

**ANNUAL  
REPORT**

**2021**

## Annual General Meeting

The Group will hold its 2011 Annual General Meeting in the Press Room at the Radisson Plaza Hotel located at 27 O'Connell Street, Sydney, NSW at 11:00 a.m. on Monday, 21st November 2011.

Bisalloy Steel Group Limited  
ABN 22 098 674 545

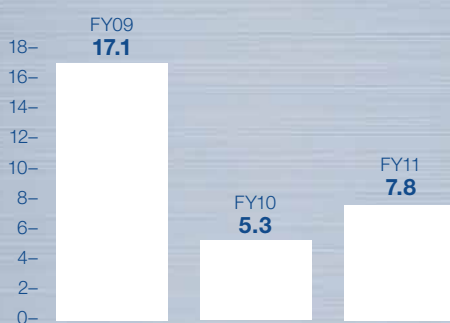
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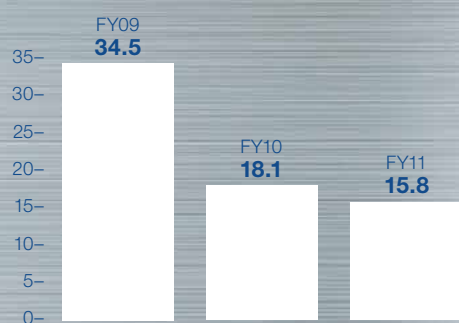
## FY11 Business Highlights

- Bisalloy Steel Group (“the Group”) delivers FY11 EBITDA of \$7.8m (before FX losses), which is in upper range of market guidance.
- Earnings growth of over 35% from previous year.
- Strengthening Australian dollar during FY11 impacted results by constraining exports and increasing the attractiveness of the domestic market to overseas producers.
- Group borrowings reduced to \$15.8m at 30 June 2011, down from \$18.1m at 30 June 2010, driven by operating cash flow.
- In July 2011 the Group entered into a joint venture for the production, sale and distribution of quench & tempered steel in the Peoples’ Republic of China.
- The Group expects their competitive position should translate into another substantial earnings improvement in FY12.

EBITDA before FX \$m



Borrowings \$m



## Chairman and Managing Director's review



Mr Phil Cave, AM  
Chairman



Mr Robert Terpening  
Managing Director  
and CEO

We are pleased to report a solid improvement in the Group's earnings during FY11 despite the challenges presented by an Australian dollar moving to a record high and the leakage of mining infrastructure construction to off-shore manufacturers.

The rapidly strengthening Australian dollar created challenges in maintaining our export markets as well as contributing to the increasing attractiveness of the Australian domestic market to overseas producers, who are often dealing with depressed demand in their local markets due to their underperforming economies. Although Australia is experiencing a continued boom in the resources sector, the manufacturing of equipment required for the rapid mine expansion projects is increasingly being moved away from Australia to cheaper, off-shore manufacturers. To compete in this environment, Bisalloy has used the stronger Australian dollar to reduce input costs by sourcing a higher proportion of its input steel plate from overseas suppliers.

The global armour plate market was subdued during FY11 with lower demand from major protective vehicle manufacturers and excess supply capacity globally. Bisalloy has actively sought out new markets for protective armour and has developed new opportunities in expanding non-military applications. Overall however, international

armour sales, along with other export markets, were significantly impacted by the high Australian dollar.

Despite these challenges in the domestic market, Bisalloy has identified opportunities for growth. In the second half of FY11 the Group invested in additional sales and marketing resources, as well as improving its finished goods availability, in order to target domestic market share growth. These initiatives are gaining traction and have already helped deliver an improvement of over 30% in orders received between the first and second halves of FY11. In this environment the Board is pleased with the order book heading into FY12.

The continued reduction in the Group's debt level remains a key Board objective. Bisalloy continues its close relationship with its financiers, and the Board notes its principal finance facility is not due for renewal until October 2012. There was an increase in debt up to December 2010 as inventory trended up due to slowing domestic demand. This increase was reversed during the second half of FY11 with an improvement in the management of working capital, and at 30 June 2011 our debt stood at \$15.8m (June 2010 : \$18.1m). The Board intends to make further reductions in debt before it considers the re-commencement of dividend payments.



Jinan  
quench  
and temper  
facility

Bisalloy has secured access to the dynamic Chinese market through a cost effective manufacturing base.

The forecast continued growth in the resources sector should benefit the Australian steel sector, in particular through the significant capital expenditure associated with manufacturing new equipment as well as the maintenance of existing equipment. This is despite the leakage to overseas manufacturers, particularly those in China, as noted earlier. The Group has positioned itself to benefit from the increasing demand for quench and tempered steel that this resource sector capital expenditure will require.

Our operations in Indonesia and in Thailand made significant profit contributions in FY11 and provide Bisalloy with access into these expanding markets. The Indonesian market continues to leverage off the strong growth in their local resources industry. The Thai market has not fully recovered from the global economic slowdown associated with the GFC, although opportunities are developing around the supply for export projects.

Zero harm to all employees, contractors and visitors continues to be a key imperative of the Group and is delivered through its well developed STAR safety system. The Australian operation recorded two Lost Time Injuries (LTI's) during the year. Even though these arose from relatively minor incidents with no long term impact on those employees involved, it is still unacceptable to Group management. It is extremely pleasing to report that the Group's Asian businesses have reported yet another year of LTI free performance through continuing to meet the highest level of occupational health and safety standards.

The Group's Australian operation at Unanderra, NSW is registered under the Federal Government's National Greenhouse and Energy Reporting System (NGER) and has reported annually since 2009. Based on the Group's carbon emissions calculated under NGER, the Group will not have any liability for a carbon tax as currently understood in the proposed legislation, although there may be some impact on input costs such as energy. While it is not yet possible to fully assess the extent of this impact, it is not believed this will be material to the Group operating result.

Subsequent to the FY11 year-end, the Group announced a major growth initiative in the People's Republic of China (PRC). Bisalloy has entered into a 50:50 Joint Venture with Jinan Iron & Steel Co., Ltd (Jinan), a member of one the PRC's top 10 steel producing groups. The JV covers the production, sale and distribution of quench & tempered steel plate into the PRC and other international markets under the highly respected Bisplate® brand. This gives Bisalloy access to the dynamic Chinese market through a cost effective manufacturing base. Because of the value attributed by our partner to the Group's manufacturing expertise and brand name, our cash contribution to this JV is minimal. This platform for growth is likely to generate a significant improvement in shareholder returns following a ramp-up during FY12.

On behalf of the Directors we would like to acknowledge the continued support of all shareholders over the past year. The Group continues to work to create value by expanding our business and reducing our risks, including through the ongoing prudent management of our debt. As we look forward to FY12 and beyond the Directors are encouraged by the aggressive growth strategy in the Australian domestic market as well as the opportunities provided by the global growth platform presented through the Joint Venture in the PRC and are excited by the potential of these opportunities.

The Directors intend to undertake a review of the Group's strategic options with a focus on optimising shareholder value. All options will be considered as part of this review, including consolidation opportunities

Bisalloy will hold its 2011 Annual General Meeting in the Press Room at the Radisson Plaza Hotel located at 27 O'Connell Street, Sydney, NSW at 11:00 a.m. on Monday, 21st November 2011. We look forward to welcoming you to that meeting.



**Mr Phil Cave, AM**  
Chairman



**Mr Robert Terpening**  
Managing Director and CEO

# Review of operations

## Overview

The Bisalloy Steel Group consists of its manufacturing, distribution and sales & marketing operations based in Unanderra, New South Wales and its distribution subsidiaries based in Thailand (Bisalloy Thailand) and Indonesia (PT Bima Bisalloy). From July 2011 the Group has expanded its operations through setting up a Cooperative Joint Venture with Jinan Iron & Steel Co. Ltd for the production sale and distribution of quench & tempered steel plate into the People's Republic of China and other international markets. This Chinese registered business is named Bisalloy Jigang (Shandong) Steel Plate Co., Ltd.

The Group is focused on leveraging off its significant Intellectual Property associated with the formulation of the raw material input ("greenfeed") and the quench & tempered steel plate production processes. While the primary value of this Intellectual Property has been delivered through the production of Bisplate® quench & tempered steel plate from our Unanderra production facility, the ability to replicate and therefore build upon this Intellectual Property, will now be proven through the Joint Venture in China. The Group will continue to manufacture quench & tempered steel plate at its plant in Unanderra, with a production capacity of around 65,000 tonnes per annum. Maximising the tonnes per day through our highly efficient continuous flow production process at Unanderra is fundamental to increasing our profitability. Maintaining our position as the only Australian manufacturer of quench & tempered steel plate will continue to be an important element of our marketing strategy going forward.

The process used to consistently manufacture high quality quench & tempered steel plate is not easily replicated. Product quality and cost competitive output is highly dependent on the Intellectual Property associated with:

- Greenfeed formulations;
- Processes and timings required to achieve the metallurgical changes desired;

- Reliability and suitability of the continuous flow processing equipment; and
- Quality and experience of the management and workforce

Greenfeed is sourced from several steel mills located predominantly in Australia and North Asia, with greenfeed supply based on reliability, technical competency and value proposition. In addition to maximising opportunities from movements in global steel pricing, this strategy has reduced the risks associated with a single dominant supply association.

The greenfeed is heated and rapidly cooled to a carefully managed 'recipe' so as to alter the grain structure of the steel plate to achieve the desired physical properties.

### Bisalloy Steels Australia

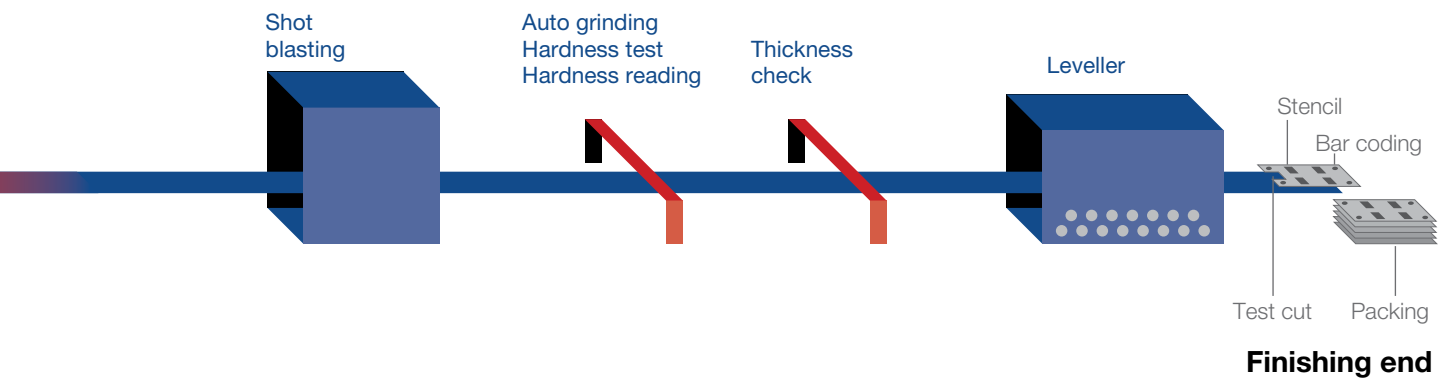
Bisalloy Steels is Australia's only manufacturer of high tensile, abrasion resistant and armour grade quench and tempered steel plates. Located on a 23,600 m<sup>2</sup> site in Unanderra, south of Sydney, Bisalloy Steels manufactures these products through a highly efficient, continuous flow process. Distribution is through a network of distributors across Australia, directly to end users, through its businesses in Indonesia, Thailand, the People's Republic of China and through agents in at least a dozen countries worldwide.

The Australian business has the ability to ramp up production to 24hr production over a maximum 300+ days per calendar year without any significant additional capital expenditure, which provides a base for future growth and profitability. The newly formed Joint Venture in the PRC will provide an additional a quench & temper heat treatment capacity of around 150,000 tonnes per annum.

The unprecedented strengthening of the Australian dollar during 2011 has provided challenges in maintaining export markets and by causing the domestic quench & tempered steel market to become more attractive to overseas producers. The business strategy of sourcing a significant proportion of greenfeed from overseas suppliers has assisted Bisalloy Australia in managing these challenges.



## Charge end



# Review of operations

Bisalloy Steels' high tensile and abrasion resistant quench and tempered steel plates have a somewhat counter cyclical benefit in mining applications. When new capital equipment is not in high demand, the need to refurbish and repair existing mining equipments provides a solid base for the consumption of abrasion resistant Q&T plate. As new mining equipment increases in volume some reduction in abrasion resistant Q&T plate is taken up by an increase in high tensile Q&T plate which gives the mining vehicles high strength at lower on road weights.

An increased exposure to structural applications has been established for the structural plate through the inclusion of quench & tempered steel in the Steel Structures Standard AS4100-1998, approved in March

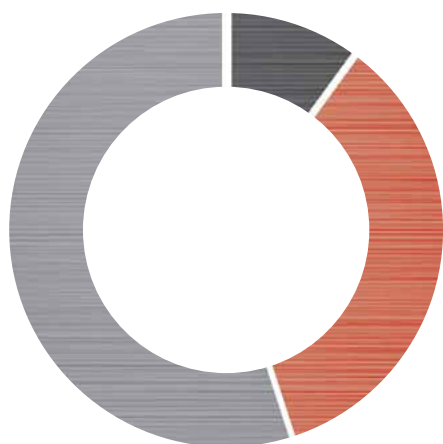
2011. This will provide opportunities for increasing sales into a new segment in the future.

Armour plate sales are a niche market with demand for vehicle protection in both military and general applications. Bisalloy Steels has developed a suite of products that attract attention from customers all over the world. The inclusion of Bisalloy Steels personnel on international committees which set the criteria for future product specifications continue to ensure that Bisalloy Steels remains competitive in this specialised application.

## Bisalloy Asia

The businesses in Indonesia and Thailand both have solid market positions in their respective countries. PT Bima Bisalloy in Jakarta services the Indonesian archipelago and continues to leverage off the strong

## Products



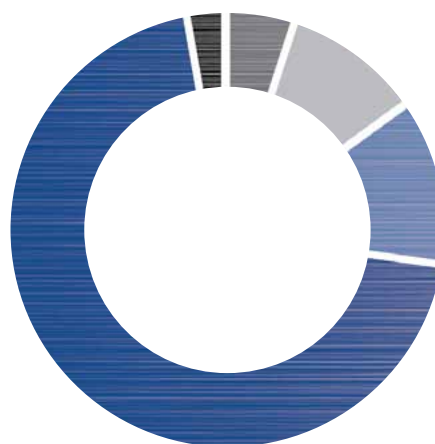
### Key Products

#### Product by Tonnes

- Wear Plate 55%
- Structural Plate 35%
- Armour Plate 10%

- **Wear Plate** – Bisplate 400, 450, 500 for mining applications such as dump trucks and dragline buckets.
- **Structural plate** – Bisplate 60, 70, 80, 80PV for applications such as booms on cranes and other light weight/high strength applications.
- **Armour plate** – Bisplate HHA, HTA, UHTA, HIA Class 1 & 2 for applications such as armoured personnel carriers.

## Marketing Mix



### Industry Sectors

- Agriculture 3%
- General Engineering 5%
- Military 10%
- Transport 12%
- Mining 70%

- Leverage to resource sector and infrastructure led growth
- Expanding military applications for armoured plate
- Exposure to high growth Asian markets including Thailand and Indonesia

growth in resource based activity. Bisalloy Thailand has a greater dependence on Original Equipment Manufacturers involved in the export trade and this market has remained somewhat subdued following the GFC and more recently through political instability. Both operations have low fixed cost bases, which combined with development work undertaken to broaden product and customer base, have proved effective in maintaining profitability.

Bisalloy Steel Group owns 60% of PT Bima Bisalloy which commenced trading in 1995 and 85% of Bisalloy Thailand which commenced trading in 2002.

