Leighton Holdings Preliminary Final Report
15 August 2002

Speaker: Wal King
Welcome everyone, we're here this afternoon for the release of our results.

I guess you've had an opportunity to have a look at them I'll quickly go through a bit of an overview and then I'll ask Dieter to address the release in detail and then you can ask him all of the tricky questions. So if we just have a look at the financial highlights of the results, it should come up on the screen there in a moment. As you can see revenue is up by some 20% even though new contracts and variations were down by some 7%. The work in hand at 30th June was up by 7% with an award of a series of major projects here in Australia. Operating profit before tax is up some 15% while profit after tax is up 8%. Embedded within the figures the Directors have decided to take the provision of $45m against the future investment in Nextgen and the judgement has been made on the current instability in the telco market. Leighton will continue to support Nextgen going forward as it develops its business and of course the directors will continue to monitor the value of our future investment in that particular organisation. Dividends have increased by 8% the full dividend 42 cents per share 70% franked, and we expect to maintain that franking level going forward. In terms of total revenue, says there on the chart total revenues continue to grow up some 20% from $4.4bn to $5.2bn and based on the issues and the contracts that we know about we would expect that would continue to grow through this year probably approaching $6bn. The work in hand sits at a record level of $8.4bn up from $7.8bn at December and $7.8bn at June last year. The level of new work won by the Group we see it as a great achievement particularly if you consider that the construction market in Australia has in fact been down for the last couple of years. Work in hand is expected to rise further over the next few weeks, the Australian Magnesium project which is worth $1bn will be signed next Wednesday which I said will add about $1bn. The Spencer Street Station will add another $300m and we believe the Western Sydney Orbital will be awarded probably by the first week of September and that will add some $700-800m so if you aggregate that there's probably another couple of million dollars to be added to the $8.4bn less what we burn off in the next few weeks. So we think by early September will be around $10bn which will very much underwrite our momentum and turnover for the forthcoming year. So that's a quick overview, I will just ask Dieter now to walk you through the detailed financial figures and he's happy to take any questions. Thanks Dieter.

Speaker: Dieter Adamsas
Thanks Wal, what I'll do is I'll wander through the ASX release which you've got and I presume have got some understanding of it, so I'll start on page 15. Belt on down the numbers down there the revenue number the $5bn number you may note that's down from the number that we've got up in our highlights, we highlight a $5.2bn number that's at the presentation requirements we exclude from that $5bn at 240 but the proper comparison in terms of profit is the $5.2 against the 169 rather than $5bn odd dollars. You go to expenses down to the profit from our associates. Tax is up if David Kent is out

there he might want to comment as to why the tax is up but the tax is up but the tax is up 25 compared to 21 last year and there's plenty of pressure on us going forward on our tax rate. Then our minorities and then down to 169.2 headline numbers and of course inherent in those figures is the 45 if you like provision that we've taken in regard to our investment in Nextgen which will take place at June 03. Then in terms of the next page on page 16 just if you like an elaboration in regard to some of the items within the numbers, there's nothing too much untoward there, the St Kilda sale sits in the 129 number and the other development property is other revenue in relationship to properties, the major item there would be the Kent Street development we're undertaking here in Sydney. Interest the number there 18 down from last year 18.9 down to 15, there was a one off item in relationship to an item where we had a deferred payment from another entity where there's interest involved which boosted last years number and then the proceeds from some of other assets 37 …. 99 are our plant sales. Not too much there in relationship to the next page in the tax, tax note there the recognition of losses 5.5 there's the tax shelter for an old claim which related to monies outstanding in relationship to our Green investment for those of you who have been around for a number of years would remember that and this is the last of the monies that came back about $10m or so worth of monies was recouped from there and they dropped through tax effective. The other interesting point in our tax profile now is the overseas income tax differential used to be a benefit to us, now of course it's virtually gone in a sense that the overseas jurisdictions now virtually have the same tax rate as we have in Australia and then if you add on such things as withholding tax we end up effectively paying a penalty relative to a nominal tax rate here in Australia. So I suppose we are in one sense competitive with the tax in other parts of the world and some of the benefits that we had there in previous years ……………….do not come through. In terms of the next page and the amortisation of goodwill that's our Leighton Asia, LSE, John Holland the number coming through there. And then in terms of our balance sheet which again follows the liquidity format which Carlos tells me everybody else is adopting – Carlos is that right? But I suppose there is a bit of clarification in terms of our liquidity analysis on the next page which we'll talk about in a minute. You can see the major items there the cash obviously the headline number net 520, receivables are up, payables are up that's a reflection of the size of the business. The inventories is or are our residual properties that's down obviously because of the sale of St Kilda. Other financial assets picked up our investments in the likes of Portmans and Goonyella and so on. And the investments equity accounted pick up the likes of our investments in such things as the Macarthur Development up in Queensland, Adrail, Silcar and so on. Deferred tax obviously it's up in part because of our provisioning and other property plant and equipment, dominant item there is or are it's our plant and that's gone up because of the increase in our plant fleet, again a function of the size of the business. Intangibles, residual obviously, goodwill we've got the likes of the Leighton Asia acquisition or the re-acquisition of the 20% we've got there and John Holland, LSE and so on. Payables I mentioned, current year tax liabilities and then you've got provisioning and a big jump there picks up 2 things, picks up the Nextgen provision sits in there $45m and the balance is a function of the size of the business. The business has expanded a number of employees, staff, wages have expanded and attached to that is or are bigger provisions one of the kickers that came along of course we picked up Fletchers during the year, more employees again all relate obviously to a bigger business, more provisions there. Interest bearing liabilities that's our residual loans the big lump there, that's all there that's all being played out in the next 2 years is that private placement we took up in the US, that's running down to a zero number and then running down to our equity which sits somewhere around the $800m or so.

