



2002

Leighton Holdings Limited Concise Annual Report

Corporate Report

Who are we?

Leighton Holdings Limited is the parent company of Australia's largest project development and contracting group. Founded in Victoria in 1949, the organisation has grown from a small, privately owned civil engineering firm into a dynamic group that includes Thiess, Leighton Contractors, Leighton Asia, John Holland and Leighton Properties. With over 15,200 employees, the Group's operations are spread all around the Asia-Pacific region on projects in Australia, Hong Kong, Indonesia, Malaysia, the Philippines, Thailand, Vietnam, China and New Zealand. Leighton Holdings is listed on the Australian Stock Exchange and has its head office in Sydney.

What do we do?

Leighton Group companies offer a broad range of project development and contracting services and skills to public and private sector clients from a wide range of industries. Project development skills – community infrastructure, property or resources-based – and project management of construction and property developments complement the Group's contracting activities. These activities include engineering and building construction, contract mining, environmental services, operation and maintenance of infrastructure and facilities and telecommunications services. Key resources include an experienced, long-serving management team, a strong balance sheet and the largest fleet of mobile plant and equipment in Australia.

Leighton Holdings Limited ACN 004 482 982 ABN 57 004 482 982 ***Notice of Annual General Meeting 2002***

To: The Shareholders

Notice is hereby given that the Annual General Meeting of the members of Leighton Holdings Limited will be held at the Four Seasons Hotel Sydney at 199 George Street Sydney, on Thursday 7 November 2002, at 10.00am. A separate Notice of Meeting and Proxy Form is enclosed.

During the course of the meeting, a short presentation on the Group's operations will be given by Wal King AM, Chief Executive Officer. All present are invited to join the Directors for light refreshments after the meeting.

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Highlights

OUR STRATEGY OF DIVERSIFICATION BY PRODUCTS, GEOGRAPHY AND DELIVERY SYSTEMS CONTINUES TO YIELD SUCCESS

- Operating profit before tax up 15% to \$227 million
- Operating profit after tax up 8% to \$169 million
- Excellent return on average shareholders funds of 22%
- Dividend up by 8% to 42 cents per share
- Balance sheet remains sound with \$524 million of net cash
- Total shareholder return of 789% over last 10 years
- Work in hand at record \$8.4 billion
- Over \$1 billion of new work won since year end
- Record work in hand to deliver increased revenue
- Underlying performance of operations remains strong

Year in Review

	2002	2001	% Change
	\$'000	\$'000	
Operating Revenue			
– Group	4,979,581	4,272,729	+17
– Joint Venture Entities	240,612	83,017	+190
Total Operating Revenue	5,220,193	4,355,746	+20
New Contracts, Extensions & Variations	5,552,432	5,961,619	-7
Value of Work in Hand	8,371,040	7,825,231	+7
Profit from Ordinary Activities			
Before Tax*	227,285	196,789	+15
Income Tax	(59,450)	(42,312)	+41
Profit from Ordinary Activities After Tax*	169,222	156,156	+8
Dividends	113,575	103,502	+10
Total Equity and Reserves*	789,259	740,170	+7
Total Assets	2,317,774	2,050,160	+13
Cash Net of Borrowings	524,017	400,017	+31
Undrawn Facilities and Guarantees	435,281	432,524	+1
Earnings per Ordinary Share	63.1¢	59.2¢	+7
Dividends per Ordinary Share	42.0¢	39.0¢	+8

*excludes outside equity interests

	98	99	00	01	02
Total Operating Revenue \$million	3,035	3,328	3,577	4,356	5,220
Work in Hand \$million	4,767	4,115	6,206	7,825	8,371
Operating Profit Before Tax* \$million	145.9	171.5	177.5	196.8	227.3
Operating Profit After Tax* \$million	102.9	121.8	134.1	156.2	169.2
Total Assets \$million	1,507	1,576	1,729	2,050	2,318

From the Chairman

“THE BOARD CONTINUALLY MONITORS THE BUSINESS ENVIRONMENT FOR BEST PRACTICE IN CORPORATE GOVERNANCE.”

John Morschel *Chairman*

Overview

The Company delivered shareholders a strong result despite tight market conditions, with improvements in profitability, earnings per share and return on shareholder funds. Dividends have increased 8 percent to 42.0 cents per share and we expect to maintain a high payout ratio.

Leighton has strived to provide superior shareholder returns. Our Total Shareholder Return (TSR, i.e. dividends plus share price movement) over the last 10 years has exceeded returns provided by the All Ordinaries Accumulation Index by more than 3 times. A graph illustrating these returns is included on page 14.

The Group’s operations have weathered a downturn in the level of available work extremely well and we now have a strong ongoing base of work from which to grow. The Leighton result is testimony to the disciplined process that our operating companies exercise in bidding across a diverse range of contracting and development work, and subsequently in the execution of projects.

Governance and the Board

Shareholders’ corporate governance expectations are continuing to rise. The Board continually monitors the business environment for best practice in corporate governance and has consistently implemented new initiatives as appropriate. It is noteworthy that we were one of the first Australian companies to establish both audit and ethics committees in 1990 and 1998 respectively.

