

3. Operating and financial review and prospects

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3. Operating and financial review and prospects

This 'Operating and financial review and prospects' section is intended to convey management's perspective of the BHP Billiton Group and its operational and financial performance as measured in accordance with IFRS. We intend this disclosure to assist readers to understand and interpret the financial statements included in this Report. This section should be read in conjunction with those financial statements, together with the accompanying notes.

This 'Operating and financial review and prospects' section is divided into the following parts:

Our business – a general description of our business; the strategic drivers; the key measurements we use to assess our performance; the economic factors affecting our business and the trends and uncertainties we have identified that significantly affect our business.

Application of critical accounting policies and estimates – a discussion of our accounting policies that require critical judgements and estimates.

Operating results – an analysis of the consolidated results of operations of the BHP Billiton Group for the two years presented in our financial statements, and an explanation of Underlying EBIT as a focus of our analysis of the business.

Liquidity and capital resources – an analysis of cash flows and sources and uses of cash.

Off-balance sheet arrangements – an analysis of financial arrangements that are not reflected on our balance sheet.

Contractual obligations – an analysis of our contractual obligations and commercial commitments.

Our business

Description of the BHP Billiton Group

BHP Billiton is the world's largest diversified resources group by market capitalisation, revenue and profit. We had a combined market capitalisation of approximately US\$123 billion as of 30 June 2006, and we generated revenue of US\$32.2 billion, revenue together with our share of jointly controlled entities' revenue of US\$39.1 billion and profit attributable to BHP Billiton shareholders of US\$10.5 billion for the year ended 30 June 2006. We generate most of our revenue, profit and cash flows by discovering or acquiring petroleum and mineral resources, extracting them through mining, drilling and processing operations and selling them to our customers. We divide our business into seven business units or Customer Sector Groups (CSGs):

- Petroleum, which explores for, produces, processes and markets hydrocarbons including oil, gas and liquefied natural gas
- Aluminium, which explores for and mines bauxite and processes and markets aluminium and alumina
- Base Metals, which explores for, mines, processes and markets copper, silver, zinc, lead, uranium, and copper by-products including gold and molybdenum
- Carbon Steel Materials, which explores for, mines, processes and markets metallurgical coal, iron ore and manganese used in the production of carbon steel
- Diamonds and Specialty Products, which explores for and mines diamonds and titanium minerals, and also includes our recently-sold fertiliser operations
- Energy Coal, which explores for, mines, processes and markets energy coal for use in electricity generation
- Stainless Steel Materials, which explores for, mines, processes and markets nickel, which is used in the production of stainless steel.

In addition to the seven CSGs, we also have a minerals exploration group, a technology group and a freight, transport and logistics operation.

We generally produce products in the southern hemisphere and sell into the northern hemisphere. Our major production operations are in Australia, Latin America and southern Africa. Our sales are geographically diversified. About a third of our revenue is generated in Asia (in particular, China, South Korea and Japan), about a third in Europe and the balance in the rest of the world, mainly Australia, North America and southern Africa. We also sell product sourced from third party producers. In 2005-06, third party product represented approximately 15.4 per cent of our revenue but only 0.8 per cent of our profit from operations.

Strategic drivers of our business

Our core purpose is to create long-term value through the discovery, development and conversion of natural resources and the provision of innovative customer and market-focused solutions.

Fundamentally, this means that our business will have:

- a focus on the upstream extraction of natural resources
- high-quality, long-life and low-cost assets with embedded growth options
- a diversified portfolio of commodities and assets and geographic regions that reduce the volatility of cash flows
- a focus on seaborne traded commodities
- a global portfolio of employees, assets and customers.

Our strategy is based around discovering or acquiring and developing large, low-cost, high reserve assets to produce stable cash flows that support an ongoing program of exploration and development of new assets, as well as providing consistent and growing returns to shareholders. In executing this strategy, we focus on seven strategic drivers:

- People – the foundation of our business is our people. We require people to find resources, develop those resources, operate the businesses that produce our products, and then deliver that product to our customers.
- Licence to operate – we ensure that those who are impacted by our operations also benefit by the operation. Licence to operate means win-win relationships and partnerships. This includes a central focus on health, safety, environment and the community, and being valued as a good corporate citizen.
- World-class assets – our world-class assets provide the cash flows that are required to build new projects, to pay our employees, suppliers, taxes and partners, and ultimately to pay dividends to our shareholders. We maintain high-quality assets by managing them in the most effective and efficient way. Taking care of our world-class assets is absolutely critical.
- The BHP Billiton way – this concept captures a series of Business Excellence processes, knowledge sharing networks and our customer-focused marketing organisation, which is applied to all of our assets and businesses. The development of these processes and sharing of the principles behind those concepts lead to increased economies of scale and shared best practices.
- Financial strength and discipline – we have a solid single 'A' credit rating, which balances financial flexibility with the cost of finance. Strong financial management is necessary in order to support the growth initiatives we are undertaking globally across all our businesses.
- Project pipeline – we are continuously identifying, prioritising and executing the next set of growth projects. It is a critical part of our strategy to successfully deliver our growth projects on time and on budget.
- Growth options – we use exploration, technology and our global footprint to identify the next generation of opportunities where we can invest and use our skills and strengths.

Key measures

We use a number of measures to assess how well we have performed in the areas we have identified as key drivers. The key financial measure of our overall strategy is the amount of profit attributable to BHP Billiton shareholders that we earn over time. The key financial measure we use to measure the performance of our operations is Underlying EBIT described below. In 2005-06, profit attributable to BHP Billiton shareholders was US\$10.5 billion, an increase of US\$4.1 billion, or 63.4 per cent, from 2004-05. Underlying EBIT for the year ended 30 June 2006 was US\$15.3 billion, compared with US\$9.9 billion in the prior year, an increase of 54.0 per cent. The following measures assist us to track various aspects of the business that contribute to the overall result:

Health, safety, environment and community – in previous years our principal measure of safety performance was our ‘Classified Injury Frequency Rate’ (CIFR), which is the number of classified injuries per million work hours. A classified injury is defined as any workplace injury that has resulted in the person not returning to their unrestricted normal duties after the calendar day on which the injury was received. In July 2005, we commenced monitoring ‘Total Recordable Injury Frequency Rate’ (TRIFR) as the means to track injuries. This move aims to improve the visibility of all workplace incidents by including the total number of medical treatment cases. Our performance in safety during 2005-06 was impacted by three fatalities. This compares to three in 2004-05. Our TRIFR was 8.7 for this first year of tracking and our CIFR increased from 3.9 to 4.8, in part due to a range of acquisitions and divestments made during 2005-06. On a positive note, the duration rate, which measures the impact of injuries on people in terms of days lost per classified injury, decreased by 28 per cent. From the health perspective there was an encouraging 19 per cent decrease in new cases of work-related illnesses compared to 2004-05. In relation to our effect on the environment, there were three significant environmental incidents. Remedial actions were put in place, stakeholders notified and investigations undertaken, with longer-term corrective and preventative actions identified and being implemented. Our voluntary contributions to community programs totalled US\$81.3 million, equating to 1.45 per cent of pre-tax profits on a three-year rolling average basis, compared to US\$57.4 million, or 1.59 per cent of pre-tax profit for 2004-05. Although the percentage has decreased, the actual value of our community investment has increased significantly due to the increased profits, and continues to exceed our target of 1 per cent.

Growth projects – we completed four major projects (‘major’ being over US\$100 million our share) during 2005-06 with forecast final capital expenditure totalling US\$1,405 million, against total approved capital expenditure of US\$1,384 million, a 1.5 per cent increase from the overall approved amount. Additionally, we approved seven further major projects during the period, with total approved capital expenditure of US\$5,048 million. Another six major projects are under development with capital expenditure approved in prior years totalling US\$4,455 million. For details of each major project, its capacity, budgeted capital and target end date, refer to ‘Liquidity and capital resources’. Currency strength against the US dollar has added further cost pressure. Market conditions in Australia and the Gulf of Mexico are particularly tight and are impacting both existing projects and our plans to execute new growth projects in these regions. Specifically, the Ravensthorpe Nickel Project in Western Australia and the Atlantis South development in the Gulf of Mexico are experiencing cost pressures of more than 30 per cent in excess of approved budgets. As a result, a detailed review of the Ravensthorpe schedule and budget commenced during the last quarter of 2005-06. The Atlantis South development schedule remains under review following last year’s hurricanes in the Gulf of Mexico.

Operational efficiency – in order to assess whether we are operating our assets efficiently across the Group, we look primarily at Underlying EBIT as discussed below. We continue to pursue a number of operational efficiency projects at our operations, as part of our ‘Business Excellence’ initiative.

Production – in 2005-06, in response to record demand, we stretched production from our assets to new levels, with annual production records set for aluminium, copper, iron ore, nickel and natural gas.

Liquidity and capital management – net debt comprising cash and interest bearing liabilities at 30 June 2006 was US\$8.2 billion, a decrease of US\$0.5 billion, or 5.6 per cent, compared to 30 June 2005. Gearing, which is the ratio of net debt to net debt plus net assets, was 25.2 per cent at 30 June 2006, compared with 32.8 per cent at 30 June 2005.

In October 2005, BHP Billiton filed a US\$3.0 billion shelf registration statement with the US Securities and Exchange Commission (SEC). In December 2005, we issued an SEC registered Global Bond comprising US\$600 million of 5.00 per cent Senior Notes due 2010 and US\$750 million of 5.25 per cent Senior Notes due 2015. In May 2006, we issued €650 million (US\$807 million) of 4.125 per cent Euro Bonds due in May 2011. The proceeds were used to partially repay debt incurred to fund the acquisition of WMC and to repay commercial paper.

External factors affecting our results

The following section describes some of the external factors that have a material impact on our financial condition and results of operations. We manage the risks discussed in this section under our portfolio management approach, which relies on the effects of diversification, rather than individual price risk management programs. You should refer to note 28 ‘Financial instruments’ in the financial statements for details of our financial instruments outstanding at 30 June 2006.

Commodity prices

The following summarises the trends of our most significant commodities for the year ended 30 June 2006.