The following page, the analysis of our current assets versus current liabilities, you can see it's a liquidity measure, cash receivables, inventories against our payables, provisions and current interest bearing liabilities. Cash flow, nothing too much out there. The big lump there of course is tax sticking out again, tax is obviously both from an expense point of view and also from a payable point of view has become quite a significant issue for us. Running down there the payment for purchase of property, plant equipment is plant. The proceeds from sale is plant. Payment from cumulative investments picks up the likes of Fielding and our investment in Macarthur and then the rest of it I don't think there's too much untoward down there relieving obviously down to our cash position at the end of this year. In terms of the ratios, flat. In terms of turnover to profit or profits on turnover 4.6/4.6 and then in terms of our return on equity or in shareholders funds round about the 21.4 if we take an average throughout the year we'd probably be above the 22% mark. Segmental reporting that to make things easier or harder I'm not sure has changed the format's changed, you've now got to look from one page to the next page and sum more information there which supposedly gives you guys a better appreciation of how the business in fact has come together. A couple of headline numbers there obviously in terms of our profit in Australia before tax 141, last year 116 and Asia 81, this year 77. Within that there's obviously an exchange rate movement and in terms of the overall result, if we were to use last years exchange rate of 50 cents compared to the 56 cents we used at June this year, the difference from our overseas operations $10m. So there's effectively in $US the results in Asia is a bit better so the difference in $A is $10m if you like. So I suppose the organisation or the entity now very broadly has about a third of its income offshore, largely denominating US currency and in that context a movement in that particular currency obviously has an effect both in terms of our net worth as well as obviously in terms of our earnings and that's something that we're going to have to be aware of in a year by year basis. So if we took today's rate of 54 cents obviously the overseas earnings would be greater if you like than what we're seeing at the moment.

The Americas picks up that claim settlement that I mentioned to you for about $10m or so and coming off that is a small loss associated with South American operations. Now I did say at the half year that South America was in the black in fact they were in the black but they crawled there way back into the red which is very disappointing and so we're hoping to put more focus on that particular path of the world to see if it can in fact make a buck for us. So that's what I wanted to comment on there.

Just one other area that Id like to comment on and that is the Options, I suppose options are very topical and if you go onto page 29 and there's a raging debate now I suppose in various forums driven by America as to how options in terms of the cost to the company is or should be treated. Now obviously we comply here with the ASX requirements and we nominate down here the options that are outstanding and the strike price for those and the expiry date for those options, so if you wanted to play with some numbers there's a 3873 number there strike price of $5.84 and they're available until 2004 on the current share price there's obviously an element of money foregone by the company if they're exercised today relative to the strike price of 5.84 and then you can go into the debate whether they should in some shape or form be a diminution to our P&L or whatever and we can have that debate with Carlos afterwards if they wish. But the numbers are there and you can do all your own hieroglyphics if you so wish. From our particular point of view it's suffice to say it's not a major issue, it's a relatively minor issue, we do recognise that the existing shareholders do forego an element of benefit, they are giving something away but I do stretch the point that's a relatively minor from that particular point of view. That's the only things I wanted to cover so I'm happy to take any questions now or later.

