

Leighton Holdings Preliminary Final Report 19 August 2004

Speaker: Wal King

Good afternoon ladies and gentlemen, I'm sure our staff are on the webcast and I'm sure all our staff across Australia are waiting with bated breath for this presentation. So hi to everyone here and hi to all our staff. I'm Wal King and of course we have the CFO over here, Dieter Adamsas and as you all well know we released our full year results today. So what I would like to do is talk about firstly the Spencer Street project and the Sydney Hilton project a little, I will then hand over to Dieter to walk you through the financials and then after that we will talk about the future as we see it.

So I guess it's a bit of an understatement to say that this year has been really a challenging year for us in many ways, we've dealt with a number of issues and reported a profit after tax as you're aware of \$110m and that's certainly been on the back of a quite an underlying strong performance in the rest of the Group. We're quite proud of the achievements that have been made through the group but obviously the Hilton project and the Spencer Street project are great disappointments to us and hopefully we'll get these projects behind us as quickly as possible.

On the screen there is the figures that you've analysed, revenues were up some 7% with revenues from joint ventures up 80%. New contracts, extensions and variations up 41% and work in hand at the 30 June is up some 35% to an all time record of \$13bn with a series of major projects awarded in Australia and Asia. Operating profit before tax is down 31% and profit after tax is down 21% and both of these figures exclude outside equity interests. The final dividend has been maintained at 27 cents per share making the full year dividend 45 cents per share compared with 44 cents last year and that dividend was of course 100% franked. The work in hand stands at a record \$13bn up from \$9.7bn in June 2003 and \$12.5bn at December last year. New work won includes the Lane Cove Tunnel here in Sydney a major tollway, the Perth to Mandurah Railway line, contract extension in Indonesia at KPC and PT Arutmin, the Eagle's Nest Tunnel in Hong Kong and a major casino in Macau for the Wynn Group. We expect to maintain this record level of work given the strength of the resources sector and the non-residential construction market.

This is a short of the famous Spencer Street Station. At least I am pleased to report that we are actually working in Spencer Street now which is I suppose is a big plus and it's a major rebuilding job of a rail terminus there in Melbourne. The station handles some 60,000 people per day and 900 train movements. It's what you'd call a brown field project and tight construction program, difficult site and complex issues all around, the project is being undertaken as a PPP between the Victorian Government, Civic Nexus which is an ABN sponsored vehicle and Leighton Contractors as the D&C contractor. Since May when a lot of these problems emerged in a big time fashion we've done a number of things to improve our performance of the project, we've taken the project out from under the Victorian branch of Leighton Contractors and put it under the direction of John Faulkner. John Faulkner is one of our most experienced and senior people I guess a number of people here know John he was responsible and continues to be responsible

for our Asian operations. John having won the lottery spends probably 3 days a week in Melbourne now and he told me he's actually beginning to like the place having come from Victoria. Over the period from May to August we in fact have done many re-evaluations in terms of time and cost and construction methods, there has been regular high level contact and dialogue between the Victorian Government, Civic Nexus and Leighton. We've seen a number of issues resolved, there was a re-fuelling lease that existed between Country Link and the SSSA which is the Spencer Street Station Authority and I think this particular lease caused major delays of perhaps up to 8 or 9 months or even longer. We've now achieved an agreement to close Collins Street of a night time and we have full time access on Collins Street, to improve access I suppose the bit that irritates me is that we have to pay \$150,000 rental for the privilege of closing Collins Street of a night time where a few cars might go across it. The Government have offered to close on a 24 hour basis the regional platforms 4 to 7 and we should obtain access to that particular area by mid September. So I think now we're quite confident that we'll actually complete the job now which probably wasn't the case some time ago. The project remains very difficult but over the next month we see the job gaining momentum and we're scheduling completion now towards the 2nd half of 2005, that's like September, October, November. If you ask me is it September I'll say probably, if you ask me if it's October I'll still say probably but I think we can get the job finished now at considerable expense.

