BLUESCOPE STEEL

TRANSFORMING OUR BUSINESS

BLUESCOPE STEEL LIMITED

CONCISE FINANCIAL REPORT 2005/06
PART 2 OF 2

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DIRECTORS' REPORT

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

The directors of BlueScope Steel Limited ("BlueScope Steel") present their report on the consolidated entity ("BlueScope Steel Group") consisting of BlueScope Steel and its controlled entities for the financial year ended 30 June 2006.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the BlueScope Steel Group, based primarily in Australia, New Zealand, North America, China and elsewhere in Asia, were:

a) Manufacture and distribution of flat steel products;

b) Manufacture and distribution of metallic coated and painted steel products;

c) Manufacture and distribution of steel building products; and

d) Design and manufacture of pre-engineered steel buildings and building solutions.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant events occurred during the year:

a) The Company is progressing a range of growth initiatives aimed at expanding the manufacture and distribution of metallic coated and painted steel products. The status of these projects is:

Commenced operation

- Thailand: the second metallic coating line (capacity: 200,000 tonnes per annum) at the Map Ta Phut plant commenced operation in November 2005;
- Vietnam: the new metallic coating facility (capacity: 125,000 tonnes per annum) and painting facility (capacity: 50,000 tonnes per annum) commenced operation in November 2005;
- China: the new painting facility (capacity: 150,000 tonnes per annum) commenced operation in January 2006. The facility is part of the Suzhou metallic coating and painting facility which is under construction;
- China: the BlueScope Steel Group's first Butler PEB/Lysaght facility commenced operation in June 2006;
- India: the new Butler PEB/Lysaght facility at Pune commenced operation in April 2006; and
- Australia: the expansion of the Hot Strip Mill (capacity increase: 2.4 to 2.8 million tonnes per annum) at the Port Kembla Steelworks commenced operation in July 2006.

Under construction

- China: the new metallic coating (capacity: 250,000 tonnes per annum) facility remains on schedule to commence metallic coating during September 2006;
- India: the new Lysaght facilities at Chennai and Bhiwadi are scheduled for completion during the last quarter of calendar year 2006; and
- Australia: the new painting facility (capacity: 120,000 tonnes per annum) in western Sydney is scheduled for completion mid calendar year 2007.

Projects approved during the year

- India: a new metallic coating facility (capacity: 250,000 tonnes per annum) and painting facility (capacity: 150,000 tonnes per annum). The project start up date is currently under review; and
- Indonesia: a second metallic coating (capacity: 170,000 tonnes per annum) and painting (capacity: 55,000 tonnes per annum) facility at Chilegon, which was announced during the year, has been put on hold.

The Butler PEB, Lysaght and metallic coating and painting facilities in India all form part of a 50/50 joint venture with Tata Steel which was finalised in May 2006.

b) In June 2006, as part of a range of restructuring initiatives, the Company announced its intention to close the loss-making tin mill at Port Kembla, close its operations in Taiwan and eliminate approximately 250 management and staff jobs across all operations.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 17 August 2006, BlueScope Steel announced it has acquired approximately 19.9% of the shares in Smorgon Steel. The intention of acquiring this strategic stake is to ensure that the proposed OneSteel/Smorgon Steel merger does not proceed in its current form. The total cost of this purchase was $319 million.

The Company has noted the concerns identified by the ACCC in its initial review of the proposed merger and has no intention to acquire further Smorgon Steel shares, but reserves the right to do so in different circumstances.

DIVIDENDS

BlueScope Steel paid a fully franked dividend for the year ended 30 June 2005 of 24 cents per share and a special dividend of 20 cents per share in October 2005, and a fully franked interim dividend of 20 cents per share in April 2006 to its shareholders.

On 21 August 2006, it was announced that the Directors determined to pay a final fully franked dividend of 24 cents per share, which is to be paid to shareholders on 24 October 2006 (record date 4 October 2006).

REVIEW AND RESULTS OF OPERATIONS

The BlueScope Steel Group comprises six business reporting segments: Hot Rolled Products Australia, Coated and Building Products Australia, New Zealand and Pacific Steel Products, Coated and Building Products Asia, Hot Rolled Products North America and Coated and Building Products North America.

The Hot Rolled Products Australia and North America segments were previously reported as a single segment. A description of the operations comprising these segments is provided in Note 5 to the Annual Financial Report.

	SEGMENT REVENUES 2006 $M	SEGMENT REVENUES 2005 $M	SEGMENT RESULTS 2006 $M	SEGMENT RESULTS 2005 $M
Sales revenue				
Hot Rolled Products Australia	3,471.9	3,731.2	456.4	1,149.3
Coated and Building Products Australia	3,064.4	3,190.3	(198.1)	(182.7)
New Zealand and Pacific Steel Products	708.9	745.4	104.6	189.3
Coated and Building Products Asia	1,075.0	1,024.0	(0.8)	82.6
Hot Rolled Products North America	500.4	376.6	187.6	199.4
Coated and Building Products North America	1,213.2	1,134.4	27.1	(18.0)
Corporate and Group	420.4	364.1	(77.5)	(53.2)
Inter-segment eliminations	(2,441.6)	(2,625.3)	56.4	(9.1)
Other revenue	18.9	24.6		
Operating revenue/EBIT	8,031.5	7,965.3	555.7	1,357.6
Net unallocated expenses			(87.1)	(41.3)
Profit from ordinary activities before income tax			468.6	1,316.3
Income tax expense			(125.8)	(334.3)
Profit from ordinary activities after income tax expense			342.8	982.0
Net profit attributable to outside equity interest			(5.2)	(0.1)
Net profit attributable to members of BlueScope Steel			337.6	981.9
Earnings per share (cents)			47.9	134.0

The Company's revenue increased $66.2 million to $8,031.5 million, primarily through record production volumes at the Port Kembla Steelworks, higher Australian domestic prices, the commencement of new facilities in Vietnam and Thailand, and sales growth in Coated and Building Products North America. These were largely offset by lower international steel prices and lower Australian domestic demand in the pipe and tube, packaging manufacturing and distribution markets.

Net profit after tax decreased $644.3 million from last year's record, to $337.6 million.

This reduction included a net $80 million of unusual and one-off items associated with asset impairments (Packaging Products), restructuring costs (staff and other internal restructuring), business development and pre-operating costs mainly associated with growth activities in Asia, major operating disruptions (Western Port fire in 2005 and industrial disputes in 2005) and losses from business to be closed (Packaging Products and Lysaght Taiwan).

The underlying operational results were $564 million lower, mainly due to lower international steel prices, together with higher iron ore, coal and coating metal costs.

Hot Rolled Products Australia

The earnings contribution from the Hot Rolled Products segment decreased significantly, primarily as a result of lower export and inter-segment prices for Coated and Building Products Australia, combined with higher iron ore and coking coal costs.

These were partly offset by record production volumes and lower average unit costs.

New Zealand and Pacific Steel Products

The earnings contribution from the New Zealand and Pacific Steel Products segment decreased primarily as a result of softer residential market conditions, lower export prices and higher electricity costs arising from a prolonged dry period and power station maintenance outages.

Coated and Building Products Australia

The earnings contribution from the Coated and Building Products Australia segment was marginally lower than the previous year's loss. However, the company has taken steps to improve performance by announcing it intends to close its loss-making tin mill operations. The current year results include operating losses from this business unit, together with impairment write-downs and closure provisions. Underlying operational EBIT improved as a result of higher domestic prices, lower steel feed costs from Hot Rolled Products Australia and earnings from the Lysaght and BlueScope Water businesses. These were partly offset by significantly higher zinc and aluminium costs, lower export prices and lower domestic demand.

Coated and Building Products Asia

The earnings contribution from the Coated and Building Products Asia segment was significantly lower primarily due to construction contract losses and closure costs in Taiwan, higher unit costs mainly as a result of commissioning and ramp-up of production volumes at the new Vietnam and Thailand coating lines, higher zinc and aluminium costs, and lower prices. These were partly offset by lower steel feed costs.

Hot Rolled Products North America

The earnings contribution from the Hot Rolled Products North America segment was lower, primarily due to hot rolled coil prices in North America declining more than the cost of scrap feed at North Star BlueScope Steel.

Coated and Building Products North America

The earnings contribution from the Coated and Building Products North America segment improved significantly, primarily due to improved volumes, gross margins and business improvement initiatives undertaken since the business was acquired in April 2004.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company's long-term view of the global steel industry remains positive. In the short-term, high raw material costs will continue to put pressure on margins. However, the Company has taken decisive actions to reduce costs and close poorly performing businesses to ensure the Company meets its longer-term corporate and financial targets.

BOARD COMPOSITION

The following were Directors for the full financial year: Graham John Kraehe AO (Chairman), Ronald John McNeilly (Deputy Chairman), Kirby Clarke Adams (Managing Director and Chief Executive Officer), Diane Jennifer Grady, Harry Kevin (Kevin) McCann AM, Paul John Rizzo and Tan Yam Pin.

Particulars of the skills, experience, expertise and special responsibilities of the Directors are set out on pages 72 to 73 under Information on Directors and form part of this report.

COMPANY SECRETARIES

Michael Barron Chief Legal Officer and Company Secretary, BEc, LLB, ACIS
Michael Barron is responsible for the legal affairs of BlueScope Steel and for Company secretarial matters.

Lisa Nicholson BSc, LLB, ACIS
Lisa Nicholson is the Assistant Company Secretary with BlueScope Steel.

Laurence Mandie BSc (Hons), LLB (Hons)
Laurence Mandie is a corporate counsel with BlueScope Steel.

PARTICULARS OF DIRECTORS' INTERESTS IN SHARES AND OPTIONS OF BLUESCOPE STEEL LIMITED

Director	Ordinary shares	Share rights
G J Kraehe	125,004	0
K C Adams*	2,346,381	618,400
D J Grady	50,685	0
H K McCann	31,185	0
R J McNeilly	541,887	0
P Rizzo	32,024	0
Y P Tan	24,017	0

* Mr Adams' current holding of BlueScope Steel Limited shares includes 1,175,500 arising from the BlueScope Steel Long Term Incentive Plan. The remaining shares have been acquired with his own funds.

MEETINGS OF DIRECTORS

The attendance of the current Directors at Board and Board Committee meetings from 1 July 2005 to 30 June 2006 is as follows:

	BOARD MEETINGS		COMMITTEE MEETINGS							
			Audit and Risk Committee		Remuneration and Organisation Committee		Health, Safety and Environment Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
G J Kraehe	13	13	5	4[1]	6	6	4	4	3	3
K C Adams	13	13	5	5[2]	6	5[2]	4	4	–	–
D J Grady	13	12	–	–	6	6	4	4	3	3
H K McCann	13	11	5	4	–	–	4	4	3	3
R J McNeilly	13	13	5	5	6	6	4	4	3	3
P Rizzo	13	13	5	5	–	–	4	4	3	3
Y P Tan	13	11	–	–	6	5	4	4	3	3

All Directors have held office for the entire 2005/06 financial year.

A = number of meetings held during the period 1 July 2005 to 30 June 2006 during the time the Director was a member of the Board or the Board Committee as the case may be.
B = number of meetings attended by the Director from 1 July 2005 to 30 June 2006 while the Director was a member of the Board or the Board Committee as the case may be.

1. The Chairman of the Board attends as part of his duties as Chairman.
2. The Chief Executive Officer attends by invitation as required.

There were a number of unscheduled meetings held during the year. They are as follows:
Board meetings: 5
Remuneration and Organisation Committee meetings: 2

The Non-Executive Directors met twice during the 2005/06 financial year without the presence of management.

REMUNERATION REPORT

1. POLICY AND STRUCTURE

1.1 BOARD POLICY SETTING

The Board oversees the BlueScope Steel Human Resources strategy, both directly and through the Remuneration and Organisation Committee of the Board. The purpose of the Committee as set out in its charter is "… to assist the Board to ensure that the Company:

- Has a human resources strategy aligned to the overall business strategy, which supports 'Our Bond';
- Has coherent remuneration policies that are observed and that enable it to attract and retain executives and Directors who will create value for shareholders;
- Fairly and responsibly rewards executives having regard to the performance of the Company, the creation of value for shareholders, the performance of the executive and the external remuneration environment; and
- Plans and implements the development and succession of executive management."

As part of its charter the Committee considers remuneration strategy, policies and practices applicable to Non-Executive Directors, the Managing Director and Chief Executive Officer, senior managers and employees generally.

Input to the Committee's operations is sought from the Managing Director and Chief Executive Officer and the Executive Vice President People and Performance, who both may attend Committee meetings by invitation. In addition, advice is received from independent expert advisers in a number of areas including:

- Remuneration benchmarking
- Short-term incentives
- Long-term incentives
- Contract terms

Remuneration consultants who provided advice to the Board during the year ended 30 June 2006 are set out below:

- Hay Group Pty Limited – data only
- John Egan – Directors and Senior Executive remuneration advice
- PricewaterhouseCoopers – Executive remuneration data/advice

The Board recognises that the Company operates in a highly competitive global environment and that the performance of the Company depends on the quality of its people.

The Company's approach to remuneration for Non-Executive Directors and employees, with particular reference to salaried employees and senior managers is set out below.

1.2 Non-Executive Directors' Remuneration

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually. The Board seeks the advice of an expert external remuneration consultant to ensure that fees and payments to Non-Executive Directors, the Chairman of the Board and the Chairman of Committees of the Board reflect their duties and are in line with the market. The Chairman and the Deputy Chairman of the Board are not present at any discussions relating to the determination of their own remuneration.

Non-Executive Directors do not receive share rights or other performance-based rewards. Non-Executive Directors are expected to accumulate over time a shareholding in the Company at least equivalent in value to their annual remuneration. Non-Executive Directors are required to salary sacrifice a minimum of 10% of their remuneration each year and be provided with BlueScope Steel shares (instead of cash fees), which are acquired on-market in the approved policy windows. Shareholders approved this arrangement at the 2003 Annual General Meeting, and Non-Executive Directors commenced participation in this arrangement in January 2004.

The current annual base fees for Non-Executive Directors are as follows:

- Chairman – $450,000
- Deputy Chairman – $235,000
- Directors – $150,000

The remuneration of the Chairman and Deputy Chairman is inclusive of Board Committee fees. Other Non-Executive Directors who chair a Board Committee receive additional yearly fees and members of the Audit and Risk Committee also receive an additional yearly fee on the basis of advice from the remuneration consultant. The current annual Committee Chair fees are as follows:

- Remuneration and Organisation Committee – $20,000
- Audit and Risk Committee – $30,000
- Health, Safety, Environment and Community Committee – $15,000 (currently chaired by the Deputy Chairman of the Board so no fee is paid).

Members of the Audit and Risk Committee (other than the Deputy Chairman of the Board and the Chairman of the Committee) receive a fee of $15,000 per annum.

Mr Tan (a resident of Singapore) receives a travel and representation allowance recognising his involvement in representing the Board in activities with BlueScope Steel's Asian business and the significant travel requirement imposed in respect of his attendance at meetings. This allowance is currently $20,000 per annum.

Non-Executive Directors' fees are determined within an aggregate Directors' fees pool limit, which is approved by shareholders. The maximum fee pool limit is $2,250,000 per annum (inclusive of superannuation) as approved by shareholders at the Annual General Meeting in 2005.

Compulsory superannuation contributions capped at $12,686 are paid on behalf of each Director. Non-Executive Directors do not receive any other retirement benefits.

Non-Executive Directors' fees and payments were reviewed in January 2006 and these arrangements will be next reviewed by an independent expert in January 2007.

1.3 SALARIED EMPLOYEES

1.3.1 Principles

BlueScope Steel has approximately 9,300 salaried employees. Other employees are covered by Collective Agreements or statutory instruments in the countries in which BlueScope Steel operates.

BlueScope Steel's remuneration and reward practices aim to attract, motivate and retain talent of the highest calibre and support "Our Bond" by creating distinguishable differences in remuneration, consistent with performance.

The Company's salaried remuneration framework is designed to:

- Make a clear link between rewarding employees and the creation of value for the shareholders and the business.
- Recognise and reward individual performance and accountability for key job goals.
- Provide distinguishable remuneration differences between levels.
- Maintain a competitive remuneration level relative to the markets in which the Company operates.

The framework is built on an appropriate mix of base salary/pay (including work and expense related allowances), variable pay/short-term incentives and long-term equity participation opportunities.

1.3.2 Base Salary/Pay

Base salary/pay is determined by reference to the scope and nature of an individual's role, performance, experience, work requirements and market data.

Market data is obtained from external sources to establish appropriate guidelines for positions, with the goal to pay slightly above median.

1.3.3 Variable Pay and Short Term Incentives

Most employees have access to a variable/at risk component of remuneration in the form of a performance related pay, or other variable pay schemes in which reward is at risk. All senior managers and many salaried employees participate in a formal Short Term Incentive Plan (STI).

The STI is an annual "at risk" cash bonus scheme which is structured to deliver total remuneration in the upper quartile for the respective market group when stretch performance is attained. STI awards are not an entitlement but rather the reward for overall company results and the individual or team contribution to performance. The scheme is applied at the discretion of the Board which has established rules and protocols to ensure that STI payments are aligned with the organisation and individual performance outcomes. Target STI levels are set having regard to appropriate levels in the market and range from 10% of base salary through to 100% at CEO level. These levels are reviewed annually. For outstanding results, participants may receive a further 50% of their target bonus amount.

