

6 November 2003

## Address To Shareholders

*A Presentation to the 42nd Annual General Meeting of Leighton Holdings Limited by the Chairman Mr John Morschel.*

### Introduction

On behalf of the Board of Directors, I am pleased to report that the Company recorded a solid profit result during the 2003 fiscal period despite the impact of the Nextgen write off. A record level of work was also secured, which is expected to underpin growth over the next few years.

### Financial Highlights

The results reflect a strong underlying performance from construction activities across the Group's diversified contracting operations in Australia and Asia, and a significantly increased contribution from our Australian property development activities:

- Total operating revenue, including joint ventures, increased by 7 percent to a record level of \$5.6 billion.
- New contracts, extensions and variations secured by the Group during the year totalled \$6.8 billion – up 28% on last year.
- The Group's success in securing some large-scale projects such as the Westlink M7 Motorway, the Central Reclamation project in Hong Kong, the KENS property development project in Sydney and the acquisition of contracts from Transfield, boosted work in hand at 30 June to an all time record of \$9.7 billion – up 15% on the previous year.
- Operating profit after tax of \$140 million decreased by 17 percent. As mentioned earlier profit was impacted by the write off of Nextgen. Despite the success achieved by Leighton Contractors with the physical construction of the Nextgen fibre optic cable network, an agreement could not be reached which satisfied all investors as to the future viability of Nextgen. This ultimately resulted in a consortium of bankers appointing a receiver to Nextgen Networks Pty Limited in June 2003. Leighton wrote off its remaining exposure to Nextgen at year-end.

The Group's balance sheet remained strong with \$371 million of net cash and shareholders' funds 9 percent higher at \$856 million.

Leighton's return on average shareholders' funds, at 16.8 percent in 2002/2003, achieved a ranking of 21st out of the top 100 companies listed on the Australian Stock Exchange.

### *Australia/Pacific Operations*

I would now like to review our operations during the year. Firstly, Australia/Pacific operations contributed \$145 million in profit before tax, an increase of 3% on total revenue of \$4.6 billion which was up 15% on the prior year.

Thiess recorded another strong contribution to profitability and again increased its forward workload. A highlight for Thiess during the year was the commencement of the \$878 million Parramatta Rail Link contract in New South Wales, the largest single publicly-funded infrastructure contract in Australia. Thiess' mining operations in Australia continued to perform strongly with work being undertaken at eight coalmines across New South Wales, Queensland and Victoria.

Leighton Contractors performed well and continued to build on its reputation as a leader in the area of complex infrastructure projects, winning a number of significant new contracts, which included the \$1.5 billion joint venture contract to design, construct, operate and maintain the 40km Westlink M7 Motorway in Sydney connecting the M5 at Liverpool to the M2 at Blacktown.

John Holland increased contribution to Group results for the year with the most significant event being the acquisition of selected contracts and resources from Transfield Construction and the subsequent transfer of over 800 Transfield employees to John Holland. With operating revenue up 26 percent and work in hand up 16 percent John Holland has strengthened its position in the market and is now one of Australia's most diversified construction contractors.

Leighton Properties also maintained a good level of activity and it too increased its contribution to Group results during the year. A highlight was the commencement of the \$630 million KENS project, a commercial office tower development in the heart of Sydney's CBD which was pre-leased and pre-sold to Westpac.

Our total Australia/Pacific revenue was \$4.6 billion for the 12 months to June 2003. \$1.5 billion of that came from work completed for the resources sector. This represented a 52 percent increase on the prior corresponding period, and this sector is now the Group's largest source of revenue in the Australia/Pacific region.

Continued investment by governments and the private sector in roads and rail infrastructure projects such as the Parramatta Rail Link and Westlink M7 Motorway in Sydney, the regional fast rail project in Victoria and the Alice Springs to Darwin railway have increased revenue from the engineering and infrastructure sector in Australia by 24% to \$1.5 billion and boosted work in hand during the year by 45% to \$3.1 billion.

Building and property revenue at \$910 million remained steady during the year, but work in hand was up strongly by 128 percent to \$1.43 billion fuelled by the success achieved by Leighton Properties.

The Group continued to grow its presence in the Operations & Maintenance sector and activity for the year was up 5 percent to \$528 million. Work in hand decreased to \$1.01 billion, due to the current lack of activity in the telecommunications sector.

### *Asian Operations*

Turning now to our Asian operations. Despite the serious economic downturn experienced across most of the markets in the region and the impact of adverse currency movements during the year, the Group's Asian operations reported another improved pre-tax profit contribution of \$81 million which was generated from a reduced total revenue of \$996 million.

Contract mining in Indonesia, construction in Malaysia and rail work in Hong Kong were the major contributors to this result.

