

Table of Contents

- Employee Share Ownership Trust, the BHP Performance Share Plan Trust and the BHP Bonus Equity Plan Trust and adjusting for the BHP Billiton Limited bonus share issue. Included in the calculation of fully diluted earnings per share are shares and options contingently issuable under Employee Share Ownership Plans.
- (b) On 1 July 2005, we changed our US accounting policy for pension and other post retirement benefits. Details of the impact on the FY2006 year, and pro forma disclosures for the FY2005 year had the policy been applied, are set out in note 39 "US Generally Accepted Accounting Principles disclosures" in the financial statements. Had the change in policy been applied to previous years, the impact on net income would not have been material in the FY2004, or FY2003 years. The impact on earnings per share would have been an increase of 0.6 US cents per share in FY2004, and decreases of 1.4 US cents per share in FY2003.
- (c) Effective 1 July 2006, the BHP Billiton Group has adopted IFRS 04-6 'Accounting for Shipping Costs Incurred During Production in the Mining Industry'. The change in accounting policy has been applied retrospectively for all periods presented above.

1.4.2 Operational information

Our Board and Executive Committee monitor a range of financial and operational performance indicators, reported on a monthly basis, to measure performance over time. We also monitor a comprehensive set of health, safety, environment and community contribution indicators

	2007	30 June 2006	2005
People and Licence to operate - Health, safety, environment and community			
Total Recordable Injury Frequency Rate (TRIFR) ^(a)	7.4	8.7	8.7
Voluntary community contribution (US\$M) ^(a)	103.4	81.3	57.4
Production			
Total petroleum products (Million barrels of oil equivalent)	116.19	117.36	118.88
Alumina and aluminium ('000 tonnes)	5,800	5,549	5,512
Copper cathode and concentrate ('000 tonnes)	1,250.1	1,267.8	1,034.0
Nickel ('000 tonnes)	186.3	174.9	91.9
Iron ore ('000 tonnes)	99,424	97,072	96,745
Metallurgical coal ('000 tonnes)	38,429	35,643	37,393
Energy coal ('000 tonnes)	87,025	85,756	87,416

(a) Refer to section 11 'Glossary' for definitions

1.5 Risk factors

We believe that, because of the international scope of our operations and the industries in which we are engaged, numerous factors have an effect on our results and operations. The following describes the material risks that could affect the BHP Billiton Group.

Fluctuations in commodity prices may negatively impact our results

The prices we obtain for our oil, gas, minerals and other commodities are determined by, or linked to, prices in world markets, which have historically been subject to substantial variations. Our usual policy is to sell our products at the prevailing market prices. The diversity provided by the Group's broad portfolio of commodities may not fully insulate the effects of price changes. Fluctuations in commodity prices can occur due to sustained price shifts reflecting underlying global economic and geopolitical factors, industry demand and supply balances, product substitution and national tariffs. Additionally, volatility in prices for most of our commodities will occur. The synchronisation of global commodity markets and influence of demand from China has impacted, and may continue to impact, price volatility. The influence of hedge and other financial investment funds participating in commodity markets has increased in recent years, contributing to higher levels of price volatility. The impact of potential longer-term sustained price shifts and shorter-term price volatility creates the risk that our financial and operating results and asset values will be materially and adversely affected by unforeseen declines in the prevailing prices of our products.

Our profits may be negatively affected by currency exchange rate fluctuations

Our assets, earnings and cash flows are influenced by a wide variety of currencies due to the geographic diversity of the countries in which we operate. Fluctuations in the exchange rates of those currencies may have a significant impact on our financial results. The US dollar is the currency in which the majority of our sales are denominated. Operating costs are influenced by the currencies of those countries where our mines and processing plants are located and also by those currencies in which the costs of imported equipment and services are determined. The Australian dollar, South African rand, Chilean peso,

Brazilian real and US dollar are the most important currencies influencing our operating costs. Given the dominant role of the US currency in our affairs, the US dollar is the currency in which we measure our financial performance. It is also the natural currency for borrowing and holding surplus cash. We do not generally believe that active currency hedging provides long-term benefits to our shareholders. We may consider currency protection measures appropriate in specific commercial circumstances, subject to strict limits established by our Board. Therefore, in any particular year, currency fluctuations may have a significant impact on our financial results.

