BHP Steel Limited

Statutory report - 30 June 2002

Explanatory Statement

BHP Steel Limited was a wholly owned subsidiary within the BHP Billiton group for the entire year and as at 30 June 2002. In order to implement the demerger and public listing of its steel business on 22 July 2002, BHP Billiton reorganized its steel business. Various legal entity structure changes were required within the BHP Billiton group both during and subsequent to the financial year ended 30 June 2002 to give effect to this reorganisation.

The Financial Report presented in this report has been prepared for the consolidated entity as it existed on 30 June 2002 in accordance with the Corporations Act 2001. It is not reflective of BHP Steel Limited which demerged from BHP Billiton. At 30 June 2002, and for periods during the financial year, certain significant operating assets were owned by other entities within the BHP Billiton group. These included the Port Kembla Steelworks, North Star BHP Steel, New Zealand Steel, Packaging Products, and certain Asian coating operations. The Financial Report presented reflects the majority of the Australian and Asian coating operations.

The Directors' Report and Corporate Governance Statement do, however, reflect the policies BHP Steel Limited has put in place subsequent to public listing.

Shareholders wanting additional financial information on the entire BHP Steel group which demerged from BHP Billiton are encouraged to refer to the Scheme Booklet issued by BHP Billiton on 13 May 2002 and the Annual Earnings Report prepared on a pro-forma basis which was lodged with the Australian Stock Exchange on 7th August 2002 and is available on our web site (www.bhpsteel.com).

BHP Steel Limited

ABN 16 000 011 058

Statutory report - 30 June 2002

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BHP Steel Limited
Corporate directory

Directors	G J Kraehe *Chairman*
	R J McNeilly *Deputy Chairman*
	K C Adams *Managing Director and Chief Executive Officer*
	J Crabb
	D J Grady
	H K McCann
	P J Rizzo
Secretary	M G Barron
Executive leadership team	**Managing Director and Chief Executive Officer** K C Adams
	President Australian Building and Manufacturing Markets N Cornish
	President Asian Building and Manufacturing Markets M Courtnall
	President Market and Logistics Solutions K Fagg
	President Industrial Markets L Hockridge
	Chief Financial Officer B Kruger
Notice of annual general meeting	The annual general meeting of BHP Steel Limited
	will be held at Melbourne Park Function Centre Batman Avenue Melbourne, Victoria
	time 2 pm
	date Monday 18 November 2002
Principal registered office in Australia	Level 11, 120 Collins Street Melbourne, Victoria 3000 (03) 9666 4000
Share registrar	ASX Perpetual Registrars Ltd Level 4, 333 Collins Street Melbourne, Victoria 3000 (03) 9615 9800

Auditor	Ernst & Young Chartered Accountants 120 Collins Street Melbourne, Victoria 3000
Stock exchange listing	BHP Steel Limited shares are listed on the Australian Stock Exchange.
Website address	www.bhpsteel.com

Your directors present their report on the consolidated entity ("BHP Steel group") consisting of BHP Steel Limited and the entities it controlled at the end of, or during, the year ended 30 June 2002.

As at 30 June 2002, BHP Steel Limited was a wholly owned subsidiary within the BHP Billiton group. On 22 July 2002, BHP Steel Limited demerged from the BHP Billiton group, having listed on the Australian Stock Exchange on 15 July 2002. General purpose consolidated financial statements have been prepared in accordance with the requirements of a public company which is a wholly owned subsidiary of another Australian company.`

The financial statements are not reflective of the results of BHP Steel Limited and its subsidiaries which demerged from the BHP Billiton group on 22 July 2002, and which were reported in the Annual Earnings Report dated 7 August 2002. Those results were produced on a pro-forma basis as certain operations which now form part of BHP Steel group were owned by other entities within the BHP Billiton group for all or part of the financial year ended 30 June 2002.

Directors

The following directors were appointed on 10 May 2002 and continue in office up to the date of this report:

G J Kraehe
R J McNeilly
K C Adams
J Crabb
D J Grady
H K McCann
P J Rizzo

The following directors who were all executives of the BHP Billiton group resigned their directorship during the year:

J W Cleary (resigned 10 May 2002)
M Courtnall (resigned 10 May 2002)
B G Kruger (appointed 20 August 2001, resigned 10 May 2002)
G Warner (resigned 10 May 2002)
C Weatherstone (resigned 10 May 2002)
W R Saxelby (resigned 19 October 2001)
W G Johnston (resigned 13 August 2001)

Principal activities and significant changes to the state of affairs

During the year the principal continuing activities of the consolidated entity, based principally in Australia and Asia, were:
(a) manufacture and distribution of metallic coated steel products, and
(b) manufacture and distribution of steel building products.

The nature of the activities of the consolidated entity remained largely unchanged during the year. However, in preparation for the demerger from the BHP Billiton group there were a number of changes to subsidiary companies in the BHP Billiton group that impacted BHP Steel Limited. The major changes were as follows:

(a) The company converted from a proprietary company to a public company and changed its name from BHP Steel (JLA) Pty Ltd to BHP Steel Limited on 8 February 2002.
(b) A number of significant operating entities previously owned by related entities within the BHP Billiton group were acquired by BHP Steel Limited. These included:
    (i) BHP Steel Investments Inc, the company owning a 50% interest in North Star BHP Steel, a steel mini-mill located in Delta, Ohio USA, was acquired on 30 June 2002;
    (ii) PT BHP Steel Indonesia, the company owning a 74% interest in a metallic coating facility in Indonesia, was acquired on 22 April 2002;
    (iii) Steel Building Products (Shanghai) Ltd, the company owing a 100% interest in a steel building products facility in China, was acquired on 15 February 2002;
    (iv) BHP Steel Building Products (Guangzhou) Ltd, the company owing a 100% interest in a steel building products facility in China, was acquired on 15 February 2002; and
    (v) BHP Steel Building Products Vietnam Ltd, the company owning a 100% interest in a steel building products facility in Vietnam, was acquired on 24 April 2002.

Dividends

During the financial year ended 30 June 2002 there were no dividends paid or declared by BHP Steel Limited to its shareholder, BHP Billiton Limited.

Matters subsequent to the end of the financial year

Since 30 June 2002, as part of the demerger from the BHP Billiton group, the following significant events have occurred:

(a) BHP Steel Limited acquired all the issued capital of BHP Steel (AIS) Pty Ltd from BHP Billiton Limited on 3 July 2002. BHP Steel (AIS) Pty Ltd is a fully integrated manufacturer of flat steel products for distribution to Australian customers, including BHP Steel Limited, and export customers throughout the world. In addition, a wholly owned subsidiary of BHP Steel (AIS) Pty Ltd (which is now part of the BHP Steel group) manufactures flat and coated steel products in New Zealand;

(b) On 1 July 2002, the BHP Steel group drew down $550 million of external long term debt and $15 million of short term debt to partially repay related party debt owing to the BHP Billiton group; and

(c) BHP Steel Limited legally separated from the BHP Billiton group on 22 July 2002, having listed on the Australian Stock Exchange on 15 July 2002. The remaining related party debt owing to the BHP Billiton group was converted to share capital.

Review of operations

	Segment revenues 2002 $m	Segment results 2002 $m
Hot Rolled Products	-	(10.8)
Coated Products Australia	1,967.0	49.5
Coated Products Asia	421.6	54.6
New Zealand Steel	16.4	0.3
Corporate and Group	201.5	(74.6)
Intersegment eliminations	(117.8)	2.3
Operating revenue	2,488.7	
Operating EBIT		21.3
Less: Net unallocated expenses		38.6
Profit/(loss) from ordinary activities before income tax		(17.3)
Income tax expense/(credit)		(21.1)
Profit from ordinary activities after income tax expense		3.8
Less: Net profit attributable to outside equity interest		14.1
Net profit/(loss) attributable to members of BHP Steel Limited		(10.3)

Review of operations (continued)

The comparison of operating EBIT compared to the pro-forma EBIT reported in the Annual Earnings Report dated 7 August 2002 is as follows:

	EBIT 2002 $m
BHP Steel group operating EBIT	**21.3**
Plus pro-forma adjustments:	
Earnings from steel operations owned by BHP Billiton group subsidiaries other than BHP Steel Limited (1)	**139.0**
Asset write-downs (2)	**10.2**
Net corporate allocations (3)	**(10.5)**
BHP Steel group pro-forma EBIT	**160.0**

(1) Relates to the Port Kembla Steel works, New Zealand Steel, Packaging Products, North Star BHP Steel and various Asian operations.
(2) Related to normalisation of one-off asset write-downs to recoverable value.
(3) Relates to the net difference between actual corporate charges in BHP Steel Limited and the estimated corporate costs for BHP Steel as an independent company.

The year 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 relative to the US dollar and the complexity of severing an 87-year relationship with the BHP Billiton group.

During the year, the BHP Steel group increased volumes to our Australian customers where it saw strong demand in the Australian building market and has continued to build customer confidence in the Company's selected markets. The BHP Steel group has also seen continuing profitability from its Asian businesses. The Company has begun to benefit from a range of cost reduction programs and productivity gains.

Likely developments and expected results of operations

Looking forward the Company will focus on its strategy of:

- being an excellent manufacturer and low cost operator of steel assets by implementing a range of initiatives aimed at reducing costs, improving productivity and ensuring that it makes efficient use of capital;
- enhancing its leadership in selected markets by building upon its strong market position, particularly in its higher-value metallic coated and painted steel products;
- moving further towards value-added products, solution and services by introducing a number of initiatives to provide solutions and services for specific customers and markets;
- continuing to be a competitive and valued supplier of intermediate products; and
- selectively pursuing value-creating growth opportunities, particularly in Asia but also in Australia, New Zealand and North America.

Additional information on likely developments in the operations of the Company and the expected results of operations have not been included because the directors believe it would be likely to result in unreasonable prejudice to the Company.

Information on directors

Graham Kraehe
Chairman
Age 60, BEc
Graham Kraehe is Chairman of the BHP Steel Board. He has a strong background in manufacturing and was the managing director and chief executive officer of Southcorp Limited from 1994 to February 2001. Mr Kraehe is currently a board member of News Corporation, Brambles Limited, National Australia Bank Limited and Djerriwarrh Investments Limited and was formerly a board member of Email Limited. Previously, he held positions as managing director of Pacifica Limited and is a former chairman of NIES, former director of the Business Council of Australia and former national president of the Metal Trades Industry Association.

Ron McNeilly
Deputy Chairman
Age 59, BCom, MBA, FCPA
Ron McNeilly is Deputy Chairman of the BHP Steel Board. Mr McNeilly has over 30 years of experience in the steel industry. He joined BHP Billiton in 1962 and previously held positions including Executive Director and President BHP Minerals, Chief Operating Officer, Executive General Manager and Chief Executive Officer BHP Steel, General Manager Transport, General Manager Long Products Division and General Manager Whyalla Works. He is the Chairman of Melbourne Business School Limited and Ausmelt Limited, Deputy Chairman of Worley Group Limited, a director of Loomis Limited, GH Michell & Sons Holdings Pty Limited and a former director of QCT Resources Limited and Tubemakers of Australia Limited. Mr McNeilly is also vice president of the Australia Japan Business Cooperation Committee and a member of the Council on Australia Latin America Relations.

Kirby Adams
Managing Director and Chief Executive Officer
Age 46, BSc (Ind Eng), MBA
Kirby Adams was appointed Chief Executive Officer of BHP Steel in March 2000. Mr Adams joined BHP Billition in 1995 and has held positions including President BHP Services, Group General Manager and Chief Executive Officer BHP Service Companies, and Corporate General Manager Planning and Development. He is currently Vice Chairman of the International Iron and Steel Institute and a former president and chief executive officer of Titanium Metals Corporation, the world's largest titanium metals company.

John Crabb
Non-executive director
Age 62
John Crabb has over 30 years of experience in the metals industry and was managing director and chief executive officer of Simsmetal Limited from 1988 until 2002. He joined the Simsmetal Group in 1965 and held a variety of line management positions with the group during his career. Mr Crabb is currently a director of MIM Holdings Limited and is Chairman of Capral Aluminium Limited. Mr Crabb recently retired as chairman of Australian Refined Alloys Limited.

Diane Grady
Non-executive director
Age 54, BA (Hons), MA (Chinese Studies), MBA
Diane Grady has been a full time non-executive director of various companies since 1994. She is currently a director of Woolworths Limited, Wattyl Limited and the Lend Lease US Office Trust and was formerly a director of Lend Lease Corporation Limited. She is also a trustee of the Sydney Opera House, a director of the Australian Institute of Management (New South Wales) and a governor of Ascham School. Previously, Ms Grady was a partner with McKinsey & Co where she spent 15 years consulting to clients in a broad range of industries on strategic and organisational issues.

Information on directors (continued)

Kevin McCann
Non-executive director
Age 61, BA LLB (Hons), LLM
Kevin McCann is Chairman of Allens Arthur Robinson (formerly Allen Allen & Hemsley). He was appointed as a partner in 1970, and now specialises in mergers and acquisitions, mineral and resources law and capital markets transactions. Mr McCann is Chairman of Healthscope Limited, Origin Energy Limited, Macquarie Communications Infrastructure Group, Triako Resources Limited, and the Sydney Harbour Federation Trust. He is a director of Macquarie Bank Limited and other listed companies and has served on the boards of Pioneer International Limited, Ampol Limited and the State Rail Authority of New South Wales. He is also a member of the Takeovers Panel.

Paul Rizzo
Non-executive director
Age 57, BCom, MBA
Paul Rizzo has broad experience in general management, finance and banking as a chief executive officer and director and is currently Dean, Director and Professorial Fellow of the Melbourne Business School. He is a director of NM Rothschild & Sons (Australia) Limited, NM Rothschild Australia Holdings Pty Limited and a member of the advisory board of Mallesons Stephen Jaques. Previously, Mr Rizzo held positions as Group Managing Director - Finance and Administration of Telstra Corporation Limited, Chief General Manager - Retail Banking Commonwealth Bank of Australia, Chief Executive Officer of State Bank of Victoria, and held a range of senior executive positions at Australia and New Zealand Banking Group Limited. He has also previously served as Chairman of Foxtel Management Pty Limited and as a director of IBM Global Services Australia Limited.

	Particulars of directors' interests in shares and options of:	
	BHP Steel Limited	
Director	Ordinary shares	Share right options
G J Kraehe	104,547	-
K C Adams	302,212	1,175,500
J Crabb	31,428	-
D J Grady	15,000	-
H K McCann	10,000	-
R J McNeilly	412,056	-
P Rizzo	12,500	-

Meetings of directors

Prior to 10 May 2002, a Board comprising senior executives met from time to time to transact the Company's business as a wholly owned subsidiary of BHP Billiton. Since the Company was wholly-owned throughout the year, it is not required to report the meetings held during the year.

