

Leighton Holdings Preliminary Final Report 17 August 2005

Speaker: Wal King

Good afternoon ladies and gentlemen, thank you all very much for coming along here, and I hope you'll excuse my croaky voice this afternoon, I'm suffering from a bit of a cold.

As everyone is aware we released our results today and I think it's fair to say that we're very pleased with the results. I will run through some operational issues just updating you, I'll then ask Dieter as per our normal system to go through and analyse the figures in detail and I expect some forensic questions from the accounting audience to Dieter who's been having it easy, looking forward to this year having gone through last year. So we'll just move on then as I said we're obviously very pleased with the results, we've bounced back to what I'd call more normal level of profitability and you see in the graph that where we were a couple of years ago we had the Nextgen issue and last year of course we had Spencer Street and Hilton and we returned what we call a more normalised profit growth and this year is the \$205m after tax which we've put on the table.

Thiess recorded a very strong contribution on the back of their mining and infrastructure work and also we had a very strong performance of John Holland and it's interesting to note that since we acquired John Holland in the year 2000 revenues have grown 4 times and work in hand has grown 7 times since we acquired the business in the year 2000. Holland's no doubt now return to being one of the great construction companies of Australia. Leighton Contractors returned to profitability in the year after a tough year last year and Leighton Asia North as per the figures was impacted which we talked about in the half year by our problems on the North Luzon Expressway, the problems on the North Luzon Expressway marred what was really a good performance elsewhere in Asia. Leighton Asia South made a good contribution and once again our Property company turned in quite a good result.

These are the financial highlights, which I'm sure you've had careful analysis of. Revenue up substantially both at Group operating level and also from joint ventures so revenue is up to \$7.7bn, some 28% increase, work in hand increased from June last year by 19% to \$15.5bn, operating profit both before tax and after tax up substantially with a final dividend being increased by 11% to 30 cents per share, 50% franked making the full dividend for the year 50 cents per share. So it's obviously a great percentage increase over last year where we had to dip, but I would say that we've returned to what I would call a more normalised level of profit now. The work in hand is obviously a great achievement stands at an all time record level of \$15.5bn up from \$15bn at December and \$13bn at June last year.

Whole series of major projects being awarded during the year, I guess the most significant one was Eastlink project in Melbourne, that was formerly called the Mitcham to Frankston Freeway and as everyone knows it's not a Freeway it's a Tollway so a new name the Eastlink. Major projects in the infrastructure area such as the Westfarmers Curragh North Mine in Queensland and a number of large process jobs and engineering

jobs. There's many opportunities around and we believe the work levels will stay at or around the \$15bn.

There's a number of projects that will be awarded since the close of June there's a few contracts that have been awarded like a major contract in Hong Kong, a rail contract, there's an extension to the Wynn's Casino in Macau \$1.2bn or so Hong Kong dollars and there's about \$600m-\$700m worth of mining work in the process of being awarded as so. Since the end of June there's more than a billion dollars worth of work in the process of being awarded. So we think that depending on how we burn the work off you might see the \$15bn go down or come back as these contracts are awarded, but we're fairly confident that the \$15bn plus or minus will hold over the period ahead.

There's a whole array of infrastructure projects there that most people are aware of. The engineering and construction and infrastructure provided strong contribution to our Australian revenue and was at \$2.5bn or up some 45%. Work in hand in this particular market was up 58% to \$5.5bn and that chart up there gives the percentage complete of the major projects that are around the place.

Most major projects are proceeding very well, they're either on or ahead of time, certainly one project that's getting a lot of air time in the press is the Perth to Mandurah rail project, it's worth some \$220m to Leighton Contractors, has had some heritage issues and IR issues, you could probably read in the paper that they have this thing in Perth called blue flu where on the various jobs around Perth suddenly everyone gets sick on a particular day and 100% of the people call in sick, they call it blue flu. So we're waiting with baited breath for the establishment of the new regime under the Building Industry Construction Improvement Bill that's due to become law in the next several days and I think it will be interesting to see what the regulator does about blue flu. But notwithstanding that even though there are some IR problems in Western Australia, we don't expect the Perth to Mandurah railway line to have any significant impact on the performance of the Group.

On the other hand the major projects that are listed up there, the Lane Cove Tunnel which I guess most people see around Sydney as they drive around the Gore Hill Freeway has excellent performance and will be finished ahead of time. The Sydney Westlink out in the western suburbs also excellent performance and will be finished ahead of time we believe and I'll comment further about that later on.

The highlight certainly was the award to Thiess and John Holland of the \$3.8bn Eastlink project, the design and construction component of that contract is worth \$2.5bn to the Group, it's a 39km tolled motorway with an additional 6km of untolled bypasses connecting Melbourne's east and southern suburbs. The Group has a commitment of \$260m or 15% of equity commitment to Connect East in 2008 and looking at the shares in Connect East is travelling maybe we should have taken some more stock. On that particular contract people asked us about escalation we've locked in more than \$500m worth of major commodities and subcontractors required for the project, so we've underwritten if you like the escalation risk and we've also negotiated an EBA with the AWU and the CFMEU for the project, we towed a very tough line from a negotiation perspective and those EBA's that we've negotiated for the project are quite beneficial in

fact they provide for some 20 additional work days per year. So we see that project as progressing well and hopefully in the next 12 months the outcomes in terms for completion will be much clearer.

