sensitivities below. Movements in commodity prices can cause movements in exchange rates and vice versa. Volumes are based on 2005-06 actual results and sales prices of our commodities under a mix of short, medium and long-term contracts. These sensitivities should therefore be used with care.

Estimated impact on 2005-06 profit after taxation of changes of:	US$M
US$1/t on iron ore price	55
US$1/bbl on oil price	25
US$1/t on metallurgical coal price	25
USc1/lb on aluminium price	20
USc1/lb on copper price	20
US$1/t on energy coal price	25
USc1/lb on nickel price	2

The impact of the commodity price movements in the current year is discussed in 'Results of operations'

Exchange rates

We are exposed to exchange rate transaction risk on foreign currency sales and purchases. For example, our products are predominantly priced in US dollars. As a result, fluctuations in the currencies that account for a substantial portion of our operating expenses (primarily the Australian dollar, South African rand, Chilean peso and Brazilian real) relative to the US dollar could have a material impact (positive or negative) on our financial condition and results of operations.

We are also exposed to exchange rate translation risk in relation to net monetary liabilities (defined as our foreign currency denominated monetary assets and liabilities, including debt and other long-term liabilities (other than site restoration provisions at operating sites where foreign currency gains and losses are capitalised in property, plant and equipment)).

The following table indicates the estimated impact on 2005-06 profit before taxation of changes in the Australian dollar or South African rand, which are the two principal currencies outside of the US dollar to which we are exposed in terms of our net monetary liabilities. The sensitivities give the estimated impact on profit before taxation based on the exchange rate movement in isolation. The sensitivities assume all variables except for exchange rate remaining constant. As outlined above, there is an inter-relationship between currencies and commodity prices where movements in exchange rates can cause movements in commodity prices and vice versa. This is not reflected in the sensitivities below. These sensitivities should therefore be used with care.

Estimated impact on 2005-06 profit before taxation of changes of:	US$M
Australian dollar (USc1/A$)	
Net monetary liabilities [(1)]	24
South African rand (0.2 rand/US$)	
Net monetary liabilities [(1)]	7
Rand debt	4

(1) Impact based on difference in opening and closing exchange rates for the period.

The impact of exchange rate movements in the current year is discussed in 'Results of operations'.

Interest rates

We are exposed to interest rate risk on our outstanding borrowings and investments. Our policy on interest rate exposure is for interest on our borrowings to be on a US dollar floating interest rate basis. Deviation from our policy requires the prior approval of our Financial Risk Management Committee and is managed within our Cash Flow at Risk (CFaR) limit, which is described in note 28 'Financial instruments' in the financial statements. When required under this strategy, we use interest rate swaps, including cross currency interest rate swaps, to convert a fixed rate exposure to a floating rate exposure or vice versa. As at 30 June 2006 we have US$1.4 billion of fixed interest borrowings that have not been swapped to floating rates, arising principally from legacy positions that were in existence prior to the merger that created the DLC structure.

Trends and uncertainties

We operate our business in a dynamic and changing environment and with information that is rarely complete and exact. In this section, we discuss the most important areas where management sees trends occurring that may materially affect our future financial condition and results of operations, risks that 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.

Commodity price, currency exchange rate and interest rate volatility – commodity prices persist at high levels compared to recent years. In real terms, base metals prices are now at similar levels to the prices experienced in the late 1980s. Inventories on market exchanges (as a proportion of demand) continue to tighten. The major difference between the situation today and that of previous periods is the coincidence of high prices across the energy and minerals spectrum. Today, in addition to high base metals prices, oil prices in real terms have approached the levels seen in the 1970s and the real prices of key steelmaking raw materials are at levels last seen in the early 1980s. The confluence of demand growth across the commodity spectrum in the developed and developing economies coupled with a lag in the supply response have driven the prices higher. Increasing investor interest in commodity markets and low inventory levels have undoubtedly contributed to price levels and volatility. Forward prices of LME metals and oil remain above long-term historical averages, indicating that large-scale supply surpluses are currently not being anticipated in these markets. Natural and man-made events are likely to continue to disrupt supply. Regulatory approvals and rising capital costs are delaying project developments. These factors could further tighten already short markets. Similarly, there are no signs of an imminent retreat in bulk commodity prices. However, high prices are inevitably leading to some substitution.

Strong increases in industry operating and capital costs, shortages of experienced people in some areas and lengthy time frames for installing new capacity suggest that it will be some time before a material supply response occurs. Therefore we are likely to see an extended period of high cyclical prices. As we have consistently stated, however, over the longer term we expect the introduction of new capacity to return prices to more sustainable levels.

