. The wire business management structure has been changed to better align with strategic initiatives.

ASSISTED BY CONTINUED HIGH CONSTRUCTION ACTIVITY IN NEW ZEALAND, INTERNATIONAL DISTRIBUTION POSTED ITS SECOND BEST EVER RESULT DESPITE LESS FAVOURABLE INTERNATIONAL AND DOMESTIC TRADING CONDITIONS.

MARKET CONDITIONS

The New Zealand economy slowed during the 2005/06 financial year, recording growth of 0.7% in the nine months ending March 2006 compared with economic growth of 2.8% in the preceding twelve months.

The total value of construction activity was similar to that of the previous financial year despite building approvals for new houses declining a further 2% after falling 16% in the previous year and the number of apartments falling 28%. The Manufacturing and Rural sectors continued to suffer from a strong New Zealand dollar exchange rate. This, combined with considerable volatility in the international steel market that caused substantial steel price fluctuations during the year, impacted the business' ability to fully pass on the cost increases incurred during the period.

PERFORMANCE

International Distribution posted a profit of NZ$30.82 million after tax for the period under review. Although the result did not match that of the prior year, the business performed very well in a volatile market that was in retreat for much of the trading year.

OPERATIONS

Replacement cost of steel fell as steel mills internationally faced a market correction following the unsustainably high level of world demand in the previous year. This put downward pressure on selling prices and margins for **Steel Distribution** at a time of declining domestic steel consumption. Volumes were affected by customers encountering unexpected delays between construction projects and lower volumes to the manufacturing and rural sectors.

Roofing Products continued its strong performance on the back of solid demand for steel roofing and cladding products from both the light commercial and new residential construction segments.

The **Reinforcing** operations also achieved a strong outcome, albeit it was lower than the previous financial year amid a more competitive market.

Hurricane Wire Products produced similar volumes to the prior year but competitive pressures and a different product mix adversely affected margins.

INITIATIVES

Two acquisitions were made during the year amounting to NZ$11 million. One was for a chain and rigging specialist and the other was of a distributor of stainless steel products. The acquisitions are expected to contribute to profit as inventory becomes more balanced and as the expected synergies within the group are achieved.

OUTLOOK

In the short term, the New Zealand economy is expected to suffer as a result of higher inflation, interest rates and energy charges. However recovery is expected over the next 12 to 18 months as the benefits of the weaker currency flow through to the export and manufacturing sectors.

INTERNATIONAL DISTRIBUTION

	2006 $m AIFRS	2005 $m AIFRS	2004 $m AGAAP	2003 $m AGAAP	2002 $m AGAAP	2001 $m AGAAP
Revenue	390.4	403.3	340.3	290.8	289.2	312.2
EBITDA	48.8	61.4	47.6	36.6	30.7	29.3
EBIT	43.7	56.1	42.7	32.0	26.1	23.8
Assets	178.4	196.1	172.2	156.1	133.1	174.0
Employees	907	804	793	765	620	700
Sales Margin	11.2%	13.9%	12.5%	11.0%	9.0%	7.6%
Funds Employed	146.5	160.9	140.2	129.5	107.6	146.8
Return on Average Funds Employed	28.4%	37.4%	31.7%	27.0%	20.5%	16.2%

OneSteel recognises that consistent, superior performance depends on the capability, alignment and performance of its employees and leaders. The OneSteel People Plan articulates the key strategies and actions that OneSteel employs to further engender a high level of business performance. These key strategies, which are driven by both business leaders and the human resources (HR) team, include:

- Leadership development and succession planning
- Driving alignment and performance management
- Ensuring effective execution of change
- Building organisational capabilities.

LEADERSHIP DEVELOPMENT AND SUCCESSION PLANNING

Much work has been done to define the leadership competencies that drive outstanding performance. These competencies have been integrated into all key HR processes and activities including performance planning and management, recruitment, succession planning, leadership development and identification of future leaders. Through these processes, the competencies are used to drive improved leadership behaviours and capability at all levels. A customised 360-degree feedback instrument is being widely used across OneSteel to inform leaders of areas of strength and improvement and to develop robust, individualised development plans.

Work continues on developing new "pipelines" for future leaders and for critical occupations. This year an improved graduate program was implemented with an increased intake of graduates and an accelerated development program. Other initiatives to further improve leadership capability include:

- 24 senior leaders took part in a program run by the Australian Graduate School of Management to sharpen skills in leadership and strategy development
- 30 of OneSteel's next generation of leaders participated in a customised program to build their understanding of the broad OneSteel business, strategy and career opportunities
- the majority of front-line leaders have participated in workshops that clearly define the expectation of leaders in the safety context and equip leaders with the skills to meet these expectations
- ongoing customised and targeted coaching support for key leaders.

Robust succession planning processes have further improved OneSteel's ability to identify and develop potential successors and to establish appropriate strategies to mitigate the risk of vacancy in key roles.

ALIGNMENT AND PERFORMANCE MANAGEMENT

Building on earlier efforts to enhance the performance culture, OneSteel's performance planning and management (PPM) process has been further strengthened through:

- clearly linking each individual's objectives to OneSteel's strategic plan and targets
- 300 leaders participated in a two-day program to extend their skills in engaging their teams and eliciting high performance
- broader participation in "calibration" processes to ensure consistent standards are applied
- more comprehensive audit and review processes to ensure that challenging and engaging discussions have occurred
- increased focus on regular performance feedback to provide clarity to individuals regarding expectations and to provide support to meet these expectations.

In conjunction with the PPM process, OneSteel's remuneration systems continue to increasingly differentiate on the basis of performance and value in the external market.

EXECUTING CHANGE AND BUSINESS IMPROVEMENT

A capable and "fit for purpose" team of OneSteel HR professionals works directly with business managers to drive business improvement and to support change initiatives. In addition, a small specialist team is responsible for ensuring consistent, company-wide core HR processes, as well as for the efficient delivery of business support services.

Over the last 12 months, OneSteel HR has continued to support organisational initiatives to improve business performance. OneSteel's capability in effectively executing change has been significantly strengthened through the development, deployment and effective use of a standardised framework and "tool kit" for business leaders. This framework and associated resources and support has been applied to several business changes and improvement initiatives including:

- Project Magnet
- a comprehensive review and redesign of various functional groups including Commercial Safety and Sales and Marketing. These reviews have delivered improved efficiency and greater effectiveness
- effectively managing the integration of the Pipe and Tube business into the OneSteel Distribution group to realise the value-chain synergies.

The introduction of the WorkChoices legislation has been managed seamlessly to date. Work continues to ensure compliance with both the WorkChoices legislation and the far-reaching building and construction industry reforms that were introduced in the second half of 2005. These reforms support OneSteel's ongoing efforts to improve workplace relationships and efficiencies.

BUILDING ORGANISATIONAL CAPABILITIES

Considerable activity has been focused on building the capability of OneSteel in Customer and Market Insight, Supply Chain Transformation and Operational Excellence. Activities to build capability in these areas over the past 12 months have included:

- construction of capability frameworks to describe the key competencies required in various roles
- conducting development programs for key personnel using internationally-recognised experts and proven methodologies
- selective external recruitment of leaders with specific skills and experience
- selection and development of internal experts to assist business leaders in identifying opportunities and driving improvement
- creation of project teams to develop new insights and to share learning.

WORKERS COMPENSATION

The total liabilities for outstanding workers compensation claims fell by $3.3 million and the number of claims received and outstanding also dropped over the year. The significant improvement is attributable to OneSteel's safety performance, more effective injury management and improved claims management practices.

Compliance audits by the South Australian WorkCover authority were successfully completed, securing OneSteel's self-insurance status in that state until December 2008.

FIGURE TWENTY FOUR
Workers Compensation Outstanding Claims Provision

	2006 $m	2005 $m	2004 $m	2003 $m	2002 $m	2001 $m
New South Wales	14.8	17.2	18.2	18.2	19.3	20.7
Queensland	0.7	1.5	2.0	2.4	4.5	5.5
Victoria	3.0	2.5	3.8	4.2	3.2	2.8
South Australia	2.5	3.0	4.0	4.2	4.2	4.1
Western Australia	0.6	0.7	0.6	0.7	0.9	0.7
Total – Self-insurance Workers Compensation Provision	21.6	24.9	28.6	29.7	32.1	33.8

OneSteel demonstrates a strong commitment to occupational health and safety, believing that all injuries, occupational illnesses and incidents are preventable. "We will not compromise on safety" is a core value of OneSteel and, as such, a focus on the health and safety of employees, contractors and customers underpins OneSteel's activities. Achieving zero injuries is a clear objective in all OneSteel businesses.

OCCUPATIONAL HEALTH AND SAFETY OUTCOMES

OneSteel's health and safety performance has improved considerably over the last five years, with key indicators achieving benchmark outcomes (refer to Figures Twenty Five and Twenty Six). These levels of performance were broadly maintained through the year with a Lost Time Injury Frequency Rate (LTIFR) of 1.6. and a Medical Treatment Injury Frequency Rate (MTIFR) of 11.7 being recorded.

Over the past year there was increased emphasis on lead indicators to drive proactive safety improvement and to facilitate greater employee involvement in safety activities. These lead indicators include the number of safety observations conducted, the ratio of near misses to injuries, the proportion of employees involved in audits and the number of high potential incidents. In each area, performance improved significantly during the 2005/06 financial year, with over 82,000 safety observations being conducted during the year and more than half of all employees involved in audits.

ONESTEEL SAFETY PLAN

With a safety performance that is already in the top echelon of manufacturing organisations, creating another step-change in safety outcomes requires an even more targeted approach. Thus a comprehensive OneSteel safety plan has been established. It covers a broad range of targeted actions in areas including safety structure and leadership, safety management systems, risk management and employee involvement.

The key elements of the plan are:

- the development and consistent implementation of the OneSteel Codes of Practice, standards, guidelines, systems and procedures
- building an engaging and supportive safety culture through visible leadership, ongoing education and training, and a high level of participation by everyone in the workplace
- placing an uncompromising emphasis on hazard identification, risk assessment and risk management and measuring assurance through operational, corporate and external auditing processes.

SAFETY STRUCTURE AND LEADERSHIP

A Safety Council has been formed to oversee the execution of the safety plan and to drive continued improvement. The Council, chaired by the Managing Director and including the key business leaders, has provided increased focus and alignment across OneSteel for key safety activities.

In the past year, the majority of line managers have participated in at least one Safety Leadership workshop. These workshops have created a platform of common understanding for our safety expectations. In addition, the workshops have developed improved safety leadership skills and understanding of OneSteel safety tools and processes.

A comprehensive review of the resources supporting OneSteel's safety activities has been undertaken. This review has identified the opportunity to remove duplication and to better align resources to support safety leaders. As a result, resources will be reorganised to create a "Safety Services and Development" group that is responsible for developing standard systems, tools and processes and for managing compliance, legislative requirements and reporting.

SAFETY MANAGEMENT SYSTEMS

An Assurance Program has been put in place. It is based on a complete set of OneSteel Codes of Practice that is progressively being developed and implemented. These Codes of Practice are aimed at managing the major hazards and risks within the business. They represent the non-negotiable standards that apply across OneSteel and cover 15 areas including forklift safety, confined space, contractor management, isolation, molten materials and other key hazards.

The Assurance Program ensures compliance of various parts of OneSteel with the Codes of Practice through auditing, reporting and ensuring close out of actions. Fifteen business leaders have been selected and trained to conduct assurance audits. Each leader has conducted at least one audit to date.

A common OneSteel computer system for injury and incident investigation, hazard registers and tracking of corrective actions has been developed and is being implemented. This will improve consistency of reporting, ease the sharing of information as well as bring rigour to ensuring completion of agreed actions. A safety intranet site has also been developed to provide a central point of reference for information.

RISK MANAGEMENT

In addition to the Assurance Program, an externally facilitated management process known as "Semi-Quantitative Risk Analysis" has been piloted. It is particularly targeted at the low probability, high consequence events that could occur within OneSteel's high-risk facilities. During the year two pilot assessments were carried out. The process was seen to be valuable and a plan for ongoing use is being developed.

EMPLOYEE INVOLVEMENT

Ensuring a high level of employee involvement in safety activities is a key strategy in improving OneSteel's safety outcomes. In particular, OneSteel is driving towards a culture of "interdependence" in regard to safety, whereby not only do employees accept responsibility for their own safety, but also actively look after the safety of each other.

Engagement of all employees is seen as one way to reduce high frequency, low consequence incidents in particular. A number of programs operate throughout OneSteel that are aimed at increasing employees' awareness of hazards in their environment, encouraging them to take time to consider potential risks prior to starting work and reporting potential issues or incidents.

EXTERNAL ENVIRONMENT

OneSteel's Occupational Health and Safety (OHS) systems, practices and performance have been the prime reason for OneSteel being granted Workers Compensation self-insurance status in all states where it is eligible.

OneSteel continues to use DuPont Safety and Environment Management Systems to obtain independent feedback on its safety culture. Through reviews at various OneSteel sites, DuPont assists OneSteel to identify further improvement opportunities, as well as providing mentoring to OneSteel leaders.

ONESTEEL SAFETY PRINCIPLES

- All injuries can be prevented
- Working safely is a condition of employment
- Employee involvement is essential
- Management is accountable for safety
- All operating exposures can be safeguarded
- Training employees to work safely is essential

OneSteel's safety policy can be viewed on the website www.onesteel.com/safety.asp

FIGURE TWENTY FIVE
Lost Time Injury Frequency Rate
Per million hours worked

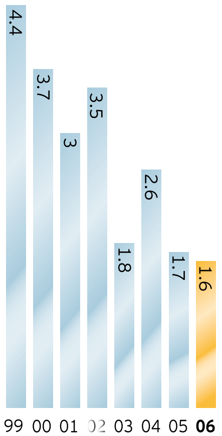
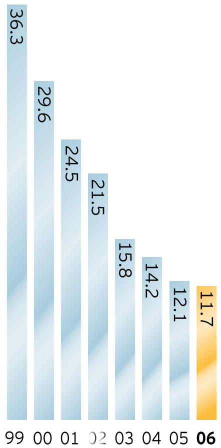


FIGURE TWENTY SIX
Medical Treatment Injury Frequency Rate
Per million hours worked



THE 2006 SAFETY EXCELLENCE AWARDS

OneSteel values the contribution by employees, contractors, suppliers, customers and communities in its ongoing quest for safety improvement. In recognition of this involvement and commitment to safety improvement, and to build upon the platform of sharing best practice across the various businesses, the OneSteel Safety Award Program is an annual event. This year an additional category of "Front Line Leader Of The Year" has been added to the awards program, making a total of six categories.

