

BlueScope Steel Limited

ABN 16 000 011 058

Half-year report - 31 December 2003

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BlueScope Steel Limited
Directors' report

Your directors present their report on the consolidated entity consisting of BlueScope Steel Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2003.

Directors

The following persons were directors of BlueScope Steel Limited during the whole of the half-year and 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
Y P Tan

Review of operations

	Segment revenues		Segment results	
	31 December 2003 \$m	31 December 2002 \$m	31 December 2003 \$m	31 December 2002 \$m
Hot Rolled Products	1,238.6	1,341.3	179.3	265.3
Coated Products Australia	1,410.6	1,344.0	102.4	64.1
Coated Products Asia	297.9	284.1	44.7	47.2
New Zealand Steel	272.3	276.8	20.3	20.8
Corporate and Group	316.2	350.5	(32.9)	(39.0)
Intersegment eliminations	<u>(916.4)</u>	<u>(1,008.3)</u>	<u>(12.0)</u>	<u>(26.5)</u>
	<u><u>2,619.2</u></u>	<u><u>2,588.4</u></u>	<u><u>301.8</u></u>	<u><u>331.9</u></u>
Unallocated revenue less unallocated expenses			<u>(6.3)</u>	<u>(16.2)</u>
Profit from ordinary activities before income tax expense			295.5	315.7
Income tax benefit/(expense)			<u>(63.9)</u>	<u>(59.6)</u>
Profit from ordinary activities after income tax expense			<u>231.6</u>	<u>256.1</u>
Net profit attributable to outside equity interest			<u>(4.6)</u>	<u>(13.8)</u>
Net profit attributable to members of BlueScope Steel Limited			<u><u>227.0</u></u>	<u><u>242.3</u></u>

The half-year results reflect a strong performance that was achieved against the background of a stronger Australian dollar (which has appreciated by approximately 25% over the last 12 months), higher raw material costs (scrap and purchased steel feed) and increased planned repairs and maintenance expenditure. Exchange rate factors had a \$56 million unfavourable effect on profit from operating activities before tax compared to the half-year to 31 December 2002. In addition, the Hot Rolled Products segment was impacted by the North Star joint venture, which contributed \$61 million less than in the half-year to 31 December 2002 due to both lower US domestic hot rolled coil prices and higher scrap prices.

However, improved realised international and domestic prices in all segments, growth in Coated Products Asia sales volumes and improved product mix in the Coated Products Australia segment, coupled with cost controls, largely countered the negative factors.

Significant changes in the state of affairs

On 17 November 2003, the company changed its name from BHP Steel Limited to BlueScope Steel Limited.

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 directors' report and financial report. Amounts in the financial report have been rounded off to the nearest hundred thousand dollars in accordance with that Class Order.

Matters subsequent to balance date

A number of growth initiatives have been announced subsequent to balance date.

In February 2004, the company announced the construction of a new metallic coating and painting facility in China. The capital cost is approximately \$280 million and the facility, with annual metallic coated and painting capacities of 250,000 and 150,000 tonnes respectively, is expected to commence production in mid-2006.

In February 2004, the company announced its intention to acquire Butler Manufacturing Company, the world's premium brand in pre-engineered building systems, with operations in North America and China. The transaction is expected to be completed by the end of the financial year at a cash outlay of \$260 million.

In January 2004, the company announced the construction of a second metallic coating line at the Map Ta Phut plant in Thailand. The capital cost is approximately \$80 million and the facility is expected to commence operation in mid-2005, with a capacity of 200,000 tonnes per annum.

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



G J Kraehe
Chairman



K C Adams
Managing Director & CEO

Melbourne
18 February 2004

BlueScope Steel Limited
Consolidated statement of financial performance
For the half-year ended 31 December 2003

