(4) Underlying return on capital is a non-IFRS measure. It represents net profit after tax, excluding exceptional items and net finance costs (after tax), divided by average capital employed. Capital employed is net assets plus net debt.

Year ended 30 June	2012 US$M	2011 US$M	2010 US$M
Profit after taxation excluding exceptional items and net finance costs:			
Profit after taxation	**15,532**	23,946	13,009
Net exceptional items after taxation	**1,741**	(1,964)	(253)
Profit after taxation excluding exceptional items [5][6]	**17,273**	21,982	12,756
Net finance costs	**730**	561	459
Income tax benefit of net finance costs [a]	**(239)**	(153)	(139)
Net finance costs (after taxation)	**491**	408	320
Profit after taxation excluding exceptional items and net finance costs [6]	**17,764**	22,390	13,076
Capital employed:			
Net assets	**67,085**	57,755	49,329
Net debt [b]	**23,607**	5,823	3,308
Capital employed	**90,692**	63,578	52,637
Average capital employed	**77,135**	58,108	49,467
Underlying return on capital	**23.0%**	38.5%	26.4%

[a] Calculated at a nominal tax rate of 30 per cent adjusted for non-deductibility/assessability of exchange variations on net debt of US$(65) million (2011: US$51 million; 2010: US$(5) million). Refer to note 6 ‘Net finance costs’ to the financial statements.

[b] Net debt comprising Interest bearing liabilities less Cash and cash equivalents at 30 June 2012 includes US$120 million Cash in Assets classified as held for sale and US$178 million Interest bearing liabilities in Liabilities classified as held for sale.

(5) Profit after taxation excluding exceptional items is a non-IFRS measure. It comprises Profit after taxation excluding exceptional items as defined in section 3.6.5.

(6) Non-IFRS measures have not been subject to audit or review.

The following are other measures that assist us to monitor our overall performance.

Health, safety, environment and community

We monitor a comprehensive set of health, safety, environment and community (HSEC) indicators, and we seek to be transparent in the reporting of our performance. Two key measures are the total recordable injury frequency and community investment.

Year ended 30 June	2012	2011	2010
Total recordable injury frequency	**4.7**	5.0	5.3
Community investment (US$M)	**214.1**	195.5	200.5

Further information about these measures can be found in section 2.8 ‘Sustainability’. These measures are a subset of Our Performance, which can be found in our Sustainability Report 2012 at www.bhpbilliton.com.

Production

A summary of our actual production volumes for FY2012 and the previous two financial years is shown below. Further details appear in section 2.3 ‘Production’.

Year ended 30 June	2012	2011	2010
Total Petroleum production (millions of barrels of oil equivalent)	**222.3**	159.4	158.6
Alumina (’000 tonnes)	**4,152**	4,010	3,841
Aluminium (’000 tonnes)	**1,153**	1,246	1,241
Copper (’000 tonnes)	**1,094.5**	1,139.4	1,075.2
Nickel (’000 tonnes)	**157.9**	152.7	176.2
Iron ore (’000 tonnes)	**159,478**	134,406	124,962
Manganese alloys (’000 tonnes)	**602**	753	583
Manganese ores (’000 tonnes)	**7,931**	7,093	6,124
Metallurgical coal (’000 tonnes)	**33,230**	32,678	37,381
Energy coal (’000 tonnes)	**71,111**	69,500	66,131

Financial strength and discipline

Financial strength is measured by Attributable profit and Underlying EBIT as overall measures, along with liquidity and capital management. Our credit rating, gearing and net debt are discussed in section 3.7.3. The final dividend declared for FY2012 maintains our progressive dividend policy.

Project pipeline and growth options

Our project pipeline focuses on commodities that are expected to be high-margin and create significant future value. The details of our project pipeline are located in sections 3.7.2 and 2.2 ‘Business overview’, with a summary presented below.

Year ended 30 June	2012	2011	2010
Project pipeline and growth options (major projects)			
Number of projects approved during the year	**8**	11	2
Number of projects currently under development (approved in prior years)	**12**	7	8
Number of completed projects	**6**	3	5
Budgeted capital expenditure for projects (approved in the year) (US$M)	**7,468**	12,942	695
Budgeted capital expenditure for projects under development (approved in prior years) (US$M)	**15,323**	11,575	10,075
Capital expenditure of completed projects (US$M)	**9,160**	1,202	4,738

We expanded our shale oil and gas operations during FY2012 when we acquired Petrohawk Energy Corporation (Petrohawk). The purchase price was US$12.0 billion, excluding the assumption of net debt of US$3.8 billion. Petrohawk’s operations have been combined with the operations of our Fayetteville shale gas interests, which we acquired in FY2011 for US$4.8 billion, to form our Onshore US business.

