Transforming OneSteel

ONESTEEL LIMITED
ANNUAL REPORT 2008

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

ANNUAL GENERAL MEETING
OneSteel's Annual General Meeting will be held at City Recital Hall, Angel Place Auditorium, Sydney, NSW 2000 commencing at 2:30pm on Monday 17 November 2008.

Photo: Grinding media manufacturing at OneSteel's Waratah Steel Mill in Newcastle (NSW). Grinding media is used to assist in the extraction process for many metals such as gold, copper, lead, zinc, iron, nickel, tin and silver. Media is also used for grinding coal in power stations, lime and clinker in the cement industries and base materials in the building products industry. OneSteel has Grinding Media operations in Australia, the US and Indonesia.

CONTENTS

It's impossible to imagine a world without steel.

OneSteel believes the applications for steel are limitless and we are transforming your company into a stronger, more diversified and sustainable business able to take advantage of opportunities and compete in a rapidly changing global environment.

This year's Annual Report is titled "Transforming", to reflect OneSteel's transformation into a stronger, more diversified and sustainable materials, steel manufacturing, and distribution business. The completion of the Smorgon Steel merger on 20 August 2007, combined with the achievement of significant milestones on Project Magnet, including the commercialisation of OneSteel's magnetite ore reserves for producing steel and the sale of hematite ore reserves to global markets, have laid a solid foundation for the future of OneSteel.

OneSteel is now a much larger company with a broader range of products, services and capabilities than most steel companies in the world. Its unique characteristics, including the integrated business model, are helping to position the company to capitalise on an expanded range of growth opportunities and future competitive challenges.

Financial highlights

LSB LiteSteel™ beam is a revolutionary light steel structural beam manufactured at Acacia Ridge in Brisbane, Queensland. The beams are used in the construction of decks, floors, stairs and roofs across a range of applications.

WHAT WE DO

OneSteel is a fully integrated, global manufacturer and distributor of steel and finished steel products. We are self-sufficient in both iron ore and scrap metal. Following the merger and integration of Smorgon Steel during the year and the success achieved on Project Magnet, OneSteel's capabilities include:

Materials
- Mining and iron ore sales
- Recycling

Manufacturing
- Manufacturing and value-add steel products

Distribution and International Distribution
- A strong steel distribution network
- Niche market positions

OneSteel will continue to focus on delivering in four key areas:
- Improving returns from existing businesses
- Achieving strong cash generation
- Growing and diversifying earnings
- Building organisational capability, particularly in relation to Supply Chain, Operational Excellence, and Customer and Market Insight.

OUR MISSION

OneSteel's mission is to deliver superior and sustainable returns through leading market positions in the construction, recycling, resources and industrial markets, through our people, and operating and distribution capabilities.

OUR ACHIEVEMENTS

Since the commencement of OneSteel in October 2000, the company has focussed on building shareholder value through improving its market positions and unlocking inherent growth within its portfolio of businesses, driving the company toward ongoing sustainable returns. This focus has resulted in OneSteel delivering seven consecutive years of improved profit performance.

FINANCIAL

- **Sales revenue increased 73% to $7,434.3 million**
- **Operational earnings before interest, tax, depreciation and amortisation (EBITDA) increased 85% to $807.7 million**
- **Operating earnings before interest and tax (EBIT) increased 80% to $612.8 million**
- **Net operating profit after tax and minorities (NPAT) increased 59% to $315 million**
- **Earnings per share (EPS) based on the number of shares at end of period up 4% to 36 cents**
- **Operating cash flow up 27% to $350.8 million**
- **Operating sales margin based on EBIT improved to 8.2% from 7.9%**
- **Operating return on funds employed (ROFE) rose to 15.2% from 14.6%**
- **Net debt including derivatives increased 148% to $2,064.4 million from $831.1 million**
- **Fully franked dividend of 21.5 cents from 18.5 cents**

OPERATIONAL

- **Total Australian steel tonnes despatched increased 60% to 3,659,823 tonnes**
- **Domestic tonnes despatched increased 40% to 3,094,804 tonnes**
- **Iron ore tonnes sold increased to 4.4 million tonnes per annum and additional 0.5 million tonnes of ore by-products**
- **Record steel production of 2,659,479 tonnes**
- **Recycled metal sales of 1,965,141 tonnes**
- **Smorgon Steel merger recorded $41 million of net synergy benefits and restructuring costs of $77 million**
- **Staff numbers increased 55% to 11,678 from 7,526**
- **The Medical Treatment Injury Frequency Rate (per million hours worked) down 23% to 6.2 (excluding Smorgon Steel)**

CALENDAR OF SIGNIFICANT EVENTS

'07

August 2007
- New management team announced (post merger)
- Financial results for the full year ended 30 June 2007
- Australian Tube Mills announced a restructure of its pipe and tube operations
- Completion of OneSteel and Smorgon Steel merger
- Acquisition of Fagersta Group, Australia's 4th largest stainless steel distributor

September 2007
- Two Directors from Smorgon Steel appointed to OneSteel Board (post merger)
- Announcement of $20 million investment into Newcastle production facilities

October 2007
- Long-term iron ore agreement with China's Tangshan Guofeng Iron & Steel announced

'08

January 2008
- New reporting structure announced (post merger)

February 2008
- Restructure of Bar Mill operations announced
- Financial results for the half-year ended 31 December 2007

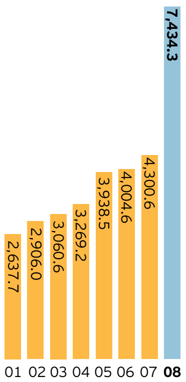
July 2008
- US$200 million private placement announced

August 2008
- Financial results for the full year ended 30 June 2008
- Announced details of Project Magnet Phase 2

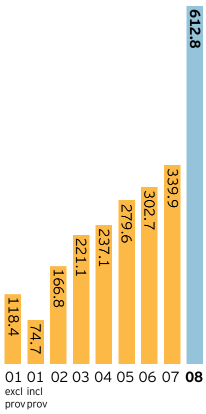
ARA
AUSTRALASIAN REPORTING AWARDS
Established 1950

OneSteel received the 2008 Australasian Reporting Award of the Year for its 2007 Annual Report. "OneSteel maintained its consistently high reporting standards with a comprehensive summary of conditions that could affect the company in future. Excellent operational and financial information is provided within the first few pages."

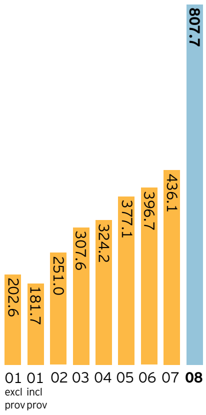
Sales Revenue
$ million



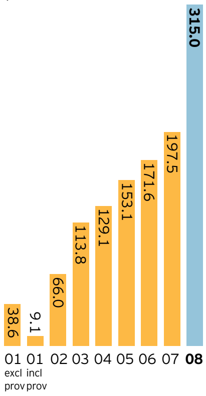
EBIT
$ million



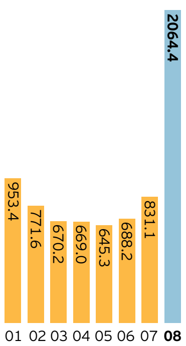
EBITDA
$ million



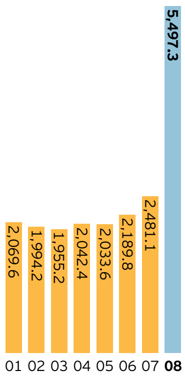
Net Operating Profit after Tax
$ million



Net Debt
$ million



Funds Employed
$ million



KEY FINANCIALS

12 Months Ended 30 June

A$ million	Jun-08	Jun-07	% Change
Sales	7,434.3	4,300.6	72.9%
Other revenue	50.5	33.9	49.0%
Total revenue	7,484.8	4,334.5	72.7%
Gross profit	1,681.2	837.2	100.8%
Operating earnings before interest, tax, depreciation and amortisation (EBITDA)	807.7	436.1	85.2%
Depreciation and amortisation	(194.9)	(96.2)	102.6%
Operating earnings before interest and tax (EBIT)	612.8	339.9	80.3%
Finance costs	(159.6)	(55.8)	186.0%
Operating earnings before tax	453.2	284.1	59.5%
Tax expense	(128.0)	(74.7)	71.4%
Operating profit after tax before minorities and interest	325.2	209.4	55.3%
Minorities	(10.2)	(11.9)	(14.3%)
Net operating profit after tax	315.0	197.5	59.5%
Net profit after tax (statutory)	244.9	207.0	18.3%
Total assets	7,327.8	3,569.5	105.3%
Inventory	1,298.9	836.3	55.3%
Total liabilities	3,894.9	1,919.5	102.9%
Funds employed	5,497.3	2,481.1	121.6%
Total equity	3,432.9	1,650.0	108.1%
Net debt including derivatives	2,064.4	831.1	148.4%
Number of shares (at end of period)	876.2	572.4	53.1%
Operating cash flow	350.8	276.5	26.9%
Free cash flow	43.9	(81.4)	153.9%
Capital and investment expenditure	2,475.0	360.5	586.5%
Operating return on assets (EBIT)	11.3%	10.1%	
Operating return on equity	12.6%	13.3%	
Operating return on funds employed (ROFE)	15.2%	14.6%	
Operating EBIT to sales	8.2%	7.9%	
Operating earnings per share (cents) – year end	36.0	34.5	4.3%
Dividends per share (cents)	21.5	18.5	16.2%
Dividend payout ratio	77.1%	69.6%	
Gearing (net debt/net debt + equity) including derivative	37.6%	33.5%	
Gross profit margin	22.6%	19.5%	
Interest cover (times)	3.8	6.1	
NTA per share ($)	1.52	2.40	(36.7%)
Employees	11,678	7,526	55.2%
Sales per employee ($000)	637	571	11.6%
Cost increases	330	159	107.5%
Cost reductions	91	40	128.6%
Revenue enhancements	196	150	30.7%
Raw steel production	2,659,479	1,733,406	47.7%
Steel tonnes despatched	3,659,823	2,278,322	60.6%
Steel exports, % of total steel despatches	8.5%	3.4%	148.6%

The 2007/2008 financial results include the performance of the pre-existing OneSteel businesses for 12 months and the former Smorgon Steel businesses for 10 months, from 20 August 2007, reflecting one of the major drivers in the movement in numbers year on year.

1. June 2008 results exclude the impact of restructuring costs and impairment of plant and equipment associated with the integration of the Smorgon Steel Group and Australian Tube Mills businesses of $70.1 million after tax. These statistics include the results of the Smorgon Steel Group Limited from 20 August 2007 only.
2. June 2007 results exclude the impact of the derecognition of deferred tax liabilities of $9.5 million.

BEST TOTAL SHAREHOLDER RETURNS ON THE S&P/ASX 100 OVER FIVE YEARS

Rank	Company	Sector	5-year TSR (%pa)	1-year TSR (%pa)	1-year TSR Rank	Market Capitalisation (A$ million)
1	CSL Limited	Health Care	57.1	20.4	9	19,649
2	Oil Search Limited	Energy	55.8	66.9	2	7,615
3	Leighton Holdings	Industrials	44.7	24.4	8	14,141
4	Woodside Petroleum	Energy	44.1	50.9	4	46,462
5	Aristocrat Leisure	Consumer Discretionary	41.4	–51.5	75	2,970
6	BHP Billiton Limited	Materials	41.1	26.8	7	146,661
7	Computershare	Information Technology	40.5	–15.1	24	5,118
8	Rio Tinto Limited	Materials	39.8	40.2	5	61,899
9	**OneSteel**	**Materials**	**36.9**	**19.7**	**10**	**6,538**
10	Origin Energy	Energy	35.1	68.9	1	14,192
11	Santos Limited	Energy	34.7	60.4	3	12,767
12	Newcrest Mining	Materials	32.4	38.5	6	13,282
13	Bluescope Limited	Materials	32.3	12.6	11	8,618
14	Orica Limited	Materials	27.1	1.7	14	9,232
15	Australian Securities Exchange	Financials	25.4	–32.6	50	5,374
16	QBE Insurance Group	Financials	23.7	–24.5	34	19,891
17	Lihir Gold Limited	Materials	21.4	10.1	12	7,199
18	Sominc Healthcare	Health Care	21.3	0.8	15	4,852
19	AMP Limited	Financials	19.3	–30.8	46	12,543
20	AGL Energy Limited	Utilities	19.1	–2.7	17	6,340

Table compiled by Mercer (Australia) Pty Ltd using publicly available data. TSR and market capitalisation data at 30 June 2008 for the top 20 ranked companies based on their TSR over the period 1 July 2003 to 30 June 2008. Mercer (Australia) Pty Ltd provides no opinion on the veracity of the data.

Chairman's review

Peter Smedley, Chairman

The 2008 financial year was marked by unprecedented increases in international steel prices, steel raw materials prices and ferrous scrap prices due to very strong demand from both international and domestic markets.

Welcome to OneSteel's 2008 Annual Report, our eighth since listing in October 2000. I have pleasure in reporting that the 2008 financial year represents OneSteel's seventh consecutive year of profit improvement, reflecting strong operational performance and the inclusion of the Smorgon Steel businesses from 20 August 2007.

The year marked a number of significant achievements for the company including completion of the company's merger of Smorgon Steel and the conversion of the steelworks to magnetite ore feed under Project Magnet.

The Smorgon Steel merger was completed during the year and integration is progressing well, resulting in synergy benefits well ahead of expectations. The merger has resulted in a stronger, more flexible company with enhanced growth opportunities and a greater product and service offer to customers. The competitive benefits of the fully integrated business model are expected to continue to improve OneSteel's costs as well as present further opportunities to diversify revenue streams.

In May 2005, OneSteel announced details of Project Magnet, the commercialisation of OneSteel's magnetite ore reserves for producing steel and the sale of hematite ore to global markets. After five years and approximately $400 million invested, our efforts on Project Magnet have resulted in significant increases in iron ore available for export and steelmaking at the Whyalla Steelworks.

In February this year, OneSteel announced that work was underway to further increase iron ore sales above 4 million tonnes per annum and to identify and prove up increased iron ore reserves, under Project Magnet Phase 2.

The first stream of this new work is aimed at lifting sales of iron ore through improving operational and supply chain capability including the review of operations from mining to barging. OneSteel's efforts to date are expected to increase iron ore sales to 6 million tonnes per annum from the start of the 2010 financial year.

The second stream of work is a two-year program and includes updating OneSteel's mine plans, mine extension drilling and exploration work to increase hematite ore reserves to support increased sales levels.

THE YEAR IN REVIEW

The 2008 financial year was marked by unprecedented increases in international steel prices, steel raw materials prices and ferrous scrap prices due to very strong demand from both international and domestic markets.

In Australia, resources and heavy construction, particularly in the engineering and infrastructure sectors, remained very strong. Manufacturing, residential and agricultural activity remained weak.

The results for the year include the pre-existing OneSteel businesses for 12 months and the Smorgon Steel businesses from 20 August 2007.

Sales revenue for the 12 months to 30 June 2008 grew by 73% to $7,434.3 million, reflecting the inclusion of the former Smorgon Steel businesses and a very solid performance across all segments.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA) was up 85% to $807.7 million.

The sales margin, based on operating earnings before interest and tax, was 8.2% compared with 7.9% in the previous financial year.

On an earnings before tax basis, profit increased by 59% from $284.1 million to $453.2 million.

Operating net profit after tax and minorities increased 59% to $315 million from $197.5 million in the previous financial year, equivalent to 36 cents per share, up from 34.5 cents per share at the end of June 2007. Statutory net profit after tax and minorities was $244.9 million, an increase of 18% on the previous year, reflecting the contribution of the acquired Smorgon Steel businesses and associated restructuring costs.

The effective tax rate of 28.2% for the year incorporates the impact of claimable research and development expenditure of the combined OneSteel and Smorgon Steel businesses.

Staffing levels rose to 11,678 at the end of June 2008, up from 7,526 the previous year, again reflecting the inclusion of the Smorgon Steel businesses in the period.

Operating cash flow was $350.8 million, up from $276.5 million the previous year.

Capital and investment expenditure, excluding the Smorgon Steel and Fagersta acquisitions, decreased from $360.5 million for the previous financial year to $311.1 million for the period ended 30 June 2008.

Financial gearing including derivatives was 37.6%, up from 33.5% in the previous financial year, largely due to increased debt associated with the merger of Smorgon Steel businesses and the inflationary impact of the volatile international steel market on working capital. Net debt excluding derivatives increased from $769.8 million to $1,947.2 million.

Interest cover was 3.8 compared to 6.1 for the previous financial year.

Funds employed increased 122% to $5,497.3 million from $2,481.1 million in the previous financial year, reflecting the inclusion of the Smorgon Steel businesses. The EBIT return on funds employed rose to 15.2% from 14.6% in the previous year.

Inventories increased 55% to $1,298.9 million, from $836.3 million at 30 June 2007, due largely to the inclusion of the Smorgon Steel businesses and the impact of significant increases in steel prices, raw materials prices and ferrous and non-ferrous scrap prices.

Total raw steel production increased 48% while Australian steel tonnes despatched increased 60%.

It is with great pleasure that I also announce that the OneSteel Board of Directors declared a final dividend of 13.5 cents, bringing the 2008 financial year dividend to 21.5 cents, an increase of 16% on the previous year. The dividend is to be paid on 16 October 2008. Books closed on 12 September 2008.

The Dividend Reinvestment Plan provides a facility for OneSteel's shareholders in Australia and New Zealand to reinvest their dividends in shares at a price calculated on the average of the daily volume, against the weighted average market price over 10 consecutive trading days. The Dividend Reinvestment Plan will operate for the final dividend and no discount applies for the Dividend Reinvestment Plan.

Management's focus for the next financial year is to maximise returns from the current businesses, delivering on the promise of further cost synergies from the integration of the Smorgon Steel businesses and the successful roll-out of Project Magnet Phase 2.

On behalf of the Board of Directors, I would like to thank OneSteel's shareholders for their ongoing support. I would also like to thank OneSteel's Managing Director and CEO, Geoff Plummer, the Executive Management team and all of OneSteel's employees for their dedication in servicing our clients and customers.

Peter Smedley
CHAIRMAN

Figure 1
OneSteel Total Shareholder Return

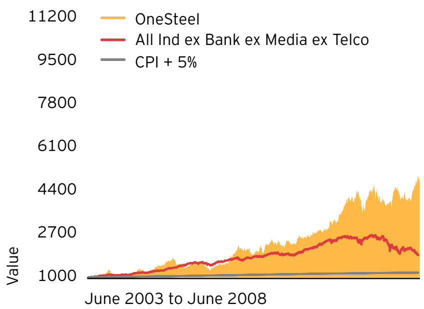
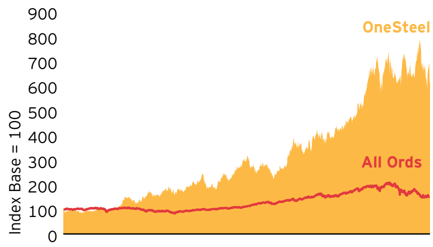


Figure 2
OneSteel Share Price versus All Ordinaries Share Index
Indexed, 23 October 2000 to 29 August 2008



Source: Bloomberg

Managing Director's review

Geoff Plummer, Managing Director and Chief Executive Officer

This year's operating profit performance was particularly pleasing as it was delivered against a backdrop of volatile global markets and increased competition as well as unprecedented price rises in steel and steelmaking input costs.

I'm pleased to present OneSteel's results for the 2008 financial year, one that included significant accomplishments by the company in unprecedented international and domestic market conditions.

OneSteel delivered a net operating profit of $315 million for the year, an increase of 59%, reflecting a solid operational performance and inclusion of the Smorgon Steel businesses from 20 August 2007. Earnings before interest, tax, depreciation and amortisation (EBITDA), excluding synergy benefits and costs associated with the Smorgon Steel merger, was $767 million, ahead of investment market expectations and at the upper end of our forecast range of $710 million to $780 million. The EBITDA forecast was provided to the investment market as guidance in November 2007, shortly after the merger.

The 2008 financial year was marked with significant milestones for OneSteel in both the completion of the merger with Smorgon Steel, and the realisation of additional iron ore sales and transition of the Whyalla Steelworks to magnetite feed through Project Magnet. Both initiatives have established a solid foundation for future growth.

This year's operating profit performance was also particularly pleasing as it was delivered against a backdrop of volatile global markets and increasing competition as well as unprecedented price rises in steel and steelmaking input costs.

INTEGRATING SMORGON STEEL

OneSteel made very good progress on the integration of the Smorgon Steel businesses and is well ahead of the initial target for synergy benefits in both time and quantum terms. Realised synergy benefits for the year were $41 million, well ahead of the $25 million target for the first year expected at the time the merger was announced. Corporate synergies were achieved early and major facilities rationalisations in the Pipe & Tube and Wire businesses were completed during the year. In February, we announced the closure of the Bar Mill in Newcastle, New South Wales, which will take effect in the first quarter of the 2009 calendar year.

We expect an additional $60 million in net cost synergies for the coming financial year, increasing to a run rate of $100 million by the start of the 2010 financial year.

Significant effort was also taken to improve the overall performance of our existing facilities including the upgrade of the Waratah plant in New South Wales and the investments in Contistretch and a new ferrous shredder in Tampa, Florida (USA), which has delivered solid returns during the year.

Through the integration process, we have increased our facilities footprint, which in turn has resulted in improvements to our supply capability for customers. The addition of the recycling business, including the integration in scrap steel for our three electric arc furnaces, has provided a favourable, partial offset in a period of dramatic increases in scrap prices. Despite the difficult environment, we expanded our downstream business and markets and focussed on customer and sales retention and keeping our skilled employee base.

PROJECT MAGNET

I'm also pleased to report the company delivered better than expected results on iron ore sales from Project Magnet. Iron ore sales were 4.4 million tonnes for the year, over and above the target of 4 million tonnes initially announced to the investment market. Significantly, the transition of the pellet plant and blast furnace to magnetite ore feed was also completed in the year resulting in significant environmental improvements for the Whyalla community, has freed rail infrastructure and is increasing our capacity to transport more hematite ore.

Project Magnet Phase 2 was announced in February this year and is focussing efforts in two areas. Firstly, work has commenced to increase iron ore sales above the 4 million tonnes a year target. Secondly, work is underway to identify and prove up iron ore reserves, which will support increased iron ore sales into the future.

The first stream of work, to increase iron ore sales beyond 4 million tonnes a year, focusses on improving operational and supply chain capability by reviewing the mining, handling, crushing and screening, rail, warehousing and barging operations.

The review of operational and supply chain capability addresses three questions. The first of these is a review of what can be done through optimising the existing facilities, processes and infrastructure. Secondly, we are addressing what can be achieved with quick and minimal capital expenditure or other operational changes. And finally, we are reviewing what a more fundamental change in investment terms may be capable of delivering.

The company has made significant progress on the first and second stages of work with the addition of key plant and equipment, including rolling stock and crushing and mining equipment.

The second stream of work on Project Magnet Phase 2, to identify and prove up iron ore reserves, involves three steps. Firstly, work is underway to optimise the existing mine plans, or re-evaluate existing mine data. Secondly, as a result of further geological work and drilling, we will look to extend existing mines. Finally, we will commence exploration of likely hematite targets. The initial mine planning reviews are largely complete and have resulted in an initial increase in hematite reserves of 13 million tonnes.

The company is confident of achieving an increase in iron ore sales of up to 5 million tonnes in the 2009 financial year and be at a run rate of 6 million tonnes per annum from start of the 2010 financial year.

MARKET ENVIRONMENT

Volatile international and domestic markets for steel during the year resulted in a dramatic change in conditions for OneSteel between the first and second halves of the 2008 financial year.

In the first half, the domestic steel market was significantly impacted by a high level of imports and a rapidly increasing Australian dollar. The company saw speculative buying of imported steel ahead of the merger between OneSteel and Smorgon Steel, resulting in some overstocking throughout the supply channel.

In the second half of the financial year, unprecedented cost increases in steelmaking raw materials drove international pricing higher, leading to a number of price increases for customers. International prices for coking coal increased more than 200%, iron ore rose more than 80%, and scrap prices doubled.

Despite volatile markets, OneSteel performed well, helped by the company's fully integrated model. OneSteel is one of few steel companies in the world that is backward integrated into recycling and iron ore for steel production. One of the features of the company's performance in the second half was that while margin performance was very difficult in downstream businesses due to input costs rising faster than steel prices, the recycling business was providing a partial offset against the impact of rising scrap costs. This was particularly pleasing because this offset was highlighted as a benefit in the strategic rationale for the merger with Smorgon Steel.

COMMITMENT TO SAFETY

OneSteel is committed to the occupational health and safety of our employees, contractors and customers. I am pleased to report that OneSteel's health and safety performance has improved considerably over the last five years. During the 2008 financial year we took additional steps to further improve our performance in this area including improving the implementation effectiveness of the existing comprehensive occupational health and safety program across all our businesses. The program covers safety structure and leadership, safety management systems, risk management and employee involvement which is integral in developing a safety culture. Despite our commitment and efforts to ensuring a healthy and safe employment environment, we regretfully experienced two fatalities in the year. We undertook extensive investigation in both instances to identify areas for improvement and prevention of another tragic reoccurrence.

PROPOSED CARBON EMISSIONS TRADING SCHEME

As a member of The Bureau of Steel Manufacturers of Australia (BOSMA), OneSteel has been actively involved in the Australian Federal Government's consultative process associated with its proposed introduction of the Carbon Pollution Reduction Scheme (CPRS). While acknowledging the Government's policy objectives in proposing the CPRS, we are concerned that the policy framework as currently proposed in its CPRS Green Paper, risks imposing substantial new costs on the Australian iron and steel industry that are not faced by our major international competitors. As an industry with a large proportion of our green house emissions fixed according to the volume of production, because of technical limits, the introduction of a CPRS is a key public policy issue currently facing the Australian iron and steel industry.

We have been pleased with the Federal Government and departmental access granted to BOSMA to date, and are continuing to engage through the consultative process as well as with state governments and other stakeholders on this very important matter.

OUTLOOK FOR THE 2009 FINANCIAL YEAR

Looking ahead, the outlook for our key domestic market segments remains positive. The heavy end of construction, including engineering and infrastructure construction, resources and to a lesser extent non-residential construction, continue to be solid going into the 2009 financial year. Other segments that the business sells into, including manufacturing, residential and rural, have been weak, and we expect this position to continue.

We expect international markets, prices and input costs to continue to be volatile, but prices and input costs to generally be at high levels by historical standards.

Management's focus over the coming year will be to continue improving returns across each of our business segments, maximising the benefits from Project Magnet and pursuing opportunities in Project Magnet Phase 2, and continuing to effectively integrate the Smorgon Steel businesses and achieve net cost synergies for the 2009 financial year of $60 million.

On behalf of OneSteel's management team, I would like to extend my thanks to all of our employees for their contribution and effort during the year. I would also like to thank our customers for their support during very volatile times and I would like to thank our shareholders for their ongoing support and investment in the OneSteel business. Lastly, I would like to extend my personal thanks to the Chairman and OneSteel's Board of Directors for their guidance and support during the previous year.

Geoff Plummer
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

Strategic framework scorecard

IMPROVE RETURNS FROM EXISTING BUSINESSES

- Operating EBITDA $808 million, up 85%
- Operating EBITDA excluding synergy benefits and restructuring costs $767 million
- Net operating profit up 59% to $315 million (excluding restructuring costs)
- Sales margin increased to 8.2% from 7.9%
- Return on funds employed increased to 15.2% from 14.6%
- Return on equity increased to 12.6% from 13.3%
- Operating earnings per share increased to 36.0 cents from 34.5 cents
- The results for the year include the Smorgon Steel businesses from 20 August 2007
- The key financial measure the company focussed on in this year's result was EBITDA adjusted for the costs and benefits of synergies associated with the Smorgon Steel merger. The result for this measure ($767 million) was at the upper end of guidance given to the investment market, and was particularly pleasing given that: 1) the guidance was provided shortly after acquiring Smorgon Steel; 2) it incorporated a disappointing first half performance; and 3) there were unprecedented changes in market conditions including dramatic increases in input costs and prices in the second half
- Dividend per share increased to 21.5 cents from 18.5 cents
- There was improvement in most other key ratios for the year.

CASH GENERATION

- Operating cash flow increased to $351 million from $276 million
- Free cash flow of $44 million
- Financial gearing (net debt to net debt plus equity) excluding derivatives of 36%
- Cash generation was significantly impacted by the inflationary effect on working capital from rapidly increasing input costs. The inflationary impact was estimated to be between $240-$290 million at year-end. The company is confident that the increase in working capital represents an appropriate investment to support its customer service objectives
- Despite the inflationary impact of increased input costs on net debt, financial gearing was comfortably within the company's target range of 30% to 40%.

GROWING AND DIVERSIFYING EARNINGS

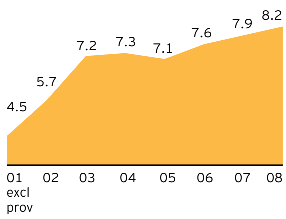
- Project Magnet delivered significant benefits through increased iron ore sales and improved operational capability
- Transitioned the pellet plant to magnetite ore feed and cut over the blast furnace to pellets from the magnetite feed in February 2007
- Hematite iron ore sales of 4.4 million tonnes for the year, above the target of 4 million tonnes. Additional sales of 500 thousand tonnes of by-products
- Project Magnet Phase 2 was commenced to further increase iron ore sales above 4 million tonnes per annum and to identify and prove up increased iron ore reserves
- Project Magnet Phase 2 is expected to achieve an increase in mining sales to 5 million tonnes in 2009 financial year, increasing to a rate of 6 million tonnes per annum by start of the 2010 financial year. Initial work has also resulted in a 13 million tonne increase in hematite reserves. The project involves further work to assess increasing mining sales above 6 million tonnes per annum including reviewing all operational and supply chain aspects including mining, handling, crushing and screening, rail, warehousing and barging. The project also includes extension drilling and exploration of likely hematite targets to further increase reserves and resources
- The merger between OneSteel and Smorgon Steel was completed on 20 August 2007 and successfully integrated during the year
- The new integrated business model following the merger with Smorgon Steel performed well in a volatile domestic and international market. The wider product range helped lift the quality of OneSteel's earnings, in particular the Recycling business helped provide a favourable, partial offset against rapidly rising scrap prices in the second half of the 2008 financial year. The integration has tracked well with the major facilities reconfigurations complete and synergy benefits ahead of initial targets. The businesses have successfully retained customers and skilled personnel.

BUILDING ORGANISATIONAL CAPABILITY

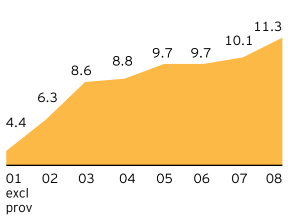
- Capability in the key strategic initiatives of customer and market insight, supply chain transformation and operational excellence was strengthened during the year through initiatives such as SIX SIGMA and Lean manufacturing, strategic acquisition of skills from the external labour market and targeted projects
- Increased investment in development of key skills and leadership capability
- Numerous development programs, individualised coaching and targeted development planning have been implemented to grow leadership and management capability and talent and succession management plans have been developed and implemented across the business to grow future leaders
- Increased investment was made in the development of skills for the future with over 100 apprentices and more than 80 cadets and graduates being recruited across the business. There was also increased investment in scholarships, vacation work, internal development programs and traineeships
- Organisation and role design processes have been applied across the business to effectively structure roles and to improve the clarity of accountability and required "level of work" for roles.

1. The 2008 EBIT excludes the impact of restructuring costs and impairment of plant and equipment associated with the integration of the Smorgon Steel Group and Australian Tube Mills businesses of $94.1m. The results for Smorgon Steel have been included from 20 August 2007 only.
2. Based on the average of opening and closing total assets, equity and funds employed respectively.
3. The 2008 results exclude the impact of restructuring costs and impairment of plant and equipment associated with the integration of the Smorgon Steel Group and Australian Tube Mills businesses of $70.1m after tax. The results for Smorgon Steel have been included from 20 August 2007 only.
4. Net debt included in funds employed and gearing includes the fair value of derivatives designated as hedge instruments of interest bearing liabilities.
5. Based on year end shares
6. Based on net operating profit of $315m.

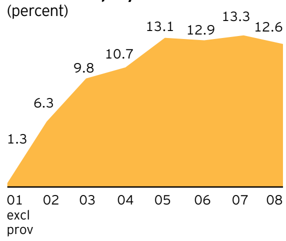
Sales Margin[1]
(percent)



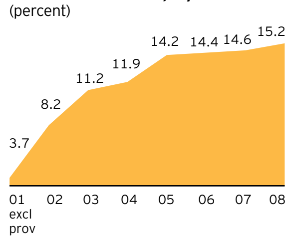
Return on Assets[1,2]
(percent)



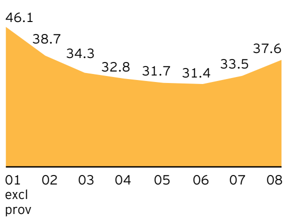
Return on Equity[2,3]
(percent)



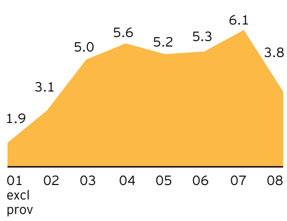
Return on Funds Employed[2,3,4]
(percent)



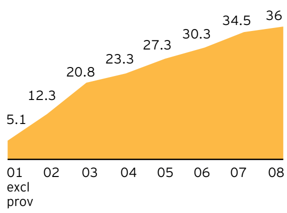
Gearing Ratio[4]
(percent)



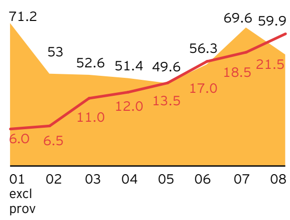
Interest Cover[1]
(times)



Earnings per Share[3,5]
(cents)



Dividends (cents) **and**
Payout Ratios[6] (percent)



OneSteel management

ONESTEEL LIMITED MANAGEMENT STRUCTURE

GEOFF PLUMMER
Managing Director and Chief Executive Officer

OPERATIONS

TONY COMBE
Executive GM Distribution

DISTRIBUTION
- 55 Metaland sites
- 11 Piping Systems sites
- 11 Sheet, Coil & Aluminium sites
- 16 Midalia Steel sites
- 13 Steel and Tube sites
- 5 Fagersta sites
- Coil Coaters
- Oil & Gas Pipe Mill
- Precision Tube Mills

MARK PARRY
Executive GM Whyalla Steelworks

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

CHRIS KEAST
Executive GM Rod, Bar & Wire

ROD, BAR & WIRE
- Rod Mills
- Bar Mills
- Wire Mills
- Wire Ropes
- Supply Chain Transformation

LEO SELLECK
Executive GM EAFs & Technology

- Laverton EAF Meltshop
- Sydney Steel Mill EAF Meltshop
- Waratah Steel Mill
- Operational excellence
- Environment

STEVE HAMER
Executive GM Steel-in-Concrete

STEEL-IN-CONCRETE
- ARC – The Australian Reinforcing Company
- OneSteel Reinforcing

RICK JANSEN
Chief Executive Officer Recycling

RECYCLING
- 56 physical sites in nine countries
- Trading offices in six countries

ANDREW ROBERTS
Executive GM Marketing

- Strategic marketing
- Australian Tube Mills
- Global Grinding Media
- Rail & Forge
- LiteSteel™ Technologies
- ASI distribution channel

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

TONY REEVES
Chief Financial Officer

BILL GATELY
Corporate GM Human Resources & OHS

STEVE ASHE
GM Investor Relations & External Affairs

MICHAEL DINES
Corporate GM Information Systems

SHARYN PAGE
Company Secretary

TONY COMBE[1]
BBus (Mktg)
Executive GM Distribution
Age 46. Mr Combe joined OneSteel in February 2006 as Executive GM – Distribution. Prior to this, Mr Combe spent 20 years with global consumer packaging company Huhtamaki where he held various marketing and general management positions in Australia, Spain and Belgium. For the last five years he was Executive Vice President for the regional business in the Asia, Oceania and Africa.

LEO SELLECK[2]
BSc
Executive GM EAFs Technology
Age 59. Mr Selleck has had 36 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 and then Project Magnet.

CHRIS KEAST[3]
BComm
Executive GM Rod, Bar & Wire
Age 47. 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.

MARK PARRY[4]
BComm
Executive GM Whyalla Steelworks
Age 46. 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.

ANDREW ROBERTS[5]
BComm
Executive GM Marketing
Age 41. 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 Manufacturing, Materials, Steel-in-Concrete and Distribution businesses.

STEVE HAMER[6]
Executive GM Steel-in-Concrete
Age 51. Mr Hamer was appointed Executive GM Steel-in-Concrete in August 2007. Mr Hamer has spent his career in the Australian steel industry in a range of technical, functional and business management positions. In his previous role, Mr Hamer was responsible for OneSteel's Reinforcing business.

RICK JANSEN[7]
CEO Recycling
Age 52. Mr Jansen joined OneSteel from Smorgon Steel Recyclers. Prior to the SSR appointment, he held various senior management roles with Sims Group from Trading Manager to Executive GM in the Australian business and the last seven years in the USA as President Sims Metal America and, more recently, as CEO Sims Hugo Neu. He has 35 years industry experience.

NICK CALAVRIAS[8]
CEO and Non-independent Director – Steel & Tube Holdings Limited
Age 59. Mr Calavrias was appointed a director in September 1990 and Chief Executive Officer in July 1991. He is a director of all the group's subsidiary companies. External positions include, director of Rangatira Ltd, Chairman of Contract Resources Ltd, Vice Chair of the NZ Business Roundtable, member of the Institute of Directors and a fellow of the NZ Institute of Management.

TONY REEVES[9]
BEc, MComm, FCPA, FTA
Chief Financial Officer
Age 53. Mr Reeves joined OneSteel in October 2001, responsible for accounting, tax, risk management, treasury, business planning, legal, company secretarial and strategic sourcing. Mr Reeves is a director of Steel & Tube Holdings Ltd. 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[10]
BEc
Corporate GM Human Resources & OHS
Age 47. 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.

STEVE ASHE[11]
BBus, ACA
GM Investor Relations & External Affairs
Age 48. Mr Ashe was appointed GM of Investor Relations & External Affairs in June 2008. Prior to this Mr Ashe spent the last eight years with James Hardie, initially as Vice President Public Affairs and then Vice President Investor Relations, a position he held for seven years. Preceding James Hardie, Mr Ashe spent 16 years with PricewaterhouseCoopers in various roles including accounting, taxation, business advice and regulatory affairs. He has a Business degree from the Sydney University of Technology and is a member of the Australian Institute of Chartered Accountants.

MICHAEL DINES[12]
Dip AirEng (Avionics)
Corporate GM Information Systems
Age 46. Mr Dines joined OneSteel from BHP where since 1990 his career spanned many operational and management areas focussing 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.

SHARYN PAGE[13]
BA LLB, ACIS, AACI
Company Secretary
Age 45. Ms Page joined OneSteel in July 2008, following the retirement of John Krenich who was Company Secretary from May 2002 to August 2008. She was appointed Company Secretary on 19 August 2008. Prior to this, Sharyn worked for 21 years in the financial services industry in a variety of legal, compliance and company secretariat roles. Sharyn held the positions of Board Executive and Company Secretary at AMP from 2005 to 2008 and was AMP's Assistant Company Secretary from 2003 to 2005.

Operational overview

The 2008 financial year was all about the transformation of OneSteel. Project Magnet and the merger of Smorgon Steel have changed OneSteel into a fully integrated iron ore mining, steel manufacturing and recycling company. The integration of those businesses combined with increased iron ore production, as a result of Project Magnet, have increased OneSteel's global reach.

BUSINESS SEGMENTS

MATERIALS	MANUFACTURING	DISTRIBUTION	INTERNATIONAL DISTRIBUTION
Iron ore mines Iron ore lump Iron ore fines Pellets Ore by-products **Dolomite mines** **Australian Recycling** **International Recycling**	**Whyalla Steelworks** Structural Rolling Mills Rail Products Facilities Slabs & Billets Steelmaking by-products (e.g. coke) **Laverton Steel Mill** Electric Arc Furnace Laverton Rolling Mills **Sydney Steel Mill** Electric Arc Furnace Sydney Bar Mill **Waratah Steel Mill** Electric Arc Furnace Bar Mill Rail and Forge Grinding Media **Newcastle Rod & Bar Mills** Rod Mill Bar Mill **Wire Mills** Newcastle Wire Mill Geelong Wire Mill Wire Ropery	**Merchandising** Metaland Piping Systems Sheet, Coil & Aluminium Midalia Steel Steel and Tube Fagersta **Coil Coaters** **Pipe & Tube Mills** Oil & Gas Pipe Mill Precision Tube Mills Structural Tube Mills **LiteSteel™ Technologies** **ARC – Australian Reinforcing Company**	**Steel & Tube Holdings (NZ)** (50.3% shareholding) **Merchandising** Steel Distribution & Processing Roofing Products & Reinforcing Piping Systems Fastening Systems Chain & Rigging Stainless steel Hurricane Wire Products

A FULLY INTEGRATED BUSINESS

OneSteel's fully integrated business model and broad range of products, services and capabilities sets it apart from most steel companies in the world which tend to be only manufacturers of steel. Our ability to source iron ore from our mines, collect scrap from our recycling sites and distribute products through our own distribution network means that we can retain value in the manufacturing process, are less reliant on suppliers and ultimately can be more competitive in the marketplace.

