Higher prices were underpinned by the improved global economic recovery, service centre re-stocking and strong underlying consumption. The fall of the nickel price in early May 2011 was caused by a general sell-off by investors. This drop led to a wait-and-see purchasing behaviour among stainless distributors and end-users in the following months. On the supply side, more nickel production was added in the first half of FY2011, whereas the second half of the year was characterised by supply disruptions. Partially offsetting these disruptions was a particularly high level of nickel pig iron production in China.

The following table indicates the estimated impact on FY2011 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 FY2011 actual results and sale prices of our commodities under a mix of short-, medium- and long-term contracts. Movements in commodity prices can cause movements in exchange rates and vice versa. These sensitivities should therefore be used with care.

Estimated impact on FY2011 profit after taxation of changes of:	US$M
US$1/bbl on oil price	43
US¢1/lb on aluminium price	20
US¢1/lb on copper price	18
US¢1/lb on nickel price	1
US$1/t on iron ore price	80
US$1/t on manganese alloy	0.5
US$1/dmtu on manganese ore	138
US$1/t on metallurgical coal price	22
US$1/t on energy coal price	24

The impact of the commodity price movements in FY2011 is discussed in section 3.6 ‘Operating results’.

3.4.2 Freight markets

The bulk freight market is typically categorised by the size of the vessel. Capesize vessels are typically classified as having deadweight above 150 thousand deadweight tonnes (kdwt) compared with Panamax and Supramax vessels, which are 60 to 100 kdwt and 50 to 60 kdwt respectively.

The Capesize average 4 Time Charter rate, being a particular rate published by the Baltic Exchange, declined from US$24,239 per day at the beginning of FY2011 to US$12,732 per day at year end. Capesize freight rates dropped as low as US$4,567 per day in February 2011 as major supplying regions suffered adverse weather conditions resulting in lower cargo availability. The Panamax average 6 Time Charter rate declined from US$22,113 per day at the beginning of FY2011 to US$12,823 per day at the year-end. The Supramax average 4 Time Charter rate decreased from US$21,607 per day at the beginning of FY2011 to US$13,682 per day at the year-end. Although the demand for bulk commodities was strong, the freight market saw oversupply due to the many newbuild vessels entering the market. The total dry bulk fleet grew by 17 per cent year-on-year in CY2010, the fastest growth for many years.

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 the fluctuations in the Australian dollar, South African rand, Chilean peso and Brazilian real. Foreign exchange gains and losses reflected in operating costs owing to fluctuations in the abovementioned currencies relative to the US dollar may potentially offset one another. The Australian dollar, Brazilian real, Chilean peso and South African rand strengthened against the US dollar during FY2011.

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 2011, we had US$0.8 billion of fixed interest borrowings that had not been swapped to floating rates, arising principally from legacy positions that were in existence prior to the merger that created the DLC structure.

3.4.5 Changes in product demand

Global economic growth slowed during the second half of FY2011 as emerging economies tightened monetary policy, the Japanese tsunami disrupted trade flows and fiscal austerity measures adversely affected demand. Global imbalances and high levels of sovereign debt continue to create uncertainty and a protracted recovery remains our base case assumption for the developed world. However, a coordinated policy response has the potential to engender confidence and ease the volatility that has been the dominant theme of recent years.

Across the important growth economies of China and India, recent economic data suggests monetary policy is having the intended effect. That said, growth in fixed asset investment in China has remained resilient and is yet to fully reflect the recent policy response.

Despite these near term challenges, we remain positive on the longer-term outlook for the global economy. Over the past decade, emerging economies have contributed more to global growth than the developed world and we expect their share to expand as the process of urbanisation and industrialisation continues.

3.4.6 Operating costs and capital expenditure

During FY2011, total cash costs increased by four per cent, which arose from increases in costs that are structural in nature. Higher fuel and energy prices (of which BHP Billiton is a net beneficiary) together with increased maintenance, labour and contractor costs are consistent with the corresponding level of activity occurring within the mining industry as a whole. In conjunction with safety and volumes, cost control continues to be a key area of focus for each area of operation.

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

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. 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.

Further information about our compliance with HSEC regulations can be found in section 2.8 of this Report.

3.4.9 Insurance

During FY2011, 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, reinsurance 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 2011 compared with year ended 30 June 2010

Our strategic focus on large, low-cost and expandable assets once again delivered record financial performance and returns. Underlying EBITDA and attributable profit (excluding exceptional items) increased by 51 per cent and 74 per cent respectively, while Underlying return on capital, excluding investment associated with projects not yet in production, increased to 50 per cent. The strong increase in the Group’s Underlying EBIT margin to 47 per cent emphasises the quality of BHP Billiton’s diversified portfolio.

