# BHP Billiton Limited
# (Single Parent Entity)
# Financial Statements

ABN 49 004 028 077

## For the year ended 30 June 2008

# Contents

**BHP Billiton Limited (Single Parent Entity)**
**Income statement**
**For the year ended 30 June 2008**

| | Notes | 2008 US$M | 2007 US$M |
|---|---|---|---|
| **Revenue** | 2 | **8,861** | 3,588 |
| Expenses excluding net finance costs | 3 | **(4,763)** | (2,555) |
| Financial income | 3 | **804** | 950 |
| Financial expense | 3 | **(1,891)** | (1,048) |
| **Profit before taxation** | | **3,011** | 935 |
| Income tax credit | 5 | **68** | 16 |
| **Profit after taxation** | | **3,079** | 951 |
| **Profit attributable to members of BHP Billiton Limited (Single Parent Entity)** | | **3,079** | 951 |

*The accompanying notes form part of these financial statements.*

**BHP Billiton Limited (Single Parent Entity)**
**Statement of recognised income and expense**
**For the year ended 30 June 2008**

| | 2008 US$M | 2007 US$M |
|---|---|---|
| **Amounts recognised directly in equity** | | |
| Actuarial gains/(losses) on pension plans | **(11)** | 7 |
| Changes in fair value of shares in related parties (see note 21) | **(130)** | 130 |
| Tax on items recognised directly in, or transferred from, equity | **(48)** | (26) |
| **Net income/(loss) recognised directly in equity** | **(189)** | 111 |
| **Profit after taxation** | **3,079** | 951 |
| **Total recognised income and expense for the year** | **2,890** | 1,062 |

*The accompanying notes form part of these financial statements.*

**BHP Billiton Limited (Single Parent Entity)**
**Balance sheet**
**As at 30 June 2008**

| | Notes | **2008 US$M** | 2007 US$M |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | **9** | 810 |
| Receivables (a) | 7 | **23,668** | 14,926 |
| Other | 8 | **7** | - |
| **Total current assets** | | **23,684** | 15,736 |
| **Non-current assets** | | | |
| Receivables (a) | 9 | **3,183** | 3,098 |
| Other financial assets (at cost) | 10 | **14,506** | 13,084 |
| Other financial assets at fair value | 11 | **-** | 1,062 |
| Property, plant and equipment | 12 | **1** | 1 |
| Deferred tax assets | 13 | **332** | 210 |
| Other | 14 | **183** | - |
| **Total non-current assets** | | **18,205** | 17,455 |
| **Total assets** | | **41,889** | 33,191 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Payables (a) | 15 | **27,707** | 19,923 |
| Provisions | 16 | **267** | 225 |
| Current tax payable | 17 | **1,000** | 1,019 |
| **Total current liabilities** | | **28,974** | 21,167 |
| **Non-current liabilities** | | | |
| Payables (a) | 18 | **2,040** | 2,222 |
| Provisions | 19 | **234** | 183 |
| **Total non-current liabilities** | | **2,274** | 2,405 |
| **Total liabilities** | | **31,248** | 23,572 |
| **NET ASSETS** | | **10,641** | 9,619 |
| **EQUITY** | | | |
| Share capital | 20 | **938** | 932 |
| Reserves | 21 | **681** | 727 |
| Retained earnings | 22 | **9,022** | 7,960 |
| **Total equity** | | **10,641** | 9,619 |

(a) The majority of these balances represent amounts which are receivable from and payable to controlled entities within the 'Group', being BHP Billiton Limited, BHP Billiton Plc and their controlled entities. The Company has control of payments of these amounts and will manage them to ensure that at all times it has sufficient funds available to meet its commitments.

*The accompanying notes form part of these financial statements.*

**BHP Billiton Limited (Single Parent Entity)**
**Cash flow statement**
**For the year ended 30 June 2008**

| | Notes | **2008 US$M** | 2007 US$M |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **3,011** | 935 |
| Adjustments for: | | | |
| Employee share awards expense | | **62** | 51 |
| Loss on cancellation of BHP Billiton Plc shares | | **4,008** | 1,906 |
| Dividend income | | **(8,595)** | (3,317) |
| Net finance costs | | **1,087** | 98 |
| Changes in assets and liabilities: | | | |
| Receivables | | **(28)** | 5 |
| Other assets | | **(190)** | 2 |
| Payables | | **(40)** | (185) |
| Provisions | | **81** | 203 |
| Cash generated from operations | | **(604)** | (302) |
| Dividends received | | **8,595** | 3,317 |
| Interest received | | **796** | 950 |
| Interest paid | | **(970)** | (671) |
| Income tax paid | | **(2,178)** | (1,894) |
| **Net operating cash flows** | | **5,639** | 1,400 |
| **Investing activities** | | | |
| Purchases of, or increased investment in, subsidiaries, operations and jointly controlled entities, net of their cash | | **(1,422)** | (259) |
| **Net investing cash flows** | | **(1,422)** | (259) |
| **Financing activities** | | | |
| Proceeds from ordinary share issues | | **24** | 22 |
| Purchase of shares by Employee Share Ownership Plan Trusts | | **(230)** | (124) |
| Share buy back - BHP Billiton Limited | | **-** | (2,824) |
| Share buy back - BHP Billiton Plc | | **(3,115)** | (2,799) |
| Dividends paid | | **(1,881)** | (1,348) |
| Net financing from related entities | | **188** | 6,728 |
| **Net financing cash flows** | | **(5,014)** | (345) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(797)** | 796 |
| Cash and cash equivalents, net of overdrafts, at beginning of period | | **809** | - |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | | **(4)** | 13 |
| **Cash and cash equivalents, net of overdrafts, at end of period** | 6 | **8** | 809 |

(a) Comparative periods have been restated as described in note 1.

*The accompanying notes form part of these financial statements.*

## Contents of the notes to the financial statements

## 1 Accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

**Basis of preparation**

This general purpose financial report for the year ended 30 June 2008 has been prepared in accordance with the requirements of the Australian Corporations Act 2001 and with:

- Australian Accounting Standards, being Australian equivalents to International Financial Reporting Standards as issued by the Australian Accounting Standards Board (AASB) and interpretations effective as of 30 June 2008
- International Financial Reporting Standards and interpretations as issued by the International Accounting Standards Board effective as of 30 June 2008
- those standards and interpretations adopted early for each applicable reporting period as described below.

The above standards and interpretations are collectively referred to as 'IFRS' in this report.

Pursuant to Section 340 of the Corporations Act 2001, the Australian Securities and Investments Commission issued an order dated 8 September 2006 that granted relief from the requirement under the Act to distribute single entity financial statements of BHP Billiton Limited ("BHP Billiton") to its members. The Annual Report for the year ended 30 June 2008 of the BHP Billiton Group ("Group") is distributed to members and includes, in a note to the financial statements, the income statement, the balance sheet, the statement of recognised income and expense and cash flow statement of BHP Billiton (single parent entity). The relief order requires the single parent entity financial statements to be available on the Company's website and to be available to members by request free of charge.

