3. Operating and financial review and prospects *continued*

Gas: US gas markets recovered during FY2010 with Henry Hub prices rising from monthly average lows of US$2.90/MMBtu in September 2009 to peak at US$5.83/MMBtu in January 2010. The FY2010 starting price was US$3.885/MMBtu and the closing price on 30 June 2010 was US$4.680/MMBtu. Despite this positive price trajectory over the year, the average FY2010 Henry Hub price was still 29 per cent below the average price in FY2009 due to the high gas prices observed before the global economic slowdown. National Balancing Point for UK Natural Gas (NBP) prices recovered from a six-month low of US$3.18/MMBtu in September 2009 to rise to a peak of US$6.30/MMBtu in June 2010, supported by higher gas demand from the industrial sector coupled with unplanned supply outages. NBP prices increased 58 per cent year-on-year. Asian LNG demand rose over the second half of FY2010, mainly due to colder than normal temperatures and faster than expected economic recovery in Korea and Taiwan.

The following table indicates the estimated impact on FY2010 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 FY2010 actual results and sales prices of our commodities under a mix of short-, medium- and long-term contracts. Movements in commodity prices can cause movements in exchange rates and vice versa. These sensitivities should therefore be used with care.

Estimated impact on FY2010 profit after taxation of changes of:	US$M
US$1/bbl on oil price	46
US¢1/lb on aluminium price	22
US¢1/lb on copper price	16
US¢1/lb on nickel price	1
US$1/t on iron ore price	77
US$1/t on energy coal price	21
US$1/t on metallurgical coal price	25
US$1/t on manganese alloy price	0.4
US$1/dmtu on manganese ore price	137

The impact of the commodity price movements in FY2010 is discussed in section 3.6 ‘Operating results’.

3.4.2 Freight markets

There was a two-paced freight market in FY2010. The Capesize market showed substantially more volatility than the more stable markets of the smaller vessels. Capesize charter prices fell 70 per cent during the year, whilst the Panamax market was neutral. Year-on-year the Supramax market reported a gain. For the Capesize market, the year started with rates of US$80,000/day and peaked at US$88,560/day in November 2009 on record congestion and increased iron ore volumes to China. However, Capesize freight rates then proceeded to decline again from January 2010. Iron ore volumes ex-Brazil to China fell substantially in the second half of FY2010 when compared with the first half of FY2010, and the impact of accelerating new building deliveries took their toll – pushing the market into over supply and Capesize rates to a low of US$24,000/day at 30 June 2010. Capesize rates fell to such an extent that for a time the daily hire for a Capesize vessel cost less than a Supramax (one third the size). In comparison, both the Panamax and Supramax markets have been firm throughout FY2010. These markets have been supported by fewer new building deliveries combined with a record grain season in both the US and South America, in addition to energy coal, metallurgical coal and iron ore cargoes from India, which all use smaller vessels.

The bulk freight market is typically categorised by the size of the vessel. Capesize vessels have a deadweight capacity of between 150kdwt and 200kdwt compared with Panamax and Supramax vessels which are 60 to 100kdwt and 50 to 60kdwt respectively.

3.4.3 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 fluctuations in the Australian dollar, South African rand, Chilean peso and Brazilian real. Foreign exchange gains and losses reflected in operating costs owing to fluctuations in the abovementioned currencies relative to the US dollar may potentially offset one another. The Australian dollar, Brazilian real and South African rand strengthened against the US dollar during FY2010, while the Chilean peso weakened.

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

Details of our exposure to foreign currency fluctuations are contained within note 28 ‘Financial risk management’ to the financial statements.

3.4.4 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 risk management’ in the financial statements. When required under this strategy, we use interest rate swaps, including cross currency interest rate swaps, to convert a fixed rate exposure to a floating rate exposure. As at 30 June 2010, we had US$2.6 billion of fixed interest borrowings that had not been swapped to floating rates, arising principally from debt raised during FY2009 that has not been swapped to floating rates and legacy positions that were in existence prior to the merger that created the DLC structure. Our strategy has not changed and the remainder of the fixed interest rate debt raised during FY2009 has been swapped to floating rates since 30 June 2010.