Failure to discover new reserves, enhance existing reserves or develop new operations may negatively affect our future results and financial condition

The increased demand for commodities in recent years has resulted in existing reserves being depleted at an accelerated rate. Because most of our revenues and profits are related to our oil and gas and minerals operations, our results and financial conditions are directly related to the success of our exploration and acquisition efforts and our ability to replace existing reserves. The rapid growth in demand for mining and petroleum industry-related technical skills, supplies and critical equipment has led to shortages and delays in these areas. The depletion of reserves has necessitated exploration and development of new operations in less-developed countries, which may increase land tenure and related political risks. A failure in our ability to discover new reserves, enhance existing reserves or develop new operations in sufficient quantities to maintain or grow the current level of our reserves could negatively affect our results, financial condition and prospects.

The influence of China may negatively impact our results in the event of a slowdown in consumption

The Chinese market has become a significant source of global demand for commodities. China now represents in excess of 45 per cent of global seaborne iron ore demand, 22 per cent of copper, 25 per cent of aluminium and 17 per cent of nickel demand. China's demand for these commodities has more than doubled in the last five years.

Whilst this increase represents a significant business opportunity, our exposure to China's economic fortunes and economic policies has increased. Sales into China generated US\$9.3 billion, or 19.6 per cent of revenue including our share of jointly controlled entities' revenue in the year ended 30 June 2007.

In recent times, we have seen a synchronised global recovery, resulting in upward movement in commodity prices driven partly by China's demand. This synchronised demand has introduced increased volatility in the Group's commodity portfolio. Whilst this synchronised demand has, in recent periods, resulted in higher prices for the commodities we produce, a slowing in China's economic growth could result in lower prices for our products and therefore reduce our revenues.

In response to its increased demand for commodities, China is increasingly seeking self-sufficiency in key commodities, including investments in additional developments in other countries. These investments may impact future demand and supply balances and prices.

Actions by governments or political events in the countries in which we operate could have a negative impact on our business

We have operations in many countries around the globe, some of which have varying degrees of political and commercial stability. We operate in emerging markets, which may involve additional risks that could have an adverse impact upon the profitability of an operation. These risks could include terrorism, civil unrest, nationalisation, renegotiation or nullification of existing contracts, leases, permits or other agreements, and changes in laws and policy, as well as other unforeseeable risks. Risks relating to bribery and corruption may be prevalent in some of the countries in which we operate. If one or more of these risks occurs at one of our major projects, it could have a negative effect on the operations in those countries, as well as our overall operating results and financial condition.

Our business could be adversely affected by new government regulation such as controls on imports, exports and prices, new forms or rates of taxation and royalties. Increasing requirements relating to regulatory, environmental and social approvals can potentially result in significant delays in construction, and may adversely impact upon the economics of new mining and oil and gas properties, the expansion of existing operations and our results of operations.

In South Africa, the Mineral and Petroleum Resources Development Act (2002) (MPRDA) came into effect on 1 May 2004. The law provides for the conversion of existing mining rights (so called 'Old Order Rights') to rights under the new regime ('New Order Rights'), subject to certain undertakings to be made by the company applying for such conversion. The Broad Based Socio Economic Empowerment Charter (Mining Charter), published under the MPRDA, requires that mining companies achieve

[Table of Contents](#)

15 per cent ownership by historically disadvantaged South Africans of South African mining assets within five years, and 26 per cent ownership within 10 years. If we are unable to convert our South African mining rights in accordance with the MPRDA and the Mining Charter, we could lose some of those rights.

We operate in several countries where ownership of land is uncertain and where disputes may arise in relation to ownership. In Australia, the Native Title Act (1993) provides for the establishment and recognition of native title under certain circumstances. In South Africa, the Extension of Security of Tenure Act (1997) and the Restitution of Land Rights Act (1994) provide for various landholding rights. These Acts could negatively affect new or existing projects.

We may not be able to successfully integrate our acquired businesses

We have grown our business in part through acquisitions. We expect that some of our future growth will stem from acquisitions. There are numerous risks encountered in business combinations, and we may not be able to successfully integrate acquired businesses or generate the cost savings and synergies anticipated, which could negatively affect our financial condition and results of operations.

We may not recover our investments in mining and oil and gas projects

Our operations may be impacted by changed market or industry structures, commodity prices, technical operating difficulties, inability to recover our mineral, oil or gas reserves and increased operating cost levels. These may impact the ability for assets to recover their historical investment and may require financial write-downs adversely impacting our financial results.

