

**8 November 2007**

## **Address to Shareholders**

*A Presentation to the 46<sup>th</sup> Annual General Meeting of Leighton Holdings Limited by the CEO, Mr. Wal King AO.*

Thank you Chairman.

In the Chairman's address he referred to the continued strength of the core markets in Australia and an increasing diversification into the growth markets of Asia. He also mentioned that the Group has in place a number of new significant strategic initiatives that we are progressing.

Today I would like to discuss in more detail some of those initiatives. But before I do, I think we should hear from our Managing Directors on how their businesses performed last year and where they see the opportunities.

Our major markets are continuing to perform strongly, providing many opportunities.

In Australia, we have a growing population, we've under invested on infrastructure for decades, we have water shortages and we have the impacts of climate change. And governments are finally waking up to the importance of infrastructure in maintaining our prosperity.

At the same time we have a Federal Government – and some States – flush with cash, and an increasing preparedness to use private sector financing. All of these points support the long term outlook for infrastructure construction in this country.

The non-residential property market remains at very high levels. While activity in this market is influenced by interest rate movements and economic activity, we still see good levels of construction and property development opportunities going forward.

The growth of China and India, and their demand for Australia's resources provide great opportunities for us. As a country we are well placed geographically, we are politically stable and we are seen as a reliable supplier. These positives support a very strong outlook for our contract mining business.

And of course Asia is growing rapidly, which means that our construction and mining services are in demand across the region. Asia is a vast market with great opportunities and we seek to export our skills to countries that need them.

But we aren't naive enough to think that one - or a number - of these markets won't turn down some day. History has shown that these markets are cyclical and I've seen a few cycles.

So what does this mean for the Leighton Group. Well, if there is a downturn, you can be sure that we aren't just going to say 'too bad' and ride the cycle. We are pursuing a number of strategic initiatives that will allow the business to keep growing, and for shareholders to be rewarded.

Which brings me to the strategy.

Our diversity model provides a framework for how we define our markets. Diversity by brands, by markets, by geography and by delivery systems.

First and foremost, our strategy is based on being strong in our core markets in Australia.

That's in resources and infrastructure and property and services. We have to provide competitive, efficient construction and mining services at home before we consider expanding offshore.

But this model also provides a framework for further extensions to the business.

Today I want to talk about 7 key initiatives around that strategic framework. Some of these have seen substantial progress during the year but there is plenty more to be done.

The initiatives are:

- 1) Expanding our Asian and Gulf businesses
- 2) Expanding contract mining internationally
- 3) Become a leading infrastructure and resources developer in Australia and Asia
- 4) Moving into residential property development
- 5) Growing our Services businesses
- 6) Building our defence services business through an acquisition
- 7) Continuing an acquisition program generally

Let me talk about each of these initiatives in some more detail.

- 1) We are keen to expand our businesses in the growing markets of Asia and the Gulf Region.

Asia is a vast market that dwarfs Australia in terms of population and scale. The region is seeing enormous changes as the vast populations of India and China continue to industrialise and develop. And of course the Gulf Region is benefiting from very high oil and gas prices.

The Gulf is the biggest construction market in the world on a per capita basis and the opportunities are staggering. The United Arab Emirates believes that more than \$120 billion will be invested over the next four to five years on infrastructure projects in Abu Dhabi alone.

It is the reason we merged our Gulf operations with one of the leading construction contractors in the region, Al Habtoor Engineering, and acquired a 45% stake in Al Habtoor – Leighton by investing \$870 million. Al Habtoor - Leighton immediately becomes one of the region's largest multi-disciplined contractors.

Al Habtoor Engineering has undertaken a substantial number of large-scale construction projects in the Gulf, including high-rise commercial and residential buildings, hotels, airports, universities and infrastructure projects. It built Dubai's iconic 6-star Burj Al Arab, the world's tallest hotel.

Al Habtoor Engineering brings significant capacity to enable us to fully capitalise on the opportunities in the Arabian Gulf market. Al Habtoor has a highly qualified, experienced and professional team with a multi-national workforce of more than 25,000 employees.

Since Leighton International entered the Gulf just over two years ago, we have secured a number of iconic projects including the \$550 million Al Shaqab equestrian centre in Doha, Qatar and the \$650 million Saadiyat Island Expressway in Abu Dhabi.

