ONESTEEL LIMITED

ABN 63 004 410 833

APPENDIX 4D

HALF YEAR REPORT

6 MONTHS ENDING 31 DECEMBER 2006

ONESTEEL LIMITED

HIGHLIGHTS OF RESULTS AND DIVIDENDS

6 MONTHS ENDING 31 DECEMBER 2006

RESULTS FOR ANNOUNCEMENT TO THE MARKET

				A$ MILLION
SALES REVENUE	UP	7.3%	TO	2,134.3
REVENUE FROM ORDINARY ACTIVITIES	UP	7.3%	TO	2,148.2
PROFIT FROM ORDINARY ACTIVITIES AFTER TAX ATTRIBUTABLE TO MEMBERS	UP	16.8%	TO	98.2
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO MEMBERS	UP	16.8%	TO	98.2

	DECEMBER 2006	DECEMBER 2005
NET TANGIBLE ASSETS PER SHARE ($)	2.26	2.03

DIVIDENDS	INTERIM DIVIDEND 2007	INTERIM DIVIDEND 2006
AMOUNT PER SECURITY	8.0c	7.0c
FRANKED AMOUNT PER SECURITY	8.0c	7.0c

RECORD DATE FOR DETERMINING ENTITLEMENTS: 9 MARCH 2007

DIVIDEND PAYMENT DATE: 19 APRIL 2007

DIVIDEND REINVESTMENT PLAN (DRP)

The DRP will operate for the interim 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 9 March 2007 (the Record Date).

JOINT VENTURE ENTITIES

OneSteel Limited has a 50% interest in Bekaert Australia Steel Cord Pty Limited.

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

FINANCIAL RATIOS

6 months ended $A millions	AIFRS Dec-06	 Jun-06	 Dec-05	 Jun-05	 Dec-04	AGAAP Jun-04	 Dec-03	 Jun-03	 Dec-02	 Jun-02	 Dec-01	 Jun-01	 Dec-00	% Change Dec 06 / Dec 05
Sales	2,134.3	2,015.8	1,988.8	2,048.0	1,890.5	1,702.5	1,566.7	1,535.6	1,525.0	1,432.8	1,473.2	1,370.7	1,267.0	7.3%
Other Revenue/Income	16.7	22.7	16.3	17.1	17.5	34.7	35.4	25.5	14.0	43.7	36.8	129.0	12.5	2.5%
Total Revenue/Income	2,151.0	2,038.5	2,005.1	2,065.1	1,908.0	1,737.2	1,602.1	1,561.1	1,539.0	1,476.5	1,510.0	1,499.7	1,279.5	7.3%
Gross Profit	468.8	366.4	432.3	379.4	407.6	326.6	316.0	285.1	341.1	257.8	270.6	249.1	240.5	8.4%
Operating EBITDA*	218.0	193.2	203.5	203.4	173.7	177.3	146.9	139.4	168.2	125.4	125.6	91.0	111.6	7.1%
Depreciation & Amortisation (excluding goodwill)	(48.1)	(46.6)	(47.4)	(52.5)	(45.0)	(44.0)	(43.1)	(43.2)	(43.3)	(40.8)	(43.4)	(43.2)	(41.0)	1.5%
Operating EBIT (excluding goodwill amortisation)	169.9	146.6	156.1	150.9	128.7	133.3	103.8	96.2	124.9	84.6	82.2	47.8	70.6	8.8%
Finance costs	(26.3)	(27.3)	(29.4)	(29.7)	(23.9)	(21.4)	(20.8)	(21.6)	(22.9)	(23.8)	(30.6)	(32.2)	(29.6)	(10.5%)
Operating Earnings before tax (EBT)	143.6	119.3	126.7	121.2	104.8	111.9	83.0	74.6	102.0	60.8	51.6	15.6	41.0	13.3%
Tax	(39.2)	(26.3)	(34.5)	(29.9)	(25.5)	(31.4)	(22.0)	(20.8)	(32.5)	(19.9)	(19.1)	(0.1)	(12.0)	13.6%
Operating PAT before MI	104.4	93.0	92.2	91.3	79.3	80.5	61.0	53.8	69.5	40.9	32.5	15.5	29.0	13.2%
Minorities	(6.2)	(5.5)	(8.1)	(8.5)	(9.0)	(7.2)	(5.2)	(4.8)	(4.7)	(3.8)	(3.6)	(3.3)	(2.6)	(23.5%)
Operating PAT**	98.2	87.5	84.1	82.8	70.3	73.3	55.8	49.0	64.8	37.1	28.9	12.2	26.4	16.8%
Total Assets	3,375.3	3,138.8	3,058.3	3,087.1	2,748.1	2,803.2	2,609.6	2,577.0	2,602.9	2,582.0	2,625.4	2,710.8	2,666.2	10.4%
Inventory	888.8	758.9	840.2	836.7	758.8	704.6	646.5	591.0	626.0	574.1	608.0	540.3	646.4	5.8%
Total Liabilities	1,804.1	1,637.2	1,619.9	1,698.8	1,465.9	1,429.8	1,305.5	1,292.0	1,331.8	1,359.4	1,424.7	1,594.6	1,493.5	11.4%
Funds Employed	2,375.3	2,189.8	2,144.6	2,033.6	1,791.2	1,842.4	1,801.0	1,755.2	1,783.7	1,794.2	1,822.9	1,878.6	1,990.8	10.8%
Total Equity	1,571.2	1,501.6	1,438.4	1,388.3	1,282.2	1,373.4	1,304.1	1,285.0	1,271.1	1,222.6	1,200.7	1,116.2	1,172.7	9.2%
Net Debt	753.1	638.8	660.0	645.3	509.0	469.0	496.9	470.2	512.6	571.6	622.2	762.4	818.1	14.1%
Net Debt including Securitisation	753.1	638.8	660.0	645.3	709.0	669.0	696.9	670.2	712.6	771.6	822.2	953.4	946.1	14.1%
Net Debt incl Derivatives	804.1	688.2	706.2	645.3										13.9%
No of shares (at end of period)	570.4	566.2	564.3	560.8	558.4	554.9	551.4	546.9	542.2	538.6	535.9	460.3	454.8	1.1%
Operating cash flow	90.8	157.1	93.7	179.8	56.1	132.3	56.0	148.6	109.1	91.6	1.0	243.0	47.3	(3.1%)
Free Cash Flow	(86.2)	57.6	(21.2)	116.5	(7.5)	32.5	11.4	72.2	82.7	49.6	(21.1)	189.4	31.4	306.6%
Capital and investment expenditure	177.0	112.7	114.9	63.9	63.6	106.4	45.0	104.5	26.4	48.7	22.1	92.5	15.9	54.0%
Operating Return on Assets %	10.4%	9.5%	10.2%	10.5%	9.4%	9.9%	8.0%	7.4%	9.6%	6.5%	6.2%	3.6%	5.3%	
Operating Return on Equity %	13.6%	12.7%	13.1%	13.9%	12.2%	12.1%	9.4%	8.4%	11.1%	6.8%	5.6%	2.7%	5.0%	
Return on Equity %	13.6%	12.7%	13.1%	13.9%	12.2%	10.5%	7.8%	6.9%	9.6%	5.2%	4.0%	1.4%	3.7%	
Operating Return on Funds Employed % (ROFE)	14.9%	13.6%	14.9%	15.3%	14.4%	14.7%	11.7%	10.9%	14.0%	9.4%	8.9%	4.9%	7.0%	
Operating EBIT to sales	8.0%	7.3%	7.8%	7.4%	6.8%	7.8%	6.6%	6.3%	8.2%	5.9%	5.6%	3.5%	5.6%	
Operating Earnings Per Share (cents) - year end	17.2	15.5	14.9	14.8	12.6	13.2	10.1	9.0	12.0	6.9	5.4	2.7	5.8	15.4%
Dividends per share (cents)	8.0	10.0	7.0	7.5	6.0	7.0	5.0	6.0	5.0	3.5	3.0	3.0	3.0	14.3%
Dividend payout ratio	46.7%	65.0%	47.2%	51.1%	47.9%	52.9%	49.5%	66.9%	41.8%	50.9%	55.7%	113.1%	51.9%	
Gearing (net debt/net debt + equity) including securitisation	32.4%	29.8%	31.5%	31.7%	35.6%	32.8%	34.8%	34.3%	35.9%	38.7%	40.6%	46.1%	44.7%	
Gearing (net debt/net debt + equity) incl derivative	33.9%	31.4%	32.9%											
Gross Profit Margin	22.0%	18.2%	21.7%	18.5%	21.6%	19.2%	20.2%	18.6%	22.4%	18.0%	18.4%	18.2%	19.0%	
Interest cover	6.5	5.4	5.3	5.1	5.4	6.2	5.0	4.5	5.5	3.6	2.7	1.5	2.4	
NTA per share ($)	2.26	2.16	2.03	1.95	1.77	1.93	1.82	1.77	1.78	1.69	1.70	1.81	2.13	11.3%
Employees	7,733	7,527	7,269	7,395	7,262	7,272	7,078	7,054	6,899	6,989	7,012	7,379	6,896	6.4%
Sales per employee ($000s)	276	268	274	277	260	234	221	218	221	205	210	186	184	0.7%
Cost increases	58	101	166	132	94	44	27	36	32	37	20	37		
Cost reductions	17	19	21	17	30	31	19	27	29	35	24	26	24	
Revenue enhancements	48	70	166	195	114	19	9	23	29	15	5	15		
Raw steel production	877,819	833,093	800,603	810,399	538,998	799,347	819,508	792,495	831,904	783,561	793,089	747,099	691,671	9.6%
Steel tonnes despatched	1,143,329	1,186,446	1,100,621	1,156,941	1,107,110	1,085,901	1,073,635	1,113,010	1,111,129	1,075,745	1,100,668	1,125,058	1,000,015	3.9%
Steel exports, % of total steel despatches	3.6%	11.0%	8.6%	4.7%	3.4%	4.2%	5.1%	3.8%	3.7%	7.9%	7.9%	17.8%	7.9%	