This is spaghetti junction out in the western suburbs, I believe it's the largest interchange in the southern hemisphere, the photograph is the junction of the M4 and the M7 at Eastern Creek, it's called Lighthorse Interchange which this morning I had no idea why it was called Lighthorse interchange and Nicole went and researched it and I'm led to believe it's where the troops all massed before they went off to war, is that right Nicole. So hence Lighthorse Interchange, it's some structure, anyone who goes out to Blue Mountains of course you pass under it. The M7 is progressing very well and we're aiming for completion certainly by April next year and depending on the weather we may be finished even earlier, and obviously if it finishes early there is quite considerable upside for ourselves on the job. In the building and construction arena, the largest jobs that we have are up there on the board. Revenue is strong at \$1.8bn up some 38%, work in hand was down some 33% to \$1.2bn, we've been pursuing in our building arena a greater selectivity, the difficulty is procuring tradesmen, plasterers, formworkers etc. So whilst the market is reasonably strong we take a much more conservative approach, we expect prices to ease in the sub-contract market area as obviously the building and particularly in places like Sydney and Melbourne the unit market has come off the top and some resources will be freed up for commercial building.

Here's the famous Spencer Street, construction on Spencer Street has been excellent since about this time last year after we had our altercation with the Victorian Government and we were able to get access to build the structure. Most work will be completed by the end of this year or early next year, certainly the transport interchange will be finished by the end of this year. The nature of the job is changing very substantially now that we have most of the project undercover so weather is not as big issue as it was, those cranes that you see there come off very shortly off the job. So in the end when we did in fact get access to build the thing work did progress quite well. We still engage in the Victorian Government on a very co-operate and friendly basis talking about the outcomes eventually which we'll work through.

The next particular job I've got on the screen here is the KENS project in Sydney for Westpac just a few streets over, progressing on schedule, the progress has been excellent on that job over the last several months moving forward.

The Hilton Hotel had a lot of air time is finished, handed over and I suppose some people have been up to dine in the fancy restaurants and the fancy wine bars, the Marble Bar or whatever and I think it's sufficient to say that we're very pleased to see the end of that job.

In the mining resources market, remains very strong you see these major mines that we have there of course one of the big things with a lot of the mines that are listed you see there Liddell, Collinsville, Burton, Mt Owen those contracts go on you might say ad infinite item but we only in fact book the work for 5 years, so there's a number of billions of dollars worth of work sit out past the 5 years. So it's a very strong market and the market has performed very well for us, mining and resources provided us with \$1.4bn

worth of revenue up some 32% compared to last year and work in hand was up 23% to nearly \$4bn reflecting the strengths of the resources market.

New mines awarded during the period include the Westfarmer Curragh North Mine in Queensland. An extension to BHP Biliton's Yarrrie Nimingarra project in WA for Leighton Contractors. A mining contract for Anglo Coal, the Dawson project in North Queensland and a gold mining project for Agnew Gold Mine in Western Australia.

Thiess have also been successful in the process engineering area, a large number of projects awarded is basically engineering and procurement construction projects and incidentally most of the projects have been awarded on a type of alliance base which is a lower risk profile, some of those projects include the One Steel project, Mt Magnet in South Australia, a process and engineering contract at Alcan's Gove project in the Northern Territory and expansion at Hale Creek Coal Mine. So we do have a large number of process works on.

Many challenges associated with a strong market in the resource business, difficulties in procuring equipment, equipment's got large lead times and we're experiencing issues with spare parts and the like, particularly tyres, there's a worldwide shortage of tyres and that's not expected to abate for at least a couple of years and in fact some new earthmoving equipment now Caterpillar will provide you equipment without tyres because they can't source tyres either. But nonetheless in that particular market we see good opportunities and again it's a question of resources that we have the resources and in former times there'd be an opportunity we'd go and find the resources, now it's a question of matching the resources to the opportunity. So good opportunities, a question that's obviously asked a lot 'what about rise and fall of these big long term contracts'. We do have a whole series of formulas that apply to the various contracts, the big component is of course fuel and fuel is not an issue that we take the risk on, it's either directly reimbursed by the client, reimbursed by rise and fall, poor formulas or in some cases clients supply fuel. So fuel is not an issue and if you can predict where oil is going it would be a great advantage to us but nonetheless it's a risk that we don't accept.

The services market is a market that we do have a strong presence in, it's only in the last couple of years that actually we've pulled it out for transparency reasons. We are one of the biggest services contractors in Australia. Revenue from O&M was steady at about \$908m but the work in hand in this particular market has increased some 12% to \$1.7bn. Thiess Services recorded another solid contribution from its waste contracts and utilities O&M. New work awarded during the period included an extension to the south east water contract and maintenance of the electrical systems in Victoria and distribution systems and here in Sydney Thiess have been awarded a very substantial contract for site remediation out at Homebush Bay at Concord, I think it's an old union carbine site.

John Holland was awarded a defence maintenance contract in New South Wales and a number of telecommunications related projects. Rail and power work in the O&M continued to supply a solid base of activity and Leighton Services was awarded a number of telecommunications projects including a contract to rehabilitate part of Telstra's network throughout Melbourne and across Victoria. Leighton Contractors has acquired AMEX Engineering and Services business called Mayfield and Metlab and

these are specialised companies that have now been integrated into Leighton Contractors Services. Leighton Contractors subsidiary Nextgen Networks which gave us some considerable headaches a couple of years ago has now secured a number of new customers and that particular network is trading profitably now and we see good opportunities that obviously the announcement and the forthcoming privatisation of Telstra we believe should provide increased opportunities for us. We are the largest telecommunications contractor in Australia through Holland's, Leighton, Visionstream and Thiess and Telstra are going to outsource more work and also provide more services to the bush to allow the privatisation to go ahead, we believe we will be the benefactor or the recipient of some of that additional work.