A YEAR OF UNPRECEDENTED CHANGE

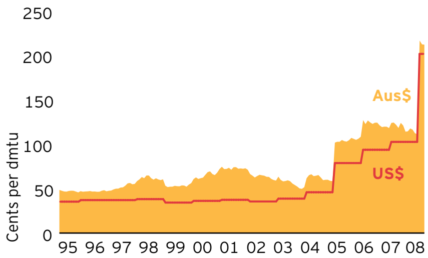
The following graphs illustrate the trend in some of the major drivers in OneSteel's business including prices of international steel, key inputs into steel making, and the volume of steel imports into Australia. OneSteel's major manufacturing and distribution sites are mapped on page 23.

IRON ORE PRICE

OneSteel has high-quality iron ore reserves in South Australia. In the 2008 financial year, OneSteel exported more than 4 million tonnes of hematite iron ore, a direct result of Project Magnet.

Figure 3 shows international movement in iron ore prices in both US and Australian dollars, which highlights the 96% increase in lump prices to Japan in April 2008. Iron ore prices as revenue associated with iron ore exports and the cost-base of international steel manufacturers on international steel prices, are key drivers of OneSteel's overall performance.

Figure 3
Iron Ore Price
Japan Contract Hamersley Lump fob
July 1995 to June 2008

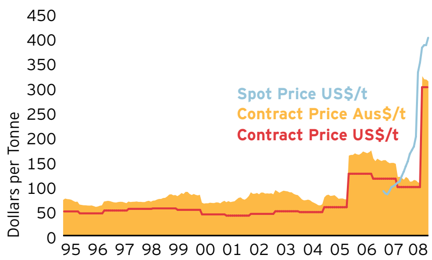


Source: SBB

COKING COAL PRICE

Figure 4 shows the international movement in contract coking coal prices in US and Australian dollars. Whyalla Steelworks uses coking coal in the manufacturing process to make iron. OneSteel purchases approximately one million tonnes of coking coal per annum. The graph illustrates that coking coal contract prices increased by more than 200% in April 2008. These prices will be in effect until March 2009. Key drivers for the substantial increase in coking coal prices were short-term supply shortages associated with floods in the QLD Bowen Basin and fundamental shifts in the supply-demand balance for hard coking coal.

Figure 4
Hard Coking Coal Price
July 1995 to July 2008



Source: CRU

SCRAP PRICE

Figure 5 shows prices for scrap steel in US and Australian dollars. OneSteel uses approximately two million tonnes per annum of externally sourced scrap feed for its steel manufacturing operations in Whyalla, Sydney, Laverton and Waratah Steel Mills.

The 2008 financial year saw dramatic increases in the internationally traded prices for steel scrap to which Australian prices for scrap are linked. The benchmark price for scrap in US dollar terms increased by over 100% in the period from July 2007 to June 2008.

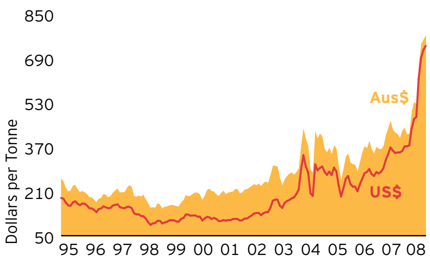
LONG PRODUCTS INTERNATIONAL PRICES

Figure 6 highlights the dramatic increases in international benchmark Structurals, Merchant Bar, Reinforcing Bar and Wire Rod prices from January 2008. The key segments for these products are residential, non-residential and engineering construction. The graph is in US dollars and highlights an increase of approximately 60% in benchmark prices since January 2008. 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. Benchmark prices have increased approximately 60% since January 08.

PRICES FOR STEEL RESIDENTIAL CONSTRUCTION MATERIALS

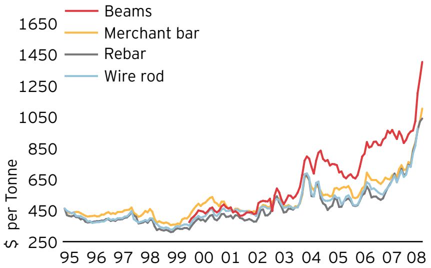
This graph represents prices of steel products used in Australian residential construction as measured against an index. OneSteel produces structural steel and reinforcing products. The rise in steel prices depicted in Figure 7 reflects strong international demand for steel, influenced by sharply increasing prices for key steelmaking inputs such as scrap steel, iron ore and coking coal.

Figure 5
Scrap Price (Asian)
July 1995 to June 2008



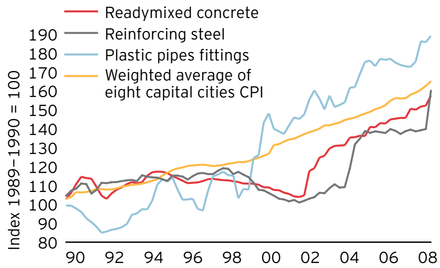
Source: TEX Report

Figure 6
Long Products International Prices
July 1995 to June 2008



Source: CRU (Merchant Bar, Rebar, LC Rod), SBB (Beams)

Figure 7
Prices for Steel Residential Construction Materials
June quarter 1990 to June quarter 2008



Source: ABS

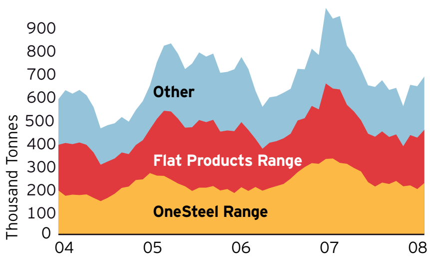
IMPORT VOLUMES OF STEEL INTO AUSTRALIA

Import volumes of steel into Australia continued to grow in the first half of the 2008 financial year. However, the second half of the financial year saw a significant shift in the price and availability of steel imports into Australia, and steel demand and raw material costs substantially increased. This is reflected in Figure 8.

HOT ROLLED COIL (HRC)

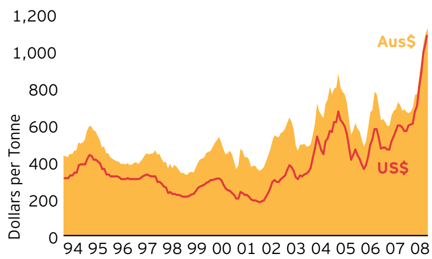
Figure 9 represents prices in US and Australian dollars for HRC, a major semi-finished steel flat product that is used primarily by OneSteel in the manufacture of pipe and tube. OneSteel is a substantial purchaser of Hot and Cold Rolled Coil (approximately 600,000 tonnes per annum), a position that has increased post-merger with Smorgon Steel. The 2008 financial year saw a substantial escalation in international prices of HRC. Benchmark US dollar prices increased by approximately 78% in the period from July 2007 to June 2008. OneSteel expects that HRC pricing will continue to be volatile in 2008/2009.

Figure 8
Steel Imports Into Australia
January 2004 to June 2008



Source: ABS and OneSteel data 3-month moving average

Figure 9
Hot Rolled Coil Price-Far East Imports non-CIS c&f South China
April 1994 to June 2008



Source: CRU

Project Magnet

PROJECT MAGNET

Project Magnet, the commercialisation of OneSteel's magnetite ore reserves for producing steel and the maximisation of the sale of hematite ore to global markets, has been a five-year project for the company. Project Magnet is one of the biggest developments in OneSteel's history and has delivered a number of successes.

Ultimately, Project Magnet has extended the life of the Whyalla Steelworks until 2027 and enabled OneSteel to increase hematite iron ore exports to more than 4 million tonnes per annum.

During the 2008 financial year, OneSteel delivered a number of achievements on Project Magnet including the transition of the pellet plant and blast furnace to magnetite-based feed. This extends the life of the steelworks and enables OneSteel's hematite ore to be available for sale. At the Whyalla Steelworks, OneSteel began exports to four long-term iron ore customers in China. Total hematite iron ore exports reached 4.4 million tonnes, well ahead of the company's 4 million tonnes target.

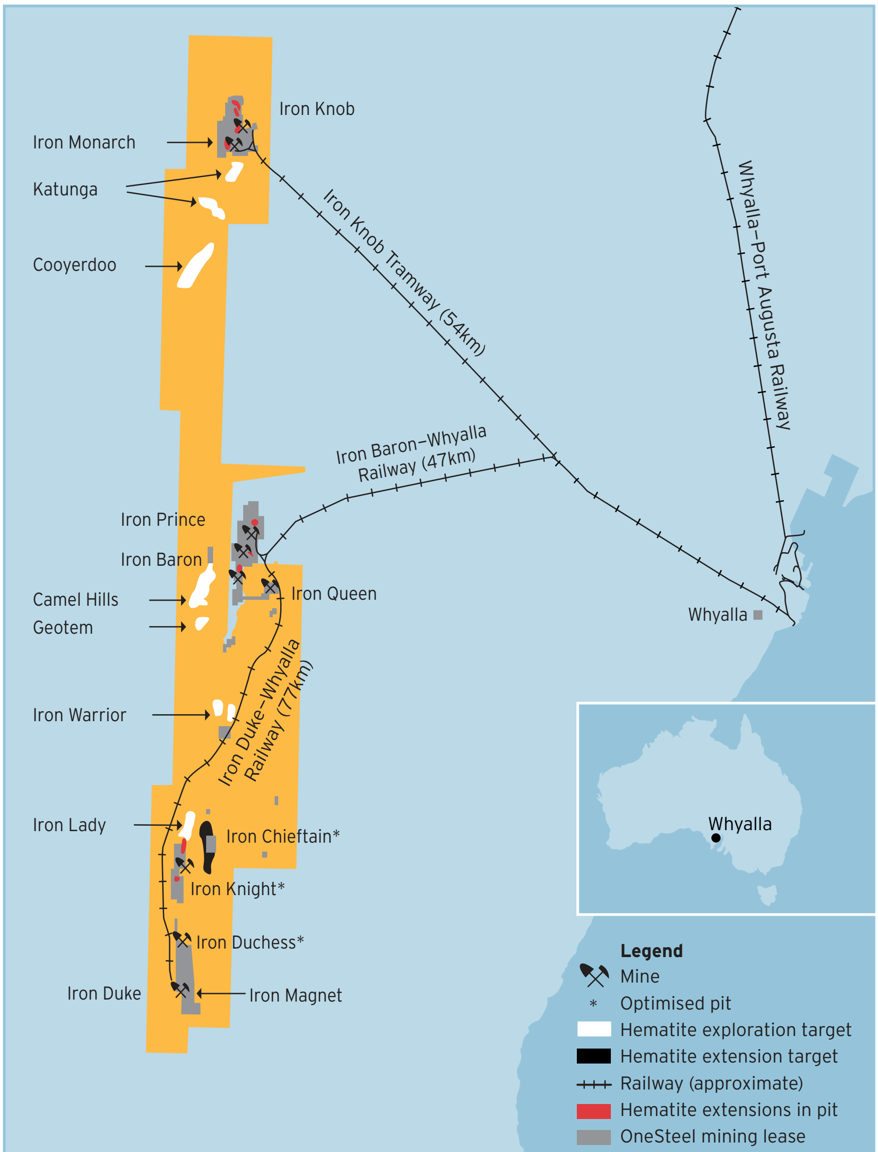
In February 2008, OneSteel announced that work was underway to further increase iron ore sales above 4 million tonnes per annum and to identify and prove up increased iron ore reserves. We call this additional work, Project Magnet Phase 2.

PROJECT MAGNET PHASE 2

The first stream of Project Magnet Phase 2 is aimed at increasing sales of iron ore through improvements to OneSteel's operational and supply chain capability including a review of all mining, handling, crushing and screening, rail, warehousing and barging operations. We have also incorporated additional plant and equipment including rolling stock and crushing and mining equipment. We expect the outcome of this first stream of work to result in an increase in OneSteel's iron ore sales to 6 million tonnes per annum from the start of the 2010 financial year.

The second stream of Project Magnet Phase 2 is a two-year program that includes three steps. The first involves updating mine plans. Significant progress has been made on this front, resulting in a further 13 million tonnes of hematite being added to OneSteel's reserves.

The second and third steps include actively pursuing mine extension and exploration work. The mine extension and exploration work has commenced and will continue to ramp up during the year with initial focus being on extension drilling work.



OneSteel's Exploration and Mining Leases
Middleback Ranges, South Australia

Future benefits

Project Magnet has extended the life of OneSteel's Whyalla Steelworks to 2027.

Project Magnet is expected to enable further increases in iron ore exports from 4 million tonnes per annum to 5 million tonnes for the 2009 financial year. Initial progress with Project Magnet Phase 2 supports a further extension of iron ore exports to a rate of 6 million tonnes per annum by the start of the 2010 financial year.

Project Magnet is ultimately expected to enable OneSteel to increase steel production to approximately 1.3 million tonnes a year and to also facilitate pellet exports of up to approximately 200,000 tonnes per annum.

Project Magnet continues to create employment opportunities through ongoing efforts to increase the skills of existing employees and also introduce cadetships and a graduate program over the next five years.

Environmental benefits

The transition of the Whyalla Steelworks under Project Magnet to magnetite feed, has changed the iron ore pellet process from a dry to a wet process. Magnetite ore is pumped via a slurry pipeline from the mine to the steelworks and results in benefits to the Whyalla community by reducing the level of fugitive dust emissions.

Project Magnet has also fostered the use of covered facilities for loading iron ore and the relocation of the crushing and screening area to the mine site, which has resulted in further improvements in environmental conditions for Whyalla.

Under Project Magnet, a transshipping service has been introduced to avoid major dredging of the Whyalla Port and a new fleet of high-sided wagons has been put into service.

The benefits from Project Magnet play an important part in enhancing the sustainable competitiveness of both the Whyalla Steelworks and OneSteel as a whole.

Smorgon Steel Integration

SMORGON STEEL INTEGRATION

In August 2007, Smorgon Steel was merged with OneSteel. The new OneSteel business is one of the leading manufacturers and distributors of steel and metal products in Australasia with leading market positions.

The merged business, with integration downstream into the marketplace but also upstream into iron ore and scrap, provides a powerful and unique business model for a global materials, steel manufacturing and distribution company. Today's OneSteel has a better quality of earnings and growth potential to add significant value for shareholders into the future.

OneSteel recorded $41 million of net synergy benefits in the 2008 financial year following the integration of the Smorgon Steel businesses, well ahead of the $25 million target expected at the time the merger was announced. Net cost synergies are expected to be $60 million for the 2009 financial year. Cost synergies are expected to reach a run rate of $100 million by commencement of the 2010 financial year.

In the first year of integrating the Smorgon Steel businesses, synergy benefits have come from Corporate synergies, which were achieved early, as well as major facilities rationalisation at the Australian Tube Mills and Wire business. Additionally, we are well progressed with the rationalisation of bar mills including the scheduled closure of the Newcastle Bar Mill in the first quarter of the 2009 financial year.

In addition to the rationalisation benefits, OneSteel has been able to derive benefits from the merger with Smorgon Steel in other areas of supply chain, information technology and information systems, and procurement.

Despite the environment for the first year of integration being one of dynamic and volatile supply and price conditions, we successfully focussed on retaining customers and sales. Shorter supply chains, our increased footprint with facilities closer to the market, and our expanded product and service offers were all factors in the success. We were also able to retain skilled people in the organisation to service our customers.

The addition of key Smorgon Steel businesses such as Recycling, also provide opportunities of a partial offset in a period of dramatic scrap price increases. The Rail & Forge and Grinding Media businesses that OneSteel gained as a result of the merger service the strong and growing engineering and mining market segments. These businesses provide OneSteel with strong market positions in the segments they supply to in both their Australian and international operations and supply chains.

	MATERIALS	MANUFACTURING		DISTRIBUTION	INTERNATIONAL DISTRIBUTION	END MARKET PRODUCT
OneSteel	IRON ORE BUSINESS (Magnetite & Hematite)	• Whyalla Steelworks (SA) • Sydney Steel Mill (EAF), (NSW)	• Whyalla Structural Mill (SA) • Newcastle Rod & Bar Mills (NSW) Sydney • Rod & Bar Mills (NSW) • Geelong Wire Mill (VIC)	• Steel & Tube • Metaland • Piping Systems • Sheet Coil & Aluminium • Fagersta • Reinforcing (retail) • Precision Tube Mills • Structural Tube Mills • Oil and Gas Pipe Mill	• Steel & Tube Holdings (NZ) 50.3% shareholding	• Slab • Structurals • Rails & sleepers • Mebar, manufacturing rod & bar rounds • Precision pipe & tube • Line pipe, fittings & valves • Distribution flat sheet (sheet, coil & plate) • Distributed aluminium & specialty steels • Rebar & mesh • Rural & manufacturers wire • Wire ropes & bright bar • Stainless steel • Hurricane wire
Smorgon Steel	RECYCLING BUSINESS (Ferrous & Non-ferrous)	• Laverton Steel Mill (EAF), (VIC) • Waratah Steel Mill (EAF), (NSW)	• Laverton Rod & Bar Mill (VIC) • Waratah Bar Mill (NSW) • Laverton Wire Mill (VIC) • Wire Mill Jindera (NSW) • Rail wheel & forge products • Grinding media (mining)	• Reinforcing (retail) • Coil Coaters • LiteSteel™ Technologies • Brisbane (Acacia Ridge) Pipe & Tube (QLD)		• Rail wagon wheels • Grinding media • LiteSteel™ beam • Cyclone wire products • Structural pipe & tube • Forged products
	RAW MATERIAL SUPPLY	STEEL MAKING	CONVERSION MILLS	PROCESSING & DISTRIBUTION		MANUFACTURE & MARKET BROAD RANGE OF METAL PRODUCTS & SERVICES

ONESTEEL'S VALUE CHAIN

Segment summary

The 2008 financial year was marked by significant transformation for OneSteel. It was a year in which the company focussed on the integration of Smorgon Steel and the completion of the first phase of Project Magnet, initiatives which have laid the foundation for the future growth of the company. It was also a year which saw scrap prices and steelmaking input costs reach historic highs as global demand for raw materials increased dramatically.

MATERIALS

	2008 $m
Revenue	2,039.3
EBITDA	321
EBIT	296.9
Assets	1,577.6
Employees	1,279
Sales Margin	14.6%
Funds Employed	1,224.9
Return on Funds Employed	24.2%

Market conditions
Demand for iron ore remained strong driven by international steel output. Tightness in supply and increased freight prices led to higher spot and contract prices. Global demand for ferrous scrap inputs and increased raw steel costs drove prices to record highs. Non-ferrous markets improved.

Performance
Recycling volumes were strong. Ferrous margins improved on higher prices. Non-ferrous margins recovered. Iron ore sales increased ahead of ramp-up of the hematite supply chain. Sales commenced to four long-term iron ore contracts.

Initiatives
Project Magnet Phase 2: Work to optimise the hematite supply chain and further increase iron ore sales capacity commenced. Benefits expected by the 2010 financial year. Work started on increasing iron ore reserves and resources. Investment in a ferrous shredder in Tampa, Florida (USA) was commissioned and is performing better than expectations.

Outlook
Global ferrous prices have corrected since the 2008 financial year end but are expected to recover by the end of the 2009 financial year while non-ferrous prices are expected to remain volatile. Volumes are expected to remain strong with high prices attracting more marginal tonnes into the collection pool. The outlook for iron ore prices is positive and above historical levels given the strong demand.

MANUFACTURING

	2008 $m	2007 $m	% change
Revenue	3,083.4	2,155.7	43
EBITDA	301.9	216.4	39.5
EBIT	215.4	158.3	36.1
Assets	3,082.5	1,968.7	56.6
Employees	4,408	3,346	31.7
Sales Margin	7.0%	7.3%	
Funds Employed	2,420.9	1,427.2	69.6
Return on Funds Employed	11.2%	11.1%	

Market conditions
High demand in the construction and mining sectors and improvement in the rural sector offset a flat performance in manufacturing and residential construction. Scrap prices and steel making costs reached historic highs as global demand for raw materials increased.

Performance
The business focussed on recovering cost through price increases. Synergy benefits realised from an integrated OneSteel and Smorgon Steel included effective capital management and lower cost base from a combined supply chain and reconfiguring operations.

Whyalla Steelworks: Output was 1.15 million tonnes. High inventory and increased imports affected performance. Price increases were implemented to offset rising costs. Structural product sales were stronger. **Laverton and Sydney Electric Arc Furnace:** Production rates were at or near record levels with despatches and higher prices offset by higher costs. **Rod, Bar and Wire:** Despatches were strong due to growth in construction and mining. **Grinding Media** sales were buoyed by the resources sector. Strong demand in **Rail and Forge** was due to strong mining and resources activity.

Outlook
Solid demand expected in engineering and infrastructure, construction and resources. Domestic manufacturing and residential construction are expected to be weaker. International resources markets are expected to remain strong.

DISTRIBUTION

	2008 $m	2007 $m	% change
Revenue	3,390.8	2,393.4	41.7
EBITDA	215.4	202.1	6.6
EBIT	166.3	173.1	−3.9
Assets	2,789.8	1,222.0	128.3
Employees	4,623	2,946	56.9
Sales Margin	4.9%	7.2%	
Funds Employed	2,143.4	820.5	161.2
Return on Funds Employed	11.2%	21.1%	

Market conditions
Imports affected margins across all businesses. Steel prices increased and margins improved in the second half in response to better market conditions. Full margin recovery was delayed by the number of cost increases.

Performance
Lower margins due to import competition but improved in the second half as market conditions improved. Sales margin was affected by the change in the mix of businesses and delays in recovering cost increases.

Metaland sales margins were flat due to increased imports and declining sales but were offset by volume increases in mining. Sheet, Coil & Aluminium volumes eased as manufacturing slowed but prices and revenue were higher. Steel & Tube volumes slowed from delays in projects but price and margins improved later. Piping System Sales slowed due to timing gaps between completion and commencement of projects. Pipe & Tube sales margins tightened on increased imports. Reinforcing was solid with engineering construction, mining infrastructure and non-residential construction strong. Australian Tube Mills were impacted by the rising cost of Hot Rolled Coil and continuing strong import competition.

Outlook
Strong activity in resources, infrastructure, engineering and construction is expected to continue until at least mid 2009, domestic manufacturing and residential construction is expected to remain weak.

INTERNATIONAL DISTRIBUTION

	2008 $m	2007 $m	% change
Revenue	435.7	405.2	7.5
EBITDA	39.0	45.9	−15
EBIT	33.8	40.6	−16.7
Assets	208.6	222.6	−6.3
Employees	834	881	−5.3
Sales Margin	7.8%	10%	
Funds Employed	176.5	186.6	−5.4
Return on Funds Employed	18.6%	24.4%	

Market conditions
Economic growth eased in late 2007/2008. The construction, manufacturing and rural segments were all impacted by high interest rates, exchange rate volatility, and reduced growth in consumer spending.

The construction sector faced further challenges with the collapse of a number of finance companies triggered by the fall in global credit markets. Some commercial and residential housing projects were affected by higher interest costs and tighter lending conditions. Recovery has been slow in this environment and margins have eased as a result of the increased cost of doing business.

Performance
Distribution sales revenue increased 8%. Infrastructure projects and commercial building activity also increased. The volume of building products consumed was lower in the year. Manufacturing was also affected by economic conditions. Roofing and reinforcing operations posted solid results.

Outlook
The New Zealand economy is expected to be in or near recession for the rest of 2008. Residential housing activity is expected to decline, but commercial construction and infrastructure are expected to improve.

Materials

Exploration geologist reviewing a high-grade hematite sample from an exploration area in the Southern Middleback Ranges of Whyalla (SA).

The primary function of OneSteel's Materials business is to supply steelmaking raw materials to domestic and international steel mills. The Materials business includes OneSteel's mining activities in Whyalla, South Australia and the Australian and International recycling operations acquired with Smorgon Steel.

IRON ORE

A key competitive advantage for OneSteel is its iron ore mines. OneSteel's integrated steelworks at Whyalla produces 1.2 million tonnes of steel per annum from iron ore sourced from OneSteel's mines located in the Middleback Ranges, approximately 60 kilometres from Whyalla, South Australia. As a result of Project Magnet, the steelworks now uses magnetite iron ore feed and hematite iron ore is sold externally, resulting in a significant additional revenue stream for the company.

The market

Shipments against four long-term iron ore contracts commenced during the year and shipments were also sold at spot rates. The outlook for iron ore continues to be positive and above historical levels.

Performance

Ramp-up and optimisation of equipment and facilities associated with processing iron ore ran on track with a total of 4.4 million tonnes of ore sales achieved against a backdrop of strong demand for iron ore that continues to support the strength in spot prices. Equipment and operations associated with the processing of magnetite iron ore were also commissioned.

Developments

Project Magnet capital works were finalised and the ramp-up of the hematite export stream continued. Commissioning and ramp-up of the magnetite stream also progressed. Work is underway to identify and prove up increased iron ore reserves and investigations have commenced into opportunities to increase ore sales above the 4 million tonnes per annum target.

RECYCLING (AUSTRALIA AND INTERNATIONAL)

Market activity in the Recycling business was very strong during the 2008 financial year driven by global demand for scrap metal and an increase in steel raw material costs, including iron ore and coal. OneSteel's Recycling business has been a solid contributor to the Materials segment and plays an important role in OneSteel's integrated model as it provides a partial offset in an environment of unprecedented rising costs.

The business

Recycling operates in 13 countries through a combination of physical operations and trading offices. The business recycles over 2.2 million tonnes of ferrous and non-ferrous metals a year. Recyclable material is sourced from the rural, mining, demolition and manufacturing industries and the general public. Within Australia, the Recycling business operates from over 30 locations including six ferrous shredder production facilities. OneSteel's Asian non-ferrous business operates in four countries and performs the group's non-ferrous trading function. Recycling operations in the United States consist of seven locations in the East including a ferrous shredder in Tampa, Florida that became operational in March 2008.

The market

The ferrous market was especially strong during the year with global prices at record highs. Market activity was driven by strong demand for scrap metal and the increase in steel raw material costs, including iron ore and coal. Global ferrous prices are likely to stay relatively high with non-ferrous prices expected to remain volatile. Overall, the market continues to fluctuate, requiring tight inventory and margin control.

Performance

Recycling volumes were strong during the year with record intake. Ferrous margins were also significantly improved on the back of the increased sell price and non-ferrous margins continued to improve from the correction earlier in the year. The operations in the United States were also strong contributors to the result with solid growth in the ferrous business.

Developments

The ferrous shredder operations in Tampa, Florida are performing at or better than target for all key indicators and are expected to continue to enhance future returns for the Materials business.

MATERIALS

	2008 $m
Revenue	2,039.3
EBITDA	321.0
EBIT	296.9
Assets	1,577.6
Employees	1,279
Sales Margin	14.6%
Funds Employed	1,224.9
Return on Average Funds Employed	24.2%
Steel Despatches – External Tonnes (million)	1.381
Steel Despatches – Internal Tonnes (million)	3.078
Tonnes produced (million)	1.865

Following the merger with Smorgon Steel during the year, the composition of the business segments changed with Materials introduced as a new segment. Therefore the comparative periods are not available. The Smorgon Steel businesses have been included in the June 2008 financial information from the date of acquisition on 20 August 2007.

Manufacturing

Bar product from OneSteel's Waratah Steel Mill Newcastle (NSW). The bar is transformed into grinding media balls.

OneSteel's Manufacturing business combines the activities of steel production and the product mills. The Whyalla Steelworks produces billet for OneSteel's Rod, Bar & Wire operations along with rail products and structural steel and slab for external sale. The Sydney and Laverton steel mills produce billet for reinforcing and bar products and specialty steel products. The Waratah Steel Mill produces billet and ingot for the manufacture of specialty steel products. Rod, Bar & Wire manufactures products for manufacturing, construction and mining.

Manufacturing revenue improved 43% to $3,083.4 million in the 2008 financial year as result of increased domestic and international steel sales and the inclusion of the Smorgon Steel businesses.

Strong demand in the construction and mining sectors, and some improvement in the rural sector offset a flat performance in manufacturing and construction sectors.

In the second half of the year, scrap prices and steelmaking costs reached historic highs as global demand for raw materials increased significantly.

	WHYALLA STEELWORKS	WARATAH STEEL MILL
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 in the region. Whyalla produces billet for OneSteel's Rod, Bar & Wire operations and manufactures rail products, structural steel and slab for external re-rolling. Besides steel products and iron ore pellets, other non-steel products are also produced.	Waratah Steel Mill is a ferrous scrap-based producer of steel products operating at Newcastle in New South Wales. It is a leading domestic supplier for the rail transport and mining sectors, as well as a supplier to the oil and gas industry. Annual crude production exceeds 270,000 tonnes. The Steel Mill processes ferrous scrap metal through the Electric Arc Furnace (EAF) route converting the steel into a wide range of products, including grinding media, rail wheels and axles, bar products, ingots and forged products.
The market	The domestic structural market strengthened during the second half of the year. Rail sales were down slightly year on year based on a shift in mix with demand for head hardened rail increasing compared to plain carbon rail. OneSteel is fully utilising its available head hardening capacity. Sleeper demand remained steady during the year. Global demand for steelmaking raw materials remains strong, particularly from China but also India, Brazil and Russia.	Sales volumes for grinding media, and rail and forge products were strong in the 2008 financial year. This was a function of the direct and indirect effects of very strong levels of investment and production in the mining and resources sectors both in Australia and overseas. During the year, most mines operated at capacity in a strong price environment for base metals and other mineral commodities. Pricing was substantially influenced by significant shifts in key steelmaking raw material costs. The outlook for grinding media, and rail and forge products is positive with a number of new mines and expansion projects coming online in the coming year.
Performance	The pellet plant and blast furnace were successfully transitioned to magnetite-based feed during the year. Pellet plant, blast furnace and steelmaking outputs were matched to concentrator output. Pellet stocks were built to facilitate the transition. Stock requirements for the pellet plant cold shut scheduled for the first half of the 2009 financial year are being built. Deliveries of structural products to domestic customers were impacted in the second half of the year due to derailments and floods and the resultant backlog impacted logistics capacity.	Safety performance continued to be a major focus with record low injury levels recorded. The output of key manufacturing facilities increased in response to market demands. The Rail Wheels plant ran at record production levels and both grinding media and ingot production increased compared to the previous year.
Developments	Costs and operational performance will remain a focus within the steelworks through a combination of SIX SIGMA tools, Lean Management tools and equipment reliability.	Initiatives have been put in place to improve manufacturing efficiencies at the Waratah Bar Mill following the merger of OneSteel and Smorgon Steel, and to execute a $14 million capital investment plan for the upgrading of the Rail Wheel Plant announced in September 2007. These two initiatives will be complemented by an ongoing emphasis on operating performance and cost effectiveness.

ROD, BAR & WIRE	GRINDING MEDIA	RAIL & FORGE
With facilities in Sydney and Newcastle (NSW) and Geelong and Laverton (VIC), the business services a diverse steel bar, reinforcing bar, wire and rope market. The Electric Arc Furnace (EAF) and casting facilities comprise of electric arc steelmaking furnaces and billet casting facilities at Laverton (VIC) and Sydney Steel Mills (NSW). With the addition of the Laverton facilities from the merger of Smorgon Steel, the business produces approximately 1.3 million tonnes per annum of product ex scrap-fed electric arc furnaces together with approximately 600,000 tonnes supplied as billet by Whyalla Steelworks. Billets are rolled and drawn into a wide range of selected rod, bar and wire products for supply to downstream OneSteel businesses and to external domestic and export customers. Major product segments are Merchant Bar, Reinforcing Rod, Bar, Rural (fencing, livestock and horticultural wires), Manufacturing (bright, galvanised, bedding, mechanical spring and concrete reinforcing wires, nail wires) and Mining (heavy mining rope).	Grinding Media is manufactured in Australia, Indonesia, and USA. The Australian manufacturing facility is based in Newcastle (NSW). The Indonesian manufacturing facility is based in Cilegon. These two manufacturing businesses supply grinding media primarily into Australia, Indonesia, Papua New Guinea and New Zealand. The key market sectors are copper and gold minerals processing. However, the business also supplies product into the poly-metallics, industrial minerals, nickel cement and power industry sectors. In the United States, the manufacturing facility for production of grinding media is based in Kansas City, Missouri. The Kansas City plant manufactures grinding media using bar predominantly sourced from external suppliers. The facility manufactures grinding balls ranging from 38mm to 140mm for customers in North America and South America. Key customer sectors are gold and copper mines.	The Rail & Forge business operates out of the former Smorgon Steel operations at Waratah in Newcastle (NSW). The key manufacturing facilities at Waratah consist of Electric Arc Furnace (EAF) steelmaking, vacuum degassed ingot feed for forged rail wheels and axles and forged high chrome cold mill rolls. Key customers for these products are Australian railways companies either directly (maintenance) or via local wagon and bogey manufacturers for major capital expansion. Domestic sales account for the majority of the rail and forge business. Export sales to regions including South Africa and South East Asia account for approximately 15% to 20% of total rail wheel sales.
The outlook is for continued strength in engineering construction, non-residential construction and mining segments. International scrap prices moved higher during the year and this was reflected in higher import prices, partly offset by the high Australian dollar exchange rate. Domestic manufacturing sales were also impacted on the back of the high exchange rate, making imported finished goods more competitive.	Sales volumes for grinding media were strong in the 2008 financial year. This was a function of mines generally operating at capacity in a strong price environment for minerals. Re-establishing previously closed mines is expected in the coming year. The price for key minerals is also expected to drive new mine development and expansion.	The outlook for rail wheels and the chrome roll businesses remain strong, underpinned by activity levels in the mining and resources sectors both in Australia and overseas.
Higher sales volumes mainly through Steel-in-Concrete sales with increased tonnage to infrastructure projects, offset lower despatches to the manufacturing and automotive segments. Higher rural despatches were achieved during the year. Manufacturing's results benefited from the synergies of combining the OneSteel and Smorgon Steel businesses. Laverton Steel Mill and Sydney Steel Mill both operated at or near record production levels.	The key issue impacting operational costs was the substantial price increases in scrap and alloys, electricity and steelmaking consumables during the 2008 financial year. The Grinding Media business operates pricing mechanisms reflecting movements in scrap. The Grinding Media business in the United States experienced substantial increases in input bar prices during the year. These prices were driven by strong demand for steel and the substantial escalation of key steelmaking raw materials.	Key areas impacting financial performance during the 2008 financial year have been increasing demand from the resources sector and the need to manage the negative impact of sharply escalating scrap and alloy costs.
There continues to be a focus on improving manufacturing efficiencies with the use of SIX SIGMA tools. The absorption of Smorgon wire into the OneSteel facilities resulted in production and transport synergies. Consolidation of bar manufacture at the Laverton (VIC) and Sydney (NSW) mills and doubling of Waratah Bar Mill (NSW) production will improve efficiency and focus manufacturing efforts on securing growth within construction and resources markets.	The market for grinding media is expected to strengthen further in the 2009 financial year with a number of new mines coming online. Grinding Media is currently examining options for increasing capacity at the Kansas City, Missouri plant as well as actively looking at options to expand the international grinding media business.	The Rail & Forge business is currently undergoing a major capital upgrade to increase the production capacity of rail wheels to meet increased demand.

MANUFACTURING

	2008[1] $m	2007[2] $m	2006 $m	2005 $m	2004[3] $m	2003[3] $m	2002[3] $m
Revenue	3,083.4	2,155.7	2,101.4	2,065.7	1,700.9	1,583.1	1,445.8
EBITDA	301.9	216.4	225.8	184.3	187.4	175.7	133.7
EBIT	215.4	158.3	164.5	118.7	130.2	117.5	76.0
Assets	3,082.5	1,968.7	1,829.2	1,638.7	1,555.3	1,439.0	1,398.8
Employees	4,408	3,346	3,948	3,908	3,872	3,818	3,857
Sales Margin %	7.0	7.3	7.8	5.7	7.7	8.0	4.6
Funds Employed	2,420.9	1,427.2	1,306.2	1,094.5	1,065.5	1,056.4	1,062.7
Return on Funds Employed %	11.2	11.1	13.7	11.5	12.3	11.9	6.3
External Tonnes Despatched	1,557,296	979,969	1,370,714	1,282,642	1,221,379	1,306,346	1,280,875
Internal Tonnes Despatched	1,114,696	676,934	272,141	270,719	257,266	259,854	252,325
Steel Tonnes Produced	2,659,479	1,733,406	1,633,696	1,349,397	1,618,855	1,624,399	1,576,650

1 The results for 2008 include the acquired Smorgon businesses from 20 August 2007 and exclude the impact of restructuring costs and impairment of plant and equipment.

2 The 2007 results have been restated to reflect the revised segment structure effective 1 July 2007. The Reinforcing business has been moved from the Manufacturing segment to the Distribution segment.

3 The 2002-2004 results have been presented under previous AGAAP and have been adjusted to exclude goodwill amortisation from earnings.

Distribution

Loading Rectangular Hollow Sections (RHS) at OneSteel's Australian Tube Mill site in Newcastle (NSW).

OneSteel's Distribution business provides a diverse range of steel and metal products to resellers and end-users including structural steel, steel plate, angles, channels, flat sheet, reinforcing steel, sheet steel and coil and a range of aluminium products, pipes fittings and valves. The reinforcing business and pipe and tube within Distribution manufacture and distribute product throughout Australia for the construction, mining, oil and gas and manufacturing industries.

Distribution's revenue improved 42% to $3,390.8 million, reflecting a year of two halves: July to December was slow with delays in projects, increased imports as a result of the high dollar and increased competition; the second half showed increasing volume from project work.

Our manufacturing and automotive market segments were impacted by the strong Australian dollar, rural economies and residential construction. States with big resources segments delivered stronger results than those with a heavier manufacturing and agricultural orientation.

Overall, margins were lower than last year due to increasing imports and competition in the economy.

	STEEL & TUBE	PIPE & TUBE	SHEET, COIL & ALUMINIUM
The business	Steel & Tube operates from facilities in all major metropolitan and regional areas in Australia. It provides a range of products including structural steel, plate, hollow sections and merchant bar. The Steel & Tube product range, together with extensive processing capabilities, provides customers with a leading market offer. Steel & Tube services prime segments including engineering, non-residential construction and infrastructure construction, automotive and manufacturing.	Consists of two distinct capabilities, the manufacture of precision tube servicing the Automotive, Manufacturing, Building and Fencing markets and a large diameter, heavy wall pipe business servicing the Fluid Transmission market.	A processor and distributor of three product groups from dedicated metropolitan facilities – sheet and coil carbon steel, aluminium and stainless steel. Product is sourced from major manufacturers and used to service customers in the construction and manufacturing sectors. Major markets include non-residential construction, steel building sections and transport equipment.
The market	Market prices improved strongly in the second half of the 2008 financial year. Non-residential construction, engineering, heavy construction and mining investment showed good growth which was driven by stronger project activity, particularly in Queensland and Western Australia. Generally the manufacturing and automotive segments remained weak during the year.	Market conditions for tube products during the year were difficult in the face of local oversupply and import competition. After a quiet start to the year, oil and gas transmission pipeline demand was well in excess of last year with good prospects moving forward. Offshore and local steel supply has been tight and pricing continues to be volatile.	Price volatility, a soft market with high levels of competition and an increased availability of imported bulk coil underscored a difficult business environment during the 2008 financial year. The additional volume from the acquired Fagersta (Stainless Steel) business in September 2007 assisted in maintaining our overall sales value.
Performance	Market conditions remained highly competitive across Australia, affecting margins particularly in the first half. There was some margin improvement in the second half of the year. Operating costs and inventory were again tightly controlled as a result of the market volatility.	Initiatives during the year focussed on lowering conversion costs and improving manufacturing flexibility. Tight margins, a volatile market for raw materials and strong competition from both local competitors and imports saw the business respond with new market offers, extension to the product range and additional investment in product and sales marketing.	Price volatility was present in all product ranges during the year. Steel pricing strengthened but weakness remained in stainless steel. Continued focus on lowering the cost base of the business. Safety performance continued to improve to record low Medical Treatment Injury Frequency Rate (MTIFR) levels. Customer service measures also continued to improve.
Developments	Customer service levels have improved on the back of increased focus. Both delivery performance and customer satisfaction survey results also improved. There has been significant investment in upgrading processing capability and capacity, with commissioning of three new machines in the year. Upgrading our capability and capacity will continue over the next five years. Innovations in operations and warehousing are also being considered.	Investment in growth projects during the year saw the extension of the product range for precision tube and the successful marketing of new capabilities in larger diameter pipe. Lower costs, greater flexibility and improved market offers have the business well positioned for 2009.	In the year ahead there will be further focus on improving the core business and maintaining the margins within the business.

