

Leighton Holdings Preliminary Final Report 14 August 2003

Speaker: Wal King

Good afternoon ladies and gentlemen, thanks for coming along here to hear our little dissertation on our results for the year. What I'll do is run through some of the highlights and then I'll get Dieter to walk you through all of the detail and you can ask him all the tricky questions. So how do I feel about the year well I guess in terms of the year, when we set out at the beginning of the year there were a few storm clouds around, as we travelled through the year I think we've successfully negotiated most of those storm clouds, you might say we had a bit of a lightning strike with Nextgen but certainly Nextgen is well and truly passed and all over and we're moving into the future and I think we've flown through the year, navigated our way through the year into potentially a fair degree of blue sky that's in front of us, and I'll talk about some of the opportunities.

So I guess the underlying performance to the year has been quite strong the Nextgen write down the \$40m after tax obviously had an impact on us but that's well and truly behind us. Just look at some of the financial highlights that I guess you've been studying since the release of our results this morning, revenue is up some 7% with new contracts and variations and extensions up some 23%, work in hand at June was 15% up to \$9.7bn and we're very confident that in the next several weeks there'll be at least \$1.5bn worth of new work will come onto the books in addition to that \$9.7bn. In terms of currency movements that affected the work in hand by some \$300m. the loss of the Nextgen O&M contract together with the loss of the AMC contract probably had an impact of more than \$1bn on that \$9.7bn, so if all those other things had stayed in place including the currency hadn't moved that figure would have been more likely \$10.5bn or \$10.7bn, but I'm very, very confident that there will be at least \$1.5bn worth of work flow onto the books in the next few weeks which I'll talk about in more detail when I move on a little bit.

The operating profit obviously is down in a pre-tax sense by 8% and 17% after tax due to the Nextgen, if you add back the Nextgen hit the profit would have been around the \$180m rather than the \$140m. The dividend has been increased by 5% our full year dividend of 44 cents 100% franked, and we expect to maintain that level of franking going forward. So the work in hand as I commented \$9.7bn up from \$8.6bn in December and \$8.4bn last year and we would expect that to increase. The new work won substantial contracts during the year of course was the Western Sydney Orbital which is now called the M7, the KENS project which is just down the road here in Sydney, the Central Reclamation in Hong Kong and the absorption of Transfield construction into our work, we would expect to maintain that record level of work at more than the \$10bn figure. Perhaps if I could just ask now Dieter to go through the detailed financial statements.

Speaker: Dieter Adamsas

Thanks Wal, I'll walk you through the Preliminary Financial Report which on this occasion follows the format of the Concise Annual Report, so it's different to what we've talked about in previous years provides a lot more information. Running through that report and going through the transmittal page just gives the head line numbers up there and the 2

head line numbers from our perspective obviously the \$5.6bn revenue and then the \$140m profit which as Wal mentioned is after taking \$40m after tax write off for Nextgen. Then we go on a little bit of a commentary there a couple of pages you can read at your leisure. Then we go onto the P&L and there again we start off with the revenue number the \$5bn which I mentioned earlier in the piece it excludes the major item that excludes in terms of headline number and joint ventures, our business of course always has a significant number of joint ventures but going forward there'll be even more significant when the likes of the Westlink job which used to be called the Western Sydney Orbital really start to kick in as an example that's a joint venture so that particular component will become larger and larger and for another example the Chatswood to Parramatta rail that's a joint venture with Hochtief, so the joint venture component both obviously in terms of revenue as well as in terms of profitability will become larger, so from a headline point of view we just include the two as one number. So if you run down to your profit and in terms of that again you see the \$54 which is the joint venture share of the profits now that achieved I suppose a little bit of comment last year when we had a 23 number and that number you'd expect obviously to grow as that share of that business kicks along. The 222 number which is there the pre-tax, that's obviously after taking a \$58m kick or hit or whatever you want to call it in relation to Nextgen, and then we go onto the tax which is up significantly from last year. Now last year we had a tax rate of 25% this year it's running at 32% June 03, the turnaround is a couple of features one last year we had a significant credit in Indonesia which was a one off which obviously pushed us down which was fantastic and this year we've got a non-deductable particularly in South America a fairly significant lot of money sitting over there Segmental report, which obviously now pushes us up so we've carried a bit of a burden there in tax, then down to minorities that's gone up which is good news in a sense that we're giving more to some of the minorities particularly Heytsbury then obviously we're making more money ourselves in terms of our share and that's an indication of a good contribution from John Holland. I guess \$140m if you like head line number, then in terms of the below the line there the \$42m that's the FCTR and that's the effectively if you like the number that spits out due to the exchange rate change from 56 to 66 cents. On the next page, the balance sheet item there we're seeing that the equities gone from 800 odd to 870, one of the major influences there is the change in accounting where as now within the 870 the dividend if you like that we would pay out in September in fact is sitting in that number, so previously we'd provided for the dividend and effectively it was sitting in a provision account, on this occasion and going forward that dividend in fact sits in the 870, so the comparable number between the 2 would be broadly line ball. Obviously the dividend when we get down to it is at a higher percentage payout in the context of we're paying out round about two thirds of 180 but then if you translate to the 140 we're effectively paying out 85% of 140 in order to maintain the dividend at 44 cents which is 2 cents obviously up on last year and 1 cent up from the half year point of view, 1 cent up from the corresponding period last year.