### Safety

Safety is a key focus for the business with an aim of zero harm to all employees, contractors and visitors through

safety systems that involve and challenge all stakeholders. Every person at any Group operation is empowered to Stop and Think about what their role involves, Assess any risks that may emerge and then pro-actively Respond to those risks with appropriate actions. The STAR program continues to deliver outstanding Occupational Health and Safety, quality and environmental outcomes.

Since the introduction of the STAR program into the Asian businesses some seven years ago, neither business has recorded an LTI. Regular auditing of the Asian businesses ensures all processes and systems are uniform across the Group and that Group standards must be applied to the business where local standards are either lower or not specified.



The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.



**Mr Phillip Cave, AM**  
B.BUS, FCPA  
Chairman

#### Skills & Experience

Mr Cave is an experienced director, Chairman and Chief Executive Officer with a career in major corporate turnaround projects, structured finance and corporate advisory service. Over a 35 year career, Mr Cave has held Executive Director positions with PayConnect Solution, Parbury Limited, Wormald International, Reil Corporation and Macquarie Bank.

Mr Cave's experience combines a mixture of operational management expertise across a wide variety of industries with an in depth knowledge of finance and banking.

#### Term of office

A founding director of the Company and Chairman since appointed in November 2001. Last re-elected in November 2009.

#### Board Committees

- Chairman of the Nominations & Remuneration Committee
- Audit & Risk Committee

#### Other directorships

- Chairman Anchorage Capital Partners
- Chairman Wesley Institute
- Chairman Ability First Australia
- Director Antares Restaurant Group Ltd
- Director Acrow Formwork & Scaffolding Pty Ltd
- Director Total Eden Pty Ltd.



**Mr Robert Terpening**  
Managing Director and CEO

#### Skills & Experience

Mr Terpening was appointed Managing Director / CEO on 6th November 2008. Mr Terpening is an experienced manager of industrial businesses having had 18 years in Sales & Marketing and Operations roles followed by 16 years in General Management of manufacturing businesses. Mr Terpening's management experience has included operations across Australia, Indonesia, Thailand and New Zealand and he is also currently a Director of Bisalloy Steel Group's Joint Venture businesses - PT Bima Bisalloy, Bisalloy Thailand and Bisalloy Jigang (Shandong) Steel Plate Co., Limited.

#### Term of office

Appointed in November 2008. As the managing director he is not subject to re-election by rotation.

#### Board Committees

Nil

#### Other directorships

Nil



**Mr Kym Godson**  
DIP TECH (BUS ADMIN),  
FAICD, FAIM  
Non-Executive Director

#### Skills & Experience

Mr Godson is an experienced public company director and has extensive experience in the management of industrial businesses, particularly within the steel industry. He is a former Managing Director and CEO of the Company having retired from the position in November 2008 subsequent to the sale of the distribution business. He was also the Managing Director of Atlas Steels Limited for five years until its takeover by Email Limited. Prior to this he held general management roles within several different operations of the ACI/ Acnil/PGH group.

#### Term of office

A founding director of the Company appointed in November 2001, and is retiring by rotation pursuant to the requirements of the Company's constitution in order to seek re-election at the 2011 AGM.

#### Board Committees

Nil

#### Public company directorships during past three years

- Tutt Bryant Group Limited, from 2005 to October 2010

#### Other directorships

- Paula's Choice Pty. Ltd
- Total Eden Pty Ltd.



Mr Richard Grellman, AM

FCA  
Non-Executive Director

#### Skills & Experience

Mr Grellman brings significant accounting and finance skills to the Company, having had over 32 years experience in the accounting profession. He was a partner at KPMG from 1982 to 2000 and a member of KPMG's National Board from 1995 to 1997 and National Executive from 1997 to 2000.

#### Term of office

Appointed in February 2003. Last re-elected in November 2010.

#### Board Committees

- Chairman of the Audit & Risk Committee
- Nominations & Remuneration Committee

#### Public company directorships during past three years

- Chairman, WHK Ltd since March 2011.
- Director, AMP Limited, from 2000 to May 2011.
- Director, Centennial Coal Limited, from 2008 to September 2010.
- Director, Trafalgar Corporate Group from 2002 until November 2008
- Director, Cryosite Ltd from December 2002 until March 2009

#### Other directorships

- Chairman, Association of Surfing Professionals (International) Ltd
- Chairman, Bible Society Australia.



Mr Graeme Pettigrew

FPNA, FAIM, FAICD  
Non-Executive Director

#### Skills & Experience

Mr Pettigrew is an experienced company director. A former Chief Executive Officer of CSR Building Products Pty Ltd, he has extensive experience in manufacturing, supply and distribution in the building products industry both in Australia and Asia.

Previously he was the Managing Director of Chubb Australia Limited and Wormald Security Australia Pty Limited and involved in the manufacturing, contracting and service industries.

#### Term of office

Appointed on 24 April 2006. Last re-elected in October 2008 and is retiring by rotation pursuant to the requirements of the Company's constitution in order to seek re-election at the 2011 AGM.

#### Board Committees

- Audit & Risk Committee
- Nominations & Remuneration Committee

#### Public company directorships during past three years

- Adelaide Brighton Ltd, since Aug 2004
- Capral Ltd, since June 2010

#### Other directorships

- Knauf Plasterboard Pty Ltd

#### Company Secretary

Mr David MacLaughlin

MBA, CMA, ACA

#### Skills & Experience

Mr MacLaughlin, who holds a Master of Business Administration and is a Chartered Accountant, has over 20 years professional experience gained both domestically and internationally, working in senior financial

positions for multinationals as well as Australian listed companies. He also holds the executive position of Chief Financial Officer.

#### Term of office

Appointed in March 2010.

#### Interests in shares of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares of Bisalloy Steel Group Limited were:

	Number of Ordinary Shares
Phillip Cave	42,701,939
Robert Terpening	628,897
Kym Godson	6,470,352
Richard Grellman	208,464
Graeme Pettigrew	60,424

The above includes shares held directly and through related parties.

# Directors' report

Bisalloy Steel Group Limited and its controlled entities

## Operating and financial review

### OPERATIONS

A review of the operations of the Group during the financial year and the likely developments and expected results of those operations is set out in the Chairman's Review and the Managing Director's Review of Operations located at the front of this report. Further information has not been included as the directors believe to do so would result in the unreasonable prejudice to the Group.

### PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was the manufacture and sale of quenched and tempered steel plates.

### OPERATING RESULT FOR THE YEAR

The Group's net profit for the year after income tax was \$2,985,000 (2010: \$417,000). The result is impacted by the strong Australian dollar which reduced domestic selling prices and constrained export sales but also provided opportunities to source a higher proportion of inputs from overseas suppliers at lower cost.

Operating results are summarised as follows:

	2011	
	Revenue \$000s	Results \$000s
Operating Segments		
Australia	<b>69,134</b>	2,002
Overseas	<b>18,009</b>	1,708
	<b>87,143</b>	3,710
Consolidated entity adjustments	<b>(8,836)</b>	(725)
<b>Consolidated entity revenue and profit for the year</b>	<b>78,307</b>	2,985

## SHAREHOLDER RETURNS

### Dividends

No dividend has been declared in respect of the financial year ended 30 June 2011. No dividends were paid during the year.

### Earnings per Share

	2011	2010	2009	2008	2007
Basic earnings per share (cents)	1.1c	0.0c	-3.0c	-61.3c	-1.4c
Basic earnings per share adjusted * (cents)	1.1c	0.0c	15.2c	14.7c	8.0c
Return on equity (reported PAT/average equity) (%)	22%	5%	-68%	-630%	-2%
Return on equity (adjusted * PAT/average equity) (%)	22%	5%	352%	-127%	3%
Gearing (debt/ debt + equity) (%)	51%	60%	87%	109%	73%
Dividends paid (cents)	0.0c	0.0c	0.0c	0.0c	3.0c
Dividend franking	-	-	-	-	-

\* from continuing operations before non-recurring items arising from the close out of par forward hedges in 2009.

## Review of financial condition

### LIQUIDITY AND CAPITAL RESOURCES

The consolidated statement of cash flows illustrates there was a decrease in cash and cash equivalents for the year ended 30 June 2011 of \$737,000 (2010: \$437,000).

Operating activities generated \$3,292,000 of net cash inflows (2010: \$14,060,000) including operating profits and from tighter working capital management. This is lower than 2010 which included a significant decrease in inventory that had previously built up to support the unprecedented activity levels in the first half of 2009.

Investing activities required \$1,758,000 (2010: \$950,000) of net cash outflows for investment in operating plant and equipment.

The net cash inflow from operating and investing activities, were used to reduce net debt. As a result, net cash outflows from financing activities were \$2,451,000 (2010: \$13,482,000).

### FUNDING

Bisalloy Steel Group Limited and Bisalloy Steels Pty Limited entered into a facility agreement with GE Commercial Australasia Pty Limited on 29 June 2010. Subsidiary companies of the Group are guarantors to the facility.

The facility provides Bisalloy Steel Group Limited with a:

- \$20m revolving loan facility; and
- \$11m term loan facility.

The facility has a maturity date of 31 October 2012.

### RISK MANAGEMENT

The Group takes a proactive approach to risk management. The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the board.

The board has established an Audit and Risk Committee comprising non-executive directors, whose meetings are also attended by the executive directors. In addition sub-committees are convened as appropriate in response to issues and risks identified by the board, and the sub-committee further examines the issue and reports back to the board.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses the group's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.

- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.
- Establishment of committees to report on specific business risks, including for example, such matters as environmental issues and concerns and occupational health and safety.
- Board review of financial risks such as the Group's liquidity, currency, interest rate and credit policies and exposures and monitors management's actions to ensure they are in line with group policy.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity increased to \$15,306,000 from \$11,879,000, an increase of \$3,427,000. In addition to net profit, there was a revaluation of land and buildings during the year (\$2,800,000 net of tax) and a foreign currency translation loss relating to the overseas subsidiaries as a result of the stronger Australian dollar of \$2,059,000.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 11 July 2011 the Group announced the signing of a Cooperative Joint Venture (JV) agreement with Jinan Iron and Steel Co. Limited (Jinan) for the production, sale and distribution of quench and tempered (Q&T) steel plate into the People's Republic of China (PRC) and other international markets. Jinan is a subsidiary of the Shandong Iron and Steel Group Co. Limited, one of the top 10 steel producers in the PRC.

Under the terms of the JV, Bisalloy will contribute US\$1 million in capital and licence its Q&T intellectual property and brand name to the JV to produce Q&T plate at Jinan's production facility in Shandong Province, PRC.

The formal registration of a Chinese limited liability company was completed on the 20th July 2011 with the trading name Bisalloy Jigang (Shandong) Steel Plate Co., Limited.

### LIKELY DEVELOPMENTS

The Group operates within the steel sector, with its marketing mix strongly leveraged to the resource sector. The Group's market analysis indicates the sectors into which the Group supplies quench and tempered steel will continue to grow during the 2012 financial year. Further strengthening of the Australian dollar will provide challenges in maintaining export markets and by causing the domestic quench and tempered steel market to become more attractive to overseas producers, however the directors believe the current strategy of sourcing a significant portion of steel plate from overseas suppliers will continue to have a positive effect on trading results.

# Directors' report

Bisalloy Steel Group Limited and its controlled entities

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Group must, subject to certain exceptions, set out in the constitution, indemnify each of its officers on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by the officer, as an officer of the Group (including all liabilities incurred where the officer acts as an officer of any other body corporate at the request of the Group) including any liability for the negligence and for reasonable legal costs.

During the year or since the end of the year, the Group has paid premiums in respect of a directors and officers liability insurance policy. Details of the nature of the liabilities covered or the amount of the premium paid in respect of the policy have not been disclosed, as such disclosure is prohibited under the terms of the contract.

## ENVIRONMENTAL REGULATION

The Group's activities are governed by a range of environmental legislation and regulations. The Group utilises both internal and external environmental assessments to verify its compliance with applicable environmental legislation and regulations.

The Group is registered under National Greenhouse and Energy Reporting Act 2007 under which it is required to report energy consumption and greenhouse gas emissions for its Australian facilities. The Group has implemented systems and processes for the collection and calculation of the data to meet its reporting requirements.

The Group's Australian operations will not meet the carbon emission levels established in the Australian Federal Government's Carbon Pollution Reduction Scheme which has been substantively enacted as at the date of this report and is expected to be phased in from July 2012.

Bisalloy Steels Pty Limited also holds and complies with the requirements of a Dangerous Goods Licence and a Commercial Trade Waste Permit.

The board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

## ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

## AUDITOR INDEPENDENCE

The directors received the declaration on page 24 from the auditor of Bisalloy Steel Group Limited which forms part of this report.

## NON-AUDIT SERVICES

No non audit services were provided by the Company's auditor, Ernst & Young in relation to the year ending 30 June 2011.

## DIRECTORS' MEETINGS

The number of directors meetings and number of meetings attended by each of the directors of the Company during the financial year are:

	Directors' Meetings	Committee Meetings	
		Audit & Risk	Nominations & Remunerations
<b>Number of Meetings Held</b>	9	3	1
<b>Number of Meetings Attended</b>			
P J Cave	9	3	1
R Terpening	9	–	–
K Godson	9	–	–
R Grellman	9	3	1
G Pettigrew	9	3	1

## REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2011 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Group receiving the highest remuneration.

### Remuneration policy

The remuneration policy is set in recognition that the performance of the Company depends upon the quality of its directors and executives. In order to perform, the Company must be successful in attracting, motivating and retaining directors and executives of the highest quality.

To assist in achieving this objective, the remuneration policy embodies the following principles:

1. Provide competitive remuneration to attract high calibre directors and executives.
2. Align executive rewards with creation of shareholder value.
3. Ensure a significant component of executive remuneration is 'at risk' dependant upon meeting pre-determined performance hurdles.
4. Establish appropriately demanding performance hurdles in relation to variable executive remuneration.
5. Provide the opportunity for non-executive directors to sacrifice a portion of their fees to acquire shares in the Company at market price.

#### **Nominations and Remuneration Committee**

The Nominations and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and other senior executives, and the review and recommendation of general remuneration principles.

#### **Remuneration structure**

The structure of non-executive director and executive remuneration is separate and distinct, in accordance with good corporate governance principles.

#### **Non-executive director remuneration**

##### *Objective*

The Board sets aggregate remuneration at a level which is intended to provide the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

##### *Structure*

The Company's constitution and the ASX listing rules specify that the non-executive director fee pool shall be determined from time to time by a general meeting. The non-executive director fee pool is currently set at \$500,000. The board will not seek any increase for the fee pool at the 2011 AGM.

The remuneration of non-executive directors must not include a commission on, or a percentage of, profits or operating revenue but directors are entitled to be reimbursed for travelling and other expenses incurred in attending to the Company's affairs.

Each director receives a fee for being a director of the Company and an additional fee for each Board Committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees.

Non-executive directors are encouraged by the Board to hold shares in the Company and are able to participate in the Non-executive Director ("NED") Share Plan. Under the NED Share Plan a non-executive director can choose to sacrifice up to 100% of their annual director's fee and instead be allocated shares up to the equivalent value. The value of the allocated shares is determined by reference to the market value on the day they are acquired on market.

The remuneration of non-executive directors for the period ended 30 June 2011 is detailed in the table on page 16 of this report.

#### **Executive director and executive manager remuneration**

##### *Objective*

The Group aims to reward executives with a level and mix of remuneration commensurate with their duties and responsibilities within the Group and to:

- reward executives for Group, business unit and individual performance measured against targets set by reference to appropriate benchmarks;
- link reward with the achievement of the Group's strategic goals;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive.

##### *Structure*

Executive director and executive manager remuneration consists of the following key components:

1. Fixed Remuneration
2. Variable Remuneration made up of:
  - Short Term Incentive (STI); and
  - Long Term Incentive (LTI)

The proportion of total remuneration that is fixed or variable (either short term or long term incentives) is determined for each individual executive by the Nominations & Remuneration Committee.

