ABN·AMRO ROTHSCHILD
The Equity Capital Markets Joint Venture of the Rothschild and ABN AMRO Groups

Private and Confidential

31 January 2003

TELSTRA INQUIRY

Submission No. 60

Mr Paul McMahon
Committee Secretary
House of Representatives
Communications, Information Technology and the Arts Committee
R1, Suite 116
Parliament House
CANBERRA ACT 2600

Dear Mr McMahon

Inquiry into the Structure of Telstra

Thank you for your letter of 20 December 2002 inviting us to make a submission to the inquiry into the structure of Telstra ("the Inquiry"). Given the nature of the Inquiry, our equity capital markets joint venture between ABN AMRO Bank NV and N M Rothschild & Sons, ABN AMRO Rothschild, is responding to this invitation. We have pleasure in attaching to this letter our submission to the Inquiry.

Scope of Our Submission
In preparing our submission, we have focused our attention on the likely effect of:

i) a structural separation of Telstra's core network from its other businesses; and

ii) reducing the Commonwealth's current shareholding in Telstra's non-network businesses

on Telstra's shareholder value and Telstra's shareholders.

Our View
Our preliminary view is that the structural separation of Telstra would currently be likely to have a negative effect on Telstra's shareholder value and its shareholders. The potential erosion of earnings and the costs of, and uncertainty caused by, structural separation would be likely to outweigh the positive effects associated with an enhanced management focus and the potential value re-rating of one or both of the separated entities. We also believe that the market would be supportive of the Commonwealth reducing its current shareholding in Telstra, irrespective of whether the sell down is conducted as part of a structural separation.

Our view is provided without access to Telstra's confidential information, knowledge of the structural separation model being considered, the commercial arrangements and regulatory circumstances being contemplated and other important information. Without such information and definitions about the model, etc. it is not possible presently to quantify the effects on Telstra's shareholder value and Telstra's shareholders. As a result of these limitations, our views are indicative and are based on our professional experience and judgement and on other information referred to in the attached submission.

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ABN AMRO Rothschild is the Australasian joint venture between ABN AMRO Equity Capital Markets Australia Limited (ABN 17 000 757 111) and Rothschild Australia Securities Limited (ABN 61 008 591 768) part of the Worldwide Equity Capital Markets Joint Venture of the Rothschild and ABN AMRO Groups

Clarifications
If you have any questions on our submission, please contact either of us directly.

Yours sincerely,

Steve Crane
Chief Executive
ABN AMRO (Australia) Limited

Jim Butler
Director
N M Rothschild & Sons (Australia) Limited

INQUIRY INTO THE STRUCTURE OF TELSTRA

Submission to House of Representatives Communications, Information Technology and The Arts Committee

ABN·AMRO ROTHSCHILD

31 January 2003

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1. The Terms of the Inquiry and Scope of the ABN AMRO Rothschild Submission

1.1 Terms of the Inquiry

The terms of the Inquiry are as follows:

"That the Committee inquire into and report on the economic and social impact of structurally separating Telstra's core network from its other businesses and reducing the Commonwealth's current shareholding in Telstra's non-network businesses.

In conducting its inquiry, the Committee should consider the impact of such a proposal on:

- The efficient provision of services to end-users, including businesses and residential customers in regional, rural and remote Australia;
- Telstra's ability to continue to provide a full array of telecommunications and advanced data services;
- Ongoing investment in new network infrastructure;
- The wider telecommunications industry;
- The telecommunications regulatory regime;
- Telstra's shareholder value and its shareholders; and
- The Commonwealth Budget.

The Committee shall consult widely in the conduct of the inquiry, including with the telecommunications industry, the investment community, representatives of regional Australia and the trade union movement."

1.2 Scope of ABN AMRO Rothschild's submission

The terms of the Inquiry contemplate a broad investigation of the social and economic impacts of a potential structural separation of Telstra and a reduction in Commonwealth ownership in Telstra's non-network businesses.

We have limited our submission to the Inquiry to issues relating to Telstra's shareholder value and its shareholders.

Confidential Telstra information, regulatory clarity and details about any proposed structural separation are critical to the quantification and assessment of valuation effects. Attempts to quantify the various effects at this stage without an agreed model and Telstra confidential and other information, in our opinion, risks misrepresenting the magnitude and direction of the effects. Consequently, our views at this stage are indicative only, and based on our professional experience and judgement and other information contained in this submission.

