

TERMS OF REFERENCE

RISK & AUDIT COMMITTEE

GENERAL

1. The role of the Risk and Audit Committee (the 'Committee') is to represent the Board and assist the Board to do its work.¹ The Committee is part of the Board and exercises its authority, and is accountable to the Board for its performance.
2. The purpose of all Committee work is derived from the Board's task to monitor the decisions and actions of the Chief Executive Officer (CEO) and the Group, and to gain assurance that progress is being made towards the Corporate Objective² within the spirit of the CEO Limits.³
3. The Board has defined in the Board Governance Document (BGD) the areas in which the Committee will focus its time and resources.⁴ In meeting its commitments to the Board under the BGD the Committee's purpose will be to assist the Board in its oversight of:
 - The integrity of the Group's financial statements.
 - The appointment, remuneration, qualifications, independence and performance of the external auditor and the integrity of the audit process as a whole.
 - The effectiveness of the systems of internal control and risk management.
 - The performance and leadership of the internal audit function.
 - The CEO's compliance with applicable CEO Limits.
 - The Group's compliance with applicable legal and regulatory requirements.
 - The preparation of a report of the Committee to be included in the annual report.
4. The Committee's performance is supported by the CEO and his nominees, principally the Chief Financial Officer (CFO) and the Vice-President Risk Management and Assurance. Under the BGD the CEO commits to supply this Committee with information in a form that is appropriate to enable it to make assessments and judgments, to conduct inquiries, and to gain assurance that the decisions and actions of the CEO, and the performance of the Group, are directed toward the Corporate Objective,⁵ and fulfillment of the Committee's purposes specified in sections 2 and 3.
5. Any person may be invited to attend meetings of the Committee, but not necessarily for the full duration of the meeting. A standing invitation shall be issued to:
 - CEO
 - CFO
 - Engagement Partners of External Audit firms

¹ Clause 31 of Board Governance Document.

² The 'Corporate Objective' of BHP Billiton is to create long term value for shareholders through the discovery, development and conversion of natural resources, and the provision of innovative customer and market-focused solutions.

³ The role of the BHP Billiton Board is to represent the shareholders and to promote and protect the interests of the Group. The Board has developed processes relating to the boundaries on CEO action (CEO Limits) which is set out in the BGD.

⁴ Clause 37 of BGD

⁵ Clause 51 of BGD

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- Vice President Risk Management and Assurance
 - Vice President Group Accounting - Controller
6. These terms of reference record how the Committee will undertake its work.
 7. Many of the principles and procedures recorded in these terms of reference are expressed in a flexible, and non-exhaustive manner. The Board and Committee believe that having regard to the time and resources available to the Committee it is appropriate and necessary to adopt such an approach to respond to changing business circumstances, the needs of shareholders and external regulatory developments.

INTEGRITY OF FINANCIAL STATEMENTS

Accounting policies and practices

8. The Committee will evaluate annually the appropriateness of, and changes to, accounting policies and practices. The CEO and his nominees will present reviews of the policies and practices adopted by the Group, indicating the basis for judgments that have been made, and their effect on the financial statements of the Group. The review presented by the CEO's nominee will cover –
 - Major estimates or judgmental areas/unusual transactions, including the financial impact of occupational health, safety, environment, community and legal issues.
 - Significant accounting issues.
 - Interpretation of accounting standards.

