

Leighton Holdings Preliminary Final Report 16 August 2010

Speaker: Wal King

Good afternoon everyone and thank you for attending the presentation of our final results. What I'll do here and if we get this big excavator off the screen, we all like excavators, but not that much particularly when I'm talking. I'll provide an overview of the current state of play, I'll give a bit of an operational update and I'll ask Peter to present the financials. We won't go through the ASX report in detail that's all been done before and the Group Market Outlook is around the place somewhere for people to talk about also.

So if we just talk about where we are at this point in time, I would say we are coming through the Global Financial Crisis much better than expected, and I would say that our results and overall picture actually is a reflection of what's happening in the world. That is this century is going to be the Asian century, if anything the Global Financial Crisis has accelerated the move towards Asia and you'll see in our portfolio of projects that reflection. So the economy both in Australia and offshore I would say is multi-speed. Some of our markets are performing better than others, infrastructure, resources and most of Asia is performing very strongly. The Middle East particularly Dubai and the Australian property market remains soft. Australia generally remains strong and we have a great position in infrastructure, resources, services and telco and there's plenty of money going around in the Asian economies China, Hong Kong, Mongolia, India and Indonesia to develop infrastructure and we've levered off those particular markets. So we come to the end of the year with a record level of profit and work in hand, our funding is locked in and adequate to meet our growth expectations and I believe we're in great shape.

So just looking at the figures which I guess you've been studying endlessly all day, probably also with Lend Lease and whoever else you follow, Blue Scope and whatever. I think the stunning part of the results really is the operating cash flow for the year which ended up at \$1.74bn. Total revenue including joint ventures was only up 2% to \$18.6bn, revenues from joint ventures and associates was down 19% to \$4.1bn which is really a reflection of the Middle East and a completion of a number of joint ventures such as the Gateway and Clem 7. New contracts, extensions and variations topped \$23.5bn to the end of the financial year and at the end of the financial year we ended with a record \$41.5bn worth of work in hand, a record profit in that work and since July to about now we've won about \$2bn worth of work including the big announcement today, so sitting here today our work in hand probably would be north of \$42bn, we are preferred bidder on some \$6bn to \$10bn worth of projects and there's probably another \$20bn worth of projects where we'd say we have a high probability. So a great position to be in and I'll talk later on about where I see ourselves going through the year so profit up by the 39% to \$612m and dividends increased for the full year to 150 cents per share. So great position to end the year.

In accordance with our previous reporting in recent times, we do provide some segmental information on our various companies. So first of all Thiess, a great result from Thiess major infrastructure and contract mining projects together with a solid level of new work formed the basis of a record result from Thiess. They earned on a segment basis \$425m from a revenue of \$6.6bn, work in hand rose by 10% to \$16.3bn at the 30th June and I'd personally like to congratulate the Thiess people for a fantastic year. The \$4.1bn Airport Link in Brisbane being constructed by Thiess John Holland is currently the largest infrastructure group by the project and work has completed at more than 50% at June 2010 and remains on track to be finished at June 2012. Similarly in Victoria, work on the \$3.5bn desalination plant gained momentum and is now over 25% complete and is turning over more than \$150m per month. Indonesia also had a strong track record.

For Leighton Contractors a very successful year, construction particularly transport infrastructure, contract mining and telcos were the primary drivers of Leighton Contractors revenue and profit. Leighton Contractors had a record profit of \$271m from revenues of \$5.3bn. Work in hand is nearly \$10bn at the 30th June and work on the \$2bn Clem 7 Tunnel in Brisbane was completed in March 2010 and the tollroad opened to the public 5 months early. The \$1.7bn Gateway Upgrade project achieved a number of milestones and was opened and the joint venture negotiated a \$240m extension for additional works, that \$240m being for variation negotiated in April. Leighton Contractors had an excellent result from telco and continued to gain ground in that market and now Nextgen is the third largest carrier in Australia and I'll comment later on, we're in the process of negotiating to build a submarine cable from Perth by Jakarta to Singapore and maybe a branch into Christmas Island so all the people there can cope with their mobile phones.

John Holland reported another strong year with a great performance from its construction, tunnelling, energy, water and rail business and they earned a profit before tax of \$180m from a revenue of \$3.6bn. Their results year on year are a little confused because of impairments taken last year and some unusual tendering costs this year. But their work in hand rose 7% to \$5.3bn and undoubtedly a highlight was the selection of the Metro Trains Melbourne Consortium which includes John Holland worth \$5.3bn in total to operate and maintain the metropolitan passenger trains for a franchise period of 8 years with other extensions and options.

In the Asian area, strong performance from the Hong Kong and Indonesian operations was the major drivers of a record result from Leighton Asia. Segment result was \$88m from revenue of \$1.1bn. Hamish and his new management team, Hamish Tyrwhitt, raised our Hong Kong base operations to a new level with upside, Leighton Asia's work rose by 89% to \$6bn boosted by \$1bn worth of new contracts in Mongolia for mining work and \$630m worth of work in Indonesia. Mongolia is ramping up very rapidly and we're pleased to see great opportunities in that market and I believe within a couple of years we'll be mining more than 20 million tonne a year of coal in Mongolia. Another highlight was the award of a \$463m contract to construct a section of the Guangzhou to Hong Kong regional rail which is part of the \$5bn high speed train up to Beijing and also their operations in Indonesia. The Indonesian operations of Leighton Asia also performed very well.

Turning to our work in other parts of the Middle East, this is a shot of our big pipe laying barge some hundred miles off Mumbai working in the oil fields there. Strong performance from operations in India and our offshore oil and gas business delivered an improved result for Leighton International. However this was offset by conditions in the Middle East where the Al Habtoor Leighton Group experienced what you might say was a very challenging year. Leighton International including the Gulf earned a reduced segment result of \$24m from a revenue of \$1.7bn. Work in hand excluding the Gulf which I guess is India, Malaysia and our offshore oil business increased by 17% to \$1.2bn and we have announced previously that it's our intention to enter into an arrangement with an Indian partner to support our business going forward and I'll make more comment about the opportunities in India. As part of this process our International Group has been broken and Al Habtoor Leighton reports separately and David Savage has been appointed as an additional COO for Leighton Holdings responsible for Malaysia, India and our offshore business. Activity levels in Dubai remain very depressed as we work our way through the property bubble or the collapse after the property bubble, work in hand in the broader Middle East region was down by 24% to \$2.4bn, there is clearly issues associated with outstanding money in the Middle East on a number of jobs, we do have a level of provisioning in Al Habtoor Leighton not in Leighton Group but in Al Habtoor Leighton of 600 million dirham which is about \$200m Aus dollars, will that be enough, well only time will tell. I suppose the atmosphere in recent times has improved with a series of negotiations proceeding to collect outstanding monies. The question of resolution of those issues will take time and the question of our carrying value of investment in the business at this point in time we're comfortable but obviously we need to move forward with the

business, collect the outstanding money and underwrite the business with a level of new work. Although challenging in Dubai there are more positive signs across the regions particularly in markets like Kuwait, Iraq, Saudi Arabia, and other Emirates such as UAE, Abu Dhabi and Sharjah there's a huge volume of work and I guess we need to be competitive in that particular market.

