Leighton Holdings Half Year Report
12 February 2010

Speaker: Wal King
Good afternoon everyone and thank you for attending our 6 month presentation, I will hopefully provide an enlightening and entertaining overview and welcome all the analysts and also welcome the 2 representatives of ASIC who are sitting here in the audience, that's an unusual issue for us so I also hope the gentlemen from ASIC find it entertaining and enlightening. This presentation is webcast and at the end there is an emailing facility. I guess you're aware of all the people. Peter Gregg, Chief Financial Officer, Bill Wild, Deputy CEO and Chief Operating Officer. So I said at the press conference this morning all the easy questions are to come to me and all the difficult ones to Bill. So that's the way we go.

So just moving on with the presentation, we are pleased to report that the Group profit after tax and minority interest after the half year was up 160% versus the $289m versus $111m last year. Most people that follow the company are aware that the last years figures did include a significant impairment of $170m after tax. The operating result we believe reflects good operating conditions in the infrastructure business in Australia and Hong Kong, he contract mining business in Australia and Indonesia and construction in Hong Kong. The results pretty much on the board there, I guess they've been studied, you can see there's an influence of exchange rates, the total revenues including joint ventures and associates was down 1% and if you use the currency as it was 12 months ago in fact that would have been up about $500m. New contracts awarded and extensions were $11.7bn but the takeaway from this presentation is what I would call the forward momentum of the Group, albeit there seems to be some disappointment around that our work level is only $38.4bn, where there was maybe an expectation that it should have been around $40bn. If we had used the same exchange rates as 12 months ago, in fact the work in hand would have been around $40bn. I would put the proposition that this is really the forward momentum of the Group, if you went back several years ago it was probably in the mid 20's whatever the figure was. It's certainly up as you can see from the figures from 12 months ago, and I'll talk more about our expectation or forecast that the figure at June will be somewhere in the region of $40-42bn of uncompleted work. So the profit before and after tax was up some 160% irrespective of the forex situation and dividend has increased to 65 cents per share fully franked.

I'd just like to give you a bit of an overview of our operations and then I'll hand over to Peter Gregg to walk you through the detailed figures.

The great strength of the company as we've put over many years is the diverse portfolio of brands. The brands that are on the left hand side of the screen are pretty well known in terms of our major Operating Companies, but sitting behind each of those companies there's a lot of other companies that are in fact active in the construction and services area, some of them are named alike but some of them are not named. So you have companies like Nextgen, Nextgen is now the third biggest carrier in Australia and of course it's very well position for the $43bn that the Federal Government are speaking about spending on NBN. So a very diverse range of companies and I would call it a responsive strategy, responsive group of companies. As you all know 12-18 months ago the world was coming to an end, everything was down turning, I put the proposition at that point in time that we'd probably come through with some tail feathers singed and here we are 18 months down the track I believe with a few tail feathers having being singed but more work in hand and more profitability going forward. The thing that is very evident is that the nature of the world is rapidly changing and will change very much more rapidly in the future and it's the ability of the company to continue to adjust to take advantages of these new opportunities and having been recently to Darvos I'm full of all these world predictions that you'd have to say that in Australia and Asia in absolutely the right part of the world.

Thiess had a very good earnings and profit profile for the 6 month. Profit before tax was $169m on a revenue of $3.2bn and I think the difference in the presentation today, under the new Accounting Standards we have to disclose the profit on our operating units which was never been previously done. So I think we're getting to the point where we'll just give all the analysts all our management accounts and I won't have to make these presentations. You'll be able to work out the exact situation. The work in hand by Thiess rose some 24% to $16.1bn and in addition Thiess have several billion dollars worth of contracts in their long term, as everyone knows the work that we have and we disclose is only out 5 years, there is a lot of work past that. Certain companies I know in our competitors include all of their work that runs out but it's important that you understand that our work is only for 5 years. So with our long term contracts, when we finish the year, we roll a year on. Thiess' performance was built on positive results from its major infrastructure projects and its contract mining operations both in Australia and Indonesia. And of course the highlight of the year was the award of the $3.5bn desalination plant in Victoria, the country's largest desalination plant, and I note with interest they've been having heavy rain in Victoria at the moment. In Queensland the Airport Link project which is a massive project, probably Australia's biggest infrastructure project in joint venture between Thiess and John Holland whose progressing and we're all very hopeful that's going to be delivered on time. In Indonesia interestingly when I talk about resources in the future Indonesia has good prospects in the coal mining business going forward.

LCPL had a solid result and earned $111m for the half year on revenues of $2.7bn. Work in hand rose by some 6% to $8.8bn compared with $8.3bn for the corresponding period and infrastructure remains a big issue for them and opportunities but one of the great opportunities for Leighton Contractors will be the telco, the Nextgen and the NBN roll out and as most people are aware we were awarded half a billion dollars worth of contracts late last year and they were the first major contracts awarded by the Federal Government under their NBN program and we're looking forward obviously to them spending the other $42.5bn we're there to help them. In the iron ore business we're quite confident that the volumes and tonnages at both Yandi and Area C will ramp up as most people have seen that BHP have announced they're pushing ahead with their RPG6 program and additional tonnages will be required.

John Holland performed well with $109m profit in the half year and a revenue of $1.8bn. John Holland's work did fall somewhat their uncompleted work some 12%, a reflection of some of the big contracts that they've completed, mainly the desalination projects in

Queensland and here in Sydney. In NSW they're moving forward to commissioning the desalination plant about March this year and their mining work did improve with the award of a major contract in Queensland called Isaac Plains worth $260m.

The big growth story in our Asian operations is Hong Kong. Leighton Asia produced a profit of $44m on a revenue of $513m, but more significantly their work in hand rose by some 200% to $3.7bn as at December. Their work performed very well in Hong Kong and they have a number of significant opportunities. In the Hong Kong market there is something like $50bn US worth of infrastructure going to be completed, and of course Leighton Asia has positioned themselves in Mongolia and we see some great opportunities in Mongolia which I will talk more about later.