Couple of other items down there plant which is our major asset other than works in progress it's broadly the same, so you go through the equation in terms of where we started, what we've bought, what we've sold, less what we've depreciated, we've virtually end up with the same number, plant's been relatively flat. And in terms of provision if you look at the provision number there, there's an apparent decrease, in fact our provision for statutory purposes has gone up driven by the fact that we're a bigger company obviously

during the year we acquired a number of other entities, the biggest one being Transfield so you acquired an additional swag of employees so we end up with a whole bunch of additional provisions. Last year in the comparative number that we had a provision there against the Nextgen write down there of \$45m those of you who remember it that was sitting there, obviously that's now gone, it's been written off. So if you make that adjustment you'll figure out that our provisions in fact have gone up and for the reasons I mentioned a minute ago. The reserves I mentioned that earlier in the piece they're going from 25 to 66 that's driven by FCTR \$42 odd million dollars and then coming down to our outside equity interest which is driven by Heytsbury's interest in John Holland 30%.

Cash flow – the cash flow from operations and operating activities is just under \$300m or so and I know this all sounds monotonous but obviously Nextgen has been a significant in that, we paid out a big lump on money in terms of meeting our commitment to Nextgen, in the total cash flow we paid out during the year \$160m, \$92m odd for the original investment and \$58m for the subordinated loan and in that in the \$281 there's about \$100m sitting there for that and then the balance is effectively \$47m or so sitting in the next segment down, in the \$54m proceeds from investments and other entities.

The plant as I mentioned is much of a muchness, in terms of the total equation, borrowings broadly during the year we've borrowed some money, we've paid it out plus a little bit more in terms of the private placement and I suppose in the later stages of paying out in the US, and then running down to a head line number of 408 which translates to about \$380m odd net if you like so overall we're down and I suppose driven largely by Nextgen and change in our tables but still not a bad position to be in.

Then we go onto a whole series of notes. The revenue note I think I've pretty well talked about that, we get down to the \$5bn number then we add on our joint ventures and we end up with about \$5.6bn number which is the headline number. Depreciation right at the bottom of page 7, broadly the same as last year, the amortisation there of \$30m or so that's primarily good will and lease hold and lease hold improvements. On the next page segmental reporting I suppose is of great interest to all of you, where the money came from and I suppose in short we've had a very good year in Australia, Nextgen aside if you have a look at the numbers there we've gone from Australia last year 141 on a pre tax basis to 145 that obviously is post Nextgen so a strong performance from that particular parts of the Group's activity. Now where has that come from we had an improved performance from John Holland, good performance other than Nextgen from Leighton Contractors, Thiess, but this year in particular I think we've send this before we had a very strong performance from Leighton Properties now we've indicated that Properties was in fact coming into a good cycle and this is the first year we've seen a good contribution from Leighton Properties and we expect Properties to be able to go on with it. So inclusive of that 145 Property, Holland's and of course continuing good performance from Leighton Contractors and Thiess. Asia – I suppose the view that we would have had 12 months ago that Asia would be relatively flat and then of course with effect the exchange rate there was an expectation that Asia would be under a little but of pressure but Asia has come through very strongly, compared to last year we're at 77 to 81, there's an exchange rate effect there of \$6m in other words we had a similar exchange rate last year we were \$6m better off. So in constant dollar terms we've in fact

done fairly well in Asia this year as well. Then of course we've moved out of America and we've signalled that and we had a fairly significant number there for the half year and we're pretty close to having the last guy out of the place now so the numbers are pretty well there in the Americas. So we've got a \$16.7m if you like there red in number there which is not very nice but it's probably a good reason to say we should be out of the joint. The turn around in the Americas of course last year we had a one off gain due to the settlement of a bond going back to the old Green days that's the old Geyana bond those of you who have got a long memory and that said between Geyana a plus last year and a negative this year in South America it's a \$26m turnaround so it's quite a significant change, but I'd expect America ready to be fairly well neutral going forward. It does highlight of course the fact that we have absorbed South American losses and coupled with a very strong contribution if you like in that regard out of Australia specific basically Australia and also out of South East Asia.

The rest of the stuff is pretty well pedestrian the MTA number there at \$3.10 that's obviously a function of our growth in net worth and then there's a whole series of notes we sort of add back to the basic information we've talked about. So they're the broad numbers, are there any questions?