The award categories, finalists and winners for 2006 are shown below:

Safety Employee Of The Year
Mallar Mukherjee , Whyalla Steelworks (Winner)
Sharon Hunter, Metaland, Perth
Peter McDonald, Rod Mill, Newcastle
Simon Wood, Distribution Building Services, Picton

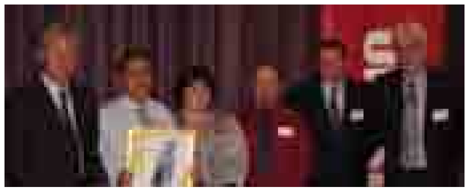
Safety Front Line Leader Of The Year
Andrew Clarke, Pipe & Tube, Port Kembla (Winner)
Paul Degioia, Metaland, Taree
Des Dinsdale, Metaland, Rockhampton
Mark Kisielewski, Pipe & Tube, Somerton

Safety Leader Of The Year
Allan McIver, Metaland, WA (Winner)
Jeff Green, Newcastle Wire Mill
Kevin Harvey, Whyalla Steelworks
Paul Whitehouse, Whyalla Steelworks

Safety Contractor/Supplier Of The Year
HWE Mining, Whyalla (Winner), represented by Debbie Hagenbruch and Tony Raneberg
Amdel, Whyalla, represented by Jason Pauling
Andreco Hurll, Whyalla, represented by John Grimes
Wettenhauls Transport & Logistics, North Geelong, represented by Sue Shannon

Safety Work Team or Department Of The Year Award
Processing Team, Sheet, Coil & Aluminium, SA (Winner), represented by Peter Tooth
Newcastle Rod Mill Training Department, represented by Kel Russell & Duncan Hislop
Sheet, Coil & Aluminium, WA, represented by Dave Beaman and Peter Deane
Whyalla Reheat Furnace Crew, represented by Vic Lemmon and Fred Butson

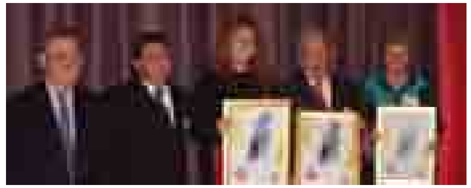
Workplace Safety Initiative Of The Year
Chain Handling Tools Steel & Tube Wetherill Park (Winner), represented by Wayne Larsen and Stephen Hines
Martin Bright Steel Lifting Equipment in the Maintenance Shop, represented by John Turner and Leong Au
Newcastle Market Mills C Tarp Wagon Lifting Jig Project, represented by Peter Hollingsworth and Maurice Duckett
Newcastle Wire Mill Mobile Plant/Pedestrian Interface Project, represented by Paul Fray and Mark Underwood



Picture 1 – Safety Employee of the Year
Pictured: (L to R) Geoff Plummer, Mallar Mukherjee (Winner), Sharon Hunter, Peter McDonald, Simon Wood, Paul Freimanis (2005 Finalist).

Picture 2 – Safety Front Line Leader Of The Year
Pictured: (L to R) Geoff Plummer, Andrew Clarke (Winner), Mark Kisielewski, Paul Degioia, Des Dinsdale, Daphne Hart (Safety Network).

Picture 3 – Safety Leader of the Year
Pictured: (L to R) Bryan Davis, Paul Whitehouse, Kevin Harvey, Allan McIver (Winner), Jeff Green.



Picture 4 – Safety Contractor/Supplier of the Year
Pictured: (L to R) Bryan Davis, Tony Raneberg & Debbie Hagenbruch (Winners), John Grimes, Sue Shannon, Jason Pauling (Absent).

Picture 5 – Safety Work Team or Department of the Year
Pictured: (L to R) Peter Harley (Workcover NSW), Fred Butson, Vic Lemmon, Dave Beaman, Peter Deane, Peter Tooth (Winner), Duncan Hislop, Kel Russell.

Picture 6 – Workplace Safety Initiative of the Year
Pictured: (L to R) Peter Harley (Workcover NSW), John Turner, Leong Au, Paul Fray, Mark Underwood, Wayne Larsen (Winner), Peter Hollingsworth, Maurice Duckett, Leo Selleck.

ONESTEEL ENVIRONMENTAL POLICY

The Policy is reviewed every two years and was last revised in November 2005 when one key change was to include the concept of "sustainability" within business improvement. The policy now states that OneSteel seeks to improve business performance and sustainability by recognising and valuing the interdependence of environmental, social and economic considerations in its decision-making and balancing these with the needs of its stakeholders. A communication pack further explaining the changes and expectations was created for business use during the policy rollout to employees.

ONESTEEL SUSTAINABILITY PANEL

During the year, an internal OneSteel Sustainability Panel was formed to advise the OneSteel Lead Team. The Panel's work is still in its early stages but it has started to contribute towards guiding environmental strategy.

ENVIRONMENTAL MANAGEMENT SYSTEMS (EMS)

OneSteel benchmarks itself against the international environmental management system standard ISO 14001.

OneSteel achieved its environmental objective to maintain external certification to ISO 14001 at its major manufacturing sites of mining, steelmaking, rod and bar rolling, and pipe, tube and wire manufacture. Within OneSteel's smaller processing and distribution facilities, a minimum level of site alignment to ISO 14001 is being sought against internal audit upon completion of an environmental management system improvement program.

OneSteel has environmental reporting systems in place to the Lead Team and the Board Occupational Health, Safety & Environment Committee. It also has key environmental risk identification and management processes. The two most significant environmental issues managed by OneSteel continue to be fugitive dust management at the Whyalla Steelworks and its response to greenhouse emissions and climate change.

FUGITIVE DUST MANAGEMENT AT WHYALLA STEELWORKS

When commissioned Project Magnet is expected to play a significant role in reducing fugitive dust as a result of changes such as using wet processing rather than dry at the iron ore processing plant, relocation of ore crushing and screening and enclosed ore export storage facilities.

Additionally, the steelworks continues to work on dust management, including developing a network of dust monitors to provide early warning of elevated emissions from the site so that targeted management controls can be applied to reduce off-site impact.

During 2005/06 there was a period of heightened concern surrounding dust levels from community members, the media and government. This mainly arose from dust contributions from blast furnace feed reprocessing due to operational issues that have now been discontinued, stock movements around the pellet plant due to Project Magnet construction activity, increased export ore shipments and adverse weather conditions. A further commitment was given to the South Australian government in terms of actions to mitigate dust prior to Project Magnet commissioning and to improve communication and community involvement.

Complaints increased relating to road train activity in delivering ore from the mines to the steelworks. Operational requirements of the construction phase of Project Magnet have increased road train activity. Seeking alternative routes was unsuccessful, however road cleaning is now done regularly and OneSteel continues to work with the contractor and the community to reduce the impact.

ENERGY AND GREENHOUSE

OneSteel's 2005/06 greenhouse emissions were estimated to be 3.3 million tonnes of CO_2 equivalent greenhouse gases, including accounting for purchased electricity but excluding purchased oxygen. This represents around 0.6% of Australia's total annual greenhouse emissions, with 86% of this deriving from OneSteel's steelmaking at Whyalla and Sydney. OneSteel used 35.8 peta joules of energy and reductant including purchased electricity but excluding purchased oxygen.

OneSteel continues to monitor national and international developments in the area of greenhouse gas emissions. OneSteel is working to identify and implement further strategies and opportunities to manage and reduce its greenhouse and energy intensity. OneSteel is involved with the Australian Iron & Steel greenhouse group. Through this group it is liaising with the International Iron & Steel Institute on programs examining longer-term emerging iron and steelmaking technologies that lower greenhouse emissions. This group is also represented within the Steel Task Force of the federal government-supported Australia Pacific 6 nation forum (AP6) on Clean Development and Climate Change.

Sydney Steel Mill and the Rod, Bar, Wire and Pipe and Tube operations at Newcastle conducted energy audits to identify viable reduction opportunities and submit plans to the New South Wales government under an Energy Savings Action Plan program for the state's top 200 energy user sites. It identified opportunities that are being progressed or further assessed.

Under a new federal government program companies such as OneSteel that use more than 0.5 peta joules of energy must conduct, and publicly report on, an energy efficiency opportunity assessment every five years that identifies projects with savings of four years payback or better. The aforementioned New South Wales program work will be incorporated, as well as additional work at Whyalla Steelworks. When complete, OneSteel will provide information on the program outcomes through its public website.

REGULATORY LICENCE/AGREEMENTS

There were three non-compliances against stated emission limits and six non-compliances against general conditions. Non-compliances have decreased in number and severity over the past three years due to an increased focus on preventing recurrence. OneSteel's target is zero.

INCIDENTS

OneSteel has systems to identify and record incidents outside of specific regulatory licence and agreement requirements. The majority of incidents, being of a very minor nature, did not require reporting to regulatory authorities. The main types of incidents (67%) were small chemical spills and oil leaks from equipment and transport vehicles that were contained on-site and easily addressed, with preventative actions being taken as appropriate. The number of incidents was around half that of the previous year.

LEGAL

OneSteel achieved its objective of incurring no environmental fines or prosecutions. Whyalla Steelworks received and addressed two Environment Protection Authority (EPA) Environment Protection Orders concerning returning baghouse dust control equipment back to service and air pollution control equipment maintenance practices. Most of this equipment becomes redundant after Project Magnet is fully commissioned.

OneSteel reached agreement with the South Australian government for a 10-year environmental licence for the Whyalla Steelworks site to provide regulatory certainty for Project Magnet to proceed. The new licence forms part of the Steelworks' Indenture. OneSteel's previous legal appeals against certain new EPA licence conditions were subsequently resolved with the commencement of the 10-year licence.

EMISSIONS AND RESOURCE MINIMISATION

Work is being planned at the Whyalla Steelworks to treat the full arisings of coke oven effluent and meet an EPA licence condition. The treated water will be used to quench the hot coke and other re-use opportunities will be identified.

Sydney Steel Mill was included in a new New South Wales government legislative requirement for the top 200 water users in the Sydney metropolitan area to submit a water conservation action program by March 2006. The site had previously signed a Business Agreement with Sydney Water's "Every Drop Counts" campaign to reduce water consumption. Water saving projects being investigated include the potential re-use of treated effluent from a local sewage treatment plant.

LAND MANAGEMENT

OneSteel's iron ore mines operate to a Mining & Rehabilitation Plan (MARP) approved by the regulator that seeks to minimise environmental impacts. Biological surveys of flora and fauna are carried out periodically and surveys are carried out before mine expansion to consider impacts on general and specific species. Control and eradication programs are done for feral animals and noxious weeds. Rare plant communities are included on mine drawings.

OneSteel continues to seek appropriate environmental risk reviews in its business and property acquisitions and leases, as well as in its divestments and lease endings.

ENVIRONMENTAL EXPENDITURE

During 2005/06 just over $2.6 million was authorised for specific environmental-related capital projects. OneSteel has made financial provisions for potential environmental costs, mainly related to mine site rehabilitation. This is in addition to the environmental-related expenditure associated with Project Magnet.

ENVIRONMENTAL RESEARCH

OneSteel remains a supporting participant to a Cooperative Research Centre (CRC) for Sustainable Resource Processing (CSRP), which is entering its fourth year of operation. Within this CRC OneSteel will participate in projects on the evaluation of biomass in the iron and steel Industry, as well as slag waste, heat recovery and utilisation.

PRODUCT

OneSteel continues to liaise with various bodies that have, or are developing, building environmental rating tools to identify relevant issues and opportunities. OneSteel recently completed a life cycle assessment of OneSteel building products, in terms of defining the greenhouse, energy, water, and certain other emissions associated with making a tonne of product and is working towards providing information in a suitable form to the marketplace. This includes context within the life cycle of a building, given steel's advantages in use and its ultimate component re-use given steel is one of the most recycled materials in the world.

COMMUNITY

The Whyalla community's Environment Consultation Group and OneSteel are carrying out a trial to determine the effectiveness of different cleaning methods on houses at varying distances from the Ore Processing plant. OneSteel has commenced a three-year cleaning program on the bowling club, the croquet club and structures at the Hummock Hill lookout.

A community forum was held in June 2006 to build relationships and to keep the community informed of the efforts OneSteel is making to reduce its impact. Residents' greatest concern was the impact the road trains are having in terms of dust and safety. Also during the year the Whyalla Steelworks submitted a copy of its Environment Improvement Program to the community.

ENVIRONMENTAL POLICY

OneSteel's primary operations include mining, steelmaking, the manufacture of intermediate and finished steel products, and the distribution and sale of metal and mineral products.

OneSteel seeks to improve business performance and sustainability by recognising and valuing the interdependence of environmental, social and economic considerations in its decision making and balancing these with the needs of its stakeholders.

In the context of this, OneSteel is committed to achieve a high standard of environmental care by complying with current legislation and seeking continual improvement in performance by taking account of evolving scientific knowledge and community expectations.

Specifically, it is OneSteel's policy to:

- comply with all applicable laws, regulations and standards; uphold the spirit of the law; and where laws do not adequately protect the environment, apply standards that prevent or minimise adverse environmental impacts resulting from its operations, products and services;
- seek to use energy, fresh water and other natural resources more efficiently where economically viable, and promote and improve the environmental credentials of OneSteel's products and their application;
- communicate with government and the community on environmental issues, and contribute to the development of policies, legislation and regulations that may affect OneSteel;
- ensure that its employees and suppliers of goods and services are informed about this policy and aware of their environmental responsibilities in relation to OneSteel's business;
- ensure that it has management systems to identify, control and monitor environmental risks arising from its operations; and using these systems, establish, review and document environmental objectives and targets to facilitate continual improvement.

OneSteel plays a significant role in the local communities in which it operates. With large manufacturing operations in Newcastle and Western Sydney in New South Wales and at Whyalla in South Australia, combined with over 100 steel and metals merchandising sites across Australia, OneSteel's operations are of significant regional importance.

