ONESTEEL LIMITED

ABN 63 004 410 833

APPENDIX 4E

PRELIMINARY FINAL REPORT

12 MONTHS ENDED 30 JUNE 2008

ONESTEEL LIMITED

HIGHLIGHTS OF RESULTS AND DIVIDENDS

12 MONTHS ENDED 30 JUNE 2008

RESULTS FOR ANNOUNCEMENT TO THE MARKET

				A$ MILLION
SALES REVENUE	UP	72.9%	TO	7,434.3
REVENUE FROM ORDINARY ACTIVITIES	UP	72.7%	TO	7,475.3
PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS	UP	18.3%	TO	244.9
PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS EXCLUDING THE IMPACT OF RESTRUCTURING COSTS, IMPAIRMENT OF PLANT AND EQUPIMENT AND DERECOGNITION OF DEFERRED TAX LIABILITIES	UP	59.5%	TO	315.0
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO MEMBERS	UP	18.3%	TO	244.9
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO MEMBERS EXCLUDING THE IMPACT OF RESTRUCTURING COSTS, IMPAIRMENT OF PLANT AND EQUPIMENT AND DERECOGNITION OF DEFERRED TAX LIABILITIES	UP	59.5%	TO	315.0

	JUNE 2008	JUNE 2007
NET TANGIBLE ASSETS PER SHARE ($)	1.52	2.40

DIVIDENDS	FINAL DIVIDEND 2008	FINAL DIVIDEND 2007
AMOUNT PER SECURITY	13.5c	10.5c
FRANKED AMOUNT PER SECURITY	13.5c	10.5c

RECORD DATE FOR DETERMINING ENTITLEMENTS: 12 SEPTEMBER 2008

DIVIDEND PAYMENT DATE: 16 OCTOBER 2008

DIVIDEND REINVESTMENT PLAN (DRP)

The DRP will operate for the final dividend. DRP election notices must be received at OneSteel's Share Registry, at Computershare, Level 3, 60 Carrington St Sydney NSW 2000 (Postal: GPO Box 7045, Sydney NSW 2001) by 5.00pm on 12 September 2008 (the Record Date).

No discount applies to the DRP.

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

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FINANCIAL RATIOS

12 MONTHS ENDED					previous AGAAP					% Change
$A millions	Jun-08	Jun-07	Jun-06	Jun-05	Jun-04	Jun-03	Jun-02	Jun-01 Excl Prov Proforma	Jun-01 Incl Prov Proforma	Jun07 to Jun-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	2,637.7	72.9%
Other Revenue/Income	50.5	33.9	39.0	34.6	70.1	39.5	80.5	141.5	141.5	49.0%
Total Revenue/Income	7,484.8	4,334.5	4,043.6	3,973.1	3,339.3	3,100.1	2,986.5	2,779.2	2,779.2	72.7%
Gross Profit	1,681.2	837.2	798.7	787.0	642.6	626.2	528.4	489.6	489.6	100.8%
Operating EBITDA	807.7	436.1	396.7	377.1	324.2	307.6	251.0	202.6	181.7	85.2%
Depreciation & Amortisation	(194.9)	(96.2)	(94.0)	(97.5)	(87.1)	(86.5)	(84.2)	(84.2)	(107.0)	102.6%
Operating EBIT	612.8	339.9	302.7	279.6	237.1	221.1	166.8	118.4	74.7	80.3%
Finance costs	(159.6)	(55.8)	(56.7)	(53.6)	(42.2)	(44.5)	(54.4)	(61.8)	(61.8)	186.0%
Operating Earnings before tax (EBT)	453.2	284.1	246.0	226.0	194.9	176.6	112.4	56.6	12.9	59.5%
Operating Tax expense	(128.0)	(74.7)	(60.8)	(55.4)	(53.4)	(53.3)	(39.0)	(12.1)	2.1	71.4%
Operating PAT before MI	325.2	209.4	185.2	170.6	141.5	123.3	73.4	44.5	15.0	55.3%
Minorities	(10.2)	(11.9)	(13.6)	(17.5)	(12.4)	(9.5)	(7.4)	(5.9)	(5.9)	(14.3%)
Operating PAT	315.0	197.5	171.6	153.1	129.1	113.8	66.0	38.6	9.1	59.5%
Net Profit after Tax (statutory)	244.9	207.0	187.5	202.8	127.9	94.0	47.1	23.6	(27.9)	18.3%
Total Assets	7,327.8	3,569.5	3,138.8	3,087.1	2,803.2	2,577.0	2,582.0	2,710.8	2,710.8	105.3%
Inventory	1,298.9	836.3	758.9	836.7	704.6	591.0	574.1	540.3	540.3	55.3%
Total Liabilities	3,894.9	1,919.5	1,637.2	1,698.8	1,429.8	1,292.0	1,359.4	1,594.6	1,594.6	102.9%
Funds Employed	5,497.3	2,481.1	2,189.8	2,033.6	2,042.4	1,955.2	1,994.2	2,069.6	2,069.6	121.6%
Total Equity	3,432.9	1,650.0	1,501.6	1,388.3	1,373.4	1,285.0	1,222.6	1,116.2	1,116.2	108.1%
Net Debt	1,947.2	769.8	638.8	645.3	469.0	470.2	571.6	762.4	762.4	153.0%
Net Debt including Securitisation	1,947.2	769.8	638.8	645.3	669.0	670.2	771.6	953.4	953.4	153.0%
Net Debt incl Derivative	2,064.4	831.1	688.2	645.3						148.4%
No of shares (at end of period)	876.2	572.4	566.2	560.8	554.9	546.9	538.6	460.3	460.3	53.1%
Operating cash flow	350.8	276.5	250.8	235.9	188.3	257.7	92.6	290.3		26.9%
Free Cash Flow excluding Magnet and restructuring costs	215.3	157.4	203.4							36.8%
Free Cash Flow	43.9	(81.4)	36.4	109.0	43.9	156.2	21.8	220.8		153.9%
Capital and investment expenditure	2,475.0	360.5	227.6	127.5	151.4	130.9	70.8	108.4	108.4	586.6%
Operating Return on Assets % [6]	11.3%	10.1%	9.7%	9.7%	8.8%	8.6%	6.3%	4.4%		
Operating Return on Equity % [6]	12.6%	13.3%	12.9%	13.1%	10.7%	9.8%	6.3%	3.9%	1.3%	
Operating Return on Funds Employed % (ROFE) [6]	15.2%	14.6%	14.4%	14.2%	11.9%	11.2%	8.2%	5.8%	3.7%	
Operating EBIT to sales	8.2%	7.9%	7.6%	7.1%	7.3%	7.2%	5.7%	4.5%	2.8%	
Operating Earnings Per Share (cents) - year end	36.0	34.5	30.3	27.3	23.3	20.8	12.3	5.1	(6.0)	4.4%
Dividends per share (cents)	21.5	18.5	17.0	13.5	12.0	11.0	6.5	6.0	6.0	16.2%
Dividend payout ratio (statutory)	77.1%	66.4%	51.5%	37.5%	51.9%	63.7%	74.3%	116.5%		
Dividend payout ratio	59.9%	69.6%	56.3%	49.6%	51.4%	52.6%	53.0%	71.2%	302.2%	
Gearing (net debt/net debt + equity) including securitisation	36.2%	31.8%	29.8%	31.7%	32.8%	34.3%	38.7%	46.1%	46.1%	
Gearing (net debt/net debt + equity) incl derivatives	37.6%	33.5%	31.4%	31.7%						
Gross Profit Margin	22.6%	19.5%	19.9%	20.0%	19.7%	20.5%	18.2%	18.6%	18.6%	
Interest cover (times)	3.8	6.1	5.3	5.2	5.6	5.0	3.1	1.9	1.2	
Interest cover incl capitalised interest (times)	3.4	4.8	5.0							
NTA per share ($)	1.52	2.40	2.16	1.95	1.93	1.77	1.69	1.81	1.81	(36.7%)
Employees	11,678	7,526	7,527	7,395	7,272	7,054	6,989	7,379	7,379	55.2%
Sales per employee ($000s)	637	571	532	533	450	434	416	357	357	11.6%
Cost increases	330	159	267	226	71	68	57	37	37	
Cost reductions	91	40	39	47	50	56	59	50	50	
Revenue enhancements	196	150	236	309	28	51	20	15	15	
Raw steel production	2,659,479	1,733,406	1,633,696	1,349,397	1,618,855	1,624,399	1,576,650	1,438,770	1,438,770	53.4%
Steel tonnes despatched	3,618,595	2,278,322	2,275,780	2,264,051	2,159,536	2,224,139	2,176,413	2,125,073	2,125,073	58.8%

