

Leighton Holdings Investor Teleconference 13 October 2003

Speaker: Dieter Adamsas

Good afternoon, well thank you very much for the opportunity to talk to you about our latest award in Indonesia. I notice it got in the paper over the weekend and it ended up in this morning's paper seeing we only released it this morning

So we've been negotiating with Bumi on this particular project for a number of weeks now to bring it to conclusion, we've seen it as a significant opportunity for us through Thiess to in fact ensure that we remain the dominant contractor in that particular part of the world. We will in fact following this particular contract mine approximately 45% of the coal in Indonesia either directly or through the management contracts that we have with KPC. Out of this particular contract we end up with an extension to existing work at Arutmin which is the Senakin Mine which we envisage to be through to another 7 years which will take us through to about 2010/2011 and in terms of the KPC work we envisage that to be around another 18 years as such. In terms of our work in hand when we talk about work in hand \$US1.2bn between those two mines we're only picking up the next 5 years so we only pick up 5 years as far as the work in hand is concerned. So the \$1.2bn and \$1.7bn A\$ refers to the 5 years of those 2 contracts. We have as part of the overall package agreed with the other financiers that we would be a lender to KPC for US\$40m and that loan would be repayable over the next 5 years. The loan is clearly an indication by us of our desire to be a dominant player in that particular part of the world. We saw it as being a part of a process to ensure that we do remain there so we saw ourselves as putting some money on to ensure our position. We believe the mine is a world class mine, it has an extremely strong market position, has a proven if you like demand for it in that context and we believe it has a very secure future and that context and our loan is viewed in that sense. We will clearly now as we ramp up our existing operations in Arutmin as well as ramp up our work in KPC increase our level of activity, our revenue will significant increase and obviously we'll have an expectation of a better profit contribution in that particular part of the world over the next year as well as securing our longer term future in that part of the world which gives us the confidence as to the amount of activity and therefore revenue and profitability we've secured from there over the next 5 years and beyond. So we see it as a very positive step which has now effectively given us an incredibly strong footprint in the mining activities in Indonesia and for that part I suppose the Asian areas that we operate Indonesia really is the dominant of the Asian mining scene. So that is a brief overview and I'd like to throw it open to questions.

Question: Andrew Nicholas

Couple of questions one is capex what do you have to spend or do you take the equipment over and how does that work and segment insurance on that equipment.

Speaker: Dieter Adamsas

We'll have to procure an additional US\$80m worth of plant or gear for that particular contract on top of the \$40m loan I mentioned and that's secured through a number of suppliers and we do have with those suppliers buy-back arrangements which effectively

spreads the risk. On top of that we do have political risk insurance on our plant investment in that particular part of the world and we will obviously be increasing our coverage to compensate or to encompass that level of additional expenditure.

Question: Andrew Nicholas

Is that \$80m a purchase or a lease arrangement what is it?

Speaker: Dieter Adamsas

We haven't finalised it it's a bit academic from our point of view on whether we lease it or purchase it Andrew because from our particular point of view it's still a liability now how we fund is not the major issue, we're yet to make that judgement.

Question: Andrew Nicholas

What about the human resources to run the project, the managerial and worker level?

Speaker: Dieter Adamsas

We've got a very strong presence there now, the primary operating staff won't change, they now exist in the Arutmin Mine, what we're talking about with Arutmin Mine is some level of ramping up but the major feature of the Arutmin Mine is the extension of it, the Arutmin Mine contract was coming to close in 05 and this now takes us through to about 2010 or 2011 so that's a major feature there, some element of ramping up a million tonnes a year has been ramped up there but the extension, the staffing is not an issue there. As far as KPC we're doing 1 pit there at the moment which is running at just under 6 and we're going to ramp it up to 12 and we're going to largely use the same supervisory or the senior engineering staff to do that. It is a fully operational or functional mine as it now exists so we'll be taking over the workforce that exists there at the moment but adding our own senior people over time there as well. It will be a phased in type operation where as we're using the people we've got there and as we become more entrenched in the incremental work we'll bring some additional people in.

