

5 November 2009

Address to Shareholders

A presentation to the 48th Annual General Meeting of Leighton Holdings Limited by the CEO, Mr. Wal King AO.

A great history – a bright future

Introduction

Thank you Chairman.

I'm often asked by investors and journalists, "Sure you've had a great run. You've been lucky. But can you really keep growing in the future?"

Today my address to shareholders is about answering that question. In doing so, I will reflect on our track record, discuss our culture and people, profile our management, and then outline some of the opportunities that give me confidence that we can keep up our performance.

Our Performance

Your company has come a long, long way. Many of you may realise that 2009 marks Thiess' 75th anniversary and the 60th anniversaries of both Leighton and John Holland. And this is our 48th AGM since we listed in 1962.

I joined Leighton in 1968 when our revenue was \$18.5 million; this year our revenue is almost 1,000 times that amount. Then we had total assets of almost \$5 million, our equity was \$2.2 million and our profit was \$525,000.

We had a desire to grow and diversify, and we have. There were some challenging times along the way but we came through those stronger.

By the late 1980's the business was on a sound footing for growth but many were skeptical then that we could maintain our recent performance.

In 1998, L.E.K. Consulting recognised Leighton as having the highest ten year total return to its shareholders of any major company listed on the Australian Stock Exchange. Your company's performance during the 1990's, and the subsequent decade have been outstanding. In the last 20 years we have grown revenue from \$1.4 billion to \$18.3 billion. That's a compound growth rate of 13.6% per year.

Similarly our profits have grown from \$16.5 million in 1989 to \$440 million after impairments in 2009. And although profits were down, this is an excellent result given it is our third largest profit ever and achieved in a very tough economic environment.

During this period shareholders have been rewarded with dividends that have increased from 7 cents per share to 115 cents per share, while the share price has increased from 62 cents 20 years ago to \$33.98 as of yesterday.

In a July 2009 report, The Intelligent Investor ranked Leighton fourth of Australia's ten best businesses out of the top 100 listed stocks over the last ten years. Their evaluation criteria included:

- 10%+ annual dividend growth,
- return on capital of at least 12%, and
- returns on incremental capital.

And as our Chairman said earlier, Leighton was placed 3rd in the top 100 ASX listed companies for its 3 year total shareholder return of over 100% between 2006 and 2009.

The company has a track record of performance over a long period of time. We are proud of that performance and aim to ensure that it continues.

Our People

So why has Leighton been able to be successful over all these years?

I believe that it has to do with creating a winning culture. A culture where individuals are accountable and responsible for their actions. And it's the people who create and maintain a great culture.

It's like a great sporting team where everyone knows the rules of the game but is given the freedom to play within those rules. And when they do, they are well rewarded.

The players can't control the game from the grandstand. Similarly, our managers can't sit in their head offices and run projects in Mongolia or Chennai or Kalimantan or the Pilbara. They have to set the strategy, provide the support and let the project manager do his or her job. That is the culture of the Leighton Group and our senior managers. Perhaps now is the time to hear from some of them.

Hopefully you found that interesting.

I should note here the Chairman's comments regarding the appointment of Peter Gregg as Chief Financial Officer of the Company and the resignation of Scott Charlton.

I welcome the opportunity to work with Peter and look forward to him bringing his extensive Australian and international financial experience as CFO of a large Australian publicly listed company to the role.

I would also like to thank Scott for his contribution to the Group. Over the past two years during his tenure as CFO, the Company has continued to grow and has successfully navigated the impacts of the global financial crisis. Scott leaves the Company in a very strong financial position. I wish him all the best with his future endeavours.

We have a quality of people and depth of management in the Group that is unsurpassed in the industry. Our managers are building strong cultures of empowerment and responsibility. And they are positioning their respective companies to pursue further growth in the future.

Our Future

So looking to the future.

I believe the outlook for Leighton remains very bright. We have a diverse business; diverse in terms of our markets, our geography, our brands, our delivery systems and our people. This diversity provides us with opportunities to grow and I would like to discuss some of these with you.