OneSteel's approach to supporting the community is very focused at the local level where OneSteel's operations have an impact rather than using a centralised head office type of approach. In this way, OneSteel believes the benefits of its community programs are tailored towards the communities that it serves.

For OneSteel community represents the lifeblood that underpins its operations. The community supports OneSteel people who are providing services that are used everyday. With steel playing such a significant role in the everyday lives of all Australians, it is important for OneSteel to be actively involved in community support programs.

OneSteel donated a total of approximately $411,000 to the community over the 2005/06 financial year. OneSteel supports the local community at a number of different levels:

- OneSteel OneCommunity Giving Program
- Corporate donations
- Local donations
- Community Support.

ONESTEEL ONECOMMUNITY GIVING PROGRAM

The OneCommunity Giving program provides a way for OneSteel to give something back to the community and in a way in which all employees can participate. The program has been developed by staff selecting those causes and associated charities which they believe are significant contributors to their local community. The company matches each dollar donated by employees to the selected charities, up to a value of $250,000. The funds are directed towards the branches of the local charities in the local community.

The causes and associated charities supported through the OneCommunity Giving Program are outlined in Figure Twenty Seven. The program is gaining strength each year with $211,000 in donations received during the 12-month period, up from the previous year's donations of $184,000.

FIGURE TWENTY SEVEN

2005/06 Donations and Support

One Community Giving Program	• Alzheimer's Australia • The Cancer Council Australia • The Smith Family • CARE Australia	• The Salvation Army • Westpac Rescue Helicopter Service • Royal Flying Doctor Service	• Guide Dogs Australia • Hunter Medical Research Institute • RSPCA	• Lifeline • Landcare Australia
Corporate	• The Australian Ballet • Cancer Council Relay for Life • Disaster Relief Cyclone Larry Salvation Army			
Hunter Region	• Newcastle Touch Football Association • Glendon School Parent & Community Pool Fund • Carlton Touch Football Association • Speech Day Prizes • Ladies Legends charity golf day • Starlight Foundation Tour De Kids	• Sparke Helmore Triathalon • Hunter Wetlands Centre • Volunteer Rescuers Association • Fire Extinguishers Scout Group • Newcastle Zone of Playgroups Fun Day • Cancer Council Newcastle Relay for Life • Neonatal intensive care Spring Ball	• Hunter Medical Research Institute Black Pearl Ball • Finnegan Rudd Memorial Dinner • The Great North Walk – (Woolworths) • Craig Pritchard Bike Run • Wig Week – Newcastle Mater Misericodiae Hospital • Mayfield Skate Park	• Waratah Area Command Policy Charity Golf • Refurbishment San Clemente High • Lake Macquarie Rugby Union
Whyalla	• Ardrossan Hockey Club • Yorke Peninsula District Council • Ardrossan Community Hospital • Stuart High School • Tanderra Craft Village • Whyalla Branch Irish Dancing • Ex–Navalmen's Association • Whyalla High School • Gus Gillis Memorial Police Golf Day • Women's & Children's Hospital Foundation • Rotary Club of Adelaide Charitable Trust Fund • Country Arts SA • Riding for the Disabled	• SA Unions (R & G Storr) • APEX Club of Whyalla • Ardrossan Area School • Edward John Eyre High School • Neighbourhood Watch • Whyalla Chamber of Commerce & Industry • Whyalla High School • Edward John Eyre High School • Onya Soapbox • Amanda Waters • Whyalla Economic Development Board • Sarah Bernard & Ryan Hardman • Whyalla City Plaza Business Assoc.	• Make a Wish Foundation • Whyalla Bowling Club • Whyalla Croquet Club • Elouera House Inc. • The Long Run • Whyalla Junior Cricket • Wallies Lollies • Port Augusta Yacht Club • Fishy Fringe • Whyalla Golf Club • Whyalla Motor Show • Ardrossan Bowls Club • Rotary Club of Whyalla • Spears Softball Club • Whyalla Squash Club • Cameron Zacher	• Japan Karate Association Whyalla • South Australia Primary Schools Amateur Sports Association • Whyalla Swimming Club • Whyalla City Council • Japan Karate Association Whyalla Norrie Dojo • Christmas Party for Special Children • Whyalla Art Group • Whyalla Baseball Association • Whyalla Chamber of Commerce & Industry • Amaroo Lodge
Regional Australia	• Industry Charity Golf Day • Alfred Hospital Charity Day • Highvale Family Fiesta • Illabo Show • Relay For Life – Cancer Council • Construction Donation Metropolitan Telethon Home • Cricket Club Booragoon WA • Henderson TAFE WA • Gavin Mair Global Marine Leukaemia	• Cathedral School Rowing • Cairns Loons Club Festival Of Magic • Cairns Rotary Club Children's Circus • Lifeline North Mackay • Leukemia Foundation • Local Fire Fighting Fund • Cardiff Panthers Cricket Club Cancer Bowls Day	• Clarendon Swimming Pool • Cancer Foundation • Port City Rugby League • Taree Aquatic Power Boat Club • Ryde Rotary Club For Ryde Hospital • Geelong Soccer Club • Tasmanian Special Childrens' Christmas Party • Breast Cancer Foundation	• Heart Foundation • St Peter's Lutheran School Pedal Prix • Ely Racing Team • Caterpillar Christmas Gift Hampers • Oxfam
Safety Award Winners 2006	• The Salvation Army • RSPCA • Palliative Care Unit Narrogin Hospital	• Heartbeat • Muscular Dystrophy Association • Cancer Council		

CORPORATE DONATIONS

The company's most significant contribution over the last year was a donation of $10,000 to the Salvation Army Disaster Relief fund to assist Cyclone Larry victims in Queensland.

OneSteel supported the Australian Ballet's Regional dance program with a special performance of The Dancers Company, comprising young students from the Australian Ballet School in Melbourne. They performed the "Nutcracker Suite" to enthusiastic audiences in Whyalla.

OneSteel also pledged its support for Telstra's Battle of the Bands ROCKINC event held at Melbourne's Rod Laver Arena in July this year. "The OneSteelers" took great pleasure in representing the company once again at this exciting rock concert, which helped raise funds for the Olivia Newton-John Cancer Centre Appeal.

The performing band consisted of Mark Gell, Kiky Hutchinson, Rosie McArdle, Denise McConnell, Brenton Michaels, John Mustac and Allan Wright, all of whom are employees of OneSteel, and Lachlan Cooper of ABN AMRO. Over $500,000 was raised by the event and it will go towards research and improving the quality of life for sufferers. The centre will become one of the world's foremost establishments for cancer research and care and OneSteel has played a vital role in enabling this to happen.

OneSteel also provides donations to local charities selected by the Winners of each of the categories in the OneSteel Safety Awards. Each winner receives a cheque for $2,000 to be donated to his or her nominated charity.

LOCAL DONATIONS

On a local level, OneSteel donated a combined amount of approximately $150,000. Regional charities that benefited from these funds are listed in Figure Twenty Seven, the Donations and Support table. OneSteel will continue its involvement with fundraising events and donations to support the community and make a difference to people's lives.

COMMUNITY SUPPORT

OneSteel actively encourages its business leaders to become involved in their local community and to assist in the development of community facilities such as hospitals and schools. As such, OneSteel managers participate on Hospital, University and TAFE Boards, local Chambers of Commerce, Regional Development Boards, local Credit Union Boards and local charities such as the Salvation Army. OneSteel leaders also participate in Industry Associations at various levels of involvement.

Pictured: While performing in August 2005, the Australian Ballet visited Bernie Vinzelberg, Maintenance Coordinator, Whyalla Steelworks.

Pictured: John Mustac, Victorian State Manager, Sheet, Coil & Aluminium, fronting The OneSteelers performance at Telstra's Corporate Battle of the Bands in July 2006 at the Rod Laver Arena in Melbourne. Funds raised from this event went towards the Olivia Newton-John Cancer Centre Appeal.

Pictured: Severe Tropical Cyclone Larry crossed the tropical north Queensland coast near Innisfail on the morning of 20 March 2006. Major damage to homes and other buildings was caused by Larry as well as extensive damage to local crops.

P J (PETER) SMEDLEY[1]

BCom, MBA, FAICD

Chairman
Independent Non-Executive Director

Age 63. Appointed a director and Chairman in October 2000. Peter is Chairman of the Operational Risk Committee and a member of the Governance & Nominations Committee and the Human Resources Committee. He is Deputy Chairman of CARE Australia and the Colonial Foundation; he is also a director of The Australian Ballet and The Australian Davos Connection. His previous roles included Managing Director and Chief Executive Officer of Mayne Group Limited, Managing Director & Chief Executive Officer of the Colonial Group Limited, Chairman of the State Bank of New South Wales, Executive Director, Downstream Oil and Chemicals and Executive Director, Coal and Metals for Shell Australia Limited, Deputy Chairman of Newcrest Mining Limited and director of Austen Butta Limited.

G J (GEOFF) PLUMMER[2]

BEc

Managing Director and Chief Executive Officer
Non-Independent Executive Director

Age 50. Appointed a director in December 2004 and became Managing Director and Chief Executive Officer on 2 May 2005. Geoff joined OneSteel in October 2000 from BHP after 22 years with the group. His previous roles with OneSteel were Deputy Managing Director and before that Executive General Manager Market Mills. His roles at BHP included President Rod & Bar Products (BHP Steel), General Manager of the joint venture company Bekaert-BHP Steel Cord, President of Australian Logistics Services in BHP Transport and management positions in BHP wire operations.

R B (BRYAN) DAVIS[3]

BSc(Tech), FAIMM, MAICD

Independent Non-Executive Director

Age 63. Appointed a director in December 2004. Bryan became Chairman of the Occupational Health, Safety & Environment Committee in August 2005 and is also a member of the Operational Risk Committee. He is a non-executive director of Newcrest Mining Limited and Coal and Allied Industries Limited. His previous roles include Executive Director – Mining of Pasminco Limited, director of North Flinders Mine Limited, Chairman of Indophil Resources NL, Executive Director of Australian Consolidated Minerals Group, senior management positions at CRA Limited, Chairman of the NSW Minerals Council and a Member of the NSW State Minerals Advisory Council.

Other listed company directorships held during the period 1July 2003 to 30 June 2006:

- Newcrest Mining Limited since April 1998
- Coal and Allied Industries Limited since September 2000
- Bendigo Mining Limited from September 2004 until January 2006
- Indophil Resources NL from September 2000 until April 2005

E J (EILEEN) DOYLE[4]

BMath, MMath, PhD, FAICD

Independent Non-Executive Director

Age 51. Appointed a director in October 2000. Eileen is a member of the Audit & Compliance Committee, the Occupational Health, Safety & Environment Committee and the Governance & Nominations Committee as well as Chairman of OneSteel's Superannuation Policy Committee. She is also Chairman of Port Waratah Coal Services, a director of State Super Financial Services, Ross Human Directions Limited, CSIRO and Steel & Tube Holdings Limited, a New Zealand listed company in which OneSteel holds a 50.3% interest. Her previous roles included a director of Austrade and senior management positions with CSR Timber Products, BHP Steel and Hunter Water Corporation.

Other listed company directorships held during the period 1 July 2003 to 30 June 2006:

- Ross Human Directions Limited since July 2005
- Steel & Tube Holdings Limited since July 2005

C R (COLIN) GALBRAITH AM[5]

LLB (Hons), LLM (Univ of Melbourne)

Independent Non-Executive Director

Age 58. Appointed a director in October 2000. Colin is Chairman of the Governance & Nominations Committee and a member of the Audit & Compliance Committee. Since 1 February 2006 he has been a Special adviser at Gresham Partners Limited having previously been a partner until 31 January 2006 at law firm Allens Arthur Robinson specialising in commercial law. He is a director of Commonwealth Bank of Australia and GasNet Australia Limited (group) and CARE Australia, Chairman BHP Billiton Community Trust, Trustee of Royal Melbourne Hospital Neuroscience Foundation and a special adviser to Allens Arthur Robinson. Previously, he has been a director of Colonial Group and Azon Limited.

Other listed company directorships held during the period 1 July 2003 to 30 June 2006:

- Commonwealth Bank of Australia since June 2000
- GasNet Australia Limited (group) since December 2001

P G (PETER) NANKERVIS[6]

B Ec(Hons), FCPA, GAICD,

Independent Non-Executive Director

Age 56. Appointed a director in December 2004. Peter is Chairman of the Audit & Compliance Committee and a member of the Operational Risk Committee. He is also a director of Dairy Australia Limited and a member of the Audit, Risk Management and Compliance Committee of Visy Industries Holdings Proprietary Limited. Previously he was Chief Financial Officer of Cadbury Schweppes Asia Pacific and Finance Director of Cadbury Schweppes Australia Limited.

D A (DEAN) PRITCHARD[7]

BE, FIE Aust, CP Eng, FAICD

Independent Non-Executive Director

Age 61. Appointed a director in October 2000. Dean was Chairman of the Occupational Health, Safety & Environment Committee until August 2005 and remains a member of this Committee. He is also a member of the Human Resources Committee, which he joined August 2005, and the Operational Risk Committee. He was a member of the Audit & Compliance Committee until August 2005. He is Chairman of Steel & Tube Holdings Limited, a New Zealand listed company in which OneSteel holds a 50.3% interest. He is also Chairman of ICS Global Limited, and a director of Zinifex Limited and Eraring Energy. Previously, he was Chief Executive Officer of Baulderstone Hornibrook and a director of Railcorp.

Other listed company directorships held during the period 1 July 2003 to 30 June 2006:

- ICS Global limited since June 1999
- Zinifex Limited since March 2004
- Steel & Tube Holdings Limited since May 2005

N J (NEVILLE) ROACH AO[8]

BA (Hons), DSc (HC), FACS

Independent Non-Executive Director

Age 67. Appointed a director in October 2000. Neville is the Chairman of the Human Resources Committee and a member of the Occupational Health, Safety & Environment Committee and the Audit & Compliance Committee which he joined in August 2005. He is also Chairman of Smart Internet Cooperative Research Centre, TAFE Global and TCS-FNS Pty Ltd, a director of Australian Academic and Research Network and UNSW Foundation. His previous roles include Chairman and Chief Executive Officer of Fujitsu Australia Limited, Director of Fujitsu Asia and Sydney Community Foundation, Deputy Chairman of SBS, Chairman of Council for Multicultural Australia, Business (Migration) Advisory Panel, Australian Information Industry Association, National ICT Australia Limited, Intelligent Island Board and Australia India Business Council, and President Asian Oceanian Computing Industry Organisation.