The Sydney Hilton Hotel here, most people are aware of the Hilton Hotel, it's a refurbishment of a 44 storey building here in George Street opposite the Queen Victoria Building the refurbishment of the building and the major work is to take down the access of several floors down George Street. When the demolition work was done it exposed a number of structural and mechanical issues associated with the building. These difficulties were made more intense by the type of contract and the novated design of the contract. We're very confident now that the job will be finished late this year, early next year. We are involved in a series of negotiations with Hilton, the client to seek compensation. I don't believe that those negotiations will be concluded quickly but at least we think we can bring the whole thing to some satisfactory conclusion.

After our profit warning in May the Board commissioned an audit of the risk management systems across the Group, external consultants were involved to work with our management to develop what you'd call a Best Practice template. The audit measured current procedures and practices against this template. The audit went on for a number of months and has finally been concluded in recent days, the results of this show the practices within the Group were of high quality and there's no evidence of any dysfunction, but there's always room for improvement. The recommendations included enhancing the guidelines in areas such as human resources and project delivery and better exploiting the knowledge management within the company. In addition I know there was comments around in May that with these 2 particular projects was there a lot of other troubled projects within the Group. Certainly at any point in time there's ups and downs on particular projects and since end of June Dieter has reviewed every project that there is within the Group. I had the patience and privilege of working with Dieter on about 80% of the reviews and we have come to the conclusion that whilst there is ups and downs within the Group there is nothing substantially wrong in terms of our future performance and as reported and I'll talk more about it later that we expect to at least

achieve \$180m of profit after tax this year. So Dieter if I can ask you to go through the financials.

Speaker: Dieter Adamsas

Thanks Wal. I'll stay down here and Wal will stay up in the lofty heights up there. I'll wander you through the Appendix 4E and part of your handout there in the ASX format and obviously the numbers and what have you little boxes, follow the format they dictate. On page 2 which is the transmittal page sort of the highlight numbers, you've got there the revenue number from ordinary activities which excludes joint ventures the \$5bn and then the revenue for joint ventures and that's becoming an increasing feature of our business is or are the number of joint ventures that we're undertaking as a result of the size and complexity of the jobs that are coming around, like the Western Sydney Orbital, some of the big work we've got in Hong Kong and so on. So you'll see that number in terms of revenue also profitability increasing and that's really just a function of the way the business is emerging as we go forward then the addition of those together gives us the headline number of \$6bn and then of course the profit headline number of \$110bn which was signalled a number of weeks ago. Dividend as again we've signalled and Wal's mentioned 27 cents fully franked and that's obviously a number to keep faith with our shareholders. Then we go through the commentary which you can read at your leisure sort of picks up the highlights of the year, then we continue with the numbers, Statement of Financial Performance and again we pick up the headline number there the ordinary activity revenue number, the \$5bn then the share of profits from joint ventures and associates and again I mention that's an increasing contribution from that element of our business the \$114 compared to \$54 and I'd expect that number to grow over time. Then we go down to tax \$39m so that's a lower number in percentage terms than what it was last year and that's driven in part by Asia and in part by releasing some contingency's due to the resolution of a number of tax issues over this period. Then down to the minorities which is largely driven by Heytsbury the 30% owner of John Holland and our headline number is \$110. So they're the primary features. Then we come across the Statement of Financial Position which is our balance sheet and I won't make any comments about that. Coming onto the cash items, of course that's at first glance a significant kicker but in part that's driven by the \$200m hybrid that we issued during the year we drop that out and that's our main borrowing, our net cash is about \$500m still an improvement compared to \$330m so we had last year. So our cash is stronger this year that it was last year. Then you come down to all the other bits and pieces around the place, plant's up and that's again a function that our plant fleet is increasing particularly towards the end of the year we acquired some more plant and going forward our expectation is to acquire some more plant again on the back of a whole bunch of enhancements to existing mines as well as additional work which will start early to the end of this current financial year.