2. ABN AMRO Rothschild Expertise

ABN AMRO Rothschild is the international equity capital markets joint venture between the ABN AMRO and Rothschild groups. Formed in July 1996, ABN AMRO Rothschild is one of the world's leading equity capital market houses and was ranked in the top 5 for Global Co-ordinators of international equity offerings in 2002. Since 1996, we have lead managed international equity offerings worth in excess of US$120 billion.

We have access to some of the world's most skilled corporate financiers from both the Rothschild and ABN AMRO international and domestic networks. Together with our dedicated team of equity capital markets professionals, we have advised on valuations and capital raisings for some of the largest and most successful equity offerings internationally.

We have strong advisory and execution experience in the telecommunications sector. We have advised either the vendor or issuer on telecoms sector equity markets transactions worth in excess of US$150 billion, significantly more than any other house in the world.

- In Australia, we acted as Global Co-ordinator for both the Telstra IPO and Telstra 2 privatisation offering, as well as acting as the Business Adviser in the Telstra IPO and Scoping Study Adviser in Telstra 2. This experience gives us unrivalled insight into both the company and sector.
- In Asia, we were Global Co-ordinator and Bookrunner on three of the largest telecommunications IPOs in 2002 (MobileOne, Maxis Communications and Bharti Tele-Ventures).
- Internationally, we have advised on many of the largest incumbent telecommunications privatisations, including British Telecom II and III, Deutsche Telekom I, II and III, KPN I, II, III and IV, and the Swisscom IPO, in addition to the extensive corporate advisory work our parent banks have undertaken with all of these companies and respective Governments.

In addition, we have extensive experience in advising on and structuring landmark demergers and spin-offs in both Australia and internationally.

- In Australia, we acted as the Financial Adviser, Lead Manager and Bookrunner on the successful A$2.2bn demerger of BHP Steel Limited from BHP Billiton Limited in July 2002, having developed a highly innovative offer structure. The transaction was awarded IPO of the Year 2002 by Finance Asia, CFO Magazine and Equity Deal of the Year by AsiaMoney. We also acted as Financial Adviser and Lead Manager on the successful $400m spin-off of AGL's pipeline assets into Australian Pipeline Trust. We acted as Financial Adviser on the spin-off of Austereo Limited from Village Roadshow Limited. We are currently acting as Financial Adviser to CSR to explore demerger options, with a transaction likely to be completed in the first half of 2003.
- In Europe, we advised British Telecom on the planned spin-off of their directories business (Yell) and Deutsche Telekom on the spin-off of their internet subsidiary (T-Online) and cable TV networks. We have also advised on the demergers of British Gas (US$20bn), Hanson (US$19bn) and Vodafone (US$9bn).

3. Telstra structural separation

The terms of the Inquiry do not set out the model of structural separation being considered. The model chosen will influence substantially the type and magnitude of effects of a structural separation. For purposes of this submission, we have set out below a high level outline of a possible model for "structural separation". We understand that structural separation involves the creation of two separate companies: one focussed on running the core Telstra network ("Core-Netco") and the other focussed on selling services to end-user customers ("Servco"). ABN AMRO Rothschild has assumed the following:

	Core-Netco (owns Telstra's core network)	**Servco (owns Telstra's non-network businesses)**
Core business	Owning, operating and maintaining the core Telstra voice and data infrastructure throughout Australia.	Selling and packaging telephone, data and internet products and services to its customers.
Goals and objectives	Efficiently operate and maintain the existing core network, as well as invest in new network infrastructure to meet wholesale customers' core network needs.	To effectively provide high quality telecommunications services to end users.
Customers	Telstra's non-network business, other carriers and carriage service providers.	All government, corporate and retail end user customers.
Services offered	Wholesale services primarily required by its customers and which can be provided profitably.	Any telecommunications product and service end-users demand that can be profitably provided.
Assets	The core Telstra infrastructure throughout Australia including the "local loop" or copper network, long distance trunk network, some international trunk network, CBD metro rings, etc.	Customers accounts, major Telstra brands, software products, etc.
Brands	Network brands.	Retail brands (eg. Telstra brand).
Capital structure	Likely to be relatively highly geared supported by the large fixed asset base and utility-style cashflows.	Likely to be predominantly equity funded and accommodate a relatively low amount of gearing.

