



Leighton Holdings Limited

FUTURE GROWTH

A presentation to the 41st Annual General Meeting of Leighton Holdings Limited by the Chief Executive Officer, Mr Wal King AM

7 November 2002

As the Chairman has outlined in his address, we are proud to have delivered another strong performance for shareholders. We have significantly boosted our work in hand, with some major projects such as the Western Sydney Orbital tollroad still to come. The momentum generated by this level of work should underpin growth for the next few years in the core areas of our business.

Today I will talk about our business strategy and about some specific areas of future growth.

Business Strategy

The Group's business strategy is built on three critical elements: diversity, financial strength and people. It is these three elements, working in unison, that are key to our success.

Diversity, by geography, by the markets in which we operate, by the companies through which we operate, and the way in which services are delivered to clients, increases our market presence and our ability to grow.

Over the years, we have progressively shifted away from being a construction-only entity operating in one market to being a multi-faceted contractor in Australia and across the Asian region. And we encourage our people to seek diversified opportunities where we can apply our contracting and development skills.

The Group's financial strength is an equally fundamental part of our strategy, allowing us to facilitate and invest in development projects and to make opportunistic acquisitions. It also attracts the best business partners. We need to be able to support \$1 billion worth of bonds and guarantees and we have significant working capital requirements. We also have a large investment in plant and equipment. To be a successful contractor, having a strong balance sheet is not an option, it's a necessity.

Our people, numbering over 15,000 across our diverse operations, are critical to our success. We are a serviced based organisation and we succeed or fail because of the quality of that service. It is our people who manage relationships with clients, drive

equipment, pour concrete, collect tolls and liaise with the community. We foster a performance driven culture throughout the Group and reward performance against stated objectives through various incentive schemes.

Our decentralised management structure allows a high level of autonomy. It is a flexible structure that can adapt to changing market conditions and each of our companies has its own distinct identity and market position. We announced yesterday that John Holland has entered into a non-binding Memorandum of Understanding with Walter Bau AG to acquire the Australian operations of Walter Construction Group. The potential acquisition is part of John Holland's strategy to grow the business to a larger, more efficient national structure. If the deal is done, John Holland will gain \$850 million of new work and specialist skills such as tunnelling, underground mining and the construction of water infrastructure. The Group's structure will stay the same with Walter merged into John Holland's operations.

Before I talk about some specific opportunities, I will give a brief overview of the market outlook in Australia. The non-residential construction market is heading for a significant upswing. BIS-Shrapnel is forecasting a strong upturn in both the non-residential building and engineering markets. Both sectors are expected to experience sustained growth from now until at least 2006, with the engineering market heading for an historic high.

Resources Infrastructure

Australia is expected to experience an upturn in resources due to its vast reserves, competitive exchange rate, reformed taxation system and labour market, and its cheap energy supply.

This positive environment is leading to a surge in capital spending. Billions of dollars worth of new minerals and energy projects are being developed or are under consideration. A number include substantial value adding to refine and process resources.

The North West Shelf liquefied natural gas project is a great example of adding value to our natural resources. The recent signing of a \$25 billion contract to supply China, makes the North West Shelf one of the largest gas suppliers in the world. A fourth 'train', or processing plant, is currently being built at a cost of \$1.6 billion. Both Thiess and John Holland are currently undertaking civil works on site.

Oil & gas developments offshore may provide some opportunities for concrete gravity structures to service production facilities. Group companies have a track record in this area. Leighton Contractors developed the Wandoo concrete gravity structure off Dampier in Western Australia. Further afield, John Holland developed one in the Philippines at Malampaya.

The development of Australia's oil and gas reserves, and production of cheap energy, should lead to the development of other related industries such as fertilizer production and alumina smelting.

In August 2002, Leighton Contractors finalised an engineering, procurement and construction (EPC) contract with Australian Magnesium Corporation (AMC) to develop their \$1 billion Stanwell magnesium project, near Rockhampton in Queensland. This is the first time an Australian company has taken on the role of EPC contractor for such a large scale project.

This will see AMC become the world's largest producer of magnesium metal. Magnesium has the potential to significantly reduce the weight of motor vehicles, thereby improving fuel economy. AMC has already signed a ten-year supply agreement with the Ford Motor Company in the US.

