Leighton Holdings

11 November 2004

Address to Shareholders

A Presentation to the 43rd Annual General Meeting of Leighton Holdings Limited by the Chairman Mr Geoff Ashton.

Introduction

On behalf of the Board it is disappointing to report that the Company recorded a profit for the year well below expectations. The result was impacted by significant project provisions within Leighton Contractors. These overshadowed a very strong underlying operating performance by the rest of the Group. The Board regrets the impact that these provisions have had on shareholders - particularly in terms of the fluctuations in the Company's share price following the profit-downgrade.

Financial Highlights

However we have much to be proud of. All operating companies within the Group, with the exception of Leighton Contractors, performed strongly, and the Group was awarded a significant amount of new work:

- Total operating revenue, including joint ventures, increased by 7 percent to a record level of $6.0 billion.

- New contracts, extensions and variations secured by the Group during the year totalled $9.6 billion – up by 41% on last year.

- The Group's success in securing some large-scale projects, such as:
  - the $1.1 billion Lane Cove Tunnel joint venture in Sydney,
  - $1.7 billion worth of extensions to mining contracts in Indonesia,
  - some large construction projects in Hong Kong and Macau,
  - and the Perth- Mandurah railway in Western Australia

  Work in hand at 30 June was boosted to an all time record of $13.0 billion – up 35% on the previous year.

- Operating profit after tax of $110 million decreased by 21 percent. As I have mentioned, the result was adversely impacted by the provisions on the Spencer Street Station and Sydney Hilton projects. In addition, our investment in the Southland Colliery was written off following a fire and the subsequent closure of the mine.

The Group's balance sheet remained strong with shareholders' funds at $844 million holding steady and the net cash position increasing to $511 million. During the year, the Group further strengthened its financial capacity through the successful issue of $200 million of Leighton Notes. The issue closed oversubscribed, with excess demand from institutional and retail investors.

Australia/Pacific Operations

I would now like to review our operations during the year.

Total revenue generated from our Australia/Pacific operations was up by 10% on the prior year to $5.0 billion, while the pre-tax profit result of $59 million was severely impacted by the provisions taken in Leighton Contractors.

The disappointing performance on the two building projects in Leighton Contractors has marred the otherwise strong performance of the Group's Australia/Pacific operations and overshadowed the great achievements made by the Group's other operating subsidiaries in the region during 2003/04.

Thiess recorded another very strong contribution. For the third year in succession it increased its forward workload. Thiess' contract mining and resources-related infrastructure projects in Australia performed strongly with work being undertaken in coalmines across New South Wales, Queensland and Victoria. A highlight of the year was the award of the contract to design, build, fund and operate Sydney's $1.1 billion Lane Cove Tunnel to a consortium, which included both Thiess and John Holland. Thiess performed well on the Epping-Chatswood Rail Link in Sydney and Regional Fast Rail projects in Victoria. It was also awarded a number of new mining contracts in New South Wales and Queensland.

John Holland recorded another strong year as well, providing a substantially increased contribution to the Group's results. With operating revenue up 32 percent and work in hand up 76 percent, John Holland has grown fourfold over the past four years. After successfully bedding down the acquisition of Transfield Construction activities last year, John Holland has strengthened its presence in the market and is now one of Australia's largest and most diversified contractors. Rail work provided a substantial contribution with the successful completion of the Alice Springs-Darwin railway line, some five months ahead of schedule, and with good progress on the Regional Fast Rail Projects in Victoria.

While Leighton Contractors' overall result was far from satisfactory, the company's contract mining and infrastructure construction activities did perform well. Leighton Contractors made good progress on the $1.5 billion joint venture contract to design, construct, operate and maintain the 40km Westlink M7 Motorway in Sydney. The company was also awarded two of the major packages to design and construct the Perth-Mandurah rail line in Western Australia.

Leighton Properties achieved all of its performance targets last year and delivered a record result. While the property market in Australia remains leveraged to the economy and global events, Leighton Properties has continued to build its development portfolio by securing a number of new opportunities. It is currently progressing property developments totalling around $1.75 billion.

Asian Operations

The Group's Asian operations reported an increased pre-tax profit contribution of $87 million, which was generated from revenue of $987 million, a similar level to last year. Contract mining in Indonesia and construction activities in Malaysia and Hong Kong were the major contributors.

Work levels in Asia almost doubled to $3.1 billion at year-end boosted by the award of $1.7 billion of new contract mining work to Thiess in Indonesia.

Leighton Asia (Northern) also performed strongly winning over $500 million of new work. This included joint venture contracts for the construction of the Eagles Nest road tunnel project in Hong Kong and a new hotel and casino complex in nearby Macau.

In Malaysia, Leighton Asia (Southern) was awarded a joint venture contract for the double tracking of the existing rail line between Rawang and Ipoh north of Kuala Lumpur. Work on the design and construction of the 26 kilometre highway from Kuala Lumpur to Putrajaya was suspended during the year while the concessionaire finalised a financing package for the project. The finalisation of the financial package should be completed during the first half of the current financial year and work should then recommence.

The restructure of Leighton Asia into two business entities which commenced two years ago with the formation of Leighton Asia (Northern) based in Hong Kong and Leighton Asia (Southern) based in Kuala Lumpur has progressed satisfactorily to date and will facilitate expansion of the Group's activities throughout the region.

Dividend

Moving on to dividends.

Directors maintained the final dividend in line with the prior period at 27 cents per share. This dividend was 100% franked and was paid to shareholders on 30 September 2004. When added to the interim dividend of 18 cents per share paid in March 2004, which was also 100% franked, the total dividend for the year rose by 2% to 45 cents per share. Whilst the dividend payout ratio was high at 112 percent, it reflects the Board's confidence in the Group's underlying performance in 2003/04 and the outlook for the next few years.