The Gulf region and Leighton International were rather disappointing producing only $5m in terms of revenue of $835m and reflects the difficulties in the Middle East albeit we think probably the worst is near over in Dubai which gets all the publicity. Work in hand fell to $3.7bn at December 2009. In Malaysia we were awarded a major contract on the double tracking on some 330km of rail line. In India we were awarded a major contract on alliance basis for Tata some $230m project. Our oil and gas market looks also quite promising and the work in Mumbai is performing quite well. Al Habtoor still has a great position in the Middle East and I endlessly get questioned about the exposure, we believe that the exposures that we have is really within manageable limits in the overall company's operation. The major highlight in the last 6 months had to be the award of a new port Khalifa Port in Abu Dhabi for some $430m.

Leighton Properties was exceptionally disappointing but I guess that was no secret coming down the track in the property market. They produced a loss of $18m for the half year it was impacted by the weak property market and the inability to provide financing for new projects and leasing and sales etc. The highlight had to be the pre-sale of 145 Anne Street in Brisbane for $210m that I understand is probably the only major commercial building that has been committed since the Global Financial Crisis. We do have many other prospects and we expect the property company to return to profitability next year and one of the major projects going forward is a joint venture with Devine at Hamilton Harbour where some 95% of the apartments have been sold.

So Perhaps I'll just ask Peter to take you through the financials.

Speaker: Peter Gregg
Thanks Wal. Wal has given you a lot of the numbers already and you've got the ASX report and 4D so I won't go into all that much detail, but you can see the revenue numbers there which Wal's already explained to you were impacted negatively by some $500m as a result of foreign exchange movements. There was a change in the mix of our revenue JV and associates revenue which is mainly characterised by a lot of the desal plants and things like that, were completed so they were down year on year but group revenue was up and obviously we increased the dividends to 65 cents per share.

If you look at the profit line in comparison to 2008 and 2009 on a like for like basis, profit at the N Pat line was effected by $11m from exchange negatively so it would have been $11m stronger at last year's exchange rates of 81 cent. And last year also included pretax impairments of some $239m for ConnectEast, River City, BrisConnect, Devine and McMahon. Finance costs of $81m this year were similar to 2008 and income tax of $97m was broadly in line with profit for an effective tax rate of some 25% which is based on a full year forecast. The tax rate is lower that the Australian tax rate because of our earnings mix, including earnings in Hong Kong and the Gulf region. That gave us an NPat of 289 and as I said that was effected by the exchange rate, we were able to pay a fully franked dividend of 65 cents per share and the record date is the 19th March 2010 with the payment of the dividend on the 31 March 2010.

If we look at the depreciation, a couple of key points to note in terms of our expenses our depreciation was up by around $83m compared to last year and operating lease payments up by $30m due to the gross investment we made last year of $1.3bn in new mining and plant equipment. The total written down value of our plant fleet on and off balance sheet is around the $3bn Australian mark. Going forward we see depreciation remaining around these levels due to the ongoing demand for contract mining across the Group.

The cash flow was a very strong performance for the Group, it generated $639m of operating cash flow which was up $182m on the prior comparative. Net, finance, tax, dividends and interest was an outflow of $104m, investment in plant and equipment of around $381m down substantially on the 2009 number. And borrowings were up by $129m largely due to an MTM that we put in place of $280m, non-recourse property financing of $90m and we repaid another $280m of borrowings. We paid September’s final dividend of 55 cents for $164m outflow, that left our cash at 31 December at $901m. We’re expecting our cash to continue to be strong in the 2nd half and expecting a similar level at the year end.

Looking at the balance sheet, key points to note are our assets as I said the cash was healthy at $901m, trade and receivables at $2.15bn, inventories increased to $615m mainly as a result of Leighton Properties investments in unsold property and consumables for operations such as tyres. We had a decrease in equity accounted investments because of the foreign exchange impact on Al Habtoor and other investments which include amongst other things Cross City Tunnel, LAU and CEU were broadly unchanged. Our property, plant and equipment of $1.9bn reflects investment in mining equipment, it includes $280m of finance leases. Total plant including off balance sheet is in excess of $3bn and total assets are up by $111m to $7.8bn.

Liabilities were up in line with the assets, trade and payables at $3.3bn were down 9%, current tax liabilities of $105m due to tax to be paid in Australia and Asia and our provisions of $465m relate mainly to employees for things like leave accruals and some restorations on waste mining contracts. Interest bearing liabilities to fund working capital increased by $313m but $280m of that relates to operating leases now being treated as finance leases and coming onto the balance sheet. Limited recourse debt of $652m includes $US110m for the Leighton International Notes and $US385m of borrowings for Al Habtoor and property project finance giving equity of around $2.4bn.

If I turn to the debt portfolio, our debt portfolio remains in good shape there’s only $244m of short term working capital loans. We have a small amount of facilities maturing in the next year which relates to some corporate and property loans. During the period we completed $280m of 5 year fix term medium term notes with a program limit of $1bn. The proceeds of the notes are being used to replace existing bank debt facilities and help to further diversify our funding sources. To support our projects …..we've also just recently completed a $670m syndicated bond facility out of Asia and this will be used to provide the performance bond obligations of our Operating Companies as they take on and deliver projects such as the $3.5bn Vic Desal project.

If we look at the gearing then, net debt plus off balance sheet operating leases over our debt plus equity stood at 35% at December which is downs since the 30 June figure of 42%. Figures are at lower than most of the European construction companies and is on par or better than our Australian peers, we feel fairly comfortable with our gearing position and it gives us leverage to invest for growth.