Release of financial statements

9. The Committee will evaluate and recommend to the Board for approval the draft financial statements, and other related information, proposed to be released through stock exchanges, to shareholders and to the financial community in line with the annual and semi-annual reporting cycle, including earnings press releases and financial information provided to analysts.
10. The Committee shall receive from the CEO and his nominees the draft financial statements in a form which draws to the Committee's attention items that vary from previous financial statements and judgments made by the CEO and his nominees and the rationale for them, including with respect to –
 - Major estimates, uncertain or unusual transactions, and provisions made in the financial statements.
 - The going concern assumption including adherence to loan agreements and borrowing powers.
 - Related financial and other information presented with the financial statements, including any 'operating and financial review'.
 - Interpretation of financial reporting standards, stock exchange requirements and legal requirements.
 - Mis-statements.
 - The clarity, completeness, balance, and ease of understanding of financial statements.
 - Compliance with the Group's disclosure controls and procedures.
11. The CEO and his nominees will design, maintain and evaluate a range of policies, procedures and internal controls in order to satisfy the objective of safeguarding the integrity of the Group's financial statements as set out in the principle of clause 8, and by way of further elaboration in clauses 9 and 10 and as required by applicable laws and regulations. The CEO or his nominees will present these policies and practices management has in place to the Board's Committee for noting on an annual basis. The policy and procedures will be designed in a manner so as to preserve the independence of and maximize the effectiveness of the Committee, its individual members, and that of the Board, in testing and evaluating the preparation and content of financial statements, and in making any formal adoptions required by regulation.
12. The Committee will review and discuss the financial statements with management and the external auditors. It will then report to the Board the results of its evaluation of financial statements prior to the Board authorising the Committee to release externally statements by the Board (including judgments made by the Committee at the time of adoption). The Committee will make recommendations on specific actions or decisions (including the formal adoption of the annual report and accounts) the Board should consider in order to maintain the integrity of financial statements.

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APPOINTMENT, PERFORMANCE AND REMUNERATION OF THE EXTERNAL AUDITOR AND INTEGRITY OF THE AUDIT PROCESS

Appointment and remuneration

13. The Committee will manage on behalf of the Board the relationship between the Group, and the external auditor, including the appointment, remuneration, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the BHP Billiton Group. The external auditor must report directly to the Committee and is accountable to the Committee for achievement of the objectives set out in the documents that record the work to be done for the benefit of the shareholders and the Group.
14. The Committee will evaluate the expertise and experience of potential auditors, and will recommend to the Board the party to be proposed to shareholders for appointment.
15. The Committee will determine the terms of engagement and remuneration of the external auditor, and make recommendations to the Board on any decisions. As part of the terms of engagement and to ensure the effectiveness of subsequent processes, the Committee will –
 - Evaluate and adopt the audit plan for incorporation in the external auditor's terms of engagement.
 - Ensure that risk areas identified by the Committee are incorporated in the audit plan.
 - Ensure that the external auditor discloses material information to the Committee in a timely fashion and at least annually (including disclosures that meet the standards of professional bodies in Australia, the United Kingdom and the United States).
 - Resolve all disagreements between the external auditors and management regarding financial reporting.
 - Discuss with the external auditor problems and reservations arising from the interim and final audits, and provide a forum (without the CEO or his nominees being present) for discussing and resolving problems and any other items raised by the external auditor.
 - Evaluate the audit representation letter prior to its adoption by the CEO and his nominees.

Performance, independence and integrity

16. The Committee will progressively evaluate the performance of the external auditor during its term of appointment and the progress of the audit. The Committee will ensure that the criteria for evaluation of performance extend to cover the value delivered to shareholders and the Group under the audit plan, its cost-effectiveness and the maintenance of the highest levels of professional integrity, objectivity and independence.
17. The Committee will consider any relevant matters when evaluating the integrity, objectivity and independence of the external auditor, including –
 - Receiving from the external auditors annually, and reviewing, a formal written statement confirming that it is, in its professional judgment, objective and independent of the Group. The statement will describe: the auditors' internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the auditors, or by any enquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and (to assess the auditors' independence) all relationships between the independent auditors and the Group.
 - Engaging in active discussions with the external auditor about its relationships, and their potential impact on its continuing independence, and considering whether taken as a whole, the various relationships between the Group and the external auditor impairs, or creates the perception of impairing, the auditor's judgment or independence in respect of the Group.
 - Requiring the external auditor to provide in writing an account of all significant relationships between the external auditor and the Group.
 - Confirming an understanding with the external auditor about the need for rotation of leading personnel involved in the audit process and their succession, recording a policy to that effect, and monitoring the performance of the external auditor under the policy.