Goals are established for each participant under the following categories which are drawn from the "Our Bond" charter. Each year objectives are selected to focus on key areas which underpin the achievement of outstanding performance including:

- Shareholder Value Delivery – financial performance measures are used including Net Profit After Tax, Cash Flow, and Earnings Before Interest and Tax. Company-wide financial performance goals are predetermined by the Board with the goals for the combined individual businesses required to exceed the overall goal. A minimum of 30% of STI Plans at senior manager level (with 60% at CEO level), is based on BlueScope Steel-wide financials. For other participants, 20% of the plan is based on BlueScope Steel corporate financials.
- Zero Harm – safety and environmental performance measures, including Lost Time Injury Frequency Rates, Medical Treatment Injury Frequency Rates and environmental measures.
- Business Excellence – performance measures for the financial year ended 30 June 2006 were focused on delivery performance, days of inventory and quality measures.
- Strategy – implementation of specific longer-term strategic initiatives.

STI Plans are developed using a balanced approach to Financial/Shareholder value and key performance indicator (KPI) metrics. At the senior executive level, 60% of the STI award is based on financial/shareholder value measures with 40% based on KPI metrics. For other participants, 50% of the STI award is based on financial/shareholder value measures and 50% is based on KPI metrics.

Predetermined performance conditions including threshold, target and stretch hurdles are set for each Plan and are assessed against these conditions using quantified and verifiable measures or an assessment of value contribution. Target levels are set for particular periods having regard to the desired result for each goal. Corresponding threshold and stretch ranges are set taking into account the degree of stretch inherent in the target. The threshold is the minimum performance level for which a payment will be made for each particular goal or period. The stretch is the maximum level. Consequently, if threshold is not reached, no payment is made in respect of that goal. The Board retains the discretion to adjust any STI payments in exceptional circumstances.

1.3.4 Equity-based Opportunities

The Board gives consideration each year to the creation of opportunities for employees to participate as equity owners in the Company based on Company performance and other relevant factors. Shareholder approval is sought for any shares or share rights to be granted to the Managing Director and Chief Executive Officer.

a) Employee Share Plans

From time to time employees are invited to participate in a General Employee Share Plan.

A Plan has been offered to all employees each year since 2003. For the 2006 year, the plan has been deferred and will be offered to eligible employees in March 2007 subject to satisfactory Company performance in the half year to 31 December 2006.

The allocation of shares to employees under such schemes and the form of the offer is at the discretion of the Board and is considered (subject to Company performance) on a year by year basis.

In the 2005 financial year, in Australia, New Zealand and USA the plan provided for employees to purchase shares from their after tax pay via payroll deduction (minimum of A$100 to a maximum of A$500) and for every share purchased by the employee the Company provided two shares at no additional cost to the employee.

In countries where payroll deductions are not practicable employees were awarded 60 ordinary BlueScope Steel shares (or a reward of equal value in countries where the issue of shares is not practicable).

The aim of the Plan is, in recognition of Company performance, to assist employees to build a stake in the Company by enabling each eligible employee to acquire a parcel of shares. Employees who become shareholders have the potential to benefit from dividends paid on the shares, growth in the market value of their shares and any bonus shares or rights issues the Board of Directors may approve from time to time.

b) Long Term Incentive Plan – Approach

Consideration is also given on an annual basis to the award of share rights to senior managers under the Long Term Incentive Plan. The Long Term Incentive Plan is designed to reward senior managers for long-term value creation. It is part of the Company's overall recognition and retention strategy having regard to the long term incentives awarded to senior managers in the markets in which the Company operates.

The decision to make an award of share rights is made annually by the Board. Individual participation is determined based on the:

- Strategic significance of the role and outcomes achieved.
- Impact on strategic outcomes in terms of special achievements or requirements.
- Future potential and succession planning requirements.
- Performance and personal effectiveness in achieving outstanding results.

Participating employees in BlueScope Steel's Long Term Incentive Plan are specifically excluded from selling, assigning, charging or mortgaging their share rights. It is BlueScope Steel policy and it is stated in the terms of the awards that the share rights are personal to the employee. Accordingly employees are specifically excluded from transferring any risk or benefit from the share rights to any other party. So called "cap and collar" deals cannot be made and could not in the past be made over BlueScope Steel share rights.

Details of the award under the Plan since the demerger are set out below. In summary, the main features of the Plan are as follows:

- The awards are generally made in the form of share rights (with the exception of part of the July 2002 award as set out below). Share rights are a right to acquire an ordinary share in BlueScope Steel at a later date subject to the satisfaction of certain performance criteria.
- The vesting of share rights under the Plan requires a sustained performance over a number of years (usually three) with a hurdle based on Total Shareholder Return (TSR) relative to the TSR of the companies in the S&P/ASX 100 index at the award grant date. The hurdles have been set to underpin the creation of superior TSR in the context of the top 100 Australian companies.
- The share rights available for exercise are contingent on BlueScope Steel's ranking – TSR percentile with either a stepped vesting (2002 awards) or a sliding scale (2003, 2004 and 2005 awards) with the minimum ranking for vesting being the 51st percentile. With sliding scale vesting the total number of share rights that vest for a senior manager increase proportionally as BlueScope Steel's TSR percentile ranking increases. The sliding scale appropriately balances short and long term risk in the short and long term incentive schemes.
- Given the potential volatility of the Company's earnings and the cyclical nature of the markets in which the Company operates, provision is generally made for limited retesting on a predetermined basis.
- Any share rights which do not vest, lapse on resignation or termination for cause or at the expiry of the relevant performance period, whichever comes first.
- The Board has discretion to vest share rights in the event of a change in control. The Board has determined that any outstanding share rights can vest before the end of the performance period if a "change in control" occurs. Vesting at this time will depend upon early testing of the relevant performance hurdles at that time. A "change of control" is generally an entity acquiring unconditionally more than 50% of the issued shares of the Company.

- External valuation advice from PricewaterhouseCoopers Securities Limited has been used to determine, for accounting purposes, the value of the executive share rights at grant date for each award. The valuation has been made using the binomial option pricing model using standard option pricing inputs such as the underlying stock price, exercise price, expected dividends, expected risk-free interest rates and expected share price volatility. In addition, specific factors in relation to the likely achievement of performance hurdles have been taken into account.

  In September 2005, 228 senior and high-potential managers were invited to participate in the Long Term Incentive Plan.

c) Long Term Incentive Plan – Outline of Specific Awards

(i) July 2002 Award
All share rights have now been exercised or lapsed under this award.

(ii) September 2002 Award
This award vested on 1 October 2005. The table below details those Share Rights which have been exercised or lapsed as per the rules of the award.

Share Rights must be exercised prior to 1 October 2006, otherwise they lapse.

In April 2006 the Remuneration and Organisation Committee approved a change in the exercise date for five New Zealand executives holding a total of 158,200 Share Rights under this Plan. The exercise date was extended to 30 September 2007 which is the end of the holding lock on shares acquired under the September 2002 award.

DETAILS OF THE SEPTEMBER 2002 AWARD

	NIL PRICED SHARE RIGHTS
Grant Date	30 September 2002
Exercise Date (subject to vesting requirements)	From 1 October 2005
Expiry Date	30 September 2006
Share Rights Granted	4,751,500
Number of Participants at Grant Date	119
Number of current Participants	5
Exercise Price	Nil
Fair Value Estimate at Grant Date	$4,656,470
Share Rights Lapsed since Grant Date	375,592

(iii) September 2003 Award

VESTING REQUIREMENTS

TSR PERFORMANCE HURDLE	% OF SHARE RIGHTS THAT VEST
75th – 100th percentile	100%
51st – < 75th percentile	A minimum of 52% plus a further 2% for each increased percentage ranking. Any unvested Share Rights will be carried over to be assessed at subsequent performance periods.
< 51st percentile	All Share Rights will be carried over to be assessed at subsequent performance periods.

The TSR ranking of the September 2003 award was at the 69th percentile when compared with the comparator group on 30 June 2006. If that TSR ranking were to apply on 30 September 2006, then 88% of the share rights held by eligible participants would vest at that time.

If the performance hurdles are not, or are only partially met, on 30 September 2006, four subsequent performance periods will apply for eligible participants. The subsequent performance periods commence on 1 October 2003 and end on 31 March 2007, 30 September 2007, 31 March 2008 and 30 September 2008 respectively. Vesting at a subsequent performance period will only occur if the vesting requirements have been met and any previous percentile rankings are exceeded.

DETAILS OF THE SEPTEMBER 2003 AWARD

	NIL PRICED SHARE RIGHTS
Grant Date	24 October 2003 (All executives excluding Managing Director and Chief Executive Officer) 13 November 2003 (Managing Director and Chief Executive Officer)
Exercise Date (subject to vesting requirements)	From 1 October 2006
Expiry Date	30 September 2008
Share Rights Granted	3,183,800
Number of Participants at Grant Date	144
Number of current Participants	138
Exercise Price	Nil
Fair Value Estimate at Grant Date	$9,678,752
Share Rights Lapsed since Grant Date	207,692

(iv) September 2004 Award

VESTING REQUIREMENTS

TSR PERFORMANCE HURDLE	% OF SHARE RIGHTS THAT VEST
75th – 100th percentile	100%
51st – < 75th percentile	A minimum of 52% plus a further 2% for each increased percentage ranking. Any unvested Share Rights will be carried over to be assessed at subsequent performance periods.
< 51st percentile	All Share Rights will be carried over to be assessed at subsequent performance periods.

If the performance hurdles are not met at the end of the first performance period (or are only partially met), four subsequent performance periods will apply. The subsequent performance periods commence on 1 September 2004 and end on 29 February 2008, 31 August 2008, 28 February 2009 and 31 August 2009 respectively. Vesting at a subsequent performance period will only occur if the vesting requirements have been met and any previous percentile rankings are exceeded.

DETAILS OF THE SEPTEMBER 2004 AWARD

	NIL PRICED SHARE RIGHTS
Grant Date[1]	31 August 2004
Exercise Date (subject to vesting requirements)	From 1 September 2007
Expiry Date	31 October 2009
Share Rights Granted	2,306,400
Number of Participants at Grant Date	201
Number of current Participants	190
Exercise Price	Nil
Fair Value Estimate at Grant Date	$11,139,912
Share Rights Lapsed since Grant Date	138,789

1 The award granted on 31 August 2004 to the Managing Director and Chief Executive Officer was subject to shareholder approval at the 2004 Annual General Meeting.

v) September 2005 Award

VESTING REQUIREMENTS

TSR PERFORMANCE HURDLE	% OF SHARE RIGHTS THAT VEST
75th – 100th percentile	100%
51st – < 75th percentile	A minimum of 52% plus a further 2% for each increased percentage ranking. Any unvested Share Rights will be carried over to be assessed at subsequent performance periods.
< 51st percentile	All Share Rights will be carried over to be assessed at subsequent performance periods.

If the performance hurdles are not met at the end of the first performance period (or are only partially met), four subsequent performance periods will apply. The subsequent performance periods commence on 1 September 2005 and end on 28 February 2009, 31 August 2009, 28 February 2010 and 31 August 2010 respectively. Vesting at a subsequent performance period will only occur if the vesting requirements have been met and any previous percentile rankings are exceeded.

DETAILS OF THE SEPTEMBER 2005 AWARD

	NIL PRICED SHARE RIGHTS
Grant Date[1]	18 November 2005
Exercise Date (subject to vesting requirements)	From 1 September 2008
Expiry Date	31 October 2010
Share Rights Granted	1,938,100
Number of Participants at Grant Date	228
Number of current Participants	222
Exercise Price	Nil
Fair Value Estimate at Grant Date	$7,094,170
Share Rights Lapsed since Grant Date	69,083

1 The award granted to the Managing Director and Chief Executive Officer was subject to shareholder approval at the 2005 Annual General Meeting.

d) Special Share Rights Awards

Special Share Rights are awarded by the Board from time to time to meet specific or exceptional demands. In 2004, special share rights were awarded to two executives to facilitate the effective integration and turn around of the North America Coated and Building Products business, the effective integration of the China operations of BlueScope Butler and successful completion of Asian capital expansion. The awards have been made in the form of share rights in two tranches which are vested on the achievement of specific performance objectives determined by the Managing Director and Chief Executive Officer and the Chairman of the Board. The performance hurdles set are tested at the end of each performance period (i.e. 30 June 2005 for Tranche 1 and 30 June 2006 for Tranche 2). Performance hurdles for Tranche 1 were not met and therefore did not vest. The unvested share rights were rolled over to Tranche 2. New performance hurdles were determined for the period 1 July 2005 to 30 June 2006. The performance hurdles for Tranche 2 were tested at the end of the performance period and were met in respect of the North America Coated and Building Products business but were not met in respect of the China operations and Asian capital expansion. Accordingly, the special share rights for Mr Lance Hockridge have vested in full and those for Mr Michael Courtnall have lapsed.

e) Employee Share Purchase Plan

Facility is also made available to Australian employees only at this stage, to be provided with shares at market price through salary sacrifice arrangements. Recent changes to the Plan have removed the opportunity to salary sacrifice from regular salary and wages and restricts this opportunity to salary sacrifice from incentives and bonuses only.

Under the purchase plan, shares can be provided on a tax deferred basis and therefore sale or transfer is restricted. Shares provided under the Plan are entitled to participate in dividends.

1.3.5 Superannuation

BlueScope Steel operates superannuation funds in Australia, New Zealand and North America for its employees. In these locations there are a combination of defined benefit and accumulation type plans. The defined benefit schemes are closed to new members.

Contributions are also made to other international superannuation plans for employees outside of Australia, New Zealand and North America.

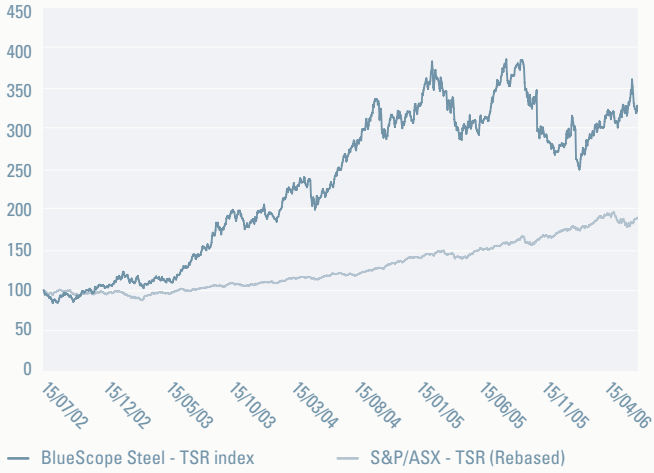
1.3.6 Other Benefits

Additionally, executives are eligible to participate in an annual health assessment program designed to safeguard the Company against loss or long-term absence for health related reasons.

2 RELATIONSHIP BETWEEN COMPANY PERFORMANCE AND REMUNERATION

The graph set out at right outlines the performance of BlueScope Steel in terms of Total Shareholder Return compared to the performance of the S&P/ASX 100 for the same period. The TSR Index for BlueScope Steel as at 30 June 2006 was 327.8 compared to 187.30 for the S&P/ASX 100.

BLUESCOPE STEEL LIMITED TOTAL SHAREHOLDER RETURN INDEX COMPARED TO S&P/ASX 100 15/7/02 TO 30/6/06 Source: ABN AMRO



An analysis of other Company performance and performance related remuneration data relating to the nominated senior corporate executives set out in Section 3 over the same period is set out in the following tables.

BLUESCOPE STEEL LIMITED PERFORMANCE ANALYSIS

Measure	30 June 2002	30 June 2003	30 June 2004	30 June 2005	30 June 2006	Change/ Increase from 30/6/02 to 30/6/06
Share Price	$2.85 [1]	$3.72	$6.74	$8.23	$7.95	
Change in Share Price $	–	$0.87	$3.02	$1.49	–$0.28	$5.10
Change in Share Price %	–	30.5	81.2	22.1	–3.4	179
Dividend Per Share:						
Ordinary (cents)	N/A	22	30	42	44	N/A
Special (cents)	N/A	7	10	20	–	N/A
Earnings Per Share (cents)	N/A	57.1	77.8	134	47.9	N/A
NPAT $ million	N/A	$452	$584	$982	$338	N/A
% movement	N/A	–	29.2	68.1	–66	N/A
EBIT $ million	$160	$611	$818	$1,388	$556	$396
% movement	–	282	34	70	–59	347
EBITDA $ million	$412	$881	$1,105	$1,696	$850	$438
% movement	–	114	25	53	–49	207

Note: Up until 30 June 2004, financial information is based on Australian Generally Accepted Accounting Principles (AGAAP). From 1 July 2004 financial information is based on Australian International Financial Reporting Standards (AIFRS).

1 Share Price as at 15 July 2002.

BLUESCOPE STEEL LIMITED PERFORMANCE RELATED REMUNERATION ANALYSIS FOR EXECUTIVE LEADERSHIP TEAM

MEASURE	YEAR ENDED 30 JUNE 2003	YEAR ENDED 30 JUNE 2004	YEAR ENDED 30 JUNE 2005	YEAR ENDED 30 JUNE 2006
Average % change in Short Term Incentive Payments	1st year	11.0	16.5	-70.1
% Change in NPAT	1st year	29.2	68.1	-65.6

The short-term incentive component of the remuneration strategy takes into account business unit financial performance and non-financial and strategic hurdles. Market consensus on future earnings is also taken into account in setting financial targets, these include forecast movements in steel prices, exchange rate and other external factors likely to impact financial performance. Short-term incentive payments for the year ended 30 June 2006 reflect the financial performance of the business.

Short-term incentive payments for the Executive Leadership Team as related to changes in NPAT are provided above to indicate the relationship between reward and the performance of the company.