The relief order also grants BHP Billiton relief from the following requirements of paragraph 295(2)(b) and subsection 296(1) of the Corporations Act 2001 concerning inclusions of the following information in the single parent entity financial statements:

(i) the consolidated financial statements of the BHP Billiton Group and notes thereto;

(ii) any segment information;

(iii) any earnings per share information;

(iv) any key management personnel disclosures;

(v) the identity and country of incorporation of controlled entities;

(vi) any other note disclosures required by accounting standards in relation to the single parent entity financial statements that are included in the full financial report of the BHP Billiton Group.

On 29 June 2001, BHP Billiton Plc (previously known as Billiton Plc), a UK listed company, and BHP Billiton (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 DLC arrangements, including dividend equalisation, are detailed under "Dual Listed Companies' structure and basis of preparation of financial statements" within note 1 "Accounting policies" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

The principal standards that have been adopted for the first time in these financial statements are:

- IFRS 7/AASB 7 'Financial Instruments: Disclosures'. IFRS 7/AASB 7 modifies the basis and details of disclosures concerning financial instruments, but does not impact the recognition or measurement of financial instruments
- Amendment to IAS 1/AASB 101 'Presentation of Financial Statements'. This amendment requires new disclosures concerning the objectives, policies and processes for managing capital
- AASB 2007-4 'Amendments to Australian Accounting Standards Arising from ED 151 and Other Amendments'. AASB 2007-4 reinstates optional accounting treatments permitted by IFRS that were not initially available under Australian Accounting Standards. Refer 'Change in accounting policy' below for the impact of the adoption of AASB 2007-4 on the financial statements

## 1 Accounting policies (continued)

The following standards and interpretations may have an impact on the Company or Group but are not yet effective. These standards and interpretations are available for early adoption in the 30 June 2008 financial year but have not been applied in the preparation of these financial statements:

- IFRIC 12/AASB Interpretation 12 'Service Concession Arrangements' addresses accounting for obligations undertaken and the rights received in service concession arrangements by service concession operators
- IFRIC 14/AASB Interpretation 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' provides guidance on how to assess the limit on the amount of the surplus that can be recognised as an asset for Defined Benefit Funds in IFRS 19/AASB 119 'Employee Benefits'
- Amendment to IFRS 2/AASB 2 'Share Based Payment' modifies the definition of vesting conditions and broadens the scope of accounting for cancellations
- Amendment to IFRS 3/AASB 3 'Business Combinations'. This amendment modifies the application of acquisition accounting for business combinations. Associated amendments to IAS 27/AASB 127 'Consolidated and Separate Financial Statements' change the accounting for non-controlling interests
- IFRS 8/AASB 8 'Operating Segments' specifies the basis and details of disclosure concerning operating segments
- Amendment to IAS 27/AASB 127 'Consolidated and Separate Financial Statements' results in the removal of the definition of the cost method resulting in all dividends being recognised as income as well as prescribing accounting for new non-operating holding companies
- 'Improvements to IFRSs (2008)'/AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project' and AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' include a collection of minor amendments to IFRS

The potential impacts on the financial statements of BHP Billiton Limited (Single Parent Entity) of adopting these standards and interpretations have not yet been determined.

### Basis of measurement

The financial report is drawn up on the basis of historical cost principles, except for derivative financial instruments and investments held for trading or available for sale, and certain financial assets designated as being measured at fair value.

### Currency of presentation

All amounts are expressed in millions of US dollars, unless otherwise stated, consistent with the functional currency of BHP Billiton's operations.

### Change in accounting policy

The accounting policies are consistent with those applied in the prior year, except for the impact of adopting AASB 2007-4 'Amendments to Australian Accounting Standards Arising from ED 151 and Other Amendments'. AASB 2007-4 reinstates optional accounting treatments permitted by IFRS that were not initially available under Australian Accounting Standards. The principal impact of AASB 2007-4 is described below.

### Cash flow presentation

BHP Billiton Limited has elected to adopt the indirect method of cash flow presentation as permitted by AASB 2007-4. The Company believes this change in presentation more effectively conveys the relationship between its financial performance and operating cash flows.

### Foreign currencies

BHP Billiton's reporting currency and functional currency is the US dollar as this is the principal currency of the economic environment in which it operates.

## 1 Accounting policies (continued)

Transactions denominated in foreign currencies (currencies other than the functional currency of an operation) are recorded using the exchange rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at year end and the gains or losses on retranslation are included in the income statement, with the exception of foreign exchange gains or losses on foreign currency provisions for site closure and rehabilitation, which are capitalised in property, plant and equipment, and foreign exchange gains and losses on foreign exchange currency borrowings designated as a hedge of the net assets of foreign operations.

### Revenue

*Sales revenue*
Revenue from the disposal of assets 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 company, the quantity and the 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.

*Dividend revenue*
Dividend revenue from controlled entities is recognised when the dividends are declared by the controlled entities.

*Interest revenue*
Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

*Royalty revenue and management fees*
Royalty revenue and management fees are recognised on an accruals basis in accordance with the substance of the relevant agreement.

### Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at the year end, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. Where an asset has no deductible or depreciable amount for income tax purposes, but has a deductible amount on sale or abandonment for capital gains tax purposes, that amount is included in the determination of temporary differences. The tax effect of certain temporary differences is not recognised, principally with respect to goodwill; temporary differences arising on the initial recognition of assets and liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable profit); and temporary differences relating to investments in subsidiaries, joint ventures and associates to the extent that BHP Billiton is able to control the reversal of the temporary difference and the temporary difference is not expected to reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner and timing of realisation or settlement of the carrying amount of assets and liabilities, with the exception of items which have a tax base solely derived under capital gains tax legislation, using tax rates enacted or substantively enacted at period end. To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are deductible in determining future assessable income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and amended to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and BHP Billiton has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

## 1 Accounting policies (continued)

Royalties and resource rent taxes are treated as taxation arrangements when they have the characteristics of a tax. This is considered to be the case when they are imposed under Government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for items comprising temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in expenses.

### Tax consolidation

BHP Billiton and its wholly-owned Australian resident entities are taxed as a single entity. The entities within the tax consolidated group have entered into a tax sharing agreement and a tax consolidation agreement with BHP Billiton. Under the tax sharing agreement the entities in the tax consolidated group agree to pay a tax equivalent amount to BHP Billiton for current income tax payable or to receive a tax equivalent amount from BHP Billiton for current income tax receivable and/or tax losses. The contributions of each entity are determined and recognised as if it were a stand-alone entity and essentially this method of calculating the contribution requires the calculation of income tax expense as if the entity had not been a member of the tax consolidated group.

*Dividend franking account*
Tax consolidation legislation requires a tax consolidated group to keep a single franking account. Accordingly, upon formation of the tax consolidated group, franking credits were transferred to the ultimate parent entity.

### Leased assets

Assets held under leases which result in BHP Billiton receiving substantially all the risks and rewards of ownership of the asset (finance leases) are capitalised at the lower of the fair value of the property, plant and equipment or the estimated present value of the minimum lease payments.

