

Risk factors

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

Fluctuations in commodity prices may negatively impact our results

The prices we obtain for our oil, gas, minerals and other commodities are determined by, or linked to, prices in world markets, which have historically been subject to substantial variations because of fluctuations in supply and demand. The influence of hedge and other financial investment funds participating in commodity markets has increased in recent years contributing to higher levels of price volatility. We expect that volatility in prices for most of our commodities will continue for the foreseeable future. This volatility creates the risk that our operating results will be materially and adversely affected by unforeseen declines in the prevailing prices of our products.

Our profits may be negatively affected by currency exchange rate fluctuations

Our assets, earnings and cash flows are influenced by a wide variety of currencies due to the geographic diversity of the countries in which we operate. Fluctuations in the exchange rates of those currencies may have a significant impact on our financial results. The US dollar is the currency in which the majority of our sales are denominated. Operating costs are influenced by the currencies of those countries where our mines and processing plants are located and also by those currencies in which the costs of imported equipment and services are determined. The Australian dollar, South African rand, Chilean peso, Brazilian real and US dollar are the most important currencies influencing our operating costs. Given the dominant role of the US currency in our affairs, the US dollar is the currency in which the BHP Billiton Group measures its financial performance. It is also the natural currency for borrowing and holding surplus cash. We do not generally believe that active currency hedging provides long-term benefits to our shareholders. We may consider currency protection measures appropriate in specific commercial circumstances, subject to strict limits established by our Boards. Therefore, in any particular year, currency fluctuations may have a significant impact on our financial results.

Failure to discover new reserves or enhance existing reserves could negatively affect our results and financial condition

Because most of our revenues and profits are related to our oil and gas and minerals operations, our results and financial conditions are directly related to the success of our exploration efforts and our ability to replace existing reserves. A failure in our ability to discover new reserves or enhance existing reserves in sufficient quantities to maintain or grow the current level of our reserves could negatively affect our results, financial condition and prospects.

We may have fewer mineral, oil or gas reserves than our estimates indicate

Our reserves estimations may change substantially if new information subsequently becomes available. Fluctuations in the price of commodities, variation in production costs or different recovery rates may ultimately result in our estimated reserves being revised. If such a revision was to indicate a substantial reduction in proven or probable reserves at one or more of our major projects, it could negatively affect our results, financial condition and prospects.

Health, safety and environmental exposures and related regulations may impact our operations and reputation negatively

The nature of the industries in which we operate means that our activities are highly regulated by health, safety and environmental laws. As regulatory standards and expectations are constantly developing, we may be exposed to increased litigation, compliance costs and unforeseen environmental remediation expenses.

The December 1997 Kyoto Protocol established a set of greenhouse gas emission targets for developed countries that have ratified the Protocol. The European Union Emissions Trading System (EU ETS), which came into effect on 1 January 2005, has had an impact on greenhouse gas and energy intensive businesses based in the EU. Our Petroleum assets in the UK are currently subject to the EU ETS as are our EU based customers. Elsewhere there is existing and emerging regulation, such as the mandatory renewable energy target in Australia (which puts the onus on power producers to ensure that the national grid has 2 per cent renewable energy by the year 2020) that will affect energy prices. From a medium and long-term perspective, we are likely to see changes in the margins of our greenhouse gas intensive assets and energy intensive assets as a result of regulatory impacts in the countries where we operate. These regulatory mechanisms may be either voluntary or legislated and may impact our operations directly or indirectly via our customers. Inconsistency of regulations may also change the attractiveness of the locations of some of our assets. Assessments of the potential impact of future climate change regulation are uncertain given the wide scope of potential regulatory change in the 25 or more countries where we operate.

The European Registration, Evaluation and Authorisation of Chemicals (REACH) system is anticipated to commence operation in the first half of 2007. REACH will require manufacturers, importers and downstream users of chemical substances, including metals and minerals, to establish that the substances can be used without negatively affecting health or the environment. The draft legislation, which is currently

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undergoing review as it proceeds through the European Parliament for potential enactment, contemplates a registration and authorisation process for identified uses of products. The extent to which our operations and customers are affected by these changes will not be clear until the final form of the regulations is determined. These potential compliance costs, litigation expenses, regulatory delays, remediation expenses and operational costs could negatively affect our financial results.

Our operational processes and geographic locations may be subject to operational accidents or natural catastrophes such as earthquakes, hurricanes and tsunamis.

We may continue to be exposed to increased operational costs due to the costs and lost workers' time associated with the HIV/AIDS infection rate of our southern African workforce.

Because we operate globally, we may be affected by potential avian flu outbreaks in any of the regions in which we operate. The effects of avian flu may manifest themselves directly on employees, offices and operation or indirectly on customers and markets.

Despite our best efforts and best intentions, there remains a risk that health, safety and/or environmental incidents or accidents may occur that may negatively impact our reputation and freedom or licence to operate.