If I can turn to Asia, the largest mix of contracts on the screen there, overall we're very pleased with our operations in Asia albeit that the problems with the North Luzon Expressway has affected our Asian contributions, the North Luzon Expressway is now completed we do have a 16.5% equity stake in that project and all things being equal we believe that there should be a considerable upside in that equity stake.

Leighton Asia South was awarded a contract for Nokia for a plant in India to manufacture cell phones or as they say over there hand phones.

Our operations in Indonesia performed very well, Thiess have a number of contracts there that performed solidly and in addition Thiess were awarded new contracts for work on a gas plant and a geothermal plant in Indonesia.

Leighton Asia South also performed well on a number of small mining contracts that were awarded in Kalimantan and Leighton Asia South also were awarded contracts at the Tangguh LNG project in Irian Jaya or Westerman as they talk about it.

In Hong Kong the Central Reclamation and Eagle's Nest tunnel have underwritten activities, Leighton Asia North and John Holland were recently awarded a half share of the \$340m rail project in Hong Kong. Leighton Asia North share is \$130m and John Holland share is \$40m, that's the project that I referred to earlier on that was awarded a couple of weeks ago a very interesting project in Kowloon. In addition this is the Macau Casino that's going extremely well, I don't know if anyone has been across to Macau, what's happening in Macau is completely remarkable, they're saying that within a very short period of time the gambling revenues in Macau will exceed the gambling revenues of Las Vegas which I find if you've been to Las Vegas it's a huge city, Macau is only about that big, they've reclaimed a thousand acres of land out in the bay, there's casinos going up everywhere. This Wynn's Casino, since the close of June we've negotiated and I think it's the biggest negotiation the company has ever done is a \$1.2bn HK extension to the casino so that's not a bad negotiated variation. I suppose I'd be confident we could earn a profit on that. Wynn's on the other had in fact has now secured another block of land in Macau and is now talking about building a second casino bigger than this casino which is about \$US450m something like that, the new casino they're talking about will be something like \$US700m. Macau currently has about 15 million visitors a year and in a very short time they're talking about 30 million visitors to Macau. During the year we progressed well on the KL to Putrajaya Highway in Malaysia. OK Dieter.

Speaker: Dieter Adamsas

Thanks very much Wal. I'll walk you through. Before I go into actual numbers and explain what's behind them give you a blow in terms of the overall financial situation in the organisation, obviously you've seen the headline number of 205 the revenue 7.7 and both very strong numbers, within that as Wal mentioned we've handled Hilton, Hilton is behind us, the job is finished, we've done a deal which is got about 20 confidentiality clauses around it but we did take some more in closing that one out. We've also completed NLE North Luzon Expressway and that shows up if you want to look at the segmental reporting in terms of what we've achieved out of Asia and the segregation of the Asia result in fact was a result of the red ink we took and the North Luzon Expressway that job was complete and we're well on track if that's the right word to completing Spencer and doing a deal we believe with the other stakeholders in that particular job and in that job there again we've taken some red ink and that shows up on the numbers there as well. So we have in fact produced what we believe is a very strong result and in fact handled the residual issues that caused us all the angst last year.

Within the numbers as well we've again highlighted the \$38.5m number which relates to the way that we take profits after we achieve the 20% threshold now I've spent a bit of time at half year talking about that and I indicated at half year that we agonised for a period to find a way to more closely link profit take up with revenue in the context of the order book that we had and we continue to have that is these major projects. Now we've got a whole bunch of billion dollar plus projects at this stage of the game as you would know. Obviously the M7's the Lane Cove Tunnel, Mitcham-Frankston and so on and a whole bunch of under a billion dollars the Chatswood rail and so on and the old traditional policies I explained in the half year when a big job is \$100m no longer if you like gave us what we believe an adequate profit take-up relative turnover so we finally agreed that what we would do once we got to 20% we would then take 20% of the profit in order to get a better matching of profits in revenue and that number for the full year is \$38.5, the half year it was \$42, obviously caused quite a lot of comment but I just want to bring this up front and again make the point that the fact that we've got such a largecoming out of these major projects vindicates the change and we stand right behind it but that's the last time you'll see it, it's obviously just going to flow through our numbers from now on.

The other particular point I'd like to highlight in terms of the general wellbeing of the organisation Wal has touched on this was in fact the work in hand and the work in hand this time last year was \$13bn and now it's \$15.5bn and the makeup of that work in hand is of the \$15.5bn \$12.3bn sits in Australia and about \$3.2bn sits in Asia. Now Asia is relatively flat, it was just over \$3bn last year and just on \$3bn now so the big increase has been in Australia. In terms of where the work is and highlighting the diversity, the strength of the way the work is distributed, in the heavy engineering area again these big major projects \$6.2bn about 40% of it, the mining and resources area which picks up both the contract mining as well as what we call the process engineering side which is the actual engineering or infrastructure work for major projects is around \$6bn again roughly about 40%, property and building are about \$1.5 and O&M about \$1.7. So you've got these 2 big components one is the heavy engineering and then of course being in the so called resources area and both those areas continue to present opportunities for us going forward. As far as Asia is concerned Asia obviously even

though in percentage terms has dropped, it's about 20% of our overall work in hand compared to say about 23 or 24 or so and going back a couple of years ago it would have been over 25% in dollar terms it's holding out but obviously percentage terms because of the strong order book in Australia, but we would say Asia over the next 3 or 4 years in fact grow and as Wal mentioned we're obviously now in India and we're also looking at Dubai as well. So a very good if you like order book and I suppose a little of optimism on the back of the order book as to what we can achieve over the next couple of years.

