Financial Risk Management

Strategy Briefing – November 2001

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Agenda

- Introduction
- BHP Billiton Portfolio Model
- Financial Risk Management
- Strategy in Practice
- Future Direction
- Questions and Discussion

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BHP Billiton Portfolio Model

- Financial Market impacts are measured in a portfolio risk model

Financial Markets

- Commodities
- Currencies
- Capital Markets
  - Debt
  - Equity

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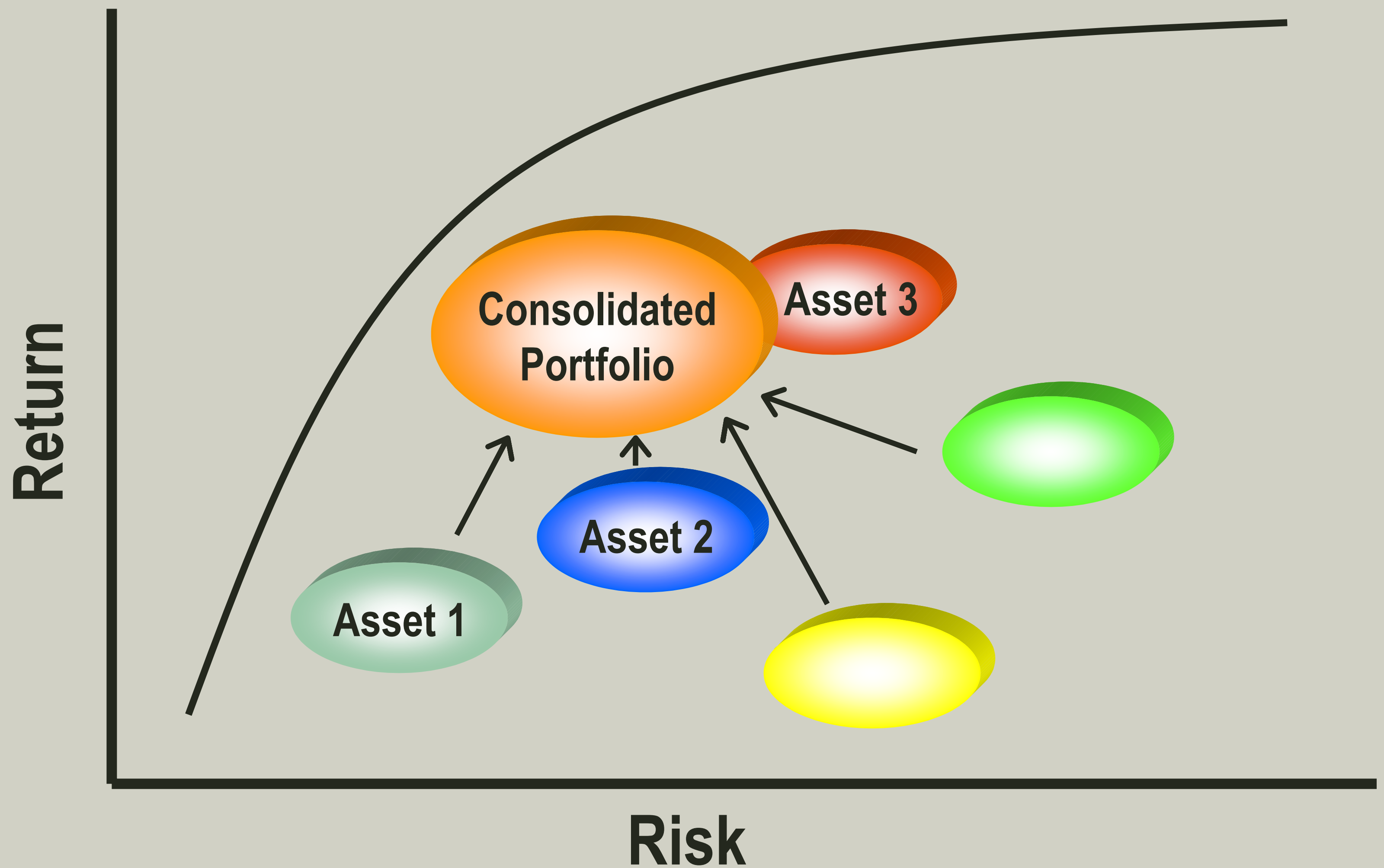
BHP Billiton Portfolio Model



BHP Billiton Portfolio Model

- BHP Billiton portfolio risk less than the “parts”

	BHP Billiton	Billiton	BHP
Ratio of Cashflow at Risk to Cashflow	19%	26%	25%

Analysis from the time of the Merger

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BHP Billiton Portfolio Model Summary

- BHP Billiton portfolio diversification reduces risk.
- Oil, Aluminium, Copper, Coal and Currency exposures dominate.
- New combined portfolio stronger than the “parts”.
- Steel spin-out improves portfolio risk profile – but small
- Petroleum’s diversification value in the portfolio demonstrated.

