BHP BILLITON GROUP

ANNUAL FINANCIAL STATEMENTS

30 JUNE 2004

presented in US dollars and prepared in accordance with UK GAAP

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Report of Independent Accountants

To the members of BHP Billiton Plc and BHP Billiton Limited:

We have audited the accompanying consolidated balance sheets of the BHP Billiton Group (comprising BHP Billiton Plc, BHP Billiton Limited and their respective subsidiaries) as of 30 June 2004 and 2003, and the related consolidated statements of profit and loss, of total recognised gains and losses and of cash flows for each of the three years in the period ended 30 June 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the BHP Billiton Group at 30 June 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended 30 June 2004 in conformity with accounting principles generally accepted in the United Kingdom.

As discussed in the accounting principles, the Group changed its method of accounting for employee share awards in 2004.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 34 to the consolidated financial statements.

/s/ KPMG Audit Plc

KPMG Audit Plc
London
1 September 2004

/s/ KPMG

KPMG
Melbourne
1 September 2004

Consolidated Profit and Loss Account

for the year ended 30 June 2004

		2004		
	Notes	Excluding exceptional items US$M	Exceptional items (note 2) US$M	Total US$M
Turnover (including share of joint ventures and associates)				
Group production		18 283	-	18 283
Third party products	4	6 660	-	6 660
	4,5	24 943	-	24 943
less Share of joint ventures' and associates' turnover included above	4,5	(2 056)	-	(2 056)
Group turnover	5	22 887	-	22 887
Net operating costs	7	(17 960)	66	(17 894)
Group operating profit/(loss)		4 927	66	4 993
Share of operating profit of joint ventures and associates	4,5	425	-	425
Operating profit/(loss) (including share of operating profit of joint ventures and associates)		5 352	66	5 418
Comprising:				
Group production		5 319	66	5 385
Third party products	4	33	-	33
		5 352	66	5 418
Income from other fixed asset investments		35	-	35
Profit on sale of fixed assets		95	-	95
Profit on sale of operations		6	-	6
Loss on termination of operations [(b)]	2	-	(534)	(534)
Loss on sale of Discontinued Operations	2	-	-	-
Profit/(loss) before net interest and similar items payable and taxation	4,5	5 488	(468)	5 020
Net interest and similar items payable				
Group	8	(407)	-	(407)
Joint ventures and associates	4,8	(95)	-	(95)
Profit/(loss) before taxation	4,5	4 986	(468)	4 518
Taxation	10	(1 379)	337	(1 042)
Profit/(loss) after taxation		3 607	(131)	3 476
Equity minority interests		(97)	-	(97)
Profit/(loss) for the financial year (attributable profit)		3 510	(131)	3 379
Dividends to shareholders	11	(1 617)	-	(1 617)
Retained profit/(loss) for the financial year	24	1 893	(131)	1 762
Earnings per ordinary share (basic) (US cents)	12	56.4	(2.1)	54.3
Earnings per ordinary share (diluted) (US cents)	12	56.2	(2.1)	54.1
Dividend per ordinary share (US cents)	11			26.0

The accompanying notes form part of these financial statements.

Consolidated Profit and Loss Account

for the year ended 30 June 2003

	Notes	2003 Excluding exceptional items US$M	Exceptional items(a) (notes 2,3) US$M	Total US$M
Turnover (including share of joint ventures and associates)				
Group production		14 124	-	14 124
Third party products	4	3 382	-	3 382
	4,5	17 506	-	17 506
less Share of joint ventures' and associates' turnover included above	4,5	(1 898)	-	(1 898)
Group turnover	5	15 608	-	15 608
Net operating costs	7	(12 554)	-	(12 554)
Group operating profit/(loss)		3 054	-	3 054
Share of operating profit of joint ventures and associates	4,5	358	-	358
Operating profit/(loss) (including share of operating profit of joint ventures and associates)		3 412	-	3 412
Comprising:				
Group production		3 361	-	3 361
Third party products	4	51	-	51
		3 412	-	3 412
Income from other fixed asset investments		16	-	16
Profit on sale of fixed assets		46	-	46
Profit on sale of operations		7	-	7
Loss on termination of operations [(b)]	2	-	-	-
Loss on sale of Discontinued Operations	2	-	(19)	(19)
Profit/(loss) before net interest and similar items payable and taxation	4,5	3 481	(19)	3 462
Net interest and similar items payable				
Group	8	(444)	-	(444)
Joint ventures and associates	4,8	(93)	-	(93)
Profit/(loss) before taxation	4,5	2 944	(19)	2 925
Taxation	10	(984)	-	(984)
Profit/(loss) after taxation		1 960	(19)	1 941
Equity minority interests		(40)	-	(40)
Profit/(loss) for the financial year (attributable profit)		1 920	(19)	1 901
Dividends to shareholders	11	(900)	-	(900)
Retained profit/(loss) for the financial year	24	1 020	(19)	1 001
Earnings per ordinary share (basic) (US cents)	12	30.9	(0.3)	30.6
Earnings per ordinary share (diluted) (US cents)	12	30.9	(0.3)	30.6
Dividend per ordinary share (US cents)	11			14.5

The accompanying notes form part of these financial statements.

Consolidated Profit and Loss Account

for the year ended 30 June 2002

	Notes	Continuing Operations US$M	Exceptional items (note 2) US$M	2002 Continuing Operations including exceptional items US$M	Discontinued Operations (a) (note 3) US$M	Total US$M
Turnover (including share of joint ventures and associates)						
Group production		13 038	-	13 038	2 550	15 588
Third party products	4	2 190	-	2 190	-	2 190
	4,5	15 228	-	15 228	2 550	17 778
less Share of joint ventures' and associates' turnover included above	4,5	(1 666)	-	(1 666)	(206)	(1 872)
Group turnover	5	13 562	-	13 562	2 344	15 906
Net operating costs	7	(10 907)	(111)	(11 018)	(2 285)	(13 303)
Group operating profit/(loss)		2 655	(111)	2 544	59	2 603
Share of operating profit of joint ventures and associates	4,5	329	-	329	11	340
Operating profit/(loss) (including share of operating profit of joint ventures and associates)		2 984	(111)	2 873	70	2 943
Comprising:						
Group production		2 956	(111)	2 845	70	2 915
Third party products	4	28	-	28	-	28
		2 984	(111)	2 873	70	2 943
Income from other fixed asset investments		37	-	37	1	38
Profit on sale of fixed assets		13	-	13	15	28
Profit on sale of operations		68	-	68	-	68
Loss on termination of operations [b]	2	-	(101)	(101)	-	(101)
Loss on sale of Discontinued Operations	2	-	-	-	-	-
Profit/(loss) before net interest and similar items payable and taxation	4,5	3 102	(212)	2 890	86	2 976
Net interest and similar items payable						
Group	8	(208)	-	(208)	(4)	(212)
Joint ventures and associates	4,8	(28)	-	(28)	(9)	(37)
Profit/(loss) before taxation	4,5	2 866	(212)	2 654	73	2 727
Taxation	10	(961)	(32)	(993)	3	(990)
Profit/(loss) after taxation		1 905	(244)	1 661	76	1 737
Equity minority interests		(39)	-	(39)	(8)	(47)
Profit/(loss) for the financial year (attr ibutable profit)		1 866	(244)	1 622	68	1 690
Dividends to shareholders	11	(784)	-	(784)	-	(784)
Retained profit/(loss) for the financial year	24	1 082	(244)	838	68	906
Earnings per ordinary share (basic) (US cents)	12	31.0	(4.1)	26.9	1.1	28.0
Earnings per ordinary share (diluted) (US cents)	12	31.0	(4.1)	26.9	1.1	28.0
Dividend per ordinary share (US cents)	11					13.0

(a) Due to the demerger of the BHP Steel business in July 2002, BHP Steel's results have been reported as Discontinued Operations. The exceptional item in the year ended 30 June 2003 relates to Discontinued Operations. There are no exceptional items in net operating costs of Discontinued Operations for the year ended 30 June 2002. Net interest shown against Discontinued Operations includes that amount of net external interest that is directly attributable to the Discontinued Operations. Taxation is the nominal charge on the profit before taxation.

(b) In the year ended 30 June 2004, the exceptional loss on termination of operations includes US$425 million relating to the refinement of the closure provisions for the Southwest Copper operations. In the year ended 30 June 2002, the exceptional loss on termination of operations also relates to Southwest Copper. Refer note 2.

(c) Whilst the presentation of earnings per share excluding exceptional items is acceptable under UK GAAP, this presentation is not permitted under US GAAP. Profit and earnings per share before exceptional items are not measures of financial performance under US GAAP and should not be considered an alternative to, or more meaningful than, income from operations, net income or cash flows as defined by US GAAP as a measurement of the BHP Billiton Group's profitability or liquidity. All registrants do not calculate profit and earnings per share before exceptional items in the same manner, and accordingly, profit and earnings per share before exceptional items may not be comparable with other registrants. Refer to note 2 for details of exceptional items excluded and to note 12 for details of the calculations.

The accompanying notes form part of these financial statements.

Consolidated Statement of Total Recognised Gains and Losses
for the years ended 30 June 2004, 2003 and 2002

	Group			Joint ventures and associates			Total		
	2004	2003	2002	**2004**	2003	2002	**2004**	2003	2002
	US$M	US$M	US$M	**US$M**	US$M	US$M	**US$M**	US$M	US$M
Attributable profit for the financial year (a)	**3 156**	1 737	1 465	**223**	164	225	**3 379**	1 901	1 690
Exchange gains on foreign currency net investments (b)	**48**	67	25	**-**	-	-	**48**	67	25
Total recognised gains for the financial year	**3 204**	1 804	1 490	**223**	164	225	**3 427**	1 968	1 715
Prior year adjustment arising from the change in accounting policy (c)	**84**			**-**			**84**		
Total recognised gains since last annual report	**3 288**			**223**			**3 511**		

Effective July 2002, the BHP Steel business was demerged from the BHP Billiton Group. The Consolidated Statement of Total Recognised Gains and Losses for the year ended 30 June 2002 includes gains and losses pertaining to BHP Steel.

(a) Included in joint ventures' and associates' attributable profit is a profit of US$nil (2003: US$25 million; 2002: US$26 million) relating to associated companies.

(b) Exchange gains on foreign currency net investments include net exchange gains on foreign currency borrowings, which hedge overseas investments, of US$nil (2003: US$7 million; 2002: US$10 million) and associated tax expense of US$nil (2003: US$2 million; 2002: US$1 million).

(c) Refer Accounting Policies.

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

as at 30 June 2004 and 2003

	Notes	2004 US$M	2003 (Restated) US$M
Fixed assets			
Intangible assets			
Goodwill	13	**34**	36
Negative goodwill	13	**(26)**	(29)
		8	7
Tangible assets	14	**20 971**	19 809
Investments			
Joint ventures - share of gross assets		**2 951**	2 880
Joint ventures - share of gross liabilities		**(1 582)**	(1 477)
	15	**1 369**	1 403
Loans to joint ventures and other investments	15	**361**	441
Total fixed assets		**22 709**	21 660
Current assets			
Stocks	16	**1 760**	1 379
Debtors			
Amounts due within one year	17	**2 924**	2 224
Amounts due after more than one year	17	**1 482**	1 405
	17	**4 406**	3 629
Investments	18	**167**	143
Cash including money market deposits	28	**1 818**	1 552
Total current assets		**8 151**	6 703
Creditors - amounts falling due within one year	19	**(4 935)**	(4 207)
Net current assets		**3 216**	2 496
Total assets less current liabilities		**25 925**	24 156
Creditors - amounts falling due after more than one year	20	**(5 987)**	(6 849)
Provisions for liabilities and charges	21	**(5 558)**	(4 898)
Net assets		**14 380**	12 409
Equity minority interests		**(342)**	(318)
Attributable net assets		**14 038**	12 091
Capital and reserves			
Called up share capital - BHP Billiton Plc – nominal value US$0.50 each (2003 – US$0.50); 3 000 000 000 authorised (2003 – 3 000 000 000); 531 852 998 unissued (2002 – 531 852 998)	22	**1 234**	1 234
Share premium account	24	**518**	518
Contributed equity - BHP Billiton Limited – 3 759 487 555 issued (2003 – 3 747 687 775)	22	**1 851**	1 785
Profit and loss account	24	**10 461**	8 580
Interest in shares of BHP Billiton	25	**(26)**	(26)
Equity shareholders' funds	25	**14 038**	12 091

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

for the years ended 30 June 2004, 2003 and 2002

	Notes	2004 US$M	2003 (Restated) US$M	2002 (Restated) US$M
Net cash inflow from Group operating activities (a)		**6 701**	4 799	4 619
Dividends received from joint ventures and associates		**203**	197	149
Interest paid		**(347)**	(383)	(496)
Dividends paid on redeemable preference shares		**(23)**	(28)	(35)
Interest received		**78**	36	156
Other dividends received		**35**	15	38
Dividends paid to equity minority interests		**(75)**	(38)	(20)
Net cash outflow from returns on investments and servicing of finance		**(332)**	(398)	(357)
Taxation paid		**(1 337)**	(1 002)	(606)
Refund of taxation paid		**-**	-	91
Taxation		**(1 337)**	(1 002)	(515)
Available cash flow		**5 235**	3 596	3 896
Purchases of tangible fixed assets		**(2 589)**	(2 571)	(2 481)
Exploration expenditure		**(454)**	(348)	(390)
Disposals of tangible fixed assets		**157**	99	200
Purchase of investments and funding of joint ventures		**(35)**	(95)	(182)
Sale of investments and repayments by joint ventures (b)		**89**	560	232
Net cash outflow from capital expenditure and financial investment		**(2 832)**	(2 355)	(2 621)
Investment in subsidiaries		**-**	-	(45)
Demerger or sale of subsidiaries (b)		**53**	358	190
Cash transferred on demerger or disposal (b)		**(5)**	(86)	(45)
Investment in joint ventures		**-**	-	(208)
Disposal of joint ventures and associates		**131**	133	70
Net cash inflow/(outflow) from acquisitions and disposals		**179**	405	(38)
Net cash flow before equity dividends paid, management of liquid resources and financing		**2 582**	1 646	1 237
Equity dividends paid		**(1 501)**	(830)	(811)
Net cash flow before management of liquid resources and financing		**1 081**	816	426
Net cash (outflow)/inflow from management of liquid resources	28	**(178)**	(665)	157
Redeemable preference shares		**-**	-	(423)
Finance lease obligations		**(9)**	-	(28)
Debt due within one year - repayment of loans		**(854)**	(2 683)	(1 344)
Debt due within one year - drawdowns		**121**	1 435	1 657
Debt due after more than one year - repayment of loans		**(482)**	(1 438)	(2 722)
Debt due after more than one year - drawdowns		**254**	2 263	2 318
Net cash outflow from debt and finance leases		**(970)**	(423)	(542)
Share repurchase scheme - BHP Billiton Plc		**-**	(20)	-
Purchase of shares by ESOP trusts		**(25)**	(6)	(14)
Share buy-back program - BHP Billiton Limited		**-**	-	(19)
Issue of shares		**76**	172	140
Net cash outflow from financing		**(919)**	(277)	(435)
(Decrease)/increase in cash in the financial year		**(16)**	(126)	148

Effective July 2002, the BHP Steel business was demerged from the BHP Billiton Group. The Consolidated Statement of Cash Flows for the year ended 30 June 2002 includes cash flows of BHP Steel.

Consolidated Statement of Cash Flows continued

for the years ended 30 June 2004, 2003 and 2002

	Notes	**2004 US$M**	2003 US$M	2002 US$M
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash in the financial year		**(16)**	(126)	148
Net cash flow from debt and finance leases		**970**	423	542
Net cash flow from management of liquid resources		**178**	665	(157)
Decrease in net debt arising from cash flows		**1 132**	962	533
Other non-cash movements		**(31)**	232	-
Increase in net debt from exchange adjustments	28	**(98)**	(144)	(34)
Decrease in net debt		**1 003**	1 050	499
Net debt at beginning of the financial year	28	**(5 772)**	(6 822)	(7 321)
Net debt at end of the financial year	28	**(4 769)**	(5 772)	(6 822)

(a) Net cash inflow from Group operating activities

	2004 US$M	2003 (Restated) US$M	2002 (Restated) US$M
Group operating profit	**4 993**	3 054	2 603
Depreciation and amortisation	**1 751**	1 648	1 727
Impairment of assets	**116**	73	119
Employee share awards	**96**	70	28
Net exploration charge (excluding impairment of assets)	**284**	248	243
Increase in stocks	**(356)**	(250)	(11)
Increase in debtors	**(734)**	(286)	(382)
Increase in creditors	**500**	69	292
Increase/(decrease) in provisions	**48**	128	(35)
Other items	**3**	45	35
Net cash inflow from Group operating activities	**6 701**	4 799	4 619

(b) The impact on the BHP Billiton Group's cash flows of the demerger of the BHP Steel business in July 2002 was a cash inflow of US$347 million. This represents US$294 million from the settlement by BHP Steel of intercompany loans, less US$22 million demerger transaction costs paid, which are both included in net cash inflow/(outflow) from acquisitions and disposals, and US$75 million from the sale of the 6 per cent interest in BHP Steel which is included in the sale of investments and repayments by joint ventures.

The accompanying notes form part of these financial statements.

Dual Listed Companies Structure and Basis of Preparation of Financial Statements

Merger terms

On 29 June 2001, BHP Billiton Plc (previously known as Billiton Plc), a UK listed company, and BHP Billiton Limited (previously known as BHP Limited), an Australian listed company, entered into a Dual Listed Companies (DLC) merger. This was effected by contractual arrangements between the Companies and amendments to their constitutional documents.

The effect of the DLC merger is that BHP Billiton Plc and its subsidiaries (the BHP Billiton Plc Group) and BHP Billiton Limited and its subsidiaries (the BHP Billiton Limited Group) operate together as a single economic entity (the BHP Billiton Group), with neither assuming a dominant role. Under the arrangements:

- the shareholders of BHP Billiton Plc and BHP Billiton Limited have a common economic interest in both Groups;
- the shareholders of BHP Billiton Plc and BHP Billiton Limited take key decisions, including the election of Directors, through a joint electoral procedure under which the shareholders of the two Companies effectively vote on a joint basis;
- BHP Billiton Plc and BHP Billiton Limited have a common Board of Directors, a unified management structure and joint objectives;
- dividends and capital distributions made by the two Companies are equalised; and
- BHP Billiton Plc and BHP Billiton Limited each executed a deed poll guarantee, guaranteeing (subject to certain exceptions) the contractual obligations (whether actual or contingent, primary or secondary) of the other incurred after 29 June 2001 together with specified obligations existing at that date.

If either BHP Billiton Plc or BHP Billiton Limited proposes to pay a dividend to its shareholders, then the other Company must pay a matching cash dividend of an equivalent amount per share to its shareholders. If either Company is prohibited by law or is otherwise unable to declare, pay or otherwise make all or any portion of such a matching dividend, then BHP Billiton Plc or BHP Billiton Limited will, so far as it is practicable to do so, enter into such transactions with each other as the Boards agree to be necessary or desirable so as to enable both Companies to pay dividends as nearly as practicable at the same time.

The DLC merger did not involve the change of legal ownership of any assets of BHP Billiton Plc or BHP Billiton Limited, any change of ownership of any existing shares or securities of BHP Billiton Plc or BHP Billiton Limited, the issue of any shares or securities or any payment by way of consideration, save for the issue by each Company of one special voting share to a trustee company which is the means by which the joint electoral procedure is operated. In addition, to achieve a position where the economic and voting interests of one share in BHP Billiton Plc and one share in BHP Billiton Limited were identical, BHP Billiton Limited made a bonus issue of ordinary shares to the holders of its ordinary shares.

Treatment of the DLC merger for accounting purposes

Under UK Generally Accepted Accounting Principles (GAAP), the DLC merger is treated as a business combination because a single economic entity has been formed, even though BHP Billiton Plc and BHP Billiton Limited remain separate legal entities. The consolidated financial statements of BHP Billiton Plc therefore include those of BHP Billiton Limited and its subsidiary companies in accordance with the requirements of s227(5) of the Companies Act 1985.

The DLC merger is accounted for using the merger method of accounting in accordance with UK accounting standards as this is its substance. The nature of the DLC merger has resulted in the inclusion of amounts attributable to the shareholders of both BHP Billiton Plc and BHP Billiton Limited in capital and reserves on the balance sheet, and in attributable profit.

The substance of the DLC merger of BHP Billiton Plc and BHP Billiton Limited required that merger accounting was applied in accounting for the combination.

This is because:

- No party has ever been portrayed as either the acquirer or the acquired, either by its own Board or management during the process;
- All the parties to the combination clearly participated, on a consensual basis, in establishing the management structure of and key positions in the combined entity;
- Neither party dominates the other and this has been borne out in practice since the merger;
- Consideration was wholly equity shares in the BHP Billiton Group; and
- Neither set of shareholders retained an interest in the future performance of only part of the combined Group.

Dual Listed Companies Structure and Basis of Preparation of Financial Statements continued

Subsequent events continue to bear this out:

- The initiation and continuation of the combined 'BHP Billiton' name, logo and trademarks as the approved nomenclature of the merged Group;
- The creation of a new Customer Sector Group segment structure within the BHP Billiton Group reflecting a new approach to management of customer-based groupings of assets, which reflects neither the previous approach of the BHP Billiton Plc Group nor the BHP Billiton Limited Group;
- Continuing Board rationalisation reflecting the equivalence of importance of each party to the merger; and
- No wholesale sale of assets from either side of the business with those assets combined at the time of the merger continuing to be the assets that underpin the BHP Billiton Group presently.

At the date of the merger, the interests of the shareholders of BHP Billiton Plc and BHP Billiton Limited in the BHP Billiton Group were 38.6 per cent and 61.4 per cent respectively. Whilst this might indicate that BHP Billiton Limited would dominate the BHP Billiton Group, BHP Billiton rebuts the UK GAAP presumption of dominance on the grounds that the initial composition of the Board and the formally constituted Committees of the Board indicated that BHP Billiton Plc had a greater degree of influence than its proportion of voting rights would demand, and the Nominations Committee (which comprised two legacy BHP Billiton Limited Directors and two legacy BHP Billiton Plc Directors) effectively blocked the ability of the legacy BHP Billiton Limited Directors to alter the balance of legacy BHP Billiton Limited and BHP Billiton Plc Directors on the Board of the merged Group, at the expense of BHP Billiton Plc.

The Board is of the view that there has clearly been no dominance (or attempts to exert a dominant influence) in practice since the announcement of the merger. Actions since the merger continue to support the view that the substance of the transaction was that of a merger.

BHP Billiton Limited's plans for the business now referred to as BHP Steel were part of a strategy for its entire steel business. This had, prior to the DLC merger, included the spin-off of another part of the steel business, this was OneSteel (in October 2000), and the closure of a major steel works in Australia (in September 1999). BHP Billiton, in making the announcement about its plans for the demerger, did not make this a condition of merger nor was it a related arrangement. The shareholders of BHP Billiton Limited and BHP Billiton Plc were not asked to vote on the BHP Steel demerger at the time of the votes on the DLC merger. This demerger transaction was some way off at the time of merger and was conditional on shareholder votes by both BHP Billiton Limited and BHP Billiton Plc shareholders and the approval by the courts in Australia.

The demerger resulted in the shareholders of both BHP Billiton Plc and BHP Billiton Limited receiving their share of the value of BHP Steel upon demerger (albeit that the shareholders of BHP Billiton Plc received this in the form of a greater share of the remaining BHP Billiton Group and BHP Billiton Limited shareholders received it in the form of shares in BHP Steel). Both shareholder groups enjoyed the economic benefits of ownership of BHP Steel from the consummation of the merger to the date of demerger.

Accounting Policies

Basis of accounting
The financial statements have been prepared under the historical cost convention (except as discussed under tangible fixed assets below) and in accordance with applicable UK accounting standards, the Statement of Recommended Practice ('SORP') 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001 and the United Kingdom Companies Act 1985. The financial statements of the BHP Billiton Group include the combination of BHP Billiton Plc, BHP Billiton Limited and their respective subsidiaries. Subsidiaries are entities controlled by either parent entity. Control generally exists where the parent owns a majority of voting rights in the subsidiary. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. Where the BHP Billiton Group's interest is less than 100 per cent, the share attributable to outside shareholders is reflected in minority interests. In preparing the financial statements of the BHP Billiton Group, the effects of transactions between entities within the BHP Billiton Group have been eliminated.

A reconciliation of the major differences between the financial statements prepared under UK Generally Accepted Accounting Principles (GAAP) and those applicable under US GAAP is included in note 34.

Change in accounting policy

The accounting policies have been consistently applied by all entities in the BHP Billiton Group and are consistent with those applied in the prior two years, except for the following:

Employee share awards

The BHP Billiton Group has adopted the provisions of Urgent Issues Task Force (UITF) Abstract 38 'Accounting for Employee Share Ownership Plan (ESOP) Trusts' from 1 July 2003, which has resulted in the adoption of a revised accounting policy for employee share awards.

Under the revised accounting policy, the estimated cost of share awards made by the BHP Billiton Group is charged to profit over the period from the grant date to the date of expected vesting (where there are no performance hurdles) or the performance period, as appropriate. The accrued employee entitlement is recorded as an equal credit to shareholders' funds. The estimated cost of awards is based on the market value of shares at the grant date (in the case of Group Incentive Scheme Performance Shares, Performance Rights, the Bonus Equity Plan, the Restricted Share Scheme and Co-Investment Plan) or the intrinsic value of options awarded (being the difference between the exercise price and the market price at the date of granting the award), adjusted to reflect the impact of performance conditions, where applicable. Where awards are satisfied by on-market purchases, the cost of acquiring the shares is carried in shareholders' funds as 'Interest in shares of BHP Billiton', and any difference between the cost of awards and the consideration paid to purchase shares on-market is transferred to retained earnings when the shares vest to the employees unconditionally. In addition, the assets and liabilities of ESOP trusts utilised by the BHP Billiton Group to hold shares for employee remuneration schemes are consolidated.

In prior years, the estimated cost of share awards was initially charged to profit and recorded as a provision using the market value of shares at the grant date. Where share awards were satisfied by on-market purchases, the cost was subsequently adjusted to the actual consideration for shares purchased. Further, shares in BHP Billiton held by the ESOP trusts were shown as a fixed asset investment.

The effects of the accounting policy change on the financial statements for the year ended 30 June 2004 are as follows:

- opening shareholders' funds increased by US$84 million representing the reclassification from provisions to retained earnings for the accrued employee entitlement on unvested share awards and decreased by US$6 million representing the reclassification of shares held by ESOP trusts from fixed asset investments into 'Interest in Shares of BHP Billiton'; and
- attributable profit increased by US$12 million representing costs no longer recognised for the excess consideration paid to purchase shares on-market (US$8 million) and the foreign currency translation of the accrued cost of unvested awards now recorded in shareholders' funds (US$4 million).

The impact on prior period profit and loss accounts is immaterial and accordingly these have not been restated.

The accounting policy change in respect of the consideration paid to purchase shares on-market and to include shares held by ESOP trusts in shareholders' funds better represents the nature of the transactions involved, that is, a share buy-back by the Group and a separate issue of shares to employees to satisfy the exercise of share awards. This also aligns the amount of expense recorded in the profit and loss account for share awards, irrespective of whether the Group satisfies awards through a new share issue or on-market purchase.

Currency of presentation
All amounts are expressed in US dollars unless otherwise stated.

Accounting Policies continued

Acquisitions, disposals and goodwill

On the acquisition of a business, fair values reflecting conditions at the date of acquisition are attributed to the identifiable separable assets and liabilities acquired. On the acquisition of a minority interest in a subsidiary undertaking, attributable fair values are recognised in relation to the relevant proportion of the identifiable separable assets and liabilities of the subsidiary undertaking.

Mineral and petroleum reserves and resources, which can be reliably valued, are recognised in the assessment of fair values on acquisition. Other potential reserves and resources and mineral rights, for which values cannot be reliably determined, are not recognised. Accordingly, goodwill arising on acquisition may include amounts in respect of these items.

Where the fair value of the consideration paid exceeds the fair value of the separable assets and liabilities acquired, the difference is treated as purchased goodwill and any excess of the fair value of the separable assets and liabilities acquired over the fair value of the consideration given is treated as negative goodwill. Goodwill arising on acquisitions since 1 July 1998 is capitalised and amortised over its estimated useful economic life. Currently, useful economic lives range between 17 and 20 years. Negative goodwill arising on acquisitions since 1 July 1998 is capitalised and released to the profit and loss account in proportion to the realisation of the non-monetary assets acquired. Goodwill and negative goodwill arising on acquisitions prior to 1 July 1998 remain set off against the profit and loss account reserve.

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging or crediting the amount of any related goodwill previously taken directly to reserves or the unamortised balance of any goodwill capitalised.

Joint ventures

A joint venture is an entity in which the BHP Billiton Group holds a long-term interest and which is jointly controlled by the BHP Billiton Group and one or more other venturers. Decisions regarding the financial and operating policies essential to the activities, economic performance and financial position of that venture require the consent of each of the venturers that together jointly control the entity. Joint management of these ventures is not necessary to create joint control provided that in practice each relevant venturer's consent is required for strategic decisions.

Investments in joint ventures are accounted for using the gross equity method of accounting. Under the gross equity method, the cost of the investment in the venture is adjusted by the BHP Billiton Group's proportionate share of the results of the venture less the amortisation of any attributable goodwill on acquisition.

Joint arrangements

The BHP Billiton Group has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policy are determined by the participants such that the entity itself has no significant independence to pursue its own commercial strategy. These contractual arrangements do not create an entity, such as a joint venture, due to the fact that these policies are those of the participants, not a separate entity carrying on a trade or business of its own.

The financial statements of the BHP Billiton Group include its share of the assets, liabilities and cash flows in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the BHP Billiton Group's interest in the joint arrangement.

Foreign currencies

The BHP Billiton Group's reporting and dominant functional currency is US dollars as this is the principal currency in which BHP Billiton Group companies operate.

Transactions denominated in foreign currencies (currencies other than the functional currency of the entity) are recorded using the exchange rate ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on retranslation are included in the profit and loss account, with the exception of foreign exchange gains or losses on foreign currency provisions for site restoration which are capitalised in tangible fixed assets.

Profit and loss accounts of subsidiaries, joint ventures and joint arrangements which have functional currencies other than US dollars are translated to US dollars at average rates for the relevant reporting period, other than exceptional items which are translated at the rate at the date of the transaction. Assets and liabilities are translated at exchange rates prevailing at the relevant balance sheet date. Exchange variations resulting from the retranslation at closing rate of the net investment in such subsidiaries, joint ventures and joint arrangements, together with differences between their profit and loss accounts translated at average and closing rates, are shown as a movement in reserves and in the consolidated statement of total recognised gains and losses. Exchange differences arising on long-term foreign currency borrowings used to finance such investments, together with any related taxation effects, are also shown as a movement in reserves and in the consolidated statement of total recognised gains and losses.

Accounting Policies continued

Turnover

Turnover from the sale of goods is recognised when persuasive evidence, usually in the form of an executed sales agreement, of an arrangement exists indicating there has been a transfer of risks and rewards to the customer, no further work or processing is required by the BHP Billiton Group, the quantity and quality of the goods has been determined with reasonable accuracy, the price is fixed or determinable, and collectibility is reasonably assured. This is generally when title passes.

In the majority of sales for most commodities, sales agreements specify that title passes on the bill of lading date which is the date the commodity is delivered to the shipping agent. Revenue is recognised on the bill of lading date. For certain sales (principally coal sales to adjoining power stations and diamond sales), title passes and revenue is recognised when the goods have been delivered.

In cases where the terms of the executed sales agreement allows for an adjustment to the sales price based on a survey of the goods by the customer (for instance an assay for mineral content), recognition of a portion of the sales price as revenue is deferred at the time of shipment until a final adjustment is determined. Historically these adjustments have been insignificant.

Turnover is not reduced for royalties and other taxes payable from production.

The BHP Billiton Group differentiates sales of Group production from sales of third party products due to the significant difference in profit margin earned on these sales.

Exploration, evaluation and development expenditure

Development expenditure, including deferred overburden removal costs, for both minerals and petroleum activities is capitalised.

In respect of minerals, exploration and evaluation expenditure is charged to the profit and loss account as incurred except where:

- it is expected that the expenditure will be recouped by future exploitation or sale; or
- substantial exploration and evaluation activities have identified a mineral resource but these activities have not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves,

in which case the expenditure is capitalised.

In respect of petroleum, exploration and evaluation expenditure is accounted for in accordance with the successful efforts method on an area-of-interest basis where:

- significant exploration licence acquisition costs are capitalised and amortised over the term of the licence, except for costs in new unexplored areas which are expensed as incurred;
- administrative costs that are not directed to a specific area-of-interest are expensed in the year in which they are incurred;
- all other exploration and evaluation expenditure is charged against the profit and loss account except where the expenditure relates to an area-of-interest and it is expected that the expenditure will be recouped by future exploitation or sale, or, at balance sheet date exploration and evaluation activities have not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves, in which case the expenditure is capitalised as a tangible fixed asset;
- exploratory wells that find oil or gas in an area requiring major capital expenditure before production can begin are continually evaluated to assure that commercial quantities of reserves have been found or that additional exploration work is underway or planned. To the extent it is considered that the relevant expenditure will not be recovered, it is written off; and
- when proved reserves of oil or gas are determined and development is sanctioned and completed, the relevant expenditure, together with related development expenditure, is amortised on a units of production basis.

Deferred overburden removal costs

Stripping ratios are a function of the quantity of ore mined compared with the quantity of overburden, or waste, required to be removed to mine the ore. Deferral of costs to the balance sheet is made, where appropriate, when actual stripping ratios vary from average stripping ratios. Deferral of costs to the balance sheet is not made where ore is expected to be evenly distributed.

Costs, which have previously been deferred to the balance sheet (deferred overburden removal costs), are included in the profit and loss account on a unit of production basis utilising average stripping ratios. Changes in estimates of average stripping ratios are accounted for prospectively from the date of the change.

As it is not possible to separately identify cash inflows relating to deferred overburden removal costs, such assets are grouped with other assets of an income generating unit for the purposes of undertaking impairment assessments, where necessary, based on future cash flows for the income generating unit as a whole.

Research and development expenditure

Expenditure for research is included in the profit and loss account as incurred on the basis that continuing research is part of the overall cost of being in business. To the extent that future benefits deriving from development expenditure are expected beyond any reasonable doubt to exceed such expenditure, these costs are capitalised and amortised over the period of expected benefit.

Accounting Policies continued

Net interest cost

Net interest cost is generally expensed as incurred except where it relates to the financing of construction or development of assets requiring a substantial period of time to prepare for their intended future use. Interest is capitalised up to the date when the asset is ready for its intended use. The amount of interest capitalised (gross of tax) for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of accumulated expenditure for the assets during the period.

Tangible fixed assets

Valuation

Fixed assets are generally included in the financial statements at historical cost. Prior to the adoption of FRS 15 'Tangible Fixed Assets', certain fixed assets had been included in the financial statements at revalued amounts. With effect from 1 July 1998, such valuations were frozen and effectively treated as the cost of the fixed asset and no further revaluations made.

Fixed assets are assessed to ensure carrying amounts do not exceed estimated recoverable amounts. The assessment of capitalised exploration and evaluation expenditure is described above. For other fixed assets, the carrying amount of each income generating unit is reviewed at least annually to evaluate whether the carrying amount is recoverable. Assets may be reviewed more regularly if an event or change in circumstances indicates that the carrying amount of an asset may not be recoverable. If the asset is determined to be impaired, an impairment loss will be recorded, and the asset written down, based on the amount by which the asset carrying amount exceeds the higher of net realisable value and value in use. Value in use is generally determined by discounting expected future cash flows using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset. Future cash flows are estimated based on expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), recoverable reserves, operating costs, reclamation costs and capital costs. These estimates are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverability of these assets.

Mineral rights

Mineral rights acquired by the BHP Billiton Group are accounted for at cost with provisions made where impairments in value have occurred. Exploitable mineral rights are capitalised and depreciated over the production life of the asset.

Mineral leases

The BHP Billiton Group's mineral leases are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves on the leased properties to be mined in accordance with current production schedules.

Depreciation, depletion and amortisation

The carrying amount of tangible fixed assets (including the original capital expenditure and any subsequent replacement expenditure) is depreciated to its residual value over the useful economic lives of the specific assets concerned or the life of the mine or lease, if shorter. The major categories of fixed assets are depreciated on a units of production and/or straight-line basis as follows:

• Buildings	– 25 to 50 years
• Land	– not depreciated
• Plant, machinery and equipment	– 4 to 30 years
• Mineral rights	– based on the estimated life of reserves on a units of production basis
• Exploration, evaluation and development expenditure of minerals assets and other mining assets	– over the life of the proven and probable reserves on a units of production basis
• Petroleum interests	– over the life of the proved developed oil and gas reserves on a units of production basis
• Leasehold land and buildings	– over the life of the lease up to a maximum of 50 years
• Vehicles	– 3 to 5 years straight-line
• Capitalised leased assets	– up to 50 years or life of lease, whichever is shorter
• Computer systems	– up to 8 years straight-line

Changes in estimates are accounted for over the estimated remaining economic life or the remaining commercial reserves as applicable.

Other

The cost of tangible fixed assets includes financing and other appropriate direct and indirect costs incurred on major capital projects from the commencement of construction until the start of commercial production.

Accounting Policies continued

Leases

Assets held under leases which result in the BHP Billiton Group receiving substantially all the risks and rewards of ownership of the asset (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments.

The corresponding finance lease obligation is included within creditors due within or after more than one year. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Operating lease assets are not capitalised and rental payments are generally charged to the profit and loss account on a straight-line basis over the lease term. Provision is made for future operating lease payments in relation to surplus lease space when it is first determined that the space will be of no probable future benefit. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and the liability.

Other investments

Fixed asset investments, other than joint ventures and associates, are stated individually at cost less provisions for impairments.

Current asset investments are valued at the lower of cost and net realisable value and dividends are credited to profit on a receivable basis. Interest is included in the profit and loss account on an accrual basis. In determining net realisable values, market values are used in the case of listed investments and Directors' estimates are used in the case of unlisted investments.

Stocks

Stocks, including work in progress, are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of average costs. In some cases, the first-in-first-out method or actual cost is used. For processed inventories, cost is derived on an absorption costing basis. Cost comprises cost of purchasing raw materials and cost of production, including attributable mining and manufacturing overheads.

Deferred taxation

Tax-effect accounting is applied in respect of corporation tax and resource rent tax. Deferred tax liabilities, the provision for resource rent tax and deferred tax assets represent the tax effect of timing differences which arise from the recognition in the accounts of items of revenue and expense in periods different to those in which they are taxable or deductible for corporation tax or resource rent tax purposes. Full provision is made, except as follows:

- tax payable on the future remittance of the past earnings of subsidiaries, associates and joint ventures is provided only to the extent that dividends have been accrued as receivable or a binding agreement to distribute past earnings exists;
- deferred tax is not recognised on the difference between carrying amounts and fair values of non-monetary assets arising on acquisitions or purchased fixed assets which have subsequently been revalued unless there is a binding agreement to sell such an asset and the gain or loss expected to arise has been recognised; and
- deferred tax assets are recognised only where it is more likely than not that they will be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the timing differences are expected to reverse.

Provision for employee benefits

Provision is made in the accounts for all employee benefits, including on-costs. In relation to industry-based long service leave funds, the BHP Billiton Group's share of debtors and creditors, including obligations for funding shortfalls, have been recognised.

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other creditors or provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with annual leave above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Accounting Policies continued

Pension costs and other post-retirement benefits

The BHP Billiton Group operates or participates in a number of pension (including superannuation) schemes throughout the world. The funding of the schemes complies with local regulations. The assets of the schemes are generally held separately from those of the BHP Billiton Group and are administered by trustees or management boards. For schemes of the defined contribution type or those operated on an industry-wide basis, where it is not possible to identify assets attributable to the participation by the BHP Billiton Group's employees, the pension charge is calculated on the basis of contributions payable.

For defined benefit schemes, the cost of providing pensions is charged to the profit and loss account so as to allocate the cost systematically over the employees' service lives on the basis of independent actuarial advice. This is consistent with Statement of Standard Accounting Practice (SSAP) 24 'Accounting for Pension Costs'. This basis of measurement takes into account the performance of scheme assets and changes in the funded status of each scheme, to the extent that deficits represent a legal or constructive obligation of the Group to its employees and that surpluses are recoverable by the Group, over the expected remaining service lives of employees. A pension liability or asset is consequently recognised in the balance sheet to the extent that the contributions payable either lag or precede expense recognition. The liability or asset therefore represents those funding deficits or surpluses together with changes in the funding status of the schemes that will be recognised in the profit and loss account in future periods.

Certain BHP Billiton Group companies provide post-retirement medical benefits to qualifying pensioners. In some cases the benefits are provided through medical care schemes to which the company, the employees, the retirees and covered family members contribute. In some schemes, there is no funding of the benefits before retirement. For the unfunded schemes and for funded schemes, where it is possible to identify assets that are attributable to current and future retirees of the BHP Billiton Group companies, the cost of providing the post-retirement benefits is charged to the profit and loss account so as to allocate the cost systematically over the employees' service lives on the basis of independent actuarial advice, in a manner similar to that applied for defined benefit pension schemes. For other funded schemes the charge to the profit and loss account is measured on the basis of premiums payable.

Decommissioning, site restoration and environmental provisions

BHP Billiton Group companies are generally required to restore mines, oil and gas facilities and processing sites at the end of their producing lives to a condition acceptable to the relevant authorities and consistent with the BHP Billiton Group's environmental policies.

The expected cost of any approved decommissioning or restoration program, discounted to its net present value, is provided when the related environmental disturbance occurs, based on the BHP Billiton Group's interpretation of environmental and regulatory requirements and its own environmental policies where these are more stringent and this has created an obligation on the Group. The cost is capitalised where it gives rise to future benefits. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision for the expected cost is included in net interest and similar items payable. Expected decommissioning and restoration costs are based on the estimated current cost of detailed plans prepared for each site.

The provisions referred to above do not include any amounts related to remediation costs associated with unforeseen circumstances. Such costs are recognised where environmental contamination as a result of oil and chemical spills, seepage or other unforeseen events gives rise to a loss which is probable and reliably estimable.

The cost of ongoing programs to prevent and control pollution and to rehabilitate the environment is charged to the profit and loss account as incurred.

Financial instruments

The BHP Billiton Group is exposed to changes in interest rates, foreign currency exchange rates and commodity prices and, in certain circumstances, uses derivative financial instruments (including cash settled commodity contracts) to hedge these risks.

When undertaking risk mitigation transactions, hedge accounting principles are applied, whereby derivatives are matched to the specifically identified commercial risks being hedged. These matching principles are applied to both realised and unrealised transactions. Derivatives undertaken as hedges of anticipated transactions are recognised when such transactions are recognised. Upon recognition of the underlying transaction, derivatives are valued at the appropriate market spot rate.

When an underlying transaction can no longer be identified, gains or losses arising from a derivative that has been designated as a hedge of that transaction will be taken to the profit and loss account whether or not such derivative is terminated.

When a hedge is terminated, the deferred gain or loss that arose prior to termination is:

(a) deferred and included in the measurement of the anticipated transaction when it occurs; or

(b) taken to the profit and loss account where the anticipated transaction is no longer expected to occur.

The premiums paid on interest rate options and foreign currency put and call options are included in debtors and are deferred and included in the settlement of the underlying transaction.

When undertaking strategic financial transactions, all gains and losses are taken to the profit and loss account at the end of each reporting period. The premiums paid on strategic financial transactions are taken to the profit and loss account at the inception of the contract.

presented in US dollars and prepared in accordance with UK GAAP

Accounting Policies continued

Use of estimates
The preparation of the BHP Billiton Group's 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 turnover and costs during the period. On an ongoing basis, management evaluates its estimates and judgements in relation to assets, liabilities, contingent liabilities, turnover and costs. Management bases its estimates and judgements on historical experience and on various other factors that are believed 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.

Rounding of amounts
Amounts in the financial statements have, unless otherwise indicated, been rounded to the nearest million dollars.

Comparatives
Where applicable, comparatives have been adjusted to disclose them on the same basis as current period figures.

Exchange rates
The following exchange rates against the US dollar have been applied in these financial statements.

	Average 2004	Average 2003	Average 2002	**As at 30 June 2004**	As at 30 June 2003
Australian dollar[(a)]	**0.71**	0.58	0.52	**0.69**	0.67
Brazilian real	**2.94**	3.31	2.50	**3.11**	2.88
Canadian dollar	**1.35**	1.51	1.56	**1.35**	1.35
Chilean peso	**634**	718	672	**637**	697
Colombian peso	**2 779**	2 804	2 487	**2 699**	2 818
South African rand	**6.89**	9.03	10.03	**6.27**	7.50
Euro	**0.84**	0.96	0.83	**0.83**	0.87
UK pound sterling	**0.58**	0.63	0.69	**0.56**	0.61

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

International Financial Reporting Standards

Impact of International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Group must comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Group's DLC structure results in two parent entities with their own statutory reporting obligations, one in Australia and the other in the UK. While Australia and the UK are currently moving to an IFRS-based financial reporting regime in the same timeframe, this structure creates unique IFRS implementation issues, for example:

(i) the Australian Accounting Standards Board has approved IFRS-based standards which mandate particular policies that are optional (and unlikely to become general practice) in the UK; and

(ii) there is a risk that further changes in IFRS prior to 30 June 2006 attract inconsistent early adoption rules between the two jurisdictions.

Accordingly, significant uncertainty remains as to the likely impact of IFRS on the Group's financial statements.