Question: Andrew Nicholas

What price can KPC get a tonne of coal, how many US\$

Speaker: Dieter Adamsas

From a sales point of view I don't know.

Speaker: Scott Charlton

Andrew they're mining 4 different types of coals and the new pit that will expand by another 6 million tonnes is the same as the Penang coal so the prices range from some of the stuff they sell domestically could be as low as roughly around 22 and some of the premium stuff that they sell into Japan is in the low 30's so it's really a mixture but the new pit that we're bringing on is more the high value coal which is like the Penang pit so moving more into the high end range.

Speaker: Dieter Adamsas

I don't think there's any issues there I think the prices are pretty well established and then next years output has in fact been sold, it's a very marketable commodity. Next question.

Question: Andrew Johnson

Just a question on the overall issue of risk in Indonesia, how you look at that and how you look at the returns you get out of Indonesia or the hurdle rates that you use for the region.

Speaker: Dieter Adamsas

Obviously we look at Indonesia from a country risk point of view we understand it has its own risk characteristics and so we've applied that some country view risk if you like view over this particular contract, we have also recognised that we are a lender to that particular mine now and we've taken a view on that particular transaction by one taking a view on the strength of the mine in terms of its performance in the past year and obviously we believe its been an extremely good performer and will either perform going forward, therefore the cash flow characteristics are such that we believe our loan is secure against the future cash flows of that particular mine. I suppose it would have to be a fairly catastrophic event for us to find a significant change in the assumptions that we've made. From a plant point of view besides taking the insurance that I mentioned earlier in the piece we do enter an arrangement with suppliers with pre-arranged buy-back arrangements which gives us some comfort that if for whatever reason there is some unknown event which obviously we don't expect to happen based on our planning but to the extent there is some sort of unknown event that we do have the means to unwind ourselves from our plant commitments. So that's the primary if you like pillars the only other one is the working capital and at any particular point in time we do have an element of working capital in these mines and of course Indonesia is no exception and obviously the working capital will go up in this regard but we view that in the same context as we view the \$40m that it is secured against the cash flow or the future forecast cash flow expectation of that particular mine, it has performed very strongly and expectation is that it will continue to perform and Thiess obviously is an integral part of that performance in a sense that in order for KPC and the Arutmin Mines to achieve the cash flow characteristic they have to have a more than a competent contract miner to ensure that the output is there and able to be sold.

Question: Andrew Johnson

Just finally on the loan I assume that the loan is on normal commercial interest rates?

Speaker: Dieter Adamsas

It's at commercial interest rates which recognise the environment in which the money has been lent.

Question: Gavin Rogers

On the revenue – are you able to give an estimate of I suppose the increment relative to the revenue that you're doing now from the projects, how much is it likely is it to step up by?

Speaker: Dieter Adamsas

We'll probably I suppose as the thing ramps up be looking at doubling our revenue. As I mentioned earlier we'll be obviously stepping up in terms of the Arutmin Mine and as well obviously going from a more modest output on the KPC Mine to ramping up a significant component on the KPC Mine as well as we'll be taking a management role on the

balance of the KPC Mine. The KPC at the moment we're running towards 6 million tonnes we're going to 12, the mine is currently 18 it will probably go between 23 and 25 so the balance between the 12 say and the 23-25 we'll have a management role and we'll have to see how that pans out as to what our final output expectations are it won't be any less than 12 in KPC as well we'll be doing somewhere around 10 or 11 in the Arutmin Mine.

Question: Adam Upton

How does these contracts effect your levels of bonds and guarantees?

Speaker: Dieter Adamsas

On the bonding side of it mining contracts as the rule don't require bonding or guarantees as such so this particular contract will not encumber our guarantees.

Question: Andrew Nicholas

This \$40m loan is that all yours or is it part of a syndicate there and what's the general loan

Speaker: Dieter Adamsas

It's all ours.

Speaker: Scott Charlton

Andrew its roughly a US\$405m facility and we're just one trench in that facility and the rest of the facility is taken up by international financiers. So it's all senior secured I guess the emphasis of KPC and the normal wraps of covenant against the company so it's a standard market facility at market rates set for Indonesian financiers.