The corresponding finance lease obligation is included within interest bearing liabilities. 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 included in the income statement on a straight-line basis over the lease term. Provision is made for the present value of 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 reduction of the liability.

### Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment charges. Some assets acquired prior to 1 July 1998 are measured at deemed cost, being the revalued amount of the asset immediately prior to that date. Subsequent to 1 July 1998, the cost regime was applied to all assets. Cost is the fair value of consideration given to acquire the asset at the time of its acquisition or construction and includes the direct cost of bringing the asset to the location and condition necessary for operation and the direct cost of dismantling and removing the asset.

*Disposals*
Disposals are taken to account in the income statement. Where the disposal involves the sale or abandonment of a significant business (or all of the assets associated with such a business), the gain or loss is disclosed as an exceptional item.

*Depreciation of property, plant and equipment*
The carrying amounts of property, plant and equipment (including the initial and subsequent capital expenditure) are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or mineral lease, if shorter. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. The major categories of property, plant and equipment are depreciated on a unit of production and/or straight-line basis using estimated lives as follows:

| | |
|---|---|
| • Buildings | 25 to 50 years |
| • Land | not depreciated |
| • Plant, machinery and equipment | 4 to 30 years |

## 1 Accounting policies (continued)

### Impairment of non-current assets

Formal impairment tests are carried out annually for goodwill. Formal impairment tests for all other assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. BHP Billiton conducts annually an internal review of asset values which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future processes, costs and other market factors are also monitored to assess for indications of impairment. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less direct costs to sell for the asset and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale, net of direct selling costs, of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to BHP Billiton's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value in use calculation is likely to give a different result (usually lower) to a fair value calculation.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups, referred to as cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The impairment assessments are based on a range of estimates and assumptions, including:

| *Estimates/assumptions:* | *Basis:* |
|---|---|
| Future production | Proved and probable reserves, resource estimates and, in certain cases, expansion projects |
| Commodity prices | Forward market and contract prices, and longer-term price protocol estimates |
| Exchange rates | Current (forward) market exchange rates |
| Discount rates | Cost of capital risk adjusted for the resource concerned |

### Finance costs

Finance costs are generally expensed as incurred except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use.

Finance costs are capitalised up to the date when the asset is ready for its intended use. The amount of finance costs capitalised (before the effects of income tax) for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of capitalised expenditure for the qualifying assets during the period.

### Closure and rehabilitation

The mining, extraction and processing activities of the BHP Billiton Group normally give rise to obligations for site closure or rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the BHP Billiton Group's environmental policies.

## 1 Accounting policies (continued)

Provisions for the cost of each closure and rehabilitation program are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

Closure and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Discount rates used are specific to the country in which the operation is located. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements or, if more stringent, BHP Billiton Group environmental policies which give rise to a constructive obligation.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised in Property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in financial expenses.

Closure and rehabilitation provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the income statement. Changes to the capitalised cost result in an adjustment to future depreciation charges. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved. Factors influencing those changes include:

- revisions to estimated reserves, resources and lives of operations
- developments in technology
- regulatory requirements and environmental management strategies
- changes in the estimated costs of anticipated activities, including the effects of inflation and movements in foreign exchange rates
- movements in interest rates affecting the discount rate applied

**Provision for employee benefits**

Provision is made in the financial statements for all employee benefits, including on-costs. In relation to industry-based long service leave funds, BHP Billiton's liability, including obligations for funding shortfalls, is determined after deducting the fair value of deducted assets of such funds.

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave obliged 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 for which settlement within 12 months of the reporting date cannot be deferred is recognised in the current provision for employee benefits and is measured in accordance with annual leave described above. The liability for long service leave for which settlement can be deferred beyond 12 months from the reporting date is recognised in the non-current 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.

## 1 Accounting policies (continued)

### Share-based payments

The fair value at grant date of equity settled share awards granted on or after 8 November 2002 is charged to the income statement over the period for which the benefits of employee services are expected to be derived. The corresponding accrued employee entitlement is recorded in the employee share awards reserve. The fair value of awards is calculated using an option pricing model which considers the following factors:

- exercise price
- expected life of the award
- current market price of the underlying shares
- expected volatility
- expected dividends
- risk-free interest rate
- market-based performance hurdles

For equity settled share awards granted on or before 7 November 2002 and that remained unvested at 1 July 2004, the estimated cost of share awards is charged to the income statement from grant date to the date of expected vesting. The estimated cost of awards is based on the market value of shares at the grant date or the intrinsic value of options awarded, adjusted to reflect the impact of performance conditions, where applicable.

Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognised is proportionately reversed. Where BHP Billiton shares are acquired by on-market purchases prior to settling vested entitlements, the cost of the acquired shares is carried as treasury shares and deducted from equity. When awards are satisfied by delivery of acquired shares, any difference between their acquisition cost and the remuneration expense recognised is charged directly to retained earnings. The tax effect of awards granted is recognised in income tax expense, except to the extent that the total tax deductions are expected to exceed the cumulative remuneration expense. In this situation, the excess of the associated current or deferred tax is recognised in equity as part of the employee share awards reserve.

The accounting policy is applied with respect to all rights and options granted over BHP Billiton shares including those granted to employees of other Group companies. However, the cost of rights and options granted is recovered from subsidiares of the Group where the participants are employed.

### Superannuation, pensions and other post-retirement benefits

BHP Billiton 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 BHP Billiton and are administered by trustees or management boards.

For defined contribution schemes or those operated on an industry-wide basis where it is not possible to identify assets attributable to the participation by the BHP Billiton'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 income statement so as to recognise current and past service costs, interest cost on defined benefit obligations, and the effect of any curtailments or settlements, net of expected returns on plan assets. Actuarial gains and losses are recognised in full directly in equity. An asset or liability is consequently recognised in the balance sheet based on the present value of defined benefit obligations, less any unrecognised past service costs and the fair value of plan assets, except that any such asset can not exceed the total of unrecognised past service costs and the present value of refunds from and reductions in future contributions to the plan.

### Financial instruments

All financial assets are initially recognised at the fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortised cost less impairment charges. Where non-derivative financial assets are carried at fair value, gains and losses on remeasurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit, in which case the gains and losses are recognised directly in the income statement. Financial assets are designated as being held at fair value through profit when this is necessary to reduce measurement inconsistencies for related assets and liabilities. All financial liabilities other than derivatives are initially recognised at fair value of consideration received net of transaction costs as appropriate (initial cost) and subsequently carried at amortised cost.

## 1 Accounting policies (continued)

Derivatives, including those embedded in other contractual arrangements but separated for accounting purposes because they are not clearly and closely related to the host contract, are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss on remeasurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The measurement of fair value is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on BHP Billiton's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates.

Forward exchange contracts held for hedging purposes are generally accounted for as cash flow hedges. Interest rate swaps held for hedging purposes are generally accounted for as fair value hedges. Derivatives embedded within other contractual arrangements and commodity based transactions executed through derivative contracts do not qualify for hedge accounting.

