

- (a) The calculation of the number of ordinary shares used in the computation of basic earnings per share is the aggregate of the weighted average number of ordinary shares outstanding during the period of BHP Billiton Limited and BHP Billiton Plc after deduction of the weighted average number of shares held by the Billiton share repurchase scheme and the Billiton Employee Share Ownership 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 contingently issuable under Employee Share Ownership Plans.
- (b) Underlying EBIT is Profit from operations, excluding the effect of exceptional items. See section 3.6.2 for more information about this measure, including a reconciliation to Profit from operations.
- (c) Underlying EBIT margin excludes third party product.
- (d) On 1 July 2010, the Group adopted the policy of classifying exploration cash flows which are not recognised as assets as Net operating cash flows. Previously such cash flows were classified as net investing cash flows. The change in policy arose from amendments to IAS7/AASB7 'Cash Flows'. Comparative figures have been restated.
- (e) Underlying EBIT margin and Return on capital employed are non-IFRS measures. See section 3.3 for a reconciliation to the corresponding IFRS measure.

1.4.2 Operational information

Our Board and Group Management Committee (GMC) 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 (HSEC) contribution indicators.

	2012	2011	2010
Health, safety, environment and community			
Total recordable injury frequency (TRIF)	4.7	5.0	5.3
Community investment (US\$M)	214.1	195.5	200.5
Production^(a)			
Total Petroleum production (million 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 cathode and concentrate ('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

(a) Further details appear in section 2.3 of this Report.

1.5 Our risks

1.5.1 Risk factors

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

External risks

Fluctuations in commodity prices and impacts of ongoing global economic volatility may negatively affect 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 volatility. Our usual policy is to sell our products at the prevailing market prices. The diversity provided by our broad portfolio of commodities does 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. The ongoing global economic volatility following the global financial and European sovereign debt crises has negatively affected commodity market prices and demand. Sales into European countries generated US\$8.4 billion (FY2011: US\$9.4 billion), or 11.6 per cent (FY2011: 13.1 per cent), of our revenue in the year ended 30 June 2012. The ongoing uncertainty and impact on global economic growth, particularly in the developed economies, may adversely affect future demand and prices for commodities. 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 financial results 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. The appreciation in recent years of currencies in which the majority of our operating costs are incurred, (in particular the Australian dollar, if sustained relative to US dollar denominated commodity prices), has and may continue to adversely impact our profit margins. Given the dominant role of the US currency in our affairs, the US dollar is the currency in which we present 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. From time to time, we consider currency protection measures appropriate in specific commercial circumstances, subject to strict limits established by our Board. Therefore, in any particular year, our financial results may be negatively affected by currency exchange rate fluctuations.

Reduction in Chinese demand may negatively impact our results

The Chinese market has become a significant source of global demand for commodities. In CY2011, China represented 61 per cent of global seaborne iron ore demand, 39 per cent of copper demand, 40 per cent of nickel demand, 43 per cent of aluminium demand, 48 per cent of energy coal demand and 10 per cent of oil demand. China's demand for these commodities has been driving global materials demand and price increases over the past decade. Sales into China generated US\$21.6 billion (FY2011: US\$20.3 billion), or 29.9 per cent (FY2011: 28.2 per cent), of our revenue in the year ended 30 June 2012. A slowing in China's economic growth could result in lower prices and demand for our products and negatively impact our results.

In response to its increased demand for commodities, China is increasingly seeking strategic self-sufficiency in key commodities, including investments in existing businesses or new developments in other countries. These investments may adversely impact future commodity 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, 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, restrictions on repatriation of earnings or capital and changes in laws and policy, as well as other unforeseeable risks. Risks relating to bribery and corruption, including possible delays or disruption resulting from a refusal to make so-called facilitation payments, may be prevalent in some of the countries in which we operate. If any of our major projects are affected by one or more of these risks, it could have a negative effect on the operations in those countries, as well as the Group's overall operating results and financial condition.

