

Leighton Holdings Preliminary Final Report

16 August 2001

Speaker: Wal King

Good afternoon Ladies and Gentlemen.

Obviously everyone knows why we're here to talk about our yearly results. I think I'll just run through a bit of a brief overview of the financial situation I guess you've had the opportunity to study everything, then I'll ask Dieter to walk you through the results in detail and you can ask all your tricky questions, and then I'll move on to talk about our strategy and the Australian market outlook, the Asian market outlook and the overall company as we see it.

Turning now to the financial highlights we're very pleased obviously that revenue is up some 23% obviously one of the questions of course is our return on revenue as a percent has dropped somewhat and the reason that we gave at the half year is still valid at this point in time that we have John Holland consolidated into the group some several hundred million dollars worth of turnover and it's not producing at the same rate as other parts of the organisation and I'll talk more about that. New contracts awarded up some 11%. The value of work in hand which we're very pleased about of course at an all time record of some \$7.8bn and we see that very much underwrites our performance going forward and gives us a lot of confidence to talk about the fact that we see an increased result next year in terms of profit and increased result in terms of revenue from just a purely organic basis without considering any acquisitions. I know that there's a few analysts out there that believe that we've peaked or about to peak but certainly those analysts obviously know a lot more about the business than I do because that's not our view of what's actually happening. Operating profit before tax up 11% and the operating profit after tax up some 16% to be \$156m, final dividend 39 cents per share franked to 50% and we believe that going forward franking will certainly be not less than 50%, so just graphically representing that up to the \$4.4bn some 23% increase and we believe certainly next year we'll cross the \$5bn level purely from an organic growth view point and work in hand which we believe a great achievement \$7.8bn that's up from the \$7.6bn at December and the \$6.2bn from June last year. Given that the construction market in Australia is probably dropped by some 12%-15% over the last 18 months or so we believe that's a very credible achievement. So perhaps now I'll just hand you over to Dieter to walk you through the figures in detail.

Speaker: Dieter Adamsas

Thanks very much Wal. What I'll do is I'll walk you through the Stock Ex announcement and start on page 14 with the various numbers and I'll just wander through the numbers and you'd like to have an elaboration on you can just give us a shout or you can wait towards the end whichever makes you feel more comfortable. OK belting through the headline numbers the revenue we talked about the \$4.4 odd billion compared to 3.5 running down to the profit attributable to members the \$197m odd compared to the \$177m and we've obviously highlighted that number because it excludes the minorities and last year we had a fairly significant minority those of you who remember that and

that related to our Asian operations and a profit from Lihir at that particular time so the comparable number is the 197 to the 177 and then we come through to the tax which is broadly in line with what we had last year the 21% and through to the headline number we're all aware of now the \$156m. Running through to the next page we come on to a smorgasbord of numbers there the revenue and expenses from ordinary activities that gives you a breakdown of the revenue and the expenses. There's not too much I suppose untoward there that's not unexpected from this type of a business and then running down to if you like the amortisation the \$12m which picks up the amortisation we've got in relationship to the number of acquisitions we've made in more recent times the likes of LSE the more recent acquisition we made of Hochtief to complete the ownership of Leighton Asia the 20% there. John Holland and bits and pieces associated with our waste business which we've acquired over the years. And then I suppose quite an interesting number at the bottom of page 16 that sort of indicates the profit that we earned in the second half 97 compared to 59 in the first half and those of you that have got a memory that goes back over 6 months you probably remember all the shrieks and the discussion that we had in relation to the first half profit particularly because of the Eastern Distributor if you like impact on the 59 and all the debate and discussion how are we going to produce a better result for the whole year given that the result in fact had some debate about it and I think we were quite strong at that particular point in time that we would come up with a very, very good number based on the profit emergence on the various contracts around the place and sure enough there it is. So there is 97 in the second half and there is no Eastern Distributor in that number as well.

