

11 November 2004

Address to Shareholders

A Presentation to the 43rd Annual General Meeting of Leighton Holdings Limited by the CEO Mr Wal King.

“Delivering on our potential”

Introduction

Over the last decade, the Leighton Group has enjoyed a great run. We've grown enormously, delivering strong returns to shareholders for well over a decade. We've also added value for our clients, created rewarding careers for our employees and satisfied - I hope - our other stakeholders.

Unfortunately though, this year's result was far from satisfactory, marred by two building projects in Leighton Contractors. And for that we are deeply disappointed and regret the impact on shareholders. However, I believe that the issues are largely behind us and we are now poised to spring back to more normal levels of profitability. Today, I'd like to talk about how we are going to deliver on the Group's inherent potential.

But before I do that, I would like to show you an extract of some of the video from the DVD, which accompanies this year's Annual Report. It features our operating company managing directors, all of whom are here today and will be available to talk with you following the formal part of the meeting.

Turning now to our theme of 'Delivering on our potential'. The Group's inherent potential relies on three things:

- a sound strategy,
- a favourable set of market conditions, and
- the ability to execute or deliver.

Let me first talk about our strategy.

Strategy

At the heart of our strategy, and our success, are three fundamental elements:

- diversity,
- financial strength, and
- people.

Since the announcements, earlier this year, of the issues on Spencer Street Station and Sydney Hilton, a number of people have queried our strategy and asked whether we

will be making changes. Well the answer to that is an emphatic no. You don't change strategy because of some execution and procurement issues.

We are committed to our strategy. We believe that it represents the right way to achieve our performance objectives, which we have been able to do over recent years. So let me describe the first fundamental part of our strategy.

Diversity, which is built around teams of people, committed to winning.

- Firstly, diversity by brands – Thiess, John Holland, Leighton Contractors, Leighton Asia (Northern & Southern), and Leighton Properties. The academics and MBA's say to me we should make Thiess a specialist miner and John Holland a specialist builder. I respond by saying that we'd lose market share – and we are not prepared to give that up..... 1 plus 1 plus 1 doesn't always equal three, despite what the text books say.
- Secondly, diversity by markets – be they engineering and infrastructure, mining & resources, building and property, or operations and maintenance. We look to apply our contracting skills wherever we can and we have established a very broad footprint across these markets.
- Thirdly, diversity by geography – across Australia, Asia and the near Pacific. We have a long established presence in these markets. We know them and we will look to extend them in Asia and our near neighbours like New Zealand.
- And finally diversity by delivery systems. We provide services to clients through delivery systems ranging from hard dollar tenders to negotiated contracts to working in alliances to PPP schemes. Each has different risks and returns and having a mix is important to our financial success.

This diversity allows us to balance the ups and downs that happen across markets, or companies, from time to time. It provides balance across the Group and gives a strategic critical mass.

The second element of our strategy is financial strength. The strength to invest in the best mining or tunnelling equipment. The strength to take equity stakes in projects – like the WestLink M7 or Lane Cove Tunnel, thereby secure a better contracting margin and a development profit. The strength to provide bonds and guarantees, and the strength to provide working capital to projects. All of this requires a significant financial capacity, one that is a source of competitive advantage.

But to make this work requires discipline, focus and an entrepreneurial spirit. Writing a strategy is easy; making a strategy work is another matter.

And that is where our people come in – the third element of our strategy. We employ some 18,000 people - and at any time the equivalent of 20,000 subcontractors - across Australia and Asia. They make the strategy work.

Competitors sometimes try and replicate our strategy. Or they try and buy the same equipment that we have. But ultimately they don't achieve what we do, because they don't have the people that we have. People with the same commitment and motivation.

We are very proud of our people. We believe that given the opportunity, people will rise to the occasion and deliver. We empower and encourage them to perform, and yes, we reward them well. And despite some disappointments this year, we will continue to invest in - and believe in - our people.

So ultimately what makes the Leighton Group special is the strategic combination of diversity, financial strength and people. These three elements are inextricably linked. They are the cornerstones on which our business is built.

Australian market outlook

Turning to the outlook in Australia, which we see as very, very positive. In my 36 years with the Leighton Group, I have never seen as many opportunities for our business as there are currently in Australia. The Australian construction market is in the midst of a strong upswing. One that should be 'stronger for longer'.

The engineering and infrastructure market is being boosted by a number of large transport related infrastructure projects. In Sydney, we are seeing an unprecedented transport infrastructure boom, with four major road and rail projects underway at the same time. The three largest, which Leighton Group companies are constructing, are worth more than \$3.5 billion in total.

In Melbourne, the ConnectEast consortium, which includes Thiess and John Holland, was recently announced as the preferred tenderer for the \$2.5 billion Mitcham-Frankston Freeway, Australia's largest ever transport infrastructure project. This 40km road through Melbourne's eastern suburbs will take four years to build and will be the largest single project ever undertaken by the Group. Congratulations to everyone involved on the bid team.

A whole range of other road and rail projects will commence over the next few years, boosted by the Federal Government's AusLink land transport plan. We expect to see major infrastructure projects in Sydney commence like the M4 East Motorway connection and the F3 Freeway connection. And in Queensland, we should see the duplication of the Gateway Bridge and the Brisbane North South Bypass Tunnel proceed.

At the same time as the infrastructure market is booming, we are experiencing extraordinary growth in demand for Australian resources, particularly from China.

