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Iron ore: Demand-driven tightness drove benchmark contract settlements to record levels in July 2008, with spot prices in excess of US$180/t CFR. By October 2008, spot prices were back below US$70/t CFR as production cuts by most major steel producers severely curtailed iron ore demand. Spot prices in the second half of FY2009 have oscillated between US$63/t and US$85/t, with the low-side under-pinned by higher marginal production and transport costs, and the upside capped by still languishing global steel demand. Towards the end of FY2009, early signs of steel re-stocking in developed markets were driving improved iron ore demand in those regions. Australian iron ore benchmark prices were settled in parts of Asia and Europe at a 33 per cent reduction for fines and a 44 per cent reduction for lump.

Metallurgical coal: Record high benchmark prices and even higher spot prices were observed early in FY2009. However, by the end of the first half of FY2009, the protracted deterioration in steel market demand saw many customers formally requesting cancellation of contract tonnages and a number of producers, including BHP Billiton, announcing production cutbacks. As a consequence of the reduced demand, spot prices fell markedly and only import demand from China provided the pricing support that enabled benchmark prices to be set at US$128-129/t for premium hard coking coal. Spot prices fell below this level on a FOB equivalent basis in the third quarter but have strengthened above this level at the financial year-end on increased demand in China and India, and with the first signs of re-stocking demand from the traditional seaborne market in Europe and Japan. Industry spot shipments towards the end of FY2009 were being settled at premiums of between five and 25 per cent above the Japanese benchmark.

Manganese alloys and ores: Manganese alloy prices declined across the whole financial year driven by customer de-stocking and low levels of steel production in all regions. Manganese ore spot prices (CIF China) increased sharply due to high demand until October 2008. Thereafter, manganese ore prices declined rapidly from November 2008 due to demand slowing down, resulting in oversupply. Prices and volumes for alloy started to pick up from a low base in late June 2009. Underlying manganese ore demand started to recover by early the third quarter of FY2009 and de-stocking accelerated before levelling out at the end of FY2009.

Energy coal: Record high prices of around US$190/t were observed in early July 2008 in the energy coal market, but these declined driven by low demand for coal in March and April 2009 due to milder weather in Europe, and general negative macroeconomic sentiment. Prices reached a low of around US$60/t before Chinese power generators took advantage of the low import prices relative to domestic prices and absorbed much of the oversupply. With Indian demand also increasing Pacific prices stabilised at US$60-75/t over May-June and sales have recently occurred at a US$10-15/t premium over Atlantic prices.

The following table indicates the estimated impact on FY2009 profit after taxation of changes in the prices of our most significant 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 FY2009 actual results and sales prices of our commodities under a mix of short-, medium- and long-term contracts. Movements in commodity prices can cause movements in exchange rates and vice versa. These sensitivities should therefore be used with care.

	US$M
Estimated impact on FY2009 profit after taxation of changes of:	
US$1/bbl on oil price	37
US¢1/lb on aluminium price	24
US¢1/lb on copper price	24
US¢1/lb on nickel price	2
US$1/t on iron ore price	74
US$1/t on metallurgical coal price	22
US$1/mtu manganese ore	82
US$1/t on manganese alloy	0.3
US$1/t on energy coal price	9

The impact of the commodity price movements in FY2009 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 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. 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, Chilean peso and Brazilian real weakened against the US dollar during FY2009, while the South African rand was relatively unchanged.

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 closure and rehabilitation provisions at operating sites where foreign currency gains and losses are capitalised in property, plant and equipment).

Details of our exposure to foreign currency fluctuations are contained within note 30 ‘Financial risk management’ to the financial statements.

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 30 ‘Financial risk management’ 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. As at 30 June 2009, we had US$8.3 billion of fixed interest borrowings that had not been swapped to floating rates, arising principally from debt raised during the financial year that has not been converted back to floating rates and legacy positions that were in existence prior to the merger that created the DLC structure. Our strategy has not changed and we intend to swap the fixed interest rate debt raised during FY2009 to floating interest rates when conditions to do so are appropriate. Since 30 June 2009 we have commenced swapping the fixed rate debt raised during the year to floating rates.

