Vanessa Rees
Group Company Secretary

Leighton Holdings Limited
ABN 57 004 482 982

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St Leonards NSW 2065 Australia

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Crows Nest NSW 1585, Australia

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10 April 2014

ASX Market Announcements
Australian Securities Exchange Limited
Level 4
20 Bridge Street
SYDNEY NSW 2000

Re: Proportional Takeover Bid by HOCHTIEF Australia Holdings Limited

In accordance with Item 14 of section 633(1) of the *Corporations Act 2001* (Cth), we attach a copy of the Target's Statement served today by Leighton Holdings Limited (ABN 57 004 482 982) on HOCHTIEF Australia Holdings Limited (ABN 17 103 181 675), a wholly owned subsidiary of HOCHTIEF Aktiengesellschaft, in response to its Bidder's Statement dated 31 March 2014.

Yours faithfully
LEIGHTON HOLDINGS LIMITED

VANESSA REES
Group Company Secretary

This is an important document and requires your immediate attention. You should read all of the document. If you are in doubt as to what you should do, you should consult your investment, financial, taxation or other professional adviser.

Leighton Holdings

Target's Statement

Your Independent Directors unanimously recommend, in the absence of a superior proposal, that you **ACCEPT** the Offer by HOCHTIEF Australia Holdings Limited, a wholly owned subsidiary of HOCHTIEF AKTIENGESELLSCHAFT, to acquire 3 out of every 8 of your ordinary shares in Leighton Holdings Limited for $22.50 cash per share.

If you have any questions, please contact the Leighton Shareholder Information Line on 1300 388 415 (within Australia) or +61 3 9415 4032 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday.

UBS
Financial Adviser

Allens > < Linklaters
Allens Legal Adviser

Leighton Holdings Limited ABN 57 004 482 982

Important Notices

Nature of this document

This Target's Statement is dated 10 April 2014 and is given by Leighton under Part 6.5 Division 3 of the Corporations Act in response to the Bidder's Statement dated 31 March 2014.

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC. Neither ASIC nor any of its officers takes any responsibility for the contents of this Target's Statement.

A copy of this Target's Statement has also been provided to the ASX. Neither the ASX nor any of its officers takes any responsibility for the contents of this Target's Statement.

Proportional takeover bid

Shareholders should note that the Offer is a proportional takeover bid. HOCHTIEF is offering to acquire 3 out of every 8 Shares (37.5%) held by each Shareholder. If all Shareholders accept the Offer, HOCHTIEF will obtain an interest in Leighton of between 74.03% and 74.15% (based on Leighton's capital structure as at 31 March 2014), depending on the number of Leighton Options that are exercised prior to the end of the Offer Period.

Defined terms and interpretation

Capitalised terms used in this Target's Statement are defined in Section 7.1. Section 7.2 sets out some rules of interpretation which apply to this Target's Statement.

No account of personal circumstances

This Target's Statement and the recommendations and other information contained in it do not constitute financial product advice. The recommendations and other information contained in this Target's Statement should not be taken as personal, financial or taxation advice, as each Shareholder's deliberations and decision will depend upon their own financial situation, tax position, investment objectives and particular needs.

It is important that you read this Target's Statement in its entirety before making any investment decision and any decision relating to the Offer. Your Directors encourage you to obtain independent advice from your investment, financial, taxation or other professional adviser before making a decision whether or not to accept the Offer.

Forward looking statements

This Target's Statement contains forward looking statements. All statements other than statements of historical fact are forward looking statements. Shareholders should note that those forward looking statements are only current expectations and are inherently subject to uncertainties, in that they may be affected by a variety of known and unknown risks, variables and other important factors, many of which are beyond the control of Leighton. Actual values or results, performance or achievements may differ materially from those expressed or implied by such statements. The risks, variables and other factors that may affect the forward looking statements include matters specific to the sectors in which Leighton operates, as well as economic and financial market conditions; legislative, fiscal or regulatory developments; the price performance of Leighton Shares, including the risk of possible price decline in the absence of the Offer or other takeover or merger speculation; and risks associated with the business and operations of Leighton. Further information about these risks can be found in Section 2.4 of this Target's Statement.