Oil: The primary drivers behind the strength of the oil price have been strong demand, a limited amount of spare OPEC crude production capacity, crude supply disruptions, and geopolitical factors contributing to a significant risk premium. Despite patches of weakness, the world economy has grown strongly, led by China, with rapidly growing energy requirements. The year ended with effective OPEC spare capacity at less than 2 million bbl/d in a total market of 83 to 85 million bbl/d, with almost 1 million bbl/d of disrupted supply in Nigeria and Iraq. Various geopolitical events contributed to concerns about security of energy sources, including conflict in the Middle East, nationalisation of international oil companies assets in Venezuela, pipeline explosions and hostage-taking in Nigeria and changes to Russian oil and gas export policies.

Aluminium: The aluminium market was very strong throughout 2005-06. The closing benchmark three-month price on the London Metal Exchange (LME) at the end of the year was US\$2,630 per tonne, up 50 per cent from the beginning of the fiscal year. At times, the three-month price on the LME was in excess of US\$3,200 per tonne. For the fiscal year as a whole, the three-month price averaged US\$2,260 per tonne. While aluminium stock levels on the LME and other major commodity exchanges rose during the course of the fiscal year, visible stock levels measured in terms of global consumption still remained at historically very low levels. Continuing uncertainty concerning the level of primary aluminium net exports from China coupled with the higher-cost alumina and energy environments supported the higher aluminium price.

Copper: Refined copper demand was stronger in many regions as consumers finished de-stocking and economic activity picked up in many countries. The International Copper Study Group (ICSG) estimates that in calendar 2005, refined copper consumption reached 16.51 million tonnes, down 1.3 per cent from the previous year. However, in the first four months of calendar 2006, refined copper demand is estimated by the ICSG to have risen by 2 per cent year-on-year. Combined exchange stocks at LME/Comex/Shanghai rose during 2005-06 by 90,203 tonnes from 71,421 tonnes to 161,624 tonnes. Stocks fell in the US and Europe, but rose in Asia.

Iron ore: Market conditions remained tight in 2006, underpinned by continued buoyant demand for imports by China as pig iron growth remains very strong and Chinese local iron ore production was not able to increase at the same rate. The 71.5 per cent price increase for fines in 2005 stimulated further high cost iron ore production, including domestic low grade ores from China, but challenges in ramping up capacity in major export producers located in Australia and Brazil have been compounded by poor weather conditions in Australia in late 2005/early 2006, so that capacity growth has been delayed. The overall impact is to sustain a 'stronger for longer' market outlook as evidenced by the 19 per cent price increase achieved for the 2006 Japanese financial year.

Metallurgical coal: Metallurgical coal demand remained robust during 2005-06, although blast furnace production adjustments together with sharply lower Chinese merchant coke prices, down to around US\$120 per tonne by December 2005, saw some moderation of demand in selected markets. High prices saw imports into China decline from around 6 million tonnes to around 2 to 3 million tonnes as Chinese domestic coking coal production increased. Large expansions of coke-making capacity in China

together with this additional domestic production was the major contributor to excess coke stockpiles and price declines in the merchant coke market.

Energy coal: Growth in energy coal demand is closely related to growth in electricity consumption, which has increased at an average rate of 2.8 per cent per annum since 1990. The cost of fuel is typically the largest variable cost involved in electricity generation. On an energy basis, coal is currently the cheapest fossil fuel for electricity generation in most seaborne markets, ahead of gas and oil. Prices fell somewhat during 2004-05 as market tightness eased. A surge in global oil and gas prices contributed to a recovery in coal prices during 2005-06. Other factors contributing to high energy coal prices include a weaker US dollar relative to some of the key coal exporting country currencies, strong growth in demand in the Pacific driven by new installed power generation capacity, growth in imports into the US, India and China, and steady demand in Europe.

Nickel: Nickel prices historically have demonstrated greater price volatility than most other metals and the recent past has been no exception. The nickel price began 2005-06 with a price of US\$14,680 per tonne. A period of de-stocking in the stainless steel industry during the first half of 2005-06 decreased the average nickel price for that period to US\$13,608 per tonne. A strong resurgence in stainless steel and nickel demand saw an increase in the second half of 2005-06 with an average nickel price of US\$17,367 per tonne. The months of May and June 2006 had an average nickel price exceeding US\$20,000 per tonne. LME nickel stocks were 6,882 tonnes at the start of the financial year, climbing to over 36,000 tonnes during the period of de-stocking. The LME nickel stocks were 9,990 tonnes at the end of 2005-06.

Commodity price trends and sensitivities

The following table shows the average prices of our most significant commodities for the three years ended 30 June 2006.

Commodity	2006	2005	2004
Energy coal (US\$/t)	47.63	53.51	42.63
Copper (LME) (¢/lb)	228.58	142.80	105.49
Aluminium (LME) (3mth) (US\$/t)	2,260	1,802	1,572
Crude oil (WTI) (US\$/bbl)	64.41	48.84	33.69
Iron ore ⁽¹⁾⁽²⁾ (US\$/dmtonne)	0.7345	0.6172	0.3599
Metallurgical coal ⁽²⁾⁽³⁾ (US\$/t)	115	125	58
Nickel (LME) (US\$/t)	15,488	14,955	12,264

⁽¹⁾ Newman fines price in Japan.

⁽²⁾ Price represents that set in April of the relevant fiscal year.

⁽³⁾ Prime hard coking coal worldwide.

The following table indicates the estimated impact on 2005-06 profit after taxation of changes in the prices of our commodities. With the exception of price-linked costs, the sensitivities below assume that all other variables such as exchange rate, costs, volumes and taxation remain constant. There is an inter-relationship between commodity prices and currencies that is not reflected in the sensitivities below. Movements in commodity prices can cause movements in exchange rates and vice versa. Volumes are based on 2005-06 actual results and sales prices of our commodities under a mix of short, medium and long-term contracts. These sensitivities should therefore be used with care.

Estimated impact on 2005-06 profit after taxation of changes of:	US\$M
US\$1/t on iron ore price	55
US\$1/bbl on oil price	25
US\$1/t on metallurgical coal price	25
USc1/lb on aluminium price	20
USc1/lb on copper price	20
US\$1/t on energy coal price	25
USc1/lb on nickel price	2

The impact of the commodity price movements in the current year is discussed in 'Results of operations'.

Exchange rates

We are exposed to exchange rate transaction risk on foreign currency sales and purchases. For example, our products are predominantly priced in US dollars. As a result, fluctuations in the currencies that account for a substantial portion of our operating expenses (primarily the Australian dollar, South African rand, Chilean peso and Brazilian real) relative to the US dollar could have a material impact (positive or negative) on our financial condition and results of operations.

We are also exposed to exchange rate translation risk in relation to net monetary liabilities (defined as our foreign currency denominated monetary assets and liabilities, including debt and other long-term liabilities (other than site restoration provisions at operating sites where foreign currency gains and losses are capitalised in property, plant and equipment)).

The following table indicates the estimated impact on 2005-06 profit before taxation of changes in the Australian dollar or South African rand, which are the two principal currencies outside of the US dollar to which we are exposed in terms of our net monetary liabilities. The sensitivities give the estimated impact on profit before taxation based on the exchange rate movement in isolation. The sensitivities assume all variables except for exchange rate remaining constant. As outlined above, there is an inter-relationship between currencies and commodity prices where movements in exchange rates can cause movements in commodity prices and vice versa. This is not reflected in the sensitivities below. These sensitivities should therefore be used with care.

Estimated impact on 2005-06 profit before taxation of changes of:	US\$M
Australian dollar (USc1/A\$)	
Net monetary liabilities ⁽¹⁾	24
South African rand (0.2 rand/US\$)	
Net monetary liabilities ⁽¹⁾	7
Rand debt	4

⁽¹⁾ Impact based on difference in opening and closing exchange rates for the period.

The impact of exchange rate movements in the current year is discussed in 'Results of operations'.

Interest rates

We are exposed to interest rate risk on our outstanding borrowings and investments. Our policy on interest rate exposure is for interest on our borrowings to be on a US dollar floating interest rate basis. Deviation from our policy requires the prior approval of our Financial Risk Management Committee and is managed within our Cash Flow at Risk (CFaR) limit, which is described in note 28 'Financial instruments' in the financial statements. When required under this strategy, we use interest rate swaps, including cross currency interest rate swaps, to convert a fixed rate exposure to a floating rate exposure or vice versa. As at 30 June 2006 we have US\$1.4 billion of fixed interest borrowings that have not been swapped to floating rates, arising principally from legacy positions that were in existence prior to the merger that created the DLC structure.

Trends and uncertainties

We operate our business in a dynamic and changing environment and with information that is rarely complete and exact. In this section, we discuss the most important areas where management sees trends occurring that may materially affect our future financial condition and results of operations, risks that could have a material adverse effect on our business and areas where we make decisions on the basis of information that is incomplete or uncertain.

Commodity price, currency exchange rate and interest rate volatility – commodity prices persist at high levels compared to recent years. In real terms, base metals prices are now at similar levels to the prices experienced in the late 1980s. Inventories on market exchanges (as a proportion of demand) continue to tighten. The major difference between the situation today and that of previous periods is the coincidence of high prices across the energy and minerals spectrum. Today, in addition to high base metals prices, oil prices in real terms have approached the levels seen in the 1970s and the real prices of key steelmaking raw materials are at levels last seen in the early 1980s. The confluence of demand growth across the commodity spectrum in the developed and developing economies coupled with a lag in the supply response have driven the prices higher. Increasing investor interest in commodity markets and low inventory levels have undoubtedly contributed to price levels and volatility. Forward prices of LME metals and oil remain above long-term historical averages, indicating that large-scale supply surpluses are currently not being anticipated in these markets. Natural and man-made events are likely to continue to disrupt supply. Regulatory approvals and rising capital costs are delaying project developments. These factors could further tighten already short markets. Similarly, there are no signs of an imminent retreat in bulk commodity prices. However, high prices are inevitably leading to some substitution.

Strong increases in industry operating and capital costs, shortages of experienced people in some areas and lengthy time frames for installing new capacity suggest that it will be some time before a material supply response occurs. Therefore we are likely to see an extended period of high cyclical prices. As we have consistently stated, however, over the longer term we expect the introduction of new capacity to return prices to more sustainable levels.

Growth in product demand – the global economy recorded strong growth during the year. In Asia, growth has been supported by continued domestic demand, exports and investment dominated by China's continuing industrialisation and urbanisation and continued growth in Japan. Similarly, economic activity in Europe gained momentum, with Germany's industrial production maintaining a solid upward trend. US export growth provided support for overall economic expansion with buoyant export markets helped by the lagged effects of a weakening dollar. In this environment, commodity prices continued to post multi-decade highs. Economies with strong energy and minerals exports, particularly in Russia, Australia and parts of South America, have benefited.