This year the audit committee’s composition has been changed to comprise a majority of non-executive directors, and we are fortunate in having a non-executive director as chairman of the committee who brings professional accounting skills to the role.

The Board’s committees were all active during the year in ensuring that corporate governance and risk management practices are consistently reviewed and updated. The Group’s corporate governance policy is set on pages 74 to 78.

Ten scheduled Board meetings were held during the year and directors attended site visits in Hong Kong, Indonesia, Malaysia and around Australia. In line with reporting and continuous disclosure requirements, the company made 51 announcements to the Australian Stock Exchange.

The Board continues to work diligently monitoring occupational health and safety matters, which it views as a very high priority for a contracting organisation. The Group's major asset remains its people and we believe strongly that our employees should expect to be able to return home to their families each day in the same condition in which they set out for work.

Outlook

The Group is in an excellent position going forward with a record workload and a strong balance sheet. The outlook for the Group remains very strong although we need to remain a little cautious about the general business environment until we see positive signs of recovery in the US.

I am enjoying my first year as chairman and am very pleased to be working in the construction industry again. It is a pleasure to work with an active and responsible Board that is focussed on assessing and safeguarding the interests of the Group's stakeholders, namely shareholders, clients and employees.

I extend my thanks to my Board colleagues for their assistance and guidance and to management and staff for their outstanding contribution in a year in which we produced an excellent result for shareholders.

Chief Executive's Report

“WE BELIEVE THAT THE NEXT TWO TO THREE YEARS SHOULD BE A PERIOD OF INCREASED GROWTH AND PROFITABILITY.”

Wal King AM *Chief Executive*

Overview

Leighton Holdings has reported an excellent performance this year with another record profit and a significant boost to work levels. The momentum provided by our work in hand should underpin growth for the next few years.

Our strategy of diversification by products, geography and delivery systems continues to yield success. Diversity has moderated the effects of the recent construction downturn in Australia, which has now bottomed, and we expect to see significant growth in our traditional Australian markets over the next few years.

Review of operations

Engineering and infrastructure markets were boosted towards year-end by the announcement of major government initiated infrastructure projects, which undoubtedly has been a highlight for the Group. Large-scale projects such as the Parramatta Rail Link in Sydney and the Regional Fast Rail project in Victoria helped push work in hand to a record \$8.4 billion at 30 June.

A further billion dollars has subsequently been added to this figure, following the finalisation of Leighton Contractors' contracts for the Australian Magnesium Corporation's Stanwell magnesium plant in central Queensland and the Spencer Street Station redevelopment in Melbourne.

Our Asian operations performed well and we have continued to increase our penetration into the region. Thies's performance in the Indonesian mining sector was strong. We have recently restructured Leighton Asia into two businesses, with the formation of Leighton Asia (Northern) and Leighton Asia (Southern). The restructure helps reduce management's span of control and should provide greater focus and commitment to the various markets in which we operate.

On a more disappointing note, a \$45 million provision was taken against Nextgen Networks due to the current instability in the telecommunications market. We continue to support Nextgen as its broadband cable network comes on-line next year, closely monitoring its progress with regard to the value of the future investment.

Employees

Our people are fundamental to the success of the Group and I thank them for their contribution over a challenging year. Occupational health and safety remains an absolute imperative and we remain focused on improving the Group's performance.

For some time the Group has had in place a detailed code for ethical standards. We are currently implementing ethical dimension reporting in conjunction with the St James Ethics Centre, which will place us at the leading edge of Australian companies in this area.

Outlook

The Group has navigated a substantial downturn in the industry in Australia and now has a number of excellent projects in its order book. Group companies are presently undertaking a diverse range of billion dollar projects and management's focus will remain on obtaining successful outcomes for our clients and shareholders.

Our financial strength will be used to sponsor some of the major infrastructure projects being developed, underpin capital expenditure in plant and equipment, and provide bonds and guarantees to clients. We will continue to maintain a strong cash balance to take advantage of any rationalisation opportunities available in Australia.

We believe that the next two to three years should be a period of increased growth and profitability, underwritten by the diversity and size of our workload.

Financial Management

“OUR BALANCE SHEET STRENGTH GIVES US THE FINANCIAL BACKING TO SECURE AND EXECUTE PROJECTS AND REMAIN ON THE LOOKOUT FOR FURTHER COMPLEMENTARY ACQUISITIONS.”
Dieter Adamsas *Deputy Chief Executive Officer and CFO*

Overview

It has been another good year for the Leighton Group, with revenue increasing to a record \$5.2 billion and operating profit after tax up 8.4 percent to \$169.2 million. Earnings per share improved by 7 percent to 63.1 cents and we again provided a solid return on average shareholders' funds for the year of 22.1 percent.

Balance sheet

The Group has maintained its financial strength and has total assets of \$2.3 billion, net assets of \$795 million and a strong cash position. Gross borrowings were reduced, lowering interest expenses and we have maintained our BBB+ credit rating, which represents an extremely good rating for a contracting company. Our financial strength enables us to invest in some of the large infrastructure projects that are set to come on-line in Australia, as well as other acquisition opportunities.