While the Company remained a wholly-owned subsidiary of BHP Billiton until after 30 June 2002, the attendance of the current directors, at Board and committee meetings, since their appointment on 10 May 2002 to 30 June 2002 is as follows:

	Full meeting of directors		Meetings of committees			
			Audit and risk		Public listing	
	A	B	A	B	A	B
G J Kraehe	3	3	*	*	*	3
K C Adams	3	3	*	*	*	3
J Crabb	3	2	*	*	*	1
D J Grady	3	2	*	*	*	2
H K McCann	3	2	1	1	3	3
R J McNeilly	3	3	1	1	3	2
P Rizzo	3	3	1	1	3	3

Notes:

All current directors of the Company were appointed on 10 May 2002, in anticipation of the establishment of the Company as a separate independent entity from the BHP Billiton group (which occurred on 22 July 2002).

A = Number of meetings held during the period from 10 May 2002 to 30 June 2002

B = Number of meetings attended from 10 May 2002 to 30 June 2002 while the director was a member of the Board or the committee

* = Not a member of the relevant committee

The Health, Safety and Environment Committee and the Remuneration Committee did not meet during the period 10 May 2002 to 30 June 2002. The Remuneration Committee met on two occasions prior to the formal appointment of the directors on 10 May 2002. The Public Listing Committee met on eleven occasions prior to the formal appointment of the directors on 10 May 2002 and on two occasions after 30 June 2002.

Non-executive directors' remuneration

Non-executive directors receive a set fee per annum and are fully reimbursed for any out of pocket expenses incurred on behalf of the Company. Non-executive directors, other than the Chairman and Deputy Chairman, who serve as Chairman of a Board committee are also paid $10,000 per annum for each Board committee on which they sit as chair.

Compulsory superannuation contributions on behalf of each director are paid, in addition to the fees. Non-executive directors do not receive any other retirement benefits.

For the year ended 30 June 2002, non-executive directors have been remunerated on a pro rata basis from the time they commenced as directors on 10 May 2002. The annual non-executive directors' remuneration is as follows:

Name	Director's base fee $pa	Superannuation $pa	Committee fees $pa	Total $pa
G J Kraehe	280,000	25,200	-	305,200
D J Grady	100,000	9,900	10,000	119,900
P J Rizzo	109,900	-	10,000	119,900
R J McNeilly	140,000	12,600	-	152,600
H K McCann	100,000	9,900	-	109,900
J Crabb	100,000	9,900	10,000	119,900

Senior executives' remuneration

For the entire year ended 30 June 2002, BHP Steel executives were employed by the BHP Billiton group. Some ongoing remuneration arrangements for BHP Steel executives reflect policies applicable to those executives while they were employed by the BHP Billiton group. Commitments were made to BHP Steel executives in connection with the demerger and public listing that certain existing remuneration arrangements would be maintained.

Following the demerger, BHP Steel's remuneration policy is directed at underpinning a high performance organisation. The focus of it's remuneration strategy is on performance and accountability. Executive remuneration packages are designed to support the delivery of outstanding returns for shareholders by aligning performance related reward with the value delivered to shareholders.

To compete BHP Steel must be able to attract and retain the very best talent that is available within the global steel industry, while maintaining shareholder value. Our remuneration strategy enables us to:

- Compete for executive talent by providing competitive remuneration; and
- Maintain an appropriate "at risk mix" in total remuneration to ensure we deliver superior performance and grow shareholder value.

The reward structure combines base salary, short-term and long-term incentive plans and post-retirement benefit arrangements. The cost and value of components of the remuneration package are considered as a whole and are designed to ensure an appropriate balance between fixed and variable performance-related components, linked to short-term and long-term objectives and to reflect market competitiveness. Details of the policy applied in each component are outlined below.

Base salary

Base salaries are quantified by reference to the scope and nature of an individual's role, performance, experience and market data. Base salary drives the ultimate delivery of total remuneration including both short-term and long-term incentive targets.

Market data is obtained from external sources to determine the market value of positions.

Senior executives' remuneration (continued)

Incentive plans

The Short-Term Incentive Plan (STIP) is an annual cash based scheme. Goals are established for each participant under the following categories:

- Shareholder Value Delivery - financial performance measures are used including Earnings per Share, Cashflow, Earnings Before Interest Tax, Shareholder Value Added and Operating Cashflow.
- Zero Harm - safety and environmental performance measures, including Lost Time Injury Frequency Rates, Medical Treatment Injury Frequency Rates and environmental measures.
- Business Excellence - performance measures for the financial year ending 30 June 2003 are focused on delivery performance, reducing days of inventory and reducing the cost of poor quality product.
- Strategy - implementation of specific initiatives.

All participants of the STIP have a weighting of 60% of their bonus on the Shareholder Value measures.

For executives target bonus levels range from 20% of base salary to 100% of Base Salary and are set to reflect market competitiveness. For outstanding results participants may receive up to 150% of their target bonus amount.

Long Term Incentive Plan - BHP Steel executives were excluded from participation in the BHP Billiton Long Term Incentive Plan Award made in October 2001. Rather, a commitment was made to these executives by BHP Billiton that a Long Term Incentive Plan Award would be made by BHP Steel upon public listing in lieu of the Awards that would otherwise have been made. A further commitment was made by BHP Billiton that a Long Term Incentive Plan Award, on terms generally similar to the terms of the award made upon public listing, except for the performance period, would be made in September 2002.

The BHP Steel Board established the performance hurdles for the Public Listing Award made in July 2002. In regard to the September Award the Board made determinations on the type, quantum, time period and performance hurdles applicable to the award. In doing so the Board took into account contractual commitments and issues being debated relating to executive long-term incentive plans.

Post-retirement benefits

BHP Steel has established the BHP Steel Superannuation Fund for Australian participants. This provides for defined benefit and defined contribution participants. The defined benefit plan is no longer available to new members.

Under the defined contribution plan, the Company currently contributes 9 per cent of salary into the superannuation fund for employees. In addition, the Company will contribute additional amounts where the employee makes a personal contribution.

BHP Steel Australian employees have the choice of having employee and Company contributions made to the Superannuation Trust of Australia.

BHP Steel operates a defined benefit plan superannuation fund for its New Zealand Steel employees. Contributions are also made to other international superannuation plans for employees outside of Australia and New Zealand.

Senior executives' remuneration (continued)

Details of Senior Executives' (including Executive Director) Remuneration

For the entire year ended 30 June 2002, BHP Steel executives were employed by BHP Billiton to manage its steel division. In light of the subsequent demerger of BHP Steel, the directors believe details of the actual remuneration packages for the current senior executives for the year ended 30 June 2003 provide more meaningful information than actual remuneration paid by BHP Billiton for its steel executives for the year ended 30 June 2002.

The following information represents the **annual salary package** for the year ended 30 June 2003 for the top five senior executives and the executive director.

Name	Annual base salary $pa	Annual cash bonus range (1) $pa	Super - annuation $pa	Other benefits $pa	Total 2003 (range) $pa	Long term incentive plan fair value (2) $
Executive Director						
K C Adams - Managing Director and CEO	1,300,000	0 to 1,950,000	191,100	-	1,491,100 to 3,441,100	942,133
Executives						
L E Hockridge - President Industrial Markets	550,000	0 to 495,000	80,850	8,000	638,850 to 1,133,850	373,053
K Fagg - President Market and Logistics Solutions	490,000	0 to 441,000	68,600	110,000*	668,600 to 1,109,600	332,376
N Cornish - President Australian Building and Manufacturing Markets	420,000	0 to 315,000	61,740	3,000	484,740 to 799,740	284,836
B G Kruger - Chief Financial Officer	420,000	0 to 378,000	61,740	125,500**	607,240 to 985,240	284,836
M Courtnall - President Asian Building and Manufacturing Markets	335,000	0 to 251,250	49,245	3,000	387,245 to 638,495	227,204

(1) Refer to page 10 for details on the executive short-term incentive plan.
(2) If performance hurdles are met, the awards made under the Long Term Incentive Plan will vest in September 2004 and September 2005. No award entitlements occur in the year ending 30 June 2003. Refer to pages 12 to 14 for details on the 'fair value' of share rights granted.

* As part of a sign-on bonus agreed by BHP Billiton in December 2000, K Fagg is entitled to receive $110,000 in December 2002.
** A payment of $105,000 has been made to B G Kruger in recognition of his contribution in respect of the implementation of the demerger of BHP Steel Limited from the BHP Billiton group.

Share options granted to directors and the most highly remunerated officers

As at 30 June 2002, BHP Steel Limited executives participated in various BHP Billiton group executive incentive plans. Upon demerger, BHP Steel Limited implemented its own performance based executive plans incorporating the granting of share rights.

The following share rights have been granted subsequent to the end of the financial year ended 30 June 2002.

(a) July 2002 Award

Nominated Executives were awarded Share Rights (SR's) in BHP Steel Limited in lieu of the awards that would otherwise have been made under BHP Billiton's Long Term Incentive Plans in October 2001. For this award a once-only increase equivalent to an additional 50% of the value of the award was made. This once-only increase was to recognise that, but for the Steel demerger, the nominated employees would have been eligible to an award under the BHP Billiton's Long Term Incentive Plans in October 2001, and the first performance period under the BHP Steel Long Term Incentive Plan will be shorter than the three year period usually adopted under the BHP Billiton plan. A Share Right is a right to acquire an ordinary share in BHP Steel Limited at a later date, subject to the satisfaction of certain performance criteria.

Performance Period

Under the July Award there are two potential performance periods. The first performance period commenced on 15 July 2002 and ends on 30 September 2004. The BHP Steel Board will determine whether there will be a second performance period. If such a determination is made the second performance period will commence on 15 July 2002 and end on 30 September 2005.

Vesting

The proportion of SR's that vest at the end of the relevant performance period will be determined by the Company's performance measured in terms of Total Shareholder Return ("TSR"), relative to the TSR of the companies in the ASX 100. The TSR performance hurdle, and percentages of SR's that become exercisable on meeting the performance hurdle is as follows:

TSR Performance Hurdle	First Performance Period % of Share Rights that Vest	Second Performance Period % of Share Rights that Vest
80th - 100th percentile	100%	50%
70th - < 80th percentile	90%	50%
60th - < 70th percentile	70%	50%
50th - < 60th percentile	50%	50%
< 50th percentile	50% of SR's awarded will lapse and 50% will be carried over to a second performance period at the Board's discretion	None - all unvested SR's will lapse immediately

Exercise Price

The exercise price established for the Market Priced Share Rights was based on the volume weighted average price of the BHP Steel shares sold under the sale facility and BHP Steel shares traded on the ASX during the first five trading days. Selected executives received SR's with a nil exercise price.

Share options granted to directors and the most highly remunerated officers (continued)

Details of the July 2002 Award

	Market Price Share Rights	Nil Priced Share Rights
Grant Date	25 July 2002	25 July 2002
Exercise Date	From 30 September 2004	From 30 September 2004
Latest Expiry Date	25 July 2007	31 March 2006
Share Rights Granted	14,335,000	2,800,300
Number of Participants	105	12
Exercise Price	$2.85	$nil
Fair Value Estimate at Grant Date (1)	$4,443,850	$2,618,281

(1) External valuation advice from PricewaterhouseCoopers Securities Limited has been used to determine the value of the Executive Share Rights. The valuation has been made using the Binomial Option Pricing Model.

(b) September 2002 Plan

Executives were awarded Share Rights (SR's) over ordinary shares in BHP Steel Limited. These SR's are subject to achievement of performance criteria and other terms on which they were awarded.

Performance Period

The performance period commenced on 1 October 2002 and ends on 30 September 2005.

Vesting

The proportion of SR's that vest at the end of the relevant performance period will be determined by the Company's performance measured in terms of Total Shareholder Return ("TSR"), relative to the TSR of the companies in the ASX 100. The TSR performance hurdle, and percentages of SR's that become exercisable on meeting the performance hurdle is as follows:

TSR Performance Hurdle	% of Share Rights That Vest
80th - 100th percentile	100%
70th - < 80th percentile	90%
60th - < 70th percentile	70%
51st - < 60th percentile	50%
< 51st percentile	None - all unvested SR's will lapse immediately

Exercise Price

The Board considered the merits of Nil Exercise Price Share Rights and Market Priced Share Rights, and felt that Nil Exercise Price Share Rights were appropriate for this Award. However this approach may change in the future as remuneration policies continue to be reviewed by the Board.

Restriction on sale of Shares

Shares acquired under this award cannot be sold by the executive prior to the 30th September 2007. Furthermore, any executives who resign during the two year holding period forfeit any shares acquired under this award.

Share options granted to directors and the most highly remunerated officers (continued)

Details of the September 2002 Award

Grant Date	30 September 2002
Exercise Date	From 1 October 2005
Expiry Date	30 September 2006
Share Rights Granted	4,696,900
Number of Participants	118
Exercise Price	Nil
Fair Value Estimate at Grant Date (1)	$2,888,594

(1) External valuation advice from PricewaterhouseCoopers Securities Limited has been used to determine the value of the Executive Share Rights. The valuation has been made using the Binomial Option Pricing Model.

Share rights granted to directors and the top five senior executives subsequent to the end of the financial year ended 30 June 2002 were as follows:

Name	Number Granted $	Fair Value (1) $	Exercise Price Per Share $
Directors			
K C Adams	1,175,500	942,133	Nil
Executives			
L E Hockridge	455,800	373,053	Nil
K Fagg	406,100	332,376	Nil
N Cornish	348,000	284,836	Nil
B G Kruger	348,000	284,836	Nil
M Courtnall	277,600	227,204	Nil

(1) External valuation advice from PricewaterhouseCoopers Securities Limited has been used to determine the value of the Executive Share Rights. The valuation has been made using the Binomial Option Pricing Model.

Environmental regulation

The Company aims to continuously reduce the impact of its activities on the environment, to ensure the impact is neither serious nor long-lasting. An important element of the Company's environmental performance is its commitment to the efficient use of resources, such as water and energy. It strives to ensure they are used as efficiently and responsibly as possible at all operations. The Company's environmental obligations are monitored through an environmental management system.

In preparation for the demerger from the BHP Billiton group, an environmental liability assessment of all BHP Steel group sites was undertaken. There were no material environmental issues identified at any of the sites owned by BHP Steel Limited during the year ended 30 June 2002. The only site to identify material significant issues was the Port Kembla Steelworks which was acquired by BHP Steel Limited subsequent to the end of the financial year. Three issues were identified:

(a) upgrading the sinter plant to improve stack emission quality, which is already being implemented at a total cost of $94 million. It is expected this project will be completed in 2003;

(b) possible future control of off-site discharges of waste waters and contaminated groundwater may require the introduction of new water treatment facilities in the next three to five years; and

(c) possible future control of hydrogen sulphide emissions from the blast furnace slag granulators. However, this requirement cannot be determined until reliable technical measurement of this emission is available. The issue may not be material if the measurement indicates that emissions are below levels that warrant further reductions.