Growth in product demand – the global economy recorded strong growth during the year. In Asia, growth has been supported by continued domestic demand, exports and investment dominated by China’s continuing industrialisation and urbanisation and continued growth in Japan. Similarly, economic activity in Europe gained momentum, with Germany’s industrial production maintaining a solid upward trend. US export growth provided support for overall economic expansion with buoyant export markets helped by the lagged effects of a weakening dollar. In this environment, commodity prices continued to post multi-decade highs. Economies with strong energy and minerals exports, particularly in Russia, Australia and parts of South America, have benefited.

The global economic outlook continues to be positive, although rates of growth are likely to slow given high energy prices and the increasing trend of higher interest rates. Growth in Asia will help drive the global economy, with Japan’s expansion well-established. China’s economic growth is expected to remain strong, even if attempts to cool strong growth are successful. Elsewhere, the US economy will slow from rapid growth experienced earlier in the year, but is likely to remain at levels consistent with long-term trends. While the outlook for the global economy and commodity prices is encouraging, it is not without risk. Escalating geopolitical tensions, supply disruptions and high energy prices are contributing to a tight oil market and are adding to increased uncertainty in markets. Consumers are concerned about the broader impact of further increases in oil prices and rising interest rates.

Operating costs and capital expenditures - strong demand for resources globally has continued, leading to increased costs across the industry for labour, contractors, raw materials, fuel, energy and other input costs. Some of the higher costs have resulted from our efforts to increase short-term production to take advantage of the current high price environment. Our challenge is to ensure that these higher costs do not become a permanent structural change to our cost base.

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 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.

Health, safety, environment and community – central to our business is a commitment to sustainable development, which incorporates health, safety, environment and community responsibilities. Our aims are to achieve Zero Harm in our health and safety performance, to embed a systematic approach to environmental risk management and to increase our engagement with host communities. Quite often these aims will lead to the implementation of standards that exceed applicable legal and regulatory requirements. Apart from our belief that applying best industry practice in health, safety and environmental management is part of being a good corporate citizen, we believe establishing a track record of minimising health, safety and environmental impacts leads to higher levels of trust in the communities in which we operate, among the governments that regulate us and the organisations that monitor our conduct.

Given the nature of our operations, there remains a risk that, despite our best efforts, health, safety or environmental incidents may occur that could result in fines or remediation expenditures and damage our reputation, making it harder for us to do business in the future. Our activities are also highly regulated by health, safety and environmental laws in a number of jurisdictions. While we believe we are currently operating in accordance with these laws, as regulatory standards and expectations are constantly developing and generally becoming more onerous, we may be exposed to increased litigation, compliance costs and unforeseen environmental remediation expenses.

Three examples of material uncertainties identified by management as key risks to our business are the regulation of greenhouse gas emissions and potential reductions in fossil fuel consumption per capita and general consumption associated with such regulation; the impact upon workers in our South African business of the high HIV/AIDS infection rate; and compliance with European regulations requiring proof that mineral resources can be used without affecting health or the environment.

Table of Contents

Application of critical accounting policies and estimates

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported revenue and costs during the periods presented therein. On an ongoing basis, our management evaluates its estimates and judgements in relation to assets, liabilities, contingent liabilities, revenue and costs. Management bases its estimates and judgements on historical experience and on various other factors it believes to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The critical accounting polices under which we are required to make estimates and assumptions and where actual results may differ from these estimates under different assumptions and conditions and may materially affect our financial results or financial position reported in future periods are as follows:

- reserve estimates
- exploration and evaluation expenditure
- development expenditure
- property, plant and equipment – recoverable amount
- superannuation, pensions and other post-retirement benefits
- provision for restoration and rehabilitation
- taxation.

In accordance with IFRS, we are required to include information regarding the nature of the judgements and estimates and potential impacts on our financial results or financial position in the financial statements. This information can be found in note 1 ‘Accounting policies’ in the financial statements.

Operating results

The following discussion and analysis are based on the financial statements and accompanying notes, which reflect the combined operations of the BHP Billiton Plc Group and the BHP Billiton Limited Group for the year ended 30 June 2006 as prepared in conformity with IFRS, and should be read in conjunction therewith.

In this analysis, all references to 2005-06 or the current year are to the year ended 30 June 2006 and all references to 2004-05 or the prior year are to the year ended 30 June 2005.