In the non-residential property markets in Australia remain basically depressed effecting sales in the commercial, industrial and particularly the tourism sector. Leighton Properties recorded a loss of \$73m for the year ended June. During the year they had 2 major sales which was the sale of the HQ Headquarters in the Valley there in Brisbane for \$94m and the King George Central building for \$210m which is currently under construction, that job at King George Central was the first major property deal done in Australia after the GFC. We have completed the Viridian project at Noosa and it's been handed over to the operators, albeit that sales of the units has been very, very disappointing and slow. The Hamilton Harbour project in Brisbane on the outskirts of Brisbane is a positive and that's well into construction.

So Peter can I just ask you to run through the financials.

Speaker: Peter Gregg

Thanks Wal and as Wal said we won't go into any detail in the 4E, I'm just going to point to some of the highlights and provide details of some of the key performance matters. Our total revenue was up 2% as Wal said although it was affected negatively by foreign exchange movements and if you take that into consideration it had an impact of about \$300m compared to 2009 and our profit was also negatively impacted by about \$15m because of the stronger exchange rate. Work in hand was also negatively affected by the strong exchange rate it had a \$700m effect on work in hand. Revenue made up of Group revenue that is delivered directly by the operating companies was up 10% but the JV's and associated revenue was down by 19% and that was down due primarily to the completion of some major JV projects as Wal said the desal plant the one in the Gold Coast and the one in Sydney, the Clem 7 tunnel in Brisbane, the Gateway Bridge in Brisbane and of course the poor performance of the Middle East operations which is a major JV for us. We look at the profit line, operating profit has remained very strong, profit before tax and finance costs was over a billion dollars. Last year's result included impairments for tollroads, Devine and Macmahon. Our finance costs were \$180m which were up \$20m on the prior year and income tax of \$228m was in line with the profit for an effective rate of about 27% and this went up a little bit due to the poor performance of the Al Habtoor Leighton Group which of course has a zero tax effect up there. The tax rate is lower than the Australian rate due to our earnings mix including offshore and that gave us a net profit after tax of \$612m. Depreciation was up because of increased major repairs and you should expect the depreciation to be of a similar number in the year going forward and up again. The strong Australian contribution allowed the Group to pay a fully franked final dividend of 85 cents per share and the record date is the 10th September with dividends being paid on the 30th September. On the cashflow as Wal said that was the highlight I think of the results operating cashflow was strong at \$1.74bn which was up \$864m on the prior year, our finance costs were \$180m as I said a little bit earlier. Tax paid was down substantially because of timing to be paid in 2011 and reflected in the tax payable. Investment in plant and equipment was similar to the prior year. Borrowings were down substantially to \$572m and we repaid \$377m of borrowings but that was also down on the prior year. We paid dividends of 120 cents for a total payment of \$359m Aus dollars, which left net cash at the end of June at \$1.3bn. Cash flow is expected to remain very strong through 2011 albeit we'll have a stronger capex line through 2011.

On the balance sheet gross cash was healthy at \$1.3bn, trade and receivables were in line with revenue, inventories were down marginally to \$556m and mainly as a result of property assets held for sale. No real change in equity accounted investments which included the Al Habtoor Leighton, Devine, Macmahon etc. Our other investments include the Aquasure, Cross City

Tunnel, River City and others were broadly unchanged. Deferred tax was up due mainly to provisions for depreciation and the timing of tax payments. Property, plant and equipment of \$2bn reflects investment in mining equipment and includes \$300m of finance leases. Total plant including what is off balance sheet is around \$3bn the off balance sheet component is around \$1.2bn, that left the total assets up over \$1bn to over \$8.8bn and this left our gearing around 38% and we measure that as net debt plus equity.

On the liabilities side of the balance sheet, trade and payables at \$3.8bn were in line with revenue, current tax liabilities to \$231m were due to tax to be paid in Australia and that of course creates the franking account that we've got. Provisions of \$504m relate mainly to employee leave accruals and some restoration on waste contracts. Total interest bearing liabilities increased to \$1.7bn and that included \$280m of medium term notes and include \$300m of finance leases, the Lumea loan the loan which we brought Al Habtoor moved from non-recourse to recourse and similarly there was a decrease in the limited recourse loans to reflect that. Our gross debt increased by \$392m but net debt after the strong cash performance improved by \$256m giving equity of around \$2.6bn.

The debt portfolio has been a work in progress and we've gradually lengthened the duration of the debt and now it's basically over the long term. We don't have any really significant debt repayments for the next 2 years with a small amount of facilities maturing in the next year and they relate to our old Indonesian bond issue and some property loans. During the period just finished we completed a \$280m 5 year MTM note and that program has a limit of \$1bn if people are looking to invest, the proceeds have been used to replace existing bank debt facilities and help further diversify our funding sources. We also completed a \$670m syndicated bond facility which of course will allow our operating companies to bond a lot of the works they're bidding for and since years end we've finalised another medium term note facility a private placement of US\$350m and that was drawn down in mid July. That's it on the finance side, back to Wal.

Speaker: Wal King

Thanks Peter. Maybe we can just take a pause, does anyone want to ask any questions about the financials, you can ask but you may not get an answer.

Question:

Peter just an equity accounting question, (too low to hear)

I hear what you say about Al Habtoor looks like there's \$1.2bn in equity accounted investments in Leighton International, it's gone through the audit process and there's no impairment to that asset, I'm trying to understand when we look at that first in 2007 Wal the margins were double digit they're clearly not that anymore, and there's intense competition on the work that does remain, how do you reconcile standing at this point here even on a cash generating unit base looking at that investment and how it can remain unimpaired on the balance sheet.

Speaker: Peter Gregg

Well basically we're saying that the carrying value of investments based on the future expectations of the work it can carry there that investment, we see a strong work flow and Wal's going to talk about that in a minute we're going to see a strong work flow there, obviously if that workflow doesn't come through then we have to re-assess it but at this point in time we are of the opinion that there's enough buffer in there to carry the investment at that price.

Question:

But I guess the question is are they the same margins that we looked at in 2007 Wal.