The only significant environmental incidents or prosecutions during, or since, the year ending 30 June 2002 were at the Port Kembla Steelworks in October 2001, relating to overflow of out of specification water into a local water course resulting in contamination of the creek and a fish kill, as well as air emissions in breach of licence conditions. Prosecutions in respect of this incident for six Tier 2 offences were commenced in the Land and Environment Court in October 2002. The maximum possible fines for these offences is $1.5 million.

In addition there was a prosecution at the Port Kembla Steelworks in September 2002 relating to an out-of-specification water discharge incident in March 2000. This resulted in a $55,000 fine.

Indemnification and insurance of directors and officers

During the financial year ended 30 June 2002 and up until the demerger on 22 July 2002, the BHP Billiton group insured the directors and secretaries of its controlled entities.

Since 22 July 2002, BHP Steel Limited has entered into its own directors' and officers' insurance policies and paid an insurance premium in respect of the insurance policy, to the extent permitted by the Corporations Act 2001. The insurance policy covers those former directors of the Company along with the current directors of the Company (listed on page3). Executive officers and employees of the Company and its related bodies corporate are also covered.

In accordance with Rule 21 of the BHP Steel Limited Constitution, the Company, to the maximum extent permitted by law must indemnify any current or former director or secretary of the Company or any of its Subsidiaries, against all liabilities (and certain legal costs) incurred as such a director or secretary to a person, including a liability incurred as a result of appointment or nomination by the Company or Subsidiary as a trustee or as a director, officer or employee of another corporation.

The current directors of BHP Steel Limited (listed on page 3) have entered into Director's Access, Insurance and Indemnity Deeds with the Company. The Deed addresses the matters set out in Rule 21 and includes, among other things, provisions requiring the Company to indemnify a director to the extent to which they are not already indemnified as permitted under law, and to use its best endeavours to maintain an insurance policy covering a director while they are in office and 7 years after ceasing to be a director.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contract, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the contract.

Rounding of amounts

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

Auditor

Ernst & Young replaced Andersen as auditors for the Company on 9 August 2002.

This report is made in accordance with a resolution of directors.

G J Kraehe (sgd.)

G J Kraehe
Chairman

K C Adams (sgd.)

K C Adams
Managing Director & CEO

Melbourne
31 October 2002

Introduction

BHP Steel Limited became a listed public company on 15 July 2002. Since its listing, the Board has commenced implementing a set of corporate governance policies in line with best practice and will continue to review and develop these policies. The Company also complies with the Corporate Governance Guidance Note published by the Australian Stock Exchange and the statements by participants in the Corporate Governance Council established by the Australian Stock Exchange, dated 15 August 2002.

The BHP Steel group is a global organisation, with businesses operating in many countries, including Australia, New Zealand, the United States, China and throughout South-East Asia. This demands that all entities of the BHP Steel group comply with a range of varying legal, regulatory and governance requirements.

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

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

This Corporate Governance Statement outlines the key aspects and mechanisms of the Company's governance framework established by the Board (recognising, of course, the importance of continually reviewing and monitoring that framework).

Shareholders

A fundamental role in the governance of the Company is performed by shareholders who elect the Board. Since their appointment by BHP Billiton Limited on 10 May 2002, one third of the directors must retire each year by rotation and are subject to re-election.

The Board's task is to govern on behalf of all shareholders. The Board recognises that, to carry out this role, shareholders must receive high quality relevant information in a timely manner. Timely disclosure of relevant information will facilitate an efficient, competitive and informed market in the Company's shares.

The Company is subject to continuous disclosure obligations under the Listing Rules of the Australian Stock Exchange, which are supplemented by Australian corporations legislation. Subject to some limited exceptions, under the continuous disclosure requirements, the Company must immediately notify the market, through the Australian Stock Exchange of any information which a reasonable person would expect to have a material effect on, or lead to a substantial movement in, the price or value of its shares.

To achieve these objectives and satisfy the regulatory requirements, since its listing on 15 July 2002, the Board provides or intends to provide information to shareholders and the market in several ways, including:

- through communications to all shareholders in annual reports and financial statements, the release of results to the Australian Stock Exchange each half year and at the Company's annual general meeting;
- price sensitive announcements and other relevant significant announcements are released directly to the market via the Australian Stock Exchange. Copies of these announcements are immediately placed on the Company's website, at www.bhpsteel.com;
- briefings will be conducted with analysts and institutions from time to time - in doing so, BHP Steel recognises the importance of making sure that any price sensitive information provided during these briefings is made available to all shareholders and the market at the same time and in accordance with the requirements of the Australian Stock Exchange and the Australian Securities and Investments Commisssion; and
- on the Company's website, which contains extensive information about the BHP Steel group and its activities, including statutory reports and investor information.

The Company has established a Market Disclosure Committee, comprising the Managing Director and Chief Executive Officer, the Chairman, the Chief Financial Officer, the Company Secretary, the Vice-President, Investor Relations and the Executive Vice-President, Corporate Affairs, to monitor and capture all significant information which may require disclosure. The Company Secretary is responsible for providing announcements to the Australian Stock Exchange.

The Board of directors

The role of the Board

The Board is responsible for the effectiveness of governance practices and the overall management and control of all entities within the BHP Steel group.

The Board has specifically reserved to itself a number of key matters for the consideration and decision of the Board. These key matters include:

- the adoption of the strategic direction of the BHP Steel group;
- succession planning and appointment of key senior executives;
- remuneration and objective setting for the Managing Director and Chief Executive Officer;
- employee equity ownership plans;
- appointment of auditors;
- approval of the financial statements;
- approval of the business plans and budgets;
- approval of risk management strategies;
- approval of significant capital expenditure;
- approval of the Company's remuneration policy;
- review of operating results; and
- corporate reputation.

The Board is assisted in the discharge of its responsibilities by a number of Board committees (details of which appear on pages 20 to 23).

The Board has delegated responsibility for the day-to-day operation and administration of the BHP Steel group to executive management, led by the Managing Director and Chief Executive Officer, Mr Kirby Adams. The levels of authority for management are also documented. The Managing Director and Chief Executive Officer is assisted in managing the business by the Executive Leadership Team (refer page 23).

The roles of the Chairman and the Managing Director and Chief Executive Officer are separated and clearly defined.

Directors are entitled to full access to the information required to discharge their responsibilities, including access to executives of the BHP Steel group. The Board (as well as Board committees and individual directors) may also take independent professional advice in carrying out their responsibilities, including in the absence of the Company's management, where they consider it appropriate to do so.

The Board is assisted by the Company Secretary, who advises on the management of meetings, the implementation of governance procedures and compliance with regulatory requirements.

Composition of the Board

The Board comprises seven directors, including six non-executive directors and one executive director (the Managing Director and Chief Executive Officer).

The Board collectively bring significant commercial, business, operational, financial and international experience in a range of industries. The directors all possess skills and expertise which, in aggregate, combine to form a Board with a depth of experience. The directors' biographies are on pages 6 to 7.

Composition of the Board (continued)

The Company's Constitution and the Listing Rules of the Australian Stock Exchange require that no member of the Board (other than the Managing Director and Chief Executive Officer) may serve for more than three years without being re-elected by shareholders at an annual general meeting of the Company. Also, one-third of the directors (not including the Managing Director and Chief Executive Officer) must retire - and are eligible to be re-elected by the shareholders - at each annual general meeting. The Managing Director and Chief Executive Officer serves as a director until he ceases to be the Chief Executive Officer.

Where the Board itself appoints a person as a director (rather than the shareholders), that person must resign at the next annual general meeting following their appointment and seek approval of shareholders to continue as a director.

Board succession planning and training

The Board is conscious of the need to ensure that proper processes are in place to deal with succession issues at Board level. This will require the Board periodically to assess the skill-set necessary to meet the BHP Steel group's demands.

The Board has established a Nomination Committee, chaired by Mr Graham Kraehe, and comprising all of the non-executive directors.

Newly appointed directors will receive appropriate induction and training. Consistent with this, all of the non-executive directors who were appointed on 10 May 2002 have participated in a number of informal meetings to familiarise themselves with the significant operations of the BHP Steel group, including, before and since their appointment, presentations by senior management, the auditors and external advisers. They have all visited the Company's site at Port Kembla and have a program in the year ahead to visit other major operating sites.

Board meetings

Since the listing of the Company on 15 July 2002, the Board has scheduled to meet at least nine times in the current financial year to review matters such as the financial performance of the BHP Steel group, current trading and key business initiatives, and the BHP Steel group's strategy, budget and business plans. Procedures are also in place to ensure that directors can meet to consider and decide urgent matters, as and when they arise.

Materials for Board and Board committee meetings are circulated to the directors in advance. The agenda for meetings is formulated with input from the Managing Director and Chief Executive Officer, the Chairman and the Executive Leadership Team (see page 23). Directors are free to nominate matters for inclusion on the agenda for any Board or Board committee meeting.

Presentations to the Board are frequently made by members of senior management, and telecommunication technologies are utilised to enable participation of management.

Board meetings have been held in various locations, including in Melbourne (where the Company's head office is located), Sydney and Port Kembla (home to the Company's integrated steelworks operations in Australia). The Board has a program to meet at various sites throughout the year ahead.

Non-executive directors are scheduled to meet at least twice a year without the presence of executives.

Conflicts of interest

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest (both real and apparent) between their duty to the Company and its employees and their own interest. A register of directors' interests is maintained by the Company Secretary.

Directors' remuneration

Under the Company's Constitution the maximum remuneration payable by the Company for the services of non-executive directors in total must not exceed $1,750,000 per annum without shareholder approval. The remuneration paid to the non-executive directors in the financial year ended 30 June 2002 was well under the maximum amount provided in the Constitution and total remuneration to be paid to non-executive directors in the year ending 30 June 2003 will also be below the prescribed maximum.

Non-executive directors receive remuneration based on membership of the Board, and for chairing Board committees. Non-executive directors do not receive any performance-based incentives and are not entitled to any retirement benefits. Details of remuneration paid to the non-executive directors are set out on page 9.

Committees of the Board

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

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

Other committees of the Board may be formed from time to time to deal with specific matters.

Each of the Board's committees operates under terms of reference (charters), detailing their role and responsibilities.

The number of Board Committee meetings held during the year ended 30 June 2002 and the attendance at those meetings by members is set out on page 8.

Regular reports of the committees' activities are provided to the Board and minutes are circulated to all directors.

Public Listing Committee

The Public Listing Committee was formed by the directors designate of BHP Steel Limited in March 2002 to assist the directors to prepare to become directors of the Company, once they were formally appointed by BHP Billiton Limited.

After their appointment as directors on 10 May 2002, the Committee continued to meet to assist the Board in discharging its responsibilities to the Company in connection with the public listing of the Company.

The members of the Committee were Mr Kevin McCann (Committee Chairman), Mr Ron McNeilly and Mr Paul Rizzo. All Board members were invited to attend meetings of the Public Listing Committee and, on most occasions, a majority of directors did attend.

Audit and Risk Committee

The Audit and Risk Committee assists the Board in the effective discharge of its responsibilities for financial reporting, internal controls, risk management (except for health, safety and environment matters) and internal and external audit.

The primary objectives of the Audit and Risk Committee, as set out in its charter, are:

External reporting:
- to review (in advance of presentation) the financial information presented to the directors, the Australian Stock Exchange and the Australian Securities and Investments Commission, other regulators, shareholders and the general public;
- review and assess the appropriateness of the Company's accounting policies and principles;
- review and consider the processes used by management to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting of financial information;
- review proposed professional and regulatory pronouncements regarding accounting policies and financial reporting and assess their impact on the Company; and
- ensure processes are in place to comply with continuous reporting requirements.

Internal control and risk management
- consider whether the Company has effective risk management systems in place to review and manage business, financial and operational risk;
- review management's programs and policies which deal with the adequacy and effectiveness of internal controls over the Company's business processes, including the determination of the financial statements;
- receive reports concerning material actual and suspected breaches of law, including fraud and theft and assess systems to manage this risk;
- review any litigation, claim or other contingency which could have a material effect upon the financial position or operating results of the Company; and
- review and monitor related party transactions and assess their propriety.

External Audit
- make recommendations to the Board on the appointment, reappointment or replacement and remuneration of the external auditor;
- review and agree on the terms of engagement for the external auditor;
- monitor the effectiveness and independence of the external auditor;
- review the scope of the external audit with the external auditor, including identified risk areas;
- review and assess non-audit service provisions by the external auditor, with particular consideration to the potential to impair or be perceived to impair the external auditor's judgment or independence in respect of the Company;
- ensure external auditors are co-ordinated with internal audit programs;
- review and monitor management's responsiveness to the external audit findings; and
- on a regular basis, meet with the external auditor without the presence of management.

Internal Audit
- approve the internal auditor where the internal auditor is an executive of the Company or, where the internal auditor is an external contractor, approve the appointment and the internal auditor's terms of engagement;
- review and assess the scope of the audit and the internal audit plan, work program and resources;
- review and monitor management's responsiveness to the internal audit findings; and
- on a regular basis meet with the internal auditor, without the presence of management.

The Audit and Risk Committee meets before the finalisation of all major financial announcements of the Company and, in any event, is required to meet four times a year.

Audit and Risk Committee (continued)

The Audit and Risk Committee is composed entirely of non-executive directors.

The members of the Audit and Risk Committee are Mr Paul Rizzo (Committee Chairman), Mr Kevin McCann and Mr Ron McNeilly. Mr Rizzo has significant financial management and reporting experience.

Both Mr Rizzo and Mr McNeilly are independent non-executive directors. Mr McCann, who is a non-executive director, is a partner of Allens Arthur Robinson, a national law firm, which has provided and continues to provide legal advisory services to the Company. The firm is one of a number of firms providing legal services to the Company and the fees paid to the firm are not significant compared to total legal fees paid by the Company during the period from the date of his appointment until the end of the financial year. The Board believes that his role as a partner of the firm does not interfere with his ability to exercise independent judgment and that his appointment to the Committee is in the best interest of the Company because of the extensive legal and financial knowledge and expertise he brings to it. He has no other material commercial or business relationships with the Company.

All Board members are invited to attend meetings of the Audit and Risk Committee, with standing invitations also extended (except for certain consultations referred to above) to the Managing Director and Chief Executive Officer, Chief Financial Officer and the external and internal auditors.

Health, Safety and Environment Committee

The primary objectives of the Health, Safety and Environmental Committee, as set out in its charter, are:

- to adopt a HSEC Policy and monitor, review and, as necessary, recommend changes to that policy;
- to monitor the BHP Steel group's compliance with the approved HSEC Policy;
- to assess the HSEC standards of the BHP Steel group;
- to assess compliance by the BHP Steel group with HSEC legislation;
- to receive and consider reports on HSEC practices in the industries in which the BHP Steel group operates;
- to monitor compliance throughout the BHP Steel group with HSEC recommendations made by it;
- to receive reports concerning HSEC incidents within the BHP Steel group; and
- to consider HSEC issues that may have strategic, business and reputational implications for the group.