The Group invested \$440 million over the year, mainly on the purchase of plant and equipment for contract mining activities. We expect that the Group's expenditure will increase in the next 12 months through project investment, plant and acquisitions.

Significant changes to the accounting standards are continuing. One change dictates that future dividends will be booked in the financial statements when paid, not when declared. The December 2002 dividend will therefore be booked in the results for the half year to June 2003. The Group's statement of financial performance is presented on the basis of liquidity. We are currently working through the implications of the introduction of a new taxation regime.

Acquisitions, investments and divestments

Our building market presence was extended with John Holland's acquisition of Fletcher Construction's Australian activities and, post year-end, Leighton Contractors' acquisition of WA-based Broad Constructions.

An investment was made in the listed James Fielding Group, cementing our strategic partnership in the property development area, and several property divestments were made in Melbourne, including the St Kilda Road office tower and Mulgrave stages 1 and 2.

Risk management

Our financial performance continues to be absolutely dependent on understanding and managing risk. We operate within a clearly defined risk management framework of policies, guidelines, controls and audits. Funds are selectively allocated in accordance with our profit expectations, risk profile and potential for growth.

The Group treats currency fluctuations as a normal risk of the business cycle and only enters into limited hedging arrangements. Appreciation in the Australian dollar over the year had a negative impact on our overseas contribution.

Dividends

The final dividend was increased to 26 cents per share, following an interim dividend of 16 cents. Both were franked at 70 percent. In the coming financial year we expect to maintain at least 70 percent franking.

Outlook

Having improved the Group's overall financial position and profitability, we started the new financial year with record levels of work in hand, well positioned to win a fair share of a number of major projects currently in planning. Our balance sheet strength gives us the financial backing to secure and execute these projects, and we remain on the lookout for further complementary acquisitions.

Operations Analysis

Investments

Asia Pacific Transport Consortium John Holland committed to a 12.5% stake in the concession company for operation of the Alice Springs to Darwin railway. The investment will not be made until the end of construction scheduled for 2004.

Burton Coal Mine Thiess maintains a 5% investment in Burton Coal Mine in Queensland. The other 95% is owned by RAG Australia Coal Pty Ltd.

James Fielding Group Leighton Holdings acquired a 9% share of the units in James Fielding Group.

Nextgen Networks Vytel committed to a 20% stake in Nextgen Networks. The investment will not be made until the end of construction scheduled for early 2003.

North Goonyella Thiess has a 40% share of the North Goonyella Coal Mine in Queensland's Bowen Basin, in partnership with RAG Australia Coal Pty Ltd who hold 60%.

Portman Mining Limited Thiess has a 14% interest in Portman.

Reef Networks Pty Limited Leighton Contractors retains 30% of Reef Networks.

Southland Colliery Thiess has a 10% share of the Southland Colliery in the NSW Hunter Valley. Gympie Gold retains 90%.

Star City Casino Leighton holds a 15% share in the management company.

Property Developments

MacArthur Chambers Leighton Properties holds 50% of a site in Brisbane's CBD currently being developed in stages for a \$200 million commercial property.

Mulgrave Leighton Properties owns a suburban office park in Melbourne.

100 Pacific Highway Leighton Properties holds a 50% share in a redevelopment property in North Sydney.

Thomastown Leighton Properties owns a 10-hectare site in Melbourne, which is proposed for an office/industrial development.

**Group Operating Revenue 2002 \$5,220 million
by Geographic Area**

		02	01	00	99	98
75%	Australia	3,915	3,035	2,659	2,542	2,239
23%	Asia	1,219	1,302	765	663	664
2%	Americas/other	86	19	21	16	4
	Total \$million	5,220	4,356	3,445	3,221	2,907

by Market Segment

		02	01	00	99	98
	Engineering & Infrastructure	1,846	1,577	1,099	1,070	841
36%						
22%	Building & Property	1,163	1,050	927	841	695
27%	Mining & Resources	1,406	1,040	907	939	972
11%	Telecommunications	619	503	307	229	283
	Environmental Services	186	186	205	142	116
4%						
	Total \$million	5,220	4,356	3,445	3,221	2,907

