

# People, Projects, Performance

*A presentation to the 42nd Annual General Meeting of Leighton Holdings Limited by the Chief Executive Officer, Mr Wal King AM*

## Introduction

The Group has navigated a challenging year to post a solid profit result despite the impact of the Nextgen write-off. However our underlying profitability is very strong and we have a record level of work in hand, which should support growth over the next few years.

Today I would like to talk about the themes of people and projects and how they drive our performance.

## People

In this year's Annual Report we feature our people - primarily to give our shareholders and stakeholders a glimpse of what goes on behind the scenes within the Group. It was a chance for us to highlight our people's skills and expertise on some major projects. We also wanted to showcase the diverse talent that overcomes complex challenges on a daily basis.

We acknowledge that people power Leighton and we are very proud of the skilled, experienced, committed individuals who make up the Leighton Group. Our people - all 15,000 of them across Australia and Asia – are the foundation of our reputation, financial strength and continued growth. I would especially like to welcome the 800 Transfield employees who joined the John Holland Group this year. We are also proud of the more than 18,000 sub-contractors who work with us on a daily basis to deliver projects.

I am often asked how we manage our people and how we get the best performance from them. My belief is that people rise to the occasion and respond when given opportunities and responsibility. From Leighton Holdings' perspective, we set what I call the 'rules of racing' which lay the ground rules on such things as ethics, authority limits, geographic boundaries and risk management procedures.

We then encourage and empower our people to reach their full potential by making them accountable for the business or project they are managing and by rewarding their performance. Our people respond to the challenge and grasp the opportunities given to them.

We are committed to creating a safe, challenging and fun workplace. We strive to create a safety conscious culture, one in which each employee returns home in the same health and condition as when they arrived at work.

Retaining our existing employees and recruiting the next generation of people is a high priority for us. While we have a number of long-term employees who have been with Group for many years, we continue to invest in the training and development of our people to further their skills. Our people are loyal, hard working and honest and it is these characteristics which helps set our Group apart and drive our success.

## **Projects**

The Group's activities are all structured around projects. We undertake a range of projects across our diverse business. Diverse by markets or products, by brands, by delivery systems and by geography. Over time these projects are becoming larger and more complex.

When I joined the Group, a big project was worth \$10 million. Now Group companies bid for projects upwards of \$1 billion and we are responding to this challenge, and profiting from it. We apply our peoples' engineering and project management skills, our entrepreneurial approach to business and our financial strength to these projects.

### *Australia*

In Australia, we are experiencing a construction upswing, the likes of which I have not seen in my time in the industry. That upswing is expected to run until at least 2006.

Transport infrastructure will be a key driver of this growth as a number of major projects awarded over the last 12 months begin to ramp up. Leighton Contractors is making good progress on the WestLink M7, formerly known as the Western Sydney Orbital, which is a 40km fully automated tollroad that will link the M2, the M4 and the M5.

Following on from that project is Sydney's Lane Cove Tunnel, which will fill the last gap in Sydney's orbital road network. A consortium including Thiess and John Holland has recently been announced as the preferred proponent to develop that \$1 billion project. The project will feature a 3.4km tunnel linking the Gore Hill Freeway with the M2 Motorway.

Projects like these will include people with skills ranging from traditional construction to environmental management, community relations, merchant banking, traffic forecasting, and project management. They may also feature newly acquired skills such as Transfield's tunnelling capability. As we take on more of these large-scale projects our skills set broadens, becoming more and more a source of competitive advantage and differentiation.

Following the Lane Cove Tunnel, we expect that the New South Wales government will proceed with a \$1 billion road connection between the M4 at Concord and the City West Link. The project will complete the link from Western Sydney to the city. The government is also evaluating options to connect the M2 Motorway with the F3 Freeway to Newcastle at Hornsby and we expect this project to be worth in excess of \$1 billion.

In Melbourne, two consortia including Group companies have expressed an interesting interest in developing the \$1.8 billion Mitcham-Frankston Freeway. Bids are due on this project by the end of March next year and we would expect work to commence early in 2005.

In Brisbane, the State government is evaluating the \$1 billion Gateway Bridge duplication and a \$900 million tunnel under the city. Group companies will be following these projects closely.

Rail infrastructure is also experiencing a resurgence and Group companies are participating in almost all of the major rail projects being undertaken in Australia at the moment. John Holland has recently completed work on the 1,420 kilometre Alice Springs – Darwin rail line, doing a great job finishing 5 months ahead of schedule.

Thiess is working on the Parramatta Rail Link, the largest government funded infrastructure project ever to be awarded in NSW and is undertaking two legs of the Regional Fast Rail upgrade in Victoria. John Holland is progressing work on the other two legs.

In Western Australia, Leighton Contractors is the preferred bidder on two packages of the Perth to Mandurah rail line, worth over \$300 million in total. They will undertake bridge strengthening and all of the city tunnelling elements of the project. Another package is still out to tender and Group companies are well placed to win at least some of this work.

Turning now to resources. The Group is the largest contract miner in Australia and probably the largest contract miner in the world with a strong position in coal through Thiess. The outlook for contract mining remains positive with growth forecast for the next few years, particularly in the black coal industry.

Further outsourcing and the continued demand for coal to fuel power stations in Asia is expected to underpin opportunities in this market. Other minerals such as gold, iron ore and nickel are likely to offer select opportunities for new contract mining work.

Our strength and capability in the contract-mining market is demonstrated at mines like Mt Owen in the Hunter Valley. Thiess and BHP embarked on a unique partnering arrangement at Mt Owen in 1995 that extended beyond the traditional contractor role. Under the agreement, Thiess designed and constructed the mine and infrastructure, including the coal washing and processing plant. They purchased mobile plant and equipment, and operate the mine through its programmed life of 15 years. Today Mt Owen is a first class facility recognised as one of the most productive mines in the world.

