

6 November 2008

Address to Shareholders

A Presentation to the 47th Annual General Meeting of Leighton Holdings Limited by the CEO, Mr. Wal King AO.

Navigating our way through turbulent times

Introduction

Thank you Chairman.

Today I would like to discuss how we are navigating our way through turbulent times. But before I do, I think we should again hear from our Managing Directors on how their businesses performed last year.

In the Chairman's address he described how we are travelling through a most extraordinary period. We are indeed travelling through turbulent times but we've been through turbulent times before. And each time we've come through those turbulent times stronger than before.

We need to recognise where we are and to keep a balanced perspective.

Our core operating businesses are performing well. Operationally we are in solid shape but, like most companies at the moment, we do have issues with some of our asset values. Largely these are beyond our control and we just have to ride out the vagaries of the market.

Today, I want to describe for shareholders the strengths of our business. In doing that I will:

- 1) Set out the foundations or cornerstones of the Leighton Group,
- 2) Describe the turbulent times that we are in and to provide some context to them, and
- 3) Explain why I believe the Leighton Group will continue to be successful in the future.

The foundations of Leighton

The Leighton Group is built on a great set of foundations. Those foundations include our diversity, our financial strength, the capability of our people and our record order book.

We have great diversity; by markets, by brands, by geography, and by delivery systems.

Our markets include infrastructure, resources and property, and we operate right across them offering construction, mining and operations and maintenance services. We can build a toll road and then operate it for 50 years. Or we can develop a mine's infrastructure

and then completely run the mine for its life. Or we can develop an office tower, securing the land, finding a tenant and packaging it up for sale. We operate right across the whole spectrum of these markets.

We have geographic diversity with operations spread across Australia, New Zealand, East and South-East Asia, the Indian sub-continent and the Gulf. This is a major part of the world which is growing rapidly. For the first time in history, over half the world's population is simultaneously experiencing economic growth. Prior to about 1700, Asia represented half of the world's economy. In another 30 years it will again represent around half of the world's economy and the Leighton Group is leveraged to Asia's growth – both directly and indirectly.

We also have strong brands and you would have gained a sense of that from the Managing Directors' videos. These are brands that are very well recognised in the market place. And each of the companies is diversified, operating across our various markets and geographies.

We also have delivery system diversity. This is one way we price and manage risk on projects. We project manage, we work in alliances and we carry out fixed price-fixed time contracts. Some clients want a contractor to take on risk. We accept then manage the risk. Different delivery methods earn various returns and we aim to price all of our projects to get a fair return for the risk that we take on.

Our diversity provides opportunities for growth, in the last year we have significantly expanded our presence in the Gulf Region. We've also won our first contract in Mongolia and are exploring opportunities in Siberia. These are resources related opportunities aimed at meeting the demand of China.

Diversity also moderates the effects of a downturn in any one part of the business. We are not focused on any single market. Our diversity will be increasingly important over the next year or two as the property markets inevitably slow in Australia. Diversity gives us growth opportunities to offset any downturn.

Another foundation stone is our financial strength. I've seen too many contractors get into trouble over my career not to know that contractors need to be financially strong and conservative, and that's what we are.

Having a strong balance sheet allows a contractor to invest in the best plant and equipment, to put up bonding for projects and to fund working capital. Ultimately a strong balance sheet is a source of competitive advantage and with our active capital planning program we always look to ensure that we have our financial resources in place before we need to use them.

This year has been no exception. In the last six months we bolstered our balance sheet with the \$700 million entitlement offer. We have increased our bonding capacity to over \$3.6 billion. We have put in place \$600 million of new working capital facilities and have increased our operating lease facilities. We also raised US\$280 million through a US private placement which replaces some of our Australian borrowings.

These measures are part of that capital planning that aims to ensure we have the right financial resources in place to take us through the next few years. As I said before, we are a conservative company and that's a great place to be.

We have excellent people. Our management team and 40,000 employees are dedicated, entrepreneurial and hard working. Our people are also extremely technically competent. They are among the best in the industry, be it in construction or mining or project development.

Leighton Group people are experienced, having successfully completed some of the largest and most iconic projects in the Australasian region. Our people are also driven by a strong set of values and they have a great culture – one that is commercially competitive and performance driven. These values are the glue that binds us together; an essential ingredient in building on our foundation.

I would like to take this opportunity to thank all of our people for the efforts during the year. They are the strength of the company and our greatest asset.

We also have a record order book.

As of 30 September, work in hand stood at \$35.3 billion, with the highlight being the award to Thiess and John Holland of the \$4 billion Airport Link project in Brisbane. Other new projects awarded during the quarter included:

- a \$260 million contract extension at the Curragh North coal mine in Queensland, awarded to Thiess,
- a \$125 million construction contract in Western Australia at the Worsley alumina refinery and a \$136 million refinery expansion at Gladstone, both awarded to John Holland,
- \$287 million of marine related works awarded to John Holland at the Abbott Point coal terminal in Queensland,
- a \$240 million contract to strengthen Melbourne's West Gate Bridge awarded to John Holland,
- a NZ\$250 million road maintenance contract in New Zealand, awarded to Leighton Contractors,
- the Group's first mining contract in Mongolia, awarded to Leighton Asia,
- a \$135 million contract awarded to Leighton Asia for the redevelopment of a major theme park in Hong Kong, and
- a 6.4 billion dirham (\$2.4 billion) contract for the construction of the Tameer Towers mixed-use development in Abu Dhabi, and
- a 2.25 billion dirham contract to build the Al Bustan mixed-use development in Abu Dhabi, both awarded to the Al Habtoor Leighton Group.