An ongoing commitment to invest through all points of the economic cycle delivered record annual production across four commodities and 10 operations. Our decision to invest in our Western Australia Iron Ore business during the depths of the global financial crisis facilitated an eleventh consecutive annual increase in iron ore production, as prices continued to test new highs. Three major projects delivered first production in FY2011, including the New South Wales Energy Coal MAC20 Project (Australia), which was completed ahead of schedule.

Robust demand, industry-wide cost pressures and persistent supply side constraints continued to support the fundamentals for the majority of BHP Billiton’s core commodities. In that context, another strong year of growth in Chinese crude steel production ensured steelmaking material prices were the major contributing factor to the US$17,228 million price related increase in Underlying EBIT.

However, we have regularly highlighted our belief that costs tend to lag the commodity price cycle as consumable, labour and contractor costs are broadly correlated with the mining industry’s level of activity. In the current environment, tight labour and raw material markets are presenting a challenge for all operators, and BHP Billiton is not immune from that trend. The devaluation of the US dollar and inflation reduced Underlying EBIT by a further US$3,161 million.

Record operating cash flow of US$30,080 million continues to create substantial flexibility for the Group. In the 12-month period alone, we have invested US$12,387 million across our tier one portfolio of minerals and energy assets, completed a US$10 billion capital management program and finalised the acquisition of Chesapeake Energy Corporation’s interests in the Fayetteville Shale assets (US). Notwithstanding those achievements, net gearing of nine per cent at the end of FY2011 ensures BHP Billiton has the capacity to comfortably fund its extensive organic growth program and the US$15.1 billion acquisition of Petrohawk Energy Corporation that was announced on 14 July 2011. Importantly, the Group remains committed to a solid ‘A’ credit rating.

The consistent and disciplined manner in which we return excess capital to shareholders was further illustrated by the completion of our expanded US$10 billion capital management program on 29 June 2011, six months ahead of schedule. Completion of the substantial program in such a timely manner highlights our commitment to maintain an appropriate capital structure, irrespective of the economic cycle. Since 2004, the Group has repurchased a cumulative US$22,600 million of Limited (Ltd) and Plc shares, representing 15 per cent of then issued capital.

Confidence in the long-term outlook for our core commodity markets and the accelerated purchase and cancellation of four per cent of issued capital during FY2011 has enabled the BHP Billiton Board to declare a 22 per cent rebasing of the final dividend. The increase in the full year payout to 101 US cents per share is consistent with the Group's commitment to its progressive dividend policy.

Revenue was US$71.7 billion, an increase of 35.9 per cent from US$52.8 billion in the corresponding period.

Our profit attributable to members of BHP Billiton of US$23.6 billion represents an increase of 85.9 per cent from the corresponding period. Attributable profit excluding exceptional items of US$21.7 billion represents an increase of 73.9 per cent from the corresponding period.

On 24 August 2011, the Board declared a final dividend of 55 US cents per share, thus bringing the total dividends declared for FY2011 to 101 US cents per share, an increase of 16.1 per cent over the corresponding period. Capital management initiatives are discussed in section 3.7.6 of this Report.

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$16,890 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, there were 20 projects in various stages of execution and feasibility with an estimated budget in excess of US$25 billion.

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.

Revenue was US$52.8 billion, an increase of 5.2 per cent from US$50.2 billion in FY2009.

Our profit attributable to members of BHP Billiton of US$12.7 billion represented an increase of 116.5 per cent from FY2009. Attributable profit excluding exceptional items of US$12.5 billion represented an increase of 16.3 per cent from FY2009.

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. Capital management initiatives are discussed in section 3.7.6 of this Report.

3.6.2 Consolidated results – 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.

A reconciliation from Underlying EBIT to profit from operations can be found in section 3.3 'Key measures'.

The following table and commentary describe the approximate impact of the principal factors that affected Underlying EBIT for FY2011 and FY2010.