Land tenure disputes may negatively impact our operations

We operate in several countries where ownership of land is uncertain and where disputes may arise in relation to ownership. These disputes cannot always be predicted and hence there is a risk that this may cause disruption to some of our mining projects and prevent our development of new projects.

In Australia, the Native Title Act (1993) provides for the establishment and recognition of native title under certain circumstances. Like land ownership disputes, native title could negatively affect our new or existing projects.

In South Africa, the Extension of Security of Tenure Act (1997) prevents evictions from taking place in the absence of a court order. Occupiers who reside on the owner's land with the requisite consent of the owner, have rights to remain in occupation unless they breach their statutory obligations as occupiers. A process exists for long-term occupiers to enjoy life-long tenure. However, the legislation provides for the option of provision of suitable alternative land for occupation. Furthermore, the Restitution of Land Rights Act (1994) permits dispossessed communities to reclaim land, but only where such dispossession occurred after 1913 and as a consequence of a discriminatory practice or law. Both these Acts could negatively affect new or existing projects of the BHP Billiton Group.

Actions by governments in the countries in which we operate could have a negative impact on our business

Our business could be adversely affected by new government regulation such as controls on imports, exports and prices, new forms or rates of taxation and royalties.

In South Africa, the Mineral and Petroleum Resources Development Act (2002) (MPRDA) came into effect on 1 May 2004. The law provides for the conversion of existing mining rights (so called 'Old Order Rights') to rights under the new regime ('New Order Rights') subject to certain undertakings to be made by the company applying for such conversion. These new rights will also be subject to revised state royalties in the case of certain minerals, but this is only expected to be introduced in 2009. The MPRDA also required the development of a Broad Based Socio Economic Empowerment (BBSEE) Charter, known as the Mining Charter, for the mining industry with the objectives of expanding opportunities, skills, ownership and employment for historically disadvantaged South Africans. The Mining Charter requires that mining companies achieve 15 per cent ownership by historically disadvantaged South Africans of South African mining assets within five years and 26 per cent ownership within 10 years. If we are unable to convert our South African mining rights in accordance with the MPRDA and the Mining Charter, we could lose some of those rights. We also could be adversely affected by regulatory inquiries into our business practices.

Additional risks associated with emerging markets may negatively impact some of our operations

We operate in emerging markets, which may involve additional risks that could have an adverse impact upon the profitability of an operation. These risks could include terrorism, civil unrest, nationalisation, renegotiation or nullification of existing contracts, leases, permits or other agreements, and changes in laws and policy as well as other unforeseeable risks. If one or more of these risks occurs at one of our major projects, it could have a negative effect on our operating results or financial condition.

We may not be able to successfully integrate our acquired businesses

We have grown our business in part through acquisitions. We expect that some of our future growth will stem from acquisitions. There are numerous risks encountered in business combinations and we may not be able to successfully integrate acquired businesses or generate the cost savings and synergies anticipated, which could negatively affect our financial condition and results of operations.

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

There is a risk that we will not be able to recover the funds we spend identifying new mining and oil and gas properties through our exploration program. Increasing requirements relating to regulatory, environmental and social approvals can potentially result in significant delays in construction and may adversely impact upon the economics of new mining and oil and gas properties, the expansion of existing operations and our results of operations.

Our non-controlled assets may not comply with our standards

Some of our assets are controlled and managed by joint venture partners or by other companies. Management of our non-controlled assets may not comply with the BHP Billiton Group's health, safety, environment and other standards, controls and procedures. Failure to adopt equivalent standards, controls and procedures at these assets could lead to higher costs and reduced production and adversely impact our results and reputation.

Increased reliance upon the Chinese market may negatively impact our results in the event of a slowdown in consumption

The Chinese market has become a significant source of global demand for commodities. China now represents in excess of 41 per cent of global seaborne iron ore demand, 22 per cent of copper, 22 per cent of aluminum and 16 per cent of nickel demand. China's demand for these commodities has more than doubled in the last five years, but this demand is expected to moderate as the government pursues measures to reduce economic overheating and to increase capital efficiency.

Whilst this increase represents a significant business opportunity, our exposure to China's economic fortunes and economic policies has increased. Sales into China generated US\$6.6 billion or 16.8 per cent of revenue, including our share of jointly controlled entities' revenue in the year ended 30 June 2006.

In recent times we have seen a synchronised global recovery, resulting in upward movement in commodity prices driven partly by China's demand. This synchronised demand has introduced increased volatility in BHP Billiton's commodity portfolio. Whilst this synchronised demand has, in recent periods, resulted in higher prices for the commodities we produce, if China's economic growth slows, it could result in lower prices for our products and therefore reduce our revenues.

Inflationary pressures and shortages of skilled personnel could negatively impact our operations and expansion plans

The strong commodity cycle and large numbers of projects being developed in the resources industry led to increased demand for skilled personnel, contractors, materials and supplies and increased demands from governments. This has led, and could continue to lead to, increased capital and operating costs and difficulties in developing, acquiring and retaining skilled personnel, which may in turn adversely affect the development of new projects, the expansion of existing operations, the results of those operations and our financial condition and prospects.

