Roll Back Malaria and BCG: the Change Initiative

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Foreign exchange Risk

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- What does Rio Tinto regarding foreign exchange risk?
Rio Tinto

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- British-Australian multinational metals and mining corporation with headquarters in London, United Kingdom.
- The company has operations on six continents but is mainly concentrated in Australia and Canada.
Risk management at Rio Tinto

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• Groups earnings, shareholders equity and cash flows influenced by a wide variety of currencies due to geographical dispersion.
• US dollar is main currency
• Generally invest and borrow on floating interest rates. As main currencies rise and fall with commodity prices, offering a natural hedge.
### At 31 December 2013
Gains/(losses) associated with 10% strengthening of the US dollar

<table>
<thead>
<tr>
<th>Currency Exposure</th>
<th>Closing exchange rate US cents</th>
<th>Effect on net earnings US$m</th>
<th>Of which amount impacting underlying earnings US$m</th>
<th>Impact directly on equity US$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian dollar</td>
<td>89</td>
<td>(1,442)</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Canadian dollar</td>
<td>94</td>
<td>(3,077)</td>
<td>30</td>
<td>–</td>
</tr>
<tr>
<td>South African rand</td>
<td>12</td>
<td>(4)</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Euro</td>
<td>138</td>
<td>372</td>
<td>(22)</td>
<td>6</td>
</tr>
</tbody>
</table>

At 31 December 2012 restated
Gains/(losses) associated with 10% strengthening of the US dollar
Foreign Risk Management Plan

Three Main types of risk
- Transaction exposure
- Economic/operating exposure
- Translation exposure

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Transaction exposure
- The risk that currency exchange rates will change between the start of a deal and the end
- Reducing transaction exposure
  - Forward contracts
  - Futures contracts
  - Money market hedge
  - Options
  - Locking in

Economic/Operating Exposure
- The result of unexpected currency fluctuations affecting company expenses, revenue, and profitability
- If a currency devalues, it can increase expenses, reducing a company's profit and affecting the share price
- Black market issues arise when currency is in short supply
- Exchange rate hike
- Market
- Pricing
Positives and negatives of Rio Tinto's risk management process

Positives:
• As Rio Tinto does not actively currency hedge it keeps administrative costs low, and enables them to benefit from upwards swings in the market.
• As they have a fluid approach to risk management it allows them to be more interactive and take things on a case-by-case approach. This is beneficial as it gives their Risk management team lots of experience in different incidents.
• Currency risk management does not increase cash flow, in reality consumes cash flow. Thus by not regularly engaging in the practice Rio Tinto can save that cost.
• It is not theoretically possible to outguess the market. And when the market returns to equilibrium the expected net present value of hedging is zero.

Negatives:
• By not hedging and making cash flows known, it makes it more difficult to predict future cash flows. This may affect future investment opportunities
• By not reducing the risk associated with cash flows, management increases the chance that cash inflows will not be sufficient to keep the company out of financial distress.
Risk management techniques

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- Does not believe in active currency hedging
- Reviews exposure on a regular basis
- Utilizes currency protection where it deems appropriate
  - Acquisitions
  - Disposal
  - Tax
  - Dividends
- Example of money market hedge