3.4.5 Changes in product demand

We remain cautious on the short-term outlook for the global economy. After a period of rapid recovery in the developing world, economies such as Brazil and India have returned to full output and the focus has now shifted away from supporting growth, towards controlling inflation. In China, the government has implemented meaningful measures aimed at controlling rapid economic expansion and asset inflation. Fiscal policy has been adjusted with renewed focus on the economy’s inevitable transition away from a dependence on investment, towards more balanced, consumption led growth. With this recent policy tightening, property sales volumes and prices have started to decline in tier one cities over the last quarter. While we see these measures as the normal continuation of China’s economic management, we do expect Chinese Gross Domestic Product (GDP) growth to slow towards the more sustainable level of circa eight per cent in the first half of FY2011.

Uncertainty continues to surround the developed world as governments adjust fiscal policies following a period of significant stimulus and subsequent increase in sovereign debt levels. Significant public spending cuts and higher taxes have been announced in Europe; however, they are yet to be fully implemented, implying the inevitable negative impact on growth from fiscal consolidation remains ahead. Industrial output, a core measure of economic activity, remains well below previous peaks despite the positive impact attributable to re-stocking that now appears largely complete. In the absence of any additional inventory adjustment, improvement in end demand is essential to drive overall economic growth. Some positive signs have emerged, with strong private investment in equipment and software seen in some parts of the US economy, although ongoing de-leveraging and weak confidence are hampering efforts to revive demand.

Despite our short-term caution, we remain positive on the longer-term prospects for the global economy, driven by the continuing urbanisation and industrialisation of emerging economies. This path, however, will not be without volatility, reflecting normal business cycles.

3.4.6 Operating costs and capital expenditure

During FY2010, raw materials and logistics costs reduced significantly, with the lagged impact of falling inputs providing non-structural reductions to the cost base. However, a number of non-recurring costs have had an opposing impact in the period. Our relentless focus on our cost base continues to be a high priority, with a drive to achieve further cost efficiencies in controllable cash costs.

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

3.4.7 Exploration and development of resources

Because most of our revenues and profits are related to our oil and gas and minerals operations, our results and financial condition are directly related to the success of our exploration efforts and our ability to replace existing reserves. However, there are no guarantees that our exploration program will be successful. When we identify an economic deposit, there are often significant challenges and hurdles entailed in its development, such as negotiating rights to extract ore with governments and landowners, design and construction of required infrastructure, utilisation of new technologies in processing and building customer support.

3.4.8 Health, safety, environment and community

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

We are subject to extensive regulation surrounding the health and safety of our people and the environment. We make every effort to comply with the regulations and, where less stringent than our standards, exceed applicable legal and other requirements. However, regulatory standards and community expectations are constantly evolving, and as a result, we may be exposed to increased litigation, compliance costs and unforeseen environmental rehabilitation expenses, despite our best efforts to work with governments, community groups and scientists to keep pace with regulations, law and public expectations.

3.4.9 Insurance

During FY2010, we maintained an insurance program with policies encompassing property damage, business interruption, public and certain other liabilities and directors and officers' exposures. The program includes a combination of self-insurance via subsidiary captive insurance companies, industry mutuals and external market re-insurance. Mandates are established as to risk retention levels, policy cover and, where applicable, re-insurance counter parties. As part of our portfolio risk management policy, we regularly conduct an assessment of maximum foreseeable loss potential, cash flow at risk, loss experience, claims received and insurance premiums paid and will make adjustments to the balance of self-insurance and reinsurance as required.

The Group continues to be largely self-insured for losses arising from property damage and business interruption, sabotage and terrorism, marine cargo and construction. For these risks we internally insure our operations (for wholly owned assets and for our share of joint venture assets) via our captive insurance companies. Any losses incurred will consequently impact the financial statements as they arise.

3.5 Application of critical accounting policies

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

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

- reserve estimates;
- exploration and evaluation expenditure;
- development expenditure;
- property, plant and equipment – recoverable amount;
- defined benefit pension schemes;

- provision for closure and rehabilitation;
- taxation.

