INFRASTRUCTURE IN THE GFC

FROM RHETORIC TO REALITY

12 March 2009

Wal King AO

PRESENTATION OUTLINE

Economic outlook

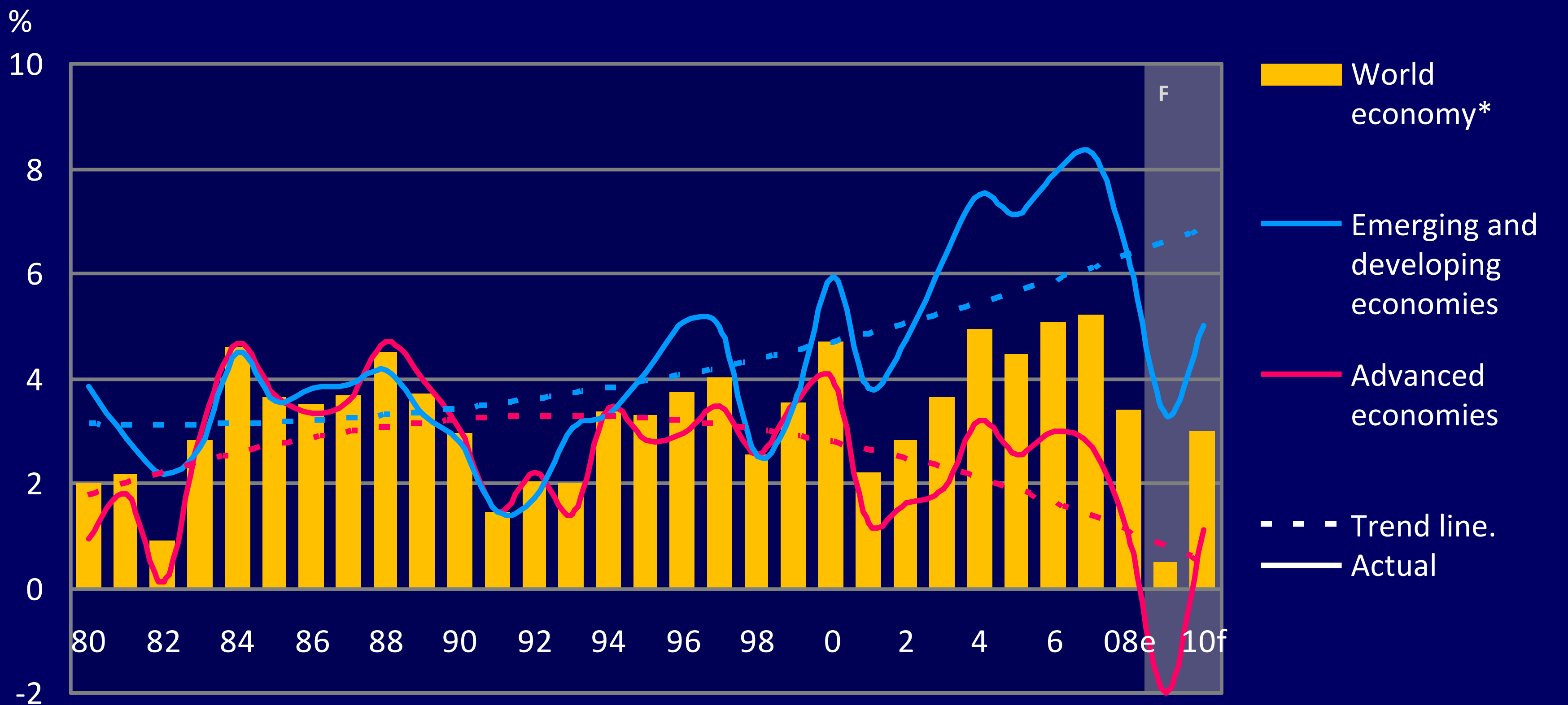
Implementing infrastructure spending

Financing projects

Conclusion

MOST SERIOUS DOWNTURN IN 60 YEARS

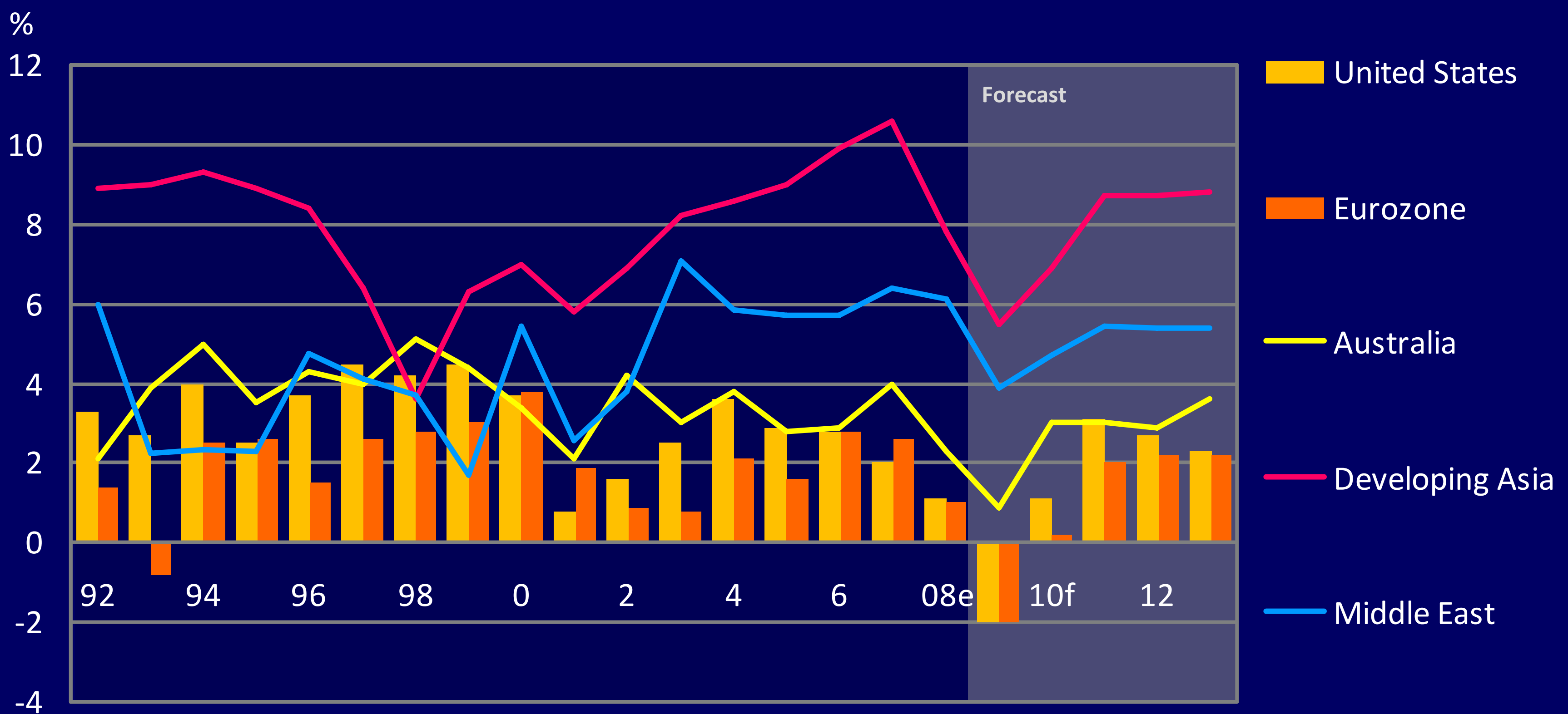
WORLD REAL GDP GROWTH