For reporting periods beginning on or after 1 January 2005, the Group is required to comply with IFRS as issued by the International Accounting Standards Board (IASB). Accordingly, the financial statements have been prepared in accordance with IFRS as outlined in the accounting policies, refer to note 1 ‘Accounting policies’ in the financial statements. In preparing our opening IFRS balance sheet and our 2004-05 comparative information, we have adjusted amounts reported in previous financial statements prepared in accordance with UK or Australian Generally Accepted Accounting Principles.Australian Generally Accepted Accounting Principles (GAAP) has been chosen as the reference predecessor GAAP from which to base transitional adjustments. The principal differences between our previous GAAP and IFRS are:

- Deferred taxation being recognised using the balance sheet liability method of tax-effect accounting rather than the income statement liability method applied under previous GAAP.
- Equity-based compensation being measured based on the fair value of shares and options rather than their intrinsic values as recognised under previous GAAP.
- Immediate recognition of the net asset or liability position of underlying defined benefit plans and medical benefit plans rather than the delayed recognition under previous GAAP.
- Joint ventures that are constituted as a legal entity are accounted for using the equity method rather than by the proportionate consolidation method used to account for our interests in the Escondida, Mozal and Valesul joint ventures under previous GAAP. As each of these joint ventures operates through an incorporated entity, IFRS classifies them as jointly controlled entities. The Australian version of IFRS requires the use of the equity method of accounting, notwithstanding that in substance none of the entities operate as independent business entities. The change to single-line equity accounting for jointly controlled

entities does not impact Group net profit or net equity, however, the amounts of profit before tax, income tax expense, investments in jointly controlled entities and other balance sheet and income statement line items are significantly affected. This effect has led to our decision to monitor and disclose our performance on an 'Underlying EBIT' basis, as discussed below.

- Royalty and resource rent related taxes are treated as a taxation arrangement when they have the characteristics of an income tax. For such arrangements, current and deferred tax is provided on the same basis as for other forms of taxation. Under previous GAAP, such taxes were included in operating costs, and in some cases were not calculated in accordance with deferred tax principles.
- Dividends payable are not recognised as a liability until the dividend has been formally declared by the Directors. Under previous UK GAAP, dividends payable were recognised as a liability in the balance sheet at balance date, despite the fact they were declared subsequent to balance date.

A detailed explanation (including reconciliations of profit after tax and total equity) of the impact of the transition to IFRS on our financial position and financial performance is set out in note 38 'Transition to International Financial Reporting Standards' in the financial statements. An explanation of the basis of preparation of the financial statements under IFRS, including details of specific elections made on the transition to IFRS, is set out in note 1 'Accounting policies' in the financial statements.

One election made upon transition to IFRS was not to restate previous mergers or acquisitions and the accounting thereof. If this election had not been made, the DLC merger would have been accounted for as a purchase business combination with the BHP Billiton Limited Group acquiring the BHP Billiton Plc Group. This accounting treatment would be consistent with the treatment under US GAAP. Note 39 'US Generally Accepted Accounting Principles disclosures' in the financial statements provides further information on the impact for accounting for the DLC merger as a purchase business combination.

Overview

Our profit attributable to members of BHP Billiton for the year ended 30 June 2006 was US$10.5 billion compared with US$6.4 billion for the prior year, an increase of 63.4 per cent. Excluding the exceptional items outlined in 'Results of operations' below our profit attributable to members of BHP Billiton was US$10.2 billion compared with US$6.4 billion for the prior year, an increase of 58.0 per cent.

Revenue was US$32.2 billion, up 20.6 per cent from US$26.7 billion last year. Revenue from third party products decreased 22.4 per cent to US$5.0 billion for the year ended 30 June 2006 from US$6.4 billion for the year ended 30 June 2005. Revenue, together with our share of jointly controlled entities' revenue, was US$39.1 billion, up 25.3 per cent from US$31.2 billion last year.

Over the last five years, the Group has invested more than US$15 billion in organic growth projects and acquisitions. This has resulted in an average volume increase across our key commodities of approximately 38 per cent. The Group's global footprint, diverse product range and visibility to global markets have allowed the Group to invest through the business cycle in value adding opportunities. This has positioned our business to take full advantage of the current robust demand and price environment that underpins these record financial results. Full year operational records were also accomplished, with record production achieved for five major and two minor commodities.