The next page we have the Statement of Financial Position which used to be called a Balance Sheet and on the way in Julie Carter said to me when I was going to produce the right balance sheet and I was assured by Carlos who's sitting up there, this is an easier balance sheet, I didn't realise that it was easier for him to prepare obviously than to look at but Julie wants the real balance sheet Carlos at some point in time. But anyway the balance sheet if you want to look at it from a liquidity point of view ranks the various assets and liabilities on a liquidity basis and if you spend enough time on it Julie I'm sure you'll get the right information out of it but if you need any more information just give us a shout. So there you go there's the format and obviously we've put last years comparative base in exactly the same format. Just running down the various headline numbers again the cash obviously quite a good number for us \$500,000 gross and a net number of 400 compared to \$250m last year the receivables is basically a function of our turnover or revenue, inventories picks up basically our properties and the dominant property in that is obviously St Kilda the other financial assets includes our investments such as North Goonyella, Southland and so on. Running through to the other big ones down there the deferred tax that's the pit b and the big one \$530m that's driven by plant there's about \$460m worth of plant in there compared to about 440 we had last year, we had those of you who have been following us also noted that in the last 12 months that we have acquired some plant on an off balance sheet basis and we've got roughly around about \$100m worth of off balance sheet running through operating leases. And then the intangibles that obviously picks up all those bits and pieces that we've acquired in more recent times, the dominant component there being the Leighton Asia good will and then the John Holland good will. Leighton Asia being \$20m and John Holland being \$10m.

The tables again that's a function of turnover then the current year tax well that's quite obvious statutory provisions and the deferred tax there are 21 interest bearing liabilities being our loans and dominated by the residual component of private placement that's about \$70 or so million dollars that we in fact took out 5 or 6 years ago now. Then running down to the equity of \$740m compared to \$660m and of course the minority being Leighton Asia last year has gone we've got a \$740m odd number there.

Statement of cash flow – I don't think there's too much in there that's unusual in the \$84m there in 7.12 payment of purchases and investment that picks up Leighton Asia, North Goonyella, Southland obviously being investments we've made Leighton Asia being 20% and North Goonyella and Southland being the two coal mines we invested in. The rest of it is basically the thrust of the nature of the business that we've got.

On the following page, page 20 we've got the ratios which are worthwhile looking at and I suppose the emergence of doom and gloom we see that the return on revenue is dropped from 5.6 to 4.6 and obviously if you want something to moan about then that's something we should talk about and the thrust behind that is two-fold one is John Holland and that is probably the dominant component we obviously achieved a level of turnout of Holland which is not commensurate with the level of profitability I think we indicated in recent times that it will take Hollands a number of years to achieve the same level of returns as the rest of the business albeit that Holland did produce a black number. Holland is quite clearly in the black and on track to what we are effectively looking for and the rest of it broadly smaller if you like across the board increase in the other areas.

Then the returns on equity which on a comparative basis with our colleagues or peers if you like in the ASX 100 which is obviously quite a good number 20% last year and 21% this year but on average shareholders funds it's 22%. And running down there on the eps it's 59 cents.

On page 21 running through a few numbers there it's obviously interest revenue, interest expense, depreciation quite a hefty number \$270m and of course that's a function of the size of the plant fleet which I mentioned is \$460m as well as the hours it works and we depreciate according to hours so very, very significant if you like level of activity in fact occurred during that period and then the income tax variation from the nominal tax rate the \$18m picks up if you like the likes of the Eastern Distributor which I mentioned in the first half was offset the profit was offset through capital losses which we hadn't previously recognised and similarly with quantum and then we had some old residual losses in Malaysia which we in fact utilised on this occasion against the profits that we derived from that area.

The only other ones worthwhile mentioning those of you who know us is the overseas tax rate differential which is dominated by Indonesia and then the income tax laws obviously picks up the 30-34% as well as a tax change in relationship to Indonesia.

Then on page 23 Segmental Reporting – I suppose the numbers that stick out here are the numbers in relation to Asia and whereas last year we had a contribution of \$55m these are before tax excluding minority numbers, \$55m last year and \$83m this year,

very broadly 50% increase so very, very strong performance from Asia and as Wal will talk about later on we expect a good performance out of Asia next year, so a strong performance out of Asia.

Then the Australian performance very broadly in line 112 to 115 in looking at the actual industry classifications we had in the property side profit of 12 which is all in Australia whereas last year the \$10m referred to profit we made on a sale of a property in the US as well as the sale of some of our casino shares, so what you're seeing there now the \$12m is a clean pure property type result which is quite pleasing and again we expect Properties to be a contributor over the next 12 months, so we believe Properties is now in a situation where it will in fact earn its keep. And then in terms of the contracting services 170 against the 191m number so coming back again so the headline number there really in terms of really good performance was in the Asian context.