The global economic outlook continues to be positive, although rates of growth are likely to slow given high energy prices and the increasing trend of higher interest rates. Growth in Asia will help drive the global economy, with Japan's expansion well-established. China's economic growth is expected to remain strong, even if attempts to cool strong growth are successful. Elsewhere, the US economy will slow from rapid growth experienced earlier in the year, but is likely to remain at levels consistent with long-term trends. While the outlook for the global economy and commodity prices is encouraging, it is not without risk. Escalating geopolitical tensions, supply disruptions and high energy prices are contributing to a tight oil market and are adding to increased uncertainty in markets. Consumers are concerned about the broader impact of further increases in oil prices and rising interest rates.

Operating costs and capital expenditures – strong demand for resources globally has continued, leading to increased costs across the industry for labour, contractors, raw materials, fuel, energy and other input costs. Some of the higher costs have resulted from our efforts to increase short-term production to take advantage of the current high price environment. Our challenge is to ensure that these higher costs do not become a permanent structural change to our cost base.

Exploration and development of resources – because most of our revenues and profits are related to our oil and gas and minerals operations, our results and financial condition are directly related to the success of our exploration efforts and our ability to replace existing reserves. However, there are no guarantees our exploration program will be successful. When we identify an economic deposit there are often significant challenges and hurdles entailed in its development, such as negotiating rights to extract ore with governments and landowners, design and construction of required infrastructure, utilisation of new technologies in processing and building customer support.

Health, safety, environment and community – central to our business is a commitment to sustainable development, which incorporates health, safety, environment and community responsibilities. Our aims are to achieve Zero Harm in our health and safety performance, to embed a systematic approach to environmental risk management and to increase our engagement with host communities. Quite often these aims will lead to the implementation of standards that exceed applicable legal and regulatory requirements. Apart from our belief that applying best industry practice in health, safety and environmental management is part of being a good corporate citizen, we believe establishing a track record of minimising health, safety and environmental impacts leads to higher levels of trust in the communities in which we operate, among the governments that regulate us and the organisations that monitor our conduct.

Given the nature of our operations, there remains a risk that, despite our best efforts, health, safety or environmental incidents may occur that could result in fines or remediation expenditures and damage our reputation, making it harder for us to do business in the future. Our activities are also highly regulated by health, safety and environmental laws in a number of jurisdictions. While we believe we are currently operating in accordance with these laws, as regulatory standards and expectations are constantly developing and generally becoming more onerous, we may be exposed to increased litigation, compliance costs and unforeseen environmental remediation expenses.

Three examples of material uncertainties identified by management as key risks to our business are the regulation of greenhouse gas emissions and potential reductions in fossil fuel consumption per capita and general consumption associated with such regulation; the impact upon workers in our South African business of the high HIV/AIDS infection rate; and compliance with European regulations requiring proof that mineral resources can be used without affecting health or the environment.

Application of critical accounting policies and estimates

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported revenue and costs during the periods presented therein. On an ongoing basis, our management evaluates its estimates and judgements in relation to assets, liabilities, contingent liabilities, revenue and costs. Management bases its estimates and judgements on historical experience and on various other factors it believes to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The critical accounting policies under which we are required to make estimates and assumptions and where actual results may differ from these estimates under different assumptions and conditions and may materially affect our financial results or financial position reported in future periods are as follows:

- reserve estimates
- exploration and evaluation expenditure

- development expenditure
- property, plant and equipment – recoverable amount
- superannuation, pensions and other post-retirement benefits
- provision for restoration and rehabilitation
- taxation.

In accordance with IFRS, we are required to include information regarding the nature of the judgements and estimates and potential impacts on our financial results or financial position in the financial statements. This information can be found in note 1 'Accounting policies' in the financial statements.

Operating results

The following discussion and analysis are based on the financial statements and accompanying notes, which reflect the combined operations of the BHP Billiton Plc Group and the BHP Billiton Limited Group for the year ended 30 June 2006 as prepared in conformity with IFRS, and should be read in conjunction therewith.

In this analysis, all references to 2005-06 or the current year are to the year ended 30 June 2006 and all references to 2004-05 or the prior year are to the year ended 30 June 2005.

For reporting periods beginning on or after 1 January 2005, the Group is required to comply with IFRS as issued by the International Accounting Standards Board (IASB). Accordingly, the financial statements have been prepared in accordance with IFRS as outlined in the accounting policies, refer to note 1 'Accounting policies' in the financial statements. In preparing our opening IFRS balance sheet and our 2004-05 comparative information, we have adjusted amounts reported in previous financial statements prepared in accordance with UK or Australian Generally Accepted Accounting Principles. Australian Generally Accepted Accounting Principles (GAAP) has been chosen as the reference predecessor GAAP from which to base transitional adjustments. The principal differences between our previous GAAP and IFRS are:

- Deferred taxation being recognised using the balance sheet liability method of tax-effect accounting rather than the income statement liability method applied under previous GAAP.
- Equity-based compensation being measured based on the fair value of shares and options rather than their intrinsic values as recognised under previous GAAP.
- Immediate recognition of the net asset or liability position of underlying defined benefit plans and medical benefit plans rather than the delayed recognition under previous GAAP.
- Joint ventures that are constituted as a legal entity are accounted for using the equity method rather than by the proportionate consolidation method used to account for our interests in the Escondida, Mozal and Valesul joint ventures under previous GAAP. As each of these joint ventures operates through an incorporated entity, IFRS classifies them as jointly controlled entities. The Australian version of IFRS requires the use of the equity method of accounting, notwithstanding that in substance none of the entities operate as independent business entities. The change to single-line equity accounting for jointly controlled entities does not impact Group net profit or net equity, however, the amounts of profit before tax, income tax expense, investments in jointly controlled entities and other balance sheet and income statement line items are significantly affected. This effect has led to our decision to monitor and disclose our performance on an 'Underlying EBIT' basis, as discussed below.
- Royalty and resource rent related taxes are treated as a taxation arrangement when they have the characteristics of an income tax. For such arrangements, current and deferred tax is provided on the same basis as for other forms of taxation. Under previous GAAP, such taxes were included in operating costs, and in some cases were not calculated in accordance with deferred tax principles.

3. Operating and financial review and prospects *continued*

- Dividends payable are not recognised as a liability until the dividend has been formally declared by the Directors. Under previous UK GAAP, dividends payable were recognised as a liability in the balance sheet at balance date, despite the fact they were declared subsequent to balance date.

A detailed explanation (including reconciliations of profit after tax and total equity) of the impact of the transition to IFRS on our financial position and financial performance is set out in note 38 'Transition to International Financial Reporting Standards' in the financial statements. An explanation of the basis of preparation of the financial statements under IFRS, including details of specific elections made on the transition to IFRS, is set out in note 1 'Accounting policies' in the financial statements.

Overview

Our profit attributable to members of BHP Billiton for the year ended 30 June 2006 was US\$10.5 billion compared with US\$6.4 billion for the prior year, an increase of 63.4 per cent. Excluding the exceptional items outlined in 'Results of operations' below our profit attributable to members of BHP Billiton was US\$10.2 billion compared with US\$6.4 billion for the prior year, an increase of 58.0 per cent.

Revenue was US\$32.2 billion, up 20.6 per cent from US\$26.7 billion last year. Revenue from third party products decreased 22.4 per cent to US\$5.0 billion for the year ended 30 June 2006 from US\$6.4 billion for the year ended 30 June 2005. Revenue, together with our share of jointly controlled entities' revenue, was US\$39.1 billion, up 25.3 per cent from US\$31.2 billion last year.

Over the last five years, the Group has invested more than US\$15 billion in organic growth projects and acquisitions. This has resulted in an average volume increase across our key commodities of approximately 38 per cent. The Group's global footprint, diverse product range and visibility to global markets have allowed the Group to invest through the business cycle in value adding opportunities. This has positioned our business to take full advantage of the current robust demand and price environment that underpins these record financial results. Full year operational records were also accomplished, with record production achieved for five major and two minor commodities.

One election made upon transition to IFRS was not to restate previous mergers or acquisitions and the accounting thereof. If this election had not been made, the DLC merger would have been accounted for as a purchase business combination with the BHP Billiton Limited Group acquiring the BHP Billiton Plc Group. This accounting treatment would be consistent with the treatment under US GAAP. Note 39 'US Generally Accepted Accounting Principles disclosures' in the financial statements provides further information on the impact for accounting for the DLC merger as a purchase business combination.

The exceptional diversity of our businesses by commodity, geography and customer base underpins the strength of our cash flows and continues to support our ability to both identify and invest in growth opportunities whilst continuing to deliver outstanding returns to shareholders in the form of our progressive dividend policy and other capital management initiatives.

On 23 August 2006, the Board declared a final dividend of 18.5 US cents per share. This represents an increase of 27.6 per cent over last year's final dividend of 14.5 US cents per share. This brings the total dividends declared for 2005-06 to 36.0 US cents per share, an increase of 8.0 US cents per share, or 28.6 per cent, over 2004-05.

On 23 August 2006, we also announced a further capital return of US\$3.0 billion to shareholders to be executed over the next 18 months through a series of share buy-backs. We commenced this program on 7 September 2006 with the on-market buy-back of 1,500,000 BHP Billiton Plc shares. It is yet to be decided the extent to which the remaining buy-back will be on or off-market. This program brings the total buy-back programs announced to US\$5.0 billion for 2005-06 following the US\$2.0 billion capital management program completed in May 2006. Under that initiative, 114.8 million shares or 1.9 per cent of the issued share capital of the BHP Billiton Group were repurchased.

At the conclusion of the US\$3.0 billion capital return announced on 23 August 2006, BHP Billiton will have returned US\$15.5 billion in total to shareholders through capital initiatives and dividends since June 2001.

Results of operations

Underlying EBIT

In discussing the operating results of our business, we focus on a non-GAAP (US or IFRS) financial measure we refer to as 'Underlying EBIT'. Underlying EBIT is the key measure that management uses internally to assess the performance of our business, make decisions on the allocation of resources and assess operational management. Management uses this measure because financing structures and tax regimes differ across our assets, and substantial components of our tax and interest charges are levied at a Group, rather than an operational, level. Underlying EBIT is calculated as earnings before interest and taxation (EBIT), which is referred to as profit from operations on the face of the income statement, and excludes the effects of:

- net financing costs and taxation of jointly controlled entities
- exceptional items

Underlying EBIT was selected as a key measure of operational performance as a consequence of our adoption of IFRS. Prior to our adoption of IFRS, we used profit before interest and taxation to assess and report operational performance as this measure excluded all net financing costs and taxation of the Group (including jointly controlled entities) under previous GAAP.