While Leighton International has developed a considerable presence in the Gulf region in its own right, the Al Habtoor investment provides us with a quantum leap in one of the world's fastest growing construction markets. In line with the increased focus on the Gulf region, Leighton International is moving its corporate headquarters from Kuala Lumpur to Dubai. This reflects a shift in the centre of gravity of the business, from South-East Asia to India and the Gulf.

In India, we have entered into a 50:50 joint venture with leading developer Emaar MGF Land Pvt Ltd, in a deal worth approximately \$2.7 billion (Leighton's share US\$1.35 billion) over the next five years. The JV will provide design and construction services for Emaar MGF's projects across India and will immediately become one of India's leading construction entities. Emaar MGF has projects planned across India in residential, hospitality, commercial and retail, special economic zones (SEZ's) and IT parks, education and the healthcare sectors.

The Group is also developing plans to enter new markets in North East Asia as well as grow its presence in its established markets in South East Asia.

- 2) We are the largest contract miner in the world and want to expand our international contract mining operations.

The strength in the mining sector has been driven by the incredible demand for raw materials globally. Demand is forecast to remain at these high levels into the foreseeable future, particularly for coal and iron ore, supporting the outlook for contract mining.

This year we expect to mine more than 100 million tonnes of coal and in excess of 100 million tonnes of iron ore.

In our established markets of Australia and Indonesia we intend to continue to improve our competitive position. As the Chairman noted in his address, John Holland has entered the market with the acquisition of Marshall's Mining and Earthmoving.

But global mining is a long-term strategy. We are focusing on a number of emerging markets which we are looking to successfully enter over the next 5 years. These include India, China and Canada, which are 3 of the biggest resources markets in the world.

In India, some 26 coal blocks with reserves of over 8.5 billion tonnes have been allotted for development by government companies and approved end users. This allotment is opening up contract mining opportunities and Leighton International and Thiess have formed a joint venture - Thiess Leighton India (TLI) - to pursue some of these.

Leighton Asia has opened an office in Beijing in China and is building a local mining team. This team is targeting resources opportunities in China and Mongolia that develop from local power companies as well as international investors.

In Canada, Thiess has been assessing opportunities in the Canadian oil sands. While vast, these opportunities will be considered cautiously.

3) We aim to become a leading infrastructure developer in Australia and Asia.

Over a number of years we have built a significant portfolio of investments worth some \$500 million. This portfolio currently includes projects like the:

- North Luzon Expressway in the Philippines,
- Lane Cove Tunnel in Sydney,
- WestLink M7 in Sydney,
- EastLink in Melbourne,
- Defence Headquarters at Bungendore near Canberra,
- RiverCity Motorway in Brisbane, and
- 2 tollroads in India.

And we shouldn't forget that the Group has also developed privately financed infrastructure like the:

- M5 Motorway in Sydney,
- Eastern Distributor in Sydney,
- Alice Springs – Darwin Railway,
- Nextgen fibre-optic cable, and
- Star City Casino in Sydney.

Through its involvement with these projects the Group has developed skills that are in demand and can be exported. Skills in project finance and the structuring of infrastructure projects. Skills in project managing large, complex infrastructure; the type that is required to be developed in Asia.

Many of the markets in Asia that we operate in are pursuing ambitious infrastructure development plans and we are well positioned to export our skills and financial strength into those markets.

We also see a number of large infrastructure projects still coming to market in Australia over the next few years. Projects like the:

- \$3 billion desalination plant in Victoria,
- \$1 billion desalination plant in Western Australia,
- \$3 billion Airport Link tollroad in Brisbane,
- \$2 billion plus Eastern Fwy-CityLink connector in Melbourne, and
- M4 East Tollway in Sydney, which could be anywhere between \$3 billion and \$7 billion, depending on the options that are chosen.

We believe the Group is well placed to play a bigger role in the development of much needed infrastructure in Australia and around the region.

In order to deliver that infrastructure we need capacity, which is where Macmahon comes in. We've entered into a Memorandum of Understanding (MOU) with Macmahon which formalises a partnering relationship between the two companies.

Having a partner of choice relationship with Macmahon increases the Leighton Group's ability to take on and execute work. It also boosts Macmahon's ability to participate on projects that may have been beyond its capacity.

It will strengthen Macmahon's position as a vigorous, independent, and expansive competitor in the Australian construction, engineering and contract mining industries.

I am very pleased with the agreement which represents a good outcome for shareholders of both Leighton and Macmahon.

- 4) We have entered residential property development and aim to be a substantial player.