And then on the following page the dividend see there 25 cents compared to 20 and of course 39 cents all up for the year compared to 33 cents and that's broadly in line with the interest and the profitability.

So they're the major items I wanted to cover, are there any questions at this point?

Question:

The drop in the minority interest in profit of \$20m can you explain that and also can you talk about your amortisation of goodwill and how the policy you're using there because the number seems quite large in relation to the balance sheet item?

Speaker: Dieter Adamsas

The profit minority last year was two-fold, one was Leighton Asia and of course Leighton Asia doesn't exist any more as a minority because of the Hochtief transaction and then last year as well we had concluded the contract in Lihir and Lihir had a 35% minority in it and the close out of that contract dropped a lump of money on the table and that added to the minorities as well so there was a decent minority lump in relation to Lihir as well as a lump of money in relation to Leighton Asia.

Lihir was the more significant component.

In relation to the amortisation as I mentioned there's the Leighton Asia component there's the LSE component, there's the John Holland component they'd be the major one running down, you'd have the likes of residual components associated to waste management, so Leighton Asia's new, John Holland's there for a full year and then we've taken a slightly more aggressive position in relation to LSE. The logic being that where we believe a business is not as robust we take a more aggressive approach to it, where it is a little bit more towards the norm we take it in broad say of about 10 years.

Question?

(Too low to hear).

Speaker: Dieter Adamsas

Well the bigger one is 29 which we debated all over the place other than that no it's a business which I've said has got a very strong Asian component, good component from the resources sector if you like and a lesser component if you want to be quite frank about it from the Australian construction sector which has been quite a less than modest performer, so it's a very good performance from the Asia, resources and say telecommunications, which again is all this business about diversity, right Julie.

.....the minority interest in the P&L is about \$3m and in the balance sheet the remaining balance is \$119,000 are you saying that the minority interest in the P&L is likely to drop out on that basis?

Well the only minority we've really got left now is the minority in relation to John Holland and they've got Heytsbury have got 30% of it as such and what you're seeing there in the minority as far as the \$3m you're talking about relates to the Heytsbury involvement both at Hollands in Australia as well as the residual of their involvement in Hollands in Asia and that's all come through our books if you like there will clearly be a minority there next year subject obviously to the profitability of John Holland which I'm saying is on the up but it's not going to be a number which will cause you any angst if you like or won't be a big number.

In the tax item in 12.6 the item for the recognition of losses is about double to what it was in half year does that imply there's other assets sales of a similar size to what Eastern Distributor was in the first half in the second half result?

I said there was a number of other items in there besides the Eastern Distributor and the half year was dominated by the Eastern Distributor I said there was a number of items in there and I mentioned that we made a sale of another business call Quantum and we had some losses which we in terms of tax losses which we hadn't recognised out of Malaysia which we took up as well so the first half was dominated by Eastern Distributor and the second half we had some additional items of profitability come to account which was sheltered as well.

Question?

(Too low to hear)

Speaker: Dieter Adamsas

No not as great as that, obviously if you're looking at it from an abnormal point of view the profit from Malaysia was a normal trading profit if you want to use that word even though I don't like using that context down there and to the extent we had tax losses we sheltered them if you like, and the same thing with the Quantum situation it was a much smaller number.

Question?

(Too low to hear)

Speaker: Dieter Adamsas

We obviously had a very good period in Malaysia and it's hard to put it on there, we'll have another good year I suspect it won't be as strong in terms of revenue as it was last year it will be a relatively good year, the diversity in the earnings in the Asian context is quite good, we've got a good level of work in the Philippines, Malaysia, Thailand, Hong Kong and Indonesia. Whereas if you want to go back probably 2 years ago it was dominated by Hong Kong and Indonesia if you like, so now we've got this fairly diverse one. Malaysia has come through fairly strong as you rightly pointed out and I expect Malaysia to be quite good, maybe not as strong but I suspect quite good again the following 12 months.

Speaker: Wal King

Would our teleconference audience like to ask any questions?

We have no questions in the queue at the moment.

