

BHP BILLITON LTD
Form 20-F
September 21, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED 30 JUNE 2016

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-09526
BHP BILLITON LIMITED
(ABN 49 004 028 077)
(Exact name of Registrant as specified in its charter)
VICTORIA, AUSTRALIA
(Jurisdiction of incorporation or organisation)
171 COLLINS STREET, MELBOURNE,

VICTORIA 3000 AUSTRALIA
(Address of principal executive offices)

Commission file number: 001-31714
BHP BILLITON PLC
(REG. NO. 3196209)
(Exact name of Registrant as specified in its charter)
ENGLAND AND WALES
(Jurisdiction of incorporation or organisation)
NEATHOUSE PLACE, LONDON

UNITED KINGDOM
(Address of principal executive offices)

Securities registered or to be registered pursuant to section 12(b) of the Act.

Title of each class	Name of each exchange on which registered	Title of each class	Name of each exchange on which registered
American Depositary Shares*	New York Stock Exchange	American Depositary Shares*	New York Stock Exchange
Ordinary Shares**	New York Stock Exchange	Ordinary Shares, nominal value US\$0.50 each**	New York Stock Exchange

* Evidenced by American Depositary Receipts. Each American Depositary Receipt represents two ordinary shares of BHP Billiton Limited or BHP Billiton Plc, as the case may be.

** Not for trading, but only in connection with the listing of the applicable American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

BHP Billiton Limited

BHP Billiton Plc

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Fully Paid Ordinary Shares 3,211,691,105 2,112,071,796
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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Our Charter

**We are BHP Billiton,
a leading global resources
company.**

Our purpose is to create long-term shareholder value through the discovery, acquisition, development and marketing of natural resources.
Our strategy is to own and operate large, long-life, low-cost, expandable, upstream assets diversified by commodity, geography and market.

Our Values
Sustainability

Putting health and safety first, being environmentally responsible and supporting our communities.

Integrity

Doing what is right and doing what we say we will do.

Respect

Embracing openness, trust, teamwork, diversity and relationships that are mutually beneficial.

Performance

Achieving superior business results by stretching our capabilities.

Simplicity

Focusing our efforts on the things that matter most.

Accountability

Defining and accepting responsibility and delivering on our commitments.

We are successful when:

Our people start each day with a sense of purpose and end the day with a sense of accomplishment.

Our teams are inclusive and diverse.

Our communities, customers and suppliers value their relationships with us.
Our asset portfolio is world-class and sustainably developed.
Our operational discipline and financial strength enables our future growth.
Our shareholders receive a superior return on their investment.

Andrew Mackenzie

Chief Executive Officer

BHP Billiton Limited. ABN 49 004 028 077. Registered in Australia. Registered office: 171 Collins Street, Melbourne, Victoria 3000, Australia. BHP Billiton Plc. Registration number 3196209. Registered in England and Wales. Registered office: Neathouse Place, London SW1V 1LH, United Kingdom. Each of BHP Billiton Limited and BHP Billiton Plc is a member of the BHP Billiton Group, which is headquartered in Australia. BHP Billiton is a Dual Listed Company structure comprising BHP Billiton Limited and BHP Billiton Plc. The two entities continue to exist as separate companies but operate as a combined Group known as BHP Billiton.

The headquarters of BHP Billiton Limited and the global headquarters of the combined BHP Billiton Group are located in Melbourne, Australia. The headquarters of BHP Billiton Plc is located in London, United Kingdom. Both companies have identical Boards of Directors and are run by a unified management team. Throughout this publication, the Boards are referred to collectively as the Board. Shareholders in each company have equivalent economic and voting rights in the BHP Billiton Group as a whole.

Throughout this Annual Report, the terms BHP Billiton, the Company and the Group refer to the combined group, including both BHP Billiton Limited and subsidiary companies and BHP Billiton Plc and subsidiary companies. Cross references refer to sections of the Annual Report, unless stated otherwise.

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Forward looking statements

This Annual Report contains forward looking statements, including statements regarding trends in commodity prices and currency exchange rates; demand for commodities; production forecasts; plans, strategies and objectives of management; closure or divestment of certain operations or facilities (including associated costs); anticipated production or construction commencement dates; capital costs and scheduling; operating costs; anticipated productive lives of projects, mines and facilities; provisions and contingent liabilities; and tax and regulatory developments.

Forward looking statements can be identified by the use of terminology such as intend , aim , project , anticipate , estimate , plan , believe , expect , may , should , will , continue or similar words. These statements discuss f expectations concerning the results of operations or financial conditions, or provide other forward looking information.

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

For example, our future revenues from our operations, projects or mines described in this Annual Report will be based, in part, on the market price of the minerals, metals or petroleum products produced, which may vary significantly from current levels. These variations, if materially adverse, may affect the timing or the feasibility of the development of a particular project, the expansion of certain facilities or mines, or the continuation of existing operations.

Other factors that may affect the actual construction or production commencement dates, costs or production output and anticipated lives of operations, mines or facilities include our ability to profitably produce and transport the minerals, petroleum and/or metals extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the minerals, petroleum or metals we produce; activities of government authorities in the countries where we are exploring or developing projects, facilities or mines, including increases in taxes, changes in environmental and other regulations and political uncertainty; labour unrest; and other factors identified in the risk factors set out in section 1.9.2.

Except as required by applicable regulations or by law, the Company does not undertake to publicly update or review any forward looking statements, whether as a result of new information or future events.

Past performance cannot be relied on as a guide to future performance.

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Item Number	Description	Report section reference
1.	Identity of directors, senior management and advisors	Not applicable
2.	Offer statistics and expected timetable	Not applicable
3.	Key Information	
A	Selected financial information	1.13
B	Capitalisation and indebtedness	Not applicable
C	Reasons for the offer and use of proceeds	Not applicable
D	Management of Risk	1.9
4.	Information on the company	
A	History and development of the company	1.6, 1.12 to 1.14, 4.1, 6.1 to 6.4, 7.1 to 7.3 and 7.12
B	Business overview	1.5, 1.8, 1.9.2, 1.12.4, 7.3.2, 7.11
C	Organisational structure	7.3 and Note 27 to the Financial Statements
D	Property, plant and equipment	1.12.1 to 1.12.3 and 6.1 to 6.3 and Note 10 to the Financial Statements
4A.	Unresolved staff comments	None
5.	Operating and financial review and prospects	
A	Operating results	1.7 to 1.9, 1.12.1 to 1.12.3, 1.13 to 1.14
B	Liquidity and capital resources	1.13.3, 5.1.4 and Note 31 to the Financial Statements
C	Research and development, patents and licences etc	1.6.3, 1.8.2, 1.12, 1.13, 4.14 and 6.3
D	Trend information	1.8.1, 1.8.2, 1.12.1 to 1.12.3
E	Off-balance sheet arrangements	1.15 and Notes 31 and 32 to the Financial Statements
F	Tabular disclosure of contractual obligations	1.15 and Notes 31 and 32 to the Financial Statements
6.	Directors, senior management and employees	
A	Directors and senior management	2.2
B	Compensation	3
C	Board practices	2.13.1, 2.13.2, 2.2, 3.2 and 3.3
D	Employees	1.10 and 1.10.7
E	Share ownership	3.4.23, 3.4.24 and 4.18
7.	Major shareholders and related party transactions	
A	Major shareholders	7.6
B	Related party transactions	Notes 22 and 30 to the Financial Statements
C	Interests of experts and counsel	Not applicable
8.	Financial information	
A	Consolidated statements and other financial information	5, 7.7 and the pages beginning on page F-1 in this Annual Report
B	Significant changes	Note 33 to the Financial Statements
9.	The offer and listing	

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A	Offer and listing details	7.8
B	Plan of distribution	Not applicable
C	Markets	7.2
D	Selling shareholders	Not applicable

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Item Number	Description	Report section reference
E	Dilution	Not applicable
F	Expenses of the issue	Not applicable
10.	Additional Information	
A	Share capital	Not applicable
B	Memorandum and articles of association	7.3, 7.5 and 7.11.3
C	Material contracts	7.4
D	Exchange controls	7.11.3
E	Taxation	7.10
F	Dividends and paying agents	Not applicable
G	Statement by experts	Not applicable
H	Documents on display	7.5.14
I	Subsidiary information	Note 27 to the Financial Statements
11.	Quantitative and qualitative disclosures about market risk	Note 21 to the Financial Statements
12.	Description of securities other than equity securities	
A	Debt Securities	Not applicable
B	Warrants and Rights	Not applicable
C	Other Securities	Not applicable
D	American Depositary Shares	7.9
13.	Defaults, dividend arrearages and delinquencies	There have been no defaults, dividend arrearages or delinquencies
14.	Material modifications to the rights of security holders and use of proceeds	There have been no material modifications to the rights of security holders and use of proceeds since our last Annual Report
15.	Controls and procedures	2.13.1 and 5.6
16A.	Audit committee financial expert	2.2.1 and 2.13.1
16B.	Code of ethics	2.16
16C.	Principal accountant fees and services	2.13.1 and Note 35 to the Financial Statements
16D.	Exemptions from the listing standards for audit committees	Not applicable
16E.	Purchases of equity securities by the issuer and affiliated purchasers	4.2
16F.	Change in Registrant's Certifying Accountant	Not applicable
16G.	Corporate Governance	2
16H.	Mine Safety Disclosure	Exhibit 95.1
17.	Financial statements	Not applicable as Item 18 complied with
18.	Financial statements	The pages beginning on page F-1 in this Annual Report and Exhibit 15.1
19.	Exhibits	8

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1 Strategic Report

About this Strategic Report

This Strategic Report provides insight into BHP Billiton's strategy, operating and business model, and objectives. It describes the principal risks the Company faces and how these risks might affect our future prospects. It also gives our perspective on our recent operational and financial performance.

This disclosure is intended to assist shareholders and other stakeholders to understand and interpret the Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) included in this Annual Report. The basis of preparation of the Consolidated Financial Statements is set out in section 5.1 Basis of preparation to the Financial Statements. To obtain full details of the financial and operational performance of BHP Billiton, this Strategic Report should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

This Strategic Report meets the requirements of the UK Companies Act 2006 and the Operating and Financial Review required by the Australian Corporations Act 2001.

Section 1 of this Annual Report 2016 constitutes our Strategic Report 2016. References to sections beyond section 1 are references to sections in this Annual Report 2016. Shareholders may obtain a hard copy of the Annual Report free of charge by contacting our Share Registrars, whose details are set out in our Corporate Directory at the end of this Annual Report.

All references to websites in this Annual Report are intended to be inactive textual references for information only and any information contained in, or accessible through, any such website does not form a part of this Annual Report.

1.1 Chairman's Review

Dear Shareholder,

Without doubt, this year has been a difficult one for BHP Billiton.

We are deeply sorry to all those who have been affected by the tragic events at the Samarco iron ore operations in Brazil in November last year. At the 2015 Annual General Meeting (AGM) of BHP Billiton Limited, we made a commitment to support Samarco with the response effort and to find out what went wrong.

As our stakeholders would expect, the Board has spent a significant amount of time discussing Samarco and considering our response. Soon after the tragedy occurred, we set up a sub-committee of the Board with specific authorities delegated to it in relation to Samarco. Alongside the Samarco sub-committee, the Risk and Audit Committee and the Sustainability Committee have considered matters relating to Samarco as part of those committees ongoing duties.

In November 2015, BHP Billiton Brasil, Samarco and Vale jointly commissioned an external investigation into the technical cause of the breach of the Fundão tailings dam at Samarco's iron ore operations. A panel of four geotechnical specialists from Brazil, Canada and the United States was engaged to advise on the technical aspects of the failure. On 29 August 2016, the panel published its findings into the immediate causes of the dam failure.

We have shared the findings widely so that the sector can learn from the dam failure and develop and implement further standards to prevent a similar event happening elsewhere. In addition, we have conducted an in-depth review of significant dams in our portfolio. We have also reviewed the non-operated minerals joint ventures in our portfolio. We have identified a number of actions that we will take in the management of our tailings dams and joint venture arrangements. More information can be found in section 1.4. We will provide an update in our FY2017 Annual Report on progress with implementation of the actions we have identified.

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Against the backdrop of a volatile and uncertain global environment, a strong balance sheet remains a key enabler of our strategy. In 2016, we therefore announced a new dividend policy that further protects our balance sheet and ensures financial flexibility. While a difficult decision to make, this was the right decision for your Company. The dividend policy provides for a minimum 50 per cent payout of Underlying attributable profit at every reporting period. For FY2016, the Board determined a final dividend of 14 US cents per share, which is covered by free cash flow. This dividend comprises the minimum payout per share plus an additional amount of six US cents per share.

At every reporting period, the Board will assess the Company's capacity to pay amounts additional to the minimum payment, in accordance with the capital allocation framework. We will be accountable for every dollar we spend and strictly adhere to our capital allocation framework, which takes into account the changing conditions in which we operate.

Responding to climate change remains a priority governance and strategic issue for BHP Billiton in the context of the transformational changes now underway in the global energy market, driven by climate policy and technology advances. Active engagement with our stakeholders, including investors, policy makers, peers and non-governmental organisations, on our approach to climate change is also a priority. We encourage governments to develop long-term and effective policy frameworks that align with their strategic priorities and include a portfolio of complementary measures.

We understand the importance of reducing the Company's greenhouse gas emissions and ensuring the resilience of our business. Following on our well-received Climate Change: Portfolio Analysis which was published in September 2015, we will, prior to the 2016 AGMs, issue an update on the activities we have undertaken during the year to progress our response to climate change risk. We look forward to discussing this with a wide range of stakeholders.

I would like to thank John Schubert for his outstanding service to the Board and the Company over many years. John will retire after the 2016 BHP Billiton Limited AGM. In line with our planned approach to Board succession, we appointed Ken MacKenzie to the Board as a Non-executive Director with effect from 22 September 2016. Ken has a proven track record, having led a successful company in a challenging sector for a decade. His extensive global and executive experience will enable him to make a significant contribution to the Board.

Your Board is confident in the outlook for BHP Billiton and we thank you for your continued support of the Company.

Jac Nasser AO

Chairman

1.2 Chief Executive Officer's Report

Dear Shareholder,

This year was difficult for both BHP Billiton and the resources industry generally.

I again want to convey our deep sorrow for all who have been impacted by the tragic events in Brazil after the Fundão dam failure at Samarco on 5 November 2015 – especially to the families and friends of the 19 people who died, as well as those who have lost their homes or livelihoods and face an uncertain future.

BHP Billiton is committed to doing the right thing to help those affected recover and to work closely with our joint venture partner, Vale, and the operator, Samarco, to achieve this.

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I visited the region again in June 2016 and was impressed by the progress in the restoration and recovery efforts to date. We are acutely aware that this will be a long process to provide full redress and we are working tirelessly to remediate the community and environmental impacts.

I encourage you to read more about our response in section 1.4 or in our 2016 Sustainability Report.

While it is hard to be positive about our safety performance in the shadow of Samarco, this past year we achieved some strong improvements at our BHP Billiton operated sites, such as no fatalities and a 20 per cent decrease in high-potential injury events.

Our safety measure of total recordable injury frequency (TRIF) slightly increased to 4.3 per million hours worked. While this is low by historic and industry standards, we are determined to improve it. We put safety first in all that we do – nothing is more important.

FY2016 saw significantly weaker commodity prices and three exceptional charges that contributed to a statutory loss of US\$6.4 billion. While we are disappointed by this result, our underlying performance is strong. Our Underlying EBITDA margin is healthy at 41 per cent. Costs were down 16 per cent and we delivered productivity gains of more than US\$400 million (on top of the US\$10 billion secured since FY2012). These gains contributed to free cash flow of US\$3.4 billion and the continued strength of our balance sheet.

Despite the challenges confronted this year, we have stayed true to *Our BHP Billiton Charter* values and not wavered from our plans. We have made the necessary changes to our Company and completed the structural work (including a new streamlined Operating Model) to simplify our portfolio and increase our agility.

We now have everything in place to create significant future value – through more productivity gains, attractive growth projects, our ambitious exploration program and new technology.

When we deliver this value – for our shareholders, our employees and the communities in which we work – BHP Billiton also contributes to society more broadly.

I'm really proud of the contribution that BHP Billiton makes. In FY2016, our total economic contribution was US\$26.7 billion, through employment, purchased goods and services, and taxes and royalties. This also includes the US\$178.7 million we voluntarily invested in communities.

None of this would have been possible without the 65,000 dedicated BHP Billiton team members who walk through our gates and doors each day with a sense of purpose and a determination to make a difference. The team's contributions are valued and their commitment to step up and deliver even in the face of challenge inspires me.

Thank you also to our broader BHP Billiton family of customers, suppliers and host communities who work together with us to make our results and our future possible. Finally, thank you to our shareholders for your continued commitment to our great Company.

We have the right assets in the right commodities with the capability and culture to build even more momentum and prosper in 2017 and beyond.

Andrew Mackenzie

Chief Executive Officer

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1.3 Performance summary

Not required for US reporting. Refer to section 1.13.

1.4 Samarco

Introduction

Samarco Mineração S.A. (Samarco) is a non-operated joint venture owned by BHP Billiton Brasil Ltda (BHP Billiton Brasil) and Vale S.A. (Vale), each having a 50 per cent shareholding. The Samarco operations comprise an iron ore mine, and processing and concentration facilities located in Bento Rodrigues in the Mariana region of the state of Minas Gerais, and four pellet plants and a port located in the state of Espírito Santo.

The failure of Samarco's Fundão dam

On 5 November 2015, the Fundão dam failed. The dam is one of Samarco's two primary tailings dams at the mine site. This failure led to a significant volume of mine tailings (water and mud-like mine waste) being released (Samarco dam failure). As a result, the communities of Bento Rodrigues, Gesteira and Paracatu were flooded and a number of other communities further downstream were also affected.

Tragically, 19 people died - five community members and 14 people who were working on the dam facility at the time of the failure.

The tailings spill caused extensive damage to the natural environment, communities and associated infrastructure along the Rio Doce. Approximately 700 people were rendered homeless after the Samarco dam failure. Seven bridges were destroyed, access roads were damaged and 100 kilometres of fencing was impacted.

Over 2,000 hectares of riverside vegetation and agricultural land were impacted, with millions of tonnes of tailings material deposited along the banks of the river system.

BHP Billiton is deeply sorry to all who have been impacted by this tragedy, in particular to the families and friends of those who died, as well as those who have lost their homes or livelihoods and face an uncertain future in the near term.

Our immediate response

Following the Samarco dam failure, BHP Billiton extended its immediate support and assistance to Samarco in the response effort. Our immediate concern was for the welfare of the Samarco workforce and the affected communities.

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Samarco assisted in providing temporary accommodation, water and food aid for affected communities. BHP Billiton and Vale also dispatched geotechnical, disaster relief and humanitarian response experts, along with senior health and safety executives, environmental scientists and a number of other support staff, to support the response efforts.

BHP Billiton CEO Andrew Mackenzie travelled to Bento Rodrigues immediately following the Samarco dam failure to meet with Vale, Samarco, the local authorities and members of the community, and to gain a first-hand understanding of the human, environmental and operational impacts of the disaster and the scale of the assistance required. In addition, members of the BHP Billiton Forum on Corporate Responsibility (FCR), which is made up of nine highly respected civil society leaders, visited the Mariana region in January 2016 to understand the impacts of the Samarco dam failure and Samarco's response.

Our ongoing support

BHP Billiton has now established a permanent presence in Belo Horizonte to continue to support Samarco's remediation and response work over the longer term. We have a team of around 35 technical experts and senior management now engaged full-time in the ongoing response effort.

Chief Commercial Officer, Dean Dalla Valle, assumed day-to-day responsibility at an Executive Leadership Team level for BHP Billiton's response to the dam failure, and has been based in Brazil since February 2016.

Socio-economic programs and environment programs were commenced shortly after the Samarco dam failure.

The Framework Agreement and Fundação Renova

In December 2015, the Federal Government of Brazil, the states of Espírito Santo and Minas Gerais and certain other public authorities (Brazilian Authorities) filed a R\$20 billion claim against Samarco, Vale and BHP Billiton Brasil for clean-up costs and damages.

In March 2016, an agreement was entered into by Samarco, Vale and BHP Billiton Brasil and the Brazilian Authorities for the restoration of the environment and communities affected by the dam failure (Framework Agreement). The Framework Agreement provides a long-term, participatory framework for responding to the Samarco tragedy.

The Framework Agreement outlines a set of actions, measures and programs, including 17 environmental and 22 socio-economic programs, to restore and compensate the communities and environment affected by the Samarco dam failure.

In accordance with the Framework Agreement, Samarco, Vale and BHP Billiton Brasil have established a private foundation (Fundação Renova) to develop and execute the environmental and socio-economic programs. Samarco is responsible for funding the Fundação Renova and will make annual contributions. However, to the extent that Samarco does not meet its funding obligations, each of Vale and BHP Billiton Brasil has agreed to provide funding to the Fundação Renova in proportion to its 50 per cent shareholding in Samarco.

The Fundação Renova will be overseen by an Inter-Federative Committee comprising representatives of the Ministry for the Environment, the Federal Government, the states of Minas Gerais and Espírito Santo, the municipalities of Minas Gerais and Espírito Santo, the Public Defenders Union and the Rio Doce Hydrographic Basin Committee.

The Framework Agreement mandates community involvement in the development of the remediation and compensation programs through a formal advisory committee and social dialogue program. It includes a local level grievance mechanism and the establishment of an Ombudsman-like process, which is currently being designed with input from international experts and communities.

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The Framework Agreement was ratified by the Federal Court of Appeal in Brasilia on 5 May 2016, suspending the R\$20 billion public civil claim commenced by the Brazilian Authorities against Samarco, Vale and BHP Billiton Brasil. However, on 30 June 2016, the Superior Court of Justice issued a preliminary order suspending the decision of the Federal Court of Appeal to ratify the Framework Agreement. Samarco, Vale and BHP Billiton Brasil have appealed the decision of the Superior Court of Justice.

The effect of the preliminary order of the Superior Court of Justice is to reinstate the R\$20 billion public civil claim. Notwithstanding this preliminary order, Samarco will continue to remediate and compensate for the effects of the Samarco dam failure.

The Framework Agreement remains a binding agreement between the parties and Samarco will continue to undertake the economic and socio-economic programs under the Framework Agreement.

Ongoing socio-economic and environmental programs

Compensation for those affected, the reconstruction of public infrastructure and the relocation of the impacted communities of Bento Rodrigues, Paracatu and Gesteira are key programs under the Framework Agreement. Ninety per cent of the 41 programs prescribed by the Framework Agreement have been initiated and have been transitioned to the Fundação Renova.

Following a participatory process, the Bento Rodrigues community voted on the location of Lavoura as the place to rebuild their community. The site is located approximately nine kilometres from the location of the former town.

Following a similar consultation process, 95 per cent of community members from Gesteira, in the district of Barra Longa, voted in favour of reconstructing homes and public facilities in the area of Macacos.

Residents of Paracatu have visited options for their resettlement site and are in the process of deciding on their preferred location. The next step in the process is to engage the communities in architectural and urban design, as well as the construction standards of the residences.

Over 7,000 families whose livelihoods have been impacted by the dam failure are receiving financial assistance from Samarco. The majority of these are either from the communities closest to the mine site in Mariana and Barra Longa or from the communities along the Rio Doce and near the coast in Minas Gerais and Espírito Santo where fishing-based livelihoods were common.

An extensive negotiated compensation program has been developed to ensure affected people receive fair and reasonable compensation. The program commenced in August 2016 and will take six months to implement in 20 locations. Payments are expected to be completed by mid-2017. Preliminary compensation has already been paid to those most severely impacted.

Works are underway to reinforce and improve the dam structures at Samarco so as to contain the remaining tailings materials. A large portion of the works are scheduled to be completed before the next wet season commences. Among the measures being taken, Samarco is building a series of sediment dams to reduce the potential for tailings to be transported further downstream. Works also include re-contouring tailings deposits, establishing a temporary vegetation cover and rock armouring sections of the main river channel and tributaries to reduce erosion.

Water testing is being conducted at 94 different points along the Rio Doce and marine areas near the mouth of the river. Extensive geochemical analyses of the tailings and existing sediments and toxicity test work have also been

undertaken. Results indicate that the water quality of the river, in terms of metals of environmental concern, is similar to that determined by studies conducted in 2010 by the Brazilian Geological Service and National Water Agency, and support the earlier determination that the tailings released into the river system are not toxic.

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Understanding the cause

In November 2015, BHP Billiton Brasil, Samarco and Vale jointly engaged New York-based law firm Cleary Gottlieb Steen & Hamilton LLP (Cleary Gottlieb) to coordinate an external investigation into the immediate cause of the breach of the Fundão tailings dam.

Cleary Gottlieb retained a panel of four geotechnical specialists to support the investigation. BHP Billiton committed to publicly share the findings in order to provide a detailed technical understanding of the cause of this tragedy and help to prevent a similar event from occurring again.

The panel's findings can be viewed at www.fundaoinvestigation.com.

In addition to this external investigation, BHP Billiton initiated a comprehensive internal review of other significant dams and non-operated minerals joint ventures in the portfolio. A primary purpose of the dams review was to assure the integrity of significant dam structures.

BHP Billiton has identified a number of actions that we will take in our management of tailings dams and joint venture arrangements, including:

- creating a centralised dam management function that will bring additional specialist expertise in-house at BHP Billiton;

- assessing technology options to enhance dam management across the portfolio;

- applying at all of our operated minerals assets the process for dam safety reviews developed by the Canadian Dam Association, which is considered to be the most rigorous in the industry;

- centralising management of our interest in all major non-operated minerals joint ventures in the Minerals Americas operating group;

- establishing a new BHP Billiton global standard for non-operated minerals joint ventures.

Other legal matters

On 3 May 2016, the Federal Public Prosecution Service filed a public civil claim against Samarco, Vale and BHP Billiton Brasil as well as 18 other public entities seeking R\$155 billion (approximately US\$48 billion) for reparation, compensation and collective moral damages in relation to the Samarco dam failure. The claim also includes a number of preliminary injunction requests. BHP Billiton Brasil has applied to have the injunctions dismissed.

BHP Billiton Brasil is among the companies named as defendants in proceedings initiated by individuals, non-governmental organisations (NGOs), corporations and governmental entities in Brazilian federal and state courts following the Samarco dam failure. The other defendants include Vale and Samarco.

For more information on these legal proceedings, refer to section 6.5.

Restart

Samarco's mining and processing operations remain suspended. Samarco is progressing plans to restart operations; however, there is uncertainty around the timing and nature of future ongoing operations. Samarco has confirmed it is unlikely to have in place the necessary approvals to restart its operations in the 2016 calendar year. Samarco makes an important contribution to the national economy and the livelihoods of thousands of people, but Samarco's operations will restart only when it is safe to do so, and when all necessary regulatory approvals have been obtained.

1.5 Business model

Our corporate purpose is to create long-term shareholder value through the discovery, acquisition, development and marketing of natural resources.

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1.5.1 About us

BHP Billiton is among the world's top producers of major commodities including iron ore, metallurgical coal, copper and uranium. We also have substantial interests in oil, gas and energy coal.

We extract and process minerals, oil and gas from our production operations located primarily in Australia and the Americas.

Our products are sold worldwide, with sales and marketing led through Singapore and Houston, United States. Our global headquarters are in Melbourne, Australia.