Speaker: Wal King

Absolutely not, the Middle East and I suppose you've got to get over Dubai, Dubai is only part of the Middle East and Al Habtoor when we brought in there consisted of Abu Dhabi, Dubai which was their traditional home and Qatar. There is outstanding money and we have a provision of 600 million dirham which is in Al Habtoor Leighton, it doesn't sit within the Leighton Group it sits in that particular company which roughly is \$200m Aus dollars, is that enough. Well the environment has turned more positive and they're engaging now with us to talk about settlement programs and outstanding money, the haircut that we'll have to take should fit within the 600 million, now there is no certainty I don't know, no one knows the answer to that and we will work it through, so the projects that Leighton have been involved in since we've been involved in the company have all been successful, there is the exception of the Equestrian Centre which has got outstanding money which will be settled up there's figures floating around that underwrite that so that will be settled up. So then it comes to the future work and there is enormous volume of work there and we believe we can be competitive and successful but that is an unanswered question, are we going to run the white flag out? No. Can we work our way through – we believe yes and we'll just see, not in that particular group but we have a very high level of confidence that we're going to win a big job in Iraq, a big pipeline job that's been recommended to the Minister \$US750m, should be an excellent project in terms of the market and so on and so forth.

Question:

Did you say outside that Group?

Speaker: Wal King

They'd have to pay Al Habtoor Leighton a fee for entering their territory which is a big chunk of money but they don't have the offshore facilities that we do in that oil and gas business, so it will come out of our oil and gas people. In the oil and gas business there's huge opportunities for us and in fact in good margins I suppose we're not going to have a Gulf of Mexico hopefully, we're not involved in production, it's a risk business and should carry good margins. The jobs that we've done in the offshore oil and gas business have all been very profitable. So I think with Al Habtoor and the level of investment we just have to keep that monitored and you'll be very happy to know I'm going there tomorrow night, and David who's responsible is even more anxious is going there tonight.

Speaker: Peter Gregg

But there's a range of projects up there that have got substantially good margins in them that we're bidding.

Question:

That's what underwrites the confidence.

Speaker: Peter Gregg

That's absolutely our position.

Question:

So the 600 million dirham provision that's in the JV that's not your portion of the provision in the equity

Speaker: Peter Gregg

No that's the JV's provision for those old jobs.

Question:

So yours is 45% of the provisions and that's it.

Speaker: Wal King

Some of the building jobs, David Stewart might comment, some of the building jobs we're doing up there are excellent.

Speaker: David Stewart

Too low to hear

Speaker: Peter Gregg

The days of cost plus are gone, let's get real, it was an unusual market it was a bubble and they're gone. They're good projects that are being bid at the moment so we'll wait and see how successful Laurie is and we've got a lot of confidence in Laurie.

Question:

I hear what you're saying just going back to when the investment was made they were cost plus and they were extremely robust margins and the outlook was extremely positive and that's what underpinned the investment. I'm just surprised that the investment hasn't changed at all in that climate and yet you can see tough ups at the corporate line and other impairments but nothing on that Middle Eastern investment which is a billion of equity accounted investment.

Speaker: Wal King

Well there's obviously an evaluation of the carrying value and that evaluation still has we believe some air space or head room in it and if it goes on in 12 months time or some period the situation hasn't been more positive well we've got to review it, but our position right at this point in time, there's no point in unnecessarily reviewing it if that's not the reality. The reality is that we believe that we can win work and have a profitable business and as David says some of the work that we're doing there is exceptionally profitable, so it's a question of how do we take the business forward.

Speaker: Peter Gregg

We're looking at it closely and we're continuing to look at it closely and our auditors are looking at it very closely as well.

Speaker: Wal King

Any other questions.

Question:

Maybe if I can ask Simon's question in a slightly different fashion. In terms of the impairments on Al Habtoor compared to 12 months ago and assuming you did random impairment tests in June 09, can you give us a sense of thegrowth rate used in that test increased and at the same time has the discount rate used decreased compared to 12 months ago.

Speaker: Peter Gregg

I'll give you the same answer we've done the impairment test based on the valuations put into it and based on those factors it has declined a bit but it's still within the boundaries that make us comfortable to carry it at this stage.

Question:

So you can't elaborate on the change of parameters used in the test.

Speaker: Peter Gregg

Not really no, clearly it's been looked at very closely because we know it's under scrutiny and we're comfortable standing behind it. But we're not going to sit in here and tell you how we calculate every carrying value of every asset.

Question:

My second question is on the operating cash flow, is some of that reflect the roll off of essentially the work in progress on the North South Bypass Tunnel the self funded works and if so can you give us a sense of the \$800m increasewhat that would have been if that changed.

Speaker: Wal King

Your saying the influence of the North south Tunnel it was about \$120m I think roughly don't hold me to it but around \$120m. I think cash flow was exceptionally strong and is predicted to be very strong again next year, I suppose 18 months ago we were copping a bit of a pounding about the weakness of the cash flow so I mean the weakness of the cash flow has corrected as we said it would because of issues like the tunnel and next year's cash flow probably won't be as sizzling as this year but it will be strong.

Speaker: Peter Gregg

Also the cash flow was a reflection of some of the projects we entered into, the Vic desal was a strong cash generator we've moved past the 25% stake and there's a few other projects in the Group that have done quite well as well and that as Wal indicated to be coming through next year, at the same time, Vic desal will start to run off a bit will still be very strong throughout the course of the year.

Question: Kevin O'Conner, Merrill Lynch

Can you just reconcile for us the difference between net interest costs versus your net debt number, so you've got net interests not far below \$200m, net debt not much below \$700m.

Speaker: Peter Gregg

We have a lot of cash clearly.

Question: Kevin O'Conner, Merrill Lynch

I'm talking net debt.

Speaker: Peter Gregg

Yes but net debt includes your cash.

Question: Kevin O'Conner, Merrill Lynch

Yes that's what I mean so net debt \$600m net interest costs \$200m so unless you're paying 20% interest on your debt there has to be somework in capital movements or there's things like debt costs on bonds, I'm just looking for some reconciliation to help.

Speaker: Travis Young

We earned some very strong cash flows in the last quarter, particularly out of closing out a number of jobs like NSBT, Gateway and also the start of the ramp up of Vic desal, so they were very strong cash generators. In the beginning of the year we didn't have that same level of cash so you have to average it out over the whole year on your net debt versus your total interest.

Question: Kevin O'Conner, Merrill Lynch

Even if you average the numbers out it still looks like you're paying about 20% net interest which obviously you're not.

Speaker: Peter Gregg

Why don't we come back and have a chat to you.

Speaker: Wal King

I think Peter said in terms of gearing, if you look at our balance sheet we include our operating leases and he said 38% but we don't technically have to include them at this point in time, but if you take out the operating leases in fact the gearing in the balance sheet is 12% so you think that's too aggressive. It's my answer.

OK there's another question.

Question: Craig Won Pan

The lower margins in Leighton International, is that purely down to the Gulf or is any of the other regions experiencing lower margins.

Speaker: Peter Gregg

Mainly the Gulf, the other projects that Leighton International are doing are quite good Trill in India is a terrific job it's a joint venture, we've got the Tata Group building an IT Park in Chennai that's got terrific margins on it, the offshore stuff has got terrific margins. So it's predominantly the way the Gulf is.