On the liabilities side within the current liabilities we've included the future losses associated with Spencer and the other areas and most of the losses are yet to manifest themselves so there's a bit of a kicker in those numbers as well. And then down to your net assets of \$850m. Cash flows on page 7 show in the very broad a stronger cash flow than we did last year and again I said our cash list at the end of the year was quite strong, our plant again expenditure was strong during the year \$360m compared to \$300m last year. There you've got there indicating some repayments of loans we've paid

some residual loans associated with our private placement in the US and we're out of that now. I suppose proceeds of borrowing showing in the \$292 the acquisition of the hybrid.

On the following page 8 some headline numbers in terms of our break-up of our revenue of course is the principle part of it all is driven by the contracting side of it, the rest of it is bits and pieces.

On the following page again an elaboration of our P&L indicating some of the headline numbers that make up our expenses, depreciation there is a little bit down compared to last year which may sound like a bit of a contradiction in the way our plant fleet is going, there is an element of FX in there and that will come through when we talk about segmental as well in a sense that our Indonesian plant is obviously all driven by \$US we used a rate of 69 June this year compared to 60m, so there is an accounting difference there in terms of depreciation there of \$10 or \$15m. So the numbers broadly in constant dollars come round about the same as far as depreciation is concerned. As far as the other bits and pieces are concerned I suppose the only one worth while noting that people will ask me about is when we talk about provision diminution of investment and the bad debts that 14 and 13 odd number adding up to about 28 between the two of them is the right off of our Southland Mine which we flagged earlier in the piece.

Then the following page on the segmental reporting which is before tax and excluding minorities, the Australian numbers of course in a comparative sense are influenced by those significant provisions that we took up in relationship to those loss projects so you've got a fairly modest or fairly skinny contribution in Australia. Asia had an increase but in constant dollar terms Asia in fact had quite a good contribution. Asia as I mentioned last year we consolidated at 60 cents and now 69 cents and very roughly they used constant dollars or a constant exchange rate should I say I'd come up with a number this year from Asia of \$100m. So we had in constant dollar terms quite a good contribution from Asia which is quite pleasing and we see Asia's contribution as continuing to be quite strong for us going forward. So they're the primary features of the segmental.

In terms of if you go across a couple of pages you have a look at the revenue segmental information in relation to revenue which gives you a view size of the business in terms of civil, building, mining, property and so on, telcos and a number that drops out as a bit of anomaly is the reduction in revenue we've had from the mining resource area and given that we are going fairly well in that particular area, we've got a big lump of work, we are in fact expanding it going forward, you can see by plant fleet going up so the question why have we got an apparent reduction? Well that's largely driven by AMC, we had AMC sitting in that last year's number, the \$1.9bn, so if you took AMC out you'd have a relatively constant number between the 2 without of course if you added the factor of the exchange rate you'd find this year we're probably a little bit ahead in constant dollar terms. So if you make those adjustments it doesn't look as silly as the numbers would appear.

So they're the highlights that I'd like to bring to your attention, now I'd just throw it open to any questions or at the end of the presentation.

Speaker: Wal King

Thanks Dieter. Now are there any questions for Dieter?

Question:

Too low to hear

Speaker: Dieter Adamsas

We had a before tax contribution of \$40m.

Question:

And the profits on asset sales and investment sales can you detail what they were?

Speaker: Dieter Adamsas

Well obviously we had the sale of normal sale of plant and that sort of stuff then we had the sale of some of our investments in Portman and also made a small contribution in relationship to the sale of one of our toll roads.