Question: Adam

Can you tell us what the contribution was from property development?

Speaker: Dieter Adamsas

Pre-tax \$35m.

Question:

(too low to hear the beginning)continue to shrink can you talk about why that's occurring and is that the trend going forward?

Speaker: Dieter Adamsas

I suppose from the management of working capital whether you're talking about debtors or creditors it's a function of where you are the nature of the creditors, nature of the subcontractors that you have at any particular point in time, and the way that you effectively sign them up and the way you manage them, it's not a template that all creditors will be paid 45 days, some will be paid 7 days and so on, it really depends on the nature of the business that you've got and the way that particular creditors are signed up and managed and I think I indicated previously it's obviously an important task from our point of view to manage that and I don't think we do too badly, sometimes we slip a little bit and we obviously have to adjust our rate, I mean guys like Trevor is sitting out there looking at me is obviously onto that kind of situation, it's a management issue which we really have to hammer and constantly have to hammer, unfortunately on this occasion we absorbed another \$100m or so in those areas, you probably picked that from the numbers itself as such, it's in part structural, the nature of the way the organisation is working at the moment with the subcontractors and some of these suppliers if you like and then I suppose to a degree we're striving to improve that constantly, and as with the debtors side.

Question:

The contribution from plant sales seems to be a lot higher in this year than last year, can you comment on that?

Speaker: Dieter Adamsas

Are you talking about the cash flow? The \$17m are you referring to? No it says property, plant and equipment you're taking a bit of license there, plant is about \$7m and inclusive of that there's a \$10m from the sale of a building that we had in Queensland that's the Southbank headquarters of Thiess.

Question:

I just wanted a question on note 5 the property development it's \$83m revenue does that include the \$75m mentioned before of property development profit and casino profit

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Speaker: Dieter Adamsas

The casino profit as such is only \$3m as you know we re-valued the casino at the half year up to \$49m so the difference between \$49m and \$53m came in as a profit if you like so the only profit ex \$3m.

Question:

Is there any change to rates of depreciation that seems to be a little bit higher through a relatively flat with the property plant and equipment

Speaker: Dieter Adamsas

The depreciation are you referring to the 296 number relative to our property. Well I suppose that number includes two components, one if you like is what I call the amortisation and the other one effectively is the maintenance component of it and they're broadly 50/50 I suppose between the two of them and the level at which that particular money is expensed really depends on the rate of which the gear is working, the gear is effectively depreciated and maintained on an hourly basis and that context the more hours it works the more depreciation you effectively take out of it, the older the plant gets obviously the more you spend on maintenance of equipment. So that context down there it's a function of where you are in the cycle of the particular plant and where you are in terms of the number of hours the plant works, from our particular point of view from the pure depreciation perspective obviously the higher the number the better off we are the higher the plant is working as such.

No more questions? Ok thank you.

Speaker: Wal King

Thank you Dieter. As I commented at the beginning the last year was a mixture of satisfaction with some disappointments, obviously the major disappointment being the Nextgen position. But if you look back over Nextgen as part of our entrepreneurial approach to projects and certainly we continue to do those projects, I mean the most significant item I think is our risk strategy that we in fact are in the risk taking business but not the unlimited risk taking business, so the Nextgen situation is now behind us. I know that there's a lot of concerns by people about the AMC project if Leighton continue to

grow, need to grow, want to grow we certainly need to push the boundaries and increase our position in all sorts of other fields in Australia related to our contracting business, and the AMC thing obviously very controversial but from where Leighton sit I mean we did have absolutely in place at the outset of strategy to protect the company and whilst there's been a number of people and investors damaged of which we're very sympathetic I mean the Leighton position has come out the other side of AMC intact there is coming down the track bigger and bigger and larger and larger projects and it's absolutely essential that we do understand the risks that we're taking on and with AMC we fully understood the risks that we were taking on at the outset of that particular project, it's just a pity that a lot of other people didn't understand the risks that they were accepting. So we would say that our strategy continues to work, our strategy that we've had in place for a number of years, our strategy is driven by diversification and I think most people are aware of that. In terms of the years ahead there is certainly no acquisitions that we're interested in perhaps other than the Submarine Corporation and I'll talk a little bit about that very complicated issue and we see that as a door to entering the defence contracting in the maintenance area. Our people and financial resources obviously extremely important to us, we have the financial strengths and maybe Dieter might comment later about the interests of the company taking a hybrid facility onto in fact make the quantum of our balance sheet larger. I've had a few questions put to me this morning to say that the hybrid is to repair the damage to our balance sheet done by Nextgen which I can't really understand, I mean our balance sheet is in first class position we don't have any net debt I mean people put interesting interpretations upon why we want to do a hybrid and Dieter might talk later about it is in fact to increase the size of the quantum of our balance sheet to support the levels of bonds and guarantees that we see coming forward. At this point in time we can support probably about \$1.6bn worth of bonds and guarantees and I will talk about the major projects that we have coming forward and we're in an excellent position. So having navigated a year where there's been a few thunder clouds, we've come through the year and we now see in front of us substantially blue sky. That's not to say that the business does need and continues to need attention as we take on these projects to ensure that we don't fall flat on our face and then we are in the risk taking business.