That's a preamble, so now I'll walk you through the Appendix 4 E which is the Stock Exchange announcement as most of you know it so I'll walk you through the various pages and highlight the numbers that I believe will give you a greater clarity as to our results.

Obviously the 1st page is just the transmittal page and the highlight page is \$7.7bn revenue compared to \$6bn last year, up 28% and of course the profit for 205 massive increase because of the profit downgrade we had last year, the 205 which Wal said we believe we're now back on trend line we were on prior to the profit downgrade. Dividend is obviously 50 cents, 50% franked compared to the 45% last year 45 cents last year.

Running through to page 5 on the Statement of Financial Performance the P&L the format there again all the numbers relatively show the strength in a slightly different format the 6.3 obviously excludes the joint ventures and that number 1.3 so the real number there effective that we're running off as far as real profitability is 7.7 as I mentioned early in the piece the \$130m share of joint ventures that's obviously showing the significance of these joint ventures like the M7's, the joint ventures we've got in Hong Kong, the Reclamation and so on we've got around the place, last year 104 and then this year 130 and we expect that number to remain relatively strong going forward. Income tax expense 28% and we've got Scott, Darren and David here and they assure me that they'll keep that number at that level if not less Scott. Last year we were at 24 and we had some I suppose initial credits last year coming through in Australia as well as overseas. In terms of the minorities well that basically picks up the residual share of Heytsbury that's probably the significant component there, below the line there you'll notice there's a 28 \$180m number the exchange there due to the change in the exchange rate between this year and last year, last year we were running at an exchange rate of 69 cents this year it's 75 cents that's a balance sheet item and that will pop up again when I talk about the balance sheet. So that's effectively the degradation and the value of our overseas assets due to the change in the exchange rate.

On the following page the balance sheet you can see there just running through the major areas, the cash still relatively strong but not as strong as last year and we're reflecting there the cash usage in part due to plant and I'll talk about plant, we obviously brought a swag of plant this year, we'll continue to buy plant as well as funding the losses particularly in Spencer and to a degree in say Hilton. So those losses funded now whereas last year we took them up as an accounting entry and obviously we've had to spend the cash, notwithstanding still a fairly strong net cash position of about \$400m. Receivables obviously receivables and payables you would expect those to go up as the business increases in size, obviously going from \$6bn to a \$7bn plus you would expect

your receivables and payables to go up but the only surprise they haven't gone up as much as they have in fact, so we've done a fairly good job in managing a way through there. Inventories that's largely properties, investments the equity account of investments there the \$220m that's properties and some of our construction joint ventures and the investments and other entities that's the likes of our investments the likes of Adrail and North Luzon Expressway and so on. The deferred tax that's largely driven by our provisioning and we come to our plant number and that's as you can see a significant increase around about \$200m obviously there's morebut the dominant component of that is plant, the increase is dominated by plant that's about \$200m increase in plant and we would expect that number to increase again over the next 12 months, so next year you will see that number go up and then if you look at the organisation going forward if we achieve the potential and Rob's going to generate a fair amount of cash and we say a fair part of that cash is going to be used in funding our incremental plant growth for ramping up work that we've got as well as replacing existing plant fleets in some of our older mines. Good will remains largely where it is, the extent we've amortised it we've acquired Wal mentioned an outfit called Mayfield a little services business and there's been a little bit of goodwill added to that so more or less where we've started we've ended up. On the payables side you'd expect the payables to go up because of the levels of activity, as far as the provisioning is concerned obviously that's gone up a little bit, you'd expect it to go up as well because of size of the business, number of employees. We've got interest bearing liabilities that's driven largely by the \$200m hybrid and a couple of small loans including a couple of small loans on a number of properties that we have and then come down to equity and in terms of the retained earnings obviously we'd expect that to go up given the level of profitability and then of course the degradation there in the reserves due to the \$28m in exchange rate differences as I mentioned to you leading to around about \$900m or so of net equity the Group has got. Creeping up Travis towards the billion dollars that we're going for. In terms of the cash flow no surprises there, I did mention the cash flow is relatively strong notwithstanding the funding of the losses from an operational point of view so \$600m of cash there. In terms of the expenditure side from a capital point of view the big item there obviously is plant and you can see a big lump there of \$600m we've sold some plant in the next line down, that \$100m includes plant as well as this sale of the James Fielding stake that we had and obviously if you take depreciation off that then you end up with a net increase of \$200m I've talked about early in the piece. So plant continues to be a major item for us. Obviously a big level of work in hand and as I said potential in terms of in fact penetrating that market even more. Then below that what I consider to be items you'd expect the dividends and items and running through to the overall bottom line cash number that I talked about \$635m.

On the next page on the revenue side just a bit of a clarification of where the revenue came from, obviously dominant components to what we call the contracting business which is basically the construction and mining and then you've got the other revenues I suppose dominated by environmental and development sales. The rest of it the only other worthwhile noting there is proceeds from sale of other assets that's basically plant, Adrail and James Fielding \$108m there.

On the following page – note 3 the net gains the \$6m that's our profit on the sale of the Fielding shares, a modest profit which I always expect to have in relationship to plant and

equipment around about \$10m and these are all before tax numbers, that's obviously I look at keeping that in the black in a sense where as long as that's in the black depreciation rates are right you'd hate that to be a red number and then we go down to a couple of the other items there, the goodwill depreciation which obviously as I mentioned has got to be a big number given the level of plant that we've got and the rate at which that plant is working and that number will continue to grow. And then we've poked in there the Spencer Street loss the \$12.6 and compared to what we had last year so in fact the Spencer Street loss sites at \$122.6m and at the half year we took up a provision against our investment in Adrail of \$7.4 and that's obviously showing the same number here for the full year.