The Chairman of the Committee is Mr John Crabb, who is an independent non-executive director of the Board. Because of the importance of health, safety and the environment to BHP Steel's operations, the Committee currently comprises all directors. The composition of the Committee will be reviewed from time to time.

The Health, Safety and Environment Committee charter requires that the Committee meets at least four times per year.

Remuneration Committee

The Board is responsible to shareholders for ensuring that BHP Steel:

- has a Human Resources Strategy aligned to the overall business strategy;
- has coherent remuneration policies and practices that are observed and that enable it to attract and retain executives and directors who will create value for shareholders;
- fairly and responsibly rewards executives having regard to the performance of the Company, the performance of the executive and the external remuneration environment; and
- plans and implements the development and succession of executive management and directors.

Remuneration Committee (continued)

The primary purposes of the Remuneration Committee of BHP Steel is to support and advise the Board in fulfilling these responsibilities to shareholders by:

- recommending executive remuneration policy to the Board;
- recommending the remuneration and other terms and conditions for the Managing Director and Chief Executive Officer and other executive directors to the Board;
- reviewing and approving the remuneration of direct reports to the Managing Director and Chief Executive Officer, and as appropriate other senior executives;
- reviewing and recommending to the Board in regard to all equity based plans;
- ensuring that performance management processes are in place for the Managing Director and Chief Executive Officer, direct reports and as appropriate other senior executives;
- reviewing the plans for the development and succession of the Executive Leadership Team and other business critical roles; and
- reviewing the overall Human Resources Strategy and recommendations from management.

The members of the Remuneration Committee are Ms Diane Grady (Committee Chairman), Mr Graham Kraehe and Mr Ron McNeilly. All members of the Remuneration Committee are independent non-executive directors. The Committee meets at least four times a year.

The Committee seeks advice and guidance, as appropriate, from the Managing Director and Chief Executive Officer, and the Executive Vice President Human Resources. It also seeks advice from external experts, as appropriate, including in the absence of management of the Company.

Nomination Committee

The Nomination Committee is responsible for reviewing the membership of the Board and for consideration of candidates for membership of the Board. All non-executive directors are members of the Committee. The Committee is chaired by Mr Graham Kraehe.

Executive leadership team

The Company's Executive Leadership Team (ELT) is responsible for the day-to-day leadership and management of the company as a whole. The ELT performs its role in consultation with, and obtains guidance from, the Board and Board committees. The ELT's specific responsibilities, include:

- BHP Steel Corporate Strategy - developing and implementing the strategic direction of the BHP Steel Group;
- Business Area Strategies - reviewing and developing strategies for Business areas;
- Safety - reviewing and developing safety strategy, high level processes and procedures;
- Capital Expenditure - reviewing and endorsing all capital proposals over $5 million. The ELT recommends to the Board all capital proposals over $15 million;
- Human Resources - reviewing and discussing human resource talent and succession and developing HR strategies and practices;
- Policies and Standards - discussing and endorsing major policies and standards that have been delegated to management by the Board in areas such as Human Resources, Information Technology, Risk Management and Finance; and
- Performance - reviewing company and business unit financial and operational performance and agreeing any necessary actions.

Executive leadership team (continued)

The members of the Executive Leadership Team are Kirby Adams (Managing Director and Chief Executive Officer), Lance Hockridge (President Industrial Markets), who is Chairman of the ELT, Noel Cornish (President Australian Building and Manufacturing Markets), Mike Courtnall (President Asian Building & Manufacturing Markets), Kathryn Fagg (President Market & Logistics Solutions), Lance Hockridge (President Industrial Markets) and Brian Kruger (Chief Financial Officer). The ELT meets monthly, generally at BHP Steel sites.

Accountability and audit

Internal control and risk management

The Board has overall responsibility for the group's systems of internal control. These systems are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations, with a view to managing the risk of failure to achieve business objectives. It must be recognised however that internal control systems can provide only reasonable and not absolute assurance against the risk of material loss.

The Board reviews the effectiveness of the internal control systems and risk management on an ongoing basis, and monitors risk through the Audit and Risk Committee (refer discussion on the Audit and Risk Committee Charter set out on pages 21 to 22).

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

External Audit

While BHP Steel was part of the BHP Billiton group, the Company was audited by the auditor for the BHP Billiton group. For the majority of the financial year ended 30 June 2002, the BHP Billiton group auditor (and the auditor for BHP Steel Limited) was Arthur Andersen.

Following the integration of Arthur Andersen's operations with Ernst & Young on 27 May 2002, Ernst & Young was engaged as the Company's auditor, commencing with the audit for the 2001/2002 financial year. The Board independently considered the resources and ability of Ernst & Young to act as the Company's auditor and was satisfied that Ernst & Young could discharge its duties to the BHP Steel group.

A resolution of shareholders to approve their appointment will be proposed at the annual general meeting on 18 November 2002.

The audit partners and review partners of our external auditors will rotate every five years. The current audit partner and review partner were first appointed for the 2001/02 audit of the Company.

Non-audit work is prohibited, where independence may be compromised or conflicts arise. Any proposal for the performance of non-audit related work by the auditor will require prior consultation with, and approval of, the Audit and Risk Committee.

Notwithstanding the appointment of Ernst & Young as the Company's auditor for the financial year ended 30 June 2002 and (subject to shareholder approval) for the financial year ending 30 June 2003, the Board, acting on the recommendation of the Audit and Risk Committee, proposes to put the Company's external audit services out to competitive tender for the year ending 30 June 2004 and beyond.

Share ownership and dealing

Details of shares in the Company held by directors are set out on page 7.

The Board has put in place policies covering dealings in the Company's shares. The objective of these policies is to ensure that shareholders, customers and the business community have confidence that directors and senior management comply with the law and best practice in corporate governance, and handle confidential information lawfully and with integrity.

Under these policies, directors and senior management are required to obtain approval before dealing in BHP Steel Limited shares. Directors and senior management are prohibited from dealing in BHP Steel Limited shares outside designated trading windows.

Any dealings in the Company's shares by a director are reported to the Board at its next meeting. The Australian Stock Exchange is notified of any share dealings by a director within five business days.

Corporate social responsibility

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

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

The Health, Safety, Environmental and Community Policy addressing these issues can be found on the Company's website (www.bhpsteel.com).

The Company's code of conduct

BHP Steel Limited has a Code of Conduct which provides an ethical and legal framework for all employees in the conduct of the Company's business. The Code defines how the BHP Steel group relates to its customers, employees, shareholders and the community.

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

The Code of Conduct provides a common behavioural framework for all the Company's employees, irrespective of their specific job, direct employer or location around the world.

Political contributions

The Company does not contribute funds to any political party, politician, or candidate for public office. It does, however, contribute to the public debate of policy issues that may affect it in the countries in which it operates.

Explanatory Statement to the Financial Report

BHP Steel Limited was a wholly owned subsidiary within the BHP Billiton group for the entire year and as at 30 June 2002. In order to implement the demerger and public listing of its steel business on 22 July 2002, BHP Billiton reorganized its steel business. Various legal entity structure changes were required within the BHP Billiton group both during and subsequent to the financial year ended 30 June 2002 to give effect to this reorganisation.

The following Financial Report has been prepared for the consolidated BHP Steel group as it existed on 30 June 2002 in accordance with the Corporations Act 2001. It is not reflective of the BHP Steel group which demerged from BHP Billiton. At 30 June 2002, and for periods during the financial year, certain significant operating assets were owned by other entities within the BHP Billiton group. These included the Port Kembla Steelworks, North Star BHP Steel, New Zealand Steel, Packaging Products, and certain Asian coating operations. The Financial Report presented reflects the majority of the Australian and Asian coating operations.

Contents

BHP Steel Limited
Statements of financial performance
For the year ended 30 June 2002

	Notes	Consolidated	Parent entity	
		2002	**2002**	2001
		$m	**$m**	$m
Revenue from ordinary activities	3	**2,488.7**	**2,025.0**	2,153.6
Changes in inventories of finished goods and work in progress		**(7.0)**	**(1.4)**	(1.9)
Raw materials and consumables used		**(1,519.2)**	**(1,238.2)**	(1,160.0)
Employee benefits expense		**(373.5)**	**(342.1)**	(344.5)
Depreciation and amortisation expenses	4	**(77.2)**	**(58.3)**	(59.0)
Diminution in value of non-current assets		**(0.4)**	**-**	-
External services		**(299.3)**	**(271.8)**	(333.9)
Carrying amount of non-current assets sold		**(2.2)**	**(0.1)**	(3.6)
Other expenses from ordinary activities		**(181.1)**	**(101.3)**	(116.3)
Borrowing costs expense	4	**(46.1)**	**(40.2)**	(63.0)
Profit/(loss) from ordinary activities before income tax expense	4	**(17.3)**	**(28.4)**	71.4
Income tax credit/(expense)	5	**21.1**	**11.6**	(22.0)
Profit/(loss) from ordinary activities after income tax expense		**3.8**	**(16.8)**	49.4
Net profit/(loss) attributable to outside equity interest		**(14.1)**	**-**	-
Net profit/(loss) attributable to members of BHP Steel Limited	27(b)	**(10.3)**	**(16.8)**	49.4
Net increase (decrease) in foreign currency translation reserve		**(30.4)**	**-**	-
Total revenue, expenses and valuation adjustments attributable to members of BHP Steel Limited recognised directly in equity		**(30.4)**	**-**	-
Total changes in equity other than those resulting from transactions with owners as owners	29	**(40.7)**	**(16.8)**	49.4
		Cents		
Basic earnings per share	43	**(16.3)**		

The above statements of financial performance should be read in conjunction with the accompanying notes.

	Notes	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Current assets				
Cash assets	6	**98.7**	**0.1**	1.3
Receivables	7	**2,097.9**	**2,034.6**	446.9
Inventories	8	**257.8**	**196.3**	212.4
Other financial instruments	9	**2.2**	**-**	-
Other	10	**9.4**	**0.9**	4.9
Total current assets		**2,466.0**	**2,231.9**	665.5
Non-current assets				
Receivables	11	**10.8**	**18.7**	30.8
Inventories	12	**23.4**	**23.4**	21.9
Investments accounted for using the equity method	13	**146.3**	**-**	-
Other financial assets	14	**0.2**	**410.1**	304.2
Property, plant and equipment	15	**1,065.1**	**721.3**	718.6
Deferred tax assets	16	**19.2**	**-**	2.2
Intangible assets	17	**0.7**	**-**	-
Other	18	**9.5**	**2.2**	0.6
Total non-current assets		**1,275.2**	**1,175.7**	1,078.3
Total assets		**3,741.2**	**3,407.6**	1,743.8
Current liabilities				
Payables	19	**351.2**	**237.8**	269.2
Interest bearing liabilities	20	**2,279.6**	**2,348.6**	657.4
Current tax liabilities	21	**2.8**	**-**	17.3
Provisions	22	**88.3**	**76.2**	76.3
Total current liabilities		**2,721.9**	**2,662.6**	1,020.2
Non-current liabilities				
Interest bearing liabilities	23	**94.5**	**-**	-
Deferred tax liabilities	24	**103.5**	**92.6**	108.2
Provisions	25	**49.6**	**46.5**	42.2
Total non-current liabilities		**247.6**	**139.1**	150.4
Total liabilities		**2,969.5**	**2,801.7**	1,170.6
Net assets		**771.7**	**605.9**	573.2
Equity				
Parent entity interest				
Contributed equity	26	**164.0**	**164.0**	114.5
Reserves	27(a)	**182.9**	**196.0**	201.3
Retained profits	27(b)	**387.7**	**245.9**	257.4
Total parent entity interest		**734.6**	**605.9**	573.2
Outside equity interest in controlled entities	28	**37.1**	**-**	-
Total equity	29	**771.7**	**605.9**	573.2

The above statements of financial position should be read in conjunction with the accompanying notes.

In previous years, the directors of BHP Steel Limited (formerly named BHP Steel (JLA) Pty Ltd) concluded that the entity was not a reporting entity and special purpose non consolidated accounts were prepared. Accordingly consolidated comparative information has not been presented.

In accordance with the transitional provisions contained in paragraph 43 of AASB 1024 the following prior year disclosures are required to be made:- Total assets $2,157.2 million, Total liabilities $1,391.8 million, Equity $765.4 million.

	Notes	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Cash flows from operating activities				
Receipts from customers (inclusive of goods and services tax)		**2,671.8**	**2,186.9**	2,138.0
Payments to suppliers and employees (inclusive of goods and services tax)		**(2,511.6)**	**(2,100.1)**	(2,011.7)
		160.2	**86.8**	126.3
Dividends received		**-**	**5.1**	17.6
Interest received		**8.3**	**0.3**	1.6
Other revenue		**25.0**	**18.9**	6.8
Borrowing costs		**(37.1)**	**(40.2)**	(63.0)
Income taxes (paid)/received		**(21.6)**	**(13.7)**	(39.8)
Net cash inflow (outflow) from operating activities	42	**134.8**	**57.2**	49.5
Cash flows from investing activities				
Payment for purchase of controlled entities, net of cash acquired	38	**(67.0)**	**(105.9)**	(33.9)
Payments for property, plant and equipment		**(78.3)**	**(61.6)**	(22.0)
Payments for investments		**(2.0)**	**-**	-
Proceeds from sale of property, plant and equipment		**2.3**	**0.2**	4.4
Net cash inflow (outflow) from investing activities		**(145.0)**	**(167.3)**	(51.5)
Cash flows from financing activities				
Proceeds from issues of shares		**49.5**	**49.5**	-
Proceeds from borrowings		**88.3**	**-**	-
Net financing of related entities		**35.5**	**59.4**	114.1
Repayment of borrowings		**(127.0)**	**-**	-
Dividends paid	30	**-**	**-**	(112.3)
Dividends paid to outside equity interests in controlled entities		**(0.8)**	**-**	-
Net cash inflow (outflow) from financing activities		**45.5**	**108.9**	1.8
Net increase (decrease) in cash held		**35.3**	**(1.2)**	(0.2)
Cash at the beginning of the financial year		**63.0**	**1.3**	1.5
Effects of exchange rate changes on cash		**0.4**	**-**	-
Cash at the end of the financial year	6	**98.7**	**0.1**	1.3
Financing arrangements	23			

The above statements of cash flows should be read in conjunction with the accompanying notes.

Note 1. Summary of significant accounting policies

As at 30 June 2002, BHP Steel Limited was a wholly owned subsidiary of the BHP Billiton group. BHP Steel Limited legally separated from the BHP Billiton group on 22 July 2002, having listed on the Australian Stock Exchange on 15 July 2002.