Our non-controlled assets may not comply with our standards

Some of our assets are controlled and managed by joint venture partners or by other companies. Some joint venture partners may have divergent business objectives that may impact business and financial results. Management of our non-controlled assets may not comply with our health, safety, environment, and other standards, controls and procedures. Failure to adopt equivalent standards, controls and procedures at these assets could lead to higher costs and reduced production and adversely impact our results and reputation.

Operating cost pressures and shortages could negatively impact our operations and expansion plans

The strong commodity cycle and large numbers of projects being developed in the resources industry has led to increased demand for, and shortages in, skilled personnel, contractors, materials and supplies that are required as critical inputs to our existing operations and planned developments. Labour unions may seek to secure an increased share of the economic rent in the current environment. A number of key cost inputs consumed in our operations are commodity price-linked and have consequently been impacted by the higher commodity price environment. These factors have led, and could continue to lead to, increased capital and operating costs at existing operations, as well as impacting the cost and schedule of projects under development. Industrial action may impact our operations resulting in lost production and revenues.

We have undertaken, and may continue to undertake, activities to improve the cost and operating performance of our operations via our business excellence initiatives. These initiatives may not be successfully implemented, and potential operating cost and production benefits may not be fully realised.

Health, safety and environmental exposures and related regulations may impact our operations and reputation negatively

The nature of the industries in which we operate means our activities are highly regulated by health, safety and environmental laws. As regulatory standards and expectations are constantly developing, we may be exposed to increased litigation, compliance costs and unforeseen environmental remediation expenses.

Potential health, safety and environmental events that may materially impact our operations include fall of ground incidents in underground mining operations, aircraft incidents, explosions or gas leaks, incidents involving mobile equipment, uncontrolled tailings breaches or escape of polluting substances.

Longer-term health impacts may arise due to unanticipated workplace exposures by employees or site contractors. These effects may create future financial compensation obligations.

We provide for mine and site remediation. Changes in regulatory or community expectations may result in the relevant plans not being adequate. This may impact financial provisioning and costs at the affected operations.

[Table of Contents](#)

We contribute to the communities in which we operate by providing skilled employment opportunities, salaries and wages, taxes and royalties and community development programs. Notwithstanding these actions, local communities may become dissatisfied with the impact of our operations, potentially affecting costs and production, and in extreme cases viability.

Legislation (such as REACH) requiring manufacturers, importers and downstream users of chemical substances, including metals and minerals, to establish that the substances can be used without negatively affecting health or the environment may impact our operations and markets. These potential compliance costs, litigation expenses, regulatory delays, remediation expenses and operational costs could negatively affect our financial results.

We may continue to be exposed to increased operational costs due to the costs and lost time associated with the HIV/AIDS and malaria infection rate of our African workforce. Because we operate globally, we may be affected by potential avian flu outbreaks in any of the regions in which we operate. The effects of avian flu may manifest themselves directly on employees, offices and operations, or indirectly on customers and markets. Despite our best efforts and best intentions, there remains a risk that health, safety and/or environmental incidents or accidents may occur that may negatively impact our reputation or licence to operate.

Unexpected natural and operational catastrophes may impact our operations

We operate extractive, processing and logistical operations in many geographic locations, both onshore and offshore. Our operational processes and geographic locations may be subject to operational accidents such as port and shipping incidents, fire and explosion, pitwall failures, loss of power supply, railroad incidents and mechanical failures. Our operations may also be subject to unexpected natural catastrophes such as earthquakes, flood, hurricanes and tsunamis. Existing insurance arrangements may not provide protection for all of the costs that may arise from such events. The impact of these events could lead to disruptions in production and loss of facilities adversely affecting our financial results.

Climate change and greenhouse effects may adversely impact our operations and markets

We are a major producer of energy-related products such as energy coal, oil, gas, liquefied natural gas and uranium. Energy is also a significant input in a number of our mining and processing operations. There is growing recognition that energy consumption is a contributor to global warming, greenhouse effects and potentially climate change.