The financial information presented for the years 2001 - 2004 have been presented under previous AGAAP and have not been restated under International Financial Reporting Standards (IFRS). The nature of the main adjustments to make the information comply with IFRS include:
- recognition of additional provisions relating to rehabilitation and make good;
- restatement of deferred tax balances using the balance sheet method;
- recognition of the deficit in the defined benefits superannuation fund;
- consolidation of the employee share plan trust; and
- recognition of derivative financial instruments on balance sheet at fair value and application of hedge accounting.

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

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 $70.1m 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 $9.5m.
3. June 2006 excludes the tax benefit of $15.9m 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 $49.7m after tax.
5. June 2004 excludes the tax benefit of $19.8m 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.

19 August 2008

REVIEW OF OPERATIONS

12 MONTHS TO 30 JUNE 2008
Including Smorgon Steel Businesses from 20 August 2007

Key Points (12 months ended 30 June 2008 v 12 months ended 30 June 2007)

- Merger with Smorgon Steel completed
- Ahead of plan on net synergy benefits
- Project Magnet – iron ore sales ahead of plan at 4.4 million tonnes
  – steelworks conversion to magnetite ore feed
- EBITDA before restructuring costs ($77 million) and synergy benefits ($41 million) of $767 million (market guidance $710 - $780 million)
- Net operating profit after tax of $315 million[2], up 59%
- Statutory net profit after tax of $244.9 million, up 18%
- Earnings per share increased to 36 cents from 34.5 cents
- Return on funds employed 15.2%,
- Operating cash flow of $350.8 million
- Dividend increased to 21.5 cents, fully franked, up from 18.5 cents at FY07
- Gearing of 37.6% remains in our target range of 30% - 40%
- Record steel production of 2,559,422 tonnes
- Unprecedented increases in steel prices, steel raw materials and ferrous scrap prices

Financial FY08		**FY07**
Sales revenue	$7,434.3m	▲73% from $4300.6m
Earnings before interest, tax, depreciation and amortisation **(EBITDA)**[1]	$807.7m	▲ 85% from $436.1m
Statutory earnings before interest, tax, depreciation and amortisation **(EBITDA)**	$731.2m	▲ 68% from $436.1m
Depreciation & amortisation	$194.9m	▲102% from $96.2m
Impairment of plant & equipment	$17.6m	
Earnings before interest and tax **(EBIT)**[1]	$612.8m	▲ 80% from $339.9m
Statutory earnings before interest and tax **(EBIT)**	$518.7m	▲ 53% from $339.9m
Finance costs	$159.6m	▲ 186% from $55.8m
Net operating profit after tax and minorities **(NPAT)**[2]	$315m	▲ 59% from $197.5m
Statutory net operating profit after tax and minorities **(NPAT)**	$244.9m	▲ 18% from $207m
Earnings per share **(EPS)**[2] based on the number of shares at end of period	36 cents	▲ 4% from 34.5 cents
Operating cash flow	$350.8m	▲ 27% from $276.5m
Return on funds employed **(ROFE)**[1]	15.2%	▲ from 14.6%
Return on equity **(ROE)**[1]	12.6 %	▲ from 13.3%
Ratio of net debt to net debt plus equity **(gearing)** inc. derivatives	37.6%	▲ from 33.5%
Net debt (excludes derivatives)	$1,947.2m	▲ 153% from $769.8m
Dividends, full franked	21.5 cents	▲ from 18.5 cents

Operational FY08		
Total Australian steel tonnes dispatched • Domestic tonnes despatched • Export tonnes despatched Adjusted domestic tonnes	3,659,823 3,094,804 565,019 2,963,740	▲ 60% from 2,278,322 ▲ 40% from 2,200,545 ▲ up 487,242 tonnes ▲ 41% from 2,097,689
Iron ore tonnes sold Other iron ore units (tonnes) sold	4.4m 0.5m	Ramp up of sales under Project Magnet
Recycled Metals – Ferrous tonnes sold Recycled Metals – Non-ferrous tonnes sold	1.7m 161,439	Extreme volatility in ferrous and non-ferrous scrap prices
Synergies and cost from integration of Smorgon Steel businesses Benefits Restructuring costs Asset Impairments	 $ 41m ($77m) ($17m)	
Staff numbers • Sales per staff member	11,678 $637,000	▲ 55% from 7,526 ▲ 12% from $571,000
Safety Performance per MTIFR[3] • Medical Treatment Injury Frequency Rate • Lost Time Injury Frequency Rate	 6.2 0.9	 ▼ 23% from 8.1 no change

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[1] Excludes restructuring costs in FY08 of $76.5 million and impairment in FY08 of $17.6 million
[2] Excludes after tax impact of restructuring costs and impairment in FY08 of $70.1 million
[3] Excludes Smorgon Steel Businesses

Company Overview

Sales revenue for the twelve months to 30 June 2008 increased 73% to $7,434.3 million due largely to the inclusion of the Smorgon Steel businesses in August 2007, strong demand from the infrastructure and mining segments, increased iron ore sales and higher prices. Total domestic revenue from steel sales increased 50%.