So I think a number of people have seen this triangle that tries to express our business, our business is based on geography and market products and delivery systems. The old question continues to come up by people, well what's happening to margins, I've always said all of the above and I'm not being smart about that, it really depends on the delivery system how we deliver the projects and now more than 50% of our work is delivered through either negotiated work, alliancing work or development work and about 50% is secured in the tender market, if you went back 15 years ago I mean the amount that we secured in the tender market was probably 90% plus. Within these mix of activities we're looking to further extend our operations, I'll talk later about the O&M maintenance market how we see that as a potential to grow, we are in the defence business probably the biggest contractor to the defence industry but in a non-military sense so we build runways and barracks, and maintain microwave ovens and that sort of thing I think in the years ahead there's going to be greater opportunities for private organisations such as ourselves to support the military as has been very much exemplified in the Middle East with the big major contractors like Hale Burton and Bechtel and so on and so forth. I

think defence is going to be with us for a while yet and if there's any company capable of support that in Australia it's our company.

In the Asian situation we've continued to diversify through the split of our Asian companies into 2 companies, our Northern company and our Southern company so we in fact have 3 companies operating there in Asia now our Northern operations under the Leighton name, our Southern operations under the Leighton name and our Thiess organisation.

If you look at how we've diversified this as an attempt to really show the various things that we've done to offset the downturn sort of along that particular graph you can see where Thiess entered into the coal mining projects back in '97, the move into and supporting tollways things like the Eastern Distributor, the John Holland acquisition, further move into Indonesia into coal, our property, our telco business and through where we are now. It really highlights the strategic steps that we're going to take and later on I'll really talk about our view of the market which we think is going to expand quite significantly through to 2006/2007, but if you believe in the market there will be a downturn, there tends to be a lot of people questioning me now "well what are you going to do in 2006", I think it's one of the few industries where there's 3 or 4 years of sustained growth, and there's no doubt that in the next 1 to 2 years we will be devising strategies to overcome the downturn that could possibly occur. In many ways that predicted downturn in 2006 or 2007 is really past the forecasting period and I suppose if you ask a lot of people including many people in this room "what are they doing in 2006?" and they'd say well I'm worried about what I'm doing tomorrow let alone 2006. So further diversification will be necessary to continue to grow the company but that further diversification is not an issue that's going to happen tomorrow it will be an issue down the track, in the next 2/3 years it's really an array of big projects that we need to take on board and will take on board and to secure the profits out of those particular projects. The Group structure as most people are aware revolves around strongly branded autonomous companies, each of those companies have their own subsidiaries that allow them in their own particular markets to focus on specialised skills, just by way of example obviously, Thiess has PT Thiess Indonesia a very successful company, they have their company Thiess Services that focuses on the service business and the environmental business that company HVE Hunter Valley Earthmoving is a very successful specialised earthmoving mining contractor in the Hunter Valley, Silcar is a joint venture with Siemens to provide services in a whole series of businesses and BOS is a specialised company in Western Australia. So the structure allows great flexibility to focus on various parts of the business, the very strong and I guess very strong market position. We've concentrated on John Holland's since we acquired John Holland to bring it more up to a critical mass, John Holland's has more than doubled its size with the acquisition of Fletcher's, acquisition of Lucon a mechanical contractor and more recently the absorption of Transfield. So we have a great structure in Australia and overseas and we intend to take advantage of the marketplace as the opportunities develop. We see an unprecedented level of opportunities in Australia over the next few years based on construction, property, and resources and mining. So if you look at the various segments of the marketplace this is building and engineering work, you can see that the non-residential construction market is expected to be over \$31bn in the year ahead, this is the highest every recorded. You can see the downturn in the early 90s and the downturn in '01. Roads and rail projects