Speaker: Wal King

OK if there are no other questions I will move on. We believe that our business strategy over a long period of time has been quite successful despite the impact of Spencer Street and the Hilton Hotel. Our strategy has been based on diversity, financial strength and our people and this strategy will be maintained going forward. Late last year we strengthened our balance sheet with a \$200m issue of Leighton Notes and this certainly formed part of our capital management program. Proceeds of the issue will be used to fund the capital investments, support guarantees and bonds, letters of credit and I think as indicated by Dieter we went through the balance sheet, we do have an ungeared balance sheet with some \$500m of net cash and some \$700m of gross cash. We need that size of balance sheet to support the level of activity and certainly bonding is an important part of our business that differentiates ourselves from many of our competitors, we don't want to be restrained going forward and that particular graph on the chart shows our work standing at some \$13bn and we have bonds and guarantees issued at about \$1.5bn and we have capacity of more than \$2.25bn or more than \$2.3bn of capacity. So a question was asked earlier in the day do we have sufficient capacity if something like Mitcham Frankston in Victoria comes along and other jobs, and I think the answer to that is absolutely yes, that we've put these facilities in place last year in advance of the need coming down the track.

Shortly I'll talk about the outlook and the work position for us going forward, but generally in the next few years we would perceive that there is many opportunities in front of us and the focus should be on securing profit from our record work load and being selective in the tendering that we're doing and projects that we've taken on board. It's about training our people and developing our people and I guess after the Spencer Street and Hilton thing ensuring that our risk management and control systems are such that we don't have any more accidents. In the short term our focus will certainly be on restoring profitability, in the longer term we will continue to explore and develop the business. Our strategic framework remains unchanged in terms of we have diversity by market, that's geography, we have diversity by product, and we have diversity by delivery system within

the brands that we operate. We'll continue to use this model to further penetrate the various markets within which we work and develop the business as we go forward. Some of the current opportunities being explored is growing our current services business and evaluating opportunities for growth, progressing infrastructure funds management with James Fielding, developing the Group's joint ventures in Asia, utilising specialised skills such as environmental skills, water and tunnelling skills from Australia. We continue to look geographically at places like India and China and we're starting participating in privatised infrastructure work in Asia. In the short term we think that developing our specialised markets in process engineering, water and telecommunication will in fact be good for us.

If I now turn to Australia and talk about the major markets in construction and property and the resource sector. I think this particular graph is widely distributed, it shows the non-residential construction market, it's expected to increase to be almost \$34bn this year in 2004/2005 similar to last year. BIS Shrapnel and others expect the market will grow by 9% in 05/06 to some \$36.5bn, the non-residential building market will be up 2% this year but up 9% in the following year. Engineering construction market will also flatten this year but grow by 8% to some \$19.4bn next year. We believe that the outlook for the construction market in Australia is stronger and longer in this current upswing. I know that last year there were a lot of concern that the market would start to downturn in 06/07 but that's not our view, our view is that the market will continue on for a longer period based on a whole series of factors, the first factor that some of the major projects are slower coming than anticipated, which is good for us in terms of resources, and second there will be more projects that come along in terms of investment.

Some of the major projects that are around the place are on the screen there the F2/F3 Orbital Link which is a Sydney project the tollway between Hornsby and the M2 will come on, there's the M4 East which is the connector tollway from Homebush to Leichardt later next year, there's the Gateway Bridge in Brisbane, there's the Brisbane Cross City Tunnel and the Mitcham to Frankston we've put all our final submissions in and we believe that will go to a preferred position about the end of September. Then all of the bottom projects are in fact our particular projects and they're all we believe quite successful except the Spencer Street project.

During the year Thiess and John Holland were awarded the \$1.1bn Lane Cove Tunnel project here in Sydney, a major tollway project and that's getting underway albeit you don't see much activity at the moment out around Lane Cove, in fact we do have machines underground there's 2 machines underground and we'll be increasing to 7 machines over the next few months then you will see us disrupting the traffic I suppose from North Sydney to Pacific Highway. We believe that project will be a very successful project.

Leighton Contractors and John Holland were awarded all of the 3 packages on the Perth to Mandurah Railway line in Western Australia, and as I said the next big project to be awarded will be the \$2bn+ Mitcham to Frankston Freeway expected to go to preferred position at the end of September and be awarded by Christmas. There is only 2 proponents for that particular submission as most people are aware it's the Leighton Contractors and Abi Joint Venture led by my learned friend over here Dieter Adamsas,

and then there's the John Holland Thiess Joint Venture led by myself and Dieter hasn't conceded yet but we'll see what happens.

