

BHP STEEL LIMITED

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7th August 2002

<p style="text-align: center;">Annual Earnings Report 30 June 2002</p>
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PLEASE NOTE

BHP Steel Limited ("BHP Steel") legally separated from the BHP Billiton Group on 22 July 2002, having listed on the Australian Stock Exchange on 15 July 2002.

As at 30 June 2002, BHP Steel was a business unit of the BHP Billiton Group and accordingly its 2002 and comparative financial results will be reflected in the BHP Billiton combined group results which were released to the market today, 7 August 2002. However, the steel segment reported by the BHP Billiton Group is not reflective of BHP Steel's results as the steel segment is reported under UK GAAP, in US dollars and contains results for discontinued steel operations not forming part of BHP Steel Limited. In the interest of assisting investors and other stakeholders in understanding BHP Steel's results, the BHP Steel Board and senior management have decided to provide the following pro-forma financial information for BHP Steel. This pro-forma information has been prepared on a basis consistent with pro-forma information presented in the Scheme Booklet and Offer Memorandum dated 13 May 2002. Normalisation adjustments have been made to the financial information to adjust for discontinued activities, to exclude the impact of certain non-recurring items and to reflect the costs of operating as an independent company.

2002 PRO FORMA RESULTS VERSUS FORECAST

Information on the pro forma EBIT and net operating and investing cash flow forecasts can be found in the Scheme Document and Offer Memorandum dated 13 May 2002.

Pro-forma BHP Steel Group earnings before interest and tax (EBIT) for the 12 months ended 30 June 2002 was \$160 million, a \$7 million decrease on the pro-forma forecast of \$167 million. Net cash flow from operating and investing activities for the 12 months ended 30 June 2002 was \$227 million, which exceeded the pro-forma forecast net operating and investing cash flow by \$31 million.

<u>(A) EBIT</u>		Year Ended 30 June 2002 (Pro-forma)		VARIANCE
		ACTUAL	FORECAST	
Revenue	A\$ m	4,593	4,489	104
EBITDA	A\$ m	412	421	(9)
EBIT	A\$ m	160	167	(7)

EBIT Variance

The \$7 million unfavourable variance principally reflected:

- the effect of an industrial dispute at the Western Port works in May and June 2002; and
- higher than forecast AUD/USD and NZD/USD exchange rates.

Partly offset by:

- stronger Australian demand for higher value added coated products; and
- higher hot rolled coil prices at North Star BHP Steel.

<u>(B) Cash Flows</u>		Year Ended 30 June 2002 (Pro forma)		VARIANCE
		ACTUAL	FORECAST	
Net operating cash flow before borrowing costs and income tax	A\$ m	381	364	17
Net investing cash flows ⁽¹⁾	A\$ m	(154)	(168)	14
Net cash from operating and investing activities	A\$ m	227	196	31

(1) Primarily comprising capital expenditure

Cash Flow Variance

The \$31 million increase principally reflects lower than forecast working capital requirements and lower than forecast capital spending.

2002 PRO FORMA RESULTS VERSUS 2001 PRO-FORMA RESULTS

Pro-forma BHP Steel Group earnings before interest and tax (EBIT) for the 12 months ended 30 June 2002 was \$160 million, compared to pro-forma results for 2001 of \$305 million.

PRO FORMA STATEMENT OF PERFORMANCE

		Year ended 30 June		VARIANCE
		2002	2001	
Raw Steel Production	‘000t			
Port Kembla		4,754	4,830	(76)
North Star (50% share)		800	766	34
New Zealand Steel		<u>552</u>	<u>602</u>	<u>(50)</u>
Total		6,106	6,198	(92)
Sales Volume (1)	‘000t			
- Domestic		3,731	3,601	130
- Export		<u>2,297</u>	<u>2,720</u>	<u>(423)</u>
Total		6,028	6,321	(293)
Revenue	A\$ m	4,593	4,941	(348)
EBITDA (2)	A\$ m	412	568	(156)
EBIT (2)	A\$ m	160	305	(145)

Notes:

- (1) Includes 50% share in North Star BHP Steel.
- (2) Includes the 50% share of net profit from North Star BHP Steel of \$3m in 2002 (\$26m loss in 2001) accounted for using the equity method.

VARIANCE ANALYSIS

Production Volume

The 92,000t raw steel production decrease was primarily due to production downtime associated with industrial stoppages and operational issues at Port Kembla steelworks and the planned reline of one of the two melter furnaces at New Zealand Steel.