certainly will be very strong and leading the way in this activity. BIS Shrapnel and other forecasters expect a strong surge in the market which will continue through to 2006. As I said there's questions being put to me, "what happens in 2006"? Well we'll address that in the process of time. The total market growth in building and engineering is expected to grow 10% next year and 8% in 04/05. Some of the timing of the major projects that are around you can see there on the screen now, there's the F3 to Orbital Link, that's basically up at Hornsby coming down to the M2 that's a little bit away yet but that's \$1.5bn project I guess, the M4 East is a tollway that will come forward next year in fact connecting the M4 at Homebush there through to Leichardt and it's a big tollway project probably in the order of \$1bn-\$1.5bn. There's a Gateway Bridge duplication in Queensland which is \$800m-\$1bn, there's the Pakenham Bypass in Victoria some \$250m, there's the Albury Bypass that's being talked about for a long period of time that's maybe \$330m-\$350m, there's the Mitcham to Frankston Freeway which maybe Andrew knows a lot about there in Melbourne that's about \$1.8bn-\$2bn there is only 2 applicants for the job, as most people are aware the applicants are the Leighton Contractors Abi Joint Venture and the Thiess John Holland Joint Venture. So I think there's a fair probability if that job goes ahead we will build it, here in Sydney there is the Lane Cove tunnel, we are down to a shortlist of 2, the Leighton Contractors led bid and the Thiess/Transfield re. now John Holland Thiess John Holland joint venture, we understand the Government are going to a shortlist of 1 within a few weeks time I'd say by mid-September. And again I would have a fair level of confidence that seeing they're both Leighton companies that we would do that job. In Perth there is a whole series of contracts about \$0.5bn on the Perth to Mandurah railway line, then there is those bottom 3 projects that in fact the company is into construction with regional fast trains in Victoria, Parramatta Rail Link and Spencer Street Station. In addition to those particular projects I mean they're just a few that's highlighted there is many, many other large projects coming down the track, such things in roadworks that they're going to continue along with the upgrade of the Pacific Highway there's projects beyond Kuruah, Karuah to Buladelah there's projects up the coast, so the opportunities are quite large, I guess an unprecedented level of opportunities coming forward in the engineering business.

If you look at some of the projects that we have underway this is the Parramatta to Chatswood Rail link in Sydney some \$850m that's progressing exceedingly well, we start with the tunnel boring machines within a few weeks time all travelling very much to program. Other rail works include the regional fast rails in Victoria and then as I mentioned there's about \$0.5bn worth of work in Perth on the Perth to Mandurah Railway line. This is a shot in the western suburbs of what was previously called the Western Sydney Orbital is now being renamed the Westlink a joint venture between Leighton Contractors and Abi, a \$1.5bn tollway running from pennant Hills around the west of Sydney to Liverpool, it's a project that will undoubtedly will change the face of Western Sydney when that is completed together with the Lane Cove Tunnel which we expect to start work on next year completes the ring road around Sydney. These other major projects that I talked about coming forward in the roadworks, things as the Kuruah Bypass, the Bruce Highway upgrade in Queensland and the Tonkin Highway project in Western Australia. The Lane Cove Tunnel we expect one of our companies to be nominated as the preferred bidder by about mid-September going through to financial close before Christmas and then construction starting next year.

The Mitcham to Frankston Freeway that I mentioned bids are about to start on that, bids are scheduled to close before Christmas and I guess construction will be underway next year so that's some \$2bn.

The outlook for the mining market in Australia remains very positive as the largest mining contractor, you can see from the chart there on the board that contract mining has been relatively flat over the last few years, we expect that to grow something like 4% pa over the next few years. Growth will mainly come from the coal industry albeit there will be other opportunities, a lot of opportunities we believe in Xtrata's takeover of MIM and later on I'll comment about mining in Asia, we see good opportunities up there as well. If you look at some of the major mining contracts that we have they're listed there on the board, the Group this year has won more than \$1bn worth of new mining contracts. I certainly expect in the next 6 months that we'll at least win another \$1bn worth of mining contracts. The contracts that have been awarded in the year are Mt Keith Mine in Western Australia, the Yarrie Nimingarra project in Western Australia a nickel project and an iron ore project, the South Walker and Morevale Coal projects in Queensland, the Liddell and Westside coal mines in New South Wales and Yalourn and Hazelwood coal minis in Victoria. You can see there from the chart that we only book work up to 5 years, going out there to June 08 but a number of these contracts extend past there and they're life on mine contracts so that every year we replenish our work by some several hundred million dollars as we roll over the contracts.

In Queensland this is a shot of the South Walker Creek Thiess was awarded this \$173m extension to the coal mining operations to take them through to 2006, Thiess are currently producing some 4 million tonnes of coal a year there, they have a great relationship with the owner which is BHP Mitsui and we expect that to continue on at least past 2006. Thiess are actively working on 8 mines across NSW, Qld, Victoria and produce more than 40 million tonne of coal a year in Australia and combined with their Indonesian operations and other operations in the Group we produce something like 70 to 80 million tonne of coal a year.