In relation to long-term incentives, share price and earnings performance over the relevant performance period when measured against the companies in the S&P/ASX 100 index are the key factors impacting the value of long-term equity incentives and their likelihood of meeting the required hurdles for vesting. Company performance over the past 12 months has had an impact on the relative performance of Bluescope Steel Limited against other S&P/ASX 100 companies.

3 SPECIFIC REMUNERATION DETAILS

3.1 Key Management Personnel – Directors' Remuneration

Details of the audited remuneration for the year ended 30 June 2006 for each Non-Executive Director of BlueScope Steel is set out in the following table.

2006	Short-term employee benefits		Sub-Total $	Post-employment benefits[1] $	Total $
	Salary and Fees $	Non-monetary $			
G J Kraehe	435,000	6,144	441,144	12,139	453,283
R J McNeilly	227,500	-	227,500	12,139	239,639
D J Grady	165,000	-	165,000	12,139	177,139
H K McCann	160,000	-	160,000	12,139	172,139
P J Rizzo	185,739	-	185,739	1,401	187,140
Y P Tan	165,000	-	165,000	12,139	177,139
TOTAL	1,338,239	6,144	1,344,383	62,096	1,406,479

2005	Short-term employee benefits		Sub-Total	Post-employment benefits[1]	Total
	Salary & Fees $	Non-monetary $	$	$	$
G J Kraehe	378,115	6,678	384,793	11,585	396,378
R J McNeilly	187,423	–	187,423	11,585	199,008
D J Grady	146,038	–	146,038	11,585	157,623
H K McCann	141,038	–	141,038	11,585	152,623
P J Rizzo	167,623	–	167,623	–	167,623
Y P Tan	146,038	–	146,038	11,585	157,623
TOTAL	1,166,275	6,678	1,172,953	57,925	1,230,878

1 Post-employment benefits relate to superannuation arrangements

3.2 Key Management Personnel – Executives' (including the Managing Director and Chief Executive Officer) remuneration

The Key Management Personnel of BlueScope Steel are those members of the Executive Leadership Team who have the authority and responsibility for planning, directing and controlling the activities of the Company.

The audited information contained in the following tables represent the annual remuneration for the year ended 30 June 2006 for the Key Management Personnel.

The aggregate remuneration of the Key Management Personnel of the Company is set out below.

	COMPANY	
	2006 $	2005 $
Short-term employee benefits	6,754,470	9,589,924
Post-employment benefits	654,657	579,683
Other long-term benefits	209,891	184,006
Share-based payment	2,070,548	1,362,427
TOTAL	9,689,566	11,716,040

The remuneration of each member of the Key Management Personnel of the Company is set out on the following pages.

2006	Short-term employee benefits						Share-based payments		
	Salary & Fees $	Bonus $	Non-monetary $	Sub-total $	Post-employment benefits[1] $	Other long-term employee benefits[2] $	Shares & Units $	Options & Rights $	Total $
EXECUTIVE DIRECTOR									
KC Adams	1,575,685	413,250	6,350	1,995,285	201,400	56,374	–	630,067	2,883,126
% Change from 2005		–81		–44					
KEY MANAGEMENT PERSONNEL EXECUTIVES									
L E Hockridge	730,559	266,700	263,881[3]	1,261,140	92,750	28,884	–	549,447	1,932,221
% Change from 2005		–56		–10					
N H Cornish	611,831	141,600	–	753,431	78,175	88,439	–	171,655	1,091,700
% Change from 2005		–67		–19					
K J Fagg	550,676	168,498	–	719,174	77,162	16,365	–	188,901	1,001,602
% Change from 2005		–64		–28					
B G Kruger	590,673	60,480	–	651,153	74,200	58,009	–	183,806	967,168
% Change from 2005		–87		–36					
I R Cummin	431,678	125,460	–	557,138	59,769	11,627	–	180,127	808,661
% Change from 2005		–66		–29					
P F O'Malley (commenced 19 December 2005)	342,234	92,000	–	434,234	33,659	7,725	35,232	30,606	541,456
% Change from 2005		N/A		N/A					
M Courtnall (retired 28 February 2006)[4]	379,698	–	3,217	382,915	37,542	–57,532	–	100,707	463,632
% Change from 2005		N/A		N/A					
TOTAL	5,213,034	1,267,988	273,448	6,754,470	654,657	209,891	35,232	2,035,316	9,689,566

1 Post-employment benefits relate to superannuation arrangements.

2 This shows the movement in long service leave benefits during the year.

3 These benefits relate to international assignment costs including accommodation, tax equalisation and medical arrangements.

4 Mr Michael Courtnall retired on 28 February 2006 and a consultancy agreement for six months commencing 1 March 2006 was entered into under which the total retention amount payable is $90,000.

2005	Short-term employee benefits						Share-based payments		
	Salary & Fees $	Bonus $	Non-monetary $	Sub-total $	Post-employment benefits[1] $	Other long-term employee benefits[2] $	Shares & Units $	Options & Rights $	Total $
EXECUTIVE DIRECTOR									
K C Adams	1,440,036	2,131,250	8,301	3,579,587	180,975	48,192	–	492,899	4,301,653
KEY MANAGEMENT PERSONNEL EXECUTIVES									
L E Hockridge	672,553	600,000	131,794[3]	1,404,347	85,725	32,083	–	180,487	1,702,642
N H Cornish	499,441	430,000	1,318	930,759	60,960	37,767	–	130,658	1,160,144
K J Fagg	531,821	470,000	–	1,001,821	73,769	14,722	–	148,672	1,238,984
B G Kruger	552,098	470,000	–	1,022,098	67,310	48,821	–	143,276	1,281,505
I R Cummin	418,555	370,000	1,527	790,082	56,969	10,618	–	148,931	1,006,600
P F O'Malley (commenced 19 December 2005)	–	–	–	–	–	–	–	–	–
M Courtnall (retired 28 February 2006)	439,544	380,000	41,686	861,230	53,975	-8,197	–	117,504	1,024,512
TOTAL	4,554,048	4,851,250	184,626	9,589,924	579,683	184,006	–	1,362,427	11,716,040

It should be noted that during the year the following senior executive changes occurred:

Name	Previous Position	New Position	Effective Date
Paul O'Malley	None	Chief Financial Officer	19 December 2005
Michael Courtnall	President Asian Building and Manufacturing Markets	Retired	28 February 2006
Kathryn Fagg	President Australian Building and Logistics Solutions	President Asian Building and Manufacturing Markets	1 March 2006

Grants of cash bonuses, performance-related bonuses and share-based payment remuneration benefits

During the period performance-related cash bonuses were paid to the Key Management Personnel as disclosed in the table above under the Company's short-term incentive plan.

Eligibility to receive a bonus is subject to the terms and conditions of the plan, including a minimum of 6 months performance during the plan year and that employment during the period is not terminated for resignation or performance-related reasons.

Each KMP performance is measured against an agreed scorecard that contains both financial and non-financial KPIs. This process is further described at 1.3.3.

Mr Paul O'Malley was issued with 25,000 BlueScope Steel shares upon commencement with the Company in December 2005. These shares are restricted from being sold until 19 December 2008, and are forfeited in the event of resignation or termination for cause during that time.

Share Rights Holdings

Share Rights granted to the Key Management Personnel during the financial year ended 30 June 2006 were as follows:

Name	% of Remuneration consisting of Share Rights [1]	Value of Share Rights Granted during the Year at Grant Date [2]	Value of Share Rights exercised during the year [3]	Value of Share Rights at lapse date, that lapsed during the year [4]
DIRECTORS				
K C Adams	22%	637,571	618,030	–
KEY MANAGEMENT PERSONNEL EXECUTIVES				
L E Hockridge	12%	234,956	209,160	–
B G Kruger	19%	187,887	159,642	–
K J Fagg	19%	185,942	186,354	–
N H Cornish	18%	198,001	159,642	–
P F O'Malley[5]	37%	198,390	–	–
I R Cummin	18%	144,319	–	–
M Courtnall[5]	34%	157,545	127,386	441,948

1 This figure is calculated on the value of share rights awarded in the year ended 30 June 2006 as a percentage of the total value of all remuneration received in that same year.

2 External valuation advice from PricewaterhouseCoopers Securities Limited has been used to determine the value of the Executive Share Rights. The valuation has been made using the binomial option pricing model using standard option pricing inputs such as the underlying stock price, exercise price, expected dividends, expected risk free interest rates and expected share price volatility. In addition, the likely achievement of performance hurdles of the share rights has been taken into account.

3 External valuation advice from PricewaterhouseCoopers Securities Limited has been used to determine the value of the Executive Share Rights for the September 2002 award that were exercised in the year ended 30 June 2006.

4 Due to Mr Courtnall's retirement during the year pro rata share rights held lapsed in accordance with the rules of the LTIP. In addition, 20,000 Share Rights under the Special Incentive Award lapsed as performance hurdles were not met.

5 Calculation has been performed on pro rata salary.

The Share Rights awarded to Executives under the September 2002 Award vested at the 100% level in September 2005.

Details of the audited Share Rights holdings for year ending 30 June 2006 for the Key Management Personnel are set out below:

2006	Share Rights Balance at 30 June 2005	Share Rights Granted in year ended 30 June 2006	Share Rights Vested in year ended 30 June 2006*	Share Rights Lapsed in year ended 30 June 2006	Share Rights Balance at 30 June 2006
DIRECTORS					
K C Adams	945,000	163,900	(490,500)	–	618,400
KEY MANAGEMENT PERSONNEL EXECUTIVES					
L E Hockridge	331,800	100,400	(206,000)	–	226,200
B G Kruger	258,300	48,300	(126,700)	–	179,900
K J Fagg	284,400	47,800	(147,900)	–	184,300
N H Cornish	246,700	50,900	(126,700)	–	170,900
M Courtnall	209,000	60,500	(101,100)	(87,931)	80,469
I R Cummin	136,400	37,100	–	–	173,500
P F O'Malley	–	51,000	–	–	51,000

* Although these Share Rights vested in September 2005, the Shares acquired by participants are 'locked' and cannot be sold until 30 September 2007. These Shares are forfeited subject to certain cessation of employment events.

Comparative data for year ending 30 June 2005 for Key Management Personnel is set out below:

2005	Share Rights Balance at 30 June 2004	Share Rights Granted in year ended 30 June 2005	Share Rights Vested in year ended 30 June 2005	Share Rights Lapsed in year ended 30 June 2005	Share Rights Balance at 30 June 2005
DIRECTORS					
K C Adams	1,448,800	181,200	(685,000)	–	945,000
KEY MANAGEMENT PERSONNEL EXECUTIVES					
L E Hockridge	552,900	68,700	(289,800)	–	331,800
B G Kruger	425,700	53,900	(221,300)	–	258,300
K J Fagg	488,700	53,900	(258,200)	–	284,400
N H Cornish	419,200	48,800	(221,300)	–	246,700
M Courtnall	342,300	43,200	(176,500)	–	209,000
I R Cummin	94,700	41,700	–	–	136,400
P F O'Malley	–	–	–	–	–

Share Holdings in BlueScope Steel Limited

The following table details the shares held by Directors, Key Management Personnel and other reportable executives as well as any related party interests in BlueScope Steel Limited as at 30 June 2006.

Director or KMP	Ordinary shares held as at 30 June 2006*	Ordinary shares held as at 30 June 2005*
NON EXECUTIVE DIRECTORS		
G J Kraehe	125,004	109,676
R J McNeilly	541,887	524,130
D J Grady	50,685	36,358
H K McCann	31,185	21,913
P J Rizzo	32,024	24,702
Y P Tan	24,017	11,980
DIRECTOR		
K C Adams	2,346,381	1,825,881
KEY MANAGEMENT PERSONNEL EXECUTIVES		
L E Hockridge	509,851	343,701
B G Kruger	211,185	224,335
K J Fagg	148,400	258,550
N H Cornish	180,000	158,150
M Courtnall (retired 28 February 2006)	102,741	184,491
I R Cummin	106,089	68,378
P F O'Malley	25,000	–

* Including relevant interests in shares held by other persons or entities.

4 EMPLOYMENT CONTRACTS

4.1 Managing Director and Chief Executive Officer – Outline of Employment Contract

Outlined below are the key terms and conditions of employment contained within the employment contract for Mr Kirby Adams, the Managing Director and Chief Executive Officer.

Mr Adams' base employment contract conditions were agreed with BHP Billiton Limited prior to the demerger on 7 July 2002 and are regularly reviewed by the Board of BlueScope Steel. He receives an annual base payment of $1,600,000 with effect from 1 September 2006. This amount is reviewed on an annual basis in accordance with the Board's senior executive salary review policy. In addition, Mr Adams is eligible to participate in the Short Term Incentive Plan and, subject to shareholder approval, Long Term Incentive Plan awards.

Mr Adams may terminate the contract by giving three months' written notice, upon which he is entitled to his annual base pay, which has been accrued but not paid up to the date of termination, plus any vested awards under the Long Term Incentive Plan, and any other payments for which he is eligible under the Short Term Incentive Plan. The Company may terminate the contract by giving one months' written notice (or a payment in lieu of notice based on Mr Adams' annual base pay) and a gross termination payment equal to 24 months of Mr Adams' annual base pay, plus any applicable Short Term Incentive Plan and Long Term Incentive Plan awards, and reimbursement for the reasonable costs of relocation from Australia to the United States of America. The Company may also terminate the contract on 30 days' notice in the event of serious misconduct or a serious breach of the contract. In this event, Mr Adams is only entitled to his annual base pay which has accrued but not been paid up to the date of termination plus any vested Long Term Incentive Plan awards.

The Company has agreed with Mr Adams that he will be treated consistently with other senior executives in the event of a "Change of Control" of the Company. In addition, to facilitate orderly succession, if Mr Adams decides to leave the Company and, notwithstanding his contractual entitlement to give three months' notice, he provides 12 months' notice, the Board has reached an understanding with Mr Adams the key terms of which are that it intends to allow a two year period for vesting or exercise of any outstanding share rights held by him and Short Term Incentive payments will be assessed and paid on a pro rata basis.

4.2 Other Key Management Personnel

Remuneration and other terms of employment for the Key Management Personnel set out above are formalised in employment contracts which can be terminated with notice. Each of these agreements provides for the annual review of annual base payment, provision of performance-related cash bonuses, other benefits including annual health assessment, and participation, when eligible, in the Long Term Incentive Plan. The contracts provide for notice of three to six months for resignation by the executive or termination by the Company. In the event of termination by the Company other than for cause, a termination payment of 12 months pay or the Company Redundancy Policy, whichever is the greater, will apply. The Company Redundancy Policy provides for 14 weeks' pay plus 2.5 weeks for each year of service.

Agreements are also in place for Key Management Personnel detailing the approach the Company will take with respect to payment of their termination payments and with respect to exercising its discretion on the vesting of share rights in the event of a "Change of Control" of the organisation.

ENVIRONMENTAL REGULATION

BlueScope Steel's Health, Safety, Environment and Community (HSEC) Policy provides the foundation for the way in which the environment is managed at all levels of the organisation. BlueScope Steel cares for the environment and is committed to the efficient use of resources, reducing and preventing pollution and product stewardship.

BlueScope Steel has developed a compliance system to enable its environmental responsibilities to be appropriately managed. The environmental compliance system has been successfully implemented at a number of BlueScope Steel's operations, including Port Kembla, Illawarra Coated Products and Western Port. By the end of the 2005-2006 financial year, the compliance system was implemented at approximately 70 BlueScope Steel operations.

BlueScope Steel notified relevant authorities of 93 statutory non-compliances with environmental regulations during the reporting period. The Company received three fines during the reporting period. A $3,000 on-the-spot fine was imposed when waste material was transported in an unlicensed and unplacarded truck. A $32,358 (US$25,000) fine was imposed by the US Federal Aviation Association FAA, following a failure to adhere to the appropriate labelling and documentation requirements while transporting paint by air. A fine of $1,678 (US$1,250) was imposed when a stormwater sample was not taken in the designated time. There were no significant environmental incidents recorded during the reporting period.

The Port Kembla Steelworks has entered into voluntary agreements with the NSW Department of Environment and Conservation (DEC) to investigate possible land contamination of two areas within its site, the No.2 Steelworks and the Recycling Area. A Remediation Action Plan is being prepared for the Recycling Area and a proposal for a Stage 3 investigation of the No.2 Steelworks is being discussed with the DEC.

INDEMNIFICATION AND INSURANCE OF OFFICERS

BlueScope Steel has entered into directors' and officers' insurance policies and paid an insurance premium in respect of the insurance policies, to the extent permitted by the *Corporations Act 2001*. The insurance policies cover former Directors of BlueScope Steel along with the current Directors of BlueScope Steel (listed on page 45). Executive officers and employees of BlueScope Steel and its related bodies corporate are also covered.

In accordance with Rule 21 of its Constitution, BlueScope Steel, to the maximum extent permitted by law:

- must indemnify any current or former Director or Company Secretary; and
- may indemnify current or former executive officers,

of BlueScope Steel or any of its subsidiaries, against all liabilities (and certain legal costs) incurred in those capacities to a person, including a liability incurred as a result of appointment or nomination by BlueScope Steel or its subsidiaries as a trustee or as a director, officer or employee of another corporation.

The current Directors of BlueScope Steel have each entered into an Access, Insurance and Indemnity Deed with BlueScope Steel. The Deed addresses the matters set out in Rule 21 of the Constitution and includes, among other things, provisions requiring BlueScope Steel to indemnify a Director to the extent to which they are not already indemnified as permitted under law, and to use its best endeavours to maintain an insurance policy covering a Director while they are in office and seven years after ceasing to be a Director.