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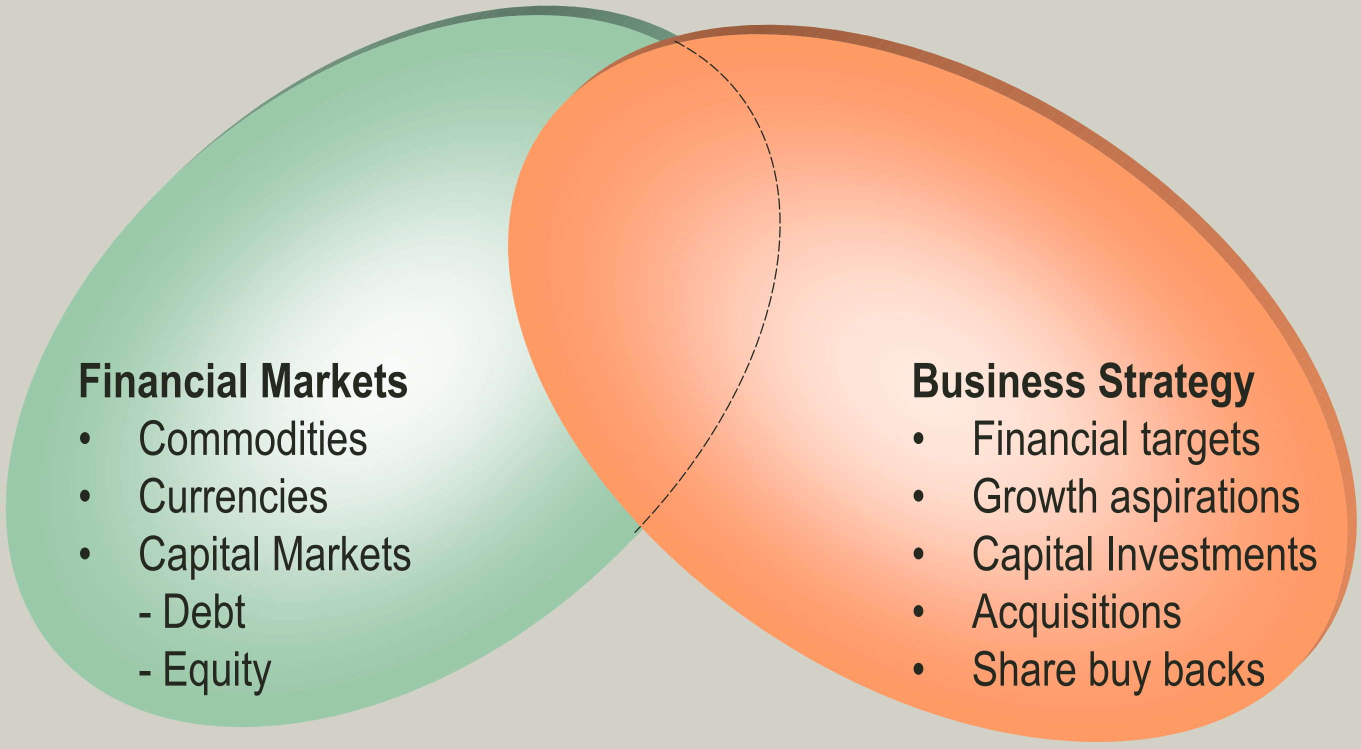
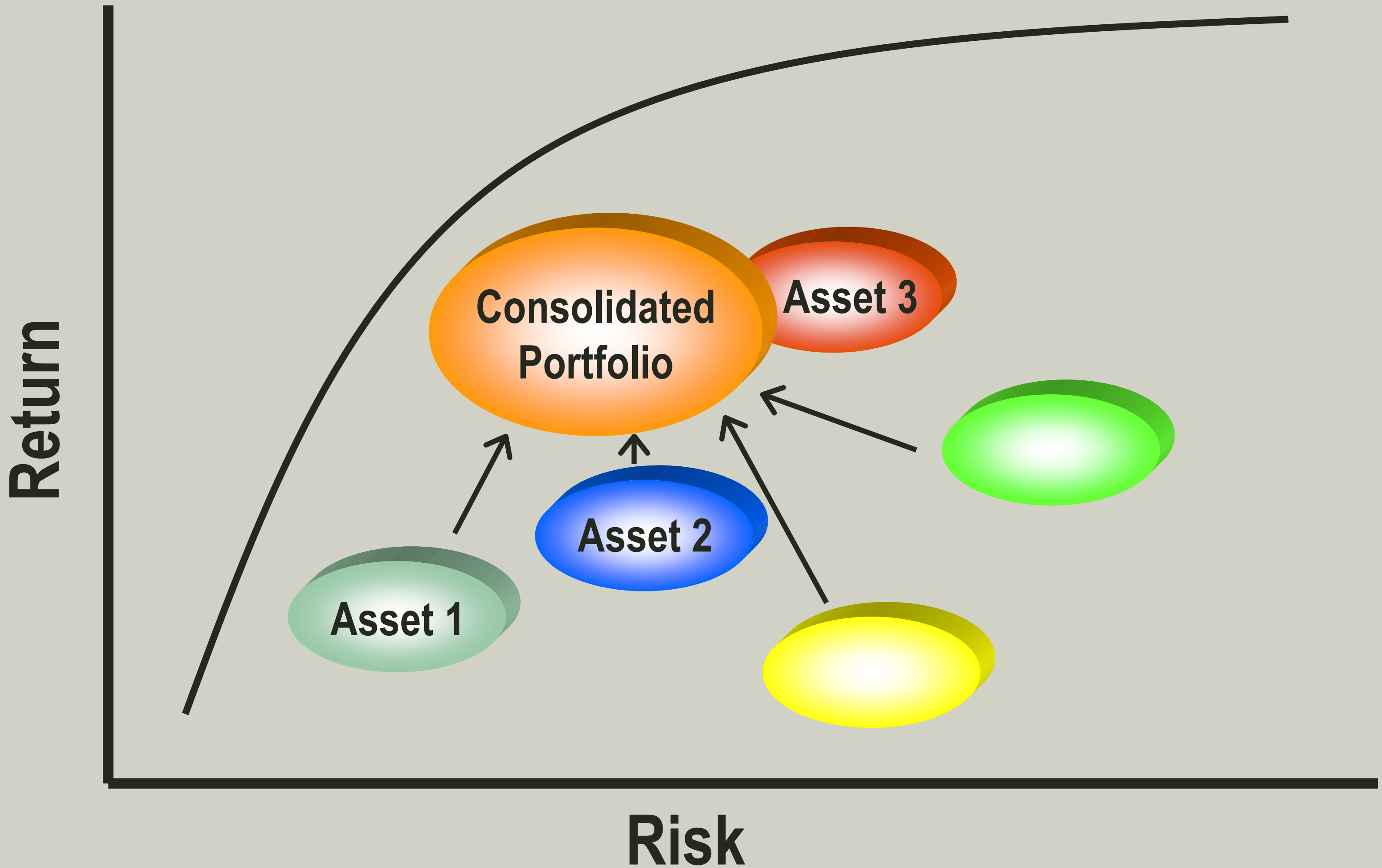
Financial Markets and Business Strategy