Speaker: Dieter Adamsas
The white flag is out Wal.

Speaker: Wal King
There are also many other big projects around things like Auslink and there's just an enormous amount of roadworks around and freeway work, as I said there's the M4 project here in Sydney which is about \$1.5bn, the F3 Connector, Gateway Bridge, Brisbane Tunnel. The M4 tollway, the M4 Connector from Homebush to Leichardt we believe should go into bid around middle of next year, from our perspective that's a good thing it's been an enormous undertaking by the Group to in fact progress the Mitcham to Frankston bid and one of the things I suppose has been a big impost on results this year, the Group has spent probably more than \$40m on major submissions this year which is an enormous amount of money and we in fact hope to recover a lot of that money as we need to recover that money from the submissions and the winning bids that we hope to procure.

There's also a great range of infrastructure projects around in water, gas, power, telecommunication and rail. We will use our structure and our financial strength to maximise our opportunities.

If you turn to the property market there's some graphs up there which shows generally the upswing in the market, the markets are all expected to increase over the next few years. The Group has a large number of projects on around Australia both in the property development area and the building area. Leighton Properties has in excess of \$1.7bn of property underway or in planning, we have here in Sydney the major KENS Site down in the CBD there, there's the Noosa Resort in Queensland, an office development in North Ryde and we're getting underway now with an office development in North Sydney 100 Pacific Highway in North Sydney. There has been a lot of paper talk and discussion about the influence of escalation and rising building costs across Australia and in particular on projects like KENS, there is no doubt that building costs have increased enormously in places like the CBD in Brisbane, building costs have probably gone up 1% per month over the last 12 months and there is certainly a lot of people that have been hurt by those particular factors. I'm surprised that it hasn't shown up in the CPI figures that sit around 3 or 3.5% or whatever the figures are.

In the review of all of our projects that I talked about that Dieter and I have been personally through over the month of July for the best evaluations that we can make we have absorbed all of the past increases and expected increases in the future. But nonetheless I mean escalation in building area has been a big issue over the last 12 months. During the year Leighton Properties also acquired a half share in the development land at Hoxton Park in the western suburbs, and those of you who know Hoxton Park it's an airport that is due to close in a couple of years time and that will be a great development site for us and land is very short where the western M7 goes and part of the Ring Road system. We also acquired a third of the land at Bankstown Airport and that land between Hoxton Park and Bankstown was acquired for some \$35.6m.

Leighton Properties had an excellent year, Leighton Properties contributed \$41m pre tax profit in the year and had a good array of projects in the pipeline.