Speaker: Wal King
OK, thanks Dieter, just moving on now I'd like to talk about a number of issues, our business strategy is made up of many elements, but today I'd like to focus on some of the key drivers of growth. I've continued to say over the last few years that diversity is one of the keys to our success, people and our financial resources also being the very key to our success, the strength of our balance sheet is really a cornerstone and our strategy of selected acquisitions and taking sponsorship stakes in projects is made possible by our financial position. So if you look at our so called strategic triangle which emphasises our diversity, we maintain a diversified revenue base by market, geography and delivery system. The diversity improves the balance of our workload and risk profile. Diversity certainly has provided growth for shareholders and allowed us to deal with the cyclical nature of markets, obviously in Australia here when construction spending on telecommunications was booming, coal mining that provided growth and now of course the telecommunication market is down we see growth coming through engineering infrastructure segments of the market. So if you just look at the components of our work we have competitive work, negotiated work and project development work on the delivery systems, in the competitive work area we've got some $3.5 or $3.6bn worth of work, negotiated some $3.1bn or $3.2bn worth of work and in the project development segment there. So you can see that negotiated and development work now accounts for over 50% of our work, the project development work includes things like Reef, Nextgen the Alice Springs to Darwin Railway line, the Burton Coal project, Southland coal project, North Goonyella Coal project and Leighton Properties. So we believe certainly that the way we deliver our work is extremely important and I guess questions that are quite often asked about the margins, what's happening with the margins in say the road building business, well it really depends a lot on how those projects are delivered, it varies enormously across the board whether it's competitive work, negotiated alliancing work. So the delivery system is very important to our projects and how we get that particular diversity into our system. In terms of our structure, most people are aware of the structure we would say the structure is unique and relies on the autonomous, strongly branded operating companies, each of those operating companies of course have their own subsidiaries as indicated on the board there Thiess of course having things like their Indonesian operations, Thiess Services, HVE is Hunter Valley Earthmoving, Silcar and a company called Boss in Western Australia which was acquired from Boyd that's sort of focussed on the offshore and ordinary oil business. Of course the 2 Asian companies, we have Vytel in Australia we've got under the Leighton Contractors banner Vytel, Visionstream, LSE which is a wireless technology contractor and of course further down Broad Construction a company that we recently absorbed now then John Holland of course have Infratech a telecommunications company, Qantum also being a wireless

type contractor, Laurem being a company that we acquired that's in the rail maintenance business, acquired from Laurem in Canada and then of course we then absorbed Fletcher Construction last year. So we believe this structure allows flexibility and focus and also in the Australian marketplace allows us to take multiple opportunities, it allows different services such as operation and maintenance to be offered in the various entities and different areas. We recently announced the restructuring of Leighton Asia into the 2 groups of Northern and Southern as indicated on the chart there. In the restructured organisation Northern will report to Will Hamilton to manage Hong Kong, China, Taiwan, The Philippines, Thailand and Vietnam. The Southern area under Dave Savage will manage Malaysia, Singapore and Indonesia. We believe the restructuring will increase our focus on our Asian operations and position the growth in the region to participate in further growth. Virtually year on year for the last 10 years or so we've increased our position in Asia and we believe this restructuring will aid us in that regard going forward. John Faulkner will relocate to Sydney by the end of this year and will take on additional responsibilities in addition to continuing to be responsible for Asia with Will Hamilton and David Savage reporting to John.

In terms of the outlook in Australia a number of areas that I'd like to talk about is the engineering and infrastructure business, we see a significant recovery in the engineering and infrastructure markets in Australia following the downturn that perhaps persisted for a couple of years and certainly we believe that one of the great achievements for the company has been navigating our way through the down turn after the Sydney Olympics. BIS Shrapnel and other forecasters are expecting there will be a strong upsurgence in activity from 2003 and onwards and certainly the indications are true in that regard as we see the level of work flowing through. Road construction is leading the upsurge but there's also strong contributions being made from the rail segment, the group has already been awarded $850m Parramatta rail link and $550m on the regional high speed trains in Victoria. In addition to that John Holland have a large level of maintenance work for example in Western Australia they've achieved a 5 year extension to the Westnet contract which in fact maintains all of the rail system in Western Australia with the exception of the private lines up in the North West of Western Australia. Thiess Infraco have 12 year and 15 year contracts with national express to maintain components of the system in Victoria. If you look here in NSW on the screen there is the orbital system for Sydney, on the left hand side you see in the yellow the so-called Western Sydney Orbital and at about 1.00 there on the screen there, the green section which is the Lane Cove Tunnel. I think most people are aware in Sydney for the Western Sydney Orbital there is only 2 groups left, one group led by Thiess and 1 group led by Leighton Contractors. The final 2 consortium we believe that project will be awarded probably the first week of September. Bids were submitted in March and final negotiations have concluded and it's really in the lap of the RTA and the Government here to make their choice between the 2 consortia. In respect of the Lane Cove Tunnel, 4 applicants were shortlisted, 1 consortia is led by Leighton Contractors, 1 led by Thiess, the other 2 consortia are the Abbi Group and the Baulderstone Group. This particular project you see it in the green there on the screen is about a $800-$1bn privatised projects, those bids are being worked on now and the preferred tender is expected later this year and again I think we would have a sporting chance of being 2 out of 4 to perhaps get one of our companies up there. Also the NSW Government is examining the feasibility of the so called M4, the City West link which is out in the Western Suburbs taking the M4 from the Homebush area through to

Leichardt that will be a billion dollar project, in fact told and is expected out next year. In addition the Federal Government is examining the so called F3 connector which is on top of the screen there running from Hornsby at the end of the F3 down to the M2. So there's a continuing flow of big BOT projects here in Sydney which we believe we're very well placed to put in competitive pricing on, on the back of our financial strength as well as our technical and operational strengths.