Sales Volume

The 293,000t decrease principally reflected:

- A 399,000t decrease in export sales from Australia mainly due to decreasing export availability from the Port Kembla steelworks and the timing of export shipments, together with stronger Australian demand.

Partly offset by:

- A 105,000t increase in Australian domestic volumes mainly due to stronger demand in the Australian building market.

PROFORMA STATEMENT OF PERFORMANCE**VARIANCE ANALYSIS (continued)****EBIT**

The \$145 million decrease principally reflected:

Prices (\$113m unfavourable)

- Lower international slab and hot rolled coil prices and the related flow-on to export coated product and Australian hot rolled coil prices.

Exchange Rates (\$60m unfavourable)

- The effect of changes in the AUD/USD and NZD/USD exchange rates on the restatement of USD denominated receivables.

Production Volumes and Product Mix (\$33m favourable)

- Stronger demand for higher value added coated products in the Australian building market.

Costs (\$17m favourable)

- Various cost improvement initiatives within Coated Products Australia and Hot Rolled Products;
- Lower steel feed costs in Coated Products Asia as a result of lower international steel prices; and
- Lower zinc and aluminium coating metal costs;

Partly offset by:

- Higher iron ore and coal costs;
- The unfavourable unit cost impact of lower production volumes from the Port Kembla Steelworks and New Zealand Steel; and
- Higher costs at several key Australian manufacturing sites due to industrial disputes related to Enterprise Bargaining Agreement negotiations and outsourcing initiatives.

Other (\$22m unfavourable)

- Unfavourable profit-in-stock elimination on intersegment sales in 2002 due to higher gross margins. This compares to a favourable profit-in-stock elimination in the previous year.

GROUP REVIEW

In commenting on the full year results, the Chairman of BHP Steel Limited, Mr Graham Kraeche said:

“I would firstly like to note that July 2002 represents a major milestone in the Company’s 87-year history. BHP Steel Limited listed on Australian Stock Exchange on 15 July and legally separated from BHP Billiton on 22 July. Our debut was well received despite volatile global equity markets and we can now focus on growing our business and delivering value to our shareholders, customers, employees and communities.

“The key features of the 2002 result were the very difficult international market pricing conditions and a strong management performance through the period of demerger and public listing.”

In terms of 2002/03, Mr Kraeche said *“the Directors are comfortable with the forecast net profit of \$254 million”* (details of which can be found in the Scheme Document and Offer Memorandum).

The first dividends to be paid by BHP Steel will be for the year ended 30 June 2003. As indicated in the Scheme Booklet, BHP Steel expects to pay a 9 cents per share interim dividend in April 2003 and a final dividend of 11 cents per share in October 2003.

In terms of the 2001/02 result, BHP Steel Limited’s Managing Director and CEO Mr Kirby Adams said:

“The year just finished was challenging for the global steel industry. BHP Steel is proud of its performance relative to the industry and has successfully managed many significant business issues during a year characterised by sustained record low global steel prices, the imposition of tariffs and quotas in our most important export markets, global economic weakness due to uncertainty post-September 11, costly industrial action in Australia, a strengthening Australian dollar and the complexity of severing an 87-year relationship with BHP Billiton.

“Despite these challenges, the business generated \$227 million in cash after capital spending, generated \$160 million EBIT and started its life as an independent company with a strong balance sheet and improved cost structure.

“During the year, we shipped increased volumes to our Australian customers, where we have continued to build customer confidence in our selected markets. The Company has begun to benefit from a range of cost reduction programs, productivity gains and the outsourcing of selected operations. The scheduled rebuild of the New Zealand melter and associated equipment has been completed, but at a higher cost than anticipated.”

GROUP REVIEW (continued)

Mr Adams added, “Some of the most pleasing outcomes of 2001/02 were the continuing growth in profitability from our Asian businesses and fourth quarter turnaround at our North Star BHP Steel joint venture in the USA. We are most proud of our continuing improvements in customer service and the attainment of new records in our already outstanding safety performance, despite the many distractions encountered during the year.

“We thank our employees, customers and new shareholders for their support and confidence as we proceed into our first year as a publicly listed company.”

SUMMARY OF PRO-FORMA RESULTS BY SEGMENT

	Revenue (\$m)		EBIT (\$m)	
	Year Ended 30 June			
	2002	2001	2002	2001
Hot Rolled Products	2,132	2,221	95	129
Coated Products Australia	2,360	2,436	46	114
New Zealand Steel	469	471	12	47
Coated Products Asia	537	556	75	54
Corporate & Group	468	445	(52)	(56)
Inter segment	(1,373)	(1,188)	(16)	17
Total BHP Steel	4,593	4,941	160	305

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