Many more issues need to be resolved to clearly define what is meant by Core-Netco and Servco. For example:

- what is the transfer pricing regime and contracting terms and conditions for the multitude of products and services possible between Core-Netco and Servco?
- will Core-Netco and Servco be able to compete in each other's markets (can Servco build its own network, can Core-Netco sell its services to end-users)?
- which entity will retain Telstra's universal service obligations?
- what other infrastructure, people, processes and systems will be included in each entity?
- what liabilities will be assumed by each entity?

4. Impact of structural separation on Telstra's shareholder value and its shareholders

ABN AMRO Rothschild believes that the structural separation of Telstra will be likely to have a negative effect on its value and on its shareholders (ie. the combined enterprise values of a separated Core-Netco and Servco would be substantially lower than a whole Telstra). While it is currently not possible to quantify and, in some cases, even determine the direction and nature of all the possible effects of a structural separation of the nature being contemplated, it is our judgement that while some effects could be positive, the negative effects on (i) underlying earnings, (ii) one-off transaction costs, and (iii) transitory effects, such as uncertainty discounts on Telstra's share price prior to and during structural separation, would be likely to outweigh any positive effects.

The structural separation proposal will likely have a negative effect on all of Telstra's shareholders including 'public' shareholders (eg. those who are not the Commonwealth). Unless, for example, significant value is provided (eg. by the Commonwealth) to the 'public' shareholders to compensate them for the likely loss of value as a result of the separation caused by the Commonwealth, the Telstra Board of Directors would be unlikely to be able to support a structural separation.

Below, we have outlined some of the positive and negative effects that we believe may flow from the structural separation process.

4.1 Possible positive impacts of structural separation on Telstra's shareholder value and its shareholders

There are possible value enhancing effects from structural separation.

a) Increased management focus and organisational speed / flexiblity

It is likely that structurally separated Core-Netco and Servco entities could become more focused and efficient as the management teams of these entities would operate in a narrower sphere of telecommunications activity.

b) Possible lower cost of capital for Telstra's Core-Netco

The network entity formed from structural separation will likely be perceived to be a stable, utility style company with steady cash flows capable of paying a stable dividend. This may result in a lower cost of capital being applied to the Core-Netco post structural separation than is currently being applied to Telstra by the market. The overall cost of capital could be further enhanced by a high level of gearing. For example, we note that Australian Pipeline Trust ("APT"), a possible analogue to Core-Netco within the energy sector, currently trades on a high 16.0 times prospective PE multiple[1] whereas its historic parent company, AGL, a possible analogue to an integrated company, currently trades on a 13.4 times prospective PE multiple.

Any rerating of this entity may well be offset by the potential perception that Core-Netco will have limited growth prospects, particularly if the structural separation proposal also involves the creation of a new regulatory scheme applying heavy regulatory controls on Core-Netco (eg. a price cap regime).

c) Possible higher "growth premium" multiple for Telstra's Servco

Conversely, the Servco service entity (or entities) formed from structural separation may be perceived to have better growth prospects than Telstra as a whole currently as it would no longer be grouped together with the lower growth, highly regulated "utility" network business. However, this may be offset by a higher

[1] Telstra currently trades on a 14.5 times prospective PE multiple

cost of debt capital due to the inherent increased "riskiness" of a smaller business that does not benefit from the stable "utility" cashflows of the network.

We hasten to emphasise that without knowledge of the specifics about the model of structural separation, Telstra confidential and other information (eg. transfer pricing and regulations) and the multitude of other effects (eg. earnings degradation), it is not possible to say definitively if the above effects would be positive or negative. In considering the differences between multiples in structurally separated businesses in other industries, one can not draw relevant comparisons or conclusions until the fundamental model and financial information is understood.

4.2 Negative effects of structural separation on Telstra's shareholder value and its shareholders

There are likely to be numerous negative effects from structural separation. Some are "one-off" (eg. transaction costs), others transitory (eg. "uncertainty discount" on Telstra share price) and others on-going (eg. loss of customers and economies of scale and scope). Some of the negative effects of structural separation are as follows:

a) Loss of customers and market share

It is likely that during the process of such a massive exercise to separate and operate Core-Netco and Servco, there will be service degradation issues. This will mean Telstra is likely to lose customers and market share to competitors. This will have a negative effect on Telstra's valuation.

b) There will be losses of benefits flowing from economies of scale and scope

There will be losses of economies of scale and scope from a structural separation of Telstra. Telecommunications is an industry that involves high upfront capital investment, fixed costs and benefits of aggregated purchasing power. Correspondingly, it is important to achieve sufficient utilisation rates to achieve returns on upfront investments.