Victoria is not to be left out of course people here from Victoria, we wouldn't want to leave Victoria out. In Victoria we have Leighton Contractors shortlisted on the $300m Eastern Freeway extension there in the green at about 2 or 3.00. There is a $300m Craigieburn bypass will go to tender later this year and then there's the largest project, the so called $1.4bn Scoresby Bypass which is likely to be led as 3 D&C design construct packages next year and we also do expect other projects to move forward in Victoria. So also Victoria has a whole range of projects that are being worked on, again a number of those are BOT type projects.

In the mining business Thiess have maintained its strong position in contract mining market and continue to have a number of long term mining contracts which really should underpin activity. We in fact are the 3rd largest miner in the Asia Pacific region, mining some 70 million tonnes of coal per annum and in addition by another indicator of our size, is that Caterpillar advises that we are the 4th largest user of Caterpillar equipment in the world, so that I guess is another indication of the level of activity that we have in the mining market. Work in hand has remained pretty much steady in the mining market at about $2.5bn, a lot of those contracts are life of mine contracts will continue to roll over albeit there's been increased competitive pressures in this market and we haven't won that many contracts over the last several months.

Other sectors of the mining and resource market, John Holland has made a strategic return to the resource market and are now constructing infrastructure at Mt Arthur Coal Mine in the Hunter Valley and also at South Walker mine in Qld, both of these contracts being for BHP Billiton. Leighton Contractors also extended its presence in the resource sector obtaining new work at Peak Downs in Qld and the St Ives Gold Mining project in Western Australia. We believe also that activity levels in the oil and gas market will improve as well as we see good opportunities in the large scale resource projects particularly in the downstream processing area.

On the board there is the shot of the so called demonstration plants for Australian Magnesium. Leighton Contractors have been working under an interim agreement for the AMC project for a number of months. Preliminary civil works are about to get underway, the final EPCM contract is due to be signed next Wednesday and will bring with it $1bn of additional work to our $8.4bn. As principle contractor Leighton Contractors will manage all engineering procurement and construction for this project in association with alliance and selected partners. This is the first time I believe that an Australian company has been appointed to such a role, in the past Bechtel and companies like Fleur have maintained this role. A ground breaking ceremony has been scheduled I think for the 28th August in Rockhampton including great celebrations for the people of Rockhampton concluding I am told a party to be remembered at the Rodeo Hotel in Rockhampton where people are expected to ride the mechanical horse, and I think we'll bring Graeme McOrist out of retirement for that occasion, he's had practice in those sorts of activities before I'm told, right Graeme. So the Rodeo Hotel if anyone's doing nothing the Rodeo Hotel on the 28th August is the hot spot in Queensland and of course workers compensation ends at 5.00pm.

In the building and property market, this is a shot of the Spencer Street Station in Victoria. The building and property market has seen reduced levels of activity but all the forecasters are predicting strong upturns from next year onwards 2003 through to 2005/2006. Hospitals and defence we also expect to provide good opportunities particularly in the so called public private partnership area as is this thing in Victoria is. Spencer Street Station was awarded to the Nexus consortium, Leighton Contractors will build this $300m landmark project I am told at the end of Spencer Street.

In the property development area, property development continues as part of our business strategy and we believe there is good opportunities going forward. Leighton Properties had quite a good year last year. Leighton Properties improved its performance in a number of areas including project at Mulgrave a homemaker centre and of course the St Kilda Road project was finally sold, their focus on the east coast has been on commercial and industrial and they've targeted niche markets and areas such as bulky good centres and e-parks. Leighton Properties are pursuing here in Sydney 2 large projects, 100 Pacific Highway in North Sydney which is currently held up for planning reasons but we believe should be cleared shortly and also the Kens project here in Kent Street, people would be familiar with the old Council carpark down there in Kent and Margaret Street. We also have and continuing to support our alliance with Greg Paramor's James Fielding Group which should provide opportunities for both development, investment and fund management. Obviously we have great confidence in supporting Greg and Greg being one of the we believe good performers in the property market and we look forward to that relationship providing fruit in the future.