Speaker: Wal King
Thanks Peter. It's just interesting I look at my Blackberry there and the Sydney Morning Herald is running a story headlines through are 'Builder threatens Government', I haven't quite that out but it's probably worth commenting on that I was at a press conference this morning and asked the question about the Sydney Metro, speaking as President of the Australian Contractors Association who met yesterday I might say under the guidance of a Probity Officer, Contractors Association received from the State Government some 12 months ago a letter stating that they would go ahead with the Sydney Metro, and on the basis of that letter the contracting industry went forward to submit bids for the Sydney Metro and the contracting industry has probably spent in the order of $50m or $60m. there seems to be a lot of speculation around that the Sydney Metro is either going to be cancelled or amended in some significant shape and what I did say was that the Contractors Association have said that they will look to the Government for reimbursement of those contracts, those monies that have been spent, that the industry went forward on good faith that the projects would be carried out on the strength of a letter produced by the Transport Minister at that point in time. So maybe the Sydney Morning Herald thinks that's a threat, I don't know but I think it's called sovereign risk in other parts of the world where the Government gives you undertakings and back away. So anyway that's the headlines in the Sydney Morning Herald so we'll see.

Thanks Peter, I'd just like to talk about the strategy and put it in the context of how I see things. I said there's no doubt that you're in the best part of the world and if you look at the demographics of Australia in the generational report that we've just recently released and the population projections in the world to grow to some 6.5bn or so at the moment to 9.15bn in the next 40 years, and the fact that the middle class in the world is going to expand by another 1.2bn people and that 1.2bn people middle class people exceeds the whole entire population of United States, Canada and Europe. The energy needs of the world is going to double and that over the next 30 years if you want to achieve the green house targets that have been set you have to spend in the order of $US500bn a year for the next 30 or 40 years. So the demand for infrastructure and resources in this part of the world I believe will be a long term growth story.

The Group has great strategy based on diversity that I talked about, our strategy remains consistent, diversity by brands, diversity by markets, diversity by geography and delivery systems and as Peter said we believe we have the financial strength to carry out and take advantage of the opportunities and certainly we have the structure and companies. What we're feeling in Australia at the moment is a temporary slow down in the general construction market, you can see from that graph there that the levels are in fact very high relative to historical terms but in respect to the Government stimulus packages that have been applied you might say the low hanging fruit, the early projects have been done, so we're feeling in some parts of our business a somewhat of a slow down in the general construction market in Australia and we expect growth. But notwithstanding that slow down, the overall work volumes of the company should continue to increase.

There's great opportunities in the transport sector, my notes say here the $10bn Sydney CBD Metro, so we'll see what happens to that. There's more than $9bn worth of projects planned here in NSW in road extensions like the M4, the M5, the Hunter Valley expressway. In Victoria there's more than $38bn worth of projects planned and there's a huge number of projects in Queensland in both road and rail.

Whilst water has driven a number of significant projects in the last couple of years, desalination plants, there's still a large volume of opportunities in the telecommunications sector, electricity and also still water projects. In Queensland after the canning of the dams up around Gympie there's a $1.6bn desalination plant to come forward, there's new power stations in the Hunter Valley some couple of billion. There's more than a billion dollars to be spent in the La Trobe Valley, there's probably a billion dollars or so in the short term to be spent on wind farms and green energy in Australia.

The resource story I believe is a long term story, based on the growth of Asia. You can see from these projections that volumes both of coal and other exports will increase over the period and that's what we see from 12 or 18 months ago where there was a significant slow down in the market, most of our equipment is now fully committed.

The outlook for the commodities market I think is very strong. There is some $9bn worth of coal projects planned in the region. I'm not sure if that includes Clive Palmer in Queensland or not but certain things are definitely going to happen. And then of course if you move onto the LNG projects in Australia there's $150bn worth of projects planned. I think the issue with resource projects will be a shortage of skills again.

The commercial and industrial property market is expected to recover slowly, the big issue for that particular market has been the lack of availability of credit to get new projects started, the lack of confidence in the market generally but our view is that next year the property company will return to profit.

In the residential market there is a long term under build in terms of units, houses, apartments in Australia. We do have our investment in Devine which has released their results in the last couple of days, somewhat disappointing but in relative to their peers I think they've done quite well and we believe that Devine will in fact go forward as quite a strong company. Albeit the headlines in the Courier Mail have obviously focussed on other issues in the short term.

In terms of Asia virtually every place that you look in Asia there is expansion of construction activities and the jewel in the crown has to be Hong Kong. Hong Kong has some $US50bn worth of projects planned. There's a lot written that this was a government stimulus package, well in fact they were planning and I think this time last year and the year before I was talking about the expansion of the construction activities in Hong Kong. The program that's planned in Hong Kong I think has more than double the volume of work that they spent on the new airport. It includes a new high speed train from Kowloon to the Chinese border and then the Chinese will build it up to Beijing twin 28km tunnels, the huge underground station in Kowloon, there's various spur lines, there's a 3rd runway planned at the airport, a bridge to Macau and it just goes on and on. We believe in the next few weeks we'll be awarded a very major project in Hong Kong of around a billion dollars and there's a continuing supply of contracts.

In the coal business there's great opportunities in Indonesia. Indonesia's coal exports are expected to grow an average of 12% over the next few years based on its low cost to production, high quality and proximity to other parts.

Mongolia is a great story. Mongolia is approximately the same size as Queensland, it's moving ahead, shaking off its Soviet shackles if you like, there is some hundred billion tonnes of coal reserves in the country by far the largest undeveloped coal in the world. We are the largest miner there, that's an interesting photo recently, the mine temperatures go from plus 40 to minus 40. The good looking one in that photograph is Bill. So I'll let you pick which one is Bill, he had to go up there and check the temperature out. The coal production in mines is really going to move forward, our existing mine that we're working there we have a hand shake agreement to expand that up to 10 million tonnes a year. There is another mine in the western part of the country which we should finalise contracts for in the next several weeks as summer approaches to move up to start that and take that up to 3 million tonnes a year. And there is a huge deposit just nearby where we are working that contains some 4 or 5 billion tonnes of coal that the Government have announced it's going to be contract to operate it. And we do have a contract to build a new railway line across the Gobi Desert some 270 or 280km. So Mongolia is going to be a big story for us in terms of mining activity.