However, under IFRS, we equity account all jointly controlled entities, resulting in the earnings (net of financing costs and taxation) of jointly controlled entities being included in our income statement under the single-line item 'share of profits from jointly controlled entities'. In order to provide our management and shareholders with a consistent picture of the operational performance of our business between the current and prior year, we exclude the financing costs and taxation of jointly controlled entities from the profit from operations line to arrive at Underlying EBIT.

We exclude exceptional items from Underlying EBIT in order to enhance the comparability of the measure from period to period. Our management monitors exceptional items, net finance costs and taxation separately.

You should be aware that Underlying EBIT is not a measure that is recognised under IFRS. In addition, it may be different from the measure EBIT or earnings before interest and taxation that are reported by other companies, in particular because we exclude the effect of net financing costs and taxation of equity accounted

entities and exceptional items. As noted above, the line item from our income statement prepared in accordance with IFRS that most closely relates to Underlying EBIT is profit from operations, which is referred to as EBIT. Profit from operations differs from Underlying EBIT in that the profit from jointly controlled entities is included in profit from operations net of the effects of financing costs and taxation and also includes exceptional items. The following table reconciles Underlying EBIT to profit from operations for the 2005 and 2006 financial years.

Year ended 30 June	2006 US\$M	2005 US\$M
Underlying EBIT	15,277	9,921
Impact of equity accounting for statutory purposes:		
Share of jointly controlled entities' net finance costs	(95)	(106)
Share of jointly controlled entities' total taxation expense	(950)	(433)
Exceptional items (before taxation)	439	(111)
Total adjustments in arriving at Underlying EBIT	(606)	(650)
Profit from operations – (EBIT)	14,671	9,271

Consolidated results

Profit from operations (EBIT) for the year ended 30 June 2006 was US\$14.7 billion compared with US\$9.3 billion in the prior year, an increase of 58.2 per cent. Underlying EBIT for the year ended 30 June 2006 was US\$15.3 billion compared with US\$9.9 billion in the prior year, an increase of 54.0 per cent.

The increase in EBIT and Underlying EBIT was due primarily to higher commodity prices. Metallurgical coal, iron ore, base metals, aluminium and petroleum prices contributed significantly to the increase in revenue and Underlying EBIT. New and acquired operations also provided increased volumes.

The following table and commentary detail the approximate impact of the principal factors that affected EBIT and Underlying EBIT for the current year compared with the prior year.

	US\$M
Profit from operations (EBIT) for the year ended 30 June 2005	9,271
Add: adjustments in arriving at Underlying EBIT	650
Underlying EBIT for the year ended 30 June 2005	9,921
Change in volumes:	
Existing operations	(75)
New and acquired operations	1,295
	1,220
Change in sales prices	6,690
Change in costs:	
Costs (usage)	(1,340)
Price-linked costs	(475)
Exchange rates	–
Inflation on costs	(310)
	(2,125)
Asset sales	(10)
Ceased and sold operations	(10)
Exploration	(280)
Other	(129)
Underlying EBIT for the year ended 30 June 2006	15,277
Less: adjustments in arriving at Underlying EBIT	(606)
Profit from operations (EBIT) for the year ended 30 June 2006	14,671

3. Operating and financial review and prospects *continued*

Volumes – existing operations

Increased sales volumes of copper, iron ore, diamonds and molybdenum from operations existing at the beginning of the year contributed approximately US\$304 million to Underlying EBIT (measured at the prior period's average margins). Sales volumes of oil were lower than the prior year due to natural field decline and increased down time at existing assets. Depletion of reserves at Riverside (Australia), extended maintenance outages at Blackwater (Australia) and reduced shipments led to a decrease in sales volumes of metallurgical coal. Reduced market demand for manganese alloy led to lower sales volumes for the period. We also experienced decreased sales volumes of silver due to lower production from our Cannington mine (Australia) resulting from lower head grades and temporary closure of the southern zone.

Volumes – new and acquired operations

New operations increased Underlying EBIT by US\$1,295 million, primarily due to a full year's contribution of US\$918 million from the ex-WMC Resources Limited (WMC) operations acquired in June 2005. Also included was a full year's production from ROD (Algeria), which commenced commercial production in October 2004, Mad Dog (US) and Angostura (Trinidad and Tobago), which were both commissioned in January 2005.

Prices

Stronger commodity prices for most products increased Underlying EBIT by US\$6,690 million. Higher prices for most base metals products (copper in particular), metallurgical coal, iron ore, all

Exchange rates

Exchange rate movements had a net nil impact on Underlying EBIT compared with last year. The translation of monetary items had a favourable impact on Underlying EBIT of US\$90 million principally due to exchange gains from the strengthening of the US dollar against the Australian dollar. This compared to losses in the prior period. This was offset by an unfavourable impact on operating costs of US\$90 million, primarily due to the strengthening of the Brazilian real against the US dollar.

The following exchange rates against the US dollar have been applied:

	Average year ended 30 June 2006	Average year ended 30 June 2005	As at year ended 30 June 2006	As at year ended 30 June 2005
Australian dollar ^(a)	0.75	0.75	0.74	0.76
Brazilian real	2.24	2.73	2.18	2.36
South African rand	6.41	6.21	7.12	6.67

^(a) Displayed as US\$ to A\$1 based on common convention.

Inflation on costs

Inflationary pressures on input costs, mainly in Australia and South Africa, had an unfavourable impact on Underlying EBIT of US\$310 million.

Asset sales

The impact from the sale of assets and interests on Underlying EBIT was US\$10 million lower than for the prior period. The impact amounted to US\$128 million for the current period, principally related to the sale of BHP Billiton's interest in the Wonderkop chrome joint venture (South Africa) for US\$61 million, and the Green Canyon (US) oil fields and the Vincent Van Gogh (Australia) undeveloped oil discovery. This compared to higher profits in the prior year, which included the sale of an equity participation in the North West Shelf Project's (Australia) gas reserve to China National Offshore Oil Corporation of US\$56 million, the profit of US\$22 million on the sale of the Acerinox share investment and the disposal of our interest in Integris Metals (US) of US\$19 million.

The profit on sale of the Tintaya copper mine (Peru) has been included in exceptional items and is therefore not included in the foregoing discussion.

petroleum products and aluminium contributed approximately US\$7,200 million, which was partially offset by lower prices for manganese alloy and the sale of lower quality diamonds.

Costs

Strong demand for resources globally has continued, leading to increased costs across the industry for labour, contractors, raw materials, fuel, energy and other input costs. In this environment, costs for the Group have increased by US\$1,340 million inclusive of non-cash costs of US\$125 million primarily related to increased depreciation due to the commissioning of new projects. Net of non-cash costs, this represents an increase on our 2005 cost base of 5.7 per cent.

Specific areas of cost increases include changed mining conditions particularly at EKATI (Canada), where we are mining a lower grade zone, and Queensland Coal (Australia), where mine mix changed following the closure of Riverside. Labour and contractor charges, fuel and consumables, as well as maintenance and other operating costs, have also increased. The commissioning of a number of new operations meant depreciation charges also increased.

Price-linked costs

Higher price-linked costs reduced Underlying EBIT by US\$475 million, largely because of higher royalties (particularly for Carbon Steel Materials and Petroleum products), increased treatment and refining charges (TCRCs) and price participation charges for copper and higher LME linked power charges in Aluminium.

Ceased and sold operations

Ceased and sold operations had a US\$10 million unfavourable impact on Underlying EBIT. The current period was negatively impacted by the loss of earnings from the chrome business (South Africa) and the Laminaria and Corallina oil fields (Australia) that were divested during the 2005 financial year, and the cessation of production at Typhoon/Boris due to hurricane damage sustained during September 2005. This was partly offset by the favourable impact of US\$149 million of higher earnings from Tintaya, which was sold in June 2006, and US\$137 million in relation to care and maintenance costs incurred at Boodarie Iron (Australia) in the prior period.

Exploration

Exploration spend was US\$280 million higher than the prior year. Petroleum expenditure taken to profit increased by US\$192 million due to increased activity in the Gulf of Mexico, a US\$41 million write-off of expenditure that had previously been capitalised, and a US\$32 million impairment of the Cascade and Chinook oil and gas prospects, which have subsequently been sold. Minerals exploration activity in Africa and Brazil also increased.

Other

Other items decreased Underlying EBIT by US\$129 million. These included the cost for adjusting our interest in Valesul (Brazil) to realisable value prior to disposal of US\$50 million, as well as a lower contribution from freight activities. The US\$60 million sale of an option held over an exploration property in Pakistan partially offset these.

Net finance costs

Net finance costs increased to US\$505 million from US\$331 million in the prior period. This was driven largely by higher average debt balances following the funding of the acquisition of WMC in June 2005, increased discounting on provisions and a higher average interest rate but was partially offset by higher capitalised interest.

Taxation expense

The total taxation expense on profit before tax was US\$3,632 million, representing an effective rate of 25.6 per cent (calculated as total taxation expense divided by profit before taxation). When compared to the UK and Australian statutory tax rate (30 per cent), the effective tax rate included a benefit of 3.5 per cent due to the recognition of US tax losses (US\$500 million).

Following the transition to IFRS, certain royalty and petroleum resource-related taxes are treated as taxation arrangements when they have the characteristics of a tax. This is considered to be the case when they are imposed under Government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) as determined by relevant legislation. As a result, such royalty costs which in prior years would have been reported as an operating cost in Underlying EBIT are now reported as a taxation expense. Obligations arising from royalty arrangements that do not satisfy these criteria continue to be recognised in operating expenses. Royalty-related taxation represents an effective rate of 3.0 per cent for the current year.

Exceptional items

Year ended 30 June 2006

Sale of Tintaya – During June 2006, we sold our interest in the Tintaya copper mine in Peru (Base Metals). Gross consideration received was US\$853 million before deducting intercompany trade balances. The net consideration of US\$717 million (net of transaction costs) included US\$634 million for shares plus the assumption of US\$116 million of debt, working capital adjustments and deferred payments contingent upon future copper prices and production volumes. The profit on disposal was US\$296 million (net of a taxation charge of US\$143 million).