3.4 External factors and trends affecting our results

The following section describes some of the external factors and trends that have had a material impact on our financial condition and results of operations. We operate our business in a dynamic and changing environment and with information that is rarely complete and exact. We primarily manage the risks discussed in this section under our portfolio management approach, which relies on the effects of diversification, rather than individual risk management programs. Details of our risk factors may be found in section 1.5.1 ‘Risk factors’. Details of our financial risk management strategies and financial instruments outstanding at 30 June 2012 may be found in section 1.5.2 ‘Management of principal risks’ and in note 28 ‘Financial risk management’ to the financial statements.

Management monitors particular trends arising from external factors with a view to managing the potential impact on our future financial condition and results of operations. The following external factors could have a material adverse effect on our business and areas where we make decisions on the basis of information that is incomplete or uncertain.

3.4.1 Commodity prices

During FY2012, commodity markets were influenced by ongoing, unresolved sovereign debt concerns in Europe, a continuing gradual slowdown in China and uncertainty about the pace and sustainability of the US recovery, among other factors. In the case of steelmaking raw materials, Chinese demand growth decelerated, and combined with robust supply growth from seaborne sources, resulted in lower raw material prices than the previous year. The metals commodities attracted lower prices than the previous year as a result of declining demand in Europe and slower demand growth in China. For energy commodities, geopolitical tensions provided price support for crude oil, while US gas prices declined with unfavourable supply and demand conditions, despite significant coal to gas switching in the power sector.

The following table shows prices of our most significant commodities for the years ended 30 June 2012, 2011 and 2010. These prices represent selected quoted prices from the relevant sources as indicated. These prices will differ from the realised prices on the sale of the Group's production due to differences in quotational periods, quality of products, delivery terms and the range of quoted prices that are used for contracting sales in different markets.

Year ended 30 June	2012 Closing	2011 Closing	2012 Average	2011 Average	2010 Average
Aluminium (LME cash) (US$/t)	**1,835**	2,509	**2,168**	2,375	2,018
Alumina [1][2] (US$/t)	**305**	386	**334**	369	314
Copper (LME cash) (US$/lb)	**3.45**	4.22	**3.71**	3.92	3.04
Crude oil (WTI) [3] (US$/bbl)	**84.96**	95.42	**94.97**	89.47	75.14
Energy coal [4] (US$/t)	**89.22**	120.97	**111.95**	120.42	86.00
Natural gas Henry Hub [5] (US$/MMBtu)	**2.81**	4.39	**3.05**	4.16	4.21
Natural gas Asian Spot LNG [6] (US$/MMBtu)	**14.95**	13.80	**16.25**	10.41	6.12
Iron ore [7] (US$/dmt)	**135.25**	170.75	**151.17**	162.98	118.61
Manganese Alloys [8] (US$/t)	**1,250**	1,320	**1,260**	1,319	1,328
Manganese Ores [9] (US$/dmtu)	**5.06**	5.24	**4.90**	6.29	6.46
Metallurgical coal [10][11] (US$/t)	**176.5**	272.5	**210.45**	244.47	146.75
Nickel (LME cash) (US$/lb)	**7.47**	10.49	**8.77**	10.86	8.78

(1) 2012 Platts PAX Free on Board (FOB) Australia.

(2) 2011 and 2010 CRU FOB Australia.

(3) New York Mercantile Exchange West Texas Intermediate FOB Cushing.

(4) GlobalCoal FOB Newcastle 6,000kcal/kg NCV – typically applies to coal sales in the Asia Pacific market.

(5) Platts Gas based on Henry Hub – typically applies to gas sales in the US gas market.

(6) Platts Liquefied Natural Gas Delivery Ex-Ship (DES) Japan/Korea Marker – typically applies to Asian LNG spot sales.

(7) Platts 62 per cent Fe Cost and Freight (CFR) China – used for fines.

(8) Bulk FerroAlloy high-carbon ferromanganese (HCFeMn) US ex-warehouse.

(9) CRU Cost Insurance Freight (CIF) China import (M+1) 43 per cent contained.

(10) 2012 and 2011 Platts 64 Mid Volatile Index Hard coking coal FOB Australia.

(11) 2010 Tex Reports Hard coking coal FOB Australia.

The following summarises the pricing trends of our most significant commodities for FY2012. Where prices have decreased by more than 10 per cent since 30 June 2012, a more current price as at 31 August 2012 is indicated in the discussion below.

Aluminium: The London Metals Exchange (LME) aluminium cash settlement price decreased 27 per cent during FY2012. Ongoing macroeconomic weakness underpinned by slow Chinese growth and instability of the Eurozone, coupled with a well-supplied market, have contributed to falling price levels. Despite several Western smelter capacity curtailments, global supply has risen through the year, with production up seven per cent, driven predominantly by Chinese operations. Amidst stable underlying demand, LME aluminium stocks rose by nine per cent during FY2012 as warehouse financing deals remained attractive for investors.

Alumina: The Platts FOB Australia price decreased 21 per cent during FY2012 against a backdrop of macroeconomic uncertainty and oversupply of alumina in the market. The alumina market remained oversupplied, with the increase in demand more than offset by increased refinery production, predominantly in China.