*PPP weights
Source: IMF World Economic Outlook Update, Jan. 2009. Year end December

OUR REGION IS EXPECTED TO FARE BETTER THAN OTHERS

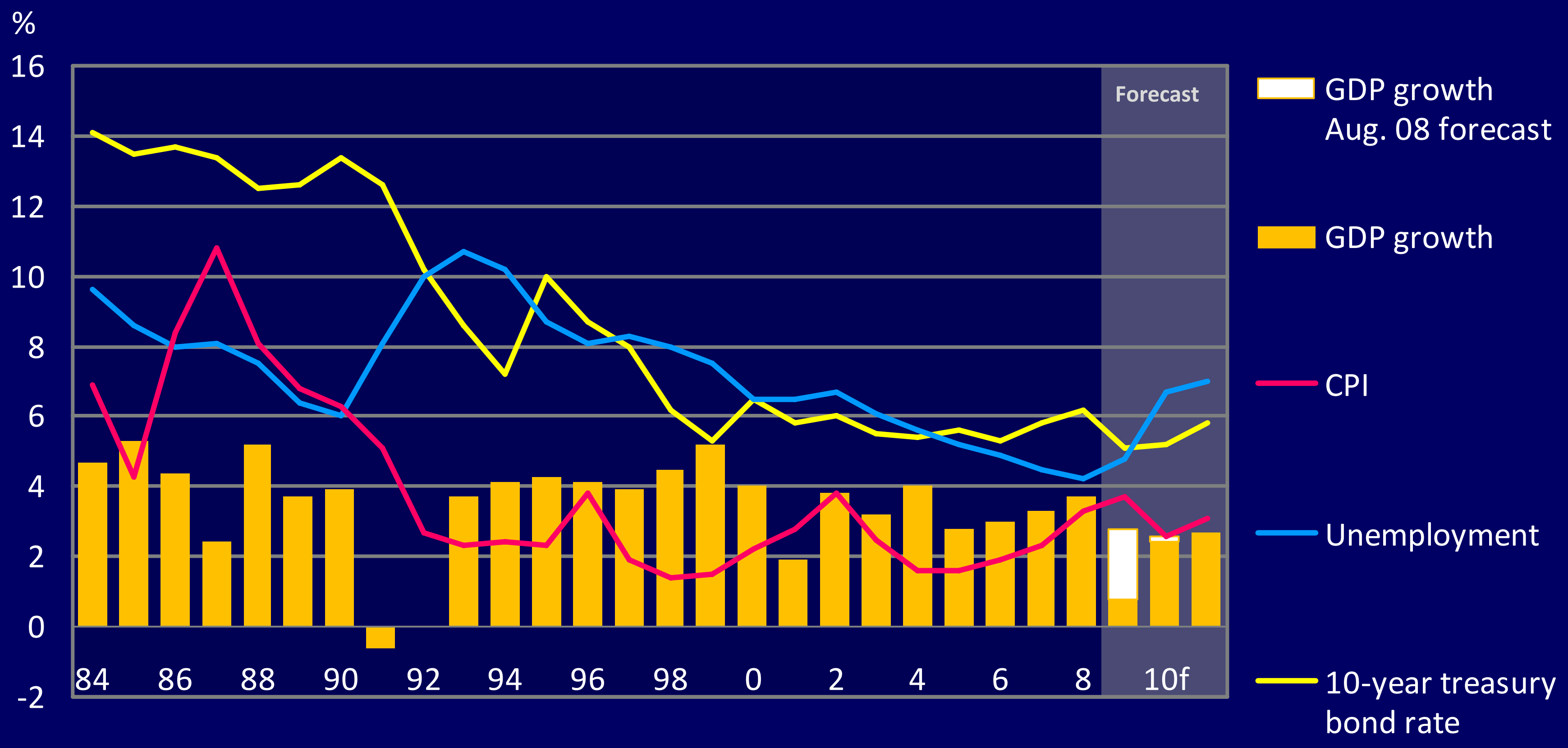
WORLD REGIONAL GDP GROWTH



Source: IMF World Economic Outlook Update, Jan. 2009. Access Economics Dec. 2008, for Australia. Year end December