The remuneration of executives and the five most highly remunerated senior managers for the period ending 30 June 2011 is detailed in the table on page 16 of this report.

# Directors' report

Bisalloy Steel Group Limited and its controlled entities

## Fixed remuneration

### *Objective*

The level of fixed remuneration is set so as to provide a base level of remuneration which is both commensurate with the individual's duties and responsibilities within the Group and competitive in the market.

Fixed remuneration is reviewed annually by the Nominations and Remuneration Committee utilising a process of reviewing group-wide, business unit and individual performance, relevant comparative remuneration in the market and internal and external advice on policies and practice.

### *Structure*

Executive directors and senior managers are provided with the opportunity to receive their fixed remuneration in a variety of forms, including cash, additional superannuation contributions and fringe benefits such as motor vehicles. The aim is to provide payments in a form that is both optimal for the recipient and cost efficient for the Company.

The fixed remuneration component of executive directors and the five most highly remunerated senior managers for the period ending 30 June 2011 is detailed in the table on page 16 of this report.

## Variable remuneration – short term incentives (STI)

### *Objective*

The STI program has been designed to align the remuneration received by executives and senior managers with the achievement of the Group's operational and financial targets. The total potential STI available for payment is determined so as to provide sufficient incentive to executives and senior managers to achieve the targets and so that the cost to the Group is reasonable in the circumstances.

### *Structure*

The actual STI payments granted to each executive and senior manager depends upon the extent to which specific operational and financial targets set at the beginning of the financial year are met. The targets consist of a number of both financial and non-financial Key Performance Indicators (KPIs).

After the end of each financial year, consideration is given to performance against each of these KPIs to determine the extent of any payment to an individual executive and senior manager. The aggregate of STI payments and STI payments to individuals is subject to the approval of the Nominations & Remuneration Committee.

Payments made are normally paid as cash but the recipient is also able to elect to receive payment in alternative forms.

## Variable remuneration – long term incentives (LTI)

### *Objective*

The LTI program has been designed to align the remuneration received by executive directors and senior managers with the creation of shareholder wealth.

Consequently LTI grants are only made to executives who are in a position to influence shareholder wealth and thus have the opportunity to influence the company's performance against the relevant long term performance hurdles.

### *Structure*

At the 2009 Annual General Meeting, a LTI plan was approved for LTI grants to executives in the form of share rights.

These rights are granted in two equal parts. The first part is based on retention and requires the holder remain an employee for three years from grant date. The second part is based on delivering superior long-term performance as measured by Return on Equity ("ROE"), with each grant of rights divided into three equal tranches. For each tranche, actual ROE is measured against a budget ROE and a stretch ROE as determined annually by the board in respect of the forthcoming year. The proportion of the rights which vest depend on where within this range the Group performs, with 100% vesting on achieving the stretch ROE and no rights vesting if actual ROE is less than 90% of the budgeted ROE. For the 2011 year, the stretch ROE was set at 15% above the budget ROE. Any rights to which the employee may become entitled on achieving the performance criteria, are still subject to the three year retention criteria before they can vest.

Any share rights which do not vest, as a result of the relevant performance condition not being satisfied, lapse. If the holder leaves the business, the unvested rights lapse on the leaving date unless the board determines otherwise. In the event of a change in control of the Group, the vesting date will generally be brought forward to the date of change of control and share rights will vest subject to performance over this shortened period, subject to ultimate board discretion.

Once vested a holder may exercise his share rights and be allocated a fully paid ordinary share of Bisalloy Steel Group Ltd at no cost to the employee.

During the year no share rights were granted under this scheme.

### Group performance

The board have determined that the Group did not meet its budgeted ROE for the year and so the performance component of the 2011 share rights have lapsed.

For further detail of historical performance, refer to the shareholder returns section earlier in this Directors' report.

Details of key management personnel and the five highest paid executives of the Company and Group

#### (i) Directors

P J Cave	Non-executive Chairman
R Grellman	Non-executive Director
G Pettigrew	Non-executive Director
K Godson	Non- executive Director
R Terpening	Managing Director

#### (ii) Executives

D MacLaughlin	Chief Financial Officer and Company Secretary
M Sampson	Sales & Marketing Manager
M Bradmore	Operations Manager (appointed 5 October 2010)
T Matinca	Business Development & Strategy Manager (appointed 27 January 2011)

### Executive contracts

Remuneration arrangements for the key management personnel are formalised in employment contracts. Details of these contracts are provided below.

#### R. Terpening – Managing Director

- Regular employment contract without fixed term.
- Participation in STI and LTI schemes.
- 6 months notice required for termination of employment by employee
- 12 months notice required for termination by company.

#### D. MacLaughlin – Chief Financial Officer and Company Secretary

- Regular employment contract without fixed term.
- Participation in STI and LTI schemes.
- 3 months notice required for termination of employment.

#### M. Sampson – Sales & Marketing manager

- Regular employment contract without fixed term.
- Participation in STI and LTI schemes.
- 1 months notice required for termination of employment

#### M. Bradmore – Operations manager

- Regular employment contract without fixed term.
- Participation in STI and LTI schemes.
- 3 months notice required for termination of employment.

#### T Matinca - Business Development & Strategy Manager

- Regular employment contract without fixed term.
- Participation in STI and LTI schemes.
- 3 months notice required for termination of employment.

# Directors' report

Bisalloy Steel Group Limited and its controlled entities

## REMUNERATION OF KEY MANAGEMENT PERSONNEL AND THE FIVE HIGHEST PAID EXECUTIVES OF THE COMPANY AND GROUP

Year ended 30 June 2011	Short-term		Long service leave	Post employment		Share-based payments	Total	Performance Related %
	Salary and fees	Cash bonus		Super-annuation	Retirement benefits	Share Rights		
	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-Executive Directors</b>								
P J Cave	120,000	-	-	-	-	-	120,000	-
R Grellman	80,000	-	-	7,200	-	-	87,200	-
G Pettigrew	80,000	-	-	7,200	-	-	87,200	-
K Godson	50,000	-	-	4,500	-	-	54,500	-
<b>Sub-total Non-Executive Directors</b>	<b>330,000</b>	<b>-</b>	<b>-</b>	<b>18,900</b>	<b>-</b>	<b>-</b>	<b>348,900</b>	<b>-</b>
<b>Executive Directors</b>								
R Terpening	375,000	-	12,664	50,000	-	122,595	560,259	22%
<b>Other key management personnel</b>								
D MacLaughlin	217,500	-	-	25,000	-	55,534	298,034	19%
M Sampson	139,222	-	7,670	24,750	-	-	171,642	-
M Bradmore <sup>(i)</sup>	109,768	-	-	8,709	-	-	118,477	-
T Matinca <sup>(ii)</sup>	98,212	-	-	43,839	-	-	142,051	-
<b>Sub-total executive KMP</b>	<b>939,702</b>	<b>-</b>	<b>20,334</b>	<b>152,298</b>	<b>-</b>	<b>178,129</b>	<b>1,290,463</b>	<b>14%</b>
<b>Totals</b>	<b>1,269,702</b>	<b>-</b>	<b>20,334</b>	<b>171,198</b>	<b>-</b>	<b>178,129</b>	<b>1,639,363</b>	<b>11%</b>

Notes:

- i. Mr Bradmore was appointed on 5 October 2010.
- ii. Mr Matinca was appointed on 27 January 2011.

Year ended 30 June 2010	Short-term		Long service Leave	Post employment		Share-based payments	Total	Performance related	
	Salary and fees	Cash bonus		Super-annuation	Retirement benefits	Options		\$	%
	\$	\$	\$	\$	\$	\$	\$		
<b>Non-Executive Directors</b>									
P J Cave	120,000	–	–	–	–	–	120,000	–	
R Grellman	80,000	–	–	7,200	–	–	87,200	–	
G Pettigrew	80,000	–	–	7,200	–	–	87,200	–	
K Godson	50,000	–	–	2,919	–	–	54,500	–	
<b>Sub-total Non-Executive Directors</b>	<b>330,000</b>	<b>–</b>	<b>–</b>	<b>17,319</b>	<b>–</b>	<b>–</b>	<b>348,900</b>	<b>–</b>	
<b>Executive Directors</b>									
R Terpening	350,000	120,000	10,000	50,000	–	87,507	617,507	34%	
<b>Other key management personnel</b>									
M Matoricz <sup>(i)</sup>	118,2749	–	–	10,596	–	–	128,875	–	
D MacLaughlin <sup>(ii)</sup>	61,211	14,550	–	6,876	–	9,124	91,761	26%	
S Henderson	136,052	22,513	4,783	16,949	–	–	180,297	–	
A Broad <sup>(iii)</sup>	106,800	–	–	47,016	–	–	153,816	–	
M Sampson	121,281	20,436	4,063	23,719	–	–	169,499	–	
<b>Sub-total executive KMP</b>	<b>893,623</b>	<b>177,499</b>	<b>18,846</b>	<b>155,156</b>	<b>–</b>	<b>96,631</b>	<b>1,341,755</b>	<b>21%</b>	
<b>Totals</b>	<b>1,223,623</b>	<b>177,499</b>	<b>18,846</b>	<b>174,056</b>	<b>–</b>	<b>96,631</b>	<b>1,690,655</b>	<b>16%</b>	

Notes:

- i. Mr. Matoricz resigned with effect from 31 January 2010.
- ii. Mr. MacLaughlin was appointed on 22 March 2010.
- iii. Mr. Broad resigned with effect from 6 August 2010.

# Directors' report

Bisalloy Steel Group Limited and its controlled entities

## Share rights

Share rights holders do not have any entitlement, by virtue of the rights, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

## Performance rights holdings of key management personnel of the Company and Group

	Balance at 30 June 2010	Granted during the year	Rights exercised during the year	Forfeited or Lapsed	Balance at 30 June 2010	Vested and exercisable	Unvested
<b>Executives</b>							
R Terpening	2,417,613	0	0	(418,290)	1,999,323	0	1,999,323
D MacLaughlin	1,000,000	0	0	(166,510)	833,490	0	833,490
	3,417,613	0	0	(584,800)	2,832,813	0	2,832,813

	R Terpening	D MacLaughlin	Total
Grant date	4 Jan 10	22 Mar 10	
Vesting date	4 Jan 13	30 Jun 13	
Fair value	\$0.18	\$0.20	
At grant date Balance 1 July 2010	2,417,613	1,000,000	3,417,613
Exercised in the year	–	–	–
Lapsed during the year	(418,290)	(166,510)	(584,800)
Balance at 30 June 2011	1,999,323	833,490	2,832,813
Vested at 30 June 2011	–	–	–

## Audit

The information contained in the Remuneration Report has been audited.

The directors have received the Auditor's Independence Declaration which is included on page 24 of the annual report.

Signed in accordance with a resolution of the directors.



**Robert Terpening**  
Managing Director

21 September 2011

# Corporate governance statement 2011

Bisalloy Steel Group Limited and its controlled entities

The board of directors of Bisalloy Steel Group limited is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The board guides and monitors the business and affairs of Bisalloy on behalf of the shareholders by whom they are elected and to whom they are accountable.

The tables below summarise the Group's compliance with the CGC's recommendations.

The Company's website from which the documents referred to can be accessed is at [www.bisalloy.com.au](http://www.bisalloy.com.au)

Recommendation	Comply Yes/No	Reference/Explanation
<b>PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT</b>		
1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	The board has a formal Corporate Governance Code which sets out the respective roles and responsibilities of the board and management. In addition, the board committees have specific Charters which provide further details on the matters reserved for the board or its committees.
1.2 Companies should disclose the process for evaluating the performance of senior executives.	Yes	A formal structured review is undertaken each year for each employee. Senior executives are reviewed by the CEO and input provided by the Chair. This process generally takes place in June each year as was the case in 2011.
1.3 Additional information.		The Corporate Governance Code and other relevant charters are available on the Company's website.
<b>PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE</b>		
2.1 A majority of the board should be independent directors.	No	The board currently has five directors, two of whom are considered independent. The board has adopted the CGC's guidelines as the basis for determining whether a director can be considered independent and has set relevant thresholds for materiality. While not meeting the CGC guidelines for independence, each director is expected to exercise unfettered and independent judgement.  The following directors are considered independent: <ul style="list-style-type: none"> <li>• Mr Grellman</li> <li>• Mr Pettigrew</li> </ul>
2.2 The chair should be an independent director.	No	The board believes that while the Chairman is not independent, the current composition of the board with its combined skills and capability, best serves the interests of the shareholders.
2.3 The roles of chair and chief executive officer should not be exercised by the same individual.	Yes	The roles of chair and chief executive officer are not exercised by the same individual.
2.4 The board should establish a nomination committee.	Yes	The Company has a combined Remuneration & Nominations Committee. The charter can be reviewed on the Company's website.

# Corporate governance statement 2011

Bisalloy Steel Group Limited and its controlled entities

Recommendation	Comply Yes/No	Reference/Explanation
<b>PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)</b>		
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	<p>The Chair monitors the performance of the board and conducts informal meetings with the other directors during the year. The board undertakes a formal review every 12 to 18 months. The review includes:</p> <ul style="list-style-type: none"> <li>• examination of the effectiveness and composition of the board, including the required mix of skills, experience and other qualities which the non-executive directors should bring to the board for it to function competently and efficiently;</li> <li>• review of Bisalloy’s strategic direction and objectives;</li> <li>• assessment of the Managing Director’s performance by the non-executive directors;</li> <li>• assessment of whether corporate governance practices are appropriate and reflect “good practice”; and</li> <li>• assessment of whether the expectations of differing stakeholders have been met.</li> </ul> <p>As part of this process the Chairman also:</p> <ul style="list-style-type: none"> <li>• meets with the senior executives to discuss with them their views of the board’s performance and level of involvement;</li> <li>• discusses each individual director’s contributions face-to-face as appropriate; and meets with the other non-executive directors without any management present (this is in addition to the consideration of the Managing Director’s performance and remuneration which is conducted in the absence of the Managing Director).</li> </ul>
2.6 Additional information.		Details of the composition, skills, experience, term in office, attendance at meetings of the members of the board at the date of this statement are set out in the Directors’ Report on pages 8 and 9.
<b>PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING</b>		
<p>3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the company’s integrity.</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Yes	<p>The Group has an established Code of Conduct which applies to all employees, officers and directors of the Group. An annual adherence declaration is required of each employee as part of their performance appraisal discussed at Principle 1.2.</p> <p>The Code of Conduct has four key principles as follows:</p> <ol style="list-style-type: none"> <li>1. We respect each other and treat all people fairly.</li> <li>2. We respect the law and act accordingly.</li> <li>3. We act honestly and fairly in all our business activities and relationships.</li> <li>4. We use Bisalloy’s property responsibly and in the best interests of Bisalloy:</li> </ol>

Recommendation	Comply Yes/No	Reference/Explanation
<b>PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING (CONTINUED)</b>		
3.1		<p>The Group also has a number of other policies and standards which underpin the Code of Conduct including policies on Whistleblowing, Fair Treatment, Trade Practices, Safety, Fitness for Work, Workplace Harassment and Discrimination. Together these form a framework for ethical and responsible decision making and proscribe how the individuals of the Group behave internally and externally.</p> <p>In addition, the board has an established Corporate Governance Code as discussed under Recommendation 1.</p>
3.2 Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes	The Group has formal Share Trading Guidelines which outline the prohibition against insider trading and specify the “windows” during which directors, executives and employees can generally deal in the Company’s securities. The Company Secretary administers this policy and provides informal guidance to employees about its application.
3.3 Additional information.		Copies of the Corporate Governance Code, the Code of Conduct and the Share Trading Guidelines are available on the Company’s website.
<b>PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING</b>		
4.1 The board should establish an audit committee.	Yes	The Company has an Audit & Risk Committee.
4.2 The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive directors</li> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair, who is not chair of the board</li> <li>• has at least three members</li> </ul>	Yes	<p>At the date of this report and throughout the reporting period the Company’s Audit and Risk Committee was:</p> <ul style="list-style-type: none"> <li>• comprised of non-executive directors being Mr Grellman, Mr Cave and Mr Pettigrew</li> <li>• chaired by Mr Grellman</li> <li>• governed by a Charter approved by the board</li> <li>• sufficiently autonomous to be able to discharge its duties and responsibilities including the authority to select, retain and terminate external advisers as the Committee considers necessary without seeking approval of the board or management.</li> </ul>
4.3 The audit committee should have a formal charter.	Yes	The Audit & Risk Committee is governed by a formal Charter and is responsible for ensuring that an effective internal control framework exists within the Group. This includes internal controls for effective reporting of financial information, the appropriate application and amendment of accounting policies and the identification and management of risk.
4.4 Additional information.		<p>Full details in relation to names, skills, term of office and attendance at meetings for each member of the Committee are set out in the Directors’ Report on pages 8, 9 and 12.</p> <p>The Audit &amp; Risk Committee Charter is available on the Company’s website.</p>

# Corporate governance statement 2011

Bisalloy Steel Group Limited and its controlled entities

Recommendation	Comply Yes/No	Reference/Explanation
<b>PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE</b>		
5.1 Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	<p>The Group has a formal Continuous Disclosure Policy. The policy aims to ensure that once management becomes aware of any information concerning the Group that a reasonable person would expect to have a material effect on the price or value of the Company's shares (subject to the relevant exceptions), that such information is released to the market.</p> <p>The board is committed to ensuring all investors have equal and timely access to material information concerning the Group and that the Group's announcements are factual and presented in a clear and balanced way.</p> <p>The Company Secretary is the person responsible for continuous disclosure and communicating with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements under the ASX Listing Rules and overseeing and co-ordinating information disclosed to the ASX, market participants and the public.</p>
5.2 Additional information.		The Company's Continuous Disclosure Policy is available on the Company's website.

## PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	<p>In order to facilitate shareholders accessing information about the Group, all Group announcements, briefings, presentations and reports are posted on the Company's website after release. The website includes additional news items about the activities of the Group which are not market sensitive.</p> <p>Shareholders are entitled to receive a copy of the Annual Report and can elect the method by which it is delivered. The Group encourages shareholders to elect to receive the Annual Report and other correspondence from the Company electronically, and requires shareholders to 'opt in' if they wish to receive a hard copy of the report.</p> <p>Shareholders are encouraged to attend for the Annual General Meeting as full use is made of the occasion to inform shareholders of current developments through presentations and the opportunity to ask questions of management and the Group's external auditors.</p>
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## PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	<p>The board has allocated responsibility to the Audit &amp; Risk Committee to ensure there are adequate policies, procedures and control systems in relation to risk management and compliance.</p> <p>The Committee reviews and approves policies pertaining to material business risks to ensure they are current and adequately address the necessary aspects of risk management.</p>
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Recommendation	Comply Yes/No	Reference/Explanation
<b>PRINCIPLE 7 – RECOGNISE AND MANAGE RISK (CONTINUED)</b>		
7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	<p>The Company has developed and implemented a risk management process called the Bisalloy Management System. The purpose of the Bisalloy Management System is to ensure that there are up-to-date risk management policies and procedures which reflect the board's appetite for risk and which are consistently applied across the Group. Conformance with policies and procedures is the responsibility of management and compliance reviewed on a periodic basis.</p> <p>The Company has an Audit &amp; Risk Committee which meets regularly during the year. At the meetings the Committee receives explanations from management on any breakdowns in internal controls identified and the actions proposed to resolve them. Items remain open and are reviewed at following committee meetings until resolved to the Committee's satisfaction.</p>
7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	<p>In accordance with section 295A of the <i>Corporations Act</i>, the CEO and CFO have provided a written statement to the board that:</p> <ul style="list-style-type: none"> <li>• their view provided on the Group's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the board.</li> <li>• the group's risk management and internal compliance and control system is operating effectively in all material respects.</li> </ul>
7.4 Additional information.		The Bisalloy Management System, discussed at Principle 7.3, includes a wide range of proprietary policies and procedures which have been developed specifically for the Company and its business. The Company believes it would be unreasonably prejudicial to its interests and inappropriate to disclose this information publically.
<b>PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY</b>		
8.1 The board should establish a remuneration committee.	Yes	The Company has a Nominations and Remuneration Committee which meets regularly each year.
8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Full details of the Company's remuneration policy are set out in the Remuneration Report on pages 12 to 18.
8.3 Additional information.		<p>Full details in relation to names, skills, term of office and attendance at meetings for each member of the Committee are set out in the Directors' Report on pages 8, 9 and 12.</p> <p>The Nominations and Remuneration Committee Charter is available on the Company's website.</p>

# Auditor's independence declaration



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## Auditor's Independence Declaration to the Directors of Bisalloy Steel Group Limited

In relation to our audit of the financial report of Bisalloy Steel Group Limited for the financial year ended 30 June 2011, 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.

A stylized, handwritten signature of the Ernst &amp; Young firm, written in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to be 'Trent van Veen', written over a horizontal line.

Trent van Veen  
Partner  
Sydney  
21 September 2011

# FINANCIAL REPORT

Bisalloy Steel Group Limited and  
it's controlled entities for the year  
ended 30 June 2011

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# Consolidated statement of comprehensive income

for the year ended 30 June 2011

	Notes	Consolidated	
		Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>Continuing operations</b>			
<b>Revenue</b>			
Sales of goods		<b>78,296</b>	87,621
Finance revenue	5(b)	<b>11</b>	21
		<b>78,307</b>	87,642
Cost of sales	5(c)	<b>(63,165)</b>	(76,019)
<b>Gross profit</b>		<b>15,142</b>	11,623
Other (expenses)/income	5(a)	<b>(147)</b>	(482)
Distribution expenses		<b>(852)</b>	(629)
Marketing expenses		<b>(2,228)</b>	(1,534)
Occupancy expenses		<b>(748)</b>	(742)
Administrative expenses		<b>(4,501)</b>	(3,981)
<b>Profit before income tax and finance costs</b>		<b>6,666</b>	4,255
Finance costs	5(b)	<b>(2,330)</b>	(3,492)
<b>Profit before income tax</b>		<b>4,336</b>	763
Income tax expense	6(a)	<b>(1,351)</b>	(346)
<b>Profit after income tax</b>		<b>2,985</b>	417
<b>Other comprehensive income:</b>			
Fair value (loss)/gain on cash flow hedges		<b>(470)</b>	74
Foreign currency translation		<b>(2,059)</b>	356
Fair value revaluation of land and buildings		<b>4,000</b>	–
Income tax on items in other comprehensive income		<b>(1,059)</b>	(22)
<b>Other comprehensive income for the period</b>		<b>412</b>	408
<b>Total comprehensive income for the period</b>		<b>3,397</b>	<b>825</b>
Profit for the period is attributable to:			
Non-controlling interest	20(e)	<b>556</b>	388
Owner's of the parent		<b>2,429</b>	29
		<b>2,985</b>	417
<b>Total comprehensive income for the period is attributable to:</b>			
Non-controlling interest		<b>(7)</b>	541
Owner's of the parent		<b>3,404</b>	284
		<b>3,397</b>	825
<b>Earnings per share for profit attributable to ordinary equity holders of the parent</b>			
– Basic earnings per share (cents)	7	<b>1.1</b>	0.0
– Diluted earnings per share (cents)	7	<b>1.1</b>	0.0

# Consolidated statement of financial position

as at 30 June 2011

	Notes	Consolidated	
		Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9(a)	610	1,347
Trade and other receivables	10	13,282	19,581
Inventories	11	13,703	12,913
Other current assets	12	639	268
Derivative financial instruments	19	191	111
Income tax receivable	6(e)	269	–
<b>Total current assets</b>		<b>28,694</b>	<b>34,220</b>
<b>Non-current assets</b>			
Other financial assets	12	270	313
Deferred income tax asset	6(d)	–	1,367
Property, plant and equipment	13	16,891	12,248
<b>Total non-current assets</b>		<b>17,161</b>	<b>13,928</b>
<b>Total assets</b>		<b>45,855</b>	<b>48,148</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	16	11,383	15,613
Interest bearing loans and borrowings	17	833	716
Income tax payable	6(e)	–	690
Provisions	18	1,810	1,529
Derivative financial instruments	19	845	38
<b>Total current liabilities</b>		<b>14,871</b>	<b>18,586</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	17	14,978	17,398
Provisions	18	318	285
Deferred tax liabilities	6(d)	382	–
<b>Total non-current liabilities</b>		<b>15,678</b>	<b>17,683</b>
<b>Total liabilities</b>		<b>30,549</b>	<b>36,269</b>
<b>NET ASSETS</b>		<b>15,306</b>	<b>11,879</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Contributed equity	20(a)	65,539	65,539
Accumulated losses	20(f)	(54,665)	(57,094)
Other reserves	20(g)	1,255	102
<b>Parent interests</b>		<b>12,129</b>	<b>8,547</b>
<b>Non-controlling interests</b>	20(e)	<b>3,177</b>	<b>3,332</b>
<b>TOTAL EQUITY</b>		<b>15,306</b>	<b>11,879</b>

# Consolidated statement of cash flows

for the year ended 30 June 2011

	Notes	Consolidated	
		Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		100,623	85,936
Payments to suppliers and employees (inclusive of GST)		(94,061)	(66,131)
Interest received		11	21
Borrowing costs		(2,330)	(3,492)
Income tax paid		(951)	(2,274)
<b>Net cash inflow from operating activities</b>	9(b)	<b>3,292</b>	<b>14,060</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of fixed assets		22	-
Payments for property, plant and equipment		(1,780)	(950)
<b>Net cash outflow from investing activities</b>		<b>(1,758)</b>	<b>(950)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		-	4,941
Payments for transaction costs		-	(22)
Repayment of borrowings		(2,303)	(18,128)
Dividends paid to non-controlling interests		(148)	(266)
<b>Net cash outflow from financing activities</b>		<b>(2,451)</b>	<b>(13,482)</b>
<b>Net decrease in cash held</b>		<b>(917)</b>	<b>(372)</b>
Net foreign exchange differences		180	(65)
Cash at the beginning of the financial year		1,347	1,784
<b>Cash at the end of the financial year</b>	9(a)	<b>610</b>	<b>1,347</b>

# Consolidated statement of changes in equity

for the year ended 30 June 2011

	Attributable to equity holders of the Company								
	Issued capital \$'000	Employee equity benefits reserve \$'000	Net gain/(loss) on cash flow hedges \$'000	Foreign currency translation reserve \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interest \$'000	Total equity \$'000
<b>At 30 June 2010</b>	<b>65,539</b>	<b>121</b>	<b>52</b>	<b>(71)</b>	<b>-</b>	<b>(57,094)</b>	<b>8,547</b>	<b>3,332</b>	<b>11,879</b>
Profit/(Loss) for the period	-	-	-	-	-	2,429	2,429	556	2,985
Other comprehensive income	-	-	(329)	(1,496)	2,800	-	975	(563)	412
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(329)</b>	<b>(1,496)</b>	<b>2,800</b>	<b>2,429</b>	<b>3,404</b>	<b>(7)</b>	<b>3,397</b>
<b>Transactions with owners in their capacity as owners:</b>									
Share based payments	-	178	-	-	-	-	178	-	178
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(148)	(148)
<b>At 30 June 2011</b>	<b>65,539</b>	<b>299</b>	<b>(277)</b>	<b>(1,567)</b>	<b>2,800</b>	<b>(54,665)</b>	<b>12,129</b>	<b>3,177</b>	<b>15,306</b>
<b>At 30 June 2009</b>	<b>60,627</b>	<b>24</b>	<b>-</b>	<b>(777)</b>	<b>-</b>	<b>(57,123)</b>	<b>2,751</b>	<b>3,560</b>	<b>6,311</b>
Profit/(Loss) for the period	-	-	-	-	-	29	29	388	417
Other comprehensive income	-	-	52	203	-	-	255	153	408
Redesignation of FCTR from non-controlling interests	-	-	-	503	-	-	503	(503)	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>706</b>	<b>-</b>	<b>29</b>	<b>787</b>	<b>38</b>	<b>825</b>
<b>Transactions with owners in their capacity as owners:</b>									
Proceeds from issue of share capital	4,941	-	-	-	-	-	4,941	-	4,941
Transaction costs on share issue	(29)	-	-	-	-	-	(29)	-	(29)
Share based payments	-	97	-	-	-	-	97	-	97
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(266)	(266)
<b>At 30 June 2010</b>	<b>65,539</b>	<b>121</b>	<b>52</b>	<b>(71)</b>	<b>-</b>	<b>(57,094)</b>	<b>8,547</b>	<b>3,332</b>	<b>11,879</b>

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 1. Corporate information

The financial report of Bisalloy Steel Group Limited ("the Group") for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 21 September 2011.

Bisalloy Steel Group Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

## Note 2. Summary of significant accounting policies

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### a. Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial information contained in the financial report has been prepared in accordance with the historical cost convention, except for land and buildings and derivative financial instruments, which are measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

### New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except for land and buildings (refer to note 2v) and the following which the Group adopted from 1 July 2010:

- *AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]* effective 1 January 2010
- *AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]* effective 1 January 2010
- *AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project* effective 1 July 2010
- *AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues* effective 1 February 2010

Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Company or the Consolidated Entity.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2011.

Where necessary, comparative information has been represented to be consistent with current period disclosure.

### b. Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Note 2. Summary of significant accounting policies (continued)

### c. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company, being Bisalloy Steel Group Limited, and its subsidiaries ("the Group") as at the balance date.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

### d. Significant accounting judgements, estimates and assumptions

In the application of the Group's accounting policies as described below, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis.

#### Significant accounting judgements

In applying the Group's accounting policies, management have not made any significant accounting judgements which affect the amounts recognised in the financial statements.

#### Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

##### *Net realisable value of inventory*

The Group undertakes a detailed review of its inventory by major product category to ensure its provisions reflect inventory at the lower of cost and net realisable value. This review takes into consideration management's assessment of current and forecast market conditions, including drivers of the price of quenched and tempered steel and alloyed steel plate.

##### *Impairment of other non-financial assets*

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have been reversed.

##### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees (including directors and other senior executives) by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using discounted cash flow models using the assumptions dealt with in note 2(n).

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 2. Summary of significant accounting policies (continued)

### e. Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified and based on the information provided to the chief operating decision makers – being the executive management team.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the products and services,
- nature of production processes,
- type or class of customer for their products and services,
- methods use to distribute their products or provide their services, and if applicable
- nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

### f. Taxation

#### Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

#### Deferred tax

Deferred income tax is provided on temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

## Note 2. Summary of significant accounting policies (continued)

### f. Taxation (continued)

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### g. Cash and cash equivalents

Cash in the statement of financial position and the cash flow statement is comprised of cash on hand and in banks and short-term deposits with an original maturity of three months or less. Cash is stated at nominal value.

### h. Trade and other receivables

Trade and other receivables are carried at amounts due less an allowance for any uncollectible amounts. The collectability of debts is assessed at balance date and provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. Trade debtors are generally on 30-60 day terms. These are non-interest bearing.

### i. Inventories

Raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

#### Raw materials

- Purchase cost is on an average cost basis.

#### Work in progress and finished goods

- Cost of direct materials, labour and an appropriate proportion of manufacturing overheads is based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### j. Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in the profit and loss as incurred.

Land and buildings are measured at fair value, less accumulated depreciation on buildings and any impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

- |                          |                 |
|--------------------------|-----------------|
| • Land                   | not depreciated |
| • Buildings              | 50 years        |
| • Plant and equipment    | 5 – 10 years    |
| • Leasehold improvements | 5 – 10 years    |

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

#### Revaluations of land and buildings

Any revaluation increment is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

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

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

#### Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss in the period the item is derecognised.