*Fair value hedges*
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Any difference between the change in fair value of the derivative and the hedged risk constitutes ineffectiveness of the hedge and is recognised immediately in the income statement.

*Cash flow hedges*
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, plant and equipment purchases) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a hedged forecast transaction is no longer expected to occur, the cumulative hedge gain or loss that was reported in equity is immediately transferred to the income statement.

*Derivatives that do not qualify for hedge accounting*
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

*Available for sale and trading instruments*
Available for sale and trading investments are measured at fair value. Gains and losses on the remeasurement of trading investments are recognised directly in the income statement. Gains and losses on the remeasurement of available for sale investments are recognised directly in equity and subsequently recognised in the income statement when realised by sale or redemption, or when a reduction in fair value is judged to represent an impairment.

### Application of critical accounting policies and estimates

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

Further information concerning key sources of estimation and uncertainty that affect entities in the BHP Billiton Group including BHP Billiton is detailed under "Application of Critical Accounting Policies and Estimates" within Note 1 to the BHP Billiton Group Financial Statements.

## 1 Accounting policies (continued)

### Rounding of amounts

Amounts in this financial report 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.

## 2 Revenue

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Dividend income | **8,595** | 3,317 |
| Management fees received from controlled entities - performance rights | **66** | 140 |
| Management fees received from controlled entities - other | **161** | 115 |
| Guarantee fees | **28** | 16 |
| Other | **11** | - |
| | **8,861** | 3,588 |

## 3 Expenses

| | 2008 US$M | 2007 US$M |
|---|---|---|
| **Expenses, excluding finance costs** | | |
| Employee benefits expense | **268** | 192 |
| External services | **224** | 190 |
| Impairment of investment in controlled entity | **22** | - |
| Information technology expenses | **29** | 30 |
| Foreign exchange loss (net) | **166** | 38 |
| Exceptional items (see note 4) | **4,008** | 2,073 |
| Other expenses from ordinary activities | **46** | 32 |
| | **4,763** | 2,555 |
| **Net finance costs** | | |
| *Financial expenses* | | |
| Interest and finance charges paid/payable to related parties | **969** | 671 |
| Other interest expense | **1** | - |
| Exchange differences on net debt | **913** | 371 |
| Discounting on pension entitlements | **8** | 6 |
| Total finance costs | **1,891** | 1,048 |
| *Financial income* | | |
| Interest income from controlled entities | **(796)** | (943) |
| Expected return on pension plan assets | **(8)** | (7) |
| Total finance income | **(804)** | (950) |
| **Net finance costs** | **1,087** | 98 |

## 4 Exceptional items

Exceptional items are those items where their nature and amount is considered material to the financial report. Such items included within BHP Billiton profit for the year are detailed below.

| | Gross US$M | Tax US$M | Net US$M |
|---|---|---|---|
| **Year ended 30 June 2008** | | | |
| Loss on cancellation of BHP Billiton Plc shares (a) | | | |
| Value at time of cancellation | (4,352) | - | (4,352) |
| Revaluation writeback from reserve | 344 | - | 344 |
| Recognition of capital gains tax on cancellation of shares | - | (89) | (89) |
| | (4,008) | (89) | (4,097) |
| **Year ended 30 June 2007** | | | |
| Newcastle steelworks rehabilitation (b) | (167) | 50 | (117) |
| Loss on cancellation of BHP Billiton Plc shares (a) | | | |
| Value at time of cancellation | (2,011) | - | (2,011) |
| Revaluation writeback from reserve | 105 | - | 105 |
| | (2,073) | 50 | (2,023) |

(a) BHP Billiton acquired BHP Billiton Plc shares as part of a share buy back program of the BHP Billiton Group. Following the purchase, BHP Billiton Plc cancelled these shares on a periodic basis. On cancellation, the value of these shares is taken to the income statement in the BHP Billiton accounts. As these are transactions between BHP Billiton Group companies there is no cost to the BHP Billiton Group. Cancellations of BHP Billiton Plc shares occurred as follows;

| | No. Shares | Cost of Purchase US$M | Fair value at date of cancellation US$M |
|---|---|---|---|
| **2008 Share cancellation** | | | |
| July 2007 | 19,650,000 | 456 | 578 |
| August 2007 | 18,786,714 | 476 | 517 |
| October 2007 | 46,866,226 | 1,365 | 1,704 |
| December 2007 | 24,522,510 | 888 | 813 |
| February 2008 | 25,515,350 | 823 | 740 |
| | **135,340,800** | **4,008** | **4,352** |
| **2007 Share cancellation** | | | |
| January 2007 | 67,285,000 | 1,237 | 1,220 |
| April 2007 | 34,400,000 | 669 | 791 |
| | **101,685,000** | **1,906** | **2,011** |

(b) BHP Billiton recognised a charge against profits of US$167 million (US$50 million tax benefit) for additional rehabilitation obligations in respect of former operations at the Newcastle steelworks (Australia). The increase in obligations relate to increases in the volume of sediment in the Hunter River requiring remediation and treatment, and increases in treatment costs.

## 5 Income tax credit

### (a) Income tax credit

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Current tax | 2 | 36 |
| Deferred tax (see note 13) | (70) | (52) |
| | (68) | (16) |

### (b) Reconciliation between tax credit and pre-tax accounting profit

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Profit before taxation | 3,011 | 935 |
| Tax at the Australian tax rate of 30% | 903 | 280 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-assessable dividends | (2,579) | (995) |
| Transfer of prior year capital losses | - | (9) |
| Withholding tax | 10 | 9 |
| Foreign exchange differences | 285 | 75 |
| Impairment of BHP Billiton Plc shares | 1,203 | 573 |
| Capital gains tax on cancellation of BHP Billiton Plc shares | 89 | - |
| Other items | 23 | 52 |
| | (66) | (15) |
| Income tax expense attributable to controlled entities | 3,221 | 2,588 |
| Income tax expense recovered from controlled entities | (3,221) | (2,588) |
| Over provision in prior years | (2) | (1) |
| Total income tax credit | (68) | (16) |

## 6 Current assets - Cash and cash equivalents

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Cash at bank and in hand | - | 2 |
| Short term deposits | 9 | 808 |
| | 9 | 810 |

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follows:

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Balance as above | 9 | 810 |
| Bank overdrafts (see note 15) | (1) | (1) |
| Cash and cash equivalents in the statement of cash flows | 8 | 809 |

## 7 Current assets - Receivables

| | 2008 US$M | 2007 US$M |
|---|---|---|
| **Interest bearing receivables** | | |
| Receivable from related entities - other | 10,813 | 7,615 |
| **Non-interest bearing receivables** | | |
| Receivable from related entities - other | 10,406 | 5,279 |
| Receivable from controlled entities - income tax | 2,361 | 1,989 |
| Other receivable | 85 | 40 |
| Employee share plan loans (a) | 3 | 3 |
| | 12,855 | 7,311 |
| | 23,668 | 14,926 |

(a) Further details in respect of this note are set out in note 11 "Trade and other receivables" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 8 Current assets - Other

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Prepayments | 7 | - |

## 9 Non-current assets - Receivables

| | 2008 US$M | 2007 US$M |
|---|---|---|
| **Interest bearing receivables** | | |
| Receivable from related entities - other | 3,163 | 3,061 |
| **Non-interest bearing receivables** | | |
| Employee share plan loans | 20 | 37 |
| | 3,183 | 3,098 |

## 10 Non-current assets - Other financial assets at cost

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Shares in controlled entities - at cost (a) | 14,506 | 13,084 |

(a) The movement in shares in controlled entities relates to additional equity funding for controlled entities.