Our operations are based on material long-term investments that anticipate long-term fiscal stability. Following the global financial and European sovereign debt crises, some governments face increased debt and funding obligations and have sought additional sources of revenue and economic rent by increasing rates of taxation, royalties or resource rent taxes such as the Minerals Resource Rent Tax (MRRT) and Petroleum Resource Rent Tax (PRRT) extension in Australia. These may continue to levels that are globally uncompetitive to the resource industry. Such taxes may negatively impact the financial results of existing businesses and reduce the anticipated future returns and overall level of prospective investment in those countries.

The Australian Government through the Business Tax Working Group is considering measures to reform tax law to provide relief for certain industry sectors. The basis of any law change is a revenue neutral outcome and as such, it is possible the mining and petroleum industries may be negatively impacted by disproportionately funding any measures that may eventually become law. The Business Tax Working Group will make its recommendations to the Australian government by the end of CY2012, with any potential law change happening thereafter.

Our business could be adversely affected by new government regulations, such as controls on imports, exports and prices. Increasing requirements relating to regulatory, environmental and social approvals can potentially result in significant delays in construction and may adversely affect the economics of new mining and oil and gas projects, the expansion of existing operations and results of our operations.

We have oil and gas operations located in the Gulf of Mexico region of the United States. In October 2010, the United States Government lifted the deepwater drilling moratorium in the Gulf of Mexico initially put in place in May 2010 in response to the oil spill from BP's Macondo well. Although the moratorium was lifted, and BHP Billiton was among the first to return to drilling in the Gulf of Mexico, the industry now faces more stringent permitting requirements. Delays or additional costs may occur in receiving future permits for deepwater drilling activities in the Gulf of Mexico.

Infrastructure, such as rail, ports, power and water, is critical to our business operations. We have operations or potential development projects in countries where government provided infrastructure or regulatory regimes for access to infrastructure, including our own privately operated infrastructure, may be inadequate or uncertain. These may adversely impact the efficient operations and expansion of our businesses.

On 30 June 2010, the Australian Competition Tribunal granted declaration of BHP Billiton's Goldsworthy rail line, but rejected the application for declaration of our Newman rail line under Part IIIA of the Trade Practices Act. Following the Tribunal's decision, access seekers may now negotiate for access to the Goldsworthy railway. These negotiations, and the availability and terms of access, are governed by the Part IIIA statutory framework, and either the access seeker or BHP Billiton can refer disputed matters to the Australian Competition and Consumer Commission for arbitration. The outcome of this process will govern whether access will be provided and on what terms.

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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. Such legislation could negatively affect new or existing projects.

Our Cerro Matoso Operation in Colombia operates under mining concessions that are due to expire on 30 September 2012 and we have applied, in accordance with the law and its contracts, for an extension of these mining concessions. If this extension is not granted, Cerro Matoso has an underlying agreement with the Colombian Government that grants it rights to continue mining and producing through to 2029 under a lease arrangement, with a further extension of 15 years possible. While our operating rights are maintained, there is no established precedent in Colombia for bringing a reversion of title under contract and therefore the situation remains uncertain.

These regulations are complex, difficult to predict and outside of our control and could negatively affect our business and results.

Business risks

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

The demand for our products and production from our operations results in existing reserves being depleted over time. As our revenues and profits are derived from our oil and gas and minerals operations, our results and financial condition are directly related to the success of our exploration and acquisition efforts, and our ability to replace existing reserves. Exploration activity occurs adjacent to established operations and in new regions, in developed and less developed countries. These activities may increase land tenure, infrastructure 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.

Future deterioration in commodities pricing may make drilling some acreage and existing reserves uneconomic. Our actual drilling activities and future drilling budget will depend on drilling results, commodity prices, drilling and production costs, availability of drilling services and equipment, lease expirations, gathering system pipeline transportation and other infrastructure constraints, regulatory approvals and other factors.

There are numerous uncertainties inherent in estimating ore and oil and gas reserves, and geological, technical and economic assumptions that are valid at the time of estimation may change significantly when new information becomes available. The uncertain global financial outlook may affect economic assumptions related to reserve recovery and require reserve restatements. Reserve restatements could negatively affect our results and prospects.