- Company risk profile is a function of business strategy and market environment



Financial Risk Management



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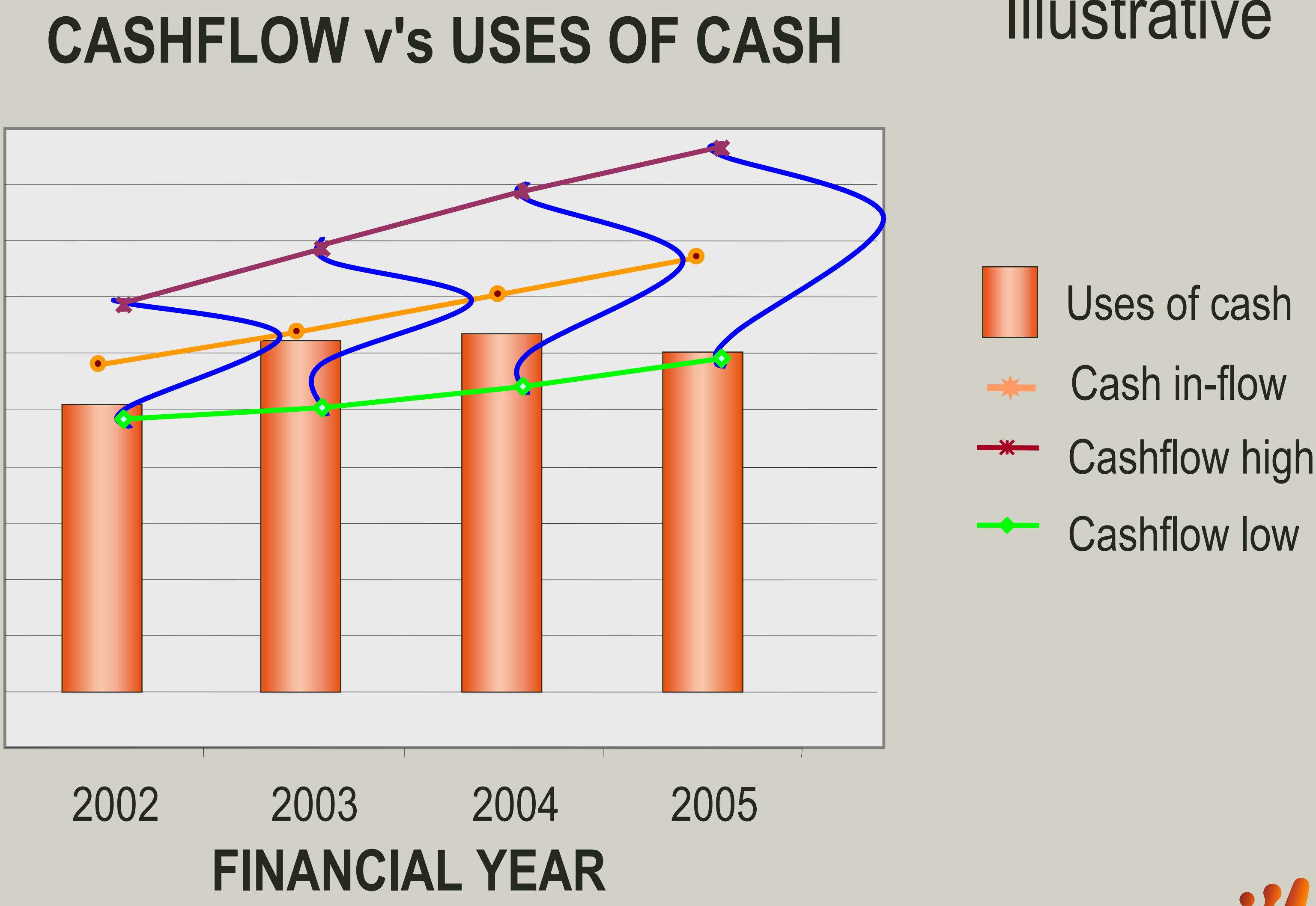
Too much Financial risk can threaten corporate objectives