OneSteel Limited listed on the Australian Stock Exchange on 23 October 2000. This statement outlines the corporate governance practices adopted by the Board which were in place throughout the financial year and at the date of this report.

Role of Board of Directors

The primary role of the Board is the protection and enhancement of shareholder value. The Board has the responsibility for corporate governance of the company. It oversees the business and affairs of the company, establishes the strategies and financial objectives with management and monitors the performance of management directly and through Board committees.

The Board has established a framework for the management of the consolidated entity, including a system of internal control and business risk management and appropriate ethical standards.

The agenda for Board meetings is prepared in conjunction with the Chairman and the Managing Director and submissions are circulated in advance. The Board reviews the company's performance and considers other important matters such as strategic issues, plans, major investment decisions, human resources matters, governance and compliance, and significant management presentations. Executives are regularly involved in Board discussion and directors have other opportunities, including visits to operations, for contact with a wider group of employees.

Board Charter and Corporate Governance Guidelines

The Board has established a Board Charter and Corporate Governance Guidelines. These constitute a reference point for directors, employees and investors in understanding OneSteel's approach to the processes, performance measures, values and ethical standards which govern directors and employees. They are designed to facilitate an evaluation of the company's framework and procedures in the context of ensuring accountability and transparency.

The Guidelines are reviewed at least annually by the Governance & Nominations Committee and then the Board, in the light of the company's experience, the expectations of its shareholders, changes in the law and the requirements and recommendations of regulatory and other public bodies, including the ASX Corporate Governance Council. The Board Charter and Corporate Governance Guidelines, together with other governance documents, are published on the OneSteel website at www.onesteel.com.

Code of Conduct

The directors embrace the need for and continued maintenance of the highest standards of ethical conduct by all directors and employees of the consolidated entity. The Board has adopted a code of business conduct which formalises the obligation of individuals to act within the law and act honestly and ethically in all business activities. This code of conduct is reviewed by the Governance & Nominations Committee and is distributed to all business units to ensure staff are familiar with its contents.

Board and Committee Membership

Director	Board Membership	Committee Membership				
		Governance & Nominations	Operational Risk	Audit & Compliance	Occupational Health, Safety & Environment	Human Resources
P J Smedley	Independent Non-executive Chairman	Member	Chairman			Member
G J Plummer	Executive Managing Director					
R B Davis	Independent Non-executive		Member		Chairman	
E J Doyle	Independent Non-executive	Member		Member	Member	
C R Galbraith	Independent Non-executive	Chairman		Member		
P G Nankervis	Independent Non-executive		Member	Chairman		
D A Pritchard	Independent Non-executive		Member		Member	Member
N J Roach	Independent Non-executive			Member	Member	Chairman

Composition of the Board and its Committees

The Board consists of eight directors. A number of changes to the membership of Board Committees, that were described in the 2005 Annual Review, took effect during August 2005. These changes included the appointment of Dean Pritchard on 16 August 2005 to the Human Resources Committee, and from 2 August 2005 Bryan Davis becoming Chairman of the Occupational Health, Safety & Environment Committee that was previously chaired by Dean Pritchard who has remained on the Committee. Dean Pritchard ceased to be a member of the Audit & Compliance Committee from 16 August 2005. The current membership of the Board and its Committees is set out in the table at the bottom of the page.

Independence

The Board regularly assesses the independence of each director. For this purpose an independent director is a non-executive director whom the Board considers to be independent of management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgement.

In addition to being required to conduct themselves in accordance with the principles for directors' conduct and responsibilities of directors outlined in the Board Charter and Corporate Governance Guidelines, directors must be meticulous in their disclosure of any material contract or relationship in accordance with the Corporations Act. The disclosure also includes interests of family companies, spouses, etc. Directors must strictly adhere to the constraints on their participation and voting in relation to matters in which they may have an interest in accordance with the Corporations Act and OneSteel policies.

Each director (or interests associated with each director) is a shareholder in the company. Each director may be involved with other companies or professional firms that may from time to time have dealings with OneSteel. Directors are meticulous in ensuring that disclosure, as required by law, is made of any dealings and, where requisite, details are set out in the company's accounts.

The Board has assessed that each of the non-executive directors of the company is an independent director. In reaching that determination, in addition to the matters referred to above, the Board has taken into account:

- the specific disclosures made by each director as referred to above
- where applicable, the related party dealings with each director, noting that those dealings are not material under accounting standards
- no director is, or is associated directly with, a substantial shareholder of the company
- no non-executive director has ever been employed by OneSteel or any of its subsidiaries
- no director is, or is associated with a, supplier, professional adviser, consultant to or customer of OneSteel that is material under accounting standards.

The Board does not consider that term of service should be considered as a factor affecting the question of independence.

The Board considers that a fixed maximum tenure for directors is not in the company's interests. Instead, it considers that a director should not seek re-election if the Board considers (whether by reason of considerations such as the need for Board renewal and succession, Board size, skill mix, performance or otherwise) it is not appropriate to do so.

Board Evaluation

Each year the directors conduct a formal review to evaluate their performance in meeting shareholder and stakeholder expectations. It is considered that this matter is appropriately reviewed by the whole Board under the direction of the Chairman and not by a Board committee alone. The Chairman discusses individual director contributions with each director face-to-face annually.

Board Committees

The Board committees are:

- Governance & Nominations
- Audit & Compliance
- Occupational Health, Safety & Environment
- Human Resources
- Operational Risk

Ad hoc committees are established from time to time to deal with matters arising. All committees have clear mandates and operating procedures, which are reviewed on a regular basis. The committees operate principally in a review or advisory capacity, except in cases where particular powers are specifically conferred on a committee by the Board.

The Board committees meet as required, although the Audit & Compliance Committee, the Occupational Health, Safety & Environment Committee and the Operational Risk Committee have regular quarterly meetings. The matters dealt with by the Committees are set out below.

Governance & Nominations Committee

The role of the Governance & Nominations Committee is set out in a charter that has been approved by the Board. The responsibilities of the Committee are to:

- review the corporate governance procedures of the company and any statement on corporate governance and recommend changes to the Board as appropriate
- assess the necessary and desirable competencies of Board members
- review Board succession plans
- ensure there is an appropriate process for evaluation of the Board
- recommend new nominees for membership of the Board.

The Managing Director and relevant senior staff are invited to Governance & Nominations Committee meetings at the discretion of the Committee.

Audit & Compliance Committee

The role of the Audit & Compliance Committee is set out in a charter which has been approved by the Board. The role of the Committee is to advise on the establishment and maintenance of a framework of internal control and compliance reporting for the management of the company. The responsibilities of the Committee are to:

- review and report to the Board on half-yearly and yearly financial statements prior to their external release
- review all significant accounting policy changes and where appropriate recommend them to the Board
- monitor and report to the Board on the framework, adequacy and security of internal control and accounting and management information systems
- monitor the working relationship between the internal and external audit functions
- ensure adequate audit coverage for all major financial risks of the business and report to the Board on any issues arising from this coverage
- review internal and external audit reports to ensure that, where significant deficiencies in controls or procedures have been identified, management takes prompt remedial action and reports to the Board as appropriate
- review the annual and half-yearly accounts with the external auditors, review whether audits have been conducted effectively and report thereon to the Board as appropriate
- provide an open communication channel between internal and external auditors and the Board
- review internal and external audit programs, agree fees and recommend to the Board on the appointment or replacement of the internal and external auditors
- monitor the engagement of the external auditors to undertake non-audit services where the company will accept the auditor's performance of the engagement in accordance with OneSteel's policy on Audit Independence and Non Audit Services
- assess the performance and review the independence of external auditors including whether the external auditors have met their obligations to ensure their independence having regard to the provision of non-audit services
- assess the performance and, where appropriate, the independence of internal auditors
- monitor and report to the Board on relevant tax matters including tax compliance procedures
- review major capital project post implementation audits
- monitor funding commitments and availability
- assess and review the business risk process including major customer contracts
- review major non-financial regulatory matters through the use of a compliance monitoring reporting regime which covers the following areas of exposure
  - asset protection including insurance
  - trade practices
  - conflict of interest
  - discrimination and harassment
  - ethical standards
- approve the internal audit risk assessment and related audit plan.

The Managing Director, relevant senior staff and the internal and external auditors are invited to Audit & Compliance Committee meetings at the discretion of the Committee.

Occupational Health, Safety & Environment Committee
The role of the Occupational Health, Safety & Environment Committee is set out in a charter which has been approved by the Board. The responsibilities of the Committee, which relate to occupational health, safety and the environment, are to:

- review all significant policies and changes thereto and, where appropriate, recommend them to the Board
- monitor and report to the Board as appropriate on adequacy of management systems
- monitor and report to the Board as appropriate on the adequacy of performance and compliance
- ensure adequate internal and external audit coverage for all major risks and report to the Board on any issues arising from this coverage
- report to the Board as appropriate on any other significant health, safety and environment issues.

The Managing Director and relevant senior staff are invited to Occupational Health, Safety & Environment Committee meetings at the discretion of the Committee.

Human Resources Committee
The role of the Human Resources Committee is set out in a charter which has been approved by the Board. The responsibilities of the Committee are to:

- review the remuneration of non-executive directors and recommend any changes to the Board
- advise the Board on remuneration policies and practices relating to employees
- make specific recommendations to the Board on remuneration packages, policies and procedures applicable to senior management, including recruitment, retention and termination
- advise the Board in relation to share plans, incentive performance packages and succession planning
- review processes relating to the identification and development of key high-potential employees
- ensure adequate succession planning is in place
- review and recommend superannuation arrangements.

The Managing Director and the General Manager Human Resources are invited to the Human Resources Committee meetings at the discretion of the Committee.

Operational Risk Committee
The role of the Operational Risk Committee is set out in a charter which has been approved by the Board. The responsibilities of the Committee are to focus on particular operational and business risks referred to the Committee by the Board. These responsibilities include to:

- monitor and report to the Board on critical operational and business risks
- ensure monitoring, review and audit coverage for all operational and business risks are appropriate
- initiate any investigations or review of processes that are deemed appropriate for such specific critical risk

The Managing Director and relevant senior staff are invited to Operational Risk Committee meetings at the discretion of the Committee.

Remuneration
A detailed Remuneration Report is contained in the Directors' Report of this Annual Review. The report explains the basis for remunerating non-executive directors. The report also explains the structure of, and rationale behind, OneSteel's remuneration practices and the link between the remuneration of employees and OneSteel's performance. Remuneration details of each director and relevant senior management are set out in the Remuneration Report.

Risk Management
OneSteel is committed to managing risk to protect our people, the environment, company assets and our reputation as well as to realise opportunities. This risk-based system of internal control helps the company to operate effectively and efficiently, achieve business objectives, ensure reliable reporting and comply with applicable laws and regulations.

The Board implements this policy by overseeing the establishment and implementation of the risk management system, reviewing the effectiveness of the company's implementation of that system and ensuring investors are informed of material changes to the company's risk profile. The Board is assisted in this process through the Audit & Compliance Committee, the Occupational Health, Safety & Environment Committee and the Operational Risk Committee.

The Committees assist the Board in implementing this policy by focusing the company on risk oversight and management and on internal control. The Committees oversee the establishment of policies on risk oversight and management.

The Committees provides advice to the Board and report on the status of the company's business risks through integrated risk management programs. These management programs cover areas such as the environment, occupational health and safety, operations, asset protection, financial reporting and internal control. Except for financial reporting and treasury risk, which are handled centrally, each business operational unit is responsible and accountable for implementing and managing to the standards required by risk management programs.

Management implements this policy by establishing and implementing a system for identifying, assessing, monitoring and managing material risk throughout the company. A description of the risk management system and the nature of the risks are included in the finance section of the Annual Review on pages 14 and 15.

A copy of the OneSteel Risk Policy is available on the company's website.

Chief Executive Officer & Chief Financial Officer Certificate
During the whole year, OneSteel had processes in place for reviewing the effectiveness of the company's controls and procedures for the public disclosure of financial and related information. These processes enabled the Board, before approving the company's financial statements for the year ended 30 June 2006, to consider the certificate provided by the Chief Executive Officer and the Chief Financial Officer stating that, in their opinion,

- the integrity of OneSteel's financial statements and notes thereto for the year ended 30 June 2006 are founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies adopted by the Board
- OneSteel's risk management and internal compliance and control systems to the extent they relate to financial reporting are operating effectively, in all material respects, based on assessments and reviews performed using the process risk and internal control evaluation methodology approved by the Audit & Compliance Committee.

External Audit
The external audit of OneSteel is governed by the following principles:

- the external auditors must clearly demonstrate their independence
- the external auditors must not provide services which are in conflict with the role of an auditor unless Audit & Compliance Committee approval is obtained for the service
- the quality of the audit is reviewed annually
- the lead audit partner and the independent review partner are to be rotated at the end of a period no longer than five years
- the appropriateness of putting the audit to tender is reviewed at the end of a period no longer than five years
- the services and fees provided by the external auditors are fully disclosed.

OneSteel's external auditor attends the company's annual general meeting each year to be available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

Dealing in Company Shares
Current shareholdings of directors are shown in Note 29 to the Full Financial Report. Directors and senior management are precluded from trading in OneSteel shares at any time if they are aware of price sensitive information that has not been made public. Subject to that overriding rule, company policy permits directors and senior management to deal in company shares in the four week periods from the:

- date of the company's annual general meeting
- release of the half-yearly announcement to the ASX
- release of the yearly announcement to the ASX
- release of a disclosure document offering equity securities in the company.

Directors and senior management are cautioned of the ruling regarding buying or selling OneSteel shares at any time if they are aware of price sensitive information that has not been made public.

Directors and employees must not engage in hedging arrangements (such as collar transactions involving put and call options) over unvested shares or options in a Company Share or Option Plan. In addition, this Policy and the Corporations Act 2001 restricts hedging arrangements over vested shares or options in Company Plans and shares withdrawn from those Plans.