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 insurance contract, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the contract.

PROCEEDINGS ON BEHALF OF BLUESCOPE STEEL

As at the date of this report, there are no leave applications or proceedings brought on behalf of BlueScope Steel under section 237 of the *Corporations Act 2001*.

ROUNDING OF AMOUNTS

BlueScope Steel is a company of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars.

AUDITOR

Ernst & Young was appointed as auditor for BlueScope Steel at the 2002 Annual General Meeting.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Auditor's Independence Declaration for the year ended 30 June 2006 has been received from Ernst & Young. This is set out at page 62 of the Directors' Report. Ernst & Young provided the following non-audit services during the year ended 30 June 2006:

- $567,000: international assignee employment taxation services, commencing 1 July 2006 these services have been outsourced to an alternative service provider;
- $242,000: country specific taxation compliance services in North America, New Zealand, Thailand, Malaysia, Vietnam, Singapore, Hong Kong and India; and
- $13,000: review of BlueScope Steel (Thailand) Board of Investment Report and Circular 12 Audit of the Vietnam coating line investment.

The Directors are satisfied that the provision of these non-audit services is compatible with the general standard of independence for auditors in accordance with the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided is considered by the Directors not to have compromised auditor independence.

This report is made in accordance with a resolution of the Directors.

G J KRAEHE AO, CHAIRMAN

K C ADAMS, MANAGING DIRECTOR & CEO

Melbourne
18 August 2006

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF BLUESCOPE STEEL LIMITED

In relation to our audit of the financial report of BlueScope Steel for the year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

ERNST & YOUNG

ALAN I BECKETT
Partner
Melbourne
18 August 2006

CORPORATE GOVERNANCE STATEMENT

DISCLOSURE REQUIRED BY THE ASX CGC RECOMMENDATIONS	REFERENCE
Functions reserved to the Board and those delegated to management	See Role of the Board on page 64
Skills experience and expertise relevant to the position of Director	See Information on Directors on page 72
Names of Directors considered by the Board to constitute independent Directors and BlueScope Steel's relevant thresholds	See Independent Non-Executive Directors on page 65
Procedure for independent professional advice	See Access to information and independent advice on page 65
Directors' terms of office	See Information on Directors on page 72
Names of the Nomination Committee members and attendance	See Nomination Committee and Meetings of Directors on page 46 and 70
Composition of Board, Chairperson and role of Chairman and Managing Director and Chief Executive Officer	See Role and Composition of the Board on page 64 and 65
Code of conduct for Directors and executives	See Guide to Business Conduct on page 72
Securities trading policy	See Share ownership and dealing on page 71
Audit and Risk Committee members and their qualifications	See Audit and Risk Committee on page 68
Audit and Risk Committee meetings and attendance	See Meetings of Directors on page 46
Financial statements sign-off and structure of Audit and Risk Committee	See Audit and Risk Committee on page 68
Procedures for ASX disclosure requirements	See Shareholders on page 64
Shareholder communications strategy	See BlueScope Steel's website www.bluescopesteel.com
Attendance of external auditor	See the External audit on page 71
Risk oversight committee	See Audit and Risk Committee on page 68
Risk management and internal controls	See Internal audit on page 69
Performance evaluation	See Board on page 67
Company's remuneration policies and disclosure	See Directors' remuneration and Non-Executive Directors' remuneration on page 47
Remuneration and Organisation Committee members and attendance	See Remuneration and Organisation Committee and Meetings of Directors on page 46 and 70
Retirement benefits for Non-Executive Directors	See Directors' remuneration on page 47
Company code of conduct	See Guide to Business Conduct on page 72

INTRODUCTION

The Board operates in accordance with a set of corporate governance policies which take into account relevant best practice recommendations including the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations ("ASX CGC Recommendations"). The Board considers that BlueScope Steel complies with the requirements in the ASX CGC Recommendations.

BlueScope Steel is a global organisation, with businesses operating in many countries, including Australia, New Zealand, North America, China and elsewhere in Asia. Entities within the BlueScope Steel Group must, therefore, comply with a range of varying legal, regulatory and governance requirements.

The Board places great importance on the governance of BlueScope Steel and, in particular, the need to focus on carrying out prudent risk-taking activities, which achieve a balance between:

- The generation of rewards for shareholders who invest their capital;
- The supply of goods and services of value to BlueScope Steel's global customers; and
- The provision of safe and meaningful employment for employees in a way which contributes to the welfare of the community.

This Corporate Governance Statement outlines the key aspects and mechanisms of BlueScope Steel's governance framework which have been established and kept under review by the Board.

Summaries of the charters under which the Board and Board Committees operate (including a copy of the Audit and Risk Committee charter) and other relevant information referred to in this Corporate Governance Statement are available on BlueScope Steel's website www.bluescopesteel.com.

SHAREHOLDERS

Shareholders who elect the Board perform a fundamental role in the governance of BlueScope Steel.

The Board recognises that shareholders must receive high-quality relevant information in a timely manner. Arrangements for communicating with shareholders are summarised on BlueScope Steel's website: www.bluescopesteel.com.

BlueScope Steel is subject to continuous disclosure obligations under the Listing Rules of the Australian Stock Exchange (ASX) and Australian corporations legislation. Subject to limited exceptions under the continuous disclosure requirements, BlueScope Steel must immediately notify the market, through the ASX, of any information that a reasonable person would expect to have a material effect on the price or value of its shares.

To achieve these objectives and satisfy the regulatory requirements, the Board provides information to shareholders and the market in several ways, including:

- Communicating with all shareholders in annual reports and financial statements, releases of results to the ASX each half year and at BlueScope Steel's Annual General Meeting;
- Releasing price sensitive announcements and other relevant significant announcements directly to the market via the ASX. Copies of these announcements are immediately placed on BlueScope Steel's website www.bluescopesteel.com;
- Communication with analysts and institutions from time to time, particularly after release of full and half-year results. Copies of analyst briefings are placed on the Company's website. In doing so, BlueScope Steel recognises the importance of making sure that any price sensitive information provided during these briefings is made available to all shareholders and the market at the same time and in accordance with the requirements of the ASX and the Australian Securities and Investments Commission; and
- Providing information on BlueScope Steel's website, which contains extensive information about the BlueScope Steel Group and its activities, including statutory reports and investor information.

BlueScope Steel has a Market Disclosure Committee, comprising the Chairman, the Managing Director and Chief Executive Officer, the Chief Financial Officer, Company Secretary, the Vice-President Investor Relations and the Executive Vice-President Corporate Affairs, to monitor and assess all significant information which may require disclosure. The Company Secretary is responsible for providing announcements to the ASX. A summary of BlueScope Steel's Continuous Disclosure Policy is available on BlueScope Steel's website www.bluescopesteel.com.

THE BOARD OF DIRECTORS

ROLE OF THE BOARD

The Board's role is to oversee the management of the Company on behalf of all shareholders.

The Board has developed and adopted a Charter that sets out:

- Its specific powers and responsibilities;
- The matters delegated to the Managing Director and Chief Executive Officer and those specifically reserved to the Board; and
- Procedures aimed at ensuring the effective operation of the Board.

Matters reserved to the Board include:

- (Values and standards) setting the Company's values and standards of conduct and monitoring adherence to these standards in the

interests of the Company's shareholders, employees, customers, suppliers and the communities in which it operates, and generally safeguarding the reputation of the Company;

- (Leadership) providing leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- (Direction and objectives) setting the Company's direction, strategies and financial objectives and being satisfied that the necessary financial and human resources are in place for the Company to meet its objectives;
- (Performance assessment) ensuring that the performance of management, and the Board itself, is regularly assessed and monitored;
- (Compliance) monitoring compliance with regulatory and ethical standards; and
- (Appointing Managing Director) appointing, terminating and reviewing the performance of the Managing Director and Chief Executive Officer.

A summary of the Board Charter is available at BlueScope Steel's website www.bluescopesteel.com

The Board has delegated responsibility for the day-to-day operation and administration of the BlueScope Steel Group to the Managing Director and Chief Executive Officer, Mr Kirby Adams. The Executive Leadership Team assists the Managing Director and Chief Executive Officer in the day-to-day management of the business. The levels of authority for management are documented in detail in a Delegation of Authority Policy established under the Board Charter.

The Delegation of Authority Policy is readily available on the Company's intranet to all employees, along with detailed guidelines setting the internal approvals that must be obtained in order to enter into specific transactions.

The roles of the Chairman and the Managing Director and Chief Executive Officer are separate.

Access to information and independent advice

Directors are entitled to full access to the information required to discharge their responsibilities, including access to executives of the BlueScope Steel Group.

The Board (as well as Board Committees and individual Directors) may also obtain independent professional advice, at the expense of the Company, in carrying out their responsibilities, including in the absence of BlueScope Steel's management, where they consider it appropriate to do so. Procedures have been adopted to set out the practical steps by which independent professional advice is to be obtained.

Composition of the Board and director appointment

For the 2005/06 financial year, the Board comprised seven Directors, including six independent Non-Executive Directors and one Executive Director (the Managing Director and Chief Executive Officer).

The Board collectively brings significant commercial, business, operational, financial, legal and international experience in a range of industries. The Directors all bring skills and expertise, which, in aggregate, combine to form a Board, which is equipped to discharge its responsibilities. For the Directors' biographies, their term of office and information about their skills, experience and qualifications relevant to their position please refer to page 72.

BlueScope Steel's Constitution and the Listing Rules of the ASX require that no member of the Board (other than the Managing Director and Chief Executive Officer) may serve for more than three years without being re-elected by shareholders at an Annual General Meeting of BlueScope Steel. Also, one-third of the Directors (not including the Managing Director and Chief Executive Officer) must retire, and are eligible to be re-elected by the shareholders at each Annual General Meeting. The Managing Director and Chief Executive Officer serves as a Director until he ceases to be the Chief Executive Officer. At the 2006 Annual General Meeting, Mr Kevin McCann and Mr Paul Rizzo will stand for re-election.

Independent Non-Executive Directors

The Board, excluding the Director in question, assesses the independence of each Non-Executive Director at least annually in light of the interests disclosed by that Director, as part of its overall commitment to standards of corporate governance in line with best practice.

The Board believes that independence is one important attribute of an effective Non-Executive Director. Other important attributes include business acumen and experience, an inquiring mind and personal integrity. In addition, the Board as a whole must work together effectively to combine and leverage the skills, knowledge and experience of its members to provide leadership to BlueScope Steel in generating value for shareholders and meeting the expectations of other stakeholders.

The work of the Board must be supported by robust structures and processes that facilitate depth and breadth of understanding of BlueScope Steel's business, foster open and constructive debate, define roles and responsibilities clearly and ensure proper compliance with laws.

The governance process implemented by the Board has been designed, as a whole, to address all of these issues in a manner that will maximise the contribution of the Board to the success of the business.

In assessing the independence of a Non-Executive Director, consideration is given to the underlying purpose behind each of the specific relationships identified as relevant to independence (see below), and the overall purpose of independence.

The Board considers that the overall purpose of independence is to ensure that a Director does not have a relationship where there are, or are perceived to be, matters which could materially interfere with the Director:

- Making decisions on matters that regularly come before the Board or its Committees;
- Objectively assessing information and advice given, or obtained, by management;
- Setting policy for general application across the BlueScope Steel group of companies; and
- Generally, carrying out the performance of his or her role as a Director, or which could inhibit free Board discussion of matters coming before the Board.

The Board considers all of the circumstances relevant to a Director, in determining whether the Director is free from any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of BlueScope Steel. Amongst the circumstances considered by the Board are a range of factors, including the relations described in Box 2.1 of the ASX CGC Recommendations. In determining whether a sufficiently material relationship exists between BlueScope Steel and a third party, the Board has regard to all the circumstances of the relationship, including, among other things:

- (expenses/revenues) the proportion of a class of expenses or revenues that the relationship represents to both BlueScope Steel and the third party;
- (strategic importance) the strategic importance to BlueScope Steel's business of the goods or services purchased or supplied by BlueScope Steel;
- (uniqueness of services) the extent to which the services supplied are integral to the operation of BlueScope Steel's business, including the extent to which the services provided are unique and not readily replaceable;
- (goods/services) the nature of the goods or services;
- (transaction) the nature of the transaction; and
- (value) the value of the transaction to BlueScope Steel and the other party to the transaction.

Materiality is considered from the perspective of both BlueScope Steel and its Directors.

The Board considers that each Non-Executive Director is independent when assessed on the criteria above, taking into account all relevant matters and relationships of the particular Non-Executive Director. Relevantly, the Board's reasons include:

- Mr Kraehe is a Non-Executive Director of Brambles Industries Limited and until September 2005 was the Non-Executive Chairman of the National Australia Bank Limited. Brambles was, until it sold the relevant business division on 5 July 2006, a supplier of transport services and equipment to the Company. The National Australia Bank is part of a consortium of 12 banks providing funding to the BlueScope Steel Group, where decisions by the consortium are by majority of the banks (as a minimum). Having considered the goods and services supplied by Brambles and the National Australia Bank and the materiality criteria set out above, the Board considers that these relationships are not material for the purpose of independence. Mr Kraehe does not participate in any decisions regarding transactions with Brambles.
- Mr McCann is the Non-Executive Chairman of Origin Energy Limited. Mr McCann does not participate in any decisions regarding transactions with Origin Energy Limited and it is not the exclusive or primary provider of utility services to BlueScope Steel. The Board considers that, having regard to Mr McCann's role with Origin Energy Limited, the amount paid to that company, the nature of services supplied, and based on the materiality criteria set out above, Origin Energy Limited is not a material supplier for the purposes of independence. The Board also notes that Mr McCann is not involved in selecting utility providers for BlueScope Steel.
- Mr Rizzo is a Non-Executive Director of the National Australia Bank Limited, which as noted above for Mr Kraehe, is not considered by the Board to be a material supplier for the purpose of independence. Mr Rizzo does not participate in any decisions regarding transactions with National Australia Bank.

Mr Rizzo is also a member of the Advisory Board of Mallesons Stephen Jaques, a national law firm, which is one of a number of law firms that provide legal advisory services to BlueScope Steel.

The Board considers that, having regard to Mr Rizzo's role with the firm, the amount of the fees paid to Mallesons Stephen Jaques and the nature of the services supplied, and based on the materiality criteria set out above, Mallesons Stephen Jaques is not a material supplier for the purposes of independence. The Board also notes that Mr Rizzo is not involved in Mallesons Stephen Jaques providing legal advice to BlueScope Steel or in selecting BlueScope Steel's legal advisers.

- Ms Grady has agreed to become a Senior Adviser to McKinsey & Company, which is not considered by the Board to be a material supplier for the purpose of independence. The Board considers that, having regard to Ms Grady's role with the firm, the amount of the fees paid to McKinsey & Company and the nature of the services supplied, and based on the materiality criteria set out above, McKinsey & Company is not a material supplier for the purposes of independence. The Board also notes that Ms Grady is not involved in the selection of McKinsey & Company to advise the Company.
- Neither Mr McNeilly nor Mr Tan had any relationships that required assessment for independence purposes.

Board meetings

During the 2005/06 financial year, the Board has met 13 times (eight scheduled and five unscheduled) to review matters such as the financial performance of the BlueScope Steel Group, current trading and key business initiatives, and its strategies, budgets and business plans. Included in the Board's schedule was a separate meeting held to specifically consider BlueScope Steel Group's strategy.

Procedures are also in place to ensure that Directors can meet to consider and decide urgent matters, as and when they arise.

Materials for Board and Board Committee meetings are circulated to the Directors in advance. The agenda for meetings is formulated with input from the Chairman and the Managing Director and Chief Executive Officer and, if required, other Directors.

The Chairman regularly requests that a member of the Board review the conduct of the Board meeting at its conclusion.

Members of senior management frequently make presentations to the Board, and telecommunication technologies may be utilised to facilitate participation.

In the 2005/06 financial year, Board meetings were held in various locations, including in Melbourne (at BlueScope Steel's head office), Sydney, in South East Asia (visiting the Company's operations in Indonesia, Vietnam and India) and Western Port (at BlueScope Steel's cold rolling and metallic coating and painting operations).

The Board has a program to meet at various sites in Australia and internationally during the remainder of 2006 and in 2007. The Board has also visited key customer operations.

Meetings without management

The Independent Non-Executive Directors hold regular meetings without the presence of management. There have been two such meetings in the 2005/06 financial year.

Conflicts of interest

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to BlueScope Steel and their own interests. The Board has adopted a procedure to ensure that conflicts and potential conflicts of interest are disclosed to the Board. Where a matter is to be considered by the Board, the Chairman (or where the Chairman has a conflict or potential conflict, the Deputy Chairman) in consultation with the Company Secretary may implement procedures to avoid the Director with the interest acting or being perceived to act in conflict with his or her duties to BlueScope Steel. The Company Secretary maintains a register of Directors' interests.

Directors' and executives' remuneration

Details of the remuneration policies of BlueScope Steel are set out in the Remuneration Report contained in this report on pages 46 to 60.

Board

The Board reviews its effectiveness and individual performance regularly.

In 2004, the Board determined that it would fully review its performance every two years. A review using an external consultant is underway and will be completed in September 2006.

The Nomination Committee has reviewed the performance of Directors seeking re-election.

Executives

All BlueScope Steel executives are subject to annual performance planning and review.