The Middle East of course a lot of commentary about the Middle East and where it's all going. We believe whilst the price of oil remains the high 70's, 80's, 90's there is huge volumes of infrastructure. The projects planned in the Middle East is some 3 trillion dollars worth of projects. We're working our way through the issues in Dubai but the overall region will have significant growth and we are negotiating we believe a contract in Kuwait in joint venture for some $0.5bn.

So just trying to bring all this to summary, the Group has a strong balance sheet, we have a great strong, competitive position, we have demonstrated time and time again that we can respond to new opportunities. Going forward the world will change, change more rapidly, but we're in the right part and our model we believe and has been demonstrated time and time again can respond to the new opportunities. Come June we believe and our projections show that the work in hand at the current exchange rates will be in the order of $40bn-$42bn. We have set aspirational goals over the long period of time. This year our revenues will be around $19bn and our profit will be somewhat in excess of $600m after tax. In terms of our aspirational goals I guess I'm continually asked 'well where do you see the company going?' So we did sit down this year and put down some aspirational goals, they're not forecasts, they're not guaranteed. Our aspirational goals see that in 5 years our work will exceed $50bn, our revenues will be $29-30bn and a profit of say around $900m or thereafter tax. Now people have been asking me this morning 'do you think that's conservative or otherwise', well I mean they're aspirational goals you can't draw concrete conclusions, in 5 years who knows what's going to happen.

So that's a summary we're particularly pleased with the results and I think the thing that it actually shows and demonstrates is that there is tentative recovery in the world, it is different to the way it was, the property market is different, other sectors are different. In our mining business we are running at full capacity and we show our business improving next year both in terms of profitability and volumes. So I'm happy enough to take any questions.

Question: Simon Thackray, RBS
Maybe one for Peter actually, I was just listening to Wal's comments about mining and running at full capacity and then looking at the capex numbers versus the depreciation in the accounts, so capex 382 versus 490 last year, depreciation up 412 versus 329, what should we be thinking about capex Peter in terms of chasing these great mining opportunities, it certainly seems to have done the heavy lifting and it looks like on Wal's comments it's going to continue to do that, what does that mean for the balance sheet and what does that mean for capex and what should our expectations be this year, next year and maybe the year after.

Speaker: Peter Gregg
Well I think the capex demand is going to stay the same, because we've got the contracts and they've got to be serviced as well, any new contracts is going to require more equipment, so depending on how that comes through it will drive the capex demand for those projects. I'd expect it to be about not as big as last year, this year and growing depending on those contracts as they come through.

Question: Simon Thackray, RBS
So there's no un-funded growth in any of the work in hand in terms of capex.

Speaker: Peter Gregg
No

Question: Simon Thackray, RBS
New segment reporting looking at that just perfect, very transparent, in terms of helping us out a little bit if we look at the numbers there in the segment reporting particularly Leighton Asia versus say Thiess, I'm just trying to work out the Indonesian coal mining looks to have made a big contribution in this half and then looking at Leighton International was there a change in what was happening in Leighton International versus Leighton Asia? because the numbers in terms of the segment result seem to have gone from $87m and Leighton International to 5

Speaker: Peter Gregg
Well obviously the shift of the coal mines in Indonesia from International to Asia is a reflection of that but you also took out the performance of Dubai because the International and Al Habtoor are combined in those figures. It's quite a difficult period to translate on the step through, you'll get a picture this time next year when we report Al Habtoor separately altogether. But at this point I think it's a reflection of the loss of those contracts in Indonesia and the poor performance of the Middle East as the big drop in International. In Leighton Asia, not only did they pick up the Indonesian mining operations, they've expanded their own mining operations in Mongolia quite significantly and as Wal said the performance of Leighton Asia was one of the stand out performers of the Group, it's profitability of about $44m it's a big turnaround from last year.

Question: Simon Thackray, RBS
Finally, I guess to try and help out in terms of volume versus off balance sheet, I know there's been some changes is there any feel for by geography given these opportunities in Mongolia other wise to get some sense in where the balance sheet now by exposure on and off balance sheet for the equivalent.

Speaker: Peter Gregg
Well we don't break it up geographically obviously

Question: Simon Thackray, RBS
You used t

Speaker: Peter Gregg
Yes well we do it by companies now, there's $1.1bn as you know off balance sheet there, the major component of that is in Australia but the stuff in Indonesia is self funded through a different mechanism that is now on the balance sheet.

Speaker: Wal King
It's probably worth commenting on the restructuring that we've been going through which Peter was referring to there. We took a decision this time last year to restructure the International operations and the first step in that restructuring was to transfer the coal mining activities of Leighton International from Leighton International to Leighton Asia so rather than being controlled out of the headquarters which was in the Middle East, it's now controlled out of Hong Kong so we have 2 mining activities in Indonesia there's the mining activities through Thiess and the mining activities through Leighton Asia. So Leighton Asia now controls Indonesia, The Philippines, Thailand, Vietnam, Hong Kong, Mongolia. The 2nd stage in the restructuring which is happening now is to separate the activities of Leighton International from the Middle East operations. So by June Al Habtoor Leighton will be a stand alone entity transparent and visible in the Annual Report and you'll be able to see the performance of that which will delight you or otherwise depending on how we're going and then Leighton International will be reported separately and Leighton International will encompass the operations of Malaysia, India and our off shore oil and gas business. So that's all in transition by July, it will all be done and each of those Grouping of companies will have in addition to my oversight will have a chief Operating Officer that overviews so that's the way we're stepping through by July when we do the final separation both from a management perspective and an accounting

and reporting perspective you will see next time around or maybe the time after, December, this time next year you will see Al Habtoor Leighton, Leighton International and Leighton Asia as separate entities.