Year ended 30 June 2005

Sale of Laminaria and Corallina – In January 2005, we disposed of our interest in the Laminaria and Corallina oil fields. Proceeds on the sale were US\$130 million resulting in a profit before tax of US\$134 million (US\$10 million tax expense).

Disposal of chrome operations – Effective 1 June 2005, we disposed of our economic interest in the majority of our South African chrome business. The total proceeds on the sale were US\$421 million, resulting in a profit of US\$127 million (US\$1 million tax expense). In addition, we sold our interest in the Palmiet chrome business in May 2005 for proceeds of US\$12 million, resulting in a profit of US\$15 million (US\$5 million tax expense).

Provision for termination of operations – We decided to decommission the Boodarie Iron operations and a charge of US\$266 million (US\$80 million tax benefit) relating to termination of the operation was recognised. The charge primarily relates to the settlement of existing contractual arrangements, plant decommissioning, site rehabilitation, redundancy and other closure-related costs/charges associated with the closure.

Closure plans – As part of our regular review of decommissioning and site restoration plans, we reassessed plans in respect of certain closed operations. A total charge of US\$121 million (US\$104 million after tax) was recorded and included a charge of US\$73 million (US\$21 million tax benefit) for closed mines at Ingwe in relation to a revision of our assessed rehabilitation obligation, predominantly resulting from revised water management plans and a charge of US\$48 million (US\$4 million tax expense) in relation to other closed mining operations.

Customer Sector Group summary

The following tables provide a summary of the Customer Sector Group revenues and results for the years ended 30 June 2006 and 2005.

Revenues

Year ended 30 June	2006			2005		
	Revenue	Our share of jointly controlled entities' revenue	Revenue together with share of jointly controlled entities' revenues ⁽¹⁾	Revenue	Our share of jointly controlled entities' revenue	Revenue together with share of jointly controlled entities' revenues ⁽¹⁾
US\$M						
Petroleum	5,871	5	5,876	5,967	3	5,970
Aluminium	4,977	107	5,084	4,571	80	4,651
Base Metals	4,901	5,393	10,294	2,329	2,714	5,043
Carbon Steel Materials	9,134	626	9,760	7,168	429	7,597
Diamonds and Specialty Products	886	377	1,263	731	778	1,509
Energy Coal	2,881	438	3,319	2,971	416	3,387
Stainless Steel Materials	2,955	–	2,955	2,266	8	2,274
Group and unallocated items ⁽²⁾	548	–	548	719	–	719
BHP Billiton Group	32,153	6,946	39,099	26,722	4,428	31,150

Results

Year ended 30 June	2006			2005		
	Profit from operations (EBIT) ⁽¹⁾	Adjustments in arriving at Underlying EBIT	Underlying EBIT ⁽¹⁾	Profit from operations (EBIT) ⁽¹⁾	Adjustments in arriving at Underlying EBIT	Underlying EBIT ⁽¹⁾
US\$M						
Petroleum	2,968	–	2,968	2,529	(134)	2,395
Aluminium	1,147	44	1,191	923	36	959
Base Metals	5,013	387	5,400	1,766	405	2,171
Carbon Steel Materials	4,430	73	4,503	2,480	320	2,800
Diamonds and Specialty Products	300	45	345	525	35	560
Energy Coal	270	57	327	457	130	587
Stainless Steel Materials	901	–	901	854	(142)	712
Group and unallocated items ⁽²⁾	(358)	–	(358)	(263)	–	(263)
BHP Billiton Group	14,671	606	15,277	9,271	650	9,921

⁽¹⁾ Revenue together with share of jointly controlled entities' revenue, EBIT and Underlying EBIT include trading activities comprising the sale of third party product.

⁽²⁾ Includes consolidation adjustments, unallocated items, inter-segment revenue, exploration and technology activities and external sales from the Group's freight, transport and logistics operations.

The changes in revenue and profit from operations (EBIT), both on a GAAP and non-GAAP basis, are discussed below. The changes in the non-GAAP measures of revenue, together with share of jointly controlled entities' revenue and Underlying EBIT, also apply to the GAAP measures except where noted.

Petroleum

Revenue and revenue together with our share of jointly controlled entities' revenues decreased by US\$0.1 billion, or 1.6 per cent over 2004-05. The sale of low margin third party product decreased revenue by US\$988 million to US\$967 million in the current year. This was largely offset by an increase in revenue of US\$844 million from higher margin Group production.

Total production in 2005-06 was 116.0 million boe, compared with total production in 2004-05 of 119.0 million boe.

EBIT was US\$2,968 million, an increase of US\$439 million or 17.4 per cent compared with last year. The 2005 year included the profit on sale of our interest in the Laminaria and Corallina oil fields of US\$134 million (before tax), which are shown as exceptional items and explained above. There were no exceptional items in the current year.

Underlying EBIT was US\$2,968 million, an increase of US\$573 million or 23.9 per cent compared to last year. This was mainly due to higher average realised prices for all petroleum products, including higher average realised oil prices per barrel of US\$61.90 (compared with US\$47.16), higher average realised natural gas prices of US\$3.33 per thousand standard cubic feet (compared with US\$2.98), higher liquefied natural gas prices of US\$6.76 per thousand standard cubic feet (compared with US\$5.75) and higher average realised prices for liquefied petroleum gas of US\$483.74 per tonne (compared with US\$382.85). Increased volumes from the first full year of production from ROD, Angostura and Mad Dog also had a favourable effect. This was partially offset by lower volumes from existing assets due to natural field decline and higher down time for maintenance and weather-related disruptions. The negative impact of the loss of the Typhoon (US) platform as a result of Hurricane Rita in September 2005 was partially offset by insurance recoveries, and the loss of earnings following the disposal of our interest in the Laminaria asset in January 2005 also reduced earnings. Increased maintenance expenses and higher price-linked costs (mainly royalties and excise) also had an unfavourable impact.

The impairment of Cascade and Chinook amounting to US\$32 million and of Typhoon, increased depreciation and amortisation, maintenance expenses and higher price-linked costs (mainly royalties and excise) also had an unfavourable impact.

Exploration expenditure charged to profit was US\$394 million (including the US\$32 million impairment of Cascade and Chinook and US\$41 million of other exploration expenditure previously capitalised). Gross expenditure on exploration of US\$447 million was US\$67 million higher than for the 2005 financial year as a result of increased activity in the Gulf of Mexico.

Aluminium

Revenue was US\$5.0 billion during 2005-06, an increase of US\$0.4 billion or 8.7 per cent from US\$4.6 billion in 2004-05. Our share of jointly controlled entities' revenue increased by 33.8 per cent to US\$107 million during 2005-06.

Aluminium smelter production increased to 1,362,000 tonnes in 2005-06 compared with 1,330,000 tonnes in the corresponding year, while alumina production was effectively unchanged at 4.2 million tonnes in 2005-06.

EBIT was US\$1,147 million, an increase of US\$224 million or 24.3 per cent compared with last year. There were no exceptional items in the current or prior year. Underlying EBIT was US\$1,191 million, an increase of US\$232 million, or 24.2 per cent, compared to last year. Higher prices for aluminium and alumina had a favourable impact, with the average LME aluminium price increasing to US\$2,244 per tonne (compared with US\$1,804 per tonne for the corresponding period). EBIT from third party trading were also higher.

Underlying EBIT was adversely impacted mainly by higher charges for LME-linked power, raw materials, fuel, labour and pot relining in line with global supply pressures. Exchange rate movements in the period also had an unfavourable effect on EBIT, particularly on the earnings derived from our Brazilian operations. The write-down of US\$50 million of our interest in Valesul to fair value, in line with the value achieved on its subsequent divestment, was also a factor.

Despite the higher costs, margins improved significantly in the second half of the year. This improved translation of rising aluminium and alumina price into higher net earnings, despite the current environment of rising costs, reflects an intensive focus on cost containment.

Base Metals

Revenue was US\$4.9 billion during 2005-06, an increase of US\$2.6 billion or 113.0 per cent from 2004-05. Revenue, together with our share of jointly controlled entities' revenues, was US\$10.3 billion during 2005-06, an increase of US\$5.3 billion, or 104.1 per cent, compared with US\$5.0 billion in 2004-05. Our share of jointly controlled entities' revenue increased 98.7 per cent to US\$5,393 million. These revenue increases were mainly attributable to higher average LME prices for copper.

Payable copper production increased to 1.3 million tonnes compared with 1.0 million tonnes in the prior year. Zinc production was 0.1 million tonnes, an increase of 3.5 per cent compared with the prior year. Attributable uranium production at Olympic Dam (Australia) was 3,936 tonnes for the year compared with 415 tonnes (for the month of June 2005 only). Silver production was 46.5 million ounces, a decrease of 7.1 per cent compared with 50.0 million ounces in the prior year. Lead production was 0.3 million tonnes, a decrease of 5.6 per cent compared with the prior year. The decrease in silver and lead production is mainly attributable to lower grade of ore and the temporary closure of the southern zone of the Cannington mine (Australia) to accelerate a program of decline and stope access rehabilitation.

EBIT was US\$5,013 million, an increase of US\$3,247 million or 183.9 per cent compared with last year. The current year included the profit of US\$439 million (before tax) on the sale of Tintaya, which is shown as an exceptional item, and the prior year included exceptional items of US\$29 million (before tax) that are explained in 'Exceptional items' above.

Underlying EBIT was US\$5,400 million, an increase of US\$3,229 million, or 148.7 per cent, compared to last year. This was mainly attributable to higher average LME prices for copper of US\$2.28/lb (compared to US\$1.43/lb) and higher prices for silver, zinc and lead. Higher production volumes from record copper and silver production at Escondida (Chile), record copper, silver and molybdenum production at Antamina (Peru), record zinc production at Cannington (Australia) and record gold production at Tintaya (Peru) also led to increased earnings. The inclusion of Olympic Dam's (Australia) results for the full period following its acquisition in June 2005, also contributed positively. The increase was partially offset by higher price-linked treatment and refining charges (TCRCs) and price participation costs, charges for raw materials, labour and contractors and higher depreciation costs due to the commissioning of Escondida Norte.

Reduced production at Cerro Colorado (Chile) following an earthquake in June 2005 also had an unfavourable impact, although this was partially mitigated by business interruption insurance.