Due to the legal separation subsequent to the end of the financial year, BHP Steel Limited and its subsidiaries became a reporting entity. These accounts have been prepared as a general purpose financial report in accordance with the requirements of a public company which is a wholly owned subsidiary of another Australian company.

In previous years, the directors of BHP Steel Limited (formerly named BHP Steel (JLA) Pty Ltd) concluded that the entity was not a reporting entity and accordingly, prepared a special purpose financial report. On this basis, comparative consolidated information has not been presented in accordance with AASB 1034, other than as required by AASB 1024, namely the aggregate assets liabilities and equities of the economic entity in existence at the beginning of the financial year.

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Consensus Views and the Corporations Act 2001.

(a) Basis of accounting

The accounts are prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by BHP Steel Limited ('company' or 'parent entity') as at 30 June 2002 and the results of all controlled entities for the year then ended. BHP Steel Limited and its controlled entities together are referred to in this financial report as the consolidated entity or the BHP Steel group. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

Investments in joint ventures are accounted for as set out in note 1(p).

(c) Comparatives

Where applicable, comparatives have been adjusted to disclose them on a comparable basis with current period figures.

(d) Rounding of amounts

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

Note 1. Summary of significant accounting policies (continued)

(e) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statements of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Income taxes have not been provided on undistributed overseas earnings of controlled entities to the extent the earnings are intended to remain indefinitely invested in those entities. Any such amount is immaterial.

(f) Foreign currency translation

BHP Steel Limited is Australian based with significant international operations.

(i) *Transactions*
Transactions in foreign currencies are translated at rates of exchange which approximate those applicable at the date of each transaction. Foreign currency balances arising from these transactions are translated at the rates of exchange applicable at balance date. Resulting exchange differences are recognised in determining the profit or loss for the year, except as stated in note 1(r) for differences arising on foreign currency borrowings included in borrowing costs.

(ii) *Foreign controlled entities*
As all foreign controlled entities are self-sustaining, their assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while their revenues and expenses are translated at the monthly average rate. Exchange differences arising on translation are taken to the foreign currency translation reserve.

Upon disposal or partial disposal of a self-sustaining foreign operation, the balance of the foreign currency translation reserve relating to the operation, or to the part disposed of, is transferred to retained profits.

(g) 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 recognition criteria must also be met before revenue is recognised:

Sale of goods
Control of the goods has passed to the buyer.

Rendering of services
Where the contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured.

Interest and dividends
Control of the right to receive the interest and dividend payment.

Note 1. Summary of significant accounting policies (continued)

(h) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their fair value as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to a restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

Goodwill is brought to account on the basis described in note 1(l).

Where an entity or operation is acquired and the fair value of the identifiable net assets, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated. Where, after reducing to zero the recorded amounts of the non-monetary assets acquired, a discount balance remains it is recognised as revenue in the Statement of Financial Performance.

(i) Inventories

Inventories, including work in progress, are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of average costs. In some cases, the first-in-first-out method or actual cost is used. For processed inventories, cost, which includes fixed and variable overheads, is derived on an absorption costing basis.

(j) Recoverable amount of non-current assets

All non-current assets are reviewed at least bi-annually to determine whether their carrying amounts require write-down to recoverable amount. If the asset is determined to be impaired, an impairment loss will be recorded, and the asset written down, based on the amount by which the asset carrying value exceeds the higher of net realisable value and estimated recoverable amount. Estimated recoverable amount is determined using expected pre-tax net cash flows discounted for the current year at 14.3%.

(k) Employee entitlements

Provision is made in the accounts for all employee benefits, including on-costs. BHP Steel recognises an expense for defined benefit pensions when contributions are payable.

As at 30 June 2002 the Company does not have its own employee ownership plan, however, certain BHP Steel employees participated in the BHP Billiton Group employee ownership plan. Information relating to that scheme can be found in the BHP Billiton Group 30 June 2002 annual report.

Note 1. Summary of significant accounting policies (continued)

(l) Intangible assets and expenditure carried forward

(i) Goodwill
Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise, not exceeding a period of 20 years. Unamortised balances are reviewed bi-annually to assess the probability of continuing future benefits.

(ii) Research expenditure
Expenditure for research is included in the statement of financial performance as and when incurred on the basis that continuing research is part of the overall cost of being in business, except to the extent that future benefits deriving from those costs are expected beyond any reasonable doubt to exceed those costs, in which case it is capitalised and amortised over the period of the expected benefit.

(iii) Patents and trademarks
Amounts paid for patents & trademarks are capitalised and then amortised on a straight-line basis over the expected period of benefit. Unamortised balances are reviewed bi-annually to assess the probability of continuing future benefits.

(m) Property, plant and equipment

Valuation in accounts

Property, plant and equipment has been recorded at cost.

Current values of land and buildings

The current value of land is determined mainly by reference to rating authority valuations, or cost for recent acquisitions, except where land is an integral part of a producing asset with no significant value beyond such use, in which case book value is used.

The current value of buildings is based primarily on depreciated replacement value. Buildings which are integral parts of producing plant are classified as plant and equipment and accordingly excluded from this valuation. The current values of land and buildings are disclosed in note 15 .

Disposals

Disposals are taken to account in the profit/(loss) from ordinary activities, except where they represent the sale or abandonment of a significant business or all of the assets associated with such a business, and are not considered to be of a recurring nature, in which case they are treated as extraordinary items.

Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Category	Useful life
Buildings	Up to 40 years
Plant, machinery and equipment	Up to 30 years

Note 1. Summary of significant accounting policies (continued)

(n) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases
The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Finance leases
Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

(o) Derivative financial instruments

The BHP Steel group is exposed to changes in interest rates, foreign currency exchange rates and commodity prices and, in certain circumstances, uses derivative financial instruments to hedge some of these risks.

When undertaking risk mitigation transactions, hedge accounting principles are applied, whereby derivatives are matched to the specifically identified commercial risks being hedged. These matching principles are applied to both realised and unrealised transactions. Derivatives undertaken as hedges of anticipated transactions are recognised when such transactions are recognised. Upon recognition of the underlying transaction, derivatives are valued at the appropriate market spot rate.

When an underlying transaction can no longer be identified, gains or losses arising from a derivative that has been designated as a hedge of that transaction will be included in the Statement of Financial Performance whether or not such derivative is terminated.

Where a hedge is terminated, the deferred gain or loss that arose prior to termination is:
(a) deferred and included in the measurement of the anticipated transaction when it occurs; or
(b) included in the Statement of Financial Performance where the anticipated transaction is no longer expected to occur.

Costs arising at the time of entering into hedging transactions are included in other assets and deferred and included in the settlement of the underlying transaction.

Note 1. Summary of significant accounting policies (continued)

(p) Joint ventures

The interest in a joint venture partnership is accounted for using the equity method. Under this method, the investment is initially recorded at its cost of acquisition and its carrying value is subsequently adjusted for the share of the profits or losses and reserves of the partnership. The investment in the joint venture partnership is decreased by the amounts of dividends received or receivable. Details relating to the joint venture partnership are set out in note 39.

(q) Other financial assets

Interests in unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at cost and dividend income is recognised in the statement of financial performance when receivable. Controlled entities and associates are accounted for in the consolidated financial statements as set out in note 1(b).

The interest in a joint venture partnership is accounted for as set out in note 1(p).

(r) Borrowing costs

Borrowing costs are generally expensed as incurred except where they relate to the financing of construction or development of assets requiring a substantial period of time to prepare for their intended future use. Borrowing costs are capitalised up to the date when the asset is ready for its intended use. The amount of borrowing costs capitalised for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of accumulated expenditure for the assets during the period.

Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings
- amortisation of discounts or premiums relating to borrowings
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- finance lease charges, and
- certain exchange differences arising from foreign currency borrowings.

Note 2. Segment information

Business Segments

The consolidated entity has four business reporting segments: Hot Rolled Products, Coated Products Australia, New Zealand Steel and Coated Products Asia.

In view of the fact that certain operations forming part of BHP Steel were legally acquired part way through the financial year or had not been acquired by BHP Steel until after 30 June 2002, the segment information is not representative of the proforma results reported in the Scheme Booklet and Offer Memorandum dated 13 May 2002 or the Annual Earnings Report dated 7 August 2002.

Note 2. Segment information (continued)

Hot Rolled Products
Hot Rolled Products includes a 50% interest in North Star BHP Steel, a steel mini-mill in the United States which was legally acquired in June 2002, and a 47.5% shareholding in Castrip LLC.

Subsequent to the end of the financial year, BHP Steel acquired BHP Steel (AIS) Pty Ltd, which includes the Port Kembla Steelworks, a Hot Rolled Products operation with an annual production capacity of 5.0 million tonnes of crude steel. The Port Kembla Steelworks manufactures and distributes slab, hot rolled coil and plate. Slab and hot rolled coil is supplied to Coated Products Australia for further processing, as well as to other domestic and export customers.

Coated Products Australia
Coated Products Australia markets a range of products and material solutions to the Australian building and construction industry and is also a key supplier to the Australian automotive sector, major white goods manufacturers and general manufacturers. Coated Products Australia is a leader in metallic coating and painting technologies supplying a wide range of branded products such as COLORBOND® pre-stained steel, ZINCALUME® zinc/aluminium alloy-coated steel and the LYSAGHT® range of building products. The coated products business comprises two main production facilities at Springhill in New South Wales and Westernport in Victoria together with a network of manufacturing and distribution facilities throughout Australia.

Subsequent to the end of the financial year, BHP Steel acquired BHP Steel (AIS) Pty Ltd which includes Packaging Products, a Coated Products Australia operation producing tinplate and blackplate in Australia which are used by the packaging industry in applications for food, beverages, paint, oil and other steel packaging.

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

The Indonesian metallic coating facility and the two roll forming plants in China were acquired on 22 April 2002 and 15 February 2002 respectively.

New Zealand Steel
Subsequent to the end of the financial year, BHP Steel acquired BHP Steel (AIS) Pty Ltd, which includes the New Zealand Steel operation at Glenbrook, New Zealand. This operation produces a full range of flat steel products for both domestic and export markets. It has an annual production capacity of 0.6 million tonnes.

Corporate and Group
Corporate and Group relates primarily to transport and logistics, export trading and BHP Steel corporate activities.

Geographical segments

The consolidated entity operates in four main geographical areas being Australia, New Zealand, Asia and North America.

Intersegment sales and accounting policies

Intersegment sales are made on a commercial basis.

Segment accounting policies are the same as the consolidated entity's polices described in Note 1.

Primary reporting - business segments

2002	Hot Rolled Products $m	Coated Products Australia $m	Coated Products Asia $m	New Zealand Steel $m	Corporate and Group $m	Inter-segment eliminations / unallocated $m	Consolidated $m
Sales to external customers	-	1,937.0	372.6	16.4	132.5	-	2,458.5
Intersegment sales	-	28.7	42.5	-	68.2	(139.4)	-
Total sales revenue	-	1,965.7	415.1	16.4	200.7	(139.4)	2,458.5
Other revenue	-	1.3	6.5	-	0.8	21.6	30.2
Total segment revenue	-	1,967.0	421.6	16.4	201.5	(117.8)	2,488.7
Segment result	(10.8)	49.5	54.6	0.3	(74.6)	2.3	21.3
Unallocated revenue less unallocated expenses							(38.6)
Profit/(loss)from ordinary activities before income tax expense							(17.3)
Income tax credit/(expense)							21.1
Net profit							3.8
Segment assets (1)	157.5	1,132.1	512.2	17.0	39.8	1,882.6	3,741.2
Segment liabilities (1)	3.5	448.6	82.1	13.3	77.3	2,344.7	2,969.5
Investments in associates	146.3	-	-	-	-	-	146.3
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	-	55.2	118.3	-	8.6	-	182.1
Depreciation and amortisation expense	-	58.2	17.8	-	1.2	-	77.2
Other non-cash expenses	10.2	0.7	1.3	-	0.7	-	12.9

(1) Related party loans receivable and payable and external borrowings are classified as unallocated.

Secondary reporting - geographical segments

Geographical Classification	Segment external sales revenues by location of customer **2002** **$m**	Segment assets **2002** **$m**	Acquisition of property, plant & equipment, intangibles and other non-current segment assets **2002** **$m**
Australia	**1,752.0**	**2,715.8**	**62.3**
New Zealand	**2.6**	**-**	**-**
Asia	**430.3**	**766.5**	**118.4**
North America	**-**	**174.4**	**0.2**
Other	**273.6**	**84.5**	**1.2**
	2,458.5	**3,741.2**	**182.1**

Note 3. Revenue

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Revenue from operating activities			
Sale of goods	**2,425.3**	**2,001.5**	2,127.0
Rendering of services	**33.2**	**-**	-
	2,458.5	**2,001.5**	2,127.0
Revenue from outside the operating activities			
Management fees received from related parties	**14.4**	**14.4**	-
Interest from related parties	**6.6**	**0.3**	0.2
Other interest income	**1.7**	**-**	1.4
Dividends from related parties	**-**	**5.1**	17.6
Other revenue	**5.2**	**3.5**	2.9
Gross proceeds from the sale of assets	**2.3**	**0.2**	4.5
	30.2	**23.5**	26.6
Revenue from ordinary activities	**2,488.7**	**2,025.0**	2,153.6

Note 4. Profit from ordinary activities

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
(a) Net gains and expenses			
Profit from ordinary activities before income tax expense includes the following specific net gains and expenses:			
Net Gains			
Net gain on disposal			
Property, plant and equipment	**0.1**	**0.1**	0.9
Foreign exchange gains and (losses)	**(1.4)**	**(0.1)**	(10.3)
Expenses			
Cost of goods sold	**2,229.8**	**1,807.2**	1,810.0
Depreciation			
Buildings	**6.0**	**3.6**	4.4
Plant and equipment	**71.2**	**54.7**	54.5
Total depreciation	**77.2**	**58.3**	58.9
Amortisation			
Patents	**-**	**-**	0.1
Total amortisation	**-**	**-**	0.1
Total depreciation and amortisation	**77.2**	**58.3**	59.0
Other charges against assets			
Write down/ (writeback) of inventories to NRV	**(1.5)**	**(1.5)**	2.0
Write down of investments to recoverable amount	**0.4**	**-**	-
Write down of other assets to recoverable amount	**10.2**	**10.2**	-
Bad and doubtful debts - trade debtors	**3.8**	**2.2**	1.3
Borrowing costs			
Related parties (note37)	**40.8**	**40.2**	63.1
Other parties	**5.3**	**-**	-
Total borrowing costs	**46.1**	**40.2**	63.1
Amount capitalised	**-**	**-**	(0.1)
Borrowing costs expensed	**46.1**	**40.2**	63.0
Research and development	**15.6**	**15.1**	5.4
Other Provisions			
Employee entitlements	**80.1**	**76.2**	39.5
Restructuring	**1.4**	**1.4**	1.7
Total other provisions	**81.5**	**77.6**	41.2
Rental expense relating to operating leases	**13.6**	**11.2**	11.1

Note 5. Income tax

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
(a) The income tax expenses for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:			
Profit/(loss) from ordinary activities before income tax expense	**(17.3)**	**(28.4)**	71.4
Income tax calculated @ 30% (2001 - 34%)	**(5.2)**	**(8.5)**	24.2
Tax effect of permanent differences			
Non-deductible depreciation and amortisation	**0.9**	**0.6**	0.8
Research and development incentive	**(1.0)**	**(1.0)**	(0.5)
Investment and development allowance	**(0.2)**	**(0.2)**	-
Rebateable dividends	**-**	**(1.5)**	(6.0)
Non taxable gains	**(1.4)**	**-**	-
Exempt income	**(8.0)**	**-**	-
Non-deductible entertainment	**0.3**	**0.3**	0.2
Non taxable capital gains	**-**	**-**	(1.4)
Other variations	**(0.8)**	**2.1**	3.0
Income tax adjusted for permanent differences	**(15.4)**	**(8.2)**	20.3
Effect of lower rates of tax on overseas income	**(0.5)**	**-**	-
Under (over) provision in prior year	**(5.2)**	**(3.4)**	1.7
Income tax expense	**(21.1)**	**(11.6)**	22.0

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
(b) The directors estimate that the potential future income tax benefit at 30 June 2002 in respect of tax losses not brought to account is	93.4	-	-

This benefit for tax losses will only be obtained if:

(i) the entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
(ii) the losses are transferred to an eligible entity in the consolidated entity, and
(iii) the entity continues to comply with the conditions for deductibility imposed by tax legislation, and
(iv) no changes in tax legislation adversely affect the entity in realising the benefit from the deductions for the losses.