Forward looking statements

This Annual Report contains forward looking statements, including statements regarding:

- estimated reserves
- trends in commodity prices
- demand for commodities
- plans, strategies and objectives of management
- closure or divestment of certain operations or facilities (including associated costs)
- anticipated production or construction commencement dates
- expected costs or production output
- the anticipated productive lives of projects, mines and facilities
- provisions and contingent liabilities.

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Forward looking statements can be identified by the use of terminology such as ‘intend’, ‘aim’, ‘project’, ‘anticipate’, ‘estimate’, ‘plan’, ‘believes’, ‘expects’, ‘may’, ‘should’, ‘will’, ‘continue’ or similar words. These statements discuss future expectations concerning the results of operations or financial condition or provide other forward looking statements.

These forward looking statements are not guarantees or predictions of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control and which may cause actual results to differ materially from those expressed in the statements contained in this Annual Report.

For example, our future revenues from our operations, projects or mines described in this Annual Report will be based, in part, upon the market price of the minerals, metals or petroleum produced, which may vary significantly from current levels. These variations, if materially adverse, may affect the timing or the feasibility of the development of a particular project or the expansion of certain facilities or mines. Other factors that may affect the actual construction or production commencement dates, costs or production output and anticipated lives of operations, mines or facilities include our ability to profitably produce and transport the minerals, petroleum and/or metals extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the minerals, petroleum or metals we produce; activities of government authorities in some of the countries where we are exploring or developing these projects, facilities or mines, including increases in taxes, changes in environmental and other regulations and political uncertainty; and other factors identified in the description of the risk factors above. We cannot assure you that our estimated economically recoverable reserve figures, closure or divestment of such operations or facilities including associated costs, actual production or commencement dates, cost or production output or anticipated lives of the projects, mines and facilities discussed in this Annual Report will not differ materially from the statements contained in this Annual Report. Except as required by applicable regulations or by law, the Group does not undertake any obligation to publicly update or review any forward looking statements, whether as a result of new information or future events.

2. INFORMATION ON THE COMPANY

History and development of BHP Billiton

We are the world's largest diversified resources group with a combined market capitalisation of approximately US\$122.8 billion as of 30 June 2006 and we generated revenue, together with our share of jointly controlled entities' revenue and profit attributable to members of BHP Billiton of US\$39.1 billion and US\$10.5 billion respectively for the year ended 30 June 2006.

Since June 2001, we have operated under a Dual Listed Companies (DLC) structure. Under the DLC structure, the two parent companies, BHP Billiton Limited (formerly BHP Limited, and before that The Broken Hill Proprietary Company Limited) and BHP Billiton Plc (formerly Billiton Plc) operate as a single economic entity, run by a unified Board and management team. More details of the DLC structure are located under 'Organisational structure'.

BHP Billiton Limited was incorporated in 1885 and is registered in Australia with ABN 49 004 028 077. BHP Billiton Plc was incorporated in 1996 and is registered in England and Wales with registration number 3196209.

The registered office of BHP Billiton Limited is at 180 Lonsdale Street, Melbourne, Victoria 3000, Australia, and its telephone number is +61 3 9609 3333. The registered office of BHP Billiton Plc is Neathouse Place, London SW1V1BH, UK, and its telephone number is +44 20 7802 4000.

We divide our business into seven business units, or Customer Sector Groups (CSGs):

- Petroleum, which explores for, produces, processes and markets hydrocarbons including oil, gas and liquefied natural gas
- Aluminium, which explores for and mines bauxite and processes and markets aluminium and alumina
- Base Metals, which explores for, mines, processes and markets copper, silver, zinc, lead, uranium, and copper by-products including gold and molybdenum
- Carbon Steel Materials, which explores for, mines, processes and markets metallurgical coal, iron ore and manganese used in the production of carbon steel
- Diamonds and Specialty Products, which explores for and mines diamonds and titanium minerals, and also includes our recently-sold fertiliser operations
- Energy Coal, which explores for, mines, processes and markets energy coal for use in electricity generation
- Stainless Steel Materials, which explores for, mines, processes and markets nickel, which is used in the production of stainless steel.

In addition to the seven CSGs, we also have a minerals exploration group, a technology group and a freight, transport and logistics operation. The tables below list the contribution to revenue from each of these CSGs and by geographic market for the years ended 30 June 2006 and 30 June 2005. Further details of the contribution from each of these CSGs to our revenues and profits are outlined in the Operating and financial review and prospects section.

Analysis by CSG	Revenue 2006 US\$M	Revenue 2005 US\$M
Petroleum	5,871	5,967
Aluminium	4,977	4,571
Base Metals	4,901	2,329
Carbon Steel Materials	9,134	7,168
Diamonds and Specialty Products	886	731
Energy Coal	2,881	2,971
Stainless Steel Materials	2,955	2,266
Group and unallocated items	548	719
Total	32,153	26,722