Leighton's objective is to provide superior total shareholder returns. While the Total Shareholder Returns graph shown on the screen indicates that the Group has exceeded the returns provided by the All Ordinary Accumulation Index by almost 300% over the past ten years the Board recognises that the Group's performance in this regard has flattened out over the past two years. The Board is firmly focused on working with management to return to a growth trend in total shareholder returns over the next few years.

Governance And The Board

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 Leighton Board has a strong track record for leadership in corporate governance. This year, for the second time, we have published the Statement of Corporate Governance Practices in a booklet form. A copy of the booklet was forwarded to shareholders with the Concise Annual Report. It outlines Leighton's current practice in relation to the ten core principles identified by the ASX Corporate Governance Council as underlying good corporate governance.

The Board recognises that the development of corporate governance is an evolving process. It requires the Board to continually evaluate its performance to ensure that its practices are adapted to meet the ever-changing circumstances that confront the Group.

This year, the Board has placed particular emphasis on risk management controls. Since the issues in Leighton Contractors emerged, the Board has been working to ensure that the Group's risk management and control framework represents best practice and is adequate to safeguard shareholders' interests.

In May, the Board initiated, and has continued to monitor, an extensive review of project risk management policies and procedures within the Group. The review, which was undertaken by management and an external consultant, has confirmed that the Group's existing policies and procedures are of a high standard. Nevertheless, the Board and management are committed to a process of continuous improvement. In this regard we have adopted recommendations from the review, to further strengthen the existing risk management framework.

The Board undertakes a number of processes to monitor risk management including site visits and presentations from operating company senior management. During the year, a number of directors have visited projects across the Group for briefings with management on sites including both the Spencer Street Station and Sydney Hilton projects.

To further emphasise the Board's commitment to health and safety, the Ethics Committee was reconstituted during the year to form a new Ethics and Compliance Committee. The new Committee's responsibilities have been expanded to include occupational health and safety, the environment, and general compliance.

Shareholders will have noticed that this year's annual report contains a great deal more disclosure on the Group's policies, procedures and performance on safety, the environment and the community. The report also contains a greater level of disclosure on Directors and Executives remuneration, in advance of the new remuneration disclosure provisions included in CLERP 9, which do not become effective until the 2004/05 financial year.

I wish to address the topic of remuneration of the CEO.

With this year's increased disclosure, it is difficult to make direct comparisons with remuneration figures published in last year's Annual Report. The 2004 report indicates total remuneration of $8.3 million. In fact, Mr King's come-to-work pay plus bonuses reduced from $6.1 million in 2003 to $4.3 million in 2004, proportionally more than the decrease in the Company's profit result.

The enhanced disclosure now includes retirement benefits, which have been accrued but not paid to Mr King during the period, and the purely academic accounting value of his options. It also includes accrued interest – paid at a commercial rate - on unpaid deferred bonuses, which Mr King has earned over his tenure, but not yet received. This interest accrual in my view, is in reality, a related party transaction and not a true item of remuneration.

Mr King has overseen a period of tremendous growth, both in terms of the company's performance – on any number of measures – and in terms of returns to shareholders. Mr King was appointed Chief Executive of the Group in 1987, having joined the Company in 1968 as a project engineer. He is now one of Australia's longest serving and most successful CEO's.

In 1987, the Leighton Group reported a profit of $6.6 million from revenue of $1.3 billion. The Company's share price was 90c and it was capitalised at around $100 million. *During his tenure, Mr King has not been provided with any significant equity in the Company.*

The Australian newspaper recently published the results of its Shareholder Scorecard survey, which analysed the performance of 764 Australian listed companies. It is pleasing to note that, over a 10 year period to 30 June 2004, Leighton achieved a Shareholder Rate of Return of 23.6% per annum, ranking the Company in the top 20 per cent of all companies surveyed.

Despite the reduction in profit this year, the Group still earned an average Return on Shareholders Funds of 14% – placing the Group 40th out of the Top 100 Australian companies.

The Board considers that Mr King's remuneration level is appropriate and reflects the Leighton Group's performance.

Conclusion

While the Group has navigated a very difficult year it remains in a very solid position.

With a strong balance sheet, an excellent market outlook and a record order book the Group is well placed to return to a more satisfactory level of profitability in the coming year.

Leighton Group companies provide an extensive range of project development and contracting services spread across their diverse business units, in Australia and Asia. The Group is renowned for its industry leading approach to business, its unique and diverse capabilities and the strength of its experienced senior management team. We are proud of the more than 17,900 skilled, experienced and committed employees that make up the Leighton Group. One of the great strengths of this Company is not the figures in the balance sheet. It is the great depth of skilled business, technical and project management talent across the Group's operating companies. The careful development of this talent pool has allowed us over recent years, to promote from within the organisation to our senior management ranks. It is from this source that we are developing our future leaders for the ongoing performance of the Group.

Operating revenue recorded during the first three months of the current financial year was $1.7 billion, which generated an operating profit after tax (unaudited) of $38.2 million. These first quarter results, for the 2004/05 fiscal period, are in line with expectations. Work in hand at 30 September stood at $12.5 billion, a decrease of 4% for the quarter.

The outlook for Leighton is very positive. Since 30 September Thiess has been awarded a $300m coal mining contract for Wesfarmers at Curragh North. Thiess and John Holland as members of the ConnectEast consortium were also successful in achieving preferred tenderer status to design and construct the $2.5bn Mitcham-Frankston Freeway in Melbourne in a 50:50 joint venture. We expect to increase revenue in the coming year and the Board is confident that the Group will achieve an after tax profit of around $180 million in 2004/05.

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