METALAND	REINFORCING	PIPING SYSTEMS	AUSTRALIAN TUBE MILLS	LITESTEEL™ TECHNOLOGIES
Metaland services customers across Australia via a national network of over 70 outlets and an extensive franchise network. The Metaland business includes the Midalia Steel network in Western Australia. Location managers are empowered to further leverage the OneSteel Distribution network to provide metal products and solutions that satisfy local customer needs.	Reinforcing steel is used for concrete reinforcement, mining strata control, agricultural and industrial mesh products and reinforcing steel fibres. The major users of these products are large and small builders, concreters, form-workers, pre-casters and mining companies. OneSteel has two separate and competing Reinforcing businesses in the domestic market, namely OneSteel Reinforcing, offering a range of innovative reinforcing solutions and the Australian Reinforcing Company (ARC), renowned for its strong customer relationships and flexible service.	OneSteel Piping Systems supplies steel pressure pipe, valves and fittings for liquid and gas conveyance. Customers include engineering and 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.	This business comprises the Structural Pipe and RHS manufacturing operations of both OneSteel and the former Smorgon Steel. The business has manufacturing facilities at Acacia Ridge (QLD), Newcastle (NSW), and Somerton (VIC). The business primarily supplies Structural Pipe and RHS and DuraGal® profiles into the Australian and New Zealand markets. Key market sectors for the products include construction, manufacturing and agriculture.	LiteSteel™ Technologies sells and markets LiteSteel™ beams primarily in Australia and the United States. LiteSteel™ beams are a unique cold-formed dual-welded range of steel sections geared to efficient use of steel in domestic and light commercial applications. This business has a manufacturing operation under construction in Troutville, Virginia (USA) with expected commissioning toward the end of 2008. The key markets identified for LiteSteel™ beams are domestic and commercial construction with specific opportunities in basement applications, more unique to the US market.
Market conditions in regional areas were affected by drought conditions throughout most of Australia but showed positive signs of improvement late in the year. A strong mining segment continued to partially offset the decline in rural Australia. Queensland, Tasmania and the Western Australia markets were particularly strong in the in the 2008 financial year.	Market conditions were favourable as engineering and non-residential construction grows. Ongoing infrastructure developments, supported the strong demand for steel reinforcing. Import volumes into Australia were flat in the second half of the year due to the strong demand experienced in Asia.	Growth continues to be linked to the resources segments, especially the mining and mineral processing customers. In the first half of the year, projects were delayed in a number of regions, which impacted volumes. In the second half of the financial year, volumes improved, particularly in New South Wales and Western Australia.	The overall market activity continued to be strong driven by growth in the engineering construction and non-residential construction segments. The 2008 financial year saw the trends in the availability and supply of imported structural pipe and RHS plateau. A key influencing factor was the withdrawal of Chinese export subsidies and the imposition of export taxes.	The Australian market for domestic construction has been flat as result of residential market increasing interest rates. However, the primary driver for sales success for LiteSteel™ will be the rate of penetration against substitutes such as engineered timber. The weakening sub-prime mortgage market has significantly impacted the domestic construction market in the United States. This has resulted in an overhang in inventory levels for domestic construction materials.
Sales revenue grew due to higher selling prices and volume growth. Financial performance was solid. Market conditions remained very competitive. A reduction in the severity of injuries was a safety performance highlight during the year.	Reinforcing sales volumes were stronger than the previous year. However, margins were continually under pressure due to escalating and volatile raw material costs. A number of price rises were initiated during the year in order to recover costs.	Sales volumes were lower than the prior year, which impacted earnings. This was driven by delays in project work. This was partially offset by new sources of supply being developed for imported pipe and fittings. Volumes increased during the last quarter and the outlook is positive.	The operational performance of the business has been influenced substantially by the rapid increases in the cost of its key raw material, hot rolled coil.	Key challenges during the year were the rapid increases in raw material costs and relative price of steel against timber. The product was showcased at the International Building Show in Orlando, Florida in February 2008, with a very high level of interest. The business expects to formally launch the product in the United States in January 2009.
Focus will remain directed towards upgrading selected sites and expanding the network to service the local needs of customers. Investment in supply chain capabilities should result in improved results.	On completion of the merger with Smorgon Steel, the ARC continues to operate under its own management separate from OneSteel Reinforcing and has competed effectively in the market to maintain its share. It continues to improve its manufacturing footprint with a new state of the art bar processing facility due to open in Brisbane in the coming year.	The Division continued to refine its Building Services, Valve, Resources and Process Pipe market plans and offers. During the year, an extensive review of the Division's stock range was completed, as well as a number of efforts on cost control and working capital initiatives.	The key development for the business during the year was the closure of two mills and a galvanising factory in Newcastle (NSW), which was necessary to address the substantial overcapacity that existed in the business post-merger with Smorgon Steel. Other key developments have focussed on driving the integration of the Structural Pipe and RHS business. After this business across NSW, QLD, and VIC sites.	Sales from the Australian business have been made to assist with market seeding for the US market whilst the new manufacturing facility in the US is being commissioned. The business through its relationship with Maruichi continues to work on developing potential entry and regulatory approvals for the Japanese market.

DISTRIBUTION

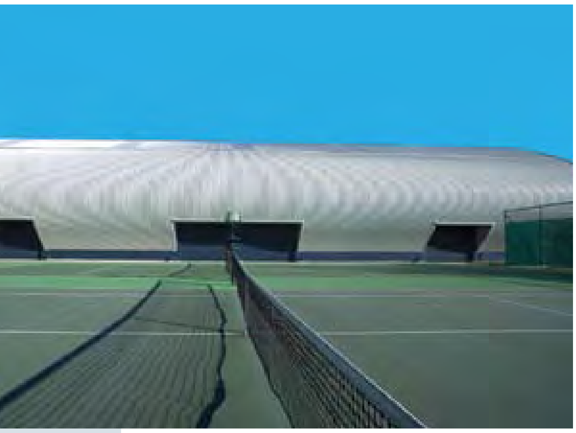
	2008[1] $m	2007[2] $m	2006 $m	2005 $m	2004[3] $m	2003[3] $m	2002[3] $m
Revenue	3,390.8	2,393.4	1,833.9	1,783.3	1,537.0	1,430.9	1,417.6
EBITDA	215.4	202.1	146.1	164.3	127.1	116.4	109.0
EBIT	166.3	173.1	122.0	140.5	104.2	93.4	87.4
Assets	2,789.8	1,222.0	1,100.6	1,187.4	1,116.2	1,004.4	1,010.2
Employees	4,623	2,946	2,448	2,483	2,391	2,286	2,349
Sales Margin %	4.9	7.2	6.7	7.9	6.8	6.3	5.2
Funds Employed	2,143.4	820.5	797.4	813.4	820.0	785.2	825.7
Return on Funds Employed %	11.2	21.1	15.1	17.5	13.0	11.5	8.9
External Tonnes Despatched	1,888,951	1,298,353	905,066	981,409	938,157	917,800	900,500

1 The results for 2008 include the acquired Smorgon businesses from 20 August 2007 and exclude the impact of restructuring costs and impairment of plant and equipment. The 2008 EBIT has also been adjusted to exclude the impact of accelerated amortisation on finite life intangibles recognised on acquisition of Smorgon Steel of $20.5 million.

2 The 2007 results have been restated to reflect the revised segment structure effective 1 July 2007. The Reinforcing business has been moved from the Manufacturing segment to the Distribution segment.

3 The 2002-2004 results have been presented under previous AGAAP and have been adjusted to exclude goodwill amortisation from earnings.

International Distribution



The ASB Bank Waikato Tennis Centre in Hamilton, New Zealand is clad with Steel & Tube Roofing Profile ST900.

OneSteel's International Distribution business comprises its 50.3% ownership in Steel & Tube Holdings (NZ), New Zealand's largest distributor of steel and allied products to the construction, manufacturing and rural sectors.

THE BUSINESS

Steel & Tube Holdings Limited is New Zealand's largest distributor of steel and allied products. Steel & Tube Holdings has distribution and service centres throughout New Zealand and employs more than 800 staff. Its annual sales are around NZ$500 million.

THE MARKET

New Zealand economic growth stalled with recessionary conditions prevalent in the second half of the financial year. The key markets for Steel & Tube Holdings, construction, manufacturing and the rural sector, all suffered as the combination of exchange rate volatility, high interest rates and reduced growth in consumer spending slowed the economy. The manufacturing sector contended with a strong and at times volatile currency while the construction sector was affected by escalating finance costs. The collapse of a number of New Zealand-based finance companies, triggered by the global credit squeeze, also affected a number of commercial and housing projects as interest costs and lending conditions became prohibitive.

PERFORMANCE

The Distribution business of Steel & Tube Holdings, which comprises steel distribution, stainless steel, fastening systems, piping systems and industrial products, increased sales revenue on aggregate by about 8% compared with last year, but earnings were lower. Volume to the manufacturing and rural sectors, however, was steady and in line with last year. Considerable pricing volatility for replacement inventory was encountered in the early part of the financial year, putting considerable pressure on margins.

The company faced high costs of replacement inventory during the year, however, conditions improved late in the second half enabling the division to improve its profitability in the last quarter. The manufacturing business comprising roofing products, reinforcing fabrication and hurricane wire, was also affected by the same unfavourable economic conditions although the roofing and reinforcing operations posted solid results.

The Wire business was adversely affected by a structural change to the market sector it services. The strong New Zealand currency relative to the US dollar made it difficult for hurricane wire to compete against imports from Asia for part of its manufacturing range resulting in some manufacturing capabilities being made redundant at a cost to the business of $2.4 million before tax.

OUTLOOK

The New Zealand economy is expected to be in or near recession for most of the 2008 calendar year. Although the construction of residential housing will continue to decline in the near term, commercial activity relating to the 2011 rugby World Cup and infrastructure projects are expected to gradually improve this sector towards the end of 2008.

International steel prices and exchange rate volatility have been key issues that have impacted on the Steel & Tube Holdings' financial results these past few years. Substantial price increases for input costs to make steel, such as iron ore, coal and scrap metal coupled with an increased global demand for steel products are once again pushing the price of replacement steel inventory higher. As a result of this, the domestic price for steel products increased substantially as new inventory arrived.

Steel & Tube Holdings expects trading conditions in New Zealand to remain difficult for most of calendar year 2008.

INTERNATIONAL DISTRIBUTION

	2008 $m	2007 $m	2006 $m	2005 $m	2004[1] $m	2003[1] $m	2002[1] $m
Revenue	435.7	405.2	390.4	403.3	340.3	290.8	289.2
EBITDA	39.0	45.9	48.7	61.4	47.6	36.6	30.7
EBIT	33.8	40.6	43.7	56.1	42.7	31.9	26.1
Assets	208.6	222.6	178.4	196.1	172.2	156.1	133.1
Employees	834	881	907	804	793	765	620
Sales Margin %	7.8	10.0	11.2	13.9	12.5	11.0	9.0
Funds Employed	176.5	186.6	146.5	160.9	140.2	129.5	107.6
Return on Funds Employed %	18.6	24.4	28.4	37.4	31.7	27.0	20.5

1 The 2002-2004 results have been presented under previous AGAAP and have been adjusted to exclude goodwill amortisation from earnings.

OneSteel's operations

OneSteel's major manufacturing facilities are located in Whyalla, South Australia, Melbourne, Victoria, Western Sydney and Newcastle, New South Wales, and Brisbane, Queensland. Smaller manufacturing and distribution facilities are located throughout regional Australia.

Additionally, OneSteel has more than 40 operating facilities in New Zealand, Asia and the Pacific that encompass major manufacturing sites and recycling locations. OneSteel also operates eight facilities in the United States consisting of Grinding Media, LiteSteel™ Technologies, Recycling and a ferrous shredder in Tampa, Florida.

In total, OneSteel services more than 30,000 customers and offers more than 40,000 products globally. During the year, OneSteel despatched more than 3.6 million tonnes of steel. In addition, OneSteel sold more than 4.4 million tonnes of iron ore.

Customer

OneSteel supplied 300PLUS® Universal beams and a range of other merchant bar products for the Latitude East construction project in Sydney's World Square (NSW). The project completed in October 2007.

For OneSteel to be competitive in a world steel market, we need to be close to our customers. OneSteel believes we must understand our customer's needs, the markets in which they operate and deliver on our promises.

The second half of the 2008 financial year presented significant challenges for OneSteel, as well as our customers, in managing an environment of significant change in steelmaking costs, international steel prices and substantial increases in demand relative to supply.

In particular, these conditions saw the need for increased awareness of steel pricing dynamics along the full steel value chain and recognition of the risks inherent in steel pricing and availability over extended periods.

OneSteel placed increased focus on communication of price changes and underlying dynamics through customer newsletters, information sessions and other forums. Significant measures were put in place by OneSteel to maximise supply into the Australian market. These measures included, increased manning, diversion of exports, and the acquisition of semi-finished steel from off-shore. The impact of our actions resulted in a significant increase in steel deliveries into the Australian market compared to historic levels.

CORE VALUES

OneSteel has two core values in regards to our customers; the first is safety and the second is meeting our promises made to customers.

The rapid increase in demand in the second half of the 2008 financial year presented significant challenges for OneSteel in meeting its expectations around core customer values.

OneSteel assesses its performance in delivering on our promise to customers using key leading and lagging metrics on a range of measures from forecast accuracy, adherence to plan, stock availability, delivery performance and customer satisfaction surveys.

STRATEGIC THEMES

Linked to customer as a core value are OneSteel's three strategic themes of:

- Customer and Market Insight
- Operational Excellence
- Supply Chain Transformation.

Customer and Market Insight is a key driver in determining what should be OneSteel's future promise to our customers. Operational Excellence and Supply Chain Transformation are focussed on ensuring OneSteel can efficiently and effectively deliver our offer today and in the future so that we create value for both OneSteel as well as our customers.

1. CUSTOMER & MARKET INSIGHT

Customer and Market Insight is a strategic theme focussed on building organisational capability within OneSteel by:

- Improving the quality and quantity of our understanding of OneSteel's customers, their needs and the market in which they operate
- Improving our ability to translate that into future offers for our customers
- Ensuring OneSteel and its channels are aligned and capable of delivering on those future offers.

2. OPERATIONAL EXCELLENCE

Operational Excellence means that OneSteel has reliable, sustainable, capable and internationally competitive manufacturing processes, which align and underpin our market offers:

- It involves process capability, maintenance reliability, and labour productivity of all operations where manufacturing is a key part of their operations
- It is having skills, competencies and expertise in these areas to ensure that we run the manufacturing facilities as cost effectively as possible
- It is about cost effective, capable products and processes, particularly focussed on reducing variation.

3. SUPPLY CHAIN TRANSFORMATION

As the domestic and global steel industries continue to grapple with the challenges of demand significantly outstripping supply, combined with rising cost pressures, OneSteel is responding by redefining the way we do business.

In seeking to achieve this outcome, we have put in place a five year program to transform our supply chain processes, enabling OneSteel to become a truly customer and market responsive company that delivers leading returns to our shareholders.

The objective of our Supply Chain Transformation program is to ensure our products are delivered to the right place at the right time across every component of our unique supply chain. From the procurement of raw materials, to manufacturing and fabrication, distribution and the final delivery of finished goods, OneSteel needs to deliver the highest quality, on time.

The key objectives of the Supply Chain Transformation program are to:

- Establish OneSteel as our customers' Supplier of Choice
- Deliver superior value to our customers by providing the necessary supply chain support for our differentiated market offers
- Improve our ability to execute emerging competitive strategies in our chosen existing and future markets
- Reduce our costs to serve and help reduce our cost to make
- Liberate cash from our total inventory for investment
- Manage our supply chain risks more effectively in the short, medium and long-term.

Implementation of the Supply Chain Transformation program is impacting every aspect of our business but specifically our focus will be on achieving significant improvements to our:

- Demand forecasting and sales/operations planning
- Inventory stocking policies/practices
- Management of inward raw materials/products
- Freight/logistics planning/execution
- Supply chain performance measurement and tracking.

Over the past 12 months, the Supply Chain Transformation program has made steady progress in establishing and implementing the necessary processes, people and skills to achieve our key objectives such as a 70% reduction in the amount of obsolete stock in OneSteel's Distribution business.

Human Resources

Darren Cummings of Rail Products in Newcastle (NSW) is pictured on the finishing line performing a mag particle test to determine if any cracks are present in the wheel before distribution to customers.

OneSteel recognises that superior business performance and continued organisational growth require both highly capable and engaged people, and the right organisation design and processes.

OneSteel's People and Capability Plan articulates the key strategies and actions that OneSteel is employing towards these outcomes. The key strategies include:

- Supporting business improvement and growth initiatives
- Driving engagement and performance
- Ensuring effective attraction, development and retention of employees
- Building organisational effectiveness and capability.

BUSINESS IMPROVEMENT AND GROWTH INITIATIVES

Over the past 12 months, the OneSteel Human Resources team has played a key role in the effective integration of the former Smorgon businesses. This has included significant work to integrate policies, practices and processes across the groups, with an approach of ensuring that the most effective aspects of each organisation are retained. This has also involved consideration of the needs of the international businesses and their employees. The Human Resources team has facilitated considerable change as part of facility rationalisation, changes to the manufacturing footprint and head office rationalisation. It is pleasing that due to effective management of employees throughout the merger process, retention rates of key managers and employees have been high.

Over the last 12 months, OneSteel Human Resources has also supported other organisational initiatives including Project Magnet, the integration of additional distribution outlets, the acquisition of the Fagersta business, building capability in Operational Excellence and supporting numerous organisational effectiveness projects and business changes.

ENGAGEMENT AND PERFORMANCE

OneSteel believes that the engagement, alignment and performance of employees are critical to OneSteel's overall business performance. OneSteel's performance planning and management (PPM) process continues to ensure that all staff understand the business priorities, have clear performance objectives in place and receive regular feedback and support. The PPM process has been extended into the former Smorgon businesses and other new acquisitions. In addition, OneSteel has continued to strengthen the focus on performance management by:

- Implementation of an online PPM system to facilitate the cascading of objectives and to improve visibility of outcomes and record management
- Continued use of "calibration" processes to ensure consistent standards are applied
- Significant differentiation in salary review and short-term incentive outcomes for individuals
- Effectively linking business plans and targets to individuals' objectives.

The employee share plan continues to have a high level of participation and this year was extended to include employees from the former Smorgon businesses within Australia.

ATTRACTION, DEVELOPMENT AND RETENTION

The tightening employment market has seen OneSteel's staff turnover rate increase by approximately 2% per annum in the past 12 months. While the staff turnover rate is still below the average for Australian organisations, OneSteel has implemented a number of strategies to increase its ability to attract and retain employees.

Increased investment is being made in the development of skills for the future with over 100 apprentices and more than 80 cadets and graduates being recruited across the business during the 2008 financial year. Development continues to be a significant focus for business leaders and the human resources team with new initiatives including the introduction of a Commercial Development Program and Action Learning Program for middle managers. Since OneSteel's merger with Smorgon Steel, our international footprint is assisting with our ability to attract high quality staff.

ORGANISATIONAL EFFECTIVENESS AND CAPABILITY

During the 2007 financial year OneSteel developed a framework to support effective organisational and role design. These tools have been further applied this year to assist business leaders to more effectively structure roles within their businesses. Most business units have designed their leadership roles and have created improved role clarity through this process. In particular, this work has assisted managers to understand the required "level of work" for roles and to seek to operate accordingly.

OneSteel's change management tools continue to be used to effectively implement change throughout the organisation. This year has seen these tools applied within the Smorgon integration and numerous other changes. The success of change efforts has validated the investment made in developing OneSteel's capability in this area.

OneSteel continues to effectively manage employee relations to facilitate ongoing productivity improvement and to ensure constructive workplace relationships. OneSteel is effectively navigating the changing legislative environment and reviewing legislation to meet business requirements.

WORKERS COMPENSATION

The newly merged Smorgon Steel businesses in New South Wales, Queensland, Victoria and Western Australia have all been successfully integrated into OneSteel's continuing self-insurance licensing arrangements. The newly merged businesses in South Australia are expected to be integrated into self-insurance from the beginning of January 2009.

Commercial Workers Compensation Insurance arrangements for the combined new businesses located in Tasmania, ACT and the Northern Territory have now been consolidated together under the one Commercial Workers Compensation Insurer, Allianz Australia Insurance Ltd.

The combined total liabilities for the newly merged self-insured businesses have reduced from $32.6 million (December 2007) to $31.3 million (June 2008), a reduction of $1.3 million post merger.

WORKERS COMPENSATION OUTSTANDING CLAIMS PROVISION

	2008 $m	2007 $m	2006 $m	2005 $m	2004 $m	2003 $m	2002 $m	2001 $m
New South Wales	21.6	12.4	14.8	17.2	18.2	18.2	19.3	20.7
Queensland	2.7	0.5	0.7	1.5	2.0	2.4	4.5	5.5
Victoria	3.7	2.5	3.0	2.5	3.8	4.2	3.2	2.8
South Australia	2.8	2.5	2.5	3.0	4.0	4.2	4.2	4.1
Western Australia	0.5	0.5	0.6	0.7	0.6	0.7	0.9	0.7
Total – Self-insurance Workers Compensation Provision	31.3	18.4	21.6	24.9	28.6	29.7	32.1	33.8

Occupational Health and Safety

David Gomez, Safety, Environmental and Training Manager, Australian Tube Mills, Newcastle (NSW).

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 a slight increase in key indicators during the 2008 financial year as we extended our safe system of work into the newly acquired Smorgon Steel businesses.

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 2008 financial year. Despite these efforts, the company regretfully experienced two separate fatalities during the year. Both incidents were extensively investigated to identify opportunities to prevent a tragic reoccurrence.

ONESTEEL SAFETY PLAN

With the addition of the Smorgon Steel businesses at a different stage of the safety journey, the challenge of creating a plan that continues to seek a step-change in safety outcomes whilst fast tracking the new business required more business unit specific approach with a set of common objectives. A comprehensive OneSteel OHS plan has been established and cascaded into the OneSteel business units. 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 continue to focus on:

- 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

The OHSE Council oversees the execution of the OHS plan and drives 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 OHS activities.

In the past year, the Frontline Leader safety essential training program has been further enhanced and standardised. The 10 technical safety essentials training modules and safety leadership workshops have created a platform of common understanding for our safety expectations and continue to develop capability and competence in our frontline leadership skills as well as the understanding of OneSteel safety tools and processes.

The OneSteel Health & Safety Team (OHST) continued to work on developing standard systems, tools and processes for the Codes of Practice and OneSteel Safety Management system as well as managing compliance, legislative requirements and reporting. Specialist safety learning and development resources have been added to the team to assist with effective implementation of support tools for the business.

SAFETY MANAGEMENT SYSTEMS

A comprehensive Audit and Assurance Program has been extended to include the new OneSteel businesses. The Assurance Program is based on a complete set of OneSteel Codes of Practice that is 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 14 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. Twenty-five business leaders have been selected and trained to conduct assurance audits.

The OHS Management System Audit program utilises the new national self-insurers auditing model and provides a comprehensive internal safety management system audit process that provides the business site with gap analysis and recommendations for safety system improvements and supports our national self-insurance licensing.

A new common OneSteel computer system for injury and incident investigation, hazard registers and tracking of corrective actions has been scoped for build and implementation. 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 implemented in a number of business sites. It is particularly targeted at the low probability, high consequence risks that could occur within OneSteel's larger, more complex processes. The process has delivered valuable recommendations for safety improvements and a plan for ongoing use is being developed in both the existing and new businesses.

Pre-task risk assessment has been a focus area for the business during the past year. A pre-task risk assessment model and standardised risk tools have been developed for piloting within the business. The focus of this initiative is to improve the risk identification capability of the OneSteel workforce and to assist with reducing our low consequence, higher frequency injuries and incidents.

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.

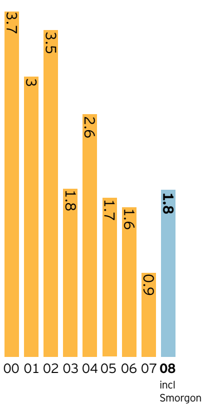
EXTERNAL ENVIRONMENT

OneSteel's Occupational Health and Safety 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.

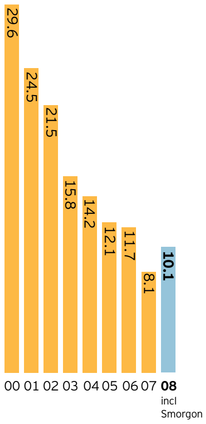
OneSteel continued its use of DuPont Safety to obtain independent feedback on its safety culture. A comprehensive Organisational Safety cultural review of 25 new and existing business sites both nationally and internationally commenced in April. The program was also tailored to focus on workplace training and coaching of senior leaders.

OneSteel's Lost Time Injury Frequency Rate (LTIFR) showed an increase in the 2008 financial year reflecting the inclusion of LTIFR data from Smorgon Steel. As our safety program rolls out across these new businesses we expect to see a reduction in this figure in the coming year. Despite the increase, OneSteel's LTIFR is still well below that of our global steel industry peers which averaged a LTIFR of 4.72 for the five year period from 2002 until 2007.

Lost Time Injury Frequency Rate
Per million hours worked



Medical Treatment Injury Frequency Rate
Per million hours worked



The increase in LTIFR and MTIFR is a result of the merger with Smorgon Steel. The level of performance for the newly acquired businesses improved during the year as the newly introduced safe systems of work took effect.

2008 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 on the platform of sharing best practice across the various businesses, the OneSteel Safety Award Program is an annual event.

The award categories, finalists and winners for 2008 are shown below:

Safety Employee of the Year
Marina Babic, BTM Sunshine
Paul Casumaro, Bar Mill Newcastle
Sean Burgess, SCA Bibra Lake
Greg Cross, Rod Mill Newcastle (Winner)

Front Line Safety Leader of the Year
Bill Kalb, Wire Mill Newcastle
Matt Bennetto, SCA Bibra Lake
John Dodd, Australian Tube Mills Somerton
Damien Jeffery, Aluminium Salisbury (Winner)

Safety Leader of the Year
Eddie Stringer, Pelletising Whyalla
Greg McAlister, OneSteel Recycling
Bruce Croxford, ATM Acacia Ridge
Peter Whelan, Australian Tube Mills Somerton
Keith Ritchie, Rod Mill Newcastle (Winner)

Contractor/Supplier of the Year
GWA Whyalla, represented by Tony Worby
Leighton Contractors Whyalla, represented by Gary Hannan
MultiServ Whyalla, represented by Tom Wilson
SCE Industrial Services Whyalla, represented by Tony Haynes (Winner)

Work Team/Department of the Year
G2 Galvanising Department, Wire Mill Newcastle, represented by Robert Chapman and David Brown
Operations Team, Piping Systems Kilburn, represented by Michael Pascoe and Tony Crowhurst
OSCAP, Sheet, Coil & Aluminium Bibra Lake, represented by Aravindhan Rajaratnam and Peter Taylor
Shutdown Team, Wire Mill Laverton, represented by Daniel Goodfellow and David Brne (Winner)

Workplace Safety Initiative of the Year
New Starter Program, Wire Mill Newcastle, represented by Craig Warren and Vera Coote
Automated Bin Lifter, Steel & Tube Port Adelaide, represented by Paul Traeger and Leonie Watts
Safety Open Day, ATM Somerton, represented by Michael Ewing, Mark Kisielewski and Peter Whelan
Positive Lock Block Stripper, Wire Mill Newcastle, represented by Rod Anderson and Mark Underwood (Winner)

Safety Employee of the Year: L to R Steve Harrison (Judge); Greg Cross; Marina Babic; Geoff Plummer; Sean Burgess; Paul Casumaro.

Front Line Safety Leader of the Year: L to R Joe Ellison (Judge); Damien Jeffery; John Dodd; Geoff Plummer; Matt Bennetto; Bill Kalb.

Safety Leader of the Year: L to R Steve Harrison (Judge); Keith Ritchie; Eileen Doyle; Eddie Stringer; Greg McAlister; Peter Whelan; Bruce Croxford (Absent).

Contractor: L to R Shane Murphy (Judge); Eileen Doyle; Tony Haynes; Tony Worby; Gary Hannan; Tom Wilson.

Work Team/Department: Back row L to R Robert Chapman and David Brown. Front row L to R Joe Ellison (Judge); Daniel Goodfellow and David Brne; Jon Blackwell (WorkCover NSW); Peter Taylor; Aravindhan Rajaratnam; Tony Crowhurst; Michael Pascoe.

Initiative: Back row L to R Michael Ewing; Mark Kisielewski. Front row L to R Tony Combe (Judge); Peter Whelan; Jon Blackwell (Workcover NSW); Leonie Watts; Paul Traeger; Vera Cootes; Craig Warren; Rod Anderson; Mark Underwood.

Community

Mr Chumsak Panyayong of Thai Metal Recycling Limited in Thailand, presenting a donation cheque to the Wat Pimpavas Public Primary School in the Chachoengsao province.

OneSteel's OneCommunity Giving Program is now in its fifth year. In partnership with 12 selected charities, OneSteel continues to focus on efforts to make a genuine difference in the communities where OneSteel people live and work.

Combining Smorgon Steel's operations has expanded OneSteel's community footprint even further with more than 11,000 employees in over 300 locations across Australia and 21 offshore facilities. OneSteel's operations are of considerable regional and global importance.

ONECOMMUNITY GIVING PROGRAM

The giving program provides OneSteel people with the opportunity to support the various causes they care about through regular or one-off donations made from their pre-tax salary, with donations matched dollar-for-dollar by the company.

OneSteel encourages its people to be actively involved in volunteer and fundraising events and this year contributed to the Cancer Council's "Relay for Life" event in Western Australia and Australia's Biggest Morning Tea.

"Relay for Life" is a memorial and survivor tribute celebration honouring life, healing and hope for a cancer free future. Alongside customers and suppliers, OneSteel staff became the highest fundraisers, raising $36,308, contributing to a total in excess of $750,000 for the Cancer Council.

Last year, OneSteel raised approximately $200,000 for the program's 12 charities. Since the program's inception in 2003, OneSteel people have contributed in excess of $800,000 towards the program.

CORPORATE DONATIONS

The company's most significant single donation over the last year was a contribution of $5,000 to "Relay for Life" in Western Australia. OneCommunity charities also benefited from corporate support this year in Sydney's City to Surf Marathon. OneSteel also provided donations to local charities selected by the winners of each category in its annual Safety Excellence Awards. Each winner receives a cheque for $2,000, which is then donated to their nominated charity.

REGIONAL SUPPORT

On a local level, regional charities and local sponsorships benefited from a combined amount of $306,300. In addition to this, the "Great Scrap Roundup Campaign" completed this year has delivered more than $1.7 million to volunteer fire brigades across Australia. The successful initiative launched by Smorgon Steel in 2005 enabled rural and regional Australia to clean up, cash in and help out.

INTERNATIONAL SUPPORT

OneSteel's support extended globally this year with its recycling operations in Asia and the United States providing assistance to schools and community programs within their regions.

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.

DONATIONS AND SUPPORT

OneCommunity Giving Program
- Alzheimer's Australia
- CARE Australia
- Guide Dogs Australia
- Hunter Medical Research Institute
- Landcare Australia
- Lifeline
- Royal Flying Doctor Service
- RSPCA
- The Cancer Council Australia
- The Salvation Army
- The Smith Family
- Westpac Rescue Helicopter Service

Corporate
- 2008 City to Surf
- 2008 Safety Excellence Awards
- Cancer Council Australia's Biggest Morning Tea
- Cancer Council Relay for Life WA

Safety Award Charities
- Sydney Children's Hospital Randwick
- Muscular Dystrophy Association
- Ronald McDonald House Adelaide
- Starlight Foundation
- Beyond Blue

Distribution – Regional
- Cairns Lions Club
- Cancer Council Relay for Life – Steel Magnolias
- Emerald Blue Light Association
- Leukaemia Foundation World's Greatest Headshave
- Local Community Cricket
- Mackay Foundation Gold Day
- Men's Health "Movember"
- Mirani State High School
- Osborne Golf Day
- Preston Rotary Club
- Rotary Club
- RSL
- Special Children's Christmas Party
- Starlight Children's Foundation Australia
- Thiess Family Charity Golf Day
- Variety Club AFL Grandfinal
- Variety Club Bush Bash
- Wollongong Rotary Club

Manufacturing – Newcastle/Hunter Region
- "No Limits" Hunter Christian School
- 2008 Fireworks Proposal
- 2008 Giggle Ball
- 2008 Hunter Manufacturing Safety Awards
- 2008 Newcastle Variety Club Bash
- 2008 Occupational Health and Safety Handbook – Australian Workers Union
- 2008 Say Safety – The AWU National OHS Magazine 50th Anniversary
- BHP Quality Control Social Club
- Cancer Council Relay for Life – Lake Macquarie NSW
- Environmental Sponsorship
- Fingal Junior Surf Life Saving
- HMA Website
- Hunter Valley Research Foundation
- Lake Macquarie Bull Sharks – Police Rugby Country Cup
- Mechanical Engineering and Mechatronics Student Conference (MEMSC)
- SES Operation Hydro
- Tillegra Dam Community Reference Group Forum

Whyalla – Regional
- Goal 100 Unemployed Support Program
- Local Education – High Schools and Youth Group Art Events
- The Smith Family "Learning for Life" Program
- University of South Australia's Engineering Cadetships
- Whyalla Fishy Fringe Premier Arts Festival
- Whyalla Motor Show Biennial Event

Smorgon Steel – Regional
- Great Scrap Roundup Campaign
- CARE Australia
- Cerebral Palsy League
- Charity swim for employee Enid
- Westpac Helicopter Rescue
- Lifeline
- Royal Flying Doctors
- Support for Our Kids Fund
- The Cancer Council Australia
- The Salvation Army
- The Smith Family

Recycling – Asia
- Public Primary Schools, Thailand
- Wesley United Methodist Church, Philippines
- Souvenir program for local government of Meycauayan, Philippines
- Royal Police Magazine, Malaysia
- Sichuan Earthquake Appeal, Malaysia

Recycling – United States
- Police Emerald Society (Virginia)
- Florida Veterans' Assistance UNIV. of Maine, Baseball American Cancer Society
- Special Olympic Maine Children's Miracle Network
- Boys Scouts
- FO Police Lodge, Virginia

Research and Development

Professor Veena Sahajwalla, FTSE, FIEAust, CPEng, Director – Centre for Sustainable Materials Research and Technology (Faculty of Science, University of New South Wales) pictured with Jonathan Dicker, Graduate Metallurgist OneSteel and UNSW Masters Student holding the international Willy Korf Award For Young Excellence. Jonathan won the award for the work he has completed on the polymer injection technology project. He is the first Australian to ever win this award.

Following the merger of Smorgon Steel, OneSteel has been able to leverage off the individual research and development activities to share knowledge and improve processes across the business. New and improved processes have also been developed to allow products to be transferred to their most effective manufacturing sites, resulting in reduced costs and improved delivery performance and flexibility of the supply chain.

Research and Development activities were conducted across a range of initiatives with more than 200 individual projects being undertaken in the past year. Projects directed toward improved processes accounted for 45% of all activities with a further 20% of projects related to new process development. 10% of projects were to create new products and 15% were conducted to further improve existing products. The remaining 10% of activities were focussed on the acquisition of new knowledge.

OneSteel is also a supporting participant to a Cooperative Research Centre (CRC) for Sustainable Resource Processing (CSRP). Via this CRC, OneSteel participates in projects on the evaluation of biomass in the iron and steel industry, as well as slag waste, heat recovery and utilisation.

PROCESS DEVELOPMENT

Polymer injection in EAF steelmaking

OneSteel and the University of New South Wales (UNSW) have collaborated on the development of a process to improve production and reduce costs at its Electric Arc Furnace (EAF) facilities in Sydney and Melbourne. Polymer injection technology substitutes a portion of carbon coke injected into the EAF with polymers, including plastic or rubber. The results over the past three years have been promising.

OneSteel has seen an improvement in the slag foaming process which has resulted in a reduction of both the volume of carbon coke injected and electricity consumed per tonne of steel produced. This reduction in electricity consumption for Sydney and Melbourne EAF facilities subsequently reduces greenhouse gas emissions produced by coal-fired power stations. OneSteel has signed a global licensing agreement with UNSW's commercialisation arm, New South Innovations (NSi) to sub-license the polymer injection technology worldwide.

PRODUCT DEVELOPMENT

OneSteel continues to utilise research and development to develop products for new and existing markets. Whilst we continue to develop new and improved products for our customers, several of these have entered the market.

Contistretch

During the year, OneSteel commissioned a Contistretch facility, the first of its kind in Australia. This facility undertakes the controlled stretching of deformed bar to achieve the stringent Australian Standard requirements for concrete reinforcing steel. Significant developments were necessary in both the Rod Mill and the Contistretch facility in order to achieve the outcome from our feedstock. This Contistretch product has the advantages of more consistent mass per unit length and significantly reduced scale. In addition, the product is finished as a tightly spooled 3 tonne coil which provides benefits in ease of handling and safe working.

LiteSteel™ Technologies

LiteSteel™ beam was developed in response to demand for a light structural beam with the strength of steel and the ease of use afforded by timber. More than six years of research and development went into the creation of the current LiteSteel™ beam shape followed by extensive testing by the Department of Civil Engineering at the University of Sydney and The Faculty of Built Environment and Engineering at the Queensland University of Technology.

LiteSteel™ Technologies has recently released the LiteSteel™ beam with a new aluminium/zinc alloy protective coating which offers a superior level of atmospheric corrosion protection.

Reinforcing

OneSteel continues to develop innovative solutions for the construction and mining industries. These solutions include improved MINEMESH® and concrete reinforcing products. BAMTEC® has enhanced the construction of continuously reinforced concrete pavement and the Top Hat 3D Chair recently won an award for best workplace safety initiative.

OneSteel's polymer injection technology team collaborated with PhD students working on the OneSteel/UNSW research program at UNSW's laboratory in Sydney.

Sustainability report

Scrap metal on the production line at OneSteel's Hexham shredding site located at Newcastle (NSW).

Sustainable development is about meeting the needs of our current generation without compromising the ability of future generations to meet their own needs. OneSteel recognises the importance of a sustainable approach to our operations across our value chain.

Steel is an integral part of our developing world, both now and into the future. As one of the most common materials we come into contact with every day, it is difficult to imagine a world without steel. Steel is strong, versatile and able to be recycled. Steel can be used many times over with reprocessing techniques that allow steel to maintain its properties and qualities.

OUR SUSTAINABILITY OBJECTIVE AND PRINCIPLES

By recognising and valuing the interdependence of economic, social and environmental considerations in our decision-making and balancing these with the needs of stakeholders, OneSteel seeks to derive further opportunities to improve long-term, sustainable business performance and risk management.

OneSteel's Sustainability Principles

- Operate our business in an efficient and financially sustainable way to supply our products and services to meet our customers' needs and provide value to stakeholders
- Optimise the eco-efficiency of our products and services through the product life-cycle
- Foster the well-being of our employees and provide them with a healthy and safe working environment
- Promote values and initiatives that demonstrate respect for the people and communities associated with our business
- Conduct our business with high ethical standards in dealings with employees, customers, suppliers and the community
- Engage stakeholders and independent third parties in constructive dialogue to help fulfill our sustainable development commitments
- Build on our knowledge of sustainability and willingly share it with others.

OUR VALUE CHAIN

With the merger of Smorgon Steel, the OneSteel operational value chain reflects the key components of the life-cycle of steel.

OneSteel has iron ore mines feeding its iron ore-based Whyalla Steelworks, and a OneSteel recycling division feeding three scrap steel-based electric arc furnace steelmaking sites. OneSteel also has sites that transform the semi-finished steel into various products and a OneSteel distribution network to supply those products to the market. OneSteel also provides technical support to assist with solving design issues in the high-density residential and commercial building market. And finally, when the steel application reaches its end-of-life, such as building demolition and cars for scrap, OneSteel Recycling aims to obtain the scrap to feed our steelmaking facilities and sell to other parties.

SUSTAINABILITY GOVERNANCE IN ONESTEEL

Within the company environmental and sustainability governance structure, the OneSteel Sustainability Panel is set as the peak co-ordination body to advise senior management and the OneSteel Board OHSE Sub-Committee around sustainability. While certain corporate and business or site-led activities have continued over the year, the governance activity of the Sustainability Panel has become centered around work being conducted within a Climate Change Sub-Committee and responding to the development of the Australian emission trading scheme for greenhouse gases (Australian Carbon Pollution Reduction Scheme).

OUR WORK WITH EXTERNAL BODIES

OneSteel is represented on the Sustainability Group of the Australian Steel Institute (ASI). The Sustainability Group is currently working on areas to promote and improve information around steel products. The ASI is also contributing to development work on a national life-cycle inventory database initiated by the Australian Life Cycle Assessment Society. The ASI has also made further environmental and design information available to assist customers using steel in construction projects on its website at http://www.steel.org.au.

OneSteel is also participating in the early stages of the development of a Steel Stewardship Forum, an outcome of an APEC 2007 workshop on stewardship and life-cycle partnerships. Rio Tinto, BHP Billiton and consultants The Crucible and Ecofutures initiated the Steel Stewardship Forum. The group intends to set up a network that would discuss and address appropriate issues around the life-cycle of steel from minerals to steel manufacture, to products and recycling.

