

Portfolio Risk Management

Investor Presentation
February 2006



bhpbilliton

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All data included shows historical actual data unless otherwise mentioned.

Agenda

- Introduction
- The BHP Billiton Portfolio
- Portfolio Risk Management Strategy & Performance
- Portfolio Value @ Risk
- Portfolio Potential

Where we have come from



Portfolio Risk Management Strategy

- To manage risk through the **strength, flexibility** and **natural diversification** in the BHP Billiton Portfolio.
- To **only hedge** when the residual risk in the portfolio may **compromise the delivery of corporate objectives.**

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

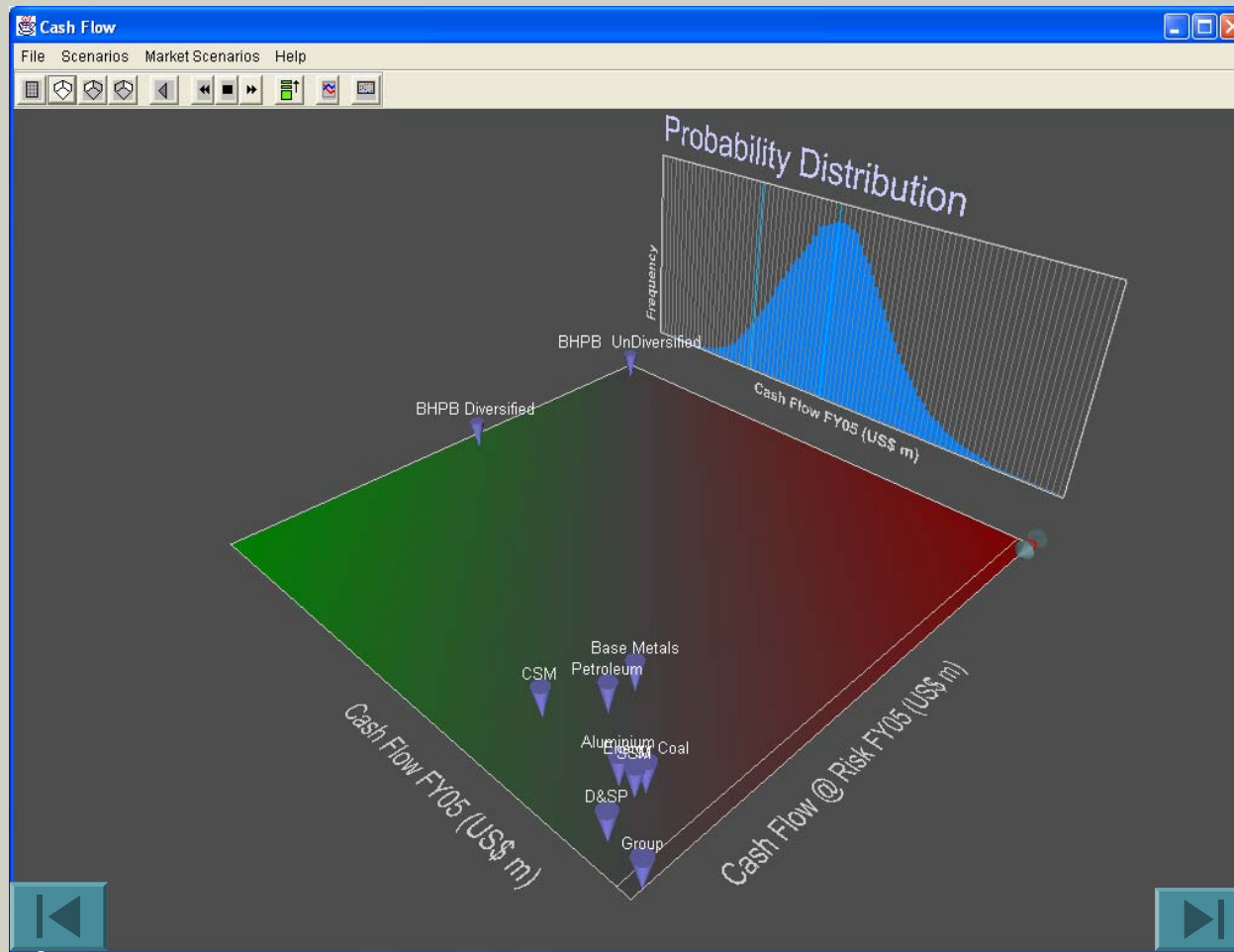
- Cash Flow @ Risk
- Ratio of Cash Flow @ Risk to projected Cash Flow
- Worst case projected gearing in two years' time