AUSTRALIA HAS MORE SCOPE TO BATTLE RECESSION

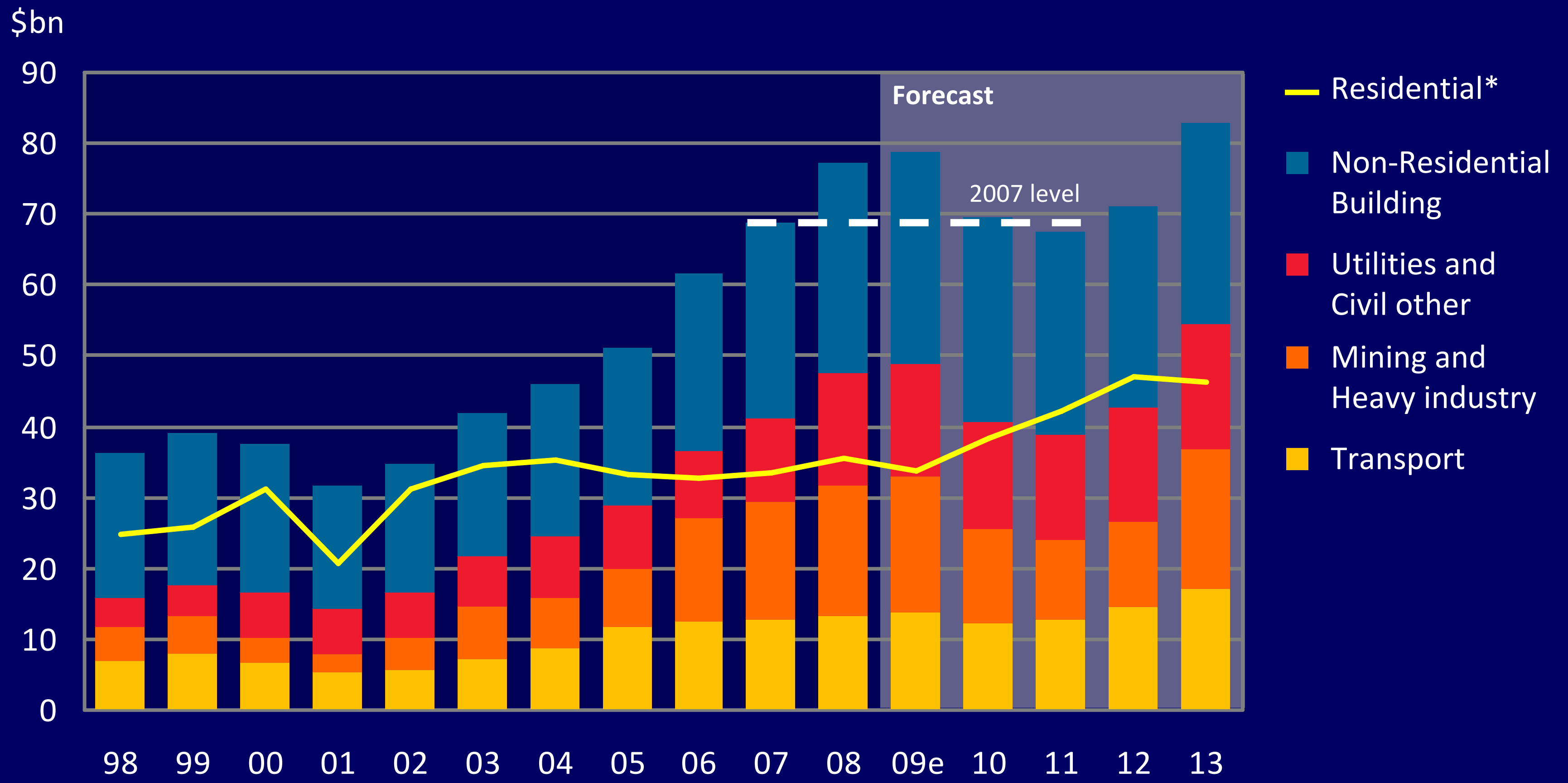
AUSTRALIAN ECONOMIC OUTLOOK



Source: Access economics, Dec. 2008. Year end June

INFRASTRUCTURE TO STAY AT HIGH LEVELS

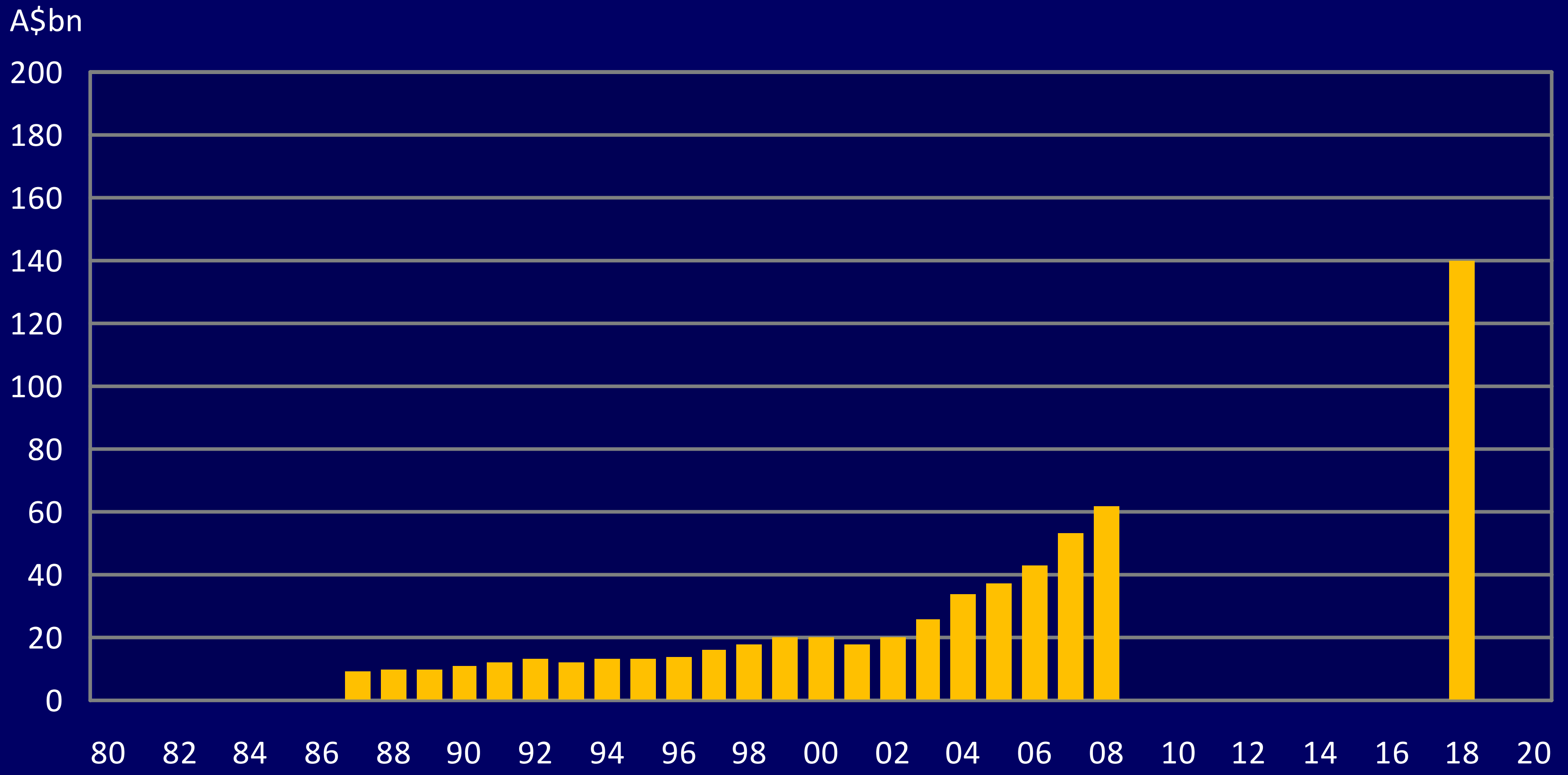
TOTAL CONSTRUCTION VALUE OF WORK DONE BY PRIVATE SECTOR ($06/07bn)*



Source: BIS Shrapnel total value of work done by the private sector. Residential based on value of commencements. Year end June
* Residential in $05/06bn

