Australia in early 2007, delaying seaborne capacity growth. The overall impact is to sustain a ‘stronger for longer’ market outlook as evidenced by the 9.5 per cent price increase achieved for the 2007 Japanese financial year.

Metallurgical coal: A lower contract price settlement for metallurgical coal for Japanese Fiscal Year 2007 and higher Chinese export coke prices, driven by higher domestic coal prices and government export taxes, helped stimulate demand for metallurgical coal in FY2007, with Indian demand particularly strong. There was also some tightening in the market in the second half as infrastructure constraints in Australia and adverse weather conditions in Canada reduced available shipping tonnages.

Energy coal: Growth in energy coal demand is closely related to growth in electricity consumption, which has increased at an average rate of 3.5 per cent per annum since 2000. 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 strengthened during FY2007 as supply struggled to match strong growth in demand in the Pacific. Other factors contributing to high energy coal prices include a surge in freight rates, a weaker US dollar relative to some of the key coal exporting country currencies, and steady increases in global oil and gas prices.

The following table indicates the estimated impact on FY2007 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 changes in commodity prices and changes in currencies that is not reflected in the sensitivities below. Volumes are based on FY2007 actual results and sales prices of our commodities under a mix of short, medium and long-term contracts. Movements in commodities prices can cause movements in exchange rates and vice versa. These sensitivities should therefore be used with care.

Estimated impact on FY2007 profit after taxation of changes of:	**US$M**
US$1/bbl on oil price	23
USc1/lb on aluminium price	27
USc1/lb on copper price	19
USc1/lb on nickel price	2
US$1/t on iron ore price	57
US$1/t on metallurgical coal price	23
US$1/t on energy coal price	23

The impact of the commodity price movements in the current year is discussed in section 3.6 ‘Operating results’

3.4.2 Exchange rates

We are exposed to exchange rate transaction risk on foreign currency sales and purchases as we believe that active currency hedging does not provide long-term benefits to our shareholders. Because a majority of our sales are denominated in US dollars, and the US dollar otherwise plays a dominant role in our business, we borrow and hold surplus cash predominantly in US dollars to provide a natural hedge. Operating costs and costs of local equipment are influenced by the fluctuations in the Australian dollar, South African rand, Chilean peso and Brazilian real, although we do hedge certain project costs. Foreign exchange gains and losses reflected in operating costs owing to fluctuations in the abovementioned currencies relative to the US dollar may potentially offset one another. The Australian dollar generally strengthened throughout FY2007, while the South African rand generally weakened.

We are also exposed to exchange rate translation risk in relation to net monetary liabilities (being 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 FY2007 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 that is not reflected in the sensitivities below. Movements in commodities prices can cause movements in exchange rates and vice versa. These sensitivities should therefore be used with care.

Estimated impact on FY2007 profit before taxation of changes of:	US$M
Australian dollar (USc1/A$)	
Net monetary liabilities [1]	27
South African rand (0.2 rand/US$)	
Net monetary liabilities [1]	6
Rand debt	2

[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 section 3.6 'Operating Results'.

3.4.3 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 2007, 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.

3.4.4 Growth in product demand

The demand for our products is directly related to the strength of the global economy. However, the diversification of our portfolio of assets and commodities we extract limits the impact of a particular industry or region.

The global economy remains robust, driven by solid activity in Asia and Europe. Economic fundamentals remain relatively strong. Unemployment remains low and the supply of labour is still constrained. This is resulting in rising wages and increased household consumption.

Asian economies, led by China, continue to demonstrate strong growth. India's economy continues to gather pace, recently recording its fastest economic growth rate in 18 years. In Europe, solid growth is being supported by accommodative monetary conditions, rebounding consumption and strong German industrial activity. The US economy continues to soften, with the housing sector acting as a drag on activity. The Japanese household sector is also experiencing weakness, increasing risks of deflation later in the year. Key central banks have reacted to recent global financial market instability by injecting liquidity in an attempt to calm markets.

The rate of growth of the Chinese economy has shown no signs of abating with economic growth expected to be maintained or perhaps accelerate over the second half of 2007. This has largely been driven by strong demand, domestic retail sales, healthy investment growth and exports. Continued monetary tightening, new export taxes and cuts in value added tax rebates have had a minimal effect on economic behaviour to date. While the Chinese currency continues to appreciate against the US dollar, the appreciation has been controlled as the government desires to limit speculative inflows. On the producer side, higher energy and raw material prices are likely to mean a gradual increase in factory gate prices through the first half of 2008.