The exceptional diversity of our businesses by commodity, geography and customer base underpins the strength of our cash flows and continues to support our ability to both identify and invest in growth opportunities whilst continuing to deliver outstanding returns to shareholders in the form of our progressive dividend policy and other capital management initiatives.

On 23 August 2006, the Board declared a final dividend of 18.5 US cents per share. This represents an increase of 27.6 per cent over last year's final dividend of 14.5 US cents per share. This brings the total dividends declared for 2005-06 to 36.0 US cents per share, an increase of 8.0 US cents per share, or 28.6 per cent, over 2004-05.

On 23 August 2006, we also announced a further capital return of US$3.0 billion to shareholders to be executed over the next 18 months through a series of share buy-backs. We commenced this program on 7 September 2006, with the on-market buy-back of 1,500,000 BHP Billiton Plc shares. It is yet to be decided the extent to which the remaining buy-back will be on or off-market. . This program brings the total buy-back programs announced to US$5.0 billion for 2005-06 following the US$2.0 billion capital management program completed in May 2006. Under that initiative, 114.8 million shares or 1.9 per cent of the issued share capital of the BHP Billiton Group were repurchased.

At the conclusion of the US$3.0 billion capital return announced on 23 August 2006, BHP Billiton will have returned US$15.5 billion in total to shareholders through capital initiatives and dividends since June 2001.

Table of Contents

Results of operations

Underlying EBIT

In discussing the operating results of our business, we focus on a non-GAAP (US or IFRS) financial measure we refer to as 'Underlying EBIT'. Underlying EBIT is the key measure that management uses internally to assess the performance of our business, make decisions on the allocation of resources and assess operational management. Management uses this measure because financing structures and tax regimes differ across our assets, and substantial components of our tax and interest charges are levied at a Group, rather than an operational, level. Underlying EBIT is calculated as earnings before interest and taxation (EBIT), which is referred to as profit from operations on the face of the income statement, and excludes the effects of:

- net financing costs and taxation of jointly controlled entities
- exceptional items

Underlying EBIT was selected as a key measure of operational performance as a consequence of our adoption of IFRS. Prior to our adoption of IFRS, we used profit before interest and taxation to assess and report operational performance as this measure excluded all net financing costs and taxation of the Group (including jointly controlled entities) under previous GAAP.

However, under IFRS, we equity account all jointly controlled entities, resulting in the earnings (net of financing costs and taxation) of jointly controlled entities being included in our income statement under the single-line item 'share of profits from jointly controlled entities.' In order to provide our management and shareholders with a consistent picture of the operational performance of our business between the current and prior year, we exclude the financing costs and taxation of jointly controlled entities from the profit from operations line to arrive at Underlying EBIT.

We exclude exceptional items from Underlying EBIT in order to enhance the comparability of the measure from period to period. Our management monitors exceptional items, net finance costs and taxation separately.

You should be aware that Underlying EBIT is not a measure that is recognised under IFRS. In addition, it may be different from the measure EBIT or earnings before interest and taxation that are reported by other companies, in particular because we exclude the effect of net financing costs and taxation of equity accounted entities and exceptional items. As noted above, the line item from our income statement prepared in accordance with IFRS that most closely relates to Underlying EBIT is profit from operations, which is referred to as EBIT. Profit from operations differs from Underlying EBIT in that the profit from jointly controlled entities is included in profit from operations net of the effects of financing costs and taxation and also includes exceptional items. The following table reconciles Underlying EBIT to profit from operations for the 2005 and 2006 financial years.

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

Consolidated results

Profit from operations (EBIT) for the year ended 30 June 2006 was US$14.7 billion compared with US$9.3 billion in the prior year, an increase of 58.2 per cent. Underlying EBIT for the year ended 30 June 2006 was US$15.3 billion compared with US$9.9 billion in the prior year, an increase of 54.0 per cent.

Table of Contents

The increase in EBIT and Underlying EBIT was due primarily to higher commodity prices. Metallurgical coal, iron ore, base metals, aluminium and petroleum prices contributed significantly to the increase in revenue and Underlying EBIT. New and acquired operations also provided increased volumes.

The following table and commentary detail the approximate impact of the principal factors that affected EBIT and Underlying EBIT for the current year compared with the prior year.