Currently, Telstra has made a considerable investment in systems and head office functions to ensure coordination among the lines of business of service, investment and operational activities to ensure efficient provision of customer service and operation of the business.

A structural separation of Telstra will involve the duplication of some of Telstra's fixed costs and recurring corporate overhead to ensure effective coordination across products and support systems within the two entities. Significant costs and investment in systems and processes will also be required in separating the network from other customer focused processes such as provisioning, billing and care. Coordination could be more costly should structural separation occur as these activities would need to occur through external transaction processes (eg. much greater cost of contracting, negotiating, communicating, etc.). For example, network capital expenditure decisions may become more difficult because of contracting uncertainties. It may also be more difficult to ensure the provision of quality services to consumers once Telstra is no longer vertically integrated due to the difficulty of coordinating activities towards this end.

Furthermore, Servco could "cherry pick" lucrative areas (eg. metro areas) to build infrastructure "stranding" and under-utilising Core-Netco's assets, and Core-Netco and Servco would face competition from arguably a more vertically integrated competitor, Singapore Telecommunications.

c) Loss of benefits of equity market size

Telstra currently enjoys significant benefits from being one of the largest listed stocks in Australia. Telstra is currently the 2nd largest listed telecommunications company in the Asia-Pacific and one of the largest listed telecommunications companies globally.

These benefits include:

- access to capital markets (high degree of international interest in and coverage of Telstra as an investment);
- cost of capital (due to its high degree of access to international capital markets, Telstra has the ability to tap large sums of capital at very competitive international rates on short notice should investment opportunities arise, though its ability to tap equity capital is restricted currently by legislation requiring the government to maintain its majority ownership of Telstra);
- inclusion in stock market indices (currently Telstra represents 1.6% of the MSCI EAFE Index, 0.9% on the MSCI World Index) underpinning demand for Telstra shares; and
- strong liquidity in its shares (average trading of 26.7m shares, worth an average of $132m per day over the last 12 months, making Telstra one of the three most liquid stocks traded on the ASX).

The structural separation of Telstra will result in smaller individual entities, diminishing some of these benefits. This is likely to be most evident for the smaller of the two entities. The materiality of this change will be difficult to quantify without further information about the likely respective sizes of the two entities.

d) Higher cost of debt

On a related point, Servco will also likely have increased borrowing costs post structural separation due to its likely higher volatility of earnings and smaller size.

Currently, Telstra has access to very attractively priced debt due to its strong market position and strong cash flow position. With a AA- rating, Telstra is among the highest rated telecom companies in the world and is widely regarded as having a strong ability to raise debt in large amounts and on short notice should it choose to do so.

Post structural separation, it is likely that the Telstra entities will have higher average borrowing costs due to a lower credit rating based on a different risk profile and smaller revenue bases with less diversification within each group than is currently the case. We note that Core-Netco could possibly retain a very good cost of debt depending on the model definition, regulations, etc.

e) The implementation process for structural separation of Telstra will be costly

The process of structural separation of Telstra into two groups will incur substantial transaction costs. These costs will both be monetary (eg. compensation for professional advisors, lawyers, accountants and consultants) and non-monetary (eg. commitment of management and Board time during the process of structural separation).

In recent Australian demergers, the direct transaction costs have ranged between $44 million and $126 million. These demergers have been substantially smaller demergers than the structural separation of Telstra would be.

We believe that the costs for Telstra will be substantially higher than in previous demerger transactions due to the strongly integrated nature of modern telecommunications companies. Modern telecommunications systems are increasingly complex, utilising software, software embedded hardware, and other systems which integrate processes and infrastructure vertically allowing seamless automation of provisioning, configuration and other customer-focused processes. It would be difficult to define where "network" assets end and "other" assets begin and implementation difficulties would arise in separating the integrated systems and processes that span the different businesses. Significant expense to obtain professional advice on this issue would likely be required.

f) Uncertainty to depress Telstra market value

The structural separation of Telstra would bring about a fundamental change to the structure of the telecommunications sector in Australia.

As discussed in Section 6, ABN AMRO Rothschild believes that there has been no comparable structural separation implemented globally. Structural separation, therefore, represents an unprecedented change and shareholders will likely face uncertainty on a wide number of issues related to the structural separation proposal, for example, the process and its length, the resultant company structure, the business prospects of any new entities and shareholders' likely payoffs (including compensation, if any, from the Commonwealth Government).

