



## **Conference Transcription**

**14<sup>th</sup> May 2009**

**09:30 AEST**

**Leighton Holdings**

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Operator: This is Premier Global Services please stand by we're about to begin. G'day everyone and welcome to the Leighton Holdings 3rd Quarter results conference call. Today's call is being recorded. At this time for opening remarks I would like to turn the conference over to your moderator today, Mr Scott Charlton, please go ahead

Scott Charlton: Great, thanks Dave and thanks everyone for joining the Leighton's conference call for the 3rd Quarter. I'll just do some quick overview of the release and where we are currently at - hit a couple of topics and then open up for questions.

So obviously as I said the 3rd Quarter results, going over some highlights, work in hand now standing at \$36.5 billion which is up from \$28.1 billion at the same time last year. Essentially the group other than the Middle East is holding where we were in December if you look at our work in hand in December \$37.5 billion and you take out the [unclear] Leighton projects that have been cancelled the group is holding its position in the current environment which we are pleased with and then we can talk a bit more about the outlook and some of the major projects we now see coming down the pipeline.

In terms of margins the margin hand is still at high levels and holding up well but there is some pressure across the different markets and happy to take some questions in that vein. Revenue for the nine months up 37% to \$13.7 billion and our unaudited profit after tax of \$220 million for the nine months versus \$375 million for the same time last year. But of course that was impacted by the recognition of \$175 million of post tax asset impairments which we reported in December as well as we have taken a further \$15 million in the 3rd Quarter on asset impairments mainly from ConnectEast.

So against the backdrop as a quote from Wal said, in the current environment you know the underlying operating result remains solid. That being said though the group is continuing to face some pressures on its performance for the remainder of this year and again we'll talk about the outlook in a minute.

Hitting some of the highlights of the quarter, some of the new work that we've signed up as Leighton Contractors alliance bid with the RTA for the Tarcutta bypass project in New South Wales. It is pleasing to see HWE is continuing to roll out

additional iron ore work with BHP at Orebody 23/25 mine there in the Pilbara worth some \$400 million. In Indonesia Thiess received a major extension which was a US\$1.5 billion extension to its Senakin and Satui coal mines in Indonesia.

Leighton Asia has secured its first mining work in Mongolia and I think several of the Wal and Bill Wall are up there sometime in June July to visit that and that could be quite a large mine development over time. But the first stage is \$350 million and the six year contract there.

Thiess Services in the Middle East in a joint venture with Al Habtoor Leighton Group signed a 15 year waste management agreement worth some \$475 million for the management and demolition of debris in Abu Dhabi.

In April outside the quarter though but a couple of highlights some new work line included Leighton Contractors in joint venture with Macmahon was awarded a contract over some \$500 million to develop part of the RGB 5 expansion rail project for BHP in the Pilbara and I'm particularly pleased with that because not only did we obviously win the construction work but it confirms BHP's expansion plans for bringing additional tonnages of iron ore out of the Pilbara.

Leighton Contractors was awarded a \$1.1 billion contract to develop the Queensland Government's public private partnership in relation to this latest round of schools. It features some seven new schools in a construction contract worth \$245 million and then obviously services as the other component and that was closed financially just recently which is positive.

The share of the private sector still has money out there for a well structured deal particularly in the social infrastructure space.

In regards to the Gulf region I think we've highlighted a couple of projects that have been cancelled and suspended recently, particular Dubai has experienced some difficulties around the famous GFC although Abu Dhabi and Qatar seem to still be on target to deliver some ambitious plans but obviously scaled down from where we were last year.

We continue to see some new work awarded and we are hopeful of some new work in the short term in Abu Dhabi which seems close but we've had other projects obviously cancelled or deferred.

In relation to the balance sheet it remains solid with total assets of just over \$8 billion and net assets in excess of \$2.25 billion and gross cash at the end of March of some \$550 million odd.

The operating environment though is presenting additional challenges and our clients are reacting to the global financial crisis and the impact their businesses. I'm sure I'll get the question so I'll address it now. The working capital has deteriorated for the group but we've ended now our big capex build up and we have sufficient facilities and cashflow in place to see us through and you know still in a strong position.

Working capital impacts has also been felt because of the big infrastructure projects like NSBT and Gateway we're on some fixed drawdown schedules and we're running significantly ahead of budget but those will reverse itself out towards the end of this year or the first quarter of next year when both those projects are running to completion.