The outlook for the resources and infrastructure markets in Australia and Asia remains buoyant and, in time, the commercial property market in Australia will also recover. Our newer markets such as the broader Middle East and Mongolia offer great opportunities.

In Australia, the need to invest in infrastructure to improve productivity remains as important as ever. We need roads, rail lines and ports to get our goods to market. We need utilities such as water, sewerage, gas and electricity to support industry and the daily lives of the population. And we need to continue to invest in our social infrastructure – our schools, hospitals and universities – to improve our human capital and to maintain our standard of living.

Investment in infrastructure has historically followed the business cycle, dropping off as the economy slows. But, according to IBIS World, this time we will see only a temporary pause. Engineering construction is expected to grow to \$140 billion per annum by 2018 – more than doubling within a decade.

Even before we went into the global financial crisis there was a backlog of infrastructure projects and our economy was constrained by an inability to respond quickly enough to our booming export markets. The Federal Government is to be congratulated for moving to address some of the shortcomings with the establishment of Infrastructure Australia and its quick response with stimulus packages.

Transport projects will continue to lead activity levels. The \$2 billion Northern Link in Brisbane, the \$1 billion Hunter Expressway in New South Wales, and the \$750 million Peninsula Link and the \$2.8 billion Regional Rail Express in Victoria will be major opportunities.

The next decade should also see a significant spend on utilities such as water and energy. The \$3.5 billion Victorian Desalination Project, awarded to a consortium including Thiess

in September, will be just one of many water related infrastructure projects over the next few years. The Government's Carbon Pollution Reduction Scheme also means that substantial investment will have to be made in retro-fitting old power stations to strip out carbon, building new power stations and developing sustainable power sources such as wind farms and solar generators. All of this investment should provide a good level of construction opportunities for Group companies.

The new \$43 billion National Broadband Network (NBN) is another major Government initiative, planned to be the largest nationwide infrastructure project in Australian history. The NBN project should offer the Group significant construction opportunities. In addition, there may be a role for the Group's Nextgen Networks fibre-optic cable to participate in the NBN.

We see a positive long term outlook for infrastructure spending; buoyed by our growing population, catch up spending after long periods of underinvestment and a growing involvement of the private sector in financing and development. As the largest single market for the Leighton Group, this outlook for infrastructure spending augurs well for our long-term construction opportunities.

In terms of resources, Australia remains in a strong position to benefit from long-term economic growth in Asia. This is a region accounting for 60% of the world's population which is growing, urbanising and industrialising at an unprecedented rate.

Australia has many natural advantages as a supplier to Asia. Blessed with natural resources and located close to Asia; Australia has a stable democracy with a fairly settled industrial relations climate and is open to the development of its export markets. All in all, Australia is uniquely positioned to facilitate Asia's grow and so is Leighton.

Oil and gas has emerged as a great opportunity with some \$150 billion worth of projects in the pipeline. These include liquefied natural gas (LNG) in Western Australia and Papua New Guinea, and coal seam methane (CSM) in Queensland.

Thiess has already won \$1 billion worth of work at the \$43 billion Gorgon project and Leighton Contractors should be awarded work at Gorgon as well. Leighton Contractors has also been awarded or completed over \$400 million of work at the Pluto project and John Holland has won \$160 million worth of work at the Devil's Creek project.

The Group is the world biggest contract miner with a large, new fleet and some of the best people in the industry. We have experience operating throughout Australia and Asia, and are well positioned to grow as Asia demands more and more commodities over the next few years. In Indonesia, we expect to mine approximately 38 million tonnes of coal this year and have a number of opportunities to increase this with extensions and new work.

Mining volumes are expected to continue to grow on the back of the growth in demand in the region. One of our major clients <Peabody Energy, CEO Greg Boyce> said a few weeks ago, "over the next five years we believe global demand for seaborne coal could grow at a hefty 7 to 8% compound annual growth rate, or 300 to 400 million tonnes per year."