OK if I can now just move on and talk about group strategy I think we've be very much of the view that we've ended this year in a much stronger position than we started the year our business is in great shape and I think that's based on our strategy, our business strategy is made up of many elements that I've talked about over the period and perhaps I would like to talk about some of the elements that we see driving growth. I think the word that we've used for some period of time is diversity and diversity is the key to our success and I think you can see in a period where the traditional construction markets in Australia have down turned that we've come through this particular period in much stronger shape than when we entered it and we believe that we'll continue to grow. One areas of our business that's becoming more important to us is also the operation & maintenance of various contracts and our long term mines as well as the so-called one off issues that people continue to focus on. Our people and financial resources are obviously a very integral part of our strategy and our strategy of selected acquisitions and taking sponsorship stakes in projects based on our very strong financial position will continue, there is no thoughts of share buy-backs and that sort of thing. I think I've continued to say that we'll use our financial strength to develop the business you can see last year we had quite strong organic growth, we believe that this year going forward again based on our budgets that revenues will probably cross \$5bn most of that coming from organic growth.

If we talk about strategy of diversification we use this isosceles triangle to demonstrate our basic strategy. Our strategy is based on diversity which is about geographic diversity, market products and delivery systems, you might think of the base of that triangle as the diversified workload that we have in the market products they're listed there obviously a wide range of market products.

The geography being Australia, Asia and South America at this point in time we don't have any further geographic ambitions, we believe that the Asian market continues to provide opportunities for us and I'll talk a little more about the South American market for us. South American market is presenting opportunities and we want to develop that market in the resource business. So the diversity in fact has provided us with a great

balance of opportunities in Australia and Asia and our operating companies sitting there interfacing with those particular issues.

The question of margins continues to come up, you know what's happening with margins I've always cynically and maybe in a smart ass way said sometimes when people ask me about margins I say all of the above which in fact is pretty true but if you're working the margins very much depend on the type of delivery system as I've said a number of times, you can pick any of those products on the left hand side there that we have and it's really the margin that we get out of those businesses or those products depends on how we deliver it, so you can take for example a road project if you procure that road project in the hard dollar market area where you have lots of competition you've got to have a very keen price and be able to execute that work in a very efficient manner to end up at the end of the day with a profit.

You might move into the middle ground area where you execute that work by perhaps alliancing or project management or negotiated, you obviously expect a better margin, and of course at the end of the day if you move into the build, own operate where you can in fact apply your own equity and take sponsorship stakes you expect to have a much better return.

And that philosophical approach to delivery applies right across the board I can talk later about a number of mining projects in the mining market if we go out and bid and line up against everyone else and the margins are very skinny and tight through to negotiated work and alliancing and where we take equity stakes much better thing. So the question of margins there's no such thing as an average margin I know at the end of the day you look at the average margin but there is no such thing as a normal trend. And the issue that differentiates ourselves from the run of the mill contractors is the fact our financial ability, our financial strength to be able to take either sponsorship stakes, equity stakes or whatever to in fact at the end of the day provide a better outcome.

The structure of the group pretty much remains unchanged here we've probably in terms of actually where we're coming from we've listed a number of the subsidiaries of the operating companies and you see them there, under the Thiess brand they have a whole series of companies that operate, some under their own name like Thiess Indonesia, Thiess Services but they have in the Hunter Valley a company called Hunter Valley Earthmoving which is a specialised contract miner in the Hunter Valley, we have Silcar which is a joint venture maintenance company joint venture with Siemens operates a number of maintenance contracts around the place, including the largest of them being the maintenance of the emergency power systems for Telstra that contract being valued somewhere in excess of \$500m and maybe through to \$1bn and BOS is a small company we acquired from Boig (sp?) it's a specialised oil & gas contractor in Western Australia. And so right across the companies you see under Leighton Asia the Vytel which is a communications contractor under Leighton Contractors Vytel, Visionstream we've talked about many times LSE is a specialised contractor that operates in the radio field where you see the spaghetti up the telephone towers or when you drive through the tunnel and your radio keeps working all that sort of stuff they install all that specialised equipment. Cross onto John Holland they have a number of companies there operating Quantum and InfoTech in telecommunications and Lorum in the rail maintenance

business. So the company manifests itself under many forms we see the structure as being very flexible and very focussed and of course Leighton Asia has now returned to being a 100% subsidiary of the group that Dieter talked about.