We may not be able to successfully complete acquisitions or 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. These include adverse regulatory conditions and obligations, commercial objectives not achieved due to minority interests, unforeseen liabilities arising from the acquired businesses, retention of key staff, sales revenues and operational performance not meeting our expectations, anticipated synergies and cost savings being delayed or not being achieved, uncertainty in sales proceeds from planned divestments, and planned acquisition projects being cancelled, delayed or costing more than anticipated. These factors could negatively affect our future results and financial condition.

We may not be able to attract and retain the necessary people

Our existing operations and especially our pipeline of development projects in regions of numerous large projects, such as Western Australia, Queensland and the United States, if activated, require many highly skilled staff with relevant industry and technical experience. In the competitive labour markets that exist in these regions, the inability of the Group to attract and retain such people may adversely impact our ability to complete projects under development on time and budget or successfully respond to new development opportunities. The lack of short- and long-term suitable accommodation in regional centres and townships adjacent to development projects and community reactions to development and potential workforce fly in, fly out arrangements may impact costs and the ability to optimise construction and operating workforces. Skills shortages in engineering, technical service, construction and maintenance may adversely impact the cost and schedule of current development projects, the cost and efficiency of existing operations and our ability to execute on development opportunities.

Increased costs and schedule delays may adversely affect our development projects

Although we devote significant time and resources to our project planning, approval and review process, and have established a number of project hubs to provide continuity to capital programs, we may underestimate the cost or time required to complete a project. In addition, we may fail to manage projects as effectively as we anticipate and unforeseen challenges may emerge.

Any of these may result in increased capital costs and schedule delays at our development projects, adversely affecting our development projects and impacting anticipated financial returns.

Financial risks

If our liquidity and cash flow deteriorate significantly it could adversely affect our ability to fund our major capital programs

We seek to maintain a solid ‘A’ credit rating as part of our strategy; however, fluctuations in commodity prices and the ongoing global economic volatility, and European sovereign debt crises, may continue to adversely impact our future cash flows and ability to access capital from financial markets at acceptable pricing. Despite our portfolio risk management strategies and monitoring of cash flow volatility, if our key financial ratios and credit rating were not maintained, our liquidity and cash reserves, interest rate costs on borrowed debt, future access to financial capital markets and the ability to fund current and future major capital programmes could be adversely affected.

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

Our strategy is to maintain an asset portfolio diversified by commodity, geography and market. Despite the benefits arising from this diversification, one or more of our assets 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 cause us to fail to recover all or a portion of our investment in mining and oil and gas projects and may require financial write-downs adversely impacting our financial results.

The commercial counterparties we transact with may not meet their obligations which may negatively impact our results

We contract with a large number of commercial and financial counterparties, including customers, suppliers and financial institutions. The ongoing global economic volatility and European sovereign debt crises have placed strains on global financial markets, reduced liquidity and adversely affected business conditions generally. We maintain a ‘one book’ approach with commercial counterparties to ensure that all credit exposures are quantified.

Our existing counterparty credit controls may not prevent a material loss due to credit exposure to a major customer or financial counterparty. In addition, customers, suppliers, contractors or joint venture partners may fail to perform against existing contracts and obligations. Non-supply of key inputs, such as tyres, mining and mobile equipment and other key consumables, may unfavourably impact costs and production at our operations. These factors could negatively affect our financial condition and results of operations.

Operational risks

Operating cost pressures, reduced productivity and labour shortages could negatively impact our operating margins and expansion plans

Increasing cost pressures and shortages in skilled personnel, contractors, materials and supplies that are required as critical inputs to our existing operations and planned developments have occurred and may continue to occur across the resources industry. As the prices for our products are determined by the global commodity markets in which we operate, we do not generally have the ability to offset these operating cost increases through corresponding price increases, which can adversely affect our operating margins. Notwithstanding our efforts to reduce costs and a number of key cost inputs being commodity price-linked, the inability to reduce costs and a timing lag may adversely impact our operating margins for an extended period.