We operate under a Dual Listed Company structure with two parent companies (BHP Billiton Ltd and BHP Billiton Plc) operated as a single economic entity. We are run by a unified Board and management.

With a team of more than 65,000 employees and contractors as of 30 June 2016, we prioritise our people's health and safety and strive to create an environment free from fatalities, injuries and occupational illnesses.

Our size and scope allow us to make meaningful contributions to communities and the long-term nature of our operations means we are able to build collaborative community relationships.

We aim to maximise the social and economic benefits of our operations, contribute to economic development and minimise our environmental footprint through innovation, productivity and technology.

1.5.2 What we do

Exploration and evaluation

We discover resources through brownfield and greenfield exploration. To enhance our portfolio, we also consider acquisition and divestment opportunities.

Development

To develop our options, we evaluate, plan and then invest in infrastructure, studies or trials and make decisions using a robust, rigorous process. Projects progress only if they have internal and external approvals, including Board approval for major projects.

Extraction, processing and transportation

Our goal is to safely operate our assets through mining, extracting, processing and transporting commodities. Asset teams are focused on safety, productivity and sustainability, including rehabilitation when an operation closes.

Marketing and logistics

We manage product distribution through our global logistics chain, including freight and pipeline transportation. We sell our products through direct supply agreements with our customers and on global commodity exchanges. Customer

insights, economic analysis and our deep knowledge of commodity markets enable us to develop a view of markets and future pricing.

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Contribution

We make a broader contribution to the communities, regions and nations in which we operate. At each step of our business model we create value through creating jobs, purchasing goods and services and paying taxes and royalties. This generates the economic activity that supports the contribution we make to our host communities and nations.

Creating value

We create value for both our shareholders and the broader community through the activities performed at each step of our business model.

The commodities we produce underpin nearly every facet of modern life the essential infrastructure, telecommunications, transportation and energy supplies that contribute to higher living standards for many people globally.

1.5.3 Our Operating Model

Our Operating Model describes how we are organised and work together.

The demerger of South32 in May 2015 significantly simplified our portfolio and created further opportunity for productivity improvements across our operations. Our new Operating Model, announced in February 2016, makes BHP Billiton a more agile company ready to respond to the challenges and opportunities presented by a changing global market place. The new Operating Model is designed for our simpler portfolio of 12 core operated assets. It aims to remove duplication, realise economies of scale and facilitate greater coordination in order to enhance safety, productivity and the sharing of best practice.

Under the new Operating Model, BHP Billiton is organised by:

Assets: Assets are a set of one or more geographically proximate operations (including open-cut mines, underground mines and onshore and offshore oil and gas production and processing facilities). Our assets develop and convert resources and are focused on safety, volume and cost.

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Asset groups: We group our assets in order to drive collaboration, promote new technology adoption and to share best practice within and between groups. Our minerals assets are grouped under Minerals Australia or Minerals Americas, based on their geographic location. Our oil and gas assets are grouped together as one global Petroleum unit, reflecting the operating environment in that sector.

Marketing: Marketing secures product sales, manages the supply chain from resources to markets, supports strategic decision-making through market insights and optimises working capital.

Functions: Functions operate along global reporting lines to provide support to all areas of the organisation. Functions have specific accountabilities and deep expertise in areas such as finance, legal, governance, technology, corporate affairs, health, safety and community.

Leadership: Our Executive Leadership Team (ELT) is responsible for day-to-day management of the Company and for leading the delivery of our strategic objectives. The Operations Management Committee (OMC) has responsibility for planning, directing and controlling the activities of the Company, including key Company strategic, investment and operational decisions, and recommendations to the Board.

BHP Billiton will continue to disclose financial performance by reportable commodity segments, as this provides the most meaningful insight into the nature and financial outcomes of our business activities within the economic environment in which we operate. Reporting by commodity also facilitates greater comparability against industry peers.

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1.5.4 BHP Billiton locations (includes non-operated)

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1.6 Company strategy

1.6.1 Our strategy

Strategy

Our strategy is to own and operate large, long-life, low-cost, expandable, upstream assets diversified by commodity, geography and market.

We believe our position in the resources industry is unique, largely due to our proven and consistent strategy. The simplicity of our portfolio, the scale and quality of our assets and our standardised systems and processes are all distinctive attributes further strengthened by our people and operational excellence.

We operate in a dynamic, globally competitive environment. Our strategy has delivered strong performance over time, which has created sustainable value for our shareholders, customers, employees and the communities in which we operate.

Values

In everything we do, we are guided by *Our BHP Billiton Charter* values of Sustainability, Integrity, Respect, Performance, Simplicity and Accountability.

Our overriding commitment is to work to ensure the safety of our people and respect our environment and the communities in which we work. This commitment informs everything we do and influences every aspect of our work.

Success factors

We are successful when our:

people start each day with a sense of purpose and end the day with a sense of accomplishment;

teams are inclusive and diverse;

communities, customers and suppliers value their relationships with us;

asset portfolio is world-class and sustainably developed;

operational discipline and financial strength enables our future growth;

shareholders receive a superior return on their investment.

1.6.2 Planning

We have a robust corporate planning framework that allows us to identify risks and opportunities, inform our strategic priorities and optimise returns to shareholders.

Core principles

Ownership senior executives develop our strategy and strategic priorities for the input, consideration and ultimately, approval by the Board.

Engagement the Executive Leadership Team (ELT), assets, Marketing and functions regularly collaborate and discuss plans.

Systematic

The plans of assets, Marketing and functions are aggregated to form an overall integrated corporate plan.

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Long-term directional plans are first developed for each asset. Short-term plans are developed from the long-term plans to deliver strategic priorities.

Plans are reviewed, assessed and endorsed at appraisals of the assets and functions.

Evaluation our portfolio and plans are regularly tested for resilience under scenarios and signals tracking.
Corporate planning framework

Our corporate planning framework is rigorous yet flexible, providing the capability to respond and adapt to a dynamic external environment. It ensures strategic insights from across BHP Billiton are captured and considered as part of our investment decisions and capital allocation.

The main components of our corporate planning framework include:

Board Strategy Forum the Board and the ELT regularly discuss and debate the Company's strategy.

Strategic Reviews assets prepare long-term plans, discuss them with the ELT and seek their endorsement.

Appraisals assets and functions prepare short-term plans and budgets, and review them during annual appraisals with ELT members.

A BHP Billiton 20-year corporate plan is prepared based on input from the assets' long-term and short-term plans which include various alternatives for capital investments. The planning framework seeks to allocate capital to maximise shareholder value. Our capital allocation process looks at possible combinations of investment options and selects the most valuable combination that also satisfies our capital constraints. The most valuable combination of growth options is prioritised and sequenced over the 20-year plan.

The capital allocation process includes analysis using a range of metrics¹ to inform decision-making. All available growth options are assessed and prioritised to generate a high-value and capital-efficient portfolio.

For more information on our capital allocation framework, refer to section 1.6.3.

¹ Net Present Value (NPV), internal rates of return (IRR), return on capital (ROC) and margin are the main metrics used in analysis during the capital allocation process.

Scenarios and signals tracking

Our corporate planning process involves many tools, including scenarios and signals tracking to help us interpret trends in the external environment. Scenarios provide a way to factor uncertainty in to the strategy process, to identify new opportunities and alternatives and to test the robustness of our decisions.

Our set of scenarios is designed to be divergent and contrasting, as well as to consider plausible and intuitively logical, future worlds. Our scenarios do not represent preferred or most likely outcomes for BHP Billiton.

Signals, including signposts (trends) and triggers (events), are regularly tracked to provide timely insights in to the potential impacts on our portfolio. This provides us with a tool to inform decision-making and enables us to act early.

1.6.3 Focus areas

We maintain a strong focus on the following strategic priorities to execute our strategy. A number of these are monitored using the key performance indicators as presented in section 1.7.

Operating sustainably

Sustainability is at the core of *Our Charter* values. It means putting health and safety first, being environmentally responsible and supporting communities.

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We integrate health, safety, environmental, social and economic factors into our decision-making. Our sustainability framework, including risk management and sustainable development, guides our investments in our host countries and local communities, as well as directly at our own operations. The priority for our sustainability framework is identifying and managing material risks – a core part of creating value.

We play an important role in economic development and improving standards of living. As part of making a valuable contribution as community partners, we seek meaningful, long-term relationships that respect local cultures and create lasting benefits.

For more information on sustainability, refer to section 1.11 and our Sustainability Report 2016, which is available at www.bhpbilliton.com.

A more productive organisation

To date, our productivity improvements have delivered significant value, including gains of over US\$10 billion secured since 2012. In FY2016, we achieved US\$437 million in productivity gains and we expect this strong momentum to continue, with US\$2.2 billion of gains targeted over the two years to the end of FY2017.

Future productivity gains over the short to medium term will be achieved through further cost reductions, taking advantage of latent capacity in our assets and investing in capital efficient projects.

Our productivity initiatives are expected to result in production growth of five per cent in copper, four per cent in iron ore and three per cent in metallurgical coal in FY2017.

In addition, our new Operating Model provides a further productivity opportunity across the Company. We now have a simplified, global structure and streamlined ways of working that will enable us to realise economies of scale, remove duplication, facilitate greater coordination and replicate best practice faster.

The new model incorporates an integrated technology function to provide operational and information technology services, as well as lead technology innovation across the organisation and support productivity initiatives.

For more information on our new Operating Model, refer to section 1.5.3.

Disciplined capital management

Our strong balance sheet remains a fundamental enabler of our strategy. It provides access to sufficient, low-cost funding at all points in the cycle, which offers optionality and helps to insulate our operations from rising volatility. Our balance sheet strength is demonstrated by our solid cash flow to net debt metrics (reflected in our credit ratings), liquidity, moderate gearing and long-dated debt maturity profile.

We continue to implement measures to both preserve this balance sheet strength and align our capital allocation framework with our industry's cyclical nature.

Our capital allocation framework sets clear parameters. Capital is allocated under the following hierarchy:

maintain capital to support safe and stable operations;

maintain balance sheet strength to provide protection through the cycle;

pay shareholders a minimum of 50 per cent of Underlying attributable profit as dividends;

direct remaining cash to the value-optimising outcome, with debt reduction, paying additional amounts by way of dividend, buying back shares, investing in growth projects and acquiring assets all competing for capital.

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This capital allocation framework is simple and by strict adherence to the framework, we can balance value creation, cash returns to shareholders and balance sheet strength in a transparent and consistent manner through the cycle.

Our approach to capital allocation is illustrated in the diagram below.

For more information on our dividend policy, refer to section 7.7.

1.7 Key performance indicators

Our key performance indicators (KPIs) enable us to measure our sustainable development and financial performance.

These KPIs are used as direct and indirect measures in the short-term or long-term incentive remuneration arrangements for senior executives. Certain KPIs (Total recordable injury frequency, Greenhouse gas emissions, Underlying attributable profit, Underlying EBITDA and Total shareholder return) are used directly to calculate incentive outcomes (subject to certain adjustments as described further in section 3) and the remainder (Social investment, Net operating cash flows and Long-term credit rating) are considered more broadly in determining final overall results.

Our Remuneration Report is contained in section 3 and provides information on our overall approach to executive remuneration, including remuneration policies and the remuneration outcomes.

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1.7.1 Sustainability KPIs

Total recordable injury frequency (TRIF) ⁽¹⁾ ⁽²⁾

Definition

Total recordable injury frequency (TRIF) is an indicator in highlighting broad personal injury trends and is calculated based on the number of recordable injuries per million hours worked. This data covers the assets that have been wholly owned and operated by BHP Billiton or that have been operated by BHP Billiton in a joint venture operation.

Link to strategy

Our overriding commitment is to ensure the safety and health of our people and this is supported by *Our Charter* value of Sustainability.

FY2016 performance

While we had no fatalities at any BHP Billiton operated assets, tragically 19 people died as a result of the dam failure in November 2015 at the non-operated joint venture, Samarco.

Our TRIF performance in FY2016 was 4.3 per million hours worked, a slight increase on FY2015. While we did not meet our target of year-on-year TRIF improvement, this is a reduction of nine per cent over the past five years.

For information on our approach to health and safety and our performance, refer to section 1.11.

⁽¹⁾ Includes data for continuing and discontinued operations for the financial years being reported.

- (2) Includes work-related events occurring outside of our operation locations for FY2015 and FY2016 only. In FY2015 we expanded our definition of work-related activities to align with the reporting boundaries of the International Council on Mining and Metals, which includes the recording of events that occur outside of our operated locations where we have established the work to be performed and can set and verify the health and safety standards.

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GHG emissions ⁽¹⁾ ⁽⁶⁾

Definition

Greenhouse gas (GHG) emissions are measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol. This data covers the assets that have been wholly owned and operated by BHP Billiton or that have been operated by BHP Billiton in a joint venture operation (including, until 8 May 2015, assets that now form part of South32).

Link to strategy

The global challenge of climate change remains a priority for our organisation and is core to our strategic decision-making. Our GHG emissions are monitored and our performance is tracked against our target.

FY2016 performance

In FY2016, the Company's total GHG emissions of 18.0 million tonnes of carbon dioxide equivalent (CO₂-e) was 13 per cent lower than our adjusted FY2006 baseline. We remain on track to keep our absolute FY2017 GHG emissions below our adjusted FY2006 baseline.

For more information on our GHG emissions, refer to section 1.11.2.

- (1) Measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol.
- (2) In order to compare the total GHG emissions in FY2015 to prior financial years, GHG emissions (estimated) from South32 assets between the date of demerger and 30 June 2015 have been added to FY2015 GHG emissions as shown above.

- (3) Scope 2 refers to indirect GHG emissions from the generation of purchased electricity and steam that is consumed by operated assets (calculated using the market-based method).
- (4) Scope 1 refers to direct GHG emissions from operated assets.
- (5) Our FY2006 baseline is adjusted as necessary for material acquisitions and divestments based on asset GHG emissions at the time of the applicable transaction.
- (6) Our Company GHG target is to keep our absolute FY2017 GHG emissions below our adjusted FY2006 baseline.

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Social investment ⁽¹⁾

Definition

Our voluntary social investment (including BHP Billiton's equity share for both operated and non-operated joint venture operations) comprises cash, administrative costs and contributions to our BHP Billiton supported charities, BHP Billiton Sustainable Communities (up to FY2012) and the BHP Billiton Foundation.

Link to strategy

We believe that, in addition to operating a responsible and ethical company, we can make a broader contribution to the communities in which we operate and support *Our Charter* value of Sustainability.

FY2016 performance

Our voluntary social investment totalled US\$178.7 million, comprising US\$123.7 million in cash (for community development programs) and administrative costs and a US\$55.0 million contribution to the BHP Billiton Foundation.

For more information on our social investment, refer to section 1.11.

⁽¹⁾ Includes BHP Billiton's equity share for both operated and non-operated joint venture operations. Data prior to FY2016 includes payments made by operations demerged with South32.

1.7.2 Financial KPIs

Underlying attributable profit ⁽¹⁾

Definition

Underlying attributable profit represents (Loss)/profit after taxation attributable to owners of the BHP Billiton Group excluding Discontinued operations and any exceptional items. Underlying attributable profit is the key performance indicator against which short-term incentive outcomes for our senior executives are measured and, in our view, is a relevant measure to assess the financial performance of the Company for this purpose. In past periods, we have reported attributable (loss)/profit as a key performance indicator.

Link to strategy

This is a key financial measure that provides insight on the amount of profit available to distribute to shareholders, which aligns to our purpose as presented in *Our Charter*.

FY2016 performance

Underlying attributable profit decreased to US\$1.2 billion, due to a significant decline in commodity prices.

For a reconciliation of Underlying attributable profit to Attributable (loss)/profit, refer to section 1.13.2. For our Financial Statements, refer to section 5.

(1) Comparative data excludes Discontinued operations.

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Underlying EBITDA ⁽¹⁾

Definition

Underlying EBITDA is earnings before net finance costs, depreciation, amortisation and impairments, taxation expense, Discontinued operations and any exceptional items. Management believes focusing on Underlying EBITDA more closely reflects the operating cash generative capacity and hence the underlying performance of our business. In past periods, we have reported Underlying EBIT as a key non-IFRS measure of operating results.

Link to strategy

This is a key financial measure used across the Group. It provides insight to cost management, production growth and performance efficiency. Underlying EBITDA is the key measure that management uses internally to assess the performance of our segments and make decisions on the allocation of resources, and is more relevant to capital intensive industries with long-life assets.

FY2016 performance

Underlying EBITDA declined by 44 per cent to US\$12.3 billion, as the reduction in controllable cash costs was more than offset by lower average realised prices net of price-linked costs.

For a reconciliation of Underlying EBITDA to (Loss)/profit after taxation from Continuing operations, refer to section 1.13.2. For our Financial Statements, refer to section 5.

⁽¹⁾ Comparative data excludes Discontinued operations.

Net operating cash flows ⁽¹⁾

Definition

Net operating cash flows represent the cash generated by the Group's consolidated operations, after dividends received, interest, taxation and royalty-related taxation. This figure excludes cash flows relating to investing and financing activities and includes net operating cash flows from Discontinued operations.

Link to strategy

Net operating cash flows provides insight into how we are managing costs and increasing efficiency and productivity across the Company.

FY2016 performance

Net operating cash flows decreased by 45 per cent to US\$10.6 billion during FY2016. The major contributor was the US\$8.9 billion decrease in cash generated from operations (after changes in working capital balances), which was partially offset by a decrease of US\$2.4 billion in net taxes paid.

For our Financial Statements, refer to section 5.

(1) Comparative data includes Continuing and Discontinued operations.

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1.7.3 Capital management KPIs

Total Shareholder Return (TSR)

Definition

Total shareholder return (TSR) shows the total return to the shareholder during the year. It combines both movements in share prices and dividends paid (which are assumed to be reinvested).

Link to strategy

TSR measures performance of the organisation in terms of shareholder wealth generation, which aligns to our purpose as presented in *Our Charter* and enables the comparison of our performance with that of our peer companies.

FY2016 performance

TSR was negative 36.8 per cent during FY2016 as a result of decreases in both the BHP Billiton share price and the dividends paid. From 1 July 2011 to 30 June 2016, BHP Billiton underperformed the weighted median TSR of its peer companies by 5.0 per cent and underperformed the Index TSR by 102.3 per cent.

For more information on our long-term incentive performance outcomes to June 2016, refer to section 3.4.7.

Long-term credit rating

Definition

Credit ratings are forward looking opinions about credit risk. Standard & Poor's and Moody's credit ratings express the opinion of each agency about the ability and willingness of BHP Billiton to meet its financial obligations in full and on time.

Link to strategy

One of BHP Billiton's objectives is to maintain a strong balance sheet through the cycle. This is consistent with seeking to achieve and maintain a solid A credit rating.

FY2016 performance

On 1 February 2016, Standard & Poor's lowered BHP Billiton's credit rating from A+ to A credit watch negative. On 29 February 2016, Standard & Poor's affirmed the A rating, removed the negative credit watch and changed the rating outlook to negative. On 3 March 2016, Moody's lowered BHP Billiton's credit rating from A1 to A3 negative outlook. BHP Billiton remains committed to maintaining its strong balance sheet through the cycle.

For more information on our liquidity and capital resources, refer to section 1.13.3.

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1.8 Our operating environment

Economic, social, technological and environmental forces are creating transformational change across the globe, creating opportunities for development and innovation at an unprecedented rate.

As one of the world's leading global resources companies, with a strong portfolio of high-quality growth opportunities, BHP Billiton is well placed to support changes across the globe through the provision of the mineral and energy commodities essential to modern life and sustainable global growth and development.

Through our diversified portfolio, we are able to meet the changing needs of our customers and the resources demand of emerging economies at every stage of their growth. We think and plan in decades and generations.

The products in our portfolio are the raw materials that are used to fuel change and support an improvement in living standards for people in many parts of the world.

Today, short-term demand for commodities has slowed. Global markets are experiencing economic uncertainty, extreme volatility and geopolitical instability on top of already well supplied markets. The speed, quantum and synchronised nature of those declines have been greater than anticipated. However, we did foresee some of these trends and took a series of early actions that have prepared us well for the current low price commodity environment.

We expect the longer-term outlook for the resources we produce to improve in many parts of the world. Global energy needs are expected to increase by around 30 per cent in the next 20 years. Around two-thirds of new demand is expected to originate from Asia, with the majority from China and India. Sub-Saharan Africa is expected to see the fastest growth, albeit from a lower base.

Responding to climate change is a priority for our Company. We accept the scientific assessment by the Intergovernmental Panel on Climate Change (IPCC). BHP Billiton believes that sustainable development requires both the continued growth of emerging economies and a significant reduction in global greenhouse gas emissions.

We believe the world must pursue the twin objectives of limiting climate change to the lower end of the IPCC emission scenarios in line with current international agreements, and providing access to reliable and affordable energy to support economic development and improved living standards.

Fossil fuels are likely to continue to be a significant part of the energy mix for decades, but technology and innovation have the potential to significantly reduce global emissions and enable long-term climate goals to be met. Renewables are anticipated to become more competitive with traditional fuels in power generation, leading to a considerable increase in their share of newly installed electricity capacity, including in China and India.

Our strategic approach to climate change is underpinned by engagement with policy makers and other stakeholders, including investors, companies and non-governmental organisations. For more information on climate change, refer to section 1.11.2.

A number of external factors and trends may continue to have a material impact on our financial and operational results. These factors include commodity prices, exchange rates and operating costs, as described in sections 1.8.1, 1.9.2 and 1.13.

1.8.1 Market factors and trends

Economic outlook

In FY2016, the global economy grew at a modest rate of 3.1 per cent. This was consistent with our forecast and the range of recent history. In the United States, growth was a relative bright spot, while Eurozone growth improved only modestly. In Asia, the Japanese economy was soft and China decelerated modestly, while the Indian growth remained healthy. Non-Asian emerging markets continue to struggle. Global trade has returned to growth after contracting in FY2015, but the lift has been small. The UK referendum result (Brexit) adds considerable uncertainty into the short- and medium-term outlook.

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China

Growth slowed modestly while the process of rebalancing continued. The services sector and consumer demand provided the largest contribution to growth. At the same time, production in bulk commodity-intensive sectors, including steel, was soft. Chinese steel production decreased by 2.1 per cent during FY2016, despite higher steel exports.

The deceleration in growth was moderated by policies that targeted infrastructure and real estate spending. We expect both the monetary and fiscal policy stance to remain accommodative. We forecast the authorities' growth target of 6.5-7 per cent for CY2016 will be achieved, as policy makers continue to seek a balance between reforms and employment objectives.

Over the medium term, the economy is likely to grow more slowly. The government's reform program will focus on promoting more efficient use of resources and boost productivity to partly offset the impact of declines in the workforce and the maturation of the underlying economic structure.

In the longer run, we expect reform will continue to occur in a cautious but sustained manner. China's authorities will continue to seek to improve the efficiency of capital allocation in the economy, while boosting the role of consumer demand through raising the household share of income and lowering precautionary savings. With Chinese steel stock per capita still below that of developed nations, we expect moderate but sustainable growth in Chinese steel production over the next decade.

Eurozone

The Eurozone economy continues to see modest broad-based economic growth. Consumer demand has been the primary driver, supported by improved labour market conditions. However, despite more positive conditions in the real economy, the European Central Bank remains concerned about very low inflation expectations. Consequently, we expect monetary policy will remain strongly expansionary. The uncertainty and market volatility associated with the Brexit decision is expected to impact on business and household sector confidence in both the United Kingdom and continental Europe.

Japan

Despite significant additional monetary stimulus during the year, economic growth has remained soft. A sharp appreciation of the exchange rate did not support the Japanese industry. Domestically, consumer demand remains soft, reflecting flat wages and the ageing population. Reform remains critical to long-term growth prospects.

United States

The fundamentals remain positive in the United States, particularly for consumer demand. Importantly, the labour market remains strong, and there are signs of improving disposable incomes. These factors, alongside low interest rates and higher household wealth (reflecting improved housing prices), should continue to support consumer spending. However, business investment remains relatively soft as a result of weak export demand and a stronger US dollar. This mixed picture suggests the Federal Reserve will be cautious in its monetary policy deliberations.

Global long-term outlook

We expect ongoing increases in global living standards over the longer term, with urbanisation, industrialisation and pro-trade liberalisation to underpin commodity demand. The development trajectory of emerging economies in Asia should provide particular support for industrial metals, energy and fertilisers.

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Global economic growth in FY2016 was little changed from FY2015. However, average year prices for all our commodities were lower compared to FY2015, reflecting ample supply and widespread cost compression. The low point for price was reached for most commodities in the March 2016 quarter.

The following table shows the prices for our most significant commodities for the years ended 30 June 2016, 2015 and 2014. These prices represent selected quoted prices from the relevant sources as indicated and will differ from the realised prices due to differences in quotation periods, quality of products, delivery terms and the range of quoted prices that are used for contracting sales in different markets.

Year ended 30 June	2016 Closing	2015 Closing	2014 Closing	2016 Average	2015 Average	2014 Average	2016 vs 2015 Average
Natural gas Henry Hub ⁽¹⁾ (US\$/MMBtu)	2.93	2.81	4.39	2.23	3.32	4.25	(33%)
Natural gas Asian Spot LNG ⁽²⁾ (US\$/MMBtu)	5.23	7.30	11.28	6.09	9.74	16.38	(37%)
Crude oil (Brent) ⁽³⁾ (US\$/bbl)	48.44	61.05	111.02	43.19	73.91	109.36	(42%)
Ethane ⁽⁴⁾ (US\$/bbl)	9.74	8.40	12.02	7.65	8.56	11.92	(11%)
Propane ⁽⁵⁾ (US\$/bbl)	21.71	16.25	44.47	17.87	29.34	48.05	(39%)
Butane ⁽⁶⁾ (US\$/bbl)	28.88	23.89	54.39	24.18	36.89	56.70	(34%)
Copper (LME cash) (US\$/lb)	2.19	2.60	3.15	2.22	2.89	3.18	(23%)
Iron ore ⁽⁷⁾ (US\$/dmt)	55.0	59.5	93.25	51.37	71.61	122.70	(28%)
Metallurgical coal ⁽⁸⁾ (US\$/t)	91.5	88.0	110.50	81.6	102.9	128.4	(21%)
Energy coal ⁽⁹⁾ (US\$/t)	56.49	61.66	70.89	53.42	64.37	78.38	(17%)
Nickel (LME cash) (US\$/lb)	4.27	5.30	8.49	4.24	7.02	6.88	(40%)

(1) Platts Gas based on Henry Hub typically applies to gas sales in the US gas market.

(2) Platts Liquefied Natural Gas Delivery Ex-Ship (DES) Japan/Korea Marker typically applies to Asian LNG spot sales.

(3) Platts Dated Brent is a benchmark price assessment of the spot market value of physical cargoes of North Sea light sweet crude oil.

(4) OPIS Mont Belvieu non-Tet Ethane typically applies to ethane sales in the US Gulf Coast market.

(5) OPIS Mont Belvieu non-Tet Propane typically applies to propane sales in the US Gulf Coast market.

- (6) OPIS Mont Belvieu non-Tet Normal Butane typically applies to butane sales in the US Gulf Coast market.
- (7) Platts 62 per cent Fe Cost and Freight (CFR) China used for fines.
- (8) Platts Low-Vol hard coking coal Index FOB Australia representative of high-quality hard coking coals.
- (9) GlobalCoal FOB Newcastle 6,000kcal/kg NCV typically applies to coal sales in the Asia Pacific market.