Total steel product despatches increased 41% to 2,963,740 tonnes compared to the previous financial year, largely reflecting the inclusion of the Smorgon Steel businesses and strong demand from the infrastructure and mining sectors. Raw steel production increased 48% to a record 2,559,422 tonnes.

Steel exports and international despatches increased 98% to 565,019 tonnes from 284,641 tonnes in the previous financial year ending 30 June 2008.

Iron ore sales for the year were approximately 4.4 million tonnes, up significantly from 2.7 million tonnes in the prior financial year due to the impact of Project Magnet.

Recycled metal sales for the year were 1,865,141 tonnes. This includes 1,703,702 tonnes of ferrous and 161,439 tonnes of non-ferrous materials.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA), increased 85% to $807.7m for the 12-month period before restructuring and non-recurring expenses. The full year result reflects a significant improvement in second half performance over the first half. **Depreciation & amortisation** of $194.9m increased from $96.2 million in the previous financial year due to the inclusion of assets from the Smorgon Steel business.

Finance costs were $159.6 million, up from $55.8 million in the previous year primarily as a result of higher debt levels associated with the Smorgon Steel merger.

The **sales margin**, based on operating earnings before interest and tax (EBIT) increased to 8.2%, from 7.9% in the previous financial year.

Operating net profit after tax and minorities excluding restructuring and non-recurring items increased 59% to $315m for the 12 months to 30 June 2008. This is equivalent to 36 cents per share, up from 34.5 cents per share for the previous financial year. The **statutory net profit after tax and minorities** including restructuring costs was $244.9 million.

The **effective tax rate** of 28.2% incorporates the impact of claimable research and development expenditure of the combined businesses.

Distribution revenue increased 42% to $3,390.8 million for the year ended 30 June 2008, principally due to the inclusion of the Smorgon Steel businesses. EBIT was down 4% to $166.3 million and the sales margin was down to 4.9% due to increased import competition suppressing prices, particularly in the first half, as well as the inclusion of lower margin Smorgon businesses. Stronger demand and higher international steel prices helped improve margins in the second half. The EBIT return on funds employed fell from 21.1% to 11.2% largely due to the impact of lower margins from the Smorgon Steel businesses in the period.

OneSteel's Australian Tube Mills business has completed its mill rationalisation, announced in August last year, with implementation and synergy benefits in line with expectations.

Domestic steel despatches from the Distribution segment increased 43% to 1,812,894 tonnes as a result of the contribution on the Smorgon Steel reinforcement business, LiteSteel Beam Technology and Australian Tube Mills.

The average net sales price was flat compared to the previous financial year due to the impact of inclusion of new businesses with a lower average sales price than the pre-existing businesses as well as the delay in recovery of cost increases for steel inputs.

Manufacturing revenue increased 43% to $3,083.4 million as a result of increased domestic and international steel sales and the inclusion of the Smorgon Steel businesses. Domestic steel sales increased 38% to 1,150,846 tonnes with the inclusion of the Smorgon Steel businesses. Export steel sales were 306,084 tonnes.

EBIT increased 36% to $215.4 million reflecting the changed mix of businesses, cost increases, increased import competition particularly in the first half and higher prices in the second half. The sales margin was flat at 7% again reflecting the inclusion of the Smorgon Steel businesses with lower average margins. Manufacturing EBIT return on funds employed was unchanged.

In the new **Materials** segment, revenue was $2,039.3 million, 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. External iron ore sales were approximately 4.4 million tonnes for the financial year, above the targeted 4.0 million tonnes. Recycling volumes were strong. Ferrous margins were also strong on the back of increasing sell prices, while non-ferrous margins continued to improve in the second half from a correction earlier in the year.

The **International Distribution** business' revenue increased 8% for the year to $435.7 million due to increased sales volumes and higher prices. Volatility in the New Zealand dollar exchange rate caused fluctuations in replacement inventory costs that adversely impacted margins. EBIT decreased 17% on the previous financial year to $33.8 from $40.6 million. The sales margin decreased from 10% to 7.8% for the year and the business' return on funds employed was 18.6%.

Staffing levels increased 55% to 11,678 from 7,526 in the previous year largely due to the integration of Smorgon Steel and the Fagersta businesses. The increased staffing level incorporates approximately a 15% reduction in Manufacturing division staff following rationalisations from the Smorgon acquisition.

Operating cash flow for the 12 months to 30 June 2008 was $350.8m excluding the acquisition costs of the Smorgon Steel businesses and Fagersta.

Inventories increased 55.3 % 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 and ferrous and non-ferrous scrap prices.

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 ending 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 acquisition of the 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 Final dividend was declared at 13.5 cents bringing the full year dividend to 21.5 cents, an increase of 16 per cent on the previous year.

Key Initiatives for Growth

OneSteel continues to focus on cash generation and improving returns while also investing for growth. Key components of this strategy include:

Project Magnet has focussed on the commercialisation of OneSteel's magnetite ore reserves for producing steel and the sale of hematite ore to global markets. With approximately $400 million invested, the project represents one of the biggest developments in OneSteel's history.

Project Magnet Phase 2: 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.

The first stream of this new work is aimed at lifting sales of iron ore through improving OneSteel's operational and supply chain capability. This includes reviewing all operational and supply chain aspects including mining, handling, crushing and screening, rail, warehousing and barging. Work to date has resulted in OneSteel being well progressed in adding additional plant and equipment including rolling stock and crushing and mining equipment. This is expected to result in an increase in our iron ore sales to 6 million tonnes per annum from the start of the 2010 financial year.

The second stream of the new work is a two-year program and includes three phases. The first involves updating our mine plans using appropriate assumptions. We have already made significant progress on this phase, which has resulted in a further 13 million tonnes of hematite being added to our reserves. The second and third phases include actively pursuing mine extension and exploration work. Work has commenced and will further ramp up in coming months on these phases with initial focus being on the extension drilling work.