## 11 Non-current assets - Other financial assets at fair value

| | **2008 US$M** | 2007 US$M |
|---|---|---|
| Shares in related parties - at fair value (a) | - | 1,062 |

(a) As at 30 June 2007, BHP Billiton Limited held 38,436,714 shares in BHP Billiton Plc valued at $1,062 million. These shares have been cancelled during the year ended 30 June 2008, refer to note 4. Shares in BHP Billiton Plc are held until cancellation at which point they are written off to the income statement.

For cash flow purposes the purchase of shares represents a financing activity relating to the financing of BHP Billiton Plc.

## 12 Non-current assets - Property, plant and equipment

| | **Land and buildings US$M** | **Total US$M** |
|---|---|---|
| **At 30 June 2008** | | |
| Cost | 1 | 1 |
| Accumulated depreciation | - | - |
| Net book value at 30 June 2008 | 1 | 1 |

| | **Land and buildings US$M** | **Total US$M** |
|---|---|---|
| **At 30 June 2007** | | |
| Cost | 1 | 1 |
| Accumulated depreciation | - | - |
| Net book value at 30 June 2007 | 1 | 1 |

## 13 Non-current assets - Deferred tax

| | **2008 US$M** | 2007 US$M |
|---|---|---|
| Deferred tax assets | 332 | 210 |
| **Movements:** | | |
| Opening balance 1 July 2007 | **210** | 132 |
| Income tax taken to profit (note 5) | **70** | 52 |
| Income tax taken to equity | 52 | 26 |
| Closing balance 30 June 2008 | 332 | 210 |

## 13 Non-current assets - Deferred tax (continued)

| | Deferred tax assets 2008 US$M | Deferred tax assets 2007 US$M | Charged/ (credited) to the income statement 2008 US$M | Charged/ (credited) to the income statement 2007 US$M |
|---|---|---|---|---|
| Employee entitlements | 239 | 70 | 93 | (39) |
| Closure and rehabilitation | 69 | 65 | 4 | 51 |
| Foreign exchange | 10 | 6 | 4 | 6 |
| Depreciation | 1 | (2) | 3 | (2) |
| Other provisions | 13 | 71 | (34) | 36 |
| Total | 332 | 210 | 70 | 52 |

*Tax losses*

At 30 June 2008, BHP Billiton has capital tax losses with a tax benefit of US$114 million (2007: US$182 million) that have an unlimited expiry period.

The gross amount of capital tax losses that have been included with deferred tax assets and liabilities are US$nil (2007: US$27 million).

*Charge to equity*

This represents the deferred tax on BHP Billiton employee share award entitlements which are yet to be exercised.

*Australian franking credits*

For further information, refer to note 10 of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 14 Non-current assets - Other

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Other deferred costs and charges | 183 | - |

## 15 Current liabilities - Payables

| | 2008 US$M | 2007 US$M |
|---|---|---|
| **Interest bearing liabilities** | | |
| Unsecured bank overdrafts (see note 34) | 1 | 1 |
| Payable to related entities - other | 13,864 | 8,936 |
| | 13,865 | 8,937 |
| **Non-interest bearing liabilities** | | |
| Trade payables | 22 | 10 |
| Payable to related entities - other | 12,375 | 9,878 |
| Payable to controlled entities - income tax | 1,367 | 1,030 |
| Other payables | 78 | 68 |
| | 13,842 | 10,986 |
| | 27,707 | 19,923 |

## 16 Current liabilities - Provisions

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Employee benefits | **171** | 134 |
| Restructuring | **11** | 3 |
| Closure and rehabilitation | **50** | 59 |
| Other provisions | **35** | 29 |
| | **267** | 225 |

**Movements in current provisions**

Movements in each class of provision during the financial year are set out below:

| | Employee benefits US$M | Restructuring US$M | Closure and rehabilitation US$M | Other US$M | Total US$M |
|---|---|---|---|---|---|
| Carrying amount at 1 July 2007 | 134 | 3 | 59 | 29 | 225 |
| Charge to profit | 39 | 9 | (6) | 2 | 44 |
| Utilisation | (18) | (1) | (12) | - | (31) |
| Exchange differences | 16 | - | 8 | 4 | 28 |
| Movement in the discount rate | - | - | 1 | - | 1 |
| Carrying amount at 30 June 2008 | 171 | 11 | 50 | 35 | 267 |

## 17 Current liabilities - Current tax liabilities

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Provision for taxation | **1,000** | 1,019 |

## 18 Non-current liabilities - Payables

| | 2008 US$M | 2007 US$M |
|---|---|---|
| **Interest bearing liabilites** | | |
| Unsecured loan from related entities | **1,923** | 1,923 |
| **Non-interest bearing liabilities** | | |
| Unsecured loan from related entities | **117** | 299 |
| | **2,040** | 2,222 |

## 19 Non-current liabilities - Provisions

| | **2008 US$M** | 2007 US$M |
|---|---|---|
| Employee benefits | **22** | 12 |
| Post-retirement employee benefits | **32** | 13 |
| Closure and rehabilitation | **180** | 158 |
| | **234** | 183 |

**Movements in non-current provisions**

Movements in each class of provision during the financial year are set out below:

| | **Employee benefits US$M** | **Post-retirement employee benefits US$M** | **Closure and rehabilitation US$M** | **Total US$M** |
|---|---|---|---|---|
| Carrying amount at 1 July 2007 | 12 | 13 | 158 | 183 |
| Charge to profit | 7 | 10 | - | 17 |
| Utilisation | - | (4) | - | (4) |
| Exchange differences | 3 | 2 | 22 | 27 |
| Actuarial (gains)/losses | - | 11 | - | 11 |
| Carrying amount at 30 June 2008 | 22 | 32 | 180 | 234 |

Further details in respect of this note are set out in note 20 "Provisions" of the BHP Group Financial Statements for the year ended 30 June 2008.