Directors and senior management may also acquire shares on the market under company share plans. The amount to be invested must be specified at least six months ahead. The amount is invested in equal monthly instalments with payment being made by way of deduction from the participant's remuneration. The plans are administered by an independent trustee.

Executive directors have entitlements to shares and options under the Executive Directors' Long-Term Incentive Plan, subject to performance hurdles being met.

Access to Independent Professional Advice
For the purposes of the proper performance of their duties relating to the company, directors are entitled to obtain independent professional advice at the company's expense following approval by the Chairman. The advice is treated as advice to the Board.

Disclosure
OneSteel has in place comprehensive policies and procedures for the purpose of compliance with our continuous and periodic disclosure obligations under the ASX Listing Rules and the Corporations Act, including a Continuous Disclosure Policy. The policy is published on the OneSteel website. The company secretary has primary responsibility for ASX and ASIC disclosure requirements.

Communications to Shareholders
The Board aims to ensure that shareholders are informed, in a timely and readily accessible manner, of all major developments affecting the consolidated entity's state of affairs.

Information is provided to shareholders through:

- releases to the ASX in accordance with continuous disclosures obligations
- the annual review
- the annual general meeting
- media coverage of significant announcements
- extensive use of OneSteel's website.

Shareholders may choose to receive company information electronically by registering their email address online with the company's shareholder registry. The procedure for registering is explained in the Shareholder Information section of OneSteel's annual review and on the company's website.

The company's website at **www.onesteel.com** includes:

- statements lodged with the ASX
- the half-yearly and yearly results statements
- the annual review and notice of annual general meeting
- the Chairman's and Managing Director's address to the annual general meeting
- webcasts of annual general meetings
- webcasts of half-yearly/annual results presentations to fund managers and financial analysts
- other presentations and briefings given to fund managers and financial analysts including those during site visits
- general information on the company and its activities.

The company's website also has a Corporate Governance section where Board and Board Committee charters are published as well as other company policies that are likely to be of interest to shareholders and potential investors.

The annual general meeting provides an important opportunity for shareholders to express views and respond to Board proposals. Shareholders are encouraged to attend the annual general meeting.

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

Directors

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

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

Details of the qualifications, experience and responsibilities of directors are set out on page 34 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 4 to 33 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 33 of the Annual Review.

Net profit after income tax attributable to members of the parent entity, for the financial year was $187.5m (2005: $202.8m) with earnings per share of 33.27 cents (2005: 36.36 cents). The net profit for the financial year has recognised a tax benefit of $15.9m (2005: nil) arising from the final reset of tax values as a result of entry into tax consolidation.

Dividends

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

	$m
Final dividend 10 cents per share payable on 19 October 2006, fully franked at a 30% tax rate on fully paid shares	56.9
Interim dividend 7 cents per share paid on 20 April 2006, fully franked at a 30% tax rate on fully paid shares	39.7
Final dividend 7.5 cents per share paid on 20 October 2005, fully franked at a 30% tax rate on fully paid shares	42.3

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the OneSteel Group that occurred during the financial year ended 30 June 2006. Commentary on the overall state of affairs of the OneSteel Group is set out on pages 1 to 33 of the Annual Review.

Environmental Regulation and Performance

The OneSteel Group is subject to significant environmental regulation in respect of its mining and manufacturing activities. Environmental performance obligations are monitored by management and the Board of directors and periodically subjected to internal, independent external and government agency audits and site inspections. The environment report is set out on pages 30 and 31 of the Annual Review.

Matters Subsequent to the End of the Financial Year

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

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

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

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

Since 30 June 2006 and to the date of this report, no other matter or circumstance has arisen that has significantly affected or may significantly affect:

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

Future Developments

Certain likely developments in the operations of the OneSteel Group known to the date of this report have been covered generally within the Annual Review including the proposed merger with Smorgon Steel Limited.

Directors' Meetings

The number of directors' meetings held, including meetings of committees of directors, and number of meetings attended by each of the directors during the financial year are listed at the bottom of the page. The roles and membership details of each of the committees are described on pages 35 to 37 of the Annual Review.

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

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

REMUNERATION REPORT

This report outlines OneSteel's philosophy and guiding principles for the remuneration and reward of directors, executives and senior management. The report also details actual remuneration paid to directors and executives during the year ended 30 June 2006.

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

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

B. Details of remuneration

C. Equity based compensation

D. Additional information

E. Employment contracts

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

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

Remuneration Philosophy

The objective of the company's remuneration framework is to pay market competitive remuneration (recognising skills and experience), and to reward for performance and the achievement of strategic objectives leading to creation of value for shareholders. OneSteel seeks to provide competitive remuneration that will attract, develop and retain both senior executives and directors.

Human Resources Committee

The Board's Human Resources Committee is responsible for reviewing remuneration policies and practices, including compensation and associated arrangements for executive directors and senior executives, the company's superannuation arrangements and, within the aggregate amount approved by shareholders, the fees for non-executive members of the Board. This role also includes responsibility for the company's share and option plans.

Performance reviews, succession planning and remuneration recommendations for the Chief Executive Officer and Managing Director and executives directly reporting to the Chief Executive Officer and Managing Director are matters referred to and considered by the Human Resources Committee.

The Human Resources Committee has access to independent advice and comparative studies on the appropriateness of remuneration arrangements. The Human Resources Committee makes recommendations to the Board which makes final remuneration decisions in respect of directors and senior executives.

Remuneration Structure

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

Non-Executive Directors

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

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

(a) the payment of directors' fees in cash and statutory superannuation contributions

(b) for service from 17 November 2003 a long-term component of non-executive director fees, to be received by a non-executive director on retirement from the Board

(c) for directors who held office on 17 November 2003, a cash benefit under the discontinued retirement benefit scheme fixed by reference to length of service up to this date, which is to be paid upon the retirement of the director from the Board.

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

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

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

Long-Term Component of Non-Executive Directors' Remuneration

From 17 November 2003, non-executive directors became entitled to a long-term component of fees that forms part of the total amount of annually declared directors' remuneration. This long-term component is not paid directly to the director but applied, excluding any mandatory statutory superannuation contributions, to the on-market purchase of shares in the company. The shares purchased are then held on behalf of each respective director under the terms of the company's non-executive director share plan until the retirement from the Board of the director. Dividends in respect of these shares are paid to directors at the time that dividends are paid to shareholders.

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

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

Retirement Benefit – Discontinued Scheme

The retirement benefit scheme in existence until 17 November 2003 was approved by shareholders during the public listing of the company in 2000. This retirement benefit was an additional and separate arrangement to the payment of directors' fees.

The transition to the new arrangements involved the amount of the retirement benefit accrued by each non-executive director up to 17 November 2003 being fixed by reference to length of service up to this date and those directors foregoing the balance of their benefits under that scheme in return for participation in the new arrangements.

Senior Executives' Remuneration

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

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

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

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

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

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

Fixed Annual Reward

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

Senior executives are provided flexibility to receive their Fixed Annual Reward remuneration in a variety of forms, including cash, superannuation and fringe benefits such as motor vehicles.

Short Term Incentive (STI)

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

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

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

Executives participate in an annual performance review process that assesses performance against key accountabilities and job goals. Performance against these goals impacts directly on STI payments. STI payments may be reduced or withheld if the executive is assessed to fall substantially short of performance expectations or has failed to demonstrate minimum required leadership behaviours or operating style. The actual payment of the STI is subject to final Board approval.

In addition to an annual performance review, there is an ongoing process for regular performance review during the financial year. The review process ensures that there is clarity in the communication and understanding of key business drivers and targets. These performance discussions also serve to provide feedback, to plan development initiatives and to aid succession planning.

Long-Term Incentive (LTI)

The LTI is restricted to senior executives, including senior management, and executive directors. The objective of the LTI is to reward the participating executives in a manner which aligns this element of remuneration with the sustained creation of shareholder wealth. Allocations under the company's Share Plan and/or the Executive Option Plan are made on a periodic basis as deemed appropriate by the Board. The same vesting requirements are applied to both rights to shares and options.

Options that were issued to executives during the year ended 30 June 2001 and 30 June 2002 were fully vested during the year ended 30 June 2005. No further options have been issued since those referred to above. Rights to shares have been issued periodically since the year ended 30 June 2001.

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

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

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

B. DETAILS OF REMUNERATION (AUDITED)

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

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

N Calavrias, Chief Executive Officer, Steel & Tube Holdings Limited

A J Reeves, Chief Financial Officer

L J Selleck, Executive General Manager, Project Magnet

C R Keast, Executive General Manager, Market Mills

M R Parry, Executive General Manager, Whyalla

A H Combe, Executive General Manager, Distribution (from 30 January 2006)

W J Gately, Corporate General Manager, Human Resources and Safety

A Roberts, Executive General Manager, Marketing (from 18 July 2005)

R W Freeman, Executive General Manager, Distribution (until 5 August 2005)

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

A J Reeves, Chief Financial Officer

L J Selleck, Executive General Manager, Project Magnet

C R Keast, Executive General Manager, Market Mills

M R Parry, Executive General Manager, Whyalla

A Roberts, Executive General Manager, Marketing

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

N Calavrias, Chief Executive Officer, Steel & Tube Holdings Limited

A J Reeves, Chief Financial Officer

L J Selleck, Executive General Manager, Project Magnet

C R Keast, Executive General Manager, Market Mills

M R Parry, Executive General Manager, Whyalla

(a) Compensation of key management personnel

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

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

Notes

(1) The value recorded for non-executive directors in the share based payment section represents the new long-term component of directors's remuneration commenced after the annual general meeting on 17 November 2003. This amount has been accrued during the year with the purchase of shares occurring at the trading windows available under OneSteel's policy on dealing in company shares.

(2) The share rights have been valued using a Monte-Carlo simulation option pricing model, modified to incorporate an estimate of the probability of achieving the TSR hurdle and the number of share rights vesting. The value of the share rights has been apportioned over the three-year vesting period.

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

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

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

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

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

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

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

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

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

(c) Compensation options granted and vested during the year

Due to the suspension of the Executive Option Plan there were no grants of options during the year. The following options vested during the 2005 year, with vesting equal to 100% of the options granted. These options have not been recognised as part of compensation of key management personnel for the year ended 30 June 2005 or recognised in the Income Statement as the options were granted prior to 7 November 2002. OneSteel has applied the requirements of AASB 2 "Share–based Payments" to equity instruments granted after 7 November 2002 and that had not vested on or before 1 January 2005. All outstanding options vested in 2005.

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

(d) Shares issued on exercise of compensation options

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

C. EQUITY BASED COMPENSATION (AUDITED)

Share rights and options

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

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

Performance Ranking Range	% of Shares and Options Available
Up to and including 60%	Nil
61% to 80%	60%
81% to 99%	80%
100% and over	100%

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

– 50% will vest if OneSteel's TSR performance equates to a 50th percentile ranking with the S&P/ASX200 Index

– if a ranking between the 50th and 75th percentile is achieved, vesting is on a straight-line basis, with all vesting at or above the 75th percentile ranking.

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

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

D. ADDITIONAL INFORMATION (UNAUDITED)

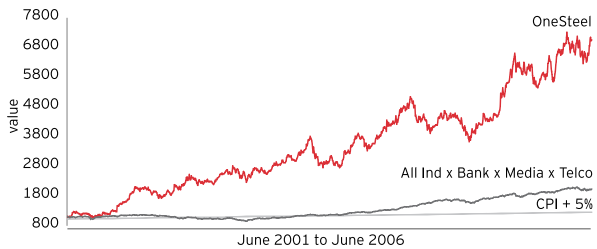
Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

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

Year Ended 30 June	Profit $m	Dividend cents per share	Earnings Per Share cents
2006 (AIFRS)	187.5	17.0	33.3
2005	132.5	13.5	23.6
2004	127.9	12.0	23.2
2003	94.0	11.0	17.2
2002	47.1	6.5	8.7
2001	(27.9)	6.0	5.1

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

OneSteel Total Shareholder Return



E. EMPLOYMENT CONTRACTS (AUDITED)

Mr G J Plummer

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

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

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

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

For the long-term component of his remuneration, Mr Plummer will be granted two separate allocations of shares during this term. He was allocated the First Instalment on 6 May 2005 when 1,058,040 shares were allocated at the prevailing market price representing two times' base remuneration. Mr Plummer's contract provides for a second instalment to be allocated on the second anniversary of Mr Plummer's commencement as Managing Director and Chief Executive Officer with a fair market value intended to represent an amount equivalent to one and one third times' base remuneration. However, in view of the proposed merger with Smorgon Steel Group Limited, in order to align Mr Plummer's long term incentive with the performance of the merged entity, the Directors have agreed to bring forward the allocation date of the second instalment. The shares will be acquired over the course of the 10 consecutive trading days starting on the day following the day that the Scheme comes into effect, assuming that the scheme is approved by Smorgon Steel shareholders and the Court, and will be allocated to Mr Plummer at the conclusion of that period. The method used to calculate the price at which these shares are to be allocated will be the same as will be used in the formula to determine the consideration payable for each Smorgon Steel share under clause 4.2 of the Scheme, namely the volume weighted average price of OneSteel shares traded in that period subject to certain adjustments. The vesting criteria for these shares as outlined in the section on Long-Term Incentive appearing earlier in this Remuneration Report does not change and the three year qualifying period will commence on the date of allocation.

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

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

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

In the event the termination is as a result of 12 months' notice from OneSteel then Mr Plummer will also be entitled to a payment in lieu of notice of up to the aggregate base remuneration paid to Mr Plummer over the previous 12 months.

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

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

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

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

Other key management personnel – senior executives

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

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

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

Company Secretary
Information on the qualification and experience of the company secretary is set out on page 13 of the Annual Review.

No Officers are Former Auditors
No officer of the OneSteel Group has been a partner of an audit firm or a director of an audit company that is or was an auditor of any entity in the OneSteel Group during the year ended 30 June 2006.

Share Rights and Options
During the year there were 689,367 rights to shares and nil options that vested to management under the terms of the Long-Term Incentive Plan. There were nil options forfeited during the year. During, or since the end of the financial year, the company has issued 396,314 shares as a result of the exercise of options. Details relating to the exercise of these options are included in Note 28 to the Full Financial Report. There are no amounts unpaid on the shares issued.