Similarly, the latest report from the Australian Bureau of Agricultural and Resources Economics (ABARE), forecasts that Australia's iron ore production will be up by 16% in 2009/10 to 410 million tonnes. In the longer run, China's growth should sustain Australia's iron ore exports and a good level of opportunities for our contract mining business.

Through our contract mining activities we are leveraged indirectly to Asia but we are also leveraged directly, operating across the region in around 20 countries.

In Hong Kong, where Leighton Asia has operated since 1975, we are recognised as a local contractor. The Hong Kong Government has announced a substantial stimulus package with infrastructure spending forecast to more than double by 2011 from the current level. Over HK\$200 billion worth of rail, drainage, urban renewal, road, bridge and tunnel projects are in the pipeline and Leighton Asia is well placed to participate in this looming infrastructure boom. We have recently been awarded the construction of new drainage tunnels and further reclamation works.

In Mongolia, a vast landlocked region the size of Queensland, located between Russia and China, Leighton Asia is mining 2.5 million tonnes per annum of coal for export to China. But this is just the beginning as Mongolia's enormous reserves of natural resources offer a range of contract mining and construction opportunities. Yesterday, we announced the construction of a 225 kilometre rail line from the Chinese border up to the mine we are working on, worth US\$338 million. This railway will be capable of carrying 28 million tonnes of coal per annum.

The rail expansion allows the mining operations to increase. Yesterday we also announced that we have been asked to expand production at the UHG coal mine to 5 million tonnes per annum by December 2010. This \$195 million extension increases the value of the mining contract to \$480 million. As Mongolia develops, so will their future demand for infrastructure and so we see a bright future for Leighton Asia in Mongolia.

Much has recently been written about Dubai and the Middle East. But just as Sydney is not Australia, Dubai is not the Middle East.

While Dubai is going to take some years to recover from its debt funded property boom, the rest of the Middle East is on a much more stable footing – that of oil and gas. With oil prices over US\$70/barrel, Abu Dhabi, Qatar, Saudi Arabia, Oman and Kuwait are all investing their oil revenues in nation building projects. New universities in Abu Dhabi, hospitals in Qatar, rail lines and roads in Saudi Arabia, ports in Oman and airports in Kuwait; all demonstrate the extraordinary development that's occurring in the Middle East.

In Abu Dhabi alone, US\$275 million is forecast to be spent on infrastructure over the next 5 years including a 131 kilometre metro rail system costing many billions of dollars. Other potential projects include a Louvre Museum, a 325 kilometre highway to the Saudi border and a whole new town to be developed to the west of Abu Dhabi at a cost of some US\$40 billion.

Through the Habtoor Leighton Group we see an array of opportunities across the Middle East and North Africa region. The Habtoor Leighton Group is currently bidding and

negotiating more work now than it was at this time last year and there continue to be more opportunities than we can realistically pursue.

Across the region we also see a number of opportunities in the offshore oil and gas market which is focused on near-shore and shallow water work. We have a fleet of modern, purpose-built pipe-lay barges - including the Leighton Stealth and Leighton Eclipse - and construction support vessels - including the Leighton Mynx - specifically designed for the markets we work in.

With the restructure, David Savage will now be able to put more focus into Leighton International and developing the offshore oil and gas market.

Conclusion

So in conclusion, when addressing the question, 'can you really keeping growing in the future'; I say the answer is yes.

We have a track record of demonstrated performance. For more than 20 years we have delivered to shareholders in terms of growth in revenue, profits and dividends. And this has been reflected in a greatly increased share price and total shareholder returns that have been the envy of the stockmarket.

We've achieved so much because of the people and the culture of the Group. A culture that is results oriented and performance driven.

Looking around at our markets and the opportunities that they are presenting I'm very positive. We are positioned alongside the world's growth engine - Asia - and have the diversity to take advantage of the many opportunities that we see out there. The Group is also preferred on some \$4 billion worth of work which should be awarded in the near future.

So I'm confident that Leighton will be able to continue its traditional growth profile and I look forward to updating shareholders next year on our continued performance.

Thank you very much.