

**8 November 2007**

## **Address to Shareholders**

*A Presentation to the 46<sup>th</sup> Annual General Meeting of Leighton Holdings Limited by the Chairman, Mr. David Mortimer AO.*

### **Introduction**

On behalf of the Board of Directors, I am very pleased to report that the Company has recorded another extremely successful year. It has been one of excellent financial performance, significant new strategic initiatives and great returns for shareholders.

### **Financial Highlights**

The record profit result in 2007 reflects the Leighton Group's strength and diversity. The major contributors have again been construction activity from a number of large Australian infrastructure projects, contract mining in Australia and Asia, and another strong property development performance.

The result is a credit to the company's management and its 27,834 direct employees.

Highlights for the 2007 year include:

- Total revenue, including joint ventures, of \$11.9 billion - up by 19%.
- Work in hand at 30 June of \$21 billion - up 31%.
- Profit after tax was an all time record \$450 million - up by 63%.
- Dividends were 110 cents per share - up by 67%.
- The Group's balance sheet was further enhanced with shareholders' funds growing to \$1.35 billion - up by 22%. The Group's credit rating - BBB+ from Standard and Poors' and Baa1 from Moody's - has been retained. They acknowledge Leighton as one of the highest rated pure construction groups globally.
- The net cash position was a healthy \$669 million - up by 8%.
- Return on total equity was 33.3% while the TSR or total shareholder return for the year was 147%.

## **Australia/Pacific Operations**

The Group's Australia/Pacific operations, were again a strong contributor.

Revenue from the Australia/Pacific operations was \$10.2 billion - up 23% - and profit before interest and tax was \$516 million - up 89%. Work in hand was up by 39% to \$17.4 billion.

Our companies continued to win a number of large transport infrastructure projects in Australia boosted by an increasing number of water infrastructure projects. And we successfully completed, ahead of schedule, the \$1.1 billion Lane Cove Tunnel in Sydney.

We were also successful in securing some major long-term mining contracts in Australia in coal, iron ore and other minerals.

Major new projects included:

- the \$2 billion North South Bypass Tunnel joint venture (JV) in Brisbane to Leighton Contractors,
- \$1.4 billion Gateway Upgrade JV, also in Brisbane to Leighton Contractors,
- the \$1 billion Gold Coast Desalination Project alliance in Queensland to John Holland,
- the \$522 million Perth-Bunbury Highway alliance in Western Australia to Leighton Contractors, and
- \$790 million worth of mining work at the new Prominent Hill copper-gold mine in South Australia to Thiess.

Since 30 June, more than \$7 billion worth of work has been awarded including projects such as:

- the \$1 billion Sydney Desalination Plant to John Holland,
- \$470 million worth of sewerage projects in Melbourne to John Holland,
- a \$500 million coal mining contract at the Sonoma coal mine in Central Queensland to Leighton Contractors,
- a \$500 million contract at the Tarong coal mine in South East Queensland to Thiess,
- a \$500 million contract at the Lake Vermont coal mine in Central Queensland to Thiess,
- a \$345 million extension at the South Walker Creek coal mine, also in Central Queensland to Thiess.

- and this week, a \$700 million extension at the Area C iron ore mine in Western Australia, to HWE Mining.

While our major markets are continuing to perform strongly, providing many opportunities, we continued to actively pursue opportunities to grow and diversify the business.

This year, the Group acquired a strategic 40% stake in Devine Limited for \$95.6 million. Devine is one of Australia's leading residential property developers. The acquisition substantially increases Devine's ability to fund and develop its business, and further diversifies the Leighton Group into the residential property market.

John Holland acquired a central Queensland contractor, Marshall Mining & Earthmoving, which facilitates John Holland's entry into the contract mining services market.

John Holland has also diversified into the aviation maintenance market by acquiring the former Ansett Aviation Engineering Services business - since renamed John Holland Aviation Services. The business provides total engineering support to commercial airlines and third party operators from across Australia and the Asia Pacific Region.

The company has also progressively acquired a 15% stake in Macmahon Holdings Ltd. Early this week the company entered into a Memorandum of Understanding (MOU) with Macmahon which formalises a partnering relationship between the two companies.

Under the MOU, Leighton will promote Macmahon as a Partner of Choice to joint venture on civil and infrastructure projects. The MOU includes the application of a probity regime, a 2 year Standstill Period and the appointment of a Leighton nominated Director, Mr Vyril Vella, to the Macmahon Board.

The Leighton Board believes that this is a very good arrangement, providing significant benefits to shareholders of both companies.

### **Asian Operations**

In Asia, the Group's operations reported a reduced profit before interest and tax of \$65 million – down \$42m - from revenue of \$1.6 billion – down 2%. The Asian contribution was impacted by poor performance on two process engineering projects in Indonesia, however these have been dealt with. Work in hand increased by 5% to almost \$3.6 billion.

A highlight was the award to Leighton Asia of a JV management contract for the \$2 billion plus City of Dreams integrated gaming and entertainment resort in Macau.

