Group Reporting

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7 November 2008

The Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street,
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir

Re: Improvements to IFRSs

BHP Billiton welcomes the opportunity to comment on the exposure draft "Improvements to IFRSs" issued by the IASB in August 2008. Whilst we have commented on all the proposed improvements, our particular interest lies in the proposed amendments to IAS 7 "Statement of Cash Flows".

We strongly disagree with the proposed amendment to IAS 7 to remove the investing activity principle and replace it with a rule (that investing cash flows require an asset to be recognised). The "classification by activity" basis, upon which IAS 7 is written, has been successfully applied for many years. From our knowledge of the practice of other (IFRS compliant) major mining companies, there has been clear and consistent application of this principle to exploration and activity expenditure for many years.

We also believe this approach contradicts the principles based approach of IFRS and is infusing IFRS with a US GAAP style "rules based" approach. The fact that this issue and resulting proposed amendment has arisen not from IFRS preparers or users but from one divergent view of a regulator does not provide a compelling need for change. As a result, we fail to see the need for any change to the existing requirements. If further clarity is required, consideration should be given to including exploration expenditure as an example in paragraph 16 to reinforce that the intent of this activity, as required by the principle of the standard, is investing in nature.

Specific matters on which comment is sought

Proposed amendment to IFRS 2 Share-based Payment

Question 1 – Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why not and what alternative do you propose?

BHP Billiton agrees with the proposed amendment to exclude combinations of entities or business under common control transactions and the contribution of business on the formation of a joint venture from the scope of IFRS 2 "Share-based Payments". However, the IASB should consider how this decision interacts with the requirements of Interpretation 8. Included in the scope of IFRS2, by virtue of Interpretation 8, are transactions with historically disadvantaged individuals, such as black empowerment transactions in South Africa. Many of those transactions are implemented by the contribution of businesses into joint venture arrangements.

Question 2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We agree the proposed effective date of this amendment should be the same as those applicable for IFRS 3 "Business Combinations" (as revised in 2008).

Proposed amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Question 1 – Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why not and what alternative do you propose?

BHP Billiton agrees with the proposed amendment to clarify the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

Question 2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Whilst we do not believe there is an urgent requirement to make the above change to IFRS 5, we forsee difficulties in issuing an improvement standard with different application dates for each of the specific amendments. Given that preparers will generally focus on required amendments on a standard by standard basis, it is likely that a standard which has different application dates for each sub amendment may be overlooked. It would be more appropriate to either make all of the amendments in an improvement standard applicable for the same period or if they are not urgent and can be deferred; their exposure should be deferred to a later period. In this way, preparers will be able to refer to one improvements standard per year and more easily source the changes required for given reporting periods.

Proposed amendment to Basis for Conclusions on IFRS 8 Operating Segments

Question 1 – Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why not and what alternative do you propose?

BHP Billiton agrees with the proposed amendment to the Basis for Conclusions to clarify its view on the disclosure of segment assets in the situation where such information is not provided to the chief operating officer.

Question 2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

No transition provisions or effective date has been provided.

Proposed amendment to IAS 7 Statement of Cash Flows

Question 1 – Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why not and what alternative do you propose?

BHP Billiton does not agree with this proposed amendment to IAS 7 "Statement of Cash Flows" (and the consequential proposed amendment to the Basis of Conclusions in IFRS 6 "Exploration for and Evaluation of Mineral Resources") on the following basis:

- For natural resource companies, exploration expenditure is a key performance indicator as it provides a forward looking measure of the potential for the entity to enhance its resource base. Exploration expenditure is therefore critical information used by the market to form views of an entity's future cash flow generation capacity. For this reason, it is clearly in the nature of investing activity (regardless of whether it qualifies for recognition as an asset) as presently defined by IAS7. Furthermore, as exploration expenditure has long lead times and does not lead to the generation of current period cash flows, it is clearly not in the nature of operating cash flows as defined by IAS7.

- The proposed amendment changes the definition of investing activities ("resources intended to generate future income and cash flows") from a principle based approach to a rule based approach. To impose a rule such as mandating the recognition of an asset prior to classification of cash flows as investing, conflicts with the entire "classification by activity" basis upon which IAS 7 has been successfully applied for many years. From our knowledge of the practice of other (IFRS compliant) major mining companies, there has been clear and consistent application of this approach for many years. As a result, we fail to see the need for any change to the existing requirements.