Question: Joe Purtell, Macquarie
Firstly Wal in terms of your revenue expectations for the full year, can you just provide a bit more cover around the drivers of your 2nd half revenue improvement coming through and specifically are there projects coming through there like Victorian Desal that give you confidence around that number and secondly a question regarding Leighton Contractors profitability for the half it was down substantially if you exclude write downs, so just wanting to understand why that was the case. Thank you.

Speaker: Wal King
Well on the revenue it's just a change of mix of contracts and there is big contracts like the Desal plant and others that will come through and I think we believe, there's been this distortion in comparative periods on forex and we believe will be bang on $19bn near enough. There's no indications that will be different. Obviously Leighton Contractors have had some issues that are reflected in their results, you might say we're somewhat disappointed they've got 2 or 3 contracts that are marginally performing, they're passing through the system, one very difficult contract in New Zealand. They will pass through the system and be replaced by what we believe are better quality projects.

Speaker: Peter Gregg
Just Wal on that last one on Contractors there was also an fx gain in the previous year of $50m that had to be stripped out.

Question: Sammy ……, Deutsche Bank
I have 2 questions. One Wal where you're talking about splitting Al Habtoor out from Leighton International, if I recall your shareholder agreement lets you increase your stake in Al Habtoor at the end of FY10. You've painted quite a bullish outlook for the Gulf, should we start to expect that maybe you'll increase your stake beyond 45%. That's the first question. The 2nd one is because the outlook is quite bullish, are you starting to notice increasing presence of Asian contractors in the Australian market both resources and infrastructure.

Speaker: Wal King
Well first of all referring to the Middle East, there's been enormous speculation about what we intend to do with our Middle East operations from floating the company to increasing our stake to whatever. All I can say to you at this point in time is we're exceptionally pleased that our Arab partners own 55% of the business and they're working very hard to make a success of it and you've seen a number of international contractors in the Middle East that more than their tail fingers have been singed, their wings have been cut off and whatever else, so there's actually a number of international contractors withdrawing from the Middle East and our Arab partners are a huge plus. Khalaf Al Habtoor sits in what I call the 3rd ranking level of gentlemen in that part of the world, the first ranking is obviously the rulers, the 2nd rank is the sheiks and princes and whatever and the senior business people Khalaf Al Habtoor is a very well respected and that Al Habtoor empire is a very well respected empire, so we're very happy that they're

there. They do have an ambition and an expectation that over time to list the company and of course there's been no decisions and I guess many banks including Deutsche Bank are poking proposals under our door, in our email box and every other box that you can find about 'we can do it for you'. Well 'we can do it for you' mean pay us the fees. It will be floated, now at some point, mainly because the two Arab partners Rehad only has girls and they have no long term interest in the business. The Al Habtoor family are a very wealthy family worth several billion dollars and they have motor car interests, horse racing interests and every other interest, and they believe the company needs to have a life of its own and reasonably why they picked us to buy in, they picked us not the other way around. They will retain an interest I believe and we would encourage them to retain an interest, so they might sell down to 30% or whatever, but don't read that tomorrow and don't send me any proposals because they'll go straight in the bin.

Question:
Are you seeing more contractors enter the Australian market because the outlook in Australia is quite bullish compared to the rest of the world and I'm wondering whether you're starting to see new entrants into the market. I think we've seen the Spaniards bidding on Northern Link and I think some of the announcement around Clive Palmers project had a number of Chinese construction companies as part of that announcement. I was wondering are you starting to see greater offshore competition come into our market.

Speaker: Wal King
I know a lot of people wish to come into our market and I sit on the Board of Governance for the International Contract Group within the Darvos thing and the European contractor were all moaning and groaning about the activity of the Chinese contractors, then they said well the Chinese contractors don't come to these things. It's not as simple as you think where the Chinese contractors are proving to be substantial competition is in other parts of the world where they can assemble everything and take their people, they can't bring hoards of Chinese engineers into Australia, but they do and one example would be Cape Preston in WA where they've fabricated everything, put it into containers and brought it down here. There is a threat of other overseas contractors but I think it's over simplified that they just turn up here, they need staff, they need people, they need all sorts of experience and qualifications. I think a great example of that was the Sydney Metro where a lot of overseas contractors expressed interest and a condition of the pre-qualification was that you had to have recent tunnelling experience in Sydney. It's not straight forward.

Question: Alistair, JP Morgan
Firstly just on your services strategy and potentially growing that business through acquisition I think that was a feature of a previous presentation that you've made. Is that still on the agenda or has that been put to one side for the time being.

Speaker: Wal King
We have a watching brief, the business is growing organically, the services business at large is probably less profitable but more of an annuity type of business, we've been adding and we're continuing to add and we're looking at a little acquisition at the moment

to add. But in terms of a big bang, I mean there's nothing around at the moment that would be of interest.

Question: Alistair, JP Morgan
So there's nothing out of this downturn that's emerged and landed on your doorstep.

Speaker: Wal King
Well if something landed on our doorstep we'd probably have a look at it.

Question: Alistair, JP Morgan
Probably a question for Peter with the cash flow obviously a pleasing result there, to what extent was that benefited from the roll off of the fix draw down schedule from the North South Bypass Tunnel

Speaker: Peter Gregg
None.

Speaker: Wal King
There is outstanding on the North South Bypass Tunnel a big chunk of money which hasn't come in, it's due in about 6 weeks so that will be another big plus for the cash flow.

Question: Alistair, JP Morgan
That's what I was asking about. If I can finally just on some of the infrastructure projects, firstly the Peninsula Link decision and your thoughts there, was it won on price by Abi and you mentioned some of the state based infrastructure programs, can you give us your thoughts on infrastructure Australia and some of the larger pieces of economic infrastructure projects that they're proposing and especially time frames around it.

