

ASX RELEASE

26 May 2010

PROPOSED RESOURCES SUPER PROFITS TAX

Attached is a letter to OneSteel Limited shareholders from the Chairman, Mr Peter Smedley regarding the Proposed Resources Super Profits Tax.

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Further information about OneSteel Limited can be accessed via the website www.onesteel.com

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Dear Shareholder

RE: PROPOSED RESOURCE SUPER PROFITS TAX

I am writing to inform you about the proposed Resource Super Profits Tax (RSPT) announced by the Australian Government on 2 May 2010 and its potential significant adverse impact on OneSteel, our employees, local communities in which we operate, and you as a shareholder.

There has been a lot written and reported about the proposed tax since its announcement and I want to take this opportunity to make sure that you, as a valued investor in OneSteel, are aware of our concerns including the potentially significant adverse impacts of the proposed tax on your investment in our Company.

Facts about OneSteel

Before commenting on the RSPT I would like to highlight some facts about OneSteel. OneSteel makes an important contribution to the Australian economy, to our customers in the local construction, manufacturing, mining and agriculture sectors, and to the regional and suburban communities where we employ over 9,000 people.

We have approximately 110,000 shareholders of which 96% are registered in Australia. Approximately one third of our shares are held by relatively small investors. The majority of our profits stay in Australia either through reinvestment in the business or dividend payments to our shareholders.

OneSteel pays its fair share of taxes, and has a history of reinvesting a substantial proportion of its after tax profits into growing and maintaining its business, creating many new jobs particularly in regional Australia.

OneSteel has invested over \$1.4 billion in capital projects since 2003 including major investments in its mining business in particular. These investments represent approximately 75% of the Company's operating cashflow since 2003. Over \$1 billion has been invested or committed in our Whyalla operations alone during this period including over \$400 million on Project Magnet. Project Magnet was a substantial investment that was expected to extend the life of the Whyalla steelworks to at least 2027, as well as developing our mining business by making our hematite iron ore available for sale.

Concerns with the RSPT

As currently proposed based on the details released by the Australian Government to date, we have serious concerns about the RSPT. These include:

- Application of the tax retrospectively, by changing the tax rules after investment decisions have been made;
- Application of the tax to iron ore, dolomite and limestone resources which are not sold but are used to feed our steelmaking operation and which will significantly increase the cost of our raw materials and therefore our steel making.

Additionally:

- An inadequate shelter for normal profits. The inference that a 'super profit' is any return above the risk-free government bond rate, makes the RSPT a super tax on profits rather than a tax on 'super profits';
- The 40 percent RSPT tax rate, which is high by world standards and combined with company tax represents an effective tax rate of 56.8 percent;
- The transitional relief and capital allowances, which provide little shelter for OneSteel; and
- Lack of clarity on whether credits will be available to cover future increases in State Government royalties and other State resource taxes.

The tax should not be retrospective

Any tax change proposed by the Government should only apply to new investments, not retrospectively to existing investments. The RSPT as proposed is a retrospective tax that unfairly takes away from shareholders the level of return that formed the basis for investment decisions made in the past. Our \$400+ million investment in Project Magnet to convert the Whyalla steelworks to magnetite iron ore and allow the commercialisation of our hematite iron ore reserves was based on an assessment of risk and reward at the time, including the tax system in place in Australia. To apply such a substantial change to the tax rules retrospectively is unfair to OneSteel and its shareholders and seriously damages Australia's attractiveness as an investment destination.

The tax should not apply to resources consumed internally

As presently proposed, the RSPT will apply equally to resources sold (hematite iron ore) and those consumed internally (magnetite iron ore, hematite iron ore, dolomite and limestone) as feed to the Whyalla steelworks. This will require OneSteel to absorb a large new cost, placing the business at a significant disadvantage against its import competition.

The reason the steelworks is located at Whyalla is its close proximity to low cost iron ore, and this continues to represent a key driver of the cost competitiveness of those facilities. The RSPT fundamentally changes the economics of the Whyalla steelworks and threatens the viability and, hence longevity, of our steel businesses.

The tax does not provide an adequate return and will impact future investment by OneSteel

The RSPT also has a severe impact on our mining business as the proposed 40% RSPT tax rate together with company income tax gives an effective tax rate of 56.8% for resources profits. The proposed capital allowance shelter provided, at a current rate of 6%, is not commensurate with the actual cost of capital or level of returns expected by shareholders. Our mining business is integral to Whyalla steel making operations and has enabled key investments to be made across OneSteel's operations. Our ability to reinvest in mining, including port infrastructure or elsewhere, and invest in our steel businesses would be severely impacted by the tax as proposed through reduced investment attractiveness and funding ability.

Additionally, it is worth noting that the effective resource income tax rate of 56.8%, which consists of the RSPT of 40% and effective company tax rate of 16.8%, only generates

franking credits from the company tax. There are no franking credits generated from the 40% RSPT.

Many of the purported 'benefits' in the RSPT provide little relief for OneSteel

Transitional depreciation or capital allowance provisions under the proposed RSPT are expected to provide little benefit to OneSteel or its shareholders as our mining operations are already well-developed and the asset base either largely depreciated or not covered in the scope of the RSPT. OneSteel also questions whether it will derive any benefit from the Government's guarantee to refund 40% of unused resource losses.

Potential impact on OneSteel's stakeholders

Our initial assessment, based on details released by the Australian Government to date, is that the new tax as proposed will, on introduction, have a major and immediate impact on the competitiveness of OneSteel's mining and steelmaking operations. Unless the Government makes substantial changes to the tax there is likely to be serious implications for our shareholders, employees and the local communities in which we operate. Our shareholders, the majority of whom are Australian, could suffer a significant reduction in after tax returns, as well as in the value of their investment due to the negative impact of the tax on the Company's share price. The impact for our employees would not be limited to the Whyalla businesses, but also have the potential to affect our Newcastle steel businesses which are supplied with steel billet produced at the Whyalla steelworks. The Whyalla and Newcastle businesses in total employ approximately 4,000 employees and contractors. Any adverse impact on OneSteel also has flow on implications for our employees and these local communities in which we operate.

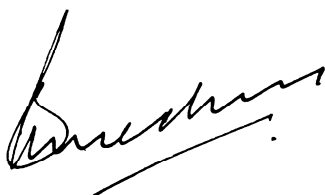
Consultation with stakeholders

The Federal Government has not yet defined all the details of the design and application of the RSPT. OneSteel is involved in discussions with the Federal and State Governments on the detail of the proposed tax including raising the concerns outlined above. We hope that Government will take into account the potential impact of the proposed RSPT on our businesses, shareholders, employees and local communities and make changes to the proposed tax to rectify its design flaws.

It is essential that the new tax does not apply retrospectively and does not impose an onerous tax burden that damages OneSteel's competitiveness and our ability to fund and make future investments in mining and steelmaking. OneSteel will continue to work with all stakeholders to achieve this outcome.

We will keep you informed of significant developments.

Yours faithfully



Peter Smedley
Chairman