Speaker: Wal King

The two big jobs in Leighton International is the offshore oil and gas pipeline in Mumbai which has got fantastic margins and a big cost plus job for Tata we're doing which is actually in Chennai which is a huge job it's like 800,000sqm of building, most of it doesn't come through our books, but they know what the fee is it's an open book, it makes about 35% something like that. So it's the distortion into the Middle East.

Question:

Just one more on the payout ratio I forgot to ask. No doubt Hochtief's fairly happy with that. How sustainable is it going forward at that 76% level or will it drop back.

Speaker: Peter Gregg

I think all shareholders should be happy shouldn't they. It was 73% by my calculations, historically we tried to target a 60%-70% payout ratio and generally we try and lag our dividend growth to our profit growth. Historically I think we've been fairly consistent is it sustainable, I think it's sustainable as long as the profitability stays up and that leads to your next question – what's the profit going to be for next year.

Question:

No I'm asking about the payout ratio

Speaker: Peter Gregg

But the payout ratio is around 73% which is historically in the bands where we need to be, 60%-70% we were 57% last year we're catching up a little bit this year to try and make up for the under performance because of the write downs, long term target 60-70% for the Group.

Speaker: Wal King

I have a question on the screen here at the first half of 2010 Leighton committed to splitting Al Habtoor Leighton out of the full year's result, why hasn't this been done?

Well I can't actually remember what I said but the reality of what we're doing is that we have separated Leighton International into 2 components and next year it will be separated in the full year, Leighton International which encompasses Malaysia, India and our offshore business and new territories, we are looking at mining opportunities in Africa, reports now through to David Savage and David Savage has exited the Middle East business, the Middle East business now

comes through David Stewart, so for all of next year it will be separated, the problem was that the separation only took place at the first part of the year, but next year going forward it will be clearly separated into Al Habtoor Leighton as an operating entity and Leighton International as an operating entity which will encompass Malaysia, India and the off shore business and any new projects. We're currently bidding a very large project in Botswana billion dollar job, a big mining job and if we were successful on that that would report through Leighton International, but there's a lot of opportunity the Iraq pipeline would report through Leighton International albeit there has to be a big fee paid to Al Habtoor Leighton for entering their territory.

Question:

A couple of questions. John Holland performance was down significantly excluding impairments just comment on what the drivers there were and last question on the Middle East you make reference to recently negotiating some settlements there on some projects, can you elaborate on what projects they are obviously the airport job, the equestrian centre 2 of your bigger jobs does that cover any of those.

Speaker: Wal King

Well the John Holland performance is a little confused in terms of year on year. Of all of our companies probably John Holland and I need to pick my words carefully, I wouldn't say the most difficult place, they don't have a big resource business and they're venturing into the offshore business to look at other opportunities but the performance of Holland's on the return on funds employed was 90%, 100% I'm being corrected by the accountants, 100% return on funds employed which I think is OK in my calculation. In terms of the Middle East there's a raft of projects and they split into projects that Leighton were involved in under Leighton management and all of those have been very exceptionally successful, there is money outstanding on the equestrian centre, there is floating around some conceptional offers, if those conceptional offers materials which I believe they will, then that project will be a great project, the Qatar people have the money and I don't see any difficulties in getting that settled. When you go to Dubai the clients separate themselves into those that have debts and can't pay in the short term and those that have debts and won't pay. So in the airport job there is now and I'll be having some discussions on Wednesday, a memo for an amicable path to settlement, whatever that means, Dubai properties for example which is a business bay there is now schedule floating around for settlement. So each of the jobs you've got to go through, the unknown factor is time and quantum, and we believe that the 600 million dirham sitting in Al Habtoor is sufficient to cover that. Now whether it is or not at the end of the day if it's a 50 million short fall then that's no big deal in the scale of operations of Leighton, if it was a 50 million surplus we'd get bigger bonuses.

Speaker: Peter Gregg

Just coming back to the John Holland thing Wal, I think the other point you might want to note is that there was some early completion bonuses in John Holland's performance last year that came through that weren't there obviously this year and secondly John Holland has won a mining contract so they had to gear up for that and that dragged some money out of their profit as well. So when you extract those things out of it it's a pretty good outcome from John Holland, as Wal was saying it's a really high return on funds employed.

Speaker: Wal King

I have a question on the screen here, what is the actual capex given the increased contribution from the contract mining?

Well contract mining is really I suppose somewhat of an Australian phenomenon albeit we've taken it into the world. We are the largest contract miner in the world, we're equivalent in terms of usage of equipment with BHP or Rio or those guys. If you go to places like Mongolia there's unbelievable opportunities there's opportunities in Russia, I'm going to Moscow in the next week

to meet with one of the Ologowds (?) up there there's a huge mine of unbelievable proportions, there's opportunities in Africa, Botswana all over the place. The question for us is how we can fund it and how we can keep control of the management structure, our capex next year is around about a billion.

Speaker: Peter Gregg

But that's not just contract mining, there's a reasonable spend in Nextgen and a potential reasonable spend in offshore equipment.

Speaker: Wal King

Yes there's some provision for new barges, and again the offshore oil and gas business that we're operating, it's unrestrained by geography so you can seek opportunities so we've generally said not west of Africa and not east of Hawaii. We believe that the job in Iraq will be awarded and that will be an excellent job, it carries a good profit margin, we'll be awarded a job in Tanzania for about \$70m so there's big demand for capital expenditure in relation to the project. There's very limited competition in what I call the near shore work, work up to maybe 150k of shore and about 100m of water, when you get into the super deep water of course you get the McDermott's and those people but there's limited competition in the area that we're working in and you've got to pick your jobs, of course there's Iran where there's a huge amount of work. I did make a comment about Iran in one of my speeches and the American State Department protested to the Australian Government, I didn't think my comments were that important, we're not going to Iran anyhow so there was an official protest about what I said about Iran, pretty amazing that anyone listens to what I say.

OK any other financial questions?

Question:

Just in terms of the embedded profit marginif you back out all the other stuff it looked pretty strong, but the new contracts and extensions and variations were down 6% on last year so they're a smaller proportion the work in hand that I've ever seen down around the 52%-53% can you just give us some colour as to what that might mean in terms of the book going forward both in terms of embedded margins and whether there was something in the revenue this year that was out of the ordinary that we're not going to see in the next year.

Speaker: Wal King

Well the embedded margin going forward is the strongest or near strongest that I've ever seen it's north of 10% on average across an order book of \$43bn or \$44bn and past the 5 years there's another \$5bn so that's very strong, in the distortions this year I'm not sure why that would be. Well currency was an impact on both work in hand and I think Peter said on profit it would be \$15m and \$700m on work in hand. So if we had a like for like basis with last year we would have been over the \$42bn and the 15 we would have been over the \$620m.

Question:

You made the comment before on Dubai properties being problematic within the JV, some good margins, but Dubai Pearl we've got analysts there, we've got people there and they don't see any work going and on it's still being carried at over a billion dollars of work in hand.