The annual performance planning and review involves a key executive being evaluated by their immediate superior, usually the Managing Director and Chief Executive Officer. The executive is assessed against:

- achievement of financial goals;
- completion of key job specifications and goals;
- achievement of other specific business and strategic objectives;
- contribution towards specific business plan objectives; and
- adherence to values expressed in "Our Bond".

In assessing a key executive's performance, the Managing Director and Chief Executive Officer may consult with the Chairman. The outcomes of performance reviews are reported to the Remuneration and Organisation Committee, which has overall responsibility for ensuring that performance management processes are in place for all key executives. The Remuneration and Organisation Committee considers executive remuneration.

The Remuneration and Organisation Committee also considers the overall amount of any short-term incentive to be provided to eligible executives, and reviews and approves the specific amount of any short-term incentive bonus award to particular senior executives. The review takes into account the overall performance of BlueScope Steel against a range of measures, and the contribution made by a particular executive.

The Chairman and the Board conduct the performance evaluation of the Managing Director and Chief Executive Officer. This evaluation involves an assessment of a range of factors including the overall performance of BlueScope Steel and the achievement of predetermined goals.

BOARD COMMITTEES

Given the importance of certain matters to corporate governance, the Board has established a number of Committees to assist in the execution of its responsibilities:

- the Audit and Risk Committee;
- the Remuneration and Organisation Committee;
- the Health, Safety and Environment Committee; and
- the Nomination Committee.

Other Committees of the Board may be formed to deal with specific matters.

Each of the Board's Committees operates under terms of reference (charters), detailing its roles and responsibilities. The charters contain a number of common features, including the ability of a Committee to obtain independent professional advice at the expense of BlueScope Steel, the requirement for reporting to the Board, and periodic reviews of Committee operations and performance.

The number of Board Committee meetings held during the year ended 30 June 2006 and the attendance at those meetings by members is set out in the Directors' Report on page 46.

Regular reports of the Committees' activities are provided to the Board and Committee papers and minutes are circulated to all Directors. Persons other than Committee members are invited or permitted to attend all or part of a meeting of the Committee when their attendance will assist the Committee in discharging its responsibilities or otherwise as the Committee Chairman considers appropriate.

Audit and Risk Committee

The Audit and Risk Committee assists the Board in the effective discharge of its responsibilities for financial reporting, internal controls, risk management, internal and external audit and insurance (with the exception of directors' and officers' liability insurance).

The Committee's charter is set out in full on BlueScope Steel's website www.bluescopesteel.com. Set out below is an overview of the Committee's objectives, as contained in the Committee's Charter:

External reporting

- (review of financial statements) review all published financial statements which are required to be signed by Directors, prior to approval by the Board and any annual or directors' report which discusses BlueScope Steel's position or results;
- (compliance processes) review and consider the processes used by management to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting of financial information;
- (accounting policies) review and assess BlueScope Steel's proposed professional and regulatory pronouncements regarding accounting policies and financial reporting and assess their impact on BlueScope Steel.

Internal control and risk management

- (risk management systems) consider whether BlueScope Steel has effective risk management systems in place to review, assess and manage business, financial and operational risk;
- (risk management policies) approve certain financial risk management policies;
- (credit limits) approve credit limits and guarantees up to a specified monetary limit;

- (internal controls) review and approve management's programs and policies which deal with the adequacy and effectiveness of internal controls over BlueScope Steel's business processes, including the determination of financial statements;
- (theft and fraud reports) receive reports concerning material actual and suspected breaches of law, including fraud and theft and assess systems to manage this risk;
- (litigation and contingencies) review any litigation, claim or other contingency which could have a material effect upon the financial position or operating results of BlueScope Steel;
- (superannuation plans) receive reporting concerning the accounting treatment of BlueScope Steel's superannuation plans and determine questions of accounting treatment raised;
- (related party transactions) review and monitor related party transactions and assess their propriety.

External audit

- (external auditor) make recommendations to the Board on the appointment, reappointment or replacement and remuneration of the external auditor, agree the terms of engagement, review the audit scope and monitor auditor independence;
- (policies for non-audit services) develop policies for approval by the Board, in respect of the provision of non-audit services by the external auditor, and approve provision of non-audit services by the external auditor;
- (coordination with internal audit) ensure the external auditor is coordinated with internal audit programs;
- (external audit findings) review and monitor management's responsiveness to the external audit findings.

Internal audit

- (internal audit) approve the internal auditor, review the audit scope and approve internal audit plans;
- (internal audit findings) review and monitor management's responsiveness to the internal audit findings;

Insurance

- (insurance) responsibility for reviewing and approving all aspects of the company's insurance programme except for the directors' and officers' liability insurance, which is the responsibility of the Board.

The Audit and Risk Committee charter is periodically reviewed and updated by the Board, most recently in August 2006. The Audit and Risk Committee meets before the finalisation of all major financial announcements of BlueScope Steel and must meet at least four scheduled times a year.

As required by its charter, the Audit and Risk Committee is composed entirely of independent Non-Executive Directors.

The members of the Audit and Risk Committee are Mr Paul Rizzo (Committee Chairman), Mr Kevin McCann and Mr Ron McNeilly. In addition to their business experience, each member brings particular experience relevant to the functions of the Committee. Mr Rizzo has significant financial management and reporting experience. Mr McNeilly has an understanding of the industry in which BlueScope Steel operates and Mr McCann has both financial and legal experience, which is valuable to the functioning of the Audit and Risk Committee.

Discussions are held with the external and internal auditors without management being present.

Health, Safety and Environment Committee

The primary objectives of the Health, Safety and Environment Committee (HSEC), as set out in its Charter, are to:

- (HSEC Policy) adopt a Health, Safety, Environment and Community Policy and, as it considers necessary, recommend changes to that policy;
- (compliance) monitor BlueScope Steel's compliance with the approved HSEC Policy;
- (HSEC standards) assess the HSEC standards of BlueScope Steel;
- (HSEC risks) assess the operations of BlueScope Steel and make recommendations for assessing, avoiding, eliminating, controlling and minimising HSEC risks;
- (legislation) assess compliance by BlueScope Steel with applicable legislation;
- (acceptable practices) research and recommend the adoption of acceptable HSEC practices in the industries in which BlueScope Steel operates;
- (incident reporting) receive reports concerning HSEC incidents within BlueScope Steel; and
- (implications) consider HSEC issues that may have strategic, business and reputational implications for BlueScope Steel.

The Chairman of the HSEC is Mr Ron McNeilly, an independent Non-Executive Director. All Directors are members of the HSEC because of the importance of health, safety and the environment to BlueScope Steel's operations. The HSEC charter requires that the Committee meets at least four scheduled times per year. Discussions are held without management being present.

Remuneration and Organisation Committee

The Remuneration and Organisation Committee assists the Board in ensuring that BlueScope Steel:

- (human resources strategy) has a human resources strategy aligned to the overall business strategy, which supports the BlueScope Steel Business Charter, "Our Bond";
- (practices and policies) has remuneration policies and practices that are observed and that enable it to attract and retain executives and Directors who will create value for shareholders;
- (remuneration and performance) fairly and responsibly rewards executives having regard to the performance of BlueScope Steel, the creation of value for shareholders, the performance of the executive and the external remuneration environment;
- (succession) plans and implements the development and succession of executive management and Directors.

The Committee is composed entirely of independent Non-Executive Directors.

The members of the Committee are Ms Diane Grady (Committee Chairman), Mr Graham Kraehe, Mr Ron McNeilly and Mr Tan Yam Pin. All members of the Committee are independent Non-Executive Directors. The Committee is required to review its performance annually and has done so for the financial year 2005/06. The Committee meets at least four scheduled times a year.

The Committee seeks advice and guidance, as appropriate, from the Managing Director and Chief Executive Officer, and the Executive Vice President People and Performance. It may also seek advice from external experts, including in the absence of management of BlueScope Steel.

Information on BlueScope Steel's remuneration policies in respect of the costs and benefits of those policies and the link between remuneration paid to Directors and executives and Company performance is detailed in the Directors' Report on pages 43 to 73.

Nomination Committee

The Nomination Committee is responsible for reviewing the membership of the Board and for considering candidates for membership of the Board. Mr Graham Kraehe chairs the Committee. All Non-Executive Directors are members, as the Board believes that the responsibilities of the Committee will be performed most effectively if all Non-Executive Directors are involved. Detailed work of the Committee may be delegated to a sub-committee.

The purpose of the Committee is to ensure that proper processes are in place to deal with succession issues at Board level, and to ensure that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and the highest standards of governance. The Committee achieves this purpose by:

- (required skills) assessing the skills required on the Board;
- (Board skills) assessing the extent to which the required skills are represented on the Board from time to time;
- (review processes) establishing processes for the review of the performance of the Board as a whole and individual Non-Executive Directors; and
- (Board candidates) establishing processes for the identification of suitable candidates for appointment to the Board.

Newly appointed Directors receive induction and training.This includes management briefings to familiarise themselves with the significant operations of the BlueScope Steel Group. Arrangements are made for new Directors to visit BlueScope Steel's major operations. Each Non-Executive Director has received a formal letter of appointment.

EXECUTIVE LEADERSHIP TEAM

BlueScope Steel's Executive Leadership Team (ELT) is responsible to the Managing Director and Chief Executive Officer for the day-to-day leadership and management of BlueScope Steel as a whole. The ELT performs its role in consultation with, and obtains guidance from the Board and Board Committees. The ELT's specific responsibilities, include:

- (BlueScope Steel corporate strategy) developing and implementing the strategic direction of the BlueScope Steel Group;
- (business area strategies) reviewing and developing strategies for business areas;
- (safety) reviewing and developing safety strategy, high level processes and procedures;
- (capital expenditure) reviewing and endorsing all capital proposals over $5 million. The ELT recommends to the Board all capital proposals over $25 million;
- (human resources) reviewing and discussing human resource talent and succession and developing human resource strategies and practices;
- (policies and standards) discussing and endorsing major policies and standards that have been delegated to management by the Board in areas such as Human Resources, Information Technology, Risk Management and Finance; and
- (performance) reviewing company and business unit financial performance and operational performance and agreeing any necessary actions.

The members of the Executive Leadership Team are Kirby Adams (Managing Director and Chief Executive Officer), who is Chairman of the ELT, Lance Hockridge (President North America), Noel Cornish (President, Australian and New Zealand Industrial Markets), Kathryn Fagg (President Asian Building and Manufacturing Markets), Paul O'Malley (Chief Financial Officer), Brian Kruger (President Australian Manufacturing Markets) and Ian Cummin (Executive Vice President People and Performance). The ELT meets regularly and prior to all Board meetings, generally at BlueScope Steel sites.

ACCOUNTABILITY AND AUDIT

Internal control and risk management

The Board has overall responsibility for the BlueScope Steel Group's systems of internal control. These systems are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations, with a view to managing the risk of failure to achieve business objectives.

The Board reviews the effectiveness of the internal control systems and risk management on an ongoing basis, and monitors risk through the Audit and Risk Committee (see Audit and Risk Committee). The Board regularly receives information about the financial position and performance of BlueScope Steel.

PricewaterhouseCoopers assists the Board by providing a comprehensive internal audit service.

CEO AND CFO ASSURANCES

For annual and half-yearly accounts released publicly, the Managing Director and Chief Executive Officer and the Chief Financial Officer assure the Board that:

1 The financial records of the BlueScope Steel Group have been properly maintained.

2 The BlueScope Steel financial statements and notes required by the accounting standards, for external reporting:

(a) give a true and fair view of the financial position and performance; and

(b) comply with the accounting standards (and any further requirements in the Corporations Regulations), and applicable ASIC Class Orders.

3 The above representations are based on a system of risk management and internal compliance and control relating to financial reporting which implements the financial reporting and risk management policies adopted by the Board, and ensures that those systems are operating efficiently and effectively in all material respects.

EXTERNAL AUDIT

Ernst & Young are BlueScope Steel's external auditors.

The lead audit partner and the review partner of BlueScope Steel's external auditors rotate every five years. The current lead audit partner and review partner were first appointed for the 2001/02 and 2004/05 audits respectively. The lead audit partner will rotate for the 2006/07 audit.

Non-audit work is prohibited where independence may be compromised or conflicts arise. All non-audit services provided by the Company's external auditor require approval by the Audit and Risk Committee who assess whether any independence issues or conflicts of interest arise. The Company's policy also requires Audit and Risk Committee approval for the employment of partners or senior engagement team staff by the Company within two years of leaving the external audit firm.

The lead auditors of BlueScope Steel, or a suitable member from the audit team, will attend the 2006 Annual General Meeting of BlueScope Steel and be available to answer questions from shareholders as appropriate. Shareholders also have the right to submit written questions to the auditors, and the auditor may table answers to the questions at the AGM.

Share ownership and dealing

Details of shares in BlueScope Steel held by Directors are set out in the Directors' Report on page 60.

The Board has established a Securities Trading Policy covering dealings in BlueScope Steel's shares and derivative securities. The objective of the policy is to ensure that shareholders, customers and the business community have confidence that Directors and senior management comply with the law and best practice in corporate governance, and handle confidential information lawfully and with integrity. The policy highlights the restrictions imposed by Australian corporations legislation on trading in BlueScope Steel and other entities' securities at a time when a person has non-public price sensitive information.

Under the policy, Directors and senior management are required to notify the Company Secretary and obtain clearance before dealing in BlueScope Steel securities. Directors and senior management are prohibited from dealing in BlueScope Steel securities outside designated trading windows.

Any dealings in BlueScope Steel securities by a Director are reported to the Board at its next meeting. The ASX is notified of any share dealings by a Director within five business days.

Corporate social responsibility

BlueScope Steel is committed to meeting high standards of compliance with respect to its health, safety, environmental and community responsibilities, which are essential to the way in which the BlueScope Steel Group conducts its business.

Some of these important issues are the responsibility of the Health, Safety and Environment Committee. However, BlueScope Steel views these matters as key issues, for which BlueScope Steel can have an impact in every aspect of its operations and interactions within the communities in which it operates.

The Health, Safety, Environmental and Community Policy addressing these issues can be found on BlueScope Steel's website www.bluescopesteel.com.

BlueScope Steel Guide to Business Conduct

BlueScope Steel has a Guide to Business Conduct, which provides an ethical and legal framework for all employees. The Guide defines how the BlueScope Steel Group relates to its customers, employees, shareholders and the community.

At the core of the Guide to Business Conduct is the desire to build trust between BlueScope Steel and these stakeholders, through the implementation of principles of legal compliance and proper process; fair competition; the application of industry best practice to the health, safety and well-being of BlueScope Steel's employees; a focus on long-term benefits rather than short-term advantage for individuals; cooperation, driven by BlueScope Steel's belief in people and teamwork; and respect for the diverse range of people and cultures.

The Guide to Business Conduct provides a common behavioural framework applicable to all BlueScope Steel's employees, irrespective of their specific job, direct employer or location around the world. The Guide also applies to BlueScope Steel's Non-Executive Directors.

Guidelines are available to assist employees to report suspected incidents of business misconduct, such as fraud, misappropriation and breach of legislative requirements. Reports of suspected business misconduct may be made directly to line managers, to BlueScope Steel's Business Conduct Panel or a whistleblower hotline. Disclosures to the hotline may be made on a confidential basis. The Guidelines also detail how BlueScope Steel will respond to allegations of business misconduct, in particular, the protections that will be offered to employees who report suspected misconduct and how the outcomes of investigations will be reported.

Political contributions

BlueScope Steel does not contribute funds to any political party, politician, or candidate for public office. It may, however, incur costs for attendance at events hosted by a political party for briefing purposes or for the purpose of meeting and having dialogue with political figures, and contributes to the public debate of policy issues that may affect it in the countries in which it operates.

INFORMATION ON DIRECTORS

Graham Kraehe AO, Chairman (Independent)
Age 63, BEc
Director since: May 2002

Extensive background in manufacturing and was Managing Director and Chief Executive Officer of Southcorp Limited from 1994 to February 2001. A board member of Brambles Industries Limited since December 2005, Djerriwarrh Investments Limited since July 2002, the Innovation Economy Advisory Board for Victoria since December 2002 and a member of the Chairman's Panel of the Business Council of Australia. Mr Kraehe was a Non-Executive Director of National Australia Bank Limited from August 1997 to September 2005, including as Chairman from February 2004 to September 2005, and a Non-Executive Director of News Corporation Limited from January 2001 until April 2004 and Brambles Industries Limited from December 2000 until March 2004.

He brings skills and experience in manufacturing management and in companies with substantial and geographically diverse industrial operations. Mr Kraehe's experience with a wide range of organisations is relevant for his role as Chairman of the Board.

Ron McNeilly Deputy Chairman (Independent)
Age 63, BCom, MBA, FCPA
Director since: May 2002

Deputy Chairman of the Board with over 30 years' experience in the steel industry. He joined BHP in 1962, and until December 2001 held various positions with the BHP (now BHP Billiton) Group, including Executive Director and President BHP Minerals, Chief Operating Officer, Executive General Manager and was Chief Executive Officer BHP Steel until 1997. The latter role developed his knowledge of many of the businesses comprising BlueScope Steel today.

He is Chairman of Melbourne Business School Limited, Chairman of Worley Parsons Limited and a director since October 2002, and a director of Alumina Ltd since December 2002. Vice President of the Australia Japan Business Cooperation Committee and a member of the Council on Australia Latin America Relations. A Director of Ausmelt Limited from September 2002 until November 2004.

Kirby Adams, Managing Director and Chief Executive Officer
Age 50, BSc (Industrial Eng), MBA

Director since: May 2002.