Illustrative



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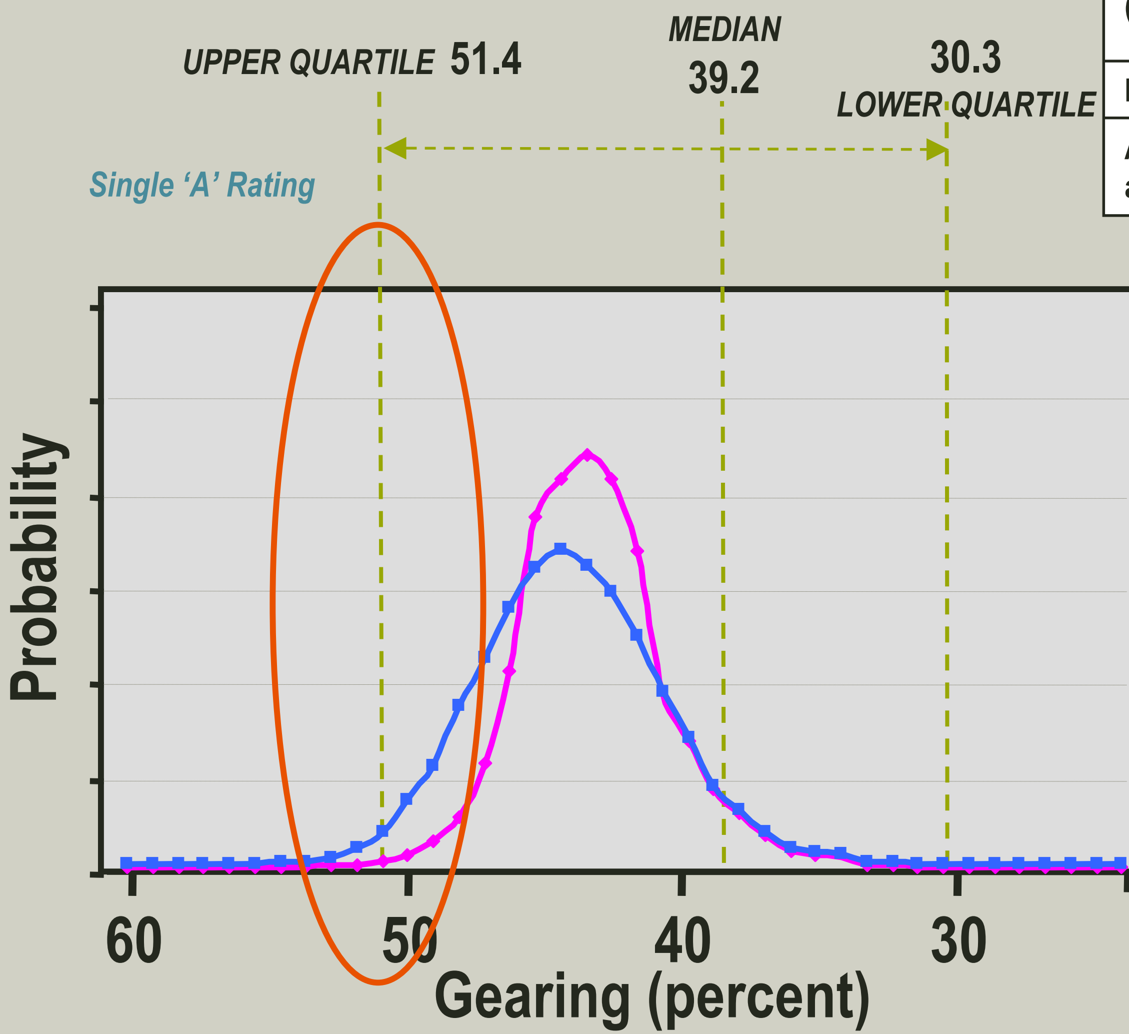
Financial Strength completes the picture