To demonstrate further that diversity if we looked at the Australian revenues that are on the board there you see the good balance between engineering and infrastructure, building and property, mining and resources with telecommunications growing so as per the triangle that we had on the board earlier there, our strategy being having a number of industries across which we work the diversity is demonstrated there and of course if we look into Asia we have the same concept, we have geographic diversification or diversity but within the Asian environment of course we have a fair diversity across the various countries there and that's the best range of activities that we've had from a geographic viewpoint Malaysia, Indonesia and Hong Kong with activities. Since the close of business that is the close of the financial period, we've won some \$600m worth of work or more than \$600m across the board, the biggest component of that being in the Philippines where we've won the North Luzon Expressway and a big cigarette plant for Philip Morris so an additional \$370m worth of work come on in the Philippines which I'll talk about a bit later on.

Operations and Maintenance, we have now more than a billion dollars worth of work in this particular area. It falls into our classification as being a product, there is more and more companies that are in fact outsourcing certain areas and this particular graph up here shows the growing importance of telecommunications as a maintenance area. It's done through a number of our companies for example John Holland in joint venture with Multiplex have a contract here to maintain the various non-combat facilities of the Defence Department in Sydney, Jarvis Bay, Williamstown and so on and so forth. We would see this as a growing diversification for us and providing if you like long term earning streams. I think it's not appreciated that across the Group we do have a large level of what I would call re-occurring work, that re-occurring work providing a great platform for the company to go forward on. So we have the operations & maintenance as one particular area of re-occurring income that goes on I suppose you wouldn't say infinite but it certainly goes on for a long period of time.

Again in the mining area and this is the Thiess company across the group now we produce about 70million tonnes of coal per year I think that clearly makes us the number 3 miner in the Asia-Pacific area behind Rio Tinto and BHP. You can see here in the Thiess area there's some \$3.2bn worth of work up to 5 years and if you look out past the 5 years at those dotted speed stripes there are meant to indicate that we have continuing work that goes on for a long period of time and whilst we don't take into account the work past 5 years, if you did there is perhaps more than \$600m worth of work per annum that goes on past the 5 years that is the June 06. One of the issues that continues to get put to the company is that you've have a great few years but can you continue to do it and I know as some analysts are predicting in their figures that we've peaked out and going down the other side, I would put to you that we have such a large level of underwriting now through re-occurring income that that is highly unlikely and in fact we're very confident that we can continue to go on.

In terms of the so-called one off profits that we bring to account that certainly attract a lot of attention we would put to you as I've put to you in the past that it's a legitimate part of our strategy if you look into that triangle the isosceles triangle we've stated time and time again that it's our strategy to use our financial strength to continue to develop the business by taking equity stakes and developing projects and so on and so forth. So if you believe that the Eastern Distributor was a one-off there's certainly a lot more one offs up here on the board and if you look down the sheet there you can see our investments in various things of course up the top is the investment in the Darwin to Alice Springs railway line, Southland is an investment in an underground coal project in the Hunter Valley, there's North Goonyella and since we've taken North Goonyella over productivity levels have increased enormously in fact probably doubled so we're very pleased with our investment in North Goonyella. Nextgen which a lot of people speculate on it's certainly not in a position to be sold at this point in time but down the track we believe that will turn into a very successful project, time remains to be seen. We have Reef Network which again when we undertook that particular project there were a lot of comments who would want to send anything to Cairns other than bikini clad girls. That project at Cairns, Reef Network I think is at capacity I think some 2 or 3 years Dieter, ahead of its program in fact it's running at full capacity now. That investment we could sell today or tomorrow. Obviously the Eastern Distributor is gone. Portman, we could sell our investment in Portman, we could but we're obviously not going to do that at this point in time. We have Burton Coal mine, we have Star City Management company. So the focus on the so called one offs, we have a lot more one offs there that we could do and we continue and as we go forward to reinforce that we have to find some effective use for our four or five hundred million dollars of cash and I would put that that's a very legitimate part of our strategy. Similarly if you look into property, we have revised over the last several years very much our property strategy. Having being burnt in the early 90's but I guess we weren't Robinson Crusoe being burnt in the early 90's a lot of people were. We have a growing portfolio of property and our strategy in terms of property is to focus on the East Coast to cap the funds that we have employed in the business and we want to share risks through partnerships and of course recently we announced an alliance with Greg Paramor's PA Property Trust. Greg Paramor of course being I think one of the great property people of the industry and we see that's something we can work along very much developing the business. We're not involved in speculative developments and we obviously want to increase our issue in the management area. So between all of these components of our strategy of having operating & maintenance contracts, long term mining contracts, project investments and property investments we believe we can continue to put our capital to work to develop the business. So you might from time to time see the one-offs come across but I think we get a little tired of saying they're one-offs, it's not one-offs, it's one of many or some such things.