SUSTAINABILITY REPORTING

During the year, OneSteel launched a Sustainable Development section on its website at www.onesteel.com.

This website provides the public and customers with information on OneSteel's sustainability principles and the environment, and sustainable building construction topics such as life-cycle data on products, innovative design case studies and recycled content values in products.

Additionally, OneSteel Whyalla Steelworks released its second annual Environmental and Social Responsibility Report for 2006/2007 that can be located via the Sustainable Development tab under Environment/Reports at www.onesteel.com. The intention of this report is to provide information to the Whyalla community and key stakeholders on the performance of the OneSteel Whyalla Steelworks. The Environmental and Social Responsibility Report for 2007/2008 is expected to be available on the OneSteel website in November 2008.

KEY AREAS OF STRATEGIC WORK

A general overview on activity and performance in the areas of environment, OHSE, community, and financial performance is discussed in the corresponding sections of the OneSteel Annual Report.

The following are areas of key strategic activity that are within the overview function of the OneSteel Sustainability Panel.

Climate change/greenhouse

OneSteel's 2008 greenhouse emissions are currently estimated to be approximately 4.5 million tonnes of CO_2 equivalent greenhouse gases which includes purchased electricity but excludes purchased oxygen. 80% of OneSteel's greenhouse gas emissions derive from the steelmaking operations at Whyalla (SA), Sydney (NSW), Laverton (VIC) and Waratah (NSW). The 2008 inventory includes the full year of former Smorgon Steel sites data that increased OneSteel's total emissions. Changes in the emissions calculation factors with the National Greenhouse Emission Reporting Scheme protocols saw a reduction in greenhouse gas emissions compared to previous years' methodologies.

In March 2008, a Climate Change Sub-committee was formed. A key area of its work has been to respond to the Federal Government's proposed Australian Carbon Pollution reduction scheme, including the Garnaut Report.

While OneSteel recognises the importance of lowering Australia's contribution to world greenhouse emissions and is assessing its own internal energy and greenhouse abatement options, it is very important that the many facets of an emissions trading scheme be appropriately reviewed and designed.

OneSteel has also contributed to the consultation processes around the development of the National Greenhouse Emissions Reporting Scheme (NGERS) and is aligning its current energy and greenhouse inventory process to NGERS requirements. OneSteel's 2008 inventory is calculated using updated NGERS emission conversion factors, and we are back-calculating previous years' inventories for consistent comparison. This information will be available on Onesteel's website by the end of the year.

OneSteel is part of the Co-operative Research Centre for Sustainable Resource Processing (CSRP) and also has ties with the International Iron and Steel Institute's (IISI) CO_2 Breakthrough Program examining longer-term emerging iron and steelmaking technologies to lower greenhouse emissions. Two projects under current examination with the CSRP are biomass (charcoal) viability in the steel industry for different applications, and participation in a CSIRO project on dry slag granulation and heat recovery. OneSteel also has ties to the Steel Task Force, a Federal Government supported forum of the Australia Pacific 6 Nations (AP6) on clean and climate change.

Steel production at OneSteel's Sydney Steel Mill using Polymer Injection Technology. The technology involves substituting a proportion of carbon coke used as a slag foaming agent with polymers, including rubber and plastic, to improve production and energy efficiency in the Electric Arc Furnace steelmaking process.

Sustainability report

Water carts carrying recycled water combined with Dustreat (a natural dust-binding agent) are used to suppress dust on roads around Whyalla.

Water
OneSteel is in the process of forming a company water intensity reduction strategy that will leverage current and emerging site-based activities in conjunction with a long-term strategic view. In addition, several OneSteel sites have set or are setting water intensity reduction targets and the company is in the process of setting water intensity targets at a corporate level.

Building Products Environmental Credentials
OneSteel continues to progress elements of its Building Products Environmental Credentials strategy, which will include in the short-term an update of OneSteel's building product life-cycle inventory given the Whyalla Steelworks change in ore feed and the merger with Smorgon Steel during the year.

ONESTEEL CORPORATE ACTIVITY
As part of OneSteel's undertaking of the mandatory Commonwealth Government Energy Efficiency Opportunity Program, several energy and greenhouse awareness modules were developed for employees covering general awareness, saving energy in offices, motors, compressed air, purchasing, maintenance and lighting.

OneSteel also commissioned the development of a calculation tool, linked to historical rainfall, that readily assesses rainwater tank viability in terms of collection capacity versus roof area in certain regions around Australia.

ONESTEEL BUSINESS UNIT SITE ACTIVITY
In August 2007, the organisational structure at OneSteel's Whyalla Steelworks changed to separate short-term operational from long-term strategic management responsibilities. For the latter, a Business Sustainability Department was formed with a portfolio that includes business strategic items of capital use, energy, greenhouse emissions, dust, water, community, and awareness.

Whyalla Steelworks has also engaged with the University of South Australia's Regional Sustainability Centre to research alternative water and energy sources using solar power. Whyalla Steelworks has been developing site mapping for energy, waste and iron units flow to identify areas for improvement, such as in recycling and efficiencies.

The OneSteel Newcastle Wiremill is participating in a New South Wales Department of Environment and Climate Change program called "A Sustainability Advantage" that includes areas of work examining resource efficiency as well as industry networking.

At OneSteel's Sydney Steel Mill, research and development work is also underway to review the use of plastics and rubber wastes. OneSteel is working with the University of New South Wales under exclusive rights to sub-license the new technology that has been extended to the Laverton Steel Mill.

In the OneSteel Recycling business, the former Smorgon Steel recycling operations were involved in the "Great Scrap Roundup", a project aimed at accessing remote rural scrap by offering farmers cash, vouchers, or contributions to the local volunteer fire brigade in exchange for scrap.

Our Recycling business also contributed to research by the Australian Council of Recycling which aimed to quantify the net ecological benefits to society of recycling a range of materials.

Water
At the Whyalla Steelworks, the extracted salt water from the Spencer Gulf, for use in activities such as process heat-exchanger cooling, is around 32 times the volume of purchased fresh water from the local regional supply pipeline.

Fresh water supply is a significant issue for the Whyalla Steelworks and iron ore mine sites given the operations reliance on water from the Murray River to the Whyalla area. Alternative water supplies are currently being investigated to secure long-term water supply to the Whyalla region.

Water usage has increased as a result of the conversion to magnetite ore wet processing and has led to a significant reduction in dust from the Whyalla Steelworks.

Water mapping has been completed for the Whyalla Steelworks site with a number of water saving opportunities identified. A water reduction target of 20% is in place for the Whyalla Steelworks. Whyalla has undertaken a number of activities to reduce its water usage including the installation of dual flush toilets, triple A rated showerheads and flow restrictors and is converting to waterless urinals.

THE ONESTEEL VALUE-CREATION FRAMEWORK

OneSteel				
Products and Services	Generated Value Add			
	Direct Contributions Buildings Infrastructure Housing Mining Rural	Indirect Contributions		
		Employees	Shareholders	Government
		Wages & Salaries	Capital growth & Dividends	Taxes
Society				

A major project was initiated to reduce the amount of water used to suppress dust on the roads around Whyalla. Dust suppressants were trialled and were successful in certain areas. Additionally, a water reuse project has resulted in the diversion of cooling tower water from a local oxygen plant to the Caster Dam for use by the water carts. The current initiatives are expected to save more than 600 million litres of water per year.

A number of projects focussing on water reduction at the mine site have been or are being implemented around the concentrator and ore beneficiation plant. These initiatives are also expected to deliver significant water savings upon successful implementation.

OneSteel Rod, Bar and Wire businesses are using a consultant to review water use, reuse and recycling options. OneSteel's Newcastle (NSW) site undertook a feasibility study into a sewage/effluent recycling facility. The Geelong (VIC) Wiremill is also undertaking water reduction activity studies.

The Sydney Steel Mill is seeking to progress a project taking treated sewage waters from the Quakers Hill Sewage Treatment Plant via a new pipeline to reduce fresh water usage at the site by approximately 40-50%, or around 500,000 litres per day.

Waratah works have implemented a measuring and reporting system that has identified the major cause of excess water consumption as equipment failure (leaking pipes and sticky float valves). A marked reduction in water consumption has occurred simply by using a weekly reporting system that identifies increases in consumption. As a result, total water consumption at Waratah has dropped 8%, approximately 30 million litres.

Large sites in South East Queensland, like OneSteel Recycling at Hemmant in Brisbane (QLD), were required to submit a Water Management Plan and objectives to meet Level 6 restrictions requirements of Brisbane City Council. The site has installed a new wash-bay water recycling system.

The Australian Tube Mills Acacia Ridge (QLD) site achieved a significant reduction of water consumption (9 million litres) through implementation of a Water Efficiency Management Plan.

A joint initiative between Steel & Tube and Metaland Victoria has seen the installation of water tanks at some Victorian sites. At sites where connection to existing plumbing was impossible or too costly, the captured rainwater has been used to water gardens or as a giveaway to customers or local community groups.

Water consumtion has also been reduced across the Steel & Tube business with the decommission of four wet bed plasma machines which were replaced with dry bed profiler technology. For example, at Port Adelaide (SA) this translates to savings of approximately 100,000 litres per year and reduced the amount of wastewater to be removed from locations as well as eliminate any legionella bacteria concerns. There are ongoing plans to replace the five remaining wet bed machines within OneSteel Distribution in the future.

ONESTEEL SUSTAINABILITY FRAMEWORK MEASURES

OneSteel is in the process of refining its sustainability measures overviewed in the 2007 OneSteel Annual Report, particularly in light of the Smorgon Steel merger and integration, and the setting of appropriate corporate targets and goals in certain intensity measures.

An integrated housing development project at Seven Mile Beach in Forster (NSW) has paved the way for innovative and sustainable design in construction. The project includes 200 two and three-storey houses built using the DuraGal® Integrated House Frame System. The modular, lightweight framing system provides environmental benefits during construction, with advantages continuing through the lifetime of the homes. In addition, all steel materials used in the housing system are 100% recyclable, allowing for recycling or reuse when the homes reach the end of use.

Sustainability report

GOVERNANCE

OneSteel's governance structure for its Sustainability Framework is managed through a number of interactive Board and management processes to ensure integrity of the framework, as outlined below.

Economic value add

In terms of the integrity of the inputs around management decision-making that leads to economic value creation for OneSteel and its key stakeholders, the Board Human Resources Committee is responsible for developing and monitoring remuneration and incentive practices to ensure decision-making behaviour is focussed on deriving long-term value creation. The Board Audit & Compliance Committee has the role of advising on the establishment and maintenance of a framework of internal financial and accounting control and compliance.

Social value add

The Occupational Health, Safety & Environment Committee oversees safety at Board level. Interaction with local communities is managed at a local level given the wide geographical range of OneSteel's operations and through its OneCommunity Giving Program. There is also interaction at a corporate level with communities and government as issues and other matters impacting the operations of OneSteel's business arise.

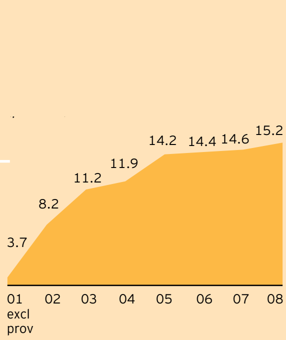
Environmental value add

OneSteel benchmarks itself against international environmental management system standard ISO 14001. Environmental performance is reported through to the Lead Team and the Occupational Health, Safety & Environment Committee of the Board.

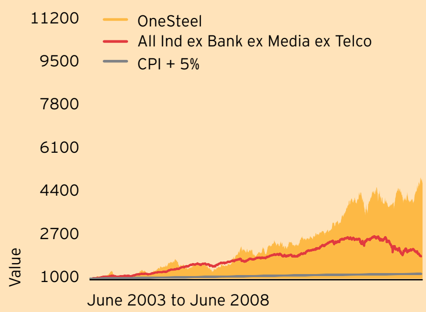
ONESTEEL SUSTAINABILITY FRAMEWORK MEASURES

VALUE	MEASURE	DESCRIPTION	GRAPHS
Economic	Return on Funds Employed	The total return on capital in the form of equity and debt invested in the business	Return on Funds Employed; Total Shareholder Return
	Total Shareholder Return	The total return to shareholders, both in capital and income, over a period	
Social	Payments to Suppliers, Shareholders, Employees, Government, Community	Measures the dollars spent in the process of producing and delivering OneSteel products and services	Social Value Add; Safety Performance
Environmental	Intensity	Measures the intensity of materials utilised in the production of OneSteel products and services	Energy Intensity; Greenhouse Intensity

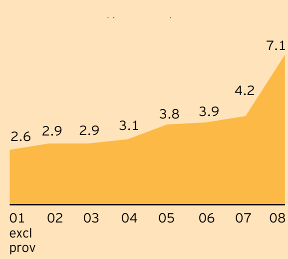
Return on Funds Employed
percent



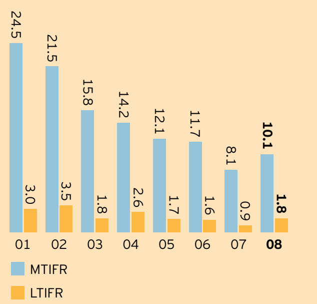
Total Shareholder Return
23 October 2000 to 10 September 2008



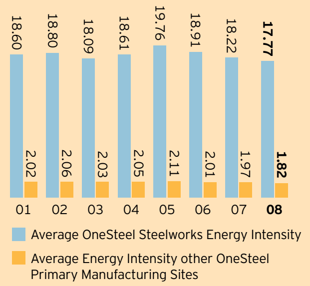
Social Value Add
$ billion



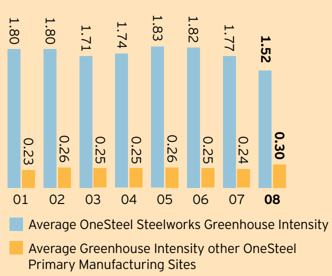
Safety Performance



Energy Intensity



Greenhouse Intensity



The 2008 Energy Intensity and Greenhouse Intensity data includes changes to conversion factors as a result of NGERS and other inventory accounting improvements. Data from previous years has not been recalculated for consistency at the time of publication. However this information will be available shortly on the OneSteel website www.onesteel.com/sdevelopment

Average OneSteel Steelworks includes total Whyalla operations as well as Laverton, Sydney, and Waratah EAF operations. The average also includes data from on-site rolling, other manufacturing and integrated (iron ore) and EAF (scrap) steelmaking.

The 2008 Energy Intensity and Greenhouse Intensity data reflects a full year of Smorgon Steel data (OneSteel acquired Smorgon Steel in August 2007). Smorgon Steel data is not included in previous years.

Environment

The fence pictured was constructed using Waratah® Stocktite® Longlife™ prefabricated wire, GalStar® fence posts and a single strand of barbed wire.

ENVIRONMENTAL GOVERNANCE AT ONESTEEL

The governance of environmental and sustainability issues is becoming more complex resulting in changes to OneSteel's governance structure. At the corporate level, structures are in place to specifically manage environmental and sustainability issues and report to senior management and the Board OHSE sub-committee. The environmental assurance portfolio covers operational issues such as compliance, performance tracking and operational energy efficiency improvements. These topics are reported in detail in this section of the Annual Report. Sustainability matters such as greenhouse emissions, product environmental credentials and water consumption are reported in the Sustainability section of the 2008 Annual Report. The division of responsibilities at a corporate level is supported by the appointment of senior officers.

The OneSteel Environment Policy documents OneSteel's commitment to a high standard of environmental management and improved sustainability. The policy was last revised in June 2008 and modified to reflect the recent merger with Smorgon Steel. The full policy can be viewed at the OneSteel website at www.onesteel.com.

Effective Environmental Management Systems (EMS) are essential for improved environmental performance. The structure of EMS's within OneSteel complies with the recognised international standard ISO 14001. All major manufacturing sites within OneSteel have achieved this standard and have been certified by external auditors. In the 2008 financial year a number of sites were recertified after a comprehensive audit.

There remain a large number of small sites within OneSteel that do not hold this certification, mainly since the merger with Smorgon Steel. An alternate level of compliance (80% alignment to ISO 14001) has been adopted for these sites and is expected to be achieved across the company by 2011. This is appropriate given the low level of environmental risk generated at these sites. The OneSteel environmental auditing program examines all sites for compliance against EMS requirements and relevant local laws and regulations.

ENERGY

OneSteel is a significant consumer of energy from fossil fuels. In the 2008 financial year, OneSteel consumed approximately 52.3 petajoules (PJ) of energy. Of this, 93% was consumed at the four major steelmaking and recycling operations. These are the integrated steelworks at Whyalla (41.6 PJ) and the electric arc furnaces and manufacturing operations at Waratah (2.2 PJ), Laverton (3.1 PJ) and Sydney (2.0 PJ).

The larger OneSteel sites are participating in various national and state energy efficiency programs. These programs include:

- The national Energy Efficiency Opportunities (EEO) program which requires an effective management system to be in place and public reporting of viable energy reduction opportunities
- The NSW Energy Saving Action Plan (ESAP) program that requires viable energy opportunities to be reported within a plan to Government
- The Victorian Environment Resource Efficiency Plan (EREP) program which covers energy and water efficiency plans.

In the 2008 financial year, the OneSteel sites of Whyalla Steelworks (SA), Sydney Steel Mill (NSW), Newcastle Rod Mill (NSW), Laverton Steel Mill (VIC) and Waratah (NSW) were required to participate in the national EEO program and undertook EEO assessments in accordance with the program requirements. Newcastle Rod Mill (NSW) and Sydney Steel Mill (NSW) completed their assessments at 30 June 2008, which were in accordance with the submitted schedule. This comprised of energy efficiency opportunity identification and energy management system improvement.

EMISSIONS REDUCTION

Red dust emissions have been a key environmental issue for the Whyalla Steelworks (SA) for many years. The pellet plant and iron ore export areas are close to the Whyalla township and have been the cause of many complaints. Project Magnet has significantly improved the level of red dust emissions. In December 2008, the pellet plant began to receive processed wet magnetite iron ore feed rather than dry hematite iron ore feed. Previously the hematite ore was processed at the pellet plant and was inherently prone to generating red dust. Now, virtually all crushing and screening for export and local use is conducted at the mine site which is approximately 60 km from Whyalla, South Australia (SA).

Environment

Gideon Janssen, General Manager Commercial (pictured left) presenting Jeff Andersen, Principal Mechanical Engineer with the inaugural Environment Employee of the Year Award.

Project Magnet has delivered additional environmental benefits. Road trains ceased delivering ore to the steelworks in February 2008. Almost all ore for export is stored inside a shed, removing an additional dust source close to the town. The previous stockpile areas will now be rehabilitated.

Project Magnet has generated a significant improvement in red dust emissions and the dust control network (a network of four dust monitors situated between the pellet plant and export facility, and the east end of the Whyalla community) will continue to track improvement. OneSteel has now voluntarily offered to have a community dust target written into its licence conditions.

At the coke ovens at Whyalla, liquid discharges to the marine environment have also been under the review. In the 2008 financial year, the OneSteel Board approved a project to reduce these discharges. Completion of this project is expected in August 2010 and it is expected that it will treat the full arisings of coke ovens effluent to a level approved by the regulator.

LAND MANAGEMENT

In the 2008 financial year, results of various land management initiatives associated with Project Magnet became apparent. The pipe and powerline corridor from the mine site to the steel works has made a good recovery with the re-establishment of a diverse range of native plants. Plans for the remediation of the northern stockpile (at the steelworks) are complete and partially implemented. Stockpiles of ore are being removed and replaced with piles of soil ready to be spread and seeded with local native species.

Ongoing monitoring adjacent to the mine site show that local fauna communities are healthy and a diverse range of species, including the rare Sandhill Dunnart, have been identified. Part of the OneSteel SEB offset for Project Magnet was the establishment of the Shirrocoe Reserve. The Department of Environment and Heritage has accepted funding from OneSteel to conduct baseline biodiversity surveys and develop a management plan to close water points. All but one of the dams have now been filled in and this will benefit native fauna as local water availability will return to natural levels.

COMMUNITY AND EMPLOYEE INVOLVEMENT

OneSteel is committed to communicating with the communities in which we operate. The OneSteel sites with active community liaison forums in the 2008 financial year were: Whyalla Steelworks (SA), Sydney Steel Mill (NSW), Hexham Shredder (NSW), Newcastle Wire and Rope Mill and Waratah (NSW). At St Mary's (NSW) and Geebung (QLD) one-off community forums were held to address issues.

The Waratah Environmental Community Liaison Committee recognised its 11th anniversary by a donation of seating and garden facilities at the local Mater Hospital, and the installation of a commemorative plaque thanking our neighbours for their involvement over those years. At Whyalla (SA), OneSteel has contributed $150,000 to the Whitehead Street Amenity Improvement Project with a further $100,000 committed for next financial year.

This project is aimed at improving the visual appearance of the area adjacent to the pellet plant.

The inaugural Whyalla Steelworks combined Safety & Environment Excellence Awards were held in May 2008, recognising the efforts of Whyalla employees and contractors who strive to make the steelworks a safer and more environmentally focussed place to work. This was the first year Environment Awards have been presented to acknowledge those making a difference on the environment front.

Awards were presented to winners in the following four categories:

- Environment Employee of the Year
- Workplace Environment Initiative of the Year
- Environment Work Team Department of the Year
- Contractor Environment Initiative of the Year.

PROSECUTIONS, NON-COMPLIANCES, INCIDENTS AND COMPLAINTS

Given the diversity and number of OneSteel's operations, from time-to-time complaints are received from residential and commercial neighbours. All complaints received are logged and investigated. In the 2008 financial year, there was no significant change in the overall number, nature or pattern of complaints received.

In September 2007, OneSteel Martin Bright (VIC) pleaded guilty in relation to a spill of chromic acid that occurred in November 2005. The court imposed a fine of $75,000 and publication of a notice, but no conviction. A copy of the notice appears at the end of this Annual Report.

Also in the 2008 financial year, the environmental non-compliance and incident history across OneSteel was essentially unchanged with the majority of incidents being of a very minor nature (Severity 1 on a scale of 1 to 5, negligible consequences). An example of such an incident would be an on-site spill of 50 litres of lubricating oil, where it is effectively contained and fully recovered. These are still internally reportable, serve as an indicator of environmental performance and offer a learning experience.

Environment Awareness Leader, Sara-Kate Stacey, examines one of the dust monitors OneSteel has in place to keep track of fugitive dust performance.

Finance and risk management

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 2008 was 37.6%.

Since completing the Smorgon Steel merger, OneSteel's core debt facilities at the end of June 2008 comprised $1,900 million of syndicated loans provided by a group of banks with tranches expiring from 2009 to 2012, $200 million bilaterals expiring in 2009, and US$228 million of US privately placed debt with tranches expiring from 2010 to 2015.

INTEREST RATE MANAGEMENT

OneSteel's objective when 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 7.60%. Duration of non-current debt facilities at 30 June 2008 was 3.25 years. The proportion of debt drawn at fixed rates was 43%.

EQUITY MANAGEMENT

At the end of June 2008, there were 878.7 million shares on issue, providing a contributed equity of $2,929.9 million (excluding employee compensation shares) which, when added to retained earnings, reserves and outside equity interests, provided total shareholders' equity of $3,432.9 million.

Since listing, the main additions to contributed equity up to the end of June 2008 have been a private placement completed in December 2001 of 69.7 million shares, a share issue of approx 296.4 million shares to Smorgon Steel Group Limited shareholders as consideration for their shares in Smorgon, and a further 6.5 million shares under the dividend reinvestment plan. There has been healthy participation in the dividend reinvestment plan since April 2002 of 18% to 31% of shares held by eligible shareholders. Additionally, since listing, 6.0 million shares have been issued following the exercise of options by senior management.

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.

FOREIGN EXCHANGE EXPOSURE

The main sources of foreign exchange risk include:

- Sale of commodity goods and steel 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.

The Group requires all business units to use forward currency contracts to eliminate the currency exposures.

OneSteel also has foreign currency exposure arising from its US private debt placement. Some of this debt has been hedged using a series of cross-currency interest rates swaps. The remaining portion of unswapped debt is used to fund investments in US businesses.

OneSteel also has exposure to foreign exchange translation risk in relation to New Zealand dollar-denominated and US dollar-denominated assets and liabilities. These relate to its 50.3% share in Steel & Tube Holdings and investments in offshore businesses previously owned by Smorgon Steel. For the US businesses the Group has a considerable natural hedgeing in place.

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 focussed process includes:

- Verification of effectiveness of controls using the following steps:
  - Identify and analyse the key financial processes
  - Assess the inherent and residual risk of each key process
  - Identify key controls where an inherent/residual risk gap indicates significant reliance on internal controls
  - Performing Control Self Assessment (CSA) tests of key controls, and
  - Stewardship reviews and OneSteel Location Assurance programs (OneLAP) conducted on a monthly basis by the management accountants;
- This process is based on:
  - Risk-based identification of key controls
  - Deloitte, the company's Internal Auditor's verification of the effectiveness of key controls
  - Business unit risk owner/management sign-off to support Chief Executive Officer and Chief Financial Officer sign-offs, and
  - One standard across the company from August 07, after the merger with Smorgon Steel.

INTERNAL AND EXTERNAL AUDIT

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

Deloitte works with the company's full time risk and audit manager and external auditor, KPMG, to minimise any duplication of effort and to maximise knowledge sharing between the 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 management that is capable of responding promptly to emerging and evolving risk. The risk system was reviewed in August 2007 and further strengthened.

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

- Key risks are identified bi-annually 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 above a certain threshold obtains prior Board approval
- Internal control weaknesses are identified and reported monthly through the outstanding audit issues scorecard until they are remediated and closed
- Financial exposures are controlled, including the use of derivatives, and
- Business transactions are properly authorised and executed.

Finance and risk management

PROJECT MAGNET

With the completion of Project Magnet, a series of comprehensive risk reviews were conducted to ensure key risks identified and managed during key stages of the life of the project were effectively mitigated. The remaining residual risk issues have been brought under the business risk profile of Whyalla Steelworks that is being periodically reviewed and managed by its Lead Team.

MERGER WITH SMORGON STEEL

OneSteel has identified key potential risks attached to the implementation of the merger. Key potential risks include realisation of synergies; retaining market share; retention of key personnel, and possible distraction from business as usual.

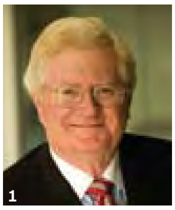
The overall risk rating on the integration has been reduced and risks are being effectively mitigated using appropriate safeguards, controls and systems. Management continues to monitor and manage through its internal risk management system.

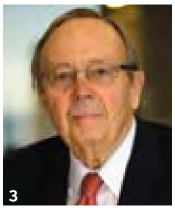
ONESTEEL MATERIAL BUSINESS RISKS

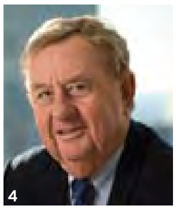
The following long-term key risks have been identified as having the potential to impact both positively and negatively on the company's earnings stream.

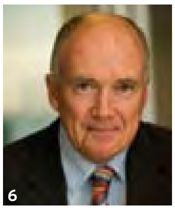
Nature of Risk	Description	Management of Risk
Environmental	OneSteel is an emitter of greenhouse gases. Any introduction of greenhouse gas trading schemes or taxes on greenhouse gases emissions may, depending on the form any such schemes or taxes take, impact OneSteel's manufacturing costs. Changes in government policy on industrial water allocations given the severe drought conditions in southern and south-eastern Australia. Any restriction on OneSteel's access to water may have a material adverse impact on its business operations.	OneSteel is closely monitoring developments in these areas and is involved in a number of interdepartmental government committees involved in the formulation of related policy.
Commodity price fluctuations	Recent surges in demand for raw materials such as scrap and coking coal have caused major increases in the cost of steel production channels and this commodity price volatility can affect margins.	OneSteel management enters fixed price contracts for coking coal. OneSteel's pricing strategy is predicated on recovery of cost increases for raw material inputs.
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, such as multi-level buildings, there are opportunities for steel where the product has low intensity compared with substitute products. 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 parts of its businesses.	Generally the greater percentage of OneSteel's business is driven by higher-volume, 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.
Smorgon integration	Managing the post-integration activities and achieving expected synergies is paramount for OneSteel.	Since acquisition of the Smorgon Steel business, OneSteel has put in place a number of specific work streams focussing on managing the activities, ensuring that the stated synergies under each stream are captured, monitored and reported at various levels of OneSteel including the Board and the Lead Team.
Compliance	OneSteel's operations are subject to numerous internal and external legal and regulatory compliance obligations 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 spends significant expenditure 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.
Attracting and retaining skilled workforce	Attracting and retaining appropriately skilled and experienced people to support the delivery of OneSteel's Business Plan goals and objectives. This includes the need for succession planning process to replace the aging workforce.	OneSteel engages a Talent and Leadership Council to drive actions to close the gaps in succession and talent management including targeted plans for each business. Further, steps have been taken to improve the capability of OneSteel to attract and select suitable candidates using a range of targeted, proactive and innovative initiatives including alternate talent pipelines, international recruitment, improved employment branding and improved capability within the internal recruitment team.

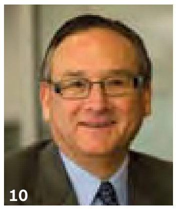
Board of Directors











P J (PETER) SMEDLEY[1]
BComm, MBA, FAICD
Chairman, Independent Non-executive Director
Age 65. Appointed a Director and Chairman in October 2000. Mr Smedley is Chairman of the Operational Risk Committee and a member of the Governance & Nominations Committee and the Human Resources Committee. He is Chairman of Spotless Group Limited, and CARE Australia, and Deputy Chairman of the Colonial Foundation. He is also a Director of The Australian Ballet and the Haven Foundation. 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.

Other listed company directorships held during the period 1 July 2005 to 30 June 2008:

– Spotless Group Limited appointed 8 December 2006.

G J (GEOFF) PLUMMER[2]
BEc
Managing Director and Chief Executive Officer
Non-Independent Executive Director
Age 52. Appointed a Director in December 2004 and became Managing Director and Chief Executive Officer on 2 May 2005. Mr Plummer 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. He is a Director of the International Iron & Steel Institute.

LAURENCE G (LAURIE) COX AO[3]
B.Comm, FCPA, SFFin
Independent Non-executive Director
Age 69. Appointed a Director on 17 September 2007. Mr Cox is a member of the Audit & Compliance Committee and the Human Resources Committee. Chairman of SMS Management & Technology Limited, Executive Director of Macquarie Group Limited and Director of Research Australia Limited. Chairman of the Murdoch Children's Research Institute Limited. Extensive experience in Australian and international financial markets over more than 40 years, holding senior executive positions including Chairman Australian Stock Exchange (1989–94), Executive Chairman Potter Warburg Group of companies (1990–95) and Director SG Warburg Securities, London. Former Chairman of Transurban Group and former Director of Smorgon Steel Group Limited, Hills Motorway Limited and Hills Motorway Management Limited.

Other listed company directorships held during the period 1 July 2005 to 30 June 2008:

– Smorgon Steel Group Limited from September 1998 until August 2007
– Director of Macquarie Group Ltd since November 2007
– SMS Management & Technology Limited since May 2001
– Transurban Group from November 2001 until February 2007
– Hills Motorway Limited from April 2005 until February 2007.

R B (BRYAN) DAVIS[4]
BSc (Tech), FAIMM, MAICD
Independent Non-executive Director
Age 65. Appointed a Director in December 2004. Mr Davis 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 and Bendigo Mining Limited, 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 1 July 2005 to 30 June 2008:

– Newcrest Mining Limited since April 1998
– Coal and Allied Industries Limited since September 2000
– Bendigo Mining Limited from September 2004 until January 2006.

E J (EILEEN) DOYLE[5]
BMath, MMath, PhD, FAICD
Independent Non-executive Director
Age 53. Appointed a Director in October 2000. Ms Doyle 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 2005 to 30 June 2008:

– Ross Human Directions Limited since July 2005
– Steel & Tube Holdings Limited since July 2005.

C R (COLIN) GALBRAITH AM[6]
LLB (Hons), LLM, FAICD
Independent Non-executive Director
Age 60. Appointed a Director in October 2000. Mr Galbraith is Chairman of the Governance & Nominations Committee and a member of the Audit & Compliance Committee. He is a Special Adviser at Gresham Partners Limited having previously been a partner at law firm Allens Arthur Robinson specialising in commercial law. He is a Director of Commonwealth Bank of Australia, CARE Australia and the Australian Institute of Company Directors, Chairman BHP Billiton Community Trust and a trustee of Royal Melbourne Hospital Neuroscience Foundation. Previously, he has been a Director of Colonial Group, Azon Limited and GasNet Australia Limited (group).

Other listed company directorships held during the period 1 July 2005 to 30 June 2008:

– Commonwealth Bank of Australia since June 2000
– GasNet Australia Limited (group) from December 2001 until November 2006.

P G (PETER) NANKERVIS[7]
B Ec (Hons), FCPA, GAICD
Independent Non-executive Director
Age 58. Appointed a Director in December 2004. Mr Nankervis 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 Mitchell Communication Group Limited. Previously he was Chief Financial Officer of Cadbury Schweppes Asia Pacific and Finance Director of Cadbury Schweppes Australia Limited.

Other listed company directorships held during the period 1 July 2005 to 30 June 2008:

– Mitchell Communication Group Limited from 12 March 2007.

D A (DEAN) PRITCHARD[8]
BE, FIE Aust, CP Eng, FAICD
Independent Non-executive Director
Age 63. Appointed a Director in October 2000. Mr Pritchard is a member of the Occupational Health, Safety & Environment Committee, the Human Resources Committee and the Operational Risk Committee. He is Chairman of Steel & Tube Holdings Limited, a New Zealand listed company in which OneSteel holds a 50.3% interest. He is also a director of OZ Minerals Limited, Spotless Group Limited and Eraring Energy. Previously, he was Chief Executive Officer of Baulderstone Hornibrook, Chairman of ICS Global Limited, a director of Railcorp and Zinifex Limited.

Other listed company directorships held during the period 1 July 2005 to 30 June 2008:

– ICS Global Limited from June 1999 until June 2007
– Zinifex Limited from March 2004 to July 2008
– Steel & Tube Holdings Limited since May 2005
– Spotless Group Limited since May 2007
– OZ Minerals Limited since June 2008.

N J (NEVILLE) ROACH AO[9]
BA (Hons), DSc (HC), FACS
Independent Non-executive Director
Age 69. Appointed a Director in October 2000. Mr Roach is the Chairman of the Human Resources Committee and a member of the Occupational Health, Safety & Environment Committee and the Audit & Compliance Committee. He is also Chairman of Smart Internet Cooperative Research Centre, Smart Services Cooperative Research Centre, TCS-FNS Pty Ltd and TCSM Pty Limited and a director of Australian Academic and Research Network. His previous roles include Chairman and Chief Executive Officer of Fujitsu Australia Limited, director of Fujitsu Asia, 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.

G J (GRAHAM) SMORGON[10]
B.Juris LLB
Independent Non-executive Director
Age 58. Appointed a Director on 17 September 2007. Mr Smorgon is a member of the Operational Risk Committee and the Occupational Health, Safety & Environment Committee. He is also Chairman of Smorgon Consolidated Investments, the GBM Group and the Print Mint Group, and a Director of Fed Square Pty Ltd. His previous roles included Chairman of Smorgon Steel Group Limited, President of the Carlton Football Club, Deputy Chairman of Melbourne Health, Director of The Walter and Eliza Hall Institute and partner of law firm Barker Harty & Co where he practised as a commercial lawyer for 10 years.

Other listed company directorships held during the period 1 July 2005 to 30 June 2008:

– Smorgon Steel Group Limited from April 1998 until August 2007.

Corporate Governance Statement

OneSteel Limited listed on the Australian Securities Exchange (ASX) 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.

Composition of the Board and its Committees
The Board consists of 10 directors.

The current membership of the Board and its Committees is set out below.

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.

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					
L G Cox	Independent Non-executive			Member		Member
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
G J Smorgon	Independent Non-executive		Member		Member	

Corporate Governance Statement

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 approval and 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 auditor 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 the external auditor including whether the external auditor has met its obligations to ensure its 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 Reviews (PIRs)
- 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. In relation to occupational health, safety and environment (OHS&E) matters, the role of the Committee includes to monitor and review:

- The effectiveness of the corporate OHS&E policies
- OHS&E legislative compliance
- OHS&E management systems across the Group
- OHS&E performance and compliance across the Group
- OHS&E Assurance & Audit schedule compliance and results
- The effectiveness of the OHS&E Governance Structure
- Outcomes of OHSE Council management review
- The response to all significant incidents
- The Committee reports to the Board on key OHS&E issues and areas of OHS&E focus across the Group.

Corporate Governance Statement

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 Report. 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 realise opportunities. This risk-based system of internal control helps us 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 provide 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 on pages 37 and 38 of the Annual Report.

A copy of the OneSteel Risk Policy is available at 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 2008, 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 2008 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 auditor must clearly demonstrate its independence
- The external auditor 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 auditor are fully disclosed.

Corporate Governance Statement

Our 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 on page 49 of the Remuneration 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 ASX
- Release of the yearly announcement to 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 our website. The company secretary has primary responsibility for ASX and Australian Securities and Investments Commission (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 report
- 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 Report 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 report and notice of annual general meeting
- The Chairman's and CEO'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.

Financial statements

Directors' report

Your directors submit their report for the year ended 30 June 2008.

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
L G Cox – Appointed 17 Sept 2007
R B Davis
E J Doyle
C R Galbraith
P G Nankervis
G J Plummer
D A Pritchard
N J Roach
G J Smorgon – Appointed 17 Sept 2007

Details of the qualifications, experience and responsibilities of directors are set out on page 39 of the Annual Report.

Principal activities
The principal activities of the OneSteel Group during the financial year were the mining and supply of steelmaking raw materials to steel mills operated in Australia and overseas; recycling of ferrous and non-ferrous scrap metal and the manufacture and distribution of steel long products.

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

On 20 August 2007, OneSteel Limited acquired Smorgon Steel Group Limited, an Australian-based steel recycling and manufacturing business. Smorgon Steel's fully integrated activities extended from collecting and processing steel scrap to steelmaking, steel tube manufacturing and processing a wide range of metal products. Smorgon Steel was one of the world's leading manufacturers of grinding media, and also held a significant market position in scrap metal recycling and the manufacture of railway wheels in Australia.

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 36 of the Annual Report.

Net profit after income tax attributable to members of the parent entity for the financial year was $244.9 million (2007: $207.0 million) with earnings per share of 29.45 cents (2007: 36.34 cents). The net profit for the year includes the impact of restructuring costs and impairment of plant and equipment of $70.1 million. The profit in the prior year included the impact of a tax benefit arising from the derecognition of deferred tax liabilities of $9.5 million.

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

	$ million
Final dividend 13.5 cents per share payable on 16 October 2008, fully franked at a 30% tax rate on fully paid shares	118.6
Interim dividend 8 cents per share paid on 17 April 2008, fully franked at a 30% tax rate on fully paid shares	70.1
Final dividend 10.5 cents per share paid on 18 October 2007, fully franked at a 30% tax rate on fully paid shares	91.5

Significant changes in the state of affairs
Other than the acquisition of Smorgon Steel Group Limited on 20 August 2007, there were no significant changes in the state of affairs of the OneSteel Group that occurred during the financial year ended 30 June 2008. Commentary on the overall state of affairs of the OneSteel Group is set out on pages 1 to 43 of the Annual Report.

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 are periodically subjected to internal, independent external and government agency audits and site inspections. The environment report is set out on pages 35 and 36 of the Annual Report.

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 41 and 42 of the Annual Report.

Directors	Board of Directors	Governance & Nominations Committee	Audit & Compliance Committee	Occupational Health, Safety & Environment Committee	Human Resources Committee	Operational Risk Committee
Number of meetings held	10	3	6	4	2	4
Number of meetings attended						
P J Smedley	10	3			2	4
L G Cox	8		4			
R B Davis	10			4		4
E J Doyle	9	2	6	3		
C R Galbraith	10	3	5			
P G Nankervis	10		6			4
G J Plummer	10					
D A Pritchard	10			4	2	4
N J Roach	9		5	4	2	
G J Smorgon	8			2		3

Note: Messrs Cox and Smorgon both joined the Board on 17 September 2007. Both directors attended all Board meetings held since they were appointed directors. Both directors attended all Board Committee meetings held since they were appointed directors other than Mr Cox who missed one Audit & Compliance Committee meeting and Mr Smorgon who missed one Operational Risk Committee and one OHSE Committee meeting. Although not a member of any Board committee Mr Plummer attended all Board Committee meetings by invitation.

Directors' report

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 2008.

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 in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001.

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

Remuneration philosophy

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

Human Resources Committee

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

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

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

Remuneration structure

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

Non-executive directors

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

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

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

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

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

The aggregate remuneration under (a) and (b) above must be less than the limit of $2,000,000 approved at the 2006 Annual General Meeting imposed by Article 9.8 of the Constitution of the company and as approved by shareholders under ASX Listing Rule 10.17.