A number of governments or governmental bodies have introduced or are contemplating regulatory change in response to the potential impacts of climate change. The December 1997 Kyoto Protocol established a set of greenhouse gas emission targets for developed countries that have ratified the Protocol. The European Union Emissions Trading System (EU ETS), which came into effect on 1 January 2005, has had an impact on greenhouse gas and energy-intensive businesses based in the EU. Our petroleum assets in the UK are currently subject to the EU ETS, as are our EU based customers. Elsewhere, there is current and emerging regulation, such as the mandatory renewable energy target in Australia or potential carbon trading regimes that will affect energy prices. From a medium and long-term perspective, we are likely to see changes in the margins of our greenhouse gas-intensive assets and energy-intensive assets as a result of regulatory impacts in the countries in which we operate. These regulatory mechanisms may be either voluntary or legislated and may impact our operations directly or indirectly through our customers. Inconsistency of regulations may also change the attractiveness of the locations of some of our assets. Assessments of the potential impact of future climate change regulation are uncertain, given the wide scope of potential regulatory change in the 25 or more countries in which we operate.

The potential physical impacts of climate change on our operations are highly uncertain, and will be particular to the geographic circumstances. These may include changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities, and changing temperature levels. These effects may adversely impact the cost, production and financial performance of our operations.

Our human resource talent pool may not be adequate to support the Group's growth

The current strong commodity cycle and our pipeline of development projects have increased demand for highly skilled executives and staff with relevant industry and technical experience. The inability of the Group and industry to attract and retain such people may adversely impact our ability to adequately resource development projects and fill roles and vacancies in existing operations. Similar shortages have also impacted, and may continue to affect, key engineering, technical service, construction and maintenance contractors utilised by us in development projects and existing operations. These shortages may adversely impact the cost and schedule of development projects and the cost and efficiency of existing operations.

Breaches in our information technology (IT) security processes may adversely impact the conduct of our business activities

We maintain global IT and communication networks and applications to support our business activities. IT security processes protecting these systems are in place and subject to assessment as part of the review of internal control over financial reporting. These processes may not prevent future malicious action or fraud by individuals or groups, resulting in the corruption of operating systems, theft of sensitive data, misappropriation of funds and disruptions to our business operations.

A breach in our governance processes may lead to regulatory penalties and loss of reputation

We operate in a global environment straddling multiple jurisdictions and complex regulatory frameworks. Our governance and compliance processes, which include the review of internal control over financial reporting, may not prevent future potential breaches of law, accounting or governance practice. Our Guide to Business Conduct and Anti-trust Protocols may not prevent non-adherence to business conduct protocols or instances of fraudulent behaviour and dishonesty. These may lead to regulatory fines, loss of operating licences and loss of reputation.

1.6 Forward looking statements

This Annual Report contains forward looking statements, including statements regarding:

- estimated reserves
- trends in commodity prices
- demand for commodities
- plans, strategies and objectives of management
- closure or divestment of certain operations or facilities (including associated costs)
- anticipated production or construction commencement dates
- expected costs or production output
- anticipated productive lives of projects, mines and facilities
- provisions and contingent liabilities.

Forward looking statements can be identified by the use of terminology such as ‘intend’, ‘aim’, ‘project’, ‘anticipate’, ‘estimate’, ‘plan’, ‘believe’, ‘expect’, ‘may’, ‘should’, ‘will’, ‘continue’ or similar words. These statements discuss future expectations concerning the results of operations or financial condition, or provide other forward looking statements.

These forward looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this Annual Report.

For example, our future revenues from our operations, projects or mines described in this Annual Report will be based, in part, upon the market price of the minerals, metals or petroleum produced, which may vary significantly from current levels. These variations, if materially adverse, may affect the timing or the feasibility of the development of a particular project or the expansion of certain facilities or mines.

Other factors that may affect the actual construction or production commencement dates, costs or production output and anticipated lives of operations, mines or facilities include our ability to profitably produce and transport the minerals, petroleum and/or metals extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the minerals, petroleum or metals we produce; activities of government authorities in some of the countries where we are exploring or developing these projects, facilities or mines, including increases in taxes, changes in environmental and other regulations and political uncertainty; and other factors identified in the description of the risk factors above.

We cannot assure you that our estimated economically recoverable reserve figures, closure or divestment of such operations or facilities, including associated costs, actual production or commencement dates, cost or production output or anticipated lives of the projects, mines and facilities discussed in this Annual Report, will not differ materially from the statements contained in this Annual Report.

Except as required by applicable regulations or by law, the Group does not undertake any obligation to publicly update or review any forward looking statements, whether as a result of new information or future events.