Speaker: Wal King
I think I indicated a general slow down, a lot of the early stimulus packages have been out and they were the easy ones, the easy ones are in fact in the rail corridors because they own the rail corridors and with the approval process it's rather easy. There is a number of big projects around and I think you referred to that project in Victoria, the Abi one Peninsula Link. Well we know the prices there, it's pretty public knowledge Abi's price was \$630m, Holland's was \$650 and Thiess we reckon were building an extra 30km of road because their price was \$840m Irish solution 20km of bonus I think Thiess were all mystified about what happened to their price and so am I. I think you will see, I need to choose my words here, I mean Bilfinger are running up to a float, they've got their strategy whatever that is and you'll see them take work well good luck to them. The big projects here in NSW are the Hunter Valley Expressway which is several hundred million dollars, one of our companies is in a preferred position negotiating that, the 2nd stage of it. That 1st stage is done on an alliance, the 2nd stage of that and it basically runs from the highway there the F3 just down from the Hunter River across to Branxton goes across through Cessnock, the 2nd stage of that is several hundred million dollars also and one of two, one of our other companies is one of two on that so the 1st stage we're preferred negotiating and the 2nd stage we're one of two. There's the M4 widening here in Sydney which is about half a billion dollars and we're in a preferred position and negotiating that. There is next week to be announced a major mining contract in

Queensland and we're under confidentiality and I did a TV interview and said we're under confidentiality and the TV interviewer says 'who's the client' I said I can't tell you, confidentiality. That will be announced on Monday or Tuesday. There is quite a few billion dollars worth of projects that we believe will be awarded and on that burn off, we're burning off a lot of work as you well know, our forecasts say that our work at June will be between $40bn and $42bn up from the $38.5bn. Now when we get to the 6 months and if it's $41.625bn someone is going to say 'well you said $42bn' I'm saying $40bn to $42bn. The timeline on these major projects can slip, you've got to look at the overall momentum, if you went back 5 years Travis, the work was $25bn or whatever it is, it's $35bn it will be $40bn and in a few years it will be $50bn there's no particular reason but the drawing a line and I know there's some disappointment in the results today that we said could be $40bn well it would have been $40bn if the exchange rate had stayed the same. But you've got to look at the momentum of a line a cut off period can distort the figures, but nonetheless that's what our figures say for June that uncompleted work will be between $40bn and $42bn and then we have our long term contracts past the 5 years which are several billion dollars. We have contracts now that run out for 30 years.

I have a question on the screen here that in the light of recent performance and the ongoing financial situation will Leighton be altering its strategic focus concentrating more on those markets which offer improved profit prospects. Well the answer is yes if you tell us which ones offer good prospects we'll concentrate on them. Well I don't want to be smart ass but we do have a very flexible model and you've seen the company very rapidly adjust from the world was ending 12 months ago to coming through with a few tail feathers singed and record amounts of work and great prospects so the flexibility of the Leighton model and the opportunities are Mongolia, Hong Kong, India if you believe half of what's said about India, oil and gas, and then in Australia you've got oil and gas, the infrastructure business and NBN and we've been awarded half a billion dollars worth of contracts for NBN, it's a bit of a mystery as to what they're going to award in the future. Our telecommunications network in Australia now is the 3rd largest network and we have 12,000km of cable and you will see us expanding that, there's great opportunities to expand that particular network. So we've got great prospects and we try to do the best we possibly can with profits.

Question: John, UBS
Lots of focus on FX what is your assumption for the US dollar over the coming half?

Speaker: Peter Gregg
We don't disclose that we just base it on the exchange rate, so assuming it stays the same but who knows where it's going to go.

Question: John, UBS
You made a profit on the sale of the North Luzon Highway, roughly what was it?

Speaker: Peter Gregg
I'm not disclosing it but it wasn't a substantial number.

Question: John, UBS

Final question just on the gearing laid out the way you're looking at it where do you expect it to go in the next 2 years. What's optimal

Speaker: Peter Gregg
What's optimal is going to be driven by the circumstances we find ourselves in we've just come through the worst financial crisis since the depression, a strong balance sheet is very important through that process as is strong cash flow and I think depending on the circumstances and the opportunities that are put in front of us, we've got an investment grade credit rating that will be key to our steps along the way, will the balance sheet strengthen or get a little less conservative will depend on the opportunities.

Question: John, UBS
When you look at Mongolia and Wal you mentioned earlier that the government is the client in some of these mines, how does the capital commitment work then because normally in Australia they fund it I guess, how does that work, is there any difference?

Speaker: Wal King
Someone asked me a question at the press conference about decision making in Mongolia the Mongolian Government and I said compared to other governments nearby they probably travel at the speed of light situation. Mongolia is an emerging company, it's 3 million people and emerging from the soviet communist style of management. So they've really had to get over the fact that the state owns everything, so you might ask well why is it taking them so long and they've eventually jumped all those hurdles to a point now where they are allowing people to develop mines. The big coal deposit we're working on was owned by the government and private enterprise, private enterprise is taken off part of it the one that we're operating on. We're moving from 3 to 5 million tonne a year, we have a hand shake agreement to move up to 10 million tonne a year and when the railway line is built I believe it will very quickly move up to the capacity of the railway line which will maybe 15 or 20 million tonne a year. Sitting right alongside that is this big TT deposit that they talk about which is several billion tonne of coal. The Government recently announced that rather than sell it they intend to retain ownership of it and use contractors to operate it. Well we believe we'd be in a magnificent position to provide those services so then the question of how do you fund the equipment and that in itself is a big issue, when's all this going to happen, well it's in the hands of the government and when they can get sales for it, about the only thing you can say is that this is going to give Australian coal an enormous hurry up. They sell at the Chinese border very good quality coping coal about $US80 a tonne which is competing with Australian coal $120 - $150 a tonne FOB Gladstone or Mackay somewhere, so it's going to be extremely competitive and very profitable for them.