Leighton Asia successfully completed phase one of the Wynn Resorts hotel and casino complex, which opened in September 2006 and recently commenced the construction of a 40 storey hotel adjoining the existing resort, worth some \$400 million.

In Indonesia, Leighton International was awarded new work worth \$620 million at the Wahana coal mine and the PT Multi Harapan Utama (MHU) coal mine, and a three-year extension on the PT Mahakam Sumber Jaya (MSJ) coal mine worth \$140 million.

The Group has continued to push into the Gulf Region and India, assuming a cautious approach by spending time getting to understand the markets and by engaging in contracts with a relatively low risk profile.

Leighton International's presence in India was further enhanced with the establishment of joint venture with Emaar MGF, one of India's leading property developers. The 50:50 joint venture immediately creates one of India's leading construction entities and has commenced work on four residential developments around Delhi.

Since year end, we have entered into one of the company's most significant transactions, acquiring a 45% stake in the Arabian Gulf based Al Habtoor Engineering. The stake has been combined with Leighton International's local business, and the merged entity, to be known as Al Habtoor-Leighton, will immediately become one of the region's largest multi-disciplined contractors.

Al Habtoor is regarded as one of the leading builders in the region. Their track record in large-scale building projects is second to none and this complements Leighton International's expertise in large-scale civil infrastructure projects. This deal significantly increases Leighton International's capacity to capitalise on the numerous opportunities in the Arabian Gulf market, particularly in Dubai, Abu Dhabi and Qatar.

Since June, Leighton International has been awarded a \$650 million, 6.5km highway, comprising five lanes in each direction, which will link Abu Dhabi city with Saadiyat Island, a new 27 square kilometre master planned development. And this week, Al Habtoor Leighton has been awarded the construction of a new \$310 million J W Marriott Hotel in Abu Dhabi.

## **Returns to shareholders**

I would like now to comment on shareholders returns and dividends.

Leighton is a company underpinned by its values and the first of those is to be commercially competitive. To do this, the company must meet or exceed the performance expectations of clients in all of our businesses, while providing consistent and strong returns to shareholders over the long term. In essence we must be commercially competitive to be sustainable, because no business is sustainable if it is not profitable.

We measure returns to shareholders or wealth creation using Total Shareholder Return (TSR), which is composed of the dividends we pay and share price appreciation.

The Directors increased the final dividend to 65 cents per share, a 58% increase over the prior period's 41 cents per share. This dividend was 50% franked and paid to shareholders on 28 September 2007.

When added to the unfranked interim dividend of 45 cents per share paid on 30 March 2007, the total dividend for the year rose by 67% to 110 cents per share. This dividend resulted in a payout ratio of 67.8%, which is in line with the Board's policy to pay out between 60% and 70% of profits as dividends.

This year's TSR to 30 June was 147% and over a ten year period our TSR averaged 28% per annum. This means that \$1,000 invested in your Company 10 years ago would be worth \$11,806 today.

This year, we reported an average return on shareholders funds of 36.7%, placing us 15th in the top 100 largest listed Australian companies.

## **Governance and the Board**

Leighton Holdings has long recognised the need to have in place a comprehensive series of policies, procedures and guidelines relating to corporate governance, ethics, and financial and risk management. And while I believe the Company has these elements in place, there is no single model of good corporate governance.

Good corporate governance must be tailored to the markets that a company operates in and be able to evolve with the changing circumstances of a company. At Leighton, the Board is conscious that it must constantly improve its policies, procedures and guidelines to protect the interests of shareholders.

We have again included in the Company's Concise Annual Report a Summary of Corporate Governance Practices, which sets out the 10 core principles identified by the Council as underlying good corporate governance. This report is supplemented by a full Corporate Governance Report, which is available on the Company's website.

In providing good governance it is fundamental that the Board is able to renew itself with capable and experienced directors. On that subject I would like, on behalf of the Board, to sincerely thank outgoing Chairman Geoff Ashton for his service to the company since 1996, as a Director and, from March 2004 to June 2006, as Chairman. Geoff has served in the role with distinction.

I would also like to thank Dr Hans-Peter Keitel for his service as Deputy Chairman since 1998 and to congratulate Dr Peter Noé on his appointment as Deputy Chairman. Dr Keitel remains a Director of Leighton Holdings.

I welcome to the Board Dr Herbert Lütkestratkötter, the Chief Executive Officer of Hochtief since April. Dr Herbert Lütkestratkötter has served as an alternate Director since 2004 and replaces Mr Thomas Leppert who resigned as a director in February.

I am also pleased to welcome to the Board, Mr Ian Macfarlane AC, former Governor of the Reserve Bank of Australia from 1996 to 2006. Mr Macfarlane brings his vast economic and public policy expertise to the Board, as well as his international experience.

I would also like to thank my colleagues on the Board for their counsel and contribution since my appointment as Chairman in May this year.