Despite moderating US economic growth, global economic fundamentals remain strong and the ongoing strength shown by emerging Asian economies (including China) should support global growth. Moreover, the competitiveness of open Asian economies is likely to continue to place downward pressure on inflation which should in turn provide greater flexibility for accommodative monetary policy stances taken by key central banks. Consumer spending in the US may slow through 2008 due to wealth effects associated with the housing market deterioration. However, despite these risks, growth in the US is expected to be maintained as low unemployment, low interest rates and a solid global economy support economic activity. Solid domestic demand will remain a key driver of healthy economic growth in Europe. Our outlook for Japan remains unchanged with expected strong investment and further employment growth likely to promote and improvement in consumption.

Recent discussions with our customers have indicated that they do not expect the volatility in the US and European credit markets to have a material impact on raw material demand. In particular, our customers in China and India believe domestic supply and demand criteria are much more important factors in their markets. We will continue to assess impacts from this recent volatility.

3.4.5 Operating costs and capital expenditures

Strong demand for resources globally has continued to challenge us and other resource companies, leading to increased costs across the industry for skilled labour, contractors, raw materials, fuel, energy and other input costs. In addition, port congestion and other third party infrastructure constraints resulted in increased demurrage costs and shipping, freight and other distribution charges. However, our recruitment and procurement strategies that leverage off our scale and geographic diversity and our Business Excellence program, which is sourcing and replicating best practice from our extensive asset base, are contributing to a continued reduction in the rate of cost increase. Our challenge is to ensure that these higher costs do not become a permanent structural change to our cost base. Our activities are becoming more geographically diverse, and our Business Excellence program continues to mature.

3.4.6 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 that 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.

3.4.7 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. Frequently, 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.

Our activities are 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, regulatory standards and community expectations are constantly evolving and generally becoming more onerous. As a result, we may be exposed to increased litigation, compliance costs and unforeseen environmental remediation expenses, despite our best efforts to work with governments, community groups and scientists to keep pace with regulations, law and public expectation.

Two examples of material uncertainties identified by management as key risks to our business are:

- The impact upon workers in our South African business of the high HIV/AIDS infection rate, despite the programs and insurances we have put in place to mitigate the impact of HIV/AIDS on our people’s lives.
- The increased regulation of greenhouse gas emissions and potential reductions in fossil fuel consumption per capita and fresh water used. Public pressure has increased, brought about by increased awareness in many countries in which we operate.

3.5 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 polices 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
- defined benefit superannuation schemes
- 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.

3.6 Operating results

In this analysis, all references to FY2007 or the current year are to the year ended 30 June 2007, all references to FY2006 are to the year ended 30 June 2006 and all references to FY2005 are to the year ended 30 June 2005.

3.6.1 Consolidated results

Year ended 30 June 2007 compared with year ended 30 June 2006

Our continued focus on growing production from high returning assets throughout the cycle has allowed us to take advantage of strong global market conditions and underpins our positive financial results. We achieved record production for eight major commodities and increased annual production for three further commodities. Production records were set by 17 assets (excluding suspended and sold operations). This reflects our key operating objective of delivering consistent, predictable and sustainable operating performance across all of our businesses providing a stable platform for growth.

Our profit attributable to members of BHP Billiton of US$13.4 billion represents an increase of 28.4 per cent over the prior year. Attributable profit (excluding exceptional items) of US$13.7 billion represents an increase of 34.7 per cent over last year and a more than sevenfold increase since our FY2002 result (our inaugural result following the BHP and Billiton merger). It is our fourth consecutive record annual result, with five of our nine CSGs generating record Underlying EBIT.

Revenue was US$39.5 billion, up US$7.3 billion for the year ended 30 June 2007, from US$32.2 billion for the year to 30 June 2006. Revenue together with our share of jointly controlled entities' revenue was US$47.5 billion, up 21.4 per cent from US$39.1 billion in the corresponding period.

On 22 August 2007, the Board declared a final dividend of 27.0 US cents per share, thus bringing the total dividends declared for FY2007 to 47.0 US cents per share. During the year, we announced US$13 billion of capital management initiatives. A detailed discussion and analysis of our dividend and capital management may be found in section 3.7.6 of this Annual Report.

Year ended 30 June 2006 compared with year ended 30 June 2005

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 'Exceptional items' 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 20.3 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 25.5 per cent from US$31.2 billion last year.

On 23 August 2006, the Board declared a final dividend of 18.5 US cents per share. This represented an increase of 27.6 per cent over the previous year's final dividend of 14.5 US cents per share. This brought the total dividends declared for FY2006 to 36.0 US cents per share, an increase of 8.0 US cents per share, or 28.6 per cent, over FY2005.

In May 2006, we completed a US$2.0 billion capital management program. Under that initiative, 114.8 million shares or 1.9 per cent of the issued share capital of the BHP Billiton Group, were repurchased.