Smorgon Steel merged with OneSteel in August 2007. The integrated business model has performed well in volatile domestic and international market conditions. The company recorded $41 million of synergy benefits in this financial year and net cost synergies are expected to be $60 million for the 2009 financial year (comprising $80 million of benefits and $20 million of costs) and reach a run rate of $100 million by commencement of the 2010 financial year.

Significant and Subsequent Events

In July 2008, the company announced the completion of a US$200 million private placement with maturities over 7, 10 and 12 years which were purchased predominantly by US insurance companies. OneSteel said it will use the funds to refinance maturing debt and extend the duration of its debt portfolio.

Outlook

The outlook for the balance of 2009 remains positive with OneSteel's key segments of resources and domestic construction, particularly engineering and infrastructure expected to remain strong. No improvement is expected in the domestic manufacturing, residential construction and rural segments, which will remain relatively weak. We expect international prices for steel and steelmaking inputs to continue to be volatile but generally remain at high levels by historical standards underpinned by continued strong demand for steel and steelmaking inputs.

Management's priorities continue to be improving returns, to fully realise the benefits from Project Magnet and progress the second phase of Project Magnet, and to continue to effectively integrate the Smorgon Steel businesses to maximise the level of benefits and synergies across the company.

Geoff Plummer
Managing Director &
Chief Executive Officer
OneSteel Limited
19th August, 2008

Materials

	2008	2007	%
Revenue	$2,039.3m		
EBITDA	$321m		
EBIT	$296.9m		
Assets	$1,577.6m		
Employees	1,279		
Sales Margin	14.6%		
Funds Emp.	$1,224.9m		
ROFE	24.2%		

Manufacturing

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

Distribution

	2008	2007	%
Revenue	$3,390.8m	$2,393.4m	41.7
EBITDA	$215.4m	$202.1m	6.6
EBIT	$166.3m	$173.1m	-3.9
Assets	$2,789.8m	$1,222.0m	128.3
Employees	4623	2,946	56.9
Sales Margin	4.9%	7.2%	
Funds Emp.	$2,143.4m	$820.5m	161.2
ROFE	11.2%	21.1%	

International Distribution

	2008	2007	%
Revenue	$435.7m	$405.2m	7.5
EBITDA	$39.0m	$45.9m	-15
EBIT	$33.8m	$40.6m	-16.7
Assets	$208.6m	$222.6m	-6.3
Employees	834	881	-5.3
Sales Margin	7.8%	10%	
Funds Emp.	$176.5m	$186.6m	-5.4
ROFE	18.6%	24.4%	

The results for FY07 have been restated to reflect the new segment structure that became effective 1 July 2007. The OneSteel Reinforcing business has been moved from the Manufacturing segment to the Distribution segment. The results for the current financial year exclude restructuring costs and impairment of plant and equipment associated with the integration of Smorgon Steel. The Smorgon Steel businesses have been included in the June 2008 financial information from the date of acquisition on 20 August 2007. EBIT, Funds Employed and ROFE for Distribution and Corporate/Unallocated for the year ended 30 June 2008 have been adjusted to exclude the impact of accelerated amortisation on finite life intangibles recognised on acquisition of Smorgon Steel of $20.5m and $3.8m respectively.

Materials

Market Conditions

Global demand for ferrous scrap inputs combined with increasing raw steel costs drove prices to record highs toward the end of the year. Non-ferrous markets have improved from a correction early in the year, however they remain volatile.

Demand for iron ore remained strong driven by growth in steel output. Tightness in supply and increased freight prices led to higher spot and contract prices during the year.

Performance

Recycling volumes were strong. Ferrous margins improved on the back of higher prices. Non-ferrous margins recovered after the correction earlier in the year.

Sales of iron ore increased and were ahead of the planned ramp-up and optimisation of the hematite supply chain. Sales commenced to four long-term contract iron ore customers.

Initiatives

Investment in a ferrous shredder in Tampa, Florida (USA) which was successfully commissioned in March 2008 and is performing better than expectations. The implementation of Operational Excellence has been initiated with a focus on improving operating performance and costs.

Project Magnet Phase 2: Efforts to optimise the hematite supply chain and investigate opportunities to further increase iron ore sales capacity have commenced and expected to deliver benefits by the start of the 2010 financial year. Work has also commenced on increasing iron ore reserves and resources.

Outlook

Global ferrous prices are likely to stay relatively high with non-ferrous prices expected to remain volatile. Volumes are expected to remain strong with high prices attracting more marginal tonnes into the collection pool. Further volume growth in the USA is expected as a result of our investment in the shredder in Tampa, Florida.

The outlook for iron ore prices continues to be positive given the continued strong demand.

Manufacturing

Market Conditions

Strong demand in the construction and mining sectors, and some improvement in the rural sector, offset a flat performance in the manufacturing and residential construction sectors. In the second half of the year scrap prices and steel making costs reached historic highs as global demand for raw materials increased significantly.

Performance

Recovering cost increases through price in a very volatile environment was a key focus particularly in the second half. The business benefited from the synergies of an integrated OneSteel and Smorgon Steel business including more effective capital management from combining supply chains and lowering the cost base by reconfiguring operations in areas of overlap.

Whyalla Steelworks: steelmaking output was 1.2 million tonnes. Ironmaking output was controlled to match pellet stock availability and allow stready state operating conditions during the transition from hematite to magnetite pellets. In Steel Products, high inventory levels and increased import competition adversely affected first half performance. Progressive price increases were implemented throughout the second half to offset rising input costs and prevailing market conditions. Structural product sales were stronger in the second half.
Laverton and Sydney Electric Arc Furnace: steelmaking operations combined production rates were at record levels. Higher despatches in most product lines and higher prices were offset by higher costs.
Rod, Bar and Wire despatches were strong due to continued growth in the construction and mining segments. Sales in the **Grinding Media** business were buoyed by the strong resources sector. In the **Rail and Forge** business, there was strong demand due to increased activity in the mining and resources sector in Australia and overseas.

A series of price increases across most products were implemented in the second half in an effort to recover the rapid rise in raw material costs.

Initiatives

The commissioning and transition of the pellet plant and blast furnace to magnetite under **Project Magnet** were completed during the year. Manufacturing costs and operational performance continue to be a focus through the use of Six Sigma, Lean management tools and waste reduction programs to reduce loss and minimise variation. Maintenance reliability practices continue to be expanded to deliver higher up-time and improve plant reliability. A $14m upgrade to the rail wheel plant at the Waratah facility was announced in September 2007 to meet growing demand.