Management of IFRS implementation

The Group has established a formal project, monitored by a steering committee, to manage the transition to IFRS reporting. Regular updates are also provided to the Board Risk Management and Audit Committee. The implementation project consists of three phases:

(i) *Scoping and impact analysis phase* – Project scoping and impact analysis was substantially complete by 30 June 2004 and produced a high-level view of potential differences to existing accounting and reporting policies and consequential changes to information systems and business processes.

(ii) *Evaluation and design phase* – This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content. The evaluation and design phase is well advanced at 30 June 2004 and the Group will continue to evaluate the impact of IFRS through to implementation.

(iii) *Implementation and review phase* – The implementation and review phase has commenced and includes substantial training programs across the Group's finance staff, execution of changes to information systems and business processes and completing formal authorisation processes to approve recommended accounting policy changes. It will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements, embedding of IFRS in business processes, elimination of any unnecessary data collection processes and Board approval of IFRS financial statements. Implementation also involves delivery of further training to staff as revised systems begin to take effect. This phase commenced at the beginning of the 2004 calendar year and is not expected to be complete until 30 June 2005.

Key differences in accounting policies

These financial statements have been prepared in accordance with UK accounting standards and other UK financial reporting requirements (UK GAAP). The differences between UK GAAP and IFRS identified to date as potentially having a significant effect on the Group's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences (significant or not) between UK GAAP and IFRS.

The Group has not quantified the effects of the differences described below. The regulatory bodies that promulgate UK GAAP and IFRS have significant ongoing projects that could affect the ultimate differences between UK GAAP and IFRS and their impact on the Group's financial statements in future years. The future impact of IFRS will also depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the Group identified to date are as follows:

- all derivative financial instruments must be recognised in the balance sheet and measured at fair value. Application of hedge accounting will only be available where specific designation and effectiveness criteria are satisfied. These changes may impact the manner in which the Group executes risk mitigation strategies through derivatives and their consequent accounting.
- income tax will be calculated using the 'balance sheet liability' approach, which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items, rather than accounting and tax values of items recognised in profit and loss. This approach has the potential to give rise to a wider range of deferred tax assets and liabilities and an increase in the volatility of deferred tax balances brought about by foreign exchange rate movements.
- the cost of employee compensation provided in the form of equity-based compensation (including shares and options) will be measured based on the fair value of those instruments, rather than their intrinsic value, and accrued over the period of employee service. This is likely to change the total amount of compensation cost and the pattern of cost recognition.
- defined benefit pension plan and medical benefit plan arrangements will result in the recognition of net assets or liabilities directly based on the underlying obligations and assets of those plans. The recognised net asset or liability will be subject to changes in value that may be more volatile than changes in assets and liabilities currently recognised under Statements of Standard Accounting Practice (SSAP) 24. Alternative methods of recognising this volatility will be available, including direct recognition in profit and loss, progressive recognition using a 'corridor' approach, or recognition directly in equity.

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements

1 Principal subsidiaries, joint ventures and joint arrangements

Subsidiary undertakings

The principal subsidiary undertakings (those which principally affect the profit or net assets) of BHP Billiton Plc and BHP Billiton Limited, none of which are held directly by BHP Billiton Plc are as follows:

Name	Country of incorporation	Principal activity	BHP Billiton Group's effective interest 2004 %	2003 %
BHP Billiton Canadian Diamonds Company	Canada	Diamond mining	**100**	100
BHP Billiton Diamonds Inc	Canada	Diamond mining	**100**	100
BHP Billiton Finance BV	Netherlands	Finance	**100**	100
BHP Billiton Finance Ltd	Australia	Finance	**100**	100
BHP Billiton Finance (USA) Ltd (a)	Australia	Finance	**100**	100
BHP Billiton Group Operations Pty Ltd	Australia	Administrative services	**100**	100
BHP Billiton Marketing AG	Switzerland	Marketing and trading	**100**	100
BHP Billiton Minerals Pty Ltd	Australia	Iron ore, silver, lead and zinc mining	**100**	100
BHP Billiton Petroleum (Americas) Inc	US	Hydrocarbons production	**100**	100
BHP Billiton Petroleum (Australia) Pty Ltd	Australia	Hydrocarbons production	**100**	100
BHP Billiton Petroleum (Bass Strait) Pty Ltd	Australia	Hydrocarbons production	**100**	100
BHP Billiton Petroleum (Deepwater) Inc	US	Hydrocarbons exploration, development and production	**100**	100
BHP Billiton Petroleum (GOM) Inc	US	Hydrocarbons exploration	**100**	100
BHP Billiton Petroleum (NWS) Pty Ltd	Australia	Hydrocarbons production	**100**	100
BHP Billiton Petroleum Great Britain Ltd	UK	Hydrocarbons production	**100**	100
BHP Billiton Petroleum (International Exploration) Pty Ltd	Australia	Hydrocarbons development and production	**100**	100
BHP Billiton Petroleum (Victoria) Pty Ltd	Australia	Hydrocarbons development	**100**	100
BHP Billiton SA Ltd	South Africa	Holding and service company	**100**	100
BHP Billiton Tintaya SA	Peru	Copper mining	**99.95**	99.95
BHP Billiton Transport and Logistics Pty Ltd	Australia	Transport services	**100**	100
BHP Billiton (Trinidad - 2c) Ltd	Canada	Hydrocarbons development	**100**	100
BHP Billiton World Exploration Inc	Canada	Exploration	**100**	100
BHP Coal Pty Ltd	Australia	Holding company and coal mining	**100**	100
BHP Copper Inc	US	Holding company and copper mining	**100**	100
BHP Financial Services (UK) Ltd	Guernsey	Finance	**100**	100
BHP Marine and General Insurances Pty Ltd	Australia	Insurance company	**100**	100
BHP Minerals Exploration Inc	US	Holding company	**100**	100
BHP Mitsui Coal Pty Ltd	Australia	Holding company and coal mining	**80**	80
BHP Navajo Coal Company	US	Coal mining	**100**	100
BHP Operations Inc	US	Finance	**100**	100
BHP Petroleum (Pakistan) Pty Ltd	Australia	Hydrocarbons production	**100**	100
BHP Queensland Coal Investments Pty Ltd	Australia	Holding company and coal mining	**100**	100
Billiton Aluminium Australia Pty Ltd	Australia	Bauxite mining and alumina refining	**100**	100
Billiton Aluminium South Africa Ltd	South Africa	Aluminium smelting	**100**	100
Billiton Coal Australia Pty Ltd	Australia	Coal mining	**100**	100
Billiton Marketing Holding BV	Netherlands	Marketing and trading	**100**	100
Billiton Metais SA	Brazil	Alumina refining and aluminium smelting	**100**	100
Broken Hill Proprietary (USA) Inc	US	Service company	**100**	100
Cerro Matoso SA	Colombia	Nickel mining and ferro-nickel smelting	**99.8**	99.8
Compania Minera Cerro Colorado Limitada	Chile	Copper mining	**100**	100
Compania Minera Riochilex SA	Chile	Copper exploration	**100**	100
Dia Met Minerals Ltd	Canada	Diamond mining	**100**	100
Endeavour Coal Pty Ltd	Australia	Coal mining	**100**	100
Groote Eylandt Mining Co Pty Ltd	Australia	Manganese mining	**60**	60
Illawarra Coal Holdings Pty Ltd	Australia	Coal mining	**100**	100
Ingwe Coal Corporation Ltd	South Africa	Coal mining	**100**	100
QNI Pty Ltd	Australia	Holding company	**100**	100
QNI Metals Pty Ltd	Australia	Nickel refining	**100**	100
QNI Resources Pty Ltd	Australia	Nickel refining	**100**	100
Rio Algom Ltd	Canada	Holding company	**100**	100
Samancor Ltd	South Africa	Chrome and manganese mining and production	**60**	60
Samancor AG	Switzerland	Marketing and trading	**60**	60
San Juan Coal Company	US	Coal mining	**100**	100
San Juan Transportation Company	US	Coal transportation	**100**	100
Tasmanian Electro Metallurgical Co Pty Ltd	Australia	Manganese alloys	**60**	60

(a) BHP Billiton Finance (USA) Ltd is 100 per cent owned by BHP Billiton Limited. BHP Billiton Limited and BHP Billiton Plc have each fully and unconditionally guaranteed BHP Billiton Finance (USA) Ltd's debt securities.

Unless otherwise indicated, these financial statements are presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

1 Principal subsidiaries, joint ventures and joint arrangements continued

Joint ventures

The principal joint ventures of the BHP Billiton Group are as follows:

Name	Country of incorporation	Principal activity	BHP Billiton Group's effective interest 2004 %	2003 %
Caesar Oil Pipeline Company LLC	US	Hydrocarbons trans portation	**25**	25
Carbones del Cerrejon LLC	Anguilla	Coal mining in Colombia	**33.3**	33.3
Cleopatra Gas Gathering Company LLC	US	Hydrocarbons transportation	**22**	22
Highland Valley Copper	Canada	Copper mining	**–**	33.6
Minera Antamina SA	Peru	Copper and zinc mining	**33.75**	33.75
Integris Metals Inc	US	Metals distribution	**50**	50
Richards Bay Minerals (a)	South Africa	Mineral sands mining and processing	**50**	50
Samarco Mineracao SA	Brazil	Iron ore mining	**50**	50

(a) Richards Bay Minerals comprises two legal entities as follows:

Name	Country of incorporation	Principal activity	BHP Billiton Group's effective interest 2004 %	2003 %
Tisand (Pty) Limited	South Africa	Mineral sands mining	**51**	51
Richards Bay Iron and Titanium (Pty) Limited	South Africa	Production of titanium dioxide slag, zircon and rutile	**49**	49

In accordance with the shareholder agreement between the BHP Billiton Group and Rio Tinto (which owns the shares of Tisand (Pty) Limited and Richards Bay Iron and Titanium (Pty) Limited not owned by the BHP Billiton Group), Richards Bay Minerals functions as a single economic entity. The overall profit of Richards Bay Minerals is shared equally between the venturers.

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

1 Principal subsidiaries, joint ventures and joint arrangements continued

Proportionally included joint arrangements
The principal joint arrangements in which the BHP Billiton Group has an interest and which are proportionally included in the financial statements are as follows:

Name	Country of operation	Principal activity	BHP Billiton Group's effective interest 2004 %	2003 %
Atlantis	US	Hydrocarbons development	**44**	44
Bass Strait	Australia	Hydrocarbons exploration and production	**50**	50
Boris	US	Hydrocarbons exploration and production	**50**	50
Bruce	UK	Hydrocarbons exploration and production	**16**	16
Cascade	US	Hydrocarbons exploration	**50**	50
Chinook	US	Hydrocarbons exploration	**40**	40
Griffin	Australia	Hydrocarbons exploration and production	**45**	45
Gulf of Mexico	US	Hydrocarbons exploration and production	**5-100**	5-100
Keith	UK	Hydrocarbons exploration and production	**31.83**	31.83
Laminaria	Australia	Hydrocarbons exploration and production	**25-33**	25-33
Liverpool Bay	UK	Hydrocarbons exploration and production	**46.1**	46.1
Mad Dog	US	Hydrocarbons development	**23.9**	23.9
Mamore	Bolivia	Hydrocarbons exploration and production	**–**	50
Neptune	US	Hydrocarbons exploration	**35**	35
North West Shelf	Australia	Hydrocarbons exploration and production	**8-17**	8-17
Ohanet	Algeria	Hydrocarbons exploration and production	**45**	45
ROD Integrated Development	Algeria	Hydrocarbons development	**36.04**	36.04
Shenzi	US	Hydrocarbons exploration	**44**	44
Trinidad 2c - Angostura	Trinidad & Tobago	Hydrocarbons development	**45**	45
Typhoon	US	Hydrocarbons exploration and production	**50**	50
Zamzama	Pakistan	Hydrocarbons exploration and production	**38.5**	38.5
Alumar	Brazil	- Alumina refining	**36**	36
		- Aluminium smelting	**46.3**	46.3
Billiton Suriname (a)	Suriname	- Bauxite mining	**45**	76
		- Alumina refining	**45**	45
Mozal	Mozambique	Aluminium smelting	**47.1**	47.1
Valesul Aluminio	Brazil	Aluminium smelting	**45.5**	45.5
Worsley	Australia	Bauxite mining and alumina refining	**86**	86
Escondida	Chile	Copper mining	**57.5**	57.5
Central Queensland Coal Associates	Australia	Coal mining	**50**	50
Gregory	Australia	Coal mining	**50**	50
Mt Goldsworthy Mining Associates	Australia	Iron ore mining	**85**	85
Mt Newman	Australia	Iron ore mining	**85**	85
Yandi	Australia	Iron ore mining	**85**	85
EKATI	Canada	Diamond mining	**80**	80
Douglas Colliery	South Africa	Coal mining	**84**	84
Middelburg Mine	South Africa	Coal mining	**84**	84
Richards Bay Coal Terminal	South Africa	Coal exporting	**37**	37

(a) At 30 June 2003 the BHP Billiton Group had an interest in the Suriname Lelydorp Bauxite mine of 76 per cent, the remaining 24 per cent being owned by Suriname Aluminium Company, L.L.C. (Suralco). Effective 1 August 2003, the joint arrangement was restructured such that the BHP Billiton Group acquired a 45 per cent economic interest in the Suralco owned Coermobito mine in exchange for an additional 31 per cent economic interest in the Lelydorp mine. The restructured 45 per cent (BHP Billiton) - 55 per cent (Suralco) arrangement consists of two unincorporated joint ventures, covering respectively the bauxite exploration and mining activities and the alumina refining activities. BHP Billiton manages all mining operations while Suralco continues to manage the alumina refining activities.

Notes to Financial Statements continued

2 Exceptional items

Year ended 30 June 2004	Gross US$M	Tax US$M	Net US$M
Exceptional items by category			
Introduction of tax consolidation regime in Australia	**–**	**95**	**95**
Litigation settlement	**66**	**(18)**	**48**
US and Canadian taxation deductions	**–**	**238**	**238**
Closure plans	**(534)**	**22**	**(512)**
Total by category	**(468)**	**337**	**(131)**
Exceptional items by Customer Sector Group			
Petroleum	**66**	**(18)**	**48**
Base Metals	**(482)**	**11**	**(471)**
Stainless Steel Materials	**(10)**	**3**	**(7)**
Group and unallocated items	**(42)**	**341**	**299**
Total by Customer Sector Group	**(468)**	**337**	**(131)**

Introduction of tax consolidation regime in Australia
During the year ended 30 June 2004, BHP Billiton elected to consolidate its Australian subsidiaries under the Australian tax consolidation regime, as introduced by the Australian Federal Government. Under the transitional rules, the Group has chosen to reset the tax cost base of certain depreciable assets, which will result in additional tax depreciation over the lives of these assets. This has resulted in the restatement of deferred tax balances and an exceptional tax benefit of US$95 million being recorded in accordance with UK GAAP.

Litigation settlement
In December 2003, BHP Billiton announced that it was part of a consortium that had reached a settlement with Dalmine SpA with respect to a claim brought against Dalmine in April 1998. The claim followed the failure of an underwater pipeline installed in 1994 in the Liverpool Bay area of the UK continental shelf. As a result of the settlement, BHP Billiton has recorded an exceptional gain of US$66 million, before tax expense of US$18 million.

US and Canadian taxation deductions
During the year ended 30 June 2004, the level of certainty regarding potential benefits arising from prior period taxation deductions and foreign tax credits available in the US and Canada has increased to the extent that some of the provisions against deferred tax assets established in prior years are no longer necessary. This is a result of higher income generation, changes in legislation and effective utilisation of tax credits during the year, along with increasing confidence regarding the ability to realise benefits in the future. Accordingly, the Group has recorded an exceptional tax benefit of US$238 million.

Closure plans
During the year ended 30 June 2004, the Group refined its plans in relation to certain closed operations. In relation to the Group's Southwest Copper business in the US, this resulted in a charge of US$425 million resulting from a re-estimation of short-term closure costs and the inclusion of residual risks, longer-term water management and other costs, and an increase in the residual value of certain assets. Additionally, at other closed sites, a charge of US$109 million (before a tax benefit of US$22 million) was recorded, mainly in relation to the Island Copper mine, the Newcastle steelworks and the Selbaie copper mine. Accordingly, the Group has recorded a net after-tax exceptional loss of US$512 million (refer note 21).

Year ended 30 June 2003	Gross US$M	Tax US$M	Net US$M
Exceptional items by category			
Loss on sale of 6% interest in BHP Steel	(19)	–	(19)
Total by category	(19)	–	(19)
Exceptional items by Customer Sector Group		–	
Discontinued Operations	(19)	–	(19)
Total by Customer Sector Group	(19)	–	(19)

Loss on sale of 6% interest in BHP Steel
Effective July 2002, the BHP Steel business was demerged from the BHP Billiton Group. A 6 per cent interest in BHP Steel was retained by the Group upon demerger of the Group's Steel business. This was sold in July 2002 for US$75 million and the loss of US$19 million associated with this sale was recognised in the year ended 30 June 2003 as an exceptional item in relation to Discontinued Operations.

Notes to Financial Statements continued

2 Exceptional items continued

Year ended 30 June 2002	Gross US$M	Tax US$M	Net US$M
Exceptional items by category			
Termination of operations	(101)	–	(101)
Change in UK tax rate on petroleum operations	–	(56)	(56)
Suspension of operations	(31)	9	(22)
Merger related restructuring costs	(80)	15	(65)
Total by category	(212)	(32)	(244)
Exceptional items by Customer Sector Group			
Petroleum	(4)	1	(3)
Aluminium	(4)	–	(4)
Base Metals	(145)	10	(135)
Carbon Steel Materials	(6)	1	(5)
Diamonds and Specialty Products	(6)	2	(4)
Energy Coal	(5)	1	(4)
Stainless Steel Materials	(3)	–	(3)
Group and unallocated items	(39)	(47)	(86)
Total by Customer Sector Group	(212)	(32)	(244)

Termination of operations

During the 2002 year, following a reassessment of the Group's asset disposal and closure plans relating to its Southwest Copper business in the US (where the Group ceased operations in 1999), impairment provisions, principally related to the San Manuel smelter, were increased by US$171 million. This was offset by a reduction of US$70 million in provisions relating to the expected timing of site restoration expenditure.

Change in UK tax rate on petroleum operations

In June 2002, a change in legislation increased the corporation taxation rate for petroleum operations in the United Kingdom from 30 per cent to 40 per cent, resulting in deferred taxation balances being restated by US$56 million.

Suspension of operations

As at 30 June 2002, sulphide operations at Tintaya had been suspended. An exceptional charge of US$31 million recognised the costs of the suspension and a write-down of obsolete equipment. Operations recommenced in August 2003.

Notes to Financial Statements continued

3 Discontinued Operations

Due to the demerger of the BHP Steel business (now known as BlueScope Steel) in July 2002, BHP Steel's results have been reported as Discontinued Operations.

The BHP Billiton Group demerged the BHP Steel business in July 2002 as follows:

- a capital reduction and a transfer to BHP Billiton Limited shareholders of 94 per cent of the shares in BHP Steel;
- a bonus issue of BHP Billiton Plc shares to BHP Billiton Plc shareholders as a Matching Action to ensure economic benefit equality to shareholders of both BHP Billiton Limited and BHP Billiton Plc (the bonus issue was one BHP Billiton Plc share for approximately each 15.6 BHP Billiton Plc shares held); and
- the sale by the BHP Billiton Group of the remaining 6 per cent of BHP Steel shares held by the Group.

The impact of these steps was:

- the BHP Billiton Group's equity shareholders' funds were reduced by US$1 489 million, including costs directly associated with the demerger of US$17 million net of tax (US$24 million before tax);
- a cash inflow of US$347 million, representing net US$294 million from the settlement by BHP Steel of intercompany loans, less US$22 million demerger transaction costs paid, and US$75 million from the sale of the 6 per cent of BHP Steel; and
- a 6 per cent interest in BHP Steel was retained by the Group upon demerger of the Group's steel business. This was sold in July 2002 for US$75 million and the loss of US$19 million associated with this sale was recognised in the year ended 30 June 2003 and disclosed as an exceptional item in relation to Discontinued Operations.

The net assets demerged in July 2002 are provided below, after allowing for the settlement of intercompany loans by BHP Steel to the BHP Billiton Group and the realisation of Group profit in stock held by BHP Steel.

	US$M
Attributable net assets at 30 June 2002	1 870
Net payments to the BHP Billiton Group by BHP Steel to settle intercompany loans (post 30 June 2002)	(294)
Attributable net assets of BHP Steel at date of demerger	1 576
Group profit in stock held by BHP Steel	(9)
Attributable net assets of the BHP Billiton Group at date of demerger (a)	1 567

(a) Of the US$1 567 million attributable net assets available for demerger, approximately 94 per cent or US$1 472 million were demerged to shareholders of BHP Billiton Limited; this together with US$17 million in costs of the demerger represents a total reduction in equity shareholders' funds of US$1 489 million. Refer note 25.

Notes to Financial Statements continued

4 Analysis by business segment

	External turnover US$M	Inter-segment turnover US$M	Profit/(loss) before taxation (a) US$M	Net operating assets (note 6) US$M	Depreciation and amortisation US$M	Other significant non-cash items (b) US$M	Capital expenditure US$M
Group including joint ventures and associates (a)(c)							
Year ended 30 June 2004							
Petroleum	**5 508**	**50**	**1 391**	**4 074**	**587**	**11**	**927**
Aluminium	**4 432**	**–**	**776**	**5 309**	**234**	**–**	**272**
Base Metals (d)	**3 422**	**–**	**1 156**	**3 272**	**255**	**–**	**215**
Carbon Steel Materials	**4 850**	**7**	**1 137**	**3 026**	**226**	**2**	**662**
Diamonds and Specialty Products	**1 688**	**22**	**410**	**1 521**	**123**	**29**	**188**
Energy Coal	**2 569**	**–**	**234**	**2 194**	**189**	**67**	**141**
Stainless Steel Materials	**1 749**	**–**	**571**	**1 823**	**101**	**4**	**151**
Group and unallocated items	**725**	**1 071**	**(187)**	**291**	**36**	**99**	**33**
Exceptional items			**(468)**			**468**	
Continuing Operations	**24 943**	**1 150**	**5 020**	**21 510**	**1 751**	**680**	**2 589**
Net interest			**(502)**			**244**	
BHP Billiton Group	**24 943**	**1 150**	**4 518**	**21 510**	**1 751**	**924**	**2 589**
Year ended 30 June 2003 (restated)							
Petroleum	3 260	4	1 178	3 293	549	50	861
Aluminium	3 386	–	581	5 095	233	–	462
Base Metals (d)	1 954	–	286	3 877	257	(2)	201
Carbon Steel Materials	3 688	26	1 045	2 567	192	7	479
Diamonds and Specialty Products	1 474	11	299	1 518	105	–	101
Energy Coal	2 089	–	198	2 193	177	2	300
Stainless Steel Materials	1 106	–	150	1 695	96	10	121
Group and unallocated items	549	465	(256)	418	39	76	46
Exceptional items			–			–	
Continuing Operations	17 506	506	3 481	20 656	1 648	143	2 571
Discontinued Operations			(19)				
Net interest			(537)			237	
BHP Billiton Group	17 506	506	2 925	20 656	1 648	380	2 571
Year ended 30 June 2002 (restated)							
Petroleum	2 780	35	1 073	2 865	571	4	687
Aluminium	2 857	–	492	4 727	234	–	291
Base Metals (d)	1 821	–	192	4 062	233	35	578
Carbon Steel Materials	3 140	166	1 084	2 412	183	32	284
Diamonds and Specialty Products	1 474	6	272	1 620	76	8	121
Energy Coal	1 919	–	536	2 092	176	–	295
Stainless Steel Materials	868	–	3	1 663	89	16	84
Group and unallocated items	369	361	(550)	719	33	44	43
Exceptional items			(212)			132	
Continuing Operations	15 228	568	2 890	20 160	1 595	271	2 383
Discontinued Operations	2 550	–	86	2 248	132	–	98
Net interest			(249)			(138)	
BHP Billiton Group	17 778	568	2 727	22 408	1 727	133	2 481

Notes to Financial Statements continued

4 Analysis by business segment continued

	External turnover			Profit/(loss) before taxation			Net operating assets (note 6)		Net assets	
	2004	2003	2002	**2004**	2003	2002	**2004**	2003	**2004**	2003
	US$M	US$M	US$M	**US$M**	US$M	US$M	**US$M**	US$M	**US$M**	US$M
Joint ventures and associates [(e)]										
Petroleum	**–**	–	–	**–**	–	–	**97**	70	**98**	73
Aluminium	**–**	–	40	**–**	–	–	**–**	–	**–**	–
Base Metals [(d)]	**389**	432	424	**104**	61	56	**719**	802	**212**	262
Carbon Steel Materials	**329**	244	244	**102**	80	75	**369**	314	**286**	299
Diamonds and Specialty Products	**1 041**	1 005	749	**106**	170	165	**601**	580	**250**	277
Energy Coal	**283**	204	129	**115**	45	35	**651**	637	**519**	488
Stainless Steel Materials	**6**	13	80	**–**	2	(3)	**4**	4	**4**	4
Group and unallocated items	**8**	–	–	**(2)**	–	1	**25**	–	**–**	–
Continuing Operations	**2 056**	1 898	1 666	**425**	358	329	**2 466**	2 407	**1 369**	1 403
Discontinued Operations	**–**	–	206	**–**	–	11	**–**	–	**–**	–
Net interest				**(95)**	(93)	(37)				
BHP Billiton Group	**2 056**	1 898	1 872	**330**	265	303	**2 466**	2 407	**1 369**	1 403

	External turnover			Profit/(loss) before taxation		
	2004	2003	2002	**2004**	2003 (Restated)	2002
	US$M	US$M	US$M	**US$M**	US$M	US$M
Third party products included above [(f)]						
Petroleum	**2 286**	296	72	**(22)**	1	1
Aluminium	**1 823**	1 333	1 006	**11**	28	13
Base Metals	**335**	38	24	**(4)**	5	–
Carbon Steel Materials	**102**	26	22	**(9)**	(2)	–
Diamonds and Specialty Products	**829**	747	823	**29**	10	9
Energy Coal	**554**	413	122	**21**	7	9
Stainless Steel Materials	**47**	10	9	**7**	1	1
Group and unallocated items	**684**	519	112	**–**	1	(5)
	6 660	3 382	2 190	**33**	51	28

(a) Before minority interests. Depreciation and amortisation, other significant non-cash items and capital expenditure represent the Group excluding joint ventures and associates.
(b) Other significant non-cash items comprise impairment of assets, non-cash exceptional items, employee share awards, exchange differences on net debt and discounting on provisions and other liabilities.
(c) It is the Group's policy that inter-segment sales are made on a commercial basis.
(d) Includes turnover attributable to associates of US$nil (2003: US$94 million; 2002: US$126 million) and operating profit attributable to associates of US$nil (2003: US$29 million; 2002: US$32 million).
(e) Total turnover of joint ventures and associates does not include any inter-segment turnover.
(f) Turnover from third party products includes sales of freight capacity.

Notes to Financial Statements continued

5 Analysis by geographical segment

	Group			Joint ventures and associates			Total		
	2004	2003	2002	**2004**	2003	2002	**2004**	2003	2002
	US$M	US$M	US$M	**US$M**	US$M	US$M	**US$M**	US$M	US$M
Analysis by geographical market									
Turnover									
Continuing Operations									
Australia	**1 857**	1 769	1 437	**17**	6	5	**1 874**	1 775	1 442
Europe	**8 515**	5 136	4 064	**426**	446	366	**8 941**	5 582	4 430
Japan	**2 675**	2 269	1 941	**132**	124	137	**2 807**	2 393	2 078
South Korea	**1 538**	1 149	1 002	**60**	54	66	**1 598**	1 203	1 068
China	**2 239**	1 069	721	**193**	147	20	**2 432**	1 216	741
Other Asia	**1 512**	1 096	1 081	**71**	76	176	**1 583**	1 172	1 257
North America	**1 765**	1 452	1 575	**1 017**	937	769	**2 782**	2 389	2 344
Southern Africa	**1 344**	918	890	**19**	26	46	**1 363**	944	936
Rest of World	**1 442**	750	851	**121**	82	81	**1 563**	832	932
Continuing Operations	**22 887**	15 608	13 562	**2 056**	1 898	1 666	**24 943**	17 506	15 228
Discontinued Operations									
Australia	**–**	–	1 339	**–**	–	–	**–**	–	1 339
Europe	**–**	–	112	**–**	–	–	**–**	–	112
Japan	**–**	–	17	**–**	–	–	**–**	–	17
South Korea	**–**	–	42	**–**	–	–	**–**	–	42
China	**–**	–	107	**–**	–	–	**–**	–	107
Other Asia	**–**	–	221	**–**	–	–	**–**	–	221
North America	**–**	–	185	**–**	–	206	**–**	–	391
Rest of World	**–**	–	321	**–**	–	–	**–**	–	321
Discontinued Operations (a)	**–**	–	2 344	**–**	–	206	**–**	–	2 550
Total by geographical market	**22 887**	15 608	15 906	**2 056**	1 898	1 872	**24 943**	17 506	17 778
Analysis by geographical origin									
Turnover									
Continuing Operations									
Australia	**7 262**	6 527	5 792	**8**	–	50	**7 270**	6 527	5 842
Europe	**6 719**	2 792	2 049	**31**	6	–	**6 750**	2 798	2 049
North America	**1 601**	1 341	1 475	**902**	845	668	**2 503**	2 186	2 143
South America (b)	**3 260**	1 970	1 648	**870**	757	607	**4 130**	2 727	2 255
Southern Africa	**3 637**	2 857	2 355	**245**	290	341	**3 882**	3 147	2 696
Rest of World	**408**	121	243	**–**	–	–	**408**	121	243
Continuing Operations	**22 887**	15 608	13 562	**2 056**	1 898	1 666	**24 943**	17 506	15 228
Discontinued Operations									
Australia	**–**	–	1 887	**–**	–	–	**–**	–	1 887
Europe	**–**	–	31	**–**	–	–	**–**	–	31
North America	**–**	–	2	**–**	–	206	**–**	–	208
Rest of World	**–**	–	424	**–**	–	–	**–**	–	424
Discontinued Operations (a)	**–**	–	2 344	**–**	–	206	**–**	–	2 550
Total by geographical origin	**22 887**	15 608	15 906	**2 056**	1 898	1 872	**24 943**	17 506	17 778
Profit/(loss) before taxation									
Continuing Operations									
Australia	**2 106**	1 890	1 522	**(2)**	–	27	**2 104**	1 890	1 549
Europe	**725**	253	233	**31**	6	–	**756**	259	233
North America	**(224)**	180	16	**36**	8	6	**(188)**	188	22
South America (b)	**1 439**	396	158	**280**	180	143	**1 719**	576	301
Southern Africa	**457**	394	559	**80**	164	153	**537**	558	712
Rest of World	**92**	10	73	**–**	–	–	**92**	10	73
Continuing Operations	**4 595**	3 123	2 561	**425**	358	329	**5 020**	3 481	2 890
Discontinued Operations									
Australia	**–**	(19)	25	**–**	–	–	**–**	(19)	25
Europe	**–**	–	3	**–**	–	–	**–**	–	3
North America	**–**	–	10	**–**	–	11	**–**	–	21
Rest of World	**–**	–	37	**–**	–	–	**–**	–	37
Discontinued Operations (a)	**–**	(19)	75	**–**	–	11	**–**	(19)	86
Net interest	**(407)**	(444)	(212)	**(95)**	(93)	(37)	**(502)**	(537)	(249)
Total by geographical origin	**4 188**	2 660	2 424	**330**	265	303	**4 518**	2 925	2 727

Notes to Financial Statements continued

5 Analysis by geographical segment continued

	Group			Joint ventures and associates			Total		
	2004	2003	2002	**2004**	2003	2002	**2004**	2003	2002
	US$M	US$M	US$M	**US$M**	US$M	US$M	**US$M**	US$M	US$M
Net operating assets (refer note 6)									
Continuing Operations (restated)									
Australia	**7 260**	6 884	6 589	**25**	(3)	3	**7 285**	6 881	6 592
Europe	**951**	676	624	**14**	2	–	**965**	678	624
North America	**1 269**	1 340	1 122	**397**	429	520	**1 666**	1 769	1 642
South America (b)	**4 456**	4 503	4 909	**1 710**	1 661	1 896	**6 166**	6 164	6 805
Southern Africa	**4 176**	4 117	3 804	**320**	318	325	**4 496**	4 435	4 129
Rest of World	**932**	729	368	**–**	–	–	**932**	729	368
Continuing Operations	**19 044**	18 249	17 416	**2 466**	2 407	2 744	**21 510**	20 656	20 160
Discontinued Operations									
Australia	**–**	–	1 572	**–**	–	–	**–**	–	1 572
Europe	**–**	–	2	**–**	–	–	**–**	–	2
North America	**–**	–	–	**–**	–	172	**–**	–	172
Southern Africa	**–**	–	5	**–**	–	–	**–**	–	5
Rest of World	**–**	–	497	**–**	–	–	**–**	–	497
Discontinued Operations (a)	**–**	–	2 076	**–**	–	172	**–**	–	2 248
Total by geographical origin	**19 044**	18 249	19 492	**2 466**	2 407	2 916	**21 510**	20 656	22 408

(a) Refer note 3.

(b) Includes turnover attributable to associates of US$nil (2003: US$94 million; 2002: US$126 million), operating profit attributable to associates of US$nil (2003: US$29 million; 2002: US$32 million) and net operating assets attributable to associates of US$nil (2003: US$nil; 2002: US$223 million).

6 Reconciliation of net operating assets

	Group		Joint ventures and associates		Total	
	2004	2003	**2004**	2003	**2004**	2003
		(restated)				(restated)
	US$M	US$M	**US$M**	US$M	**US$M**	US$M
Net operating assets (refer notes 4 and 5)	**19 044**	18 249	**2 466**	2 407	**21 510**	20 656
Cash including money market deposits	**1 818**	1 552	**112**	113	**1 930**	1 665
Debt	**(6 587)**	(7 324)	**(763)**	(702)	**(7 350)**	(8 026)
Corporation tax	**(307)**	(343)	**(45)**	(5)	**(352)**	(348)
Dividends payable	**(592)**	(468)	**–**	–	**(592)**	(468)
Deferred tax	**(606)**	(966)	**(163)**	(117)	**(769)**	(1 083)
Tax recoverable	**3**	13	**–**	–	**3**	13
Loans to joint ventures	**238**	293	**(238)**	(293)	**–**	–
Net assets	**13 011**	11 006	**1 369**	1 403	**14 380**	12 409

7 Net operating costs

	2004	2003	2002
	US$M	US$M	US$M
Change in stocks of finished goods and work in progress	**(270)**	(158)	(99)
Raw materials and consumables	**3 116**	2 450	3 240
External services (including transportation)	**3 557**	2 539	2 950
Third party commodity purchases	**5 747**	2 547	1 277
Staff costs (refer note 9)	**2 177**	1 746	2 049
Amortisation of goodwill and negative goodwill	**(1)**	2	3
Depreciation of tangible fixed assets	**1 752**	1 646	1 724
Impairment charge	**116**	73	119
Other operating income	**(231)**	(147)	(163)
Resource rent taxes	**432**	467	405
Operating lease charges	**172**	127	228
Government royalties paid or payable (a)	**421**	352	294
Royalties other	**36**	66	57
Other operating charges	**870**	844	1 219
Group (b)	**17 894**	12 554	13 303
Joint ventures and associates	**1 631**	1 540	1 532
Operating costs including joint ventures and associates (c)	**19 525**	14 094	14 835

Notes to Financial Statements continued

7 Net operating costs continued

	2004 US$M	2003 US$M	2002 US$M
Operating lease charges include the following:			
Land and buildings	**42**	47	24
Plant and equipment	**128**	75	79
Other	**2**	5	125
	172	127	228
Audit fees payable by the BHP Billiton Group to:			
Auditors of BHP Billiton Plc (including overseas firms) (d)			
KPMG	**7.8**	3.4	3.2
PricewaterhouseCoopers	**0.5**	4.1	2.9
Other audit firms (e)	**–**	1.0	3.8
	8.3	8.5	9.9
Fees payable by the BHP Billiton Group to auditors for other services:			
Auditors of BHP Billiton Plc (including overseas firms) (d) (f)			
Audit-related services (g)			
KPMG	**0.4**	0.6	1.0
PricewaterhouseCoopers (d)	**–**	1.6	1.0
Information systems design and implementation (h)			
KPMG	**–**	0.7	5.7
Taxation services (i)			
KPMG	**1.5**	2.0	1.6
PricewaterhouseCoopers (d)	**–**	1.3	1.4
Other services (j)			
KPMG	**0.3**	0.6	2.6
PricewaterhouseCoopers (d)	**–**	0.1	1.8
	2.2	6.9	15.1
Other audit firms (d) (e)			
Other services (d)	**–**	1.4	4.4
	10.5	16.8	29.4

(a) Includes amounts paid or payable to Australian governments of US$262 million (2003: US$231 million) and to others of US$159 million (2003: US$121 million).
(b) Includes net operating costs attributable to Discontinued Operations as follows:

	2004 US$M	2003 US$M	2002 US$M
Change in stocks of finished goods and work in progress	**–**	–	3
Raw materials and consumables	**–**	–	946
Staff costs	**–**	–	506
Depreciation of tangible fixed assets	**–**	–	132
Other operating charges	**–**	–	698
	–	–	2 285

(c) Includes research and development costs of US$19 million (2003: US$40 million; 2002: US$30 million).

(d) During the year ended 30 June 2004, the BHP Billiton Group completed a review of its joint external audit services and resolved that the audit could be more efficiently undertaken by a single audit firm. As a result of this review, KPMG was selected to continue as sole auditor. In addition to the audit fee disclosed above, PricewaterhouseCoopers received $0.4 million in relation to other services.

(e) Audited by auditors other than those that were joint Group auditors of the BHP Billiton Group. During the year ended 30 June 2002, Ernst & Young and Arthur Andersen were the auditors of the BHP Billiton Limited Group and the comparative amount includes US$3.6 million in audit fees that were paid to those firms.

(f) The amounts paid to the UK firms and their associates amounted to US$0.6 million (2003: US$1.9 million; 2002: US$1.2 million).

(g) Mainly includes accounting advice, due diligence services and services associated with securities offerings. For the year ended 30 June 2004, audit fees of US$0.3 million (2003: US$0.2 million) relating to pension plans, which are not directly payable by the BHP Billiton Group, have been excluded from the above analysis.

(h) Relates to legacy contracts entered into with the former consulting arms of the joint audit firms before they were disposed.

(i) Mainly includes tax compliance services and employee expatriate taxation services.

(j) Mainly includes human resources services and pension advisory services. The year ended 30 June 2002 also includes fees related to legacy internal audit services provided to BHP Billiton Limited which were contracted prior to the DLC merger. These services ceased during the year ended 30 June 2002.

Notes to Financial Statements continued

8 Net interest and similar items payable

	2004 US$M	2003 US$M	2002 US$M
On bank loans and overdrafts	**113**	131	161
On all other loans	**229**	241	311
Finance lease interest	**2**	4	5
	344	376	477
Dividends on redeemable preference shares	**23**	24	39
Discounting on provisions and other liabilities	**111**	97	42
less Amounts capitalised (a)	**(97)**	(103)	(58)
	381	394	500
Share of interest of joint ventures and associates	**66**	68	71
	447	462	571
Interest received/receivable	**(78)**	(65)	(142)
	369	397	429
Exchange differences on net debt (b)			
Group	**104**	115	(146)
Joint ventures and associates	**29**	25	(34)
	133	140	(180)
Net interest and similar items payable (c)	**502**	537	249

(a) Interest has been capitalised at the rate of interest applicable to the specific borrowings financing the assets under construction or, where financed through general borrowings, at a capitalisation rate representing the average borrowing cost of the Group. For the year ended 30 June 2004 the capitalisation rate was 4.6 per cent (2003: 5.2 per cent; 2002: 5.5 per cent).

(b) Net exchange losses/(gains) primarily represent the effect on borrowings of the appreciation/(depreciation) of the South African rand against the US dollar.

(c) Disclosed in the consolidated profit and loss account as:

	2004 US$M	2003 US$M	2002 US$M
Net interest and similar items payable			
Group	**407**	444	212
Joint ventures and associates	**95**	93	37
Net interest and similar items payable	**502**	537	249

9 Employees

	2004 Number	2003 Number	2002 Number
The average number of employees, which excludes joint ventures' and associates' employees and includes executive Directors, during the financial year was as follows:			
Petroleum	**1 901**	1 872	1 770
Aluminium	**5 590**	5 362	5 246
Base Metals	**3 414**	3 319	3 646
Carbon Steel Materials	**6 812**	6 381	6 380
Diamonds and Specialty Products	**1 203**	1 208	1 754
Energy Coal	**9 138**	9 668	10 373
Stainless Steel Materials	**5 318**	5 282	5 572
Discontinued Operations (refer note 3)	**–**	–	12 269
Group and unallocated	**1 694**	1 709	3 214
	35 070	34 801	50 224

	2004 US$M	2003 US$M	2002 US$M
The aggregate payroll expenses of those employees was as follows:			
Wages, salaries and redundancies	**1 901**	1 501	1 843
Employee share awards	**96**	70	28
Social security costs	**18**	20	28
Pensions and post-retirement medical benefit costs (refer note 27)	**162**	155	150
	2 177	1 746	2 049

Details of remuneration, pension entitlements and interests in share awards, for each Director and in aggregate, are detailed in note 35.

Notes to Financial Statements continued

10 Taxation

	2004 US$M	2003 US$M	2002 US$M
Analysis of charge in the financial year			
UK taxation			
Corporation tax at 30% (a)			
Current (b)	**419**	292	165
Deferred	**50**	(124)	16
less Double taxation relief	**(327)**	(132)	(92)
	142	36	89
Australian taxation			
Corporation tax at 30%			
Current	**448**	330	235
Deferred	**(34)**	150	225
	414	480	460
South African taxation			
Corporation tax at 30%			
Current	**42**	127	239
Deferred	**117**	74	(120)
	159	201	119
Other overseas taxation			
Current	**715**	192	99
Deferred	**(504)**	(30)	108
	211	162	207
Share of joint ventures' tax charge			
Current	**61**	56	93
Deferred	**46**	45	(11)
	107	101	82
Share of associates' current tax charge	**–**	–	(4)
Withholding tax and secondary taxes on companies	**9**	4	37
	1 042	984	990
Made up of:			
Aggregate current tax			
Group	**1 306**	813	683
Joint ventures and associates	**61**	56	89
	1 367	869	772
Aggregate deferred tax			
Group	**(371)**	70	229
Joint ventures and associates	**46**	45	(11)
	(325)	115	218
Taxation (c)	**1 042**	984	990

(a) There is an additional 10 per cent tax applicable to petroleum operations in the UK which commenced during the year ended 30 June 2002.

(b) Of the adjustments to prior year provisions for current tax amounting to a gain of US$14 million (2003: US$105 million; 2002: US$23 million), US$5 million gain (2003: US$8 million; 2002: US$nil) relates to the UK.

(c) Taxation includes an exceptional credit of US$337 million (2003: US$nil; 2002: US$32 million charge). Refer note 2.

Notes to Financial Statements continued

10 Taxation continued

	2004 US$M	2003 US$M	2002 US$M
Factors affecting tax charge for the financial year			
The tax charged is different to the standard rate of corporation tax in the UK (30%).			
The differences are explained below:			
Profit on ordinary activities before tax	**4 518**	2 925	2 727
Tax on profit at UK rate of 30%	**1 355**	878	818
Permanent differences			
Investment and development allowance	**(85)**	(9)	(10)
Amounts over provided in prior years	**(14)**	(105)	(23)
Recognition of prior year tax losses and tax credits	**(367)**	(188)	(103)
Non-deductible accounting depreciation and amortisation	**49**	76	54
Non-deductible dividends on redeemable preference shares	**8**	8	13
Non tax -effected operating losses	**172**	109	69
Tax rate differential on non-UK income	**(51)**	(18)	(1)
Non tax -effected capital gains	**(5)**	(2)	(12)
Foreign expenditure including exploration not presently deductible	**5**	4	16
South African secondary tax on companies	**5**	16	48
Foreign exchange gains and other translation adjustments	**62**	210	(2)
Tax rate changes	**9**	(1)	59
Investment and asset impairments	**–**	–	32
Introduction of Australian tax consolidation regime (a)	**(95)**	–	–
Other	**(6)**	6	32
Total permanent differences	**(313)**	106	172
Deferred tax movements taken to the profit and loss account			
Capital allowances for the financial year more than depreciation	**(452)**	(299)	(176)
Future capital allowances upon introduction of Australian tax consolidation (a)	**95**	–	–
Exploration expenditure	**(50)**	53	(114)
Employee entitlements	**49**	58	(29)
Site rehabilitation	**118**	71	4
Resource rent tax	**(7)**	(21)	17
Deferred income	**(25)**	27	–
Other provisions	**(14)**	(12)	(77)
Foreign exchange (gains)/losses	**(86)**	193	(5)
Deferred charges	**(71)**	(2)	(2)
Foreign tax	**445**	(92)	(39)
Tax -effected losses	**281**	39	48
Other	**42**	(130)	155
Total timing differences	**325**	(115)	(218)
Current tax charge for the financial year	**1 367**	869	772
Add/(less) deferred tax movements taken to the profit and loss account	**(325)**	115	218
Tax on profit on ordinary activities	**1 042**	984	990

(a) Refer note 2.