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

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

Note that the financial information presented for the years 20000 - 2003 has been adjusted to exclude goodwill amortisation from earnings.

*June 2005 results exclude the one-off benefit relating to the reversal of impairment loss on transition to AIFRS of $49.7m after tax. NPAT including this adjustment was $202.8m

**June 2004 NPAT excludes the one-off tax benefit of $19.8m arising from OneSteel's entry into the tax consolidation regime. Total profit including this adjustment was $127.9m.

**June 2006 NPAT excludes the one-off tax benefit of $15.9m arising from finalisation of tax consolidation values. Total profit including this adjustment was $187.5m

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Review of Operations
For the Six Months To December 2006

20 February 2007

Key Points – (six months to December 2006 versus six months to December 2005)

- Profit up 16.8% from prior corresponding period
- Earnings per share up 15.4% to 17.2 cents from 14.9 cents
- Gearing remains in lower end of target range after investing almost $310 million in Project Magnet over 24 months
- Safety performance builds significantly on already high levels

Financial

Sales revenue	$2,134.3m	Up 7.3%
Earnings before interest, tax, depreciation and amortisation **(EBITDA)**	$218.0m	Up 7.1%
Earnings before interest and tax **(EBIT)**	$169.9m	Up 8.8%
Net profit after tax and minorities **(NPAT)**	$98.2m	Up 16.8%
Earnings per share **(EPS)** based on the number of shares at end of period	17.2 cents	Up 15.4% from 14.9c
Operating cash flow	$90.8m	Down 3.1% from $93.7m
Return on funds employed **(ROFE)**	14.9%	Steady
Return on equity **(ROE)**	13.6%	Up from 13.1%
Ratio of net debt to net debt plus equity **(gearing)**	33.9%	Up from 32.9%
Net debt (includes derivatives)	$804.1m	Up 13.9% from $706.2m
Fully franked interim dividend	8.0 cents	Up from 7.0 cents

Domestic market (based on NIEIR estimates)

All segments that impact OneSteel domestic revenues	Up 0.3%	Value of construction work remains at high levels
Construction Sector (58% of revenue) • Engineering (23% of revenue) • Non-residential (21% of revenue) • Residential (14% of revenue)	Up 3.5% Up 2.6% Up 7.4% Down 0.9%	Infrastructure, project and mining activity still outweighing softness in residential construction
Mining production (10% of revenue)	Up 6.2%	
Other Manufacturing (10% of revenue)	Down 5.8%	
Agricultural manufacturing (6% of revenue)	Down 23.2%	
Auto production (5% of revenue)	Down 7.7%	

Operational

Total Australian steel tonnes despatched • Domestic tonnes despatched • Export tonnes despatched Adjusted domestic tonnes (excludes one-off projects)	1,143,329 1,101,868 41,461 1,064,511	Up 3.9% Up 9.6% Down 53,628 tonnes Up 7.7%
Underlying price per tonne for domestic steel sales		Up 1.7%
Cost increases Offset by: • Cost reductions • Revenue enhancements	$58m $17m $48m	
Staff numbers • Sales per staff member	7,733 $276,000	Up 6.4% Up 0.7%
Safety Performance (per million man hours worked) • Medical Treatment Injury Frequency Rate • Lost Time Injury Frequency Rate	Down 19% from 12.1 to 9.8 Down 57% from 2.1 to 0.9	Both comparisons are between the 12-months to Dec 2006 and the 12-months to Dec 2005

Company Overview

Sales revenue for the six months to December 2006 grew 7.3% to $2,134.3 million from $1,988.8 million in the prior corresponding period.

Underlying Australian domestic revenue from steel sales, adjusted for large projects associated with oil and gas pipelines, increased 9.5%**,** reflecting higher despatches, changed product mix and price increases previously implemented to recover higher raw material input costs.

Total Australian tonnes despatched increased by 3.9%. Underlying domestic tonnes despatched increased by 7.7% after adjusting for large one-off projects.

Exports of steel during the period decreased 53,628 tonnes, to 41,461 tonnes, representing 3.6% of steel tonnes despatched compared with 8.6% a year prior. Total raw steel tonnes produced increased 9.6%, or 77,216 tonnes, from the previous corresponding period.

The underlying price per tonne for domestic steel sales improved by 1.7%.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA), increased by 7.1% in the six months to $218.0 million.

The **sales margin**, based on operating earnings before interest and tax (EBIT), was 8.0%, compared with 7.8% in the prior corresponding period. On an **earnings before tax** basis, profit increased by 13.3% from $126.7 million to $143.6 million.

Operating net profit after tax and minorities increased by 16.8% to $98.2 million for the six months, which is equivalent to 17.2 cents per share, 15.4% higher than the prior corresponding period.

The **effective tax rate** of 27.3% was largely attributable to the impact of claimable research and development expenditure.