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

3.6 Operating results

3.6.1 Consolidated results

Year ended 30 June 2010 compared with year ended 30 June 2009

We delivered another strong set of results in FY2010 despite significant volatility in the macroeconomic environment with growth in Underlying EBIT of eight per cent. Record sales volumes were achieved in three of our major commodities as our focus on efficiency and productivity at all points in the cycle ensured we were well positioned to capitalise on the recovery in demand and prices. Local currency costs were well controlled across the Group; however, the weaker US dollar had a negative exchange rate impact of US$2,150 million.

The combination of these factors underpinned strong margins and returns. For the sixth consecutive year, we recorded an Underlying EBIT margin of around 40 per cent, while Underlying return on capital was 26 per cent. Excluding capital investment associated with projects not yet in production, Underlying return on capital was 30 per cent.

Operating cash flow for the year remained strong at US$17,920 million and resulted in net debt declining further to US$3,308 million, with net gearing falling to six per cent. These results continue to demonstrate the strength of our uniquely diversified business model and world-class, low-cost asset portfolio.

We invested heavily in our business and successfully delivered another five growth projects including those in petroleum and iron ore. We approved two major growth projects (with a combined budget of US$695 million) and made pre-commitments totalling US$2,237 million (our share) to accelerate early works for another four. To underline the depth of our project pipeline, we have 20 projects in various stages of execution and definition with an estimated budget in excess of US$25 billion.

In the Pilbara (Australia), we continued to progress the proposed iron ore production joint venture with Rio Tinto, with a key focus on gaining regulatory approval. We also bolstered our upstream resource base with the acquisition of Athabasca Potash Inc. (Canada) and United Minerals Corporation NL (Australia, Iron Ore). On 20 August 2010, we launched an all-cash offer to acquire all of the issued and outstanding common shares of Potash Corporation of Saskatchewan Inc. (PotashCorp) at a price of US$130 in cash per PotashCorp common share.

Our profit attributable to members of BHP Billiton of US$12.7 billion represents an increase of 116.5 per cent from the corresponding period. Attributable profit excluding exceptional items of US$12.5 billion represents an increase of 16.3 per cent from the corresponding period.

Revenue was US$52.8 billion, an increase of 5.2 per cent from US$50.2 billion in the corresponding period.

On 25 August 2010, the Board declared a final dividend of 45 US cents per share, thus bringing the total dividends declared for FY2010 to 87 US cents per share, an increase of 6.1 per cent over the corresponding period. Capital management initiatives are discussed in section 3.7.6 of this Report.

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

Our profit attributable to members of BHP Billiton of US$5.9 billion represented a decrease of 61.8 per cent from FY2008. Attributable profit excluding exceptional items of US$10.7 billion represented a decrease of 30.2 per cent from FY2008.

Revenue was US$50.2 billion, a decrease of 15.6 per cent from US$59.5 billion in FY2008.

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On 12 August 2009, the Board declared a final dividend of 41 US cents per share, thus bringing the total dividends declared for FY2009 to 82 US cents per share. Capital management initiatives are discussed in section 3.7.6 of this Report.

Underlying EBIT

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

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

The following table reconciles Underlying EBIT to profit from operations for the years ended 30 June 2010, 2009 and 2008. Further details of exceptional items for each year can be found in section 3.6.2.

Year ended 30 June	2010 US$M	2009 US$M	2008 US$M
Underlying EBIT	**19,719**	18,214	24,282
Exceptional items (before taxation)	**312**	(6,054)	(137)
Profit from operations (EBIT)	**20,031**	12,160	24,145

The following tables and commentary describe the approximate impact of the principal factors that affected Underlying EBIT for FY2010 and FY2009.