Certain base metal sales agreements provide for provisional pricing based on the LME official price prior to shipment. Final settlement is based on the average applicable price for a specified future quotational period. The common market quotational periods on sales are the average of the calendar month after the month of shipment for cathode, and the average of two to four calendar months after the month of shipment for concentrate. We record revenue upon the transfer of risk and title using the applicable sales contracts price (typically the provisional price). During the year, the revenue was adjusted to fair value using the forward curve until final pricing is determined. We consider this approach appropriate to measure the fair value of the relevant sales agreements at period end. The impact of provisional pricing of copper shipments with a rising LME price favourably impacted finalised and outstanding average copper revenues by US\$0.37/lb over the LME average. Average copper revenue for 2006 was US\$2.66/lb versus US\$1.51/lb in 2005. Outstanding copper volumes, subject to the fair value measurement previously described, amounted to 274,280 tonnes at 30 June 2006 compared

to 231,874 tonnes in the prior year. These were revalued at a weighted average price of US\$3.35/lb compared to US\$1.54/lb in the prior year.

Exploration expenditure incurred and expensed was US\$14 million in 2005-06 compared with US\$7 million in the prior year.

Carbon Steel Materials

Revenue, and revenue together with share of jointly controlled entities' revenues, increased by US\$2.0 billion and US\$2.2 billion respectively during 2005-06. This increase was mainly attributable to stronger commodity prices for iron ore and metallurgical coal.

Attributable Western Australia iron ore production was 89.6 million wet tonnes, which increased slightly from 2005-06 despite adverse weather conditions. Production of Samarco (Brazil) pellets and pellet feed was 7.5 million tonnes in 2005-06, which was in line with the prior year.

Queensland Coal production was 28.6 million tonnes in 2005-06, a decrease of 7.8 per cent compared with 2004-05. This reflects the closure of the Riverside mine in 2004-05. Illawarra Coal production was 7.0 million tonnes in 2005-06, an increase of 0.8 million tonnes or 12.2 per cent compared with the prior year.

Manganese alloy production was 0.7 million tonnes in 2005-06, compared with 0.8 million tonnes in the prior year, a decrease of 13.6 per cent compared with the corresponding year. Manganese ore production was 5.3 million tonnes in 2005-06, a decrease of 0.2 million tonnes or 3.2 per cent compared with the prior year.

EBIT was US\$4,430 million, an increase of US\$1,950 million or 78.6 per cent. The prior year included exceptional items of US\$285 million (before tax) primarily in relation to the closure of the Boodarie Iron operation. Refer to 'Exceptional items' above.

Underlying EBIT was US\$4,503 million, an increase of US\$1,703 million, or 60.8 per cent, compared to last year. This reflects higher prices and volumes and an increased level of spot sales for iron ore, as well as increased prices for metallurgical coal. This was partially offset by lower prices for manganese alloy. Higher operating costs at all operations had an adverse impact during the period and was largely attributable to higher contractor and labour costs, price-linked royalty costs and fuel and energy costs. Queensland Coal (Australia) also experienced extended maintenance outages and a change in mine mix in the period following the closure of Riverside.

A weaker A\$/US\$ exchange rate had a favourable impact, as did the closure of the Boodarie Iron plant, announced in June 2005. The same period last year included care and maintenance costs for the plant, while there was no impact in the current period as all anticipated closure costs were provided for in June 2005.

Depreciation charges increased as new projects were commissioned, as did exploration expenditure to support a higher level of exploration activity largely at Maruwai (Indonesia). Earnings on freight activities were lower.

Exploration expenditure incurred and expensed was US\$71 million in 2005-06 compared with US\$38 million in the prior year.

Diamonds and Specialty Products

Revenue, together with our share of jointly controlled entities' revenues, was US\$1.3 billion during 2005-06, a decrease of US\$0.2 billion, or 16.3 per cent, compared with 2004-05. Our share of jointly controlled entities' revenue decreased from US\$0.8 billion to US\$0.4 billion principally due to the disposal in the prior year of our interest in Integris Metals Inc.

EKATI diamond production decreased by 29 per cent compared with the corresponding period, mainly reflecting the processing of lower grade ore.

EBIT was US\$300 million, a decrease of US\$225 million or 42.9 per cent compared with last year. There were no exceptional items in the current or prior year. Underlying EBIT was US\$345 million, a decrease of US\$215 million, or 38.4 per cent, compared to last year. This was due to a lower value per carat for diamonds (down 24 per cent from last year) because of lower carat quality and higher unit costs in relation to the processing of lower grade material and moving to underground mining areas at EKATI (Canada). The prior year included six months of earnings and the profit on sale from Integris Metals (US), which was sold in January 2005. However, the inclusion of a full year of earnings from Southern Cross Fertiliser operations acquired in June 2005 was positive, as was higher sales volumes for diamonds and titanium feedstock and a reduced depreciation charge primarily as a result of an extension of mine life following approval of the Koala underground project.

At EKATI, the 2007 financial year will be another transition year from open-cut to underground mining, which will be negatively impacted by lower value diamond production. In the medium term, increasing underground production from Panda and Koala will help restore profitability to historical levels.

Energy Coal

Revenue, together with our share of jointly controlled entities' revenues, was US\$3.3 billion, a decrease of US\$0.1 billion, or 2.0 per cent, over the prior year. Our share of jointly controlled entities' revenue remained at US\$0.4 billion.

Production was 85.8 million tonnes in 2005-06, a decrease of 1.8 per cent compared with 87.4 million tonnes in the prior year. This reflects lower production at Ingwe (South Africa) and Hunter Valley Coal (Australia). This was partially offset by increased production at the Colombian operation.

EBIT was US\$270 million, a decrease of US\$187 million, or 40.9 per cent, compared with last year. The 2005 year included exceptional items of US\$73 million (before tax) in relation to decommissioning and site rehabilitation plans for closed mines at Ingwe, refer to 'Exceptional items' above. There were no exceptional items in the current year. Underlying EBIT was US\$327 million, a decrease of US\$260 million, or 44.3 per cent, compared with last year. Higher fuel and operating costs across all operations, adverse inflationary movements, particularly in South Africa, and higher freight costs were key contributors to the reduced result. Costs increased at Ingwe (South Africa) largely due to higher depreciation resulting from changed estimates of the economic lives of certain underground export operations and the depreciation of rehabilitation assets. Increased demurrage at Cerrejon Coal (Colombia) and lower yields and equipment availability combined with increased strip ratios at Hunter Valley Coal (Australia) also led to higher costs.

The cessation of earnings from the Zululand Anthracite Colliery following its divestment during the year had a negative impact on the result, while a favourable movement of the rand against the US dollar had a positive impact.

Exploration expenditure incurred and capitalised was US\$81 million in 2005-06, including US\$76 million for the Carroona (Australia) exploration licence. This compared with exploration expenditure incurred and capitalised of US\$2 million in the prior year.

Stainless Steel Materials

Revenue was US\$3.0 billion in 2005-06, an increase of US\$0.7 billion, or 30.4 per cent, compared with US\$2.3 billion in 2004-05.

Nickel production increased to 174,900 tonnes in 2005-06, of which 38,400 tonnes was matte from Nickel West, an increase of 90.3 per cent compared with 91,900 tonnes in the prior year when we only included its production for June. Nickel West operations contributed 100,100 tonnes for the current year compared with 9,200 tonnes for the month of June 2005. Cerro Matoso SA (Colombia) production was a record 51,500 tonnes in 2005-06 compared to 51,300 tonnes in the prior year. However, this was offset by lower production at the QNI Yabulu refinery (Australia).

EBIT was US\$901 million, an increase of US\$47 million or 5.5 per cent compared with last year. The 2005 year included exceptional items of US\$142 million (before tax) in relation to the disposal of the chrome operations. See 'Exceptional items' above. There were no exceptional items in the current year. Underlying EBIT was US\$901 million, an increase of US\$189 million, or 26.5 per cent, compared with last year. The inclusion of a full year of results from the Nickel West operations (Australia), acquired in June 2005, as well as a US\$61 million profit on the sale of BHP Billiton's interest in the Wonderkop joint venture effective November 2005 were key factors in the increased result. The impact of slightly higher average realised nickel prices was partially offset by decreased prices for cobalt. The average LME nickel price was US\$7.03/lb versus US\$6.78/lb in the comparative period.

Negative impacts included lower production and higher fuel costs at the QNI Yabulu refinery as a result of lower operational performance, tie-in activity relating to the refinery expansion and delays to its gas conversion project. Offsetting the Underlying EBIT increase was US\$113 million included in the prior year relating to earnings from the Group's chrome operations, which were sold effective 1 June 2005.

Group and unallocated items

This category represents corporate activities including Group Treasury, Freight, Transport and Logistics operations and our Exploration and Technology activities. These corporate activities produced a loss before net finance costs and taxation of US\$358 million in 2005-06, compared to a loss of US\$263 million in the prior year.

Corporate operating costs, excluding exchange impacts, were US\$251 million compared to US\$147 million in the prior year, an increase of US\$104 million. This was due primarily to higher net insurance costs of US\$55 million associated with insurance claims arising from natural disasters and incidents. In addition, higher costs relating to corporate projects, sponsorships and regulatory compliance, including Sarbanes-Oxley, contributed approximately US\$32 million.

Lower one-off costs in relation to the acquisition of WMC had a favourable impact in the current period, partially offset by a gain in 2004-05 in relation to the close out of the cash settled derivatives contracts on the acquisition of WMC shares.

Minerals exploration expenditure has increased from US\$67 million to US\$115 million, mainly due to increased exploration activity in Africa and Brazil. This was offset by the profit on the sale of an option held over an exploration property in Pakistan, which contributed US\$60 million.

Third party sales

We differentiate sales of our production from sales of third party products due to the significant difference in profit margin earned on these sales. The table below shows the breakdown between our production (which includes marketing of equity production) and third party products.

Year ended 30 June ^(a)	2006 US\$M	2005 US\$M
Group production ^(b)		
Revenue, together with share of jointly controlled entities' revenue	34,139	24,759
Related operating costs	(19,579)	(15,602)
Operating profit	14,560	9,157
Margin ^(c)	42.6%	37.0%
Third party products ^(b)		
Revenue, together with share of jointly controlled entities' revenue	4,960	6,391
Related operating costs	(4,849)	(6,277)
Operating profit	111	114
Margin ^(c)	2.2%	1.8%

^(a) Excluding exceptional items.

^(b) Including share of jointly controlled entities.

^(c) Operating profit divided by revenue.