Notes to Financial Statements continued

10 Taxation continued

	2004 US$M	2003 US$M
Provision for deferred tax		
Future income tax benefit at year end comprises:		
Accelerated capital allowances	**(172)**	(273)
Exploration expenditure	**80**	122
Employee entitlements	**34**	56
Site rehabilitation	**42**	86
Resource rent tax	**–**	95
Deferred income	**23**	125
Other provisions	**39**	(6)
Foreign exchange losses	**5**	41
Deferred charges	**(178)**	–
Foreign tax credits	**179**	–
Profit in stocks elimination	**18**	2
Other	**52**	(32)
Tax-effected losses	**480**	231
Total future income tax benefit	**602**	447
Provision for deferred tax at year end comprises:		
Accelerated capital allowances	**1 794**	1 280
Exploration expenditure	**(5)**	44
Employee entitlements	**(98)**	(21)
Site rehabilitation	**(329)**	(82)
Resource rent tax	**(111)**	(4)
Deferred income	**(89)**	–
Other provisions	**55**	15
Foreign exchange losses	**(181)**	(230)
Deferred charges	**136**	45
Foreign tax	**–**	219
Other	**82**	150
Tax-effected losses	**(46)**	(3)
Total provision for deferred tax	**1 208**	1 413
Net provision for deferred tax	**606**	966
Provision at start of the financial year	**966**	1 107
Demerger or disposals of subsidiaries	**–**	(213)
Deferred tax (benefits)/charge in profit and loss account for the financial year	**(371)**	70
Exchange differences and other movements	**11**	2
Net provision at end of the financial year	**606**	966
This provision is included within		
Debtors (refer note 17)	**602**	447
Provisions for liabilities and charges (refer note 21)	**(1 208)**	(1 413)
	(606)	(966)

Factors that may affect future tax charges

The BHP Billiton Group operates in many countries across the world each with separate tax authorities, which results in significant complexity. At any point in time there are tax computations which have been submitted but not agreed by those tax authorities and matters which are under discussion between Group companies and the tax authorities. The Group provides for the amount of tax it expects to pay taking into account those discussions and professional advice it has received. Whilst conclusion of such matters may result in amendments to the original computations, the Group does not believe that such adjustments will have a material adverse effect on its financial position though such adjustments may be significant to any individual year’s profit and loss account.

Those countries where tax rates are higher than the UK tax rate of 30 per cent include Canada (approximately 36 per cent), Colombia (37 per cent), Chile (effective rate of 35 per cent), South Africa (effective rate of 37.8 per cent) and the US (35 per cent). Furthermore, petroleum operations in the UK are subject to an additional 10 per cent tax above the ordinary UK tax rate of 30 per cent.

The BHP Billiton Group's subsidiaries generally have tax balances denominated in currencies other than US dollars. Where the subsidiary has a US dollar functional currency, any adjustments on translation of such balances will be taken to the tax charge for the period. The level of such adjustments is dependent upon future movements in exchange rates relative to the US dollar.

As at 30 June 2004, the BHP Billiton Group has not recognised potential tax expense of US$255 million (2003: US$240 million; 2002: US$47 million), which mainly relates to the tax impact of unrealised foreign exchange gains and losses on US dollar net debt held by subsidiaries which maintain local currency records for tax purposes. Under UK GAAP, tax expense will be recognised when such gains and losses are realised for tax purposes.

Notes to Financial Statements continued

10 Taxation continued

The BHP Billiton Group anticipates it will continue to incur foreign expenditure including exploration, or incur losses, in jurisdictions which under current accounting policies, the tax-effect of such expenditure or losses may not be recognised. The BHP Billiton Group will continue to incur non-deductible accounting depreciation and amortisation.

The BHP Billiton Group recognises net deferred tax assets, relating to tax losses and timing differences, to the extent that it can reasonably foresee future profits against which to realise those assets. Following continued progress in the BHP Billiton Group's Gulf of Mexico (US) projects, additional tax losses have been recognised in the current year resulting in a reduction in the underlying effective tax rate of approximately 2 per cent (2003: 3 per cent; 2002: nil) when compared to the UK statutory tax rate. If and when the projects reach appropriate milestones that provide greater certainty over projected future profits, further benefits in respect of past losses and timing differences may be recognised. In total, the further benefits would represent 35 per cent of the majority of 'Other foreign losses' shown in the table of the BHP Billiton Group's tax losses not yet tax-effected, and 35 per cent of the majority of total timing differences which have not been tax-effected.

Tax losses and timing differences

At 30 June 2004, the BHP Billiton Group has ordinary tax losses and capital losses of approximately US$2 249 million (2003: US$2 439 million), and timing differences of US$1 586 million (2003: US$945 million) which have not been tax-effected. The BHP Billiton Group anticipates benefits from the recognition of losses and timing differences in future periods to the extent of income or gains in relevant jurisdictions. The tax losses carried forward expire as summarised below:

Year of expiry	Australian losses US$M	UK losses US$M	Other foreign losses US$M	Total losses US$M
Income tax losses				
2005			1	**1**
2007			5	**5**
2008			20	**20**
2009			2	**2**
2010			21	**21**
2011			9	**9**
2012			14	**14**
2013			1	**1**
2019			170	**170**
2020			385	**385**
2021			403	**403**
2022			147	**147**
2023			5	**5**
Unlimited	11	197	139	**347**
	11	197	1 322	**1 530**
Capital tax losses				
Unlimited	701	3	15	**719**
	712	200	1 337	**2 249**

Notes to Financial Statements continued

11 Dividends

	2004 US$M	2003 US$M	2002 US$M
BHP Billiton Plc (a)			
Dividends declared (b)	**234**	185	150
Dividends paid			
Ordinary shares	**406**	173	151
Preference shares (c)	**–**	–	–
	640	358	301
BHP Billiton Limited (a)			
Dividends declared (b)	**358**	280	242
Dividends paid	**619**	262	241
	977	542	483
Total dividends paid or payable	**1 617**	900	784

	2004 US cents	2003 US cents	2002 US cents
Dividends per share (a)			
First interim dividend paid	**8.0**	7.0	6.5
Second interim divdend paid	**8.5**	–	–
Final dividend declared (b)	**9.5**	7.5	6.5
	26.0	14.5	13.0

Dividends are stated net of amounts which are not payable outside the BHP Billiton Group under the terms of the share repurchase scheme (refer note 25) and ESOP trusts. BHP Billiton Limited dividends are all fully franked for the periods shown.

(a) BHP Billiton Limited dividends per American Depositary Share (ADS) for 2004 were 52.0 US cents per share (2003: 29.0 US cents per share; 2002: 26.0 US cents per share). BHP Billiton Plc dividends per ADS for 2004 were 52.0 US cents per share. BHP Billiton Plc ADSs listed on the New York Stock Exchange on 25 June 2003. As the listing was subsequent to the record date for the final 2003 dividend, no dividends per BHP Billiton Plc ADS were applicable for the 2003 year or the 2002 year.

(b) On 18 August 2004 BHP Billiton declared a final dividend of 9.5 US cents per share which will be paid on 22 September 2004. The final dividend has been provided for at 30 June 2004. Final dividends for 2003 and 2002 were declared prior to the respective year-ends.

(c) 5.5 per cent dividend on 50 000 preference shares of £1 each (2003: 5.5 per cent; 2002: 5.5 per cent).

Notes to Financial Statements continued

12 Earnings per share

	2004	2003	2002
Basic earnings per share (US cents)			
Excluding exceptional items	**56**	31	32
Impact of exceptional items	**(2)**	–	(4)
Including exceptional items	**54**	31	28
Diluted earnings per share (US cents)			
Excluding exceptional items	**56**	31	32
Impact of exceptional items	**(2)**	–	(4)
Including exceptional items	**54**	31	28
Basic earnings per ADS (US cents) (a)			
Including exceptional items	**108**	62	56
Diluted earnings per ADS (US cents) (a)			
Including exceptional items	**108**	62	56
Earnings (US$ million) (b)			
Excluding exceptional items	**3 510**	1 920	1 934
Including exceptional items	**3 379**	1 901	1 690

a) For the periods indicated, each ADS represents two ordinary shares.
b) Represents basic and diluted earnings.

The Directors present earnings per share data based on earnings, excluding exceptional items, as this provides a more meaningful representation of the underlying operating performance of the BHP Billiton Group. Whilst this presentation of earnings per share excluding exceptional items is acceptable under UK GAAP, this presentation is not permitted under US GAAP. Profit and earnings per share before exceptional items are not measures of financial performance under US GAAP and should not be considered an alternative to, or more meaningful than, income from operations, net income or cash flows as defined by US GAAP as a measurement of the BHP Billiton Group's profitability or liquidity. All registrants do not calculate profit and earnings per share before exceptional items in the same manner, and accordingly, profit and earnings per share before exceptional items may not be comparable with other registrants. Refer note 2 for details of exceptional items excluded.

Exceptional items

Details of exceptional items are set out in note 2. The impact of exceptional items on basic and diluted earnings per share is as follows:

	2004 US cents per share	2003 US cents per share	2002 US cents per share
Introduction of tax consolidation regime in Australia	**1.5**	–	–
Litigation settlement	**0.8**	–	–
US and Canadian taxation deductions	**3.8**	–	–
Closure plans	**(8.2)**	–	–
Loss on sale of 6% interest in BHP Steel	**–**	(0.3)	–
Termination of operations	**–**	–	(1.7)
Change in UK tax rate on petroleum operations	**–**	–	(0.9)
Suspension of operations	**–**	–	(0.4)
Merger related restructuring costs	**–**	–	(1.1)
	(2)	–	(4)

Under the terms of the DLC merger, the rights to dividends of a holder of an ordinary share in BHP Billiton Plc and a holder of an ordinary share in BHP Billiton Limited are identical. Consequently, earnings per share have been calculated on the basis of the aggregate number of ordinary shares ranking for dividend. The weighted average number of shares used for the purposes of calculating basic earnings per share is calculated after deduction of the shares held by the share repurchase scheme and the Group's ESOP trusts.

The weighted average number of shares used for the purpose of calculating diluted earnings per share can be reconciled to the number used to calculate basic earnings per share as follows:

Weighted average number of shares	2004 Million	2003 Million	2002 Million
Basic earnings per share denominator	**6 218**	6 207	6 029
Shares and options contingently issuable under employee share ownership plans	**28**	15	13
Diluted earnings per share denominator	**6 246**	6 222	6 042

Notes to Financial Statements continued

13 Intangible assets

	Goodwill US$M	Negative goodwill US$M	Total US$M
Cost			
At the beginning and end of the financial year	**55**	**(46)**	**9**
Amortisation			
At the beginning of the financial year	19	(17)	**2**
Amortisation for the financial year	2	(3)	**(1)**
At the end of the financial year	**21**	**(20)**	**1**
Net book value at the end of the financial year	**34**	**(26)**	**8**
Net book value at the beginning of the financial year	36	(29)	7

14 Tangible fixed assets

	Land and buildings US$M	Plant and equipment US$M	Other mineral assets US$M	Assets under construction US$M	Exploration and evaluation US$M	Total US$M
Cost or valuation						
At the beginning of the financial year	2 260	22 803	6 862	3 263	487	**35 675**
Additions	72	358	217	2 133	190	**2 970**
Disposals	(43)	(382)	(64)	–	(7)	**(496)**
Disposals of subsidiaries	(1)	(332)	(20)	(3)	–	**(356)**
Exchange variations	1	184	38	–	–	**223**
Transfers and other movements	336	2 258	16	(2 512)	(166)	**(68)**
At the end of the financial year	**2 625**	**24 889**	**7 049**	**2 881**	**504**	**37 948**
Accumulated depreciation						
At the beginning of the financial year	931	12 182	2 683	–	70	**15 866**
Charge for the year	122	1 308	307	–	15	**1 752**
Impairments for the year	3	46	12	–	52	**113**
Reversals of impairment losses	(16)	(79)	–	–	–	**(95)**
Disposals	(32)	(346)	(63)	–	(7)	**(448)**
Disposals of subsidiaries	–	(259)	(20)	–	–	**(279)**
Exchange variations	–	117	27	–	–	**144**
Transfers and other movements	18	(80)	(10)	–	(4)	**(76)**
At the end of the financial year	**1 026**	**12 889**	**2 936**	**–**	**126**	**16 977**
Net book value at the end of the financial year	**1 599**	**12 000**	**4 113**	**2 881**	**378**	**20 971**
Net book value at the beginning of the financial year	1 329	10 621	4 179	3 263	417	19 809

Included within the net book value of other mineral assets is US$687 million (2003: US$534 million) of deferred overburden removal costs.

Included in the additions for exploration and evaluation is US$170 million (2003: US$100 million) of capitalised exploration expenditure.

Included within plant and equipment at 30 June 2004 are assets held under finance leases with a net book value of US$76 million (2003: US$55 million). Depreciation charged on these assets during the year ended 30 June 2004 totalled US$9 million (2003: US$9 million).

Included within tangible fixed assets at 30 June 2004 is capitalised interest with a net book value of US$401 million (2003: US$310 million).

	Freehold US$M	Long leasehold US$M	Total US$M
The net book value of land and buildings can be analysed as follows:			
At 30 June 2004	**1 595**	**4**	**1 599**
At 30 June 2003	1 323	6	1 329

Notes to Financial Statements continued

15 Fixed asset investments

	Investment in joint ventures US$M	Loans to joint ventures [(a)] US$M	Other fixed asset investments [(b)] US$M	Total US$M
At the beginning of the financial year	**1 403**	**293**	**148**	**1 844**
Group share of profits less losses	**223**	**–**	**–**	**223**
Impairments for the year	**–**	**–**	**(3)**	**(3)**
Additions	**25**	**10**	**–**	**35**
Disposals	**(79)**	**(65)**	**–**	**(144)**
Dividends received	**(203)**	**–**	**–**	**(203)**
Other movements	**–**	**–**	**(22)**	**(22)**
At the end of the financial year	**1 369**	**238**	**123**	**1 730**

	In aggregate 2004 US$M	In aggregate 2003 US$M	BHP Billiton Group Share 2004 US$M	BHP Billiton Group Share 2003 US$M
Net assets of joint ventures can be analysed as follows:				
Fixed assets	**5 566**	5 799	**2 096**	2 152
Current assets	**1 749**	1 666	**855**	728
Liabilities due within one year	**(1 019)**	(1 101)	**(576)**	(476)
Liabilities due after more than one year	**(2 604)**	(2 652)	**(1 006)**	(1 001)
Net assets of joint ventures	**3 692**	3 712	**1 369**	1 403

	In aggregate 2004 US$M	In aggregate 2003 US$M	In aggregate 2002 US$M	BHP Billiton Group Share[(c)] 2004 US$M	BHP Billiton Group Share[(c)] 2003 US$M	BHP Billiton Group Share[(c)] 2002 US$M
Profits less losses of joint ventures and associates can be analysed as follows:						
Turnover	**4 754**	4 516	4 252	**2 056**	1 898	1 872
Net operating costs	**(3 683)**	(3 666)	(3 442)	**(1 631)**	(1 540)	(1 532)
Operating profit	**1 071**	850	810	**425**	358	340
Profit after net interest and taxation	**583**	400	520	**223**	164	225
Capital commitments				**55**	98	116

(a) Loans to joint ventures include US$225 million (2003: US$275 million) that are in the form of cash on deposit, with the banks having an equivalent amount on loan to the joint venture.

(b) The BHP Billiton Group has subscribed for shares in a number of listed companies in connection with option arrangements on exploration projects. The consideration has been allocated to the option and has generally been expensed in accordance with the BHP Billiton Group's accounting policy on exploration. These investments therefore have a book value of US$nil at 30 June 2004 (2003: US$nil) in the table above and a market value of US$19 million (2003: US$11 million). Other listed investments have a book value of US$68 million (2003: US$70 million) and a market value of US$115 million (2003: US$75 million).

(c) Effective April 2003, the BHP Billiton Group sold its interest in Minera Alumbrera Limited for US$187 million. In 2003 and 2002, the profit less losses of joint ventures and associates included the results relating to the Group's 50 per cent interest in Minera Alumbrera Limited.

Notes to Financial Statements continued

16 Stocks

	2004 US$M	2003 US$M
Raw materials and consumables	**460**	356
Work in progress	**409**	384
Finished goods	**891**	639
	1 760	1 379

17 Debtors

	2004 US$M	2003 US$M
Amounts due within one year		
Trade debtors	**2 018**	1 467
less Provision for doubtful debts	**(4)**	(5)
	2 014	1 462
Tax recoverable	**3**	13
Employee Share Plan loans (a)	**1**	2
Other debtors (b)	**731**	624
less Provision for doubtful debts	**(1)**	(6)
	730	618
Prepayments and accrued income	**176**	129
	2 924	2 224
Amounts due after more than one year		
Deferred tax	**602**	447
Employee Share Plan loans (a)	**62**	69
Other debtors (b)	**447**	535
Pension assets (refer note 27)	**282**	270
Other prepayments and accrued income	**89**	84
	1 482	1 405
	4 406	3 629

(a) Under the terms of the BHP Billiton Limited Employee Share Plan, shares have been issued to employees for subscription at market price less a discount not exceeding 10 per cent. Interest free employee loans are available to fund the purchase of such shares for a period of up to 20 years repayable by application of dividends or an equivalent amount. Refer note 23.
(b) Other debtors includes receivables from joint venture arrangement cash calls, indirect taxes and other long-term financing and reimbursement arrangements.

18 Current asset investments

	2004 US$M	2003 US$M
Unlisted investments		
Environmental trust funds (a)	**153**	104
Insurance investments (b)	**14**	39
	167	143

(a) Investments held by the Ingwe and Selbaie Environmental Trust Funds. The future realisation of these investments is intended to fund environmental obligations relating to the closure of Ingwe's and Selbaie's mines. Consequently these investments, whilst under BHP Billiton Group control, are not available for the general purposes of the BHP Billiton Group. All income from these investments is reinvested or spent to meet these obligations. The BHP Billiton Group retains responsibility for these environmental obligations until such time as the former mine sites have been rehabilitated in accordance with the relevant environmental legislation. These obligations are therefore included under provisions for liabilities and charges (refer note 21).
(b) Investments relating to the BHP Billiton Group's self insurance arrangements. These investments are held for the benefit of the BHP Billiton Group but are not available for the general purposes of the BHP Billiton Group.

Notes to Financial Statements continued

19 Creditors – amounts falling due within one year

	2004 US$M	2003 US$M
Bank overdrafts	**133**	21
Unsecured bank loans (current portion of long-term loans)	**252**	230
Unsecured bank loans (other short-term loans)	**–**	371
Total current portion of bank loans and overdrafts	**385**	622
Notes and debentures	**306**	150
Secured debt (limited recourse) (refer note 20)	**51**	28
Unsecured debt (non-recourse)	**264**	44
Secured debt (non-recourse)	**97**	34
Commercial paper (a)	**–**	138
Finance leases	**9**	4
Other unsecured borrowings	**22**	16
Total current portion of debentures and other borrowings	**749**	414
Total borrowings falling due within one year	**1 134**	1 036
Trade creditors	**1 688**	1 338
Corporation taxes	**297**	322
Social security	**1**	1
Other taxes	**132**	96
Other creditors and accruals	**935**	832
Deferred income	**156**	114
Dividends payable	**592**	468
	4 935	4 207

(a) In accordance with FRS 4 'Capital Instruments', all commercial paper is classified as short-term borrowings though it is backed by medium-term facilities. Under US GAAP, this amount was grouped with non-current borrowings at 30 June 2003.

Notes to Financial Statements continued

20 Creditors – amounts falling due after more than one year

	2004 US$M	2003 US$M
Unsecured bank loans	**55**	97
Total non-current portion of bank loans	**55**	97
Notes and debentures	**3 653**	4 145
Secured debt (limited recourse) (a)	**435**	478
Unsecured debt (non-recourse)	**545**	754
Secured debt (non-recourse)	**–**	74
Redeemable preference shares (b)	**450**	450
Finance leases	**67**	49
Other unsecured borrowings	**248**	241
Total non-current portion of debentures and other borrowings	**5 398**	6 191
Total borrowings falling due after more than one year	**5 453**	6 288
Trade creditors	**1**	14
Other creditors	**175**	181
Corporation taxes	**10**	21
Deferred income	**348**	345
	5 987	6 849

(a) The limited recourse secured debt relates to the Mozal joint arrangement. The debt is secured by a charge over the assets of this joint arrangement and the lender has recourse to only those assets in the event of default. The BHP Billiton Group's share of these obligations is guaranteed by BHP Billiton Plc until such time as the project reaches financial completion.

(b) Redeemable preference shares include the following:

BHP Operations Inc: Preferred stock

Auction market preferred stock

600 (2003: 600) shares issued at US$250 000 each, fully paid preferred stock; cumulative, non-participating, dividend reset on a regular basis reflecting prevailing US market rates; not entitled to any earnings growth or capital appreciation of the issuer. Redeemable at the option of the issuer on any dividend payment date or, if redeemed in full, on any business day. Guaranteed by other BHP Billiton Group companies.

Cumulative preferred stock series 'A'

3 000 (2003: 3 000) shares issued at US$100 000 each, fixed at 6.76 per cent per annum, fully paid and not entitled to any earnings growth or capital appreciation of the issuer. Subject to mandatory redemption on 27 February 2006. Dividends are cumulative and are calculated on the basis of a year of twelve 30 day months. Guaranteed by other BHP Billiton Group companies.

	Repayable	Currency	Interest rate %	2004 US$M	2003 US$M
Debt falling due after 5 years is analysed as follows:					
US$ Bond issue	2012 – 2026	US$	7.0% fixed	**1 073**	1 073
Global Bond	2013	US$	LIBOR+0.47%	**850**	850
Escondida	2009 – 2013	US$	8.3% fixed	**27**	29
Escondida	2011	US$	LIBOR+0.50%	**134**	157
Manganese shareholder loan	2030	US$	LIBOR+2.25%	**82**	82
Richards Bay Coal Terminal loan	2015	ZAR	interest free	**34**	31
Eskom loan	2013	ZAR	12.8% fixed	**44**	40
Mozal – Senior loans	2012 – 2014	US$	6–7% fixed	**94**	121
Mozal – Senior loans	2012	US$	LIBOR+2.4%	**80**	95
Mozal – Subordinated loan	2012	US$	7.96% fixed	**34**	46
Magma long-term borrowing	2009 – 2011	US$	LIBOR	**–**	50
Medium-term notes	2008	US$	LIBOR+0.78%	**–**	391
Other	various	various	various	**37**	19
				2 489	2 984

Notes to Financial Statements continued

21 Provisions for liabilities and charges

	Employee entitlements (Restated) (a) US$M	Restructuring (b) US$M	Resource rent tax US$M	Restoration and rehabilitation (c) US$M	Post-retirement benefits(d) (note 27) US$M	Deferred tax US$M	Other US$M	Total US$M
At 1 July 2003	**547**	**57**	**241**	**2 025**	**317**	**1 413**	**298**	**4 898**
Amounts capitalised	**–**	**–**	**–**	**103**	**–**	**–**	**–**	**103**
Disposals of subsidiaries	**–**	**–**	**–**	**(57)**	**–**	**–**	**–**	**(57)**
Charge/(credit) for the year:								
Underlying	**370**	**2**	**24**	**691**	**40**	**(217)**	**137**	**1 047**
Discounting	**2**	**–**	**–**	**100**	**–**	**–**	**–**	**102**
Exchange variation	**19**	**–**	**6**	**–**	**22**	**–**	**7**	**54**
Released during the year	**–**	**(31)**	**–**	**–**	**–**	**–**	**(28)**	**(59)**
Exchange variation taken to reserves	**–**	**–**	**4**	**12**	**–**	**12**	**–**	**28**
Utilisation	**(311)**	**(15)**	**(1)**	**(82)**	**(48)**	**–**	**(104)**	**(561)**
Transfers and other movements	**(5)**	**(2)**	**1**	**(9)**	**4**	**–**	**14**	**3**
At 30 June 2004	**622**	**11**	**275**	**2 783**	**335**	**1 208**	**324**	**5 558**
At 1 July 2002	624	125	214	1 613	215	1 587	259	4 637
Amounts capitalised	–	–	–	325	–	–	–	325
Demerger or disposals of subsidiaries	(183)	(1)	–	(1)	–	(237)	(34)	(456)
Charge/(credit) for the year:								
Underlying	344	4	(3)	37	50	54	36	522
Discounting	3	–	–	94	–	–	–	97
Exchange variation	47	5	29	–	22	–	35	138
Exchange variation taken to reserves	1	–	3	15	–	17	1	37
Utilisation	(257)	(28)	–	(84)	(29)	–	(23)	(421)
Transfers and other movements	(32)	(48)	(2)	26	59	(8)	24	19
At 30 June 2003	547	57	241	2 025	317	1 413	298	4 898

(a) The provision for employee entitlements includes applicable amounts for annual leave and associated on-costs. It is anticipated expenditure of approximately US$340 million will be incurred in the year ending 30 June 2005. Comparatives have been restated to reflect the accounting policy change in respect of employee share awards. Refer to Accounting Policies.

(b) Total provision for restructuring costs is made up of:

	2004 US$M	2003 US$M
Remediation and site rehabilitation	**–**	10
Redundancies	**10**	22
Business terminations (including contract cancellations)	**1**	25
	11	57

(c) The Group's activities are subject to various national, regional, and local laws and regulations governing the protection of the environment. Furthermore, the Group has a policy of ensuring that reclamation is planned and financed from the early stages of any operation. Provision is made for the reclamation of the BHP Billiton Group's mining and processing facilities along with the decommissioning of oil platforms and infrastructure associated with petroleum activities. The estimation of the cost of future reclamation and decommissioning activities is subject to potentially significant uncertainties. These uncertainties include the legal and regulatory framework, the magnitude of possible contamination, and the timing and extent of reclamation and decommissioning activities required. Accordingly, whilst the provisions at 30 June 2004 represent the best estimate of the future costs required, these uncertainties are likely to result in future actual expenditure differing from the amounts provided at this time.

These reclamation and decommissioning expenditures are mostly expected to be paid over the next 30 years. The provisions for reclamation and decommissioning are derived by discounting the expected expenditures to their net present value. The estimated total site rehabilitation cost (undiscounted and in today's dollars) to be incurred in the future arising from operations to date, and including amounts already provided for, is US$5 402 million (2003: US$3 391 million).

At 30 June 2004, US$1 702 million (2003: US$1 622 million) was provided for reclamation and decommissioning costs relating to operating sites in the provision for site rehabilitation. In addition, the Group has certain obligations associated with maintaining and/or remediating closed sites. At 30 June 2004, US$1 081 million (2003: US$403 million, excluding US$10 million held in the restructuring provision) was provided for closed sites. Adjustments to the provisions in relation to these closed sites are recognised in the profit and loss account during the period in which the adjustments are made. In addition to the uncertainties noted above, certain of these activities are subject to legal dispute and depending on the ultimate resolution of these matters the final liability could vary. The amounts provided in relation to closed sites are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly. The Group believes that it is reasonably possible that, due to the nature of the closed site liabilities and the degree of uncertainty which surrounds them, these liabilities could be in the order of 35 per cent (2003: 50 per cent) greater or in the order of 20 per cent lower than the US$1 081 million provided at year end. The main closed site to which this total amount relates is Southwest Copper in the US and this is described in further detail below, together with a brief description of other closed sites.

Southwest Copper, Arizona, US
In 1999, the Group announced the cessation of Southwest Copper operations, and the facilities were effectively placed on a care and maintenance basis, pending evaluation of various alternative strategies to realise maximum value from the respective assets. The assets comprised several mining and smelting operations and associated facilities, much of which had been operating for many years prior to the Group acquiring the Southwest Copper operations in 1996. In January 2002, the Group announced the closure of the San Manuel mining facilities, and in October 2003 the closure of the San Manuel plant facilities was announced. The closure of these facilities, together with certain other reclamation and decommissioning activities, were progressed during the years ended 30 June 2003 and 2004. For certain sites, the development of closure plans is well progressed, however, at other sites the necessary site characterisation and engineering work is at an early stage.

A comprehensive review of the closure plans for Southwest Copper was undertaken, following the refocusing of the Group's direction during the period towards an accelerated closure strategy. This followed exhaustion of the alternative strategies referred to above, and resulted in a shortened timeframe to closure for some of the facilities. Actions during the year resulting from the review included the announcement of the closure of the San Manuel plant facilities in October 2003, and the divestment and farm-out of certain assets and liabilities during the period, such as the Robinson copper/gold mining operation and the Resolution copper exploration prospect. As a consequence of detailed site-specific risk assessments

Notes to Financial Statements continued

21 Provisions for liabilities and charges continued

conducted during the period, the review also indicated: (a) higher short-term closure costs, due to changes in the nature of closure work required in relation to certain facilities, particularly tailings dams and waste and leach dumps; (b) a need for costs, such as water management and environmental monitoring, to continue for a longer period; and, (c) an increase in the residual value of certain assets (refer note 2).

Despite the work carried out during the current period, uncertainty remains over the extent and costs of the required short-term closure activities, the extent, cost and timing of post-closure monitoring and longer-term water management. The Group anticipates that future changes in the closure provisions for Southwest Copper may be required as the necessary site characterisation and engineering work is progressed. The closure provisions for Southwest Copper (including amounts in relation to Pinal Creek, which is described in more detail below) total US$771 million at 30 June 2004 (2003: US$297 million).

In relation to Pinal Creek, BHP Copper Inc ('BHP Copper') is involved in litigation concerning groundwater contamination resulting from historic mining operations near the Pinal Creek/Miami Wash area located in the State of Arizona.

On 2 April 1994, Roy Wilkes and Diane Dunn initiated a toxic tort class action lawsuit in the Federal District Court for the District of Arizona. On 22 September 2000, the Court-approved settlement reached between the parties for a non-material amount, and the terms of the settlement are now being implemented as a monitoring program.

A State consent decree ('the Decree') was approved by the Federal District Court for the District of Arizona in August 1998. The Decree authorises and requires groundwater remediation and facility-specific source control activities, and the members of the Pinal Creek Group (which consists of BHP Copper, Phelps Dodge Miami Inc and Inspiration Consolidated Copper Co) are jointly liable for performing the non-facility specific source control activities. Such activities are currently ongoing. As of 30 June 2004 the Group has provided US$102 million (30 June 2003: US$22 million) for its anticipated share of the planned remediation work, based on a range reasonably foreseeable up to US$138 million (30 June 2003: US$43 million), and the Group has paid out US$38 million up to 30 June 2004. These amounts are based on the provisional equal allocation of these costs among the three members of the Pinal Creek Group. BHP Copper is seeking a judicial restatement of the allocation formula to reduce its share, based upon its belief, supported by relevant external legal and technical advice, that its property has contributed a smaller share of the contamination than the other parties' properties. BHP Copper is contingently liable for the whole of these costs in the event that the other parties are unable to pay.

BHP Copper and the other members of the Pinal Creek Group filed a contribution action in November 1991 in the Federal District Court for the District of Arizona against former owners and operators of the properties alleged to have caused the contamination. The claim is for an undetermined amount but under current state and federal laws applicable to the case, BHP Copper should recover a significant percentage of the total remediation costs from the Defendants, based upon their operations' proportionate contributions to the total contamination in the Pinal Creek drainage basin. Such action seeks recovery from these historical owners and operators for remediation and source control costs. BHP Copper's predecessors in interest have asserted a counterclaim in this action seeking indemnity from BHP Copper based upon their interpretation of the historical transaction documents relating to the succession in interest of the parties. BHP Copper has also filed suit against a number of insurance carriers seeking to recover under various insurance policies for remediation, response, source control, and other costs noted above incurred by BHP Copper. The reasonable assessment of recovery in the various insurances cases has a range from US$4 million to approximately US$15 million, depending on many factors. Neither insurance recoveries nor other claims or offsets have been recognised in the financial statements and will not be recognised until such offsets are considered virtually certain of realisation.

Other Closed Sites
The closure provisions for other closed sites total US$310 million at 30 June 2004 (2003: US$106 million). The key sites covered by this amount are described briefly below:

- *Newcastle Steelworks* – the Group closed its Newcastle Steelworks in 1999 and retains responsibility for certain sediment in the Hunter River adjacent the former steelworks site, together with certain other site remediation activities in the Newcastle area.
- *Island Copper mine* – the Group ceased operations at its Island Copper mine in December 1995 and has responsibility for various site reclamation activities, including the long-term treatment of the pit lake and water management.
- *Selbaie copper mine* – the Group closed its Selbaie copper mine in January 2004 and has responsibility for site reclamation and remediation activities.
- *Rio Algom* – the Group has responsibility for long-term remediation costs for various mines and processing facilities in Canada and the US operated by Rio Algom Ltd prior to its acquisition by the former Billiton Plc in October 2000.

Closure provisions for other closed sites have been increased in the current period mainly due to refinements of closure plans at the Island Copper mine, Newcastle Steelworks, the Selbaie copper mine and several other smaller sites (refer note 2), and also the classification of Selbaie as a closed site (classified as operating at 30 June 2003). These increases resulted from a number of causes, including: (a) a reassessment during the period of an original pit lake water treatment process which requires additional treatment for a longer period; (b) a comprehensive environmental assessment completed during the period as a consequence of a change in approach relating to the remediation of river sediment; and, (c) development of detailed closure plans, including site characterisation, in relation to sites which closed during the last two years where closure activities have now commenced.

(d) The provision for post-retirement benefits comprises pension liabilities of US$62 million (2003: US$65 million), and post-retirement medical benefit liabilities of US$273 million (2003: US$252 million).

22 Called up share capital and contributed equity

	2004 US$M	2003 US$M	2002 US$M
BHP Billiton Plc			
Authorised share capital			
3 000 000 000 ordinary shares of US$0.50 each (2003: 3 000 000 000; 2002: 3 000 000 000)	**1 500**	1 500	1 500
50 000 (2003: 50 000; 2002: 50 000) 5.5% preference shares of £1 each (a)	**–**	–	–
1 Special Voting Share (2003: 1; 2002: 1) of US$0.50 (b)	**–**	–	–
1 Equalisation Share (2003: 1; 2002: 1) of US$0.50 (c)	**–**	–	–
	1 500	1 500	1 500
Allotted, called up and fully paid share capital			
2 468 147 002 ordinary shares of US$0.50 each (2003: 2 468 147 002; 2002: 2 319 147 885)	**1 234**	1 234	1 160
50 000 (2003: 50 000; 2002: 50 000) 5.5% preference shares of £1 each (a)	**–**	–	–
1 Special Voting Share (2003: 1; 2002: 1) of US$0.50 (b)	**–**	–	–
	1 234	1 234	1 160

Notes to Financial Statements continued

22 Called up share capital and contributed equity continued

	Number of shares		
	2004	2003	2002
Movements in called up fully paid ordinary shares (d)			
Opening number of shares	**2 468 147 002**	2 319 147 885	2 319 147 885
Bonus shares issued (e)	**–**	148 999 117	–
Closing number of shares	**2 468 147 002**	2 468 147 002	2 319 147 885

	2004	2003	2002
	US$M	US$M	US$M
BHP Billiton Limited			
Paid up contributed equity (f)			
3 759 487 555 ordinary shares fully paid (2003: 3 747 687 775; 2002: 3 724 893 687)	**1 851**	1 785	3 143
Nil ordinary shares paid to A$1.40 (2003: 240 000; 2002: 320 000) (g)	**–**	–	–
405 000 ordinary shares paid to A$1.36 (2003: 1 095 000; 2002: 2 305 000) (g)	**–**	–	–
1 Special Voting Share (2003: 1; 2002: 1) (b)	**–**	–	–
	1 851	1 785	3 143

	Number of shares		
	2004	2003	2002
Movements in fully paid ordinary shares			
Opening number of shares	**3 747 687 775**	3 724 893 687	3 704 256 885
Shares issued on exercise of Employee Share Plan options (h)	**10 764 732**	20 165 784	22 955 508
Shares issued on exercise of Performance Rights (h)	**–**	918 120	–
Partly paid shares converted to fully paid (g)	**1 035 048**	1 710 184	1 815 916
Shares bought back and cancelled (i)	**–**	–	(4 134 622)
Closing number of shares (j)	**3 759 487 555**	3 747 687 775	3 724 893 687

(a) Preference shares have the right to repayment of the amount paid up on the nominal value and any unpaid dividends in priority to the holders of any other class of shares in BHP Billiton Plc on a return of capital or winding up. The holders of preference shares have limited voting rights if payment of the preference dividends are six months or more in arrears or a resolution is passed changing the rights of the preference shareholders. Since the merger these shares have been beneficially held by J.P. Morgan plc.

(b) BHP Billiton Plc and BHP Billiton Limited each issued one Special Voting Share to facilitate joint voting by shareholders of BHP Billiton Plc and BHP Billiton Limited on Joint Electorate Actions.

(c) An Equalisation Share has been authorised to be issued to enable a distribution to be made by BHP Billiton Plc to the BHP Billiton Limited Group should this be required under the terms of the DLC merger. The Directors have the ability to issue the Equalisation Share if required under those terms. The Constitution of BHP Billiton Limited allows the Directors of that Company to issue a similar Equalisation Share.

(d) During the year ended 30 June 2004, BHP Billiton Plc did not repurchase any shares under the authorisation granted by its shareholders. The shareholders authorised the Company to enter into contracts to purchase up to 247 million of BHP Billiton Plc shares until the end of the annual general meeting in 2004.

(e) Upon the demerger of BHP Steel in July 2002, bonus shares of BHP Billiton Plc were issued to BHP Billiton Plc shareholders to reflect the value distributed to shareholders of BHP Billiton Limited as a result of the demerger (the bonus issue was one BHP Billiton Plc share for approximately each 15.6 BHP Billiton Plc shares held).

(f) Under the Australian Corporations Act 2001, BHP Billiton Limited's share capital has no par value. Total capital subscribed by shareholders less capital returned to shareholders is included in Shareholders' Funds as Contributed equity. Contributed equity decreased by US$1 456 million in 2003 due to the demerger of BHP Steel in July 2002. This reflected a capital reduction of A$0.69 per share. The demerger resulted in BHP Billiton Limited shareholders being issued one BHP Steel Limited share for every five BHP Billiton Limited shares held.

(g) 240 000 (2003: 80 000; 2002: 65 000) shares paid to A$1.40 and 690 000 (2003: 1 210 000; 2002: 1 351 500) shares paid to A$1.36 were converted to fully paid during 2004. There were no partly paid shares issued during the year (2003: nil; 2002: nil). Including bonus shares, 1 035 048 (2003: 1 710 184; 2002: 1 815 916) shares were issued on conversion of these partly paid shares. 190 000 (2003: 282 000; 2002: 650 000) partly paid shares are entitled to 216 936 (2003: 321 984: 2002: 692 315) bonus shares on becoming fully paid. As a consequence of the BHP Steel demerger, an interim call of A$0.69 per share was made on partly paid shares and the capital reduction amount was applied to meet this call.

(h) The number of shares issued on exercise of options and Performance Rights after 7 July 2001 includes bonus shares.

(i) During the years ended 30 June 2003 and 30 June 2004, BHP Billiton Limited did not repurchase any shares in accordance with its announced share buy-back program. During the year ended 30 June 2002, BHP Billiton Limited repurchased 4 134 622 shares at a weighted average price of A$8.83 per share. The buy-back program allows for the purchase of up to 186 million BHP Billiton Limited shares (adjusted for the bonus issue), less the number of BHP Billiton Plc shares purchased on-market by Nelson Investment Limited or BHP Billiton Plc.

(j) During the period 1 July 2004 to 1 September 2004, 125 000 Executive Share Scheme partly paid shares were paid up in full, 1 163 361 fully paid ordinary shares (including attached bonus shares) were issued on the exercise of Employee Share Plan options, 116 272 fully paid ordinary shares (including attached bonus shares) were issued on the exercise of Performance Share Plan Performance Rights and 192 628 fully paid ordinary shares were issued on the exercise of Group Incentive Scheme awards.

Notes to Financial Statements continued

23 Employee share ownership plans

Summary of BHP Billiton Group employee share ownership plans
The following table is a summary of the awards made under the employee share ownership plans of BHP Billiton Plc and BHP Billiton Limited.

The subsequent tables and associated footnotes provide more information in relation to that contained in the summary table.

The details of the plans, including comparatives, are presented including, where applicable, a bonus element to which the participant became entitled as a result of the DLC merger on 29 June 2001 and the BHP Steel Limited demerger on 1 July 2002.