**Group Work in Hand 2002 \$8,371 million
by Geographic Area**

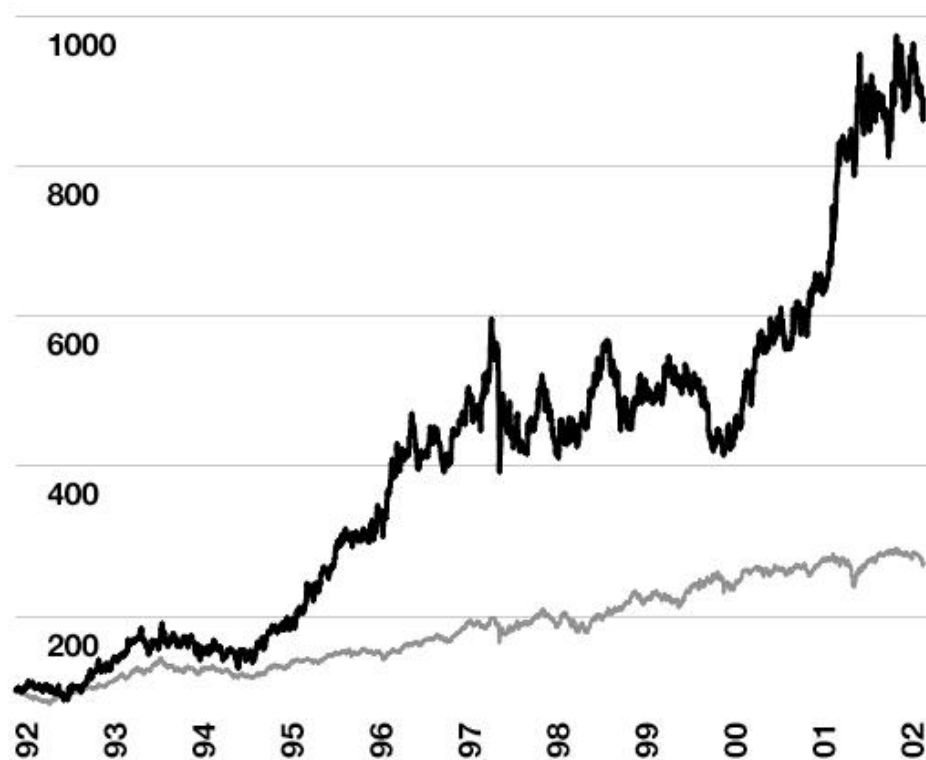
		02	01	00	99	98
74%	Australia	6,164	5,590	3,898	3,199	3,951
26%	Asia	2,170	2,191	2,303	916	816
-	Americas/other	37	44	5	-	-
	Total \$million	8,371	7,825	6,206	4,115	4,767

by Market Segment

		02	01	00	99	98
	Engineering & Infrastructure	3,103	1,938	1,752	803	1,091
37%						
11%	Building & Property	924	810	869	729	1,015
40%	Mining & Resources	3,393	3,651	2,808	2,164	2,411
7%	Telecommunications	552	1,011	385	162	24
	Environmental Services	399	415	392	257	226
5%						
	Total \$million	8,371	7,825	6,206	4,115	4,767

	98	99	00	01	02
Total Equity & Reserves \$million	574	612	661	740	789
Return on Total Equity & Reserves %	17.9	19.9	20.3	21.1	21.4
Net Tangible Assets per Ordinary Share \$	2.26	2.42	2.52	2.64	2.83
Earnings per Ordinary Share ¢	39.5	46.6	51.1	59.2	63.1
Dividends per Ordinary Share ¢	26	30	33	39	42

— Leighton Total Shareholder Return versus
 — All Ordinaries Accumulation Index for 10 years
 Performance scaled to 100



Total Shareholder Return (TSR) combines share price appreciation and dividends paid to show the total return to the shareholder for the period. The data shown has been sourced from IRESS.

Corporate Governance

Leighton Holdings has long recognised the need to have in place a comprehensive series of policies, procedures and guidelines relating to corporate governance, ethics, and financial and risk management.

The 2001/02 financial year has seen corporate scandals dominate headlines around the world. While much of the media's recent attention has been turned towards the United States, Australia has not been left unscathed by the collapse of well-established companies, and domestic markets have suffered as a direct result.

Now more than ever, being ethical, acting with integrity and, above all, being accountable and transparent, are essential requisites of any company's business policies.

The decentralised structure of the Group means that Leighton Holdings, as the parent company, has the responsibility for providing overall operating parameters for its operating entities. These include setting financial controls, conducting business audits, investment and acquisition overview, and ensuring the highest standards in corporate communications and external affairs.

The Board established an Audit Committee in 1990 to assist the Board in fulfilling its responsibilities under the Corporations Act in relation to financial reporting, risk management and internal control. The Audit Committee also monitors compliance with relevant requirements of applicable laws, regulations and rules.

KPMG is the Group's principal auditor and was reappointed to that position by shareholders at the 2001 Annual General Meeting. KPMG's engagement partner responsible for the Leighton Group audit will rotate at least every seven years with the last rotation occurring in February 2001. KPMG have confirmed to the Board that they have maintained their independence throughout the financial year by enforcing strict internal rules and policies and that they were free from conflicts of interest when discharging their professional responsibilities as statutory auditor for the year ended 30 June 2002.

The Leighton Group is committed to maintaining ethical standards. A comprehensive and realistic Code of Ethics has been in place since 1995 and this is backed by the support and commitment of the Leighton Holdings Ethics Committee. Ethics Committees have also been established to oversee and review the operations of the Code of Ethics in each of the Group's operating subsidiaries. Ethics is an evolving discipline and the individual operating companies have adapted and expanded the Leighton Holdings' Code of Ethics into their own codes which focus more specifically on the ethical challenges they face.