PPP is obviously getting a lot of air play. The Group is pursuing some \$3bn worth of PPP projects. The design and construction component is worth more than \$2bn with the services component worth \$1bn. The projects where the companies are short listed include the \$200m Southbank TAFE project in Queensland, the \$130m CBD Law Courts in Western Australia, \$200m Royal Women's Hospital in Victoria, \$600m Darwin Convention Centre, \$130m Forensic Hospital at Long Bay here in Malabar in Sydney and \$130m Mater Hospital in Newcastle. As well as \$130m Chatswood Interchange, a \$300m Defence Headquarters outside of Canberra, \$400m Convention Centre also in Canberra. There's a lot of discussion about PPP's and risk allocation particularly after I gave a few interviews to the press in respect of Spencer Street. But one of the issues with PPP some of the facts that are pushed by the government, is based on what I'd call an illusion the government's say not going to implement privatised infrastructure unless it can be at a more economic or risk transfer basis that they will go and do it all themselves, I think my challenge would be if the Government could do all the infrastructure that's required in Australia then they just should get on with it and get it done and don't worry about fancy PPP models. But the reality of it is that Government's do have balance sheets and they do have financial constraints and for them to say that they could implement everything in Australia, if they could implement everything in Australia it should all be done and we should have perfect infrastructure right across Australia. So the issues for PPP's going forward a lot of controversy attached to them particularly for companies like ourselves that are saying that they have to be an equitable share of risk and you see on many of these particular PPP's 1, 2 or 3 companies lining up and in some cases only 1 company lining up. They also have another fancy thing in the PPP called a Government sector comparable where they ask for firm prices for 30 years and if anyone can tell me what's going to happen in 10 years let alone 30 years I'm very happy to listen particularly all you analysts and can tell me what's going to happen to the stock prices in 30 years you'll absolutely make a fortune. So there's many good issues with these PPP models and I do believe it is an effective way of implementing infrastructure and when I use a PPP model I'm not speaking on fully privatised projects like tollways or privatised hospitals. I use the definition of PPP where the facility is provided by private enterprise but the people that interface with the government and operate the facility are government employed so if you had a privatised hospital that's fully staffed and owned and operated as say like a Ramsay Hospital where a PPP hospital the facility would be owned by private enterprise but it would be staffed by government employees, nurses, doctors, etc. So big challenges for us, plenty of opportunities but at the end of the day the PPP because of the inherent risks and the model need a much bigger margin and much bigger profit out of them.

Now turning to the contract mining industry has a very positive outlook in Australia, the Leighton Group in the wider sense are the biggest contract miners in the world. Caterpillar recently said to me in the last few days that we are equally number 1 users of Caterpillar equipment in the world which is a pretty staggering thing. The mining capital expenditure boom we believe will continue with a number of major projects underway or being committed I think you'd have to say that Australia has been in a very fortunate

position for many years selling resources to Japan and other places and now of course with the demand coming on for China I just think there's hardly enough resources in the world to supply China if all those growth rates in China continue on. So Australia is in a magnificent position to supply resources to the Asian environment and other places. The outlook for contract mining remains strong with growth predicted between 4 and 9% over the next few years in all areas across the board including gold, iron ore, nickel. And the Group has a strong position in coal, I think this year the Group will produce more than 75 million tonnes of coal on a contract basis. We have an array of long term mining contracts, as most people are aware we only book work for 5 years if you see there there's a whole series of mining contracts extending out into the distance, those particular contracts how far they go will depend upon the price of coal and many other variables, but things like that KPC contract in Indonesia I think the contract runs through to 2015, and that could be a challenge for me to be remaining around until 2015. Each year we have more than \$500m to \$700m of work that just rolls on so when we roll the year over we roll another amount of work on and that's some several hundred million dollars a year.

New work won during the period including the Goonyella project in Queensland at a place called Riverside, Ravensworth East a major mine here in NSW and extensions to Peak Downs in Queensland and St Ives.

There has been a lot of discussion at the Southland project where unfortunately work was suspended at Christmas time due to a major fire and we took a substantial write-off on that particular mine it's a pity from a number of view points because the mine in fact was performing very well and I think on the reviews that we went through before Christmas I think even Dieter was starting to salivate at the potential for that particular mine. So Thiess are working with the receivers to determine the extent of the damage in the mine but the mine is in the hands of the liquidators. Over a number of years we may in fact get some money back, there's a whole series of issues there that relate to insurance and our equity in the mine and so on and so forth, but for accounting purposes we have written completely off our investment in the mine, it won't be an amount of money that comes back in the next 12 months but over a longer period we may and I emphasise may get a substantial amount of money back.

There's a number of major engineering contracts proceeding in Australia in terms of energy, minerals and processing facilities. This is I believe the biggest LNG tank being built in the world by Thiess in Darwin and we're also involved in the \$1.5-\$2bn Gove expansion where Leighton Contractors are in joint venture with SNC Lavalin are undertaking a definitive feasibility study. In Darwin where this particular project is the project is a \$1.5bn Philips LNG project is underway, Thiess did the siteworks, they're constructing LNG tanks and they're also doing the jetty. In Western Australia there is the \$11bn Gorgon LNG project, Western Mining is doing a \$2m-\$3m expansion in Darwin. This is just but a few of the projects there is many projects planned in Australia and Indonesia in the energy and mineral business and we're in fact well positioned to take advantage of those.