Australian Distribution revenue was up 1.8% or $16.4 million to $939.6 million reflecting a 3.3% increase in underlying prices and relatively steady sales volumes. Distribution EBIT was down 0.9% at $64.0 million with the sales margin falling from 7.0% to 6.8% partly reflecting volatility in hot rolled coil prices and increased competition from imports in certain areas. The EBIT return on funds employed rose from 15.7% to 16.2%, assisted by further progress in reducing working capital.

Adjusted for large projects, domestic steel tonnes despatched from Distribution were steady. Underlying domestic prices improved by 3.5% reflecting price increases implemented to recover higher product and input costs.

Manufacturing revenue increased 15.8% or $161.5 million to $1,182.4 million. Underlying domestic prices rose 2.1% while export prices were 52.1% higher as a result of changed product mix. After adjusting for large one-off projects, tonnes despatched were up 4.2%, with domestic despatches up 13.8% due to higher structural and reinforcing sales. Exports fell from 87,000 to 34,000 tonnes as product, mainly slab and billet steel, was switched to the domestic market.

Manufacturing EBIT increased 33.9% to $109.1 million with a rise in sales margin from 8.0% to 9.2%. Manufacturing's EBIT return on funds employed increased from 14.2% to 15**.7%.**

The **International Distribution** business' earnings were down from the previous corresponding period as a result of a softer New Zealand economy. EBIT profit of the New Zealand-based business fell 19.8% from $25.8 million to $20.7 million and the associated sales margin fell from 12.6% to 10.6%. The business achieved a return on funds employed of 26.4%.

OneSteel's **management initiatives** delivered a total of $17 million in cost savings along with revenue enhancements of $48 million. These offset $58 million in raw material and other cost increases. The most significant elements in the cost increases in the most recent six-month period were scrap, labour and freight.

Staffing levels at 7,733 were up 6.4% from 7,269 at the end of December 2005. Approximately 350 of the 464 increase is the result of the transfer of employees from contract to full-time employment status and acquisitions in New Zealand adding approximately 100 employees to International Distribution. OneSteel was already paying the contract employees but they were not included in the headline employee numbers. The majority of the balance of the employee increase is attributable to additional staff who have commenced training on Project Magnet plant and equipment. There are also additional workers associated with OneSteel's three strategic initiatives and increases in apprentices and graduates as an investment for the future.

Operating cash flow for the period was $90.8 million, down 3.1% from $93.7 million in the previous corresponding period.

Inventories increased by 5.8% to $888.8 million when compared with the previous corresponding period. This mainly reflected stocks associated with the transition of the Whyalla Steelworks to magnetite feed, as well as higher average inventory costs. Stock weeks were down slightly from the previous corresponding period.

Capital and investment expenditure increased by 54.0% to $177.0 million. Approximately $120 million of the expenditure related to Project Magnet, OneSteel's major expansion project. Project Magnet capital construction work is due to be substantially complete in the 2006/07 financial year, with around $310 million spent as at 31 December 2006. The total cost of the project was previously forecast at $355 million plus an additional 5%. However, with continued cost pressures and the recent flood at Whyalla, the current estimate is for $385 million, or approximately 8% over budget. Of the remaining $75 million to be spent, $45 million, or 60%, was committed as at 31 December 2006, giving a high level of confidence.

With almost $310 million of the Project Magnet spend complete, financial gearing remains at the lower end of the targeted range of 30% to 40%. **Financial gearing** rose from 32.9% to 33.9% and **net debt** rose 13.9% to $804.1 million.

Interest Cover was 6.5 times compared with 5.3 times cover in the prior corresponding period.

Funds employed have risen by 10.8% or $230.7 million to $2,375.3 million, again reflecting the investment in Project Magnet. The EBIT **return on funds employed** was stable at 14.9%.

The Interim dividend was declared at 8.0 cents per share fully franked, up 14.3%, representing a payout ratio of 46.7% of the first half profits. This compares with a 7.0 cent fully franked interim dividend paid for the six months to December 2005.

A dividend reinvestment plan exists which provides the facility for shareholders in Australia and New Zealand to reinvest their dividends in shares at a price calculated on the arithmetic average of the daily volume weighted average market price during the 10 consecutive trading days commencing on the date which is the second trading day after the Record Date for the relevant dividend. The record date for the dividend will be 9 March 2007, with the dividend due to be paid on 19 April 2007.

Initiatives for Growth and Building Organisational Capability

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

- **Project Magnet –** Major milestones for this project to commercialise OneSteel's magnetite iron ore deposits are being achieved. Key parts of one of the two key work streams, the hematite export facilities, successfully commissioned in October and November 2006. The three vessels required to trans-ship the export ore from Whyalla Port to ships in the Spencer Gulf have arrived at Whyalla. This will allow the move to

Cape-size ships for ore exports in the coming half-year to commence. In December 2006 a contract covering mining and other related services was signed with the mining division of Leighton Contractors. The five-year contract is valued in excess of $300 million.

During the period under review, export sales of iron ore lump and fines exceeded 700,000 tonnes, in line with the ramp-up in ore sales that was announced in May 2005. In addition, almost 150,000 tonnes of off-spec ore by-products were sold.

The major focus of the construction effort is now on the Magnetite stream, with construction to be effectively completed in late May 2007. Final commissioning, transition and ramp-up phases will follow. Construction will be delayed by approximately one week due to the January floods caused by heavy rain at Whyalla.

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

- **OneSteel and Smorgon Steel Merger** – Under a new transaction structure announced in December 2006, OneSteel will acquire all of the assets and liabilities of Smorgon Steel in exchange for OneSteel shares, except Smorgon Steel's steel and metals distribution businesses comprising Smorgon Steel Metals Distribution, Smorgon Steel Sheet Metal supplies, Smorgon Steel Pipeline Supplies and Metalcorp Steel. These distribution businesses will remain with Smorgon Steel. The transaction is subject to Australian Competition and Consumer Commission (ACCC) approval and satisfactory tax rulings, as well as approval from both Smorgon Steel and OneSteel shareholders.

  In addition, in December 2006, OneSteel and Smorgon Steel announced a proposal to form a joint venture of their respective structural pipe and tube businesses, subject to approval of the proposal by the ACCC. On 31 January 2007 the ACCC announced that it would not intervene in the proposed joint venture. Accordingly, the joint venture is now unconditional and OneSteel and Smorgon Steel look forward to implementing the joint venture at the earliest feasible date to realise the synergies that both companies believe will be delivered by the joint venture.

Significant and Subsequent Events

On 22 January 2007, OneSteel announced a small loss of production after heavy rains caused flooding to parts of the Whyalla Steelworks operation. Preliminary assessment of the financial impact to the company's EBITDA for the year ended 30 June 2007 is estimated at between $15 million to $30 million. This estimate includes the cost of clean up, production disruptions, restoring rail operations, rescheduling steel product deliveries and deferral of iron ore shipments from this financial year. Based on current forecasts, OneSteel expects to sell four million tonnes of iron ore in the 2007/08 financial year.

On 2 February 2007 OneSteel and Smorgon Steel Group Limited announced that they have adopted and will proceed to implement the "New Transaction" that was announced on 18 December 2006 as the means to effect the merger of the companies. As a result, the Scheme of Arrangement that was announced on 26 June 2006 will no longer be pursued.

Outlook

In the period under review OneSteel increased profit, earnings per share, and its sales margin and also produced a record volume of raw steel. These outcomes were achieved in a domestic market that was driven by the mining and energy sector, with solid non-residential and engineering construction and against a backdrop of fluid international pricing for steel and key inputs. The gearing ratio has been managed at the lower end of the target range after investing almost $310 million over 24 months on Project Magnet.