Financial Risk and Management Levers

Gearing distribution FY03 due to Market Risk



Prob. (Key ratio > 51.4%)		With whole of company risk
Base case	2%	5%
After management action	< 1%	3%

Possible Management Actions

- Discretionary CAPEX
- Acquisitions
- Exploration
- Funding requirements
- Dividend policy
- Share buy-backs
- Discretionary investments/distribution

Source: BHP Billiton analysis and Cashflow at Risk Model

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Financial Risk Management

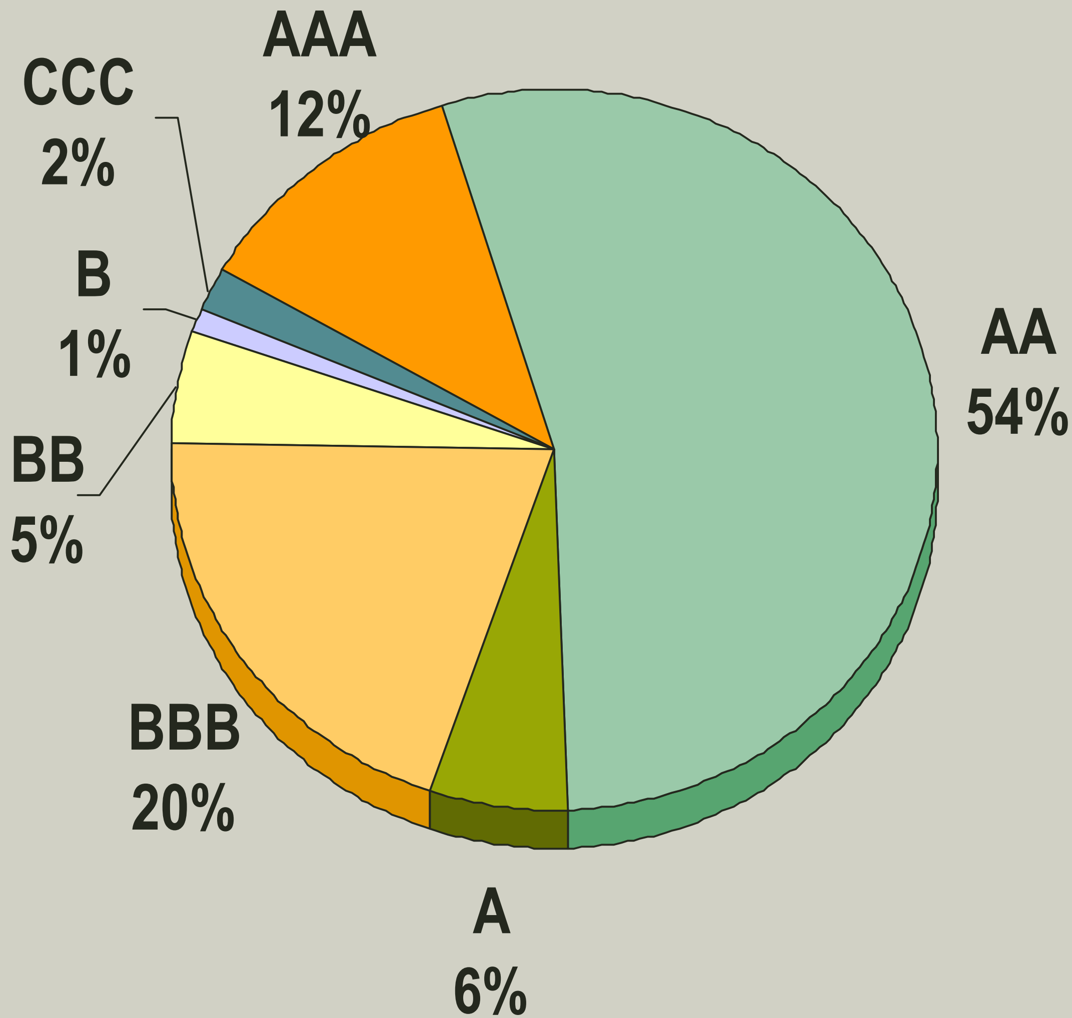
"Whole of Company Risk" for the new group:

Market risk	US$ 0.81 billion
Country risk event	US$ 0.25 billion

BHP Billiton has a diversified portfolio of country risk

Share of EBITDA by Major Credit Rating

FY 2002



Financial Risk Management

“Whole of Company Risk” for the new group:

Market risk	US$ 0.81 billion
Country risk event	US$ 0.25 billion
Operational risk event	US$ 0.25 billion
Breakdown in correlations	US$ 0.2 billion
Total	US$ 1.3 billion

Cashflow at Risk - “worst expected loss relative to projected business plan cashflows over a one year horizon, at a confidence level of 95%”.

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Financial Risk Management Summary

- **Integrated approach to Financial Risk Management**
- **We have a well diversified portfolio of countries and commodities**
- **Powerful combination of diversity, financial strength and flexibility**
- **Approach uses "know how" from Financial Institutions**

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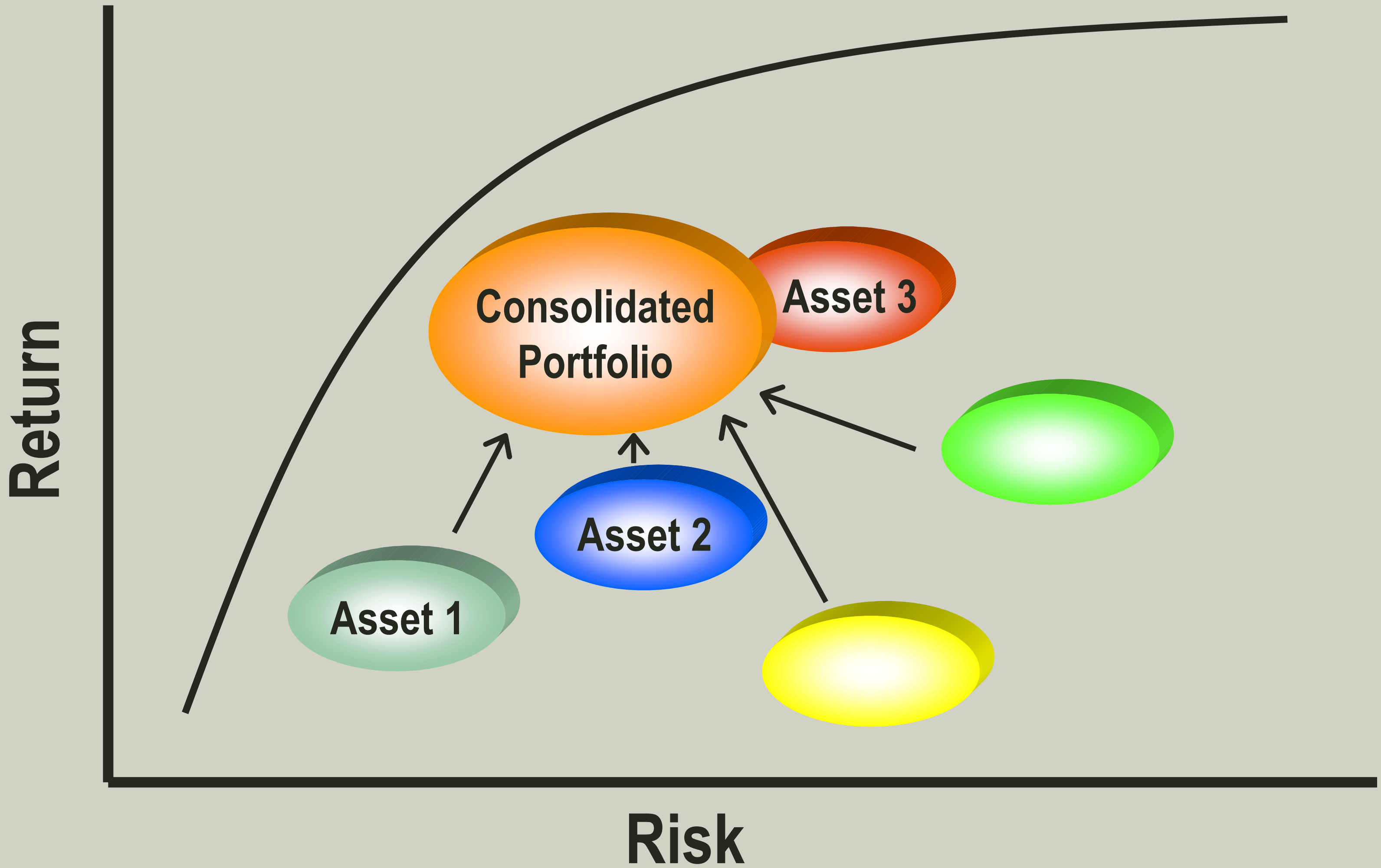
Capital Approval Process