ENGINEERING CONSTRUCTION

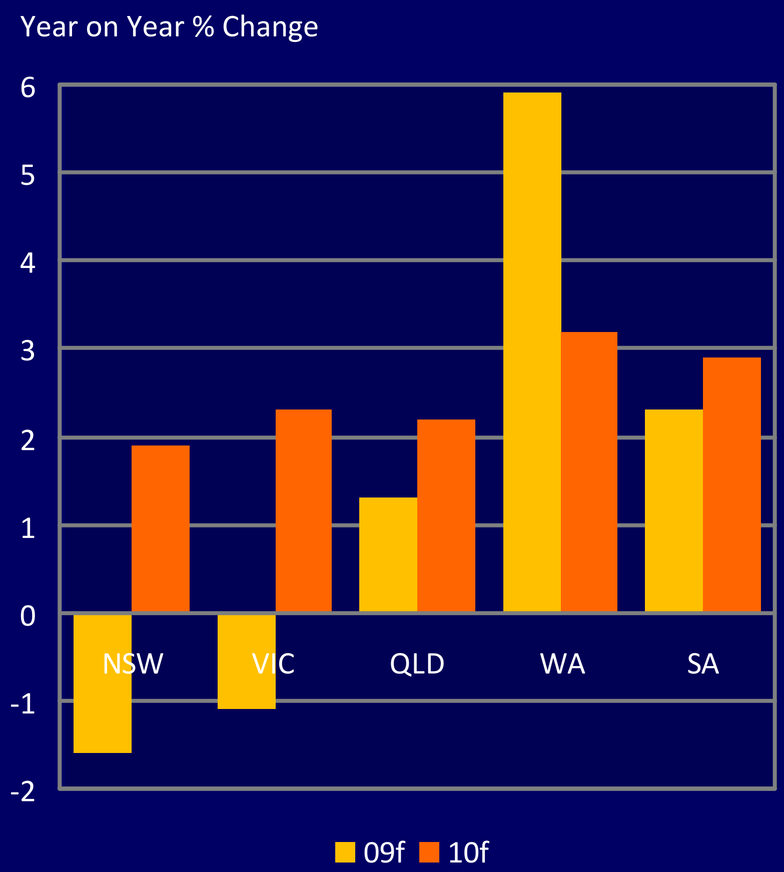
WORK DONE TO F2008



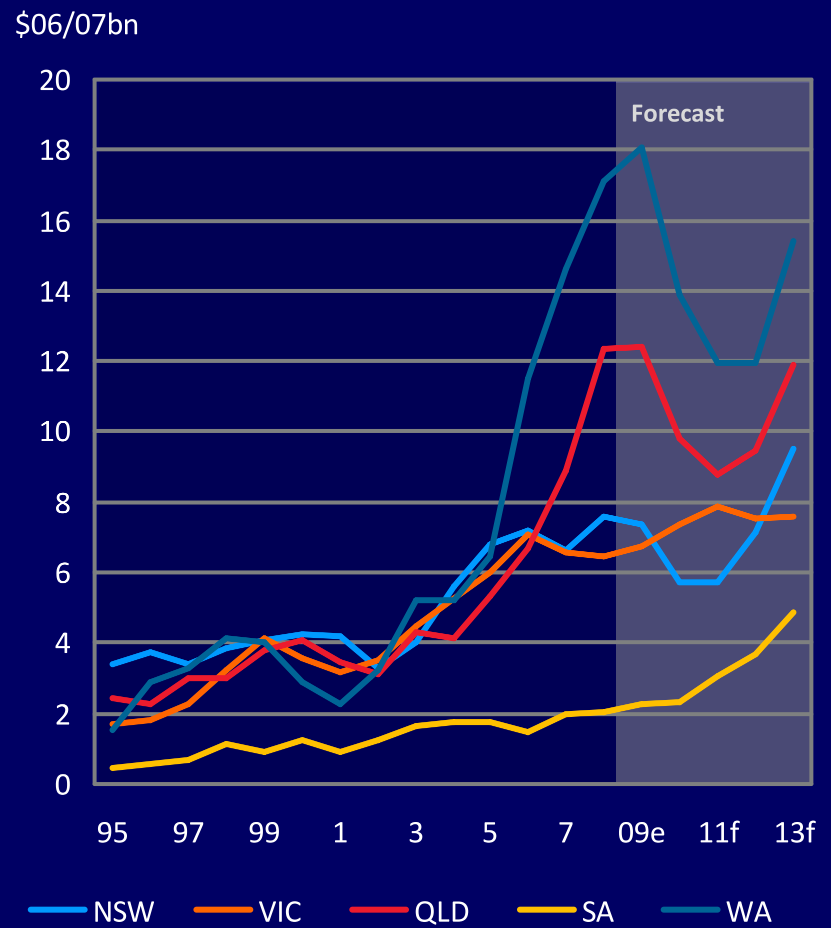
Source: IBIS world

SIGNIFICANT PROJECTS IN PIPELINE DESPITE SLOWING ECONOMY