3.4.4 Changes in product demand

Over the past financial year, the global economy has deteriorated rapidly as a result of a significant decline in consumer demand stemming from the financial crisis. This impacted all countries through lower levels of trade, compounded by falls in private investment. Although economic data over recent months indicates a stabilisation across many key indicators, in general, economic indicators remain weak by past standards and any assumption of a quick return to historical trend growth may be premature.

Government initiated economic stimulus packages have steadied the financial markets in the developed and developing economies. Bank funding costs dropped from their record highs in October 2008 to more normal levels by the end of June 2009. However, credit growth across developed economies remains weak as households and businesses attempt to take the risk out of their balance sheets. Unemployment is still rising in many economies, albeit at a slower rate.

As with all economic stimulus policies, the degree of support will be difficult to measure and there remains uncertainty about economic growth beyond the period of each specific program. In China, the response has been a sharp increase in investment that has accelerated a range of existing infrastructure and construction projects. This has provided strong support to short-term economic growth.

If the recent stabilisation in the key indicators persists, many economies will improve economic output over the short term to rebuild inventory. However, structural economic problems will take time to correct and may hold back growth over the medium term.

3.4.5 Operating costs and capital expenditure

The rate of cost increase experienced in prior periods has moderated in the second half of FY2009. However, despite changing market conditions and the dramatic economic downturn, prices remain high for some of our key input products. As input costs fall, the benefit is lagged due to the length of some supplier contracts. Achieving cost efficiencies continues to be critical in our business, and we continue to do so through various cost containment projects, knowledge-sharing across operations and strong supplier relationships.

Our commitment to long-term growth and shareholder value remains unchanged, and we continued to invest strongly in capital expenditure and growth projects. Details of our growth projects can be found in section 3.7.2.

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

As the world's largest diversified natural resources company, our operations touch every corner of the globe. We embrace our responsibility to work towards making a contribution to the long-term sustainability of the communities in which we operate. We remain committed to ensuring the safety of our people and respecting the environment and the communities where we work.

We are subject to extensive regulation surrounding health and safety of our people and the environment. We make every effort to comply with the regulations and, where less stringent than our standards, exceed applicable legal and other requirements. However, regulatory standards and community expectations are constantly evolving, and 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.

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3.4.8 Insurance

During FY2009 we maintained an insurance program with policies encompassing property damage, business interruption, public and certain other liabilities and directors and officers' exposures. The program includes a combination of self-insurance via subsidiary captive insurance companies, industry mutuals and external market re-insurance. Mandates are established as to risk retention levels, policy cover and re-insurance counterparties. These are reviewed annually.

During FY2009, as part of our portfolio risk management policy, we conducted an assessment of loss experience, claims received and insurance premiums paid. Effective from 1 July 2009, we have moved to a largely self-insurance based risk retention strategy for property damage and business interruption losses. Any losses incurred will consequently impact the financial statements as they arise.

We internally insure our operations (for wholly-owned assets and for our share of joint venture assets) for property damage and business interruption via our captive insurance companies.

3.5 Application of critical accounting policies

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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, 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.

We have identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods:

- reserve estimates
- exploration and evaluation expenditure
- development expenditure
- property, plant and equipment—recoverable amount
- defined benefit pension schemes
- provision for closure 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

3.6.1 Consolidated results

Year ended 30 June 2009 compared with year ended 30 June 2008

Our 2009 financial year results demonstrate the success of our strategy in delivering a consistently strong performance throughout the cycle. Our portfolio of long-life, low-cost and diversified assets continued to yield strong margins and cash flows, despite the pressures of the current economic environment. Our low financial and operational leverage and a strong balance sheet enabled us to continue to invest in future growth.

The past year encompassed both record commodity prices in many products and a collapse in demand, exacerbated by dramatic movements in inventory levels. While the impact of weaker commodity prices and collapsing demand presented a major challenge to many companies, our Underlying EBIT margin and return on capital remained very healthy at 40.1 per cent and 24.6 per cent respectively.