- Return on a project or opportunity
- Distribution of returns on the project or opportunity
- Corporate impact (balance sheet / cashflow statement)
- Portfolio Risk Analysis

Capital Approval Process



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Market Risk Strategy - Update

- To manage risk through the **strength, flexibility** and **natural diversification** in the BHP Billiton Portfolio.
- As a general principle to **only hedge** when the residual risk in the portfolio may **compromise the delivery of corporate objectives.** *Referred to as "Risk Mitigation".*
- To enter into strategic financial transactions only **to a limited extent**, when commercial circumstances within the portfolio **deviate significantly from long run** expectations. *Referred to as "Risk Leverage".*
- To **communicate** to BHP Billiton's policy and resultant risk profile to stakeholders in a **clear, precise and responsive** manner.

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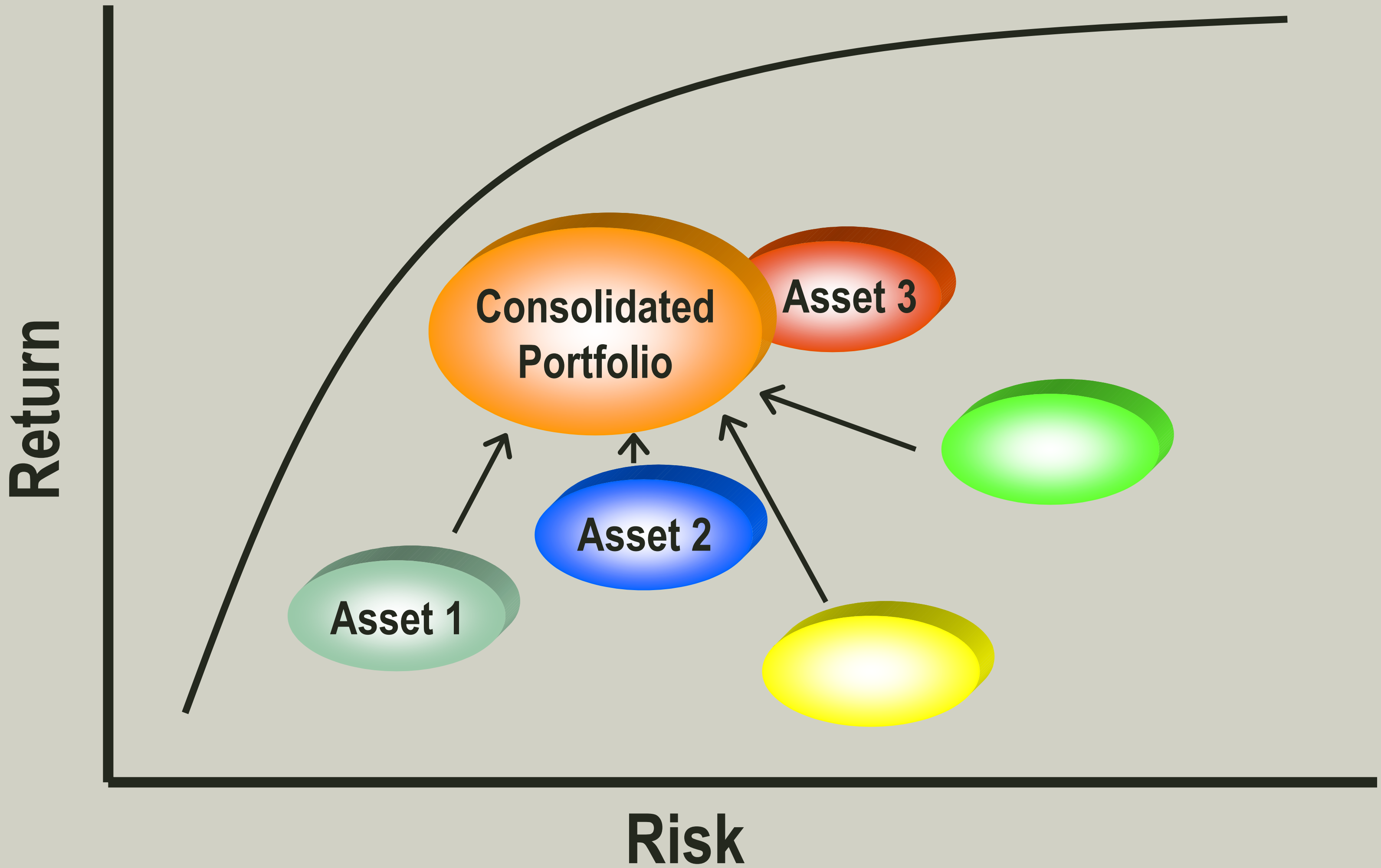
Market Risk Strategy in Practice