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The prices we obtain for our products are a key driver of value for our business. Fluctuations in these commodity prices affect our results, including cash flows and asset values. The estimated impact of changes in commodity prices on FY2016 Underlying EBITDA are set out below.

	US\$M
US\$1/bbl on oil price	88
US¢10/MMBtu on US gas price	37
US¢1/lb on copper price	32
US\$1/t on iron ore price	201
US\$1/t on metallurgical coal price	34
US\$1/t on energy coal price	16
US¢1/lb on nickel price	1

Henry Hub gas

Despite continued demand growth for gas, inventories increased to record levels on strong production and reduced heating demand due to the mild 2015/2016 winter weather across North America. Natural gas inventories at the end of FY2016 were 3,140 billion cubic feet (Bcf) (week ending 24 June), which was 25 per cent (or 637 Bcf) above the five-year average and 23 per cent (or 582 Bcf) higher year-on-year. In the near term, high inventory levels will continue to weigh on the market. In the longer term, due to inherent environmental, operational and economic advantages of gas for power generation, heating and industrial applications, we continue to expect robust natural gas demand growth. While continued investment in new supply sources will be required to replace natural field decline, abundant lower-cost supply will moderate price inflation.

Liquefied natural gas

Demand was subdued due to mild winter weather in northern Asia, while supply grew strongly as new liquefied natural gas (LNG) projects in Australia and the United States were commissioned. The year-end price was 14 per cent below the average for the year. We believe new supply will continue to weigh on the market in the near term. Longer-term, as overall demand for energy rises and indigenous supplies deplete, a positive outlook for LNG is supported by growing demand from Asia and Europe.

Crude oil

Global crude supply outpaced demand during FY2016. During January 2016, prices dropped to their lowest level since CY2003 due to OPEC supply growth, resilient US production, record high inventories and a strong US dollar. However, during the June 2016 quarter, the oil market began to recover on signs of rebalancing. Declining US production, unplanned supply outages and strong non-OECD demand growth contributed to a shift in market sentiment despite persistent volatility. Although the market has begun to rebalance, we expect prices in the short term to be within an established range, due to record inventory levels. We believe the long-term outlook remains healthy, with new supply required to meet growing demand in developing countries and offset natural field decline.

Copper

The copper price trended lower during the first six months of FY2016 before reaching a six-year low in mid-January. Over the first half of FY2016, the price was impacted by weaker than expected copper consumption, industry cost compression, US dollar strength and negative sentiment on the outlook of the Chinese economy. The price

subsequently increased during February to April as sentiment on China improved and the US dollar weakened, but it eventually closed the year lower as supply growth outpaced consumption. In the near term, new supply under development is expected to continue to keep steady demand growth well covered. In the medium to

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long term, the trend remains positive: China's future demand will be fuelled by an increasingly consumption-based economy and will be supported by continued growth in other emerging markets. A deficit is expected to emerge as grade declines, a rise in costs and a scarcity of high-quality future development opportunities are likely to constrain the industry's ability to cheaply meet this demand growth.

Iron ore

The iron ore price decrease was driven by lower pig iron production in China and an increase in low-cost seaborne supply. Domestic Chinese iron ore production at private mines recovered to 35 per cent of capacity late in the financial year from February lows of 28 per cent, due to higher prices and seasonality. This is still below its CY2015 average of 38 per cent of capacity. Additional price pressure came from productivity gains and input price deflation, which lowered the industry's cost structure. The short-term outlook appears stable, with most of the incremental seaborne supply forecast to enter the market in the second half of this calendar year and in CY2017, although demand growth is expected to remain modest. In the medium and longer term, seaborne supply is expected to gain momentum as new projects ramp-up, and production increases from productivity and de-bottlenecking translate into a further flattening of the cost curve.

Metallurgical coal

Uneconomic high-cost supply continued to be slowly withdrawn from the seaborne market. However, prices remained subdued as industry-wide cost reductions and weaker producer currencies against the US dollar supported continued production from marginal suppliers. Prices are expected to moderate in the short term as committed growth projects ramp-up production and demand growth remains modest. The key uncertainty for the seaborne market is how China's domestic supply will respond to government capacity controls, which have the potential to impact seaborne demand. The long-term outlook remains robust, as the supply of premium hard coking coal becomes scarce and demand is driven by steel production growth in emerging markets, particularly India.

Energy coal

The Global Coal Newcastle price decrease was driven by weak Chinese seaborne demand growth, offsetting healthy growth from Japan, South Korea, Taiwan and South East Asia. Sustained supply from Australia and Indonesia was supported by depreciating currencies, which prolonged the weak pricing environment. In the short term, weaker Chinese imports are likely to continue and this limits prospects for near-term price recovery. In the long term, global demand for energy coal is expected to grow modestly, with Indian and South East Asian demand offsetting declining demand from OECD countries.

Nickel

The fall in nickel price was due to weak demand growth, driven by a slowdown in global stainless steel production and ample nickel inventories as a result of high levels of supply. A significant fraction of nickel production had operating costs above current price levels, with some supply being withdrawn from the market and hereby providing support to the price. Demand growth is expected to improve. In the medium term, excess nickel stocks will decline closer to historic levels, which should lead to a recovery in price.

Exchange rates

We are exposed to exchange rate transaction risk on foreign currency sales and purchases. Operating costs and costs of locally sourced equipment are influenced by fluctuations in local currencies, primarily the Australian dollar and

Chilean peso. The majority of our sales are denominated in US dollars and we borrow and hold surplus cash predominately in US dollars. Those transactions and balances provide no foreign exchange exposure relative to the US dollar functional currency of the Company.

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The US dollar strengthened against our main local currencies during FY2016.

We are also exposed to exchange rate translation risk in relation to net monetary liabilities, being our foreign currency denominated monetary assets and liabilities, including certain debt and other long-term liabilities. Details of our exposure to foreign currency fluctuations are contained within note 21 Financial risk management to the Financial Statements.

Interest rates

We are exposed to interest rate risk on our outstanding borrowings and investments. Our policy on interest rate exposure is to pay on a US dollar floating interest rate basis.

Our earnings are sensitive to changes in interest rates on the floating component of the Company's borrowings. Our main exposure is to the three-month US LIBOR benchmark, which increased by 0.243 per cent in FY2016 to an average of 0.495 per cent.

For more information, refer to note 21 Financial risk management to the Financial Statements.

1.8.2 Other factors and trends**Exploration of resources***Minerals exploration*

We have secured growth opportunities via brownfield exploration around our portfolio of existing assets, principally aimed at delineating and categorising mineral deposits in resource basins near our existing operations, while advancing projects through the development pipeline, primarily in copper.

For a description of our major projects, refer to section 6.4.

This has enabled us to reduce brownfield exploration expenditure and to rationalise our greenfield exploration program.

Greenfield exploration is now focused on advancing copper targets within Chile, Peru, southwestern United States and Canada. Our activities include opportunity identification, mineral title applications and acquisitions, early reconnaissance operations and multi-million dollar delineation drilling programs.

Our brownfield minerals exploration expenditure declined by 40 per cent in FY2016 to US\$116 million, while our greenfield expenditures increased slightly to US\$59 million. Expenditure on minerals exploration over the last three financial years is set out below.

Year ended 30 June	2016 US\$M	2015 US\$M	2014 US\$M
Greenfield exploration	59	55	46
Brownfield exploration	116	194	340

Total minerals exploration	175	249	386
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Petroleum exploration

Petroleum exploration is focused on high-impact liquids opportunities in the Gulf of Mexico, Western Australia and Trinidad and Tobago.

Year ended 30 June	2016 US\$M	2015 US\$M	2014 US\$M
Petroleum exploration	590	567	600

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Exploration expense represents that portion of exploration expenditure that is not capitalised in accordance with our accounting policies, as set out in note 10 Property, plant and equipment to the Financial Statements.

Exploration expense for each segment over the last three financial years is set out below.

	2016 US\$M	2015 US\$M Restated	2014 US\$M Restated
Year ended 30 June			
Exploration expense ⁽¹⁾			
Petroleum ⁽²⁾	288	529	497
Copper	64	90	111
Iron Ore	74	38	56
Coal	18	20	29
Group and unallocated items ⁽²⁾	1	21	77
BHP Billiton Group	445	698	770

(1) Includes US\$15 million (FY2015: US\$28 million; FY2014: US\$72 million) exploration expense previously capitalised, written off as impaired.

(2) Group and unallocated items includes functions, other unallocated operations, including Potash (previously disclosed in the former Petroleum and Potash reportable segment), Nickel West and consolidation adjustments. Comparative information for FY2015 and FY2014 have been restated for the effects of the change in the reporting related to Potash.

Health, safety, environment and community

Many of our activities are highly regulated by laws and regulations relating to health, safety, environment and community impacts. We are committed to complying with the laws and regulations of the countries in which we operate and, where applicable, to exceeding legal and other requirements that are less stringent than our own. However, our governance and compliance processes may not guarantee compliance with legal or regulatory requirements and regulatory standards and community expectations are constantly developing. As a result, we may be exposed to increased regulatory review, litigation, compliance costs and unforeseen environmental rehabilitation expenses and loss of reputation, despite our best efforts to work with governments, community groups, scientists and other interest groups to keep pace with regulations, law and public expectations.

For more information on our approach to climate change, refer to sections 1.9.3 and 1.11.2.

For more information about our compliance with health, safety, environment and community (HSEC) regulations, refer to section 1.11.

Insurance

BHP Billiton maintains an insurance program covering property damage, business interruption, sabotage and terrorism, marine and aviation, construction, employee benefits, directors and officers liability and public and certain other liabilities. The program includes a combination of self-insurance via subsidiary captive insurance companies, industry mutuals and external market insurance and reinsurance. Required standards are established and applied for risk retention levels, policy cover and, where applicable, insurance and reinsurance counterparty security.

In line with our risk financing (insurance) approach to minimise or not to purchase external insurance, we are largely self-insured for losses arising from various risks including property damage and business interruption, sabotage and terrorism, marine cargo, construction, primary public liability and employee benefits. We internally

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insure our operations for these risks (for wholly owned assets and, where possible, by local insurance regulation and appropriate commercial market terms, our share of joint venture assets) via our captive insurance companies. Any such losses incurred will consequently impact the Financial Statements as they arise.

As part of our portfolio risk management approach, we regularly conduct an assessment of maximum foreseeable loss potential, cash flow at risk, loss experience, claims received and insurance premiums paid. We make adjustments to the balance of self-insurance, external insurance and reinsurance, as required.

1.9 Management of risk

1.9.1 Approach to risk management

Identifying and managing risk is central to achieving our corporate purpose of creating long-term shareholder value.

If realised, risks have the potential to impact our health, safety, environment, community, regulatory, market and financial performance, as well as our reputation, and thereby the achievement of our corporate purpose. Successful risk management can be a source of competitive advantage.

We provide greater certainty and confidence for our stakeholders by understanding and managing risk.

BHP Billiton's risks are viewed and managed on a Company-wide basis. Our diversified portfolio of commodities, geographies, currencies, assets and liabilities is a key part of our risk management approach.

We embed risk management in our critical business activities, functions, processes and systems. Materiality and risk tolerance are key considerations in our decision-making.

We seek to identify, analyse and assess risk issues. We implement the following performance requirements for material risks that could threaten our corporate purpose or strategy:

Risk assessments – we identify, analyse (including likelihood and impact assessment), evaluate, treat and monitor risks.

Risk controls – we design, implement, operate and assess controls to determine control effectiveness. We establish performance standards for critical controls over material risks with supporting verification processes.

Risk materiality and tolerability evaluation – we assess the materiality of the risk based on the degree of financial and non-financial impacts, including health, safety, environment, community, reputation and legal impacts.

Tolerability assessment is based on a combination of residual risk and control effectiveness.

We apply established processes when entering or commencing new activities in high-risk countries. These include risk assessments and supporting risk management plans to ensure potential reputation, legal, business conduct and corruption-related exposures are managed and legislative compliance is maintained, including relevant anti-corruption legislation and the application of any relevant sanctions or trade embargoes.

For information on our risk management governance approach, refer to sections 2.13.1 and 2.14.

Robust risk assessment and viability statement

In accordance with the UK Corporate Governance Code, the Board confirms that it has carried out a robust assessment of the Company's principal risks, including those that would threaten the business model, future performance, solvency or liquidity.

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In accordance with the UK Corporate Governance Code (longer-term viability), the Directors have assessed the prospects of the Company over the next three years, taking account of the Company's current position and principal risks.

The Directors believe a three-year viability assessment period is appropriate for the following reasons. BHP Billiton has a two-year budget, a five-year outlook and a 20-year strategic planning horizon. The extent and synchronised nature of the decline in commodity prices experienced in FY2016 were stronger than anticipated, and the Company has publicly stated our view that the outlook for the sector remains challenging and volatile in the short to medium term. A significant proportion of the variability in plans and budgets for the Company is influenced by exchange rate volatility and price volatility. A three-year period was therefore seen as striking an appropriate balance.

The Directors' assessment took into account, among other things, the Company's commodity price protocols including low-case prices; the latest funding and liquidity update; the long-dated maturity profile of the Company's debt and the maximum debt maturing in any one year; the Company-level risk profile and the mitigating actions available should particular risks materialise; the annual Board strategy forum, which provides a strategic review of the Company's markets and plans under divergent scenarios and considers available strategic options; the flexibility in the Company's capital and exploration expenditure programs under the enhanced capital allocation framework; and the reserve life of the Company's minerals assets and the reserves-to-production life of its oil and gas assets.

The Directors' assessment also took account of additional stress-testing of the balance sheet against two significant risk events: a shipping blockage of the Port Hedland Channel that could disrupt export of iron ore and a short-term extreme hypothetical event that catches the global resource industry off-guard, causing an abrupt and significant disruption to global capital markets.

The Directors were also mindful of the scenario analysis incorporated into the Company's corporate planning process. While the scenarios use a 20-year time horizon, scenario planning is important in helping identify the key uncertainties facing the global economy and natural resources sector.

Taking account of these matters, and the Company's current position and principal risks, the Directors have a reasonable expectation that BHP Billiton will be able to continue in operation and meet its liabilities as they fall due over the next three years.

1.9.2 Risk factors

There are a number of factors that may have an adverse effect on our results and operations.

The principal risks discussed below, separately or in combination, could have a material effect on BHP Billiton's strategic and operational plans and its reputation. In addition, we have also set out the risks relating to the failure of the Fundão tailings dam at Samarco Mineração S.A. (Samarco dam failure), which could, separately or in combination with the principal risks, have a material effect on our business, competitive position, cash flows, prospects, liquidity and shareholder returns.

Samarco dam failure

Our potential liabilities from litigation and other actions resulting from the Samarco dam failure are subject to significant uncertainty and cannot be reliably estimated at this time but they could have a material adverse effect on our business

On 5 November 2015, the Samarco Mineração S.A. (Samarco) iron ore operations experienced a tailings dam failure that resulted in a release of mine tailings, flooding the communities of Bento Rodrigues, Gesteira and Paracatu and impacting other communities downstream and the Rio Doce. Samarco is a joint venture owned equally by BHP Billiton Brasil Ltda (BHP Billiton Brasil) and Vale S.A. (Vale). For information on the Samarco dam failure, refer to section 1.4.

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The Samarco dam failure and subsequent suspension of Samarco's mining and processing operations have had a significant impact on our financial results for the year ended 30 June 2016, as described in section 1.4 and in note 3 Significant events Samarco dam failure to the Financial Statements.

Mining and processing operations remain suspended following the dam failure. Samarco is currently progressing plans to resume operations; however, significant uncertainties surrounding the nature and timing of any resumption of operations remain, including as a result of Samarco's significant debt obligations. For further details of financial information relating to Samarco, refer to note 28 Investments accounted for using the equity method to the Financial Statements.

BHP Billiton Brasil is among the defendants named in a number of legal proceedings initiated by individuals, non-governmental organisations (NGOs), corporations and governmental entities in Brazilian federal and state courts following the Samarco dam failure. The other defendants include Vale and Samarco. The lawsuits seek various remedies, including rehabilitation costs, compensation to injured individuals and families of the deceased, recovery of personal and property losses, moral damages and injunctive relief. These legal proceedings include civil public actions filed by state prosecutors in Minas Gerais (claiming damages of approximately R\$7.5 billion (US\$2.3 billion)), public defenders in Minas Gerais (claiming damages of approximately R\$10 billion (US\$3.1 billion)) and state prosecutors in Espírito Santo (claiming damages of approximately R\$2 billion (US\$620 million)). Given the preliminary status of all these proceedings, and the duplicative nature of the damages sought in these proceedings and the R\$20 billion (US\$6.2 billion) and R\$155 billion (US\$48 billion) claims noted below, it is not possible at this time to provide a range of possible outcomes or a reliable estimate of potential future exposures for BHP Billiton Brasil.

Among the claims brought against BHP Billiton Brasil is a public civil claim commenced by the Federal Government of Brazil, the states of Espírito Santo and Minas Gerais, and other public authorities (Brazilian Authorities) on 30 November 2015, seeking the establishment of a fund of up to R\$20 billion (US\$6.2 billion) in aggregate for clean-up costs and damages.

On 2 March 2016, BHP Billiton Brasil together with Samarco and Vale entered into a Framework Agreement (Framework Agreement) with the Brazilian Authorities to establish the Fundação Renova that will develop and execute environmental and socio-economic programs to remediate and provide compensation for damage caused by the Samarco dam failure. In light of the significant uncertainties surrounding the nature and timing of ongoing future operations at Samarco and based on currently available information, at 30 June 2016, BHP Billiton recognised a provision of US\$1.2 billion, before tax and after discounting, in respect of BHP Billiton Brasil's potential obligations under the Framework Agreement.

The Framework Agreement was ratified by the Federal Court of Appeal in Brasilia on 5 May 2016, suspending the R\$20 billion public civil claim. However, on 30 June 2016, the Superior Court of Justice issued a preliminary order (Interim Order) suspending the ratification of the Framework Agreement and reinstating the R\$20 billion public civil claim. Samarco, Vale and BHP Billiton Brasil and the Federal Government have appealed the Interim Order before the Superior Court of Justice. It is not possible at this time to provide a range of possible outcomes or a reliable estimate of potential future exposures for BHP Billiton Brasil in relation to the R\$20 billion public civil claim.

BHP Billiton Brasil is also among the defendants named in a claim brought by the Federal Public Prosecution Service on 3 May 2016, seeking R\$155 billion (approximately US\$43 billion) for reparation, compensation and moral damages in relation to the Samarco dam failure. Given the preliminary status of these proceedings, it is not possible at this time to provide a range of possible outcomes or a reliable estimate of potential future exposures for BHP Billiton Brasil.

In addition, government inquiries and investigations relating to the Samarco dam failure have been commenced by numerous agencies of the Brazilian Government, and other lawsuits and investigations are at the early stages

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of proceedings, including a shareholder action filed in the United States against BHP Billiton and certain current or former Directors and officers. For more information on the shareholder action and other lawsuits relating to the Samarco dam failure, refer to section 6.5. Additional lawsuits and government investigations relating to the Samarco dam failure may be brought against BHP Billiton Brasil and possibly other BHP Billiton entities in Brazil or other jurisdictions.

Works are underway to reinforce and improve the dam structures at Samarco so as to contain the remaining tailings materials. A large portion of the works are scheduled to be completed before the next wet season commences. The potential nonetheless remains for further release or downstream movement of tailings material during this season, which may result in additional claims, fines and proceedings (or impact existing proceedings) and may also have additional consequences on the environment and the feasibility, timing and scope of any restart of Samarco operations.

Our potential costs and liabilities in relation to the Samarco dam failure are subject to a high degree of uncertainty and cannot be reliably estimated at this time. The total amounts that we may be required to pay will be dependent on many factors, including the timing and nature of a potential restart of operations at Samarco, the number of claims that become payable, the quantum of any fines levied, the outcome of litigation and the amount and timing of payments under any judgements or settlements. Nevertheless, such potential costs and liabilities could have a material adverse effect on our business, competitive position, cash flows, prospects, liquidity and shareholder returns.

For more information on the Samarco dam failure, refer to section 1.4.

External risks

Fluctuations in commodity prices (including sustained price shifts) and impacts of ongoing global economic volatility may negatively affect our results, including cash flows and asset values

The prices we obtain for our oil, gas and minerals are determined by, or linked to, prices in world markets, which have historically been subject to significant volatility. Our usual policy is to sell our products at the prevailing market prices. The diversity provided by our relatively broad portfolio of commodities does not necessarily insulate the Company from the effects of price changes. Fluctuations in commodity prices can occur due to price shifts reflecting underlying global economic and geopolitical factors, industry demand, increased supply due to the development of new productive resources or increased production from existing resources, technological change, product substitution and national tariffs. We are particularly exposed to price movements in iron ore, coal, copper, oil and gas. For example, a US\$1 per tonne decline in the average iron ore price and US\$1 per barrel decline in the average oil price would have an estimated impact on FY2016 profit after taxation of US\$141 million and US\$58 million, respectively. For more information in relation to commodity price impacts, refer to section 1.8.1. Volatility in global economic growth, particularly in developing economies, has the potential to adversely affect future demand and prices for commodities. The impact of sustained price shifts and short-term price volatility, including the effects of unwinding the sustained monetary stimulus in the United States, and uncertainty surrounding the details of the United Kingdom's exit from the European Union following the June 2016 referendum, creates the risk that our financial and operating results, including cash flows and asset values, will be materially and adversely affected by short or long-term declines in the prevailing prices of our products.

Our financial results may be negatively affected by exchange rate fluctuations

The geographic diversity of the countries in which we operate means that our assets, earnings and cash flows are influenced by a wide variety of currencies. Fluctuations in the exchange rates of those currencies may have a

significant impact on our financial results. The US dollar is the currency in which the majority of our sales is denominated and the currency in which we present our financial performance. Operating costs are influenced by the currencies of those countries where our assets and facilities are located and also by those currencies in which the costs of imported equipment and services are determined. The Australian dollar, Chilean peso and US dollar

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are some of the currencies influencing our operating costs. We do not generally believe active currency hedging provides long-term benefits to our shareholders. From time to time, we consider currency protection measures appropriate in specific commercial circumstances, subject to strict limits established by the Board.

Reduction in Chinese demand may negatively impact our results

The Chinese market has been driving global materials demand and pricing over the past decade. Sales into China generated US\$13.2 billion (FY2015: US\$16.3 billion) or 42.6 per cent (FY2015: 36.6 per cent) of our revenue in FY2016. FY2016 sales into China by commodity included 61 per cent Iron Ore, 28 per cent Copper, 10 per cent Coal and one per cent Nickel (reported in Group and Unallocated). A continued slowing in China's economic growth and demand could result in lower prices for our products and negatively impact our results, including cash flows.

Actions by governments, additional regulation or political events in the countries in which we operate could have a negative impact on our business

There are varying degrees of political, judicial and commercial stability in the locations in which we have operated and non-operated assets around the globe. At the same time, our exposure to emerging markets may involve additional risks that could have an adverse effect on the profitability of an operation. These risks could include terrorism, civil unrest, judicial activism, regulatory investigation, nationalisation, protectionism, renegotiation or nullification of existing contracts, leases, permits or other agreements, imposts, controls or prohibitions on the production or use of certain products, restrictions on repatriation of earnings or capital and changes in laws and policy, as well as other unforeseeable risks. Risks relating to bribery and corruption, including possible delays or disruption resulting from a refusal to make so-called facilitation payments, may be prevalent in some of the countries in which we operate. If any of our major operations are affected by one or more of these risks, it could have a negative effect on our operations in those countries, as well as the Company's overall operating results, financial condition and prospects.

Our operated and non-operated assets are based on material long-term investments that are dependent on long-term fiscal stability and could be adversely affected by changes in fiscal legislation, changes in interpretation of fiscal legislation, periodic challenges and disagreements with tax authorities and legal proceedings relating to fiscal matters. The natural resources industry continues to be regarded as a source of tax revenue and can also be adversely affected by broader fiscal measures applying to businesses generally. The Group is currently involved in a number of uncertain tax and royalty matters – refer to note 5 – Income tax expense – to the Financial Statements for further detail.

Our business could be adversely affected by new or evolving government regulations and international standards, such as controls on imports, exports, prices and greenhouse gas emissions. The nature of the industries in which we operate means many of our activities are highly regulated by laws relating to health, safety, environment and community impacts. Increasing requirements relating to regulatory, environmental, social or community approvals can potentially result in significant delays or interruptions and may adversely affect the economics of new mining and oil and gas projects, the expansion of existing operations and the performance of our operations. As regulatory standards and expectations are constantly developing, we may be exposed to increased regulatory review, compliance costs to meet new operating and reporting standards and unforeseen closure and site rehabilitation expenses.

Infrastructure, such as rail, ports, power and water, is critical to our business operations. We have operations or potential development projects in countries where government-provided infrastructure or regulatory regimes for access to infrastructure, including our own privately operated infrastructure, may be inadequate, uncertain or subject to legislative change. The impact of climate change may increase competition for, and the regulation of, limited resources, such as power and water. These factors may adversely affect the expansion of our business and ability of our assets to operate efficiently.

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We operate in countries where land tenure can be uncertain and where disputes may arise in relation to ownership and use. For example, in Australia, the Native Title Act 1993 provides for the establishment and recognition of native title under certain circumstances.

New or evolving regulations and international standards are complex, difficult to predict and outside our control. Potential compliance costs, litigation expenses, regulatory delays, rehabilitation expenses and operational costs arising from government action, regulatory change and evolving standards could negatively affect our Company, future results, prospects and our financial condition.

Business risks

Failure to discover or acquire new resources, maintain reserves or develop new operations could negatively affect our future results and financial condition

The demand for our products and production from our operations results in existing reserves being depleted over time. As our revenues and profits are derived from our oil, gas and minerals operations, our future results and financial condition are directly related to the success of our exploration and acquisition efforts, and our ability to generate reserves to meet our future production requirements at a competitive cost. Exploration activity occurs adjacent to established operations and in new regions, in developed and less-developed countries. These activities may increase land tenure, infrastructure and related political risks. A failure in our ability to discover or acquire new resources, maintain reserves or develop new operations in sufficient quantities to maintain or grow the current level of our reserves could negatively affect our results, financial condition and prospects. Deterioration in commodities pricing may make some existing reserves uneconomic. Our actual exploration drilling activities and future drilling budget will depend on our inventory size and quality, drilling results, commodity prices, drilling and production costs, availability of drilling services and equipment, lease expirations, land access, transportation pipelines, railroads and other infrastructure constraints, regulatory approvals and other factors.

There are numerous uncertainties inherent in estimating mineral and oil and gas reserves. Geological assumptions about our mineralisation that are valid at the time of estimation may change significantly when new information becomes available. Estimates of reserves that will be recovered, or the cost at which we anticipate reserves will be recovered, are based on uncertain assumptions. The uncertain global financial outlook may affect economic assumptions related to reserve recovery and may require reserve restatements. Reserve restatements could negatively affect our results and prospects.