Efforts continue with the ongoing simplification of the Manufacturing business and there is continued focus on reducing costs and improving supply chain responsiveness. The significant restructuring of wire and rolling mill facilities will continue to be a focus to realise synergy benefits.

Outlook

Domestic demand is expected to continue to be solid with strength in engineering and infrastructure, construction and resources. The domestic manufacturing and residential construction markets are expected to continue to be adversely affected by softening demand due to the high Australian dollar and high interest rates. International resources markets are expected to remain strong

Distribution

Market Conditions

The first half was characterised by very high levels of imports, which adversely affected margins across all businesses. The second half saw steel prices increase dramatically. Margins improved during the second half in response to improved market conditions but full margin recovery was delayed by the size and number of cost increases. Domestic demand was solid in resources and heavy construction whilst demand in manufacturing and residential construction was generally weak.

Performance

Margins were lower compared to the previous year due mainly to the impact of import competition, which continued to impact some products for the first three quarters. Improved market conditions in the second half helped improve margins compared to the first half. The sales margin for the year compared to the prior financial year was adversely affected by the change in mix of businesses and by delays in recovery of cost increases.

Metaland sales and margins remained flat on the back of increased imports and declining sales in the rural sector, offset by volume increases in the mining segment, particularly in WA. **Sheet, Coil and Aluminium** volumes eased as the manufacturing segment slowed, however prices and revenue were higher. Margins remained flat due to higher material costs. **Steel and Tube** volumes slowed due to delays in the industrial project market. Price and margins improved in the second half. **Piping system** sales slowed in the first half as a result of timing gaps between completion and commencement of projects, however margins improved in the second half and the outlook is positive for the coming year. **Pipe and tube** sales and margins tightened in the year as a result of increased import competition in the first half. Volumes and margins improved in the second half. Volumes in the **Reinforcing** business were solid with engineering construction, mining infrastructure and non-residential construction remaining strong; the residential construction sector is expected to remain soft in the short-tem. The operational performance of the **Australian Tube Mills** business has been impacted by the rising cost of its key material Hot Rolled Coil, but the second half improved reflecting the benefits of restructuring.
LiteSteel Technologies in Australia continued to have sales uptake behind plan.

Initiatives

In all businesses there is a focus on restoring margins impacted by the import overhang earlier in the year and the rapid escalation in costs later in the year. Additionally in Pipe and Tube, there is a focus on realising the benefits of the restructure. In the Steel in Concrete and Distribution businesses there is also a focus on customer service and retention in a very volatile market. Construction of the US LiteSteel Technologies manufacturing facility in Virginia is progressing well and the business expects to start commissioning in the last quarter of calendar 2008.

Outlook

Strong activity in the resources, infrastructure, engineering and construction sectors is expected to continue for the remainder of the year, but domestic manufacturing and residential construction is expected to remain weak.

International Distribution

Market Conditions

Economic growth eased in the second half of the year. The construction, manufacturing and rural segments were all impacted as a combination of high interest rates, exchange rate volatility, and reduced growth in consumer spending slowed the economy.

The construction sector faced further challenge with the collapse of a number of finance companies triggered by the fall in global credit markets. A number of 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

The **Distribution** business increased sales revenue on aggregate by 8 per cent over the previous year. The value of infrastructure projects and commercial building activity also increased. However, the volume of building products consumed by this sector was lower.

The **Manufacturing** business was also affected by unfavorable economic conditions. Despite this, roofing and reinforcing operations posted solid results. The hurricane wire business was adversely affected by a structural change to the market with a volatile currency making it difficult to compete against imports from Asia for part of its manufacturing range.

Outlook

The New Zealand economy is expected to be in or near recession for most of the 2008 calendar year. Residential housing activity is expected to decline in the near term, but commercial construction activity and infrastructure projects are expected to gradually improve towards the end of 2008.

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FINANCIAL SUMMARY

PROFIT & LOSS SUMMARY 12 MONTHS TO 30 JUNE $A millions	Statutory								% Chg
					Previous AGAAP [1]				
	2008	2007	2006	2005 [2]	2004	2003	2002	2001	08/07
								Excl provn	
Revenue / Income	7,484.8	4,334.5	4,043.6	3,973.1	3,339.3	3,100.1	2,986.5	2,779.2	73%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	731.2	436.1	396.7	377.1	324.2	307.6	251.0	202.6	68%
Depreciation / Amortisation and Impairment	(212.5)	(96.2)	(94.0)	(97.5)	(87.1)	(86.5)	(84.2)	(84.2)	121%
Earnings before Interest and Tax (EBIT)	518.7	339.9	302.7	279.6	237.1	221.1	166.8	118.4	53%
Finance costs	(159.6)	(55.8)	(56.7)	(53.6)	(42.2)	(44.5)	(54.4)	(61.8)	186%
Earnings before Tax (EBT)	359.1	284.1	246.0	226.0	194.9	176.6	112.4	56.6	26%
Tax Expense	(104.0)	(65.2)	(44.9)	(55.4)	(53.4)	(53.3)	(39.0)	(12.1)	60%
Profit After Tax (PAT)	255.1	218.9	201.1	170.6	141.5	123.3	73.4	44.5	17%
Minority interests	(10.2)	(11.9)	(13.6)	(17.5)	(12.4)	(9.5)	(7.4)	(5.9)	(14%)
Profit Attributable to OneSteel (NPAT)	244.9	207.0	187.5	153.1	129.1	113.8	66.0	38.6	18%

CASH FLOW SUMMARY 12 MONTHS TO 30 JUNE $millions					Previous AGAAP			
	2008	2007	2006	2005	2004	2003	2002	2001
Earnings before tax adjusted for non-cash items	375.6	275.6	244.9	226.0	178.3	177.7	105.7	62.5
Depreciation / Amortisation and Impairment	212.5	96.2	94.0	97.5	87.1	86.5	84.2	84.2
Capital & investment expenditure	(740.1)	(360.5)	(227.6)	(127.5)	(151.4)	(130.9)	(70.8)	(108.4)
Working capital movements	(133.3)	(30.1)	(34.4)	(33.5)	(46.2)	17.5	(76.5)	183.2
Income tax payments	(100.4)	(67.1)	(53.7)	(54.1)	(33.8)	(24.0)	(20.8)	(39.6)
Asset sales	3.8	12.2	6.7	4.9	45.3	16.7	56.2	116.8
Other	(2.8)	1.1	1.9	0.8	5.6	(1.0)	65.9	(128.6)
Operating and investing cash flows	(384.7)	(72.6)	31.8	114.1	84.9	142.5	143.9	170.1
Movement in securitisation	-	-	-	(201.2)	-	-	-	-
Dividends paid	(170.2)	(114.9)	(94.2)	(84.9)	(73.3)	(54.1)	(35.1)	(16.0)
Capital movements	36.4	27.4	16.9	12.3	16.7	13.0	66.3	-
Total Cash Flow	(518.5)	(160.1)	(45.5)	(159.7)	28.3	101.4	175.1	154.1