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 2. Summary of significant accounting policies (continued)

### j. Property, plant and equipment (continued)

#### Information technology costs

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and / or cost reduction are capitalised to information technology costs. Amortisation is calculated on a straight line basis over periods not exceeding 10 years.

### k. Trade and other payables

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

### l. Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity, net of tax, as a reduction of the share proceeds received.

### m. Employee benefits

Liabilities arising in respect of short-term employee benefits such as wages, salaries, annual leave and sick leave represent the amount which the entity has a present obligation to pay resulting from employees' services provided up to the balance date. Liabilities in respect of short-term employee benefits are measured at their nominal amounts.

Long-term employee benefit liabilities such as long service leave represent the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date. Long-term employee benefit liabilities are measured at their present values using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the employee benefit liabilities, consideration has been given to future increases in wage and salary rates, and the consolidated entity's experience with staff departures. Related on-costs have also been included in the liability.

The Group contributes to several defined contribution superannuation plans. Contributions are charged against income as they are made.

### n. Share-based payment transactions

Employees (including directors and other senior executives) of the Group receive remuneration in the form of a grant of Rights, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). There is currently a Share Rights Plan in place to provide these benefits.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a discounted cash flow methodology. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the issuer ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. This opinion is formed based on the best available information at balance date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for Rights that do not ultimately vest. Any Rights that do not become vested Rights lapse.

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

### o. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense related to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

## Note 2. Summary of significant accounting policies (continued)

### p. Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### q. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), or GST equivalents, such as Value Added Tax, except:

- where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO), or equivalent foreign organisations. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expenses;
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### r. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

### Sale of goods

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products to entities outside the consolidated entity. Sales revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the customer. Risks and rewards of ownership are considered passed to the customer at the time of delivery of the goods to the customer.

### Rendering of services

This revenue comprises of freight, restocking and miscellaneous service charges provided to customers, which is recognised when the service is provided and billed to the customer.

### Interest income

Interest income is recognised as it accrues using the effective interest method (that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset).

### Dividend income

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

### s. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Bisalloy Steel Group Limited does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

### t. Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 2. Summary of significant accounting policies (continued)

### t. Leases (continued)

#### Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

### u. Foreign currency translation

The financial statements are presented in Australian dollars (A\$), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The functional currency of the foreign operations is the currency in circulation in the country they each reside in. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the Company's presentation currency (A\$) at the rate of exchange ruling at balance date, and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in the foreign currency translation reserve within equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

### v. Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### w. Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

## Note 2. Summary of significant accounting policies (continued)

### w. Derivative financial instruments and hedging (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### Cash Flow Hedges

Cash flow hedges are a hedge of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. 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 statement of comprehensive income when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

#### Fair Value Hedges

Fair value hedges are a hedge of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and could affect profit and loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to the profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The change in fair value of the hedging instrument is also recognised in the profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedge financial instrument for which the effective interest method is used is amortised to the profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 2. Summary of significant accounting policies (continued)

### x. Changes in accounting standards (continued)

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2011. Those that may be applicable to the Group are outlined in the table below.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase I of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	The potential effect on the Group's financial statements has not yet been determined.	1 July 2013
AASB 2009-11	<p>Amendments to Australian Accounting Standards arising from AASB 9</p> <p>[AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 &amp; 1038 and Interpretations 10 &amp; 12]</p>	<p>These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement.</p> <p>This Standard shall be applied when AASB 9 is applied.</p>	1 January 2013	The potential effect on the Group's financial statements has not yet been determined.	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2010-4	Further amendments to Australian Accounting Standards arising from the Annual Improvements Project	<p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>	1 January 2011	The amendments are not expected to have a significant impact on the financial statements.	1 July 2011
AASB 1054	Australian Additional Disclosures	<p>This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.</p> <p>This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:</p> <p>(a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements</p> <p>(c) Whether the financial statements are general purpose or special purpose</p> <p>(d) Audit fees</p> <p>(e) Imputation credits</p>	1 July 2011	The amendments are not expected to have a significant impact on the financial statements	1 July 2011
AASB 124	Related Party Disclosures (Revised)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <p>(a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other</p> <p>(b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other</p> <p>(c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other</p> <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p>	1 January 2011	The amendments are not expected to have a significant impact on the financial statements.	1 July 2011

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 2. Summary of significant accounting policies (continued)

### y. Changes in accounting policy

#### Land and Buildings

During the year the Group made a voluntary change to its accounting policy to measure land and buildings at fair value using the revaluation method in AASB 116 Property, Plant and Equipment. As a result in this change in policy the value of land and buildings has increased by \$4,000,000. A deferred tax liability related to this revaluation has also been recognised to account for the future tax liability associated with this revaluation. In accordance with AASB108 this has not been applied retrospectively.

## 3. Financial Risk Management

### Overview

The Group has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the board.

The board has established an Audit and Risk Committee comprising non-executive directors, whose meetings are also attended by the executive directors. In addition sub-committees are convened as appropriate in response to issues and risks identified by the board, and the sub-committee further examines the issue and reports back to the board.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses the Group's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.
- The establishment of committees to report on specific business risks, including for example, such matters as environmental issues and concerns and occupational health and safety.

- The board reviews financial risks such as the Group's liquidity, currency, interest rate and credit policies and exposures and monitors management's actions to ensure they are in line with Group policy.

### CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

#### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has a narrow customer base and has the potential to be exposed to credit risk on a specific customer.

A credit policy is in place, the objective of which is:

- To ensure all credit worthiness checks are carried out prior to opening new credit accounts and appropriate authorisations obtained;
- To ensure the approved credit limit is appropriate to the inherent risk of trading with any particular customer;
- To ensure all orders are converted into cash within trading terms;
- To minimise late payments and any potential bad debts through the constant application of sound commercial debtor management on a continuing basis;

The credit policy requires credit insurance to be taken out against customers where the concentration risk of trading with any specific customer is assessed as high.

Goods are sold subject to retention of title clauses that permit the Group to reclaim stock from a customer up to the value of monies owed in the event:

- Official Manager
- Receiver and Manager
- Administrator
- Liquidator

or similar business administration is appointed to the customer's business.

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss is based on historical data of payment statistics for similar financial assets.

The maximum exposure to credit risk for these financial assets is limited to their carrying amounts as disclosed in note 10.

### 3. Financial Risk Management (continued)

#### LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as and when they fall due without incurring unacceptable losses or risking damaging the Group's reputation.

The Group is funded via an \$11m term loan and \$20m revolver borrowing facility. The drawn revolver facility balance is limited to the value of the available collateral and fluctuates daily. Eligible trade receivables, eligible inventory, plant and equipment and real property constitute available collateral. At balance date, the carrying amount of assets pledged as collateral was \$35.3m (2010: \$32.7m).

In addition to the eligible collateral, the Group have several general and financial undertakings which they must comply with including a \$6m (2010: \$6m) limit on capital expenditure, a Tangible Net Worth covenant, and a Fixed Charge Coverage Ratio covenant.

Due to the nature of the facility cashflow is managed on a daily basis, comparing actual against forecast collateral, receipts and payments. Each month a complete review is undertaken of the projected daily cashflow.

#### Contractual maturity of financial liabilities

The table below reflects all contractually fixed payments for settlement, repayments and interest resulting from recognised financial liabilities, including derivative financial instruments as at 30 June 2011.

For derivative financial instruments the market value is presented, whereas for the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2011.

Consolidated	2011 \$'000	2010 \$'000
6 months or less	<b>13,080</b>	17,040
6-12 months	<b>636</b>	36
1-5 years	<b>18,030</b>	22,095
Over 5 years	<b>-</b>	-
	<b>31,746</b>	39,171

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## 3. Financial Risk Management (continued)

### LIQUIDITY RISK (CONTINUED)

#### Management analysis of financial assets and liabilities

The table below is based on management expectations of the timing of cash inflows and outflows from its financial assets and liabilities which reflect a balanced view of cash inflows and outflows. Gross settled derivatives comprise forward exchange contracts that are used to hedge future sales and purchase commitments.

Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital (e.g., inventories and trade receivables). These assets are considered in the Group's overall liquidity risk.

To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering its operation that reflects expectations of management of expected settlement of financial assets and liabilities.

Consolidated	<=6 months \$'000	6-12 months \$'000	1-5 years \$'000	>5 years \$'000	Total \$'000
<b>Financial assets</b>					
Cash and cash equivalents	610	–	–	–	610
Trade and other receivables	13,282	–	–	–	13,282
Derivatives	191	–	–	–	191
Income tax receivable	269	–	–	–	269
	14,352	–	–	–	14,352
<b>Financial liabilities</b>					
Trade and other payables	11,383	–	–	–	11,383
Interest bearing loans and borrowings	851	636	18,030	–	19,517
Derivatives – gross settled					
Inflows	14,370	–	–	–	14,370
Outflows	(13,525)	–	–	–	(13,525)
	13,080	636	18,030	–	31,746
<b>Net inflow/(outflow)</b>	1,272	(636)	(18,030)	–	(17,394)

### MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

### 3. Financial Risk Management (continued)

#### Foreign exchange risk

The Group generally adopts a policy of covering exchange exposures related to purchases and sales of product at the time they are incurred or committed. Foreign exchange risk has been managed on a net basis such that any foreign currency denominated financial assets are treated as a natural hedge against foreign currency denominated financial liabilities.

Throughout the year the foreign exchange risk has been actively managed through periodic risk assessments. The objective of these assessments is to stratify foreign exchange exposure into risk categories and enable available hedge facilities to be applied to those assessed as higher risk.

Risk assessments take into account macro economic lead indicators such as interest rate differentials, inflation rate differentials and externally published market analytical data to determine the likelihood of movement in exchange rates. The likelihood is applied to the Group's foreign currency exposure to determine financial impact on a sensitivity basis.

In the event of large purchases of inventory being denominated in foreign currency, the Group's statement of financial position can be significantly affected by movements in exchange rates.

At balance date, the Group had the following exposure to foreign currency (including USD, Thai Baht & Indonesian Rupiah) that is not designated in cash flow hedges:

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Financial Assets</b>		
Cash and cash equivalents	599	1,281
Trade and other receivables	3,626	9,510
Derivatives	2,770	3,215
	<b>6,995</b>	<b>14,006</b>
<b>Financial Liabilities</b>		
Trade and other payables	4,237	3,336
Derivatives	1,365	3,051
	<b>5,602</b>	<b>6,387</b>
<b>Net exposure</b>	<b>1,393</b>	<b>7,619</b>

#### Sensitivity analysis

The following table summarises the sensitivity of financial instruments held at balance date to movements in the exchange rate of the Australian dollar to foreign currencies, with all other variables held constant. The +5%/-10% sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical rates for the preceding 5 year period, along with consideration for current market trends.

	Post tax profit Higher/(Lower)		Other comprehensive income Higher/ (Lower)	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Sensitivity to USD</b>				
<b>Consolidated</b>				
AUD/USD +5%	163	(42)	12	(2)
AUD/USD -10%	(380)	99	(29)	6

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## 3. Financial Risk Management (continued)

### Interest rate risk

The Group's borrowing facility has a variable interest rate attached to it. The Group monitors the underlying interest rate outlook and considers the use of interest rate derivatives (principally swaps) to manage the exposure to interest rate fluctuations.

The Group's exposure to market interest rates relates primarily to the Group's interest bearing borrowings. At 30 June 2011, the Group had the following mix of financial assets and liabilities exposed to variable interest rates that are not designated in cash flow hedges.

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Financial Assets</b>		
Cash and cash equivalents	<b>606</b>	1,342
<b>Financial Liabilities</b>		
Bank loans	<b>15,811</b>	18,114
<b>Net exposure</b>	<b>(15,205)</b>	(16,772)

### Interest rate sensitivity analysis

The following table summarises the sensitivity of the fair value of financial instruments held at the balance date following a movement in interest rates, with all other variables held constant. The +1.0/-0.5 basis points sensitivity is based on reasonably possible changes over a financial year, using the observed range of actual historical rates for the preceding 5 year period.

Consolidated	Post tax profit Higher/(Lower)		Other comprehensive income Higher/(Lower)	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
+1% (100 basis points)	<b>(106)</b>	(117)	-	-
-0.5% (50 basis points)	<b>53</b>	59	-	-

### COMMODITY RISK

The Group does not hedge for movements in the underlying price of product, but manages commodity risk within the parameters of the markets within which it trades.

### Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is calculated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

### 3. Financial Risk Management (continued)

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

Consolidated	Year ended 30 June 2011				Year ended 30 June 2010			
	Quoted market price (Level 1) \$000	Valuation technique-market observable inputs (Level 2) \$000	Valuation technique-non market observable inputs (Level 3) \$000	Total \$000	Quoted market price (Level 1) \$000	Valuation technique-market observable inputs (Level 2) \$000	Valuation technique-non market observable inputs (Level 3) \$000	Total \$000
<b>Financial assets</b>								
Foreign exchange contracts	-	191	-	111	-	191	-	111
	<b>-</b>	<b>191</b>	<b>-</b>	<b>111</b>	<b>-</b>	<b>191</b>	<b>-</b>	<b>111</b>
<b>Financial liabilities</b>								
Foreign exchange contracts	-	845	-	845	-	38	-	38
	<b>-</b>	<b>845</b>	<b>-</b>	<b>845</b>	<b>-</b>	<b>38</b>	<b>-</b>	<b>38</b>

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

#### TRANSFER BETWEEN CATEGORIES

There were no transfers between Level 1 and Level 2 during the year

### Note 4. Operating segments

#### IDENTIFICATION OF REPORTABLE SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on country of origin. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of economic characteristics.

#### GEOGRAPHICAL AREAS

##### Australian operations

The Australian operations are comprised of Bisalloy Steels Pty Limited and Bisalloy Steel Group Limited.

Bisalloy Steels Pty Limited distributes wear-grade and high tensile plate through distributors and directly to original equipment manufacturers in both Australia and Overseas. Bisalloy Steels is located in Unanderra, near Wollongong, NSW.

Bisalloy Steel Group Limited is the corporate entity, also located in Unanderra NSW, which incurs expenses such as head office costs and interest. All corporate charges relate to the Australian operations and are linked to Australian segment revenue only.

##### Overseas operations

The overseas operations comprise of PT Bima Bisalloy and Bisalloy (Thailand) Co Limited located in Indonesia and Thailand respectively. These businesses distribute Bisalloy Q&T plate as well as steel plate products.

#### ACCOUNTING POLICIES AND INTER-SEGMENT TRANSACTIONS

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period except as detailed below:

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 4. Operating segments (continued)

### Inter-entity sales

Inter-entity sales are recognised based on an internally set transfer price. This price is set monthly and aims to reflect what the business operation could achieve if they sold their output to external parties at arm's length.

### MAJOR CUSTOMERS

The group has a number of customers to which it provides products. There are major distributors who account for 15% (2010: 16%) and 16% (2010: 12%) of total external revenue. The next most significant client account is end users with one major customer who accounts for 10% (2010: 5%) of total external revenue.