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

Expiry Date	Exercise Price	Number of Share Options
15 December 2009	$0.9258	194,621
21 December 2010	$1.0434	301,500

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

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

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

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

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

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

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

Interests of Non-Executive Directors in Contracts or Proposed Contracts with the Company
Directors of OneSteel Limited have declared their interests in contracts or proposed contracts that may result from their directorships of other corporations, as listed in their personal profiles set out on page 34 of the Annual Review.

Members of the OneSteel Group had normal business transactions with directors (or director-related entities) of the parent entity and its controlled entities during the year, including payments to the legal firm Allens Arthur Robinson. During the period 1 July 2005 to 31 January 2006 Mr C R Galbraith was an equity partner in Allens Arthur Robinson and then from 1 February 2006 to 30 June 2006 he was engaged by that firm as a special adviser in a salaried role. In the financial year to 30 June 2006, Allens Arthur Robinson billed OneSteel a total of $1,200,892 of which $578,275 remained unpaid at 30 June 2006. These fees were billed in respect of legal work performed by the firm and were charged on normal arm's length commercial terms. Mr Galbraith was not personally involved in the provision of these services.

Loans to Directors and Executives
There were no loans made to or outstanding with directors or executives.

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

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

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

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

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

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

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

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

Peter Smedley
Chairman

Geoff Plummer
Managing Director

Auditors' Independence Declaration to the Directors of OneSteel Limited
In relation to our audit of the financial report of OneSteel Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Craig M Jackson
Partner

Sydney, 22 August 2006

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This concise financial report covers both OneSteel Limited as an individual entity and the consolidated entity consisting of OneSteel Limited and its controlled entities (together, the "OneSteel Group").

A description of the nature of the OneSteel Group's operations and its principal activities is included in the review of operations on pages 4 to 33 in the Annual Review, which is not part of this financial report.

Discussion and analysis of the financial statements

The discussion and analysis is provided to assist readers in understanding the Concise Financial Report, which has been derived from the Full Financial report of OneSteel Limited.

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

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

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

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

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

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

Income Statement

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

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

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

Balance Sheet

Total consolidated assets increased by 1.7% to $3,138.8 million with property, plant and equipment and pre-production expenditure increasing by $160.8 million primarily as a result of investment associated with Project Magnet, the commercialisation of OneSteel's magnetite ore deposits.

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

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

Cash Flow Statement

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

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

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

Dividends

The directors have recommended and declared a final fully franked dividend for 2006 of 10 cents per share payable on 19 October 2006.

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

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

AS AT 30 JUNE 2006	CONSOLIDATED 2006 $m	CONSOLIDATED 2005 $m
ASSETS		
Current Assets		
Cash and cash equivalents	19.6	55.0
Receivables	635.4	643.1
Derivative financial instruments	3.2	–
Inventories	758.9	836.7
Other current assets	9.8	6.5
Total Current Assets	1,426.9	1,541.3
Non-current Assets		
Investment accounted for using the equity method	7.3	7.3
Derivative financial instruments	4.2	–
Other financial assets	7.1	8.8
Property, plant and equipment	1,339.7	1,190.9
Mine development expenditures	60.2	44.9
Other intangibles and goodwill	220.2	226.7
Deferred tax assets	72.9	64.9
Other non-current assets	0.3	2.3
Total Non-current Assets	1,711.9	1,545.8
TOTAL ASSETS	3,138.8	3,087.1
LIABILITIES		
Current Liabilities		
Payables	545.4	615.7
Interest-bearing liabilities	60.1	48.8
Tax liabilities	27.5	17.4
Provisions	160.5	166.0
Total Current Liabilities	793.5	847.9
Non-current Liabilities		
Derivative financial instruments	53.6	–
Interest-bearing liabilities	598.3	651.5
Deferred tax liabilities	143.5	152.9
Provisions	35.0	35.5
Retirement benefit obligations	13.3	11.0
Total Non-current Liabilities	843.7	850.9
TOTAL LIABILITIES	1,637.2	1,698.8
NET ASSETS	**1,501.6**	**1,388.3**
EQUITY		
Contributed equity	1,126.2	1,107.9
Retained earnings	316.1	214.2
Reserves	2.6	4.4
Parent interests	1,444.9	1,326.5
Minority interests	56.7	61.8
TOTAL EQUITY	**1,501.6**	**1,388.3**

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

FOR THE YEAR ENDED 30 JUNE 2006

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

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

2006

CONSOLIDATED	Issued capital $m	Employee compensation shares $m	Total contributed equity $m	Retained earnings $m	Share-based payments $m	Foreign currency translation $m	Cash flow hedges $m	Total Reserves $m	Total Parent Interests $m	MINORITY INTERESTS $m	TOTAL EQUITY $m
	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT										
	CONTRIBUTED EQUITY				RESERVES						
At 1 July 2005	1,115.0	(7.1)	1,107.9	214.2	1.4	3.0	–	4.4	1,326.5	61.8	1,388.3
Adoption of AASB 139 (Note 7(d))	–	–	–	(3.6)	–	–	(1.7)	(1.7)	(5.3)	–	(5.3)
Cash flow hedges:								–	–		–
– gains/(losses) taken to equity	–	–	–	–	–	–	5.6	5.6	5.6	–	5.6
Currency translation differences	–	–	–	–	–	(6.3)	–	(6.3)	(6.3)	(6.5)	(12.8)
Total income and expense for the year recognised directly in equity	–	–	–	(3.6)	–	(6.3)	3.9	(2.4)	(6.0)	(6.5)	(12.5)
Net Profit	–	–	–	187.5	–	–	–	–	187.5	13.6	201.1
Total income/expense for the period	–	–	–	183.9	–	(6.3)	3.9	(2.4)	181.5	7.1	188.6
Share-based payments expense	–	–	–	–	2.0	–	–	2.0	2.0	–	2.0
Dividends paid	–	–	–	(82.0)	–	–	–	–	(82.0)	(12.2)	(94.2)
Shares issued under dividend reinvestment plan	19.0	–	19.0	–	–	–	–	–	19.0	–	19.0
Shares issued on exercise of options	0.4	–	0.4	–	–	–	–	–	0.4	–	0.4
Vested shares	–	1.4	1.4	–	(1.4)	–	–	(1.4)	–	–	–
Purchase of shares for equity-based compensation	–	(2.5)	(2.5)	–	–	–	–	–	(2.5)	–	(2.5)
At 30 June 2006	**1,134.4**	**(8.2)**	**1,126.2**	**316.1**	**2.0**	**(3.3)**	**3.9**	**2.6**	**1,444.9**	**56.7**	**1,501.6**

2005

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

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

Relationship of the concise financial report to the full financial report

The Concise Financial Report is an extract from the Full Financial Report for the year ended 30 June 2006. The financial statements and specific disclosures included in the concise financial report have been derived from the Full Financial Report.

The Concise Financial Report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of OneSteel Limited and its controlled entities (together, the "OneSteel Group") as the Full Financial Report. Further financial information can be obtained from the Full Financial Report.

A copy of OneSteel Limited's 2006 Full Financial Report, together with the Independent Audit Report, is available to all shareholders, and will be sent to shareholders without charge upon request. The financial statements can be requested by telephone, by internet or by email (refer to contact details in the Corporate Directory).

NOTE 1. BASIS OF PREPARATION OF THE CONCISE FINANCIAL REPORT

The Concise Financial Report has been prepared in accordance with the requirements of the Corporations Act 2001 and Accounting Standard AASB 1039 "Concise Financial Reports".

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian Generally Accepted Accounting Principles (AGAAP). The Full Financial Report on which this Concise Financial Report is based on is the first annual OneSteel Limited financial report to be prepared in accordance with Australian Equivalents to International Financial Standards (AIFRS).

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

NOTE 2. SEGMENT INFORMATION

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

NOTE 2. SEGMENT INFORMATION (CONTINUED)

2005	Australia Manufacturing $m	Australia Distribution $m	Australia Unallocated $m	Australia Eliminations $m	Australia Total $m	International Distribution $m	Eliminations $m	Consolidated $m
Segment revenues								
Revenues from customers outside the consolidated entity	1,786.7	1,749.0	0.0	0.0	3,535.7	402.8	–	3,938.5
Inter-segment revenues	261.1	20.3	15.8	(252.3)	44.9	–	(44.9)	–
Other revenue/income	17.9	14.0	2.2	–	34.1	0.5	–	34.6
Total revenue/income	2,065.7	1,783.3	18.0	(252.3)	3,614.7	403.3	(44.9)	3,973.1
Share of net profit of investment accounted for using the equity method	–	–	0.6	–	0.6	–	–	0.6
Other non-cash expenses	(9.5)	(2.4)	(1.9)	–	(13.8)	(0.3)	–	(14.1)
Reversal of impairment loss on property, plant & equipment	65.2	–	–	–	65.2	–	–	65.2
Earnings before interest, tax, depreciation & amortisation	249.5	164.3	(19.0)	(1.6)	393.2	61.4	(12.3)	442.3
Depreciation and amortisation	(59.8)	(23.8)	(2.8)	–	(86.4)	(5.3)	–	(91.7)
Earnings before interest & tax	189.7	140.5	(21.8)	(1.6)	306.8	56.1	(12.3)	350.6
Finance costs								(53.6)
Income tax expense								(76.7)
Profit after tax before minority interests								220.3
Segment assets	1,604.7	1,172.9	95.5	(47.8)	2,825.3	192.8	(3.2)	3,014.9
Investment accounted for using the equity method	–	–	7.3	–	7.3	–	–	7.3
Tax assets								64.9
Consolidated assets								3,087.1
Segment liabilities	426.9	316.2	753.1	(43.1)	1,453.1	75.4	–	1,528.5
Tax liabilities								170.3
Consolidated liabilities								1,698.8
Non-current assets acquired	108.7	13.6	16.0	–	138.3	5.2	–	143.5

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

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

Segment activities – Australia

Manufacturing

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

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

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

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

The Reinforcing business manufactures and distributes reinforcing product around Australia.

Distribution

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

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

Segment activities – International

Distribution

This comprises the 50.3% shareholding in Steel & Tube Holdings Limited, a public listed company in New Zealand, which processes and distributes a comprehensive range of steel and associated products in the construction, manufacturing and rural industries to the New Zealand market. Products include specialist pipe, valves and fittings, metal fasteners, longrun roofing, cladding and rainwater systems, fabricated reinforcing steel and wire products.

NOTE 2. SEGMENT INFORMATION (CONTINUED)

Intra/intersegment transfers

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

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

NOTE 3. PROFIT AND LOSS ITEMS

	CONSOLIDATED	
	2006 $m	2005 $m
(a) Sales revenue		
Product sales	4,001.4	3,934.9
Rendering of services	3.2	3.6
Total sales revenue	4,004.6	3,938.5
(b) Other revenue		
Interest received from unrelated parties	2.4	2.4
Rental revenue	0.8	2.9
Other revenue	25.0	26.5
Total other revenue	28.2	31.8
TOTAL REVENUE	4,032.8	3,970.3
(c) Other income		
Net gains on disposal of property, plant and equipment	4.4	1.9
Net foreign exchange gains	–	0.9
Net gain on foreign currency derivatives not qualifying as hedges	1.3	–
Net gains on qualifying fair value hedges through profit or loss	0.1	–
Insurance recovery	5.0	–
Total other income	10.8	2.8
TOTAL INCOME	4,043.6	3,973.1

NOTE 4. EARNINGS PER SHARE

The following reflects the earnings and share data used in the calculation of basic and diluted earnings per share:

	2006 $m	2005 $m
(a) Earnings		
Profit attributable to members of the parent	187.5	202.8
Earnings used in calculating basic and diluted earnings per share	187.5	202.8

	NUMBER OF SHARES	
(b) Number of ordinary shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	563,477,532	557,796,324
Dilutive effect of executive share options(1)	355,447	542,717
Dilutive effect of employee compensation shares	3,146,736	2,478,712
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	566,979,715	560,817,753

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

NOTE 4. EARNINGS PER SHARE (CONTINUED)

On operating activities before the benefit of tax consolidation[2]		
Basic earnings per share (cents per share)	30.45	
Diluted earnings per share (cents per share)	30.26	
On operating activities before the benefit relating to the reversal of impairment loss[3]		
Basic earnings per share (cents per share)		27.45
Diluted earnings per share (cents per share)		27.30

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

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

Issues after 30 June 2006
There have been no other subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

NOTE 5. DIVIDENDS

	On ordinary shares $m	Dividend per ordinary share $
2006		
Interim fully franked dividend for 2006, paid 20 April 2006	39.7	0.07
Final fully franked dividend for 2005, paid 20 October 2005	42.3	0.075
	82.0	0.145
2005		
Interim fully franked dividend for 2005, paid 21 April 2005	33.7	0.06
Final fully franked dividend for 2004, paid 14 October 2004	39.0	0.07
	72.7	0.13

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

Dividend Franking

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

NOTE 6. EVENTS AFTER BALANCE SHEET DATE

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

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

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

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

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

NOTE 7. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

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

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

		CONSOLIDATED	
	Notes	30 June 2005 $m	1 July 2004 $m
Contributed equity under previous AGAAP		1,115.0	1,096.3
Adjustments to contributed equity			
Consolidation of Employee Share Plan Trusts	(vii)	(7.1)	(2.3)
Contributed equity under AIFRS		1,107.9	1,094.0
Retained earnings under previous AGAAP		277.5	217.6
Adjustments to retained earnings, net of tax			
Recognition of additional mine rehabilitation provision	(i)	(2.2)	(1.5)
Recognition of defined benefits superannuation deficit	(ii)	(7.7)	(8.1)
Recognition of impairment losses (including goodwill)	(iii)	(104.1)	(104.1)
Adjustment to depreciation due to impairment at 1 July 2004	(iii)	4.1	–
Reversal of impairment loss	(iii)	45.6	–
Reversal of goodwill amortisation	(iv)	20.1	–
Recognition of lease make good and other provisions	(v)	(0.4)	(0.4)
Revision to share-based payments expense	(vi)	0.7	1.1
Recognition of deferred tax balances	(viii)	(19.4)	(20.5)
Total AIFRS adjustments to retained earnings		(63.3)	(133.5)
Retained earnings under AIFRS		214.2	84.1
Reserves under previous AGAAP		3.0	2.8
Adjustments to other reserves, net of tax			
Recognition of share-based payments	(vi)	1.4	0.8
Reserves under AIFRS		4.4	3.6
Minority interests under previous AGAAP		61.2	56.7
Recognition of share of AIFRS adjustments		0.6	(0.4)
Minority interests under AIFRS		61.8	56.3
TOTAL EQUITY AS REPORTED UNDER AGAAP		1,456.7	1,373.4
Impact of AIFRS adjustments		(68.4)	(135.4)
TOTAL EQUITY AS REPORTED UNDER AIFRS		1,388.3	1,238.0

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

	Notes	30 June 2005 $m
Profit after tax under previous AGAAP		132.5
Adjustments to profit, net of tax		
Revised mine rehabilitation expense	(i)	(0.7)
Defined benefits superannuation fund benefit	(ii)	0.4
Revised depreciation on impaired assets	(iii)	4.1
Reversal of asset impairment	(iii)	45.6
Revised lease make good provisions	(v)	(0.1)
Reversal of goodwill amortisation	(iv)	20.1
Revision to share-based payments expense	(vi)	(0.4)
Adjustments to income tax expense	(viii)	1.3
Total AIFRS adjustments to profit after tax		70.3
Profit after tax under AIFRS		202.8

NOTE 7. TRANSITION TO AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

Notes to the reconciliations

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

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

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

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

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

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

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

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

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

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

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

(d) Other impacts
AASB 139 "Financial Instruments – Recognition and Measurement" and AASB 132 "Financial Instruments: Disclosure and Presentation".