Potential changes to our portfolio of assets through acquisitions and divestments may have a material adverse effect on our future results and financial condition

We regularly review the composition of our asset portfolio and from time to time may add assets to, or divest assets from, the portfolio. There are a number of risks associated with acquisitions or divestments. These include:

adverse market reaction to such changes or the timing or terms on which changes are made;

the imposition of adverse regulatory conditions and obligations;

commercial objectives not being achieved as expected;

unforeseen liabilities arising from changes to the portfolio;

sales revenues and operational performance not meeting our expectations;

anticipated synergies or cost savings being delayed or not being achieved;

inability to retain key staff and transaction-related costs being more than anticipated.
These factors could negatively affect our reputation, future results and financial condition.

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Increased costs and schedule delays may adversely affect our development projects

Although we devote significant time and resources to our project planning, approval and review processes, many of our development projects are highly complex and rely on factors that are outside our control, which may cause us to underestimate the cost or time required to complete a project. For instance, incidents or unexpected conditions encountered during development projects may cause setbacks or cost overruns, required licences, permits or authorisations to build a project may be unobtainable at anticipated costs, or may be obtained only after significant delay and market conditions may change, thereby making a project less profitable than initially projected.

In addition, we may fail to develop and manage projects as effectively as we anticipate and unforeseen challenges may emerge.

Any of these may result in increased capital costs and schedule delays at our development projects and adversely affect anticipated financial returns.

Financial risks

If our liquidity and cash flow deteriorate significantly it could adversely affect our ability to fund our major capital programs

We seek to maintain a strong balance sheet. However, fluctuations in commodity prices and the ongoing global economic volatility may adversely affect our future cash flows and ability to access capital from financial markets at acceptable pricing. If our key financial ratios and credit rating are not maintained, our liquidity and cash reserves, interest rate costs on borrowed debt, future access to financial capital markets and the ability to fund current and future major capital programs could be adversely affected.

We may not fully recover our investments in mining, oil and gas assets, which may require financial write-downs

One or more of our assets may be adversely affected by changed market or industry structures, commodity prices, technical operating difficulties, inability to recover our mineral, oil or gas reserves and increased operating cost levels. These may cause us to fail to recover all or a portion of our investment in mining, oil and gas assets and may require financial write-downs, including goodwill, adversely affecting our financial results.

The commercial counterparties we transact with may not meet their obligations, which may negatively affect our results

We contract with many commercial and financial counterparties, including end-customers, suppliers and financial institutions. Global economic volatility continues to strain global financial markets, with tighter liquidity in China and uncertain business conditions generally. We maintain a one book approach with commercial counterparties to ensure all credit exposures are quantified. However, our existing counterparty credit controls may not prevent a material loss due to credit exposure to a major customer segment or financial counterparty. In addition, customers, suppliers, contractors or joint venture partners may fail to perform against existing contracts and obligations. Non-supply of key inputs, such as tyres, mining and mobile equipment, diesel and other key consumables, may unfavourably impact costs and production at our operations. These factors could negatively affect our financial condition and results of operations.

Operational risks

Unexpected natural and operational catastrophes may adversely impact our operations

We operate onshore and offshore extractive, processing and logistical operations in many geographic locations. Our key port facilities are located at Coloso and Antofagasta in Chile and Port Hedland and Hay Point in

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Australia. We have four underground mines, including one underground coal mine. Our operational processes may be subject to operational accidents, such as port and shipping incidents, underground mine and processing plant fire and explosion, open-cut pit wall or tailings/waste storage facility failures, loss of power supply, railroad incidents, loss of well control, environmental pollution, and mechanical critical equipment failures and cyber security attacks on Company infrastructure. Our operations may also be subject to unexpected natural catastrophes such as earthquakes, floods, hurricanes and tsunamis. Our northwest Western Australia iron ore, Queensland coal and Gulf of Mexico oil and gas operations are located in areas subject to cyclones or hurricanes. Our Chilean copper and Peruvian base metals operations are located in a known earthquake and tsunami zone. Based on our risk management and concerns about the value of external insurance in the natural resource sector, our risk financing (insurance) approach is to minimise or not to purchase external insurance for certain risks, including property damage and business interruption, sabotage and terrorism, marine cargo, construction, primary public liability and employee benefits. Existing business continuity plans may not provide protection for all the costs that arise from such events, including clean-up costs, litigation and other claims. The impact of these events could lead to disruptions in production, increased costs and loss of facilities. Where external insurance is purchased, third party claims arising from these events may exceed the limit of liability of the insurance policies we have in place. Additionally, any uninsured or underinsured losses could have a material adverse effect on our financial position or results of operations.

Cost pressures and reduced productivity could negatively impact our operating margins and expansion plans

Cost pressures may continue to occur across the resources industry. As the prices for our products are determined by the global commodity markets in which we operate, we do not generally have the ability to offset these cost pressures through corresponding price increases, which can adversely affect our operating margins. Although our efforts to reduce costs and a number of key cost inputs are commodity price-linked, the inability to reduce costs and a timing lag may adversely impact our operating margins for an extended period.

A number of our operations, such as copper, are energy or water intensive and as a result, the Group's costs and earnings could be adversely affected by rising costs or by supply interruptions. These could include the unavailability of energy, fuel or water due to a variety of reasons, including fluctuations in climate, inadequate infrastructure capacity, interruptions in supply due to equipment failure or other causes and the inability to extend supply contracts on economic terms.

Many of our Australian employees have conditions of employment, including wages, governed by the operation of the Australian Fair Work Act 2009. Conditions of employment are often contained within collective agreements that are required to be renegotiated on expiry (typically every three to four years). In some instances, under the operation of the Fair Work Act it can be expected that unions will pursue increases to conditions of employment, including wages, and/or claims for greater union involvement in business decision-making.

In circumstances where a collective agreement is being renegotiated, industrial action is permitted under the Fair Work Act. Industrial action and any subsequent settlement to mitigate associated commercial damage can adversely affect productivity and customer perceptions as a reliable supplier, and contribute to increases in costs.

The industrial relations environment in Chile remains challenging and it is possible that we will see further disruptions. Changes to labour legislation are being considered by the Chilean Congress, and if passed would result in the right to have a single negotiating body across different operations owned by a single company, which may also result in higher risk of operational stoppages.

More broadly, cost and productivity pressures on our Company and our contractors and sub-contractors may increase the risk of industrial action and employment litigation.

These factors could lead to increased operating costs at existing operations, interruptions or delays and could negatively impact our operating margins and expansion plans.

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Our non-operated assets and our commercial counterparties may not comply with our standards

Some of our assets are operated and managed by joint venture partners or by other companies. Management of our non-operated assets may not comply with our management and operating standards, controls and procedures, including our health, safety, environment and community (HSEC) standards. Failure to adopt equivalent standards, controls and procedures at these assets could lead to higher costs and reduced production, litigation and regulatory action, delays or interruptions and adversely impact our results, prospects and reputation.

Commercial counterparties, such as our suppliers, contractors and customers, may not comply with our HSEC standards causing adverse reputational and legal impacts.

Breaches in, or failures of, our information technology may adversely impact our business activities

We maintain and increasingly rely on information technology (IT) systems, consisting of digital infrastructure, applications and networks to support our business activities. These systems may be subject to security breaches (e.g. cyber-crime or activists) or other incidents (e.g. from negligence) that can result in misappropriation of funds, increased health and safety risks to people, disruption to our operations, environmental damage, poor product quality, loss of intellectual property, disclosure of commercially or personally sensitive information, legal or regulatory breaches and liability, other costs and reputational damage.

Evolving convergence of IT and Operational Technology (OT) networks across industries, including ours, present additional cyber-related risk as traditionally IT networks have been focused on availability of service to the enterprise.

Sustainability risks

Safety, health, environmental and community impacts, incidents or accidents may adversely affect our people, operations and reputation or licence to operate

Safety

Potential safety events that may have a material adverse impact on our people, operations, reputation or licence to operate include fire, explosion or rock fall incidents in underground mining operations, personnel conveyance equipment failures in underground operations, aircraft incidents, road incidents involving buses and light vehicles, incidents between light vehicles and mobile mining equipment, ground control failures, uncontrolled tailings containment breaches, well blowouts, explosions or gas leaks and accidents involving inadequate isolation, working from heights or lifting operations.

Health

Health risks faced include fatigue, musculoskeletal illnesses and occupational exposure to substances or agents including noise, silica, coal mine dust, diesel exhaust particulate, nickel and sulphuric acid mist and mental illness. Longer-term health impacts may arise due to unanticipated workplace exposures or historical exposures of our workforce to hazardous substances. These effects may create future financial compensation obligations, adversely impact our people, reputation or licence to operate and affect the way we conduct our operations.

Given we operate globally, we could be affected by a public health emergency such as influenza or other infectious disease outbreaks in any of the regions in which we operate.

Environment

Our operations by their nature have the potential to adversely impact air quality, biodiversity, water resources and related ecosystem services. Changes in scientific understanding of these impacts, regulatory requirements or stakeholder expectations may prevent or delay project approvals and result in increased costs for mitigation, offsets or compensatory actions.

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Environmental incidents have the potential to lead to material adverse impacts on our people, operations, reputation or licence to operate. These include uncontrolled tailings containment breaches, subsidence from mining activities, escape of polluting substances and uncontrolled releases of hydrocarbons.

We provide for operational closure and site rehabilitation. Our operating and closed facilities are required to have closure plans. Changes in regulatory or community expectations may result in the relevant plans not being adequate. This may increase financial provisioning and costs at the affected operations.

Climate change may adversely affect the value of our Company, and our operations and markets

The physical and non-physical impacts of climate change may affect our operations, productivity and the markets in which we sell our products. This includes acute and chronic changes in weather, policy and regulatory change, technological development and market and economic responses. Fossil fuel-related emissions are a significant source of greenhouse gases contributing to climate change. We produce fossil fuels such as coal, oil and gas for sale to customers, and we use fossil fuels in our mining and processing operations either directly or through the purchase of fossil fuel based electricity.

A number of national governments have already introduced, or are contemplating the introduction of, regulatory responses to greenhouse gas emissions from the combustion of fossil fuels to address the impacts of climate change. This includes countries where we have operations such as Australia, the United States and Chile, as well as customer markets such as China, India and Europe. In addition, the international community completed a new global climate agreement at the 21st Conference of the Parties (COP21) in Paris in December 2015. The absence of regulatory certainty, global policy inconsistencies and the challenges presented by managing our portfolio across a variety of regulatory frameworks has the potential to adversely affect our operations and supply chain. From a medium- to long-term perspective, we are likely to see some adverse changes in the cost position of our greenhouse gas-intensive assets and energy-intensive assets as a result of regulatory impacts in the countries where we operate. These proposed regulatory mechanisms may adversely affect our operations directly or indirectly through our suppliers and customers. Assessments of the potential impact of future climate change regulation are uncertain given the wide scope of potential regulatory change in the many countries in which we operate. For example, the Australian Government repealed a carbon tax in 2014 and carbon pricing is being discussed as part of a broader tax reform package in Chile.

There is a potential gap between the current valuation of fossil fuel reserves on the balance sheets of companies and in global equities markets and the reduced value that could result if a significant proportion of reserves were rendered incapable of extraction in an economically viable fashion due to technology, regulatory or market responses to climate change. In such a scenario, stranded reserve assets held on our balance sheet may need to be impaired or written off and our inability to make productive use of such assets may also negatively impact our financial condition and results.

The growth of alternative energy supply options, such as renewables and nuclear, could also present a change to the energy mix that may reduce the value of fossil fuel assets.

The physical effects of climate change on our operations may include changes in rainfall patterns, water shortages, rising sea levels, increased storm intensities and higher temperatures. These effects may adversely affect the financial performance of our operations.

Community

Local communities may be directly impacted by and become dissatisfied with our operations or oppose our new development projects, including through legal action, potentially affecting schedules, costs and production, and in

extreme cases viability and adversely impacting our reputation and licence to operate. Community-related risks may include community protests or civil unrest, complaints to grievance mechanisms and civil society activism and may cause delays or changes to proposed developments and interruptions to existing operations. Our operations or activities also risk the potential for adverse impacts on human rights or breaches of other international laws or conventions.

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Hydraulic fracturing

Our Onshore US operations involve hydraulic fracturing, which involves using water, sand and a small amount of chemicals to fracture hydrocarbon-bearing subsurface rock formations, to allow flow of hydrocarbons into the wellbore. We depend on the use of hydraulic fracturing techniques in our onshore US drilling and completion programs.

In the United States, the hydraulic fracturing process is typically regulated by relevant US state regulatory bodies. Arkansas, Louisiana and Texas (the states in which we currently operate) have adopted various laws and regulations, or issued regulatory guidance, concerning hydraulic fracturing. Some states are considering changes to regulations in relation to permitting, public disclosure, and/or well construction requirements on hydraulic fracturing and related operations, including the possibility of outright bans on the process.

Several US federal agencies are also reviewing or advancing regulatory proposals concerning hydraulic fracturing and related operations. The US Environmental Protection Agency (EPA) commenced a study of the potential impacts of hydraulic fracturing activities on drinking water resources. The agency issued a non-determinative Progress Report in December 2012 and released a preliminary analysis on 30 March 2015. The EPA's Science Advisory Board (SAB) engaged a research advisory panel to address criticism over the study's core conclusion and that panel issued a draft report on 7 January 2016. The EPA's Office of Inspector General continues to research the EPA's and states' ability to manage potential threats to water resources from hydraulic fracturing and produced a report on 16 July 2015 identifying two areas for improvement. The US Bureau of Land Management (BLM) issued a final rule on 20 March 2015 that would impose new requirements on hydraulic fracturing operations conducted on federal lands, including the disclosure of chemicals used, wellbore integrity, water use and disposal of flow back water. The BLM regulation took effect on 24 June 2015. On 30 September 2015, the US District Court for the District of Wyoming granted a motion for a preliminary injunction that prevents enforcement of the regulation by BLM pending litigation. Activity at the federal level, including the ongoing EPA study, BLM rules and other analysis by federal and state agencies to assess the impacts of hydraulic fracturing, could spur additional legislative or regulatory actions.

While we have not experienced a material delay or substantially higher operating costs in our Onshore US operations as a result of current regulatory requirements, we cannot predict whether additional federal, state or local laws or regulations will be enacted and what such actions would require or prohibit. Additional legislation or regulation could subject our operations to delays and increased costs, or prohibit certain activities, which could adversely affect the financial performance of our Onshore US operations.

A breach of our governance processes may lead to regulatory penalties and loss of reputation

We operate in a global environment that encompasses multiple jurisdictions and complex regulatory frameworks. Our governance and compliance processes, which include the review of internal controls over financial reporting and specific internal controls in relation to trade and financial sanctions and offers of anything of value to government officials and representatives of state-owned enterprises, may not prevent future potential breaches of law, or of accounting or governance practice. Our *Code of Business Conduct*, together with our mandatory policies, such as the anti-corruption, trade and financial sanctions and competition policies, may not prevent instances of fraudulent behaviour and dishonesty nor guarantee compliance with legal or regulatory requirements. This may lead to regulatory fines, disgorgement of profits, litigation, allegations or investigations by regulatory authorities, loss of operating licences and/or reputational damage.

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1.9.3 Management of principal risks

The scope of our operations and the number of industries in which we operate and engage mean that a range of factors may impact our results. Material risks that could negatively affect our results and performance are described in section 1.9.2. Our approach to managing these risks is outlined below.

Principal risk area

Samarco dam failure

Our potential liabilities from litigation and other actions resulting from the Samarco dam failure are subject to significant uncertainty and cannot be reliably estimated at this time.

Risk management approach

The Board has spent a significant amount of time discussing Samarco and considering our approach to the Samarco dam failure.

Soon after the Samarco dam failure occurred, a sub-committee of the Board was established to further consider and oversee matters relating to the Samarco dam failure, including BHP Billiton's support of the recovery and response efforts, investigation of the cause of the dam failure and our engagement with key stakeholders. The Samarco sub-committee comprises John Schubert (Chairman), Jac Nasser, Lindsay Maxsted and Malcolm Brinded.

Alongside the Samarco sub-committee, the Risk and Audit Committee and the Sustainability Committee have continued to consider matters relating to Samarco as part of the ongoing duties of those committees, including Samarco funding and the review of significant dams in the portfolio.

We believe these efforts provide a robust and comprehensive approach for the Board to best provide its oversight and input, and allows appropriate consideration to be brought to the various aspects of the response.

For further information on BHP Billiton's response to the Samarco dam failure, refer to section 1.4.

External risks

Risks arise from fluctuations in commodity prices and demand in major markets (such as China or Europe) or changes in currency exchange rates and actions by governments, including new regulations and standards, and political events that impact long-term fiscal stability.

The diversification of our portfolio of commodities, geographies and currencies is a key strategy for reducing the effects of volatility. Section 1.8.1 describes external factors and trends affecting our results and note 21 Financial risk management to the Financial Statements outlines the Company's financial risk management strategy, including market, commodity, and currency risk. The Financial Risk Management Committee oversees these risks as described in sections 2.14 and 2.15. We also engage with governments and other key stakeholders to ensure the potential adverse impacts of proposed fiscal, tax, resource investment, infrastructure access, regulatory changes and evolving international standards are understood and where possible mitigated.

Table of Contents**Principal risk area****Business risks**

Risks include the inherent uncertainty of identifying and proving reserves, adding and divesting assets and managing our capital development projects.

Financial risks

Continued volatility in global financial markets may adversely impact future cash flows, our ability to adequately access and source capital from financial markets and our credit rating. Volatility may impact planned expenditures, as well as the ability to recover investments in mining, oil and gas projects. In addition, the commercial counterparties (customers, suppliers, contractors and financial institutions) we transact with may, due to adverse market conditions, fail to meet their contractual obligations.

Operational risks

Operating cost pressures and reduced productivity could negatively affect operating margins and expansion plans. Non-operated assets may not comply with our standards. Unexpected natural and operational catastrophes may adversely affect our operations. Breaches in IT security

Risk management approach

Our Geoscience Centre of Excellence manages governance and technical leadership for Ore Reserves reporting as described in section 6.3.2. Our governance over reporting of Petroleum reserves is described in section 6.3.1.

We have established investment approval processes that apply to all major capital projects and asset divestment and acquisitions. The Investment Committee oversees these as described in sections 2.14 and 2.15. Our Project Management function additionally seeks to ensure that projects are safe, predictable and competitive.

We seek to maintain a strong balance sheet, supported by our portfolio risk management strategy. As part of this strategy, the diversification of our portfolio reduces overall cash flow volatility. Commodity prices and currency exchange rates are not generally hedged, and wherever possible we take the prevailing market price. A trial hedging program for our shale gas operations is an exception and reflects the inherent differences in shale gas operations in our portfolio. A shale gas operation has a short-term investment cycle and a price responsive supply base and hedging prices and input costs can be used to fix investment returns and manage volatilities. We use Cash Flow at Risk analysis to monitor volatilities and key financial ratios. Credit limits and review processes are required to be established for all customers and financial counterparties. The Financial Risk Management Committee oversees these as described in sections 2.14 and 2.15.

Note 21 Financial risk management to the Financial Statements outlines our financial risk management strategy.

We aim to maintain adequate operating margins through our strategy to own and operate large, long-life, low-cost and expandable upstream assets. The organisation's concentrated effort to reduce operating costs and drive productivity improvements

processes may adversely affect the conduct of our business activities.

has realised tangible results, with a reduction in controllable costs.

The capability to sustain productivity improvements is being further enhanced through continued

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Principal risk area

Risk management approach

refinements to our Operating Model. The Operating Model is designed to deliver a simple and scalable organisation, providing a competitive advantage through defining work, organisation and performance measurements. Defined global business processes, including 1SAP, provide a standardised way of working across the organisation. Common processes generate useful data and improve operating discipline. Global sourcing arrangements have been established to ensure continuity of supply and competitive costs for key supply inputs. We seek to influence the application of our standards to non-operated assets.

By applying our risk management processes, we seek to identify catastrophic operational risks and implement the critical controls and performance requirements to maintain control effectiveness. Business continuity plans are required to be established to mitigate consequences. Consistent with our portfolio risk management approach, we continue to be largely self-insured for losses arising from property damage, business interruption and construction.

From an industrial relations perspective, detailed planning is undertaken to support the renegotiation of employment agreements, and is supported by training and access to expertise in negotiation and agreement making.

IT security controls to protect IT infrastructure, business applications and communication networks and respond to security incidents are in place and subject to regular monitoring and assessment.

To maintain adequate levels of protection, we also continue to monitor the development of threats in the external environment and assess potential responses to those threats.

BHP Billiton has identified a number of actions that we will take in the management of tailings dams and joint venture arrangements. For details of those actions refer to section 1.4.

Our approach to sustainability risks is reflected in *Our Charter* and described in section 1.11, including a Company-level safety intervention that was initiated in FY2015. *Our Requirements* standards set out Group-wide HSEC-related performance requirements

Sustainability risks

HSEC incidents or accidents may adversely affect our people or neighbouring communities, operations and reputation or licence to operate. The potential physical impacts and related responses to climate change may impact the value of our Company, our operations and markets.

designed to support effective management control of these risks.

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Principal risk area

Risk management approach

Our approach to corporate planning, investment decision-making and portfolio management provides a focus on the identification, assessment and management of climate change risks. We have been applying an internal price on carbon in our investment decisions for more than a decade. Through a comprehensive and strategic approach to corporate planning, we work with a broad range of scenarios to assess our portfolio, including consideration of a broad range of potential policy responses to and impacts from climate change.

Our approach to engagement with community stakeholders is outlined in our minimum organisational requirements for Community. Operations are also required to undertake stakeholder identification analysis, social impact and opportunity assessments, community perception surveys and human rights impact assessments to identify, mitigate or manage key potential social and human rights risks.

The *Our Requirements for Risk Management* standard provides the framework for risk management relating to climate change and material health, safety, environment and community risks. Internal audits are conducted to test compliance with the *Our Requirements* standards and action plans are developed to address any gaps. Key findings are reported to senior management and reports are considered by relevant Board committees.

Our *Code of Business Conduct* sets out requirements related to working with integrity, including dealings with government officials and third parties. Processes and controls are in place for the internal control over financial reporting, including under Sarbanes-Oxley. We have established anti-corruption, competition and trade sanctions performance requirements, which are overseen by the Compliance functions, as described in section 2.16. Additionally, the Disclosure Committee oversees our compliance with securities dealing obligations and continuous and periodic disclosure obligations as described in sections 2.14, 2.15 and 2.17.

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1.10 People

With a workforce of more than 65,000 employees and contractors working across 91 locations worldwide, BHP Billiton strives to create an environment where our teams have a sense of purpose and achieve their full potential. A harmonious workplace is more productive, and we recognise that diversity of people and cultures, high motivation levels and recognition for contribution are all factors for success.

1.10.1 Our people

We believe our people have the right to a safe and productive work environment that supports ongoing training and development in fulfilling jobs. We have a comprehensive set of policies, initiatives and frameworks to achieve this.

Examples include:

Our Charter is central to everything we do and our single most important document at BHP Billiton. ***Our Charter*** describes our purpose and values and how we measure our success. It communicates who we are, what we do and what we stand for as an organisation. It is the basis for our decision-making.

Our Requirements standards outline the expected actions and standards for those who work for or on behalf of BHP Billiton. Some of those standards relate to people activities; for example, recruitment and talent retention. Discrimination on any basis, including disability, is not acceptable. In instances where employees require support for a disability, we work with them to identify roles that meet their skill, experience and capability, and offer retraining where required.

Our Code of Business Conduct helps guide our daily work. It demonstrates how to practically apply the commitments and values set out in ***Our Charter*** and reflects many of the standards and procedures we apply throughout our organisation.

Our **business conduct advisory service (EthicsPoint) and dispute and grievance handling** processes are available to address issues across the Company.

We provide employees with access to an **Employee Assistance Program (EAP)** in each region where we operate. The EAPs provide short-term assistance through free, confidential counselling and support services.

Our all-employee share purchase plan, **Shareplus**, is available to all permanent full-time and part-time employees, and those on fixed term contracts, except where local regulations limit operation of the scheme. In these instances, alternate arrangements are in place.

1.10.2 New, simplified Operating Model

A major focus for FY2016 was the announcement and implementation of a new Operating Model, which articulates how we are organised and work together. In March 2016, we commenced transitioning from an operating model

primarily organised by commodity to one organised by assets.

Our new Operating Model creates a more agile and responsive company designed to best suit our now simpler portfolio of 12 core operated assets. It aims to accelerate productivity and value creation by removing duplication, standardising key processes and systems, realising economies of scale and facilitating greater coordination in order to enhance safety, productivity and learning.

This important step in the simplification of BHP Billiton will allow our assets to focus primarily on safety, volume and cost, while our functions have become globally integrated to drive deeper expertise.

For more information on the new Operating Model, refer to section 1.5.3.

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1.10.3 Inclusion and diversity

We recognise that inclusion and diversity are key enablers to delivering on our safety, culture and productivity priorities. Our internal benchmarking demonstrates that operations which are more inclusive and diverse achieve better performance results. Safety outcomes are better, production is more stable and employee engagement is higher. Results also show that greater employee engagement leads to improved productivity and higher retention rates. It is this business case that underpins our Inclusion and Diversity Strategy, which is rooted in the principle that leadership drives culture, and culture drives performance. Our strategy focuses on engaging, enabling, and supporting our line leaders in creating a work environment of greater inclusion where our employees feel involved, respected, valued and connected, where difference is embraced and *Our Charter* values are reflected.

Achieving a culture of inclusion and increasing female representation have been key priorities for BHP Billiton since 2010. Recently we took the step to embed a more unified approach and amplify our commitment by establishing a CEO-led Inclusion and Diversity Council comprising asset and functional leaders from across the organisation. Since its launch, the Council has collaborated to develop recommendations to accelerate the delivery of a more inclusive work environment and enhanced overall workforce diversity.

Each financial year, the Board considers, approves and monitors progress on the Group's performance objectives. A summary of the inclusion and diversity objectives set in FY2016 and progress to date are set out below.

Progress on our inclusion and diversity objectives

1. Assets, Marketing and functions to demonstrate progress against key objectives to improve the diversity of our workforce profile (where legally permissible), with particular emphasis on demonstrating a contribution to increasing female representation year-on-year, both overall and in leadership.

During FY2016, the following activities were prioritised by our assets, Marketing and functions to improve inclusion and diversity:

initiatives to engage with, and continue to educate employees on, inclusion and diversity, including unconscious bias training; diversity focus groups; town hall events on targeted inclusion and diversity topics; and external benchmarking to identify opportunities for improvement;

targeted female development, including mentoring to build capability of female employees; focusing on identifying female candidates for the talent pipeline; and increasing female representation in entry-level roles;

resourcing campaigns targeting greater female participation;

further embedding of flexible work options across different assets, Marketing and functions, with toolkits and support for leaders to think differently about flexible work options;

continued commitment to enabling a positive parental leave experience, with parental leave networks and toolkits to build engagement; and targeted parental leave coaching for some employees;

enablement of a more inclusive environment through building amenities, with provision of prayer facilities, expectant mother parking, and breastfeeding/nursing facilities in key buildings to support the varying requirements of our employees;

initiatives to increase representation of Indigenous people in our workforce, including targeted resourcing strategies; and development programs to broaden opportunities for Indigenous candidates;

commitment to broader facets of diversity, including membership with Pride in Diversity in Australia for greater inclusion of LGBTI employees, and early work on a small pilot with the Australian Network on Disability's intern program.

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FY2016 outcomes

Compared to FY2015, female representation (i) increased by one per cent in manager and senior leadership roles to 22 per cent, and (ii) remained steady in our overall workforce representation at 17.6 per cent.