GROSS STATE PRODUCT (GSP)



VALUE OF WORK DONE



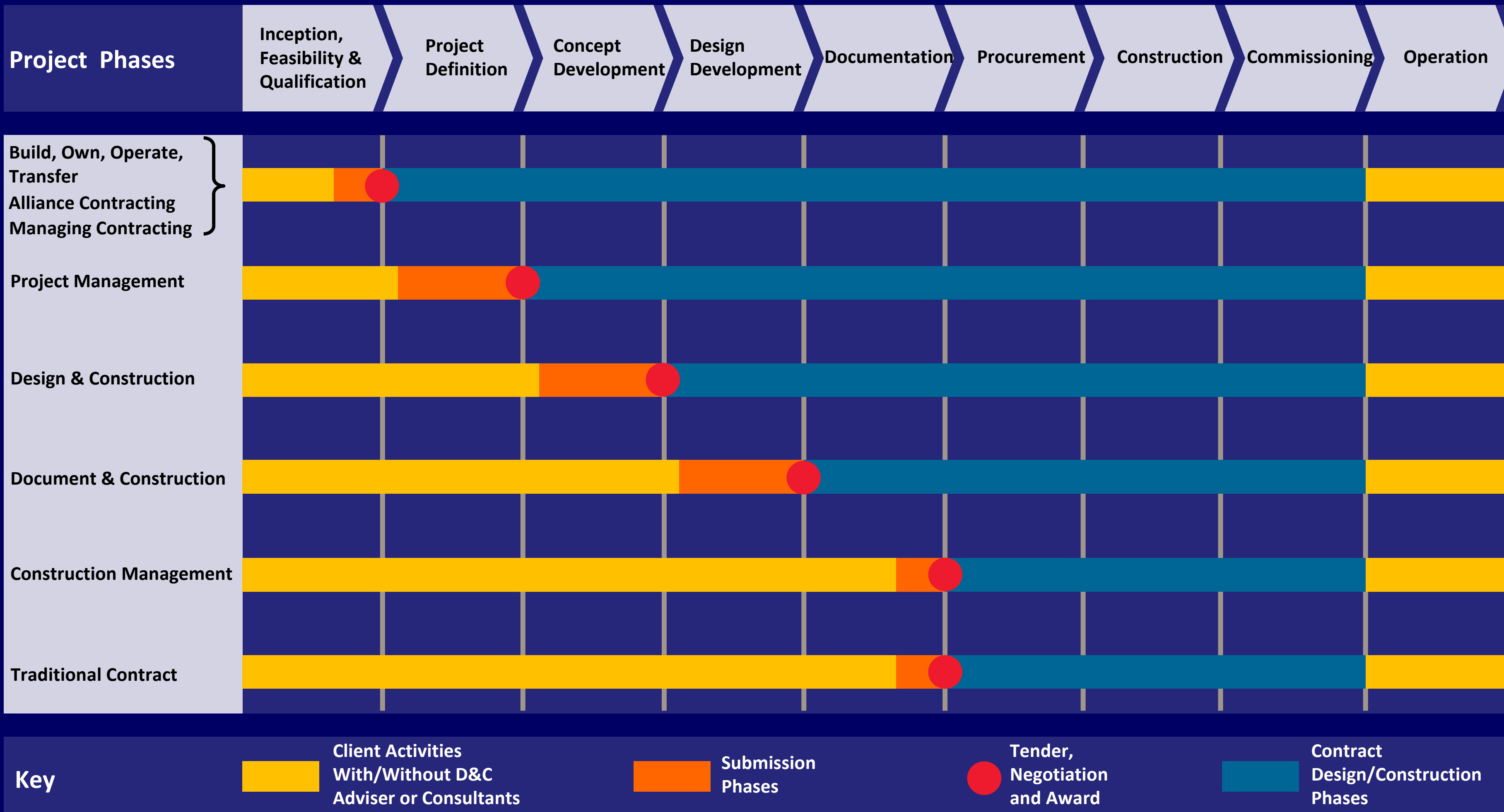
Source: State Chart 1 - Access Economics. State Chart 2 - BIS Shrapnel Jan 09 Engineering Construction – Private sector forecast. Year end June