Part of Capital Allocation Process for major investments

- For example, the WMC acquisition

The BHP Billiton Portfolio Model

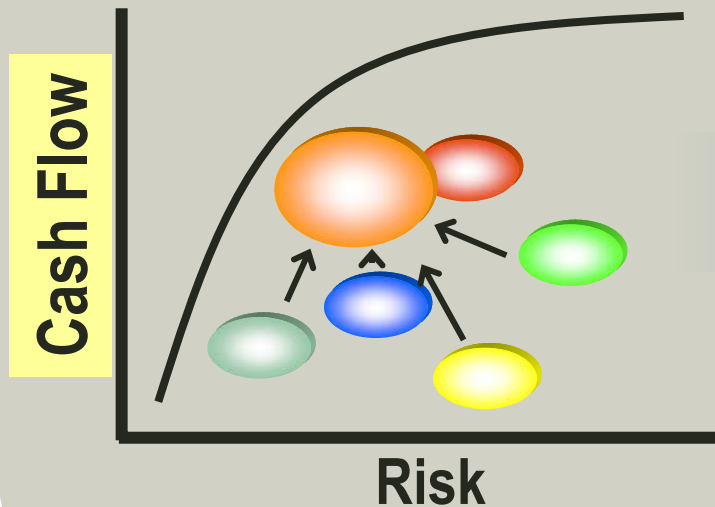
Risk is managed within a quantitative Cash Flow @ Risk framework



What is new

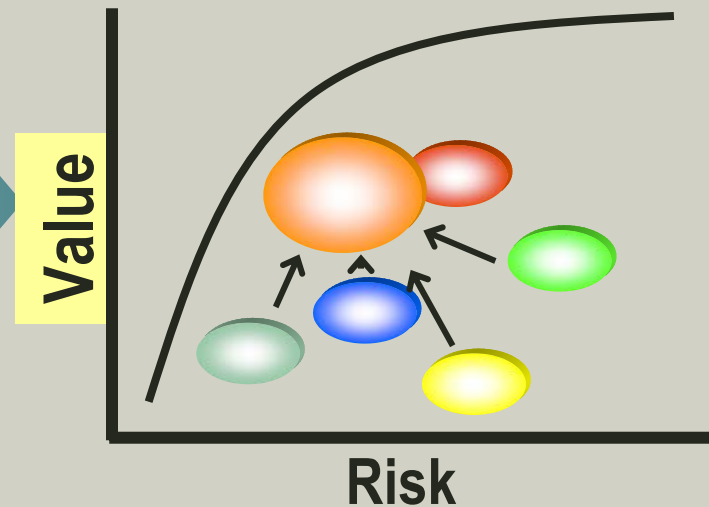
Next generation of the Portfolio Model. Extension from *cash flow* to *value*:

Cash Flow @ Risk



- 5 Year Cash flows
- Market risk
- Only cost of growth

Portfolio Value @ Risk



- Value based, but includes other metrics
- “Whole of company” risk
- Risk and reward of growth