And obviously the Middle East, getting some payments out of the Middle East has been a bit sticky but we're managing our way through that and we don't see a major issue with any bad debtors or bad - our creditors, most of our clients still remain blue chip or government and we're comfortable with their ability to meet their contract obligations.

As I said as well as coming to the big end of a capex spend and we expect to see capex less than depreciation going forward which means we'll start to generate significant levels of cash in the future. And we'll continue to manage our capital deployment in response to the operating environment we see.

Just on that environment, some quick notes on the outlook. Obviously in the short term the next 6 to 12 months, we still see some significant volatility. I think I've said before it's easier to have clarity 18 months to 3 years out there than it is over the next year period given the amount of spin about the state governments and Federal governments have announced, we will start to see that money and those projects flow through probably a year or so out. And also with the outlook that we believe is there for the resource sector in both iron ore and coal we are still very positive about the long term outlook.

Obviously you've seen the Federal budget commitment to infrastructure, the Victorian announcement not too long ago, so again a real commitment from government to provide stimulus to the economy through an infrastructure spend which will benefit the Leighton Group.

In particular the government announcement of the \$43 billion fibre to the home project will suit the Leighton Group down to a T with several of its operating subsidiaries both from a construction and operation and then also from Next Gen which has one of the biggest fibre optics, broadband networks already existing which again should benefit from the government's program.

Some other new major works that we are currently tendering include the \$3billion Victoria Desal, which is expected to be awarded sometime in July August. We are still bidding on the Department of Defence Singe E project which has been out there for a while. Recently the Victorian Government has announced the \$750 million Peninsula link project and that is expected to be awarded in the second half of this year and then the whole plethora of jobs just recently announced by the Federal government. So plenty of work and as I said before it's sort of a timing issue of slowdown that started hitting the business towards the back end of last year calendar year and when all this new work picks up we expect towards the beginning of calendar year 2010.

Again on the resource sector, if we look at what we believe are the plans are for BHP and the volume outlooks that we see from Australia we still remain quite positive about the mid to long term resource sector and the Leighton Group role in that and all signs are that we will still see volumes at similar levels and those should be increasing in the medium to long term.

Property we are currently still struggling and one of the reasons why the profit has been written back on top of the \$15 million of additional impairments mostly relating to ConnectEast is in relation to property it continues to deteriorate and we have had I guess additional operational and some small impairment issues and we're watching it very quickly as we move forward in this environment debt and valuations - our debt continues to not be available and valuations continue to fall. It's obviously not a big part of our asset base but it is having an effect on us and is part of the reason for the revision from 480 to 430 on the outlook.

For the financial year this year, the group expects to report full year revenue approaching the \$19 billion mark. Net profit after tax is expected to be approximately the 430, which is in the press release and that includes the write down in investments already recognised. And this obviously represents a change from the previous guidance which I just discussed at the 480.

On top of the both ConnectEast and Leighton Properties which I mentioned because of some of the project deferrals and cancellations in the Middle East that is affecting on the result as well. The Al Habtoor acquisition still remains above the model of its forecast in profit but where we had originally forecast its contribution in the last year has deteriorated with some of the deferrals and cancellations.

In terms of the dividends, the company expects to pay a final dividend consistent with the revised profit for the full year and the directors will obviously determine that in August once the accounts are finalised.

I think again the strength of the Leighton Group is we've had a diversified portfolio of contracting and development work in some core markets of infrastructure, resources and property obviously spread from a geography base. Particularly the infrastructure and resource market looks set to recover quite strongly for us and again on the outlook we think, certainly 2011 and beyond looks quite positive. This diversity is helping to dilute the effects of what is happening in the other environment around the global financial crisis and positioned us well for the longer term.

For 2010 at this point we're expecting revenue to be around similar levels as 2009 but we will provide more guidance when we get to the full year result.

So that's a summary of Leighton, just as an aside, because I am sure you will ask the question in relation to Macmahon, they've gone out to do a capital raising which obviously we are aware of and support and we will be taking up our full entitlement in the offer plus we've agreed to participate as a partial sub underwriter in the retail offer that could see our stake increase from the currently just over 17% to about 19.% which is consistent with the MOU which we signed with Macmahon's two years ago and we are seeing some fruit come out of the Macmahon's joint venture with the recently announced RPG 5 project.

So with that quick overview happy to take questions now, Dave.

Operator:

Thank you. The question and answer session will be conducted electronically. If you would like to ask a question please do so by pressing the \* key followed by the digit 1 on your touchtone telephone. We will now proceed in the order in which you signal us and we will take as many questions as time permits. If using a speaker phone please be sure your mute function is turned off to allow your signal to reach our equipment. Once again please

press \* 1 on your touchtone telephone to ask a question. We will now pause for a moment to assemble a queue.