	Number of awards outstanding at 30 June 2004	Number of awards issued during year ended 30 June 2004
BHP Billiton Plc employee share awards		
Group Incentive Scheme (Deferred Shares)	**1 310 131**	**1 397 818**
Group Incentive Scheme (Options)	**855 044**	**918 054**
Group Incentive Scheme (Performance Shares)	**4 833 951**	**1 649 448**
Restricted Share Scheme	**4 076 894**	**–**
Co-Investment Plan	**539 984**	**–**
BHP Billiton Limited employee share awards		
Group Incentive Scheme (Deferred Shares)	**2 884 289**	**3 001 722**
Group Incentive Scheme (Options)	**1 309 448**	**1 338 814**
Group Incentive Scheme (Performance Shares)	**10 136 908**	**3 353 538**
Employee Share Plan (shares)	**18 660 656**	**–**
Employee Share Plan (options)	**24 309 476**	**–**
Executive Share Scheme (partly paid shares)	**621 936**	**–**
Performance Share Plan (LTI)	**5 031 632**	**–**
Performance Share Plan (MTI)	**212 395**	**–**
Bonus Equity Share Plan (shares)	**818 746**	**–**

The following tables relate to awards issued under each of these schemes:

	Restricted Share Scheme awards (a)			Co-Investment Plan awards (a)		
	2004	2003	2002	**2004**	2003	2002
Number of awards issued since the DLC merger (b)	**5 657 555**	5 657 555	5 657 555	**1 023 425**	1 023 425	1 023 425
During the financial year						
Number of awards remaining at the beginning of the financial year	**4 608 382**	5 351 690	–	**837 450**	1 000 399	–
Number of awards issued	–	–	5 657 555	**–**	–	1 023 425
Number of awards exercised	**(167 230)**	(426 604)	(56 568)	**(102 656)**	(45 415)	(6 525)
Number of awards lapsed	**(364 258)**	(316 704)	(249 297)	**(194 810)**	(117 534)	(16 501)
Number of awards remaining at the end of the financial year	**4 076 894**	4 608 382	5 351 690	**539 984**	837 450	1 000 399
Exercisable	–	–	–	**–**	–	–
Not exercisable	**4 076 894**	4 608 382	5 351 690	**539 984**	837 450	1 000 399
Number of employees participating in awards issued	**–**	–	239	**–**	–	126
Market value of awards issued (US$ million) (c)	**–**	–	–	**–**	–	–
Proceeds from awards issued (US$ million)	**–**	–	–	**–**	–	–
Number of employees exercising awards	**10**	22	8	**27**	10	2
Market value of shares on exercise of awards (US$ million)	**1**	2	–	**–**	–	–

Notes to Financial Statements continued

23 Employee share ownership plans continued

	Group Incentive Scheme Deferred Shares (BHP Billiton Plc) (a)			Group Incentive Scheme Deferred Shares (BHP Billiton Limited) (a)		
	2004	2003	2002	**2004**	2003	2002
Number of awards issued since commencement of the Plan	**1 397 818**			**3 001 722**		
During the financial year						
Number of awards at the beginning of the financial year	**–**			**–**		
Number of awards issued	**1 397 818**			**3 001 722**		
Number of awards exercised	**(11 610)**			**(30 884)**		
Number of awards lapsed	**(76 077)**			**(86 549)**		
Number of awards remaining at the end of the financial year	**1 310 131**			**2 884 289**		
Exercisable	**–**			**–**		
Not exercisable	**1 310 131**			**2 884 289**		
Number of employees participating in awards issued	**200**			**391**		
Market value of awards issued (US$ million) (c)	**–**			**–**		
Proceeds from awards issued (US$ million)	**–**			**–**		
Number of employees exercising awards	**2**			**6**		
Market value of shares on exercise of awards (US$ million)	**–**			**–**		

	Group Incentive Scheme Options (BHP Billiton Plc) (a)			Group Incentive Scheme Options (BHP Billiton Limited) (a)		
	2004	2003	2002	**2004**	2003	2002
Number of awards issued since commencement of the Plan	**918 054**			**1 338 814**		
During the financial year						
Number of awards at the beginning of the financial year	**–**			**–**		
Number of awards issued	**918 054**			**1 338 814**		
Number of awards exercised	**(21 241)**			**–**		
Number of awards lapsed	**(41 769)**			**(29 366)**		
Number of awards remaining at the end of the financial year	**855 044**			**1 309 448**		
Exercisable	**–**			**–**		
Not exercisable	**855 044**			**1 309 448**		
Number of employees participating in awards issued	**81**			**104**		
Market value of awards issued (US$ million) (c)	**–**			**–**		
Proceeds from awards issued (US$ million)	**–**			**–**		
Number of employees exercising awards	**–**			**–**		
Market value of shares on exercise of awards (US$ million)	**–**			**–**		

	Group Incentive Scheme Performance Shares (BHP Billiton Plc) (a)			Group Incentive Scheme Performance Shares (BHP Billiton Limited) (a)		
	2004	2003	2002	**2004**	2003	2002
Number of awards issued since commencement of the Plan	**5 616 216**	3 966 768		**10 863 781**	7 510 243	
During the financial year						
Number of awards remaining at the beginning of the financial year	**3 634 251**	–		**7 313 516**	–	
Number of awards issued	**1 649 448**	3 966 768		**3 353 538**	7 510 243	
Number of awards exercised	**(84 041)**	–		**(157 429)**	–	
Number of awards lapsed	**(365 707)**	(332 517)		**(372 717)**	(196 727)	
Number of awards remaining at the end of the financial year	**4 833 951**	3 634 251		**10 136 908**	7 313 516	
Exercisable	**–**	–		**–**	–	
Not exercisable	**4 833 951**	3 634 251		**10 136 908**	7 313 516	
Number of employees participating in awards issued	**218**	221		**409**	424	
Market value of awards issued (US$ million) (c)	**–**	–		**–**	–	
Proceeds from awards issued (US$ million)	**–**	–		**–**	–	
Number of employees exercising awards	**6**	–		**12**	–	
Market value of shares on exercise of awards (US$ million)	**1**	–		**1**	–	

Notes to Financial Statements continued

23 Employee share ownership plans continued

	Employee Share Plan Options (a)			Weighted Average Exercise Price (A$)		
	2004	2003	2002	**2004**	2003	2002
Number of awards issued since commencement of the Plan	**178 032 575**	178 032 575	177 965 075			
During the financial year						
Number of awards remaining at the beginning of the financial year	**37 571 802**	60 994 303	74 588 800	**7.81**	8.29	7.92
Number of awards issued	**–**	67 500	14 077 500	**–**	8.95	8.98
Number of awards exercised	**(10 764 732)**	(20 165 784)	(22 955 508)	**7.48**	7.25	7.66
Number of awards lapsed	**(2 497 594)**	(3 324 217)	(4 716 489)	**8.04**	7.53	7.78
Number of awards remaining at the end of the financial year	**24 309 476**	37 571 802	60 994 303	**7.94**	7.81	8.29
Exercisable	**13 679 357**	15 899 927	32 297 444	**7.66**	7.03	7.62
Not exercisable	**10 630 119**	21 671 875	28 696 859	**8.30**	8.38	9.04
Number of employees participating in awards issued	**–**	1	266			
Market value of awards issued (US$ million) (c)	**–**	–	–			
Proceeds from awards issued (US$ million)	**–**	–	–			
Number of employees exercising awards	**1 683**	9 857	12 081			
Market value of shares on exercise of awards (US$ million)	**88**	121	132			
Proceeds from exercise of options (US$ million)	**57**	83	94			

	Employee Share Plan Shares (a)			Executive Share Scheme Partly Paid Shares (a)		
	2004	2003	2002	**2004**	2003	2002
Number of awards issued since commencement of the Plan	**373 745 102**	373 745 102	373 745 102	**50 529 280**	50 529 280	50 529 280
During the financial year						
Number of awards remaining at the beginning of the financial year	**20 508 095**	45 827 460	62 781 518	**1 656 984**	3 367 168	5 183 084
Number of awards issued	**–**	–	–	**–**	–	–
Number of awards exercised	**(1 847 439)**	(25 319 365)	(16 954 058)	**(1 035 048)**	(1 710 184)	(1 815 916)
Number of awards lapsed	**–**	–	–	**–**	–	–
Number of awards remaining at the end of the financial year	**18 660 656**	20 508 095	45 827 460	**621 936**	1 656 984	3 367 168
Exercisable	**18 660 656**	20 508 095	45 827 460	**621 936**	1 656 984	3 367 168
Not exercisable	**–**	–	–	**–**	–	–
Number of employees participating in awards issued				**–**	–	–
Market value of awards issued (US$ million) (c)				**–**	–	–
Proceeds from awards issued (US$ million)				**–**	–	–
Number of employees exercising awards				**4**	11	14
Market value of shares on exercise of awards (US$ million)				**9**	7	8
Employee Share Plan Loans outstanding (US$ million)	**63**	71	135			
Proceeds from conversion of partly paid shares (US$ million)				**9**	10	10

	Performance Share Plan Performance Rights (a)			Bonus Equity Share Plan Shares (a)		
	2004	2003	2002	**2004**	2003	2002
Number of awards issued since commencement of the Plan	**12 679 547**	12 679 547	12 679 547	**1 016 845**	1 016 845	1 016 845
During the financial year						
Number of awards remaining at the beginning of the financial year	**8 163 616**	10 293 469	6 234 311	**856 345**	1 016 845	–
Number of awards issued	**–**	–	5 527 117	**–**	–	1 016 845
Number of awards exercised	**(2 712 371)**	(1 901 694)	(1 235 794)	**(34 573)**	(135 945)	–
Number of awards lapsed	**(207 218)**	(228 159)	(232 165)	**(3 026)**	(24 555)	–
Number of awards remaining at the end of the financial year	**5 244 027**	8 163 616	10 293 469	**818 746**	856 345	1 016 845
Exercisable	**716 120**	–	57 384	**–**	–	–
Not exercisable	**4 527 907**	8 163 616	10 236 085	**818 746**	856 345	1 016 845
Number of employees participating in awards issued	**–**	–	118	**–**	–	117
Market value of awards issued (US$ million) (c)	**–**	–	–	**–**	–	–
Proceeds from awards issued (US$ million)	**–**	–	–	**–**	–	–
Number of employees exercising awards	**172**	22	21	**9**	26	–
Market value of shares on exercise of awards (US$ million)	**21**	8	6	**–**	1	–

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

23 Employee share ownership plans continued

Month of issue	Number issued	Number of recipients	Number exercised	Number lapsed	Awards outstanding at: Balance date	Awards outstanding at: Date of Directors' Report	Exercise price	Exercise period / release date
Restricted Share Scheme (d)								
November 2001(Share awards)	292 577	1	–	169 359	123 218	123 218	–	Nov 2004
October 2001 (Share awards)	4 446 532	147	487 855	675 051	3 283 626	3 193 058	–	Nov 2004
October 2001 (Options)	918 446	32	162 547	85 849	670 050	657 385	–	Oct 2004 – Sept 2008
					4 076 894	**3 973 661**		
Co-Investment Plan (d)								
November 2001	100 945	–	23 131	77 814	–	–	–	Nov 2003 – April 2006
October 2001	922 480	83	131 465	251 031	539 984	532 440	–	Oct 2003 – March 2006
					539 984	**532 440**		
Group Incentive Scheme (BHP Billiton Plc)								
Deferred Shares								
November 2003	1 397 818	194	11 610	76 077	1 310 131	1 271 862	–	Aug 2005 – Aug 2008
Options								
November 2003	918 054	78	21 241	41 769	855 044	855 044	£4.43	Aug 2005 – Aug 2008
Performance Shares								
November 2003	1 649 448	210	16 786	86 865	1 545 797	1 492 493	–	Aug 2006 – Aug 2009
November 2002	3 966 768	209	67 255	611 359	3 288 154	3 174 546	–	Aug 2005 – Aug 2008
					6 999 126	**6 793 945**		
Group Incentive Scheme (BHP Billiton Limited)								
Deferred Shares								
November 2003	3 001 722	391	30 884	86 549	2 884 289	2 802 857	–	Aug 2005 – Aug 2008
Options								
November 2003	1 338 814	104	–	29 366	1 309 448	1 307 038	A$11.11	Aug 2005 – Aug 2008
Performance Shares								
November 2003	3 353 538	409	37 309	103 226	3 213 003	3 130 937	–	Aug 2006 – Aug 2009
November 2002	7 510 243	425	120 120	466 218	6 923 905	6 715 523	–	Aug 2005 – Aug 2008
					14 330 645	**13 956 355**		
Employee Share Plan Options								
September 2002	67 500	1	–	–	67 500	67 500	A$8.95	Oct 2004 – Sept 2011
November 2001	6 870 500	113	726 716	859 384	5 284 400	5 284 400	A$8.30	Oct 2004 – Sept 2011
November 2001	7 207 000	153	1 147 273	781 508	5 278 219	5 040 600	A$8.29	Oct 2004 – Sept 2011
December 2000	3 444 587	67	1 059 555	438 386	1 946 646	1 818 610	A$8.72	July 2003 – Dec 2010
December 2000	2 316 010	59	826 391	274 566	1 215 053	1 121 349	A$8.71	July 2003 – Dec 2010
November 2000	1 719 196	44	591 191	539 451	588 554	571 516	A$8.28	July 2003 – Oct 2010
November 2000	7 764 776	197	4 779 058	827 792	2 157 926	2 015 176	A$8.27	July 2003 – Oct 2010
April 2000	61 953	3	20 651	–	41 302	41 302	A$7.60	April 2003 – April 2010
April 2000	937 555	5	38 721	138 361	760 473	760 473	A$7.60	April 2003 – April 2010
December 1999	413 020	1	413 020	–	–	–	A$8.61	April 2002 – April 2009
December 1999	309 765	1	309 765	–	–	–	A$7.50	April 2002 – April 2009
October 1999	105 320	3	14 456	30 976	59 888	59 888	A$7.57	April 2002 – April 2009
July 1999	206 510	1	–	–	206 510	–	A$7.60	April 2002 – April 2009
April 1999	44 474 820	45 595	18 371 130	21 299 028	4 804 662	4 644 148	A$6.92	April 2002 – April 2009
April 1999	16 901 398	944	8 667 018	6 336 037	1 898 343	1 684 605	A$6.92	April 2002 – April 2009
					24 309 476	**23 109 567**		

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

23 Employee share ownership plans continued

Month of issue	Number issued	Number of recipients	Number exercised	Number lapsed	Awards outstanding at: Balance date	Awards outstanding at: Date of Directors' Report	Exercise price	Exercise period/ release date
Performance Shar e Plan Performance Rights (d)								
November 2001 (LTI)	5 114 298	110	581 537	434 719	4 098 042	3 864 131	–	Oct 2004 – Sept 2011
October 2001 (LTI)	173 879	2	–	–	173 879	173 879	–	Oct 2004 – Sept 2011
October 2001(MTI)	238 940	6	–	26 545	212 395	189 900	–	Oct 2003 – Mar 2006
December 2000 (LTI)	415 510	11	317 127	–	98 383	98 383	–	July 2003 – Dec 2010
November 2000 (LTI)	4 441 620	104	3 574 015	206 277	661 328	485 055	–	July 2003 – Oct 2010
					5 244 027	**4 811 348**		
Bonus Equity Share Plan Shares								
November 2001	1 016 845	117	170 518	27 581	818 746	734 385	–	Nov 2004 – Oct 2006
					818 746	**734 385**		

(a) The terms and conditions for all BHP Billiton Group employee ownership plans are detailed in Section 2.2.2 of note 35, except as follows:

The Bonus Equity Share Plan provided eligible employees with the opportunity to take a portion of their incentive plan award in ordinary shares in BHP Billiton Limited. Eligibility was determined by the Board. Participants who elected to take their incentive plan award in shares under the Plan also received an uplift of 25 per cent so that for each A$1 of award taken as shares, A$1.25 worth of shares were provided. The shares were purchased on-market. The shares awarded under this Plan are held in trust and may not be transferred or disposed of for at least a three-year period. The shares are allocated on the following terms:

(i) while the shares are held in trust, the participants are entitled to receive dividends on those shares, entitled to participate in bonus issues, may participate in rights issues, etc. and may direct the trustee on how to vote those shares at a general meeting of BHP Billiton Limited.

(ii) if employment ceases while the shares are in trust, the shares awarded as part of the 25 per cent uplift (or a portion of that uplift) may or may not be forfeited (depending upon the circumstances of the employment relationship ending).

The Employee Share Plan option issues for 2002 and 2001 were made on substantially the same terms and conditions as the 2000 issue, the conditions of which are detailed in section 2.2.2 of note 35.

(b) All awards issued under the RSS and CIP prior to June 2001 vested as a consequence of the DLC merger. Data as presented reflects awards granted after completion of the DLC merger only.

(c) Options, Performance Rights and awards issued under the Group Incentive Scheme, Bonus Equity Share Plan, RSS and CIP are not transferable or listed and as such do not have a market value.

(d) Shares issued on exercise of Performance Rights and awards under the RSS and CIP include shares purchased on-market.

(e) In respect of employee share awards, the BHP Billiton Group utilises the following trusts:

The Billiton Employee Share Ownership Trust is a discretionary Trust for the benefit of all employees of BHP Billiton Plc and its subsidiaries. The Trustee is an independent company, resident in Jersey. The Trust uses funds provided by BHP Billiton Plc and/or its subsidiaries as appropriate to acquire ordinary shares to enable awards to be made or satisfied under the Group Incentive Scheme, Restricted Share Scheme and Co-Investment Plan. The ordinary shares may be acquired by purchase in the market or by subscription at not less than nominal value.

The BHP Performance Share Plan Trust (PSP Trust) is a discretionary trust established to distribute shares under selected BHP Billiton Limited employee share plan schemes. The Trustee of the trust is BHP Billiton Employee Plan Pty Ltd, an Australian company. The trust uses funds provided by BHP Billiton Limited and/or its subsidiaries to acquire shares on market to satisfy exercises made under the Group Incentive Scheme and Performance Share Plan.

The BHP Bonus Equity Plan Trust (BEP Trust) is a discretionary trust established for the purpose of holding shares in BHP Billiton Limited to satisfy exercises made by employees of BHP Billiton Limited and subsidiaries under the BHP Billiton Limited Bonus Equity Share Plan. The trustee is BHP Billiton Employee Plan Pty Ltd.

Notes to Financial Statements continued

24 Reserves

	Share premium account 2004 US$M	**Profit and loss account 2004 US$M**	Share premium account 2003 US$M	Profit and loss account 2003 US$M
At the beginning of the financial year as restated (a)	**518**	**8 580**	592	7 475
Retained profit for the year	**–**	**1 762**	–	1 001
Employee share awards	**–**	**71**	–	70
BHP Steel demerger (refer note 3)	**–**	**–**	–	(33)
Bonus shares issued (b)	**–**	**–**	(74)	–
Exchange variations	**–**	**48**	–	67
At the end of the financial year (c)	**518**	**10 461**	518	8 580

(a) Profit and loss account has been restated for the impact of the change in accounting policy regarding employee share awards (refer Accounting Policies).

(b) Upon the demerger of the BHP Steel business in July 2002, bonus shares of BHP Billiton Plc were issued to BHP Billiton Plc shareholders as a Matching Action to ensure economic benefit equality to shareholders of both BHP Billiton Limited and BHP Billiton Plc (the bonus issue was one BHP Billiton Plc share for approximately each 15.6 BHP Billiton Plc shares held).

(c) Cumulative goodwill set off against reserves on acquisitions prior to 1 July 1998 amounts to US$761 million (2003: US$761 million).

25 Reconciliation of movements in shareholders' funds

	2004 US$M	2003 (Restated) US$M	2002 (Restated) US$M
Profit for the financial year (attributable profit)	**3 379**	1 901	1 690
Other recognised gains	**48**	67	25
Total recognised gains for the financial year	**3 427**	1 968	1 715
Dividends	**(1 617)**	(900)	(784)
Issue of ordinary shares for cash	**66**	98	104
Accrued employee entitlement to share awards	**96**	70	28
Purchases of shares by ESOP trusts (a)	**(25)**	(6)	(14)
Share repurchase scheme (b)			
BHP Billiton Plc	**–**	(20)	–
Share buy -back program (refer note 22)			
BHP Billiton Limited	**–**	–	(19)
Capital reduction on BHP Steel demerger (refer notes 3, 22 and 24)	**–**	(1 489)	–
Net movement in shareholders' funds	**1 947**	(279)	1 030
Shareholders' funds at the beginning of the financial year as restated (c)	**12 091**	12 370	11 340
Shareholders' funds at the end of the financial year	**14 038**	12 091	12 370

(a) At 30 June 2004, 4 948 281 shares (2003: 347 498) were held in trust with a market value at that date of US$43 million (2003: US$2 million).

(b) BHP Billiton Plc entered into an arrangement under which it contingently agreed to purchase its own shares from a special purpose vehicle (Nelson Investment Limited) established for that purpose. No shares were purchased during the year ended 30 June 2004 (2003: 3 890 000 ordinary shares). The aggregate purchase price of US$nil (2003: US$20 million), was funded by the BHP Billiton Group. The cost of purchasing these shares was deducted from shareholders' funds. On 23 June 2004, 3 890 000 ordinary shares of BHP Billiton Plc, which were held by Nelson Investment Limited, were transferred to The Billiton Employee Share Ownership Trust.

(c) Shareholders' funds have been restated for the impact of the change in accounting policy regarding employee share awards.

Notes to Financial Statements continued

26 Commitments

	2004 US$M	2003 US$M
Capital expenditure commitments not provided for in the accounts		
Due not later than one year	**1 321**	1 184
Due later than one year and not later than five years	**255**	423
Total capital expenditure commitments	**1 576**	1 607
Lease expenditure commitments		
Finance leases (a)		
Due not later than one year	**10**	7
Due later than one year and not later than five years	**42**	34
Due later than five years	**54**	26
Total commitments under finance leases	**106**	67
deduct Future financing charges	**30**	14
Finance lease liability	**76**	53
Operating leases (b)		
Due not later than one year (c)	**199**	138
Due later than one year and not later than five years	**393**	348
Due later than five years	**231**	256
Total commitments under operating leases	**823**	742
Other commitments (d)		
Due not later than one year		
Supply of goods and services	**639**	199
Royalties	**33**	29
Exploration expenditure	**46**	104
Chartering costs	**156**	100
	874	432
Due later than one year and not later than five years		
Supply of goods and services	**1 304**	547
Royalties	**19**	39
Exploration expenditure	**13**	53
Chartering costs	**87**	127
	1 423	766
Due later than five years		
Supply of goods and services	**954**	721
Royalties	**42**	49
Chartering costs	**45**	33
	1 041	803
Total other commitments	**3 338**	2 001

(a) Finance leases are predominantly related to leases of the dry bulk carrier Iron Yandi, power lines, mobile equipment and vehicles. Refer notes 19 and 20.

(b) Operating leases are entered into as a means of acquiring access to property, plant and equipment. Rental payments are generally fixed, but with inflation escalation clauses on which contingent rentals are determined. Certain leases contain extension and renewal options. Amounts represent minimum lease payments.

(c) The BHP Billiton Group has commitments under operating leases to make payments totalling US$199 million (2003: US$138 million) in the next year as follows:

	2004 US$M	2003 US$M
Land and buildings		
Leases which expire:		
Within one year	**5**	7
Between two and five years	**14**	17
Over five years	**51**	14
	70	38
Other operating leases		
Leases which expire:		
Within one year	**29**	22
Between two and five years	**61**	43
Over five years	**39**	35
	129	100

(d) Included in 'Other commitments' is an amount of US$704 million (2003: US$738 million) representing Boodarie Iron's undiscounted continuing operating commitments under a number of take or pay contracts for supply of products/services. Boodarie Iron's operations have been suspended pending completion of a review as to whether or not the business is safe and economically viable. In the event that the operation is not re-opened, some or all of these commitments may require provisioning for losses in the financial statements.

Notes to Financial Statements continued

27 Pensions and post-retirement medical benefits

Pension schemes
The BHP Billiton Group operates or participates in a number of pension schemes throughout the world. The more significant schemes relate to businesses in Australia, South Africa, the US, Canada and Europe.

	2004 US$M	2003 US$M	2002 US$M
The pension charge for the year is as follows:			
Defined contribution schemes	**53**	41	61
Industry-wide schemes	**26**	23	18
Defined benefit schemes (a)			
Regular cost	**40**	46	59
Variation cost	**41**	39	14
Interest cost	**(17)**	(20)	(18)
	143	129	134

(a) Excludes net exchange gains on net monetary pension assets of US$8 million (2003: US$39 million; 2002: US$24 million).

To the extent that there is a difference between pension cost and contributions paid, an asset and/or liability arises. The accumulated difference recorded in the balance sheet at 30 June 2004 gives rise to an asset of US$282 million (2003: US$270 million) and a liability of US$62 million (2003: US$65 million).

The assets of the defined contribution schemes and the industry-wide schemes are held separately in independently administered funds. The charge in respect of these schemes is calculated on the basis of contributions due in the financial year.

The remaining pension schemes are defined benefit schemes. Some of the defined benefit schemes have their assets held separately in independently administered funds and others are unfunded. The pension costs and funding for these schemes are assessed in accordance with the advice of professionally qualified actuaries based on the most recent actuarial valuations available.

For accounting purposes, the actuarial valuations have determined pension costs for most schemes using the projected unit method. There are exceptions for some schemes that are closed to new members where the attained age method was used. The assumptions used varied by scheme. For the purposes of calculating the pension charge, surpluses or deficiencies are recognised through the variation cost component in future accounting periods as a constant percentage of estimated future payroll over the remaining service life of the employees.

Actuarial valuations used for accounting purposes
The actuarial valuations used for accounting purposes reflected an aggregate market value at 1 July 2003 of US$935 million. The funding levels of these schemes ranged from 49 per cent to 118 per cent and the overall funding level was 89 per cent.

Formal actuarial valuations
Set out below are details for the three largest schemes of the actuarial assumptions and results of the most recent formal valuations for funding purposes. The actuarial assumptions and results differ from those used for accounting purposes.

	BHP Billiton Superannuation Fund (a)	Pension Plan for Hourly Employees of BHP Copper Inc	BHP USA Retirement Income Plan
Country	Australia	US	US
Date of valuation	30 June 2003	1 January 2003	1 January 2003
Investment return	7.0%	8.0%	8.0%
Salary growth	3.5%	n/a	4.5%
Pension increases	n/a	n/a	3%
Asset valuation method	Market	5-year smoothing	5-year smoothing
Market value of fund (US$ million)	886	134	88
Actuarial value of fund (US$ million)	886	160	106
Funding level	98%	92%	97%

(a) US$678 million of the market value and actuarial value of the fund is attributable to the defined contribution section of the fund which is fully funded.

Post-retirement medical benefits
The BHP Billiton Group provides medical benefits, which are not pre-funded, for retired employees and their dependants in South Africa, the US, Canada and Suriname. The post-retirement benefit charge, net of employees' and retirees' contributions paid, in respect of these benefits was US$19 million (2003: US$26 million; 2002: US$16 million) excluding an exchange loss of US$20 million (2003: US$22 million loss; 2002: US$14 million gain).

Notes to Financial Statements continued

27 Pensions and post-retirement medical benefits continued

The charge has been calculated in accordance with UK applicable accounting standards. Where there is a surplus or deficit between the accrued liability and the provision recorded, the resulting amount is spread forward over future working lifetimes through the variation cost component. The main actuarial assumptions used in the most recent actuarial valuations of these benefits are as follows:

	South Africa %	US %	Canada %	Suriname %
Ultimate healthcare inflation rate	7.0	5.5	5.0	3.5
Discount rate	9.75	6.25	6.0	5.5

FRS 17 'Retirement Benefits'
Whilst the SSAP 24 disclosure and measurement principles have been applied in accounting for pensions and post-retirement medical benefits in these financial statements, additional disclosures are provided under FRS 17 'Retirement Benefits'. The eventual aim of FRS 17 is to move from a long-term approach under SSAP 24 to a market-based approach in valuing the assets and liabilities arising from an employer's retirement benefit obligations and any related funding. This will impact both the amount and disclosure of the retirement benefits charge in the profit and loss account (for the operating costs and financing costs) and the statement of total recognised gains and losses (STRGL). The net retirement benefit and a liability will be recognised in full on the balance sheet with a consequential impact on shareholders' funds.

Currently, FRS 17 only has to be applied to disclosures.

The BHP Billiton Group does not apply the provisions of FRS 17 for the purposes of measuring pension charge and pension balances in these financial statements. In the absence of the transition to IFRS, FRS 17 would be first effective in such a manner for the 30 June 2006 financial year.

Pension schemes – FRS 17 disclosures
The BHP Billiton Group operates a number of defined benefit schemes in Australia, Canada, the US, Europe, South Africa and South America. Full actuarial valuations are prepared by local actuaries for all funds as at a date close to 30 June 2004 and rolled forward to 30 June 2004. For a minority of plans it has been necessary to roll forward liabilities calculated using earlier valuations. The major assumptions used by the actuaries are as follows:

	Australia & NZ %	Canada %	US %	Europe %	South Africa %	South America %
Year ended 30 June 2004						
Salary increases	**4 to 5**	**3.5 to 4.5**	**4.5**	**3 to 5**	**7 to 8**	**3.5 to 6.08**
Pension increases	**n/a**	**0**	**0 to 3**	**2 to 3**	**3.5 to 5.8**	**2 to 4**
Discount rate	**5.5 to 5.8**	**6 to 6.5**	**6.25 to 6.5**	**5.3 to 5.75**	**8 to 8.6**	**5.5 to 10.24**
Inflation	**2.5**	**2.5**	**3**	**2 to 3**	**6**	**2.5 to 4**
Year ended 30 June 2003						
Salary increases	4 to 4.5	3.5 to 4.5	4.5	3 to 4.5	7 to 8	3.5 to 5.57
Pension increases	n/a	0	0 to 3	2 to 2.5	3.5 to 5.25	1.5 to 3.5
Discount rate	4.75 to 5	6 to 6.5	6	5	7.5 to 8.7	5.5 to 9.71
Inflation	3	2.5 to 3	3	2 to 2.5	6	2.5 to 3.5
Year ended 30 June 2002						
Salary increases	3 to 4.5	3.5 to 4.5	3.5 to 4.5	3 to 4.75	7.75 to 9	2 to 5.57
Pension increases	0	0	0 to 3	2.5 to 5	3.75 to 5.5	2 to 3.5
Discount rate	4.75 to 6	6.5 to 7	6.5 to 7	5.5 to 6	8.75 to 9.25	6 to 9.71
Inflation	2 to 3	2 to 3	2 to 3	2.5 to 2.75	7	2.0 to 3.5

The fair market value of the assets and the surplus/(deficit) of the defined benefit schemes were:

	Australia & NZ US$M	Canada US$M	US US$M	Europe US$M	South Africa US$M	South America US$M	Total US$M
Year ended 30 June 2004							
Bonds	**90**	**59**	**74**	**77**	**29**	**59**	**388**
Equities	**153**	**35**	**218**	**94**	**95**	**1**	**596**
Property	**22**	**–**	**–**	**–**	**11**	**–**	**33**
Cash and net current assets	**1**	**5**	**6**	**13**	**6**	**1**	**32**
Insured annuities	**–**	**8**	**–**	**19**	**87**	**–**	**114**
Other	**–**	**–**	**–**	**6**	**2**	**1**	**9**
Total assets	**266**	**107**	**298**	**209**	**230**	**62**	**1 172**
Actuarial liabilities	**(303)**	**(96)**	**(449)**	**(280)**	**(211)**	**(54)**	**(1 393)**
Unrecognised surplus	**–**	**(22)**	–	–	**(34)**	**(10)**	**(66)**
Deficit	**(37)**	**(11)**	**(151)**	**(71)**	**(15)**	**(2)**	**(287)**
Related deferred tax asset	**11**	**3**	**16**	**15**	**4**	**–**	**49**
Net pension liability	**(26)**	**(8)**	**(135)**	**(56)**	**(11)**	**(2)**	**(238)**

Notes to Financial Statements continued

27 Pensions and post-retirement medical benefits continued

	Australia & NZ US$M	Canada US$M	US US$M	Europe US$M	South Africa US$M	South America US$M	Total US$M
Year ended 30 June 2003							
Bonds	68	60	58	64	23	46	319
Equities	147	28	187	64	69	1	496
Property	19	–	–	–	–	–	19
Cash and net current assets	–	13	5	23	17	–	58
Insured annuities	–	–	–	20	–	–	20
Total assets	234	101	250	171	109	47	912
Actuarial liabilities	(286)	(96)	(439)	(247)	(83)	(40)	(1 191)
Unrecognised surplus	–	(19)	–	–	(28)	(10)	(57)
Deficit	(52)	(14)	(189)	(76)	(2)	(3)	(336)
Related deferred tax asset	16	4	17	12	–	–	49
Net pension liability	(36)	(10)	(172)	(64)	(2)	(3)	(287)
Year ended 30 June 2002							
Bonds	163	52	29	51	19	41	355
Equities	307	27	256	63	59	2	714
Property	64	–	–	–	–	–	64
Cash and net current assets	17	13	3	16	12	1	62
Insured annuities	–	–	–	16	–	–	16
Total assets	551	92	288	146	90	44	1 211
Actuarial liabilities	(634)	(81)	(400)	(179)	(62)	(31)	(1 387)
Unrecognised surplus	–	(21)	–	–	(29)	–	(50)
Surplus/(deficit)	(83)	(10)	(112)	(33)	(1)	13	(226)
Related deferred tax (liability)/asset	13	4	10	3	–	(4)	26
Net pension asset/(liability)	(70)	(6)	(102)	(30)	(1)	9	(200)

The expected rates of return on these asset categories were:

	Australia & NZ %	Canada %	US %	Europe %	South Africa %	South America %
Year ended 30 June 2004						
Bonds	**6**	**5.2 to 6**	**5 to 7**	**4.5 to 5.25**	**8 to 10.5**	**6 to 10.24**
Equities	**8**	**8 to 8.3**	**8.4 to 9**	**8 to 8.3**	**12**	**9 to 10.24**
Property	**7**	**n/a**	**n/a**	**n/a**	**12**	**n/a**
Cash and net current assets	**5**	**2.7 to 4**	**3.5 to 4**	**3.7 to 5.7**	**6 to 9**	**6 to 10.24**
Insured annuities	**n/a**	**3.75**	**n/a**	**5.7**	**9.1 to 10.5**	**n/a**
Other	**n/a**	**n/a**	**n/a**	**4.75 to 5.7**	**7.8 to 12**	**9**
Total assets	**7.5 to 7.53**	**3.75 to 7.23**	**6 to 8.5**	**5.51 to 7.52**	**10.3 to 11.01**	**6 to 10.24**
Year ended 30 June 2003						
Bonds	5 to 6	5.5 to 6.5	7	4.3 to 4.6	7.5 to 9.04	6 to 9.71
Equities	8 to 9	7.25 to 9	9	7.25 to 8.25	12	9.71
Property	7 to 8	n/a	n/a	n/a	n/a	n/a
Cash and net current assets	5	1 to 3.75	3.5	3.75 to 4.25	7 to 7.75	9.71
Insured annuities	n/a	n/a	n/a	5	n/a	n/a
Total assets	7.5	3.75 to 7.5	8.5	4.8 to 7.2	9.9 to 10.55	6 to 9.71
Year ended 30 June 2002						
Bonds	5 to 6.5	6 to 6.5	7	5 to 5.75	8.75 to 9.25	6 to 9.71
Equities	7 to 9	7.5 to 9.5	8.7	7.5 to 8	13 to 13.5	9.71
Property	6 to 8	n/a	n/a	n/a	n/a	n/a
Cash and net current assets	7.27	1 to 4	7	3 to 4	6.5 to 10	9.71
Insured annuities	n/a	n/a	n/a	6	n/a	n/a
Total assets	6 to 8	4 to 6.9	8.5	4.5 to 7.2	10.45 to 11.75	6 to 9.71

Analysis of the operating costs:

	Australia & NZ US$M	Canada US$M	US US$M	Europe US$M	South Africa US$M	South America US$M	Total US$M
Year ended 30 June 2004							
Current service cost	**26**	**3**	**12**	**11**	**4**	**1**	**57**
Past service cost	**–**	**–**	**2**	**–**	**–**	**13**	**15**
Previously unrecognised surplus deducted from past service costs	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
Total operating charge	**26**	**3**	**14**	**11**	**4**	**4**	**62**
Year ended 30 June 2003							
Current service cost	19	2	10	9	3	–	43
Curtailment losses/(gains)	(21)	2	–	–	–	–	(19)
Previously unrecognised surplus deducted from curtailment losses	–	(2)	–	–	–	–	(2)
Total operating charge	(2)	2	10	9	3	–	22

Notes to Financial Statements continued

27 Pensions and post-retirement medical benefits continued

Analysis of the financing credits/(costs):

	Australia & NZ US$M	Canada US$M	US US$M	Europe US$M	South Africa US$M	South America US$M	Total US$M
Year ended 30 June 2004							
Expected return on pension scheme assets	**19**	**5**	**22**	**11**	**18**	**3**	**78**
Interest on pension scheme liabilities	**(14)**	**(6)**	**(27)**	**(13)**	**(14)**	**(2)**	**(76)**
Net return/(cost)	**5**	**(1)**	**(5)**	**(2)**	**4**	**1**	**2**
Year ended 30 June 2003							
Expected return on pension scheme assets	19	4	24	10	8	2	67
Interest on pension scheme liabilities	(13)	(5)	(27)	(11)	(6)	(2)	(64)
Net return/(cost)	6	(1)	(3)	(1)	2	–	3

Analysis of gains and losses that would be recognised in STRGL:

	Australia & NZ US$M	Canada US$M	US US$M	Europe US$M	South Africa US$M	South America US$M	Total US$M
Year ended 30 June 2004							
Actual return less expected return on pension scheme assets	**21**	**5**	**24**	**(4)**	**9**	**14**	**69**
Experience gains/(losses) arising on the scheme liabilities	**(22)**	**–**	**–**	**(6)**	**4**	**(1)**	**(25)**
Changes in assumptions underlying the present value of scheme liabilities	**18**	**1**	**23**	**12**	**(27)**	**–**	**27**
Loss pursuant to unrecognised surpluses	**–**	**(3)**	**–**	**–**	**–**	**(10)**	**(13)**
Total actuarial gain/(loss) recognised in STRGL	**17**	**3**	**47**	**2**	**(14)**	**3**	**58**
Difference between expected and actual outcomes:							
Asset gain/(loss) as a percentage of scheme assets	**7.9%**	**4.7%**	**8.1%**	**(1.9%)**	**3.9%**	**22.6%**	**5.9%**
Experience gains/(losses) on scheme liabilities as a percentage of the present value of scheme liabilities	**(7.3%)**	**0%**	**0%**	**(2.1%)**	**1.9%**	**(1.9)%**	**(1.8%)**
Total actuarial gain/(loss) recognised in STRGL as a percentage of the present value of scheme liabilities	**5.6%**	**3.1%**	**10.5%**	**0.7%**	**(6.6%)**	**5.6%**	**4.2%**
Year ended 30 June 2003							
Actual return less expected return on pension scheme assets	(24)	(1)	(24)	(11)	(11)	10	(61)
Experience gains/(losses) arising on the scheme liabilities	17	(2)	6	(7)	(1)	(9)	4
Changes in assumptions underlying the present value of scheme liabilities	(16)	(4)	(47)	(26)	1	(3)	(95)
Other gains/(losses)	–	2	–	–	–	(13)	(11)
Loss pursuant to legislative change with regard to South African surpluses	–	–	–	–	9	–	9
Total actuarial loss recognised in STRGL	(23)	(5)	(65)	(44)	(2)	(15)	(154)
Difference between expected and actual outcomes:							
Asset gain/(loss) as a percentage of scheme assets	(10.3%)	(1.0%)	(9.6%)	(6.4%)	(10.1%)	21.3%	(6.7%)
Experience gains/(losses) on scheme liabilities as a percentage of the present value of scheme liabilities	5.9%	(2.1%)	1.4%	(2.8%)	(1.2%)	(22.5%)	0.3%
Total actuarial gain/(loss) recognised in STRGL as a percentage of the present value of scheme liabilities	(8.0%)	(5.2%)	(14.8%)	(17.8%)	(2.4%)	(37.5%)	(12.9%)
Year ended 30 June 2002							
Actual return less expected return on pension scheme assets	(82)	(3)	(78)	(18)	(1)	31	(151)
Experience gains/(losses) arising on the scheme liabilities	33	–	–	8	(7)	(18)	16
Changes in assumptions underlying the present value of scheme liabilities	–	–	(23)	(15)	(2)	–	(40)
Other gains/(losses)	–	(1)	6	–	–	–	5
Loss pursuant to legislative change with regard to South African surpluses	–	–	–	–	(29)	–	(29)
Total actuarial gain/(loss) recognised in STRGL	(49)	(4)	(95)	(25)	(39)	13	(199)

Notes to Financial Statements continued

27 Pensions and post-retirement medical benefits continued

Difference between expected and actual outcomes:							
Asset gain/(loss) as a percentage of scheme assets	(14.9%)	(3.3%)	(27.1%)	(12.3%)	(1.1%)	70.5%	(12.5%)
Experience gains/(losses) on scheme liabilities as a percentage of the present value of scheme liabilities	5.2%	0%	0%	4.5%	(11.3%)	(58.1%)	1.2%
Total actuarial gain/(loss) recognised in STRGL as a percentage of the present value of scheme liabilities	(7.7%)	(4.9%)	(23.8%)	(14.0%)	(62.9%)	41.9%	(14.3%)

In the year ended 30 June 2002, the Pension Funds Second Amendment Act, 2001, was passed in South Africa. Under this Act, surpluses in pension funds must be used in a manner specified under Regulations to the Act, to improve current and former members' benefits prior to the employer obtaining any benefit from the surpluses. Consequently, it is considered unlikely that any BHP Billiton Group company will obtain any benefit from the surpluses in the South African schemes. Therefore the reduction in the recognised surpluses in South Africa is recognised as an actuarial loss in the STRGL.

Analysis of the movement in surplus/(deficit):

	Australia & NZ US$M	Canada US$M	US US$M	Europe US$M	South Africa US$M	South America US$M	Total US$M
Year ended 30 June 2004							
Deficit in schemes at 30 June 2003	**(52)**	**(14)**	**(189)**	**(76)**	**(2)**	**(3)**	**(336)**
Movement during the year:							
Adjustment for changes in the Group structure and joint venture arrangements	**(2)**	**(2)**	**(9)**	**–**	**–**	**–**	**(13)**
Current service cost	**(26)**	**(3)**	**(12)**	**(11)**	**(4)**	**(1)**	**(57)**
Contributions	**23**	**7**	**19**	**22**	**4**	**–**	**75**
Past service cost	**–**	**–**	**(2)**	**–**	**–**	**(3)**	**(5)**
Other finance income/(costs)	**5**	**(1)**	**(5)**	**(2)**	**4**	**1**	**2**
Actuarial gains/(losses)	**17**	**3**	**47**	**2**	**(14)**	**3**	**58**
Exchange gains/(losses)	**(2)**	**(1)**	–	**(6)**	**(3)**	**1**	**(11)**
Deficit in schemes at 30 June 2004	**(37)**	**(11)**	**(151)**	**(71)**	**(15)**	**(2)**	**(287)**
Year ended 30 June 2003							
Surplus/(deficit) in schemes at 30 June 2002	(83)	(10)	(112)	(33)	(1)	13	(226)
Movement during the year:							
Adjustment to surplus/(deficit) at 1 July 2002 in respect of companies no longer consolidated	38	2	–	–	–	–	40
Current service cost	(19)	(2)	(10)	(9)	(3)	–	(43)
Contributions	16	4	1	15	2	–	38
Other finance income/(costs)	6	(1)	(3)	(1)	2	–	3
Actuarial losses	(23)	(5)	(65)	(44)	(2)	(15)	(154)
Curtailment gains	21	–	–	–	–	–	21
Exchange losses	(8)	(2)	–	(4)	–	(1)	(15)
Deficit in schemes at 30 June 2003	(52)	(14)	(189)	(76)	(2)	(3)	(336)

Post-retirement medical benefits – FRS 17 disclosures

The BHP Billiton Group also operates a number of post-retirement medical benefit arrangements in South Africa, the US, Canada and Suriname. Full actuarial valuations were carried out as at 30 June 2004, many of them by local actuaries. For a minority of plans it has been necessary to roll forward liabilities calculated using earlier data. The major assumptions used by the actuaries are as follows:

	South Africa %	US %	Canada %	Suriname %	UK %
Year ended 30 June 2004					
Ultimate healthcare inflation rate	**7.25**	**5**	**5**	**3.5**	**5.7**
Discount rate	**10**	**6.25**	**6**	**5.5**	**2.5**
Year ended 30 June 2003					
Ultimate healthcare inflation rate	7	5.5	5	3.5	n/a
Discount rate	9.75	6.25	6	5.5	n/a
Year ended 30 June 2002					
Ultimate healthcare inflation rate	9	5	3	5	4.5
Discount rate	11.75	7	6.5	5.5 to 6.5	6

Notes to Financial Statements continued

27 Pensions and post-retirement medical benefits continued

The actuarial liabilities of the post-retirement medical schemes were:

	South Africa US$M	US US$M	Canada US$M	Suriname US$M	UK US$M	Total US$M
Year ended 30 June 2004						
Present value of scheme liabilities	**(161)**	**(124)**	**(25)**	**(10)**	**(1)**	**(321)**
Past service credit	**(27)**	**–**	**–**		**–**	**(27)**
Deficit	**(188)**	**(124)**	**(25)**	**(10)**	**(1)**	**(348)**
Related deferred tax asset	**56**	**5**	**–**	**3**	**–**	**64**
Net post-retirement medical liability	**(132)**	**(119)**	**(25)**	**(7)**	**(1)**	**(284)**
Year ended 30 June 2003						
Present value of scheme liabilities	(133)	(137)	(26)	(19)	–	(315)
Past service credit	(20)	–	–	–	–	(20)
Deficit	(153)	(137)	(26)	(19)	–	(335)
Related deferred tax asset	34	22	–	6	–	62
Net post-retirement medical liability	(119)	(115)	(26)	(13)	–	(273)
Year ended 30 June 2002						
Present value of scheme liabilities	(54)	(127)	(18)	(19)	(1)	(219)
Past service credit	(18)	–	–	–	–	(18)
Deficit	(72)	(127)	(18)	(19)	(1)	(237)
Related deferred tax asset	16	19	–	6	–	41
Net post-retirement medical liability	(56)	(108)	(18)	(13)	(1)	(196)

Analysis of the operating costs/(credits):

	South Africa US$M	US US$M	Canada US$M	Suriname US$M	UK US$M	Total US$M
Year ended 30 June 2004						
Current service cost	**3**	**3**	**–**	**–**	**–**	**6**
Past service cost	**16**	**1**	**–**	**–**	**–**	**17**
Total operating charge	**19**	**4**	**–**	**–**	**–**	**23**
Year ended 30 June 2003						
Current service cost	2	4	–	–	–	6
Past service cost	1	7	–	–	–	8
Total operating charge	3	11	–	–	–	14

Analysis of the financing credits/(costs):

	South Africa US$M	US US$M	Canada US$M	Suriname US$M	UK US$M	Total US$M
Year ended 30 June 2004						
Interest on post-retirement medical liabilities	**(14)**	**(8)**	**(1)**	**(1)**	**–**	**(24)**
Net cost	**(14)**	**(8)**	**(1)**	**(1)**	**–**	**(24)**
Year ended 30 June 2003						
Interest on post-retirement medical liabilities	(11)	(8)	(1)	(1)	–	(21)
Net cost	(11)	(8)	(1)	(1)	–	(21)

Notes to Financial Statements continued

27 Pensions and post-retirement medical benefits continued

Analysis of gains and losses that would be recognised in STRGL:

	South Africa US$M	US US$M	Canada US$M	Suriname US$M	UK US$M	Total US$M
Year ended 30 June 2004						
Experience gains arising on scheme liabilities	**23**	**10**	**–**	**–**	**–**	**33**
Changes in assumptions underlying the present value of scheme liabilities	**(1)**	**3**	**–**	**–**	**–**	**2**
Actuarial gain recognised in STRGL	**22**	**13**	**–**	**–**	**–**	**35**
Difference between expected and actual outcomes:						
Experience gains on scheme liabilities as a percentage of the present value of scheme liabilities	**14.3%**	**8.1%**	**0%**	**0%**	**0%**	**10.3%**
Total gain recognised in STRGL as a percentage of the present value of scheme liabilities	**13.7%**	**10.5%**	**0%**	**0%**	**0%**	**10.9%**
Year ended 30 June 2003						
Experience gains/(losses) arising on scheme liabilities	(27)	15	1	–	–	(11)
Changes in assumptions underlying the present value of scheme liabilities	(9)	(16)	(7)	–	–	(32)
Actuarial loss recognised in STRGL	(36)	(1)	(6)	–	–	(43)
Difference between expected and actual outcomes:						
Experience gains/(losses) on scheme liabilities as a percentage of the present value of scheme liabilities	(20.3%)	10.9%	3.8%	0%	0%	(3.5%)
Total loss recognised in STRGL as a percentage of the present value of scheme liabilities	(27.1%)	(0.7%)	(23.1%)	0%	0%	(13.7%)
Year ended 30 June 2002						
Experience gains/(losses) arising on scheme liabilities	8	(6)	–	–	–	2
Changes in assumptions underlying the present value of scheme liabilities	(10)	–	–	(1)	–	(11)
Actuarial loss recognised in STRGL	(2)	(6)	–	(1)	–	(9)
Difference between expected and actual outcomes:						
Experience gains/(losses) on scheme liabilities as a percentage of the present value of scheme liabilities	14.8%	(4.7%)	0%	0%	0%	0.9%
Total loss recognised in STRGL as a percentage of the present value of scheme liabilities	(3.7%)	(4.7%)	0%	(5.3%)	0%	(4.1%)

Analysis of the movement in surplus/(deficit):

	South Africa US$M	US US$M	Canada US$M	Suriname US$M	UK US$M	Total US$M
Year ended 30 June 2004						
Deficit in schemes at 30 June 2003	**(153)**	**(137)**	**(26)**	**(19)**	**–**	**(335)**
Movement during the year:						
Adjustment for changes in the Group structure and joint venture arrangements	**–**	**2**	**–**	**9**	**(1)**	**10**
Current service cost	**(3)**	**(3)**	**–**	**–**	**–**	**(6)**
Contributions	**6**	**10**	**2**	**1**	**–**	**19**
Past service costs	**(16)**	**(1)**	**–**	**–**	**–**	**(17)**
Other finance costs	**(14)**	**(8)**	**(1)**	**(1)**	**–**	**(24)**
Actuarial gains	**22**	**13**	**–**	**–**	**–**	**35**
Exchange losses	**(30)**	**–**	**–**	**–**	**–**	**(30)**
Deficit in schemes at 30 June 2004	**(188)**	**(124)**	**(25)**	**(10)**	**(1)**	**(348)**

Notes to Financial Statements continued

27 Pensions and post-retirement medical benefits continued

	South Africa US$M	US US$M	Canada US$M	Suriname US$M	UK US$M	Total US$M
Year ended 30 June 2003						
Deficit in schemes at 30 June 2002	(72)	(127)	(18)	(19)	(1)	(237)
Movement during the year:						
Adjustment at 1 July 2002 in respect of changes in joint venture arrangements and other plan changes	–	–	–	–	1	1
Current service cost	(2)	(4)	–	–	–	(6)
Contributions	5	10	2	1	–	18
Past service costs	(1)	(7)	–	–	–	(8)
Other finance costs	(11)	(8)	(1)	(1)	–	(21)
Actuarial losses	(36)	(1)	(6)	–	–	(43)
Ex change losses	(36)	–	(3)	–	–	(39)
Deficit in schemes at 30 June 2003	(153)	(137)	(26)	(19)	–	(335)

Joint ventures and associates – FRS 17 disclosures

If the measurement principles of FRS 17 had been applied to the pension schemes and post-retirement medical benefit schemes of the Group's joint ventures and associates at 30 June 2004, a deficit of approximately US$49 million (2003: US$50 million) would have been recognised in the Group balance sheet and actuarial gains of approximately US$12 million (2003: actuarial losses of US$35 million) would have been taken to the Group STRGL.