Should shareholders believe there is a real prospect of structural separation being effected, we believe the uncertainty will have a detrimental effect on the Telstra share price (and shareholder value) until the proposal is completed and certainty is restored. Given the extent of changes required to achieve structural separation, such uncertainty could endure for a reasonably long period of time.

5. Impact of the Commonwealth reducing its shareholding in Telstra's non-network business

Our understanding of the proposal for "reducing the Commonwealth's current shareholding in Telstra's non-network businesses" is that it will involve the Commonwealth selling down or selling out of its 50.1% remaining shareholding in Servco.

ABN AMRO Rothschild has recently commissioned independent market research into international institutional investors' views of Telstra and the support for any future sell-down of the remaining Government shareholding. Through this research and the day to day contact the ABN AMRO sales desk has with the leading Australian and international institutions, ABN AMRO Rothschild has found strong support in the market for such a sell-down. Although we have only investigated support for a sell-down in Telstra in its current form, the reasons given by investors to support a sell-down in Telstra would likely still be applicable if it were to take place in Servco only following a structural separation.

A full Government sell-down is viewed as positive for shareholder value by investors for a number of reasons:

- It would allow Servco full access to equity capital markets, allowing the company to raise proceeds for future acquisitions/financing. This would be more relevant in the case of Servco because it is likely to be more reliant on equity funding for growth than would Telstra as a whole.
- It would remove any perception in the market that the management of Servco is constrained and influenced by the Commonwealth as a majority shareholder, thereby allowing management to concentrate fully on delivering shareholder value
- It would increase the free float and therefore would be likely to increase liquidity in the stock
- It would increase the index weighting of Servco, both on the ASX and international indices, therefore creating further index driven demand

It is important to note that although the view on a Government sell-down is positive, it is not possible to determine without full information (eg. about the regulatory regime) whether a full sell-down in Servco, following structural separation, would increase overall shareholder value.

6. Precedents for Structural Separation

a) International precedents of structural separation of telecommunications companies

Globally, there have been many examples of demergers, spin-offs and carve-outs in the telecommunications sector. While such separations have and will continue to occur, there has not been a structural separation, as we generally understand is being considered by the Inquiry, of a full service, incumbent telecommunications company separating out its national core network from the other businesses. The structural separations have tended to be of lines of business (eg. mmO_2 mobiles business separated from BT, cableTV business separated from Deutsche Telekom, directories separated from QWEST, etc.) or geographically based (eg. Regional Bell Operating Companies ("RBOC's") from AT&T in the USA, China Netcom from Telecom China in China, and NTT East and NTT West in Japan, etc.). There have also been many "partial" separations where usually a line of business is separated and a portion of the line of business sold to a third party or parties (eg. partial separation of T-Online by Deutsche Telekom, partial separation of Orange mobile from France Telecom, separation of NTT DoCoMo by NTT, etc.).

ABN AMRO Rothschild believes that, globally, no restructuring has been executed by an incumbent telecom operator that has resulted in the complete structural separation of the operator's 'core network' and 'other businesses' as such a separation would be unlikely to be value enhancing.

b*) Two telecommunication company examples, geographic and line of business separation*

The most analogous regulatory separation that ABN AMRO Rothschild is aware of is the division of AT&T into RBOCs, AT&T long distance and research laboratories in the early 1980s, and to a much lesser extent the separation of Deutsche Telekom's cable TV assets.

ABN AMRO Rothschild views the AT&T and RBOC restructuring as not directly comparable to the proposed Telstra separation as it involved the division of network and other assets among several RBOCs rather than the separation of core network assets from other assets. The structural separation was largely on a geographical basis with each RBOC obtaining a regional network and customers and the incumbent, AT&T, retaining the trans-national and international network and customers. Each RBOC comprised a combination of both network assets and non-network businesses, albeit with a smaller geographic footprint than AT&T.

In the case of European cable TV, EU Directives mandate that cable and fixed telephony assets must be kept structurally separate as they are the two forms of "last mile" access. However, as there is no restriction on ownership, it is completely possible for cable and fixed telephony assets to still be owned by the same company. Generally, European governments and regulators have not enforced separation of ownership of cable and telecom network assets. Though sales of cable assets have occurred, these have generally been driven by European telecom companies' desires to reduce debt rather than regulatory intervention. An exception has been in the case of Deutsche Telekom, which has pursued a series of trade sale of different regional cable businesses. Regulators blocked the largest of these sales (to Liberty Media of the US) on anti-competition grounds. This sale is now proceeding as a sale to a consortium of private financial investors.

c) Proposals for structural separation of incumbent operators

While there have been various proposals for structural separation of incumbent telecommunication operators as is being considered by the Inquiry, these have been rejected by government authorities for various reasons after a period of evaluation.