Speaker: Wal King

There has been endless negotiations on the Dubai Pearl that have gone on in terms of size of project and I think I once quoted the biggest or near biggest problem in the world, why do you need another big building like that for. Those negotiations have pretty much been concluded and the scope of the thing has been reduced and work is proceeding but at a slower rate, it's been

funded by the Abu Dhabi people, it's not being funded by the Dubai people, the Abu Dhabi people have got plenty of money they're just wanting I think to slow it down and it has been slowed down.

Question:

But a billion dollars worth of revenue over the next 5 years?

Speaker: Wal King

Yes.

Question:

Can I just ask 2 questions on the financials and looking out, firstly on a 1 or 2 year view. Obviously in a macro sense the Australian construction market people are seeing a bit of a dip this year as government work rolls off, what's your feel for that, do you sense that next year will be in FY11 and FY12 just looking out do you think FY11 for the industry as a whole a slight growth rate and then a much bigger pick up in FY12 or do you think it will be a consistent growth rate as it comes back. How do you see the government stimulus.

Speaker: Wal King

Well if you look at the Group Market Outlook, there's a chart in there which I don't have at my fingertips but it's certainly there's been a drop off in the market and the drop off is primarily associated with the low hanging fruit in the government stimulus has all been taken so you're more now into the approval process, I mean where we've seen greater levels of activities in the rail works where the corridors exist so you don't have to go through all the approvals. But if you look back in historical sense and these are all approximate figures, in the mid-early 90's the market was \$40bn, it doubled through to \$80bn in about 10 years a bit over 10 years and then we're going through a bit of a flat period and if you believe the forecasters, there's many of them in this room, it's going to double from \$80bn or \$90bn to \$180bn in a period of about say 2017 or there around, so there's a flattening no question about that and where we feel that most is in the John Holland company which is that's their primary market, there's a flattening but we would think next year would be the start of the pick up. There's some graphs kicking around that Adelle could give you.

Speaker: Adelle Howse

Too low to hear.

Speaker: Wal King

So I think our order book is reflecting what I would say is the change note for the world and the acceleration in places like Mongolia, Hong Kong, India etc there's plenty of opportunities this part of the world and hopefully in our case Australia will be less significant in the years ahead, we continue to have an objective of 70% Australia and 30% offshore and the problem is Australian if it is a problem the Australian businesses have grown at a similar rate to the offshore business so we've never made that. But we see now probably more opportunities and when I come on a bit I'll come on to talk about India where there's huge amounts of opportunities, the question is do you believe it.

Question:

Just following on from that question then have you seen any signs of private sector spending coming back or is that

Speaker: Wal King

Well you have to break the private sector spending into the resource business, then commercial buildings and that sort of stuff, the commercial buildings is very flat and not coming back to any

great extent. The resource business of course is pushing on endlessly, oil and gas and if you believe even half of the figures there's a boom happening.

Question:

Just looking at your resource businesses the Australian one the revenues 34% I guess looking at the numbers part of that's due to your contract mining business and the other part of that is due to infrastructure related capex, is there a move to shift towards that because historically you haven't had much work as a proportion of your resources business in capex related infrastructure.

Speaker: Wal King

Well the resource infrastructure business comes and goes, I mean when these guys put the power on like Gorgon I mean there's billions of dollars splashed around and then it all comes to an end. I mean we're a big player in all of that, none of these projects in Australia can go ahead without the Leighton Group resources.

OK I'll just move on there's a couple more questions here. Wal can you please quantify the magnitude of the Al Habtoor's outstanding claims in the Middle East so we can gauge how extensive the \$200m provision is?

Good question, I don't think we would be prepared to disclose that, I mean it's our judgement and I don't want people second guessing whether it's not enough, we believe at this point in time it's ok.

Speaker: Peter Gregg

I wouldn't give a number Wal but I would add something else that is the basis of payment in the Middle East is different to Australia where you can back to back claims from subcontractors and a great bulk of those funds are back to back to other subcontractors, so unless we get paid we don't have to pay. That's the law up there. When you get a raw number like you're asking for it doesn't add the right context.

Speaker: Wal King

OK one last question on the screen, Wal last year you reduced your intake of CAT equipment has this bounced back to pre-GFC days?

Well pretty much it's all back, we're at full capacity and we're looking now to expend.

There was another question at the bottom, it's disappeared now with Valmis float which is Bilfinger Berger, are you happy to see that pulled? Well the answer is no I would have much preferred the float to go ahead.

Ok moving on then. We aim to continue to build a diversified and sustainable business that meets the needs of our stakeholders including winning and undertaking profitable work, our strategy remains unchanged driven by the pursuit of diversity, by brands, by geography, by markets and by delivery systems. Our core values shape the way we operate, our discipline, integrity, safety and success and we will continue to evolve to meet the ever changing market. Going forward we are focussed on creating value, improving profitability and cashflow, optimising returns on our capital and developing our people. So turning to some of the issues that are present in our business. First of all our aspirational goals, I'm often asked can we grow our work in hand, as I mentioned at June 30 the work in hand was up \$41.5bn with about \$5bn of long term work. Today with our wins in the last few weeks it would probably north of \$42bn and maybe \$42.5bn by the time we get to the AGM I believe it will probably be \$42.5bn or \$43bn. And as I said the level of margins in that work is probably better than I've ever seen, so can we reach our aspirational goals of \$50bn, we are currently preferred tenders on a one on one basis of some \$10bn worth of projects and there's

a further \$20bn worth of projects of which we believe we have a high probability of success, so what do you say that's in that \$20bn worth of projects well that's a judgement for example Mr Wynn, Steve Wynn as we affectionately call him recently announced at his results in Hong Kong that he's going ahead with his Koti development and he said he would use his family builder Leighton China State, I've never been referred to as a family builder before, but nevertheless if he's happy that we're a family builder, I'm happy because the project is about \$US2.5bn and we believe that all will proceed, so in that \$20bn there's a whole series of projects like that that we believe should come across the line. And of course as I mentioned in the telco business we are going to I believe high probability build a undersea cable from Perth to Jakarta to Singapore and for example I think that's about \$100m so there's a whole raft of projects there that we believe have a high probability of success. So our business plan shows opportunities to keep growing the work in hand in the business, the aspirational goals of 5 years at \$50bn plus revenue at \$29bn or \$30bn and a profit of \$900m after tax we believe is quite capable of being achieved. Albeit that I'll probably be shocked that whilst there are aspirational goals our long term business plan show numbers in excess of that, which you've probably got some difficulty believing. But I must enforce they are aspirational goals not forecasts at this point in time. And if you look at the graph there, you move that graph up to \$43bn or \$42bn it's not a long way to go to the \$50bn worth of work.