Then as far as Note 4 is concerned that best way to describe that the business is bigger and therefore you're going to spend more on materials, you're going to spend more on subcontractors, you're going to spend more on people and so it goes on and that's just a pure reflection of the size of it, there's nothing in there that's in any way shape or form untoward.

On the segmental reporting on page 10 and 11 and I mentioned in my preamble the performance in Asia relative to performance in Australia and if you look at page 11 you'll see that last year we had a before tax contribution to our profits in Australia of \$58-59m and obviously this year it's \$229m so it's a fantastic performance out of Australia. But in Asia we went from an \$86-87 number to a \$58 number and in part there's an exchange rate issue as I mentioned last year we were running at 69 cents and this year it's 75 cents so in part there's very broadly about a \$10m exchange rate degradation in those numbers but the balance is driven to fairly by if you like the write back we had on the North Luzon Expressway which is all very said but it's now complete and the plant has been taken up. So that's the sort of the highlight as far as those particular numbers are concerned.

On Note 5 it's largely for your own leisure an indication of where the money is from a revenue point of view, I think that's pretty well covered in the earlier parts summary around the place.

The liquidity analysis on 9 I think doubting Thomas's and the organisation remains very liquid and the rest of it is fairly pedestrian the only area I would like to note for those of you who have got an academic interest in terms of the impact of the new accounting standards National Accounting Standards that we'll be adopting next year, had we adopted them this year our profit would have been greater in 2005 in part due to the good will amortisation being written back to 4.4 and part because of an idiosyncrasy in relationship to the way that we would have taken development profits in 04 and that would have reversed itself in 05 to 5906 so that would have given us a nice academic number of 215 it's a nice number to look at but it doesn't mean very much at all besides that nice comment I made about it.

So that's about the highlights if there are any questions I'll take them now or at the end of Wal's presentation.

Question: Adam

What was the contribution from property development?

Speaker: Dieter Adamsas

Probably before tax about \$40m.

Question:

Too low to hear.

Speaker: Dieter Adamsas

That's the total contribution of property including the development property.

Question:

Too low to hear

Speaker: Dieter Adamsas

KENS was a good contribution as far as property results are concerned, KENS as you may or may not remember does not sit on any of our books it's classified as a property development but it was presold to Westpac so it has 2 components what we call a development component the development stream, structure stream and so we've taken profits on both sides, I didn't mention on the early occasion the construction side was struggling, we've turned that around construction on that job is now in the black and development profit in fact is going according to track so did provide a good contribution we haven't disclosed that number we wouldn't want Mr Morgan jumping down Wal's neck.

Speaker: Wal King

OK thank you, if there's any other questions we'll take them at the end, I'd just like to move forward and talk about our strategy and the outlook for the future. In the short term no doubt our strategic focus is to secure and take advantage of the opportunities. You'll see that over the next 2 or 3 years there's very many opportunities so a 2 part strategy really in the short term is to extract the profits from the very considerable level of work in hand we have and also to secure new profitable work to keep that \$15bn up where it is. The strategic framework we've showed you many times and really is the underlying strength of the organisation, diversity by brands, diversity by market, by geography and by delivery system. This diversity allows us to balance the ups and downs that happen across the markets or across companies as we've seen in our results over the last period and has enabled us to spring back very strongly. It provides a balance across the group and gives us a strategic critical mass. We don't see any need to change our framework or our operating strategy over the next few years as we believe that the company has a high level of momentum from its work and the opportunities in front of us and we need to capitalise on that in the short term. However within this framework there still exists options to further increase the business, if you like bulk on acquisitions and further small diversifications both from a geographic perspective and extension to the product range. As most people well know we are going to take John Holland into the contract mining market, the contract mining market as I will show you is a big and stable market. To add to Holland's further diversity we will take Holland's into that particular market. So we see in the 2 or 3 year period ahead really bulk on type activities obviously in the longer term there's issues that I'll talk about in a moment.

If you look at the market the overall Australian market, our core markets are very positive for at least the next few years, non-residential construction is expected to be worth around \$40bn this year. BIS Shrapnel expect this growth to continue through and then you can see it top out, whether it does top out remains to be seen, I personally believe that Australia has had a big shortfall in infrastructure spending and you will see a number of issues and whether in fact peaks out in 07 or 08 I think is a matter of debate at this point in time and its inherent difficulties in forecasting where the peak is going to be. This graph up here reflects similar trends and demonstrate the road investment continues to lead the growth in engineering construction. The Federal Government's Auslink land transport program is likely to provide substantial boost to road and rail spending across the nation and as I said earlier on the initiatives of the Federal Government in respect of Telstra will also provide additional activities in the engineering construction area. There's also substantial level of infrastructure planned to support resource projects water and electricity there's been a large level of under investment and a number of big projects are planned or will be planned. Of course here in NSW the big factor has been the change in Premier. I did meet with some government officials about 6 weeks ago and they said this is going to be the program of big infrastructure projects that we'll be announcing in early August and then of course since then we've got a new Premier and new Ministers but there's no doubt that here in NSW they do have an infrastructure problem and I think you'll expect and the Premiers been making noises so you'll see the NSW Government move forward. So whether that in fact peaks out in 07 or 08 remains to be seen but our key strategy in the short term is to extract the profits from the building work and construction work that we have on hand.