## 20 Share capital

| | **2008 Shares** | 2007 Shares | **2008 US$M** | 2007 US$M |
|---|---|---|---|---|
| Ordinary shares | | | | |
| Fully paid | **3,358,359,496** | 3,357,503,573 | **938** | 932 |
| Partly paid to A$1.36 | **195,000** | 195,000 | **-** | - |
| Special voting share of no par value | **1** | 1 | **-** | - |
| | **3,358,554,497** | 3,357,698,574 | **938** | 932 |

Further details in respect of this note are set out in note 21 "Share capital" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 21 Reserves

| Reserves | 2008 US$M | 2007 US$M |
|---|---|---|
| Financial asset reserve | - | 130 |
| Asset revaluation reserve | 31 | 31 |
| General reserve | 338 | 338 |
| Employee share awards reserve | 312 | 228 |
| | 681 | 727 |

| *Financial asset reserve* | 2008 US$M | 2007 US$M |
|---|---|---|
| Opening balance at 1 July 2007 | 130 | - |
| Revaluation of shares in related parties | 214 | 235 |
| Capital gain on cancellation of shares | (89) | - |
| Cancellation of BHP Billiton Plc shares | (255) | (105) |
| Closing balance at 30 June 2008 | - | 130 |

| *Employee share awards reserve* | 2008 US$M | 2007 US$M |
|---|---|---|
| Opening balance at 1 July 2007 | 228 | 171 |
| Accrued employee entitlement for unvested awards | 62 | 51 |
| Deferred tax benefit arising on accrued employee entitlement for unexercised awards | 52 | 37 |
| Employee share awards exercised following vesting | (30) | (31) |
| Closing balance at 30 June 2008 | 312 | 228 |

Nature and purpose of reserves

*Financial asset reserve*
The financial asset reserve is used to record increments in assets available for sale.

*Asset revaluation reserve*
The asset revaluation reserve is used to record increments and decrements on the revaluation of property, plant and equipment and other non-current assets. The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law.

*General reserve*
The general reserve relates to accumulated transfers from other reserves.

*Employee share awards reserve*
The employee share awards reserve represents the accrued employee entitlements to share awards that have been charged to the income statement and have not yet been exercised.

## 22 Retained earnings

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Retained earnings opening balance at 1 July 2007 | 7,960 | 10,970 |
| Profit for the year | 3,079 | 951 |
| Dividends paid (see note 23) | (1,881) | (1,346) |
| Actuary (losses)/gains net of tax recognised through statement of recognised income and expense | (8) | 7 |
| Share buy-back | - | (2,559) |
| Employee share awards exercised following vesting | (128) | (63) |
| Retained earnings closing balance at 30 June 2008 | 9,022 | 7,960 |

## 23 Dividends

| | **2008 US$M** | 2007 US$M |
|---|---|---|
| Dividends paid during the period | **1,881** | 1,346 |

Further details in respect of this note are set out in note 10 "Dividends" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 24 Financial risk management

BHP Billiton Ltd financial risk management strategy

The financial risks arising from the BHP Billiton operations are market risk, including risks associated with movements in interest rates and foreign currencies, liquidity risk and credit risk. These risks arise in the normal course of business, and BHP Billiton manages its exposure to them in accordance with the Group's Portfolio Risk Management Strategy. The objective of the strategy is to support the delivery of the Group's financial targets while protecting its future financial security and flexibility by taking advantage of the natural diversification provided by the scale, diversity and flexibility of the Group's operations and activities.

Further details of the Group's financial risk management strategy and financial instruments are set out in note 26 "Financial risk management" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008. Financial risks specific to BHP Billiton Limited are set out below.

### (a) Liquidity risk

BHP Billiton's liquidity risk arises from the possibility that it may not be able to settle or meet its obligations as they fall due. The majority of the asset and liability balances are represented by amounts which are receivable from and payable to controlled entities within the 'BHP Billiton Group', being BHP Billiton Limited, BHP Billiton Plc and their controlled entities. The company has control of payments of these amounts and will manage them to ensure that at all times it has sufficient funds available to meet its commitments.

### (b) Credit risk

Credit risk arises from the non-performance by counterparties of their contractual financial obligations towards the BHP Billiton.

To manage credit risk BHP Billiton maintains group-wide procedures covering the application for credit approvals, granting and renewal of counterparty limits and daily monitoring of exposures against these limits. As part of these processes the financial viability of all counterparties is regularly monitored and assessed.

### (c) Fair values

All financial assets and financial liabilities are initially recognised at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortised cost, as indicated in the tables below.

The carrying values of financial assets and liabilities are presented by class in the tables below, and approximate to the fair values.

## 24 Financial risk management (continued)

| 2008 | | Loans and receivables | Available for sale securities | Other financial assets and liabilities | Total |
|---|---|---|---|---|---|
| | | US$M | US$M | US$M | US$M |
| **Financial assets** | **Note** | | | | |
| Cash | 6 | 9 | - | - | 9 |
| Receivables | 7,9 | 108 | - | - | 108 |
| Related party receivables | | | | | |
| Current | 7 | 23,580 | - | - | 23,580 |
| Non-current (a) | 9 | 3,163 | - | - | 3,163 |
| Shares in related parties | 11 | - | - | - | - |
| Total financial assets | | 26,860 | - | - | 26,860 |
| Non-financial assets | | | | | 15,029 |
| Total assets | | | | | 41,889 |
| **Financial liabilities** | | | | | |
| Trade and other creditors | 15 | - | - | 100 | 100 |
| Related party payables | | | | | |
| Current | 15 | - | - | 27,606 | 27,606 |
| Non-current (a) | 18 | - | - | 2,040 | 2,040 |
| Unsecured bank overdrafts | 15 | - | - | 1 | 1 |
| Total financial liabilities | | - | - | 29,747 | 29,747 |
| Non-financial liabilities | | | | | 1,501 |
| Total liabilities | | | | | 31,248 |

| 2007 | | Loans and receivables | Available for sale securities | Other financial assets and liabilities | Total |
|---|---|---|---|---|---|
| | | US$M | US$M | US$M | US$M |
| **Financial assets** | **Note** | | | | |
| Cash | 6 | 810 | - | - | 810 |
| Receivables | 7,9 | 80 | - | - | 80 |
| Related party receivables | | | | | |
| Current | 7 | 14,883 | - | - | 14,883 |
| Non-current | 9 | 3,061 | - | - | 3,061 |
| Shares in related parties | 11 | - | 1,062 | - | 1,062 |
| Total financial assets | | 18,834 | 1,062 | - | 19,896 |
| Non-financial assets | | | | | 13,295 |
| Total assets | | | | | 33,191 |
| **Financial liabilities** | | | | | |
| Trade and other creditors | 15 | - | - | 78 | 78 |
| Related party payables | | | | | |
| Current | 15 | - | - | 19,844 | 19,844 |
| Non-current | 18 | - | - | 2,222 | 2,222 |
| Unsecured bank overdrafts | 15 | - | - | 1 | 1 |
| Total financial liabilities | | - | - | 22,145 | 22,145 |
| Non-financial liabilities | | | | | 1,427 |
| Total liabilities | | | | | 23,572 |

(a) These balances represent amounts which are receivable from and payable to controlled entities within the 'Group', being BHP Billiton Limited, BHP Billiton Plc and their controlled entities. The company has control of payments of these amounts and will manage them to ensure that at all times it has sufficient funds available to meet its commitments. These balances are not expected to be called in the 12 months to 30 June 2009.

## 24 Financial risk management (continued)

### (d) Market risk

BHP Billiton activities expose it to risks associated with movements in interest rates and foreign currencies. Under the strategy outlined above, BHP Billiton seeks to achieve financing costs and currency impacts on a floating or index basis. This strategy gives rise to a risk of variability in earnings which is managed under the CFaR.