This is a shot of some of the work that we're carrying out on the Comalco Alumina Refinery project through John Holland in Queensland. John Holland have secured a good level of work in the resource sector they're working at the Gladstone Refinery, both Thiess and John Holland have a good presence in this particular market. We'd expect capital expenditure to increase in the years ahead in areas like oil and gas, obviously the value of the Australian dollar has some influence on the extent and number of projects, but certainly a few projects that are committed to proceeding is the \$1.5bn LNG Plant the Philips LNG project in Darwin, Thiess have been awarded some of the early projects there for the LNG tank, for the jetty and the site works for that particular project. The \$1.5bn Alcan expansion at Gove is scheduled to be announced in the next few weeks, Leighton Contractors in joint venture with SNC Lavelin of Canada are in a shortlist of 2 Leighton SNC Lavelin as being 1 proponent and Bechtel the other, we would expect a decision to be made by the end of August on that. There is the \$1.2bn Hysemet project in Western Australia where Thiess have some of the civil works.

So both in the resource market, the mining market and the infrastructure areas there's great opportunities in Australia. I think Dieter mentioned the property market, we're

seeing good opportunities in the property market the non-residential market is expected to grow by some 6% to some \$15.5bn in 03/04 and at least \$16.5bn in 04/05 with offices and factories being the strongest sectors to grow. Leighton Properties have around \$1.7bn of project development underway on the eastern states based on a strategy that we established some years ago and we're quite positive about the prospects. If you look in NSW some of the projects that we have underway here Leighton Properties have about \$1.1bn worth of projects underway, the KENS project is the largest just down the road here, we have 100 Pacific Highway in North Sydney where we have a DA it's a project with some 20,000 sqm of office space and we're seeking pre commitments, we have a project in Parramatta 101 George Street, Parramatta for 18,000 sqm, we have a job in Castlereagh Street, 233 Castlereagh Street, it's the old Telstra headquarters where Leighton Properties are in joint venture with Lend Lease for the refurbishment and ultimate sale of that project and in North Ryde we're proceeding with a small commercial office. The KENS project is obviously the largest here, there's a shot of it there it's a twin 33 storey towers some 77,000sqm of office tower, it is the 2nd largest office block I believe in Sydney behind Grosvenor Place in terms of space. The entire development some \$630m development has been pre-leased and pre-sold to Westpac, Westpac are on-selling it to their newly listed Westpac Office Trust, so a great job for us, it's in fact fully leased, fully sold and construction has started. Construction is being done by Leighton Contractors, the building will be progressively finished through to 2006 and then fitted out. In Focus a joint venture established between Leighton Contractors and James Fielding has secured a 12 year facilities management contract for that building with Westpac.

In Victoria they equally have a number of contracts there they're listed on the page at Mulgrave an office park development with 18 lots, 12 have already been sold, Thomas Town an industrial park with 30 lots 29 have been sold, 700 Collins Street 32,000sqm office tower in joint venture with Folkstone it's located in the Docklands precinct just near the extension of Collins Street, all but 1 floor has been leased and Leighton Properties are in the process of selling the building they've also got some smaller developments at Linhurst and at Mornington.

In Queensland we have the Noosa project where Leighton Properties have completed the acquisition of land on Noosa Hill and that residential development is progressing in joint venture with Arry Adning, 7 of the 8 multi-million dollar homes have been sold and pre-sold, there's been a queue of people there 22 of the 23 villas have also been pre-sold and Leighton Properties are now negotiating a manager for the remainder of the resort development. John Holland will build that and completion is scheduled for 2005. Down in Brisbane the Macarthur joint venture in joint venture with Seymour has been completed and sold to investors for \$97m and we're now underway with a 25,000sqm office tower above the retail development and there is 2 very major pre-lease deals to support that project.

The Group has more than \$1.5bn of building work underway in Australia more than double June last year and we're expecting this level of building work to remain high in the years ahead. This shot on the screen here is a shot of the bottling plant the wine bottle making plant, that Leighton Contractors did for Amcor at Gore in South Australia Leighton Contractors have just concluded negotiations to extend that project by some \$110m to

double the capacity of the plant, that's underway and Leighton Contractors are also negotiating with Amcor for some construction of other facilities.

In the operations and maintenance business which we believe is an important and continued diversification for us, in Australia the operations and maintenance market is more than \$20bn a year and growing, this market includes the maintenance of infrastructure, non-residential buildings and industrial facilities, BIS Shrapnel in 2001 estimates that the market is carried out by about \$9bn by contractor or about 45% of the market. Maintenance levels have been somewhat static but are expected to increase in the years ahead and this is a particular area that we have focus on and we believe we can increase our penetration to give us a greater market, we do in fact have a small number of contracts in place that run out for something like 30 years now so if you look at the revenues that we have in the various sectors there telecommunication, engineering, infrastructure, building, mining and environment, you can see how that market has grown very substantially for us from a few years ago \$100m pa to more than \$500m pa, we have reorganised ourselves to focus on that particular business, we have Thiess Services who have good penetration, John Holland who are certainly the largest rail contractor in Australia and Leighton Contractors have re-organised themselves into a subsidiary for this particular work called Leighton Services, Leighton Services was formed together to bring operations maintenance work for example they operate and maintain the Eastern Distributor that I think runs out for something like 40 years, for the KENS facilities management, they also have telecommunication markets there that they're doing operation and maintenance like the Reef Network in Queensland. So we currently have more than \$1bn worth operation and maintenance type work on very long term work as I said some of these projects running out for more than 30 years.