Trading conditions are in line with the company's expectations. The mining and resources segments are driving domestic activity, along with solid non-residential and engineering construction markets. These continue to offset softness in the manufacturing, automotive and residential construction and drought-affected rural segments. International prices for steel and key inputs such as scrap and hot rolled coil are expected to remain fluid and with the recent iron ore price settlement, the medium-term outlook for iron ore prices continues to be positive.

Flooding at Whyalla in late January which caused damage and disrupted operations at the Whyalla Steelworks will impact the financial and operational outcomes of the current financial year, including slowing construction of Project Magnet by approximately one week and deferring some iron ore export sales into the next financial year. Consistent with Project Magnet's iron ore sales ramp-up plan, OneSteel expects to sell four million tonnes of iron ore in the 2007/08 financial year.

Management's main priorities are unchanged, namely to further improve returns from existing core businesses, to complete Project Magnet and deliver its value, realise the benefits of the pipe and tube joint venture, and to complete and effectively integrate the Smorgon Steel New Transaction to deliver the expected level of benefits.

Geoff Plummer
Managing Director &
Chief Executive Officer
OneSteel Limited
20th February, 2007

Australian Distribution

	2006	2005	%
Revenue	939.6	923.2	1.8
EBITDA	76.4	76.4	-
EBIT	64.0	64.6	(0.9)
Assets	1,108.9	1,123.9	(1.3)
Employees	2,401	2,467	(2.7)
Sales Margin	6.8%	7.0%	
Funds Emp.	785.8	833.8	(5.8)
ROFE	16.2%	15.7%	

Market Conditions

Higher costs of product were recovered through price increases amid continued high levels of activity in the construction, mining and energy segments, as well as in the states of Western Australia, Queensland and South Australia. In contrast, market conditions were softer in New South Wales and Victoria, while drought affected the rural sector and manufacturing demand was restrained by activity moving offshore.

Performance

Price increases were successfully implemented to recover higher costs. Despatches of long products rose however pricing of hot rolled coil into pipe and tube products adversely affected competitiveness with imported product. Good progress in further reducing working capital helped to boost the return on funds employed.

Pipe and Tube results were affected by volatility in hot rolled coil pricing. Price increases were implemented to recover higher hot rolled coil costs however competitiveness with imports slipped. Despatches of oil and gas pipelines were also down.

Steel and Tube volumes were up, particularly in structural products, due to fabrication for the mining, energy and construction segments. Demand in Western Australia, Queensland and South Australia was particularly strong. Higher costs were fully recovered through price increases.

Sheet, Coil and Aluminium also recovered higher costs through price increases, however volumes were depressed as model changeovers and increased manufacturing offshore affected the automotive segment.

Metaland achieved higher despatches as well as price increases to recover higher costs. High activity in coal mining in Queensland and New South Wales helped to offset the drought-affected rural segment and increased import competition in some areas.

Piping Systems significantly improved prices and its product mix despite experiencing slightly lower volumes due to timing of mining and energy projects.

Initiatives

The business will continue to focus on improving service levels through initiatives around the supply chain, customer satisfaction programmes, the SAP platform and lifting delivery performance through service focus.

Outlook

Market conditions in the final half of the financial year are expected to be broadly similar, with demand in some regions and segments remaining at strong levels (Western Australia, mining, construction, and oil and gas segments) while others continue to have more difficult trading environments (New South Wales, Sheet & Coil and Pipe and Tube).

Australian Manufacturing

	2006	2005	%
Revenue	1,182.4	1,020.9	15.8
EBITDA	140.3	113.1	24.0
EBIT	109.1	81.5	33.9
Assets	2,029.1	1,684.4	20.5
Employees	4,098	3,786	8.2
Sales Margin	9.2%	8.0%	
Funds Emp.	1,476.1	1,195.4	23.5
ROFE	15.7%	14.2%	

Market Conditions

Continued strength in key construction segments more than offset the continued softness of the automotive, manufacturing and rural markets. Overall, prices were higher than in the previous corresponding period despite a highly competitive project market which made it challenging to lift prices in certain product lines.

Performance

Record raw steel production at the two plants and improved product mix at Whyalla Steelworks were key drivers of Manufacturing's improved results. Higher despatches and higher prices in some product lines were also supportive. The **Whyalla Steelworks** increased iron ore export volumes. Higher despatches of **Structural** products more than offset lower sales of **Rail.** Higher prices are being earned across these product lines.

The **Sydney Steel Mill** operated at record production levels.

Reinforcing revenue was lifted by higher tonnages in all regions, supported by increased Rebar sales as well as by the Connect East project in Melbourne. Prices were down slightly amid intense competition in the project market.

Rod and Bar achieved both higher sales volumes and price increases in the period under review, resulting in a solid improvement in revenue.

Wire volumes were up considerably from the previous corresponding period although prices were marginally lower.

Initiatives

Major milestones for Project Magnet are being achieved. Manufacturing costs and performance continue to be an area of focus through the Operational Excellence strategic initiative. Six Sigma tools and methodology are being used to reduce losses and minimise variation. Maintenance reliability practices are being used to reduce delays and improve plant availability.

Outlook

It is expected that the current trend will continue of growth in the domestic construction and mining markets while the automotive, manufacturing and rural markets struggle. The outlook for international long and flat product markets remains strong. Management will maintain price leadership in the face of higher material input costs and dynamic international markets. There will be considerable focus on the transition of the Whyalla Steelworks to magnetite iron ore feed in the coming months. Operational and financial outcomes in the current financial year will be affected by flooding caused by heavy rain at Whyalla in January 2007. The flooding led to a small loss in production, as well as approximately a week's delay to construction activities associated with Project Magnet and the deferral of some iron ore shipments into the 2007/08 financial year. Despite this, sales volumes are expected to increase in line with the planned ramp of Project Magnet amid continuing strong demand for iron ore.

International Distribution

	2006	2005	%
Revenue	194.8	204.4	(4.7)
EBITDA	23.3	28.3	(17.7)
EBIT	20.7	25.8	(19.8)
Assets	201.0	187.9	7.0
Employees	892	805	10.8
Sales Margin	10.6%	12.6%	
Funds Emp.	167.2	156.9	6.6
ROFE	26.4%	32.5%	

Market Conditions

As expected, the slowing economy, a strong New Zealand currency and high interest rates combined to create a volatile trading environment for the business' goods and services. The value of commercial construction was down approximately 6% from the previous corresponding period while the US$/NZ$ exchange rate moved from 0.60 in June to 0.66 in October and 0.70 by December. This caused considerable price volatility with the replacement cost of inventory and the high exchange rate adversely impacting the export and manufacturing sectors. The volume of steel sold was below that of the previous corresponding period reflecting the softer economy, however selling prices and margins were slightly higher.

Performance

Demand for the **Steel Distribution & Industrial Products** business was soft across the board compared with the same period last year. The downturn in the construction sector affected volumes of structural sections. Demand from the manufacturing and rural sectors also suffered due to the persistently high exchange rate.

Roofing Products continued to benefit from strong demand for roofing and cladding products from both the light commercial construction and new residential property sectors.

Subdued demand from the commercial construction sector however placed additional pressure on margins, affecting the performance of the **Reinforcing** operations.

The **Stainless Steel** business acquired in April 2006 has performed ahead of expectation. It is now contributing positively to the group's profit although not yet up to average group returns.