Copper: The LME copper cash settlement price decreased 18 per cent during FY2012 mainly driven by weakening Chinese end-use demand growth and decreased consumption in developed countries. Mine supply growth has been relatively flat due to a high level of disruptions in the first half of FY2012, which has provided some support to prices. Chinese refined imports grew strongly during FY2012 following a major de-stock in FY2011, leading to a build-up of inventories in China and a relatively tight ex-China global market.

Crude oil: The New York Mercantile Exchange West Texas Intermediate (WTI) crude oil price decreased 11 per cent during FY2012. Broader macroeconomic uncertainty and increased US crude oil production were key drivers of this lower price. Geopolitical tensions supported WTI prices above US$100/bbl during the second half of FY2012 but had decreasing impact in May and June. An eight per cent increase in US commercial crude oil inventories over FY2012 added further downward pressure to the WTI price.

Energy coal: The Global Coal Newcastle FOB price decreased by 26 per cent during FY2012. In the energy coal market, FY2012 saw a strong supply side performance by all major producing regions that combined with favourable freight rates to ease the delivered cost of coal. Compounding this was the deterioration in the global economy, which underpinned the weakness in overall demand, albeit partially offset by significant Chinese coal imports and better than anticipated European demand.

Gas: The Platts US Henry Hub natural gas price decreased by 36 per cent during FY2012. This was driven by seasonal demand as a result of the fourth mildest winter on record in the United States and high production output. June 2012 storage levels were 27 per cent higher than the same time last year and were 25 per cent higher than the five-year average. The Asian liquefied natural gas spot price increased by eight per cent during FY2012, principally driven by incremental Japanese demand, as gas fired power generation was increasingly used to substitute suspended nuclear power capacity. The supply environment was also tight, driven by delays to greenfield projects, Middle East plant maintenance and disruptions and the limited availability of shipping to divert Atlantic cargoes to the Asian market. Since 30 June 2012, the Asian liquefied natural gas spot price has decreased to US$13.10/MMBtu on 31 August 2012.

Iron ore: The Platts 62 per cent iron ore CFR China price decreased by 21 per cent during FY2012, driven principally by increasing supply from traditional sources (Australia and Brazil). In absolute terms, global iron ore demand increased in line with rising pig iron production, as China maintained high steel output. In India, iron ore exports fell sharply following an export ban in the Karnataka state and a rise in export duties. Market transparency was enhanced by the launch of two new trading platforms for physical iron ore, namely GlobalOre and China Beijing Metals Exchange. Since 30 June 2012, the Platts 62 per cent iron ore CFR China price has decreased to US$90.50/dmt on 31 August 2012.

Manganese: During FY2012, the CRU CIF China 43 per cent ore import price (M+1) decreased by three per cent and the US spot high-carbon ferromanganese alloy price decreased by five per cent, as global steel production growth rates fell amid weakening macroeconomic conditions. Manganese ore and alloy demand weakened in the first half of FY2012 as steel output contracted and major alloy exporters made production cuts in response to rising power costs and falling alloy prices. Rising ore prices were supported during the last quarter of the year by a recovery in Chinese steel output and a tighter ore supply market, particularly from exporters in Australia, Gabon and Brazil. Lower import availability led to a large decline in ore inventory levels at the ports.

Metallurgical coal: The Platts 64 Mid Volatile Index for hard coking coal FOB Australia decreased by 35 per cent during FY2012, driven principally by recovering supply from Australia after flooding and strong supply from the United States, incentivised by elevated coking coal prices. Metallurgical coal demand weakened in line with steel production during the first half of FY2012, and remained low into the second half of FY2012 particularly as non-Chinese steel production remained soft. Despite some lingering constraints to supply from Australia, availability of coking coal from the United States and Canada remained ample amid subdued demand. Since 30 June 2012, the Platts 64 Mid Volatile Index for hard coking coal FOB Australia price has decreased to US$136.50/t on 31 August 2012.

Nickel: LME cash settlement nickel prices decreased 29 per cent during FY2012. Demand for nickel continued to grow, but at lower rates in light of weaker macroeconomic conditions and slower growth in China. Price declined due to the fact that this demand growth was outpaced by increasing supply tonnages coming from Chinese nickel pig iron as well as new production from greenfield projects which began ramping-up.

The following table indicates the estimated impact on FY2012 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 FY2012 actual results and sale 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.

Estimated impact on FY2012 profit after taxation of changes of:	**US$M**
US$1/bbl on oil price	49
US¢10/MMBtu on US gas price	31
US¢1/lb on aluminium price	18
US¢1/lb on copper price	17
US¢1/lb on nickel price	2
US$1/t on iron ore price	110
US$1/t on manganese alloy	0.5
US¢10/dmtu on manganese ore	21
US$1/t on metallurgical coal price	23
US$1/t on energy coal price	28

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 local currencies, primarily the Australian dollar, Brazilian real, Chilean peso and South African rand. Foreign exchange gains and losses reflected in operating costs owing to fluctuations in the local currencies relative to the US dollar may potentially offset one another. The Australian dollar, Brazilian real, Chilean peso and South African rand weakened against the US dollar during FY2012.