None of Leighton, any of its officers or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) or gives any assurance as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any such statement. The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Reliance on information obtained from HOCHTIEF or public sources

The information in this Target's Statement about HOCHTIEF and HOCHTIEF AG has been compiled from or is otherwise based on information obtained from HOCHTIEF or publicly available sources, and has not been independently audited or verified by Leighton or its advisers. If the information obtained from HOCHTIEF or the public sources is inaccurate or incomplete, this may affect the information included in this Target's Statement. In particular, if the information has been used as the basis for forward looking statements in this Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by those forward looking statements.

Privacy

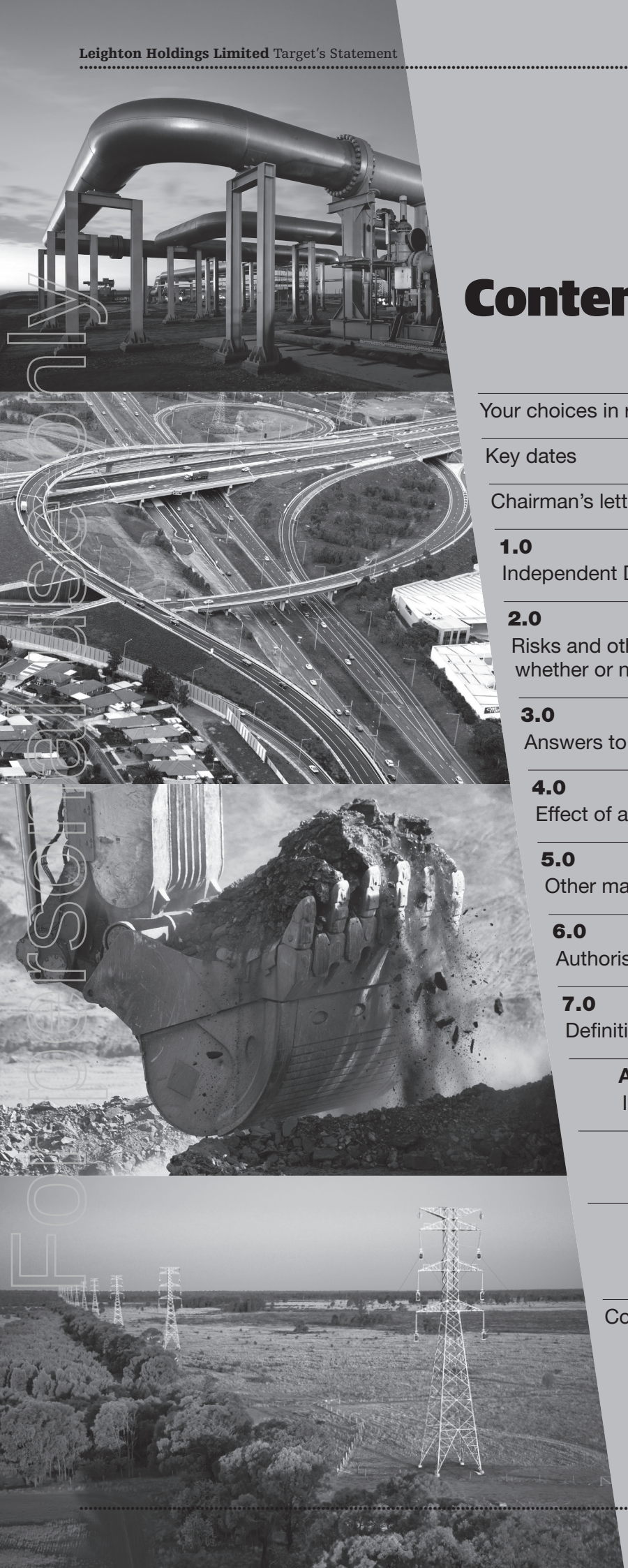
Leighton has collected your information from the Leighton Share Register for the purpose of providing you with this Target's Statement. The type of information Leighton has collected about you includes your name, contact details and information on your shareholding (as applicable) in Leighton. Without this information, Leighton would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the Leighton Share Registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by Leighton, please contact the Leighton Share Registry on 1300 855 080 (within Australia) or +61 3 9415 4000 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday.