		US$M
Profit from operations (EBIT) for the year ended 30 June 2005		**9,271**
Add: adjustments in arriving at Underlying EBIT		650
Underlying EBIT for the year ended 30 June 2005		**9,921**
Change in volumes:		
Existing operations	(75)	
New and acquired operations	1,295	
		1,220
Change in sales prices		
Change in cost:		6,690
Change in costs:		
Costs (usage)	(1,340)	
Price-linked costs	(475)	
Exchange rates	—	
Inflation on costs	(310)	
		(2,125)
Asset sales		(10)
Ceased and sold operations		(10)
Exploration		(280)
Other		(129)
Underlying EBIT for the year ended 30 June 2006		**15,277**
Less: adjustments in arriving at Underlying EBIT		(606)
Profit from operations (EBIT) for the year ended 30 June 2006		**14,671**

Volumes - existing operations

Increased sales volumes of copper, iron ore, diamonds and molybdenum from operations existing at the beginning of the year contributed approximately US$304 million to Underlying EBIT (measured at the prior period’s average margins). Sales volumes of oil were lower than the prior year due to natural field decline and increased down time at existing assets. Depletion of reserves at Riverside (Australia), extended maintenance outages at Blackwater (Australia) and reduced shipments led to a decrease in sales volumes of metallurgical coal. Reduced market demand for manganese alloy led to lower sales volumes for the period. We also experienced decreased sales volumes of silver due to lower production from our Cannington mine (Australia) resulting from lower head grades and temporary closure of the southern zone.

Volumes - new and acquired operations

New operations increased Underlying EBIT by US$1,295 million, primarily due to a full year’s contribution of US$918 million from the ex-WMC Resources Limited (WMC) operations acquired in June 2005. Also included was a full year’s production from ROD (Algeria), which commenced commercial production in October 2004, Mad Dog (US) and Angostura (Trinidad and Tobago), which were both commissioned in January 2005.

Prices

Stronger commodity prices for most products increased Underlying EBIT by US$6,690 million. Higher prices for most base metals products (copper in particular), metallurgical coal, iron ore, all petroleum products and aluminium contributed approximately US$7,200 million, which was partially offset by lower prices for manganese alloy and the sale of lower quality diamonds.

Costs

Strong demand for resources globally has continued, leading to increased costs across the industry for labour, contractors, raw materials, fuel, energy and other input costs. In this environment, costs for the Group have increased by US$1,340 million inclusive of non-cash costs of US$125 million primarily related to increased depreciation due to the commissioning of new projects. Net of non-cash costs, this represents an increase on our 2005 cost base of 5.7 per cent.

Table of Contents

Specific areas of cost increases include changed mining conditions particularly at EKATI (Canada), where we are mining a lower grade zone, and Queensland Coal (Australia), where mine mix changed following the closure of Riverside. Labour and contractor charges, fuel and consumables, as well as maintenance and other operating costs, have also increased. The commissioning of a number of new operations meant depreciation charges also increased.

Variations in stripping ratios have not had a material impact on the reported results of 2005-06 as compared to the prior year.

Price-linked costs

Higher price-linked costs reduced Underlying EBIT by US$475 million, largely because of higher royalties (particularly for Carbon Steel Materials and Petroleum products), increased treatment and refining charges (TCRCs) and price participation charges for copper and higher LME linked power charges in Aluminium.

Exchange rates

Exchange rate movements had a net nil impact on Underlying EBIT compared with last year. The translation of monetary items had a favourable impact on Underlying EBIT of US$90 million principally due to exchange gains from the strengthening of the US dollar against the Australian dollar. This compared to losses in the prior period. This was offset by an unfavourable impact on operating costs of US$90 million, primarily due to the strengthening of the Brazilian real against the US dollar.

The following exchange rates against the US dollar have been applied:

	Average year ended 30 June 2006	Average year ended 30 June 2005	As at year ended 30 June 2006	As at year ended 30 June 2005
Australian dollar [(a)]	**0.75**	0.75	**0.74**	**0.76**
Brazilian real	**2.24**	2.73	**2.18**	**2.36**
South African rand	**6.41**	6.21	**7.12**	**6.67**

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

Inflation on costs

Inflationary pressures on input costs, mainly in Australia and South Africa, had an unfavourable impact on Underlying EBIT of US$310 million.

Asset sales

The impact from the sale of assets and interests on Underlying EBIT was US$10 million lower than for the prior period. The impact amounted to US$128 million for the current period, principally related to the sale of BHP Billiton’s interest in the Wonderkop chrome joint venture (South Africa) for US$61 million, and the Green Canyon (US) oil fields and the Vincent Van Gogh (Australia) undeveloped oil discovery. This compared to higher profits in the prior year, which included the sale of an equity participation in the North West Shelf Project’s (Australia) gas reserve to China National Offshore Oil Corporation of US$56 million, the profit of US$22 million on the sale of the Acerinox share investment and the disposal of our interest in Integris Metals (US) of US$19 million.