Female representation in our graduate intake increased by seven per cent to 49 per cent at a global level and by six per cent to 52 per cent in Australia. Representation of Indigenous Australians in the graduate program decreased by two per cent to nine per cent.

The Board achieved its goal to increase the number of women on the Board to three by the end of CY2015, following Anita Frew's appointment to the Board effective 15 September 2015.

2. Demonstrate year-on-year improvement in creating a work environment of inclusion, as measured by our Employee Perception Survey (EPS) inclusion index.

As in previous years, an inclusion index to gauge employees' perceptions of feeling valued and heard was measured as part of our EPS. Our results from the CY2016 Survey show a one per cent improvement from CY2015, continuing our positive progress since CY2014.

Continuous improvement

While female representation has increased at leadership levels and our progress over the past three years regarding overall female representation and our inclusion index has demonstrated a positive shift, we recognise that further accelerated action is required. Core to delivering this commitment will be the Inclusion and Diversity Council; its defined program of work and inclusion of the following objective in all asset, Marketing and function FY2017 scorecards.

As in previous years, progress will be evaluated and successful completion of these objectives will be taken into account in determining bonus remuneration outcomes. Progress against each year's measurable objectives will continue to be tracked as part of the Group's internal compliance requirements and disclosed in the Annual Report.

The proportion of women in our workforce and in senior management positions is set out in section 1.10.8, which contains further information on diversity and our workforce profile.

At BHP Billiton, we aspire to create a work environment that is truly inclusive for all people. We will measure our success through demonstrated:

year-on-year global progress on creating a more inclusive culture as measured by a three per cent global increase on the EPS inclusion index;

contribution to a three per cent global increase in representation of women through the leadership team developing and implementing a specific Inclusion and Diversity Plan consistent with the Inclusion and

Diversity Council's guidelines (where, and to the extent, legally permissible in the applicable jurisdictions in which BHP Billiton operates).

Case study: Inclusion and Diversity Council

BHP Billiton's Executive Leadership Team recognised that to deliver meaningful, sustainable change in inclusion and diversity, greater visibility of senior leadership commitment and stronger involvement of line management were required. As a result, the Inclusion and Diversity Council was formed. The Council is sponsored by the CEO and comprises a group of senior leaders, including Asset Presidents and Heads of Functions, and is supported by Human Resources. The role of the Council is to create an integrated Company-wide Inclusion and Diversity Strategy and drive the execution and ownership of that strategy at a local level.

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Since its formation in November 2015, the Council has been working to:

develop a Company-wide narrative and value case on inclusion and diversity;

create a deliberate platform to enable greater dialogue about inclusion and diversity across the Company;

define specific strategies to accelerate progress on achieving greater inclusion at BHP Billiton;

build performance on inclusion and diversity objectives into asset, Marketing and functional scorecards;

implement visible symbols in the organisation to signify that inclusion and diversity is an imperative. Specific actions planned, underway or completed include the enhancement of *Our Charter* with the addition of the sentence: We are successful when: Our teams are inclusive and diverse , global awareness programs on inclusion, diversity and unconscious bias, deliberate sourcing and development of female candidates to increase our talent pool; and leveraging the new Operating Model to connect the efforts of different assets, Marketing and functions in order to accelerate progress.

1.10.4 Employee engagement

Regular, honest and transparent communications are a key part of our employee engagement. For BHP Billiton, communication is a two-way process, achieved through a variety of channels including face-to-face meetings, town hall meetings, intranet, email, newsletters, social media, online collaboration forums and other channels tailored to local environments.

We also seek regular feedback from our employees, including via an annual Employee Perception Survey (EPS). The EPS helps us measure our culture, allowing us to better understand what we are doing well and where we can improve. The EPS contains 50 core questions that focus on senior leadership, safety and sustainability, communication, inclusion and diversity, work processes, leadership, development as well as career opportunities.

Our CY2016 EPS results show we are doing well at focusing on creating a safe workplace. Our line leaders are also encouraging diverse views when it comes to problem-solving and doing well at engaging their teams and leading change.

We have room to improve in better enabling our employees (by removing obstacles and increasing access to needed resources), helping employees feel more connected to the Company and providing clarity about future career opportunities.

1.10.5 Leadership development

Our aspiration is to develop distinctive BHP Billiton leaders based on the premise that leadership drives culture and culture drives performance. Our commitment to a globally consistent leadership development approach is key to our continued success.

We are focusing on continuing to build a step-up culture, which means our people are empowered, speak up and get involved in improving safe productivity. To support this culture, a leadership development framework called Leading the Future was launched in FY2015, incorporating a number of development programs targeted at leaders. The first program in this framework, Leading Step Up, was targeted at frontline leaders and focused on three capabilities engage, lead change and develop. As at 30 June 2016, 97 per cent of targeted people leaders across BHP Billiton had completed Leading Step Up.

Other programs in the Leading the Future framework will focus on identifying, creating and capturing value and increasing productivity through focusing on continuous improvement and better decision-making.

We have also sustained our deep commitment to selecting and developing graduates, our future talent pipeline. The Graduate Development Program is aligned to our Company priorities and embeds our three key principles for learning: leader-led, embedded at work and focused on business problems.

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1.10.6 Performance enhancement process improvements

For FY2016, we made some improvements to how we develop, assess and reward our employees through the Performance Enhancement Process (PEP).

The changes broadly include having leaders undertake more regular one-on-one conversations with their team members to discuss performance and development throughout the year (rather than formalised conversations at scheduled points in time). Our main focus is to make sure leaders guide continuous improvement through regular, meaningful performance and development conversations with their employees. The enhanced program will be implemented progressively through FY2017.

In FY2016, 93 per cent of employees participated in a formal performance management process. This process provides the opportunity for employees to align their goals, receive feedback and coaching, and identify skills and capabilities for further development. Due to industrial agreements, not all of our employees are able to participate in individual performance programs.

1.10.7 Employment relations

In FY2016, 57 per cent of our employees were covered by collective agreements. We respect and recognise the right of employees to have the representative of their choice, including labour unions. We also comply with statutory and contractual requirements that include minimum notice periods for termination of employment. These notice periods vary from one to eight weeks, depending on the employee's location and role. We also work closely with our contracting partners and encourage them to ensure that their employment relationships are governed in a manner consistent with *Our Charter* and the *Code of Business Conduct*.

1.10.8 Employees and contractors

The diagram below provides the average number of employees and contractors over the last three financial years.

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The table below shows the gender composition of our workforce, senior leaders and the Board (Non-executive Directors) over the last three financial years.

Following is a breakdown of the average number of employees across the Group, in accordance with our reporting requirements under the UK Companies Act 2006. The calculation includes the Executive Director, 100 per cent of employees of subsidiary companies and employees based on our share of joint operations for each of the past three financial years. Employees of equity accounted entities are not included. Part-time employees are included on a full-time equivalent basis. Employees of businesses acquired or disposed of during a particular year are included for the period of ownership. Contractors are not included.

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The diagram below provides a breakdown of our average number of employees by geographic region for each of the last three financial years.

Changes in market conditions and our business transformation programs focused on improving efficiencies and driving greater productivity have resulted in a decrease in our workforce requirements.

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1.11 Sustainability

Sustainability is at the core of *Our Charter* values. It means putting health and safety first, being environmentally responsible and supporting communities.

Additional information relating to our materiality assessment process and our sustainability management approach and performance for FY2016 is available in our Sustainability Report 2016 and can be found online at www.bhpbilliton.com.

1.11.1 Our sustainability approach

Our approach to sustainability is led by a sustainability framework that guides our investments in our host countries and local communities, as well as directly at our operated assets. The framework applies a risk-based approach to sustainability, and assesses sustainability risks deemed material to our business with consideration of the potential health, safety, environmental, community, reputational, legal and financial impacts. Risk severity is assessed according to the most severe associated impact, which allows us to understand the potential causes and impacts in the context of business plans.

We also have public sustainability performance targets and mandatory minimum performance requirements, as articulated in *Our Requirements* standards. These standards are the foundation for developing and implementing management systems at our operated assets. We seek to influence the application of our standards at our non-operated joint ventures.

Our Board oversees our sustainability approach, with the Sustainability Committee overseeing health, safety, environment and community (HSEC) matters, including climate change, human rights, HSEC-related risk control, and legal and regulatory compliance, sustainability reporting and overall HSEC performance.

1.11.2 Climate Change

Our perspective on climate change

We accept the Intergovernmental Panel on Climate Change (IPCC) assessment of climate change science, which has found that warming of the climate is unequivocal, the human influence is clear and physical impacts are unavoidable.

The world is facing two critical challenges. As the global population steadily grows, the continued development of emerging economies depends on access to reliable and affordable energy. At the same time, limiting the negative impacts of climate change requires the global average temperature increase to remain well below two degrees Celsius relative to pre-industrial levels. Successfully addressing these two challenges will result in substantial changes to the global economy.

We believe:

The world must pursue the twin objectives of:

limiting climate change to the lower end of the IPCC emission scenarios in line with current international agreements, while

providing access to reliable and affordable energy to support economic development and improved living standards.

Both of these objectives are essential to sustainable development, and we do not prioritise one of these objectives over the other.

Under all current plausible scenarios, fossil fuels will continue to be a significant part of the energy mix for decades.

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There needs to be an acceleration of effort to drive energy efficiency, develop and deploy low-emissions technology and adapt to the impacts of climate change.

There should be a price on carbon, implemented in a way that addresses competitiveness concerns and achieves lowest cost emissions reductions.

We will:

Continue to take action to reduce our emissions.

Continue to build the resilience of our operations, investments, communities and ecosystems to the negative effects of climate change.

Seek to enhance the global response by engaging with governments, recognising their role as policy makers.

Work in partnership with resource sector peers to improve sectoral performance and increase the industry's influence in policy development to deliver effective long-term regulatory responses.

Contribute to reducing emissions from the use of fossil fuels by making material investments in low-emissions technology.

Our approach

Role and responsibility

Sustainable development requires an effective response to climate change. Responding to climate change is a priority Board governance and strategic issue for our Company. Management has primary responsibility for the design and implementation of an effective position on, and response to, climate change.

To reflect updates in scientific knowledge and global regulatory and political responses, we regularly review our position on climate change. We incorporate climate change considerations into our Group scenario planning to understand potential impacts on our portfolio. The Sustainability Committee has considered a range of climate change scenarios and continues to monitor the actions being taken to manage a range of climate change impacts and policy responses. Performance against our greenhouse gas (GHG) emissions target contributes to our HSEC performance, which is measured as a balanced scorecard within the overall annual financial bonus assessment for our management.

Active engagement

Our climate change strategy is underpinned by active engagement with our stakeholders, including investors, policy makers, peer companies and non-government organisations. Industry has a key role to play in climate change policy development by working with government and other stakeholders to inform the development of an effective, long-term policy framework that delivers a measured transition to a lower emissions economy.

As part of our strategic approach, we regularly seek to share lessons learned with our stakeholders and identify solutions that we believe can drive emissions reductions at the lowest cost. We also seek input and insight from external experts, such as the Forum on Corporate Responsibility. BHP Billiton is a signatory to the World Bank's *Putting a Price on Carbon* statement, and we are a member of the World Bank's Carbon Pricing Leadership Coalition.

In September 2015, BHP Billiton signed the CEO Statement on Business, Climate Change and the Paris Negotiations, calling for a positive outcome at the United Nations Framework Convention on Climate Change (UNFCCC) 21st Conference of the Parties (COP21). Additionally, together with a group of public, private and social leaders, we joined the Energy Transitions Commission, which aims to identify pathways for change in our energy systems to ensure both better growth and a better climate.

More information is available in our Sustainability Report 2016, which can be found online at www.bhpbilliton.com.

Table of Contents**The importance of COP21 and the Paris Agreement**

The Paris Agreement is a new international accord that aims to hold the increase in the global average temperature to well below two degrees Celsius and to pursue efforts to limit the temperature increase to 1.5°C. The agreement sets out:

a common framework that commits countries to put forward their best efforts and to strengthen such efforts as these in the years ahead; and

a requirement for parties to report regularly on both their emissions performance and progress made towards implementation of their Nationally Determined Contribution (NDC), as well as to undergo international review.

BHP Billiton and the Paris Agreement

BHP Billiton welcomes the Paris Agreement formalised in December 2015 at COP21. We believe the Paris Agreement provides a solid, long-term foundation for further progress in the global response to climate change. We welcome the in-principle support for both robust market mechanisms that will enable countries to trade emissions reductions and provision for the development of frameworks to strengthen cooperative action towards technology transfer.

Together with a range of businesses and other non-state entities, we demonstrated our support for the Paris Agreement by signing the UNFCCC Paris Pledge.

Mitigation

As a major producer and consumer of energy, we prioritise GHG reductions and energy efficiency. Rather than use an intensity metric to define our Company GHG target, we have set ourselves a challenging goal to limit our overall emissions by keeping our absolute FY2017 GHG emissions below our FY2006 baseline (adjusted as necessary for material acquisitions and divestments based on asset GHG emissions at the time of the applicable transaction). As we grow our business, our GHG target encourages us to improve our energy efficiency, increase productivity and implement additional GHG reduction projects across our operations. All our operations are required to identify, evaluate and implement suitable GHG reduction opportunities, including during project design and equipment selection.

The Company's total GHG emissions of 18.0 million tonnes of carbon dioxide equivalent (CO₂e) in FY2016 is significantly lower than our total GHG emissions in FY2015, primarily as a result of the demerger of South32. When compared to our adjusted baseline, which takes into account the demerger, the Company's emissions are 13 per cent below FY2006 emissions. We are on track to meet our FY2017 target. For further information, see the Sustainability Report 2016.

GHG Scope 1 and 2 (millions of tonnes CO₂-e) ⁽¹⁾

Year ended 30 June ⁽²⁾	2016	2015	2014
Scope 1 ⁽³⁾	11.3	20.7	22.7

Scope 2 ⁽⁴⁾	6.7	17.6	22.3
Total GHG millions of tonnes CO ₂ -e	18.0	38.3	45.0

(1) Measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol.

(2) Includes data for Continuing and Discontinued operations.

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(3) Scope 1 refers to direct GHG emissions from our operated assets.

(4) Scope 2 refers to indirect GHG emissions from the generation of purchased electricity and steam that is consumed by our operated assets (calculated using the market-based method).

In line with the requirements of the UK Companies Act 2006, our reported FY2016 GHG intensity was 2.8 tonnes of CO₂-e per tonne of copper equivalent production (FY2015: 3.8 tonnes of CO₂-e). Our reported FY2016 energy intensity was 23 petajoules per million tonnes of copper equivalent production. Copper equivalent production has been based on FY2013 average realised product prices.

We are currently developing Company GHG targets for the period after FY2017, taking into account an understanding of GHG forecasts and reduction opportunities, technology options and the expectations of our stakeholders.

In addition to identifying opportunities within our Company, we also seek to contribute to global GHG emissions reductions. We are currently implementing a strategy to support REDD+ (Reducing Emissions from Deforestation and Forest Degradation), an international mechanism that provides economic, social and environmental incentives for developing countries to reduce GHG emissions from deforestation and related activities through the creation of carbon credits. Through improved governance, project support, and market stimulation, BHP Billiton is playing a role in reducing deforestation, enhancing community livelihoods and improving biodiversity and watershed conservation.

In June 2016, we committed to support the Alto Mayo REDD+ Project, managed by Conservation International Peru. BHP Billiton will provide approximately US\$5 million to Conservation International Peru for the project over two years (commencing FY2017). This aims to contribute to alternative livelihood opportunities, including sustainable coffee growing and enhanced forest governance, and generate 800,000 tonnes of carbon credits. As well as being pivotal to our REDD+ strategy, this investment supports our current public conservation target.

Adaptation

Our assets are long-lived, and therefore we must take a robust, risk-based approach to adapting to the physical impacts of climate change. Effective analysis of climate science is critical to informing our resilience planning. We continue to work with the CSIRO (Australia's national science agency) to obtain regional analyses of climate change science. This informs climate resilience planning at an asset level, improving our understanding of the material climate vulnerabilities that our operations face.

It is a requirement for all our operations to build climate resilience into our current activities through *Our Requirements for Environment and Climate Change* standard. We also require new investments to assess and manage risks associated with the forecast impacts of climate change.

Testing the resilience of our operations to these physical impacts has already changed the way we work. For example:

Identification and assessment of increasing storm intensity and storm surge levels in project design resulted in us raising the height of the trestle at our Hay Point coal port facility in Queensland as part of our expansion plans.

In our Western Australia Iron Ore (WAIO) business, cyclone management is critical for operations and maintaining adaptive management practices will allow them to respond to the expected increase in cyclone

intensity in the Pilbara.

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Low-emissions technology

Technology and innovation have the potential to significantly reduce global emissions and enable long-term climate goals to be met. Given that fossil fuels are likely to continue to be a significant part of the energy mix for decades, it is vital that low-emissions technology is available at scale, lower cost and much faster than the usual commercial timeframes, to meet the challenge of climate change. We believe industry has a significant collaborative role to play with government, academia and the community to facilitate this necessary step change.

As a natural resource producer, it is not only important for us to focus on technologies that have the potential to lead to material emissions reductions in our operations, but also to assess how we can contribute to lowering the emissions from the use of our products. We look to develop technologies that align with the Company's skills and expertise but are currently not available at commercial scale or acceptable cost. This includes carbon capture and storage (CCS), technologies to reduce fugitive emissions from coal and petroleum operations, battery storage and high-efficiency/low-emissions power generation and transportation.

Renewable energy represents a potentially significant opportunity for our operations. Battery storage solutions at grid-scale, particularly to manage the intermittency of renewable energy and to provide security of supply, may transform the way that the resources sector accesses electricity. To learn more, we are participating in the innovative Lakeland Solar and Storage Project, a 13 megawatt solar photovoltaic installation with associated grid-scale storage of 5.3 megawatt hour located at the fringe of the grid in regional Queensland, Australia. Our contribution to the project will enable informed testing of the installation for a range of conditions experienced in the resources sector. Outcomes will provide significant insight for BHP Billiton, and the results of the project will be shared widely.

BHP Billiton and Saskatchewan-based electricity provider SaskPower have established the International CCS Knowledge Centre to help advance CCS as a means of managing GHG emissions. The Knowledge Centre will enhance global access to the data, information and lessons learned from SaskPower's unique Boundary Dam facility the first power plant to successfully integrate CCS. In sharing the outcomes of this unique project broadly, we hope to assist project developers to reduce both the capital and operating costs of subsequent projects.

In June 2016, we announced an agreement with Peking University to help unlock the potential of CCS for steel production in China. The three-year agreement will identify the key technical, policy and economic barriers to CCS deployment in the industrial sector, with a particular focus on the steel industry. Research outcomes will be communicated via collaborative industry forums and conferences, and a multidisciplinary Advisory Board will guide the research team. The partnership is an example of how we work with our supply chain to reduce emissions.

More information on our approach to low-emissions technology is available in our Sustainability Report.

Transparent reporting

We recognise the importance of openly engaging on a regular basis with our stakeholders, including investors, to ensure a good understanding of how climate-related risks and opportunities are identified, assessed and managed.

We have an ongoing commitment to transparent and open communications through our voluntary submission to CDP (formerly the Carbon Disclosure Project, refer to www.cdp.net). Our commitment to the enhancement of disclosure has resulted in a significant improvement in our CDP transparency score since FY2013. Reflecting this, BHP Billiton was included in the Climate Disclosure Leadership Index in 2015, with a disclosure score of 99 out of 100.

A key feature of COP21 was the strong support from the investment community, including the announcement of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). This industry-led

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group aims to develop voluntary, consistent climate-related financial risk disclosures that would be useful to lenders, insurers, investors and other stakeholders. The TCFD is chaired by Michael Bloomberg and comprises senior technical representatives from organisations that are both preparers and users of company disclosures. BHP Billiton's Vice President of Sustainability and Climate Change, Dr Fiona Wild, is a member of the TCFD. We see this as a strong endorsement of the work we have already undertaken.

Portfolio evaluation

We continue to identify and assess the impacts of climate change on our portfolio. Our planning process starts with the construction of a central case, a forecast built through an in-depth, bottom-up analysis using rigorous processes and benchmarked with external views. This central case is thoroughly reviewed and endorsed periodically by the ELT and the Board.

Scenarios that describe the different ways the world could evolve beyond our central case allow us to explore potential portfolio discontinuities and opportunities. In our Climate Change: Portfolio Analysis report (released in September 2015), we outlined four different scenarios, each designed to be divergent, plausible and internally consistent. Our four scenarios assess the timing and implementation of various government policies, emission reduction targets and technology developments. In one of the scenarios, we see a more unified focus on limiting climate change, including an orderly transition to a two degree Celsius world. We also stress test our portfolio against a shock event that leads to a much more rapid transition to a two degree Celsius world by 2030, driven by higher government emission reduction targets and faster technology developments.

The analysis highlights that our uniquely diversified portfolio of high-quality, low-cost assets is robust under both an orderly and a more rapid transition to a two degree Celsius world. We also have a strong project pipeline with many capital-efficient growth options that continue to generate high shareholder value in a two degree Celsius world. We will continue to align our portfolio to where we see a strong long-term growth story for different commodities. Further information on the potential risk that climate change represents to the Company, including regulatory impacts, is covered in section 1.9.2.

There will be many risks and opportunities as the world continues to respond to climate change and they will be faced by companies in all sectors, albeit to varying degrees. With the right market settings, including a price on carbon, the greatest opportunities will emerge for those who can produce the lowest cost and most efficient solutions, in line with the expectations of communities and policy makers.

Our Climate Change: Portfolio Analysis report is available online at www.bhpbilliton.com.

1.11.3 Governance

Operating with integrity and transparency

Integrity and accountability are two of *Our Charter* values. We believe high governance standards are integral to creating long-term value.

We are committed to ethical business practice. While we operate in a variety of international regulatory environments, we always seek to go beyond minimum legal or regulatory compliance wherever we work.

Our BHP Billiton *Code of Business Conduct* sets behavioural standards for everyone who works for, or on behalf of, BHP Billiton and demonstrates how to apply the values and commitments set out in *Our Charter*. Acting in

accordance with the Code is a condition of employment, and annual risk-based *Code of Business Conduct* training must be undertaken by all our people in each area of the organisation.

Anti-corruption compliance

Corruption deprives communities of the benefits that should flow from the development of natural resources and undermines effective government decision-making.

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We are determined to play a significant role in the global fight against corruption in the resources industry. Building on a strong framework, we are committed to continuous improvement and work to adapt our compliance program to changes in the Company's risk profile.

BHP Billiton's compliance function is responsible for the design of the anti-corruption compliance program and plays a key role in advising, monitoring and reporting on program implementation. The function is independent of our operations and reports via the Chief Compliance Officer to the Chief External Affairs Officer and the Risk and Audit Committee.

Closure planning

Closure planning touches many areas of our operations and is an important consideration throughout the life cycle of our operations. We have a governance framework for mine closures that integrates resource planning and development, health, safety, environment, community and social considerations, stakeholder engagement, finance and assurance into the operational design.

Each operated asset must develop a closure plan and a corresponding financial assessment to minimise closure-related risks over the life of the asset. Our internal audit function tests the effectiveness of these plans and their alignment to the closure planning framework. Information about the financial provisions related to closure liabilities is available in note 14 Closure and rehabilitation provisions to the Financial Statements.

Contributing to local and national economies and beyond

The scale and long-term nature of our assets enable us to make a significant and long-term economic contribution to the countries in which we operate, and this is a key feature of our commitment to sustainability.

Payments to host governments

We also support local and national economies through the payment of taxes and royalties to our host governments. We act responsibly in relation to our tax affairs, to be able to provide our host communities with the best opportunity to benefit from these contributions.

BHP Billiton is a founding supporter of the Extractive Industries Transparency Initiative and an early adopter of best practice in disclosure and transparency. We believe transparency by governments and companies around revenue flows from the extraction of natural resources is an important element in the fight against corruption.

Our payments of US\$3.7 billion of taxes and royalties on a project-by-project basis and payments to state and provincial governments at a subnational level in FY2016 are presented in our standalone Economic contribution and payments to governments Report 2016.

The Economic contribution and payments to governments Report 2016 is available online at www.bhpbilliton.com.

1.11.4 Health and safety

Managing our responsibility for people's safety

When reflecting on safety for the year, our thoughts are with the families and friends of the 19 people who died as a result of the tragic dam failure at Samarco. We remain committed to supporting Samarco in the response efforts to the

tragedy. For more information on the Samarco dam failure, see section 1.4.

In developing our broader safety strategy for our operated assets, in FY2016, we reviewed our priorities under each material safety issue, assessed our performance and determined our priorities. This was the foundation for functional planning. Over time we will continue embedding the desired safety culture, capability and systems to meet our aspirations and drive better performance.

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The *Our Requirements for Safety* standard defines a number of the most common safety risks and their minimum controls. Each operated asset assesses further controls that may be required to manage specific risks at its operations to meet the objective of no fatalities.

In FY2016, we had no fatalities at our operated assets and there was a reduction in high-potential safety events.

Our total recordable injury frequency (TRIF) performance in FY2016 was 4.3 per million hours worked, a slight increase on FY2015. While we did not meet our target of year-on-year TRIF improvement, this represents a reduction of nine per cent over the past five years.

Total recordable injury frequency (per million hours worked)

Year ended 30 June	2016	2015	2014
Total recordable injury frequency (TRIF) ⁽¹⁾	4.3	4.1	4.2

⁽¹⁾ Includes data for continuing and discontinued operations for the financial years being reported.

Addressing potential health impacts associated with our operations

We strive to ensure our people are fit for work and remain free from work-related injury or illness.

Our operated assets seek to identify and manage health risks by establishing and maintaining exposure risk profiles for harmful agents. We manage our exposures by complying with our internally specified occupational exposure limits that are always at least in line with, or more stringent than, applicable regulated limits. Where relevant, we monitor the health status of our people to detect early signs of occupational illness. Where illness is detected, we assist our people in the recovery and management of illness to prevent further deterioration.

We also invest in the quality of public health in many ways, including improving access to general medical care in the communities in which we operate.

Occupational exposures

In FY2012, we established a health target baseline and committed to reducing potential occupational exposure ⁽¹⁾ to carcinogens and airborne contaminants by 10 per cent by 30 June 2017. As at FY2016, the number of potential exposures to carcinogens and airborne contaminants that exceeded our FY2012 baseline had reduced by 70 per cent. We have therefore exceeded our target to date ⁽²⁾.

While good progress has been made in controlling occupational exposures to carcinogens and airborne contaminants, we remain vigilant in adopting and maintaining exposure controls.

⁽¹⁾ For exposures exceeding our FY2012 baseline occupational exposure limits requiring the use of personal protective equipment.

- (2) Since setting the baseline in FY2012, the baseline has been adjusted for material acquisitions and divestments. In FY2016, the baseline was adjusted to reflect divested operations, which represented approximately 60 per cent of our exposures. Our performance against targets has been impacted by the removal of the divested assets data with current operated assets showing larger reductions than those reported for the Company in previous years. The contraction of the industry during FY2016 also influenced our performance, with a notable proportion of the exposure reduction due to decreased activity. However, we also made significant improvements with engineering controls.