	31 December	
	2003	2002
	\$m	\$m
Revenue from ordinary activities	2,619.2	2,588.4
Changes in inventories of finished goods and work in progress	46.3	34.3
Raw materials and consumables used	(984.4)	(1,002.1)
Employee benefits expense	(512.9)	(512.6)
Depreciation and amortisation expenses	(137.9)	(131.6)
Diminution in value of non-current assets	(0.4)	-
External services	(348.1)	(318.9)
Freight on external despatches	(196.4)	(199.7)
Carrying amount of non-current assets sold	(3.3)	(1.3)
Other expenses from ordinary activities	(181.4)	(185.2)
Borrowing costs expense	(7.0)	(18.3)
Shares of net profits of associates and joint venture partnership accounted for using the equity method	1.8	62.7
	<hr/>	<hr/>
Profit from ordinary activities before income tax expense	295.5	315.7
Income tax benefit/(expense)	(63.9)	(59.6)
	<hr/>	<hr/>
Profit from ordinary activities after income tax expense	231.6	256.1
Net profit attributable to outside equity interest	(4.6)	(13.8)
	<hr/>	<hr/>
Net profit attributable to members of BlueScope Steel Limited	227.0	242.3
Net increase/(decrease) in foreign currency translation reserve	(46.2)	25.9
	<hr/>	<hr/>
Total revenue, expenses and valuation adjustments attributable to members of BlueScope Steel Limited recognised directly in equity	(46.2)	25.9
	<hr/>	<hr/>
Total changes in equity attributable to members of BlueScope Steel Limited other than those resulting from transactions with owners as owners	180.8	268.2
	<hr/> <hr/>	<hr/> <hr/>
	Cents	Cents
Basic earnings per share	29.8	30.6

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

BlueScope Steel Limited
Consolidated statement of financial position
As at 31 December 2003

	31 December 2003 \$m	30 June 2003 \$m
Current assets		
Cash assets	91.8	91.0
Receivables	570.3	639.6
Inventories	700.5	639.4
Other financial instruments	2.6	4.1
Other	<u>31.2</u>	<u>17.6</u>
Total current assets	<u>1,396.4</u>	<u>1,391.7</u>
Non-current assets		
Receivables	10.8	10.8
Inventories	58.3	58.2
Investments accounted for using the equity method	147.3	151.6
Other financial assets	4.4	4.5
Property, plant and equipment	2,997.4	3,085.6
Deferred tax assets	26.4	25.6
Intangible assets	4.4	4.5
Other	<u>7.7</u>	<u>8.9</u>
Total non-current assets	<u>3,256.7</u>	<u>3,349.7</u>
Total assets	<u>4,653.1</u>	<u>4,741.4</u>
Current liabilities		
Payables	411.7	493.0
Interest bearing liabilities	157.9	101.5
Current tax liabilities	78.0	96.3
Provisions	245.5	258.7
Other	<u>9.8</u>	<u>8.1</u>
Total current liabilities	<u>902.9</u>	<u>957.6</u>
Non-current liabilities		
Interest bearing liabilities	222.8	66.4
Deferred tax liabilities	393.6	395.1
Provisions	<u>246.3</u>	<u>231.2</u>
Total non-current liabilities	<u>862.7</u>	<u>692.7</u>
Total liabilities	<u>1,765.6</u>	<u>1,650.3</u>
Net assets	<u>2,887.5</u>	<u>3,091.1</u>
Equity		
Parent entity interest		
Contributed equity	1,952.5	2,182.1
Reserves	(136.4)	(91.2)
Retained profits	<u>1,033.7</u>	<u>961.4</u>
Total parent entity interest	<u>2,849.8</u>	<u>3,052.3</u>
Outside equity interest in controlled entities	<u>37.7</u>	<u>38.8</u>
Total equity	<u>2,887.5</u>	<u>3,091.1</u>

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

BlueScope Steel Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2003

	Notes	31 December	
		2003	2002
		\$m	\$m
Cash flows from operating activities			
Receipts from customers		2,830.9	2,790.0
Payments to suppliers and employees		<u>(2,480.0)</u>	<u>(2,413.8)</u>
		350.9	376.2
Dividends received		0.5	1.4
Interest received		0.8	2.9
Other revenue		6.2	13.9
Borrowing costs		(6.3)	(20.1)
Income taxes paid		<u>(83.5)</u>	<u>(8.2)</u>
Net cash inflow (outflow) from operating activities		<u>268.6</u>	<u>366.1</u>
Cash flows from investing activities			
Payment for purchase of controlled entity, net of cash acquired *		-	(716.2)
Payments for property, plant and equipment		(98.8)	(76.0)
Payments for investments		(0.5)	(4.1)
Proceeds from sale of property, plant and equipment		4.8	1.9
Proceeds from sale or redemption of investments		3.9	-
Loans repaid (advanced) to (from) associates		<u>(11.2)</u>	<u>35.6</u>
Net cash inflow (outflow) from investing activities		<u>(101.8)</u>	<u>(758.8)</u>
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities *		-	2,045.4
Share buyback	5	(220.4)	-
Employee share plan	5	(9.2)	-
Proceeds from demerger borrowings *		-	565.0
Proceeds from other borrowings		1,274.0	357.0
Net financing of related entities *		-	(1,797.2)
Repayment of borrowings		(1,047.4)	(736.2)
Dividends paid	4	(153.8)	-
Dividends paid to outside equity interests in controlled entities		<u>(2.1)</u>	<u>(4.3)</u>
Net cash inflow (outflow) from financing activities		<u>(158.9)</u>	<u>429.7</u>
Net increase (decrease) in cash held		7.9	37.0
Cash at the beginning of the reporting period		91.0	98.7
Effects of exchange rate changes on cash		<u>(7.1)</u>	<u>1.0</u>
Cash at the end of the reporting period		<u>91.8</u>	<u>136.7</u>