Continuous disclosure of the Group's activities is a legal necessity for a publicly-listed company such as Leighton Holdings, and is essential in maintaining shareholder confidence and market trust. A Continuous Disclosure Policy is in place and both Leighton Holdings and the operating companies have supporting procedures for the gathering and release of information to the Australian Stock Exchange. Electronic communication plays an increasingly important part in ensuring the Group achieves its communication objectives. The Leighton Holdings website is a key source of information about the Group's activities and is the first point of contact for anybody wishing to learn about our workload, financial performance, capabilities and experience. Webcasts of the Group's Annual General Meeting and financial results presentations are further examples of the Company's goal to achieve wider disclosure and communication with stakeholders.

Managing risk is a critical element of the Group's overall business strategy and has been a key contributor to its success. While the responsibility for risk management implementation lies with each of the individual operating companies, Leighton Holdings provides guidelines and sets minimum standards for each of their key activities. It also undertakes business audits to review and report on the management of risk across the Group's companies.

Having effective corporate governance policies in place is vital. We realise the value of having client, stakeholder and market trust in the Leighton name and its various brands, and we understand that this is a key requisite for our continued growth and success in the years ahead.

Occupational Health and Safety

Creating a rewarding, challenging and safe workplace for all our people is part of the Group's core values and one of its highest priorities. The importance of this is underlined by the fact that every day our operating companies are engaged in complex and difficult activities.

The health and safety of our workforce is more than a compliance issue. For us it is about developing and maintaining a safety-conscious culture throughout each operating company. Having our employees return home each day in the same health and condition as when they arrived at work is our daily aim and one that all of the Group's operating companies strive to maintain.

The Group's performance and commitment to health and safety has been well recognised within the industry and we have received numerous awards at State, national and international level. Currently the Occupational Health and Safety (OH&S) procedures within the Group's operating companies are undergoing a significant upgrade to the newly introduced Australian Standard AS 4801-2000. Group companies are expected to be fully certified to the new standard by 2003.

While our projects maintain a high level of performance in preventing workplace injuries, sometimes the nature of our business makes this difficult to do across the multitude of work sites where we operate. We recognise the need to continue to be vigilant about our workplace practices right across the Group's operations.

It is with this in mind that Safety Management Committees, consisting of senior managers, have been formed to help establish safety policies in all operating companies. Monthly safety audits occur on all Leighton Group projects, both in Australia and offshore. These audits ensure compliance with our rigorous health and safety policies. The Board oversees the Group's safety performance, reviewing quarterly performance reports on all projects. These reports contain detailed statistics and management analysis of work-related incidents, all based on standardised reporting criteria. The reports also include any remedial action taken or planned, as well as the specific outcomes of such action.

An emphasis on training and awareness programs including regular safety workshops and reviews helps improve performance and supports the development of a safety-conscious culture. It is an ongoing requirement that each employee undergoes a safety induction course before beginning work on any Group project.

We recognise and understand that the results achieved in health and safety form a tangible measure of our overall performance as an organisation. To this end we are constantly looking at ways in which to improve our performance. Leighton Holdings' financial support and sponsorship of the Injury Prevention Council (Australia) Accident Injury Research Program will allow the Group to help fund workplace injury research. It will also firmly place the Leighton name at the forefront of workplace injury prevention and is one way in which we are further developing our competencies in this most important of fields.

Environment and Community

Maintaining a healthy and progressive respect for the needs of the environments and communities in which we work is a key aspect of the Group's core values and one that we continue to improve and expand wherever possible.

The Group's Environmental Policy aims to maintain high standards and encourage continual improvement of our environmental management systems. Environmental management systems are fully integrated with project management and reporting systems and play a vital role in ensuring our projects meet all the necessary environmental objectives and regulations. Quarterly environmental reports to the Leighton Holdings Board detail any reportable incidents and the corrective action taken. Regular training programs and initiatives are held to ensure staff are fully aware of the Group's environmental policies and principles. Group companies continue to maintain certification to the international management system standard ISO 14001, and regular audits of projects help ensure that both legislative and contractual standards are met.

Giving back to the communities in which we work is another way the Group adds value. Active community relations campaigns on major projects ensure that key issues regarding that project's outcomes are addressed and mutually beneficial results are achieved. Such endeavours can take many forms – from constructing wetlands and environmental reserves alongside a project site to providing financial support to local and national organisations through sponsorships and donations.

Group companies are encouraged to foster relationships within the communities in which they operate and recognise the importance the community plays in ensuring a successful project outcome. The public's involvement in the development process has grown considerably over the years. Effective community relations programs initiated at the start of projects keep the lines of communication open. This enables local concerns to be identified and prevents issues from becoming problems further down the track.

Sponsorship of organisations is another way that Group companies support the broader community. We look to support innovative, and socially and environmentally progressive initiatives preserving Australia's built, environmental and cultural heritage. Leighton Holdings does this by securing long-term partnerships with appropriate organisations like Landcare, the National Trust of Australia, the University of New South Wales (Scientia appeal), Opportunity International, the Westmead Children's Hospital (CHERI initiative), the Sydney Symphony Orchestra, and the Injury Prevention Council (Australia). Sponsorship and donations are also active at an operating company level, with Group companies maintaining their own sponsorship programs and often contributing funds in the community or regions in which they are working.