If I were to turn to the operation and maintenance market in Australia, the O&M market totals some \$23bn in 02/03 and forecast to rise to \$26bn in 05/06. The market includes

maintenance of Australia's infrastructure, non-residential buildings and industrial facilities. BIS Shrapnel estimates that contractors carry out \$11bn-\$12bn of this market or 50% and this figure is expected to rise to around 53% or say some \$14bn in 06/07.

Key growth sectors looking forward include non-residential building, manufacturing, roads and mining. I know we never really aggregate all our work in the operations and maintenance areas but the Group does have more than \$1.5bn of work in hand in the operations and maintenance area with a good mix across traditional markets.

The waste and utility markets continue to provide Thiess with a good base of work and Thiess recently secured by way of example a \$66m contract from Melbourne Water for the maintenance services and minor capital works as shown on the screen.

We are also, through the John Holland organisation the largest rail maintenance contractor in Australia. John Holland were recently awarded the maintenance work of the Tarcoola to Alice Springs line and also from Alice Springs to Darwin. In Western Australia they maintain all the rail network except the privatised railway lines in the Pilbara and we have a key position we believe with the Federal Government committing more expenditure to rail operations that we're in a great position. This is one of their fancy machines on the screen.

Defence also offers potential and the Group is pursuing work in these particular areas.

If I now turn to Asia work in hand at Asia stands at a record \$3.1bn that's an all time high for us. Indonesia remains the largest contributor, our workload was significantly boosted by major extensions at the KPC contract and the PT Arutmin contract. Following the sale last year of the KPC Mine, Thiess were awarded a life of mine extension which increases Thiess' production there to some 12 million tonnes per annum. That 12 million tonnes per annum runs through to 2015 or some particular year. In addition Thiess also negotiated a 2 year extension to an existing contract to assist KPC in expanding the mine from 18 million tonnes to 23 million tonnes per annum with our other works there this mine will produce more than 30 million tonnes per annum, and I believe when the latest batch of equipment that we put in there it will be the biggest concentration of earthmoving equipment in the world in one location. Thiess also extended their operations at the Arutmin for PT Arutmin at the Senakin and Satui mines in Southern Kalimantan and this added a further \$1bn of work. So we're in a great position in Indonesia in the mining market and also in the oil and gas market.

Hong Kong remains an important market and with a base load of infrastructure projects, work loads have increased during the year by the award of the Eagles Nest Tunnel and a major casino in Macau for the Wynn Group, the particular slide on the screen is the Central Reclamation project that was in fact suspended for a period of time due to court action, that work has now resumed and will go to completion. The Hong Kong economy is showing some signs of recovery with the government committing further investment to road and rail infrastructure, prospects include extensions of the rail network both in passenger and freight terms to Southern China and extending some of the building projects, we expect in Hong Kong to win our fair share of work.

Work levels in Malaysia have come off while the situation there including the change of political leaders, we're continuing to pursue telecommunications and civil engineering work and during the year we were awarded a \$100m rail project around Epoh. Our share of that project being \$35m. There is still some uncertainty surrounding the Kuala Lumpur to Putrajaya tollway worth some \$300m, the work on that particular project has halted pending finalisation of finances and it is very difficult to take a view on whether that project is going to proceed or not, there is no profit nor work in hand in our figures for that particular job. I know it's written up in the newspapers from time to time. So prospects in Malaysia are more subdued but we in fact see reasonable opportunities.