Leighton Shareholder Information Line

Leighton has established the Leighton Shareholder Information Line, which Leighton Shareholders may call if they have any queries in relation to the Offer. The telephone number for the Leighton Shareholder Information Line is 1300 388 415 (within Australia) or +61 3 9415 4032 (outside Australia) and will be available between 8.30am and 5.30pm (AEST) Monday to Friday.

Risk factors

Leighton Shareholders should note that there are a number of risks that they should have regard to before deciding how to respond to the Offer. Further information about those risks can be found in Section 2 of this Target's Statement.



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Your choices in relation to the Offer

IMPORTANT

You should read this Target's Statement in full, including the Independent Expert's Report. If you have any questions, please call the Leighton Shareholder Information Line on 1300 388 415 (within Australia) or +61 3 9415 4032 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday.

Accept

To accept the Offer, return your completed Acceptance Form before the end of the Offer Period.

If you accept the Offer, you will still hold 5 out of every 8 (67.5%) of your Shares (Remaining Shares). You may choose to either hold or sell some or all of your Remaining Shares.

See Sections 1 and 2 of this Target's Statement for further information relevant to continuing to hold an interest in Leighton Shares.

See Section 4.1(b)(ii) of this Target's Statement for further information relevant to selling your Remaining Shares during the Offer Period, including the deferred settlement that will apply to that sale.

or

Reject

To reject the Offer, you do not need to take any action.

If you reject the Offer, you may choose to either hold or sell some or all of your Shares.

See Sections 1 and 2 of this Target's Statement for further information relevant to continuing to hold an interest in Leighton Shares.

See Section 4.1(b)(i) of this Target's Statement for further information relevant to selling your Shares during the Offer Period.

Key dates

31 March 2014	**Offer Period opens**
10 April 2014	**Date of this Target's Statement**
2 May 2014	**Date for HOCHTIEF to give notice of status of FIRB Defeating Condition**[1]
7pm (AEST) on 9 May 2014	**Offer Period closes (unless extended or withdrawn)**[2]
19 May 2014	**2014 Annual General Meeting**

[1] This date is indicative only and may be changed as permitted by the Corporations Act.
[2] This date is indicative only and may be extended as permitted by the Corporations Act.

Chairman's Letter

Dear Shareholder,
By now you should have received a bidder's statement from HOCHTIEF Australia Holdings Limited (***HOCHTIEF***) offering to acquire 3 out of every 8 of your shares in Leighton for $22.50 cash per share (the ***Offer***).

The Offer is subject only to FIRB Approval and, unless extended, will remain open until the later of 7.00pm (AEST) on 9 May 2014 and 7 days after the receipt of such approval.

The background to the Offer is as follows:

- On 10 March 2014, HOCHTIEF, the majority shareholder in Leighton, announced that it proposed to make a proportional takeover offer to acquire 3 out of every 8 shares in Leighton, other than those already held by HOCHTIEF, at $22.15 cash per share, subject to a range of conditions.
- At that time, HOCHTIEF had three nominees on the 10 person Leighton Board. In its announcement, HOCHTIEF stated that, irrespective of the outcome of its offer, it intended to increase its representation on the Leighton Board to reflect its shareholding in Leighton.
- On 11 March 2014, a committee of Leighton's independent directors (being myself, Paula Dwyer, Russell Higgins AO, Michael Hutchinson and Vickki McFadden) was formed to evaluate and respond to HOCHTIEF's offer (the ***Independent Board Committee***).
- On 13 March 2014, following extensive negotiations between the Independent Board Committee and HOCHTIEF, it was agreed that:
  (a) the takeover offer price would be increased from $22.15 to $22.50 per share; all bid conditions other than FIRB Approval would be removed; and HOCHTIEF would keep the Offer open until the later of 9 May 2014 and 7 days after satisfaction of the FIRB condition;
  (b) the employment of Leighton's CEO, Hamish Tyrwhitt and Deputy CEO and CFO, Peter Gregg, would be terminated (including their immediate resignation as directors of Leighton) and Marcelino Fernández Verdes (one of HOCHTIEF's nominees on the Leighton Board and the current CEO of HOCHTIEF's parent entity) would be appointed as CEO of Leighton;
  (c) two further HOCHTIEF nominee directors would be appointed immediately to the Leighton Board (following which the Leighton Board would comprise the five members of the Independent Board Committee, one CEO nominated by HOCHTIEF and four nominee directors of HOCHTIEF);
  (d) three of Leighton's Independent Directors (being Paula Dwyer, Russell Higgins AO and Vickki McFadden) would resign or retire as directors by no later than the conclusion of the AGM on 19 May 2014 regardless of the outcome of the Offer; and
  (e) at the request of HOCHTIEF, I will remain as Chairman and Michael Hutchinson will offer himself for election as a director at the AGM on 19 May 2014.
- In reaching this agreement, the Independent Directors recognised that HOCHTIEF would be able to achieve its stated objectives of Board and management control of Leighton at the AGM on 19 May 2014, and that the interests of Leighton and its shareholders would be best served by obtaining an improved takeover offer and seeking to minimise disruption to the business.
- During the negotiations, the Independent Directors pressed HOCHTIEF to make a takeover offer for all Leighton shares (rather than a proportional offer), however HOCHTIEF declined to do so.

Your Independent Directors recommend that you accept the Offer in the absence of a superior proposal. The reasons for that recommendation are set out in Section 1 of this Target's Statement, and include the following.

(a) The cash Offer price of $22.50 per share for 3 out of every 8 shares represents a premium to the levels at which Leighton shares were trading prior to the announcement of HOCHTIEF's initial offer.

(b) The Offer provides you with the certainty of cash for some of your shares.

(c) The price of Leighton shares may trade lower following the conclusion of the Offer.

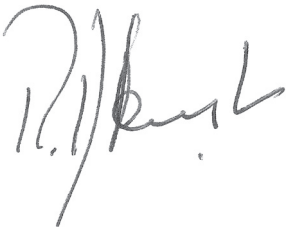
(d) HOCHTIEF will have the ability to continue acquiring Leighton shares on market at the prevailing market price from the date which is six months after the end of the Offer, with a limit of 3% in any six month period, without having to make a takeover offer for those shares. Ultimately, if HOCHTIEF acquires a relevant interest in 90% of Leighton shares, it will be able to compulsorily acquire the remaining shares.

(e) The Independent Expert has concluded that the Offer is fair and reasonable.

In deciding whether or not to accept the Offer, your Independent Directors also point out that HOCHTIEF will have the capacity to exert greater influence over the manner in which Leighton's business is conducted. In particular, following Leighton's AGM in May 2014 it is expected that the Leighton Board will comprise a majority of HOCHTIEF nominee directors rather than independent directors. Further, the CEO of Leighton is concurrently the CEO of HOCHTIEF. HOCHTIEF has also flagged in its bidder's statement that it will undertake a general review of Leighton's operating model that may result in structural changes to operating businesses, management, a reduction in or changes to the number and function of employees as well as possible divestment of assets or businesses.

If you have any questions in relation to the Offer, you should obtain professional advice from your broker, financial advisor, accountant or other professional adviser. You may also call the Leighton Shareholder Information Line on 1300 388 415 (within Australia) or +61 3 9415 4032 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday.

Yours sincerely,



Robert Humphris OAM
Chairman

10 April 2014

1.0

Independent Directors' recommendation and reasons