Appointed Managing Director and Chief Executive Officer of BlueScope Steel Limited in July 2002. Joined the BHP Group in 1995 and held various positions including President BHP Services, Group General Manager and Chief Executive Officer BHP Service Companies, Corporate General Manager Planning and Development and President BHP Steel since February 2000.

A Director and previous Chairman of the International Iron and Steel Institute and a member of the Business Council of Australia.

Diane Grady, Non-Executive Director (Independent)
Age 58, BA (Hons), MA (Chinese Studies), MBA

Director since: May 2002.

Director of Woolworths Ltd since July 1996, Wattyl Ltd since December 1994, Member of ASIC Business Consultative Panel and Senior Advisor to McKinsey & Co. Has served on the Board of a number of public and not-for-profit organisations including Lend Lease Corporation, MLC, Greengrocer.com (Chair), Sydney Opera House and as President of Chief Executive Women. Formerly a partner of McKinsey & Co. serving clients in a wide range of industries on strategic growth and change initiatives.

Highly experienced Director who brings valuable strategic and business expertise to the Board and to her role as Chair of the Remuneration and Organisation Committee.

Kevin McCann AM, Non-Executive Director (Independent)
Age 65, BA LLB (Hons), LLM

Director since: May 2002

Chairman of Healthscope Limited since March 1994, Origin Energy Limited since February 2000, Triako Resources Limited since April 1999, and the Sydney Harbour Federation Trust. Lead independent director of Macquarie Bank Limited and appointed as Director in December 1996, member of the Defence Procurement Advisory Board and has served on the Boards of Pioneer International Limited, Ampol Limited and the State Rail Authority of New South Wales. A member of the Takeovers Panel and the Council of the National Library of Australia.

Until the end of 2004, he was a non-Partner Chairman of Partners of Allens Arthur Robinson, a national law firm. A partner of the firm from 1970 until June 2004, specialising in mergers and acquisitions, mineral and resources law and capital markets transactions.

Brings extensive legal expertise, commercial experience as a director of a number of major listed companies and experience in corporate governance to the Board.

Paul Rizzo, Non-Executive Director (Independent)
Age 61, BCom, MBA

Director since: May 2002.

A Director of National Australia Bank Limited since September 2004, member of the Advisory Board of Mallesons Stephen Jaques, Chairman of Foundation for Very Special Kids and Director of Villa Maria. Formerly Chief Executive Officer and Dean, Director and Professorial Fellow of the Melbourne Business School. Held positions as Group Managing Director – Finance and Administration of Telstra Corporation Limited and senior executive positions at Commonwealth Bank of Australia Limited, State Bank of Victoria Limited and Australia and New Zealand Banking Group Limited. Formerly a director of Seven Network Limited and N M Rothschild & Sons (Australia) Pty Limited, and Chairman of the Financial Reporting Council. His extensive financial and commercial experience is valuable to the Board and in his role as Chairman of the Audit and Risk Committee.

Tan Yam Pin, Non-Executive Director (Independent)
Age 65, BEc (Hons), MBA, CA

Director since: May 2003.

A chartered accountant by profession, formerly Managing Director of Fraser and Neave Group, one of South-East Asia's leading public companies, and Chief Executive Officer of its subsidiary company, Asia Pacific Breweries Limited. A Member of the Public Service Commission of Singapore since 1990. Chairman of PowerSereya Limited (Singapore) and is also a member of the Supervisory Board of Keppel Land Limited (Singapore), Singapore Post Limited, Great Eastern Holdings Limited, CISCO Security Pte. Ltd, and International Enterprise Singapore. He resigned as Director of The East Asiatic Company Limited A/S (Denmark) in April 2006.

Mr Tan resides in Singapore. He brings extensive knowledge of Asian markets, an area of strategic importance to BlueScope Steel. His financial and leadership skills complement the skills on the Board.

2006 CONCISE FINANCIAL REPORT

BLUESCOPE STEEL LIMITED **CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	2006 $M	2005 $M
Revenue		**8,031.5**	7,965.3
Other income		**52.4**	1.5
Changes in inventories of finished goods and work in progress		**92.6**	146.7
Raw materials and consumables used		**(3,941.9)**	(3,296.8)
Employee benefits expense		**(1,399.2)**	(1,333.6)
Depreciation and amortisation expense		**(293.5)**	(297.3)
Impairment of non-current assets		**(64.9)**	(83.9)
Freight on external despatches		**(562.9)**	(484.3)
External services		**(1,078.5)**	(1,093.0)
Finance costs		**(90.0)**	(44.4)
Other expenses		**(452.0)**	(363.9)
Share of net profits of associates and joint venture partnership accounted for using the equity method		**175.0**	200.0
Profit before income tax		**468.6**	1,316.3
Income tax (expense)/revenue		**(125.8)**	(334.3)
Profit for the year		**342.8**	982.0
Profit attributable to minority interest		**(5.2)**	(0.1)
Profit attributable to members of BlueScope Steel Limited		**337.6**	981.9
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	7	**47.9**	134.0
Diluted earnings per share	7	**47.7**	131.0

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

BLUESCOPE STEEL LIMITED **CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2006**

	2006 $M	2005 $M
ASSETS		
Current assets		
Cash and cash equivalents	61.9	84.6
Derivative financial instruments	0.2	–
Receivables	1,319.2	1,052.8
Inventories	1,270.2	1,152.2
Other	55.9	39.4
	2,707.4	2,329.0
Non-current assets classified as held for sale	34.1	–
Total current assets	2,741.5	2,329.0
Non-current assets		
Receivables	24.5	12.4
Retirement benefit assets	24.8	0.5
Inventories	59.2	58.6
Investments accounted for using the equity method	302.8	257.9
Property, plant and equipment	3,743.2	3,374.4
Deferred tax assets	121.1	147.9
Intangible assets	226.8	200.1
Other	16.7	4.9
Total non-current assets	4,519.1	4,056.7
Total assets	7,260.6	6,385.7
LIABILITIES		
Current liabilities		
Payables	957.6	818.6
Interest bearing liabilities	689.7	255.7
Current tax liabilities	31.2	215.6
Provisions	504.1	430.0
Deferred income	76.8	60.5
Derivative financial instruments	0.6	-
Total current liabilities	2,260.0	1,780.4
Non-current liabilities		
Payables	-	5.0
Interest bearing liabilities	1,262.3	620.2
Deferred tax liabilities	284.2	300.3
Provisions	178.7	157.5
Retirement benefit obligations	189.3	261.9
Derivative financial instruments	1.2	-
Total non-current liabilities	1,915.7	1,344.9
Total liabilities	4,175.7	3,125.3
Net assets	3,084.9	3,260.4
EQUITY		
Contributed equity	1,653.9	1,747.5
Reserves	(87.0)	(65.3)
Retained profits	1,467.1	1,535.0
Parent entity interest	3,034.0	3,217.2
Minority interest	50.9	43.2
Total equity	3,084.9	3,260.4

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

BLUESCOPE STEEL LIMITED **CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2006**

	2006 $M	2005 $M
Cashflow hedges:		
Gains/(losses) taken to equity	(1.7)	-
Net gains/(losses) on hedge of net investments	98.0	-
Exchange differences on translation of foreign operations	(96.5)	(82.4)
Actuarial gains/(losses) on defined benefit plans	62.7	(92.7)
Income tax on items taken directly to or transferred from equity	(42.5)	12.6
Net income/(expense) recognised directly in equity	20.0	(162.5)
Profit for the year	342.8	982.0
Total recognised income and expense for the year	362.8	819.5
Total recognised income and expense for the year is attributable to:		
Members of BlueScope Steel Ltd	354.3	824.5
Minority interest	8.5	(5.0)
	362.8	819.5

The above consolidated statement of recognised income and expense should be read in conjunction with the accompanying notes

BLUESCOPE STEEL LIMITED **CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	2006 $M	2005 $M
Cash flows from operating activities			
Receipts from customers		8,095.6	8,160.2
Payments to suppliers and employees		(7,623.9)	(7,084.4)
		471.7	1,075.8
Dividends received		5.1	4.1
Joint venture partnership distributions received		168.5	123.4
Interest received		2.7	3.7
Other revenue		18.4	21.0
Finance costs paid		(78.7)	(26.9)
Income taxes paid (received)		(356.0)	(312.1)
Net cash (outflow) inflow from operating activities		231.7	889.0
Cash flows from investing activities			
Payment for subsidiaries, net of cash acquired		(2.2)	(17.8)
Disposal of subsidiary into joint venture partnership		(3.6)	–
Payments for property, plant and equipment		(764.5)	(578.8)
Payments for intangibles		(32.7)	(21.2)
Payments for investment in joint venture partnership		(1.3)	(1.6)
Payments for investment in associates		(0.7)	(0.5)
Payments for investment in business assets		(11.5)	(43.1)
Proceeds from sale of property, plant and equipment		20.8	7.0
Proceeds from sale of business assets		2.3	5.8
Joint venture partnership loan receivable repaid		–	28.5
Net cash (outflow) inflow from investing activities		(793.4)	(621.7)
Cash flows from financing activities			
Proceeds from issues of shares		1.3	36.9
Payments for shares bought back		(95.0)	(327.0)
Proceeds from borrowings		8,904.5	2,894.5
Repayment of borrowings		(7,819.9)	(2,545.5)
Dividends paid to company's shareholders	6	(453.2)	(343.0)
Dividends paid to minority interests in subsidiaries		(2.5)	(5.2)
Capital return to minority interests in subsidiaries		(0.3)	–
Capital injection by minority interests in subsidiaries		2.1	–
Net cash inflow (outflow) from financing activities		537.0	(289.3)
Net increase (decrease) in cash and cash equivalents		(24.7)	(22.0)
Cash and cash equivalents at the beginning of the financial year		83.0	118.1
Effects of exchange rate changes on cash and cash equivalents		0.7	(13.1)
Cash and cash equivalents at end of year		59.0	83.0

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

1 BASIS OF PREPARATION OF THE CONCISE FINANCIAL REPORT

This concise financial report relates to the consolidated entity consisting of BlueScope Steel Limited and the entities it controlled at the end, or during, the year ended 30 June 2006. The accounting policies adopted have been consistently applied to all years presented, unless otherwise stated.

The concise financial report has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 1039 Concise Financial Reports.

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

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities as the full financial report. Further financial information can be obtained from the full financial report.

The full financial report on which this concise financial report is based is the first annual BlueScope Steel Limited financial report to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs). AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing the full financial report.

Financial statements of BlueScope Steel Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing BlueScope Limited 2006 financial statements, management has amended certain accounting and valuation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are provided in note 8 of this concise report.

Rounding of Amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars.

2 PRESENTATION CURRENCY

The presentation currency used in the concise financial report is Australian dollars.

3 FULL FINANCIAL REPORT

Further financial information can be obtained from the full financial report which is available from the company, free of charge, on request. A copy may be requested by contacting the company's share registrar whose details appear in the Corporate Directory. Alternatively, both the full financial report and the concise financial report can be accessed via the internet at www.bluescopesteel.com.

4 SEGMENT INFORMATION

Description of segments

Business segments

The consolidated entity has six business reporting segments: Hot Rolled Products Australia, Coated and Building Products Australia, New Zealand and Pacific Steel Products (formerly New Zealand Steel), Coated and Building Products Asia, Hot Rolled Products North America and Coated and Building Products North America.

Hot Rolled Products Australia

Hot Rolled Products includes the Port Kembla Steelworks, a steel making operation with an annual production capacity of approximately 5.1 million tonnes of crude steel. The Port Kembla Steelworks manufactures and distributes slab, hot rolled coil and plate. Slab and hot rolled coil is supplied to Coated and Building Products Australia for further processing, as well as to other domestic and export customers.

Coated and Building Products Australia

Coated and Building Products Australia markets a range of products and material solutions to the Australian building and construction industry and is also a key supplier to the Australian automotive sector, packaging industry, major white goods manufacturers and general manufacturers. Coated and Building Products Australia is a leader in metallic coating and painting technologies supplying a wide range of branded products such as COLORBOND® pre-painted steel, ZINCALUME® zinc/aluminium alloy coated steel and the LYSAGHT® range of building products.

The Coated and Building Products business comprises two main metallic coating production facilities at Springhill in New South Wales and Western Port in Victoria together with a network of manufacturing and distribution facilities throughout Australia. The Company has announced its intention to close its tin mill facility at Springhill, which supplies tinplate to the Australian packaging industry.

New Zealand and Pacific Steel Products

The New Zealand Steel operation at Glenbrook, New Zealand, produces a full range of flat steel products for both domestic and export markets. It has an annual production capacity of 0.6 million tonnes. The segment also includes facilities in New Caledonia, Fiji and Vanuatu which manufacture and distribute the LYSAGHT® range of products.

Coated and Building Products Asia

Coated and Building Products Asia manufactures and distributes a range of metallic coated, painted steel products and pre engineered steel building systems primarily to the building and construction industry and to some sections of the manufacturing industry across Asia.

Hot Rolled Products North America

Hot Rolled Products North America includes a 50% interest in the North Star BlueScope Steel joint venture, a steel mini mill in the United States, a 47.5% shareholding in Castrip LLC, and North American export trading activities.

Coated and Building Products North America

Coated and Building Products North America includes two main divisions: the North American Buildings Group, which designs, manufactures and markets pre engineered steel buildings and component systems; and Vistawall, which manufactures and sells extruded aluminium and glass products for the building and construction sector.

Corporate and Group

Corporate and Group relates primarily to logistics and corporate activities.

Geographical segments

The Group's geographical segments are determined based on the location of its market and customers. The Group operates in four main geographical areas being Australia, New Zealand, Asia and North America.

SEGMENT INFORMATION

Primary reporting format – business segments

2006	Hot Rolled Products Australia $M	Coated and Building Products Australia $M	New Zealand and Pacific Steel Products $M	Coated and Building Products Asia $M	Hot Rolled Products North America $M	Coated and Building Products North America $M	Corporate and Group $M	Inter-segment eliminations/ unallocated $M	Total $M
Sales to external customers	1,634.6	2,950.8	575.0	1,045.9	486.0	1,210.9	109.4	-	8,012.6
Intersegment sales	1,837.3	113.6	133.9	29.1	14.4	2.3	311.0	(2,441.6)	-
Total sales revenue	3,471.9	3,064.4	708.9	1,075.0	500.4	1,213.2	420.4	(2,441.6)	8,012.6
Other revenue	0.6	1.3	5.5	3.2	0.3	7.7	3.5	(3.2)	18.9
Total segment revenue	3,472.5	3,065.7	714.4	1,078.2	500.7	1,220.9	423.9	(2,444.8)	8,031.5
Segment result	456.4	(198.1)	101.7	(3.7)	18.6	23.5	(77.5)	56.4	377.3
Share of net profits of associates and joint venture partnerships	-	-	2.9	(0.5)	169.0	3.6	-	-	175.0
Share of gain (loss) on sale of investments	-	-	-	3.4	-	-	-	-	3.4
Segment EBIT	456.4	(198.1)	104.6	(0.8)	187.6	27.1	(77.5)	56.4	555.7
Unallocated revenue less unallocated expenses									(87.1)
Profit before income tax									468.6
Income tax expense									(125.8)
Profit for the year									342.8
Segment assets	2,451.5	1,891.6	570.5	1,511.2	166.9	507.7	69.2	(394.7)	6,773.9
Investments in associates and joint venture partnership	-	-	4.5	35.7	256.4	6.2	-	-	302.8
Allocated assets	2,451.5	1,891.6	575.0	1,546.9	423.3	513.9	69.2	(394.7)	7,076.7
Unallocated assets									183.9
Total assets									7,260.6
Segment liabilities	614.9	551.7	233.1	331.8	165.4	282.9	68.3	(366.0)	1,882.1
Unallocated liabilities									2,293.6
Total liabilities									4,175.7
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	206.7	244.5	55.3	290.1	0.4	28.7	14.1	-	839.8
Depreciation and amortisation expense	132.6	74.6	27.1	36.5	0.4	19.9	2.4	-	293.5
Impairment of associates and joint venture partnerships	-	-	-	-	1.3	-	-	-	1.3
Impairment of property, plant and equipment	-	50.9	-	3.0	-	0.4	-	-	54.3

SEGMENT INFORMATION
Primary reporting format – business segments continued

2005	Hot Rolled Products Australia $M	Coated and Building Products Australia $M	New Zealand and Pacific Steel Products $M	Coated and Building Products Asia $M	Hot Rolled Products North America $M	Coated and Building Products North America $M	Corporate and Group $M	Inter-segment eliminations/ unallocated $M	Total $M
Sales to external customers	1,744.6	2,984.9	615.5	997.2	370.2	1,132.1	96.2	–	7,940.7
Intersegment sales	1,986.6	205.4	129.9	26.8	6.4	2.3	267.9	(2,625.3)	–
Total sales revenue	3,731.2	3,190.3	745.4	1,024.0	376.6	1,134.4	364.1	(2,625.3)	7,940.7
Other revenue	0.5	1.4	6.4	2.4	1.3	10.7	4.8	(2.9)	24.6
Total segment revenue	3,731.7	3,191.7	751.8	1,026.4	377.9	1,145.1	368.9	(2,460.4)	7,965.3
Segment result	1,149.3	(182.7)	186.0	81.1	5.4	(19.2)	(53.2)	(9.1)	1,157.6
Share of net profits of associates and joint venture partnerships	–	–	3.3	1.5	194.0	1.2	–	–	200.0
Segment EBIT	1,149.3	(182.7)	189.3	82.6	199.4	(18.0)	(53.2)	(9.1)	1,357.6
Unallocated revenue less unallocated expenses									(41.3)
Profit before income tax									1,316.3
Income tax expense									(334.3)
Profit for the year									982.0
Segment assets	2,267.0	1,745.5	572.4	1,162.8	85.5	469.3	48.2	(358.1)	5,992.6
Investments in associates and joint venture partnership	–	–	4.4	1.9	246.9	4.7	–	–	257.9
Allocated assets	2,267.0	1,745.5	576.8	1,164.7	332.4	474.0	48.2	(358.1)	6,250.5
Unallocated assets									135.2
Total assets									6,385.7
Segment liabilities	497.4	490.4	271.2	286.1	71.2	278.2	59.0	(272.9)	1,680.6
Unallocated liabilities									1,444.7
Total liabilities									3,125.3
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	139.5	175.2	35.6	344.1	0.6	50.5	1.7	–	747.2
Depreciation and amortisation expense	131.5	91.4	27.6	24.8	0.2	19.9	1.9	–	297.3
Impairment of associates and joint venture partnerships	–	–	–	–	1.6	–	–	–	1.6
Impairment of property, plant and equipment	–	82.3	–	–	–	–	–	–	82.3

5 REVENUE SUMMARY

	2006 $M	2005 $M
Sale of goods	7,898.5	7,842.0
Services	114.1	98.7
Other revenue	18.9	24.6
	8,031.5	7,965.3

6 DIVIDENDS

a) Ordinary shares

Final dividend for the year ended 30 June 2005 of 44 cents (2004: 28 cents) per fully paid share paid on 24 October 2005 (2004: 18 October 2004)		
Final fully franked based on tax paid @ 30% – 24 cents (2004: 18 cents) per share	170.9	134.9
Special fully franked based on tax paid @ 30% – 20 cents (2004: 10 cents) per share	142.5	74.9
	313.4	209.8
Interim dividend for the year ended 30 June 2006 of 20 cents (2005: 18 cents) per fully paid share paid on 3 April 2006 (2005: 4 April 2005)		
Fully franked based on tax paid @ 30%	139.8	133.2
Total dividends provided for or paid	453.2	343.0

b) 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 24 cents (2005: 24 cents plus 20 cents special dividend) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 24 October 2006 out of retained profits at 30 June 2006, but not recognised as a liability at year end, is	168.3	313.5

c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2006 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2006.

