

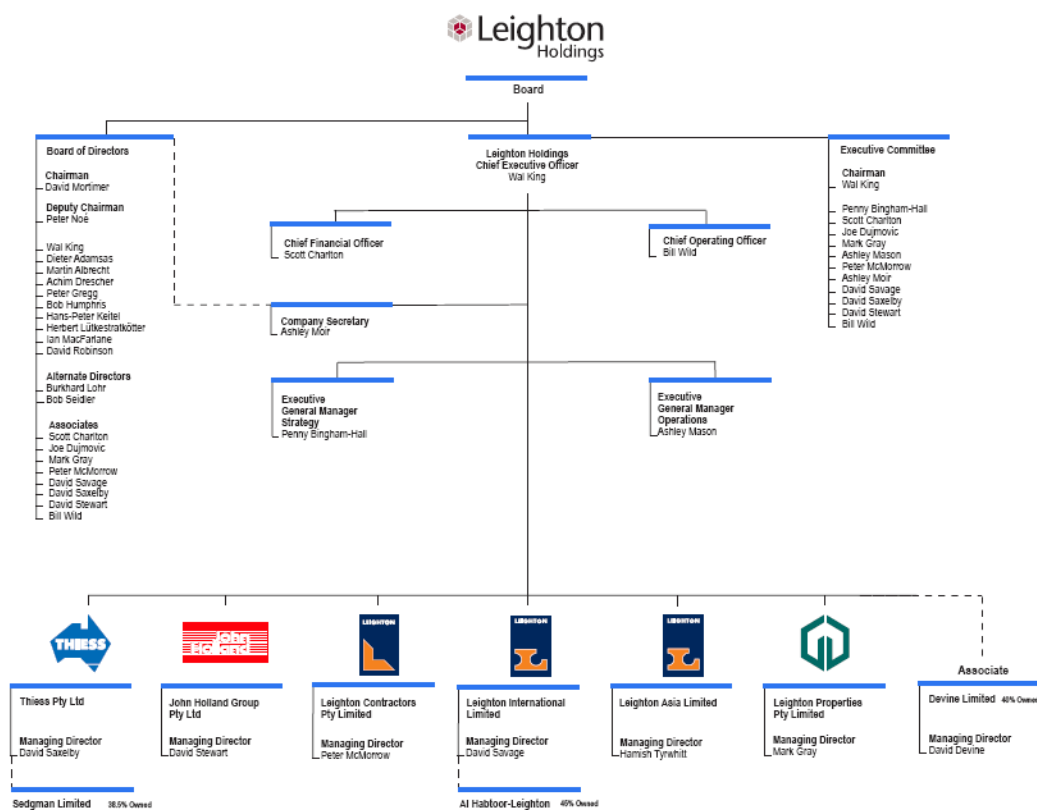
THE LEIGHTON GROUP'S APPROACH TO COMPLIANCE AND COMPETITION IN THE AUSTRALIAN MARKET

1.0 Introduction

The Leighton Group is Australia's largest project development and contracting group with operations throughout Australia and Asia.

In Australia, the Group operates principally through three independent contracting companies:

- Leighton Contractors Pty Ltd (100% owned) – est 1949
- Thiess Pty Ltd (100% owned) – est 1933
- John Holland Group Pty Ltd (100% owned) – est 1949



It is the policy of Leighton Holdings Limited (LHL, the parent company and listed entity) for each of Leighton Contractors Pty Limited, Thiess Pty Limited and John Holland Group Pty Limited to act independently in the provision of services in the Australian construction market.

Each operating company is built around a strong corporate culture, individual identity and market position.

Leighton Holdings acquired Thiess in 1983 and both Leighton Contractors and Thiess have continued to operate independently in the Australian market since that time. While each company has different strengths, there are occasions when each company competes with the other. This is especially the case in relation to Government public works contracts or Government sponsored BOOT projects such as tollroads.

John Holland became part of the Leighton Group in 2000. In 2003, John Holland acquired the projects and people of Transfield Constructions.

2.0 The Competitive Australian Construction Market

The Australian construction market in which Leighton Group companies participate comprises:

- non-residential building construction
- engineering construction

The Australian construction market is very competitive and has a large number of participants, with low barriers to entry. However, the cyclical nature of infrastructure expenditure and the relatively small size of the domestic market, with Australia's population of just over 21 million people, has provided challenges for new overseas competitors entering the market.

The ACCC has looked at the industry structure, and in 2004 ACCC Chairman Graeme Samuels noted: "The ACCC is aware of concerns in the industry about the increasing concentration of ownership among construction firms, particularly through common ownership and corporate linkages. One example that has been cited is the Leighton Group", and that "We have noted the argument that, despite the various linkages within the industry, there are arms-length arrangements to minimise conflicts of interest and ensure independent competition between firms".¹

¹ Graeme Samuel ACCC Chairman 12 March 2004

The non-residential building market covers large scale building projects including commercial offices, factories, hotels, and institutional buildings such as hospitals and schools.

The engineering construction market includes infrastructure such as roads, dams, railways, water projects and pipelines.