28 Analysis of movements in net debt

	At 1 July 2003 US$M	Acquisitions & disposals US$M	Cash flow US$M	Other non-cash movements US$M	Exchange movements US$M	**At 30 June 2004 US$M**
Cash at bank and in hand	587	(5)	88	–	4	**674**
Overdrafts	(21)	–	(99)	–	(13)	**(133)**
	566	(5)	(11)	–	(9)	**541**
Redeemable preference shares	(450)	–	–	–	–	**(450)**
Finance lease obligations	(53)	–	9	(31)	(1)	**(76)**
Other debt due within one year	(1 011)	–	733	(637)	(77)	**(992)**
Other debt due after one year	(5 789)	–	228	637	(12)	**(4 936)**
	(7 303)	–	970	(31)	(90)	**(6 454)**
Liquid resources (a)	965	–	178	-	1	**1 144**
Net debt	(5 772)	(5)	1 137	(31)	(98)	**(4 769)**
The balance sheet movement in cash including money market deposits is as follows:						
Cash at bank and in hand	587	(5)	88	–	4	**674**
Money market deposits (a)	965	–	178	–	1	**1 144**
	1 552	(5)	266	–	5	**1 818**

(a) Liquid resources represents money market deposits with financial institutions that have a maturity of up to three months.

Notes to Financial Statements continued

29 Financial instruments

BHP Billiton Group financial risk strategy

The BHP Billiton Group manages its exposure to key financial risks, including interest rates, currency movements and commodity prices, in accordance with the Group's Portfolio Risk Management strategy. The objective of the strategy is to support the delivery of the BHP Billiton Group's financial targets while protecting its future financial security and flexibility.

The strategy entails managing risk at the portfolio level through the adoption of a 'self insurance' model, by taking advantage of the natural diversification provided through the scale, diversity and flexibility of the portfolio as the principal means for managing risk.

There are two components to the Portfolio Risk Management strategy:

Risk mitigation – where risk is managed at the portfolio level within an approved Cash Flow at Risk ('CFaR') framework to support the achievement of the BHP Billiton Group's broader strategic objectives. The CFaR framework is a means to quantify the variability of the BHP Billiton Group's cash flows after taking into account diversification effects. (CFaR is the worst expected loss relative to projected business plan cash flows over a one-year horizon under normal market conditions at a confidence level of 95 per cent).

Where CFaR is within the Board-approved limits, hedging activities of operational currency exposures are not undertaken. However, the Group generally hedges the non-US dollar currency exposure of major capital expenditure projects. Legacy hedge positions that existed prior to the adoption of the Portfolio Risk Management strategy have been allowed to runoff. There could also be circumstances, for example, such as following a major acquisition, when it becomes appropriate to mitigate risk in order to support the BHP Billiton Group's strategic objectives. In such circumstances, the BHP Billiton Group may execute hedge transactions or utilise other techniques to return risk to within approved parameters.

Strategic financial transactions – where opportunistic transactions are entered into to capture value from perceived market over/under valuations. These transactions occur on an infrequent basis and are treated separately to the risk mitigation transactions, with all gains and losses included in the profit and loss account at the end of each reporting period. These transactions are strictly controlled under a separate stop-loss and Value at Risk limit framework. There have been no strategic financial transactions undertaken to date.

Primary responsibility for identification and control of financial risks rests with the Financial Risk Management Committee (FRMC) under authority delegated by the Office of the Chief Executive.

The FRMC receives reports on, amongst other matters: financing requirements both for existing operations and new capital projects; assessments of risks and rewards implicit in requests for financing; and market forecasts for interest rates, currency movements and commodity prices, including analysis of sensitivities. In addition, the FRMC receives reports on the various financial risk exposures of the BHP Billiton Group. On the basis of this information, the FRMC determines the degree to which it is appropriate to use financial instruments, commodity contracts, other hedging instruments or other techniques to mitigate the identified risks. The main risks for which such instruments may be appropriate are interest rate risk, liquidity risk, foreign currency risk and commodity price risk, each of which is described below. In addition, where risks could be mitigated by insurance the FRMC decides whether such insurance is appropriate and cost-effective. FRMC decisions can be implemented directly by Group management or can be delegated from time to time to be implemented by the management of the Customer Sector Groups.

BHP Billiton Group risk exposures and responses

The main financial risks relating to interest rates and foreign currency are summarised in the tables below. The individual risks along with the responses of the BHP Billiton Group are also set out below.

Notes to Financial Statements continued

29 Financial instruments continued

Interest rate risk

The BHP Billiton Group is exposed to interest rate risk on its outstanding borrowings and investments. Interest rate risk is managed as part of the Portfolio Risk Management strategy and within the overall CFaR limit.

When required under this strategy, the BHP Billiton Group uses interest rate swaps, including cross currency interest rate swaps, to convert a fixed rate exposure to a floating rate exposure or vice versa. All interest swaps have been designated as hedging instruments.

The interest rate risk tables present interest rate risk and effective weighted average interest rates for classes of financial assets and liabilities.

The combined interest rate and foreign currency risk tables also present interest rate risk as well as weighted average fixed interest rates and weighted average maturities. These tables present the information for each principal currency in which financial assets and liabilities are denominated.

Interest rate risk

		Weighted	Floating	Fixed interest maturing in:				Non-	
2004	Note	average interest rate (a)	interest rate US$M	1 year or less US$M	1 to 2 years US$M	2 to 5 years US$M	More than 5 years US$M	interest bearing US$M	Total US$M
Financial assets									
Cash	28	**1.1%**	**1 747**	**71**	**–**	**–**	**–**	**–**	**1 818**
Debtors		**8.6%**	**–**	**–**	**17**	**15**	**8**	**3 081**	**3 121**
Other financial assets	15,18	**9.0%**	**380**	**4**	**–**	**–**	**6**	**138**	**528**
			2 127	**75**	**17**	**15**	**14**	**3 219**	**5 467**
Financial liabilities									
Creditors		**–**	**–**	**–**	**–**	**–**	**–**	**2 715**	**2 715**
Bank overdrafts (unsecured)	19	**1.9%**	**133**	**–**	**–**	**–**	**–**	**–**	**133**
Bank loans	19,20	**7.4%**	**238**	**64**	**–**	**5**	**–**	**–**	**307**
Commercial paper	19	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Notes and debentures	19,20	**3.8%**	**2 394**	**176**	**316**	**–**	**1 073**	**–**	**3 959**
Non-recourse finance	19,20	**2.5%**	**825**	**23**	**–**	**58**	**–**	**–**	**906**
Secured debt (limited recourse)	19,20	**6.1%**	**193**	**28**	**32**	**98**	**135**	**–**	**486**
Redeemable preference shares	20	**5.2%**	**150**	**–**	**300**	**–**	**–**	**–**	**450**
Lease liabilities	19,20	**11.6%**	**34**	**2**	**–**	**10**	**30**	**–**	**76**
Other borrowings	19,20	**6.1%**	**119**	**7**	**7**	**23**	**80**	**34**	**270**
Employee benefits (b)	21	**5.9%**	**72**	**–**	**–**	**–**	**–**	**550**	**622**
			4 158	**300**	**655**	**194**	**1 318**	**3 299**	**9 924**
Interest rate swaps (c)			**(2 263)**	**–**	**281**	**1 132**	**850**		

Notes to Financial Statements continued

29 Financial instruments continued

2003	Note	Weighted average interest rate (a)	Floating interest rate US$M	Fixed interest maturing in: 1 year or less US$M	1 to 2 years US$M	2 to 5 years US$M	More than 5 years US$M	Non-interest bearing US$M	Total US$M
Financial assets									
Cash	28	1.0%	1 522	30	–	–	–	–	1 552
Debtors		4.8%	83	–	–	24	10	2 445	2 562
Other financial assets	15,18	8.6%	398	–	8	–	7	171	584
			2 003	30	8	24	17	2 616	4 698
Financial liabilities									
Creditors		–	–	–	–	–	–	2 264	2 264
Bank overdrafts (unsecured)	19	1.9%	21	–	–	–	–	–	21
Bank loans	19,20	8.2%	613	40	45	–	–	–	698
Commercial paper	19	1.2%	138	–	–	–	–	–	138
Notes and debentures	19,20	4.5%	1 705	150	176	1 191	1 073	–	4 295
Non-recourse finance	19,20	2.8%	803	–	–	103	–	–	906
Secured debt (limited recourse)	19,20	6.3%	191	22	26	100	167	–	506
Redeemable preference shares	20	5.3%	150	–	–	300	–	–	450
Lease liabilities	19,20	6.7%	37	2	–	10	4	–	53
Other borrowings	19,20	6.0%	109	11	7	21	78	31	257
Employee benefits (b)	21	5.0%	70	–	–	–	–	477	547
			3 837	225	254	1 725	1 322	2 772	10 135
Interest rate swaps (c)			(1 522)	–	–	281	1 241		

(a) Weighted average interest rates take into account the effect of interest rate and cross currency swaps.
(b) Employee benefits to be settled in cash.
(c) The interest rate swaps result in fixed rate debt of US$2 263 million (2003: US$1 522 million) being shown as floating rate debt.

Combined interest rate and foreign currency risk

2004	Floating rate (a) US$M	Fixed rate US$M	Non-interest bearing US$M	Total US$M	Weighted average interest rate (%) Fixed rate	Weighted Average period for which rate is fixed Years	Weighte average perio to maturity for no interest bearin liabilitie Yea
Financial assets							
US dollars	**1 503**	**62**	**2 035**	**3 600**	**4.24**	**2**	**2**
South African rand	**185**	**10**	**258**	**453**	**3.22**	**1**	**1**
Australian dollars	**115**	**29**	**358**	**502**	**5.36**	**2**	**3**
Canadian dollars	**32**	**–**	**10**	**42**	**–**	**–**	**1**
Other	**292**	**20**	**558**	**870**	**1.08**	**1**	**2**
	2 127	**121**	**3 219**	**5 467**	**3.90**	**2**	**2**
Financial liabilities							
US dollars	**3 897**	**2 278**	**1 242**	**7 417**	**7.20**	**8**	**1**
South African rand	**84**	**158**	**452**	**694**	**10.56**	**9**	**1**
Australian dollars	**136**	**14**	**1 193**	**1 343**	**8.73**	**5**	**2**
Canadian dollars	**–**	**–**	**90**	**90**	**–**	**–**	**1**
Other	**41**	**17**	**322**	**380**	**6.73**	**9**	**1**
	4 158	**2 467**	**3 299**	**9 924**	**7.42**	**8**	**1**

Notes to Financial Statements continued

29 Financial instruments continued

2003	Floating rate [(a)] US$M	Fixed rate US$M	Non-interest bearing US$M	Total US$M	Weighted Average interest rate (%) Fixed rate	Weighted Average period for which rate is fixed Years	Weighted average period to maturity for non-interest bearing liabilities Years
Financial assets							
US Dollars	1 578	27	1 569	3 174	4.87	3	2
South African rand	193	5	236	434	2.66	2	1
Australian dollars	14	23	524	561	7.39	3	2
Canadian dollars	144	2	19	165	1.08	1	1
Other	74	22	268	364	3.13	2	2
	2 003	79	2 616	4 698	5.00	3	2
Financial liabilities							
US Dollars	3 278	3 349	1 023	7 650	6.56	7	1
South African rand	456	146	387	989	12.39	5	1
Australian dollars	95	16	1 075	1 186	7.88	6	1
Canadian dollars	–	–	34	34	–	–	1
Other	8	15	253	276	7.43	9	1
	3 837	3 526	2 772	10 135	6.81	7	1

(a) The floating rate financial liabilities bear interest at various rates set with reference to the prevailing LIBOR or equivalent for that time period and country.

Details of interest rate swaps and cross currency swaps used to hedge interest rate and foreign currency risks are as follows:

	Weighted average exchange rate		Weighted average interest rate payable		Weighted average interest rate receivable		Interest rate swap amount [(a)]		Cross currency swap amount [(a)]	
	2004	2003	**2004 %**	2003 %	**2004 %**	2003 %	**2004 US$M**	2003 US$M	**2004 US$M**	2003 US$M
Interest rate swaps										
US dollar swaps										
Pay floating [(b)]/receive fixed										
Later than five years	**n/a**	n/a	**1.80**	–	**4.80**	–	**850**	850	**n/a**	n/a
Cross currency swaps										
Australian dollar to US dollar swaps										
Pay floating [(b)]/receive floating [(b)]										
Not later than one year	**0.5217**	–	**1.61**	–	**5.68**	–	**–**	–	**130**	–
Later than one year but not later than two years	**–**	0.5217	**–**	1.99	**–**	5.34	**–**	–	**–**	130
Pay floating [(b)]/receive fixed										
Later than one year but not later than two years	**0.5620**	–	**2.09**	–	**7.50**	–	**281**	–	**281**	–
Later than two years but not later than five years	**0.5217**	0.5620	**1.96**	2.55	**6.25**	7.50	**391**	281	**391**	281
Later than five years	**–**	0.5217	**–**	2.30	**–**	6.25	**–**	391	**–**	391
Euro to US dollar swaps										
Pay floating [(b)]/receive fixed										
Later than two years but not later than five years	**0.9881**	–	**1.43**	–	**3.88**	–	**741**	–	**741**	–
Pay fixed/receive fixed										
Later than two years but not later than five years	**–**	0.9881	**–**	3.88	**–**	4.38	**n/a**	n/a	**–**	741
							2 263	1 522	**1 543**	1 543

(a) Amount represents US$ equivalent of principal payable under the swap contract.
(b) Floating interest rate in future periods will be based on LIBOR for US dollar swaps and BBSW for Australian dollar swaps applicable at the time of the interest rate reset.

Notes to Financial Statements continued

29 Financial instruments continued

Currency risk

The US dollar is the functional currency of most operations within the BHP Billiton Group and so most currency exposure relates to transactions and balances in currencies other than the US dollar. The BHP Billiton Group has potential currency exposures in respect of items denominated in currencies other than the functional currency of an operation comprising:

- transactional exposure in respect of non-functional currency expenditure;
- translational exposure in respect of investments in overseas operations; and
- translational exposure in respect of non-functional currency monetary items.

The potential currenecy exposures are discussed below.

Transactional exposure in respect of non-functional currency expenditure

Operating expenditure and capital expenditure is incurred by some operations in currencies other than their functional currency. To a lesser extent, sales revenue is earned in currencies other than the functional currency of operations, and certain exchange control restrictions may require that funds be maintained in currencies other than the functional currency of the operation. These risks are managed as part of the Portfolio Risk Management strategy and within the overall CFaR limit. When required under this strategy, foreign exchange hedging contracts are entered into in foreign exchange markets. Operating and capital costs are hedged using forward exchange and currency option contracts.

Legacy positions previously taken out prior to the BHP Billiton merger to hedge US dollar sales revenue earned by operations within the BHP Billiton Limited Group whose functional currency was not US dollars were redesignated at the time of the merger as hedges of Australian dollar operating costs. These hedges expired during the 2004 financial year.

The Group generally hedges the non-US dollar currency exposure of major capital expenditure projects. Forward contracts taken out under this policy are separately disclosed below as ‘Relating to capital expenditure hedging’.

The following tables provide information about the principal currency hedge contracts.

Notes to Financial Statements continued

29 Financial instruments continued

Foreign exchange contracts

	Weighted average exchange rate		Contract amounts	
	2004	2003	**2004 US$M**	2003 US$M
Relating to capital expenditure hedging				
Forward contracts – sell US dollars/buy Australian dollars				
Not later than one year	**0.7069**	0.5276	**361**	212
Later than one year but not later than two years	**0.6928**	0.5186	**334**	13
Later than two years but not later than three years	**0.6803**	–	**68**	–
Later than three years but not later than four years	**0.6715**	–	**1**	–
Total	**0.6983**	0.5271	**764**	225
Relating to operating hedging				
Forward contracts – sell US dollars/buy Australian dollars				
Not later than one year	**0.7101**	0.6240	**7**	732
Total	**0.7101**	0.6240	**7**	732
Forward contracts – sell Australian dollars/buy US dollars				
Not later than one year	**0.6882**	–	**58**	–
Total	**0.6882**	–	**58**	–
Forward contracts – sell Euros/buy US dollars				
Not later than one year	**0.8313**	0.9061	**136**	175
Later than one year but not later than two years	**0.8383**	0.8532	**57**	12
Later than two years but not later than three years	**–**	0.8584	**–**	6
Total	**0.8334**	0.9015	**193**	193
Forward contracts – sell US dollars/buy Euros				
Not later than one year	**0.9309**	1.0333	**3**	45
Later than one year but not later than two years	**0.9439**	0.9309	**2**	3
Later than two years but not later than three years	**0.9357**	0.9439	**22**	3
Later than three years but not later than four years	**–**	0.9357	**–**	22
Total	**0.9358**	0.9933	**27**	73
Forward contracts – sell US dollars/buy UK pounds sterling				
Not later than one year	**–**	0.6222	**–**	185
Total	**–**	0.6222	**–**	185
Forward contracts – sell UK pounds sterling/buy US dollars				
Not later than one year	**0.5571**	0.6232	**161**	46
Later than one year but not later than two years	**0.5726**	0.6483	**17**	8
Total	**0.5586**	0.6267	**178**	54
Forward contracts – sell US dollars/buy South African rand				
Not later than one year	**7.3677**	7.7743	**23**	58
Later than one year but not later than two years	**7.7686**	–	**12**	–
Later than two years but not later than three years	**8.1950**	–	**1**	–
Total	**7.5137**	7.7743	**36**	58
Forward contracts – sell South African rand/buy US dollars				
Not later than one year	**6.9940**	–	**45**	–
Total	**6.9940**	–	**45**	–

	Weighted average A$/US$ exchange rate		Weighted average A$/US$ exchange rate		Contract amounts	
	2004 A$ Call options	**2004 A$ Put options**	2003 A$ Call options	2003 A$ Put options	**2004 US$M**	2003 US$M
Foreign exchange options – sell US dollars/buy Australian dollars						
Not later than one year	**–**	**–**	–	0.6600	**–**	17
Total	**–**	**–**	–	0.6600	**–**	17

Notes to Financial Statements continued

29 Financial instruments continued

Translational exposure in respect of investments in overseas operations

The functional currency of most BHP Billiton Group operations is US dollars. There are certain operations that have Australian dollars and UK pounds sterling as a functional currency. Foreign currency gains or losses arising on translation of the net assets of these operations are shown as a movement in reserves and in the statement of recognised gains and losses.

Borrowings previously taken out in these currencies, or other borrowings swapped into these currencies, provided a natural hedge of the net foreign currency assets. These borrowings have since been swapped into US dollars.

In addition, where market conditions make it beneficial, the Group will borrow in currencies, which would create translational exposure and will swap the liability into the appropriate currency.

Translational exposure in respect of non-functional currency monetary items

Monetary items denominated in currencies other than the functional currency of an operation are periodically restated to US dollar equivalents, and the associated gain or loss is taken to the profit and loss account, with the exception of foreign exchange gains or losses on foreign currency provisions for restoration and rehabilitation which are capitalised in tangible fixed assets. These risks are managed as part of the Portfolio Risk Management strategy and within the overall CFaR limit.

The combined interest rate and foreign currency risk table shows the foreign currency risk in relation to financial assets and liabilities. However, this table includes financial assets and liabilities in US dollars and other currencies that represent the functional currency of the operations. In addition, the financial assets and liabilities primarily relate to contractual rights and obligations, and so exclude significant monetary items such as provisions for deferred taxation and employee benefits.

The table below shows the foreign currency risk based on all monetary assets and liabilities in currencies other than the functional currency of the BHP Billiton operations. The amounts shown are after taking into account the effect of any forward foreign currency contracts entered into to manage these risks and excluding provisions for restoration and rehabilitation.

	Net foreign currency monetary assets/(liabilities)					
	US$	**A$**	**C$**	**SA rand**	**Other**	**Total**
2004	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**
Functional currency of Group operation						
US dollars	**–**	**(1 240)**	**(477)**	**(932)**	**(198)**	**(2 847)**
Australian dollars	**29**	**–**	**–**	**–**	**–**	**29**
Canadian dollars	**43**	**–**	**–**	**–**	**–**	**43**
UK pounds sterling	**(23)**	**–**	**–**	**–**	**–**	**(23)**
Other	**–**	**–**	**–**	**–**	**–**	**–**
	49	**(1 240)**	**(477)**	**(932)**	**(198)**	**(2 798)**

	Net foreign currency monetary assets/(liabilities)					
	US$	A$	C$	SA rand	Other	Total
2003	US$M	US$M	US$M	US$M	US$M	US$M
Functional currency of Group operation						
US dollars	–	(1 399)	(203)	(1 089)	(261)	(2 952)
Australian dollars	21	–	–	–	–	21
Canadian dollars	30	–	–	–	–	30
UK pounds sterling	(23)	(1)	–	–	–	(24)
Other	–	–	–	6	–	6
	28	(1 400)	(203)	(1 083)	(261)	(2 919)

The South African rand monetary liabilities include borrowings raised in a variety of currencies, including US dollars and Euros, which, as a result of South African exchange control regulations, were subsequently swapped through forward exchange contracts into South African rand.

Substantial portions of the non-functional currency liabilities of US dollar functional currency operations relate to provisions for deferred taxation and employee benefits.

Liquidity risk

The US$1.25 billion 364-day revolving credit component of the US$2.5 billion syndicated multi-currency revolving credit facility that was due for expiry in September 2003 was extended for a further period of 364 days to September 2004. The US$1.25 billion term component of the US$2.5 billion syndicated multi-currency revolving credit facility expires in September 2006.

In November 2003, Standard & Poor's upgraded the BHP Billiton Group's long-term credit rating to A+ from A (the short-term credit rating is A-1). In May 2004, Moody's Investor Services changed the outlook of the Group's A2 long-term credit rating to positive from stable (the short-term credit rating is P-1).

The BHP Billiton Group's strong credit profile, diversified funding sources and committed credit facilities ensure that sufficient liquid funds are maintained to meet its daily cash requirements.

The BHP Billiton Group's policy on counterparty credit exposures ensures that only counterparties of a high credit standing are used for the investment of any excess cash.

Notes to Financial Statements continued

29 Financial instruments continued

The BHP Billiton Group's liquidity risk for derivatives arises from the possibility that a market for derivatives might not exist in some circumstances. To counter this risk the BHP Billiton Group only use derivatives in highly liquid markets.

The maturity profile of the Group's financial liabilities is as follows:

2004	Bank loans, debentures and other loans US$M	Obligations under finance leases US$M	Subsidiary preference shares US$M	Other liabilities US$M	Total US$M
Due for payment					
In one year or less or on demand	**1 125**	**9**	**–**	**2 943**	**4 077**
In more than one year but not more than two years	**908**	**2**	**300**	**114**	**1 324**
In more than two years but not more than five years	**1 539**	**10**	**150**	**–**	**1 699**
In more than five years	**2 489**	**55**	**–**	**280**	**2 824**
	6 061	**76**	**450**	**3 337**	**9 924**

2003	Bank loans, debentures and other loans US$M	Obligations under finance leases US$M	Subsidiary preference shares US$M	Other Liabilities US$M	Total US$M
Due for payment					
In one year or less or on demand	1 032	4	–	2 463	3 499
In more than one year but not more than two years	663	49	–	118	830
In more than two years but not more than five years	2 142	–	450	–	2 592
In more than five years	2 984	–	–	230	3 214
	6 821	53	450	2 811	10 135

	2004 US$M	2003 US$M
Loans falling due after more than five years are repayable as follows:		
By instalments	453	529
Not by instalments	2 036	2 455
	2 489	2 984

At 30 June 2004 borrowings of US$157 million (2003: US$66 million) and US$502 million (2003: US$601 million) due within and after more than one year respectively were secured by assets of the BHP Billiton Group.

The maturity profile of the BHP Billiton Group's undrawn committed facilities is as follows:

	2004 US$M	2003 US$M
Expiring in one year or less	**1 250**	1 250
Expiring in more than one year (a)	**1 250**	2 112
	2 500	3 362

(a) This represents Tranche B of the Group's US$2.5 billion syndicated multi-currency revolving credit facility which is used to support the commercial paper programs of the Group. The commercial paper programs were undrawn at 30 June 2004 (2003: US$138 million).

None of the BHP Billiton Group's general borrowing facilities are subject to financial covenants. Certain specific financing facilities in relation to specific businesses are the subject of financial covenants which vary from facility to facility but which would be considered normal for such facilities.

Commodity price risk

The BHP Billiton Group is exposed to movements in the prices of the products it produces and sources from third parties which are generally sold as commodities on the world market.

Commodity price risk is managed pursuant to the Portfolio Risk Management strategy and within the overall CFaR limit. Strategic price hedges are taken out from time to time.

The following table provides information about the BHP Billiton Group's material cash settled commodity contracts, which have not been recognised in the accounts.

Contract amounts are used to calculate the volume and average price to be exchanged under the contracts.

Notes to Financial Statements continued

29 Financial instruments continued

	Volume 2004	Volume 2003	Units	Average price of fixed contract 2004 US$	Average price of fixed contract 2003 US$	Term to maturity (months)	Notional amount of fixed contract [a] 2004 US$M	Notional amount of fixed contract [a] 2003 US$M
Aluminium								
Forwards – buy fixed/sell floating [b]	**507**	792	000 tonnes	**1 578**	1 397	0–12	**800**	1 106
	52	112	000 tonnes	**1 494**	1 435	13–24	**78**	161
	23	50	000 tonnes	**1 425**	1 420	25–48	**33**	71
	–	1	000 tonnes	**–**	1 420	49–72	**–**	1
Forwards – sell fixed/buy floating [b]	**622**	826	000 tonnes	**1 597**	1 393	0–12	**993**	1 151
	32	127	000 tonnes	**1 449**	1 421	13–24	**46**	180
	14	35	000 tonnes	**1 428**	1 416	25–48	**20**	50
	–	1	000 tonnes	**–**	1 393	49–72	**–**	1
Copper								
Forwards – buy fixed/sell floating [b]	**91**	37	000 tonnes	**2 560**	1 675	0–12	**233**	62
	26	–	000 tonnes	**2 249**	–	13-24	**58**	–
	5	–	000 tonnes	**2 070**	–	25-48	**10**	–
Forwards – sell fixed/buy floating [b]	**96**	52	000 tonnes	**2 538**	1 661	0–12	**244**	87
	19	–	000 tonnes	**2 228**	–	13-24	**42**	–
	5	–	000 tonnes	**2 018**	–	25-48	**10**	–
Zinc								
Forwards – buy fixed/sell floating [b]	**23**	10	000 tonnes	**1 086**	794	0–12	**25**	8
	12	–	000 tonnes	**1 110**	–	13-24	**13**	–
	4	–	000 tonnes	**1 060**	–	25-48	**4**	–
Forwards – sell fixed/buy floating [b]	**18**	17	000 tonnes	**1 075**	804	0–12	**19**	14
	12	–	000 tonnes	**1 066**	–	13-24	**13**	–
	4	–	000 tonnes	**1 083**	–	25-48	**4**	–
Lead								
Forwards – buy fixed/sell floating [b]	**28**	25	000 tonnes	**843**	466	0–12	**24**	11
Forwards – sell fixed/buy floating [b]	**19**	65	000 tonnes	**715**	470	0–12	**14**	31
	–	8	000 tonnes	**–**	488	13–24	**–**	4
Silver								
Forwards – buy fixed/sell floating [b]	**5 075**	1 650	000 ounces	**5.90**	4.73	0–12	**30**	8
Forwards – sell fixed/buy floating [b]	**600**	7 475	000 ounces	**5.86**	4.70	0–12	**4**	35
Petroleum								
Forwards – buy fixed/sell floating [b]	**5 819**	8 668	000 barrels	**31.19**	25.45	0–12	**182**	221
	797	–	000 barrels	**29.80**	–	13-24	**24**	–
	500	–	000 barrels	**26.08**	–	25-48	**13**	–
Forwards – sell fixed/buy floating [b]	**5 631**	8 690	000 barrels	**33.09**	25.49	0–12	**186**	221
	1 222	–	000 barrels	**30.13**	–	13-24	**37**	–
	527	–	000 barrels	**26.43**	–	25-48	**14**	–
Energy Coal								
Forwards – buy fixed/sell floating [b]	**20 070**	20 451	000 tonnes	**49.92**	34.49	0–12	**1 002**	705
	4 740	5 820	000 tonnes	**55.50**	36.32	13–24	**263**	211
	600	870	000 tonnes	**62.19**	35.88	25–48	**37**	31
Forwards – sell fixed/buy floating [b]	**20 765**	23 515	000 tonnes	**50.24**	34.39	0–12	**1 043**	809
	5 385	7 035	000 tonnes	**53.70**	34.81	13–24	**289**	245
	1 020	735	000 tonnes	**54.67**	31.99	25–48	**56**	24
Purchased calls	**–**	105	000 tonnes	**–**	33.71	0–12	**–**	4
Sold puts	**–**	270	000 tonnes	**–**	32.11	0–12	**–**	9
Sold calls	**–**	645	000 tonnes	**–**	33.83	0–12	**–**	22
Gas								
Forwards (buy)	**272 483**	501 789	000 therms	**0.42**	0.34	0-12	**114**	171
	27 500	9 200	000 therms	**0.33**	0.29	13-24	**9**	3
	–	18 300	000 therms	**–**	0.28	25-48	**–**	5
Forwards (sell)	**271 136**	532 962	000 therms	**0.42**	0.34	0-12	**114**	181
	27 500	36 700	000 therms	**0.34**	0.29	13-24	**9**	11

Notes to Financial Statements continued

29 Financial instruments continued

	Volume		Units	Average price of fixed contract		Term to	Notional amount of fixed contract [a]	
	2004	2003		**2004**	2003	maturity	**2004**	2003
				US$	US$	(months)	**US$M**	US$M
Electricity								
Forwards (buy)	**29 157**	10 641	000 MwH	**37.66**	30.79	0-12	**1 098**	328
	6 105	4 706	000 MwH	**39.71**	33.31	13-24	**242**	157
	450	2 086	000 MwH	**44.04**	32.10	25-48	**20**	67
Forwards (sell)	**29 293**	12 413	000 MwH	**37.91**	30.65	0-12	**1 111**	380
	6 100	4 902	000 MwH	**40.45**	31.84	13-24	**247**	156
	472	687	000 MwH	**45.79**	36.11	25-48	**22**	25
Freight Transport and Logistics								
Forwards – buy fixed/sell floating [b]	**2 635**	3 550	days	**18 347**	12 256	0–12	**48**	44
	733	1 104	days	**23 462**	10 417	13–24	**17**	12
	184	–	days	**11 250**	–	25-48	**2**	–
Forwards – sell fixed/buy floating [b]	**2 769**	3 499	days	**20 627**	11 791	0–12	**56**	41
	733	920	days	**26 380**	10 680	13–24	**19**	10
Sold puts	**184**	–	days	**9 400**	–	0-12	**2**	–
Forwards – buy fixed/sell floating [b]	**2 025**	5 874	000 tonnes	**10.95**	8.77	0–12	**22**	52
	–	1 275	000 tonnes	**–**	6.63	13–24	**–**	8
Forwards – sell fixed/buy floating [b]	**1 950**	4 974	000 tonnes	**11.83**	8.82	0–12	**23**	44
	–	1 200	000 tonnes	**–**	6.84	13–24	**–**	8

(a) The notional amount represents the face value of each transaction and accordingly expresses the volume of these transactions, but is not a measure of exposure.
(b) Floating commodity prices in future periods will be based on the benchmarks applicable at the time of the price reset.

Credit risk

Credit risk in relation to business trading activities arises from the possibility that counterparties may not be able to settle obligations to the BHP Billiton Group within the normal terms of trade. To manage this risk the BHP Billiton Group periodically assesses the financial viability of counterparties.

Credit risk for derivatives represents the risk of counterparties defaulting on their contractual derivative obligations and is managed by the application of credit approvals, limits and monitoring procedures.

The extent of the BHP Billiton Group's combined trade and derivative credit risk exposure is represented by the aggregate of amounts receivable, reduced by the effect of netting arrangements with financial institution counterparties.

These risks are categorised under the following headings:

Counterparties

The BHP Billiton Group conducts transactions with the following major types of counterparties:

- *Receivables counterparties*
  Sales to BHP Billiton Group customers are made either on open terms or subject to independent payment guarantees. The BHP Billiton Group has no significant concentration of credit risk with any single customer or group of customers.
- *Payment guarantee counterparties*
  These counterparties are comprised of prime financial institutions. Under payment guarantee arrangements, the BHP Billiton Group has no significant concentration of credit risk with any single counterparty or group of counterparties.
- *Hedge counterparties*
  Counterparties to derivatives consist of a large number of prime financial institutions and physical participants in the relevant markets. The BHP Billiton Group has no significant concentration of credit risk with any single counterparty or group of counterparties.

The BHP Billiton Group generally does not require collateral in relation to the settlement of financial instruments.

Geographic

The BHP Billiton Group trades in all major geographic regions and where appropriate export finance insurance and other risk mitigation facilities are utilised to ensure settlement. Countries in which the BHP Billiton Group has a significant credit exposure are South Africa, Australia, the US, Japan and others including South Korea, China, Taiwan, the UK, the rest of Europe, South East Asia, New Zealand and South America.

Terms of trade are continually monitored by the BHP Billiton Group.

Selective receivables are covered for both commercial and sovereign risks by payment guarantee arrangements with various banks and the Australian Export Finance and Insurance Corporation.

Industry

The BHP Billiton Group is not materially exposed to any individual industry or customer.

Notes to Financial Statements continued

29 Financial instruments continued

Hedging of financial risks

Changes in the fair value of instruments used as hedges are not recognised in profit and loss until the hedged position matures. Cumulative unrecognised gains and losses on the instruments used for hedging foreign currency transaction exposures and commodity price risks and the movements therein are as follows:

	Gains 2004 US$M	Losses 2004 US$M	Net gains/ (losses) 2004 US$M	Gains 2003 US$M	Losses 2003 US$M	Net gains/ (losses) 2003 US$M
Opening balance unrecognised gains/(losses)	104	(17)	87	–	(175)	(175)
(Gains)/losses arising in previous years recognised in the year	(94)	16	(78)	–	139	139
Gains/(losses) arising in prior years and not recognised	10	(1)	9	–	(36)	(36)
Gains/(losses) arising in the year and not recognised	7	(93)	(86)	104	19	123
Closing balance unrecognised gains/(losses) (a)	17	(94)	(77)	104	(17)	87
of which:						
Gains/(losses) expected to be recognised within one year	7	(65)	(58)	94	(16)	78
Gains/(losses) expected to be recognised after one year	10	(29)	(19)	10	(1)	9
	17	(94)	(77)	104	(17)	87

(a) Full recognition will not appear in the profit and loss account as US$26 million loss (2003: US$56 million gain) will be capitalised into fixed assets.

Cumulative unrecognised gains and losses on instruments used to manage interest rate risk and the movements therein are as follows:

	Forward currency swaps 2004 US$M	CCIRS interest component 2004 US$M	Interest rate swaps 2004 US$M	Finance lease swap (a) 2004 US$M	Forward currency swaps 2003 US$M	CCIRS interest component 2003 US$M	Interest rate swaps 2003 US$M	Finance lease swap (a) 2003 US$M
Opening balance unrecognised gains	11	36	41	2	31	26	10	2
(Gains)/losses arising in previous years recognised in the year	(7)	–	–	(1)	(13)	(20)	–	1
Gains arising in prior years and not recognised	4	36	41	1	18	6	10	3
Gains/(losses) arising in the year and not recognised	(4)	(14)	(101)	–	(7)	30	31	(1)
Closing balance unrecognised gains/(losses)	–	22	(60)	1	11	36	41	2
of which:								
Gains/(losses) expected to be recognised within one year	–	(42)	(30)	–	7	–	–	1
Gains/(losses) expected to be recognised after one year	–	64	(30)	1	4	36	41	1
	–	22	(60)	1	11	36	41	2

(a) Included within the book value of short-term and long-term liabilities are finance leases which have been swapped from a fixed interest rate to a floating interest rate and from a ten-year term to a five-year term. The book value of these lease swaps is US$24 million (2003: US$15 million). The effect of the swap is to match the initial lease obligation by receiving payments over a ten-year period at a fixed rate and making payments on a floating rate over five years. For the purpose of the disclosures, the book value of the finance leases is shown as it would be excluding the effect of the finance lease swap. The fair value disclosures relate only to the swapped components and reflect the fact that the swap receivable is subject to a fixed rate.

Notes to Financial Statements continued

29 Financial instruments continued

Fair value of financial instruments

The following table presents the book values and fair values of the BHP Billiton Group's financial instruments. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidated sale. Where available, market values have been used to determine fair values. When market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. The estimated fair values have been determined using market information and appropriate valuation methodologies, but are not necessarily indicative of the amounts that the BHP Billiton Group could realise in the normal course of business.

The fair value of the BHP Billiton Group's financial instruments is as follows:

	Book value **2004** **US$M**	Fair value **2004** **US$M**	Book value 2003 US$M	Fair value 2003 US$M
Primary and derivative financial instruments held or issued to finance the BHP Billiton Group's operations				
Short-term borrowings	**(1 134)**	**(1 134)**	(1 036)	(1 036)
Long-term borrowings	**(5 876)**	**(6 113)**	(6 617)	(7 171)
Cross currency contracts				
Principal	**399**	**399**	314	314
Interest rate	**43**	**65**	30	77
Other liabilities to be settled in cash	**(3 410)**	**(3 410)**	(2 867)	(2 867)
Finance lease swap	**24**	**25**	15	17
Interest rate swaps	**30**	**(30)**	7	48
Cash and money market deposits	**1 818**	**1 818**	1 552	1 552
Loans to joint ventures and associates	**238**	**238**	293	293
Current asset investments	**167**	**167**	143	143
Fixed asset investments	**123**	**202**	148	153
Investment in exploration companies (refer note 15)	**–**	**19**	–	11
Other assets to be settled in cash	**3 121**	**3 121**	2 562	2 562
Forward foreign currency contracts	**–**	**–**	19	19
Derivative financial instruments held to hedge the BHP Billiton Group's exposure on expected future sales and capital and operating purchases				
Forward commodity contracts	**–**	**(47)**	–	(8)
Forward foreign currency contracts	**–**	**(30)**	–	95
	(4 457)	**(4 710)**	(5 437)	(5 798)

For the purposes of the disclosures in the table above, the book value of the foreign currency assets and liabilities is shown excluding the effect of foreign currency hedges.

30 Related parties

BHP Billiton Group companies have trading relationships with a number of joint ventures and associates of the BHP Billiton Group. In some cases there are contractual arrangements in place under which the BHP Billiton Group companies source supplies from such undertakings, or such undertakings source supplies from the BHP Billiton Group companies. In the year ended 30 June 2004, sales made by BHP Billiton Group entities to such joint ventures and associates amounted to US$12 million (2003: US$32 million).

Amounts owing between the BHP Billiton Group and joint ventures and associates are disclosed in note 15.

It is Group policy that all transactions with joint ventures and associates are conducted in the normal course of business and under normal commercial terms and conditions.

The details of executive Directors' remuneration and interests in long-term incentive plans, including the number of Shares and Options awarded during the year ended 30 June 2004, are included in note 35.

Transactions with Director-related entities

A number of Directors or former Directors of BHP Billiton hold or have held positions in other companies, where it is considered they control or significantly influence the financial or operating policies of those entities. One of those entities, Wesfarmers (Group) Limited, is considered to be a Director-related entity of M A Chaney. This company provided products and services totalling US$18.7 million (2003:US$5.0 million) to the Group in the financial year, in accordance with normal commercial terms and conditions. At 30 June 2004 the Group owed US$0.5 million.

Unless otherwise indicated, these financial statements are presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

30 Related parties continued

Other Director transactions with BHP Billiton Group entities

Other transactions include:

- minor purchases of products and stores; and
- insurance with BHP Billiton Group insurance companies.

All these transactions (which were trivial in amount) were conducted on conditions no more beneficial than those available to other employees.

Following the termination of his employment on 1 July 2002, Mr Anderson entered into a consultancy arrangement with the BHP Billiton Group under which he agreed to act as a consultant to the Group for two years commencing at the time he ceased to be a Director. Mr Anderson received a total fee in 2004 of US$71 334 (2003: US$104 739) under this arrangement.

31 Specified executives

The information in this section relates to those executives (other than executive Directors and numbering at least five) who have the greatest authority for managing the BHP Billiton Group ("specified executives") during the current year.

Remuneration

The details of remuneration of specified executives are included in note 35.

Share and Option plans

The following tables set out details of the specified executives' interests in long-term incentive plans including the number of shares and options awarded in the financial year ended 30 June 2004. Details on the long-term incentive plans of Robert Kirkby relate to the period from 16 March 2004, the date he became a specified executive. No options held by specified executives are vested but not exercisable, except where stated.

Employee Share Plan 1999

Name	BHP Billiton Limited Ordinary Shares under option					Exercise price(a)	First exercise date	Expiry date
	At 1 July 2003	Granted	Exercised	Lapsed	**At 30 June 2004**			
P S Aiken (b)	516 275	–	516 275	–	**–**	A$6.92	23 April 2002	22 April 2009
J C Fast (c)	413 020	–	413 020	–	**–**	A$8.61	23 April 2002	22 April 2009
Total	929 295	–	929 295	–	**–**			

(a) Represents the exercise price payable on options.
(b) The market price on the date of exercise (2 September 2003) was approximately A$11.23. The aggregate gain was A$2 225 268.
(c) The market price on the date of exercise (6 April 2004) was approximately A$12.53. The aggregate gain was A$1 619 140.

Group Incentive Scheme 2003 Deferred Shares

Name	Ordinary Shares under award					Vesting date
	At 1 July 2003	Granted(a)	Vested	Lapsed(b)	**At 30 June 2004**	
P S Aiken(c)	–	69 815	–	–	**69 815**	August 2005
J C Fast(c)	–	54 782	–	–	**54 782**	August 2005
R W Kirkby (c)	–	58 031(d)	–	–	**58 031**	August 2005
Dr M J Kloppers(e)	–	55 378	–	–	**55 378**	August 2005
C J Lynch(c)	–	61 010	–	–	**61 010**	August 2005
D J Munro(e)	–	49 307	–	49 307	**–**	August 2005
Total	–	348 323	–	49 307	**299 016**	

(a) The market price of BHP Billiton Limited shares and BHP Billiton Plc shares on date of grant (21 November 2003) was A$10.76 and £4.32 respectively. The fair market value per Deferred Share was estimated at A$10.03 and £3.98 respectively.
(b) Shares lapsed on D J Munro's resignation, in accordance with the rules of the GIS.
(c) Granted BHP Billiton Limited awards.
(d) Shares granted represent the balance of awards held by R W Kirkby at 16 March 2004, the date he became a specified executive.
(e) Granted BHP Billiton Plc awards.

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

31 Specified executive continued

Group Incentive Scheme 2003 Performance Shares

Name	Ordinary Shares under award					
	At 1 July 2003	Granted[a]	Vested	Lapsed[b]	**At 30 June 2004**	Vesting date
P S Aiken[c]	–	69 815	–	–	**69 815**	August 2006
J C Fast[c]	–	54 782	–	–	**54 782**	August 2006
R W Kirkby [c]	–	58 031[d]	–	–	**58 031**	August 2006
Dr M J Kloppers[e]	–	55 378	–	–	**55 378**	August 2006
C J Lynch[c]	–	61 010	–	–	**61 010**	August 2006
D J Munro[e]	–	49 307	–	49 307	**–**	August 2006
Total	–	348 323	–	49 307	**299 016**	

(a) The market price of BHP Billiton Limited shares and BHP Billiton Plc shares on date of grant (21 November 2003) was A$10.76 and £4.32 respectively. The fair market value per Performance Share was estimated at A$4.58 and £1.84 respectively.
(b) Shares lapsed on D J Munro's resignation, in accordance with the rules of the GIS.
(c) Granted BHP Billiton Limited awards.
(d) Shares granted represent the balance of awards held by R W Kirkby at 16 March 2004, the date he became a specified executive.
(e) Granted BHP Billiton Plc awards.

Group Incentive Scheme 2002 Performance Shares

Name	Ordinary Shares under award					
	At 1 July 2003	Granted	Vested	Lapsed[a]	**At 30 June 2004**	Vesting date
P S Aiken	158 118	–	–	–	**158 118**	August 2005
J C Fast	115 921	–	–	–	**115 921**	August 2005
R W Kirkby	110 391[b]	–	–	–	**110 391**	August 2005
Dr M J Kloppers	119 485	–	–	–	**119 485**	August 2005
C J Lynch	117 117	–	–	–	**117 117**	August 2005
D J Munro	147 263	–	–	147 263	**–**	August 2005
Total	768 295	–	–	147 263	**621 032**	

(a) Shares lapsed on D J Munro's resignation, in accordance with the rules of the GIS.
(b) Shares at 1 July 2003 of 110 391 represent the balance of awards held by R W Kirkby at 16 March 2004, the date he became a specified executive.

Performance Share Plan 2001

Name	BHP Billiton Limited Ordinary Shares under award					
	At 1 July 2003	Granted	Vested	Lapsed	**At 30 June 2004**	Vesting date
P S Aiken	131 856	–	–	–	**131 856**	1 October 2004
J C Fast	107 093	–	–	–	**107 093**	1 October 2004
R W Kirkby	82 330[a]	–	–	–	**82 330**	1 October 2004
C J Lynch	109 559	–	–	–	**109 559**	1 October 2004
Total	430 838	–	–	–	**430 838**	

(a) Shares at 1 July 2003 of 82 330 represent the balance of awards held by R W Kirkby at 16 March 2004, the date he became a specified executive.