While Underlying EBIT decreased by 25.0 per cent to US$18,214 million, we generated record net operating cash flows (up six per cent to US$18,863 million). The outstanding cash flow result has allowed us to reduce our net debt to US$5,586 million and continue to invest strongly in our capital and exploration programs (US$10,735 million).

The Group's financial strength has been a clear competitive advantage during the severe economic downturn. It leaves us well positioned to invest in growth and participate in opportunistic mergers and acquisitions. The Western Australia Iron Ore production joint venture with Rio Tinto is an example of our focused pursuit of capacity growth in tier one assets. More importantly for our shareholders, our balance sheet strength has allowed us to maintain our progressive dividend policy, increasing our full year dividend by 17.1 per cent to 82 US cents per share.

Nevertheless, we were not insulated from the swift and dramatic economic downturn and took decisive actions in response to changing market conditions. This included the decision not to proceed with the Rio Tinto takeover offers, production adjustments to match decreased demand, the suspension and sale of cash negative operations and deferral of lower priority capital expenditures.

Our profit attributable to members of BHP Billiton of US$5.9 billion represents a decrease of 61.8 per cent from the corresponding period. Attributable profit excluding exceptional items of US$10.7 billion represents a decrease of 30.2 per cent from the corresponding period.

Revenue was US$50.2 billion, a decrease of 15.6 per cent from US$59.5 billion in the corresponding period.

On 12 August 2009, the Board declared a final dividend of 41 US cents per share, thus bringing the total dividends declared for FY2009 to 82 US cents per share.

Year ended 30 June 2008 compared with year ended 30 June 2007

Our profit attributable to members of BHP Billiton of US$15.4 billion represented an increase of 14.7 per cent over FY2007. Attributable profit excluding exceptional items of US$15.4 billion represented an increase of 12.4 per cent over FY2007. It was our seventh consecutive record annual result, with record Underlying EBIT generated by the Petroleum, Base Metals, Iron Ore, Manganese and Energy Coal CSGs.

Revenue was US$59.5 billion, up 25.3 per cent from US$47.5 billion in FY2007.

On 18 August 2008, the Board declared a final dividend of 41 US cents per share, thus bringing the total dividends declared for FY2008 to 70 US cents per share. During the year, 96,904,086 shares, or 1.7 per cent of the issued share capital of the Group, were repurchased. Capital management initiatives are discussed in section 3.7.6 of this Report.

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' in the income statement, excluding the effects of exceptional items.

We exclude exceptional items from Underlying EBIT in order to enhance the comparability of the measure from period to period and provide clarity into the underlying performance of our operations. Our management monitors exceptional items separately.

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

The following table reconciles Underlying EBIT to profit from operations for the years ended 30 June 2009, 2008 and 2007.

Year ended 30 June	2009 US$M	2008 US$M	2007 US$M
Underlying EBIT	**18,214**	24,282	20,067
Exceptional items (before taxation)	**(6,054)**	(137)	(343)
Profit from operations (EBIT)	**12,160**	24,145	19,724

The following tables and commentary describe the approximate impact of the principal factors that affected Underlying EBIT for FY2009 and FY2008.

	US$M	US$M
Year ended 30 June 2008		**24,282**
Change in volumes:		
Increase in volumes	**158**	
Decrease in volumes	**(2,523)**	
		(2,365)
Net price impact:		
Change in sales prices	**(3,994)**	
Price-linked costs	**12**	
		(3,982)
Change in costs:		
Costs (rate and usage)	**(2,528)**	
Exchange rates	**2,456**	
Inflation on costs	**(601)**	
		(673)
Asset sales		**(81)**
Ceased and sold operations		**15**
New and acquired operations		**(158)**
Exploration and business development		**(104)**
Other		**1,280**
Year ended 30 June 2009		**18,214**