Year ended 30 June	2010 US$M		2009 US$M	
Underlying EBIT as reported in the prior year		**18,214**		24,282
Change in volumes:				
Increase in volumes	**2,142**		158	
Decrease in volumes	**(206)**		(2,523)	
		1,936		(2,365)
Net price impact:				
Change in sales prices	**778**		(3,994)	
Price-linked costs	**241**		12	
		1,019		(3,982)
Change in costs:				
Costs (rate and usage)	**(2)**		(2,528)	
Exchange rates	**(2,150)**		2,456	
Inflation on costs	**(400)**		(601)	
		(2,552)		(673)
Asset sales		**82**		(81)
Ceased and sold operations		**526**		15
New and acquired operations		**966**		(158)
Exploration and business development		**239**		(104)
Other		**(711)**		1,280
Underlying EBIT		**19,719**		18,214

3. Operating and financial review and prospects *continued*

Year ended 30 June 2010 compared with year ended 30 June 2009

Underlying EBIT for FY2010 was US$19.7 billion, compared with US$18.2 billion in the corresponding period, an increase of 8.3 per cent.

Volumes

Strong performance from steelmaking raw materials was the major contributor to the volume related increase in Underlying EBIT of US$1,936 million. In that context, our strategy to maximise production from our low cost assets at all points in the cycle ideally positioned our Metallurgical Coal and Manganese businesses to capitalise on the improvement in market demand. In Western Australia's Pilbara region, ongoing commitment to growth delivered the tenth consecutive record in iron ore sales while a recovery in pellet demand enabled Samarco (Brazil) to return to full capacity.

Solid operating performance was recorded across the remaining Customer Sector Groups (CSGs). In Base Metals, Escondida (Chile) and Cannington (Australia) both benefited from higher throughput and grade whilst Olympic Dam (Australia) and Spence (Chile) were impacted by unplanned interruptions.

Escondida production is expected to decline by five to 10 per cent in FY2011, mainly due to lower grade.

Prices

Prices (including the impact of linked costs) increased Underlying EBIT by US$1,019 million with iron ore and the base and precious metals complex contributing US$5,265 million of the benefit. Lower prices for coal (both forms) and manganese were the offsetting factors and reduced Underlying EBIT by US$4,401 million.

Price-linked costs were US$241 million lower than the corresponding period.

During the second half of the financial year, the old benchmark pricing system for iron ore and metallurgical coal was substantially replaced by shorter-term market based pricing. The transformation ensures the majority of BHP Billiton's bulk commodities (iron ore, manganese, metallurgical coal and energy coal) are now linked to market based prices.

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

Costs

Excluding the significant impact of a weaker US dollar and an increase in non-cash items (US$219 million), costs were well controlled across the Group, adding US$217 million to Underlying EBIT in the period.

Raw materials, including fuel and energy, generated the greatest benefit and increased Underlying EBIT by US$576 million although the majority of the benefit was non-structural in nature.

In contrast, higher labour and contractor rates continued to negatively impact the cost base, particularly in South America and Australia. At Spence, Escondida and Cerro Colorado (Chile) one-off wage negotiations, bonuses and contractor payments reduced Underlying EBIT by US$145 million. Similarly, Western Australia's higher labour costs associated with the tight labour market reduced Western Australia Iron Ore Underlying EBIT by US$45 million.

Non-cash and other items reduced Underlying EBIT by a combined US$537 million. The major negative factors were higher depreciation in Western Australia Iron Ore and a provision for a payment to the Western Australian Government that is expected to follow the recently announced amendments to the State Agreements.

Exchange rates

A weaker US dollar against all producer currencies reduced Underlying EBIT by US$2,150 million. The Australian operations were the most impacted with the strong Australian dollar decreasing Underlying EBIT by US$1,779 million.

Average and closing exchange rates for FY2010 and FY2009 are detailed in note 1 to the financial statements.

Inflation on costs

Inflationary pressure on input costs across all businesses had an unfavourable impact on Underlying EBIT of US$400 million. The effect was most evident in Australia and South Africa.

Asset sales

The profit on the sale of assets increased Underlying EBIT by US$82 million. This was mainly due to the profit that followed dissolution of the Douglas Tavistock Joint Venture arrangement (South Africa).