Restricted Share Scheme (RSS) 2001

Name	BHP Billiton Plc Ordinary Shares under award					
	At 1 July 2003	Granted	Vested	Lapsed[a]	**At 30 June 2004**	Vesting date
Dr M J Kloppers	84 182	–	–	–	**84 182**	1 October 2004
D J Munro	179 645	–	–	179 645	**–**	1 October 2004
Total	263 827	–	–	179 645	**84 182**	

(a) Shares lapsed on D J Munro's resignation, in accordance with the rules of the RSS.

Performance Share Plan 2000

Name	BHP Billiton Limited Ordinary Shares under award					
	At 1 July 2003	Granted	Vested[a]	Lapsed	**At 30 June 2004**	Vesting date
P S Aiken	122 621	–	122 621[b]	–	**–**	1 July 2003
J C Fast	96 854	–	96 854[c]	–	**–**	1 July 2003
C J Lynch	61 987	–	61 987[d]	–	**–**	1 July 2003
	43 592	–	–	–	**43 592**	1July 2004
Total	325 054	–	281 462	–	**43 592**	

(a) 75 per cent of the shares vested in 1 July 2003, following the end of the performance period, and the BHP Billiton Limited market price was A$8.56. The remaining 25 per cent vested on 1 September 2003 and the BHP Billiton Limited market price was A$11.00.

Unless otherwise indicated, these financial statements are presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

31 Specified executives continued

(b) The market price on the dates of exercise (3 September 2003 and 26 September 2003) were A$11.07 and A$10.53 respectively. The aggregate gain was A$1 340 861.
(c) The market price on the dates of exercise (3 September 2003 and 22 September 2003) were A$11.07 and A$10.67 respective ly. The aggregate gain was A$1 062 232.
(d) The market price on the date of exercise (1 October 2003) was A$10.24. The aggregate gain was A$634 747.

Performance Share Plan (Medium Term Incentive) 2001

	BHP Billiton Limited Ordinary Shares under award					
Name	At 1 July 2003[(a)]	Granted	Vested	Lapsed[(b)]	**At 30 June 2004**	Vesting date
J C Fast	40 671	–	–	4 516	**36 155**	1 October 2005
R W Kirkby	22 597[(c)]	–	–	–	**22 597**	1 October 2005
Total	63 268	–	–	4 516	**58 752**	

(a) Includes 10 042 and 6 277 committed rights inve sted by J C Fast and R W Kirkby respectively.
(b) The first performance period ceased on 30 September 2003. Based on the performance measured at the end of the first performance period, 60 per cent out of a maximum of 80 per cent matching shares were capableof vesting. The remaining 20 per cent lapsed. Correspondingly, the maximum that can vest at the end of the second performance period has also been reduced. J C Fast and R W Kirkby did not elect to leave the MTI at the end of the first performance period and will remain in the plan until October 2005.
(c) Shares at 1 July 2003 of 22 597 represent the balance of awards held by R W Kirkby at 16 March 2004, the date he became a specified executive.

Co-Investment Plan (CIP) 2001

	BHP Billiton Plc Ordinary Shares under award					
Name	At 1 July 2003[(a)]	Granted	Vested	Lapsed[(b)]	**At 30 June 2004**	Vesting date
Dr M J Kloppers	107 206	–	–	11 911	**95 295**	1 October 2005

(a) Includes 26 471 committed shares invested by M J Kloppers.
(b) The first performance period ceased on 30 September 2003. Based on the performance measured at the end of the first performance period, 60 per cent out of a maximum of 80 per cent matching shares were capable of vesting. The remaining 20 per cent lapsed. Correspondingly, the maximum that can vest at the end of the second performance period has also been reduced. M J Kloppers did not elect to leave the CIP at the end of the first performance period and will remain in the plan until October 2005.

Bonus Equity Share Plan 2001

	BHP Billiton Limited Ordinary Shares under award					
Name	At 1 July 2003	Granted	Vested	Lapsed	**At 30 June 2004**	Release date
P S Aiken	77 404	–	–	–	**77 404**	November 2004
C J Lynch	18 692	–	–	–	**18 692**	November 2004
Total	96 096	–	–	–	**96 096**	

Partly Paid Shares

	BHP Billiton Limited Ordinary Shares under award							
R W Kirkby	At 16 March 2004[(a)]	Granted	Exercised	Lapsed	**At 30 June 2004**	Unpaid amount[(b)]	First exercise date	Expiry date
ESS 1997	74 964	–	–	–	**74 964**	A$ 6.83	n/a	1 October 2017
ESS 1996	107 090	–	–	–	**107 090**	A$ 6.94	n/a	2 October 2016
ESS 1995	72 279	–	–	–	**72 279**	A$ 8.17	n/a	4 October 2015
ESS 1994	108 255	–	–	–	**108 255**	A$8.43	n/a	4 October 2014
Total	362 588	–	–	–	**362 588**			

(a) Includes accrued bonus shares to be issued upon conversion of partly paid shares. Shares at 16 March 2004 represent the balance of awards held by R W Kirkby on the date he became a specified executive.
(b) Represents the final call payable upon conversion of partly paid shares held at 30 June 2004, adjusted for bonus issues.

No options have been granted since the end of the financial year.

Further information on options and rights, including grant dates and exercise dates regarding options granted to executives under the employee share ownership plan, is set out in note 23.

Notes to Financial Statements continued

32 Contingent liabilities

	2004 US$M	2003 US$M
Contingent liabilities at balance date, not otherwise provided for in these accounts, are categorised as arising from:		
Joint ventures (unsecured)		
Other (a)	**93**	128
	93	128
Subsidiary undertakings (unsecured, including guarantees)		
Group guarantees of borrowings of joint ventures	**–**	398
Bank guarantees (b)	**–**	–
Performance guarantees (b)	**1**	70
Letter of credit	**–**	2
Other (a)	**144**	177
	145	647
Total contingent liabilities	**238**	775

(a) Other contingent liabilities relate predominantly to actual or potential litigation of the Group for which amounts are reasonably estimable but the liability is not probable and therefore the Group has not provided for such amounts in these accounts. The amounts relate to a number of actions against the Group, none of which are individually significant. Additionally, there are a number of legal claims or potential claims against the Group, the outcome of which cannot be foreseen at present, and for which no amounts have been included in the table above. Details of the principal legal claims are set out in note 21.

(b) The BHP Billiton Group has entered into various counter-indemnities of bank and performance guarantees related to its own future performance in the normal course of business.

33 BHP Billiton Plc (unconsolidated parent company)

BHP Billiton Plc (the parent company) is exempt from presenting its own profit and loss account in accordance with section 230 of the Companies Act 1985. BHP Billiton Plc is required to present its unconsolidated balance sheet and certain notes to the balance sheet on a stand-alone basis as at 30 June 2004 and 2003 as follows:

BHP Billiton Plc (unconsolidated parent company) balance sheet

	BHP Billiton Plc 2004 US$M	2003 (Restated) US$M
Fixed assets		
Investments		
Subsidiaries (a)	**3 131**	3 030
	3 131	3 030
Current assets		
Debtors – amounts due within one year (b)	**382**	318
Cash including money market deposits	**1**	1
	383	319
Creditors – amounts falling due within one year (c)	**(1 142)**	(950)
Net current liabilities	**(759)**	(631)
Total assets less current liabilities	**2 372**	2 399
Provisions for liabilities and charges (d)	**(12)**	(21)
Net assets	**2 360**	2 378
Capital and reserves		
Called up share capital – BHP Billiton Plc (refer note 22)	**1 234**	1 234
Share premium account (e)	**518**	518
Profit and loss account (e)	**608**	626
Equity shareholders' funds (f)	**2 360**	2 378

Notes to the BHP Billiton Plc (unconsolidated parent company) balance sheet

(a) During the year the Company contributed additional capital of US$101 million to its sole subsidiary. At 30 June 2004 the Company held an investment of US$3 131 million (2003: US$3 030 million) in BHP Billiton Group Ltd.

(b) Debtors – amounts due within one year

	BHP Billiton Plc 2004 US$M	2003 US$M
Amounts owed by Group undertakings	**381**	300
Other debtors	**1**	4
Tax recoverable	**–**	14
	382	318

Notes to Financial Statements continued

33 BHP Billiton Plc (unconsolidated parent company) continued

(c) Creditors – amounts falling due within one year

	BHP Billiton Plc	
	2004	2003
	US$M	US$M
Bank overdraft	**224**	100
Amounts owed to Group undertakings	**681**	656
Accruals and deferred income	**3**	9
Dividends payable	**234**	185
	1 142	950

The audit fee payable in respect of the audit of the BHP Billiton Plc company financial statements was a nominal amount (refer note 7 for fees for the Group as a whole). This has been included within amounts owed to Group undertakings.

(d) Provisions for liabilities and charges

	BHP Billiton Plc	
	2004	2003 (Restated)
	US$M	US$M
Employee entitlements	**11**	18
Restructuring	**–**	2
Post-retirement medical benefits	**1**	1
	12	21

The movement in employee entitlements of US$7 million represents US$4 million credited to the profit and loss account for bonuses and pension costs, and US$3 million in payments made during the year.

(e) Reserves

	BHP Billiton Plc		BHP Billiton Plc	
	Share premium account	Profit & loss account	Share premium account	Profit & loss account
	2004	**2004**	2003	2003 (Restated)
	US$M	**US$M**	US$M	US$M
At beginning of the financial year	**518**	**626**	592	758
Retained loss for the financial year	**–**	**(49)**	–	(149)
Employee share awards	**–**	**31**	–	17
Bonus shares issued	**–**	**–**	(74)	–
At end of the financial year	**518**	**608**	518	626

Profit and loss account and shareholders' funds have been restated for the impact of the change in accounting policy regarding employee share awards (refer Accounting Policies).

Upon the demerger of the BHP Steel business in July 2002 bonus shares of BHP Billiton Plc were issued to BHP Billiton Plc shareholders as a matching action to ensure economic benefit equality to shareholders of both BHP Billiton Limited and BHP Billiton Plc (the bonus issue was one BHP Billiton Plc share for approximately each 15.6 BHP Billiton Plc shares held).

(f) Reconciliation of movements in shareholders' funds

	BHP Billiton Plc	
	2004	2003 (Restated)
	US$M	US$M
Profit for the financial year	**591**	209
Total recognised gains for the financial year	**591**	209
Dividends	**(640)**	(358)
Accrued employee entitlement to share awards	**33**	17
Purchase of shares by ESOP trusts	**(2)**	–
Net movement in shareholders' funds	**(18)**	(132)
Shareholders' funds at beginning of the financial year	**2 378**	2 510
Shareholders' funds at end of the financial year	**2 360**	2 378

Parent company guarantees

BHP Billiton Plc has guaranteed certain financing facilities available to subsidiaries. At 30 June 2004 such facilities totalled US$936 million (2003: US$1 016 million) of which US$741 million (2003: US$816 million) was drawn.

Under the terms of a deed poll guarantee, BHP Billiton Plc has also guaranteed certain current and future liabilities of BHP Billiton Limited. At 30 June 2004, the guaranteed liabilities amounted to US$3 405 million (2003: US$3 737 million).

BHP Billiton Plc and BHP Billiton Limited have severally, fully and unconditionally guaranteed the payment of the principal of, premium, if any, and interest on the notes, including certain additional amounts which may be payable in respect of the notes issued by BHP Billiton Finance (USA) Ltd on 17 April 2003. BHP Billiton Plc and BHP Billiton Limited have guaranteed the payment of such amount when such amounts become due and payable, whether on an interest payment date, at the stated maturity of the notes, by declaration or acceleration, call for redemption or otherwise. At 30 June 2004, the guaranteed liabilities amounted to US$850 million (2003:US$850 million).

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures

The financial statements of the BHP Billiton Group are prepared in accordance with UK Generally Accepted Accounting Principles (GAAP). The financial statements, analyses and reconciliations presented in this note represent the financial information which would be required if US GAAP had been applied instead of UK GAAP.

Reconciliation to US GAAP

The following is a summary of the estimated adjustments to net income for the years ended 30 June 2004, 2003 and 2002 that would be required if US GAAP had been applied instead of UK GAAP. Certain items in the comparative periods have been reclassified to conform to current period disclosures.

		2004 US$M	2003 US$M	2002 US$M
Reconciliation of net income				
Attributable profit as reported under UK GAAP		**3 379**	1 901	1 690
add/(deduct)				
Estimated adjustment required to accord with US GAAP:				
Fair value adjustment on acquisition of BHP Billiton Plc Group – depreciation, amortisation, impairments and other asset movements	(A)	**(702)**	(181)	(454)
Employee compensation costs	(B)	**53**	31	26
Write-down of assets	(C)	**–**	8	–
Depreciation – write-downs	(C)	**(6)**	(2)	(18)
Depreciation – revaluations	(D)	**5**	5	5
Depreciation – reserves	(E)	**(9)**	(3)	(15)
Fair value accounting for derivatives	(F)	**(281)**	(23)	279
Synthetic debt	(G)	**(11)**	(20)	18
Realised net exchange gains on sale of assets/closure of operations	(H)	**–**	–	84
Exploration, evaluation and development expenditure	(I)	**(64)**	9	(60)
Start-up costs	(J)	**(12)**	3	(2)
Pension plans	(K)	**(4)**	(24)	(12)
Other post-retirement benefits	(L)	**(6)**	5	8
Mozal expansion rights	(M)	**33**	6	22
Employee Share Plan loans	(N)	**(3)**	(8)	(16)
Goodwill	(O)	**(1)**	2	–
Profit on asset sales	(P)	**1**	2	2
BHP Steel demerger	(Q)	**–**	17	(333)
Restructuring and employee provisions	(R)	**–**	(11)	(55)
Taxation effect of above adjustments	(S)	**194**	118	66
Other taxation adjustments	(T)	**150**	(254)	14
Total adjustment		**(663)**	(320)	(441)
Net income of BHP Billiton Group under US GAAP		**2 716**	1 581	1 249

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

The following is a summarised income statement prepared in accordance with US GAAP. Certain items in the comparative periods have been reclassified to conform to current period disclosures.

	2004 US$M	2003 US$M	2002 US$M
Consolidated income statement			
Sales revenue	**22 887**	15 608	13 552
deduct			
Cost of sales	**16 465**	10 925	9 726
Depreciation and amortisation	**1 860**	1 778	1 853
Loss on termination of operations (a)	**534**	–	101
Goodwill impairment	**491**	–	–
General and administrative expenses	**48**	125	174
Operating income	**3 489**	2 780	1 698
add			
Other income	**385**	223	321
Interest income	**78**	65	142
deduct			
Interest expense	**274**	302	465
Net foreign exchange loss/(gain)	**538**	505	(539)
Income before tax, minority interests and equity in net earnings of affiliated companies	**3 140**	2 261	2 235
deduct			
Taxation expense	**505**	774	878
add			
Share of profits of affiliated companies	**178**	125	195
deduct			
Minority interests	**97**	36	39
Net income from Continuing Operations	**2 716**	1 576	1 513
Discontinued Operations			
Income from Discontinued Operations	–	–	74
deduct/(add)			
Taxation expense/(benefit) from Discontinued Operations	–	–	(3)
add/(deduct)			
Net profit/(loss) on disposal of operations	–	5	(333)
deduct			
Minority interest in Discontinued Operations	–	–	8
Net income/(loss) from Discontinued Operations	–	5	(264)
Net income	**2 716**	1 581	1 249

(a)Refer note 2. Under UKGAAP, material items that result from events or transactions that fall within ordinary activities and need to be disclosed by virtue of their size or incidence are disclosed as exceptional items. Under US GAAP there is no concept of exceptional items.

	2004 US$	2003 US$	2002 US$
Earnings per share – US GAAP (a)			
Basic – Continuing Operations (b)	**0.44**	0.25	0.25
Diluted – Continuing Operations (c)	**0.43**	0.25	0.25
Basic – Discontinued Operations (b)	**–**	–	(0.04)
Diluted – Discontinued Operations (c)	**–**	–	(0.04)
Basic – net income (b)	**0.44**	0.25	0.21
Diluted – net income (c)	**0.43**	0.25	0.21

(a) For the periods indicated, each American Depositary Share (ADS) represents two ordinary shares. Therefore the earnings per ADS under US GAAP is a multiple of two from the above earnings per share disclosures.

(b) Based on the weighted average number of ordinary shares on issue for the period. (Refer note 12).

(c) Based on the weighted average number of ordinary shares on issue for the period, adjusted to reflect the impact pof the conversion of all dilutive potential ordinary shares to ordinary shares. (Refer note 12).

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

The following reconciliation of comprehensive income reports changes in shareholders' equity excluding those resulting from investments by shareholders and distributions to shareholders.

		2004 US$M	2003 US$M	2002 US$M
Reconciliation of comprehensive income				
Total changes in equity other than those resulting from transactions with owners under UK GAAP		**3 427**	1 968	1 715
Adjustments to reflect comprehensive income in accordance with US GAAP, net of income tax:				
Total adjustment to net income per above reconciliation		**(663)**	(320)	(441)
Reclassification adjustment for net exchange gains		**–**	–	(84)
Net transfer to earnings on maturity of cash flow hedging instruments		**50**	221	148
Minimum pension liability	(K)	**81**	(195)	–
Change in fair value of listed investments	(U)	**9**	1	5
Comprehensive income under US GAAP		**2 904**	1 675	1 343
Tax benefit/(expense) of other comprehensive income items for the year:				
Movements in exchange fluctuation account		**–**	(2)	1
Net transfer to earnings on maturity of cash flow hedging instruments		**(22)**	(95)	(63)
Minimum pension liability		**(11)**	33	–
Accumulated other comprehensive income comprises:				
Exchange fluctuation account		**410**	362	387
Qualifying cash flow hedging instruments		**–**	(50)	(271)
Minimum pension liability		**(114)**	(195)	–
Other items		**15**	6	5
Total accumulated other comprehensive income		**311**	123	121

The following is a summary of the estimated adjustments to shareholders' equity as at 30 June 2004 and 30 June 2003 that would be required if US GAAP had been applied instead of UK GAAP. Certain items in the comparative period have been reclassified to conform to current period disclosures.

		2004 US$M	2003 US$M
Reconciliation of shareholders' equity			
Shareholders' equity under UK GAAP		**14 038**	12 091
add/(deduct)			
Estimated adjustment required to accord with US GAAP:			
Fair value adjustments on acquisition of BHP Billiton Plc Group			
Investments	(A)	**962**	1 000
Property, plant and equipment and undeveloped properties	(A)	**2 505**	2 627
Long-term contracts	(A)	**36**	37
Goodwill	(A)	**2 633**	3 171
Long-term debt	(A)	**5**	8
Write-down of assets	(C)	**47**	53
Property, plant and equipment revaluations	(D)	**(53)**	(58)
Reserves	(E)	**(27)**	(18)
Fair value accounting for derivatives	(F)	**(43)**	166
Synthetic debt	(G)	**–**	11
Exploration, evaluation and development expenditures	(I)	**(181)**	(117)
Start-up costs	(J)	**(64)**	(52)
Pension plans	(K)	**(273)**	(361)
Other post-retirement benefits	(L)	**(16)**	(10)
Mozal expansion rights debtor	(M)	**–**	(33)
Employee Share Plan loans	(N)	**(64)**	(71)
Goodwill	(O)	**1**	2
Profit on asset sales	(P)	**(17)**	(18)
Change in fair value of listed investments	(U)	**20**	11
Dividends	(V)	**592**	–
Taxation effect of fair value adjustment on acquisition of BHP Billiton Plc Group	(A)	**(1 319)**	(1 461)
Taxation effect of all other above adjustments	(S)	**110**	94
Other taxation adjustments	(T)	**(90)**	(240)
Total adjustment		**4 764**	4 741
Shareholders' equity under US GAAP		**18 802**	16 832

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

The following are the variations in the balance sheet as at 30 June 2004 and 30 June 2003 that would be required if US GAAP had been applied instead of UK GAAP.

The column headed 'Unadjusted' represents a US GAAP format presentation of the assets, liabilities and shareholders' equity which have been measured in accordance with UK GAAP. The column headed 'Adjustments' represents the allocation of those measurement differences (presented in the 'Reconciliation of shareholders' equity'), which are required to derive a balance sheet in accordance with US GAAP. Certain items in the comparative period have been reclassified to conform to current period disclosures.

	Unadjusted **30 June 2004 US$M**	Adjustments **30 June 2004 US$M**	US GAAP **30 June 2004 US$M**	Unadjusted 30 June 2003 US$M	Adjustments 30 June 2003 US$M	US GAAP 30 June 2003 US$M
Balance Sheet						
Assets						
Current assets						
Cash	**1 818**	**–**	**1 818**	1 552	–	1 552
Restricted cash	**–**	**238**	**238**	–	275	275
Receivables	**2 748**	**(1)**	**2 747**	2 095	(8)	2 087
Other financial assets	**167**	**–**	**167**	143	70	213
Inventories	**1 715**	**–**	**1 715**	1 328	–	1 328
Other assets	**176**	**–**	**176**	135	–	135
Total current assets	**6 624**	**237**	**6 861**	5 253	337	5 590
Non-current assets						
Receivables	**748**	**(300)**	**448**	895	(369)	526
Investments accounted for using the equity method	**1 369**	**955**	**2 324**	1 403	1 000	2 403
Other financial assets	**123**	**20**	**143**	150	117	267
Inventories	**45**	**–**	**45**	51	–	51
Property, plant and equipment	**20 971**	**2 326**	**23 297**	19 275	2 423	21 698
Intangible assets	**–**	**54**	**54**	–	56	56
Goodwill	**8**	**2 640**	**2 648**	7	3 179	3 186
Deferred tax assets	**602**	**11**	**613**	447	19	466
Other assets	**371**	**(129)**	**242**	882	(124)	758
Total non-current assets	**24 237**	**5 577**	**29 814**	23 110	6 301	29 411
Total assets	**30 861**	**5 814**	**36 675**	28 363	6 638	35 001
Liabilities and shareholders' equity						
Current liabilities						
Payables	**2 756**	**77**	**2 833**	2 267	–	2 267
Interest bearing liabilities	**1 134**	**–**	**1 134**	898	–	898
Tax liabilities	**297**	**(12)**	**285**	322	22	344
Other provisions	**1 402**	**2**	**1 404**	1 100	1	1 101
Total current liabilities	**5 589**	**67**	**5 656**	4 587	23	4 610
Non-current liabilities						
Payables	**177**	**63**	**240**	195	–	195
Interest bearing liabilities	**5 453**	**(1)**	**5 452**	6 426	(12)	6 414
Tax liabilities	**1 218**	**1 323**	**2 541**	1 434	1 609	3 043
Other provisions	**4 044**	**(413)**	**3 631**	3 312	266	3 578
Total non-current liabilities	**10 892**	**972**	**11 864**	11 367	1 863	13 230
Total liabilities	**16 481**	**1 039**	**17 520**	15 954	1 886	17 840
Equity minority interests	**342**	**11**	**353**	318	11	329
Shareholders' equity						
Paid in capital	**3 603**	**5 164**	**8 767**	3 537	5 153	8 690
Other equity items	**410**	**(1)**	**409**	362	(180)	182
Retained profits	**10 051**	**(399)**	**9 652**	8 218	(232)	7 986
Interest in shares of BHP Billiton	**(26)**	**–**	**(26)**	(26)	–	(26)
Total shareholders' equity	**14 038**	**4 764**	**18 802**	12 091	4 741	16 832
Total liabilities and shareholders' equity	**30 861**	**5 814**	**36 675**	28 363	6 638	35 001

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

The BHP Billiton Group Consolidated Statement of Cash Flows has been prepared in accordance with UK accounting standard FRS 1 'Cash Flow Statements', the objectives and principles of which are similar to those set out in US accounting standard SFAS 95 'Statement of Cash Flows'. The principal differences between the standards relate to the classification of items within the cash flow statement as well as the definition of cash and cash equivalents.

The statement below shows the adjustments to be made to the UK GAAP Consolidated Statement of Cash Flows to reclassify it to comply with US GAAP for the years ended 30 June 2004, 2003 and 2002.

	2004 US$M	2003 US$M	2002 US$M
Reconciliation of Cash Flows			
Net cash inflow/outflow from operating activities in accordance with UK GAAP	**6 701**	4 799	4 619
Reclassified to financing activities	**(9)**	(1)	(33)
Dividends received	**238**	212	187
Returns on investments and servicing of finance	**(292)**	(375)	(375)
Tax paid	**(1 337)**	(1 002)	(515)
Exploration and other capital expenditure	**(641)**	(399)	(512)
Net cash provided by operating activities in accordance with US GAAP	**4 660**	3 234	3 371
Capital expenditures	**(2 245)**	(2 421)	(2 159)
Acquisitions and disposals	**179**	405	(38)
Net sale of investments	**54**	465	50
Net cash used in investing activities in accordance with US GAAP	**(2 012)**	(1 551)	(2 147)
Proceeds from issuance of ordinary shares (a)	**51**	146	107
Decrease in interest bearing liabilities	**(862)**	(911)	(324)
Equity dividend paid	**(1 576)**	(868)	(831)
Other	**–**	1	33
Net cash provided by financing activities in accordance with US GAAP	**(2 387)**	(1 632)	(1 015)
Exchange translation effects	**5**	2	5
Net increase in cash and cash equivalents in accordance with US GAAP	**266**	53	214
Cash and cash equivalents at beginning of the financial year	**1 552**	1 499	1 285
Cash and cash equivalents at end of the financial year	**1 818**	1 552	1 499
At year end cash and cash equivalents is made up of:			
Cash at bank and in hand	**674**	587	1 199
Money market deposits (b)	**1 144**	965	300
Cash and cash equivalents at end of the financial year (c)	**1 818**	1 552	1 499

(a) Net of shares repurchased of US$nil (2003: US$20 million; 2002: US$19 million).

(b) Money market deposits with financial institutions have a maturity up to, but not more than, three months.

(c) At 30 June 2004 and 2003, all cash and cash equivalents relate to Continuing Operations. At 30 June 2002, cash and cash equivalents is comprised of cash from Continuing Operations of US$1 413 million and cash from Discontinued Operations of US$86 million.

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

Basis of presentation under US GAAP

Restricted cash

The Group has cash on deposit with financial institutions that is classified as restricted under US GAAP as it is part of arrangements involving loans from those institutions to certain joint ventures within the Group. Under UK GAAP these balances are treated as loans to joint ventures and associates.

Joint ventures and joint arrangements

Under US GAAP, all investments classified as joint ventures, as detailed under the heading 'Joint ventures' in note 1 'Principal subsidiaries, joint ventures, associates and joint arrangements', are accounted for under the equity method of accounting in accordance with APB 18. All joint arrangements, as detailed under the heading 'Proportionally included joint arrangements' in note 1, are proportionally accounted for in accordance with Emerging Issues Task Force Opinion (EITF) 00-01 'Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures'.

The BHP Billiton Group's investment in the Richards Bay Minerals (RBM) joint venture is comprised of two legal entities, Tisand (Pty) Limited and Richards Bay Iron and Titanium (Pty) Limited. Although the BHP Billiton Group owns 51 per cent of Tisand (Pty) Limited, it has not been consolidated under US GAAP in accordance with EITF 96-16 'Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights'. The substantive participating rights of the minority interests holder in Tisand (Pty) Limited are embodied in the shareholder agreement between the BHP Billiton Group and Rio Tinto, the co-venturer. The shareholder agreement ensures that the RBM joint venture functions as a single economic entity. The overall profit of the RBM joint venture is also shared equally between the venturers. The shareholder agreement also states that the parties agree that they shall as their first priority seek the best interests of the project as an autonomous commercial operation rather than seek to service the individual interests of any of the other parties.

The BHP Billiton Group holds a 57.5 per cent ownership interest in Minera Escondida, a joint arrangement in which three other participants hold ownership interests of 30 per cent, 10 per cent and 2.5 per cent, respectively. The rights of the participants are governed by a Participants' Agreement and a Management Agreement. A manager provides management and support services to the project and the compensation of the manager is set forth in the Management Agreement. The Management Agreement establishes an Owners' Council, consisting of members appointed by each participant to represent their interest in Escondida. Each member on the Owners' Council holds voting rights equal to the ownership interest of the participant they represent, although certain matters require the affirmative vote of members of the Owners' Council having in aggregate voting rights equal to or greater than 75 per cent of the total ownership interest. Such matters generally include capital expenditure in excess of prescribed limits, sales of copper concentrate to a single customer, capacity expansions, the termination of construction, mining or production of copper concentrates, and indebtedness. The Agreement also stipulates that certain matters shall require the affirmative vote of all members of the Owners' Council having an ownership interest of 10 per cent or more. Those matters generally relate, within prescribed limits, to changes in the project, changes in the construction budget, the sale or transfer of any Escondida concessions, asset dispositions, agreements between Escondida and a participant, and share or other equity interest issuances in Escondida. In accordance with EITF 96-16, the BHP Billiton Group has not consolidated this investment.

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

Foreign exchange gains and losses

Under UK GAAP, foreign exchange gains and losses arising from the restatement of non-US dollar tax balances are included as part of income tax expense. In addition, foreign exchange gains and losses arising from the restatement of non-US dollar interest bearing liabilities are included in net interest expense and other foreign exchange gains and losses form part of other operating costs. Under US GAAP, all net foreign exchange gains and losses are shown in aggregate as a separate line item in the consolidated income statement. In 2004, the net exchange loss includes losses of US$76 million (2003: loss of US$255 million; 2002: gain of US$43 million) on tax balances and US$104 million (2003: loss of US$115 million; 2002: gain of US$146 million) on interest bearing liabilities.

Cash flows

Under US GAAP, dividends from joint ventures and associates, cash flows from returns on investments and servicing of finance, and tax paid are included in operating activities. In addition, capital expenditure and acquisitions and disposals are included as investing activities. Proceeds from the issuance of shares, increases and decreases in debt, and dividends paid, are included as financing activities. Under UK GAAP, cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Under US GAAP, cash is defined as cash in hand and deposits but also includes cash equivalents, which are short-term investments with original maturities of less than three months.

US GAAP adjustments

(A) Acquisition of BHP Billiton Plc

On 29 June 2001, BHP Billiton Plc (formerly Billiton Plc) consummated the Dual Listed Companies (DLC) merger with BHP Billiton Limited (formerly BHP Limited). A description of the DLC merger structure is provided in 'Dual Listed Companies Structure and Basis of Preparation of Financial Statements'. In accounting for this transaction, the most significant difference between UK GAAP and US GAAP is that, under UK GAAP, the DLC merger has been accounted for as a merger (pooling of interests) in accordance with UK accounting standard FRS 6 'Acquisitions and Mergers', whereas under US GAAP, the DLC merger is accounted for as a purchase business combination with the BHP Billiton Limited Group acquiring the BHP Billiton Plc Group. The BHP Billiton Limited Group has been identified as the acquirer because of the majority ownership interest of BHP Billiton Limited shareholders in the DLC structure. In a merger, the assets, liabilities and equity of the BHP Billiton Plc Group and of the BHP Billiton Limited Group are combined at their respective book values as determined under UK GAAP.

Under US GAAP purchase accounting, the cost of the acquisition is allocated to the fair values of identifiable assets acquired and liabilities assumed. As a result of the fair value exercise, increases in the values of the BHP Billiton Plc Group's inventory, investments, long-term contracts and long-term debt were recognised and fair market values attributed to their other tangible assets mainly property, plant and equipment and undeveloped properties, together with appropriate deferred taxation effects. The difference between the cost of acquisition and the fair value of the assets and liabilities of the BHP Billiton Plc Group has been recorded as goodwill. Fair value adjustments to the recorded amount of inventory and long-term contracts are expensed in the period the inventory is utilised and the long-term contracts are delivered into. Additional amortisation and depreciation are recorded in respect of the fair value adjustments of intangible and tangible assets and until 30 June 2002, the resulting goodwill over the periods of their respective useful economic lives. With effect from 1 July 2002, goodwill is no longer amortised and is tested for impairment annually at 31 March. Included in this adjustment for the year ended 30 June 2004 are goodwill impairments of US$491 million (refer to 'Goodwill and other intangible assets' below).

The adjustments to the assets and liabilities of the BHP Billiton Plc Group to reflect the fair values and allocation of the excess purchase consideration over the fair value of net assets acquired, based on management's best estimates of fair value, are summarised in the shareholders' equity reconciliation.

(B) Employee compensation costs

Under UK GAAP, the expected cost of employee share awards is measured as the difference between the award exercise price and the market price of ordinary shares at the grant date, and is amortised over the vesting period. Under US GAAP, for the year ended 30 June 2002, the Group accounted for employee ownership plans under the recognition and measurement provisions of APB Opinion No. 25 'Accounting for Stock Issued to Employees', and related Interpretations. In 2003, the Group adopted the fair value recognition provisions of Statement of Financial Accounting Standard No. 123, 'Accounting for Stock-Based Compensation' (SFAS 123).

Fair value is determined using a Black-Scholes option-pricing model. Refer to 'Employee compensation costs' below for significant assumptions used in applying this option-pricing model to calculate the employee compensation expense under SFAS 123. The variations in deemed vesting periods under UK GAAP and US GAAP has resulted in further differences.

(C) Write-down of assets

Under UK GAAP, the BHP Billiton Group determines the recoverable amount of property, plant and equipment on a discounted basis when assessing impairments. The discount rate is a risk-adjusted market rate, which is applied both to determine impairment and to calculate the write-down. Under US GAAP, where an asset is reviewed for impairment, an impairment test is required utilising undiscounted cash flows. If the asset's carrying value exceeds the sum of undiscounted future cash flows, the asset is considered impaired and it is written down to its fair value (based on discounted cash flows). These differences result in lower charges to the profit and loss account and higher asset values for the write-downs calculated under US GAAP. In subsequent financial periods, the difference in asset carrying values is reduced through the inclusion of additional depreciation charges in the profit and loss account under US GAAP.

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

(D) Depreciation – revaluations

Revaluations of property, plant and equipment and investments have resulted in upward adjustments to the historical cost values reflected in a revaluation reserve, which is part of total equity. In the case of property, plant and equipment, the depreciation charged against income increases as a direct result of such a revaluation. Since US GAAP does not permit property, plant and equipment to be valued at above historical cost, the depreciation charge has been restated to reflect depreciation based on historical cost.

(E) Depreciation – reserves

The BHP Billiton Group prepares mineral reserve statements based on the Australasian Code for reporting of Mineral Resources and Ore Reserves, September 1999 (the JORC Code). The Supplementary Ore Reserves information contained in the Annual Report differs in certain respects from that reported to the SEC, which is prepared with reference to the SEC's Industry Guide 7. This adjustment reflects the impact on depreciation of the difference in reserves measurement basis.

(F) Fair value accounting for derivatives

Under UK GAAP, when undertaking risk mitigation transactions, hedge accounting principles are applied, whereby derivatives are matched to the specifically identified commercial risks being hedged. These matching principles are applied to both matured and unmatured transactions. Derivatives undertaken as hedges of anticipated transactions are recognised when such transactions are recognised. Upon recognition of the underlying transaction, derivatives are valued at the appropriate market spot rate.

When an underlying transaction can no longer be identified, gains or losses arising from a derivative that has been designated as a hedge of a transaction will be included in the profit and loss account whether or not the derivative is terminated. When a hedge is terminated, the deferred gain or loss that arose prior to termination is:

(a) included in the measurement of the anticipated transaction when it occurs; or

(b) included in the profit and loss account where the anticipated transaction is no longer expected to occur.

The premiums paid on interest rate options and foreign currency put and call options are included in other assets and are deferred and included in the settlement of the underlying transaction. When undertaking strategic or opportunistic financial transactions, all gains and losses are included in the profit and loss account at the end of each reporting period. The premiums paid on strategic financial transactions are included in the profit and loss account at the inception of the contract.

For the purpose of deriving US GAAP information, Statement of Financial Accounting Standards No. 133 'Accounting for Derivative Instruments and Hedging Activities' (SFAS 133) requires that each derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value.

Effective 1 July 2001, for US GAAP purposes, the BHP Billiton Limited Group de-designated existing derivative instruments as hedges of underlying transactions. Amounts previously included in other comprehensive income in relation to those derivative instruments previously designated as cash flow hedges remained until the transactions originally being hedged were recognised, at which time the amounts were taken to the profit and loss account. Movements in the fair value of derivative instruments since 30 June 2001 are taken to the profit and loss account.

The BHP Billiton Plc Group does not apply hedging principles in accordance with SFAS 133 and marks to market all derivative instruments, taking movements in the fair value of derivative instruments to the profit and loss account.

(G) Synthetic debt

An operating subsidiary, whose functional currency is the US dollar, has obtained financing in various foreign currencies. The operating subsidiary entered into forward exchange contracts to fix the exchange rate between the South African rand and the various foreign currencies. In these accounts, the arrangement is treated as a synthetic South African rand debt, which at each period end is retranslated into US dollars at the spot rate with the exchange gain or loss that is recognised being included in the profit and loss account.

Under US GAAP, synthetic debt accounting is not permitted. As a result, the foreign currency loan amounts and forward exchange contracts are accounted for separately. Foreign currency loans are initially recorded at the exchange rate in effect on the date of the borrowing, with gains and losses arising from currency movements taken to the profit and loss account. The forward exchange contracts are marked to market annually with the resulting gain or loss also taken to the profit and loss account.

(H) Realised net exchange gains on sale of assets/closure of operations

Under UK GAAP, net exchange gains or losses reported in shareholders' equity, which relate to assets that have been sold, closed or written down are transferred to retained earnings. US GAAP requires these net exchange gains or losses be recognised in the profit and loss account reflecting that they have, in substance, been realised.

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

(I) Exploration, evaluation and development expenditure

The BHP Billiton Group follows the 'successful efforts' method under UK GAAP in accounting for petroleum exploration, evaluation and development expenditures. This method differs from the 'successful efforts' method followed by some US companies, and adopted in this reconciliation to US GAAP, in that it permits certain exploration costs in defined areas of interest to be capitalised. Such expenditure capitalised by the BHP Billiton Group is amortised in subsequent years. In respect of minerals properties, the BHP Billiton Group capitalises exploration and evaluation expenditure where it is expected that the expenditure will be recouped by future exploitation or sale or where a mineral resource has been identified but activities have not reached a stage, which permits a reasonable assessment of the existence of commercially recoverable reserves. Under US GAAP, a final feasibility study indicating the existence of commercially recoverable reserves at new exploratory 'greenfield' properties serves as the trigger point for capitalisation. US GAAP permits expenditure to be capitalised for the purposes of extending or further delineating existing reserves. In subsequent financial periods, amortisation or write-offs of expenditure previously capitalised under UK GAAP, which would have been expensed for US GAAP purposes, will be added back when determining the profit result according to US GAAP.

(J) Start-up costs

The BHP Billiton Group capitalises as part of property, plant and equipment, costs associated with start-up activities at new plants or operations which are incurred prior to commissioning date. These capitalised costs are depreciated in subsequent years. Under US GAAP, costs of start-up activities are expensed as incurred.

(K) Pension plans

Under UK GAAP, the net periodic pension cost assessed on an actuarial basis is charged to profit and loss so as to allocate the costs systematically over the employees' service lives.

Consequently, the BHP Billiton Group recognises periodic pension cost based on actuarial advice in a manner generally consistent with US GAAP. However, differences in the actuarial method used to value employee benefit obligations and the timing of recognition of expense components results in different periodic costs and pension assets or liabilities.

Further, under US GAAP, where the accumulated benefit obligation of the pension plan exceeds the fair value of plan assets, by an amount greater than the recorded pension liability, an intangible asset (not exceeding the value of the unrecognised prior service cost) and additional pension liability is recognised. If the additional pension liability exceeds the unrecognised prior service cost, the excess (adjusted for the effect of income tax) is recorded as part of other comprehensive income.

(L) Other post-retirement benefits

Under UK GAAP, post-retirement benefits other than pensions have been accounted for in accordance with the provisions of Statement of Standard Accounting Practice 24 'Accounting for Pension Costs' (SSAP 24), which are generally consistent with the provisions of US GAAP including Statement of Financial Accounting Standards No. 106 'Employers' Accounting for Post Retirement Benefits Other Than Pensions' (SFAS 106) except for certain scenarios such as in accounting for plan amendments.

Under UK GAAP, amendments to post-retirement benefits provided are taken into account from the date upon which plan amendments are announced. Under US GAAP, plan amendments are only taken into account from the date upon which the plan amendments become effective.

(M) Mozal expansion rights

In the 2001 year BHP Billiton announced an agreement to sell-down a portion of its preferential rights in the Mozal Phase II project to two of its project partners. Under UK GAAP, the consideration was recognised as revenue. A portion of the consideration was paid in cash and another portion was delivered to the BHP Billiton Group via a marketing arrangement. Under US GAAP, the consideration paid in cash is recognised as profit from asset sales when received. During the year ended 30 June 2004, the final instalment of the consideration to be paid in cash was received and accordingly this will no longer be a US GAAP adjustment.

(N) Employee Share Plan loans

Under the Employee Share Plan, loans have been made to employees for the purchase of shares in BHP Billiton Limited. Under US GAAP, the amount outstanding as an obligation to the BHP Billiton Limited Group, which has financed equity, is required to be eliminated from total shareholders' equity. In addition, any foreign exchange gains or losses on the outstanding loan balances are required to be eliminated from net income.

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

(O) Goodwill

Under UK GAAP, the BHP Billiton Group amortises goodwill over a period not exceeding 20 years. Under US GAAP Statement of Financial Accounting Standards No. 142 'Goodwill and Other Intangible Assets' (SFAS 142), which became effective from 1 July 2002, replaces the requirement to amortise goodwill with annual impairment testing.

The current period adjustment reflects the net goodwill amortisation charge and negative goodwill credit under UK GAAP, which is reversed for US GAAP.

(P) Profit on asset sales

Under US GAAP, profits arising from the sale of assets cannot be recognised in the period in which the sale occurs where the vendor has a significant continuing association with the purchaser. In such circumstances, any profit arising from a sale is recognised over the life of the continuing arrangements.

(Q) BHP Steel demerger

Under UK GAAP, the BHP Steel demerger was recorded as two components in the year ended 30 June 2003. A distribution to BHP Billiton Limited shareholders of 94 per cent of BHP Steel shares (accounted for as a capital reduction) and a sale of 6 per cent of BHP Steel shares (accounted for as a sale of assets). Under US GAAP, the BHP Steel demerger is classified as a non pro-rata distribution to shareholders and is required to be accounted for as a 100 per cent sale of assets. The implied consideration for the sale of the additional 94 per cent of BHP Steel shares is based on the market price of BHP Steel shares used in determining the bonus issue of BHP Billiton Plc shares to BHP Billiton Plc shareholders.

The remaining 6 per cent is measured at the respective sale price. The implied consideration, when compared to the book value of the BHP Steel net assets to be demerged, indicates a shortfall, which was recognised in the result for the period ended 30 June 2002 for US GAAP. The calculation of the book value of the BHP Steel net assets to be demerged includes US GAAP net asset adjustments attributable to BHP Steel. Costs associated with completion of the demerger of BHP Steel have been recognised directly in equity for UK GAAP but were charged as expenses for US GAAP in the year ended 30 June 2002.

The adjustment to net income for the year ended 30 June 2003 primarily represents the loss on sale of the 6 per cent holding included in the year ended 30 June 2003 for UK GAAP, which was recorded in net income in the year ended 30 June 2002 for US GAAP purposes.

(R) Restructuring and employee provisions

These accounts include provisions for redundancies associated with organisational restructuring that can be recognised where positions have been identified as being surplus to requirements, provided the circumstances are such that a constructive liability exists. Under US GAAP, a provision for redundancies involving voluntary severance offers is restricted to employees who have accepted these offers. The adjustment is reversed over subsequent periods as the offers are accepted.

(S) Tax effect of adjustments

Adjustments to the UK GAAP net income and shareholders' equity are disclosed on a before tax basis. This adjustment reflects the impact of those adjustments on income taxes. For the year ended 30 June 2004, goodwill impairments of US$491 million have no tax effect. Other significant differences between the UK nominal rate of taxation of 30 per cent, the effective tax rate under UK GAAP of 23 per cent and the effective rate for US GAAP of 16 per cent are described in 'Other taxation adjustments' below and in note 10.

(T) Other taxation adjustments

For UK GAAP, potential tax expense of US$15 million has not been recognised in the year ended 30 June 2004, mainly relating to the tax impact of unrealised foreign exchange gains or losses on US dollar net debt held by subsidiaries, which retain local currency records for tax purposes. For US GAAP, a tax expense is recognised reflecting the existence of the foreign exchange gains or losses in the accounts of the respective entity. The cumulative effect of this adjustment at 30 June 2004 is a credit to tax liabilities of US$255 million (2003: US$240 million).

During the year ended 30 June 2004, the BHP Billiton Group elected to consolidate its Australian subsidiaries under the Australian tax consolidation regime. Under the transitional rules, the Group has chosen to reset the tax cost base of certain depreciable assets which will result in additional tax depreciation over the lives of the assets. Under UK GAAP, part of the tax benefit resulting from the reset of the tax cost base is recorded in future years as a permanent difference to taxation expense. Under Statement of Financial Accounting Standard No. 109 (SFAS 109) 'Accounting for Income Taxes', the tax benefit resulting from the change in the tax legislation is recognised in full as a change to deferred tax balances and tax expense.