Reduction in both margins and volume from the commercial construction and rural sectors affected **Hurricane Wire Products**.

Initiatives

Last year's acquisition of the trading assets of the New Zealand Fasteners Group, a distributor of stainless steel products, will provide the platform for further growth in the stainless steel industry.

Further opportunities for growth are being explored.

Outlook

The near-term outlook for commercial construction is for continued softness before picking up towards the end of the year. The rural and manufacturing sectors however will remain under pressure for the foreseeable future. International steel prices have firmed somewhat but the strong New Zealand dollar continues to create volatility with inventory values. The overall trading conditions for the second half of the financial year will continue to be similar to that encountered in the first half, with activity expected to pick up late in calendar 2007.

FINANCIAL SUMMARY

PROFIT & LOSS SUMMARY 6 MONTHS TO 31 DECEMBER $millions	Statutory AIFRS 2006	 2005	 2004	 AGAAP 2003	 2002	 2001	Pro Forma 2000	% Chg 06/05
Revenue/Income	2,151.0	2,005.1	1,908.0	1,602.1	1,539.0	1,510.0	1,279.5	7.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)	218.0	203.5	173.7	146.9	168.2	125.6	111.6	7.1
Depreciation/Amortisation (excl goodwill)	(48.1)	(47.4)	(45.0)	(43.1)	(43.3)	(43.4)	(41.0)	1.5
Earnings before Interest and Tax (EBIT)	169.9	156.1	128.7	103.8	124.9	82.2	70.6	8.8
Finance costs	(26.3)	(29.4)	(23.9)	(20.8)	(22.9)	(30.6)	(29.6)	(10.5)
Earnings before Tax (EBT)	143.6	126.7	104.8	83.0	102.0	51.6	41.0	13.3
Tax Expense	(39.2)	(34.5)	(25.5)	(22.0)	(32.5)	(19.1)	(12.0)	13.6
Profit After Tax (PAT)	104.4	92.2	79.3	61.0	69.5	32.5	29.0	13.2
Minority interests	(6.2)	(8.1)	(9.0)	(5.2)	(4.7)	(3.6)	(2.6)	(23.5)
Profit Attributable to OneSteel (NOPAT)	98.2	84.1	70.3	55.8	64.8	28.9	26.4	16.8

CASH FLOW SUMMARY 6 MONTHS TO 31 DECEMBER $millions	AIFRS 2006	 2005	 2004	AGAAP 2003	 2002	 2001
Earnings before tax adjusted for non-cash items	141.2	126.9	103.8	75.4	102.0	50.3
Depreciation / Amortisation (excl goodwill)	48.1	47.4	45.0	43.1	43.3	43.4
Capital & investment expenditure	(177.0)	(114.9)	(63.6)	(45.0)	(26.4)	(22.1)
Working capital movements	(57.7)	(47.6)	(68.5)	(48.8)	(30.1)	(83.3)
Income tax payments	(40.8)	(33.0)	(24.2)	(13.7)	(6.1)	(9.4)
Asset sales	3.9	0.5	3.6	5.0	2.6	31.0
Other	(0.4)	1.9	0.7	6.0	(9.2)	66.6
Operating and investing cash flows	(82.7)	(18.8)	(3.2)	22.0	76.1	76.5
Dividends paid	(63.3)	(48.8)	(45.1)	(41.1)	(22.6)	(18.9)
Capital movements	17.4	8.9	8.3	9.6	5.4	66.2
Total Cash Flow	(128.6)	(58.7)	(40.0)	(9.5)	58.9	123.8

BALANCE SHEET AS AT 31 DECEMBER $millions	AIFRS 2006	 2005	 2004	AGAAP 2003	 2002	 2001
Cash	20.8	37.0	12.9	14.5	25.3	26.9
Receivables	605.3	559.0	517.4	437.8	390.6	378.5
Inventory	888.8	840.2	758.8	646.5	626.0	608.0
Property, plant and equipment	1,460.1	1,249.4	1,088.7	1,153.5	1,143.6	1,179.3
Other Assets	400.3	372.7	370.3	357.3	417.4	432.7
TOTAL ASSETS	3,375.3	3,058.3	2,748.1	2,609.6	2,602.9	2,625.4
Borrowings (including derivatives)	831.5	744.4	521.9	511.4	537.9	649.1
Creditors	588.4	503.8	601.0	455.9	419.3	403.6
Provisions	384.2	371.7	343.0	338.2	374.6	372.0
TOTAL LIABILITIES	1,804.1	1,619.9	1,465.9	1,305.5	1,331.8	1,424.7
NET ASSETS	1,571.2	1,438.4	1,282.2	1,304.1	1,271.1	1,200.7
Contributed equity	1,143.4	1,118.2	1,102.3	1,089.3	1,072.0	1,063.1
Minority interests	61.6	64.0	59.7	51.5	57.6	48.9
Retained earnings / Reserves	366.2	256.2	120.2	163.3	141.5	88.7
TOTAL EQUITY	1,571.2	1,438.4	1,282.2	1,304.1	1,271.1	1,200.7

SEGMENTS 6 MONTHS TO 31 DECEMBER ($millions)	Revenue/Income 2006	 2005	 % Chg	EBITDA 2006	 2005	 % Chg	EBIT 2006	 2005	 % Chg	Assets 2006	 2005	 % Chg
Australian Manufacturing	1,182.4	1,020.9	15.8	140.3	113.1	24.0	109.1	81.5	33.9	2,029.1	1,684.4	20.5
Australian Distribution	939.6	923.2	1.8	76.4	76.4	0.0	64.0	64.6	(0.9)	1,108.9	1,123.9	(1.3)
International Distribution	194.8	204.4	(4.7)	23.3	28.3	(17.7)	20.7	25.8	(19.8)	201.0	187.9	7.0
Corporate/Unallocated	8.8	8.3	6.0	(10.0)	(10.2)	(2.0)	(11.9)	(11.7)	1.7	93.3	100.7	(7.3)
Inter segment	(174.6)	(151.7)	15.1	(12.0)	(4.1)	192.7	(12.0)	(4.1)	192.7	(57.0)	(38.6)	47.7
TOTAL ONESTEEL GROUP	2,151.0	2,005.1	7.3	218.0	203.5	7.1	169.9	156.1	8.8	3,375.3	3,058.3	10.4

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

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

Note that the financial information presented for the years 2000 - 2003 have been adjusted to exclude goodwill amortisation from earnings.

ONESTEEL LIMITED

ABN 63 004 410 833

FINANCIAL REPORT

for the half-year ended 31 December 2006

CONTENTS

DIRECTORS' REPORT

The Board of Directors of OneSteel Limited has pleasure in submitting its report in respect of the financial half-year ended 31 December 2006.

DIRECTORS

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

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

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

PRINCIPAL ACTIVITIES

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

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

RESULTS

The consolidated profit of the OneSteel Group for the half-year was $98.2 million (2005: $84.1 million) after income tax and minority interests.

REVIEW OF OPERATIONS

Refer to the attached report on the review of operations.

EVENTS SUBSEQUENT TO BALANCE DATE

On 18 December 2006, OneSteel Limited ("OneSteel") and Smorgon Steel Group Limited ("Smorgon Steel") announced a proposal to form a joint venture of their respective structural pipe and tube businesses, subject to approval of the proposal by the Australian Competition and Consumer Commission (ACCC). On 31 January 2007 the ACCC announced that it would not intervene in the proposed joint venture. Accordingly, the joint venture is now unconditional.