The outlook in Australia that I can perhaps talk about, the telecommunications business is of course highly controversial at this point in time. I think if you asked the rocket scientists 12 months ago or 2 years ago how big was the telecommunications market they would say huge and growing. If you asked the same rocket scientist now they would say huge and collapsing. Probably neither were true I think the telecommunications market from the end of the war to 1944 or so through to about 1997-1998 grew at about 10% approximately per annum from '97 the so called new generation arrived and I think the telecommunication market grew at 40%, a bit like the stock market

and the property market now returned to earth. The underlying growth in for broadband and the like is still continuing so I think we're going through a period of discontinuity with Telstra and Optus etc cutting back on infrastructure spending etc. But when we get through this period of discontinuity there is no doubt that the networks still have to be maintained and new capital expenditure will be required. So we see it as a very interesting part and we'll continue to push on in this areas and we're certainly the largest telecommunications contractor in Australia and will continue to develop our skills. Obviously we were very disappointed that we didn't acquire NBC from Telstra having being involved in lengthy discussions for a long period of time and maybe that will come back on the market one day but certainly not in the short term.

In the infrastructure business the traditional construction markets in Australia have gone down a significant decline over the last 1 to 2 years, maybe 12-15%. We believe that we're more or less at the bottom and people like BIS Shrapnel are predicting a significant upsurge from about the middle of next year onwards. There is many, many large infrastructure projects are being talked about and coming forward, some more than being talked about, there is here in Sydney the Cross City Tunnel which is about a \$500m project, tenders closing 3 on the shortlist or 3 applicants. Tenders closing early October, I'd expect that work would start probably about March next year. There is the Western Orbital Ring Road here in Sydney which is about \$1bn project with expressions of interest out at this point in time. There's the Epping to Chatswood Railway line here in NSW a \$2bn project, there's Eastern Freeway extensions in Melbourne, there is Victorian regional high speed trains of some \$800m and there is the Perth to Mandurah Railway line albeit delayed somewhat at this point in time. That list of projects there all are expected to progress over the next 12 months. There is also other things in longer term projects the Lane Cove Tunnel some five to six hundred million dollars. Newcastle high speed trains of some several hundred million dollars and the Scoresby Freeway of \$1bn so there is no doubt that there is a large number of infrastructure projects that will start to cut in from about mid to end of next year and engineering and infrastructure will in fact upturn from that point in time.

We see that our achievements in increasing revenues for the Group in a period of significant downturn in Australia as being a very, very credible achievement. In the property market there are similar predictions and I guess it is interesting to note that through from about mid to end of next year all markets are expected to improve which will be I suppose a somewhat unique situation. There will be increasing opportunities in the so called PPP area the Public Private Partnership which Victoria and NSW are going to push forward on based essentially on the UK model and we see a great opportunity again to use our financial strengths to pursue these opportunities. This particular slide here of course is based I think the photograph must have been taken of the Olympics but it's the Kent Street site that we have down at the old carpark down there, we've got that ready to proceed, we're not going to proceed with it unless we have some underwriting we're not into speculative business. In addition to that we have other opportunities 100 Pacific Highway at North Sydney, Macarthur Chambers in Brisbane, the much publicised and written about Noosa Resort in Queensland that we've now got our DA on and industrial parks in Melbourne at places like Thomas Town and Mulgrove. So we see that the market the property market being a substantial component but not a speculative

component of our portfolio going forward and certainly our association with Greg Paramor I think is very much a positive for the Group.