Also, Leighton Contractors in joint venture with Fluor, has recently been appointed as interim EPC contractor for the \$3.4 billion greenfield aluminium smelter at the Aldoga Industrial Estate at Gladstone.

Road Infrastructure

I'd now like to talk about some transport infrastructure projects.

Contractors have become integral to the development of the complex road infrastructure that we take for granted in our cities. We are now involved in the roles traditionally provided by government including design, financing, community consultation, and operation and maintenance.

The Leighton Group has developed a leading position as a provider of road infrastructure. Leighton Contractors developed the M5 motorway in the early 90s and more recently the Eastern Distributor, both in Sydney. In these projects the Group's financial strength was a key component of successfully developing large scale, private sector projects and we expect that it will become more important in the future.

In Queensland, Leighton Contractors recently delivered Brisbane's Inner City Bypass eight months early and on budget, taking over 40% of traffic out of the CBD.

A number of major road projects are now either in active planning or under consideration around the country.

Leighton Contractors is a member of the recently announced preferred consortium for the first of these major new projects, the \$1.5 billion Western Sydney Orbital (WSO). The WSO is a critical component of Western Sydney's transport infrastructure linking with the M5 at Prestons, the M4 near Minchinbury and the M2 at West Baulkham Hills. Nearly 40 kilometres in length, it will have a fully automated tolling system resulting in significantly improved traffic flows. The Western Sydney Orbital brings \$750 million worth of work in hand over the next 4 years and involves a 10% equity stake.

Some \$6 billion of road projects are likely to proceed over the next few years. The final link in the orbital road network around Sydney is the \$850 million Lane Cove Tunnel which is currently being bid and is expected to be awarded in the first half of

next year. Both Leighton Contractors and Thiess are in consortiums bidding for this project.

In Sydney, two other major road projects are currently being evaluated by government. These projects are the F3 connector to the Sydney Orbital, providing freeway access from Sydney to Newcastle, and the M4 City Link, which will complete the link from Western Sydney to the city. These projects will both be in excess of \$1 billion.

In Melbourne, projects being progressed include the \$1.8 billion Mitcham-Frankston (Scoresby) Motorway, and the Pakenham and Craigeburn bypasses.

Rail Infrastructure

After decades of inertia we are seeing a sustained resurgence in spending on rail infrastructure. The development of new intercity and interstate lines, the privatisation of parts of Australia's interstate track network, and the upgrading of the existing network is fuelling a mini-boom in the rail infrastructure sector. Expenditure on rail construction is expected to increase by more than 200 percent over the next five years.

After 100 years on the drawing board, construction of the 1,420 kilometre Alice Springs to Darwin rail line is underway and John Holland has a lead role in this project. Track laying started in April and is now proceeding at a rate of over 4 kilometres a day with some 500 kilometres of track laid.

In Sydney, a consortium led by Thiess is designing and constructing the first leg of the \$1.6 billion Parramatta Rail Link, a 28 kilometre extension to the Sydney metropolitan rail network. The project involves the tunnelling, excavation of station caverns, laying of track, signalling and communications systems between Chatswood and Epping.

The Victorian Government is currently investing \$550 million to provide fast rail links for commuters between Melbourne and four regional centres. Both Thiess and John Holland were awarded work on these routes, which will terminate at the redeveloped Southern Cross Station in Spencer Street, currently being upgraded by Leighton Contractors.

A number of other new rail initiatives are in planning around the country including construction of the Perth to Mandurah rail line in Western Australia, the development of the Gold Coast light rail project, the Epping to Castle Hill link in Sydney, the second stage of the Parramatta Rail Link, and upgrading of the Sydney to Newcastle line.

While rail construction is experiencing a strong upturn, maintenance and refurbishment of the existing network is also providing good opportunities. John Holland is now the largest rail maintenance contractor in Australia and currently maintains over 5,600 kilometres of track in Western Australia, and 800 kilometres of track in South Australia and the Northern Territory.

Privatisation of Melbourne's train and tram network has provided long-term maintenance work for Thiess Infracore. Also, the Australian Rail Track Corporation has recently earmarked \$500 million for upgrading of rail infrastructure over the next five years and the Group is keen to undertake some of this work.

Building and Property

The Australian non-residential building and property market appears set to experience a period of growth, with a combination of low interest rates and a strong domestic economy expected to stimulate activity. The recovery is centred on CBD office developments along the eastern seaboard, redevelopment of shopping centres and some major hotels, as well as continued spending in health, education and defence.