Table of Contents***Queensland coal health review***

In FY2016, the Queensland Government initiated a review of the Queensland Coal Mine Workers Health Scheme, following the identification of a number of confirmed cases of coal workers pneumoconiosis across the industry. We actively supported the review process and are working with the government to implement the recommendations. We are continuing to invest in and improve controls to further reduce the potential for exposure to coal mine dust, noting that our internal coal mine dust occupational exposure limit is lower than the current Australian regulatory requirements. In addition, we have offered concerned employees consultations with the Company's nominated medical advisers.

Occupational illness

For reporting consistency, we require our operated assets to report illnesses using the US Government's Occupational Safety and Health Administration (OSHA) criteria.

The incidence of employee occupational illness in FY2016 was 4.17 per million hours worked, a decrease of 15 per cent on FY2015. The incidence of contractor occupational illness was 1.16 per million hours worked, an increase of 38 per cent compared with FY2015.

We continue to work with our contractors and regulatory medical surveillance agencies to collect the most accurate data available and monitor occupational illness carefully to ensure our improvement is sustained.

The majority of our occupational illnesses reported are noise-induced hearing loss and musculoskeletal illness.

Employee occupational illness (per million hours worked)

Year ended 30 June	2016	2015	2014
Noise-induced hearing loss	1.75	3.05	0.68
Musculoskeletal	1.75	1.52	1.61
Other illnesses	0.67	0.36	0.55
Total occupational illness	4.17	4.93	2.39

1.11.5 Society**Actively supporting communities**

As part of making a valuable contribution as community partners, we seek meaningful long-term relationships that respect local cultures and create lasting benefits. Our community relations approach is detailed in the *Our Requirements for Community* standard.

The identification and management of community risks are central to achieving our purpose and strategy. Community risks of greatest concern are those involving safety and security, resettlement, community health, economic impacts and any event that leads to a breach of human rights. While no significant community incidents occurred at our operated assets, we deeply regret the significant community impacts of the dam failure at our non-operated joint venture, Samarco, in Brazil.

Making a positive contribution

Through a collaborative approach, we work with communities to identify social needs and existing resources through which we can build our social investment. Our Social Investment Framework, implemented in FY2015, underpins our voluntary social investment from FY2016-FY2020 and provides a consistent framework for our local, regional, national and global investment. This Framework aligns strongly with the UN Sustainable Development Goals.

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Where possible, we employ local people and purchase local goods and services. We support local, regional and national economies by paying taxes and royalties, and we seek to develop infrastructure that benefits entire communities.

We believe we also have a responsibility, in line with *Our Charter* values, to acknowledge our host communities through our voluntary social investment. To do this, we voluntarily invest one per cent of our pre-tax profit in community programs (calculated on the average of the previous three years' pre-tax profit).

During FY2016, our voluntary social investment totalled US\$178.7 million, comprising US\$123.7 million of cash for community development programs and administrative costs and a US\$55 million contribution to the US-based charity, the BHP Billiton Foundation.

Excluding our contribution to the BHP Billiton Foundation, 45 per cent of the cash component of our social investment expenditure was invested in local communities, 29 per cent was invested regionally, 21 per cent was invested in national or international programs in countries where we operate, and the remaining five per cent expenditure represented administration costs.

Social investment (US\$M)

Year ended 30 June	2016	2015	2014
Expenditure ⁽¹⁾ (including administrative costs)	123.7	142.0	141.7
Contribution into BHP Billiton supported charities	55.0	83.0	100.0
Total social investment	178.7	225.0	241.7

⁽¹⁾ Includes BHP Billiton's equity share for both operated and non-operated joint venture operations.

BHP Billiton supported charities

BHP Billiton Sustainable Communities (UK-based) and the BHP Billiton Foundation (US-based) are two charities that contribute to improving the quality of life for people living in regions and countries where we have a business interest and in other regions of the world, as each charity may independently select. These two charities provide grants to organisations, enabling them to deliver large-scale, long-term social and environmental development projects. Our contribution to the BHP Billiton Foundation complements the local community development work undertaken by our assets.

At the end of FY2016, BHP Billiton Sustainable Communities had a total of US\$60.4 million, and the BHP Billiton Foundation had a total of US\$277.5 million, in funds available for future sustainable development projects.

Working with Indigenous peoples

As the majority of our assets are located on or near Indigenous peoples' lands, Indigenous peoples are critical partners for BHP Billiton around the world.

Our approach to engaging with Indigenous peoples is articulated in the BHP Billiton Indigenous Peoples Policy Statement. In our Policy Statement, we commit to the International Council on Mining and Metals (ICMM) Indigenous Peoples and Mining Position Statement.

In FY2016, we developed a global BHP Billiton Indigenous Peoples Strategy to guide effective implementation of our Indigenous Peoples Policy Statement across our businesses. Through successful implementation of this

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strategy, we aim to be regarded as a partner of choice for Indigenous peoples through which we will respect their rights and seek to ensure our relationships contribute to their economic empowerment, social development needs and cultural wellbeing.

Realising and respecting human rights

Respect for human rights is critical to the sustainability of our business. We take our human rights obligations seriously. We demonstrate this by committing to operate in a manner consistent with the United Nations (UN) Universal Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights and the 10 UN Global Compact principles.

Our human rights commitments outlined in our *Code of Business Conduct* are operationalised through mandatory human rights performance requirements for each of our operated assets reflected in *Our Requirements* standards.

Each of our operated assets assigns accountability for compliance with *Our Requirements for Human Rights* standard to appropriate senior managers and leaders. We obtain assurance of compliance with our human rights commitments through internal audits of operational compliance with relevant *Our Requirements* standards.

Governance oversight of BHP Billiton human rights performance is the responsibility of the Board's Sustainability Committee as part of its mandate for monitoring HSEC-related performance.

Ok Tedi

BHP Billiton exited from Ok Tedi Mining Limited (OTML) in February 2002. The exit arrangements included the transfer of BHP Billiton's shares in OTML to PNG Sustainable Development Program Limited (PNGSDP) and a statutory undertaking protecting BHP Billiton from environmental claims by the PNG Government. In September 2013, the Papua New Guinea (PNG) Parliament passed laws which compulsorily acquired PNGSDP's shares in OTML and changed other aspects of the exit arrangements, including the repeal of the protection from environmental claims by the PNG Government.

PNGSDP is challenging the validity of actions taken by the PNG Government to compulsorily acquire its OTML shares and to restructure and obtain control of PNGSDP. BHP Billiton retains an indemnity from PNGSDP in respect of environmental claims by the PNG Government and certain environmental claims by third parties. This indemnity is secured against certain key assets of PNGSDP. BHP Billiton remains committed to ensuring that the substantial long-term fund held by PNGSDP remains well governed for the benefit of the people of Papua New Guinea, and the Western Province in particular.

1.11.6 Environment

Using responsible and sustainable environmental practices

Our operations can have significant environmental impacts. Additionally, our operations and growth strategy are dependent on obtaining and maintaining access to environmental resources. We are committed to our environmental obligations, as detailed in *Our Requirements for Environment and Climate* standard.

Environmental incidents

Environmental incidents have the potential to generate long-lasting physical, socio-economic and psycho-social impacts. We seek to avoid environmental incidents by identifying risks with potential environmental impacts and applying preventative controls, including implementing the mitigation hierarchy. In addition, all our operated assets are required to maintain emergency response plans as mitigating controls to minimise the potential severity of impacts should an incident occur.

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While no significant environmental incidents occurred at any BHP Billiton-operated assets in FY2016, we deeply regret the significant environmental impacts of the dam failure at Samarco, our non-operated joint venture in Brazil.

Biodiversity and land management

Across our organisation, we hold ourselves to account through targets for biodiversity conservation and land management. In FY2016, each of our operated assets achieved their specific targets for land and biodiversity management planning, while at a wider company level, our conservation target has seen us contribute more than US\$27.5 million to the conservation and ongoing management of nationally and internationally significant areas of high biodiversity and ecosystem value since FY2013.

Around our operated assets, we have made the following commitments:

to not explore or extract resources within the boundaries of World Heritage-listed properties;

to not explore or extract resources adjacent to World Heritage-listed properties (unless our activity is compatible with the property's outstanding universal values);

to not explore or extract resources within the boundaries of the International Union for Conservation and Nature (IUCN) Protected Areas Categories I to IV, unless we can implement a plan that meets regulatory requirements, takes into account stakeholder expectations and contributes to the values for which the protected area is listed;

to not operate where we could directly impact ecosystems resulting in the extinction of an IUCN Red List Threatened Species in the wild;

to not dispose of mined waste rock or tailings into a river or marine environment.

Rehabilitating land no longer required for our activities is integral to managing our impacts on land and biodiversity. Our operated assets are required to maintain rehabilitation plans that support life of asset and closure plans. This includes rehabilitating disturbed areas consistent with the pre-disturbance land use or an alternate use, taking into account regulatory requirements and stakeholder expectations.

Managing water responsibly

The sustainability of our assets relies on our ability to obtain an appropriate quality and quantity of water, use it responsibly and manage it appropriately, including taking account of natural supply variations. With assets located across the world, the water-related risks and impacts experienced by our assets vary from region to region. We therefore assess and manage our water-related risks on a regional basis.

All our operated assets are required to maintain quantitative water balance models that predict and support the management of water inputs, use and outputs, consistent with business strategies and plans and facilitate timely management responses to water-related risks. Where possible, we seek to use lower-quality or recycled water to minimise extraction requirements from higher-quality water resources.

We report our water use, consistent with the Input Output model of the Minerals Council of Australia Water Accounting Framework. Under this Framework, water is categorised as Type 1 (close to drinking water standards), Type 2 (suitable for some purposes) and Type 3 (unsuitable for most purposes).

Our total water input (water intended for use) in FY2016 was 282,800 megalitres with 88 per cent defined as Type 2 or Type 3. This demonstrates our approach to utilising lower-quality water wherever feasible.

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1.12 Overview of assets and Marketing

1.12.1 Minerals Australia

The Minerals Australia asset group includes operated assets in Western Australia, Queensland, New South Wales and South Australia. Our assets focus on copper, iron ore, coal and nickel.

Copper asset

Olympic Dam

Olympic Dam is one of the world's largest ore bodies. Located 560 kilometres north of Adelaide, it is one of the world's largest deposits of copper, gold and uranium and it also has a significant deposit of silver. Olympic Dam operates a fully integrated processing facility from ore to metal.

Olympic Dam's underground mine is made up of more than 450 kilometres of underground roads and tunnels, with a mine depth of 860 metres. The operation extracts copper uranium ore, with the ore hauled by automated train to feed underground crushing, storage and ore hoisting facilities.

Olympic Dam's processing plant consists of two grinding circuits in which high-quality copper concentrate is extracted from sulphide ore through a flotation extraction process. The operation includes a fully integrated metallurgical complex with a grinding and concentrating circuit, a hydrometallurgical plant incorporating solvent extraction circuits for copper and uranium, a copper smelter, a copper refinery and a recovery circuit for precious metals.

Olympic Dam produced 203 kilotonnes (kt) of copper cathode, 4.4 kt of uranium oxide, 118 thousand-ounces (koz) of refined gold and 917 koz of refined silver in FY2016.

The Brownfield Expansion (BFX) project at Olympic Dam, which is part of the staged expansion approach to approximately 280 ktpa, is now at concept study phase. We continue to receive encouraging results from the heap leach trials which would enable growth beyond this to 450 ktpa of copper.

Refer to section 6.1 for additional information on mining operations, section 6.2.1 for production information and section 6.3.2 for the reserve life.

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Iron ore asset

Western Australia Iron Ore

Western Australia Iron Ore (WAIO) is an integrated system of four processing hubs and five mines, connected by more than 1,000 kilometres of rail infrastructure and port facilities in the Pilbara region of northern Western Australia.

WAIO's Pilbara reserve base is relatively concentrated, allowing development to be planned around integrated mining hubs joined to the mines and satellite orebodies by conveyors or spur lines. This approach enables the value of installed infrastructure to be maximised by using the same processing plant and rail infrastructure for a number of orebodies.

At each mining hub – Newman, Yandi, Mining Area C and Jumblebar – ore from mines is crushed, beneficiated (where necessary) and blended to create high-grade hematite lump and fines products. Iron ore products are then transported along the Port Hedland-Newman Rail Line to the Finucane Island and Nelson Point port facilities at Port Hedland.

The port facilities include five ore car dumpers, three lump rescreening plants, eight stackers, five reclaimers, stock and blending yards, and eight ship loaders. Vessels depart the harbour via a dredged channel that is approximately 43 kilometres long and has an average width of 300 metres.

The Integrated Remote Operations Centre (IROC), located in Perth, monitors and operates the entire supply chain providing a real-time view of operations. IROC co-locates rail control, port production control, mine dispatch control and mine fixed plant control.

WAIO produced 257 million tonnes (Mt) on a 100 per cent basis (222 Mt BHP Billiton share) for FY2016. A continued focus on productivity and the ramp-up of additional capacity at the Jumblebar mining hub will deliver an increase in system capacity to 290 Mt in FY2019.

Production at the Yarrie mine in the northern Pilbara has been suspended since 25 February 2014, following improved productivity at our other mining operations.

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There are four main WAIO joint ventures (JVs): Mt Newman, Yandi, Mt Goldsworthy and Jimblebar. BHP Billiton's interest in the joint ventures is 85 per cent, with Mitsui and ITOCHU owning the remaining 15 per cent. The joint ventures are unincorporated, except Jimblebar.

WAIO, along with Mitsui and ITOCHU, have entered into joint venture agreements with some customers which involve the sublet of part of WAIO's existing mineral leases: JW4, Wheelarra and Posmac. The ore is sold to the main joint ventures with contractual terms applying to the customers' share. WAIO is entitled to 85 per cent of production from these subleases.

All ore is transported by rail on the Mt Newman JV and Mt Goldsworthy JV rail lines to our port facilities. WAIO's port facilities at Nelson Point are owned by the Mt Newman JV, and Finucane Island is owned by the Mt Goldsworthy JV.

Refer to section 1.14.3 for information on our capital projects and exploration activities. Refer to section 6.1 for additional information on mining operations, section 6.2.1 for production information and section 6.3.2 for the reserve lives.

Coal assets

Our coal assets in Australia consist of both open-cut and underground mines. At open-cut mines, overburden is removed after blasting, using either draglines or truck and shovel. Coal is then extracted using excavators or loaders and loaded onto trucks to be taken to stockpiles or directly to a beneficiation facility. At our underground mine, coal is extracted by either longwall or continuous miner. The coal is then transported to stockpiles on the surface by conveyor. Coal from stockpiles is then crushed, and for a number of the operations, washed and processed through the coal preparation plant. Domestic coal is transported to nearby customers via conveyor or rail. Export coal is transported to the port via trains or trucks, and as part of this coal supply chain both single and multi-user rail and port infrastructure is used.

Queensland Coal

Queensland Coal comprises the BHP Billiton Mitsubishi Alliance (BMA) and BHP Billiton Mitsui Coal (BMC) assets in the Bowen Basin in Central Queensland, Australia.

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The Bowen Basin's high-quality metallurgical coals are ideally suited to efficient blast furnace operations. The area's proximity to Asian customers means it is well positioned to supply the seaborne market.

Queensland Coal has access to key infrastructure in the Bowen Basin, including a modern, multi-user rail network and its own coal-loading terminal at Hay Point, located near the city of Mackay. Queensland Coal also has contracted capacity at three other multi-user port facilities, including the Port of Gladstone (RG Tanna Coal Terminal), Dalrymple Bay Coal Terminal and Abbot Point Coal Terminal.

BHP Billiton Mitsubishi Alliance (BMA)

BMA is Australia's largest coal producer and supplier of seaborne metallurgical coal. BMA is owned 50:50 by BHP Billiton and Mitsubishi Development.

BMA operates seven Bowen Basin mines (Goonyella Riverside, Broadmeadow, Daunia, Peak Downs, Saraji, Blackwater and Caval Ridge) and owns and operates the Hay Point Coal Terminal near Mackay. With the exception of the Broadmeadow underground longwall operation, BMA's mines are open-cut, using dragline and truck and shovel fleets for overburden removal.

The Crinum underground mine ceased production in the December 2015 quarter. The mine is now under care and maintenance.

BMA's share of total metallurgical coal production in FY2016 was 33.4 Mt.

BHP Billiton Mitsui Coal (BMC)

BMC owns and operates two open-cut metallurgical coal mines in the Bowen Basin – South Walker Creek Mine and Poitrel Mine. BMC is owned by BHP Billiton (80 per cent) and Mitsui and Co (20 per cent).

South Walker Creek Mine is located on the eastern flank of the Bowen Basin, 35 kilometres west of the town of Nebo and 132 kilometres west of the Hay Point port facilities. Poitrel Mine is situated southeast of the town of Moranbah and began open-cut operations in October 2006.

BMC's share of total metallurgical coal production in FY2016 was 8.9 Mt.

New South Wales Energy Coal

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New South Wales Energy Coal consists of the Mt Arthur Coal open-cut energy coal mine in the Hunter Valley region of New South Wales, Australia. The site produces coal for domestic and international customers in the energy sector.

New South Wales Energy Coal produced 17.1 Mt in FY2016.

IndoMet Coal (Indonesia)

For more information on IndoMet Coal, refer to section 1.14.4.

Refer to section 1.14.4 for information on our capital projects. Refer to section 6.1 for additional information on mining operations, section 6.2.1 for production information and section 6.3.2 for the reserve lives.

Nickel West

Nickel West is a fully integrated mine-to-market nickel business. All nickel operations (mines, concentrators, a smelter and refinery) are located in Western Australia.

The integrated business adds value throughout our nickel supply chain, with the majority of Nickel West's production sold as briquettes.

Low-grade disseminated sulphide ore is mined from Mt Keith, a large open-pit operation. The ore is crushed and processed on-site to produce nickel concentrate.

High-grade nickel sulphide ore is mined at Cliffs and Leinster underground mines and Rocky's Reward open-pit mine. The ore is processed through a concentrator and dryer at Leinster.

Nickel West's concentrator plant in Kambalda processes ore and concentrate purchased from third parties.

The three streams of nickel concentrate come together at the Nickel West Kalgoorlie smelter, a vital part of our integrated business. The smelter uses a flash furnace to smelt more than 650 ktpa of concentrate to produce nickel matte.

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Nickel West Kwinana refines granulated nickel matte from the Kalgoorlie smelter into nickel powder and premium-grade nickel metal briquettes containing over 99 per cent nickel.

Nickel matte and metal are exported to overseas markets via the Port of Fremantle.

Refer to section 6.1 for additional information on mining operations, section 6.2.1 for production information and section 6.3.2 for the reserve lives.

1.12.2 Minerals Americas

The Minerals Americas asset group includes projects, operated and non-operated assets in Canada, Chile, Peru, United States, Colombia and Brazil. Our assets and projects focus on copper, zinc, iron ore, coal and potash.

Copper assets

Our copper assets in the Americas (Chile and Peru) consist of open-cut mines. At these mines, overburden is removed after blasting, using a truck and shovel. Ore is then extracted and further processed into high-quality copper concentrate or cathode. Copper concentrate is obtained through a grinding and flotation process, while copper cathode is produced from a leaching, solvent extraction and electrowinning process. Copper concentrate is transported to ports via pipeline, while cathode is transported by either rail or road where it is exported to our customers around the world.

Escondida (Chile)

BHP Billiton owns 57.5 per cent of, and operates, the Escondida mine which is a leading producer of copper. Escondida, located in the Atacama Desert in northern Chile, is a copper porphyry deposit that also produces gold and silver. Its two open-cut pits currently feed two concentrator plants which use grinding and flotation technologies to produce copper concentrate, as well as two leaching operations (oxide and sulphide).

The Escondida Organic Growth Project 1 (OGP1) is a recently commissioned concentrator with a nominal capacity of 152 ktpd. Following the successful commissioning and ramp-up of the OGP1 concentrator, the Los Colorados concentrator was placed on care and maintenance in the March 2016 quarter.

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Total Escondida production in FY2016 was 649 kt of payable copper in concentrate, 330 kt of copper cathode, 108,996 troy oz of payable gold in concentrate and 5,561 troy koz of payable silver in concentrate. Escondida achieved record material mined in FY2016, averaging 1.2 Mt of material per day.

Escondida celebrated 25 years of operation during FY2016, having processed more than two billion tonnes of ore through leaching (solvent extraction and electrowinning) and flotation.

Pampa Norte (Chile)

Pampa Norte consists of two wholly owned operations in the Atacama Desert in northern Chile – Spence and Cerro Colorado. During FY2016, Spence and Cerro Colorado produced 174 kt and 77 kt, respectively, of high-quality copper cathode, using oxide and sulphide ore treatment through leaching, solvent extraction and electrowinning processes.

During FY2016, the Regional Environmental Committee of the Tarapacá Region approved the extension of operational permits for Cerro Colorado until 2023, enabling further potential to be realised.

Antamina (Peru)

BHP Billiton owns 33.75 per cent of Antamina, a large, low-cost copper and zinc mine in north central Peru. Our share of Antamina's total production for FY2016 was 146 kt of copper concentrate and 55 kt of zinc concentrate. Antamina by-products include molybdenum and lead/bismuth concentrate and small amounts of silver.

Antamina continues to study options to debottleneck the operation and increase throughput.

Refer to section 1.14.2 for information on our capital projects and exploration activities. Refer to section 6.1 for additional information on mining operations, section 6.2.1 for production information and section 6.3.2 for the reserve lives.

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Iron ore asset

Samarco (Brazil)

Each of BHP Billiton Brasil and Vale holds a 50 per cent shareholding in the Samarco Mineração S.A. (Samarco), which operates the Samarco iron ore operation in Brazil. As a result of the tragic dam failure at Samarco in November 2015, operations at Samarco are currently suspended. For further information on the Samarco dam failure, refer to section 1.4. Samarco comprises a mine and three concentrators located in the state of Minas Gerais, and four pellet plants and a port located in Anchieta in the state of Espírito Santo. Three 400-kilometre pipelines connect the mine site to the pelletising facilities.

Samarco's main product is iron ore pellets. Prior to the suspension of operations, the extraction and beneficiation of iron ore were conducted at the Germano facilities in the municipalities of Mariana and Ouro Preto. Conveyor systems were used to extract the ore and convey it from the mines. Ore beneficiation then occurred in concentrators, where crushing, milling, desliming and flotation processes produced iron concentrate. The concentrate leaves the concentrators as slurry and is pumped through the slurry pipelines from the Germano facilities to the pellet plants in Ubu, Anchieta, where the slurry is processed into pellets. The iron ore pellets are then heat treated. The pellet output is stored in a stockpile yard before being shipped out of the Samarco-owned Port of Ubu in Anchieta.

Samarco is currently seeking the necessary approvals to restart operations at reduced capacity and use mining pits for safe tailings storage while a longer-term solution is sought. Restart is not expected to occur before CY2017.

In FY2016, our share of production was 5.2 Mt of pellets.

Refer to section 6.1 for additional information on mining operations, section 6.2.1 for production information and section 6.3.2 for the reserve life.

Coal assets

Our coal assets in the Americas (Colombia and the United States) consist of open-cut mines. At these mines, overburden is removed after blasting, using either draglines or truck and shovel. Coal is then extracted using

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excavators or loaders, and loaded onto trucks to be taken to stockpiles or directly to our beneficiation facility. Coal from stockpiles is crushed, of which a certain portion is washed and processed through the coal preparation plant. Domestic coal is transported to nearby customers via conveyor. Export coal is transported to the port via trains.

New Mexico Coal (United States)

New Mexico Coal consists of the Navajo mine, which is located on Navajo Nation land in the US state of New Mexico. Full ownership of the Navajo Coal Company was transferred to the Navajo Transitional Energy Company (NTEC), an entity of the Navajo Nation, effective 30 December 2013.

New Mexico Coal and NTEC entered into a Mine Management Agreement whereby New Mexico Coal will continue as mine operator. The sale of the Navajo mine was completed in July 2016; however, BHP Billiton will continue to manage and operate the mine until the Mine Management Agreement ends on 31 December 2016.

Navajo mine transports its production directly to the nearby Four Corners Power Plant. Production for FY2016 was 4 Mt.

The nearby San Juan energy coal mine is also located in New Mexico and was divested during FY2016. The sale of the San Juan energy coal mine to Westmoreland Coal Company was completed on 31 January 2016. Production to 31 January 2016 was 3.1 Mt.

Cerrejón (Colombia)

BHP Billiton has a one-third interest in Cerrejón, which owns, operates and markets one of the world's largest open-cut export energy coal mines, located in the La Guajira province of Colombia. Cerrejón also owns and operates integrated rail and port facilities through which the majority of production is exported to European, Asian, North and South American customers.

In FY2016, our share of production was approximately 10.1 Mt.

Refer to section 6.1 for additional information on mining operations, section 6.2.1 for production information and section 6.3.2 for the reserve lives.

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Potash

Jansen Potash Project

Potash is a potassium rich salt, deposited millions of years ago when vast inland seas dried up. It is mainly used as fertiliser to improve the quality and yield of agricultural production. We believe demand will continue to grow with an increasing global population and improving incomes in emerging economies. Increasing urbanisation, more people and better diets demand sufficient food supply rich in protein that must be sourced from decreasing arable land per capita. Potash provides us with long-term growth and diversification benefits beyond our current portfolio, with a geographically diverse demand and customer base.

Our potash investment is consistent with our strategy to own and operate large, expandable assets that deliver value. Potash provides BHP Billiton with long-term growth and diversification benefits – supplying markets with the raw materials needed to meet the food needs of larger, more affluent populations transitioning from agrarian societies to cities.

Jansen Potash Project

BHP Billiton holds mineral rights in the province of Saskatchewan, Canada. We believe Jansen is one of the world's best undeveloped potash projects. Our footprint is substantial and we believe we have an ideal position within this basin. The Jansen Potash Project is about 140 kilometres east of Saskatoon. Using our technological expertise, we are focused on ensuring the preparatory work of sinking the shafts and preparing the mine is done safely and efficiently. Building a potash mine can present a number of opportunities and challenges. For example, the shafts need to reach about one kilometre underground and they need to be lined to ensure that water, which dissolves potash, does not flow into the mine.

Jansen is capable of supporting a mine with an annual capacity of approximately 10 Mt for up to 50 years, which means we are well positioned to help supply the future agricultural production demands needed to feed a growing world population.

The current work progressing at Jansen is the excavation and lining of two shafts (service and production), which are located 300 metres apart.

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Project work has focused on de-risking shaft excavation over the last two years by introducing specialised boring machines that reduce the safety risk associated with shaft construction. We progressed both shafts in FY2016 well beyond the Blairmore formation, which lies about 450 metres below the surface and contains a major aquifer about 100 metres thick.

Jansen is in the studies phase. Construction beyond the current scope of work remains subject to Board approval.

Our opportunity

Our investment in Jansen presents an opportunity to develop a multi-decade, multi-mine business in Saskatchewan, a fifth major commodity offering for BHP Billiton.

We announced in August 2013 an additional US\$2.6 billion investment in Jansen, bringing total approved spending to US\$3.8 billion. This investment is funding the excavation and lining of the production and service shafts as well as the installation of essential surface infrastructure and utilities. The scope of work was 60 per cent complete as of 30 June 2016.

Capital expenditure in the Jansen Potash Project in FY2016 was US\$189 million.

Laying the foundation to meet expected future demand

We believe in the long-term market fundamentals for potash. Our commitment is to unlock value and to do so we also need to consider the market environment. On the basis of our current projections and subject to Board approval, Jansen could be in a position to ramp-up production in the decade beginning 2020.