In the telecommunications market you could only describe it as being a turbulent year, turbulent I guess couple of years with the reduced capital expenditure, our work in hand has declined significantly with only $200m of construction work in hand. We do have a reasonable level of operations and maintenance for Nextgen, Reef projects and Telstra, the operation and maintenance work is worth some $350m and we have that in hand on the back of the reduced activities in this particular sector we will go through some rationalisation of our resources in this particular area. It's an area in the telecommunications that we want to continue to follow depending who you listen too. The telecommunications market is either nearing the bottom or at the bottom but eventually will recover and we are the largest telecommunication contractor in Australia, we want to keep our resources together so that when the market returns we'll be well positioned to take advantage of it. So I think the activities in that area have been good to us, we've gone through a particularly tough 12 months probably the next 12 months it will remain tough but we see then the market improving.

In the environmental area we carry out this activity through Thiess Contractors, environmental business is worth about $200m per year, results have been steady, we operate in probably 3 sectors in the environmental area that's so called waste management or trash management including landfills, that area remains quite competitive, the second area is in fact the environmental cleanup restoration of sites, that tends to come in lumps it comes and goes. We're concluding a number of contracts here in Sydney but are about to enter a big contract for the cleanup of the old union carbine site out at Concord. The other sector of the environmental market is really where we manage facilities and that includes management of water, sewerage, gas and electricity facilities. The underlying environmental business are expected to grow the rates of GDP it's a good and profitable business for us.

In Australia if you look at the work in hand by the particular segments that we have you can see that we have a good balance across the various segments which gives us our diversity. There has been strong growth in the engineering and infrastructure market and that certainly offsetting the downturn in the telecommunications market. The mining market is showing some level of maturity and we certainly believe that building and property will provide opportunities over the next couple of years with examples such as Spencer Street.

If I now turn to look at Asia, Asia has had a very good performance work in hand stands at some $2.2bn. $1.5bn for Leighton Asia and $700m for Thiess in Indonesia and we expect modest economic growth across the region.

Following some of the opportunities in Indonesia, Indonesia is one of our largest Asian markets, we have a strong presence with 7 coal mines in Kalimantan between Thiess Indonesia and Leighton Asia. We also have infrastructure projects At Bhatahidja in Simbawa and also Sirroco in the Sulawesi's. Whilst the outlook remains somewhat tough in Indonesia there still is considerable opportunities in the resources market and the mining market which we'll focus on. Leighton Asia in addition are pursuing rail infrastructure opportunities and also of course is the oil and gas business in Indonesia.

In Hong Kong, Hong Kong continues to remain an important part of our base load in the area with infrastructure particularly rail and housing work being a cornerstone. There's very significant levels of transport infrastructure spending have been budgeted by the government over the next few years and we certainly expect to win our fair share. Focus on extensions to rail networks in Hong Kong and passenger and freight links to Southern China will be a priority for the Hong Kong Government. Whilst expenditure on public sector housing in Hong Kong has slowed down, we expect to see a modest recovery and we were recently awarded a high rise housing project during the year there.

In Malaysia we have 2 large projects that are really stand-out performance is the Manjung Power Station and the Teachers Housing Project. The Teachers Housing project most people are aware is the construction of some $10,000 condominiums and proceeding very, very well. With the I guess run down of these two very large projects Malaysia will come off its peak somewhat but there is certainly other opportunities for us in Malaysia. We've recently completed a fibre optic cable conduiting system through Peninsula Malaysia and we were recently awarded another contract for $80m to construct mobile base phone stations, that's mobile sets etc $80m contract for Maxis. We believe our strong presence and our position in Malaysia will lead to other opportunities in the building, civil and telecommunication area.

In the Philippines, the shot on the board there is the $100m manufacturing facility for Phillip Morris which is proceeding very well. The North Luzon Expressway should commence in the immediate future giving a good level of work over the next 2 years, we have $338m of work in hand in the Philippines and that provides a good level of momentum for our business there.

Elsewhere in Asia we were recently awarded some trackwork in Taiwan as part of the construction of the high speed rail link from the north of Taiwan to the south and we believe we will probably be successful in other work there this is the high speed rail line from the north to the south is currently the world’s largest single infrastructure project. We have other opportunities in Vietnam, opportunities we believe should improve in Vietnam we’re currently working on a power station that we were recently awarded there. Opportunities in Thailand remain very constrained and an office that we had in Shanghai in China we have closed.

So if you look at the various countries there you’ll see the balance of work, the work has stayed at a similar level across the region, Indonesia, Hong Kong being the major components of it, Indonesia with the big mining activities and the Philippines in fact we’ve secured a couple of significant projects there.