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

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

Long-term component of non-executive directors' remuneration

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

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

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

Retirement Benefit – Discontinued Scheme

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

The transition to the new arrangements involved the amount of the retirement benefit accrued by each non-executive director up to 17 November 2003 being fixed by reference to length of service up to this date and those directors forgoing 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:

Directors' report

- 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 directors' 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 senior executives reporting directly to the CEO. The Human Resources Committee reviews the Managing Director's remuneration arrangements. In the case of senior executives, the Managing Director makes recommendations to the Human Resources Committee. The Board approves all remuneration changes for executive directors and senior executives.

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

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

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

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

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

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

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

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

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

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

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

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

When vesting rules are satisfied, one ordinary share in the company may be obtained for each right to shares or options 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 retesting of the performance hurdles quarterly for senior executives and yearly for the current Managing Director over a two-year period. For any future allocations to senior executives after 1 July 2008, the retesting period for performance hurdles will be on a six-monthly basis. 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 2008. 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.

Directors' report

B. DETAILS OF REMUNERATION

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, certain executives that report directly to the Managing Director, and the Chief Executive Officer of Steel and Tube Holdings Limited, a New Zealand listed company in which OneSteel holds a 50.3% interest, as set out below. This includes the five company and Group executives who received the highest remuneration for the year ended 30 June 2008.

N Calavrias
Chief Executive Officer, Steel & Tube Holdings Limited

A J Reeves
Chief Financial Officer

C R Keast
Executive General Manager, Rod, Bar and Wire

M R Parry
Executive General Manager, Whyalla Steelworks

A H Combe
Executive General Manager, Distribution

A G Roberts
Executive General Manager, Marketing

L J Selleck
Executive General Manager, EAFs and Technology

S H Hamer
Executive General Manager, Steel-in-Concrete

R Jansen
Chief Executive Officer, Recycling

The five company and Group executives who received the highest remuneration for the year ended 30 June 2008 are:

A J Reeves
Chief Financial Officer

A H Combe
Executive General Manager, Distribution

M R Parry
Executive General Manager, Whyalla Steelworks

L J Selleck
Executive General Manager, EAFs and Technology

C R Keast
Executive General Manager, Rod, Bar and Wire

(a) Compensation of key management personnel

	Short-term benefits			Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total	Total performance related
	Salary and fees (6) $	Cash bonus (3) $	Non-monetary benefits (7) $	Superannuation $	Cash bonus (3) $	$	Shares and share rights (1), (2), (8) $	$	%
2008									
Directors									
P J Smedley	295,000	–	11,625	–	–	–	132,754	439,379	–
G J Plummer	1,333,593	1,000,000	73,652	124,460	–	–	1,656,119	4,187,824	63.4
R B Davis	98,333	–	2,852	8,850	–	–	35,402	145,437	–
E J Doyle	98,333	–	2,816	8,850	–	–	35,402	145,401	–
C R Galbraith	98,333	–	–	8,850	–	–	35,402	142,585	–
P G Nankervis	98,333	–	1,552	8,850	–	–	35,395	144,130	–
D A Pritchard	98,333	–	2,021	8,850	–	–	35,402	144,606	–
N J Roach	98,333	–	3,007	8,850	–	–	35,402	145,592	–
L G Cox	78,836	–	–	7,095	–	–	28,378	114,309	–
G J Smorgon	78,836	–	1,560	7,095	–	–	28,378	115,869	–
Executives									
N Calavrias	579,622	85,048	–	43,054	171,714	–	–	879,438	29.2
A J Reeves	673,931	301,000	78,201	68,137	–	–	204,136	1,325,405	38.1
L J Selleck	460,205	206,000	33,800	62,100	–	–	146,516	908,621	38.8
M R Parry	484,692	258,000	–	47,312	–	–	149,672	939,676	43.4
C R Keast	468,171	228,000	–	46,302	–	–	149,672	892,145	42.3
A G Roberts	443,252	249,000	–	43,301	–	–	145,763	881,316	44.8
A H Combe	576,526	172,000	–	57,018	–	–	136,712	942,256	32.8
S H Hamer	385,011	194,000	11,302	38,077	–	–	114,729	743,119	41.5
R Jansen (4)	519,355	150,000	–	–	–	–	–	669,355	22.4
Total	6,967,028	2,843,048	222,388	597,051	171,714	–	3,105,234	13,906,463	

Directors' report

(a) Compensation of key management personnel (continued)

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

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

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

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

(4) R Jansen is employed under a contract from 20 August 2007. The contract may be terminated either on 31 December 2008 or 31 December 2009. The contract provides for a payment to Mr Jansen of $240,000 upon termination and is for a non-competition period of four months from the date of termination.

(5) W J Gately ceased to be a key management personnel from 1 July 2007.

(6) Directors' fees are comprised of Salary and Fees, Superannuation and Shares granted under the long-term component of non-executive directors' remuneration.

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

(8) Dividends paid to the executives on unvested share rights under the LTIP are implicitly included in the fair value of the share-based payment expense recognised as remuneration. Cash dividends paid to the executives during the year were: A J Reeves $31,278 (2007: $24,477), L J Selleck $17,255 (2007: $21,782), M R Parry $19,470 (2007: $12,911), C R Keast $19,470 (2007: $12,911), A G Roberts $18,916 (2007: $10,840), A H Combe $16,752 (2007: $5,977) and S H Hamer $17,675 (2007: $Nil).

(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.

	Vested	Granted	Terms and conditions for each grant				
	No.	No.	Grant date	Fair value per right at grant date ($)	First expiry date	Exercise date	Last exercise date
2008							
Director							
G J Plummer	1,143,126	327,680	20/08/07	6.07	20/08/10	20/08/10	20/08/12
Executives							
A J Reeves	85,086	81,920	20/08/07	6.07	20/08/10	20/08/10	20/08/12
L J Selleck	85,086	57,344	20/08/07	6.07	20/08/10	20/08/10	20/08/12
M R Parry	23,824	57,344	20/08/07	6.07	20/08/10	20/08/10	20/08/12
C R Keast	23,824	57,344	20/08/07	6.07	20/08/10	20/08/10	20/08/12
A G Roberts	15,315	57,344	20/08/07	6.07	20/08/10	20/08/10	20/08/12
A H Combe	–	57,344	20/08/07	6.07	20/08/10	20/08/10	20/08/12
S H Hamer	27,227	57,344	20/08/07	6.07	20/08/10	20/08/10	20/08/12
Total	1,403,488	753,664					
2007							
Director							
G J Plummer	–	305,461	1/05/07	4.88	1/05/10	1/05/10	1/05/12
Total	–	305,461					

(c) Compensation options granted and vested during the year

Due to the suspension of the Executive Option Plan there were no grants of options during the year. All outstanding options from this plan vested in 2005.

(d) Shares issued on exercise of compensation options

No options were exercised by key management personnel during the year ended 30 June 2008.

C. EQUITY-BASED COMPENSATION

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/ASX 200 Index
- If a ranking between the 50th and 75th percentile is achieved, vesting is on a straight line basis, with all vesting at or above the 75th percentile ranking.

D. ADDITIONAL INFORMATION

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.

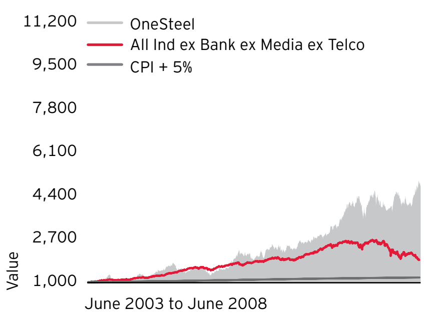
YEAR ENDED 30 JUNE	OPERATING PROFIT $M (1)	DIVIDEND CENTS	EARNING PER SHARE CENTS (2)
2008	315.0	21.5	36.0
2007	197.5	18.5	34.5
2006	171.6	17.0	30.3
2005	153.1	13.5	27.3
2004	129.1	12.0	23.3
2003	113.8	11.0	20.8
2002	66.0	6.5	12.3
2001	38.6	6.0	5.1

(1) Operating profit
- The 2008 results exclude the impact of restructuring costs and impairment of plant and equipment associated with the integration of the Smorgon Steel Group and Australian Tube Mills businesses of $70.1 million, after tax.
- The 2007 results exclude the impact of the derecognition of deferred tax liabilities of $9.5 million.
- The 2006 results exclude the tax benefit of $15.9 million arising from finalisation of tax consolidation values.
- The 2005 results exclude the one-off benefit relating to the reversal of impairment loss on transition to AIFRS of $49.7 million, after tax.
- The 2004 results exclude the one-off tax benefit of $19.8 million arising from OneSteel's entry into the tax consolidation regime.
- The 2001 to 2004 results have been presented under previous AGAAP and have been adjusted to exclude goodwill amortisation from earnings. The 2001 results exclude the impact of restructuring provisions.

(2) Earnings per share calculated based on operating profit and number of shares at year end.

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/ASX 200 Index excluding banks, media and telecommunications) and the Base Index (the Australian Consumer Price Index plus 5%).

OneSteel Total Shareholder Return



Directors' report

E. EMPLOYMENT CONTRACTS

G J Plummer

Mr Plummer was appointed as Managing Director and Chief Executive Officer on 2 May 2005 for a fixed term of five years following a period as Deputy Managing Director from 20 December 2004 until 1 May 2005. Effective from 20 August 2007, an amendment was agreed to Mr Plummer's Executive Service Agreement such that it will not terminate at the end of the initial five-year period but instead, will continue on an ongoing basis until terminated by either OneSteel or Mr Plummer in accordance with the termination rights in the original Executive Service Agreement.

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 $1,500,000 per annum inclusive of superannuation and novated car leases. The base remuneration is reviewed by the Board's Remuneration Committee each year and may be increased or remain unchanged (but not be decreased) as a result of this review.

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

For the long-term component of his remuneration, Mr Plummer has been granted three separate allocations of shares during his term as MD and CEO. The first two of these were as agreed in his original executive employment agreement. He was allocated the first instalment on 6 May 2005 when 1,058,040 shares were allocated at the prevailing market price representing two times base remuneration. The second instalment was allocated on 1 May 2007, being 305,461 shares allocated at the prevailing market price representing one and one third times base remuneration. A third instalment of shares, as agreed in the amended Executive Service Agreement in August 2007, was allocated on 20 August 2007, being 327,680 shares allocated at the prevailing market price representing one and one third times base remuneration. This allocation coincided with the implementation of the merger with Smorgon Steel.

For the current year, an allocation of shares has been approved to the value of one quarter times base remuneration. These shares will be allocated in August at the prevailing market price. This allocation is part of a planned transition to annual allocations of shares.

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

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

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

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

Mr Plummer is required to provide six months notice of termination or a lesser period where there is a fundamental change in the business or OneSteel is in breach or default of its obligations under the service contract. If Mr Plummer terminates his employment within 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 initial employment contract was lodged with the Australian Securities Exchange on 20 December 2004 and a summary of the amendments was similarly lodged on 20 August 2007. Copies of these releases are 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 plus the target value of STI.

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

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

Directors' report

Company Secretary
Information on the qualification and experience of the company secretary is set out on page 9 of the Annual Report.

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 2008.

Share rights and options
During the year, there were 2,016,457 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 92,558 shares as a result of the exercise of options. Details relating to the exercise of these options are included in Note 29 of the 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 Dec 2009	$0.9258	117,838
21 Dec 2010	$1.0434	250,000

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 and in some cases as a result of the shares held in Smorgon Steel Group Limited at the time of the merger either directly or indirectly, as follows:

Directors	Ordinary shares
P J Smedley	20,426
G J Plummer	–
L G Cox	269,431
R B Davis	15,674
E J Doyle	5,523
C R Galbraith	5,447
P G Nankervis	5,446
D A Pritchard	5,447
N J Roach	5,447
G J Smorgon	106,242

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

1. Mr G J Plummer who was granted rights to 327,680 ordinary shares under the OneSteel Executive Long-Term Incentive Share Plan. These share rights will vest between 20 August 2010 and 20 August 2012 subject to performance hurdles. In addition, rights to 1,143,126 ordinary shares vested to Mr Plummer during the financial year.
2. Mr G J Smorgon who disposed of 51,055 shares.

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

Directors	Shares	Share rights	Options
P J Smedley	251,418	–	–
G J Plummer	1,482,468	633,141	90,000
L G Cox	269,431	–	–
R B Davis	38,144	–	–
E J Doyle	128,107	–	–
C R Galbraith	100,330	–	–
P G Nankervis	35,752	–	–
D A Pritchard	90,889	–	–
N J Roach	216,104	–	–
G J Smorgon	55,187	–	–

Full details are set out in Note 30 of the financial report.

Matters subsequent to the end of the financial year
On 9 July 2008, OneSteel completed the issue of USD$200 million of private placement notes. The purchasers of these notes with maturities of seven, 10 and 12 years comprised a number of US insurance companies. The funds have been used to refinance maturing debt and also assist to extend the duration of OneSteel's debt portfolio.

On 19 August 2008, the directors of OneSteel Limited declared a final dividend on ordinary shares in respect of the 2008 financial year. The total amount of the dividend is $118.6 million, which represents a fully franked dividend of 13.5 cents per share.

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 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 39 of the Annual Report.

In August 2007, OneSteel Limited, SSX Pty Limited (previously named Smorgon Steel Group Limited) and Smorgon Consolidated Investments Pty Ltd (of which G J Smorgon is a director) entered into a Deed of Restricted Licence under which Smorgon Consolidated Investments Pty Ltd granted OneSteel Limited and members of the SSX Pty Limited group a licence to use the Smorgon name for a transitional period of two years following the acquisition of SSX Pty Limited by OneSteel Limited. No payment was made in respect of the grant of the licence.

Directors' report

Members of the OneSteel Group had normal business transactions with directors (or director-related entities) of the parent entity and its controlled entities during the year.

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

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

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

Non-audit services
During the year, OneSteel's auditor, KPMG, 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, KPMG, for the provision of non-audit services during the year ended 30 June 2008 are as follows:

Tax compliance services	$nil
Assurance related	$127,840

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

Signed in Sydney this 19th day of August 2008 in accordance with a resolution of directors.

Peter Smedley
Chairman

Geoff Plummer
Managing Director

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

To the directors of OneSteel Limited

I declare that to the best of my knowledge and belief, in relation to the financial year ended 30 June 2008 there have been:

– No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

– No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

David Rogers
Partner

Sydney
19 August 2008

Discussion and analysis of the financial statements

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

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

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

- Mining of iron ore
- Production of steel
- Manufacture and distribution of steel long products
- Recycling of ferrous and non-ferrous scrap metal.

The consolidated financial statements are prepared on the basis of historical cost, except for derivative financial instruments that have been measured at fair value, applying generally accepted accounting principles.

Income Statement

Net profit attributable to equity holders of the parent for the financial year was $244.9 million. Excluding the impact of restructuring costs and impairment of plant and equipment, the net profit for the year was $315.0 million.

Sales revenue increased 72.9% to $7,434.3 million, due largely to the inclusion of the Smorgon Steel businesses from August 2007, strong demand from the infrastructure and mining segments in particular, increased iron ore sales and higher prices.

In the new Materials segment, earnings were driven by the ramp up of external iron ore shipments through Project Magnet, strong iron ore prices, and the acquisition of the Smorgon Steel Recycling business. Earnings before the impact of restructuring costs and impairment of plant and equipment in the Australian Manufacturing segment increased reflecting the inclusion of the Smorgon Steel businesses from 20 August 2007, cost increases, increased import competition and higher prices. Australian Distribution's earnings fell from the previous financial year due to increased import competition suppressing prices particularly in the first half offset by stronger demand and higher international prices in the second half of the year. International Distribution's earnings were adversely impacted to varying degrees as exchange rate volatility, high interest rates and reduced growth in consumer spending slowed the New Zealand economy.

Balance Sheet

Total consolidated assets and liabilities are considerably larger following the Smorgon Steel merger. Net assets increased 108.1% to $3,432.9 million.

Contributed equity increased by $1,1776.3 million largely due to the issue of OneSteel Limited shares as purchase consideration for Smorgon Steel Group Limited.

Cash Flow Statement

Consolidated net cash flow from operating activities increased by $74.3 million to $350.8 million, reflecting expanded scope of business.

Consolidated net cash outflow from investing activities of $735.5 million was $386.4 million higher than 2007, mainly due to acquisitions during the year including Smorgon Steel and Fagersta.

Consolidated net cash inflow from financing activities of $482.8 million was higher than the prior year inflow of $87.0 million primarily driven by additional borrowings associated with the acquisition of the Smorgon Steel businesses.

Dividends

The directors have recommended and declared a final fully franked dividend for 2008 of 13.5 cents per share payable on 16 October 2008.

Income statement

FOR THE YEAR ENDED 30 JUNE 2008		CONSOLIDATED		PARENT	
	Note	2008 $m	2007 $m	2008 $m	2007 $m
Sales revenue	4	7,434.3	4,300.6	–	–
Cost of sales		(5,753.1)	(3,463.4)	–	–
Gross profit		1,681.2	837.2	–	–
Other revenue	4	41.0	27.0	203.8	128.0
Other income	4	9.5	6.9	–	–
Operating expenses including restructuring costs and impairment of plant and equipment	4	(1,199.4)	(536.0)	(3.8)	(3.1)
Finance costs	4	(159.6)	(55.8)	(37.8)	(2.1)
Share of net (loss)/profit of investments accounted for using the equity method	11	(13.6)	4.8	–	–
Profit before income tax		**359.1**	**284.1**	**162.2**	**122.8**
Income tax (expense)/benefit		(104.0)	(74.7)	11.4	–
Income tax benefit arising on derecognition of deferred tax liabilities		–	9.5	–	–
Total income tax (expense)/benefit	5	(104.0)	(65.2)	11.4	–
Profit after tax		**255.1**	**218.9**	**173.6**	**122.8**
Profit attributable to minority interests		(10.2)	(11.9)	–	–
Profit attributable to equity holders of the parent	21	**244.9**	**207.0**	**173.6**	**122.8**
Basic earnings per share (cents per share)	6	29.45	36.34		
Diluted earnings per share (cents per share)	6	29.32	36.12		
On operating activities before the impact of restructuring costs and impairment of plant and equipment:					
Basic earnings per share (cents per share)	6	37.88	–		
Diluted earnings per share (cents per share)	6	37.71	–		
On operating activities before the tax benefit arising on derecognition of deferred tax liabilities:					
Basic earnings per share (cents per share)	6	–	34.68		
Diluted earnings per share (cents per share)	6	–	34.47		

The above income statements should be read in conjunction with the accompanying notes.

Balance sheet

AS AT 30 JUNE 2008	Note	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 2007 $m
ASSETS					
Current assets					
Cash and cash equivalents	24	151.2	59.5	–	–
Receivables	7	1,185.3	640.9	29.2	32.9
Derivative financial instruments	8	5.0	0.3	–	–
Inventories	9	1,298.9	836.3	–	–
Other current assets	15	12.0	8.3	–	–
Total current assets		2,652.4	1,545.3	29.2	32.9
Non-current assets					
Investments accounted for using the equity method	11	7.9	100.8	–	–
Derivative financial instruments	8	16.4	9.7	–	–
Other financial assets	10	4.2	6.0	3,735.5	1,332.2
Property, plant and equipment	12	2,350.7	1,537.1	–	–
Mine development expenditures	13	87.7	66.3	–	–
Other intangibles and goodwill	14	2,040.4	214.3	–	–
Deferred tax assets	5	168.0	74.4	1.1	1.1
Other non-current assets	15	0.1	15.6	–	–
Total non-current assets		4,675.4	2,024.2	3,736.6	1,333.3
TOTAL ASSETS		7,327.8	3,569.5	3,765.8	1,366.2
LIABILITIES					
Current liabilities					
Payables	16	1,014.8	635.1	–	–
Derivative financial instruments	8	6.2	2.7	–	–
Interest-bearing liabilities	17	483.6	69.9	672.4	43.9
Tax liabilities		30.0	31.3	16.7	32.1
Provisions	18	297.7	168.9	–	–
Total current liabilities		1,832.3	907.9	689.1	76.0
Non-current liabilities					
Derivative financial instruments	8	133.6	71.0	–	–
Interest-bearing liabilities	17	1,614.8	759.4	–	–
Deferred tax liabilities	5	192.2	142.6	–	–
Provisions	18	115.2	26.3	–	–
Retirement benefit obligations	19	6.8	12.3	–	–
Total non-current liabilities		2,062.6	1,011.6	–	–
TOTAL LIABILITIES		3,894.9	1,919.5	689.1	76.0
NET ASSETS		**3,432.9**	**1,650.0**	**3,076.7**	**1,290.2**
EQUITY					
Contributed equity	20	2,929.9	1,153.6	2,929.9	1,153.6
Retained earnings	21	503.6	420.3	144.7	132.7
Reserves	22	(58.3)	12.8	2.1	3.9
Parent interests		3,375.2	1,586.7	3,076.7	1,290.2
Minority interests		57.7	63.3	–	–
TOTAL EQUITY		**3,432.9**	**1,650.0**	**3,076.7**	**1,290.2**

The above balance sheets should be read in conjunction with the accompanying notes.

Cash flow statement

FOR THE YEAR ENDED 30 JUNE 2008	Note	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 2007 $m
			Inflows/(outflows)		
Cash flows from operating activities					
Receipts from customers		7,380.4	4,325.4	3.8	3.1
Payments to suppliers and employees		(6,773.5)	(3,836.5)	(3.8)	(3.1)
Net GST paid		(20.2)	(93.1)	–	–
Dividends received		–	–	200.0	120.0
Interest received		4.9	2.3	–	4.9
Interest and other finance costs paid		(140.4)	(54.5)	–	–
Income taxes paid		(100.4)	(67.1)	(0.3)	(3.8)
Net operating cash flows	24(b)	**350.8**	**276.5**	**199.7**	**121.1**
Cash flows from investing activities					
Purchases of property, plant and equipment		(300.3)	(356.0)	–	–
Mine development expenditure		(1.3)	(0.2)	–	–
Purchases of finite-life intangibles		(5.3)	(1.7)	–	–
Purchases of businesses	24(e)	(4.2)	(2.6)	–	–
Purchases of controlled entities, net of cash acquired		(429.0)	–	(650.1)	–
Redeemable preference shares received from jointly controlled entity		0.8	–	0.8	–
Proceeds from sale of property, plant and equipment		3.8	12.2	–	–
Loan to non-related parties		–	(0.8)	–	–
Net investing cash flows		**(735.5)**	**(349.1)**	**(649.3)**	**–**
Cash flows from financing activities					
Purchase of shares under equity-based compensation plans		(7.2)	(2.0)	(7.2)	(2.0)
Proceeds from issue of shares		0.7	–	0.1	–
Proceeds from borrowings		3,419.0	765.0	–	–
Repayment of borrowings		(2,783.2)	(579.9)	–	–
Proceeds from finance leases		–	29.8	–	–
Repayment of principal of finance leases		(19.8)	(40.4)	–	–
Repayment of loans to related party		–	(19.7)	–	(45.7)
Loan from related party		–	19.7	574.8	–
Dividends paid		(126.7)	(85.5)	(118.1)	(73.4)
Net financing cash flows		**482.8**	**87.0**	**449.6**	**(121.1)**
Net increase in cash and cash equivalents		**98.1**	**14.4**	**–**	**–**
Cash and cash equivalents at the beginning of the year		9.6	(4.8)	–	–
Effects of exchange rate fluctuations on cash held		0.7	–	–	–
Cash and cash equivalents at the end of the year	24(a)	**108.4**	**9.6**	**–**	**–**

The above cash flow statements should be read in conjunction with the accompanying notes.

Statements of changes in equity

2008	Attributable to equity holders of the parent						Minority interests	Total equity
	Contributed equity							
CONSOLIDATED	Issued capital $m	Employee compensation shares $m	Total contributed equity $m	Retained earnings $m	Total reserves $m	Total parent interests $m	$m	$m
At 1 July 2007	1,163.8	(10.2)	1,153.6	420.3	12.8	1,586.7	63.3	1,650.0
Cash flow hedges:								
– gains taken to equity	–	–	–	–	33.4	33.4	–	33.4
– transferred to finance costs	–	–	–	–	(16.6)	(16.6)	–	(16.6)
– transferred to initial carrying amount of hedged items	–	–	–	–	(4.4)	(4.4)	–	(4.4)
Currency translation differences:								
– net investment hedges	–	–	–	–	14.6	14.6	–	14.6
– exchange fluctuations on overseas net assets	–	–	–	–	(98.4)	(98.4)	(7.7)	(106.1)
Total income and expense recognised directly in equity	–	–	–	–	(71.4)	(71.4)	(7.7)	(79.1)
Net profit	–	–	–	244.9	–	244.9	10.2	255.1
Total recognised income and expense for the year	–	–	–	244.9	(71.4)	173.5	2.5	176.0
Share-based payments expense	–	–	–	–	3.7	3.7	–	3.7
Dividends paid	–	–	–	(161.6)	–	(161.6)	(8.6)	(170.2)
Shares issued during the period	1,734.7	–	1,734.7	–	–	1,734.7	0.5	1,735.2
Shares issued under dividend reinvestment plan	43.5	–	43.5	–	–	43.5	–	43.5
Shares issued on exercise of options	0.1	–	0.1	–	–	0.1	–	0.1
Vested shares	–	5.2	5.2	–	(5.2)	–	–	–
Purchase of shares for equity-based compensation	–	(7.2)	(7.2)	–	–	(7.2)	–	(7.2)
Revaluation of intangible assets	–	–	–	–	1.8	1.8	–	1.8
At 30 June 2008	**2,942.1**	**(12.2)**	**2,929.9**	**503.6**	**(58.3)**	**3,375.2**	**57.7**	**3,432.9**
2007								
At 1 July 2006	1,134.4	(8.2)	1,126.2	316.1	2.6	1,444.9	56.7	1,501.6
Cash flow hedges:								
– gains taken to equity	–	–	–	–	6.3	6.3	–	6.3
– transferred to finance costs	–	–	–	–	(1.9)	(1.9)	–	(1.9)
– transferred to initial carrying amount of hedged items	–	–	–	–	(2.8)	(2.8)	–	(2.8)
Currency translation differences	–	–	–	–	6.2	6.2	6.8	13.0
Total income and expense recognised directly in equity	–	–	–	–	7.8	7.8	6.8	14.6
Net profit	–	–	–	207.0	–	207.0	11.9	218.9
Total recognised income and expense for the year	–	–	–	207.0	7.8	214.8	18.7	233.5
Share-based payments expense	–	–	–	–	2.4	2.4	–	2.4
Dividends paid	–	–	–	(102.8)	–	(102.8)	(12.1)	(114.9)
Shares issued under dividend reinvestment plan	29.4	–	29.4	–	–	29.4	–	29.4
Purchase of shares for equity-based compensation	–	(2.0)	(2.0)	–	–	(2.0)	–	(2.0)
At 30 June 2007	**1,163.8**	**(10.2)**	**1,153.6**	**420.3**	**12.8**	**1,586.7**	**63.3**	**1,650.0**

Statements of changes in equity

2008

PARENT	Issued capital $m	Employee compen-sation shares $m	Total contributed equity $m	Retained earnings $m	Total reserves $m	Total equity $m
At 1 July 2007	1,163.8	(10.2)	1,153.6	132.7	3.9	1,290.2
Net profit	–	–	–	173.6	–	173.6
Total recognised income and expense for the year	–	–	–	173.6	–	173.6
Share-based payments expense	–	–	–	–	3.4	3.4
Dividends paid	–	–	–	(161.6)	–	(161.6)
Shares issued during the period	1,734.7	–	1,734.7	–	–	1,734.7
Shares issued under dividend reinvestment plan	43.5	–	43.5	–	–	43.5
Shares issued on exercise of options	0.1	–	0.1	–	–	0.1
Vested shares	–	5.2	5.2	–	(5.2)	–
Purchase of shares for equity-based compensation	–	(7.2)	(7.2)	–	–	(7.2)
At 30 June 2008	**2,942.1**	**(12.2)**	**2,929.9**	**144.7**	**2.1**	**3,076.7**

2007

PARENT	Issued capital $m	Employee compen-sation shares $m	Total contributed equity $m	Retained earnings $m	Total reserves $m	Total equity $m
At 1 July 2006	1,134.4	(8.2)	1,126.2	112.7	1.5	1,240.4
Net profit	–	–	–	122.8	–	122.8
Total recognised income and expense for the year	–	–	–	122.8	–	122.8
Share-based payments expense	–	–	–	–	2.4	2.4
Dividends paid	–	–	–	(102.8)	–	(102.8)
Shares issued under dividend reinvestment plan	29.4	–	29.4	–	–	29.4
Purchase of shares for equity-based compensation	–	(2.0)	(2.0)	–	–	(2.0)
At 30 June 2007	**1,163.8**	**(10.2)**	**1,153.6**	**132.7**	**3.9**	**1,290.2**

Notes to the financial statements

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Notes to the financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report of OneSteel Limited for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 19 August 2008.

It is recommended that the financial report be considered together with any public announcements made by OneSteel Limited and its controlled entities during the year ended 30 June 2008 in accordance with the continuous disclosure obligations of the Corporations Act 2001.

Historical cost convention
These financial statements have been prepared under the historical cost convention, except for derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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

(b) Compliance with IFRS
The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's and parent entity's assessment of the impact of these new standards and interpretations are set out below:

Accounting standards issued but not yet effective

(i) Revised AASB 3 *Business Combinations*

The revised AASB 3 is applicable to annual reporting periods commencing on or after 1 July 2009. It requires the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of minority interest at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

(ii) AASB 8 *Operating Segments* and *AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 requires adoption of a management approach to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group intends to apply AASB 8 from 1 July 2009. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(iii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to qualifying assets.

(iv) AASB Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

AASB Interpretation 14 will be effective for annual reporting periods commencing on or after 1 January 2008. It provides guidance on the maximum amount that may be recognised as an asset in relation to a defined benefit plan and the impact of minimum funding requirements on such an asset. None of the Group's defined benefit plans are subject to minimum funding requirements and none of them is in a surplus position. The Group will apply AASB Interpretation 14 from 1 July 2008, but it is not expected to have any impact on the Group's financial statements.

(v) Revised AASB 101 *Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101*

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

(c) Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of OneSteel Limited (the "company" or "parent entity") as at 30 June 2008 and the results of all subsidiaries for the year then ended. OneSteel Limited and its subsidiaries together are referred to in this financial report as the OneSteel Group or the consolidated entity.

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

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

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

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

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

Notes to the financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(e) Foreign currency translation
Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of OneSteel Limited.

Transactions and balances
Transactions in foreign currencies are translated into the functional currency using exchange rates that approximate those prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each income statement are translated at average exchange rates
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold and any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

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

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

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

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

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

(g) Income taxes
The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates which are enacted or substantively enacted for each jurisdiction at balance date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences in a transaction, other than a business combination, that at the time of the transaction affects neither accounting profit or taxable profit and loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Assets or liabilities arising under tax sharing agreements with the tax consolidated entities are recognised as amounts receivable from or payable to the head entity. Details of the tax sharing agreement are disclosed in Note 5.

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

(h) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the balance sheet.

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

(i) Cash and cash equivalents

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

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

(j) Trade and other receivables

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

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of doubtful debt provided for is recognised in the income statement within other expenses. When a trade receivable for which an allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(k) Inventories

Inventories, including raw materials, work in progress and finished goods, are valued at the lower of cost and net realisable value. Costs comprise direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. They include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. Costs are assigned to individual items of inventory on the basis of weighted average cost. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Other financial assets (investments)

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

(a) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in this category, and are classified as such if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

(b) Loans and receivables

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

(c) Available for sale investments

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

(m) Investment accounted for using the equity method (jointly controlled entities)

Investments in jointly controlled entities are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements by applying the equity method of accounting, after initially being recognised at cost. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity. Goodwill relating to a jointly controlled entity is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in jointly controlled entities.

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

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

Notes to the financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Impairment of assets
Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(o) Leased assets
Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item are classified as finance leases. These are initially recognised at the fair value of the leased asset, or if lower, the present value of the minimum lease payments as determined at the inception of the lease. The corresponding lease obligations, net of finance charges, are included in interest-bearing liabilities. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement.

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

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

(p) Property, plant and equipment
Property, plant and equipment assets are carried at cost less any accumulated depreciation and/or impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation of property, plant and equipment.
Land is not depreciated. Depreciation is calculated on a straight line basis over the estimated useful life of the specific assets as follows:

Buildings:	20 – 40 years
Plant and equipment:	3 – 30 years
Capitalised leased assets:	Up to 30 years or life of lease, whichever is shorter.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date.

Derecognition
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement.

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

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

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

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

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

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

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

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

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

(s) Deferred stripping costs
In mining operations, it is necessary to remove overburden and other barren waste materials to access ore from which minerals can be economically extracted. The process of mining overburden and waste materials is referred to as stripping. Stripping costs incurred before production commences are included within capitalised mine development expenditure and subsequently amortised. The Group defers stripping costs incurred subsequently during the production stage of operation.

Notes to the financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stripping ratios are a function of the quantity of ore mined compared with the quantity of overburden or waste required to be removed to mine the ore. Deferral of these post production costs to the balance sheet is made, where appropriate, when actual stripping ratios vary from the average life of mine ratio.

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

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

(t) Goodwill and other intangible assets

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable net assets of the acquired subsidiary as at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

Impairment losses recognised for goodwill are not subsequently reversed.

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

System development costs

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised as system development costs. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis generally over five years.

System development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Other intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and/or impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level consistent with the methodology outlined for goodwill. Such intangibles are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed at each reporting period to determine whether indefinite life assessment continues to be supported. If not, the change in useful life assessment to finite is accounted for prospectively as a change in accounting estimate.

Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and appropriate proportion of overheads. Other development expenditures that do not meet this criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight line basis over its useful life.

A summary of the policies applied to the Group's intangible assets is as follows:

	Useful life	Amortisation method	Internally generated or acquired
Patented technology	Finite	Straight line over 17 years	Acquired
Brand names	Indefinite Finite	No amortisation Straight line over estimated useful life	Acquired
Customer and supplier contracts	Finite	Timing of projected cash flows of the contracts over one to 10 years	Acquired
System development and other capitalised development costs	Finite	Straight line over estimated useful life	Internally generated

Notes to the financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(u) Trade and other payables

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

(v) Provisions

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

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

(w) Employee benefits

Wages and salaries, annual leave and long service leave

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

Long service leave

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

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Retirement benefit obligations

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

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

The "corridor approach" is applied in determining the periodic impact on the income statement. Under this approach, cumulative actuarial gains/losses greater than 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets are recognised through the income statement over the average remaining service period of the employees in the plan on a straight line basis.

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

Equity-based compensation arrangements

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

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

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

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

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

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

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

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

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

(x) Restoration and rehabilitation

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

Notes to the financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The charge to the income statement is a combination of the depreciation of the asset over the estimated mine life and finance cost representing the unwind of the discounting factor.

(y) Interest-bearing liabilities

Borrowings are initially recognised at fair value less any transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost. Any difference between the proceeds (net of the transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current interest-bearing liabilities where there is an obligation to settle the liability within 12 months, and as non-current interest-bearing liabilities where the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(z) Finance costs

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

(aa) Contributed equity

Issued capital

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

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

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

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

Employee compensation shares

Shares in the OneSteel Group purchased for equity-based compensation arrangements are held in trust and deducted from contributed equity in employee compensation shares. Upon vesting, the shares are transferred from employee compensation shares into other reserves.

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

(ab) Derivative financial instruments

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

- Hedges of the fair value of recognised assets or liabilities or firm commitments – fair value hedges
- Hedges of highly probable forecast transactions – cash flow hedges
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

The Group also documents its assessment, both at inception and on an ongoing basis, of whether the hedges have been, and will continue to be, highly effective in offsetting changes in the fair values or the cash flows of hedged items throughout the financial reporting periods for which they were designated.

Fair value hedges

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

Cash flow hedges

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

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

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

Net investment hedges

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Notes to the financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives that do not qualify for hedge accounting

Certain derivatives instruments do not qualify for hedge accounting. Changes in the fair value of any such derivatives are recognised immediately in the income statement.

Fair value estimation

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

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

NOTE 2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

(a) Significant accounting judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considered that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets other than goodwill and intangibles with indefinite useful lives

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset or cash generating unit that may lead to impairment. These include business performance, technology, economic and political environments and future business expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Management does not consider that the triggers for impairment testing have been significant enough and as such these assets have not been tested for impairment in this financial period.

Taxation

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

(b) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired on at least an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are detailed in Note 14.

Provision for restoration and rehabilitation

Restoration and rehabilitation costs are a normal consequence of the Group's operations. The provisions include future cost estimates associated with dismantling, closure and decontamination of various sites. The calculation of the provisions require assumptions such as application of environmental legislation, site closure dates, available technologies and consultant cost estimates. The ultimate cost of restoration and rehabilitation is uncertain and costs can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other sites. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the site. Changes to the estimated future costs for sites are recognised in the balance sheet by adjusting both the expense or asset (if applicable) and provision. The assumptions used in the estimation of restoration and rehabilitation provisions are detailed in Note 18.

Share-based payment transactions

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date of grant. The fair value is determined by an external valuer using a Monte-Carlo Simulation option pricing model, using the assumptions detailed in Note 29. The accounting estimates and assumptions relating to equity settled share-based payment would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Defined benefit plans

Various actuarial assumptions are required when determining the Group's pension schemes and post employment medical benefit obligations. These assumptions and the related carrying amounts are disclosed in Note 19.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties. In addition, the condition of the assets is assessed at least annually and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Notes to the financial statements

NOTE 3. SEGMENT INFORMATION

SEGMENT REPORTING – BUSINESS

	Materials $m	Australian Manufacturing $m	Australian Distribution $m	International Distribution $m	Unallocated $m	Eliminations $m	CONSOLIDATED $m
2008							
Segment revenues							
Revenues from customers outside the consolidated entity	1,620.1	2,030.3	3,349.3	434.6	–	–	7,434.3
Intersegment revenues	418.1	1,034.6	21.5	–	35.5	(1,509.7)	–
Other revenue/income	1.1	18.5	20.0	1.1	9.8	–	50.5
Total income	**2,039.3**	**3,083.4**	**3,390.8**	**435.7**	**45.3**	**(1,509.7)**	**7,484.8**
Share of net (loss)/profit of investments accounted for using the equity method	0.5	–	–	–	(14.1)	–	(13.6)
Earnings before interest, tax, depreciation and amortisation	**321.0**	**258.4**	**212.8**	**39.0**	**(47.7)**	**(52.3)**	**731.2**
Depreciation and amortisation	(24.1)	(86.5)	(69.6)	(5.2)	(9.5)	–	(194.9)
Impairment of plant and equipment	–	(17.6)	–	–	–	–	(17.6)
Earnings before interest and tax	**296.9**	**154.3**	**143.2**	**33.8**	**(57.2)**	**(52.3)**	**518.7**
Finance costs							(159.6)
Income tax expense							(104.0)
Profit after tax							**255.1**
Segment assets	**1,552.2**	**3,027.5**	**2,752.6**	**206.2**	**(156.0)**	**(230.6)**	**7,151.9**
Investments accounted for using the equity method	3.4	–	–	–	4.5	–	7.9
Tax assets							168.0
Consolidated assets							**7,327.8**
Segment liabilities	**213.3**	**604.2**	**658.9**	**98.9**	**2,283.9**	**(186.5)**	**3,672.7**
Tax liabilities							222.2
Consolidated liabilities							**3,894.9**
Other segment information							
Capital expenditure (1)	165.7	573.2	377.9	15.0	21.6	–	1,153.4
Restructuring costs and impairment of plant and equipment (2)	–	61.1	2.6	–	30.4(2)	–	94.1
Other non-cash expenses	–	4.0	1.5	–	3.7	–	9.2

(1) Includes assets acquired by way of business combinations.

(2) Includes OneSteel's share of restructuring costs related to investments accounted for using the equity method of $13.7 million.

SEGMENT REPORTING – GEOGRAPHIC

	Australia $m	International $m	Unallocated $m	Eliminations $m	CONSOLIDATED $m
2008					
Segment revenues					
Revenues from customers outside the consolidated entity	6,476.3	958.0	–	–	7,434.3
Intersegment revenues	72.1	–	35.5	(107.6)	–
Other revenue/income	39.3	1.4	9.8	–	50.5
Total income	**6,587.7**	**959.4**	**45.3**	**(107.6)**	**7,484.8**
Segment assets	**6,572.2**	**759.2**	**(156.0)**	**(23.5)**	**7,151.9**
Investments accounted for using the equity method	3.4	–	4.5	–	7.9
Tax assets					168.0
Consolidated assets					**7,327.8**
Other segment information					
Capital expenditure (1)	995.2	136.6	21.6	–	1,153.4

(1) Includes the cost of segment assets acquired by way of business combinations.