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Portfolio Risk managed within Board approved limits and performance measured and reported

Risk limits for the portfolio

- Cashflow at Risk limit;
- The risk that BHP gearing will exceed target gearing
- Ratio of Cashflow at Risk to projected Cashflow
- Risk limits for strategic financial transactions

NOTE: *Other risks are also included to keep total risk within an acceptable level*

Clear and transparent disclosure

- Policy updates and quarterly information on outstanding hedge book
- View based activities taken to the P&L

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Financial Risk Management Committee (FRMC)

- Executive Committee (ExCo), Treasurer and Vice President Corporate Finance & Vice President Market Risk Management
- Monitor Financial Risk
- Owns Financial Risk Policy and Limit Framework
- Decision making efficient - Quorum of 3 members
- Covers Financial Policy, Markets Risk, Credit Risk, Funding, Risk Capital Investment, Risk Leverage opportunities, Country Risk
- Meets regularly as part of monthly ExCo agenda

Strategy in practice summary

- Portfolio risk management part of capital allocation disciplines
- “Self insurance” model for commodity price risk retained
- Constant market monitoring and portfolio evaluation process
- Commitment to communication remains

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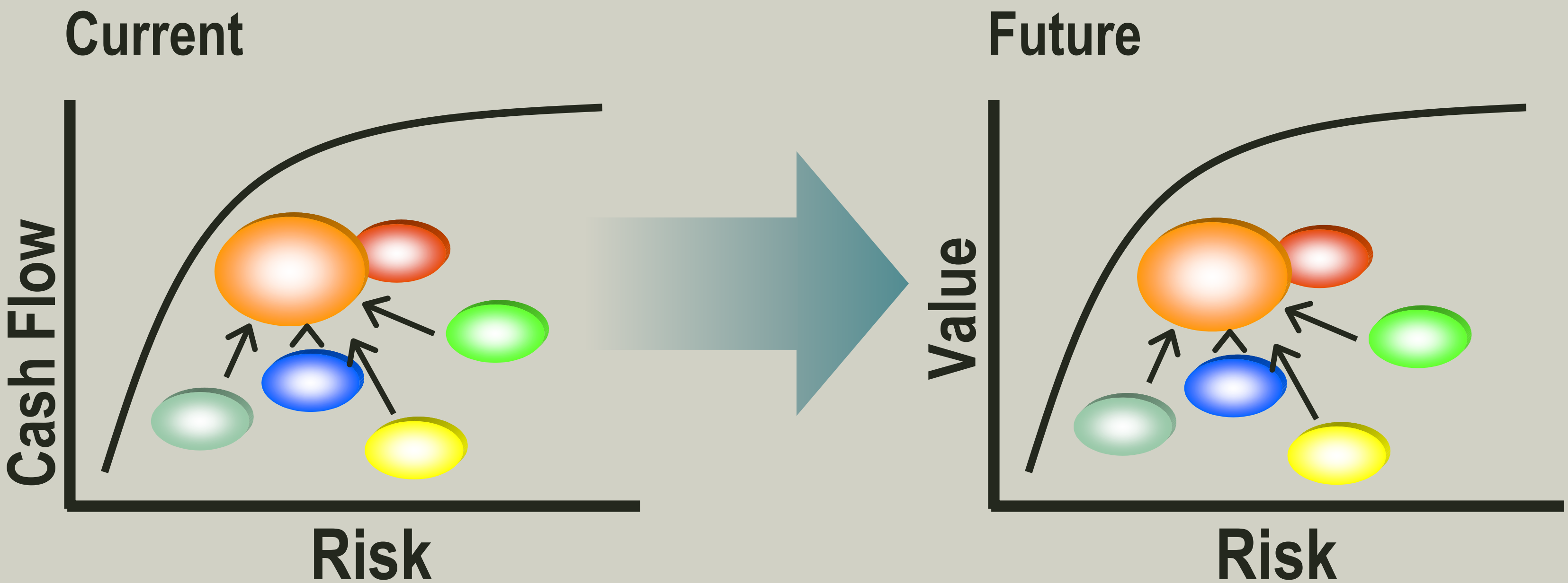
Moving Forward - Vision

Migration from *cash flows* to *valuations:*



- Cash flow based
- Medium term market impacts
- Risk assessment

- Longer term market impacts
- Value assessment

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Conclusions

- An integrated approach to Financial Risk Management

- Portfolio tool has evolved from commodity price risk assessment to a financial risk management approach

- Analysis demonstrates the diversity, strength and flexibility in the BHP Billiton portfolio

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