PERTH TO BUNBURY HIGHWAY, WA, LEIGHTON CONTRACTORS

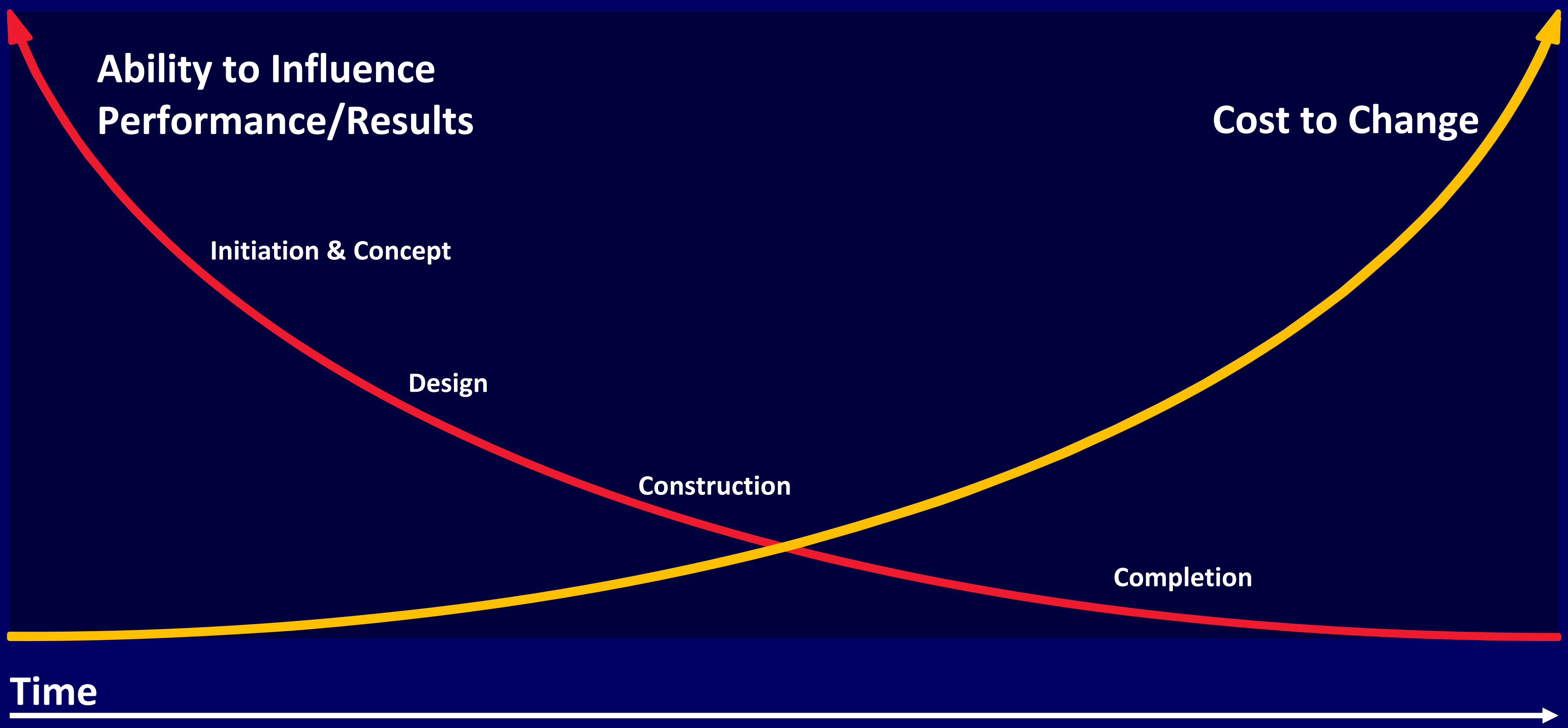
'TRADITIONAL' APPROACH

TYPICAL CLIENT OBJECTIVES	TENDER PROCESSES DRIVE CONTRACTORS TO
Lowest cost	Minimise bids to win
Maximum functionality and performance	Shift risk back to owner
Maximum return on asset	Seek out weakness in the contract, specification and scope
Flexibility	Increase revenue
Minimum schedule duration	Exploit scope growth, change and delays to maximise profit
Risk transfer	

