

BHP Billiton
Chip Goodyear, Chief Development Officer
BHP Steel Public Listing - Teleconference
Monday, 10 December 2001

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MR GOODYEAR: Good morning. I am Chip Goodyear, the Chief Development Officer for BHP Billiton. Thank you for joining us this morning.

Since Kirby Adam's briefing in mid-November on the BHP Steel business, we have received a number of questions regarding the BHP Steel listing process and before people begin to get away for the holidays we wanted to take this opportunity to update the market on the current situation regarding the steel demerger and the associated matching action for the PLC shareholders.

While there is still much detail to be fleshed out in this process, we thought it would be helpful to broadly describe our current thinking and to begin to focus on how it is intended that this transaction and its related steps will be accomplished. I just may caution that I intend to use the word "intend" quite a bit here. We continue to develop this process and the thoughts around it, so, as I describe this, just be aware and be cognisant of that objective to today's processes.

First of all, with regard to forecasts, we do intend to utilise forecasts in the description of BHP Steel for the years fiscal '02 and '03 and those will be incorporated in the documentation for the public offering. We intend to use forecast profit and loss statements, balance sheets and cashflows in that process.

The second item is the independent expert's report. There will be a scheme booklet which will be forwarded to the Limited shareholders detailing our proposed arrangements. Included in this document will be an independent expert's report. The independent expert will opine whether the demerger is in the best interests of the shareholders of Limited. This opinion will take into account the matching action calculation for the PLC shareholders.

The third item is a sale facility and a public offering and a book build. When the demerger occurs, it is expected that there will be some migration of shareholders, as the long term owners of BHP Steel may not necessarily be the same as those who have an interest in the Limited or the BHP Billiton Plc entity. In order to facilitate this migration, we intend to undertake a marketing process involving the following: First of all, there will be a sale facility whereby the existing Limited shareholders receiving an entitlement to BHP Steel can nominate to sell their shares or to buy additional BHP Steel shares. Second, we intend that there will be a public offering involving a retail component and an institutional book build and this public offering will be of those securities or those shares that are submitted into the sale facility, and associated with this sale facility and book build will be a concurrent roadshow and equity marketing program.

The fourth area that I wanted to mention was the

matching action for the PLC shareholders. At the time of the merger we announced that BHP Steel would be demerged from the combined group and spun off to the existing BHP Limited shareholders. At that time we advised that the PLC shareholders would receive a compensatory adjustment which would be determined; the size of that adjustment is yet to be determined.

The reason for this process is that the ownership of BHP Steel obviously resides within the Limited enterprise and this does not accommodate the ability to distribute BHP Steel to the PLC shareholders. To simply put that, BHP Steel is owned by Limited and it is the capital reduction of Limited that allows this public listing to occur.

We have proposed the matching action to be in the form of a bonus issue of shares to the Plc shareholders. We considered a variety of other alternatives, including cash dividends, other forms of distribution, consolidation of the BHP Limited share, but all of those things were eliminated for a variety of reasons, with the simplest and easiest process through this bonus issue.

The fifth area is the calculation of the bonus issue to the Plc shareholders. Within this category the number of bonus shares will be determined by reference to the market value of BHP Steel shares that are distributed to the Limited shareholders. This will be by way of comparison of the market value of Plc and this will be the item to determine the value of Plc and the percentage of the bonus shares to be issued. Although the final details have yet to be determined, it is intended that the pricing outcome of the book build will be an important component in the determination of the value of the Steel entity to the Limited shareholders, for the purpose of the matching action.

The sixth area is in terms of approvals required. All BHP Billiton shareholders will be entitled to vote on the proposed demerger which will incorporate the matching action. Limited shareholders will be asked to approve a scheme of arrangement requiring a 75 per cent approval and a capital reduction requiring in excess of 50 per cent approval and Plc shareholders will be asked to approve the proposed demerger by way of an ordinary resolution requiring in excess of 50 per cent approval.

With regard to the timetable, as we previously indicated it is our intention to complete the merger by the end of fiscal 2002, so by June of 2002, subject obviously to market conditions. In meeting this timetable, just for your reference, to accomplish that listing in June of next year we need to have the EGMs for both Limited and Plc in May which will require that the documents would be distributed no later than April and obviously we would like to do it sooner than that if the opportunity presents itself, but that essentially presents a backstop time period in order to accomplish this in this fiscal year.