BALANCE SHEET AS AT 30 JUNE $millions					Previous AGAAP			
	2008	2007	2006	2005	2004	2003	2002	2001
Cash	151.2	59.5	19.6	55.0	54.2	19.5	11.4	14.1
Receivables	1,185.3	640.9	635.4	643.1	487.8	439.9	452.8	561.5
Inventory	1,298.9	836.3	758.9	836.7	704.6	591.0	574.1	540.3
Property, plant and equipment	2,350.7	1,564.4	1,372.3	1,211.5	1,202.8	1,167.4	1,160.0	1,224.2
Other Assets	2,341.7	468.4	352.6	340.8	353.8	359.2	383.7	370.7
TOTAL ASSETS	7,327.8	3,569.5	3,138.8	3,087.1	2,803.2	2,577.0	2,582.0	2,710.8
Borrowings (including derivatives)	2,232.0	900.3	712.0	700.3	523.2	489.7	583.0	776.5
Payables	1,021.0	637.8	545.4	615.7	569.9	467.7	425.1	444.4
Provisions	641.9	381.4	379.8	382.8	336.7	334.6	351.3	373.7
TOTAL LIABILITIES	3,894.9	1,919.5	1,637.2	1,698.8	1,429.8	1,292.0	1,359.4	1,594.6
NET ASSETS	3,432.9	1,650.0	1,501.6	1,388.3	1,373.4	1,285.0	1,222.6	1,116.2
Contributed equity	2,929.9	1,153.6	1,126.2	1,107.9	1,096.3	1,079.6	1,066.6	995.0
Minority interests	57.7	63.3	56.7	61.8	56.7	54.7	53.1	52.1
Retained earnings / Reserves	445.3	433.1	318.7	218.6	220.4	150.7	102.9	69.1
TOTAL EQUITY	3,432.9	1,650.0	1,501.6	1,388.3	1,373.4	1,285.0	1,222.6	1,116.2

(1) The financial information presented for the years 2001 - 2004 have not been presented under International Financial Reporting Standards (IFRS). The nature of the main adjustments to make the information comply with IFRS include:
- recognition of additional provisions relating to rehabilitation and make good;
- restatement of deferred tax balances using the balance sheet method;
- recognition of the deficit in the defined benefits superannuation fund;
- consolidation of the employee share plan trust; and
- recognition of derivative financial instruments on balance sheet at fair value and application of hedge accounting.
Note that the financial information presented for the years 2001 - 2004 have been adjusted to exclude goodwill amortisation from earnings.
(2) The financial information for the year 2005 excludes the benefit of reversal of impairment loss and resultant impact on depreciation as a result of transition to IFRS.

SEGMENTS 12 months to 30 June $A millions	Revenue / Income			EBITDA			EBIT[1]			Assets		
	2008	2007	% Chg	2008	2007	% Chg	2008	2007	% Chg	2008	2007	% Chg
Materials	2,039.3			321.0			296.9			1,577.6		
Manufacturing	3,083.4	2,155.7	43.0%	301.9	216.4	39.5%	215.4	158.3	36.1%	3,082.5	1,968.7	56.6%
Distribution	3,390.8	2,393.4	41.7%	215.4	202.1	6.6%	166.3	173.1	(3.9%)	2,789.8	1,222.0	128.3%
International Distribution	435.7	405.2	7.5%	39.0	45.9	(15.0%)	33.8	40.6	(16.7%)	208.6	222.6	(6.3%)
Corporate / Unallocated	45.3	17.9	153.1%	(17.3)	(6.8)	154.4%	(23.0)	(10.6)	117.0%	(100.1)	239.0	(141.9%)
Inter segment	(1,509.7)	(637.7)	136.7%	(52.3)	(21.5)	143.3%	(52.3)	(21.5)	143.3%	(230.6)	(82.8)	178.5%
TOTAL ONESTEEL GROUP	7,484.8	4,334.5	72.7%	807.7	436.1	85.2%	637.1	339.9	87.4%	7,327.8	3,569.5	105.3%

	Materials			Distribution			Manufacturing			International Distribution		
	2008	2007	% Chg	2008	2007	% Chg	2008	2007	% Chg	2008	2007	% Chg
Revenue / Income	2,039.3			3,390.8	2,393.4	41.7%	3,083.4	2,155.7	43.0%	435.7	405.2	7.5%
EBITDA	321.0			215.4	202.1	6.6%	301.9	216.4	39.5%	39.0	45.9	(15.0%)
EBIT[1]	296.9			166.3	173.1	(3.9%)	215.4	158.3	36.1%	33.8	40.6	(16.7%)
Assets	1,577.6			2,789.8	1,222.0	128.3%	3,082.5	1,968.7	56.6%	208.6	222.6	(6.3%)
Employees	1,279.0			4,623	2,946	56.9%	4,408	3,346	31.7%	834	881	(5.3%)
Sales Margin (EBIT)	14.6%			4.9%	7.2%		7.0%	7.3%		7.8%	10.0%	
Funds Employed	1,224.9			2,143.4	820.5	161.2%	2,420.9	1,427.2	69.6%	176.5	186.6	(5.4%)
ROFE	24.2%			11.2%	21.1%		11.2%	11.1%		18.6%	24.4%	

The results for prior financial year have been restated to reflect the new segment structure that became effective 1 July 2007. The OneSteel Reinforcing business has been moved from the Manufacturing segment to the Distribution segment. The results for the current financial year exclude restructuring costs and impairment of plant and equipment associated with the integration of Smorgon Steel. The Smorgon Steel businesses have been included in the June 2008 financial information from the date of acquisition on 20 August 2007.

1. EBIT, Funds Employed and ROFE for Distribution and Corporate/Unallocated for the year ended 30 June 2008 have been adjusted to exclude the impact of accelerated amortisation on finite life intangibles recognised on acquisition of Smorgon Steel of $20.5m and $3.8m respectively.