And now that we have a new Chairman or a new chairman coming, John Morschel became Deputy Chairman yesterday and of course John Morschel has a great interest in property also and probably a good track record in that area.

In the mining and resources business as I said we're probably the third largest miner in the Asia Pacific area. Thiess have a great position in places like Goonyella project in Queensland where they have a 5 year contract worth in excess of \$300m, they have a 10 year alliance contract for the Southland project in the Hunter Valley worth more than \$300m, both of those projects performing very strongly and Thiess will continue to invest and take project stakes based on being able to initiate work change and productivity improvements in these projects and I think the Goonyella project in Queensland has been very, very significant productivity improvements and we're very happy with the outcome.

In the environmental business some \$180m-\$200m that Thiess undertake in this market, this market continues to grow and the environmental operations have Thiess are now called Thiess Services have been expanded to include maintenance work in the water area, the sewage area, gas and electricity area. The underlying environmental businesses are expected to continue to grow similar with the GDP rates. So that's an obviously very interesting area of diversification for us also.

Just turning now to Asia, Asia has record levels of work in hand more than \$2.2bn. \$1.2bn through Leighton Asia and \$1bn for Thiess in Indonesia and in addition since the close of the period we have won these major projects in the Philippines some \$370m. Whilst the economic growth rates across the region are somewhat spotty we expect that we'll continue to have sufficient opportunities to underwrite our business. In Indonesia the political scene remains somewhat clouded, we operate some 7 mines now in Kalimantan between Thiess Indonesia and Leighton Asia. In addition we have major infrastructure projects in Sumbawa and Sirocco in the Sulawesi's. Good opportunities will continue in fact we'll probably have some several hundred million of opportunities in the mining business that we're pursuing and in addition Leighton Asia have a letter of intent for a \$100m rail project, rail rehabilitation project in Indonesia.

In Hong Kong the market has slowed somewhat particularly in the housing area but there is continuing opportunities in the infrastructure business and the rail business. Hong Kong has been our home and I guess our base for many years but the slide that I had up earlier you see a good range of activity right across Asia, a good geographic diversity or diversification.

In Malaysia we've had an excellent year, the two large projects in Malaysia being the Manjung Power Station which you see here which is the construction of 3 700 mega watt steam driven turbines in association with Alstom we're the main civil contractor, Alstom of course are doing the mechanical and electrical, very successful project proceeding very well. In addition to that we have the major contract for the Teachers Housing which is the construction of some 10,000 apartments. Both of those projects proceeding very well. In

addition we've completed a major fibre optic cable operation through Peninsula Malaysia and there is other opportunities that we pursuing through the region, through the Malaysia region for telecommunication and infrastructure business.

In the Philippines, the Philippines hopefully will stabilise and of course here we have on screen there the major cigarette plant for Philip Morris manufacturing facility some \$112m but I guess if that facility was to be built in Australia it would be probably in excess of \$200m. In addition to that we have the North Luzon Expressway that's had the final go ahead of some \$257m. So we have a good level of work also in the Philippines to carry us forward.

In other countries in Thailand our business has returned good profit based on the long term rail maintenance contracts that we have, we're very well placed to continue in Thailand with the whole rail system rehabilitation which is being funded externally mainly by the Japanese.

We also have an office in Shanghai we're pursuing opportunities particularly in the telecommunications business, I guess the whole question of the Olympics everyone talks about. I'm certainly of the belief that it will take at least 12 months before anyone knows whose making what decisions in respect of the Olympics. But in the mean time we've just got to watching brief to see what happens with the Olympics.

In South America our business has developed, we have on the screen there \$20m contract for BHP at Kintyre in the Andes, in addition to that we have a \$30 odd million mining contract, long term mining contract and we're relatively optimistic about the prospects for further development, for the first time we're budgeting to make a project in South America essentially on the resource business.

So if I bring all of that to summary we believe that we're very well positioned to continue our strong performance. As Dieter said, on average shareholders funds last year we produced some 22%, we believe if we can continue to produce at least 20% return on shareholders funds we have record levels of work in hand approaching \$8bn, we have a great long term mix of long term contracts that provides a certain underwriting for the business and I think by the middle of next year the outlook for the Australian traditional construction markets will improve and again we're well positioned to take advantage of that. So as we see it we have the capacity to grow, our budgets are showing growth for the year ahead both in terms of revenue and profit. Thank you.