Year ended 30 June	2011 US$M	2011 US$M	2010 US$M	2010 US$M
Underlying EBIT as reported in the prior year		**19,719**		18,214
Change in volumes:				
Increase in volumes	**841**		2,142	
Decrease in volumes	**(1,422)**		(206)	
		(581)		1,936
Net price impact:				
Change in sales prices	**18,648**		778	
Price-linked costs	**(1,420)**		241	
		17,228		1,019
Change in costs:				
Costs (rate and usage)	**(1,412)**		(2)	
Exchange rates	**(2,526)**		(2,150)	
Inflation on costs	**(635)**		(400)	
		(4,573)		(2,552)
Asset sales		**(85)**		82
Ceased and sold operations		**(140)**		526
New and acquired operations		**1,153**		966
Exploration and business development		**(328)**		239
Other		**(413)**		(711)
Underlying EBIT		**31,980**		19,719

Year ended 30 June 2011 compared with year ended 30 June 2010

Underlying EBIT for FY2011 was US$32.0 billion, compared with US$19.7 billion in the corresponding period, an increase of 62.2 per cent.

Volumes

BHP Billiton achieved production records across four commodities and 10 operations during FY2011. Western Australia Iron Ore shipments rose to a record annualised rate of 155 million tonnes per annum (mtpa) in the June 2011 quarter and, when combined with strong operating performance at Samarco (Brazil), enabled iron ore volumes to contribute an additional US$572 million to Underlying EBIT.

The completion and successful ramp-up of the MAC20 Project ahead of schedule underpinned record production at New South Wales Energy Coal in the period. When considered in conjunction with a 13 per cent increase in South Africa Coal production, Energy Coal volumes increased Underlying EBIT by US$177 million in FY2011.

However, broader challenges continued to delay the supply response of the industry over the 12-month period. For example, metallurgical coal supply was significantly affected by persistent wet weather in the Bowen Basin (Australia), while ongoing permitting delays in the Gulf of Mexico (US) continued to impact drilling activity. In aggregate, volumes reduced BHP Billiton Underlying EBIT by US$581 million in FY2011 despite generally strong operating performance.

Prices

Robust demand driven by the emerging economies, a general elevation and steepening of global (commodity) cost curves and the persistent theme of supply side constraint, were all catalysts for higher commodity prices that increased Underlying EBIT by US$18,648 million in the period. Another strong year of growth in Chinese crude steel production ensured steelmaking material prices were the major contributing factor, as they alone increased Underlying EBIT by US$11.1 billion. Price-linked costs (including royalties) reduced Underlying EBIT by US$1,420 million.

Costs

BHP Billiton has regularly highlighted its belief that costs tend to lag the commodity price cycle as consumable, labour and contractor costs are broadly correlated with the mining industry’s level of activity. In the current environment of elevated commodity prices, tight labour and raw material markets are presenting a challenge for all operators. Excluding the impact of a weaker US dollar, inflation and an increase in non-cash items, costs decreased Underlying EBIT by US$1.2 billion.

Higher fuel and energy prices (of which BHP Billiton is a net beneficiary), together with increased maintenance, labour and contractor costs, accounted for the majority of the impact and reduced Underlying EBIT by US$878 million.

Cost performance in the large bulk commodity businesses is heavily influenced by the ability to leverage infrastructure and maximise volumes. In this regard, the weather related disruption at our Queensland Coal (Australia) business had a negative impact on unit costs in the period. The major cost offset was related to the recovery in operating performance that followed last year’s Clark Shaft outage at Olympic Dam (Australia).

Non-cash items, predominantly depreciation, reduced Underlying EBIT by a further US$255 million and reflected the ongoing delivery of our organic growth program.

Exchange rates

A weaker US dollar against producer currencies reduced Underlying EBIT by US$2,526 million, which included a US$735 million variance related to the restatement of monetary items in the balance sheet. The Australian operations were the most heavily impacted. The strong Australian dollar reduced Underlying EBIT by US$2.1 billion, which included a US$640 million variance related to the restatement of monetary items in the balance sheet. The absolute impact on costs as a result of the restatement of monetary items in the balance sheet was a loss of US$807 million in FY2011.

Average and closing exchange rates for FY2011 and FY2010 are detailed in note 1 to the financial statements.

Inflation on costs

Inflationary pressure on costs across all businesses had an unfavourable impact on Underlying EBIT of US$635 million. The pressure was most evident in Australia and South Africa, which accounted for over two-thirds of the total impact.

Asset sales

The profit on the sale of assets was US$85 million lower than the corresponding period largely due to the dissolution of the Douglas Tavistock Joint Venture (South Africa), which increased Underlying EBIT in the prior period.

Ceased and sold operations

The currency revaluation of rehabilitation and closure provisions for ceased operations was the major driver of the US$140 million reduction in Underlying EBIT.