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

DIRECTORS' DECLARATION

In the opinion of the directors of OneSteel Limited, the concise financial report of the consolidated entity for the year ended 30 June 2006 and the audited remuneration disclosures contained in the Directors' Report:

(a) complies with Accounting Standard AASB 1039 "Concise Financial Reports"; and

(b) is an extract from the full financial report for the year ended 30 June 2006 and has been derived from and is consistent with the full financial report of OneSteel Limited.

Signed in accordance with a resolution of the directors.

Peter Smedley
Chairman

Geoff Plummer
Managing Director

Sydney
22 August 2006

INDEPENDENT AUDIT REPORT TO MEMBERS OF ONESTEEL LIMITED

Scope

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

The directors of the company are responsible for preparing a concise financial report and the additional remuneration disclosures included in sections A, B, C & E of the Remuneration Report, within the Directors' Report, designated as audited that complies with Accounting Standard AASB 1039 "Concise Financial Reports", 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 concise financial report and the additional disclosures.

Audit approach
We conducted an independent audit on the concise financial report and the additional disclosures in order to express an opinion on them 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 concise financial report and the additional disclosures are 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 concise financial report and the additional disclosures are presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports". We formed our audit opinion on the basis of these procedures, which included:

- testing that the information in the concise financial report and the additional disclosures are consistent with the full financial report, and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report and the additional disclosures that were not directly derived from the full financial report.

We have also performed an independent audit of the full financial report of the company for the year ended 30 June 2006. Our audit report on the full financial report was signed on 22 August 2006, and was not subject to any qualification. For a better understanding of our approach to the audit of the full financial report, this report should be read in conjunction with our audit report on the full financial report.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditors' Independence Declaration, signed on 22 August 2006, a copy of which is included in the Directors' Report. In addition to our audit of the full and concise financial reports and the additional disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements of the full financial report. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the concise financial report and the additional disclosures included in the Directors' Report designated as audited of OneSteel Limited complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Ernst & Young

Ernst & Young

Craig M Jackson
Partner

Sydney
22 August 2006

Number of Shareholders

There were 88,885 shareholders at 11 September 2006. 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 11 September 2006

Range of Holdings	Number of Shareholders	% of Total Holders	Number of Shares	% of Total Shares
1 – 1,000	43,878	49.36	21,344,395	3.75
1,001 – 5,000	33,706	37.92	74,605,375	13.11
5,001 – 10,000	6,618	7.45	48,557,372	8.53
10,001 – 100,000	4,550	5.12	92,628,040	16.27
100,001 and over	133	0.15	332,152,718	58.34
Total	**88,885**	**100.00**	**569,287,900**	**100.00**

Twenty Largest Shareholders at 11 September 2006

Shareholder	Number of Shares	% of Total Shares	Rank
J P Morgan Nominees Australia Limited	62,111,868	10.91	1
Westpac Custodian Nominees Limited	50,125,472	8.80	2
National Nominees Limited	49,528,369	8.70	3
Cogent Nominees Pty Ltd	28,838,336	5.06	4
ANZ Nominees Limited	24,600,096	4.32	5
Citicorp Nominees Pty Ltd	23,827,243	4.18	6
OneSteel Share Plans Pty Ltd	18,943,045	3.33	7
UBS Nominees Pty Ltd	12,963,664	2.28	8
AMP Life Limited	8,064,840	1.42	9
Queensland Investment Corporation	7,232,532	1.27	10
Australian Reward Investment Alliance	5,318,944	0.94	11
RBC Dexia Investor Services Australia Nominees Pty Limited	4,326,177	0.76	12
Argo Investments Limited	3,150,000	0.55	13
Tasman Asset Management Limited	1,804,561	0.32	14
Elise Nominees Pty Limited	1,699,572	0.30	15
Milton Corporation Limited	1,602,561	0.28	16
HSBC Custody Nominees (Australia) Limited	1,535,496	0.27	17
Woodross Nominees Pty Limited	1,310,511	0.23	18
Pack-Tech Pty Limited	950,000	0.17	19
Invia Custodian Pty Limited	779,219	0.14	20
Total	308,712,506	54.23	
Total Issued Shares	**569,287,900**	**100.00**	

Unmarketable Parcels

There were 4,504 members holding less than a marketable parcel of shares in the company as at 11 September 2006.

Listing

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

Substantial Shareholders

Substantial shareholders as defined by the Corporations Act 2001 (holding at least 5% of shares):

GMO Australia Limited	35,200,252 shares	6.18%
MIR Investment Management Limited	51,557,818 shares	9.06%

Unquoted Equity Securities

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

- Number of employees participating 15
- Number of securities 460,396

Share Registry

Shareholders with queries about anything related to their shareholding should contact the OneSteel Share Registry on telephone 1300 364 787 or +61 3 9415 4026. 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.

Details of individual shareholdings can be checked conveniently and simply by visiting OneSteel's Share 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 company moved to the payment of dividends by direct credit only for Australian and New Zealand shareholders with effect from the first dividend payment in the 2006 year. The following options are available to shareholders regarding payment of dividends:

- direct deposit to an Australian bank, building society or credit union account
- direct deposit to a New Zealand bank account
- for shareholders registered outside of Australia and New Zealand who do not have an Australian or New Zealand bank account 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 deposit facility.

Dividend Reinvestment Plan

As an alternative to receiving cash dividends, eligible shareholders may elect by notification to the OneSteel 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 46.5% 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.

Internet Address

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

Buy-back

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

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:

- the Chairman's address to the annual general meeting
- the half-year financial report reviewing the July-December half-year
- the announcement of the full year's results
- statements lodged with the ASX
- webcasts of annual general meetings
- webcasts of half-yearly/annual results presentations to fund managers and financial analysts
- other presentations and briefings given to fund managers and financial analysts including those during site visits
- Board and Committee charters as well as other company policies that are likely to be of interest to shareholders and potential investors
- general information on the company and its activities.

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 email address and selected which publications you wish to receive, an email will be sent to you for confirmation purposes.

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

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 Share 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.

This report has been prepared by comparing the 12 months to June 2002, 2003, 2004, 2005 and 2006 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.

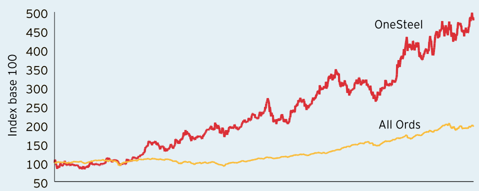
The pro forma numbers include the results of all businesses as if the assets and operations of all businesses spun out from BHP were part of the OneSteel Group from 1 July 2000 to 30 June 2001.

The financial information presented for years 2000 to 2004 have not been prepared under Australian equivalents to International Financial Reporting Standards (AIFRS).

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

OneSteel Share Price

Indexed, 23 October 2000 to 11 September 2006



Key Financial Statistics

12 Months Ending 30 June A$ millions	Statutory AIFRS 2006	Statutory AIFRS 2005	Statutory AGAAP 2004	Statutory AGAAP 2003	Statutory AGAAP 2002	Pro Forma AGAAP 2001 Inc Prov	Pro Forma AGAAP 2000	% Change 06/05
Sales Revenue	4,004.6	3,938.5	3,269.2	3,060.6	2,906.0	2,637.7	2,959.1	1.7
Other Revenue	39.0	34.6	70.1	39.5	80.5	141.5	17.4	12.7
Total Revenue	4,043.6	3,973.1	3,339.3	3,100.1	2,986.5	2,779.2	2,976.5	1.8
Gross Profit	798.7	787.0	642.6	626.2	528.4	489.6	135.3	1.5
Operating Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	396.7	377.1	324.2	307.6	251.0	181.7	268.0	5.2
Depreciation & Amortisation (excluding goodwill)	(94.0)	(97.5)	(87.1)	(86.5)	(84.2)	(107.0)		(3.6)
Operating Earnings Before Interest & Tax (EBIT) (excluding goodwill amortisation)	302.7	279.6	237.1	221.1	166.8	74.7	171.7	8.3
Finance Costs	(56.7)	(53.6)	(42.2)	(44.5)	(54.4)	(61.8)		5.8
Operating Earnings (Loss) Before Tax (EBT)	246.0	226.0	194.9	176.6	112.4	12.9		8.8
Tax (Expense)/Benefit	(60.8)	(55.4)	(53.4)	(53.3)	(39.0)	2.1		9.7
Net Operating Profit (Loss) After Tax and Minorities (NOPAT)	171.6	153.1	129.1	113.8	66.0	9.1		12.1
Operating Cash Flow	250.8	235.9	188.3	257.7	92.6	290.3		6.3
Free Cash Flow	36.4	109.0	43.9	154.9	28.5	220.8		(66.6)
Total Assets	3,138.8	3,087.1	2,803.2	2,577.0	2,582.0	2,710.8	2,628.4	1.7
Funds Employed	2,189.8	2,033.6	1,842.4	1,755.2	1,794.2	1,878.6	2,019.7	7.7
Total Liabilities	1,637.2	1,698.8	1,429.8	1,292.0	1,359.4	1,594.6	1,465.9	(3.6)
Net Debt including derivatives	688.2	645.3	469.0	470.2	571.6	762.4	857.2	6.6
Capital and Investment Expenditure	227.6	127.5	151.4	130.9	70.8	108.4	167.6	78.5
Inventories	758.9	836.7	704.6	591.0	574.1	540.3	608.0	(9.3)
Employees	7,527	7,395	7,272	7,054	6,989	7,379	7,271	1.8
Sales per employee $'000	532	533	450	434	416	357	407	(0.2)
Net Tangible Asset Backing, $ per share	2.16	1.95	1.93	1.77	1.69	1.81	2.03	
Operating EBIT Margin on Sales %	7.6	7.1	7.3	7.2	5.7	4.5	5.8	
Operating EBIT Return on Funds Employed %	14.4	14.2	13.3	12.5	9.1	3.8	8.5	
Operating Return on Equity %	12.9	13.1	10.7	9.8	6.3	1.3		
Gearing (net debt:net debt plus equity) including derivatives %	31.4	31.7	32.8	34.3	38.7	46.1		
Interest Cover, times (EBIT/Interest)	5.3	5.2	5.6	5.0	3.1	0.6		
Operating Earnings per Share (cents) – based on no. of shares at year end	30.3	27.3	23.3	20.8	12.3	(6.0)		11.0
Full-year Dividend per Share (cents)	17.0	13.5	12.0	11.0	6.5	6.0		
Dividend Payout Ratio	56.3	49.6	51.4	52.6	53.0	302.2		
Underlying Market Growth %	5.5	3.3	3.5	11.8	4.9	(8.3)		
Cost Increases	267	226	71	68	57	37		
Cost Reductions	39	47	50	56	59	50		
Revenue Enhancements	236	309	28	51	20	15		
Raw Steel Tonnes produced	1,633,696	1,349,397	1,618,855	1,624,399	1,576,650	1,438,770	1,835,822	21.1
Tonnes Dispatched	2,287,067	2,264,051	2,159,536	2,224,139	2,176,413	2,125,073	2,667,654	1.0
Export % of Tonnes Dispatched	9.9	4.1	4.7	3.8	7.9	13.1		

Ore Reserves and Mineral Resources

OneSteel's 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 it appears.

All Resource and Reserve figures represent estimates at the end of June 2006 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 four operating deposits located in the South Middleback Ranges.

Grades are uncalcined and contain 2% moisture.

The 2005/06 Hematite Reserve represents a decrease of 0.7 million tonnes after depletion of 3.0 million tonnes due to mining. This can be attributed to a review of the Iron Duchess Resource and re-evaulation of the Iron Duke Pit.

The 2005/06 Iron Magnet Reserve represents a decrease of 18.1 million tonnes due to further resource delineation, Iron Duke/Magnet Pit redesign and increase in resource confidence.

Whyalla (Middleback Range) Hematite Reserves

		AS AT END JUNE 2006									COMPARED WITH 2005			COMPETENT PERSON	
		Proved Ore Reserve			Probable Ore Reserve			Total Ore Reserves			Total Ore Reserves			OneSteel Interest	
		Tonnes	Grade		Tonnes	Grade		Tonnes	Grade		Tonnes	Grade		%	
Category	Ore type	(millions)	Fe%	P%	(millions)	Fe%	P%	(millions)	Fe%	P%	(millions)	Fe%	P%		
Total Quantity	Hematite, Goethite, Limonite, Minor magnetite	21.2	62.7	0.06	11.0	62.2	0.06	32.2	62.5	0.06	35.8	62.4	0.06	100	H. Warries

Whyalla (Middleback Range) Magnetite Reserves

		AS AT END JUNE 2006						COMPARED WITH 2005		COMPETENT PERSON	
		Proved Ore Reserve		Probable Ore Reserve		Total Ore Reserves		Total Ore Reserves		OneSteel Interest	
Category	Ore type	Tonnes (millions)	Grade DTR%	Tonnes (millions)	Grade DTR%	Tonnes (millions)	Grade DTR%	Tonnes (millions)	Grade DTR%	%	
Total Quantity	Magnetite	39.8	40.5	51.4	39.1	91.2	39.7	110.1	39.6	100	H Warries

Mineral Resources

The table below shows OneSteel's in situ 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 Resource includes 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 2005/06 resource change can be attributed to further drilling associated with Iron Magnet and reinterpretation of the Iron Duke Deposit.