- The replacement of the principle with the "asset recognition rule" significantly reduces the guidance available for preparers to classify cash flows between the operating, investing and financing categories where an asset does arise. Further, the introduction of rules contradicts with the principles based approach of IFRS and is infusing IFRS with a US GAAP style approach which is contrary to IFRS principles.

- The proposed change will result in a lack of transparency of the total cash flow expended on exploration and evaluation activities as the expensed exploration and evaluation cash flows will be included in operating cash flows (presumably as part of payments to suppliers) and the capitalised expenditure will be included in investing activities. We have noted significant difficulty in determining total exploration expenditure from the financial statements of entities which now treat it as operating cash flows. The proposed changes would therefore further undermine the usefulness and relevance of financial statements, particularly from the perspective of analysts and other sophisticated users who understand the significance of exploration activity for natural resource companies.

- Exploration expenditure is discretionary in nature – depending on current conditions and economic out look, entities can significantly accelerate or defer exploration expenditure. This demonstrates its nature as being an investing cash flow, rather than an operating cash flow.

- Given the policy choice available in IFRS 6, the introduction of a rule into IAS 7 may influence the policy selection made by extractive industry companies. For example, some companies who previously expensed exploration expenditure may change to a "capitalise and impair" approach in order for them to present a more pertinent disclosure in the cash-flow statement. We do not believe that the policy selected for the accounting for exploration expenditure, nor the results of that exploration activity, should influence the classification of that expenditure in the statement of cash-flow. Rather, that classification should be based on the purpose of the underlying activity.

Based on the above, we do not believe any change is required to IAS 7. The current principle based wording is well understood and applied by preparers and users. It provides the most meaningful cash flow presentation of resources that are being expended for future benefit. If clarity is required, consideration should be given to including exploration expenditure as an example in paragraph 16 to reinforce that the intent of this activity, as required by the principle of the standard, is investing in nature. As an alternative to the proposed amendments, the IASB may consider an enhancement to the guidance in IAS7 concerning the disclosure of material classes of cash flow that are classified as operating or investing.

Finally, we do not believe that changes to the text of existing standards should be dealt with in an improvements omnibus standard. A change such as this could be a significant disclosure change for some extractive industry companies and should be separately exposed. Given the purpose of the omnibus standard is to deal with a collection of less significant amendments to IFRS and to also provide a shorter comment period, it is highly likely that some companies will not be aware of the proposed changes. We agree with the general intent of omnibus standards but believe their purpose should be confined to addressing inconsistencies with future standards, changing the basis of conclusions and appendices where appropriate and minor disclosure clarification.

Question 2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

As noted above, we disagree with all aspects of the proposal.

Proposed amendment to Appendix of IAS 18 Revenue

Question 1 – Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why not and what alternative do you propose?

BHP Billiton agrees with the proposed amendment to the Appendix providing guidance on whether the entity is acting as agent or principal in a transaction.

Question 2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

No transition provisions or effective date has been provided.

Question 3 – the Board proposes to include in the Appendix of IAS 18 Revenue guidance on determining whether an entity is acting as a principal or as an agent. What indicators, if any, other than those considered by the Board should be included in the guidance proposed?

One further indicator the Board may want to consider is that the structure of agency arrangements generally involve pass through arrangements whereby inventory is not purchased unless a sale has been arranged.

Proposed amendment to Appendix of IAS 36 Impairment of Assets

Question 1 – Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why not and what alternative do you propose?

BHP Billiton agrees with the proposed amendment to define the unit or groups of units to which the goodwill is so allocated not be larger than an operating segment defined by IFRS 8 before aggregation.

Question 2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Refer to the comment on transition provisions and effective dates noted above in the proposed amendment to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Proposed amendments to Appendix of IAS 38 Intangible Assets

Question 1 – Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why not and what alternative do you propose?

BHP Billiton agrees with the proposed amendments.

Question 2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We agree the proposed effective date of this amendment should be the same as those applicable for IFRS 3 "Business Combinations" (as revised in 2008).

Proposed amendments to Appendix of IAS 39 Financial Instruments

Question 1 – Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why not and what alternative do you propose?

BHP Billiton agrees with the proposed amendments – however given other various amendments to IAS 39 and the complex issues involved, we believe it may have been more appropriate to expose these amendments in an IAS 39 specific exposure draft.

Question 2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Refer to the comment on transition provisions and effective dates noted above in the proposed amendment to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

I would like to take this opportunity to thank the IASB for providing this opportunity to comment.

Yours sincerely,

Nigel Chadwick
Group Financial Controller