So moving on then to the Middle East whilst the words here that whilst Dubai has deflated for those that have been to the Middle East that's a kind word. We see other opportunities in the region, the medium to long term outlook for the Middle East remains positive particularly with the oil price remaining above \$US80 a barrel and the demand for LNG continues. Places like Qatar which are either going to be the largest or 2nd largest LNG exporter in the world obviously underwrites a whole series of projects. We're restructuring in the Al Habtoor business to make it more viable to pursue opportunities outside the so called Dubai Abu Dhabi access. I must emphasize that Abu Dhabi really doesn't have any problems in terms of payment or projects, the only thing that we see that Abu Dhabi has slowed down somewhat and we don't precisely know but to speculate the money that the Abu Dhabi people have has been channelled across to Dubai and I think you support that Peter. But they don't advertise things and in a transparent way I've said for a long period of time, in terms of the Dubai problems there will be a Middle East solution and that Middle East solution is all under the carpet and you don't actually see what's happening but we perceive that Abu Dhabi has slowed down but they are still pushing on with Saadiyat Island and the Louve Museum is out to bid, the Guggenheim Museum is coming forward, they've still got their \$20bn worth of projects they're doing on Saadiyat Island albeit slower, they've still got the money so you'd have to wonder where the money went and I think by a process of osmosis the money has seeped across into Dubai. So in the Middle East I think as Peter said the business there is to settle outstanding issues which we're confident we can and then generate new business going forward.

In Australia our strategy of investing in equity projects will continue, we continue to monitor our investment in significant projects such as Airport Link in Brisbane. The Airport Link is going well from a construction viewpoint, it will be completed in June 2012, we took a \$67m impairment on the \$200m of cash that we have to invest. That \$200m does not go in till September 2014, so we believe it's appropriate to just watch the value in terms of where we sit. Our other investments like ConnectEast, River City Motorway, Cross City Tunnel, Victorian Desal plant we're comfortable with the values at this point in time. But in any event those last items don't represent a huge investment in terms of the overall position of the company.

There was comments about the balance sheet, I won't talk too much about this. Moody's of course increased our rating from a negative to a stable outlook, BAA1 and as I said in terms of the balance sheet if you take out the operating leases the gearing levels is 12% which I think is a very comfortable position to be it. So we're comfortable with that an in terms of our business going forward and we said in our press statement today that the level of internally generated funds by

retained earnings and the leverage effect off the retained earnings was sufficient to meet our growth aspirations and we're not contemplating in any way shape or form a capital raising which of course is talked about from time to time in the press.

The property market, this is a graph someone was asking about property market and we acknowledge that commercial industrial property will continue to be slow through to 2011 and 20112 period. The return to growth will be based on sustained business confidence, improving employment conditions particularly in Sydney and the stability in the growth credit markets. We've absorbed a number of write offs in the property areas, our property portfolio is in the range of \$350m-\$400m and that's in respect of about \$8bn of assets so it's only 5% of our total assets. So we'll continue to review our portfolio of property assets to see where they go and I guess our expectation that it will start to recover next year.

Safety has been talked about, I've heard comments that some investors suggest that safety is a low priority in the company. Nothing could be actually further from the truth, safety is an absolute focus of this company from the Board to management to work site, we do have an ethics and compliance committee that reviews all serious accidents in absolute detail. From a statistical view point we have world class statistics in terms of LTI FR and LTI SR rates but unfortunately in our business we've had a number of fatalities, the fatalities are deeply regrettable and is an issue which we're compassionately committed to eliminating. So last year was not a particularly good year, a number of those being offshore and we're re-doubling our efforts to make sure the safety record of the company is satisfactory.

To sum all this up we ended the year in a record position, record profits, record work in hand, record cash flow. We're in great shape with a strong competitive position and we believe the balance sheet is sufficient to underwrite the aspirational goals of the company. We continue to go forward with the diversity of our business and the strength of our management and the outlook should deliver our aspirational goals. By the time we get to the AGM I would be very confident that the work level will be at least in the range \$42bn to \$43bn climbing to the \$50bn as I said over a period.

For 2011 we expect to report an increase in operating profit and an increase in revenue and we should have another very successful year. So I'm happy to take any questions about strategy or any other elements of the company.

Question:

Wal you've talked about growth in new regions, we've seen it come through in Mongolia, obviously you're talking about Iraq and India, can you comment on how you manage risk in these areas and elaborate on what sort of contract structures you enter into.

Speaker: Wal King

Well I'd say hopefully carefully with risk. Well we do have within there's 2 components of risk management, we do have a set of tender guidelines and those guidelines apply across the Group and there is within those guidelines stated positions on the risks that the company can and can't accept and there is also what we call the limits of liability, that is if you're accepting a risk that it's not unlimited and the Group has been very good over the years at managing risk, we've had our issues from time to time. But in terms of taking on unlimited liability that's a big issue. We do have at Leighton Holdings an overview risk group that's really audit of what we're doing in the field, audit of jobs, audit of our tendering processes. In terms of what I call span of control, obviously the organisation has got bigger and bigger and bigger over the period, we now have three Chief Operating Officers who overview the activities of our companies. One of their primary tasks is to ensure that all offers made by the companies are in accordance with the parameters of our rules of tendering. There is levels of delegation obviously the company now has big projects

that are coming forward, there is levels of delegation. So it is a complex matrix of checks and balances. The biggest risk for the company really is the discontinuity that happens, in the stock market business you know about discontinuity you make all your forecasts and the biggest areas for us of discontinuity is inflation and it's rather difficult I believe to project inflation if you read all the handbooks at the moment, some say we're going to get a burst of inflation and others say we're going to get a burst of deflation. Where deflation effects us I mean we do have rise and fall formulas and rise and fall formulas are supposed to always rise and it's not fair when they fall. We do have some jobs where the rise and fall formulas are actually producing a drop in contract values, unheard of in my time. So how inflation works and how you protect yourself it has to be through contract conditions. You can't just willy nilly add amounts of money on, so you've got parameters and I've always preached that if you have risks that are unquantified you need to put a cap on them so we would take the risk up to a certain point and no further. So that is one issue, the erratic movement of the currency does also affect us in terms of risk. I mean if we have inflation at 2%, 3% or 5% we can cope with any of that in our mathematical models but when you have inflation that goes from negative to plus to down that plays havoc and similarly with currencies we can cope with any level of currency provided there's no rapid change. Last year when the Australian dollar was at 90 cents or 95 cents we had every expert in the world say there's no possible way it would go below 85 cents and what happened, it plummeted from 92 to 65 in a two month period. I mean that throws havoc with us, we're a big purchaser of spare parts, we purchase maybe \$US400m spare parts a year. So all that has to be covered through the contract conditions under which we operate so there's no perfect answer but I remember having a stand-up argument with Robert Pascoe he was telling me how badly flawed our strategies were for contracts and I said obviously you know more about contracting than I do because we do have in our review, we have financial review every quarter where every contract in the company is looked at and the issues about the risk and how the formulas are performing are very carefully studied and that is all then fed back into the company. There's no perfect answer but there's nothing in our business at the moment going forward that would alarm me.