Whyalla (Middleback Range) Hematite Resources

		AS AT END JUNE 2006								COMPARED WITH		COMPETENT PERSON	
		Measured Resources		Indicated Resources		Inferred Resources		Total Resources 2006		Total Resources 2005		One Steel Interest	
Category	Ore 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	25.8	62.9	31.8	60.5	32.6	55.8	90.2	60.2	83	59	100	P. Leevers
Quantity excluded from Ore Reserves	Hematite, Goethite, Limonite, Minor magnetite	4.7	60.1	15.3	59.3	18.4	57.4	38.4	58.1	33.8	56.5	100	P.Leevers

The Iron Magnet Deposit is adjacent to and below the Iron Duke and Iron Duchess Deposits. The 2005/06 Resource represents an increase of 31.2 million tonnes due to infill drilling during the 2005/06 period.

Whyalla (Middleback Range) Magnetite Resources

		AS AT END JUNE 2006								COMPARED WITH		COMPETENT PERSON	
		Measured Resources		Indicated Resources		Inferred Resources		Total Resources 2006		Total Resources 2005		One Steel Interest	
Category	Ore type	Tonnes (millions)	DTR Grade %	Tonnes (millions)	DTR Grade %	Tonnes (millions)	DTR Grade %	Tonnes (millions)	DTR Grade %	Tonnes (millions)	DTR Grade %	%	
Total Quantity	Magnetite	47	42.4	88	40.8	110	38.2	245	39.9	265	38.5	100	P.Leevers
Quantity excluded from Ore Reserves	Magnetite	6.7	41.3	36.9	40.2	106.7	38.1	150.3	38.8	132.7	38.4	100	P.Leevers

OneSteel – Iron Baron and South Middleback Range Ore Beneficiation Stockpiles

These are resources currently held in historically built stockpiles that will be beneficiated to yield usable ore. Ore Beneficiation commenced in the 2004/05 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 at the end of June 2006. The 2005/06 Resource represents a decrease of 0.5 million tonnes due to the commencement of ore beneficiation operations.

OneSteel Ore Beneficiation Stockpiles

		AS AT END JUNE 2006								COMPARED WITH		COMPETENT PERSON	
		Measured Resources		Indicated Resources		Inferred Resources		Total Resources 2006		Total Resources 2005		OneSteel Interest	
Category	Ore type	Tonnes (Mt dry)	Fe Grade (% uncalcined)	Tonnes (Mt dry)	Fe Grade (% uncalcined)	Tonnes (Mt dry)	Fe Grade (% uncalcined)	Tonnes (Mt dry)	Fe Grade (% uncalcined)	Tonnes (Mt dry)	Fe Grade (% uncalcined)	%	
Total Quantity	Hematite, Goethite, Limonite, Minor magnetite	4.7	53.6	3.1	52.1	13	52.00	21.2	53.5	21.7	53.5	100	P. Leevers

THE COMPANY
OneSteel Limited and/or its subsidiaries, as the context admits. Also referred to as OneSteel.

THE GROUP
OneSteel Limited and/or its subsidiaries, as the context admits. Also referred to as OneSteel.

BILLET
Billet is a section of cast steel approximately 127mm or 175mm square and 12 metres long which is used to produce rod and bar.

BLAST FURNACE
Furnace used for converting iron ore into pig iron.

BLOOM
Bloom is a section of cast steel usually 350mm square and 12 metres long.

CRU
A London-based consulting group that provides business information and market analysis in the areas of non-ferrous metals, steel and ferro-alloys and wire and cable.

DISPATCHES
Term used for total tonnes sold to end markets.

ELECTRIC ARC FURNACE
Furnace used to convert scrap steel into molten steel.

EMAIL METALS
Email Metals was the component of the Email Limited business jointly acquired by Smorgon Steel Group Limited and OneSteel.

HEMATITE
An iron oxide with the chemical formula of Fe_2O_3.

INTEGRATED STEELWORKS
An integrated steelworks uses blast furnace and basic oxygen steelmaking technology to manufacture steel from iron ore.

LOST TIME INJURY FREQUENCY RATE
A statistical measure of safety performance.
A lost time injury is an injury which is attributable to a workplace incident and which results in at least one full shift of work being lost at some time (not necessarily immediately) after the shift during which the injury occurred.
Lost time injury frequency rate is the number of lost time injuries per million hours worked and is calculated as follows: lost time injury frequency rate equals number of lost time injuries per reporting period times one million, divided by hours worked per reporting period.

MAGNETITE
An iron oxide with the chemical formula of Fe_3O_4.

MEDICAL TREATMENT INJURY FREQUENCY RATE
A statistical measure of safety performance.
A medical treatment injury is an injury which is attributable to a workplace incident, requires medical treatment (including restricted work) and results in less than a full shift of work being lost. Injuries which result in at least one full shift of work being lost are classified as lost time injuries (refer above).
The medical treatment injury frequency rate is the number of medical treatment injuries per million hours worked and is calculated as follows: medical treatment injury frequency rate equals number of medical treatment injuries per reporting period times one million, divided by hours worked per reporting period.

NON-CIS
In the context of prices for Asian imports of hot rolled coil, it refers to product not sourced from the region previously known as the Soviet Union.

ORE
Mineral bearing rock.

ORE RESOURCE
Refers to the total ore body.

ORE RESERVE
Represents what is currently economically feasible to mine.

PELLET PLANT
The pellet plant takes fine iron ore and produces hard balls of iron ore that can be fed into the blast furnace.

PLATE
Large flat sections of steel used for the manufacture of tanks, pressure vessels etc.

PRODUCT MILLS
Product mills take billet and bloom and roll them into rod, bar, reinforcing steels, wire, rail, tube, pipe and structural steel.

PRODUCTION
Term used to define total tonnes produced in particular product.

RAW STEEL
Raw steel is produced at the Whyalla Steelworks and the Sydney Steel Mill and is cast in the form of billet, bloom and slab steel.

REINFORCING STEEL
Used for reinforcing concrete.

ROD AND BAR
Rod and bar is semi-finished product that can be used for further value-added products such as wire, reinforcing steel, grinding media, posts etc.

SHEET AND COIL
Sheet and coil is purchased from outside steel producers and processed and distributed by OneSteel or used in the manufacture of pipe and tube.

SLAB
Slab is a section of cast steel usually 250mm thick and between 600 and 1800mm wide and 12 metres long.

STEEL & TUBE NZ
Steel & Tube Holdings Limited and/or its subsidiaries, as the context admits.

STRUCTURAL STEEL
Large steel sections used for frames for buildings, factories, bridges and other infrastructure.

TEX REPORT
A daily newspaper published in Japan that reports news on trade in steel products, coal and coke, iron ore, pig iron and ferrous scrap and ferro-alloys.

ABBREVIATIONS

ABS	Australian Bureau of Statistics
ABARE	Australian Bureau of Agriculture and Resource Economics
ASIC	Australian Securities & Investments Commission
ASX	Australian Stock Exchange
C&F	Cost and freight, as used in international sales contracts to signify that the seller must pay the cost and freight necessary to bring goods to a port of destination
CO_2	Carbon Dioxide
DTR	Davies Tube Recovery
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBIT	Earnings Before Interest, Tax and Amortisation
EPA	Environment Protection Authority
FOB	Free on board, meaning the seller assumes the cost of having goods packaged and ready for shipment from the agreed designated FOB point. The buyer assumes the costs and risks from the FOB point
GDP	Gross Domestic Product
GM	General Manager
GST	Goods and Services Tax
ISO 14001	International Standards Organisation specification for environmental management systems
JORC Code	The 1999 Australasian Code for Reporting of Mineral Resources and Ore Reserves
NIEIR	National Institute of Economic and Industry Research
ng/m^3	Nanograms per cubic metre
NOPAT	Net Operating Profit After Tax and Minorities
NPAT	Net Profit After Tax and Minorities
NZ	New Zealand
OECD	Organisation for Economic Co-operation and Development
TSR	Total Shareholder Return
UK	United Kingdom
USA	United States of America

CORPORATE DIRECTORY

DIRECTORS
Peter J Smedley
Chairman

Geoffrey J Plummer
Managing Director

R Bryan Davis

Eileen J Doyle

Colin R Galbraith

Peter G Nankervis

Dean A Pritchard

Neville J Roach

COMPANY SECRETARY
John M Krenich

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ABN 63 004 410 833

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Internet: www.onesteel.com

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Sydney NSW 2000

Telephone: 1300 364 787 or +61 3 9415 4026
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 2006 Annual Review and the Full Financial Report are available on the OneSteel website www.onesteel.com or by calling +61 2 9239 6666

ONESTEEL REGISTERED TRADEMARKS

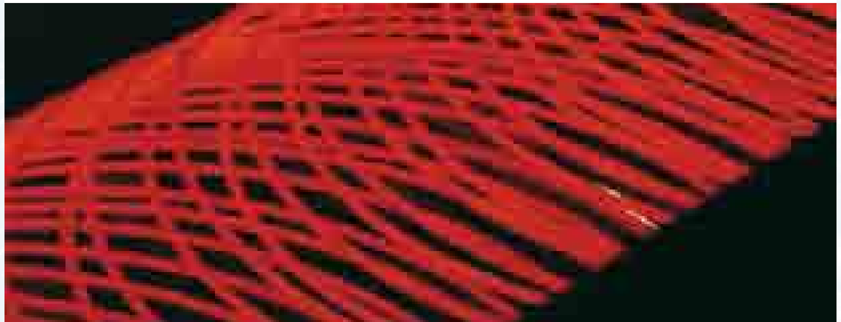
300PLUS™
500PLUS™
Anchor-Fast™
BAMTEC™
DECKMESH™
DuraGal™
Duramesh™
Ezycommerce™
EzySteel™
FIBRECRETE®
FIBRESTEEL®
FirePlus Pipe™
Flexabel®
Galstar®
Galtube™ Plus
George Ward
Gripfast®
Gripfast™
Strainers
Zalcote®
Gripple™
Growire™
HANDIMESH®
HAUNCHMESH™
IRONBARK™
Longlife™
MarineMesh™
Metaland
Metalcard
Metpol
MINEMESH™
Northgard
ONEMESH500™
ONESLAB™
Permelec®
Permaseal™
POOLSTEEL™
ROMTECH®
Star™
Star® Partner
Star® Posts
Stocklock®
Stocktite™
STUDMESH™
TEMPCORE™
Tempelec®
Tenser Senser®
Tensulator®
TRUSSDEK™
TRUSSDEKII™
Tyeasy®
UltraPipe™
Victaulic™
Waratah™
Wedgelock® Clamp
Wizard® Wire

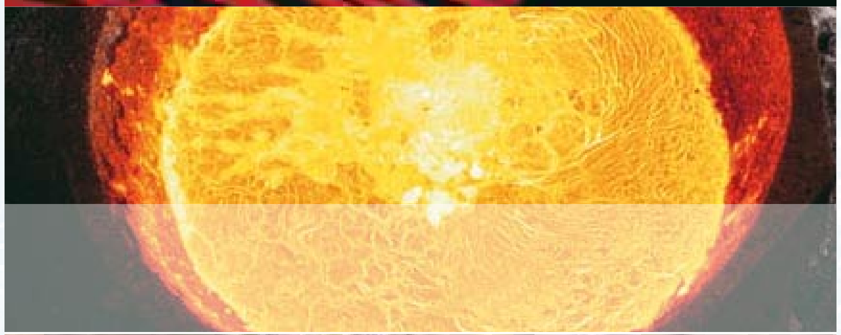
FINANCIAL CALENDAR
(subject to change)

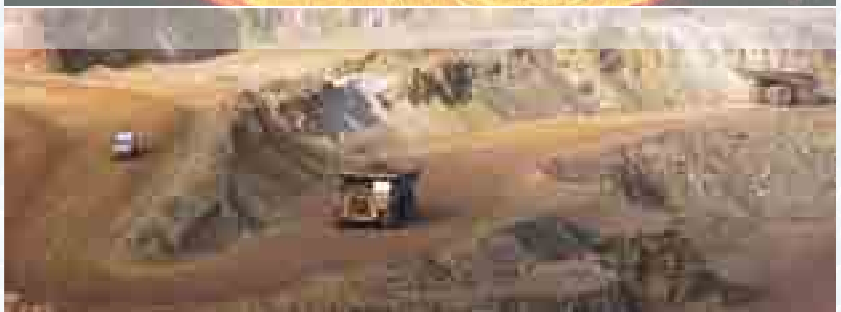
Date	**Event**
22 August 2006	Annual results and final dividend announced
28 August 2006	Ex-dividend share trading commenced
01 September 2006	Record date for final dividend
19 October 2006	Final dividend paid
19 October 2006	Annual Review mailed to shareholders
20 November 2006	Annual general meeting for 2006
31 December 2006	Financial half-year ends
20 February 2007	Half-year results and interim dividend announced
05 March 2007	Ex-dividend share trading commences
09 March 2007	Record date for interim dividend
19 April 2007	Interim dividend paid
30 June 2007	Financial year ends
21 August 2007	Annual results and final dividend announced
10 September 2007	Ex-dividend share trading commences
14 September 2007	Record date for final dividend
18 October 2007	Final dividend paid
18 October 2007	Annual Review mailed to shareholders
19 November 2007	Annual general meeting for 2007

NOTICE OF ANNUAL GENERAL MEETING
The 2006 Annual General Meeting of OneSteel Limited will be held at 2.30 pm, Monday 20 November 2006 at the City Recital Hall, Angel Place, Sydney, NSW. A formal Notice of Meeting accompanies this report. Additional copies can be obtained from the company's registered office or downloaded from the company's website at www.onesteel.com

DESIGNED AND PRODUCED BY ROSS BARR & ASSOCIATES







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