Question: Dalen Simpson

It's Dalen Simpson from Tyndall I think your performance guarantees came to around \$600m last year can you tell us what they are now roughly and I take your point on margins and how meaningless they can be if you take a superficial look at it what about your return on capital criteria and I know that you can't look at that in isolation you've got to look at the total value of the job that you're getting and the seed capital and so on but what is your total involvement type return on capital criteria there and thirdly if I can ask how would you describe the constraints on growth, would it be people? Can you talk about that.

Speaker: Wal King

So I understand your first question was it on bonds or guarantees. Well I think approximately the same I mean it's a level for us but there is no question that I think in the Australian marketplace clients are demanding higher levels of guarantees and I suppose we'd see that as an advantage because of our financial position, we have plenty of capacity to provide a lot more bonds and guarantees so we don't see that as being a constraint. In terms of your questions about margins when we bid projects we have a number of criteria I think I've explained, criteria for a turn on turnover and we would set that at various levels depending on the risk and type of projects etc, but we also have hand in hand a return on funds employed in the project so for the projects that we do have large investments in such as the mining projects or investments plus an equity stake we would in fact have a criteria that we produce satisfactory return on funds employed. Obviously at the end of the day if we're producing more than 20% return on shareholders funds after you take into account our large cash holdings, you can see that those projects are running at very, very satisfactory levels on the average. In terms of future constraints I don't think that the large cash reserves that burn a whole in our pocket particularly I know we are criticised for having an inefficient balance sheet but I'm not sure whether that's an acceptable criticism from where I come, I mean I've explained that we will intend to use that cash in a way to continue to develop the business. If we were producing returns on shareholders funds of 8 or 10% it might be an issue. The constraints on future growth will be we have the cash reserves, I suppose you don't have to say we think we're well managed, so at the end of the day it will really be opportunities and how those opportunities present themselves, we are certainly at this point in time looking at a number of things in Australia but we don't feel compelled to do anything unless it particularly suits us from a commercial and strategic viewpoint. So it's a question of the opportunities, we don't have any other territorial ambitions other than what was on the screen, South America, Asia or Australia. We have virtually every week or every month opportunities poked under the door you might say in the mail of opportunities in the Middle East and Russia and everywhere else in the world. We are not of the mind to go anywhere else in the world, we believe our business is all about focus and more focus and more focus and once you get the span of control too wide you lose focus. So at the end of the day we've got the money, we believe we've got the management, it's the opportunities within our particular area that will limit our growth. We believe there is sufficient organic growth in the business to take our turnover over the \$5bn this next coming year. Obviously if we had been successful with an organisation like NDC, NDC in fact in their own right do about a \$1bn a year if we'd taken that aboard of course immediately the turnover would have gone to \$5.5bn but I think with the NDC thing again that we've demonstrated that unless it suits us we won't do it.

Come on Andrew you must have a question.

Question:

What is happening with that I keep hearing that housing has becoming so expensive that there's a move over the boarder and those sorts of things. Firstly is that still a big market and is the Hong Kong Housing Authority still going to be able to keep funding that?

Speaker: Wal King

The Hong Kong Housing market has slowed down significantly I suppose to 2 factors, 1 is the very high prices and the developers activities and secondly there's been a fair degree of you might say scandal associated with poor construction in Hong Kong and that has really produced a discontinuity in the marketplace with very little projects or very few projects coming onto the market but we see that improving over the period ahead. Obviously the issue of the cost base in Hong Kong continues to be discussed, but we see no reason why the Hong Kong market in its totality that is the infrastructure market, the rail market, the property market, the housing market will not continue on over the next few years.

Question:

Another question about domestic markets if there's an upturn in the construction cycle do you think some of the competitors who have been unable to compete with you in equity terms do you think they'll be able to get back on their feet again and create more competition?

Speaker: Wal King

Well certainly Leighton's position is very much larger than anyone else in the Australian construction market and I would expect increased competition for the volume of market but you'd have to say over the last 18 months – 2 years there's been a fair degree of competition, a number of contractors really fight for their survival.

No other questions. Do we have any questions from our audience elsewhere.

OK I'd like to thank you all for your attendance and look forward to next years result.

End of Transcript

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