Corporate Management

The corporate management team at Leighton Holdings continues to focus on both its governance duties as a public company, and its role of overseeing and monitoring the performance of its operating companies.

Another key role for Leighton Holdings over the year has been the continued identification and review of growth opportunities and potential acquisitions. Financial control, the preparation of statutory accounts, together with the ongoing review of accounting processes to verify their integrity, continue to be core responsibilities. Similarly, management of corporate reporting and communication, and the overview of the Group's Code of Ethics are key activities.

There has been an increasing need in recent years for Leighton Holdings to provide a more diversified range of corporate management and governance services to the Group to ensure its competitive financial advantage and positive performance are maintained and improved.

Decisions were made during the year to re-structure the corporate office to better service these needs. Effective 1 July 2002, the former Technical Resources was consolidated into Leighton Holdings as Group Services, headed by Mike Rollo. In January 2003, John Faulkner will relocate from Leighton Asia to take up the role of Executive General Manager, Operations in Leighton Holdings. In his revised role he will focus on strategic growth plans for Asia and other growth and operational activities for the Group in Australia. Leighton Asia (Northern) and Leighton Asia (Southern) will continue to report to John Faulkner.

Technical Resources

The consolidation of Technical Resources into Leighton Holdings will support the Group's management and governance systems. As the Group's specialist service unit for 20 years, Technical Resources provided support and innovation in project management and controls, technical computing systems, corporate communications and engineering. Its restructure will allow the new Group Services section to offer an enhanced range of multidisciplinary support capabilities in addition to its present portfolio of skills.

As a result three new key areas of support and skill will be developed within Leighton Holdings: risk management, information systems and project development to service the future growth and momentum of the Group's companies.

Risk Management guidelines and standards, as well as risk management audits, will be developed and undertaken by the new Risk Management section.

The formation of a Group Services Information Systems section will ensure the Group's IT capability is developed to a high standard, is user-friendly and offers competitive advantage to all operating companies.

Maintaining a watchful eye on the performance of our established markets and those sectors that offer positive potential for the Group is necessary to sustain the Group's strong performance in the years to come. This will be assisted by Group Services' new Project Development division, which will provide support in the sourcing and development of new projects across Group companies, both in Australian and overseas markets.

This expansion of these core skills will create a more diversified range of services and expertise within Leighton Holdings to benefit the entire Group.

Leighton Holdings Limited Corporate Management

W M King AM *Chief Executive Officer*

D S Adamsas *Deputy Chief Executive Officer and CFO*

A J Moir *Company Secretary*

P Bingham-Hall *Executive General Manager, Corporate*

G E McOrist *Executive General Manager, Investment and Finance*

M J Rollo *Executive General Manager, Group Services*

T G Young *Executive General Manager, Financial and Administration*

G R Andrews *Manager, Technical Computing*

A J Blake *Commercial Development Manager*

J M Grogan *Manager, Investor & Media Relations*

J T Holt *Manager, Project Development*

C L Huon *General Manager, Treasury*

P C Janu *General Manager, Project Finance*

D G Kent *Group Taxation Manager*

A T Mason *General Manager, External Affairs*

M K McAuley *Manager, Corporate Communications*

C M Mendes *Group Chief Accountant*

N A Sallustio *Manager, Risk Management*

I A Scoular *Manager, Project Services*

Special Feature Future Growth

INCREASED INVESTMENT IN ROAD AND RAIL, A RESURGENCE IN RESOURCES INFRASTRUCTURE AND A RECOVERY IN BUILDING AND PROPERTY MARKETS IN AUSTRALIA WILL BE THE KEY DRIVERS OF OUR FUTURE GROWTH.

The Group's business strategy is based on diversity by geography, by the industries in which it operates, by the companies through which it operates, and the way in which services are delivered to clients. Over the years, this has resulted in a progressive shift away from being a construction-only entity operating in one market. It has added momentum to the Group's evolution into a financially strong, diversified and uniquely structured contracting and project development group with an expanded industry focus. It has also allowed the Group's operating companies to utilise the full depth of their expertise and skills in a range of industries and market sectors, not just in Australia, but also across the Asian region.

Diversity has allowed us to navigate our way through the cyclical nature of most of our key markets whilst still providing growth for shareholders. In recent years, construction spending in Australia reduced significantly. However, telecommunications expenditure was booming and contract coal mining was a major growth market for the Group. In addition, our operations in Asia have grown substantially.

Looking forward, we see a significant upswing in the Australian engineering and infrastructure market. This is being driven by increased expenditure on both road and rail as well as a resurgence in investment in resources processing infrastructure. At the same time, the nonresidential building and property markets are forecast to recover strongly.

The strength of activity in these sectors in Australia should more than offset the decline in telecommunications activity and tougher operating conditions in the contract coal mining market.