Strong global demand is expected to support Australian exports of coal. Thiess' strong position in the contract mining market, and a number of large long-term contracts should provide a solid base of contributions for the foreseeable future. To do that we

utilise one of the largest fleets of earthmoving equipment in the world. Caterpillar tells me that we are now one of their largest customers.

A number of major minerals and energy projects are currently under construction or consideration around the country. The Group is well placed to participate in the development of these projects.

The outlook for the non-residential property market remains positive, given the strength of the domestic economy. The Group has over \$2 billion worth of work in hand in building and property, with a mix of office, defence, industrial, retail, and hospital work.

Just down the road, Leighton Contractors are building the KENS development for Leighton Properties, which will be the new global headquarters for Westpac. This will be the second biggest office tower in Sydney when complete and if you haven't already, you should walk down to Kent Street and see the progress being made.

Leighton Properties' \$1.7 billion development pipeline should continue to provide construction opportunities for Group companies. I would like to acknowledge the fine performance of the Leighton Properties team this year.

Some \$3 billion worth of Public-Private-Partnerships (PPP's) are being progressed by the Federal and State governments in the areas of defence, health, education and correctional facilities at the moment. This figure includes around \$2 billion worth of construction and another \$1 billion worth of long-term maintenance work.

The Group will continue to pursue these opportunities, albeit cautiously following our recent experience in Melbourne. We must ensure that risk is appropriately allocated between the private and public sectors.

A real focus for the Group is the growing Operations and Maintenance market. We have in excess of \$1.5 billion worth of work in this market, maintaining roads and railways, collecting tolls, operating landfills and waste transfer stations, and rehabilitating telecommunications cables. This work is usually longer term in nature and provides a steady contribution to the Group.

Asian market outlook

Now turning to the outlook in Asia. The region's economies are experiencing solid growth and this seems set to continue into 2005, due to the strength of China and the US.

Indonesia, as a major supplier of resources, is well placed to benefit from continued growth in the region. Thiess Indonesia has a very substantial presence in that country through its large, life-of-mine coal contracts.

We expect that these mines will continue to provide a good contribution for a number of years. We will however, continue to closely monitor the operating environment in Indonesia, given our exposure to that country.

Hong Kong appears to be recovering and the government continues to roll out substantial levels of road and rail infrastructure spending. Leighton Asia (Northern) has a record level of work in hand in Hong Kong, which substantially underwrites the business for the next few years. In nearby Macau, there are likely to be further casino-related building opportunities, following on from the award of the construction of the new Wynn's casino.

Leighton Asia (Northern) is focusing on selected construction projects in Thailand and some mining projects in Laos. Vietnam is experiencing strong economic growth and offers some good prospects in power generation and gas-related projects, as well as rail work. The Philippines continues to be a patchy market for us but the new mining contract at Rapu Rapu will provide ongoing work there.

In Malaysia, Leighton Asia (Southern) is pursuing a number of power station, telecommunications, transport infrastructure and building prospects. Malaysia has been somewhat subdued while the new government has settled in, however we expect to see more opportunities emerging in the near future. We are also more confident that the Kuala Lumpur-Putrajaya Highway will proceed, which will significantly boost activity levels in that market.

Leighton Asia (Southern) has a smaller presence than Thiess in Indonesia, but has developed a good resources and civil engineering business. Prospects for them appear quite bright in this market. In other emerging markets, Leighton Asia (Southern) has some profitable civil and marine projects in Sri Lanka. It is also developing a strategy for penetrating the large, growing but complex, Indian market. On the back of their Indonesian mining operations, Thiess are also evaluating some contract mining prospects in India.

Ability to deliver

At the start of this presentation I said that our inherent potential relied on three things; a sound strategy, a favourable set of market conditions, and the ability to execute or deliver.

We have a sound strategy, which has delivered for us over the years. We also have an abundance of opportunities, across our core markets. What we have to do now is to deliver on the Group's latent potential.

We did receive a wake up call earlier this year. The events of Spencer Street Station, Sydney Hilton and the Southland Colliery have reinforced the fact that our business is a risk business. Effectively identifying and managing that risk is fundamental to the success of our business. Managing by pricing the risk correctly, by laying the risk off to someone else, by contracting out the risk, or by walking away from it.



I can assure you that across the Group we have, and will continue to maintain, a disciplined approach to bidding work. We have also strengthened - as the Chairman said in his presentation - risk management controls across the Group. This strengthening included changes to management, at both Leighton Holdings and at Leighton Contractors, and the allocation of extra resources to risk management.

Spencer Street Station, in particular, has been a sobering experience for the management of this company. And while there are no absolute guarantees on that project – or any other project – we have learned from it and we will improve as a result.

Conclusion

So to bring all of this to conclusion. As you can see, I am very positive about the outlook for the Group. Winning work is not the issue for us; there are more than enough opportunities. It is about remaining disciplined in project selection and focused on execution.

We have the strategy in place. We have the diversity, we have the financial strength and, I believe, we have the people. We also have a good level of momentum across the businesses.

Work in hand will peak at around \$15 billion with the award of the Mitcham-Frankston Freeway, but should ease back to \$12.5 to \$13.0 billion by June 2005. This momentum, and the opportunities still to emerge, gives us a great deal of potential going forward.

I expect the Group to spring back this year to more normal levels of profitability. And I look forward to reporting to you next year on how the Group is delivering on its potential.

Thank you