	US$M	US$M
Year ended 30 June 2007		20,067
Change in volumes:		
Increase in volumes	805	
Decrease in volumes	(596)	
New operations	1,619	
		1,828
Net price impact:		
Change in sales prices	6,693	
Price-linked costs	(134)	
		6,559
Change in costs:		
Costs (rate and usage)	(1,183)	
Exchange rates	(1,133)	
Inflation on costs	(532)	
		(2,848)
Asset sales		28
Ceased and sold operations		(154)
Exploration and business development		(404)
Other		(794)
Year ended 30 June 2008		24,282

Year ended 30 June 2009 compared with year ended 30 June 2008

Profit from operations (EBIT) for FY2009 was US$12.2 billion, compared with US$24.1 billion in the corresponding period, a decrease of 49.6 per cent. Underlying EBIT for FY2009 was US$18.2 billion, compared with US$24.3 billion, a decrease of 25.0 per cent.

Volumes

Lower sales volumes, predominantly in Base Metals and Manganese, reduced Underlying EBIT by US$2,523 million. Copper sales volumes were impacted by lower ore grade and reduced output from milling operations at Escondida (Chile). Manganese sales volumes decreased significantly due to weaker demand.

This was partially offset by stronger volumes, predominantly in Iron Ore, which increased Underlying EBIT by US$158 million.

Prices

Underlying EBIT decreased by US$3,994 million (excluding the impact of newly commissioned projects) due to changes in commodity prices. Lower average realised prices for commodities such as crude oil, copper, nickel, aluminium, alumina and diamonds reduced Underlying EBIT by US$10,193 million. Despite the prices rallying in the second half of the financial year, spot commodity prices as at 30 June 2009 were generally 20 to 60 per cent lower than at the start of the financial year. This was partially offset by higher average realised prices for metallurgical coal, iron ore, manganese and thermal coal, which increased Underlying EBIT by US$6,199 million.

Price-linked costs were largely in line with the corresponding period. Decreased charges for third party nickel ore and more favourable rates for copper treatment and refining charges (TCRCs) were offset by higher royalty costs.

Additional detail on the effect of price changes appears in section 3.4.1.

Costs

Costs increased by US$2,528 million compared with the corresponding period. This included the impact of higher non-cash costs of US$153 million. Approximately US$601 million of the increase was due to higher costs for fuel and energy, and raw materials such as coke, sulphuric acid, pitch and explosives. In addition, labour and contractor costs have increased by US$578 million. Costs associated with the FY2008 severe weather interruptions in Queensland and the furnace rebuild at the Kalgoorlie Nickel Smelter (Australia), had an adverse impact of US$561 million.

The bulk of the cost increases took place in the first half of the financial year. Discretionary costs previously incurred to maximise production to realise high prices in the first half of the financial year were successfully reduced. We have also successfully negotiated lower contract prices for some of our key supply contracts.

While we continue to focus on cost containment, the benefits of falling input prices will have a lagged effect on reducing costs.

Exchange rates

Despite the recent strength in the Australian dollar and South African rand versus the US dollar, exchange rate movements positively impacted Underlying EBIT by US$2,456 million. The Australian operations' Underlying EBIT increased by US$2,085 million due to a generally weaker Australian dollar. The depreciation of the South African rand also positively impacted Underlying EBIT by US$225 million.

Average and closing exchange rates for FY2009 and FY2008 are detailed in note 1 to the financial statements.

Inflation on costs

Inflationary pressures on input costs across all our businesses had an unfavourable impact on Underlying EBIT of US$601 million. The inflationary pressures were most evident in Australia, South Africa and South America.

Asset sales

The sale of assets reduced Underlying EBIT by US$81 million. This was mainly due to the sale of the Elouera mine (Illawarra Coal, Australia) and other Queensland Coal mining leases in the corresponding period. However, this was in part offset by the profit on sale of petroleum leases located offshore of Western Australia.

Ceased and sold operations

The favourable impact of US$15 million was mainly due to higher insurance recoveries for closed operations.