I apologise for hopefully not ruining your day in terms of timetable here. That's basically all that I wanted to say. We hope that this gives you essentially some benchmarks and guidelines with regard to how we are looking at this process moving forward.

I have been in the UK for a couple of weeks and I know Rob and Andrew have been around to talk to a number of people and we did see a variety of questions about that following Kirby's announcement or Kirby's comments earlier in November.

So, we did want to try to put everybody on a consistent basis into how we were thinking about this. I hope this helps to clarify some of that, but, as we said, there is certainly continued effort being put into this and more details need to be fleshed out.

QUESTION: Chip, could I ask you to explain or flesh out a little bit more the sale facility? As I understand, it's only the shares that a shareholder nominates for selling in that facility which become the IPO, is that correct?

MR GOODYEAR: What will basically happen is that the scheme booklet will be distributed and following that there will be, as I mentioned, a roadshow in which there will be an education process around BHP Steel and obviously operating in the financial characteristics of that enterprise. Then the existing holders of Limited will be given an opportunity to either sell shares if they choose to do so, or buy additional shares if they choose to do so, and obviously if they do nothing they simply hold those shares, and then those shares that are nominated for sale will be put into this book build process and distributed in a public offering to the marketplace, to institutional and retail investors, so it is those shares that become the shares that are redistributed. There is not any new money into BHP Steel through this process; this is just a redistribution for those that choose not to participate in the BHP Steel enterprise going forward.

QUESTION: Chip, do you start off the roadshow with an indicative price range like you would an IPO?

MR GOODYEAR: Yes. The agents would come up with some indicative price range in that process.

QUESTION: Do both stocks have to go ex dividend on the same day, is correct, both the share issue and the BHP Steel offer?

MR GOODYEAR: When you say both, you mean Limited and Plc? That's one of the items we are working through.

One of the difficulties, as I mentioned, is the book build process will be important in determining value, the market value for steel, and it is the market value that is the driver; it is not a book value, it is not a valuation. Actually, the intent is around what is the value, what does the market put on the value of that company. So the timing of that is one of the things we certainly have to work through, so I don't have a thorough answer for you on that yet.

QUESTION: Is there a precedent for a dual-listed company; one side goes ex dividend or an issue and the other side doesn't?

MR GOODYEAR: Let me say in terms of this whole process from a DLC distributing an entity or some interest like this, there is not a precedent at all.

QUESTION: (Inaudible) along the lines of you said that the market value of BHP Steel will determine the bonus issue to the PLC shareholders. What happens if the market value of it is out of kilter with the independent valuation report and, if it is out of kilter, how do you anticipate getting between the value that the market puts on a steel company - and especially if the institutional shareholders don't really want to own it - and what the value needs to be as far as the independent report is concerned?

MR GOODYEAR: First of all, the independent expert's report is intended to address the issue of essentially the fairness with regard to the whole scheme itself and so that's what they will be addressing, so that's their main role. Then there's the issue what do the agents say with regard to the estimated price in the

book build, and then finally you have what does it actually trade for. You will certainly have, as time goes on, differences that will come up there, but at the end of the day what we have to focus on is what does the market actually think this is worth and whether the matching action is fair. That's the requirement with regard to the various arrangements around a dual-listed company and it's that item that will be the driver for value.

QUESTION: So it is the book build, the price out of the book build that determines the bonus issue ratio.

MR GOODYEAR: The book build is an important component of that. What we are looking at is: is that the only component or is there some trading period that needs to be built into that, in addition to the book build, and we don't have an answer for that now, but it is not going to be an independent expert number or the range of value that comes from the initial marketing process or book value or anything like that. It is going to be something that is very much tied to the market's determination of what is the Steel enterprise's worth.

QUESTION: One other question, Chip, with not real regards to this but obviously the International Trade Commission announced quite a lot of recommendations overnight regarding exports into the US of steel. Have you got any comments on the implication of what that might be for this spinout, especially if BHP Steel's 800,000 tonne into the US has a 40 per cent tariff put against it?