Actual franking account balance as at the reporting date	148.1	54.2
Franking credits that will arise from the payment of income tax payable as at the reporting date	10.3	203.7
Franking credits available for subsequent financial years based on a tax rate of 30% (2005: 30%)	158.4	257.9

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $72.1 million (2005: $134.3 million).

7 EARNINGS PER SHARE

	2006 Cents	2005 Cents
a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	**47.9**	134.0
b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company	**47.7**	131.0

c) Reconciliations of earnings used in calculating earnings per share

	2006 $M	2005 $M
Basic Earnings per share		
Profit from continuing operations	342.8	982.0
Profit from continuing operations attributable to minority interests	(5.2)	(0.1)
Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	337.6	981.9

d) Weighted average number of shares used as the denominator

	2006 Number	2005 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	**704,064,627**	733,031,445
Adjustments for the effect of dilution:		
Weighted average number of share rights	**3,809,488**	14,478,101
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**707,874,115**	747,509,546

e) Earnings per share calculation

(i) Basic earnings per share

Basic earnings per share is calculated by dividing net profit attributable to the ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the period.

(ii) Diluted earnings per share

Diluted earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued upon the conversion of all dilutive potential ordinary shares into ordinary shares.

Share rights granted to eligible senior managers under the Long Term Incentive Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. Details relating to the share rights are set out in the 30 June 2006 Remuneration Report.

8 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

a) At the date of transition to AIFRS: 1 July 2004

		Consolidated		
	Notes	Previous AGAAP $M	Effect of transition $M	AIFRS $M
ASSETS				
Current assets				
Cash and cash equivalents		119.4	-	119.4
Receivables		989.2	-	989.2
Inventories		891.4	-	891.4
Other	(d)	43.7	(1.4)	42.3
Total current assets		2,043.7	(1.4)	2,042.3
Non-current assets				
Receivables	(l)	7.1	6.7	13.8
Inventories		71.1	-	71.1
Investments accounted for using the equity method	(h)	236.3	5.3	241.6
Other financial assets	(h)	4.6	(4.5)	0.1
Property, plant and equipment	(d) (e)	3,288.6	(163.4)	3,125.2
Deferred tax assets	(i)	58.0	87.5	145.5
Intangible assets	(d)	60.1	65.3	125.4
Other	(d)	12.6	(2.9)	9.7
Total non-current assets		3,738.4	(6.0)	3,732.4
Total assets		5,782.1	(7.4)	5,774.7
LIABILITIES				
Current liabilities				
Payables		728.3	-	728.3
Interest bearing liabilities		416.0	-	416.0
Current tax liabilities		154.3	-	154.3
Provisions	(n)	281.5	160.2	441.7
Retirement benefit obligations	(f)	13.2	(13.2)	-
Deferred income		92.5	-	92.5
Total current liabilities		1,685.8	147.0	1,832.8
Non-current liabilities				
Interest bearing liabilities		176.7	-	176.7
Deferred tax liabilities	(i)	388.3	(30.5)	357.8
Provisions	(l) (n)	291.7	(153.5)	138.2
Retirement benefit obligations	(f)	46.0	150.4	196.4
Total non-current liabilities		902.7	(33.6)	869.1
Total liabilities		2,588.5	113.4	2,701.9
Net assets		3,193.6	(120.8)	3,072.8
EQUITY				
Contributed equity		1,914.9	-	1,914.9
Reserves	(a) (g)	(77.5)	80.0	2.5
Retained profits	(j)	1,302.9	(200.8)	1,102.1
Parent entity interest		3,140.3	(120.8)	3,019.5
Minority interest		53.3	-	53.3
Total equity		3,193.6	(120.8)	3,072.8

8 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (CONTINUED)

b) At the end of the last reporting period under previous AGAAP: 30 June 2005

		Consolidated		
	Notes	Previous AGAAP $M	Effect of transition $M	AIFRS $M
ASSETS				
Current assets				
Cash and cash equivalents		84.6	-	84.6
Receivables		1,052.8	-	1,052.8
Inventories		1,152.2	-	1,152.2
Other	(b)	39.5	(0.1)	39.4
Total current assets		2,329.1	(0.1)	2,329.0
Non-current assets				
Receivables	(l)	7.5	4.9	12.4
Retirement benefit assets	(f)	-	0.5	0.5
Inventories		58.6	-	58.6
Investments accounted for using the equity method	(h)	253.5	4.4	257.9
Other financial assets	(h)	4.5	(4.5)	-
Property, plant and equipment	(d) (e)	3,629.0	(254.6)	3,374.4
Deferred tax assets	(i)	61.6	86.3	147.9
Intangible assets	(c) (d)	112.4	87.7	200.1
Other	(d)	7.5	(2.6)	4.9
Total non-current assets		4,134.6	(77.9)	4,056.7
Total assets		6,463.7	(78.0)	6,385.7
LIABILITIES				
Current liabilities				
Payables		818.6	-	818.6
Interest bearing liabilities		255.7	-	255.7
Current tax liabilities		215.6	-	215.6
Provisions	(n)	263.0	167.0	430.0
Deferred income		60.5	-	60.5
Total current liabilities		1,613.4	167.0	1,780.4
Non-current liabilities				
Payables		5.0	-	5.0
Interest bearing liabilities		620.2	-	620.2
Deferred tax liabilities	(i)	351.9	(51.6)	300.3
Provisions	(l) (n)	319.6	(162.1)	157.5
Retirement benefit obligations	(f)	53.1	208.8	261.9
Total non-current liabilities		1,349.8	(4.9)	1,344.9
Total liabilities		2,963.2	162.1	3,125.3
Net assets		3,500.5	(240.1)	3,260.4
EQUITY				
Contributed equity		1,747.5	-	1,747.5
Reserves	(a) (b) (f) (g) (i)	(131.2)	65.9	(65.3)
Retained profits	(j)	1,841.0	(306.0)	1,535.0
Parent entity interest		3,457.3	(240.1)	3,217.2
Minority interest		43.2	-	43.2
Total equity		3,500.5	(240.1)	3,260.4

8 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (CONTINUED)

2) Reconciliation of profit for the year ended 30 June 2005

		Consolidated		
	Notes	Previous AGAAP $M	Effect of transition $M	AIFRS $M
Revenue	(h)	7,967.4	(2.1)	7,965.3
Other income	(m)	14.2	(12.7)	1.5
Changes in inventories of finished goods and work in progress		146.7	-	146.7
Raw materials and consumables used		(3,296.8)	-	(3,296.8)
Employee benefits expense	(f) (g)	(1,347.0)	13.4	(1,333.6)
Depreciation and amortisation expense	(c) (d) (e)	(306.1)	8.8	(297.3)
Impairment of non-current assets	(e)	(1.6)	(82.3)	(83.9)
Freight on external despatches		(484.3)	-	(484.3)
External services		(1,093.0)	-	(1,093.0)
Carrying amount of non-current assets sold	(m)	(9.9)	9.9	-
Finance costs - net	(k)	(37.5)	(6.9)	(44.4)
Other expenses	(b) (d) (h) (k) (m)	(394.7)	30.8	(363.9)
Share of net profits of associates and joint venture partnership accounted for using the equity method	(h)	196.7	3.3	200.0
Profit before income tax		1,354.1	(37.8)	1,316.3
Income tax expense	(b) (c) (e) (f) (i)	(347.0)	12.7	(334.3)
Profit for the year		1,007.1	(25.1)	982.0
Profit attributable to minority interest		(0.1)	-	(0.1)
Profit attributable to members of BlueScope Steel Ltd		1,007.0	(25.1)	981.9

3) Reconciliation of cash flows under previous AGAAP to cash flows under AIFRS

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statements.

4) Notes to the reconciliations

a) Foreign currency translation reserve: cumulative translation differences

Under AIFRS, upon disposal of a foreign operation, the cumulative translation differences for that operation are recognised in the income statement as part of the gain or loss on disposal. Under previous Australian Accounting Standards this amount was transferred directly to retained profits.

The Group has elected to apply the exemption available in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards whereby the cumulative translation differences for all foreign operations represented in the foreign currency translation reserve are deemed to be zero and transferred to retained profits at the date of transition to AIFRS. The effect is:

(i) At 1 July 2004

The balance of the $77.5 million debit in the foreign currency translation reserve is reduced to zero with a corresponding decrease in retained profits.

(ii) At 30 June 2005

The debit balance of the foreign currency translation reserve is reduced by $77.5 million with a corresponding decrease in retained profits.

8 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (CONTINUED)

b) Foreign currency translation: foreign currency loans

AASB 121 Effect of Changes in Foreign Exchange Rates requires exchange gains and losses arising from loan balances, including intercompany loans, to remain in the consolidated income statement unless they form part of a net investment in a foreign operation, subject to stringent hedge accounting requirements. If these requirements are met, the exchange fluctuation and any associated tax effects are able to be reported in a separate component of equity and would be realised upon disposal of the foreign operation.

The Company's foreign currency loans, including intercompany loans, not denominated in the functional currency of the business do not meet the tests required under AASB 121 for a hedge of a net investment of a foreign operation resulting in exchange fluctuations on loan balances, and the associated tax effects being taken to the income statement. Under previous accounting standards these items were recorded against the foreign currency translation reserve. As a result of the foreign currency translation reserve being reduced to zero as at 1 July 2004 in accordance with AASB 1 as set out at Note 8 (4)(a) above, any deferred tax balances recorded are also transferred to retained profits.

Management has undertaken a thorough review of the future impact on the income statement from foreign currency exposures arising from the changes identified above. From 1 July 2005, foreign currency exposure has been managed through balancing foreign exchange debt with foreign exchange intercompany balances and no material earnings volatility is expected.

The effect of the transition to AIFRS is:

(i) At 1 July 2004

There is an increase of $6.8 million in deferred tax liabilities, and a corresponding decrease in retained profits.

(ii) At 30 June 2005

There is an increase of $12.6 million in deferred tax liabilities, an increase of $9.3 million in retained profits, a decrease of $0.1 million in other current assets, and a decrease of $22.0 million in the foreign currency translation reserve.

(iii) For the year ended 30 June 2005

There has been a decrease of $21.9 million in other expenses and an increase of $5.7 million in income tax expense.

c) Business combinations

Under AASB 3 Business Combinations goodwill is no longer amortised but is subject to annual impairment testing. This has resulted in the reversal of accumulated goodwill amortisation previously recognised under Australian Accounting Standards. Current impairment tests have confirmed no impairment of goodwill.

The Group has adopted the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards not to restate pre 1 July 2004 business combinations.

Under AIFRS, guidance provided for identifying acquired intangible assets is more prescriptive than under AGAAP. As a result, identifiable intangible assets have increased with a corresponding decrease in goodwill on post 1 July 2004 business combinations.

Consistent with the AIFRS income tax methodology, business combinations post 1 July 2004 are required to incorporate the tax effect of fair value adjustments, therefore impacting the amount of goodwill recognised.

The effect of transition to AIFRS is:

(i) At 1 July 2004

No adjustments due to the exemption adopted under AASB 1 to not restate pre 1 July 2004 business combinations.

(ii) At 30 June 2005

For the Group there has been a decrease in retained profits of $5.1 million and deferred tax liabilities of $4.9 million. Intangible assets arising from business combinations have increased by $10.0 million of which $4.7 million represents the reversal of amortisation on existing goodwill. The remainder is the net effect of the recognition of separately identifiable intangibles at fair value on post 1 July 2004 business combinations, the resulting tax effect of the fair value adjustments.

(iii) For the year ended 30 June 2005

For the Group depreciation and amortisation expense has decreased by $5.0 million and income tax expense has decreased by $0.1 million.

d) Computer software and non compete intangible assets

AASB 138 Intangible Assets requires computer software that is not an integral part of computer hardware or is not integral to a piece of machinery to be classified as an intangible asset. Previously under Australian Accounting Standards, the Group classified all capitalised computer software as property, plant and equipment.

Under Australian Accounting Standards in force at that time, the Group classified deferred non compete agreement costs arising from the Butler Manufacturing Company acquisition as other assets. AASB 138 requires this to be classified as an intangible asset.

The transition to AIFRS has resulted in a reclassification of both deferred non compete agreement costs and capitalised non- operating computer software to intangible assets. The effect of this is:

(i) At 1 July 2004

For the Group there has been a decrease of $1.4 million in other current assets, a decrease of $2.9 million in other non current assets, a decrease of $61.0 million in property, plant and equipment, and an increase of $65.3 million in intangible assets.

(ii) At 30 June 2005

For the Group there has been a decrease of $2.6 million in other non-current assets, a decrease of $75.1 million in property, plant and equipment, and an increase of $77.7 million in intangible assets.

(iii) For the year ended 30 June 2005

For the Group amortisation of the non compete agreement, $1.3 million has been reclassified from other expenses to depreciation and amortisation expense.

e) Impairment of assets

Previously under Australian Accounting Standards, operations were grouped into income generating units (IGUs) for the purposes of impairment testing. IGUs were defined as a group of assets working together to generate cashflows. AIFRS requires that assets be tested for impairment based on cash generating units (CGUs). CGUs are defined as the smallest group of assets that generate cash flows from continuing use that are largely independent. The CGU approach requires certain assets to be tested for impairment on a stand alone basis rather than being grouped into an IGU. In addition, the discount rate is required to include a country risk premium. Both of these differences have increased the possibility of certain assets being impaired.

The transition to AIFRS has resulted in an impairment write-down for the Packaging Products CGU, which under previous Australian Accounting Standards, was grouped and tested with other Australian steel manufacturing assets (Port Kembla Steelworks, Springhill and Western Port operations). Packaging Products is impaired on a stand alone basis primarily as a result of low growth and margin compression since the facility was upgraded in the 1990s and further impaired at 30 June 2005 due to increases in unit costs following the withdrawal from export tinplate. The Company has since announced its intention to close the tinplate producing assets but will continue to operate the cold rolling mill.

The effect of the transition to AIFRS is:

(i) At 1 July 2004

For the Group there has been a decrease of $102.3 million in property, plant and equipment and a decrease of $71.6 million in retained profits. Deferred tax liabilities have decreased by $30.7 million.

(ii) At 30 June 2005

For the Group there has been a decrease of $179.5 million in property, plant and equipment and a decrease of $125.7 million in retained profits. Deferred tax liabilities have decreased by $53.8 million.

(iii) For the year ended 30 June 2005

For the Group diminution in value of non current assets expense has increased by $82.3 million, depreciation and amortisation expense has decreased by $5.1 million and income tax expense has decreased by $23.2 million.

f) Retirement benefit obligations

BlueScope Steel Ltd has superannuation funds consisting of both defined benefit plans and defined contribution plans. The Group's defined benefit plans consist of the BlueScope Steel Superannuation Fund (Australia), the New Zealand Steel Pension Fund, and the Butler Manufacturing Company defined benefit plans (US and United Kingdom).

Under AIFRS, employer sponsors are required to recognise the net surplus or deficit in employer sponsored defined benefit superannuation funds as an asset or liability. This asset or liability is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial losses (less recognised actuarial gains) less the fair value of the superannuation fund's assets at the date. 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 half yearly by independent actuaries. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. The accrued benefit liability is required to be discounted using the corporate bond rate.