The profit on sale of the Tintaya copper mine (Peru) has been included in exceptional items and is therefore not included in the foregoing discussion.

Ceased and sold operations

Ceased and sold operations had a US$10 million unfavourable impact on Underlying EBIT. The current period was negatively impacted by the loss of earnings from the chrome business (South Africa) and the Laminaria and Corallina oil fields (Australia) that were divested during the 2005 financial year, and the cessation of production at Typhoon/Boris due to hurricane damage sustained during September 2005. This was partly offset by the favourable impact of US$149 million of higher earnings from Tintaya, which was sold in June 2006, and US$137 million in relation to care and maintenance costs incurred at Boodarie Iron (Australia) in the prior period.

Exploration

Exploration spend was US$280 million higher than the prior year. Petroleum expenditure taken to profit increased by US$192 million due to increased activity in the Gulf of Mexico, a US$41 million write-off of expenditure that had previously been capitalised, and a US$32 million impairment of the Cascade and Chinook oil and gas prospects, which have subsequently been sold. Minerals exploration activity in Africa and Brazil also increased.

Other

Other items decreased Underlying EBIT by US$129 million. These included the cost for adjusting our interest in Valesul (Brazil) to realisable value prior to disposal of US$50 million, as well as a lower contribution from freight activities. The US$60 million sale of an option held over an exploration property in Pakistan partially offset these.

Net finance costs

Net finance costs increased to US$505 million from US$331 million in the prior period. This was driven largely by higher average debt balances following the funding of the acquisition of WMC in June 2005, increased discounting on provisions and a higher average interest rate but was partially offset by higher capitalised interest.

Taxation expense

The total taxation expense on profit before tax was US$3,632 million, representing an effective rate of 25.6 per cent (calculated as total taxation expense divided by profit before taxation). When compared to the UK and Australian statutory tax rate (30 per cent), the effective tax rate included a benefit of 3.5 per cent due to the recognition of US tax losses (US$500 million).

Following the transition to IFRS, certain royalty and petroleum resource-related taxes are treated as taxation arrangements when they have the characteristics of a tax. This is considered to be the case when they are imposed under Government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) as determined by relevant legislation. As a result, such royalty costs which in prior years would have been reported as an operating cost in Underlying EBIT are now reported as a taxation expense. Obligations arising from royalty arrangements that do not satisfy these criteria continue to be recognised in operating expenses. Royalty-related taxation represents an effective rate of 3.0 per cent for the current year.

Exceptional items

Year ended 30 June 2006

Sale of Tintaya - During June 2006, we sold our interest in the Tintaya copper mine in Peru (Base Metals). Gross consideration received was US$853 million before deducting intercompany trade balances. The net consideration of US$717 million (net of transaction costs) included US$634 million for shares plus the assumption of US$116 million of debt, working capital adjustments and deferred payments contingent upon future copper prices and production volumes. The profit on disposal was US$296 million (net of a taxation charge of US$143 million).

Year ended 30 June 2005

Sale of Laminaria and Corallina - In January 2005, we disposed of our interest in the Laminaria and Corallina oil fields. Proceeds on the sale were US$130 million resulting in a profit before tax of US$134 million (US$10 million tax expense).

Disposal of chrome operations - Effective 1 June 2005, we disposed of our economic interest in the majority of our South African chrome business. The total proceeds on the sale were US$421 million, resulting in a profit of US$127 million (US$1 million tax expense). In addition, we sold our interest in the Palmiet chrome business in May 2005 for proceeds of US$12 million, resulting in a profit of US$15 million (US$5 million tax expense).

Provision for termination of operations -We decided to decommission the Boodarie Iron operations and a charge of US$266 million (US$80 million tax benefit) relating to termination of the operation was recognised. The charge primarily relates to the settlement of existing contractual arrangements, plant decommissioning, site rehabilitation, redundancy and other closure-related costs/charges associated with the closure.

Closure plans - As part of our regular review of decommissioning and site restoration plans, we reassessed plans in respect of certain closed operations. A total charge of US$121 million (US$104 million after tax) was recorded and included a charge of US$73 million (US$21 million tax benefit) for closed mines at Ingwe in relation to a revision of our assessed rehabilitation obligation, predominantly resulting from revised water management plans and a charge of US$48 million (US$4 million tax expense) in relation to other closed mining operations.