Future income tax benefits attributable to tax losses recognised as a reduction of the provision for deferred income tax are disclosed in note 24.

Note 6. Current assets - Cash assets

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Cash at bank and on hand	**81.1**	**0.1**	1.3
Short term deposits	**17.6**	**-**	-
	98.7	**0.1**	1.3

The above figures reconcile to cash at the end of the financial year as shown in the statements of cash flows.

Note 7. Current assets - Receivables

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Trade debtors	**241.4**	**139.3**	151.2
Less: Provision for doubtful debts	**15.7**	**5.1**	5.4
	225.7	**134.2**	145.8
Trade debtors other related parties (note37)	**1.7**	**9.9**	38.8
Other debtors	**32.7**	**21.2**	23.8
Loans to related parties (note37)	**1,837.8**	**1,869.3**	238.5
	2,097.9	**2,034.6**	446.9

Sale of receivables program

The value of trade receivables for both the parent and consolidated entity at 30 June 2002 would have been $82.5 million higher (2001 $73.3 million higher) but for the sale of such receivables. Collections of $57.7 million (2001 $83.1 million) were held on behalf of the purchasers of the receivables at 30 June 2002, and have been classified as sundry creditors. A balance of $12.7 million (2001 $14.1 million) is held in other debtors in relation to the sale of receivables program, representing retentions on the amount sold.

Note 8. Current assets - Inventories

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Raw materials and stores			
At cost	**53.5**	**33.9**	65.4
	53.5	**33.9**	65.4
Work in progress			
At cost	**82.2**	**85.9**	70.9
At net realisable value	**5.9**	**5.7**	1.4
	88.1	**91.6**	72.3
Finished goods			
At cost	**99.7**	**57.3**	57.1
At net realisable value	**8.5**	**8.4**	12.3
	108.2	**65.7**	69.4
Spares and other			
At cost	**8.0**	**5.1**	5.3
	8.0	**5.1**	5.3
Total current assets - inventories			
At cost	**243.4**	**182.2**	198.7
At net realisable value	**14.4**	**14.1**	13.7
	257.8	**196.3**	212.4

Note 9. Current assets - Other financial assets

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Investments - cost			
Term deposits	**2.2**	**-**	-

Note 10. Current assets - Other

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Deferred charges and prepayments	**9.4**	**0.9**	4.9

Note 11. Non-current assets - Receivables

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Related party trade debtors (note37)	**-**	**8.4**	8.4
Other receivables	**10.8**	**10.3**	22.4
	10.8	**18.7**	30.8

Note 12. Non-current assets - Inventories

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Raw materials and stores			
At cost	**0.8**	**0.8**	0.6
	0.8	**0.8**	0.6
Spares and other			
At cost	**22.6**	**22.6**	21.3
	22.6	**22.6**	21.3
Total non-current inventories			
At cost	**23.4**	**23.4**	21.9
	23.4	**23.4**	21.9

Note 13. Non-current assets - Investments accounted for using the equity method

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Loan to joint venture partnership	**60.0**	**-**	-
Equity accounted joint venture partnership (note 39)	**86.3**	**-**	-
Total equity accounted investment	**146.3**	**-**	-

Investments in joint venture partnerships are accounted for in the consolidated financial statements using the equity method of accounting.

Reconciliations
Reconciliations of the movement in the carrying amounts of the interest in a joint venture partnership is set out in note 39.

Note 14. Non-current assets - Other financial assets

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Non-traded investments			
Shares in controlled entities - at cost (note 38)	**-**	**410.1**	304.2
Shares in other corporations - at cost	**0.2**	**-**	-
Total non-traded shares - at cost	**0.2**	**410.1**	304.2
Partnerships	**10.6**	**-**	-
Less: Provision for write down to recoverable amount	**10.6**	**-**	-
Investment - at recoverable amount	**-**	**-**	-
	0.2	**410.1**	304.2

Note 15. Non-current assets - Property, plant & equipment

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Land & buildings (a)			
Land & buildings			
At cost	**305.9**	**148.2**	150.2
Less: Accumulated depreciation	**99.9**	**71.8**	70.3
Total land and buildings	**206.0**	**76.4**	79.9
Plant, machinery and equipment (b)			
Plant, machinery and equipment			
At cost	**1,798.2**	**1,437.6**	1,380.5
Less: Accumulated depreciation	**939.1**	**792.7**	741.8
Total plant, machinery and equipment	**859.1**	**644.9**	638.7
Total property, plant and equipment	**1,065.1**	**721.3**	718.6

Note 15. Non-current assets - Property, plant & equipment (continued)

Reconciliations
Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current year are set out below:

	Consolidated 2002 $m	Parent entity 2002 $m
(a) **Land and buildings**		
Opening carrying value	**186.6**	**79.9**
Additions	**0.1**	**0.2**
Acquisitions through acquisition of entities	**33.3**	**-**
Depreciation	**(6.0)**	**(3.6)**
Disposals	**(0.2)**	**-**
Class reclassification	**0.2**	**(0.1)**
Exchange variations	**(8.0)**	**-**
Closing carrying value	**206.0**	**76.4**
(b) **Plant, machinery and equipment**		
Opening carrying value	**797.5**	**638.7**
Additions	**77.4**	**60.9**
Acquisitions through acquisition of entities	**70.7**	**-**
Depreciation	**(71.2)**	**(54.7)**
Disposals	**(1.9)**	**(0.1)**
Class reclassification	**(0.2)**	**0.1**
Exchange variations	**(13.2)**	**-**
Closing carrying value	**859.1**	**644.9**
Valuation of land and buildings		
Land	**96.0**	**41.3**
Buildings	**221.0**	**126.9**
	317.0	**168.2**

The Group's land and buildings have been valued in accordance with the accounting policy described in note 1(m).

Note 16. Non-current assets - Deferred tax assets

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Future income tax benefit	**19.2**	**-**	2.2

The consolidated future income tax benefit includes an amount for current year income tax losses of $4.2 million.

Note 17. Non-current assets - Intangible assets

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Goodwill at cost (note 38)	**0.7**	**-**	-
Less: Goodwill at cost - accumulated amortisation	**-**	**-**	-
	0.7	**-**	-
Patents - at cost	**12.1**	**0.2**	0.2
Less: Accumulated amortisation	**12.1**	**0.2**	0.2
	-	**-**	-
	0.7	**-**	-

Note 18. Non-current assets - Other

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Deferred charges and prepayments	**9.5**	**2.2**	0.6

Note 19. Current liabilities - Payables

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Trade creditors	**110.3**	**73.3**	83.6
Related party trade creditors (note 37)	**120.7**	**66.6**	90.3
Other creditors	**120.2**	**97.9**	95.3
	351.2	**237.8**	269.2

Note 20. Current liabilities - Interest bearing liabilities

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Unsecured			
Bank loans (note 31(b))	**71.2**	**-**	-
Loans from related parties (note 37)	**2,208.4**	**2,348.6**	657.4
	2,279.6	**2,348.6**	657.4

Note 21. Current liabilities - Current tax liabilities

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Income tax	**2.8**	**-**	17.3

Note 22. Current liabilities - Provisions

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Employee benefits	**58.8**	**53.6**	41.6
Restructuring	**2.3**	**2.3**	6.4
Deferred income	**3.9**	**-**	-
Other	**23.3**	**20.3**	28.3
	88.3	**76.2**	76.3

Note 23. Non-current liabilities - Interest bearing liabilities

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Unsecured			
Bank loans (note31(b))	**56.2**	**-**	-
Other loans (note 31(b))	**38.3**	**-**	-
Total unsecured non-current interest bearing liabilities	**94.5**	**-**	-
Total non-current interest bearing liabilities	**94.5**	**-**	-

Note 23. Non-current liabilities - Interest bearing liabilities (continued)

Financing arrangements

	Consolidated **2002** **$m**	Parent entity **2002** **$m**	Parent entity 2001 $m
Unrestricted access was available at balance date to the following lines of credit:			
Credit standby arrangements			
Total facilities			
Bank overdrafts	**5.2**	**-**	-
Bank loan facilities	**190.5**	**-**	-
Total	**195.7**	**-**	-
Used at balance date			
Bank overdrafts	**-**	**-**	-
Bank loan facilities	**127.4**	**-**	-
Total	**127.4**	**-**	-
Unused at balance date			
Bank overdrafts	**5.2**	**-**	-
Bank loan facilities	**63.1**	**-**	-
Total	**68.3**	**-**	-

Bank loan facilities

Bank loan facilities are arranged for several non-Australian businesses and are with a number of banks. Terms and conditions are agreed to on a periodic basis appropriate to the needs of the relevant businesses.

Subsequent to 30 June 2002, the BHP Steel group established the following additional bank loan facilities:-

(a) a $550 million Loan Note Facility with a syndicate of banks. The facility comprises a 3 year tranche of $300 million and a 5 year tranche of $250 million maturing respectively in June 2005 and in June 2007.

(b) $100 million of 364 day facilities in July 2002 to support working capital and other short term cash requirements. These comprise a $40 million facility and two $30 million facilities, maturing in June and July 2003.

Bank overdraft
Bank overdraft facilities are arranged with a number of banks with the general terms and conditions agreed to on a periodic basis.

Note 24. Non-current liabilities - Deferred tax liabilities

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Provision for deferred income tax	**103.5**	**92.6**	108.2

The consolidated and parent entity provision for deferred income tax has been reduced by $6.5 million in respect of future income tax benefits attributable to current year tax losses (see also note 5).

Note 25. Non-current liabilities - Provisions

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Employee benefits	**49.6**	**46.5**	42.2

Note 26. Contributed equity

	Parent entity		Parent entity	
	2002	2001	**2002**	2001
	Shares	Shares	**$m**	$m
Issued and fully paid up capital	**100,000,000**	50,000,000	**164.0**	114.0
Issued and partly paid up capital	**-**	50,000,000	**-**	0.5
	100,000,000	100,000,000	**164.0**	114.5

(a) Movements in ordinary share capital

Date	Details	Notes	Number of shares	Issue price	$m
30-6-2001	Balance		100,000,000		114.5
28-3-2002	Conversion of 50 million partly paid shares at 1 cent to fully paid shares of $1		-	$0.99	49.5
30-6-2002	Balance		100,000,000		164.0

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

At 30 June 2001 there were 50,000,000 ordinary $1 shares paid to 1 cent. The outstanding amount of $49.5 million was received from the parent entity, BHP Billiton Limited, on 28 March 2002.

Note 27. Reserves and retained profits

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
(a) Reserves			
Asset revaluation reserve	**117.6**	**117.4**	117.4
Foreign currency translation reserve	**(13.3)**	**-**	-
General reserve	**78.6**	**78.6**	78.6
Asset realisation reserve	**-**	**-**	5.3
	182.9	**196.0**	201.3
Movements:			
Foreign currency translation reserve			
Balance 1 July 2001	**17.1**	**-**	-
Net exchange differences on translation of foreign controlled entities	**(30.4)**	**-**	-
Balance 30 June 2002	**(13.3)**	**-**	-
Asset realisation reserve			
Balance 1 July 2001	**5.9**	**5.3**	5.3
Transfer to retained profits	**(5.9)**	**(5.3)**	-
Balance 30 June 2002	**-**	**-**	5.3

	Notes	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
(b) Retained profits				
Retained profits at the beginning of the financial year		**392.1**	**257.4**	320.7
Net profit/(loss) attributable to members of BHP Steel Limited		**(10.3)**	**(16.8)**	49.4
Dividends provided for or paid	30	**-**	**-**	(112.3)
Aggregate of amounts transferred from/(to) reserves		**5.9**	**5.3**	(0.4)
		387.7	**245.9**	257.4

Note 28. Outside equity interests in controlled entities

	Consolidated 2002 $m
Interest in:	
Share capital	**67.5**
Reserves	**(13.3)**
Retained profits	**(17.1)**
	37.1

Note 29. Equity

	Notes	Consolidated **2002** **$m**	Parent entity **2002** **$m**	Parent entity 2001 $m
Total equity at the beginning of the financial year		**814.9**	**573.2**	636.1
Total changes in equity recognised in the statement of financial performance		**(40.7)**	**(16.8)**	49.4
Transactions with owners as owners:				
Contributions of equity	26	**-**	**49.5**	-
Dividends provided for or paid	30	**-**	**-**	(112.3)
Total changes in outside equity interest	28	**(2.5)**	**-**	-
Total equity at the end of the financial year		**771.7**	**605.9**	573.2

Note 30. Dividends

	Consolidated **2002** **$m**	Parent entity **2002** **$m**	Parent entity 2001 $m
Total dividends provided for or paid	**-**	**-**	112.3

As at 30 June 2002, the franking account balance for the company is zero.

Note 31. Financial instruments

Up until 30 June 2002, the BHP Steel group operated within the risk management framework of the BHP Billiton group, which has Board approved risk management policies for managing the market risks associated with its business activities and with its financial instruments. Following the demerger of the steel business in July 2002, the BHP Steel group has implemented its own risk management framework, which governs management of financial risks and the use of financial instruments.