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- Setting clear hiring policies for employees and former employees of the external auditor and monitoring former employees of the external auditor currently employed in senior positions in the Group and assessing whether this impairs, or creates the perception of impairing, the external auditor's judgment or independence in respect of the Group.
 - Considering whether the compensation of the external auditor performing the audit of the Group is tied to the provision of permissible non-audit services and, if so, considering whether this impairs, or creates the perception of impairing the external auditor's judgment or independence in respect of the Group.
 - Reviewing the economic significance of the Group (in terms of fees paid to the external auditor for the audit as well as fees paid to the external auditor for the provision of permissible non-audit services) to the external auditor and assess whether the economic importance of the Group to the external auditor impairs or appears to impair the external auditor's judgment or independence in respect of the Group.
18. The Committee will take decisions and actions that are necessary and appropriate to avoid the potential for a conflict (or the perception of a conflict) between the interests of the external auditor and the interest of the Group. Currently, the Committee –
- Will determine the particular audit services that the Group may permit the external auditor to provide;
 - Will determine the particular non-audit services that the Group will, and will not permit the external auditor to provide; and
 - Will determine the policies and procedures by which permissible audit and non-audit services, that the Group will permit the external auditor to provide, are approved.
19. The Committee will report to the Board on the results of the evaluation of the external auditor, and any circumstances which it determines to be a failure to perform to the standards expected under the audit plan, and the applicable professional standards. The Committee will also make recommendations to the Board concerning the appointment or dismissal of the external auditor.
20. The external auditor may request a member to call a meeting of the Committee.

THE EFFECTIVENESS OF THE SYSTEMS OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND RISK MANAGEMENT

21. The Committee will evaluate the effectiveness of the Group's systems of internal control over financial reporting and for identifying and managing risks that are material to the achievement of the Corporate Objective, and strategy and plans and will evaluate the effectiveness of the design and operation of the Group's disclosure controls and procedures. The Committee will seek assurance from the CEO that the limits imposed on the CEO in the BGD have been complied with, including:
- that a system of internal control over financial reporting and internal audit is established and maintained to provide reasonable assurance regarding the reliability of financial reporting and financial statements prepared for external purposes in accordance with generally accepted accounting principles and for the protection of the Group's assets and the application of the Group's resources.
 - that each of the businesses that make up the Group has an identifiable system for sharing the results of the assurance processes of each business.
 - that a system is maintained for evaluating changes in the level of satisfaction of customers with the Group's products and services.⁶
22. The CEO, CFO and their nominees will present reviews of the system of internal control over financial reporting and risk management and examples of its effectiveness (or lack thereof) in contributing to the achievement of the Corporate Objective and in compliance with applicable laws and regulations. Reviews presented by the CEO and his nominees to the Committee will cover items which include –
- The procedures for identifying strategic and business risks and controlling their financial impact on the Group and the operational effectiveness of the policies and procedures related to risk and control (supported by regular assurance reports).
 - The budgeting / forecasting systems, financial reporting systems and controls.

⁶ Clause 64 of BGD.

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- The evaluation of the effectiveness of the processes and reporting systems put in place by the CEO to deal with inappropriate business conduct and ethics,
- The policies for ensuring compliance with relevant regulatory and legal requirements and in the case of financial statements, generally accepted accounting principles.
- Arrangements for the protection of the Group's ownership of intellectual property and other non-physical assets.
- Policies and practices and systems for managing and the impact of taxation on the Group.
- The operational effectiveness of the Customer Service Group Risk and Audit Committee (CSG RACs) structures. To this end, a summary of significant findings arising from CSG RACs will be tabled at meetings of the Committee.
- The application of the principles of the United Kingdom's Turnbull Guidance, the Australian Stock Exchange's Corporate Governance Council Recommendations, the New York Stock Exchange Corporate Governance Rules and the governance rules set out in the U.S. Securities Exchange Act of 1934, as amended by the U.S. Sarbanes-Oxley Act within the Group.
- The design, maintenance and effectiveness of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
- Policies and practices for detecting, reporting and preventing fraud, serious breaches of business conduct, and whistle-blowing procedures supporting reporting to the Committee.
- The design, maintenance and effectiveness of disclosure controls and procedures to ensure that material information relating to the Group, including its consolidated subsidiaries, is made known to the CEO and CFO by others within those entities.
- Policies, information systems and procedures put in place by management for the preparation and dissemination of information to shareholders, stock exchanges and the financial community, including actions taken.

The CEO and his nominees will ensure that the policies and procedures put in place by management to satisfy the objective of maintaining the effectiveness of systems of internal control are continued in so far as those systems support disclosures of financial statements and related information which are guided by the principle set out in clause 3. The CEO or his nominees will present management's policies and associated procedures to the Committee for noting on an annual basis. The policies and procedures will be designed in a manner so as to preserve the independence of and maximize the effectiveness of the Committee, its individual members, and that of the Board, in testing and evaluating the effectiveness of internal controls which support disclosure of financial statements and related information, and in making any formal adoptions required by regulation.