I have a question on what happened to the airport in Turkmenistan?

Well nothing has happened is the answer. That's still on the radar screen it's between ourselves and Boig, they had an elaborate plan to develop a new airport then they decided that maybe they needed a new airport, the existing airport was going to be developed. I think they're studying some new location outside of Ashgabat the capital, it's still sitting there theoretically between a consortium of Leighton and Hochtief versus Boig.

Question: Chris Savage, Goldmans

Wal in previous years you've given us more specific guidance than you've given us today, is there anything that's stopped you from providing a more specific number for FY11.

Speaker: Peter Gregg

Yes me.

Speaker: Wal King

I've got a big lump of a CFO I can't beat up anymore. There's market guidance out there and we're not at this point in time with uncomfortable with the market guidance. It was a subject that was debated a lot internally what we should say and I would generally in an overall perspective or so the company has come through the GFC with a few tail feathers singed and undoubtedly we're suffering the residual effects of the GFC. The residual effects being property which produced a \$70m loss and probably should be producing a \$50m profit that's a big chunk of money and we've got the residual effects of the Middle East. So in our planning we are planning for increased profits, our budget show increased profit and there is market guidance out there. So we're just

comfortable at this point in time, as we travel through the year we'll further update you as it unfolds.

Question: Chris Savage, Goldmans

Just a quick follow-up on India you suggested you might be able to give us some details.

Speaker: Wal King

Well India if you go back to China 25 or 30 years ago, the question was would China modernise and industrialise to the extent to what they were saying and the Chinese have done an absolutely stunning job in modernising the country and it's not over, I mean I read the Chinese thing is going to slow and it's not what I subscribe to, it's going to slow in percentage terms but in quantum it's just going to power along to be the biggest economy in the world. So the Chinese question has been answered India on the other hand is an unanswered question and India has developed its services business because it doesn't have the physical infrastructure to provide exports I mean the Chinese developed ports, roads, railways so they can get their products to market. The Indians have been incapable of getting their products to market, there is not the physical infrastructure. I was just up there and they roll out an array of near beyond belief of projects 60,000km of tollways, hundred new powerstations, 20 new airports, trillions of dollars. Interestingly I heard a presentation by the Indian ministers and interestingly they've legislated that they can now for PPP work enter into one on one negotiations with private enterprise to build something. Now whether they do it or not is the question, there's no way here in Australia you could enter into one on one negotiations to build public infrastructure. So there's an incredible array, trillions of dollars worth of projects, it's probably the hardest place that we work in, in terms of expats and so we've come to the conclusion we really need a partner and there's Jindal we've been negotiating with, whether it's Jindal or someone else remains to be seen. We have a partner there for the business, in the specialised business of oil and gas we've done exceptionally well because there is really limited competition. There's just an array of projects that are beyond belief and it's a matter of how all that comes to pass but in any event if they only do half of what they say they're going to do it's going to be a huge market. In China the major infrastructure projects have been carried out by the state controlled construction companies like China State, there is no such animals in India and in fact we are quite a large contractor by Indian standards. So we will push on in the market and hopefully be successful, the mining business, we have been on the verge of being awarded, we've been a month away from being awarded it for the last two years. I think they've now got eight signatures out of ten required and that's prima facie a \$US6bn job. There's not that much done in the first year, there's a number of big mining jobs. Again India has huge coal reserves, so you have to ask the question why are they a big importer of coal, I mean they're just unfortunately not got themselves organised. Tata Power we provide through our booming stuff in Indonesia coal to Tata, Tata investing in Mozambique so they're a big importer of coal and you'd think they'd get themselves organised so they can mine their own coal. So the Indian story is a pretty exceptional and stunning story, the question is do you believe it but I think whether you believe it at the 100% level or the 70% level or the 50% level there is going to be a staggering amount of projects and of course the thing they have going in India is a young population whereas the Chinese population is going to peak out.

Question: Andrew Hodge, RBS

On Northern Link can you explain or give us an insight as to why the council decided to make a note that you were excluded from further consideration rather than just name you as an unsuccessful tenderer and the second part who will be successful introducing an international contractor you've had that mega projects pretty much a market to yourselves with Bilfinger for 4 or 5 years what do you think the landscape will be if they're able to deliver that successfully.

Speaker: Wal King

Are you talking Northern Link in Brisbane. There's a lot of dynamics in that, the bid that Leighton Contractors put in was a non-conforming bid and we don't actually know the reason why we were excluded but I think that probably the non-conforming nature of it was not to their likings it was a shorter route than required, a number of houses to be repossessed, so I think that was one set of dynamics, the second set of dynamics which was really well known was that governments want more competition in Australia and if someone else can get up on that then that's fine and I don't think you're going forward it's as easy as turning up here and nailing up your shingle and saying right for business, we have the major resources in the country and anyhow in any event Macmahon are in the Boig consortium which I think is going to win, so Macmahon will get a consolation prize.

Question: Guy Robertson, Citi Group

One more question on the Middle East, the opportunities outside Dubai are enormous but we're seeing work in hand in the Middle East down about 20% half on half. You mentioned Abu Dhabi slowed down, Saudi looks to be a very hard market to crack given almost barriers to entry at this stage be it project activity will pick up, how do we think about the timing of recovery in terms of work in hand and revenue is it more a 12/13 story or sooner than that?

Speaker: Wal King

Well I agree with you the Saudi market is a very tough market, the problem with the Saudi market, and they want us, the Ben Larden's want us to joint venture with them in Saudi and the Saudi's want to develop mining issues in Saudi Arabia, the Ben Larden construction company I think has their own completed works \$160bn which is \$50bn Aus I mean it's a gigantic market, I've been to see the Ben Lardens and talked to them, they want us to enter into the mining business with them but from a Leighton perspective we own 45% of Al Habtoor Leighton and Ben Larden's want 50% of that so we end up with 22% and bearing in mind in the mining business the opportunities we have elsewhere in Africa and Mongolia and maybe Central Asia do you want to do that and I mean that's an unanswered question if we did it we would want to have some other arrangement with the Ben Lardens to take fees out of the project or something because we're not going to do all that. We think this year is a bottom consolidation period and then hopefully we will climb out, we have sent to the Middle East Laurie Voyer who has worked for me since he was 20 years old and there is no one better in the organisation and more capable than Laurie and if we can't make it work with Laurie well I don't think we can make it work. Laurie is an excellent operational guy and he's also an excellent estimator so we've got our best man up there and I think this year is the bottom and that's what our budgets show, but the budgets have got to turn into reality then climbing out of the place.

There's a comment on the screen can you comment on the G Resource project the Mata Gold project in Indonesia. I'm not sure what there is to comment, it was a gold project that was stalled and has now been reactivated and we're mobilising and underway, I'm not sure. Whoever put that on the screen if you could put what you're specifically liking me to address. The project is there and underway and should be a great project.