The BHP Steel group's financial risks are categorised under the following headings:

- Liquidity and Credit risk; and
- Price risk.

The nature of these risks, the policies the BHP Steel group has for controlling them and any concentrations of exposure are discussed under each risk category.

The BHP Steel group's accounting policies for financial instruments are set out in Note 1 (o).

Note 31. Financial instruments (continued)

Liquidity and Credit Risk

Historically, BHP Steel has met its working capital needs and capital expenditure requirements primarily through a combination of operating cash flows, external borrowings and intercompany indebtedness to BHP Billiton. Following the demerger of the steel business, the BHP Steel group will satisfy its ongoing capital expenditure requirements and meet its working capital needs through cash generated from operations, together with cash on hand and borrowings made available under existing and new financing facilities.

Credit risk in relation to business trading activities arises from the possibility that counterparties may not be able to settle obligations to the BHP Steel group within the normal terms of trade. To manage this risk, the BHP Steel group periodically assesses the financial viability of its counterparties.

Credit risk represents the risk of counterparties defaulting on their contractual obligations and is managed by the application of credit approvals, limits and monitoring procedures.

The extent of the BHP Steel group's combined trade and derivative credit risk exposure is represented by the aggregate of amounts receivable, reduced by the effects of any netting arrangements with financial institution counterparties.

These risks are categorised under the following headings:

Counterparties
The BHP Steel group conducts transactions with the following major types of counterparties.

- Receivables counterparties

Sales to BHP Steel group customers are made either on open terms or subject to independent payment guarantees. The BHP Steel group has a significant concentration of credit risk with three major customers, being Smorgon Steel Ltd group, Onesteel Ltd and the Amatek group. These entities are all major customers of the BHP Steel group in Australia and credit risk with these businesses is managed on an active and on-going basis, using both quantitative and qualitative evaluation.

- Payment guarantee counterparties

These counterparties are comprised of prime financial institutions. Under payment guarantee arrangements, the BHP Steel group has no significant concentration of credit risk with any single counterparty or group of counterparties.

- Financial derivative counterparties

Counterparties to derivatives consist of a number of prime financial institutions in the relevant markets. The BHP Steel group has no significant concentration of credit risk with any single counterparty or group of counterparties.

The BHP Steel group generally does not require collateral in relation to the settlement of financial instruments.

Geographic
The BHP Steel group trades in several major geographic regions and where appropriate export finance insurance and other risk mitigation facilities are utilised to ensure settlement. Regions in which the BHP Steel group has a significant credit exposure are Australia, the US, and others including China, South-East Asia and New Zealand.

Terms of trade are continually monitored by the BHP Steel group.

Selective receivables are covered for both commercial and sovereign risks by payment guarantee arrangements with various banks and the Australian Export Finance and Insurance Corporation.

Note 31. Financial instruments (continued)

Industry
The BHP Steel group trades in the building and construction, automotive and transport, manufacturing and packaging industries.

Price Risk

Portfolio approach
The BHP Steel group manages its exposure to price risk, including interest rates, exchange rates and commodity prices through a set of policies, procedures and limits approved by the Board. Up until the demerger, the policies of the BHP Billiton group were followed, but since then the BHP Steel group has implemented its own risk management framework governing price risk.

The BHP Steel group takes a portfolio approach to market price risk management. This allows the group to benefit from a level of diversification within the portfolio of cashflows and risks. Hedging of market price risks is not undertaken as a normal activity due to the inherent limitations in being able to reduce volatility in earnings and cashflow. The primary limitation is that the group's most significant market price risk is international steel prices, particularly Hot Rolled Coil and Slab. The current absence of a derivative market for steel prices means that any hedging program for other price risks would be largely ineffective in reducing cashflow at risk as the primary driver of cashflows would remain unhedged.

Interest Rate Risk
The BHP Steel group is exposed to interest rate risk on its outstanding interest bearing liabilities and investments. Interest rate risk is managed as part of the BHP Steel group price risk management strategy.

Foreign Exchange Risk - Interest Bearing Liabilities
In addition to transactional exposures related to sales and purchases, the BHP Steel group has interest bearing liabilities denominated in foreign currencies. The BHP Steel group has a partial natural hedge between net foreign assets and interest bearing liabilities in certain currencies.

Forward exchange contracts

The BHP Steel group is exposed to exchange rate transaction risk on foreign currency sales and purchases. The most significant exchange rate risk is the anticipated US dollar receipts of Australian-based entities. Foreign exchange risk is managed as part of the BHP Steel group price risk management strategy.

There were no outstanding forward exchange contracts at 30 June 2002.

(a) Credit risk exposures

Commodity price risk

The BHP Steel group is exposed to price risk on steel that it produces and on the commodities that it utilises in its production processes. Commodity price risk is managed as part of the BHP Steel group price risk management strategy.

There is no physical or derivative market for trading of steel that would provide an appropriate mechanism for undertaking hedging of steel prices.

There were no outstanding commodity hedge contracts as at 30 June 2002.

Note 31. Financial instruments (continued)

(b) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

2002	**Notes**	**Weighted average interest rate %**	**Floating interest rate $m**	**Fixed interest maturing in more than 5 years $m**	**Non interest bearing $m**	**Total $m**
Financial assets						
Cash and deposits	6	2.4	98.7	-	-	98.7
Investments - term deposits	9	3.6	2.2	-	-	2.2
Equity accounted investment	13	3.4	60.0	-	86.3	146.3
Related party receivables	7	3.4	1,837.8	-	1.7	1,839.5
External receivables	7,11		-	-	269.2	269.2
Other financial assets - investments	14		-	-	0.2	0.2
			1,998.7	-	357.4	2,356.1
Financial liabilities						
Trade and other creditors	19		-	-	351.2	351.2
Bank Loans	20,23	3.8	127.4	-	-	127.4
Other external loans	23	6.4	-	38.3	-	38.3
Related party loans	20	7.6	2,208.4	-	-	2,208.4
			2,335.8	38.3	351.2	2,725.3
Net financial assets (liabilities)			(337.1)	(38.3)	6.2	(369.2)

(c) Net fair value of financial assets and liabilities

(i) On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

For non-traded equity investments, the net fair value is an assessment by the directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

(ii) Off-balance sheet

The net fair value of financial assets or financial liabilities arising from interest rate swap agreements has been determined as the carrying amount, which represents the amount currently receivable or payable at the reporting date, and the present value of the estimated future cash flows which have not been recognised as an asset or liability.

Note 31. Financial instruments (continued)

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2002	
	Carrying amount $m	**Net fair value** $m
On-balance financial instruments		
Financial assets		
Cash	**81.1**	**81.1**
Deposits	**19.8**	**19.8**
Trade debtors	**227.4**	**227.4**
Other debtors	**43.5**	**43.5**
Loans to related parties	**1,837.8**	**1,837.8**
Equity accounted investment	**146.3**	**146.3**
Shares in other corporations	**0.2**	**0.2**
Non-traded financial assets	**2,356.1**	**2,356.1**
Financial liabilities		
Trade creditors	**231.0**	**231.0**
Other creditors	**120.2**	**120.2**
Bank loans	**127.4**	**127.4**
Other external loans	**38.3**	**43.3**
Related party loans	**2,208.4**	**2,208.4**
Non-traded financial liabilities	**2,725.3**	**2,730.3**

Note 31. Financial instruments (continued)

Fair Value of Financial Instruments

Financial instruments are held to maturity in the normal course of business and accordingly are recorded at cost or redemption amount as appropriate. The recorded amount is described below as the carrying amount, otherwise known as book value.

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties, other than in a forced or liquidation sale.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Current Receivables
The carrying amount approximates fair value because of the short period to maturity of these instruments.

Other Current Financial Assets
Except as otherwise indicated, the carrying amount approximates fair value because of the short period to maturity of these investments.

Non-Current Other Financial Assets
The financial assets have been recorded at cost and have not been written down as the carrying value is considered recoverable.

Non-Current Receivables
The fair values are estimated based on the present value of anticipated future receipts.

Short Term Interest Bearing Liabilities
The carrying amount approximates fair value because of the short period to maturity of these instruments.

Long Term Interest Bearing Liabilities
Long term interest bearing liabilities at floating interest rates represent the fair value. The fair value of the Group's long term fixed interest bearing liabilities has been calculated using discounted cash flow techniques with reference to market interest rates.

Fair Value of Derivatives
The fair value of derivatives is based upon market valuations.

Note 32. Remuneration of directors

	Directors of entities in the consolidated entity	Directors of parent entity	
	2002	**2002**	2001
	$'000	**$'000**	$'000
Income paid or payable, or otherwise made available, to directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity or its controlled entities			
Directors' remuneration (a),(b),(c)	**17,641**	**3,745**	4,528

(a) The BHP Billiton group granted various equity instruments to Executive Directors during the years ended 30 June 2002 and 30 June 2001 in accordance with its employee share ownership plan.

(b) For some Executive Directors, remuneration includes BHP Billiton group contributions to superannuation funds. Where Executive Directors have BHP Billiton group Employee Share Plan loans, an imputed interest component is included in remuneration.

(c) Remuneration for 2002 includes incentives payable to Executive Directors based on the achievement of business performance targets and individual performance for the year ended 30 June 2002. Remuneration for 2001 includes incentives paid to Executive Directors for the year ended 30 June 2001. Non-executive Directors are not entitled to any form of performance-related remuneration.

The number of directors of the parent entity whose total income (including superannuation contributions) from the parent entity or related parties was within the specified bands are as follows:

$		$	**2002**	2001
10,000	-	19,999	**4**	-
20,000	-	29,999	**1**	-
40,000	-	49,999	**1**	-
60,000	-	69,999	**-**	1
220,000	-	229,999	**1**	-
240,000	-	249,999	**-**	1
350,000	-	359,999	**1**	-
380,000	-	389,999	**1**	-
400,000	-	409,999	**1**	-
420,000	-	429,999	**2**	-
520,000	-	529,999	**1**	-
620,000	-	629,999	**-**	1
730,000	-	739,999	**-**	1
760,000	-	769,999	**-**	1
870,000	-	879,999	**1**	-
890,000	-	899,999	**-**	1
1,200,000	-	1,299,999	**-**	1

Note 33. Remuneration of auditors

	Consolidated	Parent entity	
	2002	**2002**	2001
	$'000	**$'000**	$'000
During the year, the auditor of the parent entity and its related practices earned the following remuneration:			
Ernst & Young - Australian firm (2001 Arthur Andersen)			
Audit or review of financial reports of the entity or any entity in the consolidated entity	**361**	**361**	315
Other services (Ernst & Young) (1)	**960**	**460**	-
Total audit and other services	**1,321**	**821**	315
Related practices of Ernst & Young Australian firm (including overseas Ernst & Young firms)			
Audit or review of financial reports of the entity or any entity in the consolidated entity	**304**	**-**	-
Other services	**1**	**-**	-
Total audit and other services	**305**	**-**	-
Remuneration of auditors other than Ernst & Young of controlled entities for the audit or review of financial reports of any entity in the consolidated entity	**155**	**-**	-

The firms of Ernst & Young and Arthur Andersen integrated in Australia effective 27 May 2002. Prior to this date, Arthur Andersen were the auditors of the BHP Steel group.

(1) The $960,000 for other services relates to services provided by Ernst & Young prior to the integration with Arthur Andersen on 27 May 2002 and prior to Ernst & Young's appointment as auditor .

Note 34. Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Other persons:			
Unsecured	**1.6**	**0.6**	1.6

The above contingent liabilities relate to outstanding legal matters.

For contingent liabilities relating to joint ventures refer to note 39.

Note 35. Commitments for expenditure

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Capital commitments			
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:			
Within one year	**15.0**	**15.0**	2.8
	15.0	**15.0**	2.8
Operating lease commitments			
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:			
Within one year	**9.9**	**5.5**	4.6
Later than one year but not later than 5 years	**17.8**	**8.6**	2.8
Later than 5 years	**8.6**	**2.2**	4.7
	36.3	**16.3**	12.1
Other commitments			
Commitments for the cost of various goods and services supplied to the company but not recognised as liabilities, payable:			
Within one year	**2.4**	**2.4**	2.4
Later than one year but not later than 5 years	**8.4**	**8.4**	9.6
Later than 5 years	**-**	**-**	1.2
	10.8	**10.8**	13.2

For contingent liabilities relating to joint ventures refer to note 39.

Note 36. Employee entitlements

	Consolidated 2002 $m	Parent entity 2002 $m	Parent entity 2001 $m
Employee entitlement liabilities			
Provision for employee entitlements			
Current (note 22)	**58.8**	**53.6**	41.6
Non-current (note 25)	**49.6**	**46.5**	42.2
Aggregate employee entitlement liability	**108.4**	**100.1**	83.8

	Consolidated Number	Parent entity Number	
Employee numbers			
Average number of employees during the financial year	**6,045**	**3,983**	3,673

Superannuation commitments

BHP Steel contributes to a number of superannuation funds which exist to provide benefits to employees and their dependants on retirement, disability or death. The funds include a BHP Billiton group sponsored fund and statutory retirement funds and are either defined benefit or defined contribution arrangements. The BHP Billiton group and employee members make contributions as specified in the rules of the fund.

For details relating to the BHP Billiton Superannuation Funds refer to the BHP Billiton 30 June 2002 Annual Report.

The total amount of the BHP Steel group contributions to all funds was $24.7 million.

Subsequent to the end of the financial year, BHP Steel separated from the BHP Billiton Group superannuation funds and established its own funds on the same terms and conditions as existed under the BHP Billiton Group.

Note 37. Related parties

Directors
The names of persons who were appointed directors of BHP Steel Limited on 10 May 2002 are as follows:

G J Kraehe
R J McNeilly
K C Adams
J Crabb
D J Grady
H K McCann
P J Rizzo

The names of persons who resigned their directorship in BHP Steel Limited during the year is as follows:-

J W Cleary
M Courtnall
G Warner
C Weatherstone
W R Saxelby
W G Johnston
B G Kruger

Remuneration and retirement benefits
Information on remuneration and retirement benefits of directors is disclosed in notes 32 respectively.

Other transactions with directors and director-related entities
Mr Kevin McCann, a non-executive director, is a partner of Allens Arthur Robinson, a national law firm. Allens Arthur Robinsons is one of a number of legal firms that provide legal services to the company on normal commercial terms and conditions. There have been no transactions with the group from the period of Mr McCann's appointment as a non-executive director on 10 May 2002 to 30 June 2002.