So if you try and bring that to summary the record work in hand at this point in time of $8.4bn with the imminent award of the AMC project, Spencer Street Station and the WSO here in Sydney we would believe that would move up over the $10bn level, that would underwrite our level of activity this coming year. I previously commented I expect our revenues to move from the $5.2 or 5.3bn this year towards the $6bn in this year. The base load of long term contracts both in the mining area and the maintenance area also is a good cornerstone for the business. So there’s that combined with long term contracts, the high level of work in hand and the improving outlook for the Australian construction and property market should really underwrite our performance, we have the financial capacity in our balance sheet and certainly I hope the management to continue to grow the business and we expect an improved performance over this coming year. We are continuing to look at a number of opportunities in the acquisition business, one area that we certainly will be pursuing next year if the Government bring it to market is the Australian Submarine Corporation which we’re positioning ourselves to make a bid for. Whether we’ll be successful or not I wouldn’t know but that’s one opportunity, there is virtually every 2nd or 3rd week there is opportunities given to us in Australia to look at, we continue to be very selective but I dare say that in the next several months we will do other things in that particular area.

So that’s our story, high level of work in hand, good momentum and we’re confident we can continue to improve our position. Can I take any questions either from the audience or from the video show, the analysts at the other end?

Well these projects here in Sydney the Western Sydney Orbital, Lane Cove Tunnel and the connector from the M4 to West City Link, they are all build, own and operate projects. There’s a limited number of proponents on the Western Sydney Orbital I think there was only 3 groups, 2 of them being ours. On the Lane Cove Tunnel there’s 4 groups, 2 of them being ours and I’d expect a similar position on the M4 to West City Link. So we have a reasonable level of expectation that on those projects where we're putting our balance sheet behind the projects we expect a fair return for our services.

Question:
Thanks – You've got a very high level of work in hand, at one point do you reach capacity where you can't handle it, what's the management constraints?

Speaker: Wal King
Well I believe the work in hand the central feature relates to what I would call the span of control, I think our organisational structure allows the distribution to work into the various companies, provided those companies have the right people, we certainly have the financial backing provided those companies have the right level of people, I think the span of control is not so large at this point in time that we jeopardize our position you probably could maybe argue that the activities in South America are somewhat diversionary and that is certainly something that's being considered within the organisation. It's been put to us from time to time that we should rationalise our structure as per the MBA text book tells you, we are completely opposed to that it's been a very effective strategy in distributing accountability and management and if you like our activities in the marketplace. So right at this point in time we don't see huge difficulties with the $10bn, I think our expectation is that we should be able to maintain that in the immediate period ahead but it's obviously a big, big task to keep increasing the work levels as we have done over the last few years. The current $10bn of uncompleted work if I count these forthcoming projects will certainly underwrite the $6bn of revenue in the forthcoming year and will underwrite an increase over and above the $6bn in the year 03/04, I mean the issues for us really are to keep profits coming in, in line with that increased revenue we just don't want to grow the business in a revenue sense but not in a profit sense. Our objective has been to produce 20% return on shareholders funds which we have done over the last few years in excess of 20% so we want to do that and continue to do that going forward. At the end of the day there's going to have to be a bit of a trade off in how much emphasis we put on size versus profit, at this point in time we don't have great fears but there's got to be a plateau out there somewhere in terms of the work in hand.

Question:
Well done for recognising Nextgen losses but do you think that the revenue potential guarantees which years will they come in and how might they be treated? If that would occur

Speaker: Dieter Adamsas
The revenue guarantee comes in post completion and it's subject to obviously the revenue inherent in the Nextgen entity itself and to the extent there's a shortfall from pre agreed covernance then that would come in so it's post June 03.

Speaker: Wal King
Commenting on Nextgen and our provision, obviously we've taken what we believe is a prudent view at this point in time on Nextgen, we are an investor in Nextgen. The cable

network will be completed by the middle of next year and obviously the level of our future investment, the value of that future investment we will continue to review. If you wanted to take an optimistic view I mean that cable has staggering capacity if you wanted to take an optimistic view over the long term it should be a successful business, the issues are and right at this point in time is the large instability in the telco market so we decided to take the provision. Through next year the crucial thing for Nextgen is to get a sufficient number of customers to underwrite the viability of the cable. We believe Nextgen will be able to secure sufficient customers to underwrite a base level of viability over the start up period. Once they get past the start up period and if you have any confidence in the economy continuing to grow and so on and so forth that the cable will be successful in the end. I suppose one of the difficulties with telecommunications is that the predictions over the last few years have been wrong, not wrong by a factor of 1 but a factor of thousands percent. It's now what's the future of the telecommunications market I think the commentators are generally saying well if it hasn't reached the bottom, it's getting close to the bottom so the central issue for Nextgen is to get sufficient customers after start up which is the middle of next year, sufficient customers to underwrite a base level of viability allowing the business to support itself going forward.