Year ended 30 June 2011	Australia \$'000	Overseas \$'000	Total \$'000
<b>Revenue:</b>			
Sales to external customers	60,224	18,003	78,227
Other revenue from external customers	74	6	80
Inter-segment sales	8,836	–	8,836
Total segment revenue	69,134	18,009	87,143
Inter-segment elimination			(8,836)
Total consolidated revenue			78,307
<b>Segment net operating (loss)/profit after tax</b>	<b>1,277</b>	<b>1,708</b>	<b>2,985</b>
Interest revenue	5	6	11
Interest expense	2,272	58	2,330
Depreciation	886	112	998
Income tax (benefit)/expense	702	649	1,351
<b>Segment assets</b>	<b>36,073</b>	<b>13,381</b>	<b>49,454</b>
Capital expenditure	1,730	50	1,780
<b>Segment liabilities</b>	<b>28,031</b>	<b>1,974</b>	<b>30,005</b>
<b>Year ended 30 June 2010</b>			
<b>Revenue:</b>			
Sales to external customers	67,588	19,990	87,578
Other revenue from external customers	64	–	64
Inter-segment sales	11,967	–	11,967
Total segment revenue	79,619	19,990	99,609
Inter-segment elimination			(11,967)
Total consolidated revenue			87,642
<b>Segment net operating (loss)/profit after tax</b>	<b>(712)</b>	<b>1,129</b>	<b>417</b>
Interest revenue	13	8	21
Interest expense	3,400	92	3,492
Depreciation	800	104	904
Income tax expense	(136)	482	346
<b>Segment assets</b>	<b>33,902</b>	<b>17,244</b>	<b>51,146</b>
Capital expenditure	866	84	950
<b>Segment liabilities</b>	<b>32,027</b>	<b>4,917</b>	<b>36,944</b>

## Note 4. Operating segments (continued)

	Consolidated	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>i) Segment revenue reconciliation to the statement of comprehensive income</b>		
Total segment revenue	87,143	99,609
Inter-segment sales elimination	(8,836)	(11,967)
<b>Total revenue</b>	<b>78,307</b>	<b>87,642</b>

Revenue from external customers by geographical location is detailed below. Revenue is attributed to geographic location based on the location of the customers.

Australia	55,762	47,453
Indonesia	12,852	13,867
Israel	1,429	17,420
Other foreign countries	8,264	8,902
<b>Total revenue</b>	<b>78,307</b>	<b>87,642</b>

### ii) Segment net operating profit after tax reconciliation to the statement of comprehensive income

The executive management committee meets on a monthly basis to assess the performance of each segment by analysing the segment's net operating profit after tax. A segment's net operating profit after tax excludes non operating income and expense such as dividends received, fair value gains and losses, gains and losses on disposal of assets and impairment charges.

	Consolidated	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>Reconciliation of segment net operating profit after tax to net profit before tax</b>		
Segment net operating profit after tax	2,985	417
Income tax expense	1,351	346
<b>Total net profit before tax per the statement of comprehensive income</b>	<b>4,336</b>	<b>763</b>

### iii) Segment assets reconciliation to the statement of financial position

In assessing the segment performance on a monthly basis, the executive management committee analyses the segment result as described above and its relation to segment assets. Segment assets are those operating assets of the entity that the management committee views as directly contributing to the performance of the segment. These assets include plant and equipment, receivables, inventory and intangibles and exclude available-for-sale assets, derivative assets, deferred tax assets, and pension assets.

	Consolidated	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>Reconciliation of segment operating assets to total assets</b>		
Segment operating assets	49,454	51,146
Inter-segment eliminations	(3,790)	(4,476)
Derivative assets	191	111
Deferred tax assets	-	1,367
<b>Total assets per the statement of financial position</b>	<b>45,855</b>	<b>48,148</b>

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 4. Operating segments (continued)

The analysis of the location of non-current assets other than financial instruments, deferred tax assets, pension assets is as follows:

	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Australia	16,455	11,653
Overseas	706	908
Total assets	17,161	12,561

### iv) Segment liabilities reconciliation to the statement of financial position

Segment liabilities include trade and other payables and debt. The Group has a centralised finance function that is responsible for raising debt and capital for the Australia operations. Each Australian entity or business uses this central function to invest excess cash or obtain funding for its operations. The executive management committee reviews the level of debt for each segment in the monthly meetings.

Consolidated	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>Reconciliation of segment operating liabilities to total liabilities</b>		
Segment operating liabilities	30,005	36,944
Inter-segment eliminations	(2,811)	(3,217)
Income tax payable	–	690
Provisions	2,128	1,814
Derivative financial instruments	845	38
Deferred tax liabilities	382	–
Total liabilities per the statement of financial position	30,549	36,269

## Note 5. Revenue and expenses

	Consolidated	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>(a) Other (income)/expenses</b>		
Foreign exchange losses/(gains)	169	593
Other income	(22)	(111)
	<b>147</b>	<b>482</b>
<b>(b) Finance costs</b>		
Bank interest and borrowing costs	2,330	3,492
<b>Total finance costs</b>	<b>2,330</b>	<b>3,492</b>
Bank interest receivable	(11)	(21)
<b>Total finance revenue</b>	<b>(11)</b>	<b>(21)</b>
<b>(c) Depreciation and costs of inventories included in statement of comprehensive income</b>		
Depreciation and amortisation	998	904
Costs of inventories recognised as an expense	63,165	76,019
<b>(d) Lease payment and other expenses included in statement of comprehensive income</b>		
Rental – operating leases	279	281
<b>(e) Employee benefits expense</b>		
Wages and salaries	9,379	8,107
Superannuation costs	576	491
Expense of share-based payments	178	97
	<b>10,133</b>	<b>8,695</b>

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 6. Income tax

### (a) Income Tax Expense

	Consolidated	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
The major components of income tax expense are:		
<b>Statement of comprehensive income</b>		
<b>Current income tax</b>		
Current income tax charge	675	399
Adjustments in respect of current income tax of previous years	(5)	(78)
	<b>670</b>	<b>321</b>
<b>Deferred income tax</b>		
Relating to origination and reversal of temporary differences	681	25
	<b>681</b>	<b>25</b>
<b>Income tax expense</b>	<b>1,351</b>	<b>346</b>
The income tax expense for the period is disclosed as follows:		
Income tax expense reported in the consolidated statement of comprehensive income	1,351	346
	<b>1,351</b>	<b>346</b>

### (b) Amounts charged or credited directly to equity

Deferred income tax related to items charged or credited directly to equity		
Net gain/(loss) on revaluation of land and buildings	1,200	–
Net gain on revaluation of derivative assets	(132)	22
<b>Income tax expense reported in equity</b>	<b>1,068</b>	<b>22</b>

### (c) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

<b>Accounting profit before tax</b>	<b>4,336</b>	<b>763</b>
<b>At the Group's statutory income tax rate of 30% (2010: 30%)</b>	<b>1,301</b>	<b>229</b>
Income assessable for tax purposes	489	325
Expenditure not allowable for tax purposes	148	34
Expenditure allowable for tax purposes	(143)	(164)
Foreign tax credits allowed	(213)	–
Adjustments in respect of deferred income tax expense	(226)	–
Adjustments in respect of current income tax of previous years	(5)	(78)
	<b>1,351</b>	<b>346</b>

## Note 6. Income tax (continued)

### (d) Deferred income tax

	Statement of financial position		Statement of comprehensive income		Equity	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>Deferred income tax at 30 June relates to the following:</b>						
<b>CONSOLIDATED</b>						
Accelerated depreciation for tax purposes	(1,598)	(291)	107	124	1,200	–
Losses available for offset against future taxable benefits	–	201	201	(201)	–	–
Employee entitlement provisions	541	454	(87)	(36)	–	–
Other provisions and accruals	43	241	198	150	–	–
Inventory	65	152	87	(8)	–	–
Other	(17)	244	261	5	–	–
Foreign income tax credits	388	388	–	(9)	–	–
Derivatives	196	(22)	(86)	–	(132)	22
<b>Deferred tax (liabilities)/assets reflected in the balance sheet</b>	<b>(382)</b>	<b>1,367</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Deferred tax credit/expense</b>	<b>–</b>	<b>–</b>	<b>681</b>	<b>25</b>	<b>–</b>	<b>–</b>
<b>Equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,068</b>	<b>22</b>

### (e) Current income tax at 30 June relates to the following:

The current tax asset for the Consolidated entity of \$269,000 (2010: liability \$690,000) represents the amount of income tax payable in respect of the current and prior periods that arises from the payment of tax in deficit of the amounts due to the relevant tax authority.

The Consolidated entity liability includes both the income tax payable by all members of the tax consolidated group and those members outside the tax consolidated group and outside the Australian tax jurisdiction.

### (f) Unrecognised temporary differences

At 30 June 2011, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries, as the Group has no liability for additional taxation should unremitted earnings be remitted (2010: Nil).

### (g) Tax consolidation

#### (i) Members of the tax consolidation group and the tax sharing arrangement

Effective 1 July, 2003, for the purposes of income taxation, the Company and its 100% owned Australian subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement. This arrangement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of a default is remote. The head entity of the group is Bisalloy Steel Group Limited.

#### (ii) Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The allocation of taxes under the tax funding agreement is recognised under the separate tax payer within a group approach. Allocations under the tax funding agreement are made on a semi annual basis.

The amount that is allocated under the tax funding agreement is done so in accordance with a method permitted by UIG1052 and is recognised by way of an increase or decrease in the subsidiaries intercompany accounts.

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 7. Earnings per share (EPS)

	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>The following reflects the income and share data used in the basic and diluted earnings per share computations:</b>	<b>2,985</b>	417
Net profit for the period		
Net profit attributable to non-controlling interest holders	<b>556</b>	388
<b>Net profit/(loss) attributable to equity holders of the parent (used in calculating basic and diluted EPS)</b>	<b>2,429</b>	29
	Thousands	Thousands
<b>Weighted average number of ordinary shares for basic earnings per share</b>	<b>216,456</b>	212,927
Effects of dilution:		
Performance rights	<b>689</b>	1,572
<b>Adjusted weighted average number of ordinary shares for diluted earnings per share</b>	<b>217,145</b>	214,499
<b>Weighted average number of lapsed or cancelled potential ordinary shares included in diluted earnings per share</b>	<b>-</b>	-

## Note 8. Dividends paid or proposed

	Consolidated	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
<b>(a) Dividends paid during the year</b>		
Interim 2011 – Nil		
(2010: Nil)	-	-
Final 2010 dividend – Nil		
(2009: Nil)	-	-
	-	-
<b>(b) Dividends declared (not recognised as a liability as at 30 June)</b>		
Final dividend for 2011 – Nil		
(2010: Nil)	-	-
<b>(c) Franking credit balance</b>		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30%	<b>2,132</b>	1,254
Franking credits that will arise from the payment of tax payable as at the end of the financial year	<b>-</b>	577
	<b>2,132</b>	1,831

## Note 9. Cash and cash equivalents

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>(a) Reconciliation of cash</b>		
<b>For the purpose of the cash flow statement, cash and cash equivalents comprise the following at 30 June:</b>		
Cash at bank	606	1,343
Cash at hand	4	4
<b>Total</b>	<b>610</b>	<b>1,347</b>
<b>(b) Reconciliation of net (loss)/profit after income tax to net cash provided by operations</b>		
Net profit	2,985	417
<b>Non cash items</b>		
Depreciation and amortisation	998	904
Share-based payments expense	178	97
Net profit on disposal of property, plant and equipment	(22)	–
Impairment and write-off of current assets	(44)	–
Net fair value change on derivatives	287	–
<b>Change in operating assets and liabilities</b>		
Decrease/(increase) in receivables and other assets	6,298	(8,927)
(Increase)/decrease in foreign currency translation	(2,117)	420
(Increase)/decrease in inventories	(746)	15,026
Increase in tax assets and liabilities	(281)	(1,928)
(Increase)/decrease in prepayments	(329)	379
(Decrease)/increase in trade creditors	(4,230)	7,426
Increase in provisions	315	246
<b>Net cash used in operating activities</b>	<b>3,292</b>	<b>14,060</b>
<b>(c) Disclosure of financing facilities</b>		
Refer note 17		

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 10 Trade and other receivables

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Current</b>		
Trade receivables	13,254	18,376
Less: Provision for doubtful debts	(77)	(81)
	<b>13,177</b>	<b>18,295</b>
Other	105	1,286
	<b>105</b>	<b>1,286</b>
	<b>13,282</b>	<b>19,581</b>

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

At 30 June, the ageing analysis of trade receivables is as follows:

	Total \$'000	0-30 Days \$'000	31-60 Days \$'000	61-90 Days PDNI* \$'000	61-90 Days CI* \$'000	+91 Days PDNI* \$'000	+91 Days CI* \$'000
2011 Consolidated	13,254	7,189	5,340	509	–	141	77
2010 Consolidated	18,376	12,165	5,119	753	–	260	81

\*Past due not impaired ('PDNI')

Considered impaired ('CI')

Receivables past due and considered impaired are \$77,000 (2010: \$81,000) which relate to specific receivables. Credit has been stopped on these accounts until full payment is made. Receivables over 91 days past due not impaired relate to accounts within the Indonesian and Thailand subsidiaries for which repayment terms have been renegotiated. The Company reports the aged status of receivables against original terms of trade and does not adjust for renegotiated terms.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

### FAIR VALUE AND CREDIT RISK

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

### FOREIGN EXCHANGE AND INTEREST RATE RISK

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 3.

## Note 11. Inventories

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
Current		
Raw materials and stores (at cost)	<b>1,068</b>	1,555
Work in progress (at cost)	<b>1,036</b>	416
Finished goods at the lower of cost and NRV	<b>11,599</b>	10,942
	<b>13,703</b>	12,913

### (a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2011 totalled \$63,164,790 (2010: \$76,019,105). This expense has been included in the cost of sales line item as a cost of inventories.

The amount expensed includes \$108,338 (2010: \$564,183) for the Group relating to inventory write-downs.

## Note 12. Other financial assets

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
Current		
Prepayments	<b>639</b>	268
	<b>639</b>	268
Non-current		
Prepayments	<b>270</b>	313
	<b>270</b>	313

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 13. Property, plant and equipment (continued)

### (A) RECONCILIATION OF CARRYING AMOUNTS AT THE BEGINNING AND END OF THE PERIOD

Consolidated	Freehold land and buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
<b>Year ended 30 June 2011</b>				
At 1 July 2010, net of accumulated depreciation and impairment	3,473	143	8,632	12,248
Additions	–	–	1,780	1,780
Disposals	–	–	–	–
Revaluations	4,000	–	–	4,000
Depreciation and amortisation charge for the year	(82)	(7)	(909)	(998)
Exchange adjustment	(112)	–	(27)	(139)
<b>At 30 June 2011, net of accumulated depreciation and impairment</b>	<b>7,279</b>	<b>136</b>	<b>9,476</b>	<b>16,891</b>
<b>At 1 July 2010</b>				
Cost	4,068	327	15,397	19,792
Accumulated depreciation and impairment	(595)	(184)	(6,765)	(7,544)
Net carrying value	3,473	143	8,632	12,248
<b>At 30 June 2011</b>				
Cost or fair value	7,958	327	17,154	25,439
Accumulated depreciation and impairment	(679)	(191)	(7,678)	(8,548)
Net carrying value	7,279	136	9,476	16,891
Consolidated	Freehold land and buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
<b>Year ended 30 June 2010</b>				
At 1 July 2009, net of accumulated depreciation and impairment	3,506	150	8,545	12,201
Additions	5	–	898	903
Disposals	–	–	–	–
Depreciation charge for the year – continuing operations	(82)	(7)	(815)	(904)
Exchange adjustment	44	–	4	48
<b>At 30 June 2010, net of accumulated depreciation and impairment</b>	<b>3,473</b>	<b>143</b>	<b>8,632</b>	<b>12,248</b>
<b>At 1 July 2009</b>				
Cost	4,016	327	14,512	18,855
Accumulated depreciation and impairment	(510)	(177)	(5,967)	(6,654)
Net carrying value	3,506	150	8,545	12,201
<b>At 30 June 2010</b>				
Cost	4,068	327	15,397	19,792
Accumulated depreciation and impairment	(595)	(184)	(6,765)	(7,544)
Net carrying value	3,473	143	8,632	12,248

## Note 13. Property, plant and equipment (continued)

### (B) REVALUATION OF FREEHOLD LAND AND FREEHOLD BUILDINGS

The Group engaged Colliers International, an accredited independent valuer, to determine the fair value of its land and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. The effective date of the revaluation was 13 May 2011.