The following feature stories on resources infrastructure, road, rail, and building and property, provide an insight into the markets we see driving growth in the next few years.

Resources Infrastructure

Australia has been endowed with vast reserves of minerals and energy resources that have been fundamental to the development of the nation. Historically these natural resources have been dug up and shipped overseas for value added processing and then imported back as manufactured goods.

Today however, the economic landscape in Australia has changed and we expect to see significant growth in the provision of resources-related infrastructure. Australia has a competitive exchange rate, which makes its exports internationally competitive and a reformed taxation system, which is more attractive to business. In addition, cheap energy supply is making downstream minerals processing economically viable.

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

One of the best examples is the North West Shelf liquefied natural gas project which, with the recent signing of a \$25 billion contract to supply China, makes it one of the largest gas suppliers in the world. The North West Shelf partners are currently building a fourth 'train', or processing plant, at a cost of \$1.6 billion and expect that a fifth train may be required in the future. Over the years, the Leighton Group has carried out millions of dollars worth of work on the North West Shelf and both Thiess and John Holland are currently undertaking civil works on the fourth train.

The development of Australia's oil and gas reserves, and production of cheap energy, should lead to the development of other industries. The Plenty River Corporation is proposing to develop a \$1 billion world scale ammonia/urea production facility and, if the project proceeds, Thiess will be a joint engineering, procurement and construction (EPC) contractor for the project.

Mineral processing technology, developed in Australia by the CSIRO, has led to the development of a new industry to produce magnesium. Magnesium is one-third lighter than aluminium and has the capacity to revolutionise the production of motor vehicles by reducing fuel consumption. Australian Magnesium Corporation is developing the largest magnesium smelter in the world at Rockhampton in Queensland, and has recently appointed Leighton Contractors to the role of EPC contractor on this \$1 billion development.

Traditionally the development of large scale resources infrastructure projects has been the preserve of a few international contractors. However, Group companies are using their extensive project management expertise and track record in the resources sector to secure lead roles in these projects.

Thiess is designing and constructing new calciners at QAL's Gladstone alumina refinery in Queensland while John Holland undertook much of the construction and pre-commissioning of the Townsville Zinc Refinery in Queensland. Thiess has developed a significant amount of coal processing infrastructure in recent years and has a joint venture arrangement with Sedgman, a coal handling and preparation plant specialist, to boost their presence in this market. John Holland has also made a strategic return to the resources market, constructing coal-mining infrastructure at two BHP Billiton mines.

Looking forward, Australia is well-placed to prosper from its resources, especially as it develops its processing capabilities. Further investment in the development of Australia's resources also stands to benefit the Group, as it furthers its penetration of the resources sector.

Road Infrastructure

Over the last 30 years tremendous changes have occurred in Australia's road network, both in the physical layout and in the way it is financed, constructed, operated and maintained.

Australia now has networks of integrated freeways and motorways, with bypassing or tunnelling where possible, to provide first class transport systems in most of our capital cities. The changes are the result of private sector financing of road development, the outsourcing of work to contractors, and a growing acceptance of a 'user pays' approach to the provision of public assets.

The escalating costs involved in the funding of larger and more complex road infrastructure have placed more and more pressures on government budgets. Governments have reacted by progressively involving the private sector in projects and introducing tolling, starting with the M4 and M5 motorways in Sydney, and more recently, the M2 Motorway and the Eastern Distributor. In Queensland, the charging of tolls supported the development of the Gateway Bridge and more recently, the Logan Motorway. The city of Melbourne has been reshaped in recent years by the City Link tollway system.

Contractors have become integral to the development of these road networks and now take on almost all of the roles traditionally provided by government including community consultation, traffic management, environmental control, and operation and maintenance of the completed road network. This expanded role for contractors has provided the Leighton Group with an enormous amount of work over recent years.

Looking forward, governments will continue to rely on the private sector to fund and develop much of the road infrastructure in Australia's capital cities. A number of major projects are now either in active planning or under consideration. The sheer scale of these projects requires a long planning lead-time. However we expect that national spending on new roads should increase by around 6 percent to \$4.9 billion in 2002/03 and by nearly 14 percent to \$5.6 billion in 2003/04.

In excess of \$6 billion worth of projects are likely to proceed over the next few years. Projects include the Western Sydney Orbital, the Lane Cove Tunnel, the F3 – Sydney Orbital connection, and the M4 City Link in Sydney as well as the Eastern Freeway extension, the Craigieburn Bypass and the Scoresby Freeway in Melbourne.

The Leighton Group has developed a strong position as a provider of road infrastructure. Projects undertaken range from the upgrading of sections of the Pacific Highway to the delivery of complex road systems such as Brisbane's Inner City Bypass and Sydney's Eastern Distributor. In some cases the Group's financial strength has been a key component of successfully developing large scale, private sector projects and we expect that it will become more important in the future.