The FY08 Review of Operations forms part of a package of information about the company's 2008 financial results and should be read in conjunction with the other FY08 results materials including the ASX Release, FY08 Results presentation and Financial Statements to the end of June 2008.

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 XX of the Annual Report.

Principal Activities
The principal activities of the OneSteel Group during the financial year were the mining and supply of steel making 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 steel making, 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 XX of the Annual Report.

Net profit after income tax attributable to members of the parent entity, for the financial year was $244.9m (2007: $207.0m) 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 $70.1m. The profit in the prior year included the impact of a tax benefit arising from the derecognition of deferred tax liabilities of $9.5m.

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

	$ m
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 XX 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 and periodically subjected to internal, independent external and government agency audits and site inspections. The environment report is set out on pages 1 and XX 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 XX and XX 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 Commitee 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 foregoing the balance of their benefits under that scheme in return for participation in the new arrangements.

Senior Executives' Remuneration

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

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 option after a qualifying period of three years. These instruments are held in trust during this period and vesting of both shares and options is subject to the company achieving specific performance hurdles at the end of this period. If the shares and options do not vest immediately at the end of the three–year qualifying period, provisions exist that enable re–testing of the performance hurdles quarterly for senior executives and yearly for the current Managing Director over a two–year period. For any future allocations to senior executives after 1 July 2008, the re–testing 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 CEO of Steel and Tube Holdings Limited, a New Zealand listed company in which OneSteel holds a 50.3% interest, as set out below. This includes the 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	

(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 4 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.

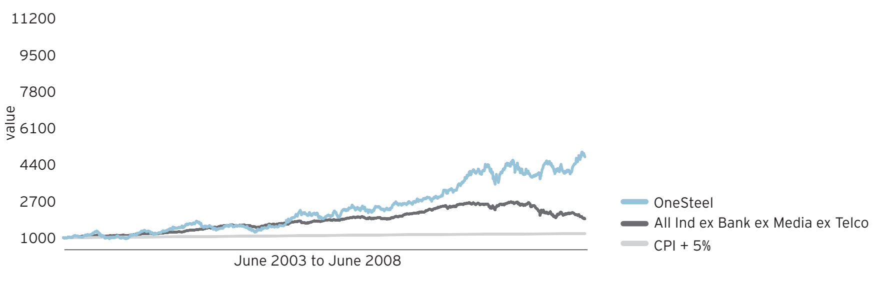
YEAR ENDED 30 JUNE	OPERATING PROFIT $M (1)	DIVIDEND CENTS	EARNING PER SHARE CENTS (2)
2008	315.0	21.5	36.0
2007	197.5	18.5	34.5
2006	171.6	17.0	30.3
2005	153.1	13.5	27.3
2004	129.1	12.0	23.3
2003	113.8	11.0	20.8
2002	66.0	6.5	12.3
2001	38.6	6.0	5.1

(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 $70.1m, after tax.
- The 2007 results exclude the impact of the derecognition of deferred tax liabilities of $9.5m.
- The 2006 results exclude the tax benefit of $15.9m 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 $49.7m, after tax.
- The 2004 results exclude the one–off tax benefit of $19.8m 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



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 5 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 6 months after the occurrence of a fundamental change, he will be entitled to a payment equivalent to the aggregate base remuneration paid to him over the previous 12 months, in addition to the payments referred to above.

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

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

A comprehensive summary of Mr Plummer's initial employment contract was lodged with the Australian Stock Exchange on 20 December 2004 and a summary of the amendments were 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 X 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 in 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 to the Financial Report.

Matters Subsequent to the End of the Financial Year
On 9 July 2008, OneSteel completed the issue of USD$200m of private placement notes. The purchasers of these notes with maturities of 7, 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 $118.6m, 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 Review.

Interests of Non-Executive Directors in Contracts or Proposed Contracts with the Company
Directors of OneSteel Limited have declared their interests in contracts or proposed contracts that may result from their directorships of other corporations, as listed in their personal profiles set out on page xx of the Annual 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 auditors, 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 the ASIC Class Order 98/0100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest one hundred thousand dollars or, where the amount is $50,000 or less, zero, unless specifically stated to be otherwise.

Signed in Sydney this 19th day of August 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 Statements

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 Sheets

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 Statements

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)	–
Reedemable 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 CONSOLIDATED	Issued capital $m	Employee compen-sation shares $m	Total contributed equity $m	Retained earnings $m	Total Reserves $m	Total Parent Interests $m	MINORITY INTERESTS $m	TOTAL EQUITY $m
	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT – CONTRIBUTED EQUITY							
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

for the year ended 30 June 2008

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

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

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 valuations methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in Equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. 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.

Notes to the financial statements

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. Cost comprises 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. Cost 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 a mount 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 obligation, net of finance charges are included in interest bearing liabilities. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Income Statement.

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

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

(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 licenses 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 5 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 1 to 10 years	Acquired
System development and other capitalised development costs	Finite	Straight line over estimated useful life	Internally generated

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.

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 twelve months, and as non-current interest-bearing liabilities where the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance date.

(z) Finance costs

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

(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 re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative qualifies for hedge accounting, and if so, the nature of the item being hedged. The OneSteel Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments – fair value hedges;
- hedges of highly probable forecast transactions – cash flow hedges
- 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 on-going basis, of whether the hedges have been, and will continue to be, highly effective in offsetting changes in the fair values or the cash flows of hedged items throughout the financial reporting periods for which they were designated.

Fair value hedges

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

Cash flow hedges

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

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 a 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 assumption made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of the financial statements are outlined below.

(a) 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 do 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 manufacturer's 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 & 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 & 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 $13.7m.

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 & 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 & 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 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 Australian 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 arms' 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 of 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

Notes to the financial statements

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 include 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 $13.7m.

	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)	–	–

NOTE 5. INCOME TAX

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	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	–	–

Notes to the financial statements

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 $9.5m was recognised on derecognition of deferred tax liabilities. This was the result of the disposal of shares in a controlled entity, P&T JV Subsidiary Co Pty Ltd to Australian Tube Mills Pty Ltd on formation of the joint venture between OneSteel Limited and Smorgon Steel Group Limited prior to the merger with Smorgon Steel Group Limited on 20 August 2007.

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 $315.0m. The impact on earnings of restructuring and impairment, including OneSteel's share of restructuring costs from equity accounted investments of $13.7m, was a decrease of $70.1m 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 controlled entity was based on earnings of $197.5m arising from operating activities. The impact on earnings was an increase of $9.5m.

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) $23.2m (2007: $22.1m) 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%).