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

(U) Change in fair value of listed investments

As part of its exploration strategy, the Group makes use of junior exploration companies (junior) to leverage its exploration spend. This generally involves the Group receiving shares in the junior and an option to enter into a joint venture over specific properties the junior is exploring, in exchange for the Group contributing cash, exploration properties or other interests to the junior. Usually there is an agreement for the cash to be spent only on exploration of the specified properties. Under UK GAAP, cash contributions (which usually take the form of subscription for shares in the junior) are expensed as exploration costs and no gain is recorded when properties are contributed to the joint venture. The US GAAP treatment is similar to UK GAAP except that investments in juniors with publicly traded shares are carried at their fair value, as available for sale securities, with unrealised changes in value recorded in other comprehensive income until realised or an other-than-temporary impairment occurs.

(V) Dividends

Under UK GAAP, dividends that are declared after balance date but before the issuance of the financial statements are treated as a post-balance date event requiring adjustment in the financial statements. Under US GAAP, a provision for dividends cannot be recorded until the following year. In the current period, the BHP Billiton Group changed its timing on dividend declarations which results in a dividend provision being recorded under UK GAAP, which is reversed for US GAAP.

Employee compensation costs

For the year ended 30 June 2002, the BHP Billiton Group applied the principles of APB 25 in determining employee compensation costs arising from the various employee ownership plans under US GAAP. Had the fair value basis of accounting in SFAS 123 been used to account for compensation costs for those prior periods, the following net income and earnings per share amounts would have been reported:

	2002 US$M
Net income	
As reported	1 249
Add: Stock based compensation expense/(benefit) recorded in net income	(15)
Deduct: Expense calculated in accordance with SFAS 123	(10)
Pro-forma net income	1 224
Basic earnings per share (US cents) (a)	
As reported	0.21
Pro-forma	0.20
Diluted earnings per share (US cents) (b)	
As reported	0.21
Pro-forma	0.20

(a) Based on net profit attributable to members of BHP Billiton Group under US GAAP.
(b) Refer note 12 'Earnings per share'.

Fair valuation of awards as presented below represents the value of awards issued under employee share ownership plans of BHP Billiton Plc and BHP Billiton Limited. The values relate to the awards granted during the financial year and are measured at grant date.

	2004 US$	2003 US$	2002 US$
Group Incentive Scheme option (BHP Billiton Plc)	**1.84**		
Group Incentive Scheme option (BHP Billiton Limited)	**2.11**		
Group Incentive Scheme Deferred Share (BHP Billiton Plc)	**6.84**		
Group Incentive Scheme Deferred Share (BHP Billiton Limited)	**7.22**		
Group Incentive Scheme Performance Share (BHP Billiton Plc)	**3.14**	1.08	
Group Incentive Scheme Performance Share (BHP Billiton Limited)	**3.31**	1.13	
Employee Share Plan option		1.22	1.22
Restricted Share Scheme award			1.65
Co-Investment Plan matching award			2.63
Performance Right (LTI)			1.86
Performance Right (MTI)			2.97
Bonus Equity Share Plan award (a)			4.76

(a) The fair value of a Bonus Equity Plan award is equal to the market value of a BHP Billiton Limited share at date of grant.

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

The fair values of awards granted were estimated using Black-Scholes option pricing techniques. Significant assumptions used in applying this fomula were as follows:

34 US Generally Accepted Accounting Principles disclosures continued

	2004	2003	2002
Group Incentive Scheme Option (BHP Billiton Plc)			
Risk-free interest rate	**4.9%**		
Estimated life of awards	**4.8 years**		
Estimated volatility of share price	**25.0%**		
Dividend yield	**2.1%**		
Group Incentive Scheme Option (BHP Billiton Limited)			
Risk-free interest rate	**5.9%**		
Estimated life of awards	**4.8 years**		
Estimated volatility of share price	**25.0%**		
Dividend yield	**2.1%**		
Group Incentive Scheme Deferred Share (BHP Billiton Plc)			
Risk-free interest rate	**4.9%**		
Estimated life of awards	**3 years**		
Estimated volatility of share price	**27.4%**		
Dividend yield	**2.5%**		
Group Incentive Scheme Deferred Share (BHP Billiton Limited)			
Risk-free interest rate	**4.9%**		
Estimated life of awards	**3 years**		
Estimated volatility of share price	**27.4%**		
Dividend yield	**2.5%**		
Group Incentive Scheme Performance Shares (BHP Billiton Plc)			
Risk-free interest rate	**5.5%**	4.6%	
Estimated life of awards	**5.7 years** (a)	5 years (a)	
Estimated volatility of share price	**25.0%**	20.0%	
Dividend yield	**2.3%**	2.5%	
Group Incentive Scheme Performance Shares (BHP Billiton Limited)			
Risk-free interest rate	**5.9%**	4.6%	
Estimated life of awards	**5.7 years** (a)	5 years (a)	
Estimated volatility of share price	**25.0%**	20.0%	
Dividend yield	**2.3%**	2.5%	
Employee Share Plan Options			
Risk-free interest rate		4.8%	4.8%
Estimated life of options		5 years (a)	5 years (a)
Estimated volatility of share price		20.0%	20.0%
Dividend yield		2.2%	2.2%
Restricted Share Scheme awards			
Risk-free interest rate			4.8%
Estimated life of awards			5 years (a)
Estimated volatility of share price			20.0%
Dividend yield			2.2%
Co-Investment Plan matching awards			
Risk-free interest rate			4.6%
Estimated life of awards			4 years (a)
Estimated volatility of share price			20.0%
Dividend yield			2.2%
Performance Rights (LTI)			
Risk-free interest rate			4.8%
Estimated life of Performance Rights			5 years (a)
Estimated volatility of share price			20.0%
Dividend yield			2.2%
Performance Rights (MTI)			
Risk-free interest rate			4.6%
Estimated life of Performance Rights			4 years (a)
Estimated volatility of share price			20.0%
Dividend yield			2.2%

(a) Subject to performance conditions.

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

Goodwill and other intangible assets

In accordance with SFAS 142, the BHP Billiton Group no longer amortises goodwill and instead has adopted a policy whereby goodwill is tested for impairment on an annual basis by each reporting unit, or on a more regular basis should circumstances dictate. All impairments recorded during the year were calculated by discounting the operations' expected future cash flows using a risk-adjusted discount rate.

As required by SFAS 142, the balance of goodwill by Customer Sector Group is:

	2004 US$M	2003 US$M
Aluminium (a)	**1 254**	1 426
Base Metals (b)	**547**	594
Carbon Steel Materials	**285**	285
Diamonds and Specialty Products (c)	**151**	154
Energy Coal (d)	**68**	384
Stainless Steel Materials	**343**	343
	2 648	3 186

(a) As a result of revisions to price and foreign exchange assumptions as well as the estimated useful life of operations, goodwill allocated to Bayside has been impaired by US$151 million during the current year. In addition, an impairment of US$21 million was recorded for Valesul, due to a change in tariffs on electricity charges.

(b) During the year ended 30 June 2004, the Group sold its interest in the Highland Valley Copper joint venture. The movement in goodwill during the period reflects the disposal of this interest.

(c) Due to minor changes in pricing and volume assumptions, the Group recorded an impairment of goodwill in its Diamonds and Specialty Products CSG of US$3 million during the year ended 30 June 2004.

(d) The movement in goodwill in the Energy Coal CSG during the year results from an impairment of goodwill at Ingwe of US$316 million. This primarily relates to a reassessment of the probability of pursuing potential expansion projects.

The following table summarises the effects of SFAS 142 on net income had it been applied retroactively to 2002:

	2002 US$M
Net income of the BHP Billiton Group for the purposes of US GAAP	1 249
add back: Goodwill amortisation	133
Adjusted net income of the BHP Billiton Group for the purposes of US GAAP	1 382
Earnings per share – US GAAP (US cents) (a)(b)	
Basic	
As reported	0.21
Goodwill amortisation (c)	0.02
Adjusted	0.23
Diluted	
As reported	0.21
Goodwill amortisation (c)	0.02
Adjusted	0.23

(a) Based on the weighted average number of shares on issue for the period.

(b) For the period indicated, each American Depositary Share (ADS) represents two ordinary shares. Therefore the earnings per ADS under US GAAP is a multiple of two from the above earnings per share disclosure.

(c) All goodwill amortisation is attributable to Continuing Operations.

The following table summarises other intangible assets of the BHP Billiton Group as at 30 June 2004 and 30 June 2003.

	2004 US$M	2003 US$M
Pension asset	**18**	19
Other intangible assets		
Long-term customer contracts at gross book value	**40**	40
deduct amounts amortised (a)(b)	**4**	3
	54	56

(a) Gross amortisation expense for other intangible assets for the year ended 30 June 2004 was US$1.3 million.

(b) Estimated gross amortisation expense for other intangible assets for the next five financial years is US$1.3 million per annum.

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

Pensions and post-retirement medical benefit plans

The BHP Billiton Group's pension and post-retirement medical benefit plans are discussed in note 27. The disclosures below include the additional information required by Statement of Financial Accounting Standards No. 132 'Employers' Disclosures about Pensions and Other Post Retirement Benefits' (SFAS 132). The pension and medical costs of the BHP Billiton Group's significant defined benefit plans have been restated in the following tables in accordance with US GAAP.

The measurement date used to determine pension and medical benefit measurements as at 30 June 2004 for the Group's pension plans and medical schemes is 30 June 2004 for all plans.

Pension schemes

	2004 US$M	2003 US$M	2002 US$M
The net periodic pension cost for the significant defined benefit pension plans comprised:			
Service costs	**56**	43	67
Interest costs	**76**	64	85
Expected return on plan assets	**(81)**	(71)	(105)
Amortisation of prior service cost	**3**	3	1
Amortisation of net transition asset	**(2)**	(3)	(12)
Termination benefits and curtailment costs	**–**	12	1
Recognised net actuarial loss	**20**	9	1
Net periodic pension cost under US GAAP	**72**	57	38

	2004 %	2003 %	2002 %
The major weighted average assumptions (weighted by the net periodic pension cost) used in computing the above pension cost were:			
Rates of future pay increases	**3.8**	3.8	3.4
Discount rate	**5.3**	5.3	6.2
Expected long-term rates of return on plan assets	**7.0**	7.3	8.0

	2004 US$M	2003 US$M
Change in benefit obligation		
Projected benefit obligation at the beginning of the year	**1 191**	1 387
Amendments	**16**	–
Service costs	**56**	43
Interest costs	**76**	64
Plan participants' contributions	**10**	15
Actuarial (gain)/loss	**(2)**	68
Benefits paid	**(106)**	(391)
Demerger or disposal of subsidiaries	**–**	(96)
Adjustment due to inclusion of insured pensioners	**65**	–
Adjustments for changes in the Group structure and joint venture arrangements	**26**	(3)
Termination benefits and curtailment costs	**–**	2
Exchange variations	**62**	102
Projected benefit obligation at the end of the year	**1 394**	1 191
Projected benefit obligation at the end of the year for plans with accumulated benefit obligations in excess of plan assets	**750**	999
Accumulated benefit obligation at the end of the year for plans with accumulated benefit obligations in excess of plan assets	**696**	908
Accumulated benefit obligation for all defined benefit pension plans	**1 217**	1 063

	2004 %	2003 %
The major weighted average assumptions (weighted by the projected benefit obligation) used in computing the above benefit obligation were:		
Rates of future pay increases	**3.7**	3.1
Discount rate	**6.4**	5.5

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

	2004 US$M	2003 US$M
Change in plan assets		
Fair value of plan assets at the beginning of the year	**912**	1 211
Actual return on plan assets	**146**	6
Employer contribution	**75**	38
Plan participants' contributions	**10**	15
Benefits paid	**(106)**	(391)
Demerger or disposal of subsidiaries	**–**	(58)
Adjustment due to inclusion of insured pensioners	**65**	–
Adjustments for changes in the Group structure and joint venture arrangements	**13**	(4)
Exchange variations	**57**	95
Fair value of plan assets at the end of the year	**1 172**	912
Fair value of plan assets at the end of the year for plans with accumulated benefit obligations in excess of plan assets	**515**	669

Plan assets consist primarily of bonds and equities. Refer note 27 for further details.

	2004 US$M	2003 US$M
Funded status		
Funded status	**(222)**	(279)
Unrecognised net actuarial loss	**282**	346
Unrecognised prior service cost	**33**	19
Unrecognised net transition asset	**(3)**	(5)
Net amount recognised	**90**	81

	2004 US$M	2003 US$M
Analysis of net amount recognised		
Prepaid benefit obligation	**130**	47
(Accumulated) benefit obligation	**(193)**	(213)
Intangible asset	**18**	19
Accumulated other comprehensive income	**135**	228
Net amount recognised	**90**	81
(Decrease)/increase in minimum liability included in other comprehensive income	**(93)**	154

	2004 %	2003 %
Weighted average asset allocation by asset category:		
Equities	**51**	54
Bonds	**33**	35
Property	**3**	2
Cash and net current assets	**3**	6
Other	**10**	3
Total	**100**	100

	2004 %
Weighted average target asset allocation by asset category as at 30 June 2004 for future periods:	
Equities	**57**
Bonds	**29**
Property	**3**
Cash and net current assets	**2**
Other	**9**
Total	**100**

The BHP Billiton Group expects to contribute US$60 million to US$80 million to its pension plans in the year ending 30 June 2005.

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

	2004 US$M
Expected future benefit payments for the year ending:	
30 June 2005	**72**
30 June 2006	**74**
30 June 2007	**76**
30 June 2008	**81**
30 June 2009	**83**
Estimated benefit payments for the 5year period from 30 June 2009 to 30 June 2014	**484**

Given the nature of some of the pension schemes, year on year variations on benefit payments can be significant.

Post-retirement medical benefits

	2004 US$M	2003 US$M	2002 US$M
Net medical cost			
Service cost	**6**	6	3
Interest cost	**24**	21	17
Recognised actuarial loss	**3**	–	1
Termination benefits and curtailment costs	**–**	–	(5)
Amortisation of prior service credit	**(1)**	–	(1)
Net medical cost	**32**	27	15

	2004 %	2003 %	2002 %
The major weighted average assumptions used in calculating the net medical cost were:			
Rate of future medical inflation	**7.8**	7.9	6.1
Discount rate	**8.1**	8.0	8.4

The rate of future medical inflation rate reflects the fact that the benefits of certain groups of participants are capped.

	2004 US$M	2003 US$M
Change in accumulated post-retirement benefit obligation		
Accumulated post-retirement benefit obligation at the beginning of the year	**315**	220
Amendments	**12**	13
Service costs	**6**	6
Interest costs	**24**	21
Actuarial (gains)/loss	**(34)**	43
Benefits paid	**(19)**	(18)
Adjustments for changes in the Group structure and joint venture arrangements	**(10)**	(1)
Exchange variations	**27**	31
Accumulated post-retirement benefit obligation at the end of the year	**321**	315
Change in plan assets		
Fair value of plan assets at the beginning of the year	**–**	–
Employer contributions	**19**	18
Benefits paid	**(19)**	(18)
Fair value of plan assets at end of year	**–**	–
Funded status		
Funded status	**(321)**	(315)
Unrecognised net actuarial loss	**37**	66
Unrecognised prior service cost	**1**	(10)
Accrued post-retirement medical cost	**(283)**	(259)

	2004 %	2003 %
The major weighted average assumptions (weighted by the accumulated post-retirement benefit obligation) used in computing the above benefit obligation were:		
Rates of future medical inflation	**7.6**	7.9
Discount rate	**8.1**	7.8

	1% decrease US$M	1% increase US$M
The impact of a 1 per cent variation in the rate of future medical inflation on the 2004 results would be:		
Effect on total service and interest cost	**(3)**	4
Effect on accumulated post-retirement benefit obligation	**(30)**	36

Notes to Financial Statements continued

34 US Generally Accepted Accounting Principles disclosures continued

The BHP Billiton Group expects to contribute US$20 million to US$30million to its post-retirement medical plans in the year ending 30 June 2005.

	2004 US$M
Expected future benefit payments for the year ending:	
30 June 2005	**22**
30 June 2006	**22**
30 June 2007	**23**
30 June 2008	**24**
30 June 2009	**24**
Estimated benefit payments for the 5year period from 30 June 2009 to 30 June 2014	**135**

Impact of new accounting standards

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 150 'Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity' (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that the following types of freestanding financial instruments be reported as liabilities:

(a) mandatory redeemable shares;
(b) instruments other than shares that could require the issuer to buy back some of its shares in exchange for cash or other assets; and
(c) obligations that can be settled with shares, the monetary value of which is either:
  (i) fixed,
  (ii) tied to the value of a variable other than the issuer's shares, or
  (iii) varies inversely with the value of the issuer's shares.

Measurement of these liabilities generally is to be at fair value, with the payment of dividends to be reported as interest cost. The adoption of SFAS 150 from 1 July 2003 did not impact these financial statements.

In the year ended 30 June 2004, the Group first applied the provisions of FASB Interpretation No. 46 (Revised) 'Consolidation of Variable Interest Entities' (FIN 46R. The objective of FIN 46R is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust or any other legal structure used to conduct activities or hold assets in which either:

(a) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or
(b) the equity investors lack:
  (i) the ability to make decisions about the entity's activities,
  (ii) the obligation to absorb the losses of the entity if they occur, or
  (iii) the right to receive the expected residual returns of the entity if they occur.

Historically, entities generally were not consolidated under US GAAP unless the entity was controlled through voting interests.

FIN 46R changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46R also requires disclosure about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest.

The application of FIN 46R in the year ended 30 June 2004 did not have an impact on the net income or shareholders' equity of the BHP Billiton Group under US GAAP.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus in Issue No. 04-2 that mineral rights should be accounted for as tangible assets and that mining entities should disclose mineral rights in a separate caption, either on the face of the balance sheet or in the notes to the financial statements, consistent with each entity's current practice for disclosing the components of tangible assets. As the Group already classifies mineral rights as tangible assets, application of Issue 04-2 has not impacted these financial statements.

In March 2004, the EITF also reached a consensus in Issue No. 04-3 that value beyond proven and probable mineral reserves (as defined in SEC Industry Guide 7) as well as value attributable to the effects of anticipated fluctuations in future market prices of minerals should be considered when an entity allocates the purchase price to assets acquired in a business combination. Additionally, the EITF concluded that value beyond proven and probable reserves and the effects of anticipated fluctuations in future prices should be considered in the cash flow analysis used in impairment testing. Issue 04-3 is effective for periods beginning on or after 31 March 2004, however early adoption is permitted for any period for which financial statements have yet to be issued. The BHP Billiton Group adopted the provisions of Issue 04-3 for impairment tests carried out in the year ended 30 June 2004, however it did not have an impact on these financial statements as the consensus validated the approach previously adopted by BHP Billiton.

Notes to Financial Statements continued

35 Remuneration Report

1. Remuneration Policy

The Remuneration Committee of BHP Billiton Limited and BHP Billiton Plc recognises that the Group operates in a global environment and that its performance depends on the quality of its people. To prosper, the Group must be able to attract, motivate and retain highly-skilled executives willing to work around the world.

The key principles of the Group's remuneration policy are to:

- provide competitive rewards to attract and retain executive talent on a global basis
- apply demanding key performance indicators to deliver results across the Group and to a significant portion of the total reward
- link rewards to executives to the creation of value for shareholders
- assess and reward executives using financial and non-financial measures of performance
- ensure remuneration arrangements between executives are equitable and facilitate the deployment of human resources around the Group, and
- limit severance payments on termination to pre-established contractual arrangements which do not commit the Group to making unjustified payments in the event of non-performance.

2. Remuneration Structure

It is the Group's policy that service contracts for senior executives, including the Chief Executive Officer, be unlimited in term but capable of termination on 12 months' notice and that the Group retains the right to terminate the contract immediately, by making a payment equal to 12 months' pay in lieu of notice.

Some executives (but not the Chief Executive Officer) have existing service contracts that contain notice periods that exceed 12 months. The Committee has determined that it will limit notice periods to 12 months in all future contracts for executives, unless exceptional circumstances exist.

The service contracts typically outline the components of remuneration paid to executives but do not prescribe how remuneration levels are to be modified from year to year. Remuneration levels are reviewed each year to take account of cost-of-living changes, any change in the scope of the role performed by the executive and any changes required to meet the principles of the remuneration policy.

Remuneration is divided into two components. The first is the fixed component, which is generally made up of base salary and benefits, including retirement benefits. The second is the at risk component which is subject to Key Performance Indicators (KPIs) and Performance Hurdles and is generally made up of short and long-term incentives that take the form of cash payments and/or participation in equity plans. The amount of at risk remuneration, if any, that is earned by an executive is wholly dependent on that executive's and the Group's performance against those pre-determined KPIs and Performance Hurdles, details of which are set out in section 2.2.1 of this Report. The percentage of total remuneration that is attributable to the fixed and at risk components for each of the executives for whom remuneration is reported is set out in sections 3.1.1, 3.2.1 and 4.3 of this Report.

The cost and value of all of the components are considered as a whole. BHP Billiton's remuneration policy is to pay at the median level of remuneration for target performance and to provide the opportunity for upper decile rewards for distinctive (upper decile) performance. Details of each element of remuneration are set out below.

2.1 Fixed remuneration

2.1.1 Base salary and benefits

Base salaries are quantified by reference to the scope and nature of the individual's role and their performance and experience. Market data is used to benchmark salary levels on a single global scale, adjusted for local conditions. Particular consideration is given to competitive global remuneration levels.

In addition to base salary, selected executives receive benefits that might include health insurance, relocation costs, life assurance, car allowances and tax advisory services. All benefits received by the executive Directors and Specified Executives, are outlined in sections 3 and 4 of this Report.

2.1.2 Retirement benefits

A range of retirement and death-in-service benefits operate within the Group. These reflect the different statutory entitlements in the jurisdictions in which BHP Billiton operates and local market practice.

Some retirement benefits are delivered under defined benefit plans. The Committee considers that these types of plans can place an unreasonable financial burden on the Group and has therefore resolved that no new members will be admitted to the remaining defined benefit plans, save in exceptional circumstances.

Details of the retirement benefits of the executive Directors and Specified Executives are set out in sections 3 and 4 of this Report.

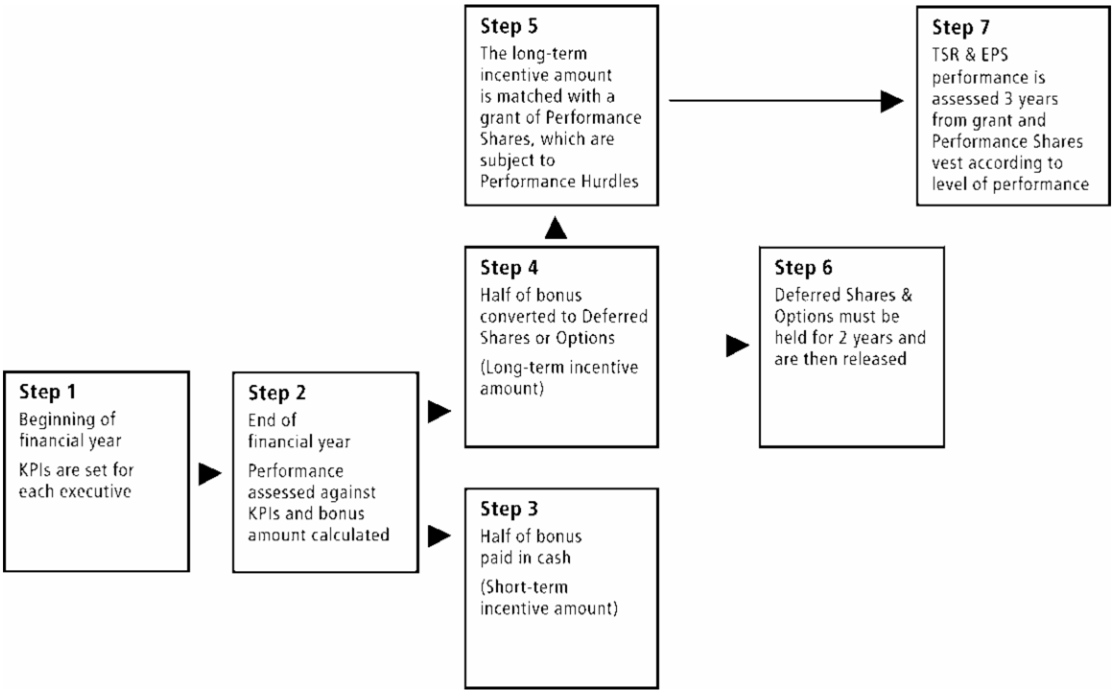
Notes to Financial Statements continued

2.2 *At risk* remuneration

At risk remuneration is delivered as short and long-term incentives under the Group Incentive Scheme (GIS) and applies to the Group's senior management, which includes the Company Secretary.

The GIS represents the variable component of remuneration and rewards senior executives for meeting or exceeding KPIs that are set each year and aligned to BHP Billiton's strategic framework. It is designed to drive sustainable, transparent performance in the long-term and reflects the Group's commitment to crucial operational targets. Participation in the GIS requires the approval of the Committee. Employees are required to hold a minimum number of BHP Billiton Shares throughout the period of their participation, which varies according to their seniority.

Summary of the operation of the Group Incentive Scheme



Some of the incentive plans replaced by the GIS in 2002 remain in operation although no new awards have been made under them. The last of the awards made under these plans will expire in 2011.

A summary of all incentive plans under which awards to executive Directors are still to vest or be exercised is set out in section 2.2.2 below. Entitlements held by Specified Executives under incentive plans are summarised in section 4.4 below and detailed in note 31.

2.2.1 Group Incentive Scheme

A summary of the current operation of the GIS is set out above.

The Board has proposed a series of changes to the GIS, subject to the approval of shareholders. Further details of the proposed changes are set out in the Notices convening the 2004 annual general meetings or can be accessed on the website at *www.bhpbilliton.com/bbContentRepository/Events/PLCNOM04.pdf*. In summary, the changes are designed to provide additional focus on the long-term performance of the Group. To achieve this aim, Directors will propose that the three-year Performance Shares component of the GIS be replaced with awards under a new five-year plan. The manner of assessing the remaining components of *at risk* remuneration under the GIS – cash bonus and Deferred Shares – will remain intact.

The rules of the GIS are available on the BHP Billiton website at
www.bhpbilliton.com/bbContentRepository/Events/BHPBillitonLtdGIS.pdf and
www.bhpbilliton.com/bbContentRepository/Events/BHPBillitonPlcGIS.pdf.

During the year, Performance Shares were granted to GIS participants in respect of their performance for the year 1 July 2002 to 30 June 2003. These are subject to Performance Hurdles, based on Earnings Per Share (EPS) growth and comparative Total Shareholder Return (TSR) during the performance period (1 July 2003 to 30 June 2006), to be measured in 2006.

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Notes to Financial Statements continued

To vest, Performance Hurdles for both BHP Billiton Plc and BHP Billiton Limited must be reached –

- The EPS growth targets will be satisfied if the compound EPS growth for the Group during the performance period is at least equal to the greater of the increase in the Australian Consumer Price Index or the increase in the UK Retail Price Index, plus 2 per cent per annum, over the performance period.
- If the TSR calculations for BHP Billiton Limited and BHP Billiton Plc over the performance period result in one entity receiving a higher TSR percentile than the other, both will be deemed to have achieved the lower TSR percentile. The level of vesting is as follows:

TSR percentile	% of Performance Shares that will vest
85th – 100th percentile	100
80th < 85th percentile	90
75th < 80th percentile	80
70th < 75th percentile	70
65th < 70th percentile	65
60th < 65th percentile	60
55th < 60th percentile	50
50th < 55th percentile	40
Less than 50th percentile	None

The peer group of companies against which BHP Billiton's TSR performance is measured comprises:

• Alcan	• Marathon Oil Company
• Alcoa	• Newmont Mining
• Alumina	• Noranda
• Anglo American	• Phelps Dodge
• Barrick Gold	• Placer Dome
• Companhia Vale do Rio Doce	• Rio Tinto
• Conoco Phillips	• Unocal
• Freeport-McMoRan	• Woodside Petroleum
• Inco	• Xstrata

These Performance Hurdles were chosen to encourage participants to focus on the long-term performance of the Group.

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

2.2.2 Long-term incentive plans – summary

The long-term incentive plans in which the executive Directors have unvested or unexercised awards at the date of this Report are summarised in the table below.

	Employee Share Plan 2000 (ESP 2000) [(1)]	**Performance Share Plan 2001 (PSP 2001) & Restricted Share Scheme 2001 (RSS 2001)**	**Medium Term Incentive Plan 2001 (MTI 2001) & Co-Investment Plan 2001 (CIP 2001)**	**Group Incentive Scheme (GIS) 2002 Performance Shares (Transition Year)**	**Group Incentive Scheme (GIS) 2003 Performance Shares**
Performance measurement From To	3 April 2000 2 April 2003	1 October 2001 30 September 2004	1 October 2001 30 September 2005[(2)]	1 July 2002 30 June 2005	1 July 2003 30 June 2006
Retesting available (i.e. a further opportunity to test performance after the first performance period has ended)	Yes, monthly until 2 April 2010	Yes, annually until 30 September 2006 but only applies to 25% of the award if retested	No	No	No
TSR performance condition	BHP Billiton Limited TSR compared to ASX 100 and global comparator group	BHP Billiton TSR compared to global comparator group	BHP Billiton TSR compared to global comparator group	BHP Billiton TSR compared to global comparator group	BHP Billiton TSR compared to global comparator group
Inflationary performance condition	No	Yes[(3)]	Yes[(3)]	Yes[(4)]	Yes[(4)]
Vesting schedule (upper and lower range)	< 41 percentile – 0% > 60 percentile 100%	< 10th position – 0% > 4th position – 100% [(5)]	< 10th position – 0% > 4th position – 80% [(6)]	< 50th percentile – 0% 85th–100 percentile 100%	< 50th percentile – 0% 85th–100 percentile 100%
Plan status	Legacy plan. Awards have met Performance Hurdles and are capable of being exercised.	Legacy plan. Performance period not yet concluded.	Legacy plan. Performance period not yet concluded.	Performance period not yet concluded.	Performance period not yet concluded.
Expiry date if exercisable	April 2010[(7)]	September 2011[(7)]	April 2006[(7)]	August 2008	August 2009
Comparator Group[(8)]:					
ASX 100	X				
Alcan		X	X	X	X
Alcoa		X	X	X	X
Alumina		X	X	X	X
Anglo American		X	X	X	X
Arcelor	X				
Barrick Gold		X	X	X	X
Companhia Vale do Rio Doce		X	X	X	X
Conoco Phillips	X	X	X	X	X
Corus Group	X				
Freeport McMoran	X	X	X	X	X
Inco		X	X	X	X
LTV	X				
Marathon Oil	X	X	X	X	X
Newmont Mining		X	X	X	X
Noranda	X	X	X	X	X
Nucor	X				
Phelps Dodge	X	X	X	X	X
Placer Dome		X	X	X	X
Rio Tinto	X	X	X	X	X
Total	X				
Unocal	X	X	X	X	X
US Steel	X				
WMC Resources	X				
Woodside Petroleum	X	X	X	X	X
Xstrata				X	X

Full details of all long-term incentive plans, including the number of participants is contained in note 23.

Notes:

(1) Although the awards under this plan have vested, the executive Directors have not yet exercised their awards and still retain an interest in the plan.

(2) The first performance period ended 30 September 2003. At that time, participants had the option to remain within the plan and enter a second performance period or leave the plan. The second performance period is a further two years ending on 30 September 2005.

(3) The TSR growth targets will be satisfied if the compound TSR growth for the Group during the performance period is at least equal to the greater of the increase in the Australian Consumer Price Index or the increase in the UK Retail Price Index, plus 2 per cent per annum, over the performance period.

(4) The EPS growth targets will be satisfied if the compound EPS growth for the Group during the performance period is at least equal to the greater of the increase in the Australian Consumer Price Index and the increase in the UK Retail Price Index, plus 2 per cent per annum, over the performance period.

(5) The percentage of performance rights that vest under the PSP 2001 will not be greater than the percentage of the Share award that vests under the RSS 2001 and vice versa.

(6) In respect of the second performance period > 4th position will mean a match of 125 per cent of Shares held by a participant. The percentage of performance rights that vest under the MTI 2001 will not be greater than the percentage of the Share award that vests under the CIP 2001 and vice versa.

(7) Expiry date will be earlier if employment ceases.

(8) From publicly available data.

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

3. Executive Directors

At the date of this Report there were two executive Directors in office, Mr Charles Goodyear and Mr Miklos (Mike) Salamon. The following sections detail their remuneration arrangements.

3.1 Mr Charles Goodyear

3.1.1 Summary of remuneration arrangements

Mr Goodyear's remuneration is made up of fixed and at risk components. For the year ended 30 June 2004, fixed remuneration, which comprises base salary, retirement benefits and other benefits, equals 51 per cent of total remuneration, when calculated at the target level of performance.

The at risk remuneration is made up of short and long-term incentives. Short-term incentives generally take the form of cash and are measured against KPIs. Long-term incentives are delivered through equity awards and are measured against Performance Hurdles. At risk remuneration for the year ended 30 June 2004 equals 49 per cent of total remuneration when calculated at the target level of performance.

The Committee has assessed Mr Goodyear's performance for the year and has concluded that, save for the KPI relating to Health, Safety and Environment, it was above target. Accordingly, the value of the at risk remuneration, and therefore the percentage of the total that is attributable to at risk remuneration, will be greater than the percentage at target level.

The tables that appear in sections 3.1.3 and 3.1.4 of the Report have been prepared in accordance with the law and accounting standards in the UK. While the information presented is fulsome, it does not readily give a picture of the amount of remuneration Mr Goodyear earned for the year. One of the reasons for this is that the value of the at risk remuneration cannot be finally determined until (i) approval to issue Shares has been granted by shareholders; (ii) the price at which the Shares are issued is known; and (iii) the performance period has expired and performance has been assessed against the Performance Hurdles. For these reasons the value of the at risk remuneration has to be estimated.

In the case of Deferred Shares the only vesting condition is for Mr Goodyear to remain in the employment of the Group for two further years. In the case of Performance Shares, the Performance Hurdles include TSR and EPS measures. Accordingly, the number, if any, of Shares that will ultimately vest cannot be determined until the service period has been completed or the Performance Hurdles have been assessed (in 2006 in the case of Deferred Shares and 2007 in the case of Performance Shares). The value of the Shares that form part of the *at risk* remuneration appearing throughout this section of the Report, are therefore estimates.

The summary below outlines Mr Goodyear's *fixed* and *at risk* remuneration for the year ended 30 June 2004.

Component of remuneration	Amount US$	Further information
***Fixed* remuneration**		
(Comprising base salary and benefits including retirement benefits)	2 171 071	see section 3.1.3
***At risk* remuneration**		
Cash bonus	1 070 125	see section 3.1.3
Estimated fair value of the Deferred Shares	997 504	see section 3.1.4
Notional fair value of the Performance Shares	449 453	see section 3.1.4
Estimated total remuneration for financial year 2004	4 688 153	

At this year's annual general meetings shareholders will be asked to approve amendments to the GIS which will include the replacement of the three-year Performance Share component of the GIS with an award of Shares under a new five-year plan. If this resolution is approved no Performance Shares will be issued to Mr Goodyear in relation to the 2004 year. Shares under the new five-year plan will be issued in their place. Details of the proposed number of Shares and the Performance Hurdles that will apply are detailed in the Notices convening the annual general meetings. The method of assessing the remaining parts of the *at risk* remuneration under the GIS – the cash bonus and Deferred Shares/Options – will remain intact. The table above includes a notional fair value for the Performance Shares that would be issued (subject to shareholders' approval) under the existing terms of the GIS.

Notes to Financial Statements continued

3.1.2 Service contract

Mr Goodyear has a single service contract with BHP Billiton Limited and BHP Billiton Plc dated 21 August 2003. The contract does not contain a fixed term and can be terminated by the Group on 12 months' notice. Mr Goodyear is entitled to terminate the contract on three months' notice. The Group may immediately terminate the contract by paying Mr Goodyear 12 months' base salary in lieu of notice. Where a payment is made in lieu of notice, a contribution to a superannuation or pension fund is also payable (see section 3.1.5 below).

Any entitlement Mr Goodyear might have in relation to short and long-term incentives is covered by the GIS (details of which are set out in section 2.2.1). The rules of that scheme outline the circumstances in which Mr Goodyear (and any other participant) would be entitled to receive any Deferred Shares, Options or Performance Shares that had been granted but which had not vested at the date of termination. The rules of the GIS also outline the circumstances in which Mr Goodyear would be entitled to a cash bonus payment for the performance year in which he leaves the Group. Those circumstances depend on the reason for his departure.

The Committee has discretion in relation to the entitlements of an employee on termination in some circumstances. This will include situations where the employee does not resign or is not terminated for cause, for example, where the Group and Mr Goodyear reach a mutual decision to part. In an effort to provide the Group, its shareholders and Mr Goodyear with as much certainty as possible in relation to his entitlements at termination, the Committee has considered what Mr Goodyear's entitlements might be if a mutual decision to part was reached. The Committee has resolved that, providing Mr Goodyear has served as Chief Executive Officer for no less than three years, he would be entitled to:

- any Deferred Shares or Options that had been granted but were not exercisable at the date of departure. The Committee believes that if the performance measures for the grant of these Deferred Shares or Options have already been met, save for the requirement that they be held for two years from the date of grant, a mutual decision to part would override that additional requirement to hold the Deferred Shares or Options for the balance of the two-year period,
- a cash bonus for the year in which the parting takes place, calculated according to Mr Goodyear's performance measured against his KPIs for that year, and pro-rated back to reflect the actual period of service in that year, and
- a right to retain entitlements to Performance Shares that have been granted but that are not yet exercisable, pending satisfaction of Performance Hurdles. The entitlements will be pro-rated to reflect Mr Goodyear's period of service from the date the awards were granted and will only become exercisable if and when the Performance Hurdles are met.

These entitlements would not arise if Mr Goodyear's contract was terminated for cause or if he resigned. Details of how the GIS would operate in those circumstances are set out in the rules, a copy of which is available on the website at *www.bhpbilliton.com/bbContentRepository/Events/BHPBillitonLtdGIS.pdf.*

Where the Committee retains discretion in relation to the award of any long or short-term incentives, the rules of the GIS require the Committee to exercise that discretion in good faith and acting reasonably.

Mr Goodyear would be entitled to any accrued entitlement that he may have under the rules of the Retirement Savings Plan at the date of termination as set out in section 3.1.5 below.

3.1.3 Remuneration

The remuneration paid to Mr Goodyear for the year ended 30 June 2004 is set out in the table below.

- Mr Goodyear participated in the GIS throughout the year. The target cash bonus amount, set by the Committee at the beginning of the year, was 70 per cent of salary. Group KPIs represented a 75 per cent weighting and personal KPIs 25 per cent. The Committee has assessed the Group's and Mr Goodyear's performance for the year and awarded 85.6 per cent of salary as a cash bonus. The Committee has set Mr Goodyear's KPIs for the year ended 30 June 2005 and has again set a target cash bonus amount of 70 per cent of salary. Group KPIs for the year will represent an 80 per cent weighting. Personal KPIs include additional value added growth projects, project performance, demonstrable value from the market, succession planning and corporate strategic issues.

Unless otherwise indicated, these financial statements are presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

US Dollars

Base Salary	Other benefits (1)	Retirement benefits (2)	Annual cash bonus	Value of Deferred Shares (3)	Subtotal 2004 UK GAAP	Subtotal 2003 UK GAAP	Share-based compensation - long-term (4)	Adjustment for Deferred Share vesting period (5)	Total 2004	Total 2003
FIXED	*FIXED*	*FIXED*	*AT RISK*	*AT RISK*			*AT RISK*	*AT RISK*		
1 250 000	321 071	600 000	1 070 125	997 504	4 238 700	3 734 357	590 330	(385 548)	4 443 482	3 543 809

Notes:
(1)Other benefits
Includes medical insurance and professional fees. Mr Goodyear also received a relocation allowance and expenses.
(2)Retirement benefits
Mr Goodyear is entitled to receive 48 per cent of his salary in the form of retirement benefits. For the period July to September 2003 he took this benefit as a cash gratuity. From October 2003, he elected to defer receipt and participate in the Group's Retirement Savings Plan.
(3)Deferred Shares
This represents the estimated fair value of Deferred Shares earned in the year. The actual Deferred Shares will be awarded to Mr Goodyear subject to approval by shareholders at the annual general meetings in 2004. Mr Goodyear can elect to receive Options instead of Deferred Shares or a combination of both.
(4)Share-based compensation – long-term
The amount in respect of long-term Share-based compensation represents the estimated value of awards granted under the long-term incentive schemes.
The estimated value has been calculated using a Black-Scholes option pricing methodology (taking no account of Performance Hurdles) adjusted to reflect the expected vesting percentage. Details of outstanding awards and awards vesting in the year are set on in the tables below. The estimated value of the award made in any year is allocated in equal amounts to each of the years during the performance period, but is adjusted each year to reflect the then expected vesting percentage on a cumulative basis.
(5)In accordance with UK GAAP, 100 per cent of the estimated fair value of Deferred Shares earned during the 2004 year is included in the remuneration in the column headed 'Value of Deferred Shares'. Under US GAAP, such remuneration for the current and earlier years is to be included over the vesting period. The column headed 'Adjustment' represents the difference between the measurement methods. Hence the addition of the columns headed 'Value of Deferred Shares' and 'Adjustment' represents the remuneration associated with Deferred Shares under US GAAP.

3.1.4 Share and Option plans

The tables below set out details of Mr Goodyear's interests in incentive plans including the number of Shares and Options awarded in the financial year ended 30 June 2004. All Shares and Options issued form part of Mr Goodyear's *at risk* remuneration. The extent to which Shares (save for Deferred Shares and Options) will vest is wholly dependent on the extent to which the Performance Hurdles are met.

Share options

Scheme	BHP Billiton Limited Ordinary Shares under option					Exercise price(4)	First exercise date	Expiry date
	At 1 July 2003	Granted(2)	Exercised(3)	Lapsed	At 30 June 2004			
GIS 2003 Options		320 725	–	–	320 725	A$11.11	August 2005	August 2008
ESP 2000(1)	722 785	–	–	–	722 785	A$7.60	3 April 2003	2 April 2010
ESP 1999(1)	557 576	–	206 511	–	351 065	A$6.92	23 April 2002	22 April 2009

Notes:
(1)All of this award is exercisable.
(2)The market price of BHP Billiton Limited Shares on date of grant (21 November 2003) was A$10.76. The fair market value per Option was A$2.92.
(3)The market price on the date of exercise (23 December 2003) was A$11.93. The aggregate gain was A$1 034 676. Options over 351 065 Shares remain exercisable.
(4) Represents the exercise price payable on Options.

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

Shares awarded

Scheme	BHP Billiton Limited Ordinary Shares under award					Vesting date
	At 1 July 2003	Granted[(1)]	Vested[(2)]	Lapsed	At 30 June 2004	
GIS 2003 Deferred	–	28 093	–	–	28 093	August 2005
GIS 2003 Performance	–	112 375	–	–	112 375	August 2006
GIS 2002 Performance	180 154	–	–	–	180 154	August 2005
PSP 2001	136 573	–	–	–	136 573	1 October 2004
PSP 2000	184 483	–	184 483	–	–	1 July 2003
Total	501 210	140 468	184 483	–	457 195	

Notes:
(1)The market price of BHP Billiton Limited Shares on date of grant (21 November 2003) was A$10.76. The fair market value per Performance Share and Deferred Share was A$4.58 and A$10.03 respectively.
(2)75 per cent of the Shares vested on 1 July 2003, following the end of the performance period, and the BHP Billiton Limited market price was A$8.56. The remaining 25 per cent vested on 1 September 2003, and the BHP Billiton Limited market price was A$11.00. The market price on the date of exercise (18 September 2003) was A$10.80. The aggregate gain was A$1 992 416.

3.1.5 Retirement benefits

Mr Goodyear's remuneration includes a payment in lieu of a contribution by the Group to a superannuation or pension fund fixed at an annual rate of 48 per cent of base salary. Mr Goodyear may elect to have this paid into a superannuation or pension fund or, instead, to defer receipt, subject to the rules of a Retirement Savings Plan established for this purpose which allow Mr Goodyear to accumulate these annual payments and to defer receipt until after he retires from the Group. The Plan allows Mr Goodyear to establish retirement savings arrangements that best meet his needs.

In the event of death-in-service, a benefit of four times base salary will be paid. The overall annual pension payable to his spouse at the time of his death, until she dies, will be equal to two-thirds of one-thirtieth of Mr Goodyear's pensionable salary at date of death, for each year of service from 1 January 2003 to his normal retirement date. Periods of service where Mr Goodyear received his retirement benefit in the form of the cash gratuity will be disregarded for the purpose of calculating any pension amount.

3.2 Mr Miklos (Mike) Salamon

3.2.1 Summary of remuneration arrangements

Mr Salamon's remuneration is made up of *fixed* and *at risk* components. For the year ended 30 June 2004, *fixed* remuneration, which comprises base salary, retirement benefits and other benefits, equals 55 per cent of total remuneration, when calculated at the *target* level of performance.

The *at risk* remuneration is made up of short and long-term incentives. Short-term incentives generally take the form of cash and are measured against KPIs. Long-term incentives are delivered through equity awards and are measured against Performance Hurdles. *At risk* remuneration for the year ended 30 June 2004 equals 45 per cent of total remuneration when calculated at the *target* level of performance.

The Committee has assessed Mr Salamon's performance for the year and has concluded that, save for the KPI relating to Health, Safety and Environment, it was above *target* . Accordingly, the value of the *at risk* remuneration, and therefore the percentage of the total that is attributable to *at risk* remuneration, will be greater than the *target* percentage.

The tables that appear in sections 3.2.3 to 3.2.5 of the Report have been prepared in accordance with the law and accounting standards in the UK. While the information presented is fulsome, it does not readily give a picture of the amount of remuneration Mr Salamon earned for the year. One of the reasons for this is that the value of the *at risk* remuneration cannot be finally determined until (i) approval to issue Shares has been granted by shareholders; (ii) the price at which the Shares are issued is known; and (iii) the performance period has expired and performance has been assessed against the Performance Hurdles. For these reasons the value of the *at risk* remuneration has to be estimated.