Opportunities across other countries in the region remain selective. In the Philippines a substantial contributor the North Luzon Expressway is nearing completion, we've just recently been awarded a major mining contract at Rapu Rapu which will maintain a base load of work in the Philippines. There is some opportunities in Vietnam and this is the contract here, a D&C contract for a steel coating plant built for Blue Scope Steel and in Taiwan we're progressing work on the high speed north south train. In Sri Lanka we recently secured construction of the new oil fired power station. We're looking at India in terms of specialised work where we can bring skills to bear in the marine area and Thiess are evaluating large scale mining opportunities in the coal market.

So if I can bring my comments to conclusion. We had a very strong underlying performance that was in fact marred by Spencer Street and Hilton for which we are very sorry and obviously quite distressing, bearing in mind we've had a good track record over many years, we believe these aberrations will pass through the system and as far as Dieter and I can determine there is no major trouble projects within the Group. So based on the record level of work in hand it's \$13bn which doesn't include that tollway from Putrajaya to Kuala Lumpur we believe that we'll turn in a profit of at least \$180m in this forthcoming year. There is plenty of opportunities around in the resource and the mining market that continues strong, the company has an extremely strong balance sheet, ungeared with \$500m of cash and this will put us in a good position to pursue projects, we believe that the level of uncompleted work with the award of the Mitcham to Frankston tollway will further increase. Thank you very much for your interest in the company and I'm happy to take questions. Afterwards I think there's drinks outside. So is there any questions either to Dieter or myself, the tricky ones to Dieter and the easy ones to me.

Question:

I assume the joint venture income is mostly Australian, please split out the Asian segment.

Speaker: Dieter Adamsas

Well it's dominated by Asia, I suppose we've got from a revenue point of view we've got some stuff there in terms of the Reclamation job up there that's about the dominant component, it's primarily Australia.

Question:

You've detailed the Spencer Street version of the \$110 you'll notice that the Hilton project was expected to be a loss of \$20m, can you confirm that number.

Speaker: Dieter Adamsas

Well I think I mentioned when we talked about Hilton early in the piece that we have an expectation we're going to recoup some money, and hold at about maintain a number of about \$20m, we still sticking to that so we have a negotiating team prepared to go across and try a do a deal for the guy and something will emerge out of that. If not well obviously we'll have to go into litigation but I don't think there'll be any significant change to the numbers we're talking about.

Question:

So the \$20m is reflected in this result.

Speaker: Dieter Adamsas

We've got that number in there yes.

Question:

Given the rise in building costs have your subcontractors had problems?

Speaker: Wal King

Well I think the rise in building costs right across Australia has caused problems, not only in a subcontractor area but in the general contractor area and there has been a number of contractors report issues. I mean the building cost rises have been far more substantial than forecast, price of steel going up anywhere across the region from 20% to 50%. But in terms of our position we believe that it's all been absorbed. I mean you might argue that we might have had more up side had the increases not been there, but certainly in Asia the price of steel has generally gone up by 50% over a 12 month period. All of that seems to have been subsiding now.

Question:

Dieter, Wal referred to a \$40m tollroad cost are they all expensed in this?

Speaker: Dieter Adamsas

Yes, they're all the tendering costs and we expense the tendering costs as they incur.

Question:

There was a stake in the Lane Cove Tunnel which changed hands recently was that after 30 June or before. And was there material profit involved.

Speaker: Dieter Adamsas

Before. Small gain.

Question:

And finally the Heytsbury interest is that still falling away this year

Speaker: Dieter Adamsas

At December it will fall to zero.

Speaker: Wal King

One of these questions the tendering costs, PPP or fully privatised projects, the proposition that you spend millions of dollars on putting together submissions and you're expected by the Government instrumentalities to have a 6% or 7% profit margin is not sustainable.

No other questions.

Thank you very much for your interest.

End of Transcript

This document has been transcribed from the 2004 Preliminary Final Report Webcast. Whilst all care has been taken, the content should not be relied upon for any investor decisions. Refer to the June Quarterly Update & Preliminary Final Report to 30 June 2004, to receive a true and accurate statement of the Preliminary Final Results.