Capital expenditure in the resources sector has been increasing significantly, driven largely by the development of minerals processing and oil and gas projects. There remains potential for further growth in resources investment with a number of advanced projects in the pipeline and some others in detailed planning stages.

The outlook for the non-residential building and property market is for an investment led upswing forecast through to 2007. A number of select industrial and commercial developments continue to be pursued along the east coast, while the Sydney commercial market continues to provide opportunities.

Leighton Properties is set to capitalise on this property upswing with around \$1.4 billion of property developments currently underway and another \$300-\$400 million worth in the pipeline. The KENS development, a \$600 million office tower in Sydney, initiated by Leighton Properties, is testament to the entrepreneurial spirit of our staff. This project will be Sydney's second largest office tower in terms of space when complete in 2006. Leighton Properties secured a major tenant in Westpac, who pre-leased the entire building and then pre-committed to purchase the completed development. Leighton Contractors has now commenced construction on what will be an iconic project for the Group. Well done to all involved.

A range of health, education and correctional facility prospects arising from state government Public-Private Partnership (PPP) initiatives offer some good building opportunities. Real increases in investment by the Federal Government on defence facilities should also offer some good prospects.

In Victoria, Leighton Contractors is progressing a major PPP initiative, the \$300 million transformation of the old Spencer Street Station. This project features a unique roof that will cover an area more than twice the playing area of the Melbourne Cricket Ground. It will be constructed while the station continues to service 50,000 passengers per day. Just another one of the challenges that our people tackle on a daily basis.

The Group is actively pursuing the operations and maintenance (O&M) services market, which is estimated to be worth around \$20 billion per year in Australia. Maintenance activity is forecast to experience growth with defence, heavy and light manufacturing, roads, mining and non-residential building expected to provide opportunities. We have recently launched Leighton Services to specifically focus on this O&M market in a similar way to Thiess Services and John Holland Services.

Group companies offer a broad range of O&M services on projects including:

- Operation and maintenance of Sydney's Eastern Distributor Motorway covering the tolling, communications network and break down service,
- Maintenance of the back-up power supply systems for over 35,000 Telstra sites throughout Australia.
- Maintenance of some 5,600km of standard and narrow gauge rail track for WestNet in Western Australia.
- Waste collection and the operation of transfer stations and landfills up and down the east coast, and
- Maintenance of utilities such as water, electricity and gas.

### *Asia*

The outlook for the Asian region has been boosted by a number of recent major project wins, which takes work in hand to around \$4 billion. The Group has three beachheads in Asia, through Thiess, Leighton Asia (Northern) and Leighton Asia (Southern), following the split of Leighton Asia last year. This restructure is working well and we are seeing new opportunities emerging from both companies as they look to further develop their own more geographically focused businesses.

Thiess has a very strong presence in the resources sector in Indonesia. Its position was further strengthened recently when it was awarded some \$1.7 billion worth of extensions to contract mining work at the Satui, Senakin and Sangatta coal mines. These extensions are life-of-mine, underwriting a long-term future for Thiess who will soon be expanding production to more than 24 million tonnes of coal per year at these three mines.

Leighton Asia (Southern) has a somewhat smaller presence in Indonesia. Both they and Thiess are pursuing selected oil and gas, resources related and civil engineering projects.

In Malaysia, Leighton Asia (Southern) has recently secured a share of the construction of a \$560 million 26km highway between Kuala Lumpur and the new administrative capital Putrajaya. This project provides a solid base load of work for the next two to three years. The company is pursuing a number of power station, transport infrastructure and dam projects as well as some building opportunities in that country.

Leighton Asia (Northern) has a good level of work in Hong Kong at present including a number of infrastructure projects. A recent award was a \$350 million joint venture for the 2-kilometre Eagle's Nest road tunnel to the New Territories. The government has committed to investing in the development of transport related infrastructure and this should continue to drive construction activity, particularly in the rail sector.

We have an interesting range of projects across other markets in Asia. The North Luzon Expressway, where Leighton Asia (Southern) is upgrading one of the busiest roadways in the world, will underpin activity levels for the next few years in the Philippines. Demand for power generation infrastructure and other industrial facilities may provide some opportunities in Vietnam. Taiwan continues to offer opportunities for further work on the high-speed rail line while Thailand offers some select prospects. The Group is evaluating rail, pipeline and building opportunities in Singapore, Sri Lanka and India, and other regional coal mining opportunities.

## **Performance**

Ultimately the Group's results are driven by the performance of a whole lot of individuals working on a diverse range of projects, some of which I have mentioned today. In order to keep growing and producing the sort of returns that we have been able to provide over recent years, we must continue to execute these projects well. The Group remains focused on understanding its risks, bidding its projects accordingly, selecting the right people and closely monitoring ongoing performance through project reviews.

The Group now has a record level of work in hand of \$11.5 billion as of the end of October and the prospect of maintaining work at this level given the number of construction opportunities still emerging. There is further upside in the engineering, building and resources markets across Australia, with some very large projects being pursued.

Our position in Asia has strengthened in recent months and we now have a record level of work in hand for that region. Asia remains a fundamental element of our diversity strategy.

These work levels will deliver revenue growth for the next few years, which should provide improving returns for shareholders in the future. The Group's financial strength remains a source of competitive advantage. The issue of \$200 million worth of Leighton Notes will further boost our balance sheet, which will continue to be used to support and grow the business.

In closing, I would like to thank all of our people for the performance over the last year on your respective projects. Your efforts are recognised and they have helped provide the Group with a very strong foundation for the future.