In the case of Deferred Shares the only vesting condition is for Mr Salamon to remain in the employment of the Group for two further years. In the case of Performance Shares, the Performance Hurdles include TSR and EPS measures. Accordingly, the number, if any, of Shares that will ultimately vest cannot be determined until the service period has been completed and the Performance Hurdles have been assessed (in 2006 in the case of Deferred Shares and 2007 in the case of Performance Shares). The value of the Shares that form part of the *at risk* remuneration appearing throughout this section of the Report, are therefore estimates.

The summary below outlines Mr Salamon's *fixed* and *at risk* remuneration for the year ended 30 June 2004.

Unless otherwise indicated, these financial statements are presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

Component of remuneration	Amount US$	Further information
***Fixed* remuneration** (Comprising base salary and benefits including retirement benefits)	1 895 370	see section 3.2.3
***At risk* remuneration**		
Cash bonus	852 089	see section 3.2.3
Estimated fair value of the Deferred Shares	784 326	see section 3.2.4
Notional fair value of the Performance Shares	357 877	see section 3.2.4
Estimated total remuneration for financial year 2004	3 889 662	

At this year's annual general meetings shareholders will be asked to approve amendments to the GIS which will include the replacement of the three-year Performance Share component of the GIS with an award of Shares under a new five-year plan. If this resolution is approved no Performance Shares will be issued to Mr Salamon in relation to the 2004 year. Shares under the new five-year plan will be issued in their place. Details of the proposed number of Shares and the Performance Hurdles that will apply are detailed in the Notices convening the 2004 annual general meetings. The method of assessing the remaining parts of the *at risk* remuneration under the GIS – the cash bonus and Deferred Shares/Options – will remain intact. The table above includes a notional fair value for the Performance Shares that would be issued (subject to shareholders' approval) but for the proposed amendments to the GIS.

3.2.2 Service contract

Mr Salamon has contracts of employment with BHP Billiton Plc and BHP Billiton Services Jersey Limited, a wholly-owned subsidiary of BHP Billiton Plc, both dated 1 September 2003.

Mr Salamon's employment agreements automatically terminate on his sixtieth birthday. At any time prior to his sixtieth birthday each service contract can be terminated by either the Group or Mr Salamon providing 12 months' notice. The Company may make a payment in lieu of notice of 12 months, equal to 150 per cent of base salary. This payment reflects the market practice at the time the terms were agreed.

The Committee has not considered the circumstances in which it would exercise its discretion to allow Mr Salamon to maintain any ongoing participation in relation to the long-term incentive schemes in which he participates in the event of his departure. Those entitlements, if any, will be governed by the rules of the schemes at the date of departure.

3.2.3 Remuneration

The remuneration paid to Mr Salamon for the year ended 30 June 2004 is set out in the table below.

Mr Salamon participated in the GIS throughout the year. The target cash bonus amount, set by the Committee at the beginning of the year, was 70 per cent of adjusted salary. Group KPIs represented 30 per cent of the total performance measures. Fifty per cent of the weighting applied to KPIs in relation to the operating business and the remaining 20 per cent was attributable to personal KPIs. The Committee has assessed the Group's and Mr Salamon's performance for the year and awarded 89.8 per cent of adjusted salary as a cash bonus. The Committee has set Mr Salamon's KPIs for the year ended 30 June 2005 and has again set a target cash bonus amount of 70 per cent of salary. Group KPIs for the year will represent 30 per cent of the total performance measures. Forty per cent of the weighting will apply to KPIs in relation to the operating business. The remaining 30 per cent is attributable to personal KPIs that include performance of key senior executives reporting to Mr Salamon, safety-oriented operating discipline, performance of key projects in the Non-Ferrous Materials group, development of the BHP Billiton Way and the function of the Operating Committee.

Unless otherwise indicated, these financial statements are presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

US Dollars

Base Salary	Other benefits (1)	Annual cash bonus	Value of Deferred Shares (2)	Subtotal 2004 UK GAAP	Subtotal 2003 UK GAAP	Retirement benefits (3)	Share-based compensation long-term (4)	Adjustment for Deferred Share vesting period (5)	Total 2004	Total 2003
FIXED	*FIXED*	*AT RISK*	*AT RISK*			*FIXED*	*AT RISK*	*AT RISK*		
1 197 666	42 581	852 089	784 326	2 876 662	2 542 388	655 123	622 057	(314 751)	3 839 091	2 947 460

Notes:
(1)Other benefits
Includes medical insurance, life assurancerelated benefits, car allowance and professional fees.
(2)Deferred Shares
This represents the estimated fair value of Deferred Shares earned in the year. The actual Deferred Shares will be awarded to Mr Salamon subject to approval by shareholders at the annual general meetings in 2004. Mr Salamon can elect to receive Options instead of Deferred Shares or a combination of both.
(3)Retirement benefits
The estimated benefit in respect of pensions includes contributions payable in respect of actual/notional contributions that would have been required to secure the defined benefit promises earned in the year. Details of the defined benefit pension entitlements earned by Mr Salamon are set out in section 3.2.5.
(4)Share-based compensation – long-term
The amount in respect of long-term Share-based compensation represents the estimated value of awards granted under the long-term incentive schemes.
The estimated value has been calculated using a Black-Scholes option pricing methodology (taking no account of Performance Hurdles) adjusted to reflect the expected vesting percentage. Details of outstanding awards and awards vesting in the year are set out in the tables below. The estimated value of the award made in any year is allocated in equal amounts to each of the years during the performance period, but is adjusted each year to reflect the then expected vesting percentage on a cumulative basis.
(5)In accordance with UK GAAP, 100 per cent of the estimated fair value of Deferred Shares earned during the 2004 year is included in the remuneration in the column headed 'Value of Deferred Shares'. Under US GAAP, such remuneration for the current and earlier years is to be included over the vesting period. The column headed 'Adjustment' represents the difference between the measurement methods. Hence the addition of the columns headed 'Value of Deferred Shares' and 'Adjustment' represents the remuneration associated with Deferred Shares under US GAAP.

3.2.4 Share and Option plans

The table below sets out details of Mr Salamon's interests in incentive plans including the number of Shares awarded in the financial year ended 30 June 2004. All of the Shares and Options issued form part of Mr Salamon's at risk remuneration. The extent to which Shares (save for Deferred Shares and Options) vest will be wholly dependent on the extent to which the Performance Hurdles are met.

Shares awarded

Scheme	BHP Billiton Plc Ordinary Shares under award					Vesting date
	At 1 July 2003	Granted(1)	Vested	Lapsed(2)	At 30 June 2004	
GIS 2003 Deferred	–	89 056	–	–	89 056	August 2005
GIS 2003 Performance	–	89 056	–	–	89 056	August 2006
GIS 2002 Performance	193 706	–	–	–	193 706	August 2005
CIP 2001	107 206(3)	–	–	11 911	95 295	1 October 2005
RSS 2001	198 163	–	–	–	198 163	1 October 2004
Total	499 075	178 112	–	11 911	665 276	

Notes:
(1)The market price of BHP Billiton Plc Shares on date of grant (21 November 2003) was £4.32. The fair market value per Performance Share and Deferred Share was £1.84 and £3.98 respectively.
(2)The first performance period ceased on 30 September 2003. Based on the performance measured at the end of the first performance period, 60 per cent out of a maximum of 80 per cent Matching Shares were capable of vesting. The remaining 20 per cent lapsed. Correspondingly, the maximum that can vest at the end of the second performance period has also been reduced. Mr Salamon did not elect to leave the CIP at the end of the first performance period and will remain in the Plan until October 2005.
(3)Includes 26 471 Committed Shares invested by Mr Salamon.

Notes to Financial Statements continued

3.2.5 Retirement benefits

Defined Benefit Pension (US Dollars)

Amount by which the annual pension entitlement has increased during the year ended 30 June 2004[(1)]	Total annual pension entitlement as at 30 June 2004	Estimated capital value (transfer value) of the increase in annual pension entitlement[(1)]	Estimated capital value (transfer value) of total accrued pension at 30 June 2004	Estimated capital value (transfer value) of total accrued pension at 30 June 2003
78 720	768 503	2 169 571	7 870 626	5 701 055

Notes:

(1)The increase in accrued pension is the difference between the accrued pension at the end of the previous year and the accrued pension at the end of the year without any allowance for inflation. The increase in transfer value of total accrued pension is the difference between the transfer value at the end of the year and the transfer value at the beginning of the year less the contributions made to the scheme by the Director also without any allowance for inflation.

The increase in accrued pension after making an allowance for inflation of 3 per cent (2003: 3.3 per cent) was US$58 026 (2003: US$63 966) and the transfer value of that increase less the contributions made to the scheme by the Director was US$594 275 (2003: US$578 420).

BHP Billiton Plc and BHP Billiton Services Jersey Limited have established non-contributory defined benefit pension arrangements under which Mr Salamon will be entitled to a pension at normal retirement date (age 60), equal to two-thirds of pensionable salary provided he has completed 20 years service with the Group or predecessor companies. Only base salary is pensionable. At the date of this Report Mr Salamon was 49 years of age.

Each year Mr Salamon has the right to determine whether his pension provision for that year's salary under each service contract with BHP Billiton Plc and BHP Billiton Services Jersey Limited is made under a defined benefit or defined contribution arrangement for service after 1 July 1997. Alternatively, he can choose to receive a cash sum at equivalent cost to the Group. Once he has completed 20 years or more service, the cash sum option will no longer be available to him.

If he has chosen in any year to have a defined contribution arrangement he may elect subsequently to have the defined contribution benefit for that year and any previous years converted to a defined benefit promise, in which case he must surrender the defined contribution benefit accrued.

If Mr Salamon retires before age 60, his accrued defined benefit pension entitlement will normally be reduced for early payment at the rate of 4 per cent per annum.

In terms of the rules of the scheme all pensions in payment will be indexed in line with the retail price index.

In the event of death-in-service, a lump sum benefit of four times base salary will be paid. A spouse's pension on death-in-service of two-thirds of the prospective pension will also be paid.

In the event of the death of Mr Salamon while in retirement, a surviving spouse's pension of two-thirds of the pension in payment, before the effect of commutation, will be paid.

4. Specified Executives and Highest Paid Officers (other than Directors)

The Specified Executives of the Group are those executives, other than executive Directors and numbering at least five, who have the greatest authority for managing the Group. This section contains information relating to that group of executives.

As noted in section 2.1 above, senior executives' total remuneration is divided into two components– fixed and at risk. The at risk component is derived only in circumstances where the individual has met challenging KPIs and Performance Hurdles which contribute to the Group's overall profitability and performance.

4.1 Service contracts

As outlined in section 2, it is the Group's policy that service contracts for senior executives are unlimited in term but capable of termination on 12 months' notice and that the Group retains the right to terminate the contract immediately, by making a payment equal to 12 months' pays in lieu of notice. Where contracts contain notice periods in excess of 12 months those contracts reflect market practice at the time the terms were agreed.

As reported in section 2, the service contracts typically outline the components of remuneration paid to the executive but do not prescribe how remuneration levels are to be modified from year to year.

The termination provisions in the service contracts with the Specified Executives are summarised in the table below.

Unless otherwise indicated, these financial statements are presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

Name and job title	Employing company	Notice period company	Notice period employee	Termination provisions[1]
Philip Aiken, Group President Energy	BHP Billiton Limited	12 months	6 months	On termination the Company may make a payment in lieu of notice equal to 12 months base salary plus the superannuation or retirement benefit contribution for that period
Marius Kloppers, Chief Commercial Officer	BHP Billiton Plc	12 months	6 months	On termination the Company may make a payment in lieu of notice equal to 12 months base salary plus the superannuation or retirement benefit contribution for that period
Chris Lynch, Chief Financial Officer	BHP Billiton Limited	12 months	6 months	On termination the Company may make a payment in lieu of notice equal to 12 months base salary plus the superannuation or retirement benefit contribution for that period
Robert Kirkby, President Carbon Steel Materials	BHP Billiton Limited	12 months	6 months	On termination the Company may make a payment in lieu of notice equal to 12 months base salary plus the superannuation or retirement benefit contribution for that period
John Fast, Chief Legal Counsel	BHP Billiton Limited	3 months	3 months	On termination the Company may make a payment in lieu of notice equal to 3 months base salary plus a termination payment of 21 months base salary

Notes:
(1)The Committee has not considered the circumstances in which it would exercise its discretion to allow the executives to maintain any ongoing participation in relation to the long-term incentive schemes in which they participate in the event of their departures. Those entitlements, if any, will be governed by the rules of the schemes at the date of departure.

4.2 Remuneration

The table below outlines the fixed and at risk remuneration of the specified executives for the year ended 30 June 2004.

Executive	Base salary	Other benefits [1]	Annual cash bonus	Value of Deferred Shares [2]	Subtotal 2004 UK GAAP	Subtotal 2003 UK GAAP	Retirement benefits [3]	Share-based compensation long-term [4]	Adjustment for Deferred Share vesting period [5]	Total 2004	Total 2003
US Dollars	*FIXED*	*FIXED*	*AT RISK*	*AT RISK*			*FIXED*	*AT RISK*	*AT RISK*		
Philip Aiken	882 427	519 032	642 716	599 099	2 643 274	2 162 896	318 556	490 128	(225 782)	3 226 176	2 281 001
Marius Kloppers	719 262	158 398	647 228	595 759	2 120 647	1 933 182	320 817	350 018	(267 750)	2 523 732	1 899 673
Chris Lynch	716 480	27 272	613 680	572 034	1 929 466	1 705 112	248 619	390 901	(229 636)	2 339 350	1 729 507
Robert Kirkby	696 801	1 272	630 430	587 650	1 916 153	1 453 600	255 029	348 595	(247 454)	2 272 323	1 548 862
John Fast	638 944	–	591 726	551 569	1 782 239	1 323 160	229 381	384 082	(234 446)	2 161 256	1 459 472
David Munro (6)	500 157	83 067	–	–	583 224	1 647 037	–	–	–	583 224	1 570 310

Notes:
(1) Other benefits
Includes medical insurance, life assurance related benefits, professional fees, payout of unused leave entitlements, relocation allowance and expenses where applicable.
(2) Deferred Shares
This represents the estimated fair value of Deferred Shares earned in the year. Employees can elect to receive Options instead of Deferred Shares or a combination of both.
(3) Retirement benefits
The estimated benefit in respect of pensions includes contributions payable in respect of defined contribution arrangements and actual/notional contributions that would have been required to secure the defined benefit promises earned in the year.

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

(4) Share-based compensation – long-term
The amount in respect of long-term Share-based compensation represents the estimated value of awards granted under the long-term incentive schemes.
The estimated value has been calculated using a Black-Scholes option pricing methodology (taking no account of Performance Hurdles) adjusted to reflect the expected vesting percentage. Details of outstanding awards and awards vesting in the year are set on in the tables below.
The estimated value of the award made in any year is allocated in equal amounts to each of the years during the performance period but is adjusted each year to reflect the then expected vesting percentage on a cumulative basis.

(5) In accordance with UK GAAP, 100 per cent of the estimated fair value of Deferred Shares earned during the 2004 year is included in the remuneration in the column headed 'Value of Deferred Shares'. Under US GAAP, such remuneration for the current and earlier years is to be included over the vesting period. The column headed 'Adjustment' represents the difference between the measurement methods. Hence the addition of the columns headed 'Value of Deferred Shares' and 'Adjustment' represents the remuneration associated with Deferred Shares under US GAAP.

(6) Resigned January 2004. As all awards under Share incentive plans lapsed on resignation, no amount of remuneration for such plans has been attributed to David Munro for the period.

4.3 Group Incentive Scheme

All of the Specified Executives participated in the GIS for the year ended 30 June 2004 and all have been invited to participate for the year commencing 1 July 2004. For both years, the target cash bonus amount for each Specified Executive is 70 per cent of salary. For the year commencing 1 July 2004, KPIs are split between Group and personal KPIs. Personal measures include both Customer Sector Group measures as well as measures which are business or function-specific. Personal measures range from 55 per cent to 75 per cent of the total KPIs for each Specified Executive.

If the proposed changes to the GIS outlined in section 2.2.1 above are approved by shareholders at the 2004 annual general meetings no Performance Shares will be issued to Specified Executives in relation to the 2004 year. Shares under the new five-year plan will be issued in their place.

	Year ended 30 June 2004		**Year commencing 1 July 2004**
	Percentage of total remuneration *at risk* at the *target* level of performance	**Group measures**	**Group measures**
Philip Aiken	46%	20% weighting of total performance measures	25% weighting of total performance measures
Marius Kloppers	50%	30% weighting of total performance measures	45% weighting of total performance measures
Chris Lynch	54%	45% weighting of total performance measures	45% weighting of total performance measures
Robert Kirkby	55%	20% weighting of total performance measures	30% weighting of total performance measures
John Fast	55%	45% weighting of total performance measures	45% weighting of total performance measures

4.4 Share and Option plans

The table below summarises details of the Specified Executives' interests in incentive plans including the number of Shares and Options awarded in the financial year ended 30 June 2004, all of which were granted as remuneration. Detailed information on their interests in the plans is set out in note 31. No Options held by Specified Executives are vested but not exercisable, except where stated. All of the Shares and Options issued form part of the executives' *at risk* remuneration. The extent to which Shares (save for Deferred Shares and Options) vest, will be wholly dependent on the extent to which the Performance Hurdles are met.

presented in US dollars and prepared in accordance with UK GAAP

Notes to Financial Statements continued

	Balance at 1 July 2003	Granted	Exercised	Vested	Lapsed	Balance at 30 June 2004
Philip Aiken						
• Shares	489 999	139 630	122 621	–	–	507 008
• Options	516 275	–	516 275	–	–	–
Marius Kloppers						
• Shares	310 873	110 756	–	–	11 911	409 718
• Options	–	–	–	–	–	–
Chris Lynch						
• Shares	350 947	122 020	61 987	–	–	410 980
• Options	–	–	–	–	–	–
Robert Kirkby						
• Shares	307 800	116 062	89 659	–	2 823	331 380
• Options	340 740	–	340 740	–	–	–
• Partly Paid Shares	362 588	–	–	–	–	362 588
John Fast						
• Shares	360 539	109 564	96 854	–	4 516	368 733
• Options	413 020	–	413 020	–	–	–
David Munro						
• Shares	326 908	98 614	–	–	425 522	–
• Options	–	–	–	–	–	–
(resigned January 2004)						

4.5 Retirement benefits

For service following 1 January 2003, retirement, death and disability benefits were aligned for the Specified Executives.

Retirement benefits were aligned on a defined contribution basis. For each executive a defined contribution rate was calculated to target a pension accrual of 2.2 per cent of base salary for each year o f service from 1 January 2003 to age 60. Allowance for a two-thirds spouse's pension in retirement plus inflation indexation in payment was also incorporated into the calculations. To deliver the retirement promise, the executive is given a choice of funding vehicles including the executive's current retirement arrangement, an unfunded Retirement Savings Plan, an International Retirement Plan or a cash gratuity in lieu. The aggregate cost to the Company of exercising these funding choices will not exceed the calculated contribution rate for each executive.

On death-in-service a lump sum of four times base salary will be payable. In addition a spouse's pension of two-thirds of 2.2 per cent of basic salary at death for each year of service from 1 January 2003 to age 60 will be payable. Dependants' benefits are payable in addition and periods of service where the executive elected a cash gratuity are excluded. If the executive leaves on the grounds of incapacity, a disability pension payable for the duration of the executive's life of 2.2 per cent for each year of service from 1 January 2003 to age 60 will be payable. Periods of service where the executive elects a cash gratuity are excluded from the disability pension. No spouses' benefit will be payable following death in disablement.

Benefits accrued by the executive in retirement arrangements before 1 January 2003 will be payable in addition to those described above.

5. Non-executive Directors

5.1 Remuneration policy

In May 2001 shareholders approved an aggregate sum of A$3 million to be used to remunerate non-executive Directors. Fees payable to non-executive Directors were last set in 2002 and a review was considered appropriate in 2004. Following that review the Board agreed to revise the existing remuneration arrangements with effect from 1 July 2004. Fees payable to non-executive Directors will, in future, be reviewed on an annual basis.

The remuneration rates reflect the size and complexity of the Group, the multi-jurisdictional environment arising from the Dual Listed Companies structure, the multiple stock exchange listings, the extent of the geographic regions in which the Group operates and the enhanced responsibilities associated with membership of Board Committees. They also reflect the considerable travel burden imposed on members of the Board. In revising the fees the Board reviewed remuneration rates of non-executive directors and chairmen of other companies, including those companies in the comparator group used in the GIS and detailed in section 2.2.1 above. The Board is conscious that just as the Group must set remuneration levels to attract and retain talented executives, so it must also ensure that remuneration rates for non-executive Directors are set at a level that will attract the calibre of director necessary to effectively contribute to a high-performing Board.

Notes to Financial Statements continued

The revised elements of remuneration are:

- a base fee of US$85 000 per annum (increased from US$60 000)
- a base fee of US$105 000 per annum for the Senior Independent Director of BHP Billiton Plc (previously US$80 000)
- a base fee of US$450 000 per annum for the Chairman (previously US$240 000)
- a Committee membership fee of US$15 000 for HSE and Remuneration Committee members and US$20 000 for members of the Risk Management and Audit Committee. No additional fee is paid for membership of the Nomination Committee
- a fee of US$25 000 for the Chairman of each of the HSE and Remuneration Committees and US$40 000 for the Chairman of the Risk Management and Audit Committee (previously US$7 500), and
- a travel allowance of US$2 000 for air travel that is more than three hours but less than 12 hours (previously US$1 000) and US$5 000 where air travel is more than 12 hours (previously US$2 500).

The previous meeting attendance fee of US$1 000 for each meeting attended has been abandoned.

Fees continue to be denominated in US dollars and paid in US dollars, Australian dollars or UK Sterling, as nominated by the Director. Non-executive Directors are not eligible to participate in any of the Group's incentive arrangements.

A standard letter of engagement has been developed for non-executive Directors and is available on the website at www.bhpbilliton.com/bbContentRepository/AboutUs/Governance/lt_AppointmentasnonexecutiveDirector.pdf.

Each non-executive Director is appointed subject to periodic re-election by the shareholders. There are no provisions in any of the non-executive Directors' appointment arrangements for compensation payable on early termination of their directorship.

5.2 Remuneration paid

Remuneration paid to non-executive Directors for the year ended 30 June 2004 is set out in the table below.

US Dollars	Fees	Committee Chair fees	Attendance fees	Travel allowances	Other benefits	Subtotal 2004 UK GAAP	Subtotal 2003 UK GAAP	Retirement benefits (1)	Total 2004	Total 2003
Don Argus	240 000	–	–	4 500	–	244 500	247 500	12 660	257 160	260 125
David Brink	60 000	7 500	18 000	9 000	5 619	100 119	98 281	–	100 119	98 281
John Buchanan	80 000	7 500	10 000	11 000	–	108 500	44 832	–	108 500	44 832
Michael Chaney (2)	60 000	–	9 000	10 000	1 826	80 826	81 500	3 165	83 991	84 655
David Crawford	60 000	7 500	24 000	9 500	–	101 000	96 000	3 561	104 561	99 550
Cornelius Herkstroter (3)	18 871	–	6 000	2 500	2 553	29 924	86 281	–	29 924	86 281
David Jenkins	60 000	–	32 000	18 000	–	110 000	100 500	–	110 000	100 500
Lord Renwick	60 000	–	8 000	5 000	–	73 000	76 500	–	73 000	76 500
John Schubert	60 000	–	12 000	8 500	–	80 500	78 375	3 165	83 665	81 625

Notes:
(1) BHP Billiton Limited contributions of 9 per cent of fees paid in accordance with Australian superannuation legislation.
(2) Michael Chaney has requested that fees payable to him are paid instead to his employer, Wesfarmers Limited.
(3) Retired on 24 October 2003.

Notes to Financial Statements continued

5.3 Retirement benefits

The following table sets out the accrued retirement benefits under the now closed Retirement Plan of BHP Billiton Limited, together with any entitlements obtained by the compulsory Group contributions to the BHP Billiton Superannuation Fund. The Plan was closed on 24 October 2003 and entitlements that had accumulated in respect of each of the participants were frozen. These will be paid on retirement. An earnings rate equal to the five-year Australian Government Bond Rate is being applied to the frozen entitlements from that date.

US Dollars

Name	Completed years of service at 30 June 2004	Increase in lump sum entitlement(1)	Lump sum entitlement at 30 June 2004	Lump sum entitlement at 30 June 2003
Don Argus	8	82 387	1 079 770	997 383
Michael Chaney	9	21 122	285 135	264 013
David Crawford	10	23 098	301 779	278 681
David Jenkins	4	56 588	188 595	132 007
John Schubert	4	11 734	143 741	132 007

(1)On closure of the Retirement Plan, no further entitlements have accrued. The increase reflects the accrual to the date of closure, together with application of the earnings rate and foreign exchange impact.

6. Aggregate Directors' Remuneration

The aggregate remuneration of executive and non-executive Directors of BHP Billiton in accordance with UK generally accepted accounting principles is set out in the table below.

US Dollars (million)

	2004	2003
Emoluments	8	7
Termination payments	–	12
Awards vesting under long-term incentive	1	–
Gains on exercise of options	1	– (1)
Total	10	19

(1)Mr Goodyear exercised options during the year ended 30 June 2003 with a gain of US$0.2 million.

Supplementary oil and gas information (unaudited)

Reserves and production

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as the standardised measure of discounted cash flows, depreciation, depletion and amortisation charges, the assessment of impairments and other less direct impacts such as the assessment of the need for provisions against deferred tax assets) that are based on reserve estimates are also subject to change.

Proved reserves are estimated by reference to available seismic, well and reservoir information, including production and pressure trends for producing reservoirs and, in some cases, to similar data from other producing reservoirs in the immediate area. Proved reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In certain deepwater Gulf of Mexico fields we have claimed proved reserves before production flow tests are conducted, in part because of the significant safety, cost and environmental implications of conducting those tests. In these fields we have used other industry-accepted technologies, which we consider provide reasonably certain estimates of productivity. Historically, actual production levels have validated our proved reserves estimated by these methods.

The table below details our oil, condensate, LPG and gas reserves, estimated at 30 June 2004, 30 June 2003 and 30 June 2002 with a reconciliation of the changes in each year. Our reserves have been calculated using the economic interest method and represent our net interest volumes after deduction of applicable royalty, fuel and flare volumes. Our reserves include quantities of oil, condensate and LPG which will be produced under several production and risk sharing arrangements that involve us in upstream risks and rewards but do not transfer ownership of the products to us. At 30 June 2004, approximately 17 per cent (2003: 19 per cent; 2002: 17 per cent) of proved developed and undeveloped oil, condensate and LPG reserves and nil (2003: nil; 2002: nil) of natural gas reserves are attributable to those arrangements. Our reserves also include volumes calculated by probabilistic aggregation of certain fields that share common infrastructure. These aggregation procedures result in enterprise-wide proved reserves volumes, which may not be realised upon divestment on an individual property basis.

(millions of barrels)	Australia/Asia	Americas	UK/Middle East	Total
Proved developed and undeveloped oil, condensate and LPG reserves (a)				
Reserves at 30 June 2001	376.8	96.3	134.2	607.3
Improved recovery	–	–	–	–
Revisions of previous estimates	12.1	3.2	(11.0)	4.3
Extensions and discoveries	3.4	70.2	–	73.6
Purchase/sales of reserves	–	–	–	–
Production (b)	(63.3)	(9.0)	(14.3)	(86.6)
Total changes	(47.8)	64.4	(25.3)	(8.7)
Reserves at 30 June 2002	329.0	160.7	108.9	598.6
Improved recovery	–	–	0.1	0.1
Revisions of previous estimates	52.2	(12.2)	12.2	52.2
Extensions and discoveries	0.5	10.1	3.9	14.5
Purchase/sales of reserves	–	–	–	–
Production (b)	(55.1)	(6.6)	(11.7)	(73.4)
Total changes	(2.4)	(8.7)	4.5	(6.6)
Reserves at 30 June 2003	326.6	152.0	113.4	592.0
Improved recovery	–	–	–	–
Revisions of previous estimates	20.2	(2.6)	(9.5)	8.1
Extensions and discoveries	0.4	11.0	1.1	12.5
Purchase/sales of reserves	–	(4.0)	–	(4.0)
Production (b)	(46.3)	(7.6)	(14.1)	(68.0)
Total changes	(25.7)	(3.2)	(22.5)	(51.4)
Reserves at 30 June 2004 (c)	**300.9**	**148.8**	**90.9**	**540.6**
Proved developed oil, condensate and LPG reserves (a)				
Reserves at 30 June 2001	268.6	9.4	40.9	318.9
Reserves at 30 June 2002	233.1	15.9	30.2	279.2
Reserves at 30 June 2003	227.8	9.9	24.5	262.2
Reserves at 30 June 2004	**201.9**	**5.4**	**54.8**	**262.1**

(a) In Bass Strait, the North West Shelf and the North Sea, LPG is extracted separately from crude oil and natural gas.

Supplementary oil and gas information (unaudited) continued

(b) Production for reserves reconciliation differs slightly from marketable production due to timing of sales and corrections to previous estimates.
(c) Total proved oil, condensate and LPG reserves include 12.6 million barrels derived from probabilistic aggregation procedures.

(billions of cubic feet)	Australia/Asia (a)	Americas	UK/Middle East	Total
Proved developed and undeveloped natural gas reserves				
Reserves at 30 June 2001	4 078.4	139.1	594.0	4 811.5
Improved recovery	–	–	–	–
Revisions of previous estimates	3.9	2.7	(35.8)	(29.2)
Extensions and discoveries	605.9	37.3	–	643.2
Purchases/sales of reserves	–	–	–	–
Production (b)	(187.4)	(25.1)	(69.0)	(281.5)
Total changes	422.4	14.9	(104.8)	332.5
Reserves at 30 June 2002	4 500.8	154.0	489.2	5 144.0
Improved recovery	–	–	16.7	16.7
Revisions of previous estimates	404.1	4.9	(7.0)	402.0
Extensions and discoveries	188.9	10.2	–	199.1
Purchases/sales of reserves	–	–	–	–
Production (b)	(189.2)	(21.8)	(79.9)	(290.9)
Total changes	403.8	(6.7)	(70.2)	326.9
Reserves at 30 June 2003	4 904.6	147.3	419.0	5 470.9
Improved recovery	–	–	–	–
Revisions of previous estimates	114.6	2.2	(10.0)	106.8
Extensions and discoveries	51.6	4.6	–	56.2
Purchases/sales of reserves	–	(32.8)	–	(32.8)
Production (b)	(222.9)	(20.5)	(77.0)	(320.4)
Total changes	(56.7)	(46.5)	(87.0)	(190.2)
Reserves at 30 June 2004 (c)	**4 847.9**	**100.8**	**332.0**	**5 280.7**
Proved developed natural gas reserves				
Reserves at 30 June 2001	2 303.2	84.6	550.2	2 938.0
Reserves at 30 June 2002	2 455.1	79.9	481.9	3 016.9
Reserves at 30 June 2003	2 560.4	64.8	397.1	3 022.3
Reserves at 30 June 2004	**2 539.7**	**20.1**	**310.0**	**2 869.8**

(a) Production for Australia includes gas sold as LNG.
(b) Production for reserves reconciliation differs slightly from marketable production due to timing of sales and corrections to previous estimates.
(c) Total proved natural gas reserves include 233.2 billion cubic feet derived from probabilistic aggregation procedures.

Supplementary oil and gas information (unaudited) continued

Capitalised costs incurred relating to oil and gas producing activities

The following table shows the aggregate capitalised costs relating to oil and gas producing activities and related accumulated depreciation, depletion and amortisation and impairments.

	Australia/Asia US$M	Americas US$M	UK/Middle East US$M	Total US$M
Capitalised cost				
2004				
Unproved properties	**48**	**392**	**6**	**446**
Proved properties	**4 655**	**1 693**	**3 283**	**9 631**
Total costs (a)(b)	**4 703**	**2 085**	**3 289**	**10 077**
less Accumulated depreciation, depletion, amortisation and impairments (a)(b)(c)	**(2 509)**	**(609)**	**(1 807)**	**(4 925)**
Net capitalised costs	**2 194**	**1 476**	**1 482**	**5 152**
2003				
Unproved properties	31	255	6	292
Proved properties	4 312	1 229	2 961	8 502
Total costs (a)(b)	4 343	1 484	2 967	8 794
less Accumulated depreciation, depletion, amortisation and impairments (a)(b)(c)	(2 373)	(582)	(1 428)	(4 383)
Net capitalised costs	1 970	902	1 539	4 411
2002				
Unproved properties	21	209	4	234
Proved properties	4 170	865	2 541	7 576
Total costs (a)(b)	4 191	1 074	2 545	7 810
less Accumulated depreciation, depletion, amortisation and impairments (a)(b)(c)	(2 417)	(409)	(1 118)	(3 944)
Net capitalised costs	1 774	665	1 427	3 866

(a) Includes US$286 million (2003: US$286 million; 2002: US$286 million) attributable to prior year revaluations of fixed assets above historical costs and related accumulated amortisation thereof of US$232 million (2003: US$228 million; 2002: US$222 million).

(b) Includes US$132 million (2003: US$127 million; 2002: US$125 million) attributable to capitalised exploration, evaluation and development expenditures, which would be expensed under US GAAP and related accumulated amortisation thereof of US$89 million (2003: US$88 million; 2002 US$87 million).

(c) Includes US$8 million (2003: US$8 million; 2002: US$nil) of exploration costs previously capitalised now written off as impaired, which would not have been written off under US GAAP.

Costs incurred relating to oil and gas producing activities

The following table shows costs incurred relating to oil and gas producing activities (whether charged to expense or capitalised). Amounts shown include interest capitalised.

Property acquisition costs represent costs incurred to purchase or lease oil and gas properties. Exploration costs include costs of geological and geophysical activities and drilling of exploratory wells. Development costs were all expended to develop booked proved undeveloped reserves.

	Australia/Asia US$M	Americas US$M	UK/Middle East US$M	Total US$M
2004				
Acquisitions of unproved property	**–**	**27**	**–**	**27**
Exploration (a)	**57**	**242**	**14**	**313**
Development	**353**	**426**	**137**	**916**
Total costs (b)	**410**	**695**	**151**	**1 256**
2003				
Acquisitions of unproved property	–	18	–	18
Exploration (a)	41	155	28	224
Development	304	315	236	855
Total costs (b)	345	488	264	1 097
2002				
Acquisitions of unproved property	–	20	–	20
Exploration (a)	28	194	46	268
Development	236	186	289	711
Total costs (b)	264	400	335	999

(a) Represents gross exploration expenditure.

(b) Total costs include US$1 080 million (2003: US$943 million; 2002: US$847 million) capitalised during the year.

Supplementary oil and gas information (unaudited) continued

Results of operations from oil and gas producing activities

The following information is similar to the disclosures in note 4 to the financial statements 'Analysis by business segment' but differs in several respects as to the level of detail and geographic presentation. Amounts shown in the following table exclude interest income and borrowing costs, and general corporate administrative costs. Petroleum general and administrative costs relating to oil and gas activities are included.

Income taxes were determined by applying the applicable statutory rates to pre-tax income with adjustments for permanent differences and tax credits. Certain allocations of tax provisions among geographic areas were necessary and are based on management's assessment of the principal factors giving rise to the tax obligation.

Revenues are reflected net of royalties but before reduction of production taxes. Revenues include sales to affiliates but amounts are not significant.

	Australia/Asia US$M	Americas US$M	UK/Middle East US$M	Total US$M
2004				
Oil and gas sales	**2 171**	**350**	**706**	**3 227**
Production costs	**(240)**	**(46)**	**(114)**	**(400)**
Exploration expenses (a)	**(36)**	**(131)**	**(14)**	**(181)**
Depreciation, depletion and amortisation (a)	**(188)**	**(143)**	**(244)**	**(575)**
Production taxes	**(524)**	**(26)**	**(4)**	**(554)**
	1 183	**4**	**330**	**1 517**
Income taxes	**(330)**	**(6)**	**(121)**	**(457)**
Results of oil and gas producing activities (b)	**853**	**(2)**	**209**	**1 060**
2003				
Oil and gas sales	2 131	289	541	2 961
Production costs	(297)	(50)	(86)	(433)
Exploration expenses (a)	(25)	(101)	(28)	(154)
Depreciation, depletion and amortisation (a)	(193)	(138)	(219)	(550)
Production taxes	(523)	(15)	(5)	(543)
	1 093	(15)	203	1 281
Income taxes	(342)	9	(75)	(408)
Results of oil and gas producing activities (b)	751	(6)	128	873
2002				
Oil and gas sales	1 888	262	538	2 688
Production costs	(204)	(37)	(80)	(321)
Exploration expenses (a)	(24)	(87)	(41)	(152)
Depreciation, depletion and amortisation (a)	(230)	(142)	(199)	(571)
Production taxes	(446)	(12)	(5)	(463)
	984	(16)	213	1 181
Income taxes	(301)	12	(50)	(339)
Results of oil and gas producing activities (b)	683	(4)	163	842

(a) Exploration expenses exclude capitalised exploration, evaluation and development expenditures of US$5 million (2003: US$2 million; 2002: US$6 million) which would have been expensed under US GAAP. In a related manner, depreciation is higher in 2004 by US$1 million (2003: US$1 million; 2002: US$1 million) than that required under US GAAP. In addition, exploration expenses include US$nil (2003: US$8 million; 2002: US$nil) of expenditure previously capitalised now written off which would not have not been written off for US GAAP.

(b) Amounts shown exclude general corporate overheads and, accordingly, do not represent all of the operations attributable to the Petroleum segment presented in note 4 to the financial statements. There are no equity minority interests.

Standardised measure of discounted future net cash flows relating to proved oil and gas reserves ('Standardised measure')

The purpose of this disclosure is to provide data with respect to the estimated future net cash flows from future production of proved developed and undeveloped reserves of crude oil, condensate, natural gas liquids and natural gas.

The Standardised measure is based on the BHP Billiton Group's estimated proved reserves, (as presented in the section 'Reserves') and this data should be read in conjunction with that disclosure, which is hereby incorporated by reference into this section. The Standardised measure is prepared on a basis which presumes that year end economic and operating conditions will continue over the periods in which year end proved reserves would be produced. The effects of future inflation, future changes in exchange rates and expected future changes in technology, taxes and operating practices have not been included.

The Standardised measure is prepared by projecting the estimated future annual production of proved reserves owned at period end and pricing that future production at prices in effect at period end to derive future cash inflows. Future price increases may be considered only to the extent that they are provided by fixed contractual arrangements in effect at period end and are not dependent upon future inflation or exchange rate changes.

Supplementary oil and gas information (unaudited) continued

Future cash inflows are then reduced by future costs of producing and developing the period end proved reserves based on costs in effect at period end without regard to future inflation or changes in technology or operating practices. Future development costs include the costs of drilling and equipping development wells and construction of platforms and production facilities to gain access to proved reserves owned at period end. They also include future costs, net of residual salvage value, associated with the abandonment of wells, dismantling of production platforms and restoration of drilling sites. Future cash inflows are further reduced by future income taxes based on tax rates in effect at period end and after considering the future deductions and credits applicable to proved properties owned at period end. The resultant annual future net cash flows (after deductions of operating costs including resource rent taxes, development costs and income taxes) are discounted at 10 per cent per annum to derive the Standardised measure.

There are many important variables, assumptions and imprecisions inherent in developing the Standardised measure, the most important of which are the level of proved reserves and the rate of production thereof. The Standardised measure is not an estimate of the fair market value of the BHP Billiton Group's oil and gas reserves. An estimate of fair value would also take into account, among other things, the expected recovery of reserves in excess of proved reserves, anticipated future changes in prices, costs and exchange rates, anticipated future changes in secondary tax and income tax rates and alternative discount factors representing the time value of money and adjustments for risks inherent in producing oil and gas.

	Australia/Asia US$M	Americas US$M	UK/Middle East US$M	Total US$M
Standardised measure				
2004				
Future cash inflows	**24 463**	**5 747**	**3 973**	**34 183**
Future production costs	**(8 298)**	**(818)**	**(984)**	**(10 100)**
Future development costs (a)(b)	**(2 874)**	**(1 302)**	**(307)**	**(4 483)**
Future income taxes	**(3 888)**	**(978)**	**(801)**	**(5 667)**
Future net cash flows	**9 403**	**2 649**	**1 881**	**13 933**
Discount at 10% per annum	**(4 444)**	**(1 019)**	**(449)**	**(5 912)**
Standardised measure	**4 959**	**1 630**	**1 432**	**8 021**
2003				
Future cash inflows	21 689	4 992	4 107	30 788
Future production costs	(7 922)	(837)	(1 013)	(9 772)
Future development costs	(2 945)	(1 326)	(242)	(4 513)
Future income taxes	(3 143)	(865)	(620)	(4 628)
Future net cash flows	7 679	1 964	2 232	11 875
Discount at 10% per annum	(3 816)	(745)	(856)	(5 417)
Standardised measure	3 863	1 219	1 376	6 458
2002				
Future cash inflows	19 439	4 489	4 020	27 948
Future production costs	(7 209)	(975)	(1 067)	(9 251)
Future development costs	(2 484)	(1 342)	(450)	(4 276)
Future income taxes	(2 909)	(695)	(620)	(4 224)
Future net cash flows	6 837	1 477	1 883	10 197
Discount at 10% per annum	(3 363)	(757)	(597)	(4 717)
Standardised measure	3 474	720	1 286	5 480

(a) Total future dismantlement, abandonment and rehabilitation obligations at 30 June 2004 are estimated to be US$1 079 million and this amount has been included in the Standardised measure calculation.

(b) Future costs to develop our proved undeveloped reserves over the next three years are expected to be US$868 million (2005), US$463 million (2006) and US$144 million (2007).

Changes in the Standardised measure are presented in the following table. The beginning of year and end of year totals are shown after reduction for income taxes and these, together with the changes in income tax amounts, are shown as discounted amounts (at 10 per cent per annum). All other items of change represent discounted amounts before consideration of income tax effects.

Supplementary oil and gas information (unaudited) continued

	2004 US$M	2003 US$M	2002 US$M
Changes in the Standardised measure			
Standardised measure – beginning of period	**6 458**	5 480	5 409
Revisions:			
Prices, net of production costs	**2 584**	1 041	342
Revisions of quantity estimates (a)	**87**	971	599
Accretion of discount	**912**	789	781
Changes in production timing and other (b)	**(115)**	(1 020)	(1 136)
	9 926	7 261	5 995
Sales of oil and gas, net of production costs	**(2 273)**	(1 985)	(1 941)
Sales of reserves-in-place	**(23)**	–	–
Development costs incurred which reduced previously estimated development costs	**916**	855	656
Extensions and discoveries, net of future costs	**155**	577	778
Changes in future income taxes	**(680)**	(250)	(8)
Standardised measure – end of period	**8 021**	6 458	5 480

(a) Changes in reserves quantities are shown in the the Oil and Gas Reserves tables.
(b) Includes the effect of foreign exchange and changes in future development costs.

Production

The table below details our Petroleum business' historical net crude oil and condensate, natural gas, LNG, LPG and ethane production by region for the three years ended 30 June 2004, 30 June 2003 and 30 June 2002. We have shown volumes and tonnages of marketable production, after deduction of applicable royalties, fuel and flare. We have included in the table average production costs per unit of production and average sales prices for oil and condensate and natural gas for each of those periods.

	2004	2003	2002
Crude oil and condensate production (millions of barrels)			
Australia/Asia	**38.9**	48.0	56.2
Americas	**7.5**	7.1	9.0
Europe/Middle East	**11.6**	10.8	13.3
Total	**58.0**	65.9	78.5
Natural gas production (billions of cubic feet)			
Australia/Asia (Domestic)	**165.3**	126.4	126.0
Australia/Asia (LNG) (leasehold production) (a)	**60.8**	62.0	59.6
Americas	**20.6**	20.6	25.2
Europe/Middle East	**77.6**	72.2	72.7
Total	**324.3**	281.2	283.5
Liquefied petroleum gas (LPG) production (b) (thousand tonnes)			
Australia/Asia (leasehold production)	**652.8**	644.2	612.0
Europe/Middle East (leasehold production)	**200.7**	98.9	85.6
Total	**853.5**	743.1	697.6
Ethane production (thousand tonnes)			
Australia/Asia (leasehold production)	**94.3**	94.9	87.1
Total petroleum products production (millions of barrels of oil equivalent) (c)	**122.5**	121.8	134.2
Average sales price			
Oil and condensate (US$ per barrel)	**32.24**	28.14	22.58
Natural gas (US$ per thousand cubic feet)	**2.62**	2.21	1.84
Average production cost (d)			
US$ per barrel of oil equivalent (including resource rent tax and other indirect taxes)	**7.78**	8.01	5.83
US$ per barrel of oil equivalent (excluding resource rent tax and other indirect taxes)	**3.27**	3.55	2.38

(a) LNG consists primarily of liquefied methane.
(b) LPG consists primarily of liquefied propane and butane.
(c) Total barrels of oil equivalent (boe) conversions based on the following:
6 000 scf of natural gas equals 1 boe; 1 tonne of LPG equals 11.6 boe; 1 tonne of ethane equals 4.4667 boe.
(d) Average production costs include direct and indirect production costs relating to the production and transportation of hydrocarbons to the point of sale. This includes shipping where applicable. Average production costs have been shown including and excluding resource rent tax and other indirect taxes and duties. Average production costs also include the foreign exchange effect of translating local currency denominated costs and secondary taxes into US dollars.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrants certify that they meet all of the requirements for filing on Form 20-F and that they have duly caused this annual report to be signed on their behalf by the undersigned, thereunto duly authorised.

Date: 20 October 2004

/s/ CHRISTOPHER LYNCH

(Signature)

Chief Financial Officer

(Title)