New and acquired operations

Assets are reported as new and acquired operations until there is a full year comparison. New operations increased Underlying EBIT by US$1,153 million primarily due to strong performance at the BHP Billiton operated Pyrenees oil facility (Australia) and the inaugural contribution from the recently acquired Fayetteville Shale assets.

Exploration and business development

Group exploration expense increased marginally in FY2011 to US$1.1 billion. Within Minerals (US$577 million expense), the focus centred upon copper targets in South America, Mongolia and Zambia; nickel and copper targets in Australia; and diamond targets in Canada. Exploration for iron ore, potash, uranium and manganese was undertaken in a number of regions including Australia, Asia, Africa and the Americas.

Petroleum exploration expense was US$477 million and included a US$73 million impairment of exploration previously capitalised. Exploration drilling activity was delayed in the Gulf of Mexico due to new regulatory permitting processes, but was partially offset by an increase in the acquisition and processing of geophysical data. BHP Billiton’s proven operating capability in the deepwater remains an important competitive advantage and the Group will continue to invest in an extensive exploration program that is focused on the Gulf of Mexico, South China Sea and Australia.

Expenditure on business development reduced Underlying EBIT by an additional US$303 million compared with the prior period as Base Metals progressed a number of its development options, including Olympic Dam Project (ODP1) and the Spence Hypogene project (Chile). Increased activity on the Scarborough and Browse liquefied natural gas projects (both Australia) in FY2011 also contributed to the rise in the business development expense.

Other

Other items decreased Underlying EBIT by US$413 million and included provisions totalling US$189 million related to indirect taxes in the Aluminium and Iron Ore businesses, and Colombian net worth tax in Stainless Steel Materials and Energy Coal.

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, an increase of 8.3 per cent from FY2009.

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 CSGs. In Base Metals, Escondida (Chile) and Cannington (Australia) both benefited from higher throughput and grade, while 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, of which iron ore and the base and precious metals complex contributed US$5,265 million. 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 FY2009.

During the second half of FY2010, 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 FY2010.

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 was expected following the 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 FY2010.

Exploration and business development

Exploration expense was broadly flat for FY2010 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 FY2009. 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.

3.6.3 Net finance costs

Year ended 30 June 2011 compared with year ended 30 June 2010

Net finance costs increased to US$561 million from US$459 million in the corresponding period. This was primarily driven by exchange rate variations on net debt and lower amounts of interest capitalised.

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 FY2009. This was primarily driven by higher levels of capitalised interest.

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3.6.4 Taxation expense

Year ended 30 June 2011 compared with year ended 30 June 2010

Excluding the impacts of royalty-related taxation, exceptional items and exchange rate movements, taxation expense was US$10.1 billion representing an underlying effective tax rate of 32.1 per cent (2010: 30.9 per cent; 2009: 31.4 per cent).

Government imposed royalty arrangements calculated by reference to profits after adjustment for temporary differences are reported as royalty-related taxation. Royalty-related taxation contributed US$828 million to taxation expense representing an effective rate of 2.6 per cent (2010: US$451 million and 2.3 per cent; 2009: US$495 million and 4.3 per cent).

Other royalty and excise arrangements, which do not have these characteristics, are recognised as operating costs within profit before taxation. These amounted to US$2.9 billion during the period (2010: US$1.7 billion; 2009: US$1.9 billion).

Exceptional items decreased taxation expense by US$2.1 billion (2010: increase of US$59 million; 2009: decrease of US$1.2 billion) predominantly due to the reversal of deferred tax liabilities of US$1.5 billion following the election of eligible Australian entities to adopt a US dollar tax functional currency, as well as the release of tax provisions of US$718 million following the Group’s position being confirmed with respect to Australian Taxation Office (ATO) amended assessments.

Exchange rate movements decreased taxation expense by US$1.5 billion (2010: increase of US$106 million; 2009: increase of US$444 million) predominantly due to the revaluation of local currency deferred tax assets arising from future tax depreciation of US$2.5 billion, partly offset by the revaluation of local currency tax liabilities and deferred tax balances arising from other monetary items and temporary differences, which amounted to US$1.0 billion.

Total taxation expense, including royalty-related taxation and the predominantly non-cash exceptional items and exchange rate movements described above, was US$7.3 billion, representing an effective tax rate of 23.4 per cent (2010: 33.5 per cent; 2009: 45.4 per cent).

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 million and including tax on exceptional items of US$59 million. 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 FY2010. 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).