The outlook for the building and property market also remains generally positive underpinned by the Australian economy. The non-residential building market expects to grow by around 4% this year and by 10% to some \$18bn in 06/07. Commercial and industrial I expect to remain strong until at least 2008 with hotels, retail, factories, etc providing business opportunities for us.

Office construction is also expected to remain strong, while the building of health related facilities should be strong through 08/09 due to the demands of the ageing population and that's not us Dieter, we're not the ageing population. We're being more selective in the types of work that we're following in the building market, obviously the margins are more difficult than the engineering and resource market, and you're at greater exposure to escalation and labour shortages.

The mining market remains positive, you can see there that there's expected to be no downturn in the mining market, demand for Australian resources particularly from China is fuelling this activity. Investment in new and expanded mining and resource projects derive in construction and process engineering opportunities. I said earlier on that Thiess have now perhaps got about a billion dollars worth of process type work and most of it being on a negotiated basis. There's new mines being developed, the question is where it goes over the longer period of time and I guess Australia is in a very fortunate position to be able to supply all these resources to the world. So you can see that the contract mining market remains strong and we do have an objective of taking

John Holland into that particular market which you'll see us I suppose make progress on over the next 12 months.

In the services market the Group has currently \$1.7bn dollars worth of work in hand in the operations and maintenance area, a good mix across traditional markets. The market includes the maintenance of Australia's infrastructure, non-residential buildings and industrial facilities. We see the opportunity to generate new activity in that area particularly the number of big mines if you like coming on. The Group strategy sees both Thiess and Leighton Contractors continuing to grow their services business and key areas like telecommunications that I mentioned. John Holland are the largest rail contractor in Australia and there's obviously been a lot of air play about investment in rail in Australia and John Holland are well positioned to take advantage of that.

If I turn to Asia, we're quite optimistic across the region, demand for Indonesia's resources particularly coal should stay strong underpinning activity levels for the Group in that country. Both Thiess and Leighton Asia are performing well in Indonesia and recently we see a greater level of activity or proposed activity in Indonesia in such things as engineering, oil and gas and they've unveiled now a whole series of tollways and we in fact put a bid in for a tollway in Jakarta very recently.

In Hong Kong, while the government has cut spending we have a good workload to support our activities over the years ahead. I of course mentioned earlier on the activities in Macau which is run out of Hong Kong, high levels of activity and great opportunities in Macau as they spend enormous amounts of money in the gambling area.

The Group has a presence across other countries in Asia and will continue to pursue selected opportunities in markets such as Thailand, Vietnam, Philippines, Sri Lanka and Laos.

Leighton Asia South has opened an office in Mumbai and are pursuing construction activities or opportunities and one area that we're focusing on really is the mining market in India now where the Federal Government are now opening up and privatising part of the business there. So we see the coal mining opportunities will open up in India. Leighton Asia South is also pursuing opportunities further afield into the Gulf Region.

So our strategic focus, we believe that there's great momentum in the business, we should focus very much on extracting the profits from the work in hand the \$15bn worth of work we have and I believe that will vary a little bit, but there's great opportunities coming forward over the period. It means securing replacement work at acceptable margins, there's a lot of work around and it's a question now of matching our resources with the opportunities rather than the other way around, it means continuing application of our risk management discipline across the Group and to develop further opportunities in the longer term to I suppose off set an eventful downturn which is going to come. We see that downturn probably out in 08/09.

If I could say just a few words about risk management, our whole business is about managing risk and generally we do that well over a 10 year period or longer we were

very successful and obviously we've learnt lessons from the Spencer Street project and the Hilton project. A significant effort has gone into reviewing and upgrading our risk management systems and some of the initiatives taken over the period is strengthening guidelines in areas such as post end and negotiations, project delivery, knowledge management, great buzz word for you, I'm yet to work out what that means anyhow it sounds good, HR well we know HR is important, manages to improve compliance. One area that the company is very strong on and very focused on is in Dieter's particular area is contract valuations and reports, we do spend an enormous amount of time reviewing our contracts and reviewing our contracts and reviewing our contracts, it's a great strength in the company. From a corporate perspective we did establish a new risk management team under Graeme McOrist who is slouching up there in his suit, so Graeme has a responsibility with his people to overview a lot of the big projects, so we have an additional layer of surveillance across the major projects. This focus should in fact really put in another layer of caution within the company but it's all about managing risk.

To bring the whole thing to summary, we've spent a considerable amount of time analysing where we are at this point in time in the cycle, analysing the work load that we have and looking at where we're going. So having taken all that into account we believe that the outlook for the Group is very positive, there's opportunities to maintain that workload at \$15bn plus or minus over the next few years. The substantial momentum that the Group has will deliver increased revenue growth over the next few years. That amount of work that we have on will be done. Someone asked me a question at one of the interviews well how much of that work do you think is going to be done. I thought was a particularly odd question bearing in mind they're all contracts. It will all get done, we remain in an extremely strong competitive position obviously our footprint in Australia with our operating companies has been very successful strategy for us, our balance sheet strength we have an ungeared balance sheet, surplus cash, we have capacity for more bonds and guarantees. So our balance sheet is in a great position for us. Our short term focus has to be extracting the potential and I quite often say to people that want to talk strategy to me what you're going to do tomorrow, because if you can't do tomorrow you sure as hell not going to do what you have to do in the longer term. So our outlook is very strong, we believe that next year taking into account all things that I've said about looking at our naval and considering our position, next year we will deliver at least 10% profit growth on top of the \$205m and we will deliver at least 10% growth in EPS and dividend over that particular period.