### (C) CARRYING AMOUNTS IF LAND AND BUILDINGS WERE MEASURED AT COST LESS ACCUMULATED DEPRECIATION AND IMPAIRMENT

If land and buildings were measure using the cost model the carrying amounts would be as follows:

	2011 Freehold land and buildings	2010 Freehold land and buildings
Cost	3,958	4,068
Accumulated depreciation and impairment	(679)	(595)
Net carrying amount	3,279	3,473

## Note 14. Share-based payments plans

### LONG TERM INCENTIVES (LTI) PLAN

The LTI program has been designed to align the remuneration received by executive directors and senior managers with the creation of shareholder wealth.

Consequently LTI grants are only made to executives who are in a position to influence shareholder wealth and thus have the opportunity to influence the company's performance against the relevant long term performance hurdles.

#### Structure

At the 2009 Annual General Meeting, an LTI plan was approved for LTI grants to executives in the form of share rights.

These rights are granted in two equal parts. The first part is based on retention and requires the holder remain an employee for three years from grant date. The second part is based on delivering superior long-term performance as measured by Return on Equity ("ROE"), with each grant of rights divided into three equal tranches. For each tranche, actual ROE is measured against a budget ROE and a stretch ROE as determined annually by the board in respect of the forthcoming year. The proportion of the rights which vest depend on where within this range the Group performs, with 100% vesting on achieving the stretch ROE and no rights vesting if actual ROE is less than 90% of the budgeted ROE. For the 2011 year, the stretch ROE was set at 15% above the budget ROE. Any rights to which the employee may become entitled on achieving the performance criteria, are still subject to the three year retention criteria before they can vest.

Any share rights which do not vest, as a result of the relevant performance condition not being satisfied, lapse. If the holder leaves the business, the unvested rights lapse on the leaving date unless the board determines otherwise. In the event of a change in control of the Group, the vesting date will generally be brought forward to the date of change of control and share rights will vest subject to performance over this shortened period, subject to ultimate board discretion.

Once vested a holder may exercise his share rights and be allocated a fully paid ordinary share of Bisalloy at no cost to the employee.

During the 30 June 2011 financial year no share rights were granted under this scheme.

The share rights have been valued by Mercer (Australia) Pty Ltd. A fair value expressed as a value per share right has been determined as at the grant date for each grant of rights. The rights have been valued according to a discounted cash flow (DCF) methodology.

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 14. Share-based payments plans (continued)

The following table lists the valuation outputs for outstanding grants as at 30 June 2011:

	Expiry term of three years	
	Value of one option	Proportion of options that vest
Grant 1	\$0.18	80.04%
Grant 2	\$0.20	83.33%

The fair value of the performance rights granted is brought to account as an expense in the profit and loss over the three year vesting period. The following table shows the number of rights outstanding during the year and in the previous year. The expense recognised in the statement of comprehensive income in relation to share based payments is disclosed in note 5(e).

## Note 14. Share-based payments plans (continued)

### SHARE RIGHTS PLAN

	Grant 1	Grant 2	Total
	Unvested	Unvested	
Grant date	4 Jan 2010	22 Mar 2010	
Expiry date	4 Jan 2013	30 June 2013	
Exercise price	\$0.00	\$0.00	
<b>Balance at 30 June 2009</b>	-	-	-
New grants in the year	2,500,000	1,000,000	3,500,000
Exercised in the year	-	-	-
Lapsed during the year	(82,387)	-	(82,387)
<b>Balance at 30 June 2010</b>	<b>2,417,613</b>	<b>1,000,000</b>	<b>3,417,613</b>
<b>Exercisable at 30 June 2010</b>	-	-	-
New grants in the year	-	-	-
Exercised in the year	-	-	-
Lapsed during the year	(416,667)	(166,667)	(583,334)
<b>Balance at 30 June 2011</b>	<b>2,000,946</b>	<b>833,333</b>	<b>2,834,279</b>
<b>Exercisable at 30 June 2011</b>	-	-	-

The amount expensed in relation to the above for the current year was \$178,129 (2010: \$95,483).

## Note 15. Pensions and other post-employment benefit plans

### SUPERANNUATION COMMITMENTS

The Company makes superannuation contributions on behalf of employees to externally managed defined contribution superannuation funds. The contributions are defined by the terms of each individual employee's employment and fully vest at the time the contributions are made.

## Note 16. Trade and other payables

	Consolidated	
	30 June 2011	30 June 2010
	\$'000	\$'000
<b>Current</b>		
Trade payables	10,290	13,486
Other payables and accruals	917	1,904
Goods and services tax	176	223
	<b>11,383</b>	15,613

### FAIR VALUE

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

### INTEREST RATE, FOREIGN EXCHANGE AND LIQUIDITY RISK

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 3.

## Note 17. Interest-bearing loans and borrowings

	Consolidated	
	30 June 2011	30 June 2010
	\$'000	\$'000
<b>Current</b>		
Borrowings secured by fixed and floating charges	833	716
<b>Non-current</b>		
Borrowings secured by fixed and floating charges	14,978	17,398

During the 30 June 2010 financial year, Bisalloy Steel Group Limited and Bisalloy Steels Pty Limited entered into a new facility agreement with GE Commercial Australasia Pty Limited. Subsidiary companies of the Group are guarantors to the facility.

The facility provides Bisalloy Steel Group Limited with a:

- \$20m revolving loan facility; and
- \$11m term loan facility (2010: \$12m term loan facility)

The facility has a maturity date of 31 October 2012.

The facility is secured by a fixed and floating charge over all assets of the Group. The facility is subject to usual provisions such as negative covenants and various undertakings, including compliance with a fixed charge coverage ratio. The facility is variable rate linked to an interest rate plus a fixed margin. The average variable interest rate for the year is 8.18% (2010: 7.25%).

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 17. Interest-bearing loans and borrowings (continued)

### FAIR VALUES

Unless disclosed below, the carrying amount of the Group's current and non-current borrowings approximate their fair value.

### INTEREST RATE, FOREIGN EXCHANGE AND LIQUIDITY RISK

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 3.

### ASSETS PLEDGED AS SECURITY

The fixed and floating charge covers all current and future assets of Bisalloy Steel Group Limited Group.

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
At reporting date, the following financing facilities had been negotiated and were available:		
Total facilities		
– revolver facility	20,000	20,000
– term loan	11,000	12,000
– Bisalloy Thailand facility (i)	758	–
– PT Bima facility (ii)	1,133	1,420
	<b>32,891</b>	<b>33,420</b>
Facilities used at reporting date		
– revolver facility	4,811	5,398
– term loan	11,000	12,000
– Bisalloy Thailand facility (i)	–	–
– PT Bima facility (ii)	–	716
	<b>15,811</b>	<b>18,114</b>
Facilities unused at reporting date		
– revolver facility	15,189	14,602
– term loan	–	–
– Bisalloy Thailand facility (i)	758	–
– PT Bima facility (ii)	1,133	704
	<b>17,080</b>	<b>15,306</b>

(i) The Group had a THB 22m promissory note facility and a THB 3m bank overdraft facility available to its Thailand based subsidiary as at 30 June 2011. These facilities are secured by a guarantee from Bisalloy Steel Group Limited.

(ii) The Group has an IDR 1billion and USD\$600,000 revolver facilities available to its Indonesian based subsidiary as well as a Letter of Credit facility totalling USD\$500,000.

## Note 18. Provisions

Consolidated	Employee entitlements \$'000	Total \$'000
<b>At 1 July 2010</b>	1,814	1,814
Arising during the year	825	825
Utilised	(511)	(511)
<b>At 30 June 2011</b>	2,128	2,128
Current 2011	1,810	1,810
Non-current 2011	318	318
	2,128	2,128
Current 2010	1,529	1,529
Non-current 2010	285	285
	1,814	1,814

### Long Service Leave

Refer to note 2(o) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

## Note 19. Derivatives and financial instruments

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
Current Assets		
Forward currency contracts – Cash flow hedges	148	111
Forward currency contracts – Fair value hedges	43	–
	191	111
Current Liabilities		
Forward currency contracts – Cash flow hedges	515	38
Forward currency contracts – Fair value hedges	330	–
	845	38

### INSTRUMENTS USED BY THE GROUP

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates.

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 19. Derivatives and financial instruments (continued)

### FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES

#### Inventory purchases

In order to protect against exchange rate movements and to manage the inventory costing process, the Group had entered into forward exchange contracts to purchase US\$14,295,000 (2010: US\$3,840,000). These contracts hedged highly probable forecasted purchases and they are timed to mature when payments are scheduled to be made.

These hedges are considered cash flow hedges from the point where a purchase invoice is received (and a payable financial liability generated). From this point the hedge protects the financial liability from exchange rate movements and is, therefore, a fair value hedge.

The cash flows of these hedges were expected to occur between 1 – 6 months from balance date and the profit and loss will be affected over 12 months as the inventory is either used in production or sold. As at balance date, the details of outstanding contracts in respect of inventory purchases were:

	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 Average Exchange Rate	30 June 2010 Average Exchange Rate
Buy US\$/Sell Australian \$	11,269	4,433	1.0011	0.8700

#### Fair value hedges

As referred to above, once a purchase invoice has been received for a forecast purchase for which a cash flow hedge was taken out, the hedge now protects the financial liability from exchange rate movements and is, therefore, reclassified as a fair value hedge. As at balance date, the details of outstanding contracts in respect of fair value hedges were:

	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 Average Exchange Rate	30 June 2010 Average Exchange Rate
Buy US\$/Sell Australian \$	3,101	–	0.9617	–

#### Forecast export sales

In order to protect against exchange rate movements on cash flows from foreign currency denominated export sales orders, the Group entered into forward exchange contracts to purchase US\$5,826,000 (2010: US\$1,500,000). These contracts hedged highly probable forecasted export sales cash receipts and are timed to mature when receipts fall due.

These hedges were considered cash flow hedges to the point where a sales invoice is raised (and a receivable financial asset generated). From this point, the hedge protects the financial asset from exchange rate movements and is, therefore, a fair value hedge.

The cash flows of these hedges were expected to occur between 1 – 5 months from balance date and the profit and loss affected over the same period as sales orders are invoiced and funds from customers received. As at balance date, the details of outstanding contracts in respect of uninvoiced export sales orders were:

	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 Average Exchange Rate	30 June 2010 Average Exchange Rate
Buy US\$/Sell Australian \$	4,207	583	1.0352	0.8500

## Note 19. Derivatives and financial instruments (continued)

### Fair value hedges

As referred to above, once a sales invoice has been raised for a forecast sale for which a cash flow hedge was taken out, the hedge now protects the financial asset from exchange rate movements and is, therefore, reclassified as a fair value hedge. As at balance date, the details of outstanding contracts in respect of fair value hedges were:

	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 Average Exchange Rate	30 June 2010 Average Exchange Rate
<b>Buy US\$/Sell Australian \$</b>	<b>1,408</b>	1,178	<b>1.0345</b>	0.8525

### INTEREST RATE RISK

Information regarding interest rate risk exposure is set out in note 3.

### CREDIT RISK

Credit risk arises from the potential failure of counterparties to meet their obligations at maturity of contracts. This arises on derivative financial instruments with unrealised gains. Management only undertakes such contracts with major Australian banks and financial institutions.

## Note 20. Contributed equity and reserves

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>(a) Ordinary shares, issued and fully paid</b>	<b>65,539</b>	65,539

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	2011		2010	
	Number of Shares	\$'000	Number of Shares	\$'000
<b>(b) Movements in shares on issue</b>				
Balance at 1 July	<b>216,455,965</b>	<b>65,539</b>	188,222,645	60,627
Issued during the year	-	-	28,233,320	4,912
<b>Balance at 30 June</b>	<b>216,455,965</b>	<b>65,539</b>	216,455,965	65,539

### (c) Share rights

During 2011 the Company granted nil (2010: 3,500,000) performance rights to senior executives under the terms of the Share Rights Plan. Refer note 14 for further details.

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 20. Contributed equity and reserves (continued)

### (d) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

No dividend has been declared or paid for 2011. Management's target for dividend payments for 2012 – 2014 is dependant on returning the Group to a sustainable profitable position.

Management monitor capital through the gearing ratio (net debt/ total capital) although there is no absolute target set by management. The gearing ratios based on continuing operations at 30 June 2011 and 2010 were as follows:

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
Total borrowings*	<b>15,811</b>	18,114
Less cash and cash equivalents	<b>(610)</b>	<b>(1,347)</b>
Net debt	<b>15,201</b>	16,767
Total equity	<b>15,306</b>	11,879
<b>Total capital</b>	<b>30,507</b>	28,646
Gearing ratio	<b>50%</b>	59%

\* Includes interest bearing loans and borrowings

The Group is not subject to any externally imposed capital requirements.

## Note 20. Contributed equity and reserves (continued)

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>(e) Non-controlling interests</b>		
Balance at 1 July	3,332	3,560
(Loss)/Gain on translation of overseas controlled entities	(563)	153
Share of net profit for the year	556	388
Dividends paid	(148)	(266)
Redesignation to reserves	–	(503)
<b>Balance at 30 June</b>	<b>3,177</b>	<b>3,332</b>

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>(f) Retained earnings</b>		
Balance at 1 July	(57,094)	(57,123)
Net profit for the year	2,429	29
Dividends paid	–	–
<b>Balance at 30 June</b>	<b>(54,665)</b>	<b>(57,094)</b>

	Consolidated				
	Employee equity benefits reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Asset revaluation reserve \$'000	Total \$'000
<b>(g) Reserves</b>					
At 1 July 2009	24	(777)	–	–	(753)
Currency translation differences	–	203	–	–	203
Redesignation from non-controlling interests	–	503	–	–	503
Share-based payments	97	–	–	–	97
Net losses on cash flow hedge	–	–	52	–	52
<b>At 30 June 2010</b>	<b>121</b>	<b>(71)</b>	<b>52</b>	<b>–</b>	<b>102</b>
Currency translation differences	–	(1,496)	–	–	(1,496)
Share-based payments	178	–	–	–	178
Net losses on cash flow hedge	–	–	(329)	–	(329)
Revaluation of land and buildings	–	–	–	2,800	2,800
<b>At 30 June 2011</b>	<b>299</b>	<b>(1,567)</b>	<b>(277)</b>	<b>2,800</b>	<b>1,255</b>

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 20. Contributed equity and reserves (continued)

### NATURE AND PURPOSE OF RESERVES

#### Employee equity benefits reserve

This reserve is used to record the value of share-based payments provided to employees and directors as part of their remuneration. Refer to note 14 for further details of these plans.

#### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

#### Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

#### Asset Revaluation Reserve

The asset revaluation reserve is used to record increases and decreases in the fair value of land and buildings (net of tax) to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances.

## Note 21. Commitments and contingencies

	Consolidated	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>(a) Capital expenditure commitments</b>		
Estimated capital expenditure contracted for at balance date, but not provided for payable:		
Not later than one year	95	188
	<b>95</b>	<b>188</b>
These capital expenditure commitments relate to a brintronic microscope and a forklift.		
<b>(b) Operating lease expenditure commitments</b>		
Not later than one year	89	119
Later than one year, but not later than five years	200	193
Later than five years	-	-
	<b>289</b>	<b>312</b>

These operating lease commitments relate to motor vehicle leases and rent.

### (c) Contingent liabilities

The directors draw the following contingent liabilities to the attention of users of the financial statements:

Note 22 regarding the class order between certain subsidiaries and the Company.

## Note 22. Related parties

A Director of the Company, Mr P J Cave, has an interest in and is a Director of Anchorage Capital Partners Pty Ltd.

The terms and conditions of any transactions with Directors and their Director related entities are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non Director related entities on arm's length basis.