We engage in third party product trading for two reasons:

- In providing solutions for our customers, sometimes products are provided that we do not produce, such as a particular grade of coal. To do this, physical product is bought from and sold to third parties to meet customer needs, and manage risk through both the physical and financial markets.
- The active presence in the commodity markets provides us with physical market insight and commercial knowledge. From time to time we actively engage in these markets in order to take commercial advantage of business opportunities. These trading activities provide not only a source of revenue, but also a further insight into planning and can, in some cases, give rise to business development opportunities.

Comparison to results under US GAAP

As described above, our financial statements are prepared in accordance with IFRS, which differ in certain aspects from US GAAP.

A number of the differences arise from the fact that, under IFRS, the DLC merger has been accounted for as a merger (pooling of interest), whereas under US GAAP, the DLC merger is accounted for as a purchase of the BHP Billiton Plc Group by the BHP Billiton Limited Group.

The table below outlines the net adjustments to profit and equity between IFRS and US GAAP.

	2006 US\$M	2005 US\$M
Profit attributable to members of BHP Billiton Group in accordance with IFRS	10,450	6,396
Adjustments	(667)	(8)
Net income of BHP Billiton Group in accordance with US GAAP	9,783	6,388
Total equity in accordance with IFRS	24,218	17,575
Adjustments	3,621	4,429
Total equity in accordance with US GAAP	27,839	22,004

For a detailed description of significant differences between IFRS and the results under US GAAP see note 39 'US Generally Accepted Accounting Principles disclosures' in the financial statements.

Liquidity and capital resources

As a result of our ability to increase mineral production in an environment of historically high resource prices over the past several years, we have generated very strong cash flows from our mining and oil and gas operations. These cash flows have been fundamental to our ability to fund our existing operations, maintain a high rate of investment in growth projects, and return capital to shareholders through dividends and share buy-backs. Through a combination of borrowings and payments to shareholders, we manage our balance sheet to maintain levels of gearing that we believe optimise our cost of capital and return on capital employed.

Cash flow from operations is our principal source of cash.

We also raise cash from debt financing to fund significant capital expenditures such as our acquisition of WMC in June 2005, to manage temporary fluctuations in liquidity requirements such as the payment of dividends or share buy-backs, and to refinance existing debt.

Our principal uses of cash are to fund our existing operations, which includes paying suppliers and employees and capital expenditure to maintain our assets, and to fund expansion projects. In addition, over the last few years we have returned significant amounts of cash to our shareholders through dividends and share buy-backs.

3. Operating and financial review and prospects *continued*

Cash flow analysis

Net operating cash flow after interest and tax increased by 25.1 per cent to US\$10,476 million in 2005-06 from US\$8,374 million in 2004-05. Higher profits increased cash generated from operating activities, offset by an increase in working capital (principally due to higher profits) and increased taxation payments.

Capital and exploration expenditure totalled US\$6,005 million for the period. Expenditure on major growth projects amounted to US\$3,292 million, including US\$655 million on petroleum projects and US\$2,637 million on minerals projects. Other capital expenditure on maintenance, sustaining and minor capital items was US\$1,947 million. Investment cash flow included US\$596 million primarily due to the purchase of the remaining shares to complete the WMC acquisition. Financing cash flows include the US\$2.0 billion capital management program completed in May 2006 and increased dividend payments.

Our cash flow statements for the years ended 30 June 2006 and 2005 are summarised below. The full consolidated cash flow statement is contained in the financial statements.

	2006 US\$M	2005 US\$M
Cash generated from operations	11,994	9,624
Dividends received	2,671	1,002
Net interest received (paid)	(378)	(225)
Taxation (payments)	(3,811)	(2,027)
Net operating cash flows	10,476	8,374
Cash outflows from investing activities	(6,601)	(10,221)
Net proceeds from investing activities	1,089	1,055
Net investing cash flows	(5,512)	(9,166)
Net proceeds from/(repayment of) interest bearing liabilities	(1,101)	3,933
Share buy-back	(2,028)	(1,792)
Dividends paid	(2,126)	(1,642)
Other financing activities	(157)	(3)
Net financing cash flows	(5,412)	496
Net decrease in cash and cash equivalents	(448)	(296)

Growth projects

We continue our strategy of delivering value enhancing growth with the completion of four and approval of seven major growth projects during the year. The seven new projects have an expected cost of US\$5.0 billion (BHP Billiton share), bringing our current project pipeline to 23 projects with an expected investment of US\$13.8 billion. Despite continued cost and schedule challenges to the delivery of our project pipeline, we remain confident in the value these projects will deliver to our shareholders given market fundamentals, the need for new supply and our stringent approval and monitoring processes.

Completed projects

Customer Sector Group	Project	Capacity ⁽¹⁾	Capital expenditure US\$M ⁽¹⁾		Date of initial production ⁽²⁾	
			Budget	Actual	Target	Actual
Aluminium	Worsley Development Capital Projects (Australia) BHP Billiton – 86%	250,000 tonnes per annum of alumina (100%)	165	165	Q1 2006	Q2 2006
Base Metals	Escondida Norte (Chile) BHP Billiton – 57.5%	Maintain capacity at 1.25 million tonnes per annum of copper (100%)	230	251	Q4 2005	Q4 2005
	Escondida Sulphide Leach (Chile) BHP Billiton – 57.5%	180,000 tonnes per annum of copper cathode (100%)	500	500	H2 2006	Q2 2006
Carbon Steel Materials	WA Iron Ore RGP2 (Australia) BHP Billiton – 85%	Increase system capacity to 118 million tonnes per annum (100%)	489	489	H2 2006	Q2 2006
			1,384	1,405		

⁽¹⁾ All references to capital expenditure and capacity are BHP Billiton's share unless otherwise noted. Escondida Norte was delivered to budget in local currency. Costing is yet to be finalised on the three remaining projects.

⁽²⁾ References to quarters and half years are based on calendar years.

There are 13 major projects (defined as BHP Billiton's share of capital expenditure of greater than US\$100 million) under development with a total budgeted investment of US\$9,503 million.

Projects approved during the year

Customer Sector Group	Project	Capacity	Budgeted capital expenditure US\$M ⁽¹⁾	Target date for initial production ⁽²⁾
Petroleum	Shenzi (US) BHP Billiton – 44%	100,000 barrels of oil and 50 million cubic feet of gas per day (100%)	1,940	Mid 2009
	Stybarrow (Australia) BHP Billiton – 50%	80,000 barrels of liquids per day (100%)	300	Q1 2008
	North West Shelf Angel (Australia) BHP Billiton – 16.67%	800 million cubic feet of gas per day (100%)	200	End 2008
Aluminium	Alumar refinery expansion (Brazil) BHP Billiton – 36%	2 million tonnes per annum of alumina (100%)	518	Mid 2008
Carbon Steel Materials	WA Iron Ore RGP3 (Australia) BHP Billiton – 85%	20 million tonnes per annum of iron ore (100%)	1,300	Q4 2007
	Samarco (Brazil) BHP Billiton – 50%	7.6 million tonnes per annum of iron pellets (100%)	590	H1 2008
Diamonds and Specialty Products	Koala underground (Canada) BHP Billiton – 80%	3,300 tonnes per day of ore processed (100%)	200	Q3 2007
			5,048	

⁽¹⁾ All references to capital expenditure and capacity are BHP Billiton's share unless noted otherwise.

⁽²⁾ References to quarters and half years are based on calendar years.

Projects currently under development (approved in prior years)

Customer Sector Group	Project	Capacity ⁽¹⁾	Budgeted capital expenditure US\$M ⁽¹⁾	Target date for initial production ⁽²⁾
Petroleum	Atlantis South (US) BHP Billiton – 44%	200,000 barrels of oil and 180 million cubic feet of gas per day (100%)	1,115 ⁽³⁾	Under review
	Neptune (US) BHP Billiton – 35%	50,000 barrels of oil and 50 million cubic feet of gas per day (100%)	300	End 2007
	North West Shelf 5th Train (Australia) BHP Billiton – 16.7%	LNG processing capacity 4.2 million tonnes per annum (100%)	250 ⁽³⁾	Late 2008 ⁽³⁾
Base Metals	Spence (Chile) BHP Billiton – 100%	200,000 tonnes per annum of copper cathode	990	Q4 2006
Stainless Steel Materials	Ravensthorpe Nickel (Australia) BHP Billiton – 100%	Up to 50,000 tonnes per annum of contained nickel in concentrate	1,340 ⁽³⁾	Q2 2007 ⁽³⁾
	Yabulu Extension (Australia) BHP Billiton – 100%	45,000 tonnes per annum of nickel	460	Q3 2007
			4,455	

⁽¹⁾ All references to capital expenditure and capacity are BHP Billiton's share unless noted otherwise.

⁽²⁾ References to quarters and half years are based on calendar years.

⁽³⁾ The Ravensthorpe Nickel Project in Western Australia and the Atlantis South development in the Gulf of Mexico are experiencing cost pressures of more than 30 per cent in excess of approved budgets. As a result, a detailed review of the Ravensthorpe schedule and budget commenced during the last quarter of 2005-06. The Atlantis South development schedule remains under review following last year's hurricanes in the Gulf of Mexico. The project costs and schedule for the North West Shelf 5th Train Project are under review.

Net debt and sources of liquidity

Our policies on debt and treasury management are as follows:

- commitment to a solid 'A' credit rating
- cash flow positive before dividends, debt service and any share buy-backs, excluding cash effects of major acquisitions
- target a minimum interest cover ratio of eight times over the commodity cycle
- maintain net gearing (net debt/net debt + net assets) of 35 per cent to 40 per cent
- flexibility from diversification of funding sources
- generally maintain borrowings and excess cash in US dollars.

Solid 'A' credit ratings

The Group's credit ratings are currently A1/P-1 (Moody's) and A+/A-1 (Standard & Poor's). There has been no change to these ratings during the year.

Interest rate risk

Interest rate risk on our outstanding borrowings and investments is managed as part of the Portfolio Risk Management Strategy. Refer to note 28 'Financial instruments' in the financial statements for more details on our Portfolio Risk Management Strategy. When required under this strategy, we use interest rate swaps, including cross currency interest rate swaps, to convert a fixed rate exposure to a floating rate exposure or vice versa. All interest swaps have been designated and are effective as hedging instruments under IFRS.

Net gearing and net debt

Net debt comprising cash and cash equivalents and interest bearing liabilities, was US\$8.2 billion at 30 June 2006, a decrease of US\$0.5 billion, or 5.6 per cent compared to 30 June 2005. Gearing, which is the ratio of net debt to net debt plus net assets, was 25.2 per cent at 30 June 2006 compared with 32.8 per cent at 30 June 2005.