So there you go, I'm happy to take any questions, and also Dieter is happy to answer. If they're tricky questions deliver them to Dieter and if they're easy questions send them to me.

Question:

Can you just confirm that you're totally out of any further write-downs on Spencer Street and Hilton and also have I understood correctly that there's zero prospect of any recovery from either your contract parties or insurance.

Speaker: Wal King

Well Hilton is finished, finished, finished. Spencer Street I mean we took a small additional write back in these particular figures and we are negotiating with the Victorian Government in I think quite a friendly fashion, having had our harsh words. We don't believe there will be any further write backs on Spencer Street but I mean if the country goes crazy with industrial relations obviously there's no certainty but our best evaluation is that Spencer Street will be more or less finished by Christmas, with some activities to carry over into next year and by March so next year we'll be completely out of there. So those projects have passed through the system if you like from an accounting perspective. Hilton is finished, finished, finished and Spencer Street will be finished, finished, finished by March next year. Now I think you've got to balance against the black cloud that those particular contracts presented, I mean the upside, there's potential upside in projects that we have around the place including our equity investments, those that know of our equity investments and that's why I think I referred to earlier on our investment for example in ConnectEast, we have a commitment of a couple of hundred million dollars in there, \$270m and if you look at the shares they're trading significantly above what our entry point is going to be. So there is a lot of upsides in the company and that's why I think I can confidently say having sat around and obviously predicting the future is a life threatening event, can be a life threatening event. I've spent a lot of time with Dieter and other people in the organisation debating where we are and we think we're poised for solid growth.

Question:

So how much of that result in 06 are you including for the upside for example M7 etc.

Speaker: Wal King

I don't want to go specific there is upsides there is upsides in the business, but at this point in time all I'm saying is that we will deliver more than 10% profit growth.

Question:

Dieter just a question on personnel costs, they were up by about 40% are you concerned about that at all.

Speaker: Dieter Adamsas

No. As I mentioned early in the piece that the overall business has grown in terms of revenue, now 30% and I suppose you'd expect obviously the tendon costs associated of that to grow whether it's some contract, plant and so on. It really depends on the nature of the contracts, will depend on how those costs grow, and obviously we've got more building work, you get more subcontract work, if you tend to have civil work like we tend to have a significant level of civil work and mining work we're going to have our own personnel if you like rolled into that, so the personnel would go up. So it's a reflection of the size, and I suppose the way that the nature of the particular contracts that we've got.

Question:

I've got a question here on the screen from a Sean Burns, Deutsche Asset Management. Question is are you happy with the current cash levels or do you want to rebuild them to past levels as a percentage of sales ie 3% to 6%.

Speaker: Wal King

I thought in previous times we were criticised for having too much cash Dieter. Our cash levels are net \$400m we don't have a specific plan, obviously there's big levels of investment going on and plant and equipment. I think the only thing we can say there is that is we never intending to take the company into a position where it's heavily geared.

Speaker: Dieter Adamsas

I think I've said that many, many times. If you go back in Leighton's history Graeme is sitting up there and he knows all too well, we did have the company geared to the limit at one stage about 10-12 years ago and the bankers can be very unpleasant if you over stretch certain covenants if you're running too close to your gearing levels, so we went and embarked on a path to get us away from those potentially unpleasant bankers and have got ourselves in a position where we've been accused of having lazy balance sheet and all those other terms they use. In terms of adding to what Wal said the cash position is still quite strong but we did in fact pump as you can see a fair amount of cash in to plant and we also did a loss on Spencer, over the year I think the Spencer revenue contribution to the overall result was about \$150m and a whack of that was a loss which we funded. So the cash there will be a propensity to move up but as I said on the other side we will be spending more money on plant. But having said that it's still a very liquid balance sheet, we can do other things we want to do as far as plant is concerned, and as far as funding is concerned but we're choosing to at this stage put it on the balance sheet.

Speaker: Wal King

Well I think you can say from a theoretical viewpoint it is a lazy balance sheet but we need a large balance sheet to support our bonds and guarantees but on the other hand this year we produced 23% return on shareholders funds and I see no reason at all over the next 2 or 3 years why we can't produce 23% or 24% return on shareholders funds which nearly puts us up there with that cost plus organisation Macquarie Bank.

Speaker: Dieter Adamsas

The other area I suppose and touching on there as far as property is concerned, we believe we dealt a very nice property business, we'd have I suppose about \$150m net invested in development properties per say as such, now there's a bit of talk about increasing that number, now we may invest a little bit more if we can be convinced that we can keep getting the returns we've been getting, the returns that we've been getting on property investments have been very good and obviously we'd like to maintain that and we can be convinced that we can go on at that rate of return we'd obviously look at investing more, at the moment we've got developments up and down the east coast, from Brisbane through to Sydney, Parramatta, Canberra and Melbourne all largely in the capital cities and a very good land bank around there including Hoxton Park Airport, now obviously a share in the Hoxton Park Airport I should say which obviously butts the M7, we believe that's a fantastic opportunity for long term development. We've got land around Bankstown Airport as well. So the property business has produced a fantastic result in my view this year, produced a great result last year, it will produce a good result this current financial year as well and it's got a land bank unless the property market really goes pear shape, that will give us a good result over the next few years and the issue with us is how hard we really want to go in property over the next few years.

Speaker: Wal King

There's a question here from Geoff Wells, Macquarie Investments. Is the 06 guidance pre or post the IFRS adjustment, if yes can you quantify the effect.