In executing the strategy, financial instruments are potentially employed in the following activity. The following table summarises this activity and the key risk management processes.

| Activity | Key Risk Management Processes |
| --- | --- |
| *Strategic financial transactions*<br>Opportunistic transactions may be executed with financial instruments to capture value from perceived market over/under valuations. | • Exposures managed within Value at Risk and stop loss limits<br>• Execution of transactions within approved mandates |

Primary responsibility for identification and control of financial risks, including authorising and monitoring the use of financial instruments for the above activity and stipulating policy thereon, rests with the Financial Risk Management Committee under authority delegated by the Group Management Committee.

***Interest rate risk***

BHP Billiton is exposed to interest rate risk on its outstanding borrowings and investments from the possibility that changes in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. Interest rate risk for the BHP Billiton Group is managed as part of the Portfolio Risk Management Strategy and within the overall CFaR limit. Interest rate risk relating to intercompany balances is managed by Group Treasury.

Based on the net debt position as at 30 June 2008, taking into account interest rate swaps and cross currency interest rate swaps, it is estimated that a 1 percentage point increase in the US LIBOR interest rate will decrease BHP Billiton Limited's profit before taxation by US$18 million (2007: US$2 million). This assumes that the change in interest rates is effective from the beginning of the financial year and the fixed/floating mix and balances is constant over the year. However, interest rates and the debt profile of BHP Billiton Limited are unlikely to remain constant in the coming financial year and therefore such sensitivity analysis should be used with care.

***Currency risk***

The US dollar is the functional currency of BHP Billiton Limited and as a result currency exposures arise from transactions and balances in currencies other than the US dollar. The Company's potential currency exposures comprise:

- transactional exposure in respect of non-functional currency expenditure and revenues
- translational exposure in respect of non-functional currency monetary items

The principal non-functional currency to which BHP Billiton is exposed is the Australian dollar. Based on the company's net financial assets and liabilities as at 30 June 2008, had the US dollar weakened as illustrated in the table below, with all other variables held constant, post tax profit and equity would have decreased as follows:

| | Effect on post tax profit | | Effect on equity | |
| --- | --- | --- | --- | --- |
| | **2008 US$M** | 2007 US$M | **2008 US$M** | 2007 US$M |
| **Currency movement** | | | | |
| 1 cent movement in Australia dollar | 47 | 55 | 47 | 55 |

## 24 Financial risk management (continued)

### (e) Capital management

Capital is managed from a Group perspective for the group as a whole and not for the individual company, refer to note 26 "Financial risk management" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

### (f) Financing facilities

BHP Billiton Limited is a party to an acquisition finance facility and a revolving credit facility, refer note 30 "Notes to the consolidated cash flow statement" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 25 Key management personnel

Details in respect of this note are set out in note 29 "Key management personnel" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 26 Auditors' remuneration

The audit fee payable in respect of the audit of the BHP Billiton financial statements was a nominal amount. Details of fees for the Group as a whole are set out in note 33 "Auditors remuneration" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 27 Contingent liabilities

| | **2008 US$M** | 2007 US$M |
|---|---|---|
| Contingent liabilities at balance date, not otherwise provided for in these accounts, are categorised as arising from: | | |
| Controlled entities - unsecured | - | - |
| Other unrelated parties | - | - |
| | - | - |

BHP Billiton has issued letters of comfort to certain subsidiary companies. The comfort letter ensures the subsidiary company is provided with the necessary level of financial support to pay existing and future debts if the company is called upon to pay those debts and is unable to do so and if, but for the letter of comfort, the subsidiary company would become insolvent.

Further details in respect of this note are set out in note 27 "Contingent liabilities" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 28 Commitments

**Operating lease commitments**

| | **2008 US$M** | 2007 US$M |
|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 43 | 11 |
| Later than one year but not later than five years | 29 | 1 |
| | 72 | 12 |

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.

Details of commitments for the Group as a whole are set out in note 28 "Commitments" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 29 Pensions and other post-retirement obligations

*BHP Billiton Superannuation plan*

BHP Billiton is the sponsoring entity for the BHP Billiton Superannuation Fund in Australia, as such the disclosures below relate to the fund as a whole. A full actuarial valuation is prepared by the local actuary and updated annually to 30 June. The projected unit credit valuation method was used. The Fund provides final salary benefits, and mixed benefits that consist of a final salary defined benefit portion and a defined contribution portion. The following sets out details in respect of the Fund.

The costs associated with the BHP Billiton Superannuation Fund are recorded by each entity in the BHP Billiton Group based on their share of employees that participate in the Fund.

The amounts recognised in the balance sheets of the employer entities are determined as follows:

| | **2008 US$M** | 2007 US$M |
|---|---|---|
| Present value of funded defined benefit obligation | 421 | 351 |
| Present value of unfunded defined benefit obligation | - | 5 |
| Fair value of defined benefit scheme assets | (357) | (339) |
| Deficit | 64 | 17 |
| Adjustment for employer contribution tax | - | 2 |
| Net liability recognised in the balance sheet | 64 | 19 |

BHP Billiton has no legal obligations to settle this liability with any immediate contributions or additional one-off contributions. BHP Billiton intends to continue to contribute to the fund in accordance with the latest recommendations of the actuary.

## 29 Pensions and other post-retirement obligations (continued)

The amounts recognised in the income statement of Group companies that have employees that are members of the fund are as follows:

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Current service cost | 30 | 24 |
| Interest cost | 24 | 18 |
| Expected return on scheme assets | (22) | (21) |
| Other | 1 | - |
| Balance at the end of the year | 33 | 21 |
| Amounts recognised in SORIE of Group companies are as follows: | | |
| Actuarial (gains)/losses (a) | 21 | (19) |
| Other adjustments | 16 | - |
| Total amounts recognised in SORIE | 37 | (19) |
| Total cumulative amount to the balance sheet date of actuarial gains recognised in SORIE (b) | (3) | (40) |

(a) Actuarial gains are net of adjustments for employer contribution tax of US$8 million (2007: US$2 million)
(b) Cumulative amounts are calculated from the transition to IFRS on 1 July 2004.