New and acquired operations

New and acquired operations represents the effect on Underlying EBIT of acquisitions and new greenfield operations during the period between acquisition or commissioning and the end of the fiscal year at which a full year of comparative financial information is available. Atlantis (US) and Stybarrow (Australia) operations, which were commissioned in FY2008, contributed to a negative variance of US$258 million. This was due to lower realised prices, partially offset by higher sales volumes. The Shenzi and Neptune (both US) operations, which were commissioned during FY2009 generated US$100 million Underlying EBIT during the 2009 financial year.

Exploration and business development

Exploration expense for the year was US$1,074 million, an increase of US$168 million. The main expenditure for Petroleum was on targets in the Gulf of Mexico (US), Malaysia and Australia. We are also progressing with minerals exploration activities in Western Australia Iron Ore and potash in Saskatchewan, Canada. During the financial year, we incurred US$94 million of exploration expense for potash.

Expenditure on business development was US$64 million lower than last year. This was mainly due to lower spending on the pre-feasibility study for the Olympic Dam expansion project and business development activities for diamonds projects. The draft Environmental Impact Statement (EIS) for the Olympic Dam expansion has been submitted to the federal, South Australian and Northern Territory governments for review. Project activities have been modified to that necessary to support the approvals process and the study of a number of mining and processing technology options.

Other

Other items increased Underlying EBIT by US$1,280 million, US$887 million of which was due to the contribution of third party product sales and the reversal of unrealised losses on derivative contracts.

Year ended 30 June 2008 compared with year ended 30 June 2007

Profit from operations (EBIT) for FY2008 was US$24.1 billion, compared with US$19.7 billion in FY2007, an increase of 22.4 per cent. Underlying EBIT for FY2008 was US$24.3 billion, compared with US$20.1 billion in FY2007, an increase of 21.0 per cent.

Base Metals, Iron Ore, Manganese and Energy Coal had record Underlying EBIT at a time when prices were high, reflecting strong demand. In Petroleum, newly commissioned projects in fiscally stable regimes, 93.8 per cent operational up time and record high prices led to record Underlying EBIT. The following commentary details the approximate impact of the principal factors that affected EBIT and Underlying EBIT for FY2008 when compared with FY2007.

Volumes

Strong volume growth reflected our commitment to deliver more product, more quickly to our customers. During FY2008, we delivered strong growth in sales volumes, allowing us to take advantage of the continued strong customer demand.

Newly commissioned petroleum projects and the continued ramp-up of the Spence (Chile) and Pinto Valley (US) copper projects contributed US$1,619 million to Underlying EBIT.

Higher sales volumes of copper, iron ore, manganese ore, energy coal, diamonds, alumina and aluminium increased Underlying EBIT by US$805 million. This was partially offset by lower nickel and metallurgical coal volumes, as well as oil and gas volumes from existing operations.

Prices

Net changes in price increased Underlying EBIT by US$6,693 million (excluding the impact of newly commissioned projects). This was due to higher iron ore, oil, manganese, energy coal and base metals prices.

Higher price-linked costs reduced Underlying EBIT by US$134 million primarily due to higher royalties and LME-linked costs in the aluminium business. This was offset by decreased charges for third party nickel ore and more favourable rates for copper treatment and refining charges (TCRCs).

Costs

Strong global demand for resources continued to provide cost challenges for the whole industry. This was mainly due to shortages of skilled labour and rising prices for other inputs such as diesel, coke and explosives. However, our world-class orebodies, strong supplier relationships, systems and capabilities of our people provided some relief against cost increases. In this environment, costs for the Group increased by US$1,183 million.

Approximately US$575 million of this increase in costs was due to higher fuel, energy and raw materials costs. Severe weather interruptions in Queensland also had an adverse cost impact. Other areas of cost increase included labour and contractor charges and shipping and freight costs. Our continued focus on the Business Excellence improvement program delivered US$225 million of cost reductions.

Exchange rates

Exchange rate movements had a negative impact on Underlying EBIT of US$1,133 million. All Australian operations were adversely impacted by the stronger Australian dollar, which reduced Underlying EBIT by US$986 million. The appreciation of South American currencies against the US dollar also adversely impacted Underlying EBIT by US$158 million.