During October, the Group has won a further \$2.4 billion worth of work including:

- a \$721 million contract to design and construct the Royal North Shore Hospital in Sydney with a facilities management contract worth \$400 million over the 28 year concession, awarded to Thiess,
- a 5 year, \$1 billion contract for the development and operation of two Indonesian Coal Mines, awarded to Thiess, and
- a \$105 million contract to construct a new coal export terminal at Newcastle, also awarded to Thiess.

In addition, Leighton Contractors is preferred on a number of significant civil and mining projects totalling \$2.3 billion which are expected to be awarded over the coming months.

I should also mention that on the weekend Thiess was announced as the winner of an Excellence in Construction Award for the Westmead Hospital Redevelopment in Sydney, which was completed two months ahead of schedule in April this year.

Our record work book provides the Group with substantial momentum. It gives us a good level of visibility for the next couple of years and will sustain our performance.

I firmly believe these key elements – diversity, financial strength, our people and the work in hand – are the foundations of this company. And they are very strong foundations which will help us navigate through these turbulent times.

The current environment

The world had changed markedly over the last year and even more so over the last few months.

The greatest bull market in history has come to a shuddering halt. The All Ordinaries Index has come down 46% from its high of a year ago. \$600 billion worth of value has been wiped off stock prices in Australia and more than \$20 trillion globally.

The party has ended for many; a party fuelled by cheap money and easy credit. And like many parties this one is going to leave a mighty hangover.

We now have banks rationing their limited capital and very cautious to lend. This sort of loss of confidence has happened before and it will happen again. Over my 40 year career at Leighton I've seen a number of economic downturns. They each had different causes.

In 1974 it was inflation and the oil price spike, in the late 1980's it was the 'recession we had to have' and in 1997 it was the Asian Financial Crisis. Whilst the consequences of the financial position this time will be severe, Australia will not go into recession.

Importantly though, we recognise the impact of these turbulent times and our management is responding to them.

The turbulence is playing out in different ways. There's the Australian dollar which is proving to be extremely erratic. Its erratic movements creates positives and negatives; our US dollar denominated profits are worth more but some of our costs increase.

We are also seeing changes in some of our markets. No doubt the Australian property market will slow for a period but that will also create opportunities in the longer term.

Of course we also see varying forecasts for some of our markets. No one is sure how much China might slow and that creates short term uncertainty in the minds of some of our clients.

Navigating through these turbulent times will require planning, discipline and flexibility. Of course knowing where you are and being prepared is critical. As the Irish say, "If you don't know where you going, any road will take you there."

Contrary though to all the doom and gloom in the media - and all of the share price fallout - the world is not going to end. I'm an optimist at heart and I know we will come through this slowdown, as we have all the others, and I believe that we will come out stronger because we have such strong foundations.

The Outlook

I remain very confident about the longer term outlook for Australia and Leighton for a number of reasons.

Firstly, Australia's economy is in strong shape, particularly compared to the rest of the world. We have budget surpluses, our banking system is robust, we undertook major structural reform over the last 25 years to internationalise and open up the economy, and we are saving for our retirement through compulsory superannuation. We have relatively high interest rates which can be cut to stimulate the economy and we have a much more diversified economy than at any time in our history.

While the economy is in good shape that doesn't mean we can rest on our laurels. We need to keep investing and reforming to ensure that we maintain our productivity capacity.

Secondly, we have a young - well, present company excepted - and growing population. This means that we have more working age people able to participate in the workforce and we have migrants coming into the country to fill skills shortages. Contrast this with ageing workforces and declining birthrates of Japan and most of Europe.

Thirdly, we have a wealth of natural resources. We have coal, iron ore, uranium, natural gas, gold, nickel and a wealth of other minerals. All of which are in demand by our trading partners and the Leighton Group is very happy to help meet that demand. And of course we have a stable government and reliable industrial relations framework which supports our position as an exporter of resources.

Fourth, governments are going to have to continue to invest in infrastructure in Australia. Our productive capacity as a nation depends on it and, with a growing population, our

standard of living requires it. The country has underinvested for many years but we are now seeing a commitment to long-term planning and investment on infrastructure. Leighton welcomes the initiatives of Infrastructure Australia and looks forward to helping deliver the country's infrastructure needs.

And fifth, we are located on the cusp of Asia which, as I said before, is undergoing extraordinary growth and development. In China we are seeing the greatest mass migration in human history. McKinsey consultants recently forecast that if current trends hold, China's urban population will expand from around 570 million in 2005 to almost 930 million in 2025 and hit the one billion mark by 2030.

In 20 years, China's cities will have added 350 million people—more than the entire population of the United States today. By 2025, China will have 219 cities with more than one million inhabitants—compared with 35 in Europe today and 5 in Australia. And China will have 24 cities with more than five million people.

Asia needs Australia's resources and it needs the services we can provide. As one of the leading project developers and contractors in the region, the Leighton Group is extremely well positioned to help provide those resources and services.

So for all of these reasons, I'm still very confident about the future for Australia and, by extension, for Leighton. I believe Leighton is well placed to navigate through the current financial crisis and will emerge in an even stronger position.

Summary

So to bring all of this together.

We are in turbulent economic times, for many people this will be the first time that they've encountered such times. The world might slow down but it will keep growing. Driven by China and India, and our own fortunate position here in Australia, the longer-term outlook remains strong.

As for Leighton, we are well placed. We have great strengths as a company, we have great foundations and the right ingredients for success.

We have great diversity, a strong financial position, excellent people and a record order book. These elements will help us navigate our way through these turbulent times and when we come through into some clear water I expect that it will be full steam ahead.

Thank you very much.