Question: (Samir Chopra, Deutsche Bank) Good morning, Scott, I had two questions. First of all if you look at the margin compression that is happening in 09 it would appear the underlying NPAT margin which was running at about 4.2% last year is about 3.2% this year. Can you talk about what is driving that? How much of that is timing effects on projects and how much of it is due to project cancellations or clients demanding tougher terms. The second question is around working capital and whether you can give us a sense for where debtor days are at right now. Thanks.

Scott Charlton: Thanks, Samir. Around margin compression we talked about it at the half year result that Leighton Properties was basically nil contribution now it's a negative contribution so Properties is bringing the result down and has because it doesn't have much of a revenue it has a more significant influence on the margin. But it's not so much, Samir, I think the tougher terms and conditions from the client it's more the operating environment with the volatility of the Aussie dollar, commodity prices, some of that plays in our favour, some of it doesn't play in our favour.

It's just working through these wild swings that are occurring in the different sectors. But certainly there has been some execution margin compression but we're not seeing at this point as much, Samir, the tender margin, the margins we are able to achieve in the market fall dramatically but that is coming under some pressure but is still holding up. It's just this volatility that's occurring. Then the overarching effect that property is now coming in at a loss as opposed to no contribution in December. That is where the margin compression is.

In relation to working capital, our debtor days haven't changed that much, Samir, it's some issues that we're dealing with in relation to things like NSBT where we have - it's a substantial amount of money the joint venture which we are half of, it's hundreds of millions of dollars that we are ahead of schedule there that we are having to fund at the moment. You know we had the issue in ConnectEast it was December last year and it reversed out by June the following year - sort of June last year, so we are just having to work our way through that.

We've had some issues in the resource sector where our clients have changed operating conditions and terms and moved plants around and all that kind of stuff and then you have got to re-align that and then re-align it with your payments and recoup that over a few months as you adjust your payment schedule. All those

things are contributing and money is just a bit stickier, no doubt about that, Samir, but of course it is stickier to Leighton and we try to pass that along.

The big issue is the capex spend coming to an end, is the biggest issue, Samir. WE will spend about \$1.3 billion in capex this year and all of that plant is working and all that is committed to existing jobs. And in fact if we allowed our operating divisions would utilise a lot more capital but at this point we are just being conservative in how we look going forward and make sure all the plans for it are fully utilised. It's really that capex spend coming to an end. A couple of these under claims and these big jobs reversing out and moving forward. So it's not necessarily the debtors holding us out longer, it's more those issues.

Question: (Samir Chopra, Deutsche Bank) Scott you mention that there's reasonable volatility over the next to 6 to 12 months which is impacting on margins. What would you need to see that might suggest that margins are now stabilising. In other words what would you need to see in the markets for margins to return back up towards that kind of 4% type level?

Scott Charlton: Well you have got so many different markets all affected by the same event. I guess they are all being driven by the current volatility around the world. You have got the resource sector where you've got the issue where we are still seeing the same sort of volumes but obviously we are having different clients adjust to changing their mining environment. WE have some clients scaling up, other clients scaling back, other clients moving from coking to thermal coal. So we are having to make all these adjustments.

What we are looking for is for the market to settle down into where you have got some - and the clients can settle down into this and they can plan for a medium term where it's a smoother operating environment where it stops us from sort of jumping around a bit, that would give us comfort in the resource sector. We are still seeing the same volumes and all the equipment is working it is just that we are having to make quite a bit of adjustment and be quite nimble to deal with the changing circumstances of our clients and that puts pressure on our margin to make sure we pick up those costs in making all those changes.

On the infrastructure side the issue is getting that new work financed by the Federal and state governments which we know will get done, the states and the Federal government have announced it, it's just bringing it through. On the volatility side the Aussie dollar and the commodity prices - I think as we get

through this and they are starting to get a bit more stability around it - it's just when you've got the price of steel and the Aussie dollar and oil and everything else being and fuel being so volatile, planning for it and executing sometimes it's not necessarily in our favour.

So we prefer a much more stable environment, unlike a bank that likes all the volatility, we prefer a more stable environment. So it will work its way through, Samir, another three months, six months but the big issue is the funding from government and we see that coming through.

Question: (Samir Chopra, Deutsche Bank) Thanks a lot, Scott, thank you.

Scott Charlton: Thanks, Samir.