ALTERNATIVE PROJECT DELIVERY SYSTEMS



PROJECT COST REDUCTION OPPORTUNITY



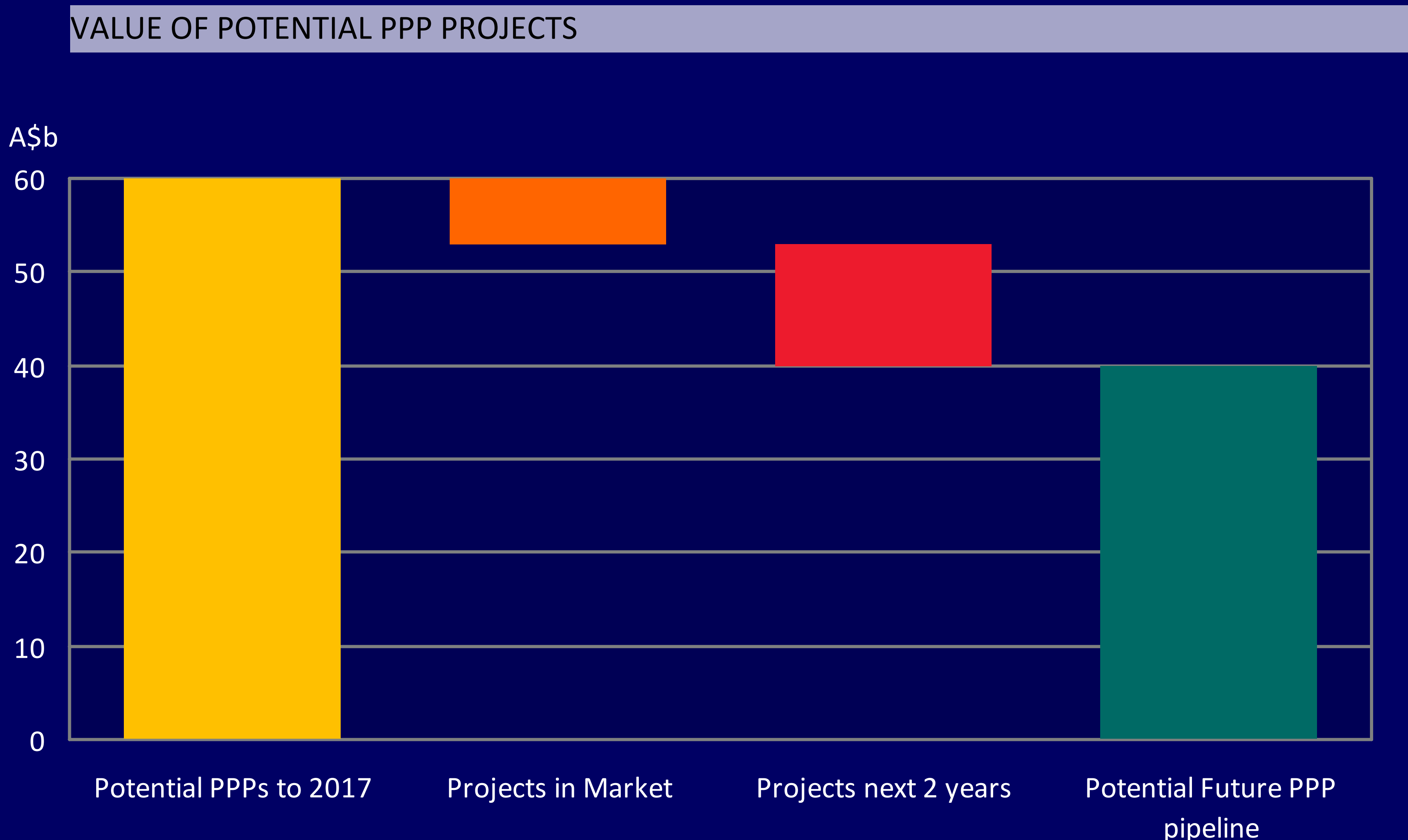
MIDDLEBOROUGH ROAD ALLIANCE, VIC, JOHN HOLLAND

EVOLUTION OF AUSTRALIAN PPP MARKET

1990s	2000-2008	2009 ONWARD
Tollroads	Defence	Broadband
Hospitals	Sea Ports	Desalination plants
Water	Schools/TAFE	Metro rail
Prisons	Convention Centres	Light rail
Rail	Courts	
Power	Waste	
Airports	Housing	
	Rolling Stock	
	Cruise Terminal	
	Public Transport	
	Aged Care	
	Research Facilities	