Speaker: Dieter Adamsas

Well as I indicated I guess I was being a bit cynical about was it 15 Carlos, that the effect of the new accounting standards will be minimal on our results so you can take it, it's post the new accounting standards, that's our guidance, it's a minimal number it's effectively really the depreciation amortisation adjustment, but it's not an issue.

Speaker: Wal King

But if you comment the profit would have been up this year.

Speaker: Dieter Adamsas

Yes it would have been up, what I'm saying it's a very modest adjustment.

Question:

Dieter can you give us more indication on the capex number it was \$650m investment in plant

Speaker: Dieter Adamsas

Yes that's the gross number and I'd expect in gross terms to be a similar number in this current financial year in gross terms. So you'll find in net terms will end up after depreciation and sales of over a billion dollars worth of plant on our balance sheet.

Question: John Purtell, Macquarie Securities

Dieter just a question on the tax rate as far as the drivers of the lower tax rate in the 2nd half.

Speaker: Dieter Adamsas

You reckon that's a lower tax rate, you should see News Corp.

Question: John Purtell, Macquarie Securities

Certainly relevant to the first half it was lower and going forward why that can be sustained. And secondly regarding Asia, you indicated that we should be looking at a snap back in the Asian profitability so effectively those issues regarding North Luzon are past you.

Speaker: Dieter Adamsas

Yes answering the last question first. North Luzon is past I indicated that in my preamble, the job is finished, the road is open and it's belting along, we've had to do a fair amount of rectification work on that particular job because of the poor quality of the job I suppose, there is an allowance for this and more rectification work on the thing as such so we do have some costs I suppose provided for in that regard. But in the broad that job is behind us, we have an investment there of 16% which is sitting on our books at about \$US20m as such, we believe if we wanted to sell it we could make money on it, we yet have to make a decision about what we want to do with it. But North Luzon is behind us and the pain has been taken. As far as the tax rate is concerned, I suppose a

real challenge to get it down both here and overseas, we do have a lot of innovation in our business and in that sense we do have the ability to claim R&D credits and I suppose that's a benefit that does flow through to us and that gives us the ability to bring us down from the nominal rate of about 30%. It is a tough challenge albeit that we do within all the right parameters and laws and so on keep challenging ourselves.

Question: Andrew Johnston, Citi Group

Just a question about your Extension into Dubai and also about your work in Asia, to what extent are you running into Hochtief in those areas and to what extent does that offer an opportunity or a challenge in trying to work out who gets the project.

Speaker: Wal King

Hochtief are free to do whatever they want in Asia.

Question: Andrew Johnston, Citi Group

So doesn't present as a challenge?

Speaker: Wal King

Doesn't present any challenges at all.

Question:

Given that you're now quite the juggernaut in terms of work in progress obviouslygoing to become more significant to keep those levels up as your projects burn up particularly those big ones you've talked about, are you prepared to sacrifice your margin to make sure your balance sheet stays healthy and active given that you're obviously driving a lot of capital into equipment, inventory, staff, etc.

Speaker: Wal King

Well at this point in the cycle, I think I touched on it. That in former times we would go and seek the opportunity, then get the resources. I mean we're in a part of a cycle where many of the resources are unprocurable, so we have the resources and we're matching the resources to the opportunities, so you might say on some of these big mining projects, we have orders now for equipment that are going out 18 months and in fact we're turning mining contracts away because we just don't have the equipment and there's no point going to Caterpillar or Hitachi and saying we want 20 trucks and they would say that's very nice we'll deliver those in 2007 for you. You cannot, we cannot buy enough equipment to do our jobs that we have on. So in terms of sacrificing our margins, it's quite the contrary at the moment I mean we're saying we want more money for our services because we have the resources and if you want the job done. But I mean a lot of clients, there's broad minded clients, there's enlightened clients and there's other clients that we won't talk about, if you said you can get 20 cents for a bottle of Schweppes lemonade 20 cents on a dollar is 20% everyone says that's terrific that's a fair profit margin, if you said you want 20% on a \$500m job they go that's crazy, you guys are out of your mind. Clients push back and it's a bit like stealing a dollar I mean stealing a dollar what the hell, if you steal a million dollars that's a different issue. So it's a matter of principle. We're in a very fortunate part of a cycle where we try to act reasonably, we try to do the right things by our client particularly in the alliancing work that we do, as I said Thiess have got probably close to a billion dollars worth of alliancing work done on

an open book basis, they want to share the rewards and the like with us, that's great, but there's other areas where we want more for our services, you can see that the resources people are really making hay, well I thought it was made round to go round (money that is). So in terms of cutting margins that's the furthest thing from our mind at this point in time. Where the only area that it's impacting is in the building arena we in fact seeing the pace is a bit off for us at this point in time, I mean we can easily get down to the low levels of some of these builders work on but that's really not our strategy at this point in time. The strategy is to protect the integrity of our order book and we just see that there's sufficient work over the next couple of years to maintain that \$15bn plus or minus I explained that since the close of book at 30th June there's about a billion dollars worth of work that's either been awarded or being awarded to us which if you rule the line up it's probably higher than \$15.5bn at the moment. So the unique period at this point in time and I think you see the company generate a lot of profits, generate a lot of cash, the issue is more in a 3 or 4 year period of what we're going to do. I don't necessarily want to focus on it at this point in time, we will be focussing on it, I mean it's very sexy to talk about longer term strategy, the company has to deliver and as I said what it has to do long term is what you're going to do tomorrow. You're going to pour that concrete, shift the material, build that bridge and that's all we're doing.

Thank you very much there's drinks outside.

End of Transcript

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