



Leighton Holdings Limited

ABN 57 004 482 982

Level 5, 472 Pacific Highway
St Leonards NSW 2065, Australia

PO Box 1002

Crows Nest NSW 1585, Australia

www.leighton.com.au

T (02) 9925 6666

F (02) 9925 6005

10 February 2005

Company Announcements Office
The Australian Stock Exchange Limited
Level 4
20 Bridge Street
Sydney NSW 2000

Re: Leighton Holdings Open Briefing by CFO on Profit Outlook

Dear Sir,

Please find attached for lodgement a Corporate File Open Briefing with Mr Dieter Adamsas, Deputy CEO and CFO of Leighton Holdings Limited.

Yours sincerely,

A.J. MOIR
Company Secretary

Attention ASX Company Announcements Platform Lodgement of Open Briefing



Leighton Holdings Limited

Leighton Holdings Limited
Level 5
472 Pacific Highway
St Leonards NSW 2065



corporatefile.com.au

Date of lodgement: 10-Feb-2005

Title: Open Briefing. Leighton Holdings. CFO on Profit Outlook

Record of interview:

corporatefile.com.au

Leighton Holdings Limited's results for the first half ended December 2004 are due to be announced on February 16. Can you comment on the Group's first-half performance? What were the major trends?

Deputy CEO & CFO Dieter Adamsas

We have an all time record level of work in hand, including a number of very large, long-term projects, which are now starting to work their way through the system. So we expect the first half to be in line with market expectations and we believe we're on track for the full year.

corporatefile.com.au

There's no change to your full-year net profit guidance of around \$180 million?

Deputy CEO & CFO Dieter Adamsas

No, our forecast of around \$180 million still stands and the outlook for the next few years remains very solid. That outlook is underpinned by an Australian construction market that's in the midst of a strong upswing, strong global demand for Australian exports and a diverse spread of work through Asia.

The Australian construction and infrastructure market has provided the Group with a number of large, longer-term construction opportunities like the WestLink M7,

the Parramatta Rail Link, the Mitcham-Frankston Freeway and Lane Cove Tunnel. And there will be more to come.

Five years ago, our largest single construction project was \$200 million. Today we've got 13 or 14 jobs bigger than that, including three jobs of \$1 billion plus, with the Mitcham-Frankston Freeway worth \$2.5 billion to the Group. It's caused us to look at how profits from these projects emerge relative to the revenue, and under the profit recognition method we've used to date, there's a growing discontinuity between timing of revenue and profit and this gap would only have continued to widen with more big projects expected. We need to adapt our approach to taking up construction profits due to the longer-term nature of the major contracts.

We won't change the way we evaluate the projects at completion; we'll still assess the job in terms of its expected profitability, and look at the strengths and weaknesses of the job. We'll bring the level of profit recognised into alignment with the earning of revenue over the life of the project, from a 20 percent threshold.

But we're only talking about our construction projects. Within our profit recognition practice we have a number of sub-sections, for example a project management job, which is fee-based, doesn't have a threshold, in recognition of the lower level of risk in this type of revenue stream. On contract mining projects, we take up profits as they're progressively earned. Our position on thresholds isn't unbending, we adapt in keeping with the reality of the profile of the work and the company. Across the industry there's a range of methodologies on timing of profit recognition and our approach is quite typical.

From a management and financial control perspective, profit recognition on long-term construction contracts requires the evaluation of the profit outcome at completion. Forecasts of contract completion are prepared at regular intervals over the life of the contract. Essentially, we don't take up any profit from a construction project until it's reached 20 percent, so that we can see how a job is progressing. Previously we'd start to recognise profits progressively from that point over the life of the project. Going forward, we're aligning the emergence of profit and revenue from that 20 percent threshold so that there's a sense of equilibrium.

corporatefile.com.au

How will this impact your earnings estimate of around \$180 million for the year ending June 2005?

Deputy CEO & CFO Dieter Adamsas

As I said earlier, our forecast of around \$180 million still stands, of which some 15 to 20 percent is expected to be the profit emergence contribution from the big projects.

The smaller construction projects, the type we typically had five or ten years ago, which were smaller and lasted 12 to 18 months, aren't significantly affected by

this. Their revenue and profit is more naturally matched because of their shorter timeframe.

It's the really big projects that are causing a mismatch or misalignment between revenue and profit recognition, because of their longer-term nature. What we're going to do is try to better match up the emergence of revenue and profit. If we didn't, we'd face a skewing of profits to latter years, which isn't in the interests of current shareholders.

corporatefile.com.au

Can you provide an estimate of how last year's \$110 million net profit would look if the aligned profit recognition method were applied retrospectively?