For example, in 1999, the Public Utilities Commission of Pennsylvania ordered structural separation of retail and wholesale businesses for Verizon. The order was subsequently modified, however, to require accounting separation only. In March 2001 the Commission indicated that structural separation would involve substantial implementation costs and would require at least as much ongoing regulatory monitoring as existing access arrangements.

In March 2001, the Florida Public Service Commission was asked to order structural separation of Bell South to facilitate competition. This request was rejected on the basis of "costs and inefficiencies" as well as on the grounds that such drastic remedies were premature given access provisions then existing.

In 1999, the Norwegian Parliament rejected a proposal for separation of the Telenor network.

In April 2001, the UK regulator Oftel rejected structural separation of vertically integrated telecom companies as a means of addressing competition issues. Oftel suggested that structural separation could hamper innovation in new services, damage competition across different platforms and hinder telecom firms from competing in world markets. Moreover, Oftel suggested that other solutions, eg. the imposition of obligations relating to the provision of access on non-discriminatory terms, could more effectively address competition issues. During the second half of 2001, BT received opportunistic approaches from private equity and banks for the purchase of its fixed lines and local access businesses. These approaches were rejected.

In Japan, the Telecommunications Council of the Ministry of Public Management, Home Affairs, Posts and Telecommunications published in February 2002 its second report in which it recommended that NTT be restructured in two years if progress towards greater competition was not achieved. The report suggested that there first be reform of access arrangements by the regional phone companies owned by NTT (NTT East and West) to allow greater access by competitors to their networks. The report recommended that structural separation be considered if the first reform fails to increase competition. The report recognised however that separation would be time consuming, costly and uncertain in its outcome given the lack of international precedents. The report thus acknowledged that competition would be better encouraged through interconnection pricing and investment policies.

d) Australian precedents for structural separation

There are no relevant precedents for structural separation in the telecommunications sector in Australia.

The past few years has seen an increase in the number of Australian listed companies in other sectors undertaking demergers, spin-offs and carve-outs, including the following:

- demerger of WMC Limited into Alumina Limited and WMC Resources Limited (2002);
- demerger of BHP Steel Limited from BHP Billiton Limited (2001);
- spin-off of Austereo Limited from Village Roadshow Limited (2001);
- demerger of OneSteel Limited from BHP Billiton Limited (2000);
- spin-off of Australian Pipeline Trust from The Australian Gas Light Company (2000);
- demerger of Boral Limited from Origin Energy Limited (2000);
- demerger of PaperlinX Limited from Amcor Limited (2000); and
- demerger of Coca-Cola Beverages plc from Coca-Coca Amatil Limited (1998).

The reasons for the demergers, spin-offs and carve-outs have been many and varied, including:

- to unlock "hidden value" in a particular line of business by allowing investors to compare the demerged entity to well understood and well valued peers (eg. the partial spin-off of Austereo Limited highlighted to investors the substantial value of Village Roadshow's radio assets);
- to focus operations on the core line of business (eg. the OneSteel and BHP Steel demergers allowed BHP Billiton to focus on its portfolio of minerals and petroleum assets and for the newly listed

entities to focus their expertise on the manufacture and distribution of long steel products and flat steel products respectively);

- to gain access to a lower cost of capital (eg. the nature of the Australian Pipeline Trust's business and cashflows allowed it to accommodate significantly higher gearing than the parent, and therefore to access a lower overall cost of capital); to target a new "natural" investor base for geographically and vertically separate lines of business (eg. the demerger of Coca-Coca Amatil Limited's European bottling operations from those in Asia-Pacific allowed Coca-Cola Beverages plc to seek a new stock market listing on the London Stock Exchange, and attract new investors who sought direct exposure to the European bottling operations); and
- to provide investors exposure to "pure play" lines of business (eg. BHP Billiton and BHP Steel).

The common theme underlying these demergers has been that they have been undertaken with the objective of enhancing shareholder value and have been executed with the full support and recommendation of the Board of the company. Based on ABN AMRO Rothschild's experience, the support of the Board and management of the company is crucial to the success of the transaction and its acceptance by investors.

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For further information or clarification about our submission, please contact us directly.