While work levels in Asia fell by around 20 percent to \$1.6 billion at year end, work in hand since 30 June has been boosted by a \$560 million joint venture tollroad project in Malaysia, a \$350 million joint venture tunnel project in Hong Kong and around \$1.7 billion of mining contracts in Indonesia.

The restructure of Leighton Asia at the beginning of the year into two business entities with the formation of Leighton Asia (Northern) based in Hong Kong and Leighton Asia (Southern) based in Kuala Lumpur, has progressed satisfactorily during the year and will facilitate expansion of the Group's activities throughout the region.

### **Dividend**

Moving now to dividends. Directors were pleased to announce an increased final ordinary dividend of 27 cents per share. This dividend was 100% franked and was paid to shareholders on 30 September 2003. When added to the interim ordinary dividend of 17 cents per share paid in March 2003, which was also 100% franked, the total ordinary dividend for the year rose by 5 percent to 44 cents per share. This represented a dividend payout ratio of 85 percent.

Leighton's objective is to provide superior total shareholder returns and the graph on the screen illustrates the Group's achievements in this regard with the Total Shareholder Return achieved over the last 10 years exceeding returns provided by the All Ordinaries Accumulation Index by more than 360 percent.

### **Leighton Note Issue**

As you would be aware, late last month the Company announced that it intends to raise up to \$200 million through an issue of convertible unsecured subordinated resettable notes. The issue of these Leighton Notes forms an important part of the Group's capital management programme, which aims to optimise the capability of the Leighton Balance Sheet. The Group uses its strong financial position to fund capital investments and to support guarantees, bonds and letters of credit. Proceeds raised through the issue of the Leighton Notes will be used to support the Group's ability to bid for and secure major infrastructure projects such as the \$1.8 billion Mitcham-Frankston Freeway in Victoria.

Leighton shareholders with registered addresses in Australia on the Company's share register as at 7.00pm on 20 October 2003 will receive a preferential allocation over other retail applicants if there is excess demand for the Leighton Notes. A postcard outlining how shareholders can apply for a copy of the prospectus and a personalised application form has been mailed to shareholders and an information desk will be opened in the foyer of the hotel following today's meeting to handle shareholder enquiries. So if you have any questions on this matter, do go to the information desk.

### **Governance and The Board**

As I mentioned at last year's AGM, key amongst the Group's core values is a belief in robust corporate governance, ethical behaviour, effective communication to stakeholders, respect for the environment and work practices that keep people safe as well as enthusiastic about their work.

The Company is focused on being at the forefront of industry-best practice for corporate governance. The Board continually monitors issues such as risk management and ethics with the intent of assessing and safeguarding the interests of the Group's stakeholders, namely shareholders, clients, employees and the community.

In advance of new ASX listing rule requirements, which come into effect next year, the Company has published a Statement of Corporate Governance Practices in a booklet form. This outlines Leighton's current practice in relation to the ten core principles identified by the ASX Corporate Governance Council as underlying good corporate governance. A copy of this booklet was forwarded to shareholders with this year's Concise Annual Report. I commend the booklet to all shareholders. For those shareholders who would like an additional copy of this publication, these will be available following today's meeting at the information desk. The Statement has also been posted on the Leighton website.

Shareholders will note from the report that there are two areas where Leighton does not comply with the ASX Corporate Governance Guidelines. The first being in relation to the Board comprising a majority of Independent Non-executive Directors. Leighton currently has a Board of twelve, six of whom are Independent Non-executive Directors. The Chairman who is independent has the casting vote in the case of a deadlock.

The second being the Chairman of the Audit Committee who is a Non-executive Director but not an Independent Non-executive Director. The Audit Committee's Chairman has served on the Committee since 1991 and is a qualified practising Chartered Accountant.

During the year we restructured the Audit Committee so that it comprised only Non-executive Directors and a majority of Independent Non-executive Directors.

We also added another Independent Non-executive Director to the Remuneration Committee so that the majority of members are Independent Non-executive Directors.

## **Conclusion**

So, ladies and gentlemen I am pleased to advise that the outlook for next year is strong with a record level of work in hand which is spread across our diverse business units both within Australia and Asia.

Operating revenue recorded during the first three months of the current financial year was \$1.3 billion. Whilst this was in line with last year, it is expected to increase during the course of 2003/04 as major projects come on stream. An operating profit after tax (unaudited) of \$36.4 million was generated in the first quarter, which was in line with expectations. Work in hand at 30 September stood at \$10.0 billion, an increase of 4% for the quarter.

On behalf of the Board, I would like to thank our shareholders for their continued support. I also express the Board's appreciation to Leighton's management team and employees for their excellent work during the year. I would also like to thank my fellow Non-executive Directors for their invaluable contribution during the year.

The outlook for Leighton is very positive. Our record workload will lead to increased revenue in the coming year and the Board is confident that the Group will achieve an after tax profit in excess of \$180 million in 2003/04.