Question:
Simple question on work in hand going forward the civil work in hand looks very strong and mining fairly flat is that still, do you see any change to mix to an even greater proportion of coal or what's happening with gold.

Speaker: Wal King
Well I think the contract mining market in the coal market has reached a plateau at this point in time. The contract mining market tends to ebb and flow a little when you have clients wanting to do it themselves and other clients wanting to outsource. There is currently out there about probably $1.5bn worth of projects that we have submitted bids on and we are awaiting the outcome of those bids, there is really only in the contract mining market in Australia probably 4 operators, there's Macmahons that are very tiny and probably not capable of funding these big contracts, there is Roche which is part of the Downer Group, Henry Walker Elton and then our group. So we'd have an expectation that at least a significant component of the $1.5bn that we've submitted that we will pick up in the next few months, that will take us and underpin our activity. In terms of long term mining contracts like Burton we in fact only book 5 years of uncompleted work so every year there's a new year comes on, Burton continues to roll along as some of the other contracts continue to roll along in Indonesia. So it's an important part of our business and will continue to be an important part.

Question:
Given that you have a focus on your return on shareholders funds you have an increase is cash banks and your intentions going forward how do you intend to employ your cash in order for that not to be a drag on the performance indicators.

Speaker: Wal King
Well I guess you're really talking about capital management and the issue has been put to us many times, why we don't do a share buy back or return that cash, we certainly believe that in using the cash to support the business going forward and there's no doubt

as the business grows, continues to grow there will be a high level of bonds and guarantees required so we have to have the backing to support that and that is certainly one of our competitive advantages to have that. We have going forward a number of commitments like putting money into Nextgen and we have a very large capital expenditure program budgeted going forward and we also have 2 or 3 targets that we're looking at. One of them as I mentioned is the Submarine Corporation. So we believe that we've got sufficient targets that will require some of that cash to be burnt off, but not withstanding all of that we will always maintain a high cash base, that's part of our image, it's part of our bag of tricks and notwithstanding the high levels of cash we think we can continue to maintain the 20% return on shareholders funds.

Speaker: Dieter Adamsas
I'll just add in relation to those numbers obviously there's a jump and I suppose referring that from last year in terms of the cash and one of the significant reasons for that is we sold St Kilda towards the end of the year and there's a $70m odd number sort of flopped in there and that was a deliberate decision not to extract profit out of it, to in fact cash it up given that we've got some commitments coming forward and one of the big commitments mentioned was Nextgen $90m, we've taken a $45m provision that's an accounting entry if you like, but from a cash perspective, an investment perspective the $90m coming up in the next 12 months and then there's other opportunities, as Wal mentioned they come round through the door, and under the door and through the windows all the time and we go through them and to the extent something comes in that makes sense in terms of our own return expectations we do follow them down the track and there are a few things that we're playing with at the moment, on top of the project commitments that we've got round the place which will come to fruition these major roads around the place in terms of sponsored equity in them, as well as maintaining a strong balance sheet in the broad therefore the various guarantee requirements that we need to provide and we need a bit of a balance sheet to provide those guarantees otherwise the banks want to run out the door and not look after you. So there are all the very good reasons for being where we are it's not just done to let Wal sleep better at night.

Speaker: Wal King
Any other questions?

Question:
(can't hear most of the question)

Speaker: Wal King
I think it would probably be around the same proportions I don't have the figure, I mean the level of negotiated and project development work has continued to increase if you went back 10 years ago it was probably a few percent.

Speaker: Dieter Adamsas
There's no doubt about it though if you look at the organisation if you pick say 1988 as being a base when we got into it in a fairly significant way on the back of the M5 and you've had various roads since then, you've had casinos, you've had coal mines since then, and there's a whole swag of roads coming up now on top of the various property

developments and as you know we've rejuvenated our property business so there is a higher proportion in all probability coming forward as well beyond where we are at the moment and that's clearly a market that we've set for all of our businesses including John Holland and when we acquired John Holland they wouldn't even be anticipating anywhere near the extent which we're encouraging to participate in this area.

Speaker: Wal King
The question has been put to me I suppose, what do you think Leighton will look like in 3 years time well from where we've come I see no particular reason why we won't be bigger and particularly financially stronger and more importantly financially stronger relative to our competitors in the industry. It's fairly well known that there is a level of distress amongst our competitors in the industry. You can see that with these large scale projects that come forward that in many cases they're scratching to get 3 serious bids for them. So I think as the cycle goes forward I think we will be stronger rather than weaker relative to our competitors.

Question:
Just back on the property development again Dieter, can you give us an indication of the segment result there that you used to disclose?