### **Company management**

The Leighton Group has an outstanding management team and the Board is pleased to have retained the services of Mr King as CEO for a further three years until 30 June 2010. We also have an option to extend the contract by mutual agreement.

Mr King's leadership and experience remains critical in steering the Leighton Group as it continues to diversify and grow, both in Australia and internationally.

I would also like to take this opportunity to congratulate Wal on reaching the remarkable milestone of 20 years as CEO, earlier this year.

Deputy Chief Executive Officer and Chief Financial Officer, Mr Dieter Adamsas, retired after 36 years of service with the Company. Dieter remains on the Board as a Non-executive Director and will chair the Boards of Leighton Asia and Leighton Contractors. The Group has also concluded a consulting arrangement with him.

The Managing Director of Leighton Properties, Mr Vyril Vella, retired after providing 33 years of service to the Group. Vyril will retain links to the Leighton Group through the provision of consultancy services which will allow the Group to access his skills and experience.

The Board is pleased to welcome Scott Charlton as CFO and looks forward to working closely with him in the future. Scott joined Leighton Holdings in 2003 and most recently held the role of Executive General Manager, Finance where his responsibilities included treasury operations, group taxation, project finance, and investments and acquisitions.

He brings over 20 years experience in senior financial positions and has worked on many projects with Group companies over this time.

On a very sad note I observe the recent passing of Mr Roger Trundle, Managing Director of Thiess for 6 years until his retirement in February this year. Roger was a friend to

many in this room and he served Thiess and the Group with distinction during his almost 27 years of service.

Mr David Saxelby, formerly CEO of Thiess' Australian operations, has been appointed Managing Director of Thiess. Mr Mark Gray, formerly NSW Manager of Leighton Properties has been appointed Managing Director of that company. I congratulate both men on their appointments and wish them well.

The Board has continued to be active in terms of succession planning, ensuring there is a talent pool in place to address the inevitability of demographic change and ageing. We have confidence that the Leighton Group's inimitable culture is deeply embedded and that there is a formidable team of people in place to continue driving the Group forward.

## **Our people**

Which brings me to our people.

The year has seen a great emphasis on human resources. It is important that our people are given the opportunity to show their potential and we must be prepared to recognise their performance by providing exciting and challenging work opportunities and attractive compensation.

In keeping with our belief in reward for performance, and in recognition of the valuable contribution of our employees and their commitment as key stakeholders in the Company, the Board has again approved a free issue of \$1,000 worth of Leighton shares to employees with more than three years of service. It is intended that these shares will be bought on market and therefore the issue will not have a dilutionary impact on existing shareholders.

## **Workplace Safety**

We value our people and are absolutely committed to providing a safe and healthy workplace. It is very disappointing, however, to report that we had five workplace fatalities in our operating companies during the year – three in Australia and two overseas.

Every incident has been thoroughly investigated and reported on to the Board of Leighton Holdings. Through its Ethics and Compliance Committee the Board has continued its work with the Group's operating companies to assist them to meet their health and safety obligations.

Each of the Group's operating companies has developed its own system for managing safety which complies with the core values and shared vision set out in Leighton Holdings' Safety Framework. It also incorporates the individual vision, strategy and requirements of its own Board. Each operating company's system is fully integrated with,

and optimized against, the particular scope of its own operations and the culture and history of that company.

Let me now turn to the outlook and to our current position.

## **Conclusion**

The year has started extremely well for the Company.

Operating revenue for the first quarter to 30 September 2007 was \$3.1 billion, generating an (unaudited) profit after tax of \$98 million. Work in hand at 30 September stood at \$23.5 billion, up 12% since 30 June. These first quarter results, for the 2007/08 financial year, are in line with our expectations.

The Group's outlook remains very strong driven by a record level of work in hand, the continued strength of the core markets in Australia and an increasing diversification into the growth markets of Asia.

Ageing infrastructure, a growing population, a resources boom and issues such as the recent drought, continue to support the long-term outlook for infrastructure investment in Australia.

Demand for raw materials, particularly coal and iron ore, is forecast to remain at high levels for the foreseeable future. Demand will continue to be underpinned by the remarkable growth in China's economy, which should support good long-term opportunities for contract mining. The Leighton Group is the largest contract miner in the world and we are keen to export this capability into a number of new markets in the future and are exploring growth opportunities in India and China.

Asia is forecast to continue growing strongly and the Group is leveraged both directly – undertaking mining and construction work across the region – and indirectly – providing services such as contract mining to companies selling commodities into Asia. Many of the countries in Asia need our skills and we expect that international markets will progressively become a more significant contributor to the Leighton Group.

In closing this address, I would like to thank all of our shareholders for their continued support during the 2006/07 year. The Board is absolutely focused on continuing to deliver value for shareholders.

I am confident that the Group has in place the strategies, the risk management disciplines and the depth of talent to profit from the great opportunities it faces. As a result, the Board expects the Group to continue to deliver strong growth for shareholders over the next few years.