1.12.3 Petroleum

Our Petroleum unit comprises conventional and unconventional oil and gas operations, and includes exploration, development and production activities. We have a high-quality resource base concentrated in the United States and Australia. Our core production operations consist of conventional assets located in the US Gulf of Mexico, Australia and Trinidad and Tobago and unconventional Onshore US assets. We produce crude oil and condensate, gas and natural gas liquids (NGLs) that are sold on the international spot market or delivered domestically under contracts with varying terms, depending on the location of the asset.

Operating assets

Our conventional and unconventional oil and gas assets are outlined below.

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United States

Gulf of Mexico

We operate two fields in the Gulf of Mexico – Shenzi (44 per cent interest) and Neptune (35 per cent interest).

We hold non-operating interests in three other fields – Atlantis (44 per cent interest), Mad Dog (23.9 per cent interest) and Genesis (4.95 per cent interest).

All of BHP Billiton’s producing fields are located between 155 and 210 kilometres offshore from the US state of Louisiana. We also own 25 per cent and 22 per cent, respectively, of the companies that own and operate the Caesar oil pipeline and the Cleopatra gas pipeline. These pipelines transport oil and gas from the Green Canyon area, where our Gulf of Mexico fields are located, to connecting pipelines that transport product onshore.

Our share of production in FY2016 was 37.0 million barrels of oil equivalent (MMboe), up from 36.6 MMboe in FY2015.

Onshore US

We hold more than 838,000 net acres in four prolific US shale areas – Eagle Ford, Permian, Haynesville and Fayetteville – where we produce oil, condensate, gas and NGLs. The Black Hawk area of Eagle Ford and the Permian area are two of our largest liquids-focused field developments.

Onshore US prices for oil, condensate, NGLs and gas are based on US regional price indices, including West Texas Intermediate prices for condensate, relevant published US regional gas indices for natural gas and Mont Belvieu prices for NGLs.

Our share of production in FY2016 was 108.9 MMboe, down from 125.7 MMboe in FY2015.

Eagle Ford

We are one of the largest producers in the liquids-focused Eagle Ford shale. Our Eagle Ford area (approximately 252,000 net acres) consists of Black Hawk and Hawkville fields with production operations located primarily in the southern Texas counties of DeWitt, Karnes, McMullen and LaSalle. We produce condensate, gas and NGLs

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from the two fields. The condensate and gas produced are sold domestically in the United States via connections to intrastate and interstate pipelines, and internationally through the export of processed condensate. The Eagle Ford gathering system consists of approximately 1,600 kilometres of pipelines that deliver volumes to five central delivery points (CDPs), from which volumes are processed and transported to market. Our average net working interest is approximately 64 per cent. We acted as joint venture operator for approximately 39 per cent of our gross wells.

Permian

The Permian production operation is located primarily in the western Texas county of Reeves and consists of approximately 93,000 net acres. We produce oil, condensate, gas and NGLs. The condensate and gas are sold domestically in the United States via connections to intrastate and interstate pipelines. Our average net working interest is approximately 91 per cent. We acted as joint venture operator for approximately 91 per cent of our gross wells. Permian has 45 kilometres of water pipelines and a gathering system that consists of 165 kilometres of gas pipelines that deliver volumes to third party CDPs, from where processed volumes are transported to market.

Haynesville

The Haynesville production operation is located primarily in northern Louisiana and consists of 206,000 net acres. We produce gas that is sold domestically in the United States via connections to intrastate and interstate pipelines. Our average net working interest is approximately 37 per cent. We acted as joint venture operator for approximately 35 per cent of our gross wells.

Fayetteville

The Fayetteville production operation is located in north central Arkansas and consists of 287,000 net acres. We produce gas that is sold domestically in the United States via connections to intrastate and interstate pipelines. Our average net working interest is approximately 22 per cent. We acted as joint venture operator for approximately 20 per cent of our gross wells. The Fayetteville gathering system consists of approximately 760 kilometres of pipelines that deliver volumes to multiple compressor stations where processed volumes are transported to market.

Australia

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Bass Strait

In 1965, we, along with our 50-50 joint venture partner and operator, Esso Australia (a subsidiary of ExxonMobil), through the Gippsland Basin joint venture, participated in the original discovery of hydrocarbons. We have produced oil and gas from Bass Strait over the past 40 years. The Bass Strait operations are located between 25 and 80 kilometres off the southeastern coast of Australia.

We sell the majority of our Bass Strait crude oil and condensate production to refineries along the east coast of Australia under spot and 12-month contracts with occasional export cargos. The contract price is based on the average Dated Brent crude oil price marker. Gas is piped onshore to the joint venture's Longford processing facility, from where we sell our share of production to domestic retailers and end users under contracts with periodic price reviews. Liquefied petroleum gas (LPG) is dispatched via pipeline, road tanker or sea tanker. Ethane is dispatched via pipeline to a petrochemical plant in western Melbourne.

Our share of production in FY2016 was 35.3 MMboe, up from 31.2 MMboe in FY2015.

North West Shelf

We are a joint venture participant in the North West Shelf Project, located approximately 125 kilometres northwest of Dampier in Western Australia. The North West Shelf Project supplies gas to the Western Australian domestic market, mainly under long-term contracts and liquefied natural gas (LNG) to buyers primarily in Japan, South Korea and China under a series of long-term contracts.

North West Shelf gas is piped from offshore fields to the onshore Karratha Gas Plant for processing. LPG, condensate and LNG are transported to market by ship, while domestic gas is transported by the Dampier-to-Bunbury and Pilbara Energy pipelines to buyers. We are also a joint venture partner in four nearby oil fields – Cossack, Wanaea, Lambert and Hermes. All North West Shelf gas and oil joint ventures are operated by Woodside.

Our share of production in FY2016 was 27.5 MMboe, down from 28.7 MMboe in FY2015.

Pyrenees

We operate six oil fields in Pyrenees which are located offshore approximately 23 kilometres northwest of Northwest Cape, Western Australia. We had an effective 62 per cent interest in the fields as at 30 June 2016, based on inception-to-date production from two permits in which we have interests of 71.43 per cent and 40 per cent, respectively. The development uses a floating, production, storage and off-take (FPSO) facility. The crude oil produced is sold internationally on the spot market.

Our share of production in FY2016 was 8.6 MMboe, up from 7.2 MMboe in FY2015.

Macedon

We are the operator of Macedon (71.43 per cent interest), an offshore gas field located approximately 75 kilometres west of Onslow, Western Australia and an onshore gas processing facility, located approximately 17 kilometres southwest of Onslow. The operation achieved first gas in August 2013 and consists of four subsea wells, with gas piped onshore to the processing plant. After processing, the gas is delivered into a pipeline and sold into the Western Australian domestic market under long-term and spot contracts.

Our share of production in FY2016 was 8.5 MMboe, up from 6.8 MMboe in FY2015.

Minerva

We are the operator of Minerva (90 per cent interest), a gas field located 11 kilometres south-southwest of Port Campbell in western Victoria. The operation consists of two subsea wells, with gas piped onshore to a processing plant. After processing, the gas is delivered into a pipeline and sold domestically under long-term contracts.

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Our share of production in FY2016 was 2.3 MMboe, down from 3.1 MMboe in FY2015.

Other production operations

Trinidad and Tobago

We operate the Greater Angostura field (45 per cent interest in the production sharing contract), an integrated oil and gas development located offshore 40 kilometres east of Trinidad. The crude oil is sold on a spot basis to international markets, while the gas is sold domestically under term contracts.

Our share of production in FY2016 was 5.9 MMboe, down from 6.7 MMboe in FY2015.

Algeria

Our Algerian operations comprise an effective 38 per cent interest in the ROD Integrated Development, which consists of six satellite oil fields that pump oil back to a dedicated processing train. The oil is sold on a spot basis to international markets. Our interest in ROD is subject to a contractual determination with our joint venture partner ENI, which could result in a future change in our interest under certain conditions.

Our share of production in FY2016 was 3.7 MMboe, down from 3.9 MMboe in FY2015.

United Kingdom

We hold a 16 per cent non-operating interest in the Bruce oil and gas field in the North Sea and a 31.83 per cent non-operating interest in the Keith oil and gas field, a subsea tie-back. Operatorship of the Keith field was transferred to BP on 31 July 2015. Oil and gas from both fields are processed via the Bruce platform facilities.

Our share of production in FY2016 was 1.0 MMboe, down from 1.1 MMboe in FY2015.

Pakistan

We divested our interest in the Zamzama joint venture gas project in the Sindh province of Pakistan (38.5 per cent interest) on 31 December 2015 to Tri-Resources. We were the operator of that joint venture.

Our share of production in FY2016 was 2.5 MMboe, down from 4.0 MMboe in FY2015.

Refer to section 1.14.1 for information on our capital projects and exploration activities. Refer to section 6.1 for information on mining operations, section 6.2.2 for production information and section 6.3.1 for oil and gas reserves.

1.12.4 Marketing

Marketing is an independent core business of BHP Billiton. It is the link between BHP Billiton's global operations and our global customers.

It's how we take our iron ore mined in Australia and sell it to customers in China to make steel. It's how we connect a fabricator in Japan with copper cathode from our Chilean operations and how we pump oil in the Gulf of Mexico to

fuel US transport.

Our objectives

Marketing is critical to ensuring we receive full value when selling our commodities. It has accountability for:

securing sales of BHP Billiton products and managing associated risks;

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purchasing raw materials that are used by our assets;

managing the supply chains from resources to markets;

effective governance of credit, market and price risk management;

supporting strategic decision-making by analysing commodity markets and providing insights.

Our Marketing business adds value by understanding our customers' needs and connecting them with the right product, working with the assets to maximise the value of upstream resources, optimising freight and distribution costs and ensuring the Company-wide view of commodity markets is well informed and insightful. This allows the assets to focus on safety, production and cost, while Marketing focuses on optimising realised prices and sales outcomes.

A simple, centralised organisation co-located with key markets

Our Marketing businesses are strategically located in close proximity to our customers. Singapore is our primary Marketing business, reflecting the fact that about 72 per cent of our sales are in Asia. Our other major Marketing business is located in Houston, United States. More than half of our oil and gas sales are to customers in North America.

The Marketing business incorporates all the functions required to manage sales and distribution from our assets to our customers. In addition, we have regional marketers located close to our customers in eight other cities across the world.

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BHP Billiton Marketing businesses strategically located close to our customers

Marketing is organised into two trading and marketing units (TMUs) aligned to our major asset groups Minerals Australia, Minerals America and Petroleum. Our TMUs have specialist expertise in their respective areas. Being co-located with customers allows us to:

develop and maintain strong relationships with our customers;

participate in technical collaboration with customers to better understand how our products perform in a customer's production process;

adopt tailored strategies for each product and market.

With our centralised model, we present one face to markets and customers across multiple assets and optimise BHP Billiton's sales positions. The centralised model allows us to rapidly replicate best practice and share market insights across commodity teams. It also ensures effective governance and risk management.

Optimising the cost of freight and distribution

BHP Billiton is one of the largest global shippers of bulk commodities.

The objective of the freight business is to create a competitive advantage through the procurement of safe, sustainable shipping solutions, using the highest quality freight service providers and ship owners. The scope and scale of our commodity portfolio enable us to pursue this objective by:

providing us with a strong voice in driving improvement in industry safety standards;

minimising freight costs through arbitrage and optimising positions, including through moving physical tonnages between markets, maximising tonnages for both inbound and outbound journeys.

Developing market insight to inform strategic decision-making

BHP Billiton's market insight is enhanced by the Company's proximity to customers and the flow of information through the centralised structure, with a network of key analysts in China, India and the United States. Marketing analyses the fundamentals of demand and incorporates views on supply to inform our long-run outlook of commodity markets. We consider various global scenarios in our modelling and regularly monitor evolving trends in the market to ensure we have an in-depth understanding. Our holistic approach to analysis ensures that we have integrated views across commodities, taking into account global and regional economic drivers.

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Our commodity price forecasts support asset and portfolio investment decisions, strategic planning and capital management. Marketing's outlook on the global economy, the resource industry and each of the commodities in our portfolio also serves to inform broader organisational priorities, such as our position on climate change.

1.13 Summary of financial performance**1.13.1 Group overview**

Our selected financial information reflects the operations of the BHP Billiton Group and should be read in conjunction with the FY2016 Financial Statements, together with the accompanying notes.

We prepare our Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board and as outlined in the Financial Statements in this Annual Report. We publish our Consolidated Financial Statements in US dollars.

Comparative financial information for FY2014, FY2013 and FY2012 has been restated for the effects of the application of IFRS 5/AASB 5 Non-current Assets Held for Sale and Discontinued Operations following the demerger of South32 in FY2015, unless otherwise noted. Consolidated Balance Sheet information for these periods is not required to be, and has not been, restated. All Consolidated Income Statement, Consolidated Balance Sheet and Consolidated Cash Flow Statement information below has been derived from audited Financial Statements, except the previously published FY2012 restated data which was not required to be, and was not, subject to audit. For more information, refer to section 5.

Information in this section has been presented on a Continuing operations basis to exclude the contribution from assets that were demerged with South32, unless otherwise noted. Details of the contribution of the South32 assets to the Group's results are disclosed in note 26 Discontinued operations to the Financial Statements.

Year ended 30 June

US\$M	2016	2015	2014	2013	2012
Consolidated Income Statement (section 5.1.1)					
Revenue	30,912	44,636	56,762	53,860	56,642
(Loss)/profit from operations	(6,235)	8,670	22,649	21,977	22,602
(Loss)/profit after taxation from Continuing operations	(6,207)	4,390	14,955	14,132	15,233
(Loss)/profit after taxation from Discontinued operations		(1,512)	269	(1,312)	1,384
(Loss)/profit after taxation from Continuing and Discontinued operations attributable to owners of BHP Billiton Group (attributable (loss)/profit) ⁽¹⁾	(6,385)	1,910	13,832	11,223	15,473
Dividends per ordinary share paid during the period (US cents)	78.0	124.0	118.0	114.0	110.0
Dividends per ordinary share determined in respect of the period (US cents)	30.0	124.0	121.0	116.0	112.0
Basic (loss)/earnings per ordinary share (US cents) ^{(1) (2)}	(120.0)	35.9	260.0	210.9	290.7
Diluted (loss)/earnings per ordinary share (US cents) ^{(1) (2)}	(120.0)	35.8	259.1	210.2	289.4
Basic (loss)/earnings from Continuing operations per ordinary share (US cents) ⁽²⁾	(120.0)	65.5	256.5	238.6	265.3
	(120.0)	65.3	255.7	237.8	264.1

Diluted (loss)/earnings from Continuing operations per ordinary share (US cents) ⁽²⁾

Number of ordinary shares (million)					
At period end	5,324	5,324	5,348	5,348	5,348
Weighted average	5,322	5,318	5,321	5,322	5,323
Diluted	5,322	5,333	5,338	5,340	5,346

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US\$M	2016	2015	2014	2013	2012
Consolidated Balance Sheet (section 5.1.3) ⁽³⁾					
Total assets	118,953	124,580	151,413	139,178	129,201
Net assets	60,071	70,545	85,382	75,291	69,315
Share capital (including share premium)	2,761	2,761	2,773	2,773	2,773
Total equity attributable to owners of BHP Billiton Group	54,290	64,768	79,143	70,667	65,526
Other financial information					
Underlying attributable profit ⁽⁴⁾	1,215	6,417	13,263	12,017	15,928
Underlying EBITDA ⁽⁴⁾	12,340	21,852	30,292	28,109	31,554
Underlying EBIT ⁽⁴⁾	3,469	11,866	22,098	21,680	25,948
Underlying basic earnings per share (US cents) ⁽⁴⁾	22.8	120.7	249.3	225.8	299.2
Capital and exploration expenditure (Cash basis) ⁽⁵⁾	7,711	12,763	16,210	22,425	21,130
Capital and exploration expenditure (BHP Billiton share) ⁽⁵⁾	6,396	11,040	14,608	21,422	19,793
Net debt	26,102	24,417	25,786	27,510	22,208
Net operating cash flows ⁽⁶⁾	10,625	19,296	25,364	20,154	25,259

- (1) Includes (Loss)/profit after taxation from Discontinued operations attributable to owners of the BHP Billiton Group.
- (2) For more information on earnings per share, refer to note 6 Earnings per share to the Financial Statements.
- (3) The Consolidated Balance Sheet for FY2015 does not include the assets and liabilities demerged with South32. IFRS 5/AASB 5 Non-current Assets Held for Sale and Discontinued Operations does not require the Consolidated Balance Sheet to be restated for comparative periods.
- (4) Underlying attributable profit, Underlying EBITDA, Underlying EBIT and Underlying basic earnings per share are non-IFRS financial measures that we use to reflect the underlying performance of BHP Billiton. Underlying attributable profit is attributable (loss)/profit excluding Discontinued operations and any exceptional items and Underlying basic earnings per share is Underlying attributable profit per basic share. Underlying EBITDA is earnings before net finance costs, depreciation, amortisation and impairments, taxation expense, Discontinued operations and any exceptional items. Underlying EBIT is Underlying EBITDA, including depreciation, amortisation and impairments. We believe that these non-IFRS measures provide useful information, but should not be considered as an indication of, or as an alternative to attributable (loss)/profit as an indicator of actual operating performance or as an alternative to cash flow as a measure of liquidity. Underlying EBITDA and Underlying EBIT are included in the FY2016 Consolidated Financial Statements as required by IFRS 8 Operating Segments. For a reconciliation of Underlying attributable profit to attributable (loss)/profit and of Underlying EBITDA to (Loss)/profit after taxation from Continuing operations for FY2016, FY2015 and FY2014, refer to section 1.13.2.
- (5)

Cash basis capital and exploration expenditure represents purchases of property, plant and equipment plus exploration expenditure from the Consolidated Cash Flow Statement. BHP Billiton share capital and exploration expenditure represents Cash basis , plus BHP Billiton s share of equity accounted investments capital and exploration expenditure, less capitalised deferred stripping and non-controlling interests. FY2012 capital and exploration expenditure Cash basis and BHP Billiton share includes capital and exploration expenditure from Discontinued operations.

- (6) Net operating cash flows are after dividends received, net interest and taxation and include Net operating cash flows from Discontinued operations.

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Non-IFRS measures

We use a number of non-IFRS measures to assess our performance. Non-IFRS measures include:

Underlying attributable profit comprises (Loss)/profit after taxation attributable to owners of the BHP Billiton Group less exceptional items as described in note 2 Exceptional items to the Financial Statements and excludes Discontinued operations. Underlying attributable profit is the key performance indicator against which short-term incentive outcomes for our senior executives are measured and, in our view, is a relevant measure to assess the financial performance of the Company for this purpose. In past periods, we have reported attributable (loss)/profit as a key performance indicator.

Underlying basic earnings per share represents Underlying attributable profit per basic share.

Adjusted effective tax rate comprises Total taxation benefit/(expense) excluding exceptional items, Discontinued operations and exchange rate movements included in taxation benefit/(expense) divided by (Loss)/profit before taxation and exceptional items. Management believes this measure provides useful information regarding the tax impacts from underlying operations.

Underlying EBITDA is earnings before net finance costs, depreciation, amortisation and impairments, taxation expense, Discontinued operations and any exceptional items. Underlying EBITDA includes BHP Billiton's share of (loss)/profit from investments accounted for using the equity method, including net finance costs, depreciation, amortisation and impairments and taxation expense. Management believes focusing on Underlying EBITDA more closely reflects the operating cash generative capacity and hence the underlying performance of our business. In past periods, we have reported Underlying EBIT as a key non-IFRS measure of operating results.

Underlying EBIT is Underlying EBITDA, including depreciation, amortisation and impairments.

Controllable cash costs comprises operating cash costs and exploration and business development costs and excludes Discontinued operations. Management believes this measure provides useful information regarding the Company's financial performance because it considers these expenses to be the principal operating and overhead expenses that are most directly under the Company's control.

Underlying EBITDA margin comprises Underlying EBITDA, excluding third party product Underlying EBITDA, divided by revenue excluding third party product revenue.

Net operating assets represents operating assets net of operating liabilities, including the carrying value of equity accounted investments and predominantly excludes cash balances, loans to associates, Interest bearing liabilities and deferred tax balances. The carrying value of investments accounted for using the equity accounted method represents the balance of the Group's investment in equity accounted investments, with no adjustment for any cash

balances, interest bearing liabilities and deferred tax balances of the equity accounted investment. Management believes this measure provides useful information by isolating the net operating assets of the business from the financing and tax balances which, in combination with our other measures, provides a meaningful indicator of underlying performance.

We believe that these non-IFRS measures provide useful information, but should not be considered as an indication of, or as an alternative to, comparable IFRS measures.

Other financial measures

We use a number of other financial measures (each of which is calculated by reference to IFRS measures) to assess our performance. Such other financial measures include:

Free cash flow comprises Net operating cash flows less Net investing cash flows and excludes Discontinued operations.

Gearing ratio represents the ratio of net debt to net debt plus Net assets.

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Net debt comprises Interest bearing liabilities less Cash and cash equivalents for the total operations within the Group at the reporting date.

For our Financial Statements, refer to section 5.

Financial results for year ended 30 June 2016 compared with year ended 30 June 2015

The following table provides a summary of the Consolidated Income Statement contained in section 5.1.1:

Year ended 30 June	2016 US\$M	2015 US\$M	2014 US\$M
Revenue ⁽¹⁾			
Petroleum	6,894	11,447	14,833
Copper	8,249	11,453	12,789
Iron Ore	10,538	14,753	21,356
Coal	4,518	5,885	6,563
Group and unallocated items/eliminations ⁽²⁾	713	1,098	1,221
Total revenue	30,912	44,636	56,762
Other income	444	496	1,225
Employee benefits expense	(3,702)	(4,971)	(5,413)
Raw materials and consumables used	(4,063)	(4,667)	(5,540)
Freight and transportation	(2,226)	(2,644)	(3,119)
External services	(4,984)	(6,284)	(6,780)
Third party commodity purchases	(1,013)	(1,165)	(1,702)
Net foreign exchange gains/(losses)	153	469	(168)
Government royalties paid and payable	(1,349)	(1,708)	(2,412)
Depreciation and amortisation expense	(8,661)	(9,158)	(7,716)
Exploration and evaluation expenditure incurred and expensed in the current period	(430)	(670)	(698)
Impairment of assets	(7,394)	(4,024)	(478)
Operating lease rentals	(528)	(636)	(665)
All other operating expenses	(1,290)	(1,552)	(1,832)
Total expenses excluding net finance costs	(35,487)	(37,010)	(36,523)
(Loss)/profit from equity accounted investments, related impairments and expenses	(2,104)	548	1,185
(Loss)/profit from operations	(6,235)	8,670	22,649
Net finance costs	(1,024)	(614)	(914)
Total taxation benefit/(expense)	1,052	(3,666)	(6,780)
(Loss)/profit after taxation from Continuing operations	(6,207)	4,390	14,955
(Loss)/profit after taxation from Discontinued operations		(1,512)	269
(Loss)/profit after taxation from Continuing and Discontinued operations	(6,207)	2,878	15,224
Attributable to non-controlling interests	178	968	1,392
Attributable to owners of BHP Billiton Group	(6,385)	1,910	13,832

- (1) Includes the sale of third party products and excludes revenue from investments accounted for using the equity method.

- (2) Group and unallocated items includes functions, other unallocated operations, including Potash (previously disclosed in the former Petroleum and Potash reportable segment), Nickel West and consolidated adjustments. Revenue not attributable to reportable segments comprises the sale of freight and fuel to third parties, as well as revenues from unallocated operations.

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Revenue of US\$30.9 billion reduced by US\$13.7 billion, or 31 per cent, from US\$44.6 billion in FY2015. This decrease was primarily attributable to weaker average realised prices across all major commodities. For a discussion of the average realised prices of our commodities, refer to section 1.8.1. Lower volumes during the year, particularly for copper at Escondida (due to anticipated grade decline) and Onshore US (deferral of development activity for value), also contributed to the decline in revenue. For production results from our operations during the periods, refer to section 6.2.

Total expenses of US\$35.5 billion reduced by US\$1.5 billion, or four per cent, from US\$37.0 billion in FY2015. This was due to a US\$1.3 billion reduction in Employee benefits expense related to lower headcount, a US\$1.3 billion reduction in External services related to lower contractor expenditure and a US\$604 million reduction in Raw materials and consumables used due to lower fuel and energy costs.

Depreciation and amortisation expense declined by US\$497 million due to a reduction in the depreciable asset base at Onshore US due to impairments previously recorded. Impairment of assets of US\$7.4 billion in FY2016 primarily relates to Onshore US assets.

(Loss)/profit from operations of US\$(6.2) billion reduced by US\$14.9 billion from FY2015 primarily as a result of a significant decline in commodity prices, the impairment of the Onshore US assets and the financial impacts of the Samarco dam failure (refer to section 1.13.2), partially offset by the cost reductions described above.

Net finance costs of US\$1.0 billion increased by US\$410 million, or 67 per cent, from US\$614 million in FY2015 due to the issue of multi-currency hybrid notes during FY2016 (refer to section 1.13.3 and note 19 Net debt to the Financial Statements), higher benchmark interest rates and a gain on the early redemption of the Petrohawk Energy Corporation Senior Notes in FY2015.

The Group's statutory effective tax rate for FY2016 presents as nil (FY2015: 45.5 per cent) because we recognised a total taxation benefit of US\$1.1 billion (including government imposed royalty-related taxation calculated by reference to profits), and a loss before taxation for the period of US\$7.3 billion. The Group's adjusted effective tax rate was 35.8 per cent (FY2015: 31.8 per cent). The increase in the Group's adjusted effective tax rate in FY2016 reflects the relative higher proportion of profit from Australian petroleum assets (which are subject to a higher rate of tax due to the Petroleum Resource Rent Tax) in the Group's overall profit compared to FY2015.

The adjusted effective tax rate is reconciled to the statutory effective tax rate in the table below:

Year ended 30 June	2016			2015		
	(Loss)/profit before taxation		Income tax benefit/(expense)	(Loss)/profit before taxation		Income tax benefit/(expense)
	US\$M	US\$M	%	US\$M	US\$M	%
Statutory effective tax rate	(7,259)	1,052		8,056	(3,666)	45.5%
Adjusted for:						
Exchange rate movements		125			339	
Exceptional items	9,704	(2,053)		3,196	(250)	
Adjusted effective tax rate	2,445	(876)	35.8%	11,252	(3,577)	31.8%

Government royalties paid and payable which are not profit based are recognised as operating costs within (Loss)/profit before taxation. These amounted to US\$1.3 billion during the period (FY2015: US\$1.7 billion).

Table of Contents***Financial results for the year ended 30 June 2015 compared with year ended 30 June 2014***

Revenue of US\$44.6 billion reduced by US\$12.2 billion, or 21 per cent, from US\$56.8 billion in FY2014. The decrease was primarily attributable to weaker average realised prices across all major commodities, which more than offset additional revenue attributable to increased volumes during the year.

Other income of US\$496 million reduced by US\$729 million from US\$1.2 billion in FY2014, mainly due to the gain on sale for the Pinto Valley mining operation of US\$551 million recognised in FY2014.