On 2 February 2007, OneSteel and Smorgon Steel announced that they have adopted and will proceed to implement the "New Transaction" announced on 18 December 2006 as the means to effect the merger of the companies. As a result, the Scheme of Arrangement announced on 26 June 2006 will no longer be pursued.

The New Transaction involves OneSteel acquiring all of the assets and liabilities of Smorgon Steel except Smorgon Steel's sheet and metals distribution businesses, and assuming effectively all of Smorgon Steel's debt, in return for the issue of new OneSteel shares to Smorgon Steel, and the distribution of those OneSteel shares to Smorgon Steel shareholders.

The New Transaction is subject to approval by the Australian Competition and Consumer Commission ("ACCC") as well as other conditions, such as satisfactory tax rulings and shareholder approvals by both Smorgon Steel and OneSteel shareholders.

On 22 January 2007, OneSteel Limited announced that there had been a small loss of production after abnormal rains caused flooding to parts of the Whyalla Steelworks operation.

Heavy rains and associated flooding caused damage to rail lines, internal and external to the site, and created potential operational security risks to certain equipment within the steelworks operation.

Preliminary assessment of the financial impact to the company's earnings before interest, tax, depreciation and amortisation for the year ending 30 June 2007 is estimated to be between $15 to $30 million and includes the cost of clean up, production disruptions, restoring rail operations, the rescheduling of deliveries of steel products and the deferral of iron ore shipments from this financial year.

In terms of Project Magnet, no damage was caused to plant and equipment, however there has been a slight delay of approximately one week to construction activity.

There have been no other circumstances arising since 31 December 2006 that have significantly affected or may significantly affect:

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

ROUNDING OF AMOUNTS

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

AUDITOR INDEPENDENCE

In relation to the review of the financial report for the half-year ended 31 December 2005, the auditors have issued the directors with an independence declaration. Refer page 5 for the specific representation.

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

Peter Smedley	Geoff Plummer
Chairman	Managing Director

Sydney
20 February 2007

ERNST & YOUNG

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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF ONESTEEL LIMITED

In relation to our review of the financial report of OneSteel Limited for the six months ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Michael J Wright
Partner
20 February 2007

INCOME STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006	Note	CONSOLIDATED 2006 $m	2005 $m
Sales revenue	3	2,134.3	1,988.8
Cost of sales		(1,665.5)	(1,556.5)
Gross profit		468.8	432.3
Other revenue	3	13.9	14.1
Other income	3	2.8	2.2
Operating expenses		(315.7)	(293.0)
Finance costs		(26.3)	(29.4)
Share of net profit of investment accounted for using the equity method		0.1	0.5
Profit before income tax		143.6	126.7
Income tax expense		(39.2)	(34.5)
Profit after tax		104.4	92.2
Profit attributable to minority interests		(6.2)	(8.1)
Profit attributable to members of the parent		**98.2**	**84.1**
Basic earnings per share (cents per share)		17.29	14.97
Diluted earnings per share (cents per share)		17.18	14.88

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

BALANCE SHEET

AS AT 31 DECEMBER 2006		CONSOLIDATED	
	Note	December 2006 $m	June 2006 $m
ASSETS			
Current Assets			
Cash and cash equivalents		20.8	19.6
Receivables		605.3	635.4
Derivative financial instruments		1.1	3.2
Inventories		888.8	758.9
Other		19.0	9.8
Total Current Assets		1,535.0	1,426.9
Non-current Assets			
Investment accounted for using the equity method		7.3	7.3
Derivative financial instruments		6.6	4.2
Other financial assets		6.2	7.1
Property, plant and equipment		1,460.1	1,339.7
Mine development expenditures		67.0	60.2
Intangibles		218.2	220.2
Deferred tax assets		74.6	72.9
Other		0.3	0.3
Total Non-current Assets		1,840.3	1,711.9
TOTAL ASSETS		3,375.3	3,138.8
LIABILITIES			
Current Liabilities			
Payables		586.9	545.4
Interest-bearing liabilities		52.9	60.1
Derivative financial instruments		1.5	-
Tax liabilities		24.7	27.5
Provisions		166.5	160.5
Total Current Liabilities		832.5	793.5
Non-current Liabilities			
Derivative financial instruments		57.6	53.6
Interest-bearing liabilities		721.0	598.3
Deferred tax liabilities		146.8	143.5
Provisions		32.9	35.0
Retirement benefit obligations		13.3	13.3
Total Non-current Liabilities		971.6	843.7
TOTAL LIABILITIES		1,804.1	1,637.2
NET ASSETS		**1,571.2**	**1,501.6**
EQUITY			
Contributed equity	5	1,143.4	1,126.2
Retained earnings		357.2	316.1
Reserves		9.0	2.6
Parent interests		1,509.6	1,444.9
Minority interests		61.6	56.7
TOTAL EQUITY		**1,571.2**	**1,501.6**

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

CONDENSED CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006	CONSOLIDATED	
	2006 $m	2005 $m
	Inflows/(Outflows)	
Cash flows from operating activities		
Receipts from customers	2,179.6	2,086.4
Payments to suppliers and employees	(2,023.7)	(1,932.1)
Interest received	1.1	1.2
Interest and other costs of finance paid	(25.4)	(28.8)
Operating cash flows before income tax	131.6	126.7
Income taxes paid	(40.8)	(33.0)
Net operating cash flows	90.8	93.7
Cash flows from investing activities		
Payments for property, plant and equipment, mine development expenditure and finite-life intangibles	(174.9)	(110.9)
Proceeds from sale of property, plant and equipment	3.9	0.5
Proceeds from repayment of preference shares by jointly controlled entity	-	0.3
Net (advances)/repayment of loan (to)/by non-related parties	(0.4)	1.6
Purchase of businesses	(2.1)	(4.0)
Net investing cash flows	(173.5)	(112.5)
Cash flows from financing activities		
Purchase of shares under equity-based compensation plans	-	(2.4)
Proceeds from issue of shares and options	-	0.4
Net proceeds from borrowings	140.0	50.4
Repayment of finance lease principal	(10.2)	(9.7)
Dividends paid	(45.9)	(37.9)
Net financing cash flows	83.9	0.8
Net increase/(decrease) in cash and cash equivalents	**1.2**	**(18.0)**
Cash and cash equivalents at the beginning of the half-year	19.6	55.0
Cash and cash equivalents at the end of the half-year	**20.8**	**37.0**

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

STATEMENT OF CHANGES IN EQUITY

HALF-YEAR ENDED 31 DECEMBER 2006

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT								TOTAL PARENT INTERESTS	MINORITY INTERESTS	TOTAL EQUITY
	Issued Capital	Employee compensation shares	**Total contributed equity**	**Retained earnings**	Share-based payments	Foreign Currency translation	Cash Flow Hedges	**Total Reserves**			
CONSOLIDATED	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
At 1 July 2006	1,134.4	(8.2)	1,126.2	316.1	2.0	(3.3)	3.9	2.6	1,444.9	56.7	1,501.6
Cash flow hedges:											
- net gains taken to equity	-	-	-	-	-	-	3.0	3.0	3.0	-	3.0
- transferred to balance sheet	-	-	-	-	-	-	(1.7)	(1.7)	(1.7)	-	(1.7)
- transferred to profit	-	-	-	-	-	-	(0.8)	(0.8)	(0.8)	-	(0.8)
Currency translation	-	-	-	-	-	4.6	-	4.6	4.6	5.0	9.6
Total income and expense for the year recognised directly in equity	-	-	-	-	-	4.6	0.5	5.1	5.1	5.0	10.1
Net profit for the half-year	-	-	-	98.2	-	-	-	-	98.2	6.2	104.4
Total income/expense for the period	-	-	-	98.2	-	4.6	0.5	5.1	103.3	11.2	114.5
Share-based payments	-	(0.2)	(0.2)	(0.2)	1.3	-	-	1.3	0.9	-	0.9
Dividends paid	-	-	-	(56.9)	-	-	-	-	(56.9)	(6.3)	(63.2)
Shares issued under dividend reinvestment plan	17.4	-	17.4	-	-	-	-	-	17.4	-	17.4
Shares issued on exercise of options	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2006	1,151.8	(8.4)	**1,143.4**	**357.2**	3.3	1.3	4.4	**9.0**	**1,509.6**	**61.6**	**1,571.2**