Notes to the financial statements

NOTE 3. SEGMENT INFORMATION (CONTINUED)

SEGMENT REPORTING – BUSINESS AND GEOGRAPHIC					AUSTRALIA	INTERNATIONAL		CONSOLIDATED
CONSOLIDATED	Manufacturing $m	Distribution $m	Unallocated $m	Eliminations $m	Total $m	Distribution $m	Eliminations $m	$m
2007								
Segment revenues								
Revenues from customers outside the consolidated entity	1,531.1	2,365.0	–	–	3,896.1	404.5	–	4,300.6
Inter-segment revenues	612.2	11.9	13.6	(590.7)	47.0	–	(47.0)	–
Other revenue/income	12.4	16.5	4.3	–	33.2	0.7	–	33.9
Total income	**2,155.7**	**2,393.4**	**17.9**	**(590.7)**	**3,976.3**	**405.2**	**(47.0)**	**4,334.5**
Share of net profit of investments accounted for using the equity method	–	–	4.8	–	4.8	–	–	4.8
Earnings before interest, tax, depreciation and amortisation	**216.4**	**202.1**	**(6.8)**	**(7.5)**	**404.2**	**45.9**	**(14.0)**	**436.1**
Depreciation and amortisation	(58.1)	(29.0)	(3.8)	–	(90.9)	(5.3)	–	(96.2)
Earnings before interest and tax	**158.3**	**173.1**	**(10.6)**	**(7.5)**	**313.3**	**40.6**	**(14.0)**	**339.9**
Finance costs								(55.8)
Income tax expense								(65.2)
Profit after tax								**218.9**
Segment assets	**1,929.6**	**1,206.5**	**121.4**	**(80.2)**	**3,177.3**	**219.6**	**(2.6)**	**3,394.3**
Investments accounted for using the equity method	–	–	100.8	–	100.8	–	–	100.8
Tax assets								74.4
Consolidated assets								**3,569.5**
Segment liabilities	**411.6**	**359.5**	**945.8**	**(71.8)**	**1,645.1**	**100.5**	**–**	**1,745.6**
Tax liabilities								173.9
Consolidated liabilities								**1,919.5**
Other segment information								
Capital expenditure	282.2	36.2	8.2	–	326.6	9.0	–	335.6
Other non-cash expenses	–	–	2.4	–	2.4	0.3	–	2.7

Description of segments

Business segments

Due to the merger with Smorgon Steel Group Limited and a change in the management structure of OneSteel Limited in 2008, the composition of the segments has changed. A new segment, Materials, has been identified, supplying steel making raw materials to steel mills operated in Australia and overseas. In addition, the Reinforcing business has been moved from the Manufacturing segment to the Australian Distribution segment. The 2007 comparatives prior to the merger have been restated to reflect the Reinforcing business moving from Manufacturing to Australian Distribution.

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

Materials

The primary function of the businesses in the Materials segment is to supply steel making raw materials to steel mills operated in Australia and across the globe. This includes the Recycling business and from 1 July 2007, the Whyalla Mining business that has resulted from Project Magnet allowing incremental iron ore to be exported to overseas steel makers.

Australian Manufacturing

Whyalla Steelworks produces steel billets as feedstock for OneSteel's Rod Bar Wire 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 Mills at Newcastle and Laverton 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.

Waratah Steel Mill produces billet and ingot for the manufacture of specialty steel products including rail wagon wheels and grinding media used in the mining, quarrying and cement industries.

Notes to the financial statements

NOTE 3. SEGMENT INFORMATION (CONTINUED)

Australian Distribution
The Australian Distribution business has centres located throughout Australia in capital cities and regional areas, providing a wide range of products to resellers and end-users. Products include structural steel, steel plate, angles, channels, flat steel, reinforcing steel, sheet steel and coil, a range of aluminium products, pipes, fittings, valves and other industrial products. The Reinforcing business manufactures and distributes reinforcing product around Australia. The Pipe & Tube business manufactures product for the construction, mining, oil and gas and manufacturing industries from its mills at Melbourne, Port Kembla and Perth.

The Australian Distribution segment also includes Australian Tube Mills Pty Ltd, formerly a joint venture between OneSteel and Smorgon Steel, manufacturing structural pipe and tube.

International Distribution
This comprises the 50.3% shareholding in Steel and Tube Holdings Limited, a public listed company in New Zealand, which processes and distributes a comprehensive range of steel and allied products in the construction, manufacturing and rural industries to the New Zealand market.

Intra/intersegment transfers
The Materials segment sells raw materials to the Manufacturing segment. The 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 arm's length basis, with terms and conditions no more favourable than those which it is reasonable to expect when dealing with an external party.

Geographic segments
Although the Group's divisions are managed on a global basis, they operate in Australia and internationally. Internationally, businesses are operated in the United States of America, New Zealand and South East Asia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

NOTE 4. INCOME STATEMENT ITEMS

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
(a) Sales revenue				
Product sales	7,428.5	4,295.3	–	–
Rendering of services	5.8	5.3	–	–
Total sales revenue	7,434.3	4,300.6	–	–
(b) Other revenue				
Interest received from unrelated parties	4.9	2.3	–	–
Interest received from controlled entities	–	–	–	4.9
Dividends received from controlled entities	–	–	200.0	120.0
Rental revenue	3.4	3.2	–	–
Other revenue	32.7	21.5	3.8	3.1
Total other revenue	41.0	27.0	203.8	128.0
TOTAL REVENUE	7,475.3	4,327.6	203.8	128.0
(c) Other income				
Net gains on disposal of property, plant and equipment	0.4	5.1	–	–
Net gain on foreign currency derivatives not qualifying as hedges	8.9	1.8	–	–
Net gains on qualifying fair value hedges through profit or loss (i)	0.2	–	–	–
Total other income	9.5	6.9	–	–
TOTAL INCOME	7,484.8	4,334.5	203.8	128.0

NOTE 4. INCOME STATEMENT ITEMS (CONTINUED)

	Note	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 2007 $m
(d) Operating expenses including restructuring costs and impairment of plant and equipment:					
Manufacturing expenses		291.6	96.4	–	–
Distribution expenses		237.7	107.6	–	–
Marketing expenses		279.9	127.3	–	–
Administrative expenses		390.2	204.7	3.8	3.1
Total operating expenses including restructuring costs and impairment of plant and equipment		1,199.4	536.0	3.8	3.1
(e) Finance costs					
Interest expense related to:					
Bank loans		174.2	64.3	–	–
Interest paid to controlled entities		–	–	37.8	2.1
Finance leases		4.3	6.4	–	–
Restoration and rehabilitation provision discount adjustment		0.7	0.8	–	–
		179.2	71.5	37.8	2.1
Less: Borrowing costs capitalised (1)		(19.6)	(15.7)	–	–
Total finance costs		159.6	55.8	37.8	2.1

(1) Weighted average interest rate of 7.4% (2007: 7.0%).

	Note	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 2007 $m
(f) Profit before income tax includes the following specific expenses:					
Depreciation of property, plant and equipment:					
Buildings		13.8	9.6	–	–
Plant and equipment		128.9	66.8	–	–
Leased assets		4.7	8.0	–	–
Amortisation of mine development expenditure		1.8	1.9	–	–
Amortisation of finite-life intangible assets		45.7	9.9	–	–
Impairment of plant and equipment (2)		17.6	–	–	–
Bad debts written off		3.7	2.1	–	–
Write down of inventory to net realisable value		3.4	5.6	–	–
Minimum operating lease rentals		75.5	55.3	–	–
Research and development costs		145.0	64.7	–	–
Net loss on qualifying fair value hedges through profit or loss (i)		–	0.3	–	–
Restructuring costs (3)		76.5	–	–	–

(2) Impairment of plant and equipment associated with manufacturing facility closures in Laverton, Newcastle and Somerton.

(3) Costs related to the integration of the Smorgon Steel Group and Australian Tube Mills businesses, including OneSteel's share of restructuring costs from equity accounted investments of $13.7 million.

	Note	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 2007 $m
(g) Employee benefits expense					
Included in employee benefits expense are the following items:					
Defined contribution company contributions		49.7	36.4	–	–
Defined benefit plan expense	19	14.6	14.1	–	–
Employee provisions		138.8	85.0	–	–
Share-based payments expense		3.4	2.3	–	–
(i) Comprised of:					
Gain on financial liability recorded at fair value		8.0	17.0	–	–
Loss on cross-currency interest rate swap at fair value		(7.8)	(17.3)	–	–
		0.2	(0.3)	–	–

Notes to the financial statements

NOTE 5. INCOME TAX

	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 2007 $m
(a) Income statement				
Current income tax charge	94.3	73.7	(11.4)	0.8
Under/(over) provided in prior years	0.1	(3.4)	–	(0.8)
Deferred tax relating to the origination and reversal of temporary differences	9.6	(5.1)	–	–
Income tax expense/(benefit) reported in the income statement	104.0	65.2	(11.4)	–
(b) Reconciliation of income tax expense to prima facie tax payable				
Profit before income tax	359.1	284.1	162.2	122.8
Prima facie income tax expense calculated at 30% (2007: 30%)	107.7	85.2	48.6	36.8
Adjustments in respect of income tax expense of previous years	0.1	(3.4)	–	(0.8)
Share of net (loss)/profit of investments accounted for using the equity method	4.1	(1.4)	–	–
Franking credits on dividends received	–	–	(60.0)	(36.0)
Research and development allowance	(10.9)	(4.8)	–	–
Non-deductible expenses	0.9	0.3	–	–
Other items	0.4	(2.3)	–	–
Difference in overseas tax rates	1.7	1.1	–	–
Derecognition of deferred tax liabilities as a result of disposal of shares (h)	–	(9.5)	–	–
Income tax expense/(benefit) reported in the income statement	104.0	65.2	(11.4)	–
(c) Deferred tax recognised in the income statement				
Deferred tax assets				
Employee provisions (including retirement benefit obligations)	(3.0)	3.9	–	–
Other provisions	8.9	(0.1)	–	–
Inventory provisions	0.7	(1.4)	–	–
Investments	–	–	–	–
Derivative financial instruments	0.6	(0.8)	–	–
Other items	8.2	1.1	–	–
	15.4	2.7	–	–
Deferred tax liabilities				
Property, plant and equipment	(3.7)	(5.9)	–	–
Stores and spares	14.4	0.5	–	–
Deferred charges	5.9	3.1	–	–
Share-based payments	1.0	(0.1)	–	–
Other items	7.4	–	–	–
	25.0	(2.4)	–	–
(d) Deferred tax recognised on the balance sheet				
Deferred tax assets				
Employee provisions (including retirement benefit obligations)	75.6	51.9	–	–
Other provisions	45.6	5.4	–	–
Inventory provisions	8.1	4.0	–	–
Investments	1.1	1.1	1.1	1.1
Property, plant and equipment	31.8	8.0	–	–
Derivative financial instruments	3.0	1.9	–	–
Other items	2.8	2.1	–	–
	168.0	74.4	1.1	1.1
Deferred tax liabilities				
Property, plant and equipment	119.4	115.3	–	–
Stores and spares	30.8	8.7	–	–
Deferred charges	17.6	12.1	–	–
Share-based payments	2.2	1.3	–	–
Derivative financial instruments	17.6	5.2	–	–
Other items	4.6	–	–	–
	192.2	142.6	–	–

NOTE 5. INCOME TAX (CONTINUED)

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
(e) Deferred tax recognised directly in equity				
Net gain on revaluation of cash flow hedges	(11.6)	(1.3)	–	–
Share-based payment expense	0.3	0.1	–	–
Total deferred tax credited to equity	(11.3)	(1.2)	–	–

At 30 June 2008, there is no recognised or unrecognised deferred income tax liability (2007: $nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability for additional taxation should such amounts be remitted.

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

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

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

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

(h) Derecognition of deferred tax liabilities as a result of disposal of shares
During the year ended 30 June 2007, a tax benefit of $9.5 million was recognised on derecognition of deferred tax liabilities. This was the result of the disposal of shares in a controlled entity, P&T JV Subsidiary Co Pty Ltd to Australian Tube Mills Pty Ltd on formation of the joint venture between OneSteel Limited and Smorgon Steel Group Limited prior to the merger with Smorgon Steel Group Limited on 20 August 2007.

Notes to the financial statements

NOTE 6. EARNINGS PER SHARE

	CONSOLIDATED	
	2008 $m	2007 $m
The following reflects the earnings and share data used in the calculation of basic and diluted earnings per share:		
(a) Earnings		
Profit attributable to equity holders of the parent	244.9	207.0
Earnings used in calculating basic and diluted earnings per share	244.9	207.0
	Number of shares	
(b) Number of ordinary shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	831,665,761	569,519,743
Dilutive effect of executive share options [1]	312,123	365,848
Dilutive effect of employee compensation shares	3,409,478	3,110,498
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	835,387,362	572,996,089
On operating activities before the impact of restructuring costs and impairment of plant and equipment [2]		
Basic earnings per share (cents per share)	37.88	–
Diluted earnings per share (cents per share)	37.71	–
On operating activities before the derecognition of deferred tax liabilities on disposal of shares in controlled entity [3]		
Basic earnings per share (cents per share)	–	34.68
Diluted earnings per share (cents per share)	–	34.47

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

(2) Impact of restructuring costs and impairment of plant and equipment
The calculation of earnings per share before the impact of restructuring costs and impairment of plant and equipment was based on earnings of $315.0 million. The impact on earnings of restructuring and impairment, including OneSteel's share of restructuring costs from equity accounted investments of $13.7 million, was a decrease of $70.1 million after tax.

(3) Impact of derecognition of deferred tax liability on disposal of shares in controlled entity – 2007
The calculation of earnings per share before the impact of the derecognition of deferred tax liability on disposal of shares in the controlled entity was based on earnings of $197.5 million arising from operating activities. The impact on earnings was an increase of $9.5 million.

Issues after 30 June 2008

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 7. RECEIVABLES

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
Current				
Trade receivables[1]	1,126.9	575.0	–	–
Provision for doubtful debts (a)	(6.5)	(2.9)	–	–
	1,120.4	572.1	–	–
Other receivables	64.9	68.8	–	–
Tax related balances with controlled entities	–	–	29.2	32.9
	1,185.3	640.9	29.2	32.9

(1) $23.2 million (2007: $22.1 million) of the Australian Distribution external trade receivables are known as Metalcard receivables whereby interest is charged on the outstanding balance at an average interest throughout the year of 13.52% (2007: 11.75%).

Notes to the financial statements

NOTE 7. RECEIVABLES (CONTINUED)

(a) Provision for doubtful debts

Trade receivables (excluding Metalcard receivables within the Australian Distribution operations) are non-interest-bearing and are generally on 30 day terms. A provision for doubtful debt is recognised when there is objective evidence that an individual trade receivable is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Movements in the provision for doubtful debt were as follows:

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
At 1 July	(2.9)	(2.8)	–	–
Business combination	(3.3)	–	–	–
Provision recognised during the year	(4.0)	(2.2)	–	–
Receivables written off during the year as uncollectible (Note 4)	3.7	2.1	–	–
At 30 June	(6.5)	(2.9)	–	–

Amounts charged to the provision for doubtful debts are written off when there is no expectation of recovering additional cash. The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes it is expected that these amounts will be received when due.

The total value of impaired receivables at 30 June is $6.5 million (2007: $2.9 million). These receivables are all greater than 30 days overdue and have been fully provided for at 30 June.

(b) Past due but not impaired

As at 30 June 2008, receivables of $370.1 million (2007: $167.8 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables are as follows:

DAYS OVERDUE	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
1 to 30 Days	292.8	138.0	–	–
31 to 60 Days	58.5	19.2	–	–
61 to 90 Days	14.4	6.7	–	–
Over 90 Days	4.4	3.9	–	–
Total	370.1	167.8	–	–

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying values are assumed to approximate their fair values.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

(d) Foreign exchange and interest rate risk

The Group's exposure to foreign exchange and interest rate risk related to trade and other receivables is disclosed in Note 32.

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
Current assets				
Forward exchange contracts – cash flow hedges (d)	1.8	–	–	–
Forward exchange contracts – held for trading (e)	2.9	0.3	–	–
Forward exchange contracts – net investment (f)	0.3	–	–	–
	5.0	0.3	–	–
Non-current assets				
Interest rate swap contracts – cash flow hedges (a)	16.4	9.7	–	–
	16.4	9.7	–	–
Current liabilities				
Forward exchange contracts – cash flow hedges (d)	4.6	1.8	–	–
Forward exchange contracts – held for trading (e)	1.6	0.9	–	–
	6.2	2.7	–	–
Non-current liabilities				
Cross-currency interest rate swaps – fair value hedges (b)	78.8	–	–	–
Cross-currency interest rate swaps – cash flow hedges (c)	54.8	71.0	–	–
	133.6	71.0	–	–

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to Note 32).

(a) Interest rate swap contracts – cash flow hedges

Australian dollar denominated bank loans of the Group currently bear an average variable interest rate of 8.3% (2007: 6.8%). It is Group policy to protect part of the loans from exposure to fluctuations in interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay a fixed interest rate.

Swaps currently in place cover approximately 35% (2007: 48%) of the variable AUD loan principal outstanding and are timed to expire as each loan repayment falls due. The fixed interest rates range between 5.08% and 7.55% (2007: 5.03% and 6.63%) and the variable rates between 7.72% and 7.89% compared with the three month BBSW which at balance date was 7.83% (2007: 6.44%).

The contracts require settlement of net interest receivable or payable at 90 day intervals. The contracts are settled on a net basis where master netting agreements are in place. The majority of the settlement dates coincide with the dates on which interest is payable on the underlying debt.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the cash flow hedge reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately. There was no material hedge ineffectiveness recognised in the income statement in the current or prior year.

(b) Cross-currency interest rate swap contracts – fair value hedges

At 30 June 2008, the Group had a series of cross-currency interest rate swaps in place with a notional amount of USD128 million (2007: USD128 million) whereby it receives a fixed interest rate of 5.2% in USD and pays a floating rate of interest equal to BBSW in AUD on the notional amount quarterly.

Swaps currently in place cover 100% (2007: 100%) of the loan principal outstanding. The swaps are being used to hedge the exposure to changes in the fair value of its US private placement, fixed interest, USD denominated senior notes raised in April 2003 (a seven-year tranche USD68 million and a twelve-year tranche USD60 million – refer to Note 32). The fixed interest rates range between 4.86% and 5.55% (2007: 4.86% and 5.55%) and the variable rates between 9.27% and 9.37% compared with the three month BBSW which at balance date was 7.83% (2007: 6.44%). Interest payments on the debt are made semi-annually.

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

(c) Cross-currency interest rate swap contracts – cash flow hedges

At 30 June 2008, the Group had a series of cross-currency interest rate swaps in place with a notional amount of USD130 million (2007: $nil) whereby it receives a fixed interest rate of 5.8% in USD and pays a fixed interest rate of 7.2% in AUD on the notional amount semi-annually.

The swaps are being used to hedge the exposure to fluctuations in cash flow due to fluctuations in the AUD/USD spot exchange rate on the USD denominated senior notes recognised on acquisition of Smorgon Steel Group Limited in August 2007.

Swaps currently in place cover approximately 100% of the loan principal outstanding and are timed to expire as each loan repayment falls due. The fixed interest rates range between 7.0% and 7.3%.

The contracts require settlement of net interest receivable or payable at 180 day intervals. The contracts are settled on a net basis where master netting agreements are in place. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the cash flow hedge reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately. In the year ended 30 June 2008, a gain of $16.6 million was reclassified into the income statement and included in finance cost. There was no material hedge ineffectiveness recognised in the income statement in the current year.

(d) Forward exchange contracts – cash flow hedges

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

These contracts are hedging highly probable or committed purchases for the ensuing financial year. The contracts are timed to mature when payments for the purchases are scheduled to be made.

The forward exchange contracts are considered to be highly effective hedges as they are matched against forecast purchases of inventory and plant and equipment. Any gain or loss on the contracts attributable to the hedged risk is taken directly to equity. When the asset is delivered, the amount recognised in equity is adjusted to the asset account in the balance sheet.

Notes to the financial statements

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At balance date, the details of outstanding contracts are:

CURRENCY	2008	2007	2008		2007	
	Average exchange rate		Buy $m	Sell $m	Buy $m	Sell $m
United States Dollar						
0 – 3 months	0.89	0.77	61.4	23.4	18.2	–
Over 3 – 12 months	0.90	0.83	28.6	51.2	3.7	–
			90.0	74.6	21.9	–
Euro						
0 – 3 months	0.62	0.60	5.1	–	1.3	–
Over 3 – 12 months	0.59	0.59	8.0	–	4.0	–
1 – 2 years	0.58	–	3.1	–	–	–
			16.2	–	5.3	–
Canadian Dollars						
Over 3 – 12 months	–	0.91	–	–	0.1	–
			–	–	0.1	–

(e) Forward exchange contracts – held for trading

The Group has further entered into forward exchange contracts which are economic hedges but do not satisfy the requirements for hedge accounting. These contracts are accounted for as held for trading financial instruments and are subject to the same risk management policies as all other derivative contracts (refer to Note 32). Gains or losses from remeasuring forward exchange contracts at fair value are recognised in the income statement.

At balance date, the details of outstanding contracts are:

CURRENCY	2008	2007	2008		2007	
	Average exchange rate		Buy $m	Sell $m	Buy $m	Sell $m
United States Dollar						
0 – 3 months	0.93	0.84	67.2	87.5	64.5	15.3
Over 3 – 12 months	0.84	–	2.4	2.4	–	–
			69.6	89.9	64.5	15.3
Japanese Yen						
0 – 3 months	98.97	100.67	2.4	–	1.7	–
			2.4	–	1.7	–
New Zealand Dollar						
0 – 3 months	1.24	1.12	15.3	7.2	–	7.6
			15.3	7.2	–	7.6
Euro						
0 – 3 months	0.61	0.61	10.2	–	14.7	–
Over 3 – 12 months	0.60	0.62	1.1	–	0.2	–
			11.3	–	14.9	–
Pounds Sterling						
0 – 3 months	0.47	–	0.6	–	–	–
Over 3 – 12 months	–	0.42	–	–	0.5	–
			0.6	–	0.5	–

(f) Forward exchange contracts – net investment hedges

Included in derivative financial instruments at 30 June 2008 is a forward exchange contract of USD65 million which has been designated as a hedge of the net investments in US subsidiaries.

Gains or losses from remeasuring the forward exchange contracts are transferred to equity to offset any gains or losses on translation of the net investments in the subsidiaries. A net gain on the hedge of the net investment of $9.5 million net of tax was recognised in equity for the period.

There has been no hedge ineffectiveness recognised in the income statement on this hedge.

Fair values

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

NOTE 9. INVENTORIES

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
Current				
Raw materials – at cost	314.6	131.9	–	–
Work in progress – at cost	137.1	93.1	–	–
Finished goods				
At net realisable value	18.1	4.4	–	–
At cost	694.2	527.9	–	–
	712.3	532.3	–	–
Stores, spares and other				
At net realisable value	10.3	–	–	–
At cost	124.6	79.0	–	–
	134.9	79.0	–	–
Total inventories				
At net realisable value	28.4	4.4	–	–
At cost	1,270.5	831.9	–	–
	1,298.9	836.3	–	–

NOTE 10. OTHER FINANCIAL ASSETS

		CONSOLIDATED		PARENT	
	Note	2008 $m	2007 $m	2008 $m	2007 $m
Non-current					
Investments in controlled entities (1)	27	–	–	3,729.2	1,100.2
Investment in jointly controlled entity – at cost (2)	11	–	–	7.3	233.0
Less: Provision for diminution		–	–	(1.0)	(1.0)
Investment in partnership (3)		4.2	6.0	–	–
		4.2	6.0	3,735.5	1,332.2

(1) On 20 August 2007, OneSteel Limited acquired 100% of the voting shares of Smorgon Steel Group Limited, a publicly listed company in Australia (refer Note 27).

(2) On acquisition of Smorgon Steel Group Limited on 20 August 2007, Australian Tube Mills Pty Limited became a wholly-owned controlled entity of OneSteel Limited. The investment in Australian Tube Mills Pty Limited was reclassified from an investment in a jointly controlled entity to an investment in a controlled entity (refer Note 11).

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

NOTE 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	CONSOLIDATED	
	2008 $m	2007 $m
Investments in jointly controlled entities		
Bekaert Australia Steel Cord Pty Ltd (1)	4.5	6.8
Australian Tube Mills Pty Limited (2)	–	94.0
Investment in associate		
Suntech Metals Company (3)	3.4	–
	7.9	100.8

(1) OneSteel Limited has a 50% ownership interest and voting power in Bekaert Australia Steel Cord Pty Limited (2007: 50%), a company incorporated in Australia involved in the manufacture of steel wire products. Its balance date is 31 December.

(2) On acquisition of Smorgon Steel Group Limited on 20 August 2007, Australian Tube Mills Pty Limited became a wholly-owned controlled entity of OneSteel Limited. The investment in Australian Tube Mills Pty Limited was reclassified from an investment in a jointly controlled entity to an investment in a controlled entity (refer Note 27). Its balance date is 30 June.

(3) On acquisition of Smorgon Steel Group Limited on 20 August 2007, Suntech Metals Company became an associate of the Group. The Group has a 20% ownership interest and voting power in Suntech Metals Company (2007: Nil), a company incorporated in Thailand, primarily involved in the collection and sale of non-ferrous scrap metal. Its balance date is 31 December.

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

The following information illustrates summarised financial information relating to the Group's investments in jointly controlled entities and associate:

	2008 $m	2007 $m
Share of jointly controlled entities' and associate's income, expenses and results		
Income	68.5	101.6
Expenses	(87.8)	(94.7)
Net (loss)/profit before income tax	(19.3)	6.9
Income tax benefit/(expense)	5.7	(2.1)
Net (loss)/profit after income tax	(13.6)	4.8
Share of jointly controlled entities' and associate's assets and liabilities		
Current assets	7.5	120.9
Non-current assets	7.6	197.3
Current liabilities	(2.6)	(74.6)
Non-current liabilities	(4.6)	(6.7)
Net assets	7.9	236.9

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED				
2008	Land $m	Buildings $m	Plant and equipment $m	Leased assets $m	Total $m
Movements in carrying amounts					
Cost					
At the beginning of the year	59.3	317.2	1,780.4	73.2	2,230.1
Acquisitions through business combinations	104.7	110.6	529.9	–	745.2
Additions	3.5	34.7	224.3	0.1	262.6
Disposals	(0.3)	(0.6)	(7.3)	(0.6)	(8.8)
Net foreign currency differences on translation of foreign operations	(0.9)	(1.9)	(27.1)	–	(29.9)
At the end of the year	166.3	460.0	2,500.2	72.7	3,199.2
Accumulated depreciation					
At the beginning of the year	–	(118.5)	(563.6)	(10.9)	(693.0)
Depreciation	–	(13.8)	(128.9)	(4.7)	(147.4)
Impairment loss (1)	–	–	(17.6)	–	(17.6)
Disposals	–	0.4	5.0	–	5.4
Net foreign currency differences on translation of foreign operations	–	(0.7)	4.8	–	4.1
At the end of the year	–	(132.6)	(700.3)	(15.6)	(848.5)
Net carrying amount at 30 June 2008	166.3	327.4	1,799.9	57.1	2,350.7

	CONSOLIDATED				
2007	Land $m	Buildings $m	Plant and equipment $m	Leased assets $m	Total $m
Movements in carrying amounts					
Cost					
At the beginning of the year	62.3	294.7	1,580.3	111.7	2,049.0
Additions	0.2	22.0	310.1	–	332.3
Transfers from leased assets to plant and equipment (2)	–	–	34.4	(43.3)	(8.9)
Transfers from plant and equipment to leased assets (3)	–	–	(37.6)	20.7	(16.9)
Disposals	(3.7)	(1.3)	(113.8)	(15.9)	(134.7)
Net foreign currency differences on translation of foreign operations	0.5	1.8	7.0	–	9.3
At the end of the year	59.3	317.2	1,780.4	73.2	2,230.1
Accumulated depreciation					
At the beginning of the year	–	(109.0)	(583.5)	(16.8)	(709.3)
Depreciation	–	(9.6)	(66.8)	(8.0)	(84.4)
Transfers from leased assets to plant and equipment (2)	–	–	–	8.9	8.9
Transfers from plant and equipment to leased assets (3)	–	–	16.9	–	16.9
Disposals	–	0.5	74.2	5.0	79.7
Net foreign currency differences on translation of foreign operations	–	(0.4)	(4.4)	–	(4.8)
At the end of the year	–	(118.5)	(563.6)	(10.9)	(693.0)
Net carrying amount at 30 June 2007	59.3	198.7	1,216.8	62.3	1,537.1

(1) Impairment of plant and equipment associated with the manufacturing facility closures in Laverton, Newcastle and Somerton.

(2) During 2007, leased assets with a book written down value of $34.4 million were repurchased by OneSteel.

(3) During 2007, plant and machinery with a book written down value of $20.7 million was entered into a sale and leaseback agreement.

NOTE 13. MINE DEVELOPMENT EXPENDITURES

	CONSOLIDATED		
2008	Deferred stripping $m	Pre-production expenditure $m	Total $m
Movements in carrying amounts			
Cost			
At the beginning of the year	39.0	33.1	72.1
Additions	–	1.3	1.3
Net deferral	19.8	–	19.8
Other movements	–	2.1	2.1
At the end of the year	58.8	36.5	95.3
Accumulated amortisation			
At the beginning of the year	–	(5.8)	(5.8)
Amortisation	–	(1.8)	(1.8)
At the end of the year	–	(7.6)	(7.6)
Net carrying amount at 30 June 2008	58.8	28.9	87.7

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

NOTE 14. OTHER INTANGIBLES AND GOODWILL

2008	Goodwill $m	Software development costs $m	Customer relationships $m	Supplier contracts $m	Brand names $m	Patents $m	Total $m
	CONSOLIDATED						
Movements in carrying amounts							
Cost							
At the beginning of the year	196.3	50.4	–	–	–	–	246.7
Acquisitions through business combinations [1]	1,785.0	11.5	31.0	10.1	76.7	9.7	1,924.0
Additions	–	5.3	–	–	–	–	5.3
Revaluation	–	–	–	–	1.8	–	1.8
Net foreign currency differences on translation of foreign operations	(57.1)	–	(2.2)	–	–	–	(59.3)
At the end of the year	1,924.2	67.2	28.8	10.1	78.5	9.7	2,118.5
Accumulated amortisation and impairment							
At the beginning of the year	–	(32.4)	–	–	–	–	(32.4)
Amortisation	–	(12.6)	(24.0)	(0.5)	(4.6)	(4.0)	(45.7)
At the end of the year	–	(45.0)	(24.0)	(0.5)	(4.6)	(4.0)	(78.1)
Net carrying amount at 30 June 2008	1,924.2	22.2	4.8	9.6	73.9	5.7	2,040.4

(1) Includes $75 million of goodwill previously included in the carrying amount of the equity accounted investment in Australian Tube Mills Pty Limited as at 20 August 2007.

2007	Goodwill $m	Software development costs $m	Total $m
	CONSOLIDATED		
Movements in carrying amounts			
Cost			
At the beginning of the year	192.9	50.0	242.9
Acquisitions through business combinations	1.8	–	1.8
Additions	–	1.0	1.0
Disposals	–	(0.6)	(0.6)
Net foreign currency differences on translation of foreign operations	1.6	–	1.6
At the end of the year	196.3	50.4	246.7
Accumulated amortisation and impairment			
At the beginning of the year	–	(22.7)	(22.7)
Amortisation	–	(9.9)	(9.9)
Reclassifications	–	0.2	0.2
At the end of the year	–	(32.4)	(32.4)
Net carrying amount at 30 June 2007	196.3	18.0	214.3

Description of the Group's intangible assets

(1) Goodwill
After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

(2) System development costs
System development costs are carried at cost less accumulated amortisation and impairment losses. These have been assessed as having a finite life and amortised on a straight line basis. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(3) Customer relationships, supplier contracts, patents and finite life brand names
These intangibles have been acquired through business combinations and are carried at cost less accumulated amortisation and impairment losses. These intangible assets have been determined to have finite lives. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(4) Indefinite life brand names
Included in brand names are indefinite life brand names with a carrying amount of $72.3 million as at 30 June 2008 acquired through business combinations. These brand names are core to the continuing operations of the Group and accordingly have been assessed as having an indefinite useful life as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. Indefinite life brand names are carried at cost less accumulated impairment losses. These assets are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

NOTE 14. OTHER INTANGIBLES AND GOODWILL (CONTINUED)

Impairment testing of goodwill and intangibles with indefinite useful lives

(a) Carrying amount of goodwill and intangibles with indefinite useful lives allocated to each of the cash generating units

	CONSOLIDATED		
2008	Goodwill $m	Indefinite life brand names $m	Total $m
Recycling US	73.6	–	73.6
Recycling Asia	36.1	–	36.1
Recycling Australia	172.5	–	172.5
Australian Manufacturing	785.1	1.3	786.4
Australian Distribution	698.4	71.0	769.4
Grinding Systems America	146.0	–	146.0
International Distribution	12.5	–	12.5
	1,924.2	72.3	1,996.5

	CONSOLIDATED		
2007	Goodwill $m	Indefinite life brand names $m	Total $m
Australian Distribution	181.9	–	181.9
International Distribution	14.4	–	14.4
	196.3	–	196.3

(b) Key assumptions used in value in use calculations

The recoverable amount of the cash generating units (CGUs) to which goodwill and/or indefinite life brand names have been allocated is based on a value in use calculation using the cash flow projections based on the five year forecast approved by the Board. The calculation of value in use is most sensitive to the following assumptions:

- Discount rates
- Gross margins
- Raw materials price inflation
- Market conditions
- Growth rate used to extrapolate cash flows beyond the forecast period.

Discount rates – the pre-tax discount rate applied to cash flow projections is 10.4% (2007: 12.4%), reflecting management's estimate of the time value of money and the risks specific to each CGU that are not already reflected in the cash flows. In determining appropriate discount rates for each unit, regard has been given to a weighted average cost of capital of the entity as a whole and adjusted for country and business risk specific to the unit. Cash flows beyond the five year period are extrapolated using the average of the cash flows from years three to five. For Grinding Systems America, cash flows beyond the five year period are extrapolated using the year five cash flow.

Gross margins – the basis used to determine the value assigned to the margins in the CGUs are the actual margins achieved increased for expected efficiency improvements. Thus, values assigned reflect past experience and efficiency improvements. Manufacturing prices assigned are influenced by raw material prices and international steel prices. These are consistent with external sources of information.

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

Market conditions – assumptions on key domestic market segment activity including construction, mining, agriculture and manufacturing are consistent with external sources of information. Assumptions including GDP, CPI and wages escalation are consistent with external sources of information. Long-term forecast AUD/USD and NZD exchange rates are used which are consistent with external sources of information.

Growth rate – Cash flows beyond the five year period are extrapolated using the average of the cash flows from years three to five. The growth rate used to extrapolate the cash flows of the CGUs beyond the five year period is 2% (2007: 2%). A 3% growth rate based on the year five cash flow was used for Grinding Systems America, due to the continued demand growth in the mining sector combined with improved throughput rates, costs and steel pricing forecasts. These growth rates do not exceed the growth rate of the markets to which the CGUs are dedicated.

(c) Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGUs to exceed their recoverable amount.

NOTE 15. OTHER ASSETS

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
Current				
Deferred charges	12.0	8.3	–	–
	12.0	8.3	–	–
Non-current				
Deferred charges	0.1	15.6	–	–
	0.1	15.6	–	–

NOTE 16. PAYABLES

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
Trade payables	849.7	563.0	–	–
Other payables and accruals	165.1	72.1	–	–
	1,014.8	635.1	–	–

Trade payables are non-interest-bearing and are generally settled on 30 to 60 day terms. Other payables are non-interest-bearing.

Fair values
Due to the short-term nature of these payables, their carrying amounts are assumed to approximate their fair values.

NOTE 17. INTEREST-BEARING LIABILITIES

		CONSOLIDATED		PARENT	
	Note	2008 $m	2007 $m	2008 $m	2007 $m
Current					
Finance lease	25, 32	21.7	20.0	–	–
HRC securitisation facility (1)	32	15.4	–	–	–
Unsecured					
Bank loans	32	446.5	49.9	–	–
Loan from controlled entity	32	–	–	672.4	43.9
		483.6	69.9	672.4	43.9
Non-current					
Finance lease	25, 32	24.7	46.3	–	–
Unsecured					
Bank loans	32	1,290.9	572.8	–	–
US Private placement – at fair value (2)	32	132.6	140.3	–	–
US Private placement – at amortised cost (3)	32	166.6	–	–	–
		1,614.8	759.4	–	–

(1) Committed tripartite inventory financing facility of $75 million expiring May 2009.

(2) US Private Placement undertaken in April 2003 (USD128 million). This consists of a 5.2%, fixed interest seven year tranche (USD68 million) repayable in April 2010 and 12 year tranche (USD60 million) repayable in April 2015. This has been hedged using a series of cross-currency interest rate swaps and accounted for as a fair value hedge – refer to Notes 8 and 32.

(3) US Private Placement recognised on acquisition of Smorgon Steel Group Limited in August 2007. This consists of USD45 million at 5.69% repayable in 2010; USD40 million at 5.78% repayable in 2011; USD25 million at 5.88% repayable in 2013; USD30 million at 6.08% repayable in 2014 and USD20 million at 6.08% repayable in 2015.

Of this balance, USD130 million has been hedged using a series of cross-currency swaps accounted for as a cash flow hedge – refer to Notes 8 and 32.

The remaining balance of USD30 million has been designated as a hedge of the net investments in US subsidiaries. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investments in the subsidiaries. A net gain on the hedge of the net investment of $5.1 million net of tax was recognised in equity for the period. There has been no hedge ineffectiveness recognised in the Income Statement on this hedge.

At 30 June 2008, the fair value of the US Private Placement is $177.8 million.

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

NOTE 18. PROVISIONS

	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 2007 $m
Current				
Employee benefits	235.7	161.9	–	–
Restoration and rehabilitation (1)	16.6	0.4	–	–
Customer claims (2)	17.2	6.6	–	–
Restructuring	28.2	–	–	–
	297.7	168.9	–	–
Non-current				
Employee benefits	40.7	16.5	–	–
Restoration and rehabilitation (1)	74.5	9.8	–	–
	115.2	26.3	–	–

2008	CONSOLIDATED Customer claims $m	Restoration and rehabilitation $m	Restructuring $m	Total $m
Movements in carrying amounts				
Carrying amount at the beginning of the year	6.6	10.2	–	16.8
Business combinations (3)	10.4	72.7	–	83.1
Additional amounts provided	10.9	11.1	42.5	64.5
Utilised	(10.7)	(3.6)	(14.3)	(28.6)
Unwinding of discount to present value	–	0.7	–	0.7
Carrying amount at the end of the year	17.2	91.1	28.2	136.5

(1) Provision for restoration and rehabilitation
Provision for restoration and rehabilitation comprise obligations relating to reclamation, site closure and other costs and includes provisions recognised on acquisition of Smorgon Steel Group Limited.

Because of the long-term nature of the liability, there is uncertainty in estimating the costs that will ultimately be incurred. The provision has been calculated using a discount rate of 6.6% (2007: 6.0%).

(2) Provision for customer claims
Provision for customer claims relates to estimates of settlement with customers for alleged product liability and/or legal costs associated with such claims and includes provisions recognised on acquisition of the Smorgon Steel Group Limited.

(3) Business combinations
Provisions recognised on acquisition of the Smorgon Steel Group Limited.

NOTE 19. RETIREMENT BENEFIT OBLIGATIONS

The OneSteel Group participates in a number of superannuation funds in Australia and New Zealand. The funds provide benefits either on a defined benefit or cash accumulation basis, for employees on retirement, resignation, disablement, or to their dependants on death.

Acquisition of Smorgon Steel Group Limited

On acquisition of Smorgon Steel Group Limited on 20 August 2007, three Smorgon Steel super funds were acquired. These super funds included both accumulation and defined benefit members. Members in two Smorgon funds (the Smorgon Steel Retirement Fund and the Smorgon Steel Staff Superannuation Fund) were wound up and members successor fund transferred to the OneSteel Superannuation Fund on 1 June 2008. The Smorgon Steel Employees Fund (which has only accumulation members) continues to operate.

Accumulation funds

The benefits provided by accumulation funds are based on contributions and income thereon held by the fund on behalf of the member. Contributions are made by the member and the company based on a percentage of the member's salary, as specified by the fund rules. These contributions are expensed in the period in which they are incurred. Contributions by the Group of 9% of employees' wages and salaries are legally enforceable in Australia.

Defined benefit funds

The Group has one superannuation plan with a defined benefit section and a defined contribution section. The benefits provided by the defined benefits section of the plan are based on the length of service of the member and the salary of the member at or near retirement. Member contributions, based on a percentage of salary, are specified by the fund rules. The defined benefit section has been closed to new members since 1997.

Employer contributions are made each month to the fund in accordance with the advice of the actuary to the fund, at levels deemed to be adequate to fund benefit payments in accordance with the fund's Trust Deed. These contributions are expensed in the period in which they are incurred.