Total expenses of US\$37.0 billion increased by US\$487 million, or one per cent, from US\$36.5 billion in FY2014. The increase was due to a US\$3.5 billion increase in impairments and US\$1.4 billion increase in depreciation and amortisation. Impairment of assets in FY2015 mainly related to Onshore US assets (US\$2.8 billion) and Nickel West assets (US\$409 million). This increase more than offset the reduction in operating costs across the Group.

Reductions in operating expenses included a US\$873 million reduction in Raw materials and consumables used due to lower fuel and energy costs, a US\$704 million reduction in Government royalties paid and payable in line with lower revenue, a US\$637 million favourable exchange rate movement (including a favourable restatement of monetary items in the balance sheet) and a US\$537 million reduction in Third party commodity purchases primarily at Petroleum. Further reductions included a US\$496 million reduction in External services, US\$475 million reduction in Freight and transportation and US\$442 million reduction in Employee benefits expense.

(Loss)/profit from operations of US\$8.7 billion reduced by US\$13.9 billion from FY2014 primarily as a result of a significant decline in commodity prices and impairments of Onshore US and Nickel West assets, partially offset by the reductions in operating costs described above.

Net finance costs of US\$614 million decreased by US\$300 million, or 33 per cent, from US\$914 million in FY2014 due to foreign exchange gains on finance leases and the early redemption of the Petrohawk Energy Corporation Senior Notes in August 2014, which resulted in a gain on redemption and lower interest expense.

The Group's statutory effective tax rate for FY2015 was 45.5 per cent (FY2014: 31.2 per cent), due to the recognition of a total taxation expense of US\$3.7 billion (including government imposed royalty-related taxation calculated by reference to profits). The Group's adjusted effective tax rate was 31.8 per cent (FY2014: 32.2 per cent). An exceptional item of US\$698 million tax expense (2014: US\$ nil) was recognised on a Continuing operations basis for the derecognition of deferred taxes upon the repeal of the MRRT legislation in Australia.

The adjusted effective tax rate is reconciled to the statutory effective tax rate in the table below:

Year ended 30 June	2015			2014		
	(Loss)/profit before taxation	Income tax benefit/(expense)	%	(Loss)/profit before taxation	Income tax benefit/(expense)	%
	US\$M	US\$M		US\$M	US\$M	
Statutory effective tax rate	8,056	(3,666)	45.5%	21,735	(6,780)	31.2%
Adjusted for:						
Exchange rate movements		339			(34)	
Remeasurement of deferred tax assets associated with the					(170)	

MRRT

Exceptional items	3,196	(250)		(551)	166	
Adjusted effective tax rate	11,252	(3,577)	31.8%	21,184	(6,818)	32.2%

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Government royalties paid and payable which are not profit based are recognised as operating costs within (Loss)/profit before taxation. These amounted to US\$1.7 billion during the period (2014: US\$2.4 billion).

Discontinued operations

South32's contribution to BHP Billiton's FY2015 results comprised a US\$1.5 billion Loss after taxation. Details of the contribution of the South32 assets to the Group's results are disclosed in note 26 Discontinued operations to the Financial Statements.

Cash flow statement

The following table provides a summary of the Consolidated Cash Flow Statement contained in section 5.1.4 to show the key sources and uses of cash during the periods presented:

	2016	2015	2014
	US\$M	US\$M	US\$M
Year ended 30 June			
Cash generated from operations	12,671	21,620	29,318
Dividends received	301	740	1,264
Net interest paid	(702)	(541)	(795)
Taxation paid	(1,645)	(4,025)	(6,147)
Net operating cash flows from Continuing operations	10,625	17,794	23,640
Net operating cash flows from Discontinued operations		1,502	1,724
Net operating cash flows	10,625	19,296	25,364
Purchases of property plant and equipment	(6,946)	(11,947)	(15,224)
Exploration expenditure	(765)	(816)	(986)
Exploration expenditure expensed and included in operating cash flows	430	670	698
Net investment and funding of equity accounted investments	40	117	(29)
Other investing	(4)	474	407
Net investing cash flows from Continuing operations	(7,245)	(11,502)	(15,134)
Net investing cash flows from Discontinued operations		(1,066)	(700)
Cash disposed on demerger of South32		(586)	
Net investing cash flows	(7,245)	(13,154)	(15,834)
Net proceeds from/(repayment of) interest bearing liabilities	4,607	(728)	(1,011)
Contributions from non-controlling interests		53	1,435
Dividends paid	(4,130)	(6,498)	(6,387)
Dividends paid to non-controlling interests	(87)	(554)	(119)
Other financing activities	(106)	(346)	(354)

Net financing cash flows from Continuing operations	284	(8,073)	(6,436)
Net financing cash flows from Discontinued operations		(203)	(32)
Net financing cash flows	284	(8,276)	(6,468)
Net increase/(decrease) in cash and cash equivalents from Continuing operations	3,664	(1,781)	2,070
Net increase in cash and cash equivalents from Discontinued operations		233	992
Cash disposed on demerger of South32		(586)	

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Net operating cash flows after interest and tax of US\$10.6 billion reduced by US\$8.7 billion from FY2015. The major contributor was a US\$8.9 billion decrease in cash generated from operations (after changes in working capital balances), which was partially offset by a decrease of US\$2.4 billion in net taxes paid. Despite the significant decline in commodity prices, we generated US\$3.4 billion of free cash flow (net operating cash flows less net investing cash flows) during FY2016 due to a reduction in operating costs and a targeted reduction of working capital.

Net investing cash flows of US\$7.2 billion reduced by US\$5.9 billion from FY2015 due to a US\$5.1 billion reduction in capital and exploration expenditure. Exploration expenditure was US\$765 million, including US\$430 million classified within Net operating cash flows.

Net financing cash inflows of US\$284 million increased by US\$8.6 billion from outflows of US\$8.3 billion in FY2015, due to the issue of multi-currency hybrid notes during FY2016 (refer to section 1.13.3 and note 19 Net debt to the Financial Statements) and lower dividends paid in line with the new dividend policy.

Financial results for the year ended 30 June 2015 compared with year ended 30 June 2014

Net operating cash flows from Continuing operations after interest and tax of US\$17.8 billion reduced by US\$5.8 billion from FY2014. The major contributor was a US\$7.7 billion decrease in cash generated from operations (after changes in working capital balances), which was partially offset by a decrease of US\$2.1 billion in net taxes paid. Despite the significant decline in commodity prices, we generated US\$6.3 billion of free cash flow (net operating cash flows from Continuing operations less net investing cash flows from Continuing operations) during FY2015 as we further improved both operating and capital productivity.

Net investing cash flows from Continuing operations of US\$11.5 billion reduced by US\$3.6 billion from FY2014 due to a US\$3.4 billion reduction in capital and exploration expenditure. Exploration expenditure was US\$816 million, including US\$670 million classified within Net operating cash flows.

Net financing cash outflows from Continuing operations of US\$8.1 billion increased by US\$1.6 billion from FY2014, due to a decrease in contributions from non-controlling interests of US\$1.4 billion due to the equity proceeds received for the sale of 15 per cent interest in Jimblebar in July 2013 and higher dividends paid to non-controlling interests of US\$435 million.

Capital expenditure

Capital and exploration expenditure is disclosed for each segment in the table below:

	2016 US\$M	2015 US\$M Restated	2014 US\$M Restated
Year ended 30 June			
Capital and exploration expenditure ⁽¹⁾			
Petroleum ⁽²⁾	3,107	5,590	6,479
Copper	2,850	3,912	3,808
Iron Ore	1,153	2,048	3,118
Coal	316	749	2,000
Group and unallocated items ⁽²⁾	285	464	805

BHP Billiton Group	7,711	12,763	16,210
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- (1) Capital expenditure is presented on a cash basis; it excludes capitalised interest, but includes capitalised exploration. Exploration expenditure is capitalised in accordance with our accounting policies, as set out in note 10 Property, plant and equipment to the Financial Statements.
- (2) Group and unallocated items includes functions, other unallocated operations, including Potash (previously disclosed in the former Petroleum and Potash reportable segment), Nickel West and consolidation adjustments. Comparative information for FY2015 and FY2014 have been restated for the effects of the change in the reporting related to Potash.

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Capital expenditure encompasses expenditure on major projects, as set out in section 6.4, and capital expenditure on sustaining and other items.

Year ended 30 June	2016 US\$M	2015 US\$M	2014 US\$M
Capital expenditure	6,946	11,947	15,224
Exploration expenditure			
Petroleum	590	567	600
Minerals	175	249	386
Total exploration expenditure	765	816	986
Capital and exploration expenditure (cash basis)	7,711	12,763	16,210
Add: equity accounted investments	269	434	871
Less: capitalised deferred stripping ⁽¹⁾	(750)	(815)	(1,275)
Less: non-controlling interests	(834)	(1,342)	(1,198)
Capital and exploration expenditure (BHP Billiton share)	6,396	11,040	14,608

⁽¹⁾ Capitalised deferred stripping includes US\$183 million attributable to non-controlling interests in FY2016 (FY2015: US\$142 million; FY2014: US\$243 million).

BHP Billiton's share of capital and exploration expenditure declined by 42 per cent during FY2016 to US\$6.4 billion. On a cash basis, capital and exploration expenditure was US\$7.7 billion, a decrease of 40 per cent from FY2015. Our rate of investment is expected to decline to US\$5.4 billion on a cash basis and to US\$5.0 billion BHP Billiton's share in FY2017.

Financial results for the year ended 30 June 2015 compared with year ended 30 June 2014

BHP Billiton's share of capital and exploration expenditure declined by 24 per cent during FY2015 to US\$11.0 billion. On a cash basis, capital and exploration expenditure was US\$12.8 billion, a decrease of 21 per cent from FY2014.

1.13.2 Underlying financial measures

We use several financial measures to monitor the financial performance of our overall strategy. The two key non-IFRS measures are Underlying attributable profit and Underlying EBITDA. Underlying attributable profit is the key performance indicator against which short-term incentive outcomes for our senior executives are measured. Underlying EBITDA is the key non-IFRS measure that management uses internally to assess the performance of our segments and make decisions on the allocation of resources and, in our view is more relevant to capital intensive industries with long-life assets.

Underlying attributable profit

Underlying attributable profit of US\$1.2 billion decreased by US\$5.2 billion from FY2015 due to a significant decline in commodity prices.

Table of Contents***Underlying attributable profit for the year ended 30 June 2015 compared with year ended 30 June 2014***

Underlying attributable profit of US\$6.4 billion decreased by US\$6.8 billion from FY2014 due to a significant decline in commodity prices.

The following table reconciles Underlying attributable profit to Attributable (loss)/profit:

Year ended 30 June	2016 US\$M	2015 US\$M	2014 US\$M
Underlying attributable profit	1,215	6,417	13,263
Attributable loss – Discontinued operations		(1,573)	184
Exceptional items (after taxation)	(7,651)	(2,946)	385
Non-controlling interest in exceptional items ⁽¹⁾	51	12	
Attributable (loss)/profit	(6,385)	1,910	13,832

⁽¹⁾ Relates to non-controlling interest included in the impairment of Onshore US assets in FY2016.

Exceptional items

We exclude what we consider are exceptional items from Underlying attributable profit and Underlying EBITDA in order to enhance the comparability of such measures from period-to-period and provide clarity into the underlying performance of our operations.

The following table provides a summary of exceptional items for FY2016, which are discussed further below:

Year ended 30 June 2016	Gross US\$M	Tax US\$M	Net US\$M
Exceptional items by category			
Samarco dam failure	(2,450)	253	(2,197)
Impairment of Onshore US assets ⁽¹⁾	(7,184)	2,300	(4,884)
Global taxation matters	(70)	(500)	(570)
Total	(9,704)	2,053	(7,651)

⁽¹⁾ Includes amounts attributable to non-controlling interests of US\$(51) million after tax benefit.

Samarco Mineração S.A. (Samarco) dam failure

The exceptional loss of US\$2,450 million (before tax) related to the Samarco dam failure in November 2015 comprises the following:

Year ended 30 June 2016	US\$M
Share of loss relating to the Samarco dam failure	(655)
Impairment of the carrying value of the investment in Samarco	(525)
Samarco dam failure provision	(1,200)
Costs incurred directly by BHP Billiton in relation to the Samarco dam failure	(70)
Loss from equity accounted investments, related impairments and expenses ⁽¹⁾	(2,450)

- (1) BHP Billiton Brasil Ltda has adjusted its investment in Samarco to US\$ nil (resulting from US\$(655) million share of loss from Samarco and US\$(525) million impairment), recognised a provision of US\$(1,200) million for potential obligations under the Framework Agreement and together with other BHP Billiton entities incurred US\$(70) million of direct costs in relation to the Samarco dam failure. US\$(572) million of the US\$(1,200) million provision represents an additional share of loss from Samarco with the remaining US\$(628) million recognised as provision expense. Refer to note 3 Significant events Samarco dam failure to the Financial Statements.

Table of Contents**Impairment of Onshore US assets**

The Group recognised an impairment charge of US\$4.9 billion (after tax benefit) against the carrying value of its Onshore US assets in FY2016. The impairment reflects changes to price assumptions, discount rates and development plans. This follows significant volatility and much weaker prices experienced in the oil and gas industry, which have more than offset our substantial productivity improvements.

Global taxation matters

Global taxation matters include amounts provided for unresolved tax matters and other claims for which the timing of resolution and potential economic outflow are uncertain (refer to note 5 Income tax expense to the Financial Statements).

The following table provides a summary of exceptional items for FY2015, which are discussed further below:

Year ended 30 June 2015	Gross US\$M	Tax US\$M	Net US\$M
Exceptional items by category			
Impairment of Onshore US assets	(2,787)	829	(1,958)
Impairment of Nickel West assets	(409)	119	(290)
Repeal of Minerals Resource Rent Tax legislation ⁽¹⁾		(698)	(698)
Total	(3,196)	250	(2,946)

⁽¹⁾ Includes amounts attributable to non-controlling interests of US\$(12) million.

In FY2015, the Group recognised an impairment charge of US\$2.0 billion (after tax benefit) in relation to its Onshore US assets. The gas-focused Hawkville field accounts for the substantial majority of this charge reflecting its geological complexity, product mix, acreage relinquishments and amended development plans. The remainder relates to the impairment of goodwill associated with the Petrohawk acquisition.

The Group announced on 12 November 2014 that the review of its Nickel West business was complete and the preferred option, the sale of the business, was not achievable on an acceptable basis. As a result of operational decisions made subsequent to the conclusion of this process, an impairment charge of US\$290 million (after tax benefit) was recognised in FY2015.

The legislation to repeal the Minerals Resource Rent Tax (MRRT) in Australia took effect on 30 September 2014. As a result, the Group derecognised a MRRT deferred tax asset of US\$809 million and corresponding taxation charges of US\$698 million related to Continuing operations and US\$111 million related to Discontinued operations were recognised in FY2015.

The following table provides a summary of exceptional items for FY2014, which are discussed further below:

Year ended 30 June 2014	Gross US\$M	Tax US\$M	Net US\$M
Exceptional items by category			
Sale of Pinto Valley	551	(166)	385
Total	551	(166)	385

In FY2014, the Group announced on 11 October 2013 that it had completed the sale of its Pinto Valley mining operation for cash consideration of US\$653 million, after working capital adjustments. A gain on sale of US\$385 million (after tax expense) was recognised in FY2014.

Table of Contents**Underlying EBITDA**

Underlying EBITDA of US\$12.3 billion reduced by US\$9.5 billion from FY2015.

Underlying EBITDA for the year ended 30 June 2015 compared with year ended 30 June 2014

Underlying EBITDA of US\$21.9 billion reduced by US\$8.4 billion from FY2014.

The following table reconciles Underlying EBITDA to (Loss)/profit after taxation from Continuing operations:

	2016	2015	2014
Year ended 30 June	US\$M	US\$M	US\$M
Underlying EBITDA	12,340	21,852	30,292
Depreciation, amortisation and impairments ⁽¹⁾	(8,871)	(9,986)	(8,194)
Exceptional items (before taxation) ⁽¹⁾	(9,704)	(3,196)	551
(Loss)/profit from operations	(6,235)	8,670	22,649
Net finance costs	(1,024)	(614)	(914)
Total taxation benefit/(expense)	1,052	(3,666)	(6,780)
(Loss)/profit after taxation from Continuing operations	(6,207)	4,390	14,955

⁽¹⁾ Impairments that we classify as exceptional items are excluded from depreciation, amortisation and impairments. Depreciation, amortisation and impairments includes non-exceptional impairments of US\$210 million (FY2015: US\$828 million; FY2014: US\$478 million).

Group and segment level information is reported on a statutory basis in accordance with IFRS 8 Operating Segments. The following table provides a summary of Underlying EBITDA for our segments:

	2016	2015	2014
Year ended 30 June	US\$M	US\$M	US\$M
Underlying EBITDA		Restated	Restated
Petroleum ⁽¹⁾	3,658	7,201	9,826
Copper	2,619	5,205	6,127
Iron Ore	5,599	8,648	13,531
Coal	635	1,242	1,258
Group and unallocated items ⁽¹⁾	(171)	(444)	(450)
BHP Billiton Group	12,340	21,852	30,292

- (1) Group and unallocated items includes functions, other unallocated operations, including Potash (previously disclosed in the former Petroleum and Potash reportable segment), Nickel West and consolidated adjustments. Comparative information for FY2015 and FY2014 have been restated for the effects of the change in the reporting related to Potash.

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The following table describes the impact of the principal factors that affected Underlying EBITDA for FY2016 and relates them back to our statutory accounts:

	Revenue US\$M	Total expenses, other income and (Loss)/profit from equity accounted investments US\$M	(Loss)/profit from operations US\$M	Depreciation, amortisation and impairments and Exceptional Items US\$M	Underlying EBITDA US\$M
For the year ended 30 June 2015					
Revenue	44,636				
Other income		496			
Expenses excluding net finance costs		(37,010)			
(Loss)/profit from equity accounted investments, related impairments and expenses		548			
Total other income, expenses excluding net finance costs and (Loss)/profit from equity accounted investments, related impairments and expenses			(35,966)		
(Loss)/profit from operations			8,670		
Depreciation, amortisation and impairments ⁽¹⁾				9,986	
Exceptional items ⁽¹⁾ (refer to note 2 Exceptional items to the Financial Statements)				3,196	
Underlying EBITDA					21,852
Change in sales prices	(11,996)	690	(11,306)		(11,306)
Price-linked costs		592	592		592
Net price impact	(11,996)	1,282	(10,714)		(10,714)
Productivity volumes	(378)	(404)	(782)		(782)
Growth volumes	(568)	185	(383)		(383)
Changes in volumes	(946)	(219)	(1,165)		(1,165)
Operating cash costs		1,040	1,040		1,040
Exploration and business development		368	368		368
Change in controllable cash costs ⁽²⁾		1,408	1,408		1,408
Exchange rates	(142)	1,248	1,106		1,106

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Inflation on costs	(328)		(328)	(328)
Fuel and energy	248		248	248
Non-cash	196		196	196
One-off items	338		338	338
Change in other costs	(142)	1,702	1,560	1,560

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	Revenue US\$M	Total expenses, other income and (Loss)/profit from equity (Loss)/profit accounted investments US\$M	(Loss)/profit from operations US\$M	Depreciation, amortisation and impairments and Exceptional Items US\$M	Underlying EBITDA US\$M
Asset sales		25	25		25
Ceased and sold operations	(414)	157	(257)		(257)
Share of operating profit from equity accounted investments		(272)	(272)		(272)
Other	(226)	129	(97)		(97)
Depreciation, amortisation and impairments ⁽¹⁾		1,115	1,115	(1,115)	
Exceptional items ⁽¹⁾		(6,508)	(6,508)	6,508	
For the year ended 30 June 2016					
Revenue	30,912				
Other income		444			
Expenses excluding net finance costs		(35,487)			
(Loss)/profit from equity accounted investments, related impairments and expenses		(2,104)			
Total other income, expenses excluding net finance costs and (Loss)/profit from equity accounted investments, related impairments and expenses		(37,147)			
(Loss)/profit from operations			(6,235)		
Depreciation, amortisation and impairments ⁽¹⁾				8,871	
Exceptional items ⁽¹⁾ (refer to note 2 items to the Financial Statements)				9,704	
Underlying EBITDA					12,340

(1) Impairments that we classify as exceptional items are excluded from depreciation, amortisation and impairments. Depreciation, amortisation and impairments includes non-exceptional impairments of US\$210 million (FY2015: US\$828 million; FY2014: US\$478 million).

(2) Collectively we refer to the change in operating cash costs and change in exploration and business development as change in controllable cash costs. Operating cash costs by definition do not include non-cash costs. The change in operating cash costs also excludes the impact of exchange rates and inflation, changes in fuel and energy costs, changes in exploration and business development costs and one-off items. These items are excluded so as to provide a consistent measurement of changes in costs across all segments, based on the factors that are within the control and responsibility of the segment. Change in controllable cash costs and change in operating cash costs are not measures that are recognised by IFRS. They may differ from similarly titled measures reported by other

companies.

Principal factors affecting Underlying EBITDA

Lower average realised prices across our major commodities reduced Underlying EBITDA by US\$11.3 billion in FY2016, partially offset by a reduction in price-linked costs by US\$592 million reflecting lower royalty charges at Western Australia Iron Ore as a result of lower average realised prices.

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Anticipated grade decline of 28 per cent at Escondida was the major contributor to lower productivity-led volumes of US\$782 million in Underlying EBITDA. Deferral of development activity for value at Onshore US reduced gas volumes supporting a further volume-related decrease in Underlying EBITDA of US\$383 million.

Our focus on best-in-class performance underpinned a US\$1.0 billion reduction in operating cash costs during FY2016. Lower operating cash costs across the Group more than offset the impact of the drawdown of lower-grade inventory and grade decline at Escondida.

A stronger US dollar against the Australian dollar and Chilean peso increased Underlying EBITDA by US\$1.1 billion during the period.

Principal factors affecting Underlying EBITDA for the year ended 30 June 2015 compared with year ended 30 June 2014

Lower average realised prices reduced Underlying EBITDA by US\$16.4 billion in FY2015, partially offset by a reduction in price-linked costs of US\$1.2 billion reflecting lower royalty charges in our Iron Ore segment.

Productivity-led volume efficiencies and the ramp-up of major projects underpinned a US\$3.9 billion increase in Underlying EBITDA. Western Australia Iron Ore (WAIO) was the major contributor as the improved performance of our integrated supply chain and the ramp-up of the Jimblebar mining hub supported a US\$2.2 billion increase in Underlying EBITDA. A doubling of liquids production from both Black Hawk and Permian supported a further US\$1.1 billion volume-related increase in Petroleum's Underlying EBITDA.

Our focus on best-in-class performance underpinned a US\$2.7 billion reduction in operating cash costs during FY2015. A reduction in labour, contractor and maintenance costs increased Underlying EBITDA by US\$1.5 billion during the year. This was most evident in WAIO where the standardisation of our equipment and maintenance systems, and the insourcing of third party services facilitated a step change in the performance of our mining operations. Mining-related efficiencies contributed to a further US\$580 million reduction in cash costs and largely reflected improved productivity at Escondida.

A stronger US dollar increased Underlying EBITDA by US\$1.6 billion during the period. One-off items comprising a US\$268 million expense related to the mill outage at Olympic Dam and US\$188 million costs associated with the implementation of the Escondida Voluntary Redundancy Program decreased Underlying EBITDA. In addition, lower average realised prices received by our equity accounted investments further decreased Underlying EBITDA by US\$637 million.

The method of calculation of the factors that affected Underlying EBITDA are as follows:

Factor affecting Underlying EBITDA

Change in sales prices

Price-linked costs

Method of calculation

Change in average realised price for each operation from the corresponding period to the current period, multiplied by current period volumes.

Change in price-linked costs for each operation from the corresponding period to the current period, multiplied by current period volumes.

Productivity volumes

Change in volumes for each operation not included in the Growth category from the corresponding period to the current period, multiplied by the prior year Underlying EBITDA margin.

Table of Contents**Factor affecting Underlying EBITDA**

Growth volumes

Method of calculation

Volume Growth comprises Underlying EBITDA for operations that are new or acquired in the current period minus Underlying EBITDA for operations that are new or acquired in the corresponding period, change in volumes for operations identified as a Growth project from the corresponding period to the current period multiplied by the prior year Underlying EBITDA margin, and change in volume for our petroleum assets from the corresponding period to the current period multiplied by the prior year Underlying EBITDA margin.

Operating cash costs

Change in total costs, other than price-linked costs, exchange rates, inflation on costs, fuel and energy costs, non-cash costs and one-off items as defined below for each operation from the corresponding period to the current period.

Exploration and business development

Exploration and business development expense in the current period minus exploration and business development expense in the corresponding period.

Exchange rates

Change in exchange rate multiplied by current period local currency revenue and expenses. The majority of the Company's selling prices are denominated in US dollars and so there is little impact of exchange rate changes on Revenue.

Inflation on costs

Change in inflation rate applied to expenses, other than depreciation and amortisation, price-linked costs, exploration and business development expenses, expenses in ceased and sold operations and expenses in new and acquired operations.

Fuel and energy

Fuel and energy expense in the current period minus fuel and energy expense in the corresponding period.

Non-cash

Includes non-cash items mainly depletion of stripping capitalised.

One-off items

Change in costs exceeding a pre-determined threshold associated with an unexpected event that had not occurred in the last two years and is not reasonably likely to occur within the next two years.

Asset sales

Profit/loss on the sale of assets or operations in the current period minus profit/loss on sale in the corresponding period.

Ceased and sold operations

Underlying EBITDA for operations that ceased or were sold in the current period minus Underlying EBITDA for operations that ceased or were sold in the

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corresponding period.

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Share of operating profit from equity accounted investments

Other

Underlying EBITDA margin**Method of calculation**

Share of operating profit from equity accounted investments for the period minus share of operating profit from equity accounted investments in the corresponding period.

Variances not explained by the above factors.

We differentiate sales of our production from sales of third party products to better measure the operational profitability of our operations as a percentage of revenue. The table below shows the breakdown between our production and third party products, which is necessary for the calculation of the Underlying EBITDA margin:

Year ended 30 June ⁽¹⁾	2016 US\$M	2015 US\$M	2014 US\$M
Group production	29,844	43,457	55,045
Third party products	1,068	1,179	1,717
Revenue	30,912	44,636	56,762
Group production	12,285	21,838	30,277
Third party products	55	14	15
Underlying EBITDA	12,340	21,852	30,292
Underlying EBITDA Margin	41.2%	50.3%	55.0%
Margin on third party products ⁽²⁾	5.1%	1.2%	0.9%

(1) Excludes exceptional items.

(2) Underlying EBITDA third party products divided by Revenue third party products.

We engage in third party trading for the following reasons:

Production variability and occasional shortfalls from our assets means that we sometimes source third party materials to ensure a steady supply of product to our customers.

To optimise our supply chain outcomes, we may buy physical product from third parties.

To support the development of liquid markets, we will sometimes source third party physical product and manage risk through both the physical and financial markets.

Table of Contents**Net operating assets**

The following table reconciles Net operating assets for the Group to Net assets on the Consolidated Balance Sheet:

	2016	2015
	US\$M	US\$M
Year ended 30 June		Restated
Net operating assets		
Petroleum ⁽¹⁾	25,168	33,603
Copper	23,844	23,701
Iron Ore	20,541	23,954
Coal	10,651	11,769
Group and unallocated items ⁽¹⁾	2,723	2,717
BHP Billiton Group	82,927	95,744

Cash and cash equivalents