Question: (Simon Thackeray, RBS) Morning guys, I heard you placing a bet whether it was going to be John Purtell or I who asked the first question. [Laughter] JP I beat you to the punch.

Scott Charlton: We lost.

Question: (Simon Thackeray, RBS) Yeah, ah you lost. Just a quickie. Looking at the balance sheet I mean obviously Samir is sort of probing into areas that I think are relevant given what we're hearing out of the Middle East and I guess as you've confirmed, sticky payments, UK engineers overnight saying they've been asked to accept 25% to 30% hair cuts on their invoices that they've submitted into [unclear] and things like that. I guess separating fact from fiction is always helpful. But in terms of where the working capital is and where we sit going into the end of 09 from here, what does the gearing estimate look like, Scotty, to the end of 09? Where should we be thinking about gearing by the end of 09?

Scott Charlton: I think you - sort of on a net basis, Simon. There's so many things that have come in in the last couple of months, but I think on a net basis it will probably be around the 50 to 60 basis, so net debt to shareholders' funds.

Question: (Simon Thackeray, RBS) Yeah okay and that includes the view of you taking up your rights to the capital raising in Macmahon.

Scott Charlton: Some of that is time, it's going to be just over \$10 million or something, so that's not much money, yeah, yeah, yeah.

Question: (Simon Thackeray, RBS) Yeah, \$10 million here, \$10 million there. And the ...

Scott Charlton: I know that's what it's like for you, Simon.

Question: (Simon Thackeray, RBS) Yeah and the work in hand estimate for the end of 09. I notice this is the first time in as long as I've been looking at the stock and maybe longer that work in hand has gone backwards half on half. What are you expecting for the full year, what are the team expecting?

Scott Charlton: I think we expect it to remain around the number we have now. Again the big impact was the Gulf, other than the Gulf write backs we would be consistent with where we were in December. The only caveat I would use on that, Simon, is that the impact of the Aussie dollar on the work in hand can move it a billion dollars or so.

Question: (Simon Thackeray, RBS) I understand.

Scott Charlton: In constant terms we should be about the same level.

Question: (Simon Thackeray, RBS) Okay. That's fine and then just finally, I'm sorry if you've already answered this, just at the beginning of the call, I noticed that obviously the state profit has fallen, well the state profit guidance has fallen from 480 to 430. Just the component parts, I understand there was something about the \$15 million in additional impairments at the 3rd Quarter or something. What's in the delta, what's in the \$50 million.

Scott Charlton: I love how you, you picked up the bet that we were whispering but you didn't pick out where the profit was?

Question: (Simon Thackeray, RBS) Yeah because that is in Q&A time.

Scott Charlton: Okay. Look you've got the impairment of 15 then the two other major components are properties and that's probably - and roughly it's in the order of 15 and you've got the Middle East which is - I mean its other bits and pieces, you've got the Middle East it's another 15 and then bits and pieces.

Question: (Simon Thackeray, RBS) Odds and sods.

Scott Charlton: Yeah.

Question: (Simon Thackeray, RBS) Okay, thanks very much, guys.

Scott Charlton: Sure.

Question: (John Friedman, UBS) Good morning, I think Thackers has probably taken my question which was really to break up that margin so quite comfortable for you to go on.

Scott Charlton: Oh, right, thanks John.

Question: (Matthew McNee, Goldman Sachs JB Were) Scott I've just got two questions probably more in relation to next year. Firstly just on all the infrastructure programmes that the government has been talking about with money getting put in budgets etc. How much of that are you starting to see come to fruition. Is it more of an FY11 benefit or do you see any benefit at all in FY10 from those programmes?

Scott Charlton: Look, from some of the state budgets you'll see some of that in 2010 but the reality is that those major projects by the time they are awarded and we get the 20% completion you are really looking at 2011 for the majority of those projects. I mean there are some of those more state based projects because the Federal projects you could see in 2010. That's why I said it is easier to have visibility out 18 months because all of that stuff will be flowing through than maybe in the short term. That's why we are saying revenue is flat for 2010.

Question: (Matthew McNee, Goldman Sachs JB Were) Just on the infrastructure side in Australia which is a fairly big part of the group, would you expect to see revenues dip before they pick up again or is there enough work there to maintain current activity levels before you see the pick up?

Scott Charlton: Yeah one thing I should have probably said and we do have a pretty historically high - because the revenue is forecast - sort of saying it's flat next year. We do have an historically high committed work in hand for that revenue. I don't really expect to see it fall off because most of that that we are forecasting for next year is committed.