Average and closing exchange rates for FY2008 and FY2007 are detailed in note 1 to the financial statements.

Inflation on costs

Inflationary pressures on input costs across all our businesses had an unfavourable impact on Underlying EBIT of US$532 million. These pressures were most evident in Australia and South Africa.

Asset sales

The sale of assets increased Underlying EBIT by US$28 million. This was mainly due to the sale of the Elouera mine (Illawarra Coal, Australia) and other Queensland Coal (Australia) mining leases. Asset sales in the corresponding period included the sale of one million tonnes of annual capacity at the Richards Bay Coal Terminal (South Africa), Moranbah Coal Bed Methane assets (Australia), the Koornfontein energy coal mine (South Africa) and the interest in Eyesizwe coal mine in South Africa.

Ceased and sold operations

The unfavourable impact of US$154 million was mainly due to lower insurance recoveries and movements in the closure and rehabilitation provisions for closed operations in FY2007.

Exploration and business development

We continued to focus on finding new long-term growth options for our business. Exploration expense was US$906 million during FY2008, an increase of US$284 million. We increased activity on nickel targets in Western Australia, Guatemala, Indonesia and the Philippines, on diamond targets in Angola and iron ore targets in Western Australia. The main expenditure for the Petroleum CSG was on targets in the Gulf of Mexico, Colombia and Australia.

Expenditure on business development was US$119 million higher than FY2007, mainly due to the pre-feasibility study on the Olympic Dam expansion along with earlier stage activities in Base Metals and Iron Ore.

Other

Other items decreased Underlying EBIT by US$794 million. The startup of operations at Ravensthorpe and the Yabulu Expansion Project (both Australia) adversely impacted earnings by US$313 million and contribution from third party trading was US$458 million lower compared with FY2007.

Net finance costs

Year ended 30 June 2009 compared with year ended 30 June 2008

Net finance costs decreased to US$543 million, from US$662 million in the corresponding period. This was driven predominantly by lower interest rates and foreign exchange impacts, partly offset by lower capitalised interest.

Year ended 30 June 2008 compared with year ended 30 June 2007

Net finance costs increased to US$662 million, from US$512 million in FY2007. This was driven predominately by lower capitalised interest and foreign exchange impacts.

Taxation expense

Year ended 30 June 2009 compared with year ended 30 June 2008

The taxation expense including tax on exceptional items was US$5,279 million. This represents an effective rate of 45.4 per cent on profit before tax, including exceptional items, of US$11,617 million. Excluding the impacts of exceptional items the taxation expense was US$6,488 million.

Exchange rate movements increased the taxation expense by US$444 million. The weaker Australian dollar against the US dollar has significantly reduced the Australian deferred tax assets for future tax depreciation since 30 June 2008. This was partly offset by the devaluation of local currency tax liabilities due to the stronger US dollar. Royalty-related taxation represents an effective rate of 4.3 per cent for the current period.

Excluding the impacts of royalty-related taxation, the impact of exchange rate movements included in taxation expense and tax on exceptional items, the underlying effective rate was 31.4 per cent.

Year ended 30 June 2008 compared with year ended 30 June 2007

The total taxation expense on profit before tax was US$7,521 million, representing an effective tax rate of 32.0 per cent (calculated as total taxation expense divided by profit before taxation).

Excluding the impacts of royalty-related taxation, non-tax-effected foreign currency adjustments, translation of tax balances and other functional currency translation adjustments and exceptional items, the underlying effective tax rate was 30.4 per cent, compared with the UK and Australian statutory tax rate (28 and 30 per cent respectively). Royalty-related taxation represents an effective rate of 3.1 per cent for FY2008.

Exceptional items

Year ended 30 June 2009

On 21 January 2009, we announced the suspension of operations at the Ravensthorpe nickel operations (Australia) and as a consequence stopped the processing of the mixed nickel cobalt hydroxide product at Yabulu