* The previous half-year's consolidated cash flows from investing and financing activities include cash flows related to the separation of BlueScope Steel Limited from the BHP Billiton Group, including the acquisition of the BlueScope Steel (AIS) Pty Ltd Group on 3 July 2002.

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

Note 1. Basis of preparation of half-year financial report

This general purpose financial report for the interim half-year reporting period ended 31 December 2003 has been prepared in accordance with Accounting Standard AASB 1029 *Interim Financial Reporting*, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2003 and any public announcements made by BlueScope Steel Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous financial year. Where applicable, comparatives have been adjusted to disclose them on a comparable basis with current period figures.

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.

Hot Rolled Products

Hot Rolled Products includes a 50% interest in the North Star joint venture, a steel mini-mill in the United States, and a 47.5% shareholding in Castrip LLC.

On 3 July 2002, as part of the separation from the BHP Billiton Group, BlueScope Steel Limited acquired BlueScope Steel (AIS) Pty Ltd, which includes the Port Kembla Steelworks, a Hot Rolled Products operation with an annual production capacity of approximately 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-painted 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 Western Port in Victoria together with a network of manufacturing and distribution facilities throughout Australia.

On 3 July 2002, as part of the separation from the BHP Billiton Group, BlueScope Steel Limited acquired BlueScope 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.

New Zealand Steel

On 3 July 2002, as part of the separation from the BHP Billiton Group, BlueScope Steel Limited acquired BlueScope Steel (AIS) Pty Ltd, which includes the New Zealand Steel operations 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 approximately 0.6 million tonnes.

Corporate and Group

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

BlueScope Steel Limited
Notes to the consolidated financial statements
31 December 2003
(continued)

Note 2. Segment information (continued)

Primary reporting - business segments

	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
31 December 2003							
Total segment revenue	<u>1,238.6</u>	<u>1,410.6</u>	<u>297.9</u>	<u>272.3</u>	<u>316.2</u>	<u>(916.4)</u>	<u>2,619.2</u>
Segment result	<u>179.3</u>	<u>102.4</u>	<u>44.7</u>	<u>20.3</u>	<u>(32.9)</u>	<u>(12.0)</u>	301.8
Unallocated revenue less unallocated expenses							<u>(6.3)</u>
Profit from ordinary activities before income tax expense							<u>295.5</u>

	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
31 December 2002							
Total segment revenue	<u>1,341.3</u>	<u>1,344.0</u>	<u>284.1</u>	<u>276.8</u>	<u>350.5</u>	<u>(1,008.3)</u>	<u>2,588.4</u>
Segment result	<u>265.3</u>	<u>64.1</u>	<u>47.2</u>	<u>20.8</u>	<u>(39.0)</u>	<u>(26.5)</u>	331.9
Unallocated revenue less unallocated expenses							<u>(16.2)</u>
Profit from ordinary activities before income tax expense							<u>315.7</u>

Note 3. Significant Items

There are no significant items in the current half-year's operating result. In the previous half-year's operating result a \$20 million contribution was made to the Australian Defined Benefit Superannuation fund.

Note 4. Dividends

	31 December	
	2003	2002
	\$m	\$m
Total dividends paid during the half-year	<u>153.8</u>	<u>-</u>

A fully franked final dividend of 13 cents (\$100 million) and a special fully franked dividend of 7 cents (\$53.8 million) per fully paid ordinary share was paid on 10 October 2003.

Since the end of the half-year, the directors have recommended the payment of a fully franked interim dividend of 12 cents (2002 9 cents) per fully paid ordinary share. The estimated interim dividend payable of \$88 million (2002 \$71.4 million) to be paid on 29 March 2004 has not been recognised as a liability at the end of the half-year.