Related parties
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with each class of related party:

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Interest revenue			
Commonly controlled entities	**6.6**	**0.3**	0.2
Dividend revenue			
Controlled entities	**-**	**5.1**	17.6
Management fee revenue			
Commonly controlled entities	**14.4**	**14.4**	-
Interest expense			
Commonly controlled entities	**40.8**	**40.2**	63.1
Management fees expense			
Commonly controlled entities	**12.9**	**12.3**	9.5

Note 37. Related parties (continued)

Aggregate amounts brought to account in relation to other transactions with each class of other related parties:

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Net loan repayments from			
Commonly controlled entities	**166.0**	**59.4**	114.1
Purchase of hot rolled coil and steel slab from BHP Steel (AIS) Pty Ltd	**823.2**	**805.9**	803.0
Sale of steel product to BHP Steel AIS (Pty Ltd)	**30.1**	**21.7**	33.4
Purchase of controlled entity investments from BHP Billiton Limited Group (refer note 38)	**-**	**105.9**	-
Final call on partly paid ordinary shares paid by parent entity (refer note26)	**49.5**	**49.5**	-

All related party transactions are made under normal commercial terms and conditions.

Aggregate amounts receivable from, and payable to, each class of other related parties at balance date:

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Current receivables			
Controlled entities	**-**	**58.8**	18.4
Commonly controlled entities	**1,839.5**	**1,820.6**	258.9
Non-current receivables			
Controlled entities	**-**	**8.4**	8.4
Current liabilities			
Controlled entities	**-**	**2,292.0**	8.7
Commonly controlled entities	**2,329.1**	**123.2**	739.0

Ultimate parent entity
The ultimate parent entity is BHP Billiton Limited which at 30 June 2002 owned 100% (2001 - 100%) of the issued ordinary shares of BHP Steel Limited.

Ownership interests in related parties
Interests held in the following classes of related parties are set out in the following notes:
(a) controlled entities - note 38
(b) joint venture partnership - note 39.

Note 38. Investments in controlled entities

Name of entity	Country of incorporation	Equity holding 2002 %
BHP Steel Finance Ltd	Australia	100
BHP Steel Logistics Co Pty Ltd	Australia	100
Amari Wolff Steel Pty Ltd	Australia	100
New Zealand Steel (Aust) Pty Ltd	Australia	100
Australian Iron & Steel Pty Ltd	Australia	100
John Lysaght (Australia) Pty Ltd	Australia	100
BHP Steel Middle East Investments Pty Ltd	Australia	100
BHP Steel Lysaght Sdn Bhd	Brunei	60
Endeavour Industries Ltd	British Virgin Islands	100
BHP Steel Building Products (Guangzhou) Ltd*	China	100
BHP Steel Building Products (Shanghai) Ltd*	China	100
BHP International Trading (Shanghai) Co Ltd*	China	100
BHP Steel Building Products South Pacific	Fiji	64
BHP Steel Building Products (Hong Kong)*	Hong Kong	100
BHP Lysaght (Hong Kong) Ltd*	Hong Kong	100
BHP Steel N Asia Ltd*	Hong Kong	100
BHP Steel India Private Ltd	India	100
PT BHP Steel Indonesia	Indonesia	74
PT BHP Steel Lysaght Indonesia	Indonesia	100
PT BRC Lysaght Distribution	Indonesia	80
BHP Information Technology (Malaysia) Sdn Bhd	Malaysia	100
BHP Engineering (Malaysia) Sdn Bhd	Malaysia	100
BHP Steel (Malaysia) Sdn Bhd	Malaysia	60
BHP Steel Lysaght (Malaysia) Sdn Bhd	Malaysia	60
BHP Steel Lysaght (Sabah) Sdn Bhd (a)	Malaysia	49
BHP Asia Sdn Bhd	Malaysia	100
BHP Steel Lysaght New Caledonia SA	New Caledonia	65
BHP Steel International Holdings SA	Panama	100
BHP Steel Building Products PNG Ltd	PNG	100
BHP Lysaght Rabaul Ltd	PNG	100
BHP Titan Ltd	PNG	100
BHP Steel Lysaght Singapore Pte Ltd	Singapore	100
BHP Steel Asia Pte Ltd	Singapore	100
Steelcap Insurance Pte Ltd	Singapore	100
BHP Steel Southern Africa Pty Ltd	South Africa	100
BHP Steel Building Products Lanka (Pvt) Ltd	Sri Lanka	82
BHP Steel Building Products Taiwan	Taiwan	80
BHP Steel (Thailand) Ltd*	Thailand	75
Steel Holdings Co Ltd*	Thailand	100
BHP Steel Lysaght (Thailand) Ltd*	Thailand	75
BHP Steel Europe Middle East Ltd*	UK	100
BIEC International Inc	USA	100
BHP Steel Technology lnc	USA	100
BHP Steel Americas LLC	USA	100
BHP Steel Investments lnc	USA	100
BHP Steel Building Products (Vanuatu) Ltd (b)	Vanuatu	39
BHP Steel Lysaght Vietnam	Vietnam	100

Note 38. Investments in controlled entities (continued)

* These controlled entities are audited by firms other than Ernst & Young.

(a) The BHP Steel group holds an ownership interest of 49% in BHP Steel Building Products (Sabah) Sdn Bhd, which is classified as a controlled entity pursuant to Australian Accounting Standard AASB 1024: Consolidated Accounts because the BHP Steel group can exercise voting control.

(b) Ownership interest decreased from 54% in 2000. The BHP Steel group's ownership of the ordinary share capital in this entity represents a beneficial interest of 39% represented by its 65% ownership in BHP Steel Building Products New Caledonia SA, which in turn has 60% ownership of this entity.

In July 2002, the BHP Steel group was demerged from the BHP Billiton group. In preparing for this demerger a number of steel legal entities which were owned by BHP Billiton group companies were acquired by the BHP Steel group. The operating results of these newly acquired controlled entities have been included in the consolidated statement of financial performance since the respective acquisition dates.

Legal entities acquired during the year and their date of acquisition were BHP Steel Logistics Co Pty Ltd (30-Dec-01), John Lysaght Australia Pty Ltd (30-Oct-01), New Zealand Steel (Aust) Pty Ltd (20-Mar-02), Amari Wolff Pty Ltd (20-Mar-02), BHP Steel Building Products (Guangzhou) Ltd (15-Feb-02), PT BHP Steel Indonesia (22-Apr-02), BHP Information Technology (Malaysia) Sdn Bhd (28-Jun-02), BHP Engineering (Malaysia) Sdn Bhd (04-Jun-02), BHP Steel Building Products (Shanghai) Ltd (15-Feb-02), BHP Steel Building Products (Vietnam) (24-Apr-02), BHP Asia Sdn Bhd (26-Apr-02), BIEC International Inc (30-Jun-02), BHP Steel Investments Inc (30-Jun-02), BHP Steel Technology Inc (30-Jun-02) and BHP Steel Americas Inc (30-Jun-02). Entities incorporated during the year included BHP Steel Finance Ltd and Steelcap Insurance Pte Ltd. Details of the entities acquired are as follows:-

	$m
Fair value of identifiable net assets of the controlled entities acquired	
Plant and equipment	**104.0**
Receivables	**25.6**
Inventories	**28.5**
Cash	**38.9**
Investments	**146.3**
Other assets	**5.2**
Payables	**(139.8)**
Tax provision liability	**(2.2)**
Other provisions	**(10.7)**
Borrowings	**(82.1)**
	113.7
Less: Outside equity interests	**8.5**
	105.2
Goodwill on consolidation	**0.7**
Cash consideration	**105.9**

	Consolidated **2002** **$m**	Parent entity **2002** **$m**
Outflow of cash to acquire controlled entity, net of cash acquired		
Cash consideration	**105.9**	**105.9**
Less: Balances acquired		
Cash	**38.9**	**-**
Outflow of cash	**67.0**	**105.9**

Note 39. Interests in joint ventures

Joint venture partnership
The parent entity has a 50% interest in North Star BHP Steel, the principal activity of which is the manufacturing of steel. The 50% interest was legally acquired from the BHP Billiton group on 30 June 2002 through the acquisition of BHP Steel Investments Inc. in preparation for the demerging of the BHP Steel group from the BHP Billiton group in July 2002. Information relating to the joint venture partnership, presented in accordance with the accounting policy described in note 1(p), is set out below.

	Consolidated **2002** **$m**
Movement in carrying amount of investment in partnership	
Acquisition of partnership interest	**86.3**
Carrying amount at the end of the financial year	**86.3**
Share of partnership's assets and liabilities	
Current assets	**112.5**
Non-current assets	**308.2**
Total assets	**420.7**
Current liabilities	**158.9**
Non-current liabilities	**175.5**
Total liabilities	**334.4**
Net assets	**86.3**
Share of partnership's commitments	
Other commitments - commitments under long term utility supply contracts.	**19.1**

North Star has negotiated long-term agreements with independent third parties for the purchase of various utilities. Under these contracts, North Star is obligated for monthly purchase commitments of USD 0.4 million expiring in December 2006.

Contingent liabilities
North Star BHP Steel has various borrowings denominated in US dollars with the major facilities being fully amortising term loans. Of these loans, 50% are held by the ANZ Banking group ("ANZ"). ANZ can put these loans back to BHP Steel in the event of default by North Star BHP Steel. BHP Steel have also guaranteed a US $12.5 million working capital facility held by North Star BHP Steel. At 30 June 2002, BHP Steel's share of the North Star BHP Steel borrowings, at the Australian dollar/US dollar exchange rate of 0.5664, amounted to $184.2 million.

Note 40. Economic dependency

BHP Steel (JLA) Pty. Ltd. is a downstream processor of hot rolled coil and slab supplied primarily by BHP Steel (AIS) Pty. Ltd. (Port Kembla Steelworks).

Note 41. Events occurring after reporting date

Since 30 June 2002, as part of the demerger of BHP Steel from the BHP Billiton Group, the following significant events have occurred:
(a)BHP Steel acquired all the issued capital of BHP Steel (AIS) Pty Ltd from BHP Billiton Limited on 3 July 2002. BHP Steel (AIS) Pty Ltd is a fully integrated manufacturer of flat steel products for distribution to Australian customers, including BHP Steel Limited, and export customers throughout the world. In addition, a wholly owned subsidiary of BHP Steel (AIS) Pty Ltd manufacture flat and coated steel products in New Zealand.
(b)BHP Steel Limited drew down $565 million of external debt to partially repay related party debt owing to the BHP Billiton group on 1 July 2002.
(c)BHP Steel Limited legally separated from the BHP Billiton group on 22 July 2002, having listed on the Australian stock Exchange on 15 July 2002. Related party debt owing to the BHP Billiton group for $1,975 million was converted to share capital.

Note 42. Reconciliation of profit/(loss) from ordinary activities after income tax to net cash inflow from operating activities

	Consolidated	Parent entity	
	2002	**2002**	2001
	$m	**$m**	$m
Profit from ordinary activities after income tax	**3.8**	**(16.8)**	49.4
Depreciation and amortisation	**77.2**	**58.3**	59.0
Write down of other assets to recoverable amount	**10.2**	**10.2**	-
Write down of investments to recoverable amount	**0.4**	**-**	-
Net (gain) loss on sale of non-current assets	**(0.1)**	**(0.1)**	(4.4)
Change in operating assets and liabilities			
Decrease (increase) in trade debtors	**37.0**	**16.5**	22.6
Decrease (increase) in inventories	**60.2**	**14.7**	28.2
Decrease (increase) in sundry receivables	**2.1**	**1.6**	(5.8)
Decrease (increase) in other operating assets	**(3.5)**	**2.2**	(2.7)
(Decrease) Increase in trade creditors	**(56.1)**	**(33.4)**	(11.0)
(Decrease) Increase in sundry creditors	**(1.7)**	**5.1**	(77.6)
(Decrease) increase in interest payable	**11.0**	**-**	-
(Decrease) Increase in provision for income taxes payable	**(24.7)**	**(18.2)**	(30.5)
(Decrease) increase in deferred taxes	**(20.7)**	**(9.8)**	12.7
(Decrease) increase in other provisions and liabilities	**28.7**	**24.8**	4.1
Other variations	**11.0**	**2.1**	5.5
Net cash inflow from operating activities	**134.8**	**57.2**	49.5

Note 43. Earnings per share

	Consolidated **2002** **Cents**
Basic earnings per share	**(16.3)**

	Consolidated **2002** **Number**
Weighted average number of shares used as the denominator	
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**63,247,945**

	Consolidated **2002** **$m**
Reconciliations of earnings used in calculating earnings per share	
Basic and alternative basic earnings per share	
Net profit	**3.8**
Net profit attributable to outside equity interest	**(14.1)**
Earnings used in calculating basic earnings per share	**149.7**

BHP Steel Limited
Directors' declaration
30 June 2002

The directors declare that the financial statements and notes set out on pages 26 to 67:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

G J Kraehe (sgd.)
G J Kraehe
Chairman

K C Adams (sgd.)
K C Adams
Managing Director & CEO

Melbourne
31 October 2002

Independent audit report to the members of BHP Steel Limited

Scope

We have audited the financial report of BHP Steel Limited for the financial year ended 30 June 2002, as set out on pages 26 to 68, including the Directors' Declaration. The financial report includes the financial statements of BHP Steel Limited, and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of BHP Steel Limited is in accordance with:

(a) the Corporations Act 2001 including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Ernst & Young

A I Beckett
Partner

Melbourne
31 October 2002

The shareholder information set out below was applicable as at **9 October 2002.**

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

			Number of holders	Number of shares
1	-	1,000	197,999	56,508,019
1,001	-	5,000	55,103	117,683,645
5,001	-	10,000	6,092	42,701,790
10,001	-	100,000	3,283	67,948,797
100,001	-	and over	170	508,157,749
			262,647	793,000,000

There were 86,803 holders with less than a marketable parcel of shares (being 180 as at 9 October 2002).

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
National Nominees Limited	130,995,941	16.52
J P Morgan Nominees Australia Limited	119,848,626	15.11
Westpac Custodian Nominees Limited	54,817,090	6.91
Citicorp Nominees Pty Limited	20,220,227	2.55
Queensland Investment Corporation	16,275,075	2.05
ANZ Nominees Limited	15,603,496	1.97
Commonwealth Custodial Services Limited	15,153,880	1.91
AMP Life Limited	12,333,863	1.56
HSBC Custody Nominees (Australia) Limited	9,619,941	1.21
RBC Global Services Australia Nominees Pty Limited	8,974,989	1.13
MLC Limited	8,319,879	1.05
Citicorp Nominees Pty Limited	7,082,540	0.89
Cogent Nominees Pty Limited	6,638,153	0.84
ING Life Limited	6,249,736	0.79
RBC Global Services Australia Nominees Pty Limited	4,254,941	0.54
NRMA Nominees Pty Limited	4,166,071	0.53
Citicorp Nominees Pty Limited	3,757,506	0.47
Citicorp Nominees Pty Limited	2,754,717	0.35
Guardian Trust Australia Limited	2,639,453	0.33
Guardian Trust Australia Limited	2,255,172	0.28
	451,961,296	56.99