Speaker: Dieter Adamsas
We made out of property this year $16m ignoring St Kilda Road as another issue, but out of pure property development in the current period we made $16m.

Speaker: Wal King
Any other questions or any other questions at the other end of the conference.

Question:
Good afternoon Wal, just following up on that point of profit enhancement just wondering if you can expand on that point in terms of the ……………..particularly I'm thinking particularly of Holland where is that in terms of running off some of the most profitable contracts……………..

Speaker: Wal King
I think we're having difficulty in understanding the question?

Question:
Profit enhancement thinking specifically of Holland is that where you want or

Speaker: Wal King
The audio is very distorted, I think if you perhaps give Dieter or myself a call by telephone we might be able to answer. Unfortunately the audio is very distorted.

OK, we've got another question from the audience here.

Question:
(can't hear)

Speaker: Wal King
Well we haven't finalised our plans but obviously we've hard a fair number of people deployed in the telecommunications area both through the Leighton Contractors side of the business which expresses itself as Vytel, the Thiess Contractors side and John Holland. We would be downsizing I would think by probably a few hundred people in that area.

Speaker: Dieter Adamsas
You can see the work in hand in teleco has just sort of come off kaffunk if you like and at a peak we would have been I suppose approaching our billion dollars and we're really coming off in a big time from pure construction point of view taking away the O&M side of it if you like and that's the reality of the market. We will just cut our cloth to suit, you know we've had a good run of it, it's been great but it's over.

Speaker: Wal King
The area that's failed to live up to it's expectations I suppose telecommunications has failed to live up to its expectation but certainly the area that in the last 12 months has shown some promise but is really not materialised is the so called G3 spectrum area, there's been a lot of talk with people walking around with their Palms, watching movies and all that sort of stuff and I mean all that hasn't materialised. We do have these 2 companies that are specialised in wireless construction LSE which I've commented on and it doesn't stand for the London Stock Exchange. LSE is a wireless contractor and they have a reasonable level of work on and Qantum in John Holland, the prediction some time ago were that they were going to roll out billions of dollars of G3 spectrum for internet connections and phone connections, none of that has materialised.

Speaker: Dieter Adamsas
We are as Wal mentioned in his presentation we've got Vytel Asia now both in Northern and Southern if you like pursuing teleco interests obviously in joint venture in other words it's the footprint we've got in Northern and Southern together with the Vytel technology if you like expertise together pursuing interests in Asia. They've had some success in Malaysia and pursuing a fairly significant opportunity if they get it away in Hong Kong, the Philippines, looking at something in Thailand. So we'll see how that pans out over the next year or two I wouldn't do hieroglyphics in terms of numbers there but it's an opportunity if the market turns our way.

Speaker: Wal King
OK one more question.

Question:
Wal can you comment on the outlook for labour costs particularly for Victoria in light of the Coal Royal Commission.

Speaker: Wal King
Well the Building Industry Royal Commission of course continues on and interesting behaviour by governments as well as contractors particularly in Victoria. I think the issues that intrigue us in the industry is what's going to be the conclusion of the Building

Industry Royal Commission bearing in mind that it's a Federal Royal Commission, has no powers of enforcement, or has no powers of prosecution. I think there's a reasonable level of expectation that the Commissioner will make recommendations in respect of prosecutions and that will require implementation by the various DPP's in the state. So that's one issue, the second issue is really where to after that and I don't think anyone really has a reasonable view other than the fact that they may introduce some type of Federal legislation to control the behaviour of the unions as well as the employers, the contractors. Labour costs, the costs across various states vary, in Victoria it costs probably 20-30% more to build than anywhere else in Australia and that's a reflection of generally industrial disputation and work practices. In Victoria I suppose if you talk to some of the American colleagues and say you work in this place where you have every 2nd Monday off, if the temperature reaches 33 degrees even if you're in an airconditioned building then you take the time off, you get 17.5% pay loading and you have 6 weeks a year leave. If you add all that up you're probably flat out to get 30 weeks a year work. I think the Americans would say you're in Utopia or some other place. I mean Victoria and the work practices in Victoria are extreme in Australia. The 36 hour week they are trying to force through in NSW and other places in Australia and I think people are probably saying it's a foregone conclusion that it will come in, which will increase wages that's all factored in to future bids at this point in time, so I don't expect any further increases in Victoria in the wage structure but certainly in NSW and other places on the back of a 36 hour week there will be increases in wage costs. Whether the Building Industry Royal Commission can reign in the types of behaviour in the industry is a mute point at this particular juncture. So around this room I'd say all of those that work 30 weeks a year put their hand up, that's got to be you Andrew. Ok I thank everyone for their attendance and their interest.

End of Transcript