Underlying EBIT

In discussing the operating results of our business, we focus on a non-GAAP (IFRS or US) 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; and
- exceptional items

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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, 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.

Underlying EBIT is not a measure that is recognised under IFRS and it may differ from EBIT reported by other companies.

The following table reconciles Underlying EBIT to profit from operations for the years ended 30 June 2007, 2006 and 2005.

Year ended 30 June	**2007** **US$M**	2006 US$M	2005 US$M
Underlying EBIT	**20,067**	15,277	9,921
Impact of equity accounting for statutory purposes:			
Share of jointly controlled entities’ net finance costs	**(122)**	(95)	(106)
Share of jointly controlled entities’ total taxation expense	**(1,201)**	(950)	(433)
Exceptional items (before taxation)	**(343)**	439	(111)
Total adjustments in arriving at Underlying EBIT	**(1,666)**	(606)	(650)
Profit from operations (EBIT)	**18,401**	14,671	9,271

The following tables and commentary describes the approximate impact of the principal factors that affected EBIT and Underlying EBIT for the years ended 30 June 2007 and 30 June 2006:

US$M		**Underlying EBIT**	**Adjustments to arrive at EBIT**	**Profit from operations (EBIT)**
Year ended 30 June 2006		**15,277**	**(606)**	**14,671**
Change in volumes:				
Increase in volumes	**438**			
Decrease in volumes	**(220)**			
New operations	**368**			
		586		
Net price impact				
Change in sales prices	**7,101**			
Price-linked costs	**(979)**			
		6,122		
Change in costs:				
Costs (rate and usage)	**(859)**			
Exchange rates	**(271)**			
Inflation on costs	**(416)**			
		(1,546)		
Asset sales		**(61)**		
Ceased and sold operations		**(198)**		
Exploration and business development		**(149)**		
Other		**36**		
Year ended 30 June 2007		**20,067**	**(1,666)**	**18,401**

US$M		**Underlying EBIT**	**Adjustments to arrive at EBIT**	**Profit from operations (EBIT)**
Year ended 30 June 2005		9,921	(650)	9,271
Change in volumes:				
Existing operations	(75)			
New and acquired operations	1,295			
		1,220		
Change in sales prices		6,690		
Change in costs:				
Cost (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)		
Year ended 30 June 2006	15,277	(606)	14,671

Year ended 30 June 2007 compared with year ended 30 June 2006

Profit from operations (EBIT) for the year ended 30 June 2007 was US$18.4 billion compared with US$14.7 billion in the corresponding period, an increase of 25.4 per cent. Underlying EBIT for the year ended 30 June 2007 was US$20.1 billion compared with US$15.3 billion, an increase of 31.4 per cent.

The increase in EBIT and Underlying EBIT was due primarily to higher commodity prices. Nickel, copper, aluminium, iron ore and petroleum product prices contributed significantly to the increase in revenue and Underlying EBIT. The following commentary details the approximate impact of the principal factors that affected EBIT and Underlying EBIT for FY2007 compared with FY2006.

Volumes

Continued strong demand underpinned increased sales volumes of metallurgical coal, petroleum products, nickel, manganese ore, alumina, zinc, iron ore, aluminium and energy coal, which contributed approximately US$438 million more (measured at last year’s average margins) to Underlying EBIT than last year. Sales volumes of base metals were lower at Olympic Dam (Australia) due to a smelter shutdown and at Cannington (Australia) due to the temporary closure of the southern zone. However this was more than offset by copper sales from Spence (Chile), which commenced operations in December 2006, and added US$363 million, and the ramp up of the Sulphide Leach project at Escondida (Chile). We experienced a decrease in diamond sales for the year as a result of inventory sales in the prior year.

Prices

Net changes in prices increased Underlying EBIT by US$7,101 million. Lower prices for metallurgical coal and manganese ore had a negative impact. Additional detail on the effect of price changes appears in the Customer Sector Group Summary in section 3.6.2.

Higher price-linked costs reduced Underlying EBIT by US$979 million with increased charges for third party nickel contributing US$658 million to this amount. Higher royalties for nickel, iron ore, and higher LME-linked power charges in aluminium were offset by lower metallurgical coal royalties (in line with lower prices) and more favourable rates for copper treatment and refining charges (TCRCs), including the removal or limiting of price participation in new contracts.

Costs

Continued strong global demand for resources has led to increased costs across the industry for labour, contractors, raw materials, fuel, energy and other input costs. In addition, port congestion and other third party infrastructure constraints resulted in increased demurrage costs and shipping, freight and other distribution charges. In this environment, our costs have increased by US$859 million.