Our Australian-based operations may continue to be affected by the Australian Fair Work Act 2009 as labour agreements expire and businesses are required to negotiate labour agreements with unions. In some instances labour unions are pursuing claims in the bargaining process about union access and involvement in some areas of operational decision-making. These claims may adversely affect workplace flexibility, productivity and costs. Industrial action in pursuit of claims associated with the bargaining process has occurred in some businesses, in particular our BHP Billiton Mitsubishi Alliance coal operation in Queensland, Australia, and is likely to continue to occur as unions press for new claims as part of the negotiation process.

A number of our operations, such as aluminium and copper, are energy or water intensive and, as a result, the Group's costs and earnings could be adversely affected by rising costs or by supply interruptions. These could include the unavailability of energy, fuel or water due to a variety of reasons, including fluctuations in climate, significant increases in costs, inadequate infrastructure capacity, interruptions in supply due to equipment failure or other causes and the inability to extend supply contracts on economical terms.

These factors could lead to increased operating costs at existing operations and could negatively impact our operating margins and expansion plans.

Unexpected natural and operational catastrophes may adversely impact our operations

We operate extractive, processing and logistical operations in many geographic locations both onshore and offshore. Our operational processes may be subject to operational accidents such as port and shipping incidents, underground mine and processing plant fire and explosion, open-cut pit wall failures, loss of power supply, railroad incidents, loss of well control, environmental pollution and mechanical critical equipment failures. Our key port facilities are located at Port Hedland and Hay Point in Australia. We have 13 underground mines, including seven underground coal mines. Our operations may also be subject to unexpected natural catastrophes such as earthquakes, flood, hurricanes and tsunamis. Our Western Australia Iron Ore, Queensland coal and Gulf of Mexico oil and gas operations are located in areas subject to cyclones or hurricanes. Our Chilean copper operations are located in a known earthquake and tsunami zone. Based on our claims, insurance premiums and loss experience, our risk management approach is not to purchase insurance for property damage, business interruption and construction related risk exposures. Existing business continuity plans may not provide protection for all of the costs that arise from such events. The impact of these events could lead to disruptions in production, increased costs and loss of facilities more than offsetting premiums saved, which would adversely affect our financial results and prospects. Third party claims arising from these events may exceed the limit of liability insurance policies we have in place.

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. Management of our non-controlled assets may not comply with our management and operating standards, controls and procedures (including our HSEC standards). 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.

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

We maintain global information technology (IT) and communication networks and applications to support our business activities. Our extensive IT infrastructure and network may experience service outages that may adversely impact the conduct of our business activities. IT security processes protecting these systems are in place and subject to regular monitoring and assessment, and are included as part of the review of internal control over financial reporting. These security processes may not prevent future malicious action or fraud by individuals, groups or organisations resulting in the corruption of operating systems, theft of commercially sensitive data, including commercial price outlooks, mergers and acquisitions and divestment transactions, misappropriation of funds and disruptions to our business operations.

Sustainability risks

HSEC impacts, incidents or accidents and related regulations may adversely affect our people, operations and reputation or licence to operate

We are a major producer of carbon-related products such as energy and metallurgical coal, oil, gas, and liquefied natural gas. Our oil and gas operations are both onshore and offshore.

The nature of the industries in which we operate means that many of 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 rehabilitation expenses.

Potential safety events that may have a material adverse impact on our operations include fire, explosion or rock fall incidents in underground mining operations, personnel conveyance equipment failures in underground operations, aircraft incidents, incidents involving light vehicles and mining mobile equipment, ground control failures, well blowouts, explosions or gas leaks, isolation, working from heights or lifting operations.

Environmental incidents that have the potential to create a material impact include uncontrolled tailings breaches, subsidence from mining activities, escape of polluting substances, and uncontrolled releases of hydrocarbons.

Our operations by their nature have the potential to impact biodiversity, water resources and related ecosystem services. Changes in scientific understanding of these impacts, regulatory requirements or stakeholder expectations may prevent or delay project approvals and result in increased costs for mitigation, offsets or compensatory actions.

We provide for operational closure and site rehabilitation. Our operating and closed facilities are required to have closure plans. 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.