BlueScope Steel Limited
Notes to the consolidated financial statements
31 December 2003
(continued)

Note 5. Movements in ordinary share capital

	31 December 2003 Shares	30 June 2003 Shares	31 December 2003 \$m	30 June 2003 \$m
Opening balance	784,685,949	100,000,000	2,182.1	164.0
Demerger from BHP Billiton	-	693,000,000	-	2,045.4
Share buyback	(45,420,328)	(8,314,051)	(220.4)	(27.3)
Employee share plan	<u>-</u>	<u>-</u>	<u>(9.2)</u>	<u>-</u>
Closing balance	<u>739,265,621</u>	<u>784,685,949</u>	<u>1,952.5</u>	<u>2,182.1</u>

Share buyback

The Company commenced a 10% on-market buyback of share capital on 14 March 2003. The total number of shares that can be repurchased is 79,300,000. As at 31 December 2003, the total number of shares bought back was 53,734,379 (\$246.3 million).

Employee share plan

In September 2003, the company provided 200 BlueScope Steel shares at nil cost to 9,403 eligible employees (1,880,600 shares). The objective was to recognise and reward employees for their contribution to BlueScope Steel's first year financial and workplace safety performance and provide them with the opportunity to become long term shareholders. An equivalent number of shares were bought back at \$4.88 per share.

Note 6. Contingent liabilities

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

	31 December 2003 \$m	30 June 2003 \$m
Other persons:		
Unsecured	<u>3.3</u>	<u>2.0</u>

The above contingent liabilities relate to outstanding legal matters.

Guarantees

BlueScope Steel Limited has given \$118.9 million (30 June 2003 \$118.9 million) in guarantees to various state worker's compensation authorities as a pre-requisite for self insurance. Of this amount, a total of \$93.3 million (30 June 2003 \$90.8 million) has been provided for in the consolidated financial statements as recommended by independent actuarial advice.

Superannuation

At 30 June 2003, the defined benefit divisions of the BlueScope Steel Superannuation Fund and the New Zealand Steel Pension Fund had a combined deficiency of the present value of accrued benefits over the net market value of assets totalling \$70.5 million. This deficiency represents potential additional voluntary contributions the company may make in the future. Independent actuarial valuations are performed on an annual basis.

Note 7. Interests in joint ventures

Joint venture partnership

BlueScope Steel Limited has a 50% interest in the North Star joint venture, a steel mini-mill in the United States. North Star contributed \$1.8 million to profit for the half-year ended 31 December 2003 (2002 \$62.7 million).

Contingent liabilities

North Star 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 BlueScope Steel in the event of default by North Star. At 31 December 2003, BlueScope Steel's share of the North Star borrowings amounted to \$67 million (30 June 2003 \$97 million).

Reporting date

North Star has a 31 May reporting date.

Note 8. Events occurring after reporting date

A number of growth initiatives have been announced subsequent to balance date.

In February 2004, the company announced the construction of a new metallic coating and painting facility in China. The capital cost is approximately \$280 million and the facility, with annual metallic coated and painting capacities of 250,000 and 150,000 tonnes respectively, is expected to commence production in mid-2006.

In February 2004, the company announced its intention to acquire Butler Manufacturing Company, the world's premium brand in pre-engineered building systems, with operations in North America and China. The transaction is expected to be completed by the end of the financial year at a cash outlay of \$260 million.

In January 2004, the company announced the construction of a second metallic coating line at the Map Ta Phut plant in Thailand. The capital cost is approximately \$80 million and the facility is expected to commence operation in mid-2005, with a capacity of 200,000 tonnes per annum.

BlueScope Steel Limited

Directors' declaration

31 December 2003

The directors declare that the financial statements and notes set out on pages 5 to 11:

- (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 consolidated entity's financial position as at 31 December 2003 and of their performance, as represented by the results of their operations and their cash flows, for the half-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 BlueScope Steel Limited 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
Chairman



K C Adams
Managing Director & CEO

Melbourne
18 February 2004

Independent review report to the members of BlueScope Steel Limited

Scope

The financial report and director's responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both BlueScope Steel Limited (the company) and the entities it controlled during the period, and the directors' declaration for the company, for the half year ended 31 December 2003.

The directors are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity comprising BlueScope Steel Limited and the entities it controlled during the half year is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2003 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

**Independent review report to the members of
BlueScope Steel Limited (continued)**



Ernst & Young



A I Beckett
Partner

Melbourne
18 February 2004