Deputy CEO & CFO Dieter Adamsas

If you want to apply the change to last year, you've got to analyse the nature and volume of the work, and the only major job that was really relevant last year was the WestLink M7 Motorway. As I said, the significant impact is from the major projects with three or four year timeframes.

The 2004 profit would have been marginally higher than the \$110 million reported if we'd used this profit basis.

corporatefile.com.au

Will the change in the profit recognition practice have any impact on the Group's contracting margins in the future?

Deputy CEO & CFO Dieter Adamsas

No. The overall project profit and the assessment of the profitability, including the risk management systems, remain the same.

corporatefile.com.au

What is the anticipated impact of the adoption of International Financial Reporting Standards (IFRS) on the Leighton Group?

Deputy CEO & CFO Dieter Adamsas

We believe it won't be significant in terms of either balance sheet or revenue and profit recognition as construction accounting hasn't changed under IFRS. We've had an initial review and there don't appear to be any major issues that will change the way our results are presented.

corporatefile.com.au

At June 2004, Leighton had issued \$1.5 billion of performance bonds, bank guarantees and letters of credit, related to supporting work in hand and securing future equity investments. This was an all time high for the Group. What's the expected figure for December 2004 and do you have adequate bonding capacity available to grow the business?

Deputy CEO & CFO Dieter Adamsas

That \$1.5 billion will have grown to around \$1.9 billion as a result of a number of major projects, such as the \$2.5 billion Mitcham-Frankston Freeway, but it's well

within our bonding capability. We have the capability to handle the work we see in the marketplace over the next few years. The \$200 million hybrid note we issued in December 2003 was designed to enhance our balance sheet capacity to support more bonding. With that in place, bonding isn't an issue for us.

corporatefile.com.au

What's the fee structure relating to these instruments and do you treat the fees as an investment or as a cost of doing business?

Deputy CEO & CFO Dieter Adamsas

They're included in our project costs and the fee structure's fairly modest. They're treated separately from any investments we make in projects.

corporatefile.com.au

Leighton's growth strategy includes further developing the services businesses, participating in privatised infrastructure in Asia and penetrating some specialised markets. Do you have the bonding capacity and the financial strength to do this?

Deputy CEO & CFO Dieter Adamsas

We believe we do. We believe the organisation with its current work in hand is absolutely well placed to sustain high levels of activity. We'll have over \$7 billion in revenue this year and the following year, and we'd expect a commensurate level of profitability. So we're thinking about the organisation beyond the next few years. We're looking at developing our Asian business, looking at our services business and also doing some thinking about other areas we can grow beyond the current cycle. That said, the issue is to ensure we extract the profits out of existing work and not distract ourselves too much in these strategic areas.

corporatefile.com.au

Joint ventures have become increasingly important contributors to Leighton's earnings, with a profit contribution totalling \$115 million in 2004, up from \$54 million in the previous year and zero five years earlier. What's driving this change?

Deputy CEO & CFO Dieter Adamsas

What's driving it is the nature of the market and the opportunities out there. The significant increase has been in the big construction joint ventures, for example the \$1.5 billion WestLink M7 in Sydney is a joint venture, and so is the \$625 million Central Reclamation project in Hong Kong and the \$370 million casino in Macau. That reflects the nature and size of those jobs. Going into joint ventures allows us to bring down the risk and bring in additional skills and resources to the organisation. So whilst there continues to be opportunities for us to be involved in projects of greater scale and complexity, we'll be doing more work in a joint venture capacity, and we'll see the contribution from that area increasing.

corporatefile.com.au

What's the outlook for the Group and what are your expectations for work in hand at December 2004 and over the next 12 months?

Deputy CEO & CFO Dieter Adamsas

Work in hand is around the \$15 billion mark. We're burning up work at the rate of about \$600 million a month, so to stay at \$15 billion is a big ask. We expect work in hand to vary from \$13 billion to \$15 billion over the next year or so but there are significant projects out there yet to be addressed, won and executed so we're not unhappy with the level of work we see coming through over the next two or three years. The issue for us isn't the work, it's being selective about that work relative to the resources we've got, and I'm not talking about financial resources, I'm talking about human resources.

corporatefile.com.au

Thank you Dieter.

For more information about Leighton Holdings, please visit www.leighton.com.au or call Justin Grogan on (+61 2) 9925 6628

For previous Open Briefings by Leighton Holdings, or to receive future Open Briefings by e-mail, please visit www.corporatefile.com.au