Ceased and sold operations

Lower operational losses for Yabulu and Ravensthorpe (both Australia) and the Suriname alumina refinery, which were sold during FY2010, resulted in a favourable impact on Underlying EBIT of US$526 million.

New and acquired operations

New greenfield assets are reported in new and acquired operations variance until there is a full year comparison. BHP Billiton operated oil and gas facilities, Shenzi (US) and Pyrenees (Australia), contributed an additional US$966 million to Underlying EBIT in the period.

Exploration and business development

Exploration expense was broadly flat for the year at US$1,030 million. Within minerals (US$467 million expense) the focus centred upon copper in Chile and Zambia, nickel in Australia, manganese in Gabon, and diamonds in Canada. Exploration for iron ore, coal, bauxite, potash and manganese was also undertaken in a number of regions including Australia, Canada, South America, Russia and Africa.

The Petroleum CSG’s exploration expense increased to US$563 million as the business commenced a multi-year drilling campaign.

Expenditure on business development was US$195 million lower than the corresponding period. This was mainly due to reduced activity in the Base Metals and Stainless Steel Materials CSGs.

Other

Other items decreased Underlying EBIT by US$711 million, predominantly due to the influence of third party product sales and the fair value adjustment of derivative contracts.

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

Underlying EBIT for FY2009 was US$18.2 billion, compared with US$24.3 billion, a decrease of 25.0 per cent.

Volumes

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

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

3. Operating and financial review and prospects *continued*

Prices

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

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

Costs

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

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

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

Exchange rates

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

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

Inflation on costs

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

Asset sales

The sale of assets reduced Underlying EBIT by US$81 million. This was mainly due to the sale of the Elouera mine (Illawarra Coal, Australia) and other Queensland Coal mining leases in FY2008. However, this was in part offset by the profit on sale of petroleum leases located offshore of Western Australia.

Ceased and sold operations

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

New and acquired operations

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

Exploration and business development

Exploration expense for the year was US$1,074 million, an increase of US$168 million. The main expenditure for Petroleum was on targets in the Gulf of Mexico (US), Malaysia and Australia. We also progressed with minerals exploration activities in Western Australia Iron Ore and potash in Saskatchewan, Canada. During FY2009, we incurred US$94 million of exploration expense for potash.

Expenditure on business development was US$64 million lower than FY2008. This was mainly due to lower spending on the pre-feasibility study for the Olympic Dam expansion project and business development activities for diamonds projects. The draft Environmental Impact Statement (EIS) for the Olympic Dam expansion was submitted to the federal, South Australian and Northern Territory governments for review. Project activities were modified to that necessary to support the approvals process and the study of a number of mining and processing technology options.

Other

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

Net finance costs

Year ended 30 June 2010 compared with year ended 30 June 2009

Net finance costs decreased to US$459 million from US$543 million in the corresponding period. This was primarily driven by higher levels of capitalised interest.

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

Net finance costs decreased to US$543 million, from US$662 million in FY2008. This was driven predominantly by lower interest rates and foreign exchange impacts, partly offset by lower capitalised interest.

Taxation expense

Year ended 30 June 2010 compared with year ended 30 June 2009

The taxation expense including royalty-related taxation and tax on exceptional items was US$6,563 million. This represented an effective rate of 34 per cent on profit before tax of US$19,572. Excluding the impacts of exceptional items, the taxation expense was US$6,504 million.

Exchange rate movements increased the taxation expense by US$106 million predominantly due to the revaluation of local currency tax liabilities and other monetary items, which amounted to US$502 million. This was offset by the increase in the US dollar value of future tax depreciation of US$396 million.

Royalty-related taxation represents an effective rate of two per cent for the current period. Excluding the impacts of royalty-related taxation, the impact of exchange rate movements included in taxation expense and tax on exceptional items, the underlying effective rate was 31 per cent.

Government imposed royalty arrangements which are calculated by reference to profits (revenue net of allowable deductions) after the adjustment for items comprising temporary differences, is reported as royalty-related taxation. Other royalty and excise arrangements that do not have these characteristics are recognised as operating costs (US$1,653 million).

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

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