Question: (Matthew McNee, Goldman Sachs JB Were) Just on the other major business which is obviously domestic contract mining business. Again if we look into next year, to date we haven't seen wholesale cutbacks on mining volumes, what are your expectations for next year, are there any big contracts rolling off or are there pre-strips or things like that you are doing that may come to completion or do you still see relatively flat revenue notwithstanding the profit recognition but the revenue side from that as well?

Scott Charlton: This is the harder one because the stuff we see is contrary to - stuff we're seeing and what the clients are talking to us about and the potential is contrary to I guess the wider view and what has been happening to some other players. We have got clients asking us and looking at some very, very big expansions that we

are sort of being cautious with our capital and capital purchases and wanting to know how real these are. So there is always a chance that some of these roll off or the clients don't move forward. This is the real contrary thing. We are seeing some clients, particularly because we are with the blue chip guys mostly low cost producers who may change their marketing outlook or their opportunity to potentially grab market share or to tap into some new markets.

At this point and things change pretty quick, so I have to be careful, from this point on I'm less concerned about the - I know it's a funny thing to say - but less concerned about the resource market. When we went through a period there I think from November to February where there was just a lot of noise everywhere around every single mine everyone was working on, I think we feel a lot more confident after this last review and discussions with our clients of what they want to do.

Now they are not near the plans they had a year ago but most all of the clients we are working with their plans aren't cutting production in the medium term. They are looking at increasing production. Now in the short term they've got gaps and holes and things that fall through, but we're managing our way through that. But most of what we see in the medium term outlook is positive.

Question: (Matthew McNee, Goldman Sachs JB Were) No worries, thanks.

Scott Charlton: Thanks, Matthew.

Question: (Alistair Reeve, JP Morgan) Hi Scott, hi Justin. I just have a couple of quick ones. Just trying to back out the guidance against the nine months and it looks like you're factoring in a very strong final quarter, circa, well more than 4% operating NPAT margins? Could you give us a flavour of what's driving that?

Scott Charlton: Well, Alistair, as you know the timing when we recognise some of our profit the 20% threshold, there's a couple of major projects that will cross that threshold in April, May and June and those are basically already in the bank, one of them has already passed. So it's just the timing of when some of the profit comes out of the jobs. And we always have a strong last quarter.

Question: (Alistair Reeve, JP Morgan) Just in terms of any sort of other ...

Scott Charlton: Sorry, also should say not without its challenges as we said in the announcement so the operating environment is still challenging, so not without its issues.

Question: (Alistair Reeve, JP Morgan) I guess just to confirm we should think about the operating guidance as the 430 plus the 190 to get your 620 for the full year?

Scott Charlton: Oh, you can do the math, yeah.

Question: (Alistair Reeve, JP Morgan) Yeah. So my final question was any update you could give us around funding of larger PPPs and how the market is developing post the sort of complete shock there to the system?

Scott Charlton: Sure. I guess what we are still seeing is appetite in the social sector. We closed the Royal North Shore Hospital in the last six months. We closed the schools project - there's been some other social infrastructure and they tend to be smaller a couple of hundred million by size which seems to be a market there for that. And those projects seem to be moving forward. The economic infrastructure, the big stuff the toll roads, the desalinations and others - yeah I think liquidity for debt - there still is equity out there but it's fairly expensive. The liquidity around the debt side I find it is - I need to use the right words - it's very challenging and I'm not sure that the government should rely on the private sector in the near term to fill these gaps. I think what the government has to do is step up, fund these projects and if they want to on-sell them at a later date, or at least to fund the debt.

But I'm still seeing a deterioration in the debt available for the PPPs and we've just recently had more banks that participate in this sector downgraded or leave the market. I think for us the government will do the work whether it's privately or publicly funded, I think it's going to need to be publicly funded and I just want to assure everyone on here, I mean the way we look at these economic infrastructure projects as well from our participation on the equity side is going to be very, very different going forward giving that pain that our shareholders have had to take around these asset values. We are looking at adjusting our risk model which will have a flow on effect through all these PPPs.

Question: (Alistair Reeve, JP Morgan) Okay, thank you.

Question: (Cassandra Meagher, CommSec) Morning. Just three questions I've got around outlook. The first one is on property. Are you thinking about a turn sort of FY11, FY12. Second question on the construction side of things - do you think there will be enough private sector spend or public sector spend to offset some of the private sector downgrades that we are likely to see coming through? The final question, in the half you commented that Hong Kong could be a source of good international revenue. Can

you comment on other international construction revenue markets?