Under previous Australian Accounting Standards, cumulative actuarial gains and losses on defined benefit plans were not recognised on the balance sheet unless a legal obligation existed. At the date of transition, the Group recognised an actuarially determined liability for the combined net deficit of the defined benefit superannuation plans in shortfall, and an asset for the defined benefit superannuation plan in surplus, reflecting the difference between the present value of employee accrued benefits and the market value of the superannuation fund's assets at that date. The resulting liability and asset are not able to be offset as they relate to different plans.

Previously under Australian Accounting Standards, due to existing legal obligations, a liability was recognised for the Butler Manufacturing Company US defined benefit plans. Upon transition to AIFRS, this liability increased as a lower discount rate was used, being a corporate bond rate with similar maturity terms, rather than the expected rate of return on fund assets.

8 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (CONTINUED)

An actuarially determined employment expense is now recognised rather than the Company contributions under previous AGAAP. The associated employee benefits expense is lower under AIFRS as the Company's contributions are in excess of the actuarially determined expense.

In December 2004, AASB 119 Employee Benefits was reissued to provide options in accounting for actuarial gains and losses by allowing either a direct adjustment against retained profits, a progressive profit and loss 'corridor' approach or immediate recognition in the profit and loss. The Group has early adopted the revised standard with all actuarial gains and losses recorded directly in retained profits.

The effect of the transition to AIFRS is:

(i) At 1 July 2004

For the Group there has been an increase of $137.2 million in retirement benefit obligations, a decrease of $6.6 million in deferred tax liabilities, and a decrease of $130.5 million in opening retained profits.

(ii) At 30 June 2005

For the Group there has been an increase of $208.8 million in retirement benefit obligations, an increase of $0.5 million in retirement benefit assets, a decrease of $15.5 million in deferred tax liabilities, and a decrease of $194.8 million in retained profits. The foreign currency translation reserve balance has been credited by $1.6 million.

(iii) For the year ended 30 June 2005

For the Group employee benefits expense has decreased by $19.9 million, and income tax expense has increased by $3.9 million.

g) Share-based payments

Under AASB 2 Share-based Payment from 1 July 2004 the Group is required to recognise an expense and a corresponding increase in reserves for the fair value of share rights and awards granted to employees after 7 November 2002 that had not vested by 1 January 2005. Upon transition to AIFRS, the Group is required to expense the fair value of share rights awarded to senior executives under the 2003 and 2004 Long Term Incentive Plans (LTIP) and any future awards. In addition, the fair value of any shares provided under Employee Share Plans from 1 January 2005 onwards are required to be expensed. Under AGAAP, the shares under all these plans would have been issued at nil cost with no expense recognised.

For details of share rights and awards granted refer to the 30 June 2006 Remuneration Report.

The effect of the transition to AIFRS is:

(i) At 1 July 2004

For the Group there has been a decrease of $2.5 million in opening retained profits and a corresponding increase in reserves.

(ii) At 30 June 2005

For the Group there has been a decrease of $9.0 million in retained profits and a corresponding increase in reserves.

(iii) For the year ended 30 June 2005

For the Group there has been an increase in employee benefits expense of $6.5 million.

h) Equity accounting of associates

Under AASB 128 Investments in Associates where an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. The Group holds some minor investments in New Zealand Steel whereby equity accounting was not previously applied under Australian Accounting Standards with revenue being brought to account when dividends were received.

The effect of the transition to AIFRS is:

(i) At 1 July 2004

For the Group there has been an increase of $5.3 million in investments accounted for using the equity method, a decrease of $4.5 million in other financial assets and an increase of $0.8 million in opening retained profits.

(ii) At 30 June 2005

For the Group there has been an increase of $4.4 million in investments accounted for using the equity method, a decrease of $4.5 million in other financial assets and a decrease of $0.1 million in retained profits.

(iii) For the year ended 30 June 2005

For the Group there has been a decrease of $2.1 million in other revenue (dividend income), an increase of $1.9 million in other expenses and an increase of $3.3 million in share of net profits of associates and joint venture partnership accounted for using the equity method.

(i) Income tax methodology

Under AGAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. AASB 112 Income Taxes focuses on the taxation of transactions and other events that effect amounts recognised in either the balance sheet or a tax-based balance sheet.

Deferred tax is now recognised in relation to fair value adjustments arising from business combinations (refer to point c)). In addition, current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets

Under AIFRS, all tax assets must be recognised when they are probable of realisation. Probable is defined as more likely than not. Under AGAAP income tax losses were only recognised when they were virtually certain of realisation.

Upon transition to AIFRS an additional tax benefit was recognised in relation to New Zealand Steel tax losses. As a result, the Group has commenced recognising a tax expense on New Zealand Steel's profit during the second half of FY 2006.

The effect of this on tax assets is:

(i) At 1 July 2004

For the Group there has been an increase of $87.5 million in deferred tax assets and a corresponding increase in retained profits.

(ii) At 30 June 2005

For the Group there has been an increase of $86.3 million in deferred tax assets, an increase of $86.6 million in retained profits and a decrease of $0.3 million in the foreign currency translation reserve.

(iii) For the year ended 30 June 2005

For the Group, income tax expense has increased by $0.9 million.

Deferred tax liabilities

At 1 July 2004 and at 30 June 2005

The effects on the deferred tax liability of the adoption of AIFRS are as follows (tax rate of 30%):

	Notes	1 July 2004 $M	30 June 2005 $M
Application of AASB 112 to adjustments arising from adoption of other AASBs			
Foreign currency translation	(b)	6.8	12.6
Business combinations and intangibles	(c) (d)	–	4.9
Impairment of assets	(e)	(30.7)	(53.8)
Retirement benefit obligations	(f)	(6.6)	(15.5)
Rounding adjustment		–	0.2
Increase (decrease) in deferred tax liability		(30.5)	(51.6)

j) Retained profits

The effect on retained profits of the adoption of AIFRS are as follows:

Opening exchange fluctuation reserve	(a)	(77.5)	(77.5)
Foreign currency translation	(b)	(6.8)	9.3
Business combinations	(c)	–	5.1
Impairment of assets	(e)	(71.6)	(125.7)
Retirement benefit obligations	(f)	(130.5)	(194.8)
Share-based payments	(g)	(2.5)	(9.0)
Equity accounting	(h)	0.8	(0.1)
Income tax methodology	(i)	87.5	86.6
Rounding adjustment		(0.2)	0.1
Total adjustment		(200.8)	(306.0)

k) Borrowing costs

AASB 137 Provisions, Contingent Liabilities and Contingent Assets requires that the expense arising from the unwinding of material provisions discounted to present value, excluding employee benefits, be classified as a borrowing cost. Previously, under AGAAP the Group did not separate this borrowing cost.

The Group has provisions relating to workers compensation self insurance and product claims that have been discounted to present value.

Upon transition to AIFRS, reclassification in the income statement from other expenses to finance costs amounted to $6.9 million for the Group for the year ending 30 June 2005. There has been no effect on the balance sheet.

l) Set-off of assets and liabilities – third party reimbursements

AASB 137 Provisions, Contingent Liabilities and Contingent Assets requires that recoveries expected from third parties to settle a provision be recognised as a separate asset. As a result, upon transition the Group's expected future workers compensation recoveries have been recognised as a non current receivable rather than an offset against non current workers compensation provisions.

8 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (CONTINUED)

The reclassification amounted to $6.7 million at 1 July 2004, and $4.9 million at 30 June 2005. There has been no effect on the income statement.

m) Revenue recognition on sale of non-current assets

Under AIFRS, a distinction is made between revenue and gains, which has resulted in a change in the presentation of the Group's revenues and expenses. Gains or losses arising from non current asset sales must be recognised as a net amount in the income statement, either as a gain or as an expense. Previously under Australian Accounting Standards recognition occurred on a gross basis, with proceeds as revenue and the carrying amount of disposed assets as an expense.

This change from gross to net recognition has had the effect of decreasing both revenues and expenses in the income statement, with a nil net impact. Gross proceeds from the sale of non current assets and their associated carrying value amounted to $14.2 million and $9.9 million respectively for the year ended 30 June 2005.

n) Reclassification of non-current employee entitlement provisions

AASB 101 Presentation of Financial Statements requires a liability to be classified as current when it satisfies one of four criteria. One of the criteria requiring classification as a current liability is if the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date and hence all annual leave and long service leave has been classified as current. The Group's classification of employee leave entitlements under previous Australian Accounting Standards was based on whether the liability was expected to be settled within a twelve month period from reporting date. For the Group, the provisions reclassified totalled $160.2 million at 1 July 2004 and $167.0 million at 30 June 2005.

o) Financial Instruments – Adjustments on transition to AASB 132 and AASB 139: 1 July 2005

The Group has elected to apply the exemption from restatement of comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. It has therefore continued to apply the previous AGAAP rules to derivatives, financial assets and financial liabilities and also to hedge relationships for the year ended 30 June 2005. The adjustments required for differences between previous AGAAP and AASB 132 and AASB 139 at 1 July 2005 were as follows:

(i) Set-off of assets and liabilities – Sale of receivables program

AASB 139 Financial Instruments: Recognition and Measurement only allows financial assets to be derecognised where an entity transfers substantially all the risks and rewards of ownership of the financial asset. The Group's sale of receivables program does not currently meet the derecognition requirements. As a result, from 1 July 2005 the program has been shown as a current interest bearing liability rather than an offset against receivables and the expense of running the program will be shown as a finance cost cost rather than as other expenses. Under previous AGAAP, the offset against receivables was permitted.

At 1 July 2005:

For the Group there has been an increase in current interest bearing liabilities of $140.0 million with a corresponding increase in current receivables.

If the principles were applied from the date of transition, for the Group current receivables and current interest bearing liabilities would both have increased by $152.1 million at 1 July 2004. The reclassification from other expenses to finance costs would have amounted to $6.5 million for the year ended 30 June 2005.

(ii) Derivative financial instruments – Cash flow hedges

The Group has certain derivative instruments designated as cash flow hedges, the treatment of which differs under AIFRS from previous AGAAP.

For derivative contracts that are designated as a cash flow hedge under AASB 139, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred to the income statement when the forecast purchase occurs. Under previous AGAAP, all derivative gains or losses were deferred until the underlying hedged transaction occurred at which point they were included in the measurement of purchase.

At 1 July 2005:

For the Group a pre-tax net adjustment of a $0.1 million decrease in net assets was recognised representing the reclassification of aluminium cash flow hedges from deferred exchange losses and costs to equity.

9 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 17 August 2006, BlueScope Steel announced it has acquired approximately 19.9% of the shares in Smorgon Steel. The intention of acquiring this strategic stake is to ensure that the proposed Onesteel/Smorgon Steel merger does not proceed in its current form. The total cost of this purchase was $319 million.

The Company has noted the concerns identified by the ACCC in its initial review of the proposed merger and has no intention to acquire further Smorgon Steel shares, but reserves the right to do so in different circumstances.

DIRECTORS' DECLARATION

The directors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2006 as set out in pages 74 to 91 complies with Accounting Standard AASB 1039 Concise Financial Reports.

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

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report, which is available on request.

This declaration is made in accordance with a resolution of the directors.

G J KRAEHE AO, CHAIRMAN

K C ADAMS, MANAGING DIRECTOR & CEO

Melbourne
18 August 2006

INDEPENDENT AUDIT REPORT TO MEMBERS OF BLUESCOPE STEEL LIMITED

SCOPE

The concise financial report and directors' responsibility

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

The directors of the company are responsible for preparing a concise financial report that complies with Accounting Standard AASB 1039 Concise Financial Reports, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the concise financial report.

Audit approach

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

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

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

We have also performed an independent audit of the full financial report of the company for the year ended 30 June 2006. Our audit report was signed on 18 August 2006 and was not subject to any qualification. For a better understanding of our approach to the audit of the full financial report, this report should be read in conjunction with our audit report on the full financial report.

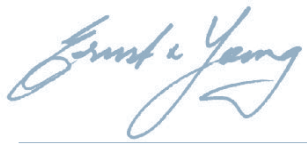
Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, signed on 18 August 2006, a copy of which is included in the Directors' Report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed. In addition to our audit of the full and concise financial reports, we were engaged to undertake the services disclosed in the notes to the financial statements of the full financial report. The provision of these services has not impaired our independence.

AUDIT OPINION

In our opinion:

The concise financial report of BlueScope Steel Limited complies with Accounting Standard AASB 1039 "Concise Financial Reports".



ERNST & YOUNG

ALAN I BECKETT
PARTNER

Melbourne
18 August 2006

SHAREHOLDER INFORMATION

DISTRIBUTION SCHEDULE

RANGE	NO OF HOLDERS	NO. OF SHARES	% OF ISSUED CAPITAL
1-1,000	117,192	51,392,596	7.35
1,001-5,000	61,404	140,372,230	20.09
5,001-10,000	8,573	61,658,830	8.82
10,001-100,000	4,350	92,807,385	13.28
100,001 and Over	193	352,625,399	50.46
Total	191,712	698,856,440	100.00

The number of security investors holding less than a marketable parcel of 73 securities ($6.88 on 04/09/2006) is 5,443 and they hold 207,802 securities.

TWENTY LARGEST REGISTERED SHAREHOLDERS AS AT MONDAY 4 SEPTEMBER 2006

RANK	NAME OF SHAREHOLDER	TOTAL UNITS	% OF ISSUED CAPITAL
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	88,443,400	12.66
2	WESTPAC CUSTODIAN NOMINEES LIMITED	77,206,778	11.05
3	NATIONAL NOMINEES LIMITED	59,297,136	8.48
4	ANZ NOMINEES LIMITED	25,871,838	3.70
5	CITICORP NOMINEES PTY LIMITED	21,169,405	3.03
6	HSBC CUSTODY NOMINEES	5,854,817	.84
7	COGENT NOMINEES PTY LIMITED	4,752,663	.68
8	ELISE NOMINEES PTY LIMITED	4,342,923	.62
9	AMP LIFE LIMITED	3,976,712	.57
10	UBS NOMINEES PTY LTD	2,393,710	.34
11	QUEENSLAND INVESTMENT CORPORATION	2,306,969	.33
12	CITICORP NOMINEES PTY LIMITED	1,930,565	.28
13	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,864,662	.27
14	COGENT NOMINEES PTY LIMITED	1,754,000	.25
15	KIRBY CLARKE ADAMS	1,414,169*	.20
16	AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED	1,200,000	.17
17	AUSTRALIAN REWARD INVESTMENT ALLIANCE C/O J P MORGAN NOMINEES	1,125,801	.16
18	BAINPRO NOMINEES PTY LIMITED	1,094,000	.16
19	ABNED NOMINEES PTY LIMITED	1,046,803	.15
20	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	1,015,735	.15
	Total for Top 20	308,062,086	44.08
	Total other investors	390,794,354	55.92
	Grand total	698,856,440	100.00

* Mr Adams' total shareholding in BlueScope Steel ordinary shares as at Monday 4 September 2006 is unchanged from the shareholding of 2,346,381 (as at 30 June 2006) reported on page 60 of the Directors' Report. His total holding includes shares registered in his own name and relevant interests he holds in shares registered in the names of other persons or entities, including his personal superannuation fund.

SUBSTANTIAL SHAREHOLDERS

The Capital Group Companies, Inc. by a notice of initial substantial holder dated 23 May 2006, advised that it and its associates were entitled to 35,299,687 ordinary shares.

Perennial Value Management Limited by a notice of initial substantial holder dated 1 March 2006, advised that it and its associates were entitled to 37,176,560 ordinary shares.

CORPORATE DIRECTORY

DIRECTORS	**G J Kraehe** AO, Chairman **R J McNeilly** Deputy Chairman **K C Adams** Managing Director and Chief Executive Officer **D J Grady** **H K McCann** AM **P J Rizzo** **Y P Tan**
COMPANY SECRETARY	**M G Barron**
EXECUTIVE LEADERSHIP TEAM	**K C Adams** Managing Director and Chief Executive Officer **B G Kruger** President Australian Manufacturing Markets **L E Hockridge** President North America **N H Cornish** President Australian and New Zealand Industrial Markets **K J Fagg** President Asian Building and Manufacturing Markets **P F O'Malley** Chief Financial Officer **I R Cummin** Executive Vice President People and Performance
NOTICE OF MEETING	The Annual General Meeting (AGM) will be held: Wednesday 15 November 2006 2:00pm (local time) The Sheraton on the Park, 161 Elizabeth Street, Sydney, NSW 2000.
WEBCAST	The AGM will be webcast live on www.bluescopesteel.com and an archived version will be lodged on the website for viewing at a convenient time.
REGISTERED OFFICE	BlueScope Steel Centre Level 11, 120 Collins Street, Melbourne, Victoria 3000 Telephone: +61 3 9666 4000 Fax: +61 3 9666 4111 Email: bluescopesteel@linkmarketservices.com.au Website: www.bluescopesteel.com Postal Address: PO Box 18207, Collins Street East, Melbourne, Victoria 8003
SHARE REGISTRY	Link Market Services Limited Level 12, 680 George Street Sydney, NSW 2000 Telephone (within Australia): 1300 855 998 Telephone (outside Australia): +61 2 8280 7760 Fax: +61 2 9287 0303 Fax: (Proxies Only): +61 2 9287 0309 Email: bluescopesteel@linkmarketservices.com.au Website: www.linkmarketservices.com.au Postal Address: Link Market Services Limited Locked Bag A14 Sydney South, NSW 1235
AUDITOR	Ernst & Young Chartered Accountants 8 Exhibition Street Melbourne, Victoria 3000
STOCK EXCHANGE	BlueScope Steel Limited is listed on the Australian Stock Exchange (ASX code: BSL).

BLUESCOPE STEEL LIMITED
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