Question: Shapan Dang for International Corporation
This is a question with regards to Hong Kong Leighton Asia. You mentioned early on that you have project in the next few weeks that's worth about $1bn can you elaborate on that, is that going to be a government project.

Speaker: Wal King
Well we believe in the next week we'll sign projects but they're under confidentiality so I can't tell you what they are but I'll tell you next week.

Question: Shapan Dang for International Corporation
In terms of that project is that going to be lasting into the next 5 years.

Speaker: Peter Gregg
We're not going to tell you anything about the project because we're under confidentiality.

Speaker: Wal King
We have to respect the clients when they ask us to remain confidential, next thing someone will say well where it is? is it 100 miles out of Brisbane, which railway line is it near.

There's a question here on the screen here 'why was there a $20m drop in corporate costs in the half year'. Maybe that was bonuses Peter.

Speaker: Peter Gregg
I think it was.

Speaker: Wal King
Travis have you got an answer to that?

Speaker: Travis Young
……………………..performed better than previous corresponding period and also in there is our net interest and the timing of our borrowings and our strong cash flow contributed to a better interest position than what it was in the corresponding period.

Speaker: Wal King
I don't know if whoever asked the question heard that but it's a combination of improved cash flow, interest charges, and a better performance in a comparative sense out of Devine and Macmahon.

There's a second question is there an opportunity to expand your margins in the contract mining given the current tight market conditions for contractors. Well I guess the answer to that is conceptually yes, when the world was ending 12 months or 15 months ago, there was a huge upheaval and endless newspaper stories that the mining industry was all over and the contract mining industry was all over miners were all going to take it back in house and save a fortune. Well that's all just a figment of imagination we now haven't got enough equipment so your expectations would be that yes we want more money but in some cases we earn more money than we actually need, I mean we earn very fair margins. I think with a lot of the clients we have you really have to be fair and deal with the equitably I mean if you're producing enough money that helps the client and builds on client relationship, but equally if you're not earning enough money and they can afford it, I mean some of them can't afford it, but if they can afford it they should pay you more but that's not an easy issue.

There's a question here about this TT Taviland Coal obviously the biggest known coal deposit in Mongolia but are there any other opportunities to do mining? Well yes there is a mine in the western part of Mongolia where we expect to conclude a mining contract for in the next several weeks and we're doing all the early sampling and box cut work and we expect that mine to be about 3 million tonne a year, albeit that it's not concluded but I think that's the general dimensions of it.

Other questions?

Question: Andrew Morlof, Morgan Stanley
Just wondering if you could quantify the magnitude of outstanding claims in Dubai and also the profit before tax margin you've touched on the reasons for the drop off there, the move into Indonesia, the slow down in Dubai and other parts of the region, I mean has there actually been expenses taken on claims that you don't think that you're going to be getting etc.

Speaker: Wal King
Well the issues in the Middle East are very complex in terms of outstanding amounts of money and I'm not being flippant I mean you would need to really get a detailed briefing which I'm not sure we'd be prepared to do. But there is in the Middle East a practice that says and used to be a practice in the construction industry in Australia but it is now outlawed is paid when get paid. So the suppliers, they're called back to back arrangements and that still exists in a lot of parts of the world where the head contractor doesn't pay the suppliers or subcontractors until they get paid, so the risk is shared around in the industry. That used to be a practice in Australia but a whole set of legislation came into place called subcontractors …Acts and whatever else that makes it illegal. But it's a practice, it does exist in the Middle East and does exist elsewhere in the world and the suppliers and subcontractors sign to those conditions and those conditions are that they get paid when the head contractor gets paid. So that's one issue, the second issue is any outstanding monies will that come forth and most of the clients or in fact all of the clients there's probably one that isn't, are really government related entities and we have been given assurances that yes we will get the monies but it's a question of timing. And the third issue is that there's a whole set of warranties exist in the Middle East between us and the previous vendors, so you bring all that together and we believe that the exposure in the Middle East in Dubai is within manageable levels if everything went bad. Everything is not going to get bad, and then you enter into an endless debate about will that be paid or not be paid. It's an issue that we work through, obviously we're not happy about it but all I can say to you is that I'm far happier that we have 2 Arab gentlemen who own 55% of the business.

Question: Andrew Morlof, Morgan Stanley
Have you actually made provisions for some of these outstanding claims?

Speaker: Peter Gregg
We make provisions for a lot of claims and we're not going to go in to anymore detail than what we've given you.

Speaker: Wal King
It's our best judgement of where we're going to end and that judgement is updated every 3 months.

Speaker: Peter Gregg
But it's not something that is life threatening, it's very manageable.

Question: Andrew Morlof, Morgan Stanley
I guess following a similar vein more around the work in hand in terms of the Middle East looking at the numbers there in the disclosure for the companies about $2.9bn for the Middle East in terms of project size, Pearl was a big project what does that represent now the total work in hand, so what's the concentration of project risk. Wal when we talked last time you said to us please don't judge the Middle East by Dubai, we've got Abu Dhabi we've got Qatar and we've got opportunities elsewhere, so what's the geographic mix and how big is one single project within that work in hand at the moment.

Speaker: Wal King
I mean I don't have the exact figures but the Pearl is a very large project, and you might say why do they need the biggest building in the world in Dubai. The pace of the building has been slowed to very small dimensions. If the job were to stop, I mean we have more of their money than they have of ours, so that mightn't be too bad a position, we're not anticipating that it will stop and the issue with a lot of those Middle East contracts are in fact the terms and conditions of payment that in fact that you do have more of their money. There's a couple of big jobs that were cancelled up there where we had a lot of their money. It's a very simple argument to see in the newspaper people not getting paid, we're usually not that stupid we are that stupid sometimes but usually not that stupid. So the Pearl is just creeping along, will it be finished, it's Abu Dhabi money and maybe comes into the psychology and the issues and environment between Abu Dhabi and Dubai, I think personally they will keep it at a very low level of expenditure and rather than taking 2 years to complete it might take 4 years to complete. But there's no indication of them cancelling it, but you might wake up tomorrow morning and they have cancelled it. The rest of the Middle East, we're seeing more opportunities in bidding opportunities there than we've ever seen, there's no lack of opportunities, there are several big jobs that we're one of two on including the Cleveland Clinic Hospital in Abu Dhabi which is a $2bn hospital, they've committed themselves to the new metro in Abu Dhabi $US40bn as opposed to 40 – 60km worth of railway line. In NSW we're going to get 5km off the ground we think. So there's plenty of opportunity we're going through a rather difficult adjustment period in Dubai, we knew that everyone knew that when the Global Financial Crisis arrived on our door. But it's all within manageable limits from a company perspective.