HALF-YEAR ENDED 31 DECEMBER 2005

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT								TOTAL PARENT INTERESTS	MINORITY INTERESTS	TOTAL EQUITY
	Issued Capital	Employee compensation shares	**Total contributed equity**	**Retained earnings**	Share-based payments	Foreign Currency translation	Cash Flow Hedges	**Total Reserves**			
CONSOLIDATED	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
At 1 July 2005	1,115.0	(7.1)	1,107.9	214.2	1.4	3.0	-	4.4	1,326.5	61.8	1,388.3
Adoption of AASB 139	-	-	-	(3.6)	-	-	(1.7)	(1.7)	(5.3)	-	(5.3)
Cash flow hedges:											
- net gains taken to equity	-	-	-	-	-	-	0.7	0.7	0.7	-	0.7
Currency translation	-	-	-	-	-	0.9	-	0.9	0.9	0.6	1.5
Total income and expense for the year recognised directly in equity	-	-	-	(3.6)	-	0.9	(1.0)	(0.1)	(3.7)	0.6	(3.1)
Net profit for the half-year	-	-	-	84.1	-	-	-	-	84.1	8.1	92.2
Total income/expense for the period	-	-	-	80.5	-	0.9	(1.0)	(0.1)	80.4	8.7	89.1
Share-based payments	-	-	-	-	0.9	-	-	0.9	0.9	-	0.9
Dividends paid	-	-	-	(42.3)	-	-	-	-	(42.3)	(6.5)	(48.8)
Shares issued under dividend reinvestment plan	10.9	-	10.9	-	-	-	-	-	10.9	-	10.9
Shares issued on exercise of options	0.4	-	0.4	-	-	-	-	-	0.4	-	0.4
Vested shares	-	1.4	1.4	-	(1.4)	-	-	(1.4)	-	-	-
Purchase of shares for equity-based compensation	-	(2.4)	(2.4)	-	-	-	-	-	(2.4)	-	(2.4)
At 31 December 2005	**1,126.3**	**(8.1)**	**1,118.2**	**252.4**	**0.9**	**3.9**	**(1.0)**	**3.8**	**1,374.4**	**64.0**	**1,438.4**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This general purpose financial report for the interim half year reporting period ended 31 December 2006 has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by OneSteel Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

This interim financial report of OneSteel Limited for the half year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 20 February 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

2. SEGMENT INFORMATION

	AUSTRALIA					INTERNATIONAL		CONSOLIDATED
HALF-YEAR ENDED 31 DECEMBER 2006	**Manufacturing $m**	**Distribution $m**	**Unallocated $m**	**Eliminations $m**	**Total $m**	**Distribution $m**	**Eliminations $m**	**$m**
Segment revenues								
Revenues from customers outside the consolidated entity	1,014.1	925.7	-	-	1,939.8	194.5	-	2,134.3
Inter-segment revenues	159.0	9.0	6.6	(147.9)	26.7	-	(26.7)	-
Other revenue/income	9.3	4.9	2.2	-	16.4	0.3	-	16.7
Total income	1,182.4	939.6	8.8	(147.9)	1,982.9	194.8	(26.7)	2,151.0
Share of net profit of investment accounted for using the equity method	-	-	0.1	-	0.1	-	-	0.1
Earnings before interest, tax depreciation and amortisation	140.3	76.4	(10.0)	(5.0)	201.7	23.3	(7.0)	218.0
Depreciation and amortisation	(31.2)	(12.4)	(1.9)	-	(45.5)	(2.6)	-	(48.1)
Earnings before interest and tax	109.1	64.0	(11.9)	(5.0)	156.2	20.7	(7.0)	169.9
Finance costs								(26.3)
Income tax expense								(39.2)
Profit after tax before minority interests								104.4
Segment assets	1,986.6	1,095.3	70.8	(52.6)	3,100.1	197.7	(4.4)	3,293.4
Investment accounted for using the equity method	-	-	7.3	-	7.3	-	-	7.3
Tax assets								74.6
Consolidated assets								3,375.3
Segment liabilities	415.3	277.0	908.7	(48.6)	1,552.4	80.2	-	1,632.6
Tax liabilities								171.5
Consolidated liabilities								1,804.1
Non-current assets acquired	151.8	9.0	4.0	-	164.8	3.8	-	168.6

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

2. SEGMENT INFORMATION (CONTINUED)

HALF-YEAR ENDED 31 DECEMBER 2005	AUSTRALIA Manufacturing $m	Distribution $m	Unallocated $m	Eliminations $m	Total $m	INTERNATIONAL Distribution $m	Eliminations $m	CONSOLIDATED $m
Segment revenues								
Revenues from customers outside the consolidated entity	877.4	907.2	-	-	1,784.6	204.2	-	1,988.8
Inter-segment revenues	135.1	9.5	7.1	(128.1)	23.6	-	(23.6)	-
Other revenue/income	8.4	6.5	1.2	-	16.1	0.2		16.3
Total income	1,020.9	923.2	8.3	(128.1)	1,824.3	204.4	(23.6)	2,005.1
Share of net profit of investment accounted for using the equity method	-	-	0.5	-	0.5	-	-	0.5
Earnings before interest, tax depreciation and amortisation	113.1	76.4	(10.2)	2.7	182.0	28.3	(6.8)	203.5
Depreciation and amortisation	(31.6)	(11.8)	(1.5)	-	(44.9)	(2.5)	-	(47.4)
Earnings before interest and tax	81.5	64.6	(11.7)	2.7	137.1	25.8	(6.8)	156.1
Finance costs								(29.4)
Income tax expense								(34.5)
Profit after tax before minority interests								92.2
Segment assets	1,652.1	1,110.2	81.1	(35.2)	2,808.2	184.8	(3.2)	2,989.8
Investment accounted for using the equity method	-	-	7.5	-	7.5	-	-	7.5
Tax assets								61.0
Consolidated assets								3,058.3
Segment liabilities	371.3	230.2	822.6	(30.8)	1,393.3	61.7	(2.9)	1,452.1
Tax liabilities								167.8
Consolidated liabilities								1,619.9
Non-current assets acquired	99.7	7.3	2.6	-	109.6	5.3	-	114.9

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

3. PROFIT AND LOSS ITEMS

Profit before income tax is after crediting the following items:

	HALF-YEAR	
	2006 $m	**2005 $m**
(a) Sales revenue		
Product Sales	2,131.3	1,987.8
Rendering of services	3.0	1.0
Total sales revenue	2,134.3	1,988.8
(b) Other revenue		
Interest income	1.1	1.2
Other	12.8	12.9
Total other revenue	13.9	14.1
TOTAL REVENUE	2,148.2	2,002.9
(c) Other income		
Net gains on disposal of property, plant and equipment	2.8	0.2
Net foreign exchange gains	-	2.0
Total other income	2.8	2.2
TOTAL INCOME	2,151.0	2,005.1
(d) Included in the cost of sales and operating expenses are the following items:		
Depreciation of property, plant and equipment	42.1	42.7
Amortisation of mine development expenditures	0.9	0.3
Amortisation of finite-life intangibles	5.1	4.4
Share-based payment expense	1.2	0.9

4. DIVIDENDS

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

Dividends paid during the half-year	**On ordinary shares $m**	**Dividend per ordinary share cents**
December 2006		
Final fully franked dividend for 2006 paid 19 October 2006	56.9	10.0
December 2005		
Final fully franked dividend for 2005 paid 20 October 2005	42.3	7.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

4. DIVIDENDS (CONTINUED)

Dividends not recognised at the end of the half-year

In addition to the above dividends, since the half-year end, the directors have recommended the payment of a interim dividend of 8 cents per fully paid ordinary share (2006: 7.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 19 April 2007 but not recognised as a liability at year end is $45.9m (2006: $39.7m).

5. CONTRIBUTED EQUITY

	December 2006 $m	June 2006 $m
Issued capital (a)	1,151.8	1,134.4
Employee Compensation Shares (b)	(8.4)	(8.2)
Total contributed equity	1,143.4	1,126.2
(a) Share Capital		
Number of ordinary shares: 573,416,481 (June 2006: 569,252,175)		
Issued and paid-up	1,151.8	1,134.4
(b) Employee compensation shares		
Number of ordinary shares: 3,056,520 (June 2006: 3,042,907)		
Shares held in Trust under equity-based compensation arrangements	(8.4)	(8.2)

	Number of ordinary shares	Value of ordinary shares $m
Movements in issued capital for the period		
On issue at the beginning of the half-year	569,252,175	1,134.4
Issued during the half-year:		
From the exercise of options	35,725	-
Under a Dividend Reinvestment Plan	4,128,581	17.4
On issue at the end of the half-year	573,416,481	1,151.8
Movements in employee compensation shares for the period		
Held in Trust at the beginning of the half-year	(3,042,907)	(8.2)
Transfers	(13,613)	(0.2)
Held in Trust at the end of the half-year	(3,056,520)	(8.4)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

6. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent Liabilities

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

	December 2006 $m	June 2006 $m
Guarantees and indemnities		
Bank guarantees covering:		
Workers' compensation self insurance licences (i)	33.8	35.8
Performance of contracts	7.1	18.8

(i) In Australia, OneSteel Limited has given guarantees to various state workers' compensation authorities as a pre-requisite for self-insurance. Of this amount, a total of $20.6m (June 2006: $21.6m) has been provided for in the consolidated financial statements as recommended by independent actuarial advice.

Third party claims:

OneSteel has a contract dispute with United Group Infrastructure Pty Limited ("United") over payment for the work undertaken in the reline of the Whyalla blast furnace. This dispute has not been resolved and OneSteel is vigorously defending legal action commenced by United for payment of its claims. The outcome of the litigation is not expected to have a material impact on OneSteel's financial statements.

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

(b) Contingent Assets

Insurance claims for property damage and business interruption losses arising from disruptions to blast furnace operations at Whyalla in 2005 have been provided to the Company's insurers. The insurers have agreed to indemnify OneSteel for losses covered under the relevant insurance policies and a progress payment of $5m was made in the prior year. The insurers are continuing to assess OneSteel's losses and additional payments are likely. However, further proceeds from these claims will not be booked in the financial statements until the likely proceeds can be reliably estimated.

7. EVENTS SUBSEQUENT TO BALANCE DATE

On 18 December 2006, OneSteel Limited ("OneSteel") and Smorgon Steel Group Limited ("Smorgon Steel") announced a proposal to form a joint venture of their respective structural pipe and tube businesses, subject to approval of the proposal by the Australian Competition and Consumer Commission (ACCC). On 31 January 2007 the ACCC announced that it would not intervene in the proposed joint venture. Accordingly, the joint venture is now unconditional.

On 2 February 2007, OneSteel and Smorgon Steel announced that they have adopted and will proceed to implement the "New Transaction" announced on 18 December 2006 as the means to effect the merger of the companies. As a result, the Scheme of Arrangement announced on 26 June 2006 will no longer be pursued.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

7. EVENTS SUBSEQUENT TO BALANCE DATE (CONTINUED)

The New Transaction involves OneSteel acquiring all of the assets and liabilities of Smorgon Steel except Smorgon Steel's sheet and metals distribution businesses, and assuming effectively all of Smorgon Steel's debt, in return for the issue of new OneSteel shares to Smorgon Steel, and the distribution of those OneSteel shares to Smorgon Steel shareholders.

The New Transaction is subject to approval by the Australian Competition and Consumer Commission ("ACCC") as well as other conditions, such as satisfactory tax rulings and shareholder approvals by both Smorgon Steel and OneSteel shareholders.

On 22 January 2007, OneSteel Limited announced that there had been a small loss of production after abnormal rains caused flooding to parts of the Whyalla Steelworks operation.

Heavy rains and associated flooding caused damage to rail lines, internal and external to the site, and created potential operational security risks to certain equipment within the steelworks operation.

Preliminary assessment of the financial impact to the company's earnings before interest, tax, depreciation and amortisation for the year ending 30 June 2007 is estimated to be between $15 to $30 million and includes the cost of clean up, production disruptions, restoring rail operations, the rescheduling of deliveries of steel products and the deferral of iron ore shipments from this financial year.

In terms of Project Magnet, no damage was caused to plant and equipment, however there has been a slight delay of approximately one week to construction activity.

There have been no other circumstances arising since 31 December 2006 that have significantly affected or may significantly affect:

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

DIRECTORS' DECLARATION

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

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and

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

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

Signed in accordance with a resolution of the directors.

Peter Smedley Chairman	Geoff Plummer Managing Director

Sydney
20 February 2007

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INDEPENDENT AUDITOR'S REVIEW REPORT

To members of OneSteel Limited

Scope

We have reviewed the accompanying 31 December 2006 financial report of OneSteel Limited and the entities it controlled during the six months, which comprises the balance sheet as at 31 December, and the income statement, statement of changes in equity and condensed cash flow statement for the six months ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the 31 December 2006 Financial Report

The directors of the company are responsible for the preparation and fair presentation of the 31 December 2006 financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the 31 December 2006 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 a conclusion on the 31 December 2006 financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the six months ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory financial reporting requirements in Australia. As the auditor of OneSteel Limited and the entities it controlled during the six months to 31 December 2006, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a six month financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of OneSteel Limited and the entities it controlled during the six months ended 31 December 2006, is not in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the six months ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Michael J Wright
Partner
Sydney
20 February 2007

CORPORATE DIRECTORY

DIRECTORS
Peter J Smedley
Chairman

Geoffrey J Plummer
Managing Director

R Bryan Davis

Eileen J Doyle

Colin R Galbraith

Peter G Nankervis

Dean A Pritchard

Neville J Roach

COMPANY SECRETARY
John M Krenich

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AUDITORS
Ernst & Young

STOCK EXCHANGE LISTING
OneSteel Limited shares are quoted on the Australian Stock Exchange.