We are attracted to the residential property market because of its size, by its prospects and by its complementary fit. At around \$31 billion, residential property is a larger market than non-residential property. And it's a market that is forecast to expand with a recovery in New South Wales and sustained demand from Queensland. Changing demographics with a move towards smaller households and a growing population are expected to drive future demand for both housing and apartments.

We have entered the market by acquiring a strategic 40% stake in Devine Limited. Devine is a very good fit for Leighton. The company offers affordable housing in Queensland, Victoria and South Australia, and is highly regarded for its innovation, modern, quality homes and dedication to service. It is also known for its high-rise unit developments, particularly within the Brisbane CBD.

The acquisition will allow Devine to fast-track its diversification program and help it to progress a number of exciting development opportunities that the company has recently identified. It will also allow Devine to undertake further geographic expansion in the medium term.

Mr Vyril Vella, formerly Managing Director of Leighton Properties and Mr Graeme McOrist, a former senior executive with Leighton have been appointed to the Board of Devine to represent the investment in the company.

But this is really only a first step for us. Our overall objective is to have a residential business that is similar in size to our existing non-residential property business.

We will consider other acquisitions in the next couple of years and have the option to step up our stake in Devine when the standstill agreement expires in November 2010. In addition, we hope this move will provide Leighton Properties with more JV opportunities for mixed use developments, creating additional organic growth.

5) We want to continue to grow our Services business.

The services market, across transport, utilities, mining and the property sector continues to grow and is approaching \$30 billion per annum. The increasing number and value of operations and maintenance service contracts is being driven by sustained levels of investment in infrastructure and buildings around Australia.

This is a market that is growing but also consolidating. Clients don't want to deal with a huge number of operations and maintenance or services contractors. They are looking to rationalise and this suits us.

This is also a market that offers long-term contracts, much longer than the typical construction work. Construction of Sydney's Eastern Distributor by Leighton Contractors took only 2 years and 8 months, but the company has a 49 year operations and maintenance contract. That might nearly see out my term as CEO.....

We will pursue services work in three ways:

- Organically, continuing to build existing businesses and by leveraging off construction projects like the Eastern Distributor,
- Via acquisitions, and
- By moving up the value chain, moving into related areas where we can add value like asset management.

Each of our operating companies has a substantial services business and these are very important to our diversity.

6) We still see defence contracting as an attractive industry for LHL.

Defence spending is increasing and the industry remains limited to a few medium sized contractors and a range of smaller suppliers.

The Australian Submarine Corporation remains the natural vehicle for entry into the defence maintenance and services market. It is the preferred contractor for the \$6 billion Air Warfare Destroyer contract and has the through-life-support contract for the Collins Class submarines. This is a 15 year contract with a 10 year option.

There are some events such as the looming Federal election which could impact the timing of a sale. But we are considering potential partners and are hopeful of being able to make a bid. We may also consider other opportunities in the defence contracting market.

7) And of course we will continue to pursue acquisitions.

Acquisitions have been a key part of our growth strategy, delivering revenue and people. This year we expect some 40% of our revenue to come from the acquisitions we have made. And they will continue to be integral to our growth.

We believe we have the ability to identify and acquire under performing business and to turn them around. We bring our financial disciplines and controls. We also bring a philosophy that people perform best when given clear goals, when they have accountability and responsibility, and they are rewarded for their performance.

Acquisitions do require the investment of significant capital. But the Group has funding options in place including; undrawn operating leases, additional hybrid capacity, debt and our own cash - excluding working capital. At the moment the Group has in excess of \$1 billion of potential firepower to spend on acquisitions.

We've looked at a large number of potential acquisitions this year and will continue to do so. But we will be sensible about them - they must make strategic and financial sense.

### Summary

So to bring all this together.

We see very strong conditions in our core markets. They are all running strongly in our favour and should continue to do so for the foreseeable future.

The sustained strength of the Australian infrastructure market, complemented by the ongoing demand for Australia's resources, provide support for the Group's construction and contract mining activities. We also have a growing presence in Asia and the Gulf – the fastest growing region of the world – and a great opportunity to further extend the business in this market.

Ultimately in business, you grow or you die. And we aren't going to rest on our laurels or take the positive market conditions for granted. We are actively pursuing the growth initiatives that I have outlined today and made good progress with a number of them.

I look forward to updating you next year on these strategic initiatives and how we are continuing to take this great company forward.