Question:

Talking about mining in Africa, Mining has been a great business, capex heavy of course in terms of capex intensive, what should we be thinking about this 70:30 split Australia versus offshore but what should you be thinking about in terms of contract mining as a percentage of that offshore revenue and what's that going to mean for both the balance sheet and the investment hurdles that you have, in jurisdictions which have different geo-political risk and we're already seeing with the Middle East issues that you haven't necessarily been prepared for.

Speaker: Wal King

Well I think with the mining business there's two things talked about, the first is how do we mitigate the risk of having huge investment in equipment, I think that's the first thing and I think going forward it's got to be a combination of own and operating leases. Now lot of confusion in my view about operating leases being put on the balance sheet for accounting purpose, I mean that's an accounting thing but operating leases on the other hand we don't own and if the world all fell apart then someone else will own all the equipment and so we have a strategy of having a mixture of owned and operating leases, the operating leases effective from a funding view point but they're also rally effective from a risk mitigation view point and there's endless debates about how much capital both from an operating lease and a capital should we have in mining. The second thing then you move onto what are the contract conditions and without singling out some of our mining contracts they are cost plus and I would have thought cost plus even for a poor contractor like me is not a bad risk mitigating strategy. So then I think you have to look into the terms and conditions of the contract to see whether you are protected or not, on some of those projects and of course the tenure is unusual about what happens and I think if the world all suddenly came to an end I mean you need to look at the mine you're on whether it's low cost or high cost etc and two years ago on the GFC we were struggling to adjust our equipment fleet to suit what was supposed to be new reality but that new reality passed by very quickly and we're now short of equipment again for modelling. So I think it's a whole matrix of valuation about how do you fund the equipment on balance sheet, off balance sheet, what are the terms and conditions of the contract. We had an opportunity to go into Mozambique and they were invited there for example and we bid cost plus now the client didn't like that and bad luck, we weren't that particular to go there. All that's got to be weighed up, I believe in the resources going forward, Australia is going to be less significant in a few years time, it's not over by any stretch of the imagination, Australia has gigantic resources, but in a matrix of let's say 5 years out, there will be investments and you see the Rio's and these people putting money into Africa where there's large amounts of resources, Central Asia also has large amounts of resources, in Siberia there's gigantic amounts of resources now it's a question of how those areas open up. I don't think Leighton can have its head in the sand and say we're only Australia based, you've got to look at it and take a calculated judgement whether you want to do it or not do it and I think at the end of the day it comes down to the client who you're working for, what's the contract conditions, are you going to be paid, and if everything turns to hell how you're protected with your equipment.

Question:

If I read that through I'm sure it's going to be overly simplistic that offshore expansion and mining will be done on operating leases rather than cycling out some of the kit from Australia that may necessarily suit the purpose.

Speaker: Wal King

Well we'd like to do that but of course some of the people that are providing the funds for the operating leases might have other points of view as well.

Question:

So you could be financing offshore is my point

Speaker: Peter Gregg

Not necessarily it's going to be project related so I think you've got to look at it on a project basis, I wouldn't be too confused about that. I think your bigger question is how much your balance sheet do you want to devote to mining gear that's a work in progress for us but at the moment we're satisfied with the risk appetite the business has got for that type of gear given the returns we're generating.

Speaker: Wal King

Well a place like Mozambique the client De'Veers do you think De'Veers is satisfactory as a client, it's a billion dollar job, they're buying most of the equipment you should say should you work in Botswana you say who's the client De'Veers I think they're ok, can you get your money out, what's the security risks, all of those risk and at the end of the day you come to the plant and equipment if it's provided by the owner well that's probably not a bad place to be, now whether we win it or not that remains to be seen, they're very keen to have us there.

Question:

It's also production slots presumably from these manufactures of the gear and the allocation to those markets.

Speaker: Wal King

Well that's difficult. Since the GFC and particularly Caterpillar where they had two years ago when I was in Vegas they had 1200 trucks ordered and they were worrying about how they could do the trucks and then I think they had 700 cancelled in three months, so they're a bit more touchy about security and rightly so, you go an order 10 trucks and \$4m each well we'd be touchy too.

I've got a question on the screen, I knew it would eventually get around to this. Can you please comment on Hochtief ownership of Leighton and ACS of Hochtief in brackets all parties happy, they're all deliriously happy and the general progress of succession planning, well in due course the Board will do it.

Next question.

Question: Philip Parker, Parker Asset Management

Just on that China x Mongolia can you give us a feel for prospects over that 5 year you put up on the chart.

Speaker: Wal King

From Mongolia mining?

Speaker: Peter Gregg

Our exposure to China is mining iron ore in Australia and coal in Australia we don't really have projects in mainland China.

Speaker: Wal King

In the mining business we seriously looked at the mining business in China but we've been unable for a whole set of reasons to make any progress there and I don't expect to make any progress, it's an employment issue, we've looked at various mines, Derapasca the Russian asked us to look at a mine in Kazakhstan a gigantic mine 40 million tonne a year had like 10,000 people on the mine and we turn up and say we're going to run this with 1,000 people, that's not exactly what they want to hear. There's a huge mine I'm going up to Muscat(?) to talk it's just north of Ullen Batah it's a gigantic green field copper mine where they want to shift 1 million cubic metres a day, I mean the scale of the thing just mind boggles me now whether it happens or not. Siberia has got huge resources, it's all works in progress, I think the only thing with this resource business is Australia doesn't have it on its own and when I was in Mongolia a few months ago, I met with the minister and he said he tried a super tax in Mongolia and it didn't work he said we have four things in Mongolia, 10% VAT, 10% import duty, 10% company tax and 10% personal tax. And I said how can I get into the place and he said Wal invest a million dollars into the place and you're in.

Any other questions?

Question:

What is your current policy guideline for equity investment in projects?

Speaker: Wal King

Well we've had the policy is really remained unchanged. First of all we want to be in a minority position, secondly the quantum of the investment should have some equilibrium with the construction profits that are going to be achieved and thirdly there should be some sort of exit route. Now if you went back to the first generation of projects where we put say 10% of the equity in and there was a huge upside the comment would have been well you guys should have had more of this look at how much money you would have made, true. The last set of projects that have all turned turbel I haven't heard anyone say we should have had more money in. I think the guidelines that we have are really relevant so in a theoretical sense if a project comes around and requires equity investment if the construction profit was \$100m I mean we shouldn't be investing in a comparative sense, so let's call it more than \$50m so that if it all tanks from an investment perspective we're ok there's no way on \$100m profit we'd invest \$200m that's not our go. I think the guidelines that we've applied whilst in this last set of things has sizzled us a bit it hasn't been where we've taken a gigantic investment of \$500m or something on our balance sheet, I mean we would have been and it's true several years ago if we'd invested more we would have made more but I think that's the whole strategy of risk mitigation, you've got to always expect that things are going to go wrong and have some equilibrium and those rules have stood us in good stead over the time.

Thank you very much everyone.

End of Transcript

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