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The BHP Billiton Portfolio

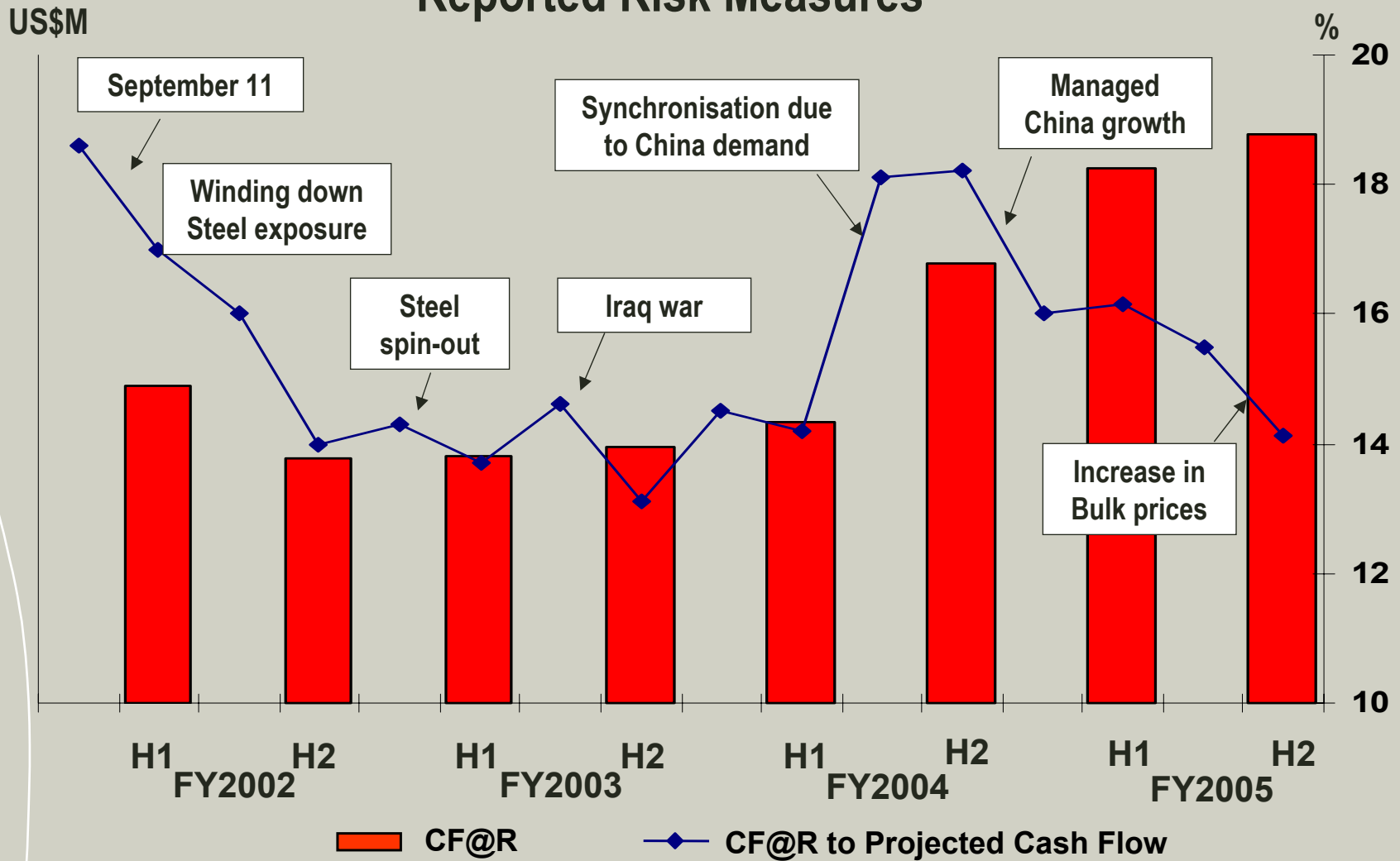


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Evolution of Cash Flow @ Risk

Reported Risk Measures



Portfolio Risk has decreased

- BHP Billiton portfolio risk less than at time of merger in July 2001
- Addition of WMC acquisition does not significantly alter risk

	At Time of Merger Jul 01	Without WMC Jul 05	With WMC
Ratio of Cash flow at Risk to Cash flow	19%	13%	14%

- Credit ratings confirmed following the acquisition
 - A+ from S&P
 - A1 from Moody's

Overview of Modelling

Cash Flows (from Business Plan)

57 Risk Factors (26 as at Jul 01)	83 Assets (24 as at Jul 01)				
		Asset 1	Asset 2	...	Asset N
	Exposure 1	CF_{11}	CF_{12}	...	CF_{1N}
	Exposure 2	CF_{21}	CF_{22}	...	CF_{2N}
	
	Exposure N	CF_{N1}	CF_{N2}	...	CF_{NN}

Market-derived Statistics

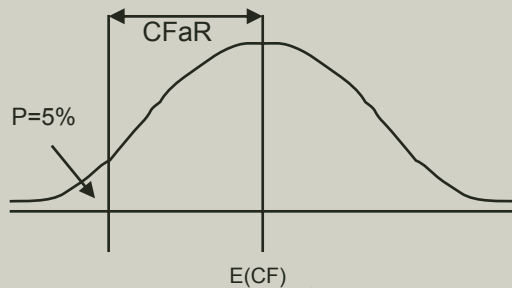
- Correlations
- Volatilities
- Stress tests including
 - market implied volatilities
 - impact of crises (e.g. Gulf Wars)
 - breakdown of correlations

Probabilistic CF@R Model

Analytical CF@R model

PV@R model

Portfolio Risk



Decomposition of Risk

- Contribution of an Asset to CFaR
- Contribution of a Risk Factor to CFaR
- Effect of correlations

Value at Risk

- Non Market Risks
- Other metrics (Value, EBIT)
- Longer term, strategic focus

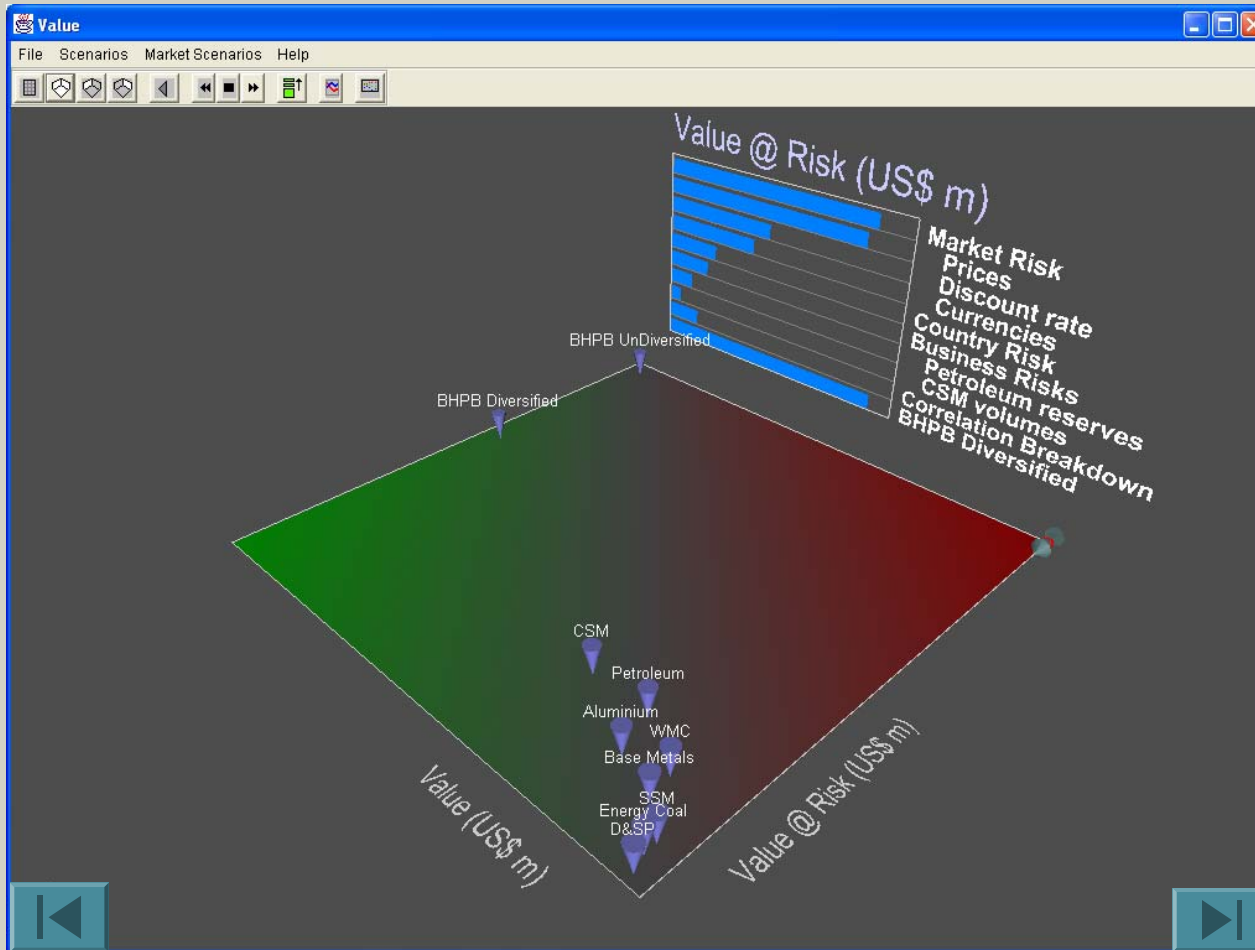
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The Portfolio Value @ Risk Model

- Takes input directly from the asset valuation models in terms of their sensitivity to major risks (e.g. price, currency, production volumes, reserves, costs, timing)
- Aggregates the risks in a consistent way
- Cuts and splices the output to reveal features of interest (e.g. risk by CSG, by asset, by risk driver, by major risk grouping)

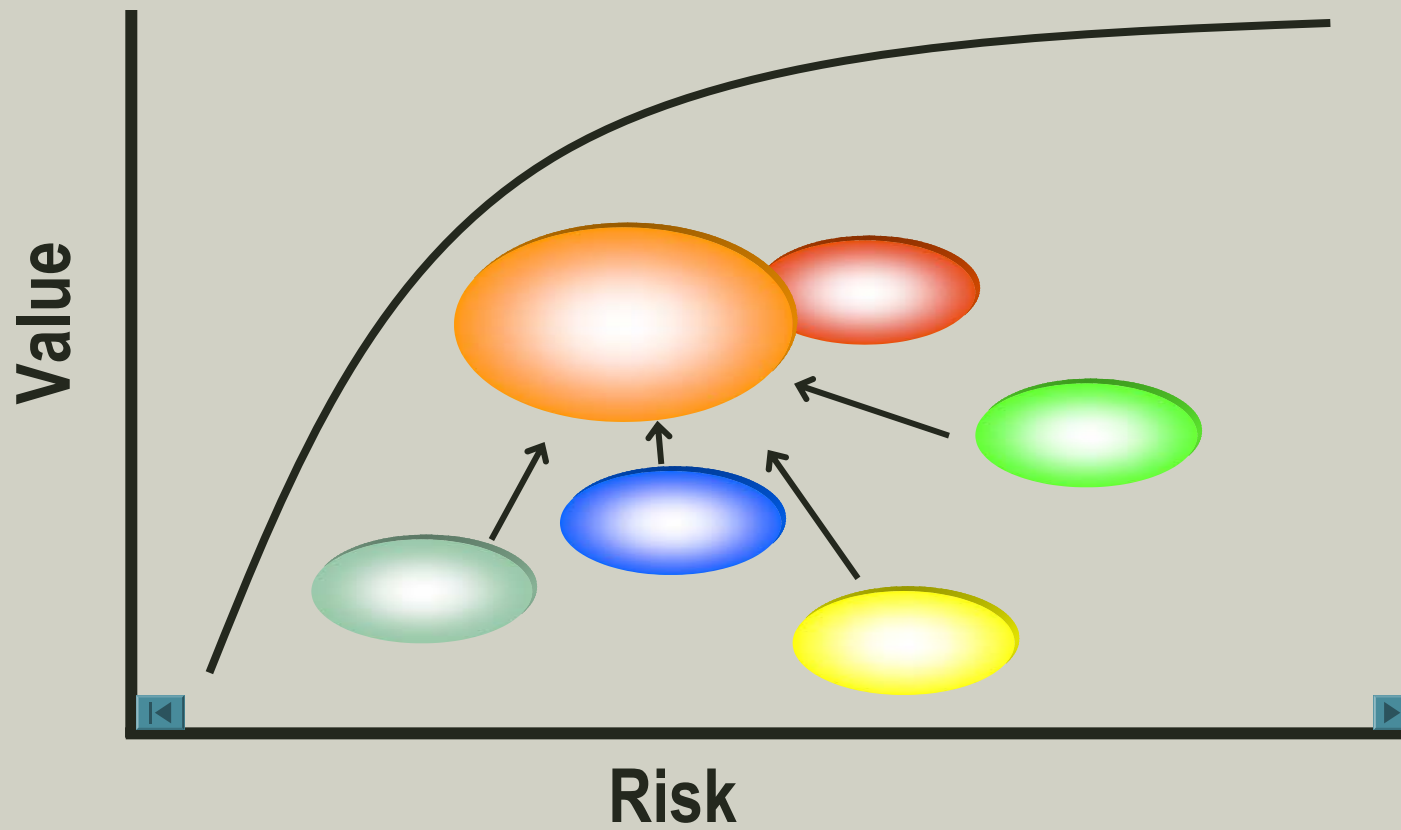
Portfolio Value @ Risk



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Portfolio Potential



Summary – Portfolio Risk Management

Look at the whole picture ...

- Pyramid of investment options
- Long-term vs. short-term
- Alternative future scenarios
- Qualitative and quantitative risks
- Uncertainty in key business drivers
- Inter-relationships in the portfolio
- Portfolio risk vs. return

“Return on risk” vs. “Return on capital”

Conclusion

- Ongoing best practice approach to Portfolio Risk Management
- Innovative portfolio analysis tools
- Demonstration of portfolio potential

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