Scott Charlton:

Oh great, yeah, okay thanks, Cassandra. I guess on the property market on our forecast next year we are seeing very little if any contribution from Properties but we are forecasting some level of recovery in 2011. I mean we got all kinds of experts' reports from all the real estate experts suggest that is the case if you look at the vacancy rates it doesn't show sort of a cycle that has happened in previous property downturns. That having been said they never forecasted this one, so that is the forecast for 2011.

In the construction side the answer is yes we see the government spending enough to offset in the slowdown in the private market. The private market was never a huge market for us anyway but we do see the spend there and it is just up for us to win it and go capture and execute that work.

In relation to the other offshore markets and thanks for raising Hong Kong, Cassandra, I mentioned that because it is a very bright spot at the moment. There is a massive programme the Hong Kong Government is rolling out which we are now tendering in fact they are having to supplement some of their tendering staff out of Australia to Hong Kong to help support their effort because of the amount of work the government is tendering. And we are hopeful we will pick up our fair share of that. So there is a big programme there.

There is the work in Mongolia that has started well and that could lead to something much bigger. If we touch on the other markets. The South East Asia markets other than Indonesia, I will come back to that. So the Philippines and the rest of that market is all very, very slow at the moment as they deal with their financial impacts.

Indonesia, on the other hand seems to be responding to part of this crisis, or at least the coalminers by looking at increased production as you saw that contract extension awarded to Thiess. So the resource activity in Indonesia seems to be increasing and still a good market for us.

In India we continue to do good work on the oil and gas side but the other civil work - we've got a couple of major property construction opportunities that hopefully will come off in the next few months. But work in India is tough at the moment given the current conditions. I think we've sort of touched on the Middle East. That is our major markets but Hong Kong still looks very positive.

Question: (Cassandra Meagher, CommSec) Just one follow up question on the construction side of things. Given the size of the projects the government is letting, do you think there's likely to be more competition with medium tier players for some of those projects. Do you think it will be harder to win and what impact might that have on margins?

Scott Charlton: Yeah, you know there's always - from a Leighton perspective we are always going to have competition. I don't - I think sometimes some people get the impression just because we are big that we are somehow fat and lazy with what we do. The only reason we got here is because we are more competitive and more efficient and able to do these things better than our competitors in the past and we expect to maintain that position and we will see off any competition that comes into the market as long as we produce a good return for our shareholders.

And if someone wants to be suicidal, then they can take that prerogative and they won't be around for the next tender. Certainly in the small sector I'd say 50 million and below there is a lot more competition, Cassandra. Bu once you get over bidding contracts for 100 million there might be more competition but people that get to that level don't usually make silly stupid mistakes. And if people are able to win those contracts are more efficient then Leighton will adjust our model to make sure we can compete with them. So all this talk about competition and the Federal government and the state government, I mean we just say, tell us what the rules are and we'll play by the rules and we're pretty confident we will win more than our fair share.

Question: (Cassandra Meagher, CommSec) Thank you, that's great.

Question: (Chris Savage, Goldman Sachs JB Were) G'day, Scott, g'day, Justin. I'm aware Matt's asked a question so I'll be quick. Round the working capital issue, Scott, you said at the half year result you thought operating cashflow would be a billion plus for the year. Are you prepared to put a figure on what you think it will be now?

Scott Charlton: Not prepared at this point, Chris, to really put a figure on it but it will be down from what we were sort of thinking. Hopefully it will be around that number, but certainly there is more pressure on that with these under claims.

Question: (Chris Savage, Goldman Sachs JB Were) Just a quick follow up. The additional impairment seems to be largely around ConnectEast as you said, so there was nothing for BrisConnect or no requirement for an impairment charge there?

Scott Charlton: Not with BrisConnect because we don't put the money in until 2014. It's revalued on a DCS basis and at this point in time - we haven't changed our view since 5 January and our valuation although we continually and constantly look at it. Information comes lie to the market and the directors will - we had a look at it in March, the directors will have a look at it again in June, unless something dramatic happens between now and then and make an assessment.

There are a few things, River City motorway will open up next year, but at this point in time we think the valuation hasn't changed since January.

Question: (Chris Savage, Goldman Sachs JB Were) Okay, thank you.

Scott Charlton: But it is fun to read in the press about it.

Question: (John Purtell, Macquarie Group) Good morning, guys, hopefully Justin took the other side that I'd ask the last question not the first. [Laughter]

Justin Grogan: I knew you'd be in there, John.

Simon: We just wanted to hear the crying baby in the background, John.