Question: Andrew Nicholas

And the purpose of the loan?

Speaker: Scott Charlton

To help Bumi acquire the assets of KPC.

Question: Andrew Nicholas

Are there any other parties?

Speaker: Scott Charlton

It's just Bumi at this time.

Speaker: Dieter Adamsas

No more questions, I'll just make one other comment it was part of my preamble early in the piece is that with this particular contract as well as the award we announced recently in Malaysia and of course we announced similarly in the last week or two an award in Hong Kong and that was the Eagle's Nest Tunnel, and with those it gives us a very strong workload in Asia. My expectation would be that Asia will perform stronger now looking forward to the next couple of years than we may have been talking about over the last 3 months, so the last 3 months we were probably of the view that Asia would remain flat in terms of its contribution, we're quite clear that in percentage terms it would

come off fairly significantly relative to what we're seeing in Australia. What we're seeing coming through is these major awards over these last few weeks is that Asia both in terms of its work in hand will be a high proportion than we would have thought of, albeit still won't be the same level as it might have been a couple of years ago but in clear dollar terms it's going to be a lot more significant than we would have thought 3 months ago, in that sense the revenue and also the profit contribution we would expect Asia to be better than we would have made 3 months ago. We're quite confident of what Asia will in fact produce to the Group over the next few years and the importance of these particular contracts it provides a phenomenal base level of activity in Asia and particularly in mining and as far as Indonesia is concerned puts us in there as one of the primary Australian countries over the next 5 plus years.

Question: Andrew Nicholas

What would the Asian work in hand be now in terms of dollar terms?

Speaker: Dieter Adamsas

Over \$3bn I'd say now Andrew, so if you look at the context of say our total work in hand which is running with this sort of thing we're over \$11bn now, so Asia is probably running back again to mid to late 20% of our work in hand the way it's running as I would have said probably a few months ago I would have said running at between 20 and 25%. So this has probably given the overall Group a big jump forward as well as obviously given the Asia component a significant kick ahead.

Question: Andrew Nicholas

And what currency will you be paid?

Speaker: Dieter Adamsas

US\$

Question: Andrew Hogan

I was just interested in your comments about the Asian business now starting to improve but I was interested in the margin level, last year you saw a decent kick up in your pre-tax margin but I notice a couple of contracts have finished and interested in how that balances up at the margin level.

Speaker: Dieter Adamsas

As far as Asia is concerned it's no different to Australia, we look at margins in terms of the type of work and risk environment in which that work is being executed, so the work we win in Malaysia, Indonesia and Hong Kong follows exactly the same pattern, so it's the nature of the work, contract mining, the particular risk profile that we're taking in the contract mining, what sort of a contract, schedule of rates situation down there and I suppose the country risk that we're engaged in. So the margins in fact reflect that situation and in a sense we don't expect the Indonesian margins or the contribution of Indonesia to be any different out of this additional work than it has been in the past, as similarly we don't expect the contribution from Hong Kong and Malaysia to be any different than in the past. So we expect in the broad to maintain our margins at historical levels albeit that you've probably got a bit of false dawn out of Asia at the last particular count because you were seeing a run off of a number of contracts and from the way we

normally account we tend to drop more money out towards the end of a contract than in its early life for obvious conservative reasons. So you probably saw a bit of an aberration there bit if you take it on a more normal life type curb we'd expect the Asian margins on this additional work to be in line with what we've been getting on the last few years.

Question:

The 8.5 is probably is a little bit too high.

Speaker: Dieter Adamsas

It's a manifestation as a mentioned a couple of minutes ago we're seeing the tail of a number of contracts but there's a high proportion of the monies coming out towards the end rather than at the early part.

OK if there's no more questions I'd like to thank everybody for joining us here and if anybody has any questions that come to mind in the next day or so by all means give Justin a call and if Justin can't respond we'll get back to you. Thank you.

End of Transcript

This document has been transcribed from the Investor Teleconference, October 2003. Whilst all care has been taken, the content should not be relied upon for any investor decisions.