Waste management has been a core market for Thiess, they manage a number of waste management and recycling facilities in Qld and NSW the one on the board there is at Chullora a waste management facility here in Sydney. Thiess have a wide focus in the environmental area from environmental clean up type work where they continue to clean up polluted sites for example they have the trash and waste management like on the screen and they have a number of management areas like managing sewerage facilities and water facilities etc. The environmental market we believe will continue to grow over the years ahead something like GDP rates.

Telecommunications obviously the Nextgen nonetheless there is other telecommunication activities going on, Leighton Services through its Visionstream organisation have a reasonable level of maintenance work including the rehabilitation of Telstra's copper network in NSW and Victoria and operating and maintaining the Reef Network in Qld. We believe that the telecommunication market eventually will recover very strongly so we maintaining our presence in that market and it does provide a level of activity for us.

The defence market we in fact believe that we are probably the largest contractor to the defence industry in a non-military sense. John Holland have a very substantial contract here in NSW in joint venture with Multiplex to manage a whole array of non-military defence issues. The defence business is some \$15bn a year industry and it's a major market for outsourcing as evidenced by activities overseas. For example a group has

just submitted a \$480m bid for Garrison support and maintenance work. We see the Submarine Corporation which we have a long standing interest in, the sale of the Submarine Corporation is obviously tied up in certain masinations in Canberra, we are continuing to pursue our level of interest in that organisation. It is the only area that we in fact have on the radar screen as a potential acquisition.

The John Holland organisation has increased its skills very substantially through the Transfield acquisition in the areas of power transmission it's 1 of 2, there's probably only 2 companies in Australia that specialise in power transmission so they've acquired skills in power transmission, water and mechanical processes and John Holland is by far the largest rail contractor in Australia. So all of the O&M type work is very important to us.

If you look at the distribution of work in Australia, you can see the engineering and infrastructure, mining and resources, building and property with the operation and maintenance increasing we would like to continue to increase the operation and maintenance to provide if you like another leg to our activities in Australia. The total work in hand in Australia has increased by over 30% to \$8bn over last year and we would see that further increasing with these major projects that I think we have an extremely high level of certainty that we'll be awarded those.

If I now turn to Asia we didn't as Dieter mentioned have a good year in Asia the effect of the currency, the strengthening of the Australian dollar against the US dollar obviously did have an impact on our numbers, the work in hand stands at \$1.6bn in Asia in fact that would have been some \$300m higher if in fact the same currency rates were used as last year.

If you look at the various areas resources remain a very strong focus for us in Indonesia, we do have a solid workload in Hong Kong, albeit Hong Kong has some question marks about it, we are pursuing some major opportunities in Malaysia, we have a reasonable level of activity in the Philippines, and other places like Vietnam, Thailand are somewhat spotty at this point in time. Indonesia continues to be our largest market and Thiess have very significant coal mining contracts there we believe that we will be able to negotiate substantial extensions to existing contracts and there is the potential for some other major contracts to be brought forward in Indonesia, so over the next several months we'd expect to be making some fairly substantial announcements about our mining activity in Indonesia. Thiess also have infrastructure projects at places like Batu Hijau and Sumbawa and Soroako in the Sulawesi's. Leighton Asia has completed a number of mines also continuing to work on mines in Indonesia and we believe that the oil and gas market also over the period ahead will provide good opportunities for ourselves.

In Hong Kong, Hong Kong remains an important market albeit the difficulties with the economy there, this on the screen is the Central Reclamation area it's a job that extends from Exhibition Centre you see in the background there through to the Star Ferry, it's the largest contract ever awarded to us some in Hong Kong some \$700m. There's a whole array of projects in Hong Kong that we are following but certain sectors of the market particularly the housing market is much weaker.

Malaysia over the last couple of years we've been very successful in Malaysia, this is a shot of a commercial complex in Central KL, we're doing telecommunications work for Maxis in Malaysia and I'm extremely optimistic that within the next several days we'll be able to announce the award of a major road project in Malaysia some \$450-500m. So even though our activity level has deteriorated somewhat in Malaysia we would expect in the next week with the award of this major road project that the work levels will in fact return to quite a high level.

In the Philippines we have the North Luzon Expressway that will continue on and that underpins our operation in the Philippines, we're concluding the \$100m manufacturing facility for Philip Morris. So the Philippines I suppose a bit like Thailand, the opportunities are a bit spotty but nonetheless we continue to focus on opportunities that suit ourselves. If you look at the work levels, the work levels have reduced from \$2.2bn to \$1.6bn \$300m deterioration due to the exchange rate so on a comparative basis I guess it's more likely \$1.9bn to \$2.2bn and as I said there's this Malaysian project coming down the track and we would expect with some degree of certainty to announce at least a billion dollars worth of new mining work in Indonesia in the next several months.