We contribute to the communities in which we operate by providing skilled employment opportunities, salaries and wages, taxes and royalties and community development programs, including a commitment to one per cent of pre-tax profits invested in community programs. Notwithstanding these actions, local communities may become dissatisfied with the impact of our operations or oppose our new development projects, including through litigation, potentially affecting costs and production, and in extreme cases viability. Community related risks may include community protests or civil unrest, delays to proposed developments and inadvertent breaches of human rights or other international laws or conventions.

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Health risks faced include fatigue and occupational exposure to noise, silica, manganese, diesel exhaust particulate, fluorides, coal tar pitch, nickel and sulphuric acid mist. Longer-term health impacts may arise due to unanticipated workplace exposures or historical exposures to hazardous substances by employees or site contractors. These effects may create future financial compensation obligations.

We invest in workplace and community health programs, where indicated by risk assessment. However, infectious diseases such as HIV and malaria may have a material adverse impact upon our workers or on our communities, primarily in Africa. Because we operate globally, we may be affected by potential pandemic influenza outbreaks, such as A(H1N1) and avian flu, in any of the regions in which we operate.

Legislation 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, rehabilitation expenses and operational costs could negatively affect our financial results.

During FY2011, BHP Billiton acquired Chesapeake Energy Corporation's interests in the Fayetteville Operation in the United States, and in August 2011, acquired Petrohawk Energy Corporation, a US shale development company. Both businesses include operations that involve hydraulic fracturing, an essential and common practice in the oil and gas industry to stimulate production of natural gas and oil from dense subsurface rock formations. Hydraulic fracturing involves using water, sand and a small amount of chemicals to fracture the hydrocarbon-bearing rock formation to allow flow of hydrocarbons into the wellbore. We routinely apply hydraulic fracturing techniques in our drilling and completion programs.

Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition to oil and gas production activities using hydraulic fracturing techniques, including regulations that could impose more stringent permitting, public disclosure and well construction requirements on hydraulic fracturing operations. Additional legislation or regulation could also lead to operational delays or increased operating costs in the production of oil and natural gas, including from the developing shale plays, or could make it more difficult to perform hydraulic fracturing. The adoption of any federal, state or local laws or the implementation of regulations regarding hydraulic fracturing could potentially cause a decrease in the completion of new oil and gas wells, increased compliance costs and time, and potential class action claims, all of which could adversely affect our business.

Due to the nature of our operations HSEC incidents or accidents and related regulations may adversely affect our reputation or licence to operate.

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

Carbon-based energy is a significant input in a number of the Group's mining and processing operations and we have significant sales of carbon-based energy products.

A number of governments or governmental bodies have introduced or are contemplating regulatory change in response to the impacts of climate change. Under the December 2009 Copenhagen Accord, developed countries established individual greenhouse gas targets and developing countries established national mitigation actions. 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 United Kingdom are currently subject to the EU ETS, as are our EU based customers. Elsewhere, there is current and emerging climate change regulation that will affect energy prices, demand and margins for carbon intensive products. The Australian Government's plan of action on climate change, which commenced on 1 July 2012, includes a fixed price on carbon emissions and converting to an emissions trading scheme after three years, and a mandatory renewable energy target of 20 per cent by the year 2020. From a medium to long-term perspective, we are likely to see some changes in the cost position of our greenhouse-gas-intensive assets and energy-intensive

assets as a result of regulatory impacts in the countries in which we operate. These proposed regulatory mechanisms may impact our operations directly or indirectly through our suppliers and customers. Inconsistency of regulations particularly between developed and developing countries may also change the competitive position 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 many countries in which we operate. The South African Government plans to introduce a carbon tax beginning in 2013, however the details are not yet finalised. Carbon pricing has also been discussed as part of a broader tax reform package in Chile.

The 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, rising sea levels, increased storm intensities and higher average temperature levels. These effects may adversely impact the productivity and financial performance of our operations.