The Australian construction industry is set to experience a significant upturn in investment on road transport infrastructure over the next few years. A consistent baseload of ongoing work upgrading and maintaining the existing road network around the country will be supplemented by a number of large private sector funded projects. The Leighton Group looks forward to participating in the forthcoming upturn by applying its experience, expertise and financial strength to further develop Australia's road transport infrastructure.

Rail Infrastructure

For nearly a century, rail has been the poor cousin of road transport due to Australia's dependence on the motor vehicle and the relatively high capital cost of building rail infrastructure. However, decades of inertia are being rolled back by 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. Rail construction is expected to increase by more than 200 percent over a five-year period, from less than \$600 million in 2000/01 to almost \$1.8 billion in 2005/06.

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

In Sydney, a consortium led by Thiess is designing and constructing the first leg of the \$1.6 billion Parramatta Rail Link, which is the biggest extension to the CityRail network since the Richmond line opened in 1864. After 100 years on the drawing board, construction of the 1,420 kilometre Alice Springs to Darwin rail line is also underway and John Holland has a lead role in its construction.

A number of other new rail initiatives are currently in planning around the country including construction of the Perth to Mandurah rail line in Western Australia, and the Robina to Coolangatta extension and development of the Gold Coast light rail project, both in Queensland. In New South Wales, new rail lines planned include the Epping to Castle Hill link, the second stage of the Parramatta Rail Link, and the Sydney to Newcastle line will be upgraded to accommodate high speed travel.

While rail construction is experiencing a strong upturn, maintenance and refurbishment of the existing network should also provide significant new work. The Australian Rail Track Corporation has recently earmarked \$500 million for upgrading of rail infrastructure over the next five years. The upgrading follows the privatisation of National Rail Corporation and FreightCorp and will improve the efficiency of interstate freight carriage.

John Holland is the biggest 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 also provided Thiess an opportunity to undertake long-term maintenance work on 787 kilometres of metropolitan track, 118 train stations and 404 tram stations.

Asia is also recording significant investment in the development of rail infrastructure. Leighton Asia is undertaking four major rail projects in Hong Kong with a further \$24 billion of Government capital expenditure on rail expected over the next 15 years. Leighton Asia recently secured track laying work on the Taiwan High Speed Rail Link, and is also undertaking track laying and rail refurbishment work in Indonesia and Thailand.

Over the next few years rail infrastructure in Australia is set to benefit from a very significant boost to investment. The Leighton Group, with its strong maintenance and construction capabilities, looks set to share in this renewal of rail infrastructure.

Building and Property

Since its dramatic downturn a little over a decade ago, the Australian property market has experienced moderate levels of growth. Different sectors within the property market grew strongly for brief periods driven by factors such as Sydney's hosting of the Olympic Games. However, the collapse of the technology boom and the global economic slowdown through the early part of this decade has impacted across most of the commercial and industrial sector.

Looking forward, the Australian non-residential building and property market now appears set to experience a strong rebound, with a combination of low interest rates and a strengthening economy expected to stimulate growth. The major focal point for the recovery is centred on CBD office developments along the eastern seaboard, redevelopment of shopping centres and some major hotels, as well as continued growth in health and education spending. Non-residential building is expected to increase by 7 percent to \$13.5 billion in 2002/03 and by a further 11 percent to \$15 billion in 2003/04.

Leighton Properties is currently progressing some selected office projects including the MacArthur Chambers development in Brisbane, the 700 Collins Street building in Melbourne, the KENS site in Sydney's CBD and the 100 Pacific Highway site in North Sydney. Careful to mitigate the risks often associated with office tower development, Leighton Properties seeks investment partners and a level of pre-committed tenancy before commencing projects.

Investment in the retail and hotel sectors is likely to be strong if good levels of consumer spending and continued growth in tourism occur. John Holland is currently constructing two shopping centres in New South Wales for Woolworths and the Stockland Property Trust. Also, Leighton Contractors has recently been awarded the \$167 million refurbishment of the Hilton Hotel in Sydney's CBD.

The Group will continue to strengthen its presence in niche sectors by acquisition. During the year John Holland acquired the Australian business of Fletcher Construction, which has a strong retail presence and is currently refurbishing David Jones' flagship Sydney CBD store. Leighton Contractors also acquired Broad Constructions, one of Western Australia's major building contractors in the commercial construction market.

Around \$6 billion worth of private and public projects are planned for the health and education sector. Most of this activity is set to occur in New South Wales and Queensland, with New South Wales committed to some 15 education and 20 health projects, including a \$400 million redevelopment of Sydney's Royal North Shore Hospital. Public Private Partnership arrangements are being trialled in Sydney for schools and could generate opportunities for long-term maintenance work as well as construction. Defence and correctional facilities are also likely to see reasonable levels of both construction and maintenance work. John Holland maintains a large proportion of the defence facilities and establishments in New South Wales.

While the industrial market is not forecast to see the same levels of activity as the commercial market, opportunities remain for the Group to provide tailored solutions for clients.

The Australian property market appears to be entering a period of stronger investment, underwritten by a strengthening economy and a favourable interest rate environment. The Leighton Group has a strong presence in the building and property sector, with a diverse track record in both private and public sector projects.