So if I can bring all that to conclusion we certainly have come through the year there was a few thunderclouds around at the beginning of the year that people were obviously asking questions about Nextgen and AMC and the like, we've put those issues behind us, I think it's our view that there's nothing out there that's going to potentially damage us in the period ahead so our operating performance should be strong. The work levels should remain over \$10bn there's this whole array of major projects in Australia that we're well positioned to take advantage of in a time in Australia when a lot of the competition is either weakened or lost interest or reorganising or whatever so big upswing in the market if you took our profit as being \$140m plus the \$40m for Nextgen the underlying profit for the year was \$180m and we believe that we'll be able to exceed that next year, with a good opportunity to continue to growth through the next 2 or 3 years through to 2006/2007. Thank you is there any questions?

Question:

Excellent growth in the core business of mining, contracting and civil engineering, what about balance sheet resources, major shareholder commitments and also management resources to handle all this growth?

Speaker: Wal King

Well I used to comment Andrew that we didn't have the money we used to be able to borrow it but we're not in that position now. I think there's been some degree of talk in the press about Leighton considering a hybrid facility and that is true there's no final decision and the issue is not the dissection of the balance sheet it's really the size of the balance sheet. We can currently support some \$1.6bn or there around bonds and guarantees, we believe we will need more than that, so over the next few months you will see something done with the balance sheet really to increase the quantum of the balance sheet, on our current projections I mean there is these very major projects that we're extremely confident of winning. In terms of management I mean Dieter and I are still here what else do you want to know Andrew. The issue of management is foremost on our minds, what we really have to do with these major projects coming down the track

is to be extremely cautious about the risks that we take on, risk management is a great part of our business, I mentioned early on the AMC I mean there was a lot of concern about AMC when we took that on but we went into that very cautiously with our eyes wide open and I believe that we do have in place the right procedures to cap our risks, we're not in the unlimited risk taking business we are in the risk taking business but we really need to cap our risk. So the management issues we think we've got them pretty much covered but on the other hand we wouldn't want to be too cocky about it I mean every project is a new project that we've got to deal with. In terms of major shareholder support well it's obviously well publicised in the press that our major shareholder is Hochtief their major shareholder is RWE, RWE have stated intention of selling their shareholding in Hochtief, the end result of that is you can speculate any which way. We don't wake up every morning worrying about that I mean what we've got to do is just get on with our job and produce profits.

Question:

(Can't hear question) AMC further opportunities

Speaker: Wal King

Well certainly in the Australian business there is an array of more complicated, big engineering projects coming to the table, now you've got to say strategically do we address those issues and participate in that market and if Leighton are continuing to grow we've got to push the boundaries I mean we just can't get too much bigger in certain markets so we need to push the boundaries and I think by outlining the markets that we really are interested in operations and maintenance we believe we can continue to grow that market, we're interested in supporting the defence industry in its wider sense and the acquisition of the Submarine Corporation would be a key element there but if we don't succeed with that we'll do something else, it's not a make or break for us if we can't acquire the Submarine Corporation we're not going to pack up and forget that, I think that defence will be a continued business for many years to come and the military are showing signs in Australia and particularly the United States that they're supported more and more by civil contractors Halle Burton and people like Bechtel have got enormous resources in places like Iraq I think the style of wars that we all well know you don't just sit one side of the hill and shoot at each other over the other side of the hill. So we see defence as being an issue, we see the 3rd issue as being three big engineering procurement type projects. Now from where I sit virtually every lump sum EPCM contractor in the world has gone broke, do we think we're better well probably not, so you really have to approach it with that in mind as we all know a number of these projects have gone widely wrong and you think of that plant in WA the hot briquette plant started a billion ended up at 4 and doesn't work Murran Murran I mean there are just an enormous number of these projects so the issue has to be completely central to our mind is that we need to be cautious about the risks that we take on but we will be responding I think the next major project if we go down that particular track will be this Gove project which is \$1.4bn in joint venture with SNC Lavelin, I don't know whether we're going to win it or not but we've gone down to 1 of 2 with Bechtel and we'll see what happens, the central issue is how we mitigate our risk is that we just don't be crazy about these particular projects, we've got to be cautious about the risk we take on.

No other questions?

OK I thank you all very much for coming.

End of Transcript

This document has been transcribed from the 2003 Preliminary Final Report Webcast. Whilst all care has been taken, the content should not be relied upon for any investor decisions. Refer to the June Quarterly Update & Preliminary Final Report to 30 June 2003, to receive a true and accurate statement of the Preliminary Final Results.