Question: Andrew Morlof, Morgan Stanley
One that I'm sure you'll have an opinion on, Industrial landscape particularly in Australia I mean motelling issue up on Pluto.

Speaker: Wal King
If you asked me what are the risks in Australia I mean industrial has to be a significant risk in Western Australia and Victoria, the rest of the states don't have that much of an issue and the issue really relates to the fact that the government came to power on a promise to disband ABCC Australian Building Construction Commission which had enforcement powers. There is a Bill before the parliament which is blocked in the Senate which is a transitional Bill from Work Choice to Fair Work Australia. It's held up by

Fielding in the Senate. I've made public statements that the Government should introduce certainty bearing in mind the large levels of investments that are going to occur in Western Australia and other parts of Australia to get appropriate legislation through to transition to a new era. You will see I think a lot more in the press about that. You read in Western Australia that there has been stoppages which are very expensive and not in the interests of Australia. The Federal Government I do believe are aware of that, very much aware of it, in terms of getting certainty but as we will know the Senate is a very cumbersome place to get legislation through. The current legislation has been blocked and the Federal Government are now moving to introduce new amendments to the Bill and hopefully the Bill will get through in a form that allows enforcement powers for rogue behaviour in the Union movement.

Question: Andrew Morlof, Morgan Stanley
So do you think under that current state of flux that there is some project slippage risk as people stop their commitments or contractors look to the environment to say we need certainty around this before we can make firm commitments.

Speaker: Wal King
Well I think the number of resource projects that are on the board will produce big shortages in Western Australia in terms of skill, so maybe it's not a bad thing that the pace has slowed down somewhat, that's in terms of resourcing. But in terms of certainty of industrial relation, I mean it's absolutely imperative that the Government have appropriate legislation but it's not entirely in the hands of the Government and the libs are completely nuts. It's in the interest of Australia to have appropriate legislation and the liberal party should back, if the liberal party joined the labour party in the Federal scene they could get the legislation through, but the liberal party say 'no' to everything, we're going to build a new highway, no, no. I mean it's just a crazy situation where politics get completely in the way of good decision making, now if there's a Federal election later this year as we're all expecting the Senate will be controlled by the Green's and the Green's are not going to vote for any legislation that restricts the activity of the unions. So you'd call on the liberal party to act with a national interest, but are they going to do that, probably not.

There's a question on the screen here, considering the opportunities for significant expansion and the companies inclination to maintain conservative debt levels, will there be further equity raising in the coming 12-15 months. Well I hadn't said this to Peter but I did a TV interview and the Hong Kong interviewer got stuck into me about how stretched the Leighton balance sheet was. I don't know what she was looking at but some of these interviewers come so poorly briefed about their questions and I was saying well 35% gearing taking all of our off balance sheet onto balance sheet, there's nothing hidden under the table 35% is a conservative position when you bring it all onto balance sheet, but she wouldn't have a bar of that. Are we going to do more capital raising? Well one of the issues for Leighton over a long period of time is to deem to manage its capital and we've produced as you well know rates of return of more than 30% on shareholders funds, I think some of the accounting standards, we've relied on operating leases and that sort of thing and we've relied on operating leases for risk mitigation strategy to keep it away from the balance sheet but all of that is gone.

Speaker: Peter Gregg
The other thing I'd add on top of that Wal is the fact that the cash flow of the business is so strong, that if it continues and as we expect it to continue there's no need to, we're able to fund our business as it stands. It will be some major thing that we don't know about out there that might drive that.

Speaker: Wal King
Another question here on the screen regarding mining equipment shortages is there a shortage in tyres or in a broader question how do you rank with supplies of Cat, Komatsu, BHP etc. Well Leighton probably rank 2 or 3 of the world's largest Caterpillar user, we have ranked 1, some years we rank 2, we're currently sitting as number 3 user of Caterpillar equipment in the world. Komatsu I don't know we don't buy that much Komatsu equipment. We're probably the biggest user of Liebherr excavators in the world, albeit Liebherr have a huge array of equipment. Liebheer excavators just by way of example if you want a $12m excavator you've got to wait 12 months now it's impossible to buy them.

Another question here, can you please give a rough split of the work between Abu Dhabi, Dubai and Qatar.

Speaker: Travis Young
At the moment Dubai used to be the powerhouse of our Gulf operations, but since the Global Financial Crisis Abu Dhabi and Qatar have come forward in that and I haven't got the exact numbers but all the opportunities are coming up in those 2 emirates, and it's probably at the moment about 50:50 as we're winding out the last of the Dubai work and we'll see over the next couple of years Abu Dhabi and Qatar going up to around about 60% to 70% plus the other opportunities in areas like Kuwait and Saudi that Habtoor Leighton are exploring.

Speaker: Wal King
Thanks Travis. Any other questions.

Well thank you very much for your attendance and have a happy Chinese new year.

End of Transcript

This document has been transcribed from the 2010 Half Year Report Webcast. Whilst all care has been taken, the content should not be relied upon for any investor decisions. Refer to the December Half Year Report & Quarterly Update to 31 December 2009, to receive a true and accurate statement of the Half Year Results.