Underlying net debt (which varies from net debt above as it includes our share of net debt of jointly controlled entities) was US\$9.2 billion, down from US\$10.0 billion at 30 June 2005. Underlying gearing was 27.2 per cent at 30 June 2006 compared with 35.2 per cent at 30 June 2005.

Cash at bank and in hand less overdrafts at 30 June 2006 was US\$495 million compared with US\$796 million at 30 June 2005. In addition, we had money market deposits at 30 June 2006 of US\$265 million compared with US\$411 million at 30 June 2005.

Funding sources

The maturity profile of our debt obligations is set forth under 'Tabular disclosure of contractual obligations' below. The following table sets forth the maturity profile of our undrawn committed facilities as at 30 June 2006 and 2005.

Undrawn committed facilities	2006 US\$M	2005 US\$M
Expiring in one year or less	–	–
Expiring in more than two years	3,000	5,500

In September 2004, our US\$2.5 billion multi-currency revolving credit facility was cancelled and replaced with a new US\$2.0 billion multi-currency revolving credit facility maturing in September 2009. In March 2005, this facility (which is available for general corporate purposes) was increased to US\$3.0 billion. As at 30 June 2006, this facility was undrawn.

In March 2005, we established a new US\$5.5 billion acquisition finance facility with a syndicate of banks to finance the WMC acquisition. This facility had a US\$3.0 billion 18-month tranche and a US\$2.5 billion five-year tranche. At 30 June 2006, the US\$3.0 billion 18-month tranche had been fully repaid and US\$900 million was outstanding.

The interest rates of these facilities are based on an interbank rate plus a margin. The applicable margin is typical for a credit facility extended to a company with our credit rating. A negative pledge applies to both credit facilities.

In October 2005 we filed a US\$3.0 billion shelf registration statement with the US Securities and Exchange Commission (SEC) and in December 2005 issued an SEC registered Global Bond comprising US\$600 million of 5.00 per cent Senior Notes due in 2010, and US\$750 million of 5.25 per cent Senior Notes due in 2015. The proceeds were used to partially repay the financing arranged to fund the WMC acquisition and to repay commercial paper.

In May 2006, we issued €650 million (US\$807 million) of 4.125 per cent Euro Bonds due in 2011. The proceeds were used to partially repay financing arranged to fund the WMC acquisition and to repay commercial paper.

In addition to the foregoing, in June 2005 we increased our US dollar commercial paper program limit from US\$2.0 billion to US\$3.0 billion.

None of our general borrowing facilities are subject to financial covenants. Certain specific financing facilities in relation to specific businesses are the subject of financial covenants that vary from facility to facility but which would be considered normal for such facilities.

Quantitative and qualitative disclosures about market risk

We identified above in 'Our business – external factors affecting our results' our primary market risks. A description of how we manage our market risks, including both quantitative and qualitative information about our market risk sensitive instruments outstanding at 30 June 2006, is contained in note 28 'Financial instruments' to the financial statements.

Portfolio management

Portfolio activities continued during 2005-06 with proceeds amounting to US\$928 million realised. We disposed of a number of assets and interests including our Tintaya mine, our 50 per cent interest in the Wonderkop chrome joint venture, the Green Canyon 18 and 60 oil fields, our one-third interest in the Hi-Fert fertiliser business (Australia) and our ownership of the Zululand Anthracite Colliery (South Africa). This brings the total proceeds realised on assets and interests over the last five years to US\$5.6 billion.

At 30 June 2006, we had also announced the sale of our Southern Cross Fertiliser operations (Australia), our Australian Coal Bed Methane assets (Australia), our interest in the Valesul aluminium smelter (Brazil), our Cascade and Chinook oil and gas prospects (US) and the Koornfontein energy coal mine (South Africa).

At 30 June 2006, final sale of these assets was subject to satisfying certain conditions precedent and, as such, the assets were held in the balance sheet at the lower of carrying value and expected sale price, less costs to sell. Completion of sale has now been achieved on the Southern Cross Fertiliser operations, Valesul, the Coal Bed Methane assets and Cascade and Chinook.

Dividend and capital management

On 23 August 2006, the Board declared a final dividend of 18.5 US cents per share. This represents an increase of 27.6 per cent over last year's final dividend of 14.5 US cents per share, and this declaration brings the total dividends for the 2006 financial year to 36.0 US cents per share, an increase of 8.0 US cents per share, or 28.6 per cent, over the 2005 year; our ninth consecutive dividend increase. We intend to continue with our progressive dividend policy, with further increases dependent upon the expectations for future investment opportunities and market conditions. We also announced on 23 August 2006 a further capital return of US\$3.0 billion to shareholders over the next 18 months through a series of share buy-backs. We commenced this program on 7 September

2006 with the on-market buy-back of 1,500,000 BHP Billiton Plc shares. These purchased shares will be held as treasury shares. It is yet to be determined the extent to which the remaining buy-back will be an on or off-market transaction.

This program brings the total for buy-back programs to US\$5.0 billion for 2005-06 following the US\$2.0 billion capital management program completed in May 2006. Under that initiative, 114.8 million shares, or 1.9 per cent of the issued share capital of BHP Billiton, was repurchased.

At the conclusion of the US\$3.0 billion initiative, we will have returned US\$15.5 billion in total to shareholders through capital initiatives and dividends since June 2001.

Off-balance sheet arrangements

Information in relation to off-balance sheet arrangements, principally contingent liabilities, commitments for capital expenditure and other expenditure and commitments under leases, is provided below.

The following discussion describes our material off-balance sheet arrangements at 30 June 2006.

Contingent liabilities

The following table sets forth our contingent liabilities (not otherwise provided for in the accounts) as at 30 June 2006.

	Contingent liabilities ^(c) US\$M
Jointly controlled entities (unsecured) – other ^(a)	355
Subsidiary and jointly controlled assets (including guarantees)	
Bank guarantees	–
Performance guarantees	1
Letter of credit	–
Other ^(b)	220
Total contingent liabilities	576

^(a) The BHP Billiton Group has entered into various counter-indemnities of bank and performance guarantees related to its own future performance in the normal course of business.

^(b) Other contingent liabilities relate predominantly to actual or potential litigation of the Group for which amounts are reasonably estimable but the liability is not probable and therefore we have not provided for such amounts in these financial statements. The amounts relate to a number of actions against the Group, none of which are individually significant. Additionally, there are a number of legal claims or potential claims against the Group, the outcomes of which cannot be foreseen at present, and for which no amounts have been included in the table above. Details of the principal legal claims are set out in note 21 'Provisions' in the financial statements.

^(c) For US GAAP reporting purposes, we are required to include as contingent liabilities amounts where (1) provisions have been made in the accounts but further amounts are reasonably possible, and (2) additional amounts to the guarantees included above where the probability of a transfer of economic benefits is considered to be remote. Not included in the table above are Group performance guarantees of US\$30 million (2005: US\$30 million) and US\$333 million (2005: US\$388 million) in 'Other' for which provisions have been included in the Group accounts.

Refer to note 29 'Contingent liabilities' and note 21 'Provisions' in the financial statements.

Contractual obligations and commercial commitments

The following table sets forth our contractual obligations and commercial commitments at 30 June 2006 broken down by varying maturities.

	Total amounts committed	Amount of expiration per period US\$M			
		Less than 1 year	1–3 years	3–5 years	More than 5 years
Expenditure commitments in relation to:					
Operating leases	945	297	312	178	158
Finance leases	101	7	20	13	61
Capital expenditure	3,251	2,588	508	155	–
Other commitments	4,990	1,064	1,478	1,058	1,390
	9,287	3,956	2,318	1,404	1,609
Long-term debt and other financial obligations:					
Unsecured bank loans, debentures and other loans ⁽¹⁾	8,941	1,362	1,527	2,747	3,305
Redeemable preference shares	15	–	–	–	15
Other creditors/financial instruments ⁽²⁾	4,059	3,916	143	–	–
	13,015	5,278	1,670	2,747	3,320
Total contractual obligations and commercial commitments	22,302	9,234	3,988	4,151	4,929

⁽¹⁾ Excludes our finance leases as these commitments are included separately in the above table. Additional details regarding the split of our long-term debt obligations are provided in note 28 'Financial instruments' in the financial statements. Refer to 'Liquidity and capital resources' for further discussion regarding our debt obligations.

⁽²⁾ Additional details regarding our financial instruments are provided in note 28 'Financial instruments' in the financial statements.

Commitments under leases

We enter into operating leases as a means of acquiring access to various property, plant and equipment and we have finance leases which predominantly relate to the dry bulk carrier Iron Yandi, power lines, mobile equipment and vehicles.

Commitments for capital expenditure

Our contractual capital commitments relate mainly to the Petroleum CSG in connection with developments in the Gulf of Mexico (US\$1.2 billion); the Aluminium CSG (US\$0.1 billion); the Base Metals CSG in relation to Spence (US\$0.2 billion); the Carbon Steel Materials CSG in relation to RGP3 (US\$0.6 billion); and the Stainless Steel Materials CSG in relation to Ravensthorpe and the Yabulu Expansion (US\$0.7 billion) and the Nickel West Mt Keith overburden removal (US\$0.2 billion). Of the total US\$3.3 billion, US\$2.6 billion is expected to be expended in the year ending 30 June 2007. We expect that these contractual commitments for expenditure, together with other expenditure and liquidity requirements, will be met from internal cash flow and, to the extent necessary, from the existing facilities described under 'Liquidity and capital resources' above or new facilities on similar terms.

Commitments for other expenditure

Our commitments for other expenditure relate mainly to supply of goods and services (US\$4.5 billion), royalty payments (US\$0.1 billion), exploration expenditure (US\$0.3 billion) and chartering costs (US\$0.2 billion). We expect that these contractual commitments for expenditure, together with other expenditure and liquidity requirements, will be met from internal cash flow and, to the extent necessary, from external sources.

Significant changes

Subsequent to 30 June 2006, the sale of our 45.5 per cent joint venture interest in Valesul Aluminio SA, an aluminium smelter, the sale of Southern Cross Fertilisers Pty Ltd, a fertiliser mining and processing business, the sale of the Cascade and Chinook oil and gas prospects, and the sale of the Coal Bed Methane assets have been finalised. These assets are classified as held for sale as at 30 June 2006. The financial effects of these transactions have not been brought to account at 30 June 2006.