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 $6.5m (2007: $2.9m). 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 $370.1m (2007: $167.8m) 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 3 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 USD$128m (2007: USD$128m) 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 USD$68m and a twelve-year tranche USD$60m – 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 3 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 USD$130m (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 fluctuations to 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 $16.6m 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.

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At balance date, the details of outstanding contracts are:

CURRENCY	2008 Average exchange rate	2007 Average exchange rate	2008 Buy $m	2008 Sell $m	2007 Buy $m	2007 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 Average exchange rate	2007 Average exchange rate	2008 Buy $m	2008 Sell $m	2007 Buy $m	2007 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 USD$65m 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 $9.5m 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.

Notes to the financial statements

NOTE 9. INVENTORIES

	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 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

	Note	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m	PARENT 2008 $m	PARENT 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

2008	Land $m	Buildings $m	Plant and Equipment $m	Leased assets $m	Total $m
	CONSOLIDATED				
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

2007	Land $m	Buildings $m	Plant and Equipment $m	Leased assets $m	Total $m
	CONSOLIDATED				
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 $34.4m were repurchased by OneSteel.

(3) During 2007, plant and machinery with a book written down value of $20.7m was entered into a sale and leaseback agreement.

NOTE 13. MINE DEVELOPMENT EXPENDITURES

2008	CONSOLIDATED 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

2007	CONSOLIDATED 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

Notes to the financial statements

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 $72.3million 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 5 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 5 year period are extrapolated using the average of the cashflows from years 3 to 5. For Grinding Systems America, cash flows beyond the 5 year period are extrapolated using the year 5 cashflow.

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 5 year period are extrapolated using the average of the cashflows from years 3 to 5. 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 5 cashflow 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 believe 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 $75m expiring May 2009.

(2) US Private Placement undertaken in April 2003 (USD$128m). This consists of a 5.2%, fixed interest seven year tranche (USD$68m) repayable in April 2010 and twelve year tranche (USD$60m) 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 Note 8 and 32.

(3) US Private Placement recognised on acquisition of Smorgon Steel Group Limited in August 2007. This consists of USD$45m at 5.69% repayable in 2010; USD$40m at 5.78% repayable in 2011; USD$25m at 5.88% repayable in 2013; USD$30m at 6.08% repayable in 2014 and USD$20m at 6.08% repayable in 2015.

Of this balance, USD$130M has been hedged using a series of cross currency swaps accounted for as a cash flow hedge – refer to Note 8 and 32.

The remaining balance of USD$30m 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 $5.1m 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 $177.8m.

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.

Notes to the financial statements

NOTE 18. PROVISIONS

	CONSOLIDATED		PARENT	
	2008 $m	2007 $m	2008 $m	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	–	–

				CONSOLIDATED
2008	Customer claims $m	Restoration and rehabilitation $m	Restructing $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 participate in a number of superannuation funds in Australia and New Zealand. The funds provide benefits either on a defined benefit or cash accumulation basis, for employees on retirement, resignation, disablement, or to their dependants on death.

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 employee's wages and salaries are legally enforceable in Australia.

Defined benefit funds

The Group has one superannuation plan with a defined benefit section and a defined contribution section. The benefits provided by the defined benefits section of the plan are based on the length of service or member and the salary of the member at or near retirement. Member contributions, based on a percentage of salary, are specified by the fund rules. The defined benefit section has been closed to new members since 1997.

Employer contributions are made each month to the fund in accordance with the advice of the actuary to the fund, at levels deemed to be adequate to fund benefit payments in accordance with the fund's Trust Deed. These contributions are expensed in the period in which they are incurred.

NOTE 19. RETIREMENT BENEFIT OBLIGATIONS

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 member's 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 $10.6m.

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

Notes to the financial statements

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 $118.6m (2007: $91.5m).

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 activites				
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 $43.5m (2007: $29.4m) 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 5 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%).

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 $31.3m (June 2007: $18.4m) 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 Investment Commission. OneSteel Limited, and all the controlled entities which are a party to the deed, have guaranteed the repayment of all current and future creditors in the event any of these companies are wound up.

Third party claims

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	% of shares held 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

NOTE 27. CONTROLLED ENTITIES (CONTINUED)

Entity	Note	Place of incorporation	% of shares held 2008	% of shares held 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	% of shares held 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 St, 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**

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 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 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 a two share plans under which eligible employees may acquire ordinary shares in the company. The most recent offer under the employee share plan was made in May 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 Stock 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.

Notes to the financial statements

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 Stock Exchange for the five days up to and including the date they are granted.

The performance hurdles relate to two comparative groups, namely the Australian Consumer Price Index plus 5% (Base Index) and the S&P/ASX 200 Index excluding banks, media and telecommunications (Comparator Index) that are measured against OneSteel's performance in terms of total shareholder return. For each instalment, 50% of the shares will vest subject to OneSteel's TSR performance to the Base Index and the remaining 50% of shares will vest subject to OneSteel's performance to the Comparator Index.

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

The contractual life of each option granted is 9 years. There are no cash settlement alternatives.

The options do not entitle the holder to participate in any share issues of the Company.

These options were all fully vested during the year ended 30 June 2005. No further options have been issued since those referred to above.

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

	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 2 and 3 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 3 years from grant date. The employee share scheme provides financial assistance, to a maximum of $2,340 in any three-year period, to eligible employees to purchase Company shares. Rights to shares in the executive share scheme vest upon achieving Board approved targets based on total shareholder returns.

Notes to the financial statements

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 an arm's length in similar circumstances. These transactions include the following and have been quantified below where the transactions are considered to be of interest to users of these financial statements.

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

Notes to the financial statements

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	–	–	–	–	–	–
	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
	1,807,648	69,470	–	–	12,371	1,889,489

Notes to the financial statements

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 twelve 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 USD$500,000 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 $1,128.4m (2007: $715.3m) in purchases and $1,480.8m (2007:$487.3m) 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 AUD$95m 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 USD $m	2008 NZD $m	2008 Other (1) $m	2007 USD $m	2007 NZD $m	2007 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) 2008 $m	Post Tax Profit Higher/(Lower) 2007 $m	Equity Higher/(Lower) 2008 $m	Equity Higher/(Lower) 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 value of 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 believe 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 counter party, 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 counterparty 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	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 cashflows 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 $15.6m 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 USD$200m of private placement notes. The purchasers of these notes with maturities of 7, 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 $118.6m, 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 59 to 114 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.

(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 50 to 55 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
Partner

Sydney
19 August 2008