DEFENCE HEADQUARTERS
JOINT OPERATIONS COMMAND
NSW, LEIGHTON CONTRACTORS

AUSTRALIAN PPP PIPELINE NEXT DECADE

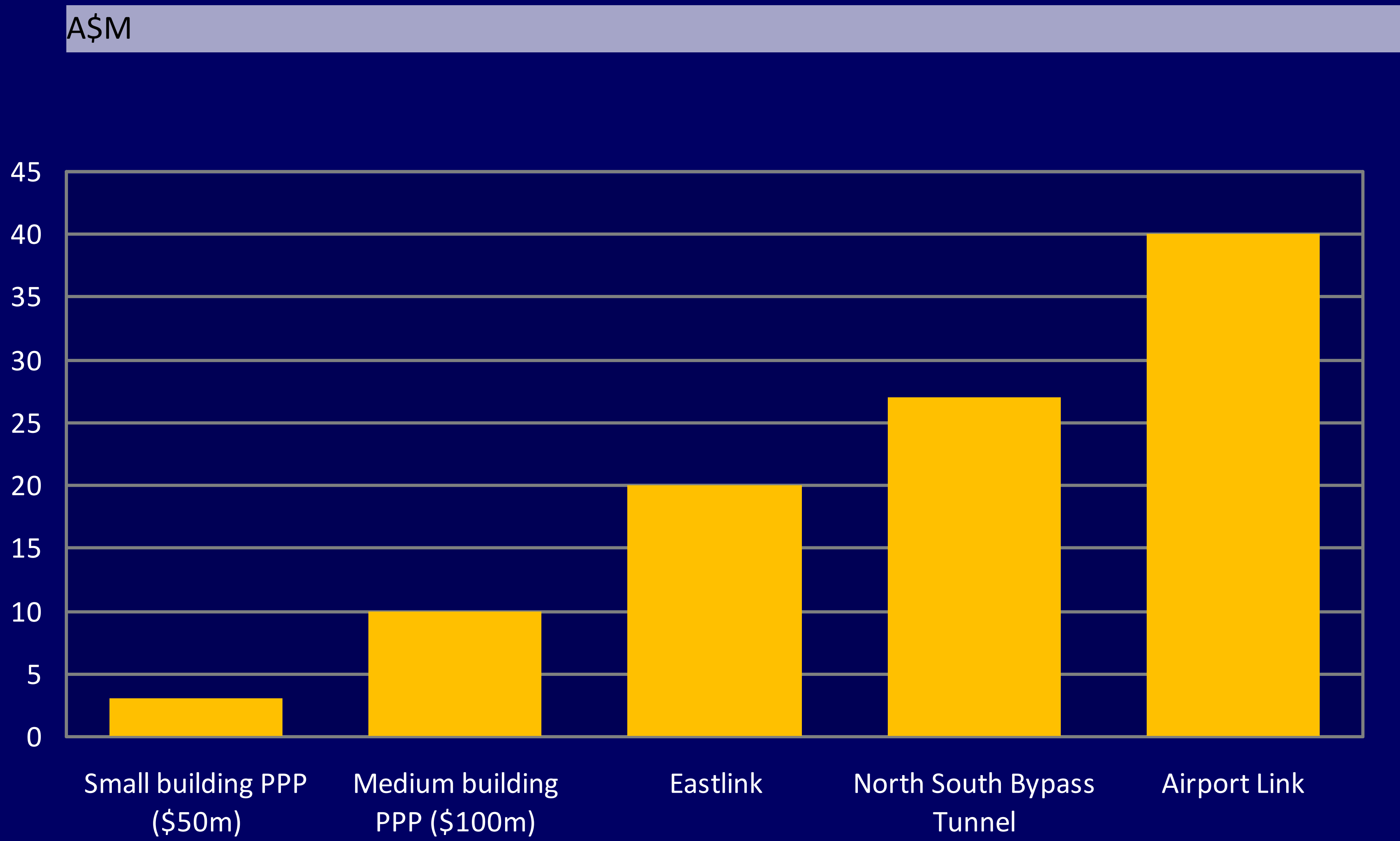


LIQUIDITY

- Major players have exited the market (bank and non bank)
- Smaller capital pool remaining and smaller mandates for remaining players
- Short/medium term Governments will need to assist with project liquidity for larger projects

SOUTHERN CROSS STATION
VIC, LEIGHTON CONTRACTORS

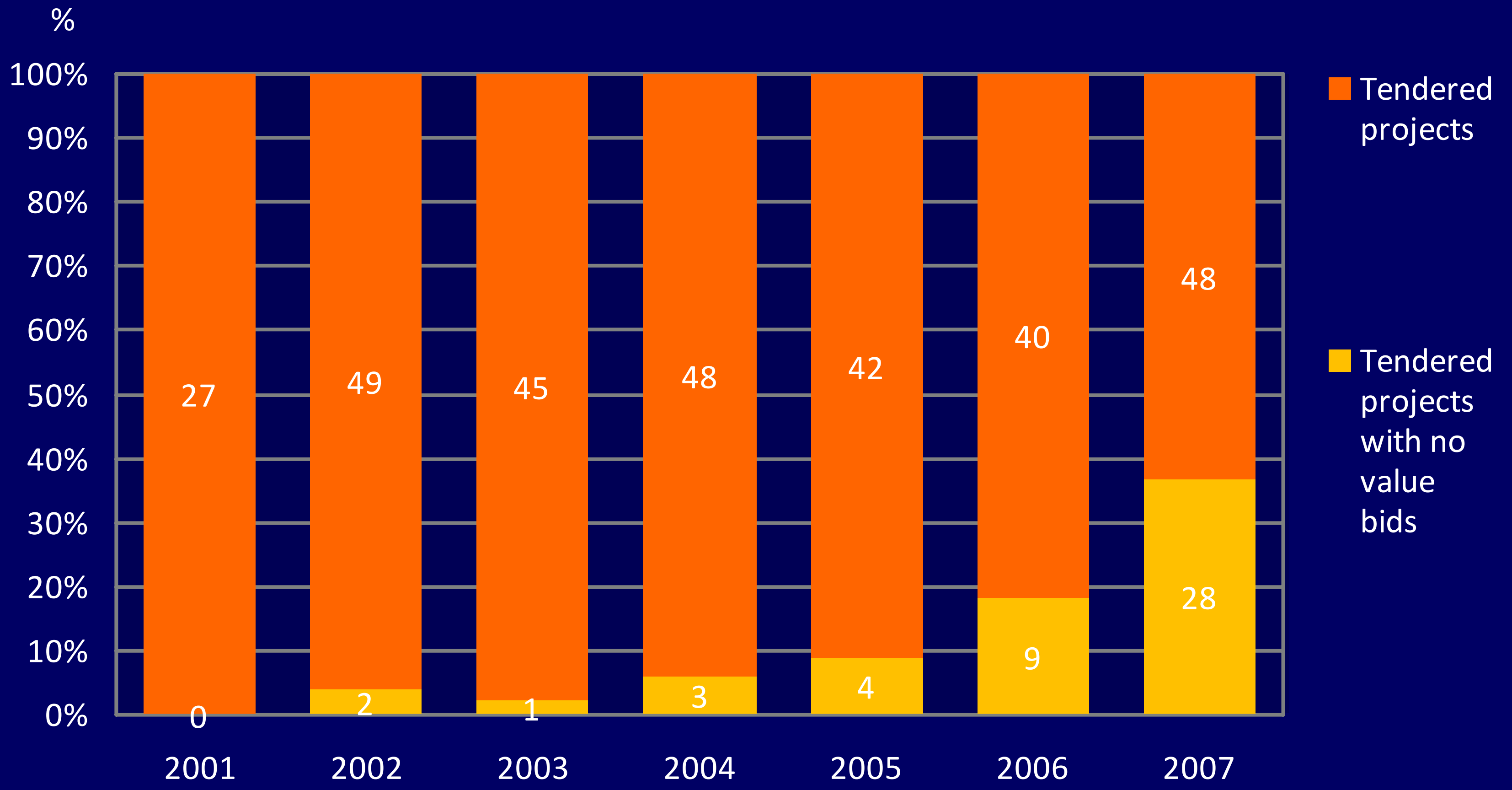
BID COSTS CONTINUE TO RISE



Source: LHL internal analysis

TENDERED PROJECTS IN JAPAN

The percentage of tendered projects receiving no valid bids has climbed year by year.
In 2007, 40% of all tendered projects were not bid on.



Source: Japan Cabinet Office

SYDNEY DESALINATION PLANT
NSW, JOHN HOLLAND

CONCLUSION

- **Current market requires an evolution**
  - **Procurement**
  - **Financing**
- **Governments need to be courageous to deliver infrastructure and jobs**

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