The actual return on assets for the year ended 30 June are as follows:

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Actual return on assets | (2) | 30 |

The changes in the present value of defined benefit obligations are as follows:

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Defined benefit obligations at beginning of year | 358 | 357 |
| Current service cost | 30 | 24 |
| Interest cost | 24 | 18 |
| Contributions by scheme participants | 2 | 2 |
| Actuarial (gains)/losses on benefit obligation | (3) | (10) |
| Benefits paid to participants | (47) | (45) |
| Expense payments | (7) | (8) |
| Other | 20 | (29) |
| Currency exchange (gains)/losses | 48 | 49 |
| Defined benefit obligation at end of year | 425 | 358 |

The changes in the scheme assets are as follows:

| | 2008 US$M | 2007 US$M |
|---|---|---|
| Fair value of scheme assets at beginning of year | 339 | 333 |
| Expected return on scheme assets | 22 | 21 |
| Actuarial (gains)/losses on scheme assets | (24) | 9 |
| Expenses paid from assets | (7) | (8) |
| Employer contributions | 22 | 19 |
| Contributions by scheme participants | 2 | 2 |
| Benefits paid | (47) | (45) |
| Other | 4 | (37) |
| Currency exchange gains/(losses) | 46 | 45 |
| Fair value of scheme assets at end of year | 357 | 339 |

## 29 Pensions and other post-retirement obligations (continued)

The fair values of defined benefit pension scheme assets segregated by major assets classes are as follows:

| | | |
|---|---|---|
| Bonds | **237** | 196 |
| Equities | **93** | 115 |
| Property | **12** | 14 |
| Other | **15** | 14 |
| Total | **357** | 339 |

Scheme assets classified as 'Other' as at 30 June 2008 primarily comprise of investments in hedge funds and private equity.

The fair value of scheme assets includes no amounts relating to any of the Group's own financial instruments or any of the property occupied by, or other assets used by the Group.

The overall expected rate of return on assets is the weighted average of the expected rate of return on each applicable asset class and reflects the actual asset allocation as at the reporting date. For bonds, the expected rate of return reflects the redemption yields available on corporate and government bonds, as applicable, as at the reporting date. For all other asset classes, the expected rate of return reflects the rate of return expected over the long term.

The principal actuarial assumptions at the reporting date (expressed as weighted averages) are as follows:

| | **2008** | 2007 |
|---|---|---|
| Discount rate | **6.5 %** | 6.3 % |
| Future salary increases | **5.0 %** | 4.9 % |
| Expected rate of return on scheme assets | **6.4 %** | 6.0 % |

The present value of defined benefit obligations, the fair value of scheme assets and associated experience adjustments are as follows:

Historic summary:

| | **2008 US$M** | 2007 US$M | 2006 US$M | 2005 US$M |
|---|---|---|---|---|
| Present value of defined benefit obligation | **421** | 358 | 357 | 355 |
| Fair value of defined benefit scheme assets | **(357)** | (339) | (333) | (316) |
| Deficit in the scheme | **64** | 19 | 24 | 39 |
| Experience adjustments to scheme liabilities | **(2)** | 5 | (15) | (2) |
| Experience adjustments to scheme assets | **24** | (9) | 9 | 29 |

Under AASB 119, experience adjustments to scheme liabilities do not include the effect of changes in actuarial assumptions.

Estimated employer contribution for the defined benefit pension scheme are as follows;

| | **US$M** |
|---|---|
| Estimated employer contributions for the year ending 30 June 2009 | 33 |
| Estimated contributions by scheme participants for the year ending 30 June 2009 | 2 |

## 30 Related parties

(a) Key management personnel disclosures

Disclosures related to key management personnel are set out in note 29 "Key management personnel disclosures" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

(b) Controlled and related entities

Information relating to controlled and related entities are contained in the following notes:

Note 2: Revenue

Note 3: Expenses

Note 4: Exceptional items

Note 7: Current assets - Receivables

Note 9: Non-current assets - Receivables

Note 10: Non-current assets - Other financial assets at cost

Note 15: Current liabilities - Payables

Note 18: Non-current liabilities - Payables

Note 27: Contingent liabilities

Further disclosures related to controlled entities are set out in note 37 "Subsidiaries" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

(c) BHP Billiton Plc

On 29 June 2001, BHP Billiton (previously known as BHP Limited), an Australian listed Company, and BHP Billiton Plc (previously known as Billiton Plc), a UK Listed Company, entered into a Dual Listed Companies (DLC) merger. For an explanation of the DLC arrangements, refer to "Dual Listed Companies structure and basis of preparation of financial statements" in Note 1 of the BHP Billiton Financial Statements for the year ended 30 June 2008.

(d) Parent company guarantees

BHP Billiton Limited has guaranteed certain financing arrangements available to subsidiaries of US$4,062 million at 30 June 2008 (2007: US$3862 million).

Under the terms of a deed poll guarantee, BHP Billiton Limited has guaranteed certain current and future liabilities of BHP Billiton Plc. At 30 June 2008, the guaranteed liabilities amounted to US$26 million (2007: US$764 million).

BHP Billiton Limited and BHP Billiton Plc have severally, fully and unconditionally guaranteed the payment of the principal and premium, if any, and interest, including certain additional amounts which may be payable in respect of the notes issued by BHP Billiton Finance (USA) Ltd. BHP Billiton Limited and BHP Billiton Plc 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 2008, the guaranteed liabilities amounted to US$4,450 million (2007: US$4,450 million).

## 31 Employee share ownership plans

Details in respect of this note are set out in note 25 "Employee share ownership plans" of the BHP Billiton Group Financial Statements for the year ended 30 June 2008.

## 32 Subsequent events

Other than the matters disclosed elsewhere in this financial report, no matters or circumstances have arisen since the end of the year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the Company in subsequent accounting periods.

## 33 Non-cash financing and investing activities

| | **2008 US$M** | 2007 US$M |
|---|---|---|
| Employee share plan loan instalments | **17** | 3 |

The Employee share plan loan instalments represent the repayment of loans outstanding with the BHP Billiton, by application of dividends.

## 34 Financing facilities

| | **2008 US$M** | 2007 US$M |
|---|---|---|
| Unsecured bank overdraft facility, reviewed annually and payable at call: | | |
| Amount used (see note 15) | 1 | 1 |
| Amount unused | 7 | 7 |
| Total facility available | 8 | 8 |

**BHP Billiton Limited (Single Parent Entity)**
**Director's declaration**
**30 June 2008**

As stated in note 1 to the financial statements, the Directors have prepared this financial report in accordance with the Australian Securities and Investment Commission order dated 8 September 2006, which granted relief from specific requirements of paragraph 295(2)(b) and subsection 296(1) of the Corporations Act 2001.

In accordance with a resolution of the Directors of BHP Billiton Limited, the Directors declare that:

(a) the financial statements and notes set out on pages 2 to 33 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Australian Accounting Standards and Corporations Regulations 2001; and

   (ii) giving a true and fair view of the financial position of BHP Billiton Limited as at 30 June 2008 and of its performance for the financial year ended on that date; and

(b) In the Directors' opinion there are reasonable grounds to believe that BHP Billiton Limited will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2008.

Signed in accordance with a resolution of the Board of Directors.

D R Argus

Chairman

M Kloppers

Chief Executive Officer

Dated this 9th day of September 2008

*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001*

To: the directors of BHP Billiton Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Peter Nash

*Partner*

Melbourne

9 September 2008

KPMG

## Independent auditor's report to the members of BHP Billiton Limited

## Report on the financial report

We have audited the accompanying financial report of BHP Billiton Limited (the Company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 34 and the directors' declaration set out on pages 2 to 34.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

KPMG

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

*Auditor's opinion*

In our opinion:

(a) the financial report of BHP Billiton Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

Peter Nash
*Partner*

Melbourne

9 September 2008