Question: (John Purtell, Macquarie Group) Thanks, Simon, I think that was you. [Laughter] Just in terms of how much FY10 revenue you've got locked in at this point, I think previously you'd indicated 705 is that still the case? What do you think around your ability to win the other 30% in view of the project outlook there?

Scott Charlton: Look where we are around that level it might be a bit higher. Again, I mean we wouldn't forecast, we wouldn't tell you that we think the revenue is going to be flat if we didn't think we had more than a fair chance of winning that, John. Sitting here today we should be able to grab that additional revenue. There is still work out there, there is still private sector and public sector work out there. But it is just a bit more volatile, but we believe we can capture that.

Question: (John Purtell, Macquarie Group) How significant is the effect of clients pushing out revenue. So you've got the work in hand which is strong with clients pushing out the timing of revenues and which markets, presumably the Middle East that is most pertinent.

Scott Charlton: Well it's the Middle East, it's infrastructure projects here in Australia with the governments running up to their end of financial year budget and then re-assessing where the funds will

be allocated and the slowdown here and speed up here. That is one of the issues we are dealing with, the same with the resource sector. Everyone seems to be running on a June year budget and they all have a certain amount of funds to spend and how they spend, where they spend it and what they do with it. It's all this chopping and changing which we are dealing with. It is not just the Middle East it's the resource sectors and the governments and the infrastructure sector as well.

Question: (John Purtell, Macquarie Group) Last question around the dividend, just to clarify your comments there. You are essentially flagging a downside risk to your final dividend. I mean should we be assuming a similar prior payout ratio on the revised guidance.

Scott Charlton: Look, I mean it is - remember we said last time it is different guidance and just say the final dividend will be consistent with revised profit. But I think the most important part of the statement it will be determined in August by the directors, that's all we can say at this point, John.,

Question: (John Purtell, Macquarie Group) Thank you.

Scott Charlton: Sure.

Question: (Julian Booth, Citigroup) Thanks, a few questions, Scott. First of all the \$15 million write down related to ConnectEast. Is that just related to the equity investment or the early completion bonus?

Scott Charlton: No, it relates to the equity investment. Did you see the early completion bonus on BrisConnect's balance sheet change? We've done that sensitivity, Julian, to the traffic. I mean it's not very sensitive now given where it's sitting. So I wouldn't worry about that. But the ConnectEast one relates to the change in the mark to market share price from December to 31 March.

Question: (Julian Booth, Citigroup) Okay thanks. And also do you have mining contracts up for renewal in the next six months especially with BHP?

Scott Charlton: Oh we always have mining contracts up for renewal. I'm sure somewhere we do with BHP I can't - I'm just trying to think of - I think we've got one at [unclear] I don't know about the other ...

Question: (Julian Booth, Citigroup) When is that due? I don't know, Julian, I think sometime maybe about June or something. But they're already working under a new arrangement there. I don't know any big ones that we're currently negotiating. But you usually negotiate these mining contracts sort of a year in advance

or your get to the end of the contract and they just keep rolling over on the same terms. At this point we're not aware of anyone putting any of our companies on notice from the issues at this point.

At the same time the BHP in certain areas is talking about expanding production in coal and expanding production in iron ore - sorry for our activities I don't know if that means expansion overall but just on the Leighton Group activity.

Question: (Julian Booth, Citigroup) There have been some safety issues in Pilbara. The - I am just curious whether that has had any impact on your relationship with BHP?

Scott Charlton: Look the safety issue is an issue for - certainly it is an issue for our relationship with BHP, it's a relationship for the industry and how the whole industry liaises with the mine owners and operators. You know we worked constructively with BHP and the Australian Government and everyone to step back and take a look at how not only we operate but how BHP structure our contract and to make sure that we all live what we say and I think the dialogue now is very constructive and our relationship with BHP is as close as ever, Julian. I mean you can't just point the finger at one party we are all a part of this and we work through it with BHP, the government and the unions and we are I guess very comfortable with how we've managed it and move forward. AS I said we have announced another expansion of the iron ore contract at Orebody 23/25 just recently. So we will continue to move forward with them.

Question: (Julian Booth, Citigroup) Okay. Lastly just in terms of the property business I think you mentioned the valuations are still falling pretty much all of the major - larger developers have had large write downs, but so far you haven't had any. So what are you waiting for?