Notes to the financial statements

NOTE 19. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	CONSOLIDATED	
	2008 $m	2007 $m
Net defined benefit expense		
Current service cost	17.9	14.8
Interest cost on benefit obligation	20.3	16.5
Expected return on plan assets	(31.7)	(23.3)
Salary sacrifice contributions	9.3	6.1
Net actuarial (gains)/losses recognised in the year	(1.2)	–
Past service cost	–	–
Effect of curtailments and settlements	–	–
Net defined benefit expense	14.6	14.1
Actual return on plan assets	(54.6)	57.2
Defined benefit liability included in the balance sheet		
Fair value of plan assets	348.4	393.7
Present value of defined benefit obligation	(361.3)	(356.5)
(Deficit)/Surplus at the end of the year	(12.9)	37.2
Business combinations – acquisition of Smorgon Steel Group Limited (1)	1.4	–
Net actuarial losses/(gains) not yet recognised	4.7	(49.5)
Net defined benefit liability – non-current	(6.8)	(12.3)

(1) Fair value of Smorgon Steel Group Limited defined benefit funds as at 20 August 2007. Effective 1 June 2008, the Smorgon Steel Retirement Fund and the Smorgon Steel Staff Superannuation Fund were transitioned into the OneSteel Superannuation Fund.

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

	CONSOLIDATED	
	2008 $m	2007 $m
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	356.5	340.8
Interest cost	20.3	16.5
Current service cost	17.9	14.8
Contributions by plan participants	9.8	6.7
Benefits paid	(37.2)	(27.4)
Business combinations	25.9	–
Actuarial (gains)/losses on obligation	(31.9)	5.1
Closing defined benefit obligation	361.3	356.5
Changes in the fair value of plan assets		
Opening fair value of plan assets	393.7	348.2
Expected return	31.7	23.3
Contributions by employer	18.7	15.1
Contributions by plan participants	0.5	0.6
Benefits paid	(37.2)	(27.4)
Business combinations	27.3	–
Actuarial gains/(losses)	(86.3)	33.9
Fair value of plan assets	348.4	393.7

Notes to the financial statements

NOTE 19. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	CONSOLIDATED	
	Defined benefits	
	2008 %	2007 %
Australian equities	32.0	37.0
International equities	31.0	25.0
Property	7.0	8.0
Bonds	27.0	27.0
Alternatives	3.0	3.0

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

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

	CONSOLIDATED	
	Defined benefits	
Principal actuarial assumption	2008 % pa	2007 % pa
Discount rate	6.5	6.3
Expected rate of return on assets	8.0	7.8
Future salary increases	5.0	5.0
CPI Inflation	3.4	3.2

	Defined benefits			
Historic summary	2008 $m	2007 $m	2006 $m	2005 $m
Defined benefit plan obligation	361.3	356.5	340.8	316.6
Plan assets	348.4	393.7	348.2	302.1
Surplus/(deficit)	(12.9)	37.2	7.4	(14.5)
Experience (gains)/losses arising on plan liabilities	(29.6)	(9.3)	(18.2)	(4.8)
Experience gains/(losses) arising on plan assets	(86.3)	33.9	40.3	11.0

Employer contributions

Employer contributions to the defined benefit section of the superannuation plan are based on recommendations by the plan's actuary. Formal actuarial assessments are made at least every three years, and the last such assessment was made as at 30 June 2007.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the projected unit cost funding method. This funding method seeks fund benefits by means of a recommended contribution rate (RCR) that is a combination of the Normal Cost (effectively the one year cost of accrual of defined benefits) and an adjustment to reflect any over or under-funding of accrued benefits at the valuation date. The RCR is expressed as a percentage of members' salaries. Contributions at least equal to the cost determined according to this method, and reviewed on a regular basis, can be expected to adequately fund the accrued benefits.

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

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2009 are $10.6 million.

Funding recommendations made by the actuary are based on assumptions of various matters such as future salary levels, mortality rates, membership turnover and interest rates.

Notes to the financial statements

NOTE 20. CONTRIBUTED EQUITY

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
Contributed equity				
Issued capital (a)	2,942.1	1,163.8	2,942.1	1,163.8
Employee compensation shares (b)	(12.2)	(10.2)	(12.2)	(10.2)
Total contributed equity	2,929.9	1,153.6	2,929.9	1,153.6
(a) Share capital				
Number of ordinary shares: 878,712,920 (2007: 575,734,010)				
Issued and paid-up	2,942.1	1,163.8	2,942.1	1,163.8
(b) Employee compensation shares				
Number of ordinary shares: 2,511,103 (2007: 3,344,814)				
Shares held in trust under equity-based compensation arrangements	(12.2)	(10.2)	(12.2)	(10.2)

		NUMBER OF ORDINARY SHARES		VALUE OF ORDINARY SHARES	
	Note	2008	2007	2008 $m	2007 $m
Movements in issued capital for the period					
On issue at the beginning of the year		575,734,010	569,252,175	1,163.8	1,134.4
Issued during the year:					
From the exercise of options (1) (2)		92,558	35,725	0.1	–
Shares issued as purchase consideration for Smorgon Steel Group Limited (3)		296,403,952	–	1,734.7	–
Under a Dividend Reinvestment Plan (4)		6,482,400	6,446,110	43.5	29.4
On issue at the end of the year		878,712,920	575,734,010	2,942.1	1,163.8
Movements in employee compensation shares for the period					
Held in Trust at the beginning of the year		(3,344,814)	(3,042,907)	(10.2)	(8.2)
Shares vested and transferred to share-based payments reserve	22	2,016,457	13,734	5.2	–
Shares purchased on-market		(1,182,746)	(315,641)	(7.2)	(2.0)
Held in Trust at the end of the year		(2,511,103)	(3,344,814)	(12.2)	(10.2)

(1) Issued from the exercise of options under the Executive Long Term Incentive Plan (refer Note 29).

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

(3) Shares issued at $5.8531 based on the volume weighted average price for OneSteel Limited shares listed on the Australian Securities Exchange on 20 August 2007 as purchase consideration for Smorgon Steel Group Limited (refer Note 33).

(4) The dividend reinvestment plan provides shareholders with an opportunity to acquire additional ordinary shares in lieu of cash dividends. Shares were issued at $6.86 (October 2007) and $6.43 (April 2008).

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

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

NOTE 21. RETAINED EARNINGS

		CONSOLIDATED		PARENT	
	Note	2008 $m	2007 $m	2008 $m	2007 $m
Balance at the beginning of the year		420.3	316.1	132.7	112.7
Net profit		244.9	207.0	173.6	122.8
Dividends paid	23	(161.6)	(102.8)	(161.6)	(102.8)
Balance at the end of the year		503.6	420.3	144.7	132.7

Notes to the financial statements

NOTE 22. RESERVES

	Note	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 2007 $m
Foreign currency translation reserve		(80.9)	2.9	–	–
Cash flow hedge reserve		17.9	5.5	–	–
Share-based payments reserve		2.9	4.4	2.1	3.9
Asset revaluation reserve		1.8	–	–	–
		(58.3)	12.8	2.1	3.9
(a) Foreign currency translation reserve					
Balance at the beginning of the year		2.9	(3.3)	–	–
Net investment hedges		14.6	–	–	–
Exchange fluctuations on overseas net assets		(98.4)	6.2	–	–
Balance at the end of the year		(80.9)	2.9	–	–
(b) Cash flow hedge reserve					
Balance at the beginning of the year		5.5	3.9	–	–
Gains taken to equity		33.4	6.3	–	–
Transferred to finance costs		(16.6)	(1.9)	–	–
Transferred to initial carrying amount of hedged items on balance sheet		(4.4)	(2.8)	–	–
Balance at the end of the year		17.9	5.5	–	–
(c) Share-based payments reserve					
Balance at the beginning of the year		4.4	2.0	3.9	1.5
Expense recognised		3.7	2.4	–	–
Contribution to subsidiary		–	–	3.4	2.4
Transfer from employee compensation shares	20	(5.2)	–	(5.2)	–
Balance at the end of the year		2.9	4.4	2.1	3.9
(d) Asset revaluation reserve					
Balance at the beginning of the year		–	–	–	–
Revaluation of intangible assets		1.8	–	–	–
Balance at the end of the year		1.8	–	–	–

Nature and purpose of reserves

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

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

(c) Share-based payments reserve
The share-based payments reserve is used to record the value of equity-based compensation provided to employees and senior executives as part of their remuneration. Refer to Note 29 for further details of these plans.

(d) Asset revaluation reserve
The asset revaluation reserve relates to the revaluation of the pre-acquisition carrying amounts of intangible assets acquired through business combinations to their fair value. Refer to Note 33 for further details.

NOTE 23. DIVIDENDS

The following dividends have been paid, declared or recommended since the end of the preceding financial year in relation to the consolidated and parent entity:

2008	On ordinary shares $m	Dividend per ordinary share cents
Interim fully franked dividend for 2008, paid 17 April 2008	70.1	8.0
Final fully franked dividend for 2007, paid 18 October 2007	91.5	10.5
	161.6	18.5

2007	$m	cents
Interim fully franked dividend for 2007, paid 19 April 2007	45.9	8.0
Final fully franked dividend for 2006, paid 19 October 2006	56.9	10.0
	102.8	18.0

NOTE 23. DIVIDENDS (CONTINUED)

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 13.5 cents per fully paid ordinary share (2007: 10.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 16 October 2008 but not recognised as a liability at year end is $118.6 million (2007: $91.5 million).

Dividend franking

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

	PARENT	
	2008 $m	2007 $m
The amount of franking credits available for the subsequent financial year, represented by the franking account balance at 30% are:	39.6	13.1

The balance of the franking account balance at year end has been adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years.

NOTE 24. NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
(a) Reconciliation to cash flow statement				
Cash at balance date as shown in the cash flow statement, is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	151.2	59.5	–	–
At call bank loan	(42.8)	(49.9)	–	–
	108.4	9.6	–	–
(b) Reconciliation of profit after tax to net cash flows from operating activities				
Profit after tax	255.1	218.9	173.6	122.8
Adjusted for non-cash items				
Depreciation and amortisation	194.9	96.2	–	–
Impairment of plant and equipment	17.6	–	–	–
Net gains on disposal of property, plant and equipment	(0.4)	(5.1)	–	–
Share of net loss/(profit) of investments accounted for using the equity method	13.6	(4.8)	–	–
Net fair value change on derivatives	(2.8)	(2.3)	–	–
Share-based payment expense	3.7	2.3	–	–
Finance costs	2.4	1.4	–	–
Changes in assets and liabilities net of effects of purchase and sale of controlled entities and businesses				
(Increase)/decrease in receivables	(144.0)	(2.6)	–	(6.0)
(Increase)/decrease in inventories	(79.6)	(121.5)	–	–
(Increase)/decrease in deferred tax balances	4.4	(4.1)	–	–
(Increase)/decrease in other assets	(8.5)	(26.2)	–	–
Increase/(decrease) in tax provisions	(0.9)	1.7	(11.7)	4.3
Increase/(decrease) in payables	80.7	112.1	37.8	–
Increase/(decrease) in provisions	14.6	10.5	–	–
Net cash flows from operating activities	350.8	276.5	199.7	121.1

(c) Non-cash investing and financing activities

(1) During the year, dividends of $43.5 million (2007: $29.4 million) were paid via the issue of shares under a dividend reinvestment plan. Refer to Note 20.

(2) On 20 August 2007, OneSteel Limited acquired 100% of the voting shares of Smorgon Steel Group Limited. Part of the purchase consideration was satisfied via the issue of 296,403,952 ordinary OneSteel Limited shares at $5.85 based on the volume weighted average price for the OneSteel Limited shares listed on the Australian Securities Exchange on that date. Refer to Note 33.

(d) Fair values

The carrying amount of the Group's cash and cash equivalents approximate their fair value.

Notes to the financial statements

NOTE 24. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

(e) Acquisition of businesses

Assets arising as a result of minor business acquisitions made by the OneSteel Group during the year were as follows:

	CONSOLIDATED	
Assets and consideration given	2008 $m	2007 $m
Cash consideration paid	4.2	2.6
The carrying amounts of assets acquired by major classes are: (1)		
Inventories	0.2	0.8
Plant and equipment	0.7	–
Goodwill arising on acquisition	3.3	1.8
	4.2	2.6
Outflow of cash on minor business acquisitions		
Cash outflow	4.2	2.6

The businesses acquired during the year were as follows:

Name of business	Date of acquisition
Port Lincoln Steel Industries	2-Jul-07
AllMetal Service Centre (Brendale) Pty Ltd	30-Jul-07
Clearwater Scrap Metal, Inc.	18-Mar-08

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

NOTE 25. COMMITMENTS

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
Capital commitments				
Commitments contracted for at balance date but not recognised as liabilities are as follows:				
Property, plant and equipment:				
Within one year	41.1	35.9	–	–
After one year but not more than five years	–	–	–	–
Longer than five years	–	–	–	–
Total capital commitments	41.1	35.9	–	–
Operating lease commitments				
The OneSteel Group has entered into various non-cancellable operating leases on property, plant and equipment. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.				
The Group also leases various plant and machinery under cancellable operating leases.				
Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:				
Within one year	62.6	34.0	–	–
After one year but not more than five years	135.0	79.8	–	–
Longer than five years	42.9	31.9	–	–
Total operating lease commitments	240.5	145.7	–	–
Finance lease commitments				
The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of five years.				
Future minimum lease payments under finance leases are as follows:				
Within one year	24.9	25.3	–	–
After one year but not more than five years	25.2	49.6	–	–
Minimum lease payments	50.1	74.9	–	–
Less: Future finance charges	(3.7)	(8.6)	–	–
Total lease liability	46.4	66.3	–	–
Lease liability – current	21.7	20.0	–	–
Lease liability – non-current	24.7	46.3	–	–
Total lease liability	46.4	66.3	–	–

The weighted average interest rate implicit in the leases is 8.2% (2007: 8.5%).

Notes to the financial statements

NOTE 26. CONTINGENCIES

(a) Contingent liabilities

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

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	2007 $m
Guarantees and indemnities				
Bank guarantees covering:				
Workers' compensation self-insurance licences [1]	54.8	33.7	54.8	33.7
Performance of contracts	16.1	5.6	–	–

(1) In Australia, OneSteel Limited has given guarantees to various state workers' compensation authorities as a pre-requisite for self-insurance. Of this amount, a total of $31.3 million (June 2007: $18.4 million) has been provided for in the consolidated financial statements as recommended by independent actuarial advice.

As explained in Note 27, OneSteel has entered into a Deed of Cross Guarantee in accordance with a class order issued by the Australian Securities and Investments Commission. OneSteel Limited, and all the controlled entities which are a party to the deed, have guaranteed the repayment of all current and future creditors in the event any of these companies are wound up.

Third party claims

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

(b) Contingent assets

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

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

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

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

NOTE 27. CONTROLLED ENTITIES

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

Entity	Note	Place of incorporation	% of shares held 2008	2007
OneSteel Limited	(a),(b),(c)	Australia		
Aquila Steel Company Pty Ltd	(c)	Australia	100.0	100.0
Australian Wire Industries Pty Limited	(c)	Australia	100.0	100.0
AWI Holdings Pty Limited	(c)	Australia	100.0	100.0
J Murray-Moore (Holdings) Pty Limited	(c)	Australia	100.0	100.0
Metpol Pty Limited	(c)	Australia	100.0	100.0
Midalia Steel Pty Limited	(b),(c)	Australia	100.0	100.0
OneSteel Building Supplies Pty Limited	(c)	Australia	100.0	100.0
OneSteel Finance Pty Limited	(b)	Australia	100.0	100.0
OneSteel Insurance Pte Limited		Singapore	100.0	100.0
OneSteel Investments Pty Limited	(c)	Australia	100.0	100.0
OneSteel Manufacturing Pty Limited	(b),(c)	Australia	100.0	100.0
OneSteel MBS Pty Limited	(b),(c)	Australia	100.0	100.0
OneSteel NSW Pty Limited	(b),(c)	Australia	100.0	100.0
OneSteel NZ Limited		New Zealand	100.0	100.0
OneSteel Queensland Pty Limited	(c)	Australia	100.0	100.0
OneSteel Reinforcing Pty Limited	(b),(c)	Australia	100.0	100.0
Onesteel Trading Pty Limited	(b),(c)	Australia	100.0	100.0
OneSteel Wire Pty Limited	(b),(c)	Australia	100.0	100.0
Pipeline Supplies of Australia Pty Limited	(c)	Australia	100.0	100.0
Reosteel Pty Limited	(c)	Australia	100.0	100.0
Tubemakers of Australia Pty Ltd	(c)	Australia	100.0	100.0
Tubemakers Somerton Pty Limited	(c)	Australia	100.0	100.0
Tubemakers of New Zealand Limited		New Zealand	100.0	100.0
Certified Roofing Specialists Limited		New Zealand	50.3	50.3
Steel & Tube Holdings Limited		New Zealand	50.3	50.3

Notes to the financial statements

NOTE 27. CONTROLLED ENTITIES (CONTINUED)

Entity	Note	Place of incorporation	% of shares held 2008	2007
Steel & Tube New Zealand Limited		New Zealand	50.3	50.3
David Crozier Limited		New Zealand	50.3	50.3
EMCO Group Ltd		New Zealand	50.3	50.3
EMCO Group Superannuation Ltd		New Zealand	50.3	50.3
NZMC Limited		New Zealand	50.3	50.3
Stube Industries Limited		New Zealand	50.3	50.3
A.T. Pty Ltd	(g)	Australia	100.0	–
AB Metal Pty Ltd	(g)	Australia	100.0	–
ANI Australia Ltd	(e),(g)	Australia	100.0	–
ANI Construction (WA) Pty Ltd	(g)	Australia	100.0	–
ANI Finance (UK) Ltd	(g)	England	100.0	–
ANI Metal Products LLC	(g)	USA	100.0	–
ANI Mineral Processing LLC	(g)	USA	100.0	–
ANI Mining Services Pty Ltd	(e),(g)	Australia	100.0	–
ANI Monosteel Pty Ltd (in liquidation)	(e),(g)	Australia	100.0	–
ANI Xatal Pty Ltd	(g)	Australia	100.0	–
Arnall's Engineering Pty Ltd	(g)	Australia	100.0	–
Ashland Investments Pty Ltd	(g)	Australia	100.0	–
Austral Steel Holdings Ltd	(e),(g)	Australia	100.0	–
Australian National Industries Pty Ltd	(g)	Australia	100.0	–
Australian Tube Mills Pty Limited	(b),(g),(h)	Australia	100.0	–
Banana Coast Recyclers Pty Ltd	(g)	Australia	100.0	–
Bradken Consolidated Ltd	(e),(g)	Australia	100.0	–
Cockatoo Dockyard Pty Ltd	(g)	Australia	100.0	–
Commonwealth Steel Company Ltd	(e),(g)	Australia	100.0	–
Comsteel Pty Ltd	(e),(g)	Australia	100.0	–
Dane Taylor Holdings Pty Ltd	(g)	Australia	100.0	–
E & G Products Pty Ltd	(e),(g)	Australia	100.0	–
E & G Steel Pty Ltd	(e),(g)	Australia	100.0	–
Eagle & Globe Limited	(e),(g)	Australia	100.0	–
Email Holdings Limited (formerly known as Smorgon Distribution Limited)	(g)	Australia	100.0	–
Email Pty Ltd (refer details of the Email Pty Ltd Group below)	(f),(g)	Australia	100.0	–
Fagersta Australia Pty Limited	(b)	Australia	100.0	–
Fagersta Steels Pty Limited	(b)	Australia	100.0	–
GSF Management Pty Ltd	(g)	Australia	100.0	–
Helix Cables International Pty Ltd	(g)	Australia	100.0	–
HP Metal Recycling (HK) Limited	(g)	Hong Kong	100.0	–
HP Metal Recycling Inc	(g)	Philippines	100.0	–
HPR Industrial (JB) Sdn Bhd	(g)	Malaysia	100.0	–
Investment Acceptance Ltd	(e),(g)	Australia	100.0	–
John McGrath (QP) Pty Ltd	(g)	Australia	100.0	–
John McGrath Pty Ltd	(e),(g)	Australia	100.0	–
Linstar Holdings Sdn Bhd	(g)	Malaysia	100.0	–
Litesteel Products Pty Limited (formerly Smorgon Steel Litesteel Products Pty Ltd)	(g)	Australia	100.0	–
Litesteel Technologies America LLC (formerly Smorgon Steel Litesteel Technologies America LLC)	(g)	USA	100.0	–
Litesteel Technologies Pty Limited (formerly Smorgon Steel Litesteel Technologies Pty Ltd)	(b),(g)	Australia	100.0	–
M-Asia Enterprise (KL) Sdn Bhd	(g)	Malaysia	100.0	–
Metalcorp Ltd	(b),(d),(g)	Australia	100.0	–
Metalcorp Manufacturing Pty Ltd	(g)	Australia	100.0	–
Metalcorp Recyclers New Zealand Pty Ltd	(g)	Australia	100.0	–
Metalcorp Recyclers Pty Ltd	(b),(d),(g)	Australia	100.0	–
Metalcorp Steel (Vic) Pty Ltd	(g)	Australia	100.0	–
Metalcorp Steel Pty Ltd	(g)	Australia	100.0	–
Metalstores Ltd	(e),(g)	Australia	100.0	–
MI Steel (NSW) Pty Ltd	(g)	Australia	100.0	–
MI Steel (Qld) Pty Ltd	(g)	Australia	100.0	–
MI Steel (Sydney) Pty Ltd	(g)	Australia	100.0	–
MI Steel (Tas) Pty Ltd	(g)	Australia	100.0	–
MI Steel (Vic) Pty Ltd	(g)	Australia	100.0	–
Ming Sing Electronics Ltd	(g)	Hong Kong	100.0	–
Mittagong Engineering Pty Ltd	(g)	Australia	100.0	–

Notes to the financial statements

NOTE 27. CONTROLLED ENTITIES (CONTINUED)

Entity	Note	Place of incorporation	% of shares held 2008	2007
Northern Service Supplies Pty Ltd	(g)	Australia	100.0	–
OneSteel Asia Limited (formerly Smorgon Steel Recycling (Hong Kong) Ltd)	(g)	Hong Kong	100.0	–
OneSteel Australian Tube Mills Pty Limited (formerly P&T JV Subsidiary Co Pty Ltd)	(b),(h),(g)	Australia	100.0	–
OneSteel Coil Coaters Pty Ltd (formerly Coil Coaters Pty Ltd)	(b),(d),(g)	Australia	100.0	–
OneSteel Grinding Systems LLC (formerly Smorgon Steel Grinding Systems America LLC)	(g)	USA	100.0	–
OneSteel Group (US Holdings) Inc (formerly Smorgon Steel Group (US Holdings) Inc)	(g)	USA	100.0	–
OneSteel Recycling Asia Limited (formerly Smorgon Hartwell Recycling Limited)	(g)	Hong Kong	100.0	–
OneSteel Recycling Hong Kong Limited (formerly Smorgon Hartwell Recycling (HK) Limited)	(g)	Hong Kong	100.0	–
OneSteel Recycling Inc (formerly Smorgon Steel Recycling Inc)	(g)	USA	100.0	–
OneSteel Recycling NZ Limited (formerly Smorgon Steel Recycling (New Zealand) Ltd)	(g)	New Zealand	100.0	–
OneSteel Recycling Overseas Pty Limited (formerly Smorgon Steel Recycling (Overseas) Pty Ltd)	(b),(g)	Australia	100.0	–
OneSteel Recycling PNG Limited (formerly Smorgon Steel Recycling (PNG) Ltd)	(g)	PNG	100.0	–
OneSteel Technologies Pty Limited (formerly Smorgon Steel Technologies Pty Ltd)	(g)	Australia	100.0	–
OneSteel US Investments (General Partnership)		USA	100.0	–
OneSteel US Investments 1 Pty Ltd	(b)	Australia	100.0	–
OneSteel US Investments 2 Pty Ltd		Australia	100.0	–
P&T Tube Mills Pty Ltd	(b),(g),(h)	Australia	100.0	–
Palmer Tube Mills (NZ) Ltd	(g)	New Zealand	100.0	–
Palmer Tube Mills Ltd	(b),(g),(h)	Australia	100.0	–
PT Commonwealth Steel Indonesia	(g)	Indonesia	100.0	–
QMR Inc	(g)	Philippines	100.0	–
Smorgon Steel Distribution Superannuation Fund Pty Ltd	(g)	Australia	100.0	–
Smorgon Steel Employees Superannuation Fund Pty Ltd	(g)	Australia	100.0	–
Smorgon Steel Recycling (Fiji) Ltd	(g)	Fiji	100.0	–
Smorgon Steel Retirement Fund Pty Ltd	(g)	Australia	100.0	–
Smorgon Steel Singapore Pte Ltd	(g)	Singapore	100.0	–
Somerville Rehabilitation Services Pty Ltd	(g)	Australia	100.0	–
SSG Investments Pty Ltd	(g)	Australia	100.0	–
SSG No 2 Pty Ltd	(e),(g)	Australia	100.0	–
SSG No 3 Pty Ltd	(e),(g)	Australia	100.0	–
SSGL Share Plan Nominees Pty Ltd	(g)	Australia	100.0	–
SSX Acquisitions Pty Limited (formerly Smorgon Steel (Acquisitions) Pty Ltd)	(b),(d),(g)	Australia	100.0	–
SSX Holdings Pty Limited (formerly Smorgon Steel (Holdings) Pty Ltd)	(e),(g)	Australia	100.0	–
SSX International Pty Limited (formerly Smorgon Steel (International) Pty Ltd)	(b),(d),(g)	Australia	100.0	–
SSX Limited (formerly Smorgon Steel Group Ltd)	(b),(d),(g)	Australia	100.0	–
SSX Services Pty Limited (formerly Smorgon Steel Group (Services) Pty Ltd)	(b),(d),(g)	Australia	100.0	–
Steelmark Properties Pty Ltd	(g)	Australia	100.0	–
Tasco Superannuation Management Pty Ltd	(g)	Australia	100.0	–
Thai Metal Recycling Limited	(g)	Thailand	100.0	–
The ANI Corporation Ltd	(e),(g)	Australia	100.0	–
The Australian Steel Company (Operations) Pty Ltd	(b),(d),(g)	Australia	100.0	–
Titan Mining & Engineering Pty Ltd	(g)	Australia	100.0	–
TMR Loha Holdings Limited	(g)	Thailand	100.0	–
Tube Estates Pty Limited	(g),(h)	Australia	100.0	–
Tube Street Pty Ltd	(e),(g)	Australia	100.0	–
Tube Technology Pty Limited	(g),(h)	Australia	100.0	–
WA Mining Engineering Services Pty Ltd	(g)	Australia	100.0	–
Western Consolidated Industries Pty Ltd	(e),(g)	Australia	100.0	–
X.C.E. Pty Ltd	(e),(g)	Australia	100.0	–
X.C.H. Pty Ltd	(e),(g)	Australia	100.0	–
X.D.I.R. Pty Ltd	(g)	Australia	100.0	–
X.M.A.L. Pty Ltd	(g)	Australia	100.0	–
X.P. Pty Ltd	(g)	Australia	100.0	–
Zinctek Pty Limited	(g),(h)	Australia	100.0	–

Notes to the financial statements

NOTE 27. CONTROLLED ENTITIES (CONTINUED)

Entity	Note	Place of incorporation	% of shares held 2008	2007
Details of the Email Group				
A.C.N. 006 769 035 Pty Ltd	(f),(g)	Australia	100.0	–
A.C.N. 124 092 173 Pty Ltd	(g)	Australia	100.0	–
Akkord Pty Ltd	(f),(g)	Australia	100.0	–
Atlas Group Employees Superannuation Fund Pty Ltd	(g)	Australia	100.0	–
Atlas Group Staff Superannuation Fund Pty Ltd	(g)	Australia	100.0	–
Atlas Group Superannuation Plan Pty Ltd	(g)	Australia	100.0	–
BGJ Holdings Pty Ltd	(f),(g)	Australia	100.0	–
Email Metals Pty Ltd	(f),(g)	Australia	100.0	–
Email Accumulation Superannuation Pty Ltd	(g)	Australia	100.0	–
Email Executive Superannuation Pty Ltd	(g)	Australia	100.0	–
Email Management Superannuation Pty Ltd	(g)	Australia	100.0	–
Email Superannuation Pty Ltd	(g)	Australia	100.0	–
Emwest Holdings Pty Ltd	(f),(g)	Australia	100.0	–
Emwest Properties Pty Ltd	(g)	Australia	100.0	–
Kelvinator Australia Pty Ltd	(f),(g)	Australia	100.0	–
Metals Properties Pty Ltd	(f),(g)	Australia	100.0	–
National Valve and Engineering Co Pty Ltd	(g)	Australia	100.0	–
NKS (Holdings) Pty Ltd	(f),(g)	Australia	100.0	–
O Dee Gee Co Pty Ltd	(f),(g)	Australia	100.0	–
Overseas Corporation (Australia) Pty Ltd	(f),(g)	Australia	100.0	–
Pipeline Supplies Malaysia Sdn Bhd	(g)	Malaysia	100.0	–
Roentgen Ray Pty Ltd	(f),(g)	Australia	100.0	–
Wembley Insurance Pte Ltd	(g)	Singapore	100.0	–
XEM (Aust) Pty ltd	(f),(g)	Australia	100.0	–
XJM (Malaysia) Sdn Bhd	(g)	Malaysia	100.0	–
XLA Pty Ltd	(f),(g)	Australia	100.0	–
XLL Pty Ltd	(f),(g)	Australia	100.0	–

(a) OneSteel Limited is a public company limited by shares, incorporated and domiciled in Australia. The registered office is located at Level 40, 259 George Street, Sydney NSW 2000, Australia.

(b) These companies have entered into a Deed of Cross Guarantee dated 10 June 2008 with OneSteel Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare an audited Financial Report.

(c) These companies are party to a Deed of Cross Guarantee dated 26 March 1993 with OneSteel Limited pursant to ASIC Class Order 94/1418. It is intended that this Deed of Cross Guarantee be revoked later this year.

(d) These companies are party to a Deed of Cross Guarantee dated 27 June 2007 with SSX Limited (formerly known as Smorgon Steel Group Limited) pursant to ASIC Class Order 98/1418. It is intended that this Deed of Cross Guarantee be revoked later this year.

(e) These companies have entered into a Deed of Cross Guarantee with SSX Holdings Pty Ltd dated 25 June 1999 pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare an audited Financial Report.

(f) These companies have entered into a Deed of Cross Guarantee with Email Pty Limited dated 11 February 1993 pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare an audited Financial Report.

(g) These companies became wholly-owned controlled entities on 20 August 2007 as a result of the acquisition of SSX Limited (formerly Smorgon Steel Group Limited) by OneSteel Limited.

(h) These companies are party to a Deed of Cross Guarantee dated 27 June 2007 with Australian Tube Mills Pty Limited pursant to ASIC Class Order 98/1418. It is intended that this Deed of Cross Guarantee be revoked later this year.

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

Notes to the financial statements

NOTE 27. CONTROLLED ENTITIES (CONTINUED)

Deed of cross guarantee

Financial information for the class order closed group:

	CLOSED GROUP	
	2008 $m	2007 $m
Consolidated income statement		
Profit before income tax	261.8	254.0
Income tax expense	(63.6)	(49.5)
Profit after tax	**198.2**	**204.5**
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	370.8	269.1
Net profit	198.2	204.5
Dividends provided for or paid	(161.6)	(102.8)
Retained earnings at the end of the year	**407.4**	**370.8**
Consolidated balance sheet		
Current assets		
Cash and cash equivalents	87.7	163.8
Receivables	7,699.8	1,437.3
Inventories	1,119.9	753.5
Other assets	10.1	7.0
Total current assets	**8,917.5**	**2,361.6**
Non-current assets		
Derivative financial instruments	16.4	–
Other financial assets	1,483.7	140.0
Property, plant and equipment	2,006.9	1,494.1
Mine development expenditure	87.7	66.3
Intangibles	2,118.4	199.9
Deferred tax assets	144.2	69.4
Other assets	–	15.6
Total non-current assets	**5,857.3**	**1,985.3**
TOTAL ASSETS	**14,774.8**	**4,346.9**
Current liabilities		
Payables	1,059.7	597.7
Interest-bearing liabilities	8,087.3	1,803.0
Tax liabilities	10.2	32.9
Provisions	270.8	163.5
Total current liabilities	**9,428.0**	**2,597.1**
Non-current liabilities		
Derivative financial instruments	133.6	–
Interest-bearing liabilities	1,590.9	46.3
Deferred tax liabilities	183.2	137.3
Provisions	77.9	38.6
Total non-current liabilities	**1,985.6**	**222.2**
TOTAL LIABILITIES	**11,413.6**	**2,819.3**
NET ASSETS	**3,361.2**	**1,527.6**
Equity		
Contributed equity	2,929.9	1,153.6
Retained earnings	407.4	370.8
Reserves	23.9	3.2
TOTAL EQUITY	**3,361.2**	**1,527.6**

Notes to the financial statements

NOTE 28. RELATED PARTY DISCLOSURES

(a) Transactions with related parties in the wholly-owned group
Throughout the year, the parent entity, OneSteel Limited, entered into the following transactions with members of the wholly-owned group:
- Loans were received
- Interest was paid
- Management fees were received and paid
- Dividends were received
- Tax related transactions occurred within the tax consolidated group.

These transactions were undertaken on commercial terms and conditions.

	CONSOLIDATED		PARENT	
Transaction type	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Loans to/from controlled entities				
Current receivables (tax sharing agreement) (2)	–	–	29,200	32,900
Non-current liabilities (1)	–	–	672,266	43,858
Interest received	–	–	–	4,943
Interest paid	–	–	37,856	2,061

(1) An interest-bearing loan with an average interest rate of 7.3% (2007: 6.7%).

(2) Tax related balances with wholly-owned Australian controlled entities under a tax sharing agreement arising from tax consolidation.

	CONSOLIDATED		PARENT	
Transaction type	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Other transactions with controlled entities				
Management fees received	–	–	3,781	3,051
Management fees paid	–	–	(3,781)	(3,051)
Dividends received	–	–	200,000	120,000
(b) Transactions with jointly controlled entities				
Sale of wire products	1,351	813	–	–
Services rendered	898	2,461	–	–
Rental revenue	483	725	–	–
Services received	33	50	–	–
Purchase of structural pipe and tube	31,490	68,913	–	–
Trade receivables	–	146	–	–
Trade payables	–	37,303	–	–
Loan advances (1)	–	8,250	–	–
Loan repaid	–	8,250	–	–
Deposits received (2)	–	28,000	–	–
Deposits repaid	–	28,000	–	–

(1) At 30 June 2007, the interest-bearing loan had an average interest rate of 7.45%.

(2) At 30 June 2007, the interest-bearing deposit had an average interest rate of 6.0%.

These transactions were undertaken on commercial terms and conditions.

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

NOTE 29. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2008	2007
Number of employees as at 30 June	11,678	7,526
	$m	$m
The aggregate employee benefit liability is comprised of:		
Provisions (current)	235.7	161.9
Provisions (non-current)	47.5	28.8
Total employee benefit liabilities	283.2	190.7

NOTE 29. EMPLOYEE BENEFITS (CONTINUED)

(a) Self-insurance workers' compensation provision

	CONSOLIDATED 2008 $m	2007 $m
Obligations under self-insurers workers' compensation licences included in provision for employee benefits		
New South Wales	21.6	12.4
Queensland	2.7	0.5
Victoria	3.7	2.5
South Australia	2.8	2.5
Western Australia	0.5	0.5
Total self-insurance workers' compensation provision	31.3	18.4

OneSteel provides the following share and option plans for employees:

(b) Employee Share Plans
OneSteel has two share plans under which eligible employees may acquire ordinary shares in the company. The most recent offer under the employee share plan was made in May 2008 to eligible employees as at 1 April 2008. All Australian resident permanent employees (excluding OneSteel directors) are eligible to participate in either the Tax Exempt or Tax Deferred Share Plans. Both the Tax Exempt and Tax Deferred Plans enable participating employees to make salary sacrifice contributions to purchase shares on-market on a monthly basis. Under both plans, the company also grants to contributing participants a parcel of fully paid ordinary shares to the value of $125 for employees participating in the Tax Exempt Plan and $250 for employees participating in the Tax Deferred Plan for no cash consideration. The shares must be held in the Plan for a minimum of three years whilst the participant remains an employee of OneSteel for the Tax Exempt Plan. For the Tax Deferred Plan, employee contribution shares must be held in the Plan for a minimum of 12 months, and company contribution shares must be held in the plan for 24 months before they can be withdrawn.

During the years ended 30 June 2007 and 30 June 2008, the matching shares granted by the company have been purchased on-market or allocated from surplus shares forfeited under either the employee share plan or the executive share plan. The matching shares are allocated each month using the same allocation employee contributed shares, which are purchased on the 15th of each month, and the number of shares allocated to the employees is the offer amount divided by the weighted average price at which the company's shares are traded on the Australian Securities Exchange on the date of the purchase.

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

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

	2008	2007
Total number purchased by employees during the year ('000s)	861	1,187
Weighted average fair value of shares granted during the period ($)	6.64	4.78

(c) Executive Share Plan (Long Term Incentive Plan)
The executive share plan for senior management provides for the grant of rights to shares. During the year grants of share rights were made to eligible executives. The shares granted are held in trust until vested to the participant.

Vesting is subject to the company achieving specific performance hurdles and a three year qualifying period. If the shares do not vest immediately at the end of the three year qualifying period, provisions exist that enable retesting of the performance hurdles. In addition, all or some of these shares may vest to an individual on termination when special circumstances apply. At the discretion of the Board these include redundancy, death and permanent disability. There are no cash settlement alternatives.

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

The performance hurdles relate to two comparative groups, namely the Australian Consumer Price Index plus 5% (Base Index) and the S&P/ASX 200 Index excluding banks, media and telecommunications (Comparator Index) that are measured against OneSteel's performance in terms of total shareholder return. For each instalment, 50% of the shares will vest subject to OneSteel's TSR performance to the Base Index and the remaining 50% of shares will vest subject to OneSteel's performance to the Comparator Index.

The expense recognised in the income statement in relation to share-based payments is disclosed in Note 4.

Shares held in trust in the LTIP are as follows:

	2008		2007	
	Number '000s	Weighted average fair value $	Number '000s	Weighted average fair value $
Outstanding at the beginning of the year	3,344	–	3,043	–
Share rights vested during the year	(2,016)	2.06	(14)	2.87
Share rights purchased during the year	1,183	4.62	315	4.86
Outstanding at the end of the year	2,511		3,344	

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

NOTE 29. EMPLOYEE BENEFITS (CONTINUED)

The following table lists the inputs to the model used.

	2008	2007
Dividend yield	3.61%	3.61% – 3.15%
Expected volatility	26%	26%
Risk free interest rate	6.07%	5.93% – 6.40%
Expected life	3 years	3 years
Exercise price	–	–
Weighted average share price at grant date	$6.04	$5.09 – $5.85

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

(d) Executive Option Plan

Prior to the year ended 30 June 2002, rights to options were issued to executives as part of the Executive Option Plan. Vesting is subject to the company achieving specific performance hurdles and a three year qualifying period. The exercise price of each option is based on the weighted average price of OneSteel Limited shares traded on the Australian Securities Exchange for the five days up to and including the date they are granted.

The performance hurdles relate to two comparative groups, namely the Australian Consumer Price Index plus 5% (Base Index) and the S&P/ASX 200 Index excluding banks, media and telecommunications (Comparator Index) that are measured against OneSteel's performance in terms of total shareholder return. For each instalment, 50% of the shares will vest subject to OneSteel's TSR performance to the Base Index and the remaining 50% of shares will vest subject to OneSteel's performance to the Comparator Index.

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

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

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

These options were all fully vested during the year ended 30 June 2005. No further options have been issued since those referred to above.

The following table illustrates the number and weighted average exercise price of and movements in the Executive Option Plan:

	2008			2007		
	Number '000s	Weighted average exercise price $	Weighted average share price at date of exercise $	Number '000s	Weighted average exercise price $	Weighted average share price at date of exercise $
Outstanding at the beginning of the year [1]	460	0.9999	–	496	0.9973	–
Exercised during the period	(92)	0.9760	6.84	(36)	0.9653	4.25
Options forfeited during the period	–	–	–	–	–	–
Outstanding at the end of the year [1],[2]	368	1.0057	–	460	0.9999	–
Exercisable at the end of the year	368	1.0057	–	460	0.9999	–

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

(2) The weighted average remaining contractual life for the share options outstanding and exercisable as at 30 June 2008 is between two and three years, with exercise prices of $0.9258 and $1.0434 (2007: $0.9258 and $1.0434).

Steel & Tube Holdings Limited

In 2008, 18,870 shares (2007: 28,110) were purchased whilst 3,100 were vested in the employee share purchase scheme and 53,660 (2007: 20,000) shares and 23,104 shares were vested in the executive share plan. Both schemes have a vesting period of a minimum of three years from grant date. The employee share scheme provides financial assistance, to a maximum of $2,340 in any three year period, to eligible employees to purchase company shares. Rights to shares in the executive share scheme vest upon achieving Board approved targets based on total shareholder returns.