A breach of 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 and specific internal controls in relation to offers of things of value to government officials and representatives of state owned enterprises, may not prevent future potential breaches of law, accounting or governance practice. The BHP Billiton Code of Business Conduct, together with our mandatory policies, such as the anti-corruption and the anti-trust policies, may not prevent instances of fraudulent behaviour and dishonesty nor guarantee compliance with legal or regulatory requirements. This may lead to regulatory fines, litigation, loss of operating licences or reputational damage.

1.5.2 Approach to risk management

We believe that the identification and management of risk is central to achieving our corporate purpose of creating long-term shareholder value.

Our approach to risk recognises that it will manifest itself in many forms and has the potential to impact our health and safety, environment, community, reputation, regulatory, market and financial performance and, thereby, the achievement of our corporate purpose.

By understanding and managing risk, we provide greater certainty and confidence for our shareholders, employees, customers, suppliers, and for the communities in which we operate. Successful risk management can be a source of competitive advantage.

Risks faced by the Group are managed on an enterprise-wide basis. The natural diversification in the Group's portfolio of commodities, geographies, currencies, assets and liabilities is a key element in our risk management approach.

Risk management is embedded in our critical business activities, functions and processes. Materiality and our tolerance for risk are key considerations in our decision-making.

Risk issues are identified, analysed and assessed in a consistent manner. Performance requirements exist for the identification, assessment, control and monitoring of material risk issues that could threaten our corporate purpose and business plans. These include:

- The potential for impacts on the achievement of our corporate purpose and business plans is identified through risk assessments using approved materiality and tolerability criteria. The severity of any risk event is assessed according to a matrix that describes the degree of harm, injury or loss from the most severe impact associated with that risk event, assuming reasonable effectiveness of controls.

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- A risk assessment (risk identification, risk analysis and risk evaluation) is conducted for material risk issues.
- Risk controls are designed, implemented, operated and assessed to produce a residual risk that is tolerable. Performance standards are established for critical controls over material risks with supporting monitoring and verification processes.

The Group has established processes that apply when entering or commencing new activities in higher governance risk countries. Risk assessments and a supporting risk management plan are required to ensure that potential reputation, legal, business conduct and corruption-related exposures are tolerable and legislative compliance is maintained, including relevant anti-corruption legislation and the application of any sanctions or trade embargos.

Our risk management governance approach is described in sections 5.13.1 and 5.14.

1.5.3 Management of principal risks

The scope of our operations and the number of industries in which we operate and engage mean that a range of factors may impact our results. Material risks that could negatively affect our results and performance are described in section 1.5.1 of this Report. Our approach to managing these risks is outlined below.

Principal risk area

External risks
Risks arise from fluctuations in commodity prices and currency exchange rates, demand changes in major markets (such as China or Europe) or actions by governments and political events that impact long-term fiscal stability.

Business risks

Our continued growth creates risks related to identifying and proving reserves, integrating newly acquired businesses, managing our capital development projects and attracting and retaining the people necessary to support our growth.

Risk management approach

The diversification of our portfolio of commodities, geographies and currencies is a key strategy for reducing volatility. Section 3.4 describes external factors and trends affecting our results and Note 28 to the financial statements outlines the Group's financial risk management strategy, including market, commodity, and currency risk. The Financial Risk Management Committee oversees these as described in section 5.15. We engage with governments and other key stakeholders to ensure the potential impacts of proposed fiscal, tax, resource investment, infrastructure access and regulatory changes are understood and where possible mitigated.

We support our growth strategy through minerals and petroleum exploration programs which are focused on identifying and capturing new world-class projects supported by exploration activity adjacent to existing operations. The Group Resource and Business Optimisation function provides governance and technical leadership for resource development and Ore Reserves reporting as described in section 2.13.2 Reserves and Resources and section 2.6 Group Resources and Business Optimisation. Our Petroleum reserves are described in section 2.13.1.

Principal risk area

Financial risks

Continued volatility in global financial markets may adversely impact future cash flows, the ability to adequately access and source capital from financial markets and our credit rating. This may impact planned expenditures as well as the ability to recover investments in mining and oil and gas projects. In addition, the commercial counterparties (customers, suppliers and financial institutions) we transact with may, due to adverse market conditions, not meet their obligations.