MR GOODYEAR: Yes. In terms of just making a brief comment, first of all you appropriately referenced it as a recommendation and that then goes through a process where additional parties make recommendations to the president by the 19th, I believe, of December, and then there's a final decision made in February or March, I believe, so I think somebody who might have read the paper today might have walked away thinking this was a done deal. But, other than that, I would just say that obviously this is new information, the Steel team is taking a look at that and its implications and as they get through that I am sure that they will communicate to the marketplace around that. So, I don't have anything else to add to that at this point in time, but obviously a work in progress.

QUESTION: Just a couple of questions; whether or not the book build will be underwritten otherwise there is the risk of potential market manipulation. Secondly, will you do the book adjustment to the BHP accounts based on that compensation price or based on your book price?

MR GOODYEAR: The current intent is that it would not be underwritten, that the market value will be as set through these various processes, in other words the book build and any market trading that would occur after that, that is incorporated. Let me just explain why that is. Obviously we are in an interesting situation here - you mentioned the term manipulation - where manipulation one way or another is detrimental to one party or the other and the role of the board and obviously senior management here is to find as fair a process as possible that doesn't lead to a manipulation of that price. So, if you did put a floor on through underwriting, then you would by nature be setting a potential manipulation. We may create it, but it is a manipulation of the price. So market value needs to be as pure as is possible in a process like that, unencumbered by things like an underwriting or a support or something like that.

With regard to the impact on the BHP Billiton books, that would be at the fair value. That's the basis under which we adjust the BHP books.

QUESTION: In other words, you mean like you did OneSteel?

MR GOODYEAR: That's how we'd adjust the books, that's not how we would determine market value for the matching action.

QUESTION: Is there much variation between the two?

MR GOODYEAR: Yes, there may be. What the market actually does is going to be very much dependent on their outlook and how they feel the short term is going to be and so on and so forth, so there can be a difference between those two items.

QUESTION: Just a couple of questions: One, any comments yet on the amount of cash you will extract from the new vehicle? And the second question: Would you consider buying back the shares that you issued (indistinct) in the UK to stop the devolution?

MR GOODYEAR: With regard to the amount of the debt, which is essentially how we would take cash out of this enterprise, a determination hasn't been made with regard to that yet, but we have said that we would structure it in such a way that it would be an investment grade credit and so we will look at items that you are familiar with me talking about and those are things like coverage ratios and the ability to service their fixed charges from the cashflow that's anticipated in the company, in addition to making sure there's flexibility around that so that they would be able to maintain an investment grade-type rating, so we continue to work on that and hopefully we will get resolution relatively soon with regard to that.

In regard to the buyback, as you know we do have a buyback here and we do have a capability to do the buyback in the PLC through a structure there that allows us to essentially acquire PLC shares and so within the context of that we would look at doing a buyback around that, as is our normal process. There is not something special that would be accomplished here.

QUESTION: With regard to the number of Plc bonus shares that are going to be issued, you mentioned you are saying that you use the market value for the steel assets. Will there be a pricing period on the PLC that will determine the bonus or what will the reference shop price be on that?

MR GOODYEAR: The expectation again is the period where we value the Plc shares for this process would be the same period that we look at the steel price.

QUESTION: Chip, is there a Tax Commissioner ruling for an Australian shareholder? When should we expect that coming through, and should we expect it?

MR GOODYEAR: We need it relatively quickly as we put together our documentation and we will certainly let you know when that happens but it is one of the early things we need to accomplish there and obviously they are looking at that and working very hard around that.

QUESTION: (Indistinct) OneSteel will you expect to be able to claim the difference between the sale price and the book value for tax purposes in Australia?

MR GOODYEAR: I don't really have an answer for that at the moment. It is going to be very much a process that we are working on with them. Our goal is obviously to make sure that the issue of BHP Steel shares to former Limited shareholders, that is the distribution of the steel enterprise, is treated as a return of capital.

MR GOODYEAR: Thank you very much. I am glad we didn't take up a great amount of time but I hope this does provide some direction around some of the six or seven things worth thinking about with regard to this distribution

process. We will continue to provide updates for you as relevant information does become available and you should look for our communication around that, certainly into the New Year.

Thank you very much.

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