NOTE 30. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

Directors

P J Smedley	Chairman (Independent, non-executive)
G J Plummer	Managing Director and Chief Executive Officer
R B Davis	Director (Independent, non-executive)
E J Doyle	Director (Independent, non-executive)
C R Galbraith	Director (Independent, non-executive)
P G Nankervis	Director (Independent, non-executive)
D A Pritchard	Director (Independent, non-executive)
N J Roach	Director (Independent, non-executive)
L G Cox	Director (Independent, non-executive) – appointed 17 September 2007
G J Smorgon	Director (Independent, non-executive) – appointed 17 September 2007

Executives

N Calavrias	Chief Executive Officer, Steel & Tube Holdings Limited
A J Reeves	Chief Financial Officer
L J Selleck	Executive General Manager, EAFs & Technology
C R Keast	Executive General Manager, Rod, Bar & Wire
M R Parry	Executive General Manager, Whyalla Steelworks
A H Combe	Executive General Manager, Distribution
A G Roberts	Executive General Manager, Marketing
S H Hamer	Executive General Manager, Steel in Concrete – appointed 20 August 2007
R Jansen	Chief Executive Officer, Recycling – appointed 20 August 2007

Compensation of Key Management Personnel

	CONSOLIDATED		PARENT	
	2008 $	2007 $	2008 $	2007 $
Short-term benefits	10,032,464	9,150,313	9,367,794	8,434,010
Post-employment benefits	597,051	534,375	553,997	494,461
Other long-term benefits	171,714	235,757	–	–
Share-based payments	3,105,234	1,616,400	3,105,234	1,616,400
	13,906,463	11,536,845	13,027,025	10,544,871

The company has applied the exemption under Corporations Regulation 2M 3.03 which exempts listed companies from providing detailed remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report which has been audited.

Loans to Key Management Personnel
There were no loans made or outstanding to Key Management Personnel.

Other transactions and balances with Key Management Personnel
In August 2007, OneSteel Limited, SSX Pty Limited (previously named Smorgon Steel Group Limited) and Smorgon Consolidated Investments Pty Ltd (of which G J Smorgon is a director) entered into a Deed of Restricted Licence under which Smorgon Consolidated Investments Pty Ltd granted OneSteel Limited and members of the SSX Pty Limited group a licence to use the Smorgon name for a transitional period of two years following the acquisition of SSX Pty Limited by OneSteel Limited. No payment was made in respect of the grant of the licence.

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

Notes to the financial statements

NOTE 30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(a) Option holdings of Key Management Personnel

2008	Held at 1 July 2007	Granted as remuneration	Options exercised	Net change other	Held at 30 June 2008	Vested and exercisable at 30 June 2008
Directors						
G J Plummer	90,000	–	–	–	90,000	90,000
Executives						
M R Parry	45	–	–	–	45	45
Total	90,045	–	–	–	90,045	90,045

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

(b) Share rights holdings of Key Management Personnel

2008	Held at 1 July 2007	Granted as remuneration	Vested	Net change other	Held at 30 June 2008	Vesting 8 September 2008	Vesting 3 February 2009	Vesting 2 May 2010	Vesting 20 August 2010
Directors									
G J Plummer	1,448,587	327,680	(1,143,126)	–	633,141	–	–	305,461	327,680
Executives									
A J Reeves	135,982	81,920	(85,086)	–	132,816	50,896	–	–	81,920
L J Selleck	121,012	57,344	(85,086)	–	93,270	35,926	–	–	57,344
M R Parry	71,725	57,344	(23,824)	–	105,245	47,901	–	–	57,344
C R Keast	71,725	57,344	(23,824)	–	105,245	47,901	–	–	57,344
A G Roberts	60,222	57,344	(15,315)	–	102,251	44,907	–	–	57,344
A H Combe	33,207	57,344	–	–	90,551	–	33,207	–	57,344
S H Hamer	45,190	57,344	(27,227)	–	75,307	17,963	–	–	57,344
Total	1,987,650	753,664	(1,403,488)	–	1,337,826	245,494	33,207	305,461	753,664

W J Gately ceased to be a Key Management Personnel from 1 July 2007.

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

NOTE 30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Share holdings of Key Management Personnel

2008	Held at 1 July 2007	Granted as remuneration	On exercise of options	On vesting of shares	Net change other	Held at 30 June 2008
Directors						
P J Smedley	230,992	20,426	–	–	–	251,418
G J Plummer	339,342	–	–	1,143,126	–	1,482,468
R B Davis	22,470	5,447	–	–	10,227	38,144
E J Doyle	122,584	5,447	–	–	76	128,107
C R Galbraith	94,883	5,447	–	–	–	100,330
P G Nankervis	30,306	5,446	–	–	–	35,752
D A Pritchard	85,442	5,447	–	–	–	90,889
N J Roach	210,657	5,447	–	–	–	216,104
L G Cox	–	3,969	–	–	265,462	269,431
G J Smorgon	–	3,969	–	–	51,218	55,187
Executives						
N Calavrias	27,299	–	–	–	–	27,299
A J Reeves	283,296	–	–	85,086	(126,804)	241,578
L J Selleck	298,294	–	–	85,086	–	383,380
M R Parry	44,157	–	–	23,824	94	68,075
C R Keast	14,267	–	–	23,824	(37,624)	467
A G Roberts	1,544	–	–	15,315	–	16,859
A H Combe	–	–	–	–	–	–
S H Hamer	28,687	–	–	27,227	(55,313)	601
R Jansen	–	–	–	–	–	–
Total	1,834,220	61,045	–	1,403,488	107,336	3,406,089

W J Gately ceased to be a Key Management Personnel from 1 July 2007.

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

NOTE 31. AUDITORS' REMUNERATION

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
Amounts paid or payable to the auditor of OneSteel Limited, for:				
An audit or review of the financial report of the entity and any other entity in the consolidated group	1,021,500	929,500	–	120,000
Other services in relation to the entity and any other entity in the consolidated group				
Tax compliance	–	1,120,775	–	–
Assurance related	127,840	487,917	–	–
	1,149,340	2,538,192	–	120,000
Amounts paid or payable to other auditors for:				
An audit or review of the financial report of certain controlled entities in the consolidated group	170,082	175,644	–	–
Other services	17,008	58,558	–	–
	187,090	234,202	–	–

NOTE 32. FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables' bank loans and overdrafts, US private placements, senior notes, finance leases, cash and short-term deposits and derivatives.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk, commodity risk and credit risk. The Group manages its exposure to key financial risks including interest rate and currency risk in accordance with the Group's financial risk management policy. The Group enters into derivative transactions, principally interest rate swaps, cross-currency interest rate swaps and forward exchange contracts. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts comparing projected debt levels for the next 12 months against total committed facilities.

Primary responsibility for identification and control of financial risks rests with the Treasury Committee under the authority of the Board. Responsibility for credit risk rests with the Chief Financial Officer. The Board reviews and agrees policies for managing each of the risks identified below.

(b) Interest rate risk

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

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to manage its interest cost using a mix of fixed and floating interest rate debt, where fixed is defined as a fixed rate for 12 months or longer. The Group's policy is to keep 30% to 70% of the lesser of the expected usage of borrowings or the committed exposure to a minimum of five years at fixed rates of interest. This policy has been complied with.

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

The Group has also entered into fixed to floating interest rate swaps to hedge the interest rate risk arising where it has borrowed at fixed rates in foreign currency. The interest rate swaps are cross-currency swaps.

The Group analyses its interest rate exposure on a dynamic basis. Within this analysis' consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates. Of the net floating exposure, 48% is fixed through the interest rate swaps.

NOTE 32. FINANCIAL RISK MANAGEMENT (CONTINUED)

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rates (Australian and US):

	CONSOLIDATED			
	2008		2007	
	Weighted average interest rate %	$m	Weighted average interest rate %	$m
Financial assets				
Cash and cash equivalents	6.8	151.2	5.1	59.5
Trade receivables	13.5	23.2	11.8	22.1
Financial liabilities				
Bank loans	8.3	1,737.4	6.8	622.7
Net exposure before hedging		**(1,563.0)**	**10.1**	**(541.1)**
Cross-currency interest rate swaps [1]	8.1	133.6	7.1	70.9
Interest rate swaps [1]	6.4	(570.0)	5.7	(270.0)

(1) Notional principal amounts.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:

	CONSOLIDATED			
	Post tax profit higher/(lower)		Equity higher/(lower)	
	2008 $m	2007 $m	2008 $m	2007 $m
+1% (100 basis points) – AUD	(11.4)	(8.0)	7.2	(7.1)
-1% (100 basis points) – AUD	11.4	8.0	(7.2)	7.1

The movements in profit are due to higher interest costs from variable rate debt and cash balances. The movement in equity is due to an increase in the fair value of derivative instruments designated as cash flow hedges. The sensitivity is higher in 2008 than 2007 due to value of the exposure and timing of payments at balance date.

There is no significant interest rate risk borne by the parent entity.

(c) Foreign currency risk

The Group's primary sources of foreign currency risk are sales of product and purchases of inventory by business units in a currency other than the Australian dollar; purchases of commodity inputs priced in USD or with an AUD price determined by a USD-based international price; capital expenditure denominated in a foreign currency and overseas operations.

The Group requires all business units to use forward exchange contracts to eliminate the currency exposures on any individual transactions in excess of USD500,000 equivalent. Committed exposures will be 100% covered when the transaction is contracted, whilst projected exposures (contract underpinning) will be 50% covered where there are ongoing sales or purchases and the transaction is relatively certain. The forward exchange contracts must be in the same currency as the underlying exposure.

During the year, the Group made $1,128.4 million (2007: $715.3 million) in purchases and $1,480.8 million (2007: $487.3 million) in sales in foreign currencies.

Net investment hedges

The Group seeks to mitigate its exposure to foreign currency translation risk on the value of the net assets of its US-based operations by borrowing in USD. The first AUD95 million of the Group's investment in foreign operations are hedged in this manner. Refer to Note 17 and Note 8.

OneSteel also has foreign currency exposure arising from its US private placements (refer to Note 17). These have been hedged using a series of cross-currency interest rate swaps designated as either cash flow or fair value hedges.

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

Notes to the financial statements

NOTE 32. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's exposure to foreign currency risk at the reporting date was as follows (in AUD):

	CONSOLIDATED					
	2008			2007		
	USD $m	NZD $m	Other [1] $m	USD $m	NZD $m	Other [1] $m
Cash and cash equivalents	3.6	2.2	0.3	19.2	3.5	0.8
Net investment in foreign operations	431.8	105.0	–	–	117.1	–
Trade receivables	23.1	7.0	0.7	0.9	4.8	0.8
Trade payables	13.9	0.4	6.3	14.1	–	4.5
Bank loans	328.8	–	–	141.1	–	–
Net exposure before hedging	115.8	113.8	(5.3)	(135.1)	125.4	(2.9)
Forward exchange contracts – buy	151.3	15.3	30.5	86.3	–	22.4
Forward exchange contracts – sell	164.5	7.2	–	15.3	7.6	–

(1) Japanese Yen, Euro, Swedish Kroner, Pounds Sterling, Canadian Dollars.

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date:

At reporting date, had the Australian dollar/US dollar exchange rate moved with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:

	CONSOLIDATED			
	Post tax profit higher/(lower)		Equity higher/(lower)	
	2008 $m	2007 $m	2008 $m	2007 $m
AUD/USD +10%	6.3	(5.3)	7.7	(2.9)
AUD/USD −10%	(5.3)	1.8	(7.0)	0.7

The movements in profit in 2008 are more sensitive than in 2007 due to the value and timing of foreign currency positions at balance date. Equity is more sensitive in 2008 because of the increased use of cross-currency swaps designated as cash flow hedges following the Smorgon acquisition.

Sensitivity to movements in currencies other than the USD is not considered material to the Group.

Management believes the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

There is no foreign currency risk borne by the parent entity.

(d) Commodity price risk
The primary sources of commodity risk for the Group are zinc purchases in USD; aluminium purchases which are made in AUD but with prices set in USD; energy purchases made in AUD that can be subject to long-term contracts; scrap purchases made outside the OneSteel Group and diesel purchases. Commodity risk is measured by the effect of price movement sensitivities applied to annual usage estimated by the business units.

Commodity price risk is managed by either putting in place fixed price contracts, fixed price swaps or options.

The Group's exposure to commodity risk is not significant.

(e) Credit risk
Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group does not hold any credit derivatives to offset its credit exposure. The credit risk on any one counter-party with respect to receivables and derivative financial instruments is not significant.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Board and is regularly monitored. In addition, receivables are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant.

For financial instruments, limits for each counterparty are set primarily on credit rating, adjusted for country rating the nominal level of shareholders' funds. The Group does not expect any counterparties to fail to meet their obligations given their high credit ratings.

For financial assets and liabilities at fair value through profit and loss, the amount of change in fair value that is attributable to credit risk is not significant.

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

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The Group's policy is that not more than 40% of committed facilities should mature in any 12 month period.

Notes to the financial statements

NOTE 32. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financing arrangements
The Group had access to the following undrawn borrowing facilities at the reporting date:

	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m
Floating rate		
Expiring within one year	50.0	215.0
Expiring beyond one year	630.0	240.0
	680.0	455.0

Maturity analysis of financial assets and liabilities
The tables below analyse the Group's financial assets and liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting rate to the contractual maturity date. The amounts disclosed in the table reflect all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities, including derivative financial instruments at balance date. For interest rate swaps, the cash flows have been estimated using forward interest rates applicable at the reporting date.

For all other obligations the respective undiscounted cash flows are presented. Cash flows for financial assets and liabilities without fixed amount of timing are based on the conditions existing at balance date.

CONSOLIDATED	≤ 0-12 months $m	1-5 years $m	>5 years $m	Total contractual cash flows $m
2008				
Financial assets				
Cash and cash equivalents	151.2	–	–	151.2
Trade and other receivables	1,185.3	–	–	1,185.3
Derivative financial instruments				
– Forward exchange contracts	240.0	–	–	240.0
– Interest rate swaps	16.3	15.0	–	31.3
Other financial assets	–	4.2	–	4.2
				1,612.0
Financial liabilities				
Trade and other payables	1,014.8	–	–	1,014.8
Derivative financial instruments				
– Forward exchange contracts	194.0	3.1	–	197.1
– Interest rate swaps	7.7	3.0	–	10.7
– Cross-currency interest rate swaps	18.5	108.0	26.9	153.4
Bank loans	404.0	1,270.0	–	1,674.0
US Private Placement	–	186.0	114.0	300.0
HRC Securitisation facility	15.4	–	–	15.4
Finance lease liabilities	24.9	25.2	–	50.1
				3,415.5
Net contractual cash flows				(1,803.5)

CONSOLIDATED	≤ 0-12 months $m	1-5 years $m	>5 years $m	Total contractual cash flows $m
2007				
Financial assets				
Cash and cash equivalents	59.5	–	–	59.5
Trade and other receivables	640.9	–	–	640.9
Derivative financial instruments				
– Forward exchange contracts	22.9	–	–	22.9
– Interest rate swaps	5.7	6.1	–	11.8
Other financial assets	–	6.0	–	6.0
				741.1
Financial liabilities				
Trade and other payables				
Derivative financial instruments	635.1	–	–	635.1
– Cross-currency interest rate swaps	18.0	48.9	21.2	88.1
– Forward exchange contracts	108.8	–	–	108.8
Bank loans	–	560.0	–	560.0
US Private Placement	11.9	98.9	74.2	185.0
Finance lease liabilities	25.3	49.6	–	74.9
				1,651.9
Net contractual cash flows				(910.8)

Notes to the financial statements

NOTE 32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Capital risk management
The Group's objective when managing capital is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of gearing ratio (net debt/net debt plus equity). The targeted range for debt considered appropriate in the normal circumstances is 30 – 40%. The Group is subject to externally imposed capital requirements.

The gearing ratios at reporting date were as follows:

	CONSOLIDATED	
	2008 $m	2007 $m
Total debt	2,098.4	829.3
Less: Cash and cash equivalents	(151.2)	(59.5)
Net debt	**1,947.2**	**769.8**
Total equity	3,432.9	1,650.0
Less: Minority interests	(57.7)	(63.3)
Equity	**3,375.2**	**1,586.7**
Net debt plus equity	**5,322.4**	**2,356.5**
Gearing ratio	**36.6%**	**32.7%**

NOTE 33. BUSINESS COMBINATIONS

(a) Summary of acquisitions

Smorgon Steel Group Limited
On 20 August 2007, OneSteel Limited acquired 100% of the voting shares of Smorgon Steel Group Limited, a publicly listed company in Australia.

Australian Tube Mills Pty Limited, a joint venture between OneSteel Limited and Smorgon Steel Group Limited, became a wholly-owned controlled entity of OneSteel Limited from 20 August 2007.

Other acquisitions
On 3 September 2007, the Group acquired 100% of the issued share capital of Fagersta Australia Pty Limited.

It is not practicable to determine the revenues and profit of the Group had the combination taken place at 1 July 2007 due to differences in accounting policy and as the fair value of identifiable assets and liabilities of the acquired businesses is not known at that date.

(b) Assets and liabilities acquired
The fair value of the identifiable assets and liabilities as at the date of the business combination were:

	SMORGON STEEL GROUP LIMITED AND AUSTRALIAN TUBE MILLS PTY LTD		OTHER	
2008	Acquired carrying amount $m	Fair value $m	Acquired carrying amount $m	Fair value $m
Cash and cash equivalents	56.4	56.0	–	–
Receivables	421.6	405.1	16.1	16.2
Inventories	385.6	380.2	23.4	20.7
Investments	2.9	3.0	–	–
Property, plant and equipment	529.4	745.2	1.6	2.0
Intangibles	146.5	139.0	–	–
Tax assets	8.9	–	–	–
Deferred tax assets	55.6	61.2	–	1.1
Other assets	16.4	12.7	0.6	1.0
Payables	(331.6)	(325.9)	(32.9)	(35.1)
Bank overdraft	–	–	(0.2)	(0.2)
Borrowings	(778.7)	(749.1)	(3.5)	(3.5)
Tax liabilities	–	(0.1)	–	(0.7)
Other provisions	(118.4)	(197.8)	(1.9)	(1.2)
Net assets	**394.6**	**529.5**	**3.2**	**0.3**
Net identifiable assets acquired	**394.6**	**529.5**	**3.2**	**0.3**

It is not practicable to determine the contribution of the acquired businesses to the revenues and profit of the Group from the date of acquisition due to the restructure and integration of the acquired businesses into the Group's existing operations.

The initial accounting for the business combinations effected during the period has been determined provisionally as at 30 June 2008. OneSteel has 12 months from the date of acquisition to complete the allocation of the cost of the business combinations to the assets, liabilities and contingent liabilities acquired.

NOTE 33. BUSINESS COMBINATIONS (CONTINUED)

(c) Cost of combinations

	SMORGON STEEL GROUP LIMITED AND AUSTRALIAN TUBE MILLS PTY LTD	OTHER
	$m	$m
Ordinary shares issued (i)	1,734.9	–
Cash paid	447.9	24.3 (ii)
Directly attributable costs relating to the acquisition	31.8	0.7
Total purchase consideration	2,214.6	25.0
Fair value of net identifiable assets	529.5	0.3
Goodwill arising on acquisition	**1,685.1**	**24.7**

(i) 296,403,952 ordinary OneSteel Limited shares issued at $5.8531 based on the volume weighted average price for OneSteel Limited shares listed on the Australian Securities Exchange on 20 August 2007.

(ii) Includes $15.6 million of deferred consideration paid in the prior year (Note 15).

The goodwill recognised on acquisition is due to a number of factors including:
- Increased size and financial strength of the merged entity
- A more comprehensive and competitive product and service offering
- Cost savings
- Greater security of raw material supply
- Improved positioning in the world steel market.

NOTE 34. EVENTS AFTER BALANCE SHEET DATE

On 9 July 2008, OneSteel completed the issue of USD200 million of private placement notes. The purchasers of these notes with maturities of seven, 10 and 12 years comprised a number of US insurance companies. The funds have been used to refinance maturing debt and also assist to extend the duration of OneSteel's debt portfolio.

On 19 August 2008, the directors of OneSteel Limited declared a final dividend on ordinary shares in respect of the 2008 financial year. The total amount of the dividend is $118.6 million, which represents a fully franked dividend of 13.5 cents per share.

Directors' declaration

In the directors' opinion:

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

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

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out under the heading "Remuneration Report" in the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001; and

(d) at the date of this declaration there are reasonable grounds to believe that the members of the Closed Group identified in Note 27 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 27.

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

Signed in accordance with a resolution of the directors.

Peter Smedley
Chairman

Geoff Plummer
Managing Director

Sydney
19 August 2008

Independent auditor's report

TO THE MEMBERS OF ONESTEEL LIMITED

Report on the financial report

We have audited the accompanying financial report of OneSteel Limited (the "company"), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 34 and the directors' declaration set out on pages 42 to 110 of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the company's and the Group's financial position and of their performance.

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

Auditor's opinion

In our opinion:

(a) the financial report of OneSteel Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in Note 1(b).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 46 to 50 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of OneSteel Limited for the year ended 30 June 2008 complies with section 300A of the Corporations Act 2001.

KPMG

KPMG

David Rogers

David Rogers
Partner

Sydney
19 August 2008

Shareholder information

Shareholder information
There were 105,101 shareholders at 8 September 2008. 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 shareholders at 8 September 2008

Range of holdings	Number of shareholders	% of total shares	Number of shareholders	% of total shares
1-1,000	51,921	49.40	23,955,501	2.73
1,001-5,000	40,089	38.14	90,713,005	10.32
5,001-10,000	7,744	7.37	56,308,988	6.41
10,001-100,000	5,131	4.88	104,955,936	11.94
Over 100,000	216	0.21	602,779,490	68.6
Total	**105,101**	**100.00**	**878,712,920**	**100.00**

Twenty largest shareholders at 8 September 2008

Shareholder	Number of shares	% interest	Rank
J P Morgan Nominees Australia Limited	133,265,567	15.17	1
HSBC Custody Nominees (Australia) Limited	109,126,673	12.42	2
National Nominees Limited	85,591,689	9.74	3
Citicorp Nominees Pty Ltd	68,814,514	7.81	4
ANZ Nominees Limited	25,936,101	2.95	5
Queensland Investment Corporation	21,456,876	2.44	6
OneSteel Share Plans Pty Ltd	18,276,217	2.07	7
Cogent Nominees Pty Ltd	16,916,129	1.93	8
Namberry Lodge Pty Limited	12,220,481	1.40	9
AMP Life Limited	11,289,775	1.28	10
RBC Dexia Investor Services Australia Nominees Pty Limited	10,641,877	1.19	11
UBS Nominees Pty Ltd	9,404,821	1.07	12
Bond Street Custodians Limited	5,630,326	0.63	13
Leverton Downs Pty Limited	4,974,831	0.57	14
Argo Investments Limited	3,819,109	0.43	15
Australian Reward Investment Alliance	3,800,895	0.43	16
Naranda Meadows Pty Limited	2,515,000	0.29	17
UBS Wealth Management Australia Nominees Pty Ltd	2,250,634	0.26	18
Invia Custodian Pty Ltd	2,217,122	0.25	19
Milton Corporation Limited	2,181,994	0.25	20
Total top twenty shareholders	**550,330,631**	**62.58**	
Total all shareholders	**878,712,920**	**100.00**	

Unmarketable parcels
There were 4,966 members holding less than a marketable parcel of shares in the company as at 8 September 2008.

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

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

The Capital Group Companies Inc	44,125,846 shares	5.02%

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

- Number of employees participating 12
- Number of securities 367,838

Shareholder information

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
GPO Box 242, Melbourne VIC 3001
or on facsimile: +61 3 9473 2500.

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 following are the only options 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, cheques will be made payable to the shareholders. Lost or stolen cheques should be reported immediately to the OneSteel Share Registry, in writing, to enable stop payment and replacement.

Where shareholders 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 residing 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.

Securities Exchange listing
OneSteel is listed on the Australian Securities Exchange (ASX:OST). 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 Report is the main source of information for investors and is mailed to shareholders who have elected to receive a copy in October. Other sources of information, available on the internet include:

- 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 Report 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.

OneSteel and Smorgon Merger Scheme
The Australian Taxation Office (ATO) class ruling in relation to scrip for scrip relief for Smorgon Steel Group Limited shareholders in connection with the merger stated that the ASX VWAP of $5.8531 for a OneSteel Limited share on the Implementation Date of 20 August 2007 would be accepted as the market value of the capital proceeds received by Smorgon Steel shareholders for disposal of each of their Smorgon Steel shares to OneSteel.

The ATO has published on its website an important document for people who were shareholders of Smorgon Steel at the time of the merger on 20 August 2007. The document provides instructions that will enable specified individual shareholders to work out their income tax obligations arising from the merger and update their capital gains tax records.

The link to the ATO website is: http://www.ato.gov.au/individuals/content.asp?doc=/content/00129273.htm

Statistical summary

FINANCIAL RATIOS 12 months ended 30 June $A millions	AIFRS[1] 2008	AIFRS[2] 2007	AIFRS[3] 2006	AIFRS[4] 2005	AGAAP 2004	AGAAP 2003	AGAAP 2002	AGAAP 2001 Incl Prov Proforma	AGAAP 2000 Proforma	% change Jul-08
Sales	7,434.3	4,300.6	4,004.6	3,938.5	3,269.2	3,060.6	2,906.0	2,637.7	2,959.1	72.9
Other Revenue	50.5	33.9	39.0	34.6	70.1	39.5	80.5	141.5	17.4	49.0
Total Revenue	7,484.8	4,334.5	4,043.6	3,973.1	3,339.3	3,100.1	2,986.5	2,779.2	2,976.5	72.7
Gross Profit	1,681.2	837.2	798.7	787.0	642.6	626.2	528.4	489.6	135.3	100.8
Operating Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	807.7	436.1	396.7	377.1	324.2	307.6	251.0	181.7	268.0	85.2
Depreciation and Amortisation (excl goodwill)	(194.9)	(96.2)	(94.0)	(97.5)	(87.1)	(86.5)	(84.2)	(107.0)		102.6
Operating Earnings Before Interest and Tax (EBIT) (excluding goodwill amortisation)	612.8	339.9	302.7	279.6	237.1	221.1	166.8	74.7	171.7	80.3
Finance Costs	(159.6)	(55.8)	(56.7)	(53.6)	(42.2)	(44.5)	(54.4)	(61.8)		186.0
Operating Profit Before Tax	453.2	284.1	246.0	226.0	194.9	176.6	112.4	12.9		59.5
Tax Expense	(128.0)	(74.7)	(60.8)	(55.4)	(53.4)[5]	(53.3)	(39.0)	2.1		71.4
Net Operating Profit After Tax and Minorities (NOPAT)	315.0	197.5	171.6	153.1	129.1	113.8	66.0	9.1		59.5
Operating Cash Flow	350.8	276.5	250.8	235.9	188.3	257.7	92.6			26.9
Free Cash Flow	43.9	(81.4)	36.4	109.0	43.9	156.2	21.8			153.9
Total Assets	7,327.80	3,569.5	3,138.8	3,087.1	2,803.2	2,577.0	2,582.0	2,710.8	2,628.4	105.3
Funds Employed	5,497.30	2,481.1	2,189.8	2,033.6	2,042.4	1,955.2	1,994.2	2,069.6	2,019.7	121.6
Total Liabilities	3,894.90	1,919.5	1,637.2	1,698.8	1,429.8	1,292.0	1,359.4	1,594.6	1,465.9	102.9
Net Debt including Derivatives	2,064.40	831.1	688.2	645.3						148.4
Capital and Investment Expenditure	2,475.00	360.5	227.6	127.5	151.4	130.9	70.8	108.4		586.6
Inventories	1,298.90	836.3	758.9	836.7	704.6	591.0	574.1	540.3	608.0	55.3
Employees	11,678	7,526	7,527	7,395	7,272	7,054	6,989	7,379	7,271	55.2
Sales per Employee $'000	637	571	532	533	450	434	416	357	407	11.6
Net Tangible Asset Backing, $ per share	1.52	2.40	2.16	1.95	1.93	1.77	1.69	1.81	2.03	(36.7)
Operating EBIT Margin on Sales %	8.2%	7.9%	7.6%	7.1%	7.3%	7.2%	5.7%		5.8%	
Operating EBIT Return on Funds Employed %[6]	15.2%	14.6%	14.4%	14.2%	11.9%	11.2%	8.2%	3.7%	8.5%	
Operating Return on Equity %[6]	12.6%	13.3%	12.9%	13.1%	10.7%	9.8%	6.3%	1.3%		
Gearing (net debt:net debt plus equity) including derivatives %	37.6%	33.5%	31.4%	31.7%	32.8%	34.3%	38.7%	46.1%	42.4	
Interest Cover, times (EBIT/Interest)	3.8%	6.1%	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	36	34.5	30.3	27.3	23.3	20.8	12.3	(6.0)		4.4
Full-year Dividend per Share (cents)	21.5	18.5	17.0	13.5	12.0	11.0	6.5	6.0		16.2
Dividend Payout Ratio	77.1%	69.6%	56.3%	49.6%	51.4%	52.6%	53.0%	302.2%		
Cost Increases	330	159	267	226	71	68	57	37		107.5
Cost Reductions	91	40	39	47	50	56	59	50		127.5
Revenue Enhancements	196	150	236	309	28	51	20	15		30.7
Raw Steel Tonnes Produced	2,659,479	1,733,406	1,633,696	1,349,397	1,618,855	1,624,399	1,576,650	1,438,770		47.7
Steel Tonnes Despatched	3,659,823	2,278,322	2,275,780	2,264,051	2,159,536	2,224,139	2,176,413	2,125,073		60.6
Steel Exports % of Tonnes Despatched	8.5%	3.4%	10.3%	4.1%	4.7%	3.8%	7.9%	13.1%		148.6

The financial information presented for the years 2001 – 2004 have not been presented under Australian Equivalents to International Financial Reporting Standards (AIFRS). The nature of the main adjustments to make the information comply with AIFRS include:
- recognition of additional provisions relating to rehabilitation and make good;
- restatement of deferred tax balances using the balance sheet method;
- recognition of the deficit in the defined benefits superannuation fund;
- consolidation of the employee share plan trust; and
- recognition of derivative financial instruments on balance sheet at fair value and application of hedge accounting.

Note that the financial information presented for the years 2000 – 2004 have been adjusted to exclude goodwill amortisation from earnings.

1. June 2008 results exclude the impact of restructuring costs and impairment of plant and equipment associated with the integration of the Smorgon Steel Group and Australian Tube Mills businesses of $70.1 million after tax. These statistics include the results of the Smorgon Steel Group Limited from 20 August 2007 only.
2. June 2007 results exclude the impact of the derecognition of deferred tax liabilities of $9.5 million.
3. June 2006 excludes the tax benefit of $15.9 million arising from finalisation of tax consolidation values.
4. June 2005 excludes the benefit relating to the reversal of impairment loss on transition to AIFRS of $49.7 million after tax.
5. June 2004 excludes the tax benefit of $19.8 million arising from OneSteel's entry into the tax consolidation regime.
6. Based on average of opening and closing total assets, equity and funds employed respectively.

Resources statement

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.

Magnetite reserves are in line with last year's reserves, less the amount mined and kept in stockpiles or used by the steelworks following the start-up of Project Magnet. The reserves remain sufficient to sustain the steelworks, at current usage rates' until at least 2028.

Hematite reserves have increased significantly from 27.9 Mt to 37.3 Mt. The increase is additional to the tonnes used this financial year by the steelworks prior to the Project Magnet conversion and to those tonnes exported this year by sea to Australian or Chinese customers. The increase is due to the reoptimisation of the Iron Duchess and Iron Knight pits using the revised export ore chemistry specification and conservative price projections for the next 10 years. Higher mining costs and exchange rates have been factored into these calculations. The Iron Chieftain pit has also been included for the first time. Whilst the Iron Chieftain resource has been known for some time, further work and the new export ore specification and price now allows for the declaration of reserves to meet JORC standards. The Iron Chieftain pit will be developed over the coming years to allow blending and production as required.

OneSteel intends to review all previously mined areas, such as the Iron Baron and Iron Knob areas for their potential to yield more ore and to examine several previously unexplored areas within its exploration lease, to establish further resources and possible reserves of hematite. OneSteel holds an exploration lease that extends from Iron Knob in the north to Iron Duke in the south and covers an area of significant mineralisation. All Resource and Reserve figures represent estimates at the end of June 2008 unless otherwise stated. Rounding of tonnes and grade information may result in small differences presented in the totals.

ORE RESERVES

Whyalla (Middleback Range) Hematite Reserves		as at 30 June 2008									30 June 2007				
		Proved Ore Reserve			Probable Ore Reserve			Total Ore Reserves			Total Ore Reserves			OneSteel interest	Competent Person
Category	Ore type	Tonnes (millions)	Grade Fe (%)	P (%)	Tonnes (millions)	Grade Fe (%)	P (%)	Tonnes (millions)	Grade Fe (%)	P (%)	Tonnes (millions)	Grade Fe (%)	P (%)	%	
Total quantity	Hematite, Goethite, Limonite, Minor Magnetite	18.9	62.2	0.10	18.4	61.3	0.07	37.3	61.8	0.08	27.8	62.3	0.06	100	H Warries

Whyalla (Middleback Range) Magnetite Reserves		as at 30June 2008						30 June 2007			
		Proved Ore Reserve		Probable Ore Reserve		Total Ore Reserves		Total Ore Reserves		OneSteel interest	Competent Person
Category	Ore type	Tonnes (millions)	Grade DTR (%)	Tonnes (millions)	Grade DTR (%)	Tonnes (millions)	Grade DTR (%)	Tonnes (millions)	Grade DTR (%)	%	
Total quantity	Magnetite	38.2	40.5	49.5	39.5	87.7	39.9	89.7	39.7	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.

Whyalla (Middleback Range) Hematite Resources		as at 30 June 2008								30 June 2007			
		Measured Resources		Indicated Resources		Inferred Resources		Total Resources 2008		Total Resources 2007		OneSteel interest	Competent Person
Category	Ore type	Tonnes (millions)	Grade Fe (%)	Tonnes (millions)	Grade Fe (%)	Tonnes (millions)	Grade Fe (%)	Tonnes (millions)	Grade Fe (%)	Tonnes (millions)	Grade Fe (%)	%	
Total quantity	Hematite, Goethite, Limonite, Minor Magnetite	23.6	62.0	35.7	59.8	38.5	55.9	97.8	59.2	92.0	59.5	100	P Leevers
Quantity excluded from Ore Reserves	Hematite, Goethite, Limonite, Minor Magnetite	4.3	60.0	14.4	58.1	34.1	55.6	52.8	56.6	55.7	57.2	100	P Leevers

The Iron Magnet Deposit is adjacent to and below the Iron Duke and Iron Duchess Deposits.

Whyalla (Middleback Range) Magnetite Resources		as at 30 June 2008								30 June 2007			
		Measured Resources		Indicated Resources		Inferred Resources		Total Resources 2008		Total Resources 2007		OneSteel interest	Competent Person
Category	Ore type	Tonnes (millions)	Grade DTR (%)	Tonnes (millions)	Grade DTR (%)	Tonnes (millions)	Grade DTR (%)	Tonnes (millions)	Grade DTR (%)	Tonnes (millions)	Grade DTR (%)	%	
Total quantity	Magnetite	43.6	45.8	85.0	41.1	110.2	38.8	238.8	40.9	243.0	39.9	100	P Leevers
Quantity excluded from Ore Reserves	Magnetite	6.7	41.3	36.8	40.2	106.7	38.1	150.2	38.8	150.2	38.8	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 04/05 financial year.

The Ore Beneficiation Stockpiles with a mean estimated grade exceeding 45% Fe that can be beneficiated to meet current export grade 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 2008.

OneSteel Ore Beneficiation Stockpiles		as at 30 June 2008								30 June 2007			
		Measured Resources		Indicated Resources		Inferred Resources		Total Resources		Total Resources		OneSteel interest	Competent Person
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	54.1	2.9	52.3	13.2	54.2	20.8	53.9	21.4	53.9	100	P Leevers

Glossary

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 to 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.

DESPATCHES
Term used for total tonnes sold to end markets.

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

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 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, bloom and hot rolled coil 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.

SBB
Steel Business Briefing is an independent publisher that provides news and information to the global steel industry.

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
ARC	Australian Reinforcing Company
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATM	Australian Tube Mills
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
DMTU	Dry Metric Tonne Unit
DTR	Davies Tube Recovery
EAF	Electric Arc Furnace
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
HRC	Hot rolled coil
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
RHS	Rolled hot steel
TSR	Total Shareholder Return
UK	United Kingdom
USA	United States of America

Corporate directory

DIRECTORS
Peter J Smedley, Chairman
Geoffrey J Plummer, Managing Director
Laurie G Cox, AO
R Bryan Davis
Eileen J Doyle
Colin R Galbraith, AM
Peter G Nankervis
Dean A Pritchard
Neville J Roach, AO
Graham J Smorgon

COMPANY SECRETARY
John M Krenich (resigned 19 August 2008)
Sharyn Page (appointed 19 August 2008)

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS
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or +61 3 9415 4026
Facsimile: +61 3 9473 2500
Internet: www.computershare.com

AUDITOR
KPMG

SECURITIES EXCHANGE LISTING
OneSteel Limited shares are quoted on the Australian Securities Exchange

ANNUAL REPORT
The 2008 Annual Report is available on the OneSteel website www.onesteel.com or by calling +61 2 9239 6666

NOTICE OF ANNUAL GENERAL MEETING
The 2008 Annual General Meeting of OneSteel Limited will be held at 2.30pm, Monday 17 November 2008 at 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

FINANCIAL CALENDAR
(subject to change)

19 August 2008
Annual results and final dividend announced

8 September 2008
Ex-dividend share trading commenced

12 September 2008
Record date for final dividend

16 October 2008
Final dividend paid

16 October 2008
Annual Report mailed to shareholders

17 November 2008
Annual General Meeting for 2008

31 December 2008
Financial half-year ends

17 February 2009
Half-year results and interim dividend announced

2 March 2009
Ex-dividend share trading commences

6 March 2009
Record date for interim dividend

16 April 2009
Interim dividend paid

30 June 2009
Financial year ends

18 August 2009
Annual results and final dividend announced

7 September 2009
Ex-dividend share trading commences

11 September 2009
Record date for final dividend

15 October 2009
Final dividend paid

15 October 2009
Annual Report mailed to shareholders

16 November 2009
Annual General Meeting for 2009

ONESTEEL REGISTERED TRADEMARKS

300PLUS®	Longlife®
500PLUS®	LSB LiteSteel™ beam
Anchor-Fast®	Metaland®
ARC Barriermesh®	Metalcard®
ARC Ductilemesh 500®	Metpol®
ARC Fabrication®	MINEMESH®
ARC Fences®	Northgard®
ARC Hingemesh®	ONEMESH500®
ARC Mesh-W-Strap®	ONESLAB®
ARC Ribmesh 500®	Permelec®
ARC Special Mesh®	Permaseal®
BAMTEC®	POOLSTEEL®
ColorGuard®	REIDBAR®
CYCLONE®	REINVENTING
DECKMESH®	REINFORCING®
DuraGal®	REOWORKS®
Ezycommerce®	ROMTECH®
FIBRECRETE®	STAR®
FIBRESTEEL®	StrapNet®
FirePlus Pipe®	STEELFORCE 500®
FISHBONE®	Stocktite®
GalStar®	STUDMESH®
Galtube® Plus	SUPAGAL®
Great Steel Round Up®	TEMPCORE®
Gripfast®	TRIPOD®
Gripple®	TRUSSDEK®
Growire®	UltraPipe®
JUST4TRADE®	UTE MESH®
KLEENKOTE®	Victaulic®
HANDIMESH®	Waratah®
IRONBARK®	WELDMESH®
LIFEWIRE®	

onesteel
martin bright

COURT ORDER FUNDS ENVIRONMENTAL WORKS

On 27 September 2007 at Broadmeadows Magistrates' Court, Onesteel MBS Pty Limited (the "defendant") pleaded guilty to causing an environmental hazard charge brought by the Environment Protection Authority (EPA) in relation to the discharge of an estimated 3,000 litres of 30% hexavalent chromic acid from the defendant's premises at Cliffords Road, Somerton ("Premises") between 29 October 2005 and 1 November 2005.

The discharge resulted from an overflow of chromic acid from the purification cell system, when during a shutdown, the power and air supply was turned off for the Melbourne Cup public holiday weekend. The secondary containment bund also failed to contain the overflow.

The Broadmeadows Magistrates' Court without convicting Onesteel MBS Pty Limited ordered it to pay $75,000 to Merri Creek Management Committee Inc for the Streets to Stream Project which involves community education on stormwater impact via guided walks, display materials, and electronic and printed information packages, as well as stormwater monitoring work and habitat restoration at four sites along Merri Creek, namely Rushwood Reserve at Craigieburn, Mooma Park at Fawkner, Merri Park Wetland at Northcote, and Hall Reserve Wetland at Clifton Hill.

Onesteel MBS Pty Limited has since changed their practices and made modifications to equipment to prevent a recurrence of this incident.

The Court also ordered publication of this notice.

Refer to Environment report page 36.

DESIGNED AND PRODUCED BY ROSS BARR & ASSOCIATES

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