As the table below shows, the Leighton Group accounts for about 4% of the non-residential building market and 13% of the engineering construction market, with an overall market share (private sector) of approximately 9% in a market with total expenditure of approximately \$69 Billion annually (2006-07 BIS Shrapnel estimate).

	Estimated market size 2006/07 ² \$ billion	Leighton Group Revenue 2006-07 \$ billion	Leighton Group Market Share %
Non residential building	\$27.1	\$1.0	4%
Engineering construction	\$41.6	\$5.3	13%
Total	\$68.7	\$6.3	9%

3.0 Leighton Group Upholds High Corporate Governance Standards

As a public company, Leighton takes its obligations to act fairly, responsibly and with integrity at all times very seriously. It meets all the necessary requirements of the Australian Stock Exchange and the Australian Securities and Investment Commission, and abides by all relevant Commonwealth and State laws.

The Board of Leighton Holdings continues to strive for best practice in corporate governance and has consistently implemented new initiatives. Leighton was one of the first Australian companies to establish both audit and ethics committees in 1990 and 1998 respectively.

² BIS Shrapnel 05/06 estimate, inflated to 06/07. Includes private sector work done for the public sector.

4.0 Ethics

Each operating company and Leighton Holdings has a code of ethics that each and every employee must adhere to. Each operating company and Leighton Holdings has an Ethics Committee that is a sub-committee of the respective company's Board of Directors.

In November 2000, all Leighton Group companies began establishing a framework for Ethical Dimension Reporting (EDR) to be adopted. EDR is a mechanism designed to identify and address real and potential ethical issues as an integrated element in the process of decision making.

In addition, independent advice is supplied to Leighton Group companies by the St James Ethics Centre.

5.0 Tendering Arrangements in Leighton Group Companies

Each operating company acts independently as an autonomous business with their own management structure, separate Advisory Board of Directors, and individual Business Plan.

Tenders are independently prepared by Leighton Contractors, Thiess and John Holland using established processes to ensure the confidentiality and integrity of information. Each company has developed its own systems and procedures.

In limited circumstances specific tenders are required to be reviewed by the Chief Executive Officer (CEO) of Leighton Holdings before submission. Where more than one operating company may be tendering on the same project, Leighton Holdings' CEO will nominate an alternate, or alternates, to review the other tender submissions.

In these circumstances strict corporate governance procedures will apply including:

- Provision of confidentiality undertakings by all relevant team members
- No discussion between the appointed LHL representatives about any aspect of the project.
- Full compliance of each individual operating company with LHL Group Tendering Guidelines
- In the circumstances where confidential matters are presented for discussion at an Executive or Board meeting and a Director or executive has a conflict of interest then that Director or executive will abstain from that part of the meeting and the meeting minutes will make a record of this accordingly.

- Major complex tenders must be approved by the Board of LHL. Where group companies are involved in more than one tender for the same major project, the LHL Board will appoint independent Board Directors to sub-committees to review and approve relevant tenders, without further reference to the Board. A project which is subject to these probity processes will not be discussed at a LHL Board meeting.

These principles have been successfully applied on some of Australia's most significant infrastructure projects including the \$1.5 billion Western Sydney Orbital road project and the \$1.1 billion Lane Cove Tunnel road project tendered by the NSW Government; the Victorian Regional Fast Rail projects and the Spencer Street Station public-private partnership project tendered by the Victorian Government; and the \$2.5 billion North South Bypass Tunnel and the Airport Link project in Queensland.

In these examples, the short-listed bidders involved Leighton Group companies, all of whom competed intensely for the projects. The robust procedures and the integrity of the Leighton Group's internal processes ensured the respective communities received value for money in the selection process.

In virtually all of the above projects, Leighton Group companies were members of a consortium that included investment banks, equity and debt participants, design engineers and in numerous cases other construction companies. The consortium approach increases competitive tension and makes for aggressive bidding.

6.0 Bid costs and competition

There are a number of factors that determine who is capable of bidding for major infrastructure projects in Australia. The foremost of these is the substantial costs that are now incurred in bidding for projects (upwards of \$30 million for recent PPP's such as Airport Link). The bid process can also be drawn out for a lengthy period (over 12 months). In comparison it cost approximately \$200,000 to bid for a \$2.5 billion hospital project (design and construct) in the Middle East.

There are a limited number of companies active in the Australian market capable of sustaining these costs, particularly on a losing bid.

In addition, participation in PPP's requires major balance sheet commitments from companies in the form of project bonds, bank guarantees and liquidated damages provisions, which again are a significant financial impost.

The adoption of alternative procurement methods such as alliancing is one way which has been used to reduce bid costs and focus more resources on project delivery.

7.0 Probity Review

Probity procedures have been drawn up under the guidance of Hon Andrew Rogers QC, who is the probity advisor to Leighton Holdings. Justice Rogers is a former Chief Judge of the commercial division of the NSW Supreme Court.

Justice Rogers has also performed a role as Probity Auditor and independent certifier on a number of recent tenders where Group companies have been involved. If circumstances arise where two or more operating companies are selected to proceed with tendering for a project, Justice Rogers will, if requested, provide a report to verify the independence of the proposals.