The Group has a strong presence in the building and property sector, recently boosted by Leighton Contractors' acquisition of Broad Construction and John Holland's acquisition of Fletcher Construction. The potential acquisition of Walter Construction Group would also add to John Holland's building capability.

Leighton Properties is currently developing some selected office projects including the MacArthur Chambers development in Brisbane and 700 Collins Street in Melbourne. Both have leasing pre-commitments.

Other office prospects being progressed by Leighton Properties include the KENS site in Sydney's CBD and the 100 Pacific Highway site in North Sydney. Development Applications have been lodged for both of these projects.

Also, we have developed a strategic partnership with the James Fielding Group and we are exploring joint development opportunities. We have sold one of our completed property developments, the Mulgrave e-park, into their retail investment vehicle.

The retail and hotel sectors are providing some good opportunities. Leighton Contractors has recently commenced work on the \$167 million refurbishment of the Hilton Hotel in Sydney's CBD and John Holland has two shopping centre projects in New South Wales.

Around \$6 billion worth of private and public projects are planned for the health and education sectors. Most of this activity is set to occur in New South Wales and Queensland, with some major projects such as a \$400 million redevelopment of Sydney's Royal North Shore Hospital. Expenditure on defence facilities is expected to continue. Leighton Contractors and Thiess are working at three defence bases in Townsville and John Holland has a long-term maintenance contract for defence facilities in New South Wales.

Asia

Turning now to our Asian markets, the outlook remains positive with most markets forecast to recover over the next few years. We have recently restructured Leighton Asia to position it to profit from this recovery.

Over the past 5 years, Leighton Asia, led by John Faulkner, has doubled in size and gained a far broader footprint across the region. We have separated the current operations of Leighton Asia into two companies.

Leighton Asia (Northern), under the leadership of Will Hamilton, will be responsible for operations in Hong Kong, the Philippines, Thailand, Vietnam, Taiwan and China. Leighton Asia (Southern), under David Savage, will be responsible for operations in Malaysia, Indonesia, Singapore, Sri Lanka and India. I congratulate both Will and David on their appointments.

The key objective of this restructure is to provide greater management strength to enable the business to continue growing.

Indonesia remains the largest contributor from Asia with work in hand in excess of \$1 billion. Of course, the recent tragedy in Bali has created some concern about our operations. Indonesia is a complex country with its own social and political issues. There has been no disruption to our projects and, whilst we continue to closely monitor the situation, we remain committed to Indonesia.

Thiess' contract mining activities in Kalimantan continue to perform well. Leighton Asia has also developed a solid presence in Indonesia with contract mining operations in Kalimantan and a rail project in West Java. We will continue to review a number of resources opportunities in Indonesia.

In Hong Kong, Leighton Asia's workload has improved with the award of some major new projects such as the refuelling facility at the airport in addition to four current rail contracts. The Hong Kong government's investment in the development of rail and other civil engineering infrastructure should continue to generate work in the future.

Leighton Asia's operations in Malaysia have performed strongly over the last couple of years on the back of some large projects. Whilst new work has been secured, activity levels in Malaysia have now come off recent highs. Opportunities are being pursued in power generation, telecommunications and general construction.

Elsewhere in the region, Leighton Asia has some good prospects. Construction of the Philip Morris manufacturing facility has progressed well, boosting activity levels in the Philippines and some preparatory works have been carried out on the North Luzon Expressway in Manilla.

In Vietnam, an improved investment climate is providing opportunities such as a new power station near Ho Chi Minh City for Siemens. Leighton Asia is now working in Taiwan and is hopeful of securing further work on the High Speed Rail Link currently under construction.

We have a strong position across much of Asia and the region remains a fundamental element of our diversity strategy.

Conclusion

The Group has successfully navigated the downturn in Australian construction markets. Work in hand is at an all time record level of \$9.3 billion with a diverse range of major projects in hand, and an upswing in activity ahead.

However, the continued growth of the Group is not without its challenges. Our focus will remain firmly on the profitable execution of current projects and on managing our exposure to Nextgen Networks given the flat telecommunications outlook. We must also successfully manage our human resources and continue to win replacement work.

The next few years should be a period of strong growth and we are confident that we have the management, the financial strength and the market opportunities to successfully deliver for shareholders.