Specific areas of cost increases include labour and contractor charges, consumables and fuels, business development expenditure, maintenance and other operating costs. Changed mining conditions, particularly at Cannington where we had a temporary closure of the southern zone and higher strip ratios at Queensland Coal (Australia) had a negative impact. However, we generated savings of US$203 million on our 2006 cost base through a wide range of business improvement initiatives across the Group.

The current environment continues to be challenging across the resources industry, and the pressure on access to labour and other inputs to our business remains. However, the quality of orebodies, our supplier relationships, systems and capabilities of our people have allowed us to manage these challenges.

Exchange rates

Exchange rate movements had a negative impact on Underlying EBIT of US$271 million. The stronger Australian dollar had a negative impact of US$478 million. This was partially offset by the favourable impact of a weaker South African rand on operating costs for our South African businesses. The Western Australian Iron Ore and Queensland Coal operations were both significantly impacted by the strength of the Australian dollar.

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The following exchange rates relative to the US dollar have been applied:

	Year ended 30 June 2007 Average	Year ended 30 June 2006 Average	**30 June 2007 Closing**	30 June 2006 Closing
Australian dollar [(a)]	**0.79**	0.75	**0.85**	0.74
South African rand	**7.20**	6.41	**7.08**	7.12

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

Inflation on costs

Inflationary pressures on input costs across all of our businesses had an unfavourable impact on Underlying EBIT of US$416 million. These pressures were most evident in Australia and South Africa.

Asset sales

The sale of assets and interests decreased Underlying EBIT by US$61 million compared to FY2006. The current period was principally impacted by the sale of one million tonnes of annual capacity at the Richards Bay Coal Terminal (South Africa), the Moranbah Coal Bed Methane assets (Australia), the Koornfontein energy coal mine (South Africa), the interest in Eyesizwe (South Africa) and Alliance Copper (Chile). In the corresponding period, we had higher profits arising largely from the divestment of our interest in the Wonderkop chrome joint venture (South Africa), the Vincent Van Gogh undeveloped oil discovery (Australia) and the Green Canyon oil fields (US).

Ceased and sold operations

The current period was negatively impacted by the loss of US$343 million of Underlying EBIT from Tintaya (Peru) (divested in June 2006) and the Southern Cross Fertiliser operations (Australia) (divested in August 2006). This was partly offset by a US$82 million year-on-year impact of movements in restoration and rehabilitation provisions for closed operations.

Exploration and business development

Gross exploration expenditure increased to US$805 million during the year. We increased activity on nickel targets in Western Australia, Guatemala, Indonesia and the Philippines and on energy coal targets in New South Wales (Australia). This increased expenditure, however, was offset by a higher level of capitalisation of oil and gas exploration expenditure, primarily in Australia. This resulted in exploration expense being US$17 million lower than last year.

Expenditure on business development was US$166 million higher than last year mainly due to the pre-feasibility study on the Olympic Dam expansion and other Base Metals activities.

Other

Other items increased Underlying EBIT by US$36 million. These included higher insurance recoveries than last year partially offset by a lower contribution from freight and other activities.

Year ended 30 June 2006 to year ended 30 June 2005

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 commentary details the approximate impact of the principal factors that affected EBIT and Underlying EBIT for FY2006 compared with FY2005.

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

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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 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 Metallurgical Coal, Iron Ore and Petroleum products), increased treatment and refining charges (TCRCs), and price participation charges for copper and higher LME-linked power charges in Aluminium.

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 relative to the US dollar were applied:

	Year ended 30 June 2006 Average	Year ended 30 June 2005 Average	**30 June 2006 Closing**	30 June 2005 Closing
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.

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

Year ended 30 June 2007 to year ended 30 June 2006

Net finance costs decreased to US$390 million, from US$505 million in the prior year. This was driven predominantly by higher capitalised interest, partially offset by higher average interest rates and foreign exchange impacts.

Year ended 30 June 2006 to year ended 30 June 2005

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

Year ended 30 June 2007 to year ended 30 June 2006

The total taxation expense on profit before tax was US$4,515 million, representing an effective rate of 25.1 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 2.2 per cent due to the impact of foreign exchange gains and other translation adjustments (US$395 million), and a benefit of 1.4 per cent due to the recognition of prior year US tax benefits (US$282 million).

Year ended 30 June 2006 to year ended 30 June 2005

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).

Exceptional items

Year ended 30 June 2007

Impairment of South African coal operations - As part of our regular review of asset carrying values, a charge of US$142 million (net of taxation benefit of US$34 million) has been recorded in relation to coal operations in South Africa.

Newcastle Steelworks rehabilitation - We have recognised a charge of US$117 million (net of a taxation benefit of US$50 million) for additional rehabilitation obligations in respect of former operations at the Newcastle Steelworks (Australia). The increase in obligations relate to increases in the volume of sediment in the Hunter River requiring remediation and treatment and increases in treatment costs.