The total value of the transactions during the year with Director related entities were as follows:

Consolidated		2011	2010
		\$	\$
Director	Director – related entity		
P J Cave	Anchorage Capital Partners Pty Ltd	120,000	120,000

The above amounts were paid in relation to P J Cave's services in his capacity as a director and are included in Directors' remuneration in the Directors' Report.

### ULTIMATE PARENT

Bisalloy Steel Group Limited is the ultimate parent Company.

### INVESTMENTS

Name of parent	Country of Incorporation	Percentage of equity interest held by the Consolidated entity	Investment	Percentage of equity interest held by the Consolidated entity	Investment
		30 June 2011 %	30 June 2011 \$'000	30 June 2010 %	30 June 2010 \$'000
Bisalloy Steel Group Limited	Australia				
<b>Controlled entities</b>					
Bisalloy Steels Pty Limited	Australia	100.00	3,801	100.00	3,801
PT Bima Bisalloy	Indonesia	60.00	245 <sup>†</sup>	60.00	245 <sup>†</sup>
Bisalloy Steel Services Pty Limited <sup>^^</sup>	Australia	–	–	100.00	–
Bisalloy Asia Pte Limited <sup>*</sup>	Singapore	–	–	100.00	–
Stainless Bar Co Pty Limited <sup>*</sup>	Australia	–	–	100.00	630 <sup>#</sup>
Bisalloy Holdings (Thailand) Co Ltd	Thailand	85.00	510	85.00	510
Bisalloy (Thailand) Co Limited	Thailand	85.00	599 <sup>+</sup>	85.00	599 <sup>+</sup>
Exhaust Systems (Australia) Pty Ltd <sup>*</sup>	Australia	–	–	100.00	–
Bisalloy North America LLC	United States of America	100.00	–	100.00	–

<sup>†</sup> Investment is held by Bisalloy Steels Pty Limited

<sup>#</sup> Investment is held by Bisalloy Steel Services Pty Limited

<sup>+</sup> Investment is held by Bisalloy Holdings (Thailand) Co Limited

<sup>^</sup> Formerly Atlas Alloys Pty Limited

<sup>\*</sup> These dormant companies were wound up during the 2011 financial year

### ENTITIES SUBJECT TO CLASS ORDER RELIEF

Pursuant to Class Order 98/1418, relief has been granted to Bisalloy Steels Pty Limited from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order, Bisalloy Steel Group Limited and Bisalloy Steels Pty Limited (the "closed" Group) entered into a Deed of Cross Guarantee on the 18th April, 2002. The effect of the deed is that Bisalloy Steel Group Limited has guaranteed to pay any deficiency in the event of winding up of either controlled entity. The controlled entities have also given a similar guarantee in the event that Bisalloy Steel Group Limited is wound up.

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 22. Related parties (continued)

The consolidated statement of comprehensive income and statement of financial position of the entities which are members of the "Closed Group" are as follows:

	Closed Group 30 June 2011 \$'000	Closed Group 30 June 2010 \$'000
<b>i. Consolidated Income Statement</b>		
Profit/(Loss) from continuing operations before income tax	2,101	(108)
Income tax (expense)/benefit	(615)	40
Profit/(Loss) after income tax	1,486	(68)
Loss after tax of Closed Group	-	(68)
Accumulated losses at the beginning of the year	(63,175)	(63,107)
Dividends provided for or paid	-	-
Accumulated losses at the end of the year	(61,689)	(63,175)
<b>ii. Consolidated Balance Sheet</b>		
<b>Current assets</b>		
Cash and cash equivalents	11	63
Trade and other receivables	11,179	17,012
Inventories	6,925	4,357
Derivative financial instruments	191	111
Income tax receivable	301	-
Other financial assets	586	194
<b>Total current assets</b>	<b>19,193</b>	<b>21,737</b>
<b>Non-current assets</b>		
Investments	755	755
Property, plant and equipment	16,185	11,340
Other financial assets	270	312
Deferred tax assets	-	1,086
<b>Total non-current assets</b>	<b>17,210</b>	<b>13,493</b>
<b>Total assets</b>	<b>36,403</b>	<b>35,230</b>
<b>Current liabilities</b>		
Trade and other payables	12,575	14,875
Interest bearing liabilities	833	-
Provisions	1,485	1,229
Income tax payable	-	745
Derivative financial instruments	845	38
<b>Total current liabilities</b>	<b>15,738</b>	<b>16,887</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	14,978	17,398
Provisions	318	285
Deferred tax liability	554	-
<b>Total non-current liabilities</b>	<b>15,850</b>	<b>17,683</b>
<b>Total liabilities</b>	<b>31,588</b>	<b>34,570</b>
<b>NET ASSETS</b>	<b>4,815</b>	<b>660</b>
<b>Shareholders' equity</b>		
Contributed equity	65,539	65,539
Reserves	965	(1,704)
Accumulated losses	(61,689)	(63,175)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>4,815</b>	<b>660</b>

## Note 22. Related parties (continued)

The following table provides the total amount of transactions that were entered into between the Company and the Group:

		Interest and management fees to related parties \$'000	Capital raised \$'000	Other \$'000	Debt forgiven \$'000	Amounts owed by related parties \$'000	Amounts owed to related parties \$'000
<b>Company</b>							
Bisalloy Steels Pty Limited	<b>2011</b>	-	-	-	-	<b>30,884</b>	-
	2010	-	4,912	-	-	31,551	-
Exhaust Systems (Australia) Pty Ltd	<b>2011</b>	-	-	-	-	-	-
	2010	-	-	-	(5,543)	-	-
Bisalloy Asia Pte Limited	<b>2011</b>	-	-	-	-	-	-
	2010	-	-	-	(839)	-	-

### TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

Sales to and purchase from related parties are made in arm's length transactions both at normal market price and on normal commercial terms.

Outstanding balances at year-end are unsecured.

During 2010 the Company completed a capital raising to support working capital. Net proceeds totalling \$4.9m were provided to the Company's Australian operating subsidiary, Bisalloy Steels Pty Limited.

During 2007, the Company recognised a provision for doubtful debts of \$5.6m relating to an intercompany loan to Exhaust Systems (Australia) Pty Ltd, a discontinued operation. A write back of \$102k was taken in 2008, reducing the provision for doubtful debts relating to this intercompany loan to \$5.5m. This loan was forgiven during 2010.

During 2008, the Company recognised a provision for doubtful debts of \$839k relating to an intercompany loan to Bisalloy Asia Pte Limited, a dormant entity. This loan was forgiven during 2010.

### Note 23. Events after the balance date

On 11 July 2011 the Group announced the signing of a Cooperative Joint Venture (JV) agreement with Jinan Iron and Steel Co. Limited (Jinan) for the production, sale and distribution of quench and tempered (Q&T) steel plate into the People's Republic of China (PRC) and other international markets. Jinan is a subsidiary of the Shandong Iron and Steel Group Co. Limited, one of the top 10 steel producers in the PRC.

Under the terms of the JV, Bisalloy will contribute US\$1 million in capital and licence its Q&T intellectual property and brand name to the JV to produce Q&T plate at Jinan's production facility in Shandong Province, PRC.

# Notes to the consolidated financial statements

for the year ended 30 June 2011

## Note 24. Auditors' remuneration

The auditor of Bisalloy Steel Group Limited is Ernst & Young.

	Consolidated	
	Year ended 30 June 2011 \$	Year ended 30 June 2010 \$
Amounts received or due and receivable by Ernst & Young (Australia) for:		
– an audit or review of the financial report of the entity and any other entity in the consolidated Group	168,523	131,000
– tax compliance and advice	–	8,000
– assurance related	–	–
– other	–	–
Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:		
– an audit or review of the financial report of any other entity in the consolidated Group	41,839	31,627
– tax compliance and advice	–	5,566
	<b>210,362</b>	<b>176,193</b>

## Note 25. Key management personnel remuneration disclosures

### (A) DETAILS OF KEY MANAGEMENT PERSONNEL

#### (i) Directors

P J Cave	Non-executive Chairman
R Grellman	Non-executive Director
G Pettigrew	Non-executive Director
K Godson	Non-executive Director
R Terpening	Managing Director

#### (ii) Executives

D MacLaughlin	Chief Financial Officer and Company Secretary
M Sampson	Sales and Marketing Manager
M Bradmore	Operations Manager (appointed 5 October 2010)
T Matinca	Business Development and Strategy Manager (appointed 27 January 2011)

### (B) COMPENSATION OF KEY MANAGEMENT PERSONNEL

	Consolidated	
	2011 \$	2010 \$
Short-term	1,269,702	1,401,122
Termination	20,334	18,846
Post employment	171,198	174,056
Share based	178,129	96,631
<b>Total</b>	<b>1,639,363</b>	<b>1,690,655</b>

## Note 25. Key management personnel remuneration disclosures (continued)

### (C) SHARES ISSUED ON EXERCISE OF PERFORMANCE RIGHTS

No shares were issued to key management personnel on the exercise of performance rights during the year.

### (D) PERFORMANCE RIGHTS HOLDINGS OF KEY MANAGEMENT PERSONNEL

	Balance at 1 July 2010	Granted as remuneration	Rights exercised	Lapsed	Balance at 30 June 2011	Vested and exercisable	Unvested
<b>Executives</b>							
R Terpening	2,417,613	-	-	(416,667)	<b>2,000,946</b>	-	2,000,946
D MacLaughlin	1,000,000	-	-	(166,667)	<b>833,333</b>	-	833,333
	3,417,613	-	-	(583,334)	<b>2,834,279</b>	-	2,834,279

### (E) SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

	Balance at 1 July 2010	Rights Issue Allotment	Other	Balance at 30 June 2011
<b>Directors</b>				
P J Cave	42,701,939	-	-	<b>42,701,939</b>
K Godson	6,320,352	-	-	<b>6,320,352</b>
R Grellman	208,464	-	-	<b>208,464</b>
G Pettigrew	60,424	-	-	<b>60,424</b>
R Terpening	551,461	-	77,436	<b>628,897</b>
<b>Executives</b>				
D MacLaughlin	-	-	230,000	<b>230,000</b>
M Sampson	900	-	-	<b>900</b>
M Bradmore	-	-	2,860	<b>2,860</b>
T Matinca	-	-	30,000	<b>30,000</b>
	49,843,540	-	340,296	<b>50,183,836</b>

## Note 26. Parent entity information

	30 June 2011 \$'000	30 June 2010 \$'000
<b>Information relating to Bisalloy Steel Group Limited:</b>		
Current assets	<b>301</b>	42
Total assets	<b>35,906</b>	36,472
Current liabilities	-	745
Total liabilities	-	745
Issued capital	<b>65,539</b>	65,539
Accumulated losses	<b>(29,669)</b>	(29,848)
Reserves	<b>36</b>	36
<b>Total shareholder's equity</b>	<b>35,906</b>	35,727
Profit/(Loss) of the parent entity	<b>179</b>	(99)
Total comprehensive income of the parent entity	-	-
	<b>179</b>	(99)

Guarantees have been entered into by the Parent entity on behalf of Bisalloy Steels Pty Limited and Bisalloy (Thailand) Co Limited. There are no contingent liabilities or contractual commitments as at the reporting date.

# Directors' declaration

Bisalloy Steel Group Limited and its controlled entities

In accordance with a resolution of the directors of Bisalloy Steel Group Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity for the financial year ended 30 June 2011 are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards (IFRS) as disclosed in note 2.
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2011.



**Robert Terpening**  
Managing Director

Sydney  
21 September 2011

# Independent auditor's report

to the members of Bisalloy Steel Group Limited



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## Independent auditor's report to the members of Bisalloy Steel Group Limited

### Report on the financial report

We have audited the accompanying financial report of Bisalloy Steel Group Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

# Independent auditor's report

to the members of Bisalloy Steel Group Limited



## Opinion

In our opinion:

- a. the financial report of Bisalloy Steel Group Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

## Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 18 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Bisalloy Steel Group Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in cursive script, appearing to be 'Trent Van Veen'.

Trent Van Veen  
Partner  
Sydney  
21 September 2011

# ASX additional information

as at 19 September 2011

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 16th September, 2011.

	Ordinary Shares	
	Number of Holders	Number of Shares
<b>a. Distribution of equity securities</b>		
The number of shareholders, by size of holding in each class of share are:		
1 – 1,000	363	236,835
1,001 – 5,000	859	2,547,118
5,001 – 10,000	489	3,878,583
10,001 – 100,000	689	20,874,664
100,001 and over	113	188,918,765
<b>Total</b>	<b>2,513</b>	<b>216,455,965</b>

The number of shareholders holding less than a marketable parcel of shares based on a share price of \$0.19 at the date of this report are

801 1,063,095

	Listed Ordinary Shares	
	Number of Shares	% of Ordinary Shares
<b>b. Twenty largest shareholders</b>		
1. BALRON NOMINEES PTY LTD	37,492,434	17.32
2. ANCHORAGE (BSG) PTY LTD	33,536,861	15.49
3. RBC DEXIA INVESTOR SERVICES NOMINEES	28,488,863	13.16
4. PROSPECT CUSTODIAN LIMITED	16,337,620	7.55
5. NATIONAL NOMINEES LIMITED	10,609,569	4.90
6. INTERB INVESTMENTS PTY LTD	9,165,078	4.23
7. SILVERSTREET PTY LTD	6,468,345	2.99
8. ANZ NOMINEES LIMITED	4,587,830	2.12
9. CLYDE BANK HOLDINGS (AUST) PTY LTD	2,391,893	1.11
10. BALPIE PTY LIMITED	2,000,000	0.92
11. HSBC CUSTODY NOMINEES (AUST) LTD	1,880,859	0.87
12. DAVID BALKIN	1,292,976	0.60
13. MLEQ NOMINEES PTY LTD	1,857,950	0.86
14. KILCONQUHAR SUPERANNUATION FUND PTY LTD	1,602,735	0.74
15. BLACKSTORM PTY LTD	1,100,000	0.51
16. J P MORGAN NOMINEES AUSTRALIA LIMITED	1,024,177	0.47
17. BOTSIS HOLDINGS PTY LTD	1,000,000	0.46
18. DANIQUE INVESTMENTS PTY LTD	1,000,000	0.46
19. HSBC CUSTODY NOMINEES (AUST) LTD – GSCO ECA	986,540	0.46
20. THE GENUINE SNAKE OIL COMPANY PTY LTD	900,140	0.42

# ASX additional information

as at 19 September 2011

	Fully Paid	
	Number of Shares	%
<b>c. Substantial Shareholders:</b>		
The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:		
Anchorage (BSG) Pty Limited and Mr Phillip Cave	42,701,939	19.72
David Balkin, Mr Peter Smaller, Miron Holdings Pty Ltd, Smaller Holdings Pty Ltd, Balron Nominees Pty Ltd	39,350,384	18.18
RBC Dexia Investor Services	28,488,863	13.16
Prospect Custodian Limited	16,337,620	7.55
	<u>126,878,806</u>	<u>58.61</u>

#### **d. Voting Rights:**

All ordinary shares carry one vote per share without restriction.

# Corporate directory

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## REGISTERED OFFICE

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[bismail@bisalloy.com.au](mailto:bismail@bisalloy.com.au)

## BANKERS

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Sydney NSW 2000

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## AUDITORS

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Sydney NSW 2000

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## SHARE REGISTRY

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Abbotsford VIC 3067

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Melbourne VIC 3001

Telephone (within Australia): 1300 738 768  
Telephone: +61 (0)3 9415 4377  
Facsimile: +61 (0)3 9473 2500  
Web: [www.computershare.com](http://www.computershare.com)

## ANNUAL GENERAL MEETING

The Group will hold its 2011 Annual General Meeting in the Press Room at the Radisson Plaza Hotel located at 27 O'Connell Street, Sydney, NSW at 11:00 a.m. on Monday, 21st November 2011.

Copies of this report or further information can be obtained by e-mailing [bismail@bisalloy.com.au](mailto:bismail@bisalloy.com.au) or writing to the Company Secretary at the registered office. An electronic copy of this report is available on the Company's website.