Scott Charlton: No, no, we're taking some [unclear]. Julian, our original property forecast was for this year was in line with last year which was almost \$80 million and now we're talking about a loss this year. So we have certainly taken, both on the operating side and now some of the valuation side, we've taken that. Now whether we will have to see where things go but we are certainly valuing our stuff at the current yields that we are seeing in the market. So we have taken some big write downs. But remember in our property portfolio we have only got at this point about \$350 million of funds invested in property so it's not a massive component.

Question: (Julian Booth, Citigroup) Yeah, I'm just curious it seems you have to have a slightly different view from the majority of the players.

Scott Charlton: But you have to remember how we run our property businesses. Mostly we try to presell our properties or we don't develop them so we don't have a lot of speculative development. So some of the stuff that we're delivering has been presold. So we've been hit this year because we haven't been able to develop anything about new projects so we haven't got any new revenue in but we haven't really spent much money on development either. So it's just a different model, we don't hold a lot of assets, like GPT or Stockland or Lend Lease.

Question: (Julian Booth, Citigroup) Okay, thanks.

Scott Charlton: Thanks, Julian.

Question: (Samir Chopra, Deutsche Bank) Thanks, just had two quick questions, one, Scott, just in terms of the Gulf, there has also been an infrastructure stimulus that most of those markets have announced. Wondering what your tender pipeline in Gulf infrastructure looks like? Second question is just on some of the management changes that you've announced today. Most of them are in John Holland, Gulf and also Leighton Contractors. I was wondering if anyone can provide some colour around what's driving this. Is this just management rotation or are there any division specific issues?

Scott Charlton: Sure, Samir. With the Gulf, I'm going up there in three weeks time, I was just up there back in March. With the stimulus packages there is a good pipeline out there it's difficult to get some clarity on what they've announced and what they're really going to issue to the market. But again we are seeing work come out of Abu Dhabi, Qatar - we've got big tender list in Abu Dhabi and Qatar and a very short tender list in Dubai at the moment but there still is some work coming out like you said in the infrastructure side. There is also work being done in Kuwait and we are looking at - there is some work in Oman that we are hopefully close to getting. So there is still work around the region but Dubai is pretty short. And on the infrastructure spin I guess maybe next time I'll get some more clarity. It was very hard, I mean there was just a whole list of projects announced but not much actually being tendered at the moment that we could see from that list but certainly work coming out of Abu Dhabi and Qatar.

Look in relation to the management changes. Obviously Dave Stewart coming into Leighton Holdings. I mean the group continues to expand and grow and having that additional operating support in Holdings to help with the different region and looking at where the company goes and making sure we are on top of everything makes a lot of sense. And Glenn is certainly more than capable of being the CEO of John Holland. He has been Dave's second lieutenant for quite some time. So it's good to have David here in Holdings and Glenn I'm sure will do a great job with John Holland.

In relation to Laurie, I mean Laurie has been 2IC there at Leighton Contractors for quite some time and a significant long time contributor to the Leighton Group. We've got obviously the challenge of taking Al Habtoor to the next level whilst still managing the rest of Leighton International, I think clearly getting Laurie in there focused and driving Habtoor singly which allowed David Savage to still continue his good relationship with shareholders there and the work he's done, but as well you know take on India and Malaysia and continue to grow those businesses is just getting additional management focus on some of the key areas, Samir.

And then clearly Indonesia coming into Leighton Asia with the mining opportunities in Mongolia and the location with Indonesia to sort of south east and what those guys are doing in Hong Kong we're just trying to bring the management structure in line with locality and the focus.

But you know, everyone is still being a substantial contributor to the group and we are just trying to beef up the horsepower given the width and breadth of the group.

Question: (Samir Chopra, Deutsche Bank) Thanks a lot, Scott.

Scott Charlton: Thanks, Samir.

Question: (Simon Thackeray, RBS) Thanks guys, just a quick follow up one. Just a reminder in terms of off balance sheet, I note your comments about capex for mining equipment peaking this year. What is the split in terms of what is on and off balance sheet for mining equipment?

Scott Charlton: Yeah, total capex will be about 3.1, 3.2 by the end of the year, Simon, and it will be about half and half.

Question: (Simon Thackeray, RBS) 50 on 50 off?

Scott Charlton: Yeah.

Question: (Simon Thackeray, RBS) Great, thanks for that guys.

Operator: It appears we have no more questions in the queue.

Scott Charlton: All right, Dave. Well I might just make a couple of final comments and thank everyone for attending and appreciate that and if you have any follow up questions, please give Justin or myself a call. Thanks, Dave.

Operator: This completes today's conference thank you everyone for your participation.

**END OF TRANSCRIPT**