Operational risks

Operating cost pressures, reduced productivity and labour shortages could negatively impact operating margins and expansion plans. Non-controlled assets may not comply with our standards. Unexpected natural and operational catastrophes may adversely impact our operations. Breaches in information technology (IT) security processes may adversely impact the conduct of our business activities.

Risk management approach

We have established investment processes and tollgates that apply to all major capital and mergers and acquisitions projects. The Investment Committee oversees these as described in section 5.15. The Project Management function additionally ensures that the optimum framework and capabilities are in place to deliver safe, predictable and competitive projects. Additionally we have established project hubs as operating centres for the study and execution of a pipeline of major capital projects using a program management approach.

Group-wide human resource processes are established covering recruitment planning, diversity, remuneration, development and mobility of staff to ensure we continue to maintain a strong diversified global talent pool.

We seek to maintain a solid ‘A’ credit rating, supported by our portfolio risk management strategy. As part of this strategy, commodity prices and currency exchange rates are not hedged and, wherever possible we take the prevailing market price, which serves to mitigate counterparty performance risk. We use cash flow at risk analysis to monitor volatilities and key financial ratios. Credit limits and review processes are established for all customers and financial counterparties. The Financial Risk Management Committee oversees these as described in section 5.15. Note 28 to the financial statements outlines our financial risk management strategy.

We seek to ensure that adequate operating margins are maintained through our strategy to own and operate large, long-life, low-cost and expandable upstream assets. We have implemented an Operating Model designed to deliver a simple and scalable organisation, providing a competitive advantage through defining work, organisation and performance measurement. Defined global business processes, including ISAP, provide a standardised way of working across the organisation. Common processes generate reliable data and improve operating discipline. Global sourcing arrangements have been established to ensure continuity of supply and competitive costs for key supply inputs. We seek to influence non-controlled assets to apply to our standards.

Principal risk area

Sustainability risks

HSEC incidents or accidents and related regulations may adversely affect our people, operations and reputation or licence to operate. The potential physical impacts and related government regulatory responses to climate change and greenhouse effects may adversely impact our operations and markets. Given that we operate in a challenging global environment straddling multiple jurisdictions, a breach of our governance processes may lead to regulatory penalties and loss of reputation.

1.6 Forward looking statements

This Report contains forward looking statements, including statements regarding:

- trends in commodity prices and currency exchange rates;
- 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;
- capital costs and scheduling;
- operating costs and shortages of materials and skilled employees;

Risk management approach

Through the application of our risk management processes, we identify material catastrophic operational risks and implement the critical controls and performance requirements to maintain control effectiveness. Business continuity plans are established to mitigate consequences. Consistent with our portfolio risk management approach, we continue to be largely self-insured for losses arising from property damage, business interruption and construction.

We maintain appropriate IT security devices, perimeter monitoring and mobile device protective measures. Security crisis management, incident management and service continuity and disaster recovery plans are established.

Our approach to sustainability risks is reflected in *Our BHP Billiton Charter* and described in section 2.8. A comprehensive set of Group Level Documents (GLD) set out Group-wide HSEC-related performance requirements to ensure effective management control of these risks.

The BHP Billiton *Code of Business Conduct* sets out requirements related to working with integrity including dealings with government officials and third parties. Processes and controls are in place for the financial control over financial reporting, including under Sarbanes-Oxley. We have established anti-corruption and anti-trust related performance requirements overseen by the Legal and Compliance function. The Disclosure Committee oversees our compliance with securities dealing obligations and continuous and periodic disclosure obligations.

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- anticipated productive lives of projects, mines and facilities;
- provisions and contingent liabilities;
- tax and regulatory developments.

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 release. Readers are cautioned not to put undue reliance on forward looking statements.

For example, our future revenues from our operations, projects or mines described in this Report will be based, in part, upon the market price of the minerals, metals or petroleum products 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, the expansion of certain facilities or mines, or the continuation of existing operations.

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; labour unrest; and other factors identified in the risk factors described in section 1.5.1.

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.