23. The Committee will report the results of the evaluation, and will recommend to the Board any corrective action resulting from its evaluation, including the adequacy and any changes to these terms of reference. Where a determination by the Board is required for the purpose of financial statements or interim and annual reports to shareholders, the Committee will recommend the determination to be made.
24. The Committee will recommend and approve procedures for (i) the receipt, retention and treatment of complaints received by the Group regarding accounting, internal accounting controls or auditing matters, and (ii) confidential, anonymous submission by Group employees of concerns regarding questionable accounting or auditing matters or serious breaches of business conduct.
25. The Committee will prepare and adopt an annual report on its activities for incorporation in the Group's annual report to shareholders.

THE PERFORMANCE AND LEADERSHIP OF THE INTERNAL AUDIT FUNCTION

26. The Committee will approve the appointment of the Vice-President Risk Management and Assurance (the head of Internal Audit function).
27. The CEO and his nominees will present to the Committee a recommendation on the appointment, including an assessment of how the CEO and his nominees consider the experience and expertise of the candidate to be appropriate for the role and leadership of the internal audit function.
28. The Vice-President Risk Management and Assurance will be accountable to the CEO and his nominee (if any) for the performance of the internal audit function.

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29. The Committee will meet with the external auditors and/or the Vice-President Risk Management and Assurance, without other members of management being present on a periodic basis, whenever it is deemed appropriate by the Chairman of the Committee.
 30. The Vice-President Risk Management and Assurance will have direct access to the Committee Chairman and the Chairman of the Board and may request any member to call a meeting of the Committee.
 31. The Committee will evaluate and approve:
 - (a) the annual and longer-term plans of the internal audit function with respect to its performance in assisting the Committee to gain assurance on progress towards achievement of the Corporate Objective, within the CEO Limits, compliance with applicable laws and regulations and the objectivity of the internal audit function; and
 - (b) the internal audit function's charter and changes to the charter.
 32. The Committee will evaluate the performance of the Vice-President Risk Management and Assurance and the internal audit function in the following areas –
 - Group Audit Services objectives
 - Enterprise wide risk management
 - Risk management information systems
 - Internal audit plans
 - Insurance strategy
 - Quality surveys
 - Corporate governance
 - Leadership profile
 33. The Committee will present to the Board a summary of the results of its evaluations, and the judgments made, with respect to the performance of the Vice-President Risk Management and Assurance and the internal audit function.
 34. The Vice-President Risk Management and Assurance in consultation with the CEO and his nominees will present to the Committee periodic reviews of the policies and practices adopted by the Group, indicating the basis for judgments that have been made, and the potential impact on the financial performance of the Group. Presentations to the Committee will include –
 - The internal audit programme as a whole.
 - Co-ordination between the internal audit function and the external auditors.
 - Incidents of fraud and misappropriation involving management or other employees who have a significant role in the internal control over financial reporting including those reported through the Business Conduct Hotline and the Group Audit Service Fraud Hotline.
 - The standing of the internal audit function within the Group.
 - The resourcing of the internal audit function.
 - The performance of the Group with respect to the applicable CEO Limits.
- The Committee will also evaluate significant findings of the internal audit function, significant differences of opinion between the internal audit function and management on internal control issues, and the response of the CEO and his nominees, and will monitor the corrective action developed and implemented by them.
35. In the event of the proposed dismissal of the Vice-President Risk Management and Assurance (the Head of Internal Audit), the CEO will present the Committee with a statement of circumstances, and seek the Committee's endorsement to terminate the appointment and pursue a proposed course of action to appoint a successor.

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MEMBERSHIP, EVALUATION, TRAINING AND RESOURCES

36. The Committee will consist of at least three independent non-executive directors as determined by the Board in accordance with its Policy on Independence of Directors, each of whom is financially literate, as the Board determines. At least one member must have financial reporting, accounting, auditing or related financial management expertise, as the Board determines, and at least one member should have an understanding of the businesses in which the Group operates. The Chairman of the Group may not be the Chairman of the Committee.
37. Members will be proposed by the Chairman of the Nominations Committee and approved by the Board. Membership shall be reviewed every three years, or earlier if circumstances dictate. In proposing new members, the Chairman of the Nomination Committee will strive to ensure there is periodic rotation of the members appointed.
38. The Committee will adopt and maintain a programme of induction, training and awareness-raising for its members. Members of the Committee will participate in training and seminars arranged for them. The objective of such a programme is to enable the members of the Committee to keep abreast of current thinking and leading practices in the core areas where the Committee focuses its work –
 - Integrity of financial statements.
 - Appointment, reward and performance of the external auditor, and the integrity of the audit process.
 - Effectiveness of the systems of internal control and risk management.
 - Performance and leadership of the internal audit function.
 - Any other item of decision or conduct described in the CEO Limits of the BGD.
39. The meeting procedures for this Committee and other Board Committees can be found at www.bhpbilliton.com

BOARD COMMITTEE MEETING PROCEDURES

1. The Company Secretary or a designate shall be the Secretary of the Committee.
2. The Committee of the Board of BHP Billiton Limited is established under Rule 101 of the Constitution of that Company (the Constitution) and the Committee of the Board of BHP Billiton Plc is established under Article 101 of the Articles of Association of that Company (the Articles).
3. Proceedings and meetings of the Committee will be governed by the provisions of the Constitution and the Articles for regulating the meetings and proceedings of the Boards of BHP Billiton Limited and BHP Billiton Plc (the Group Boards) in so far as they are applicable and not inconsistent with these terms of reference.
4. The Committee is authorised by the Group Boards to investigate any activity within its terms of reference. The Committee is a non-executive Committee and is tasked with recommending to the Group Boards appropriate actions emanating from these investigations. The Committee shall have unrestricted access to personnel, records, external auditors, Risk Management and Assurance and senior management as appropriate. The Committee is authorised by the Group Boards to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, the cost of such advisors to be borne by BHP Billiton.
5. The Committee Chairman will report the results of its evaluation to the Board, including recommendations on any specific decisions or actions the Board should consider in order to maintain the integrity of financial statements.
6. The Committee will meet as frequently as required but not less than four times a year.
7. Any Committee member or the Secretary may call a meeting of the Committee or may request a member to call a meeting.
8. A notice of each meeting confirming the date, time, venue and agenda shall be forwarded to each member of the Committee (with a copy to all Board Members) in the week prior to the date of the meeting. The notice for members will include relevant supporting papers for the agenda items to be discussed.
9. Expert advisers will be solely appointed and instructed by the Committee. They will be advisers to the committee and shall not receive a standing invitation to attend meetings.
10. The Chairman of the Committee, or delegate, shall report to the Group Boards following each meeting.

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11. Minutes of proceedings and resolutions of Committee meetings shall be kept by the Secretary. Minutes shall be distributed to all Committee members and other Directors after the preliminary approval has been given by the Committee Chairman. Notices, minutes, agenda and supporting papers will be posted to a website accessible by directors and copies will be made available to any Director upon request to the Secretary. Committee papers prepared by management are to be relevant, clear, complete and concise.
12. At the discretion of the Chairman of the Committee, separate meetings may also be held with any member of Group management.
13. A quorum will comprise any two Committee members. In the absence of the Committee Chairman or appointed delegate, the members shall elect one of their number as Chairman for that meeting.
14. The Chairman of the Committee shall not have a second or casting vote.
15. The Committee will have available to it sufficient resources, as determined by the Committee, to run effectively including funds to:
 - remunerate independent advisory services of experts to assist it in carrying out its work under these terms of reference.
 - pay any administrative expenses of the Committee that are necessary or appropriate to assist it in carrying out its work under these terms of reference.
16. The Committee will determine the compensation payable to independent advisers, and the Group Secretary will assist the Committee in securing the service determined necessary.
17. Each member of the Committee, with the consent of the Chairman of the Committee and the assistance of the Group Secretary, may seek independent professional advice at the expense of the Group on any matter connected with the discharge of his or her responsibilities. The consent of the Chairman will not be unreasonably withheld.
18. The Committee will assess its performance each year having regard to the principles and requirements of its terms of reference and the overall objective of the Committee's work to gain assurance that the decisions and actions taken by the CEO and the Group progress toward the Corporate Objective.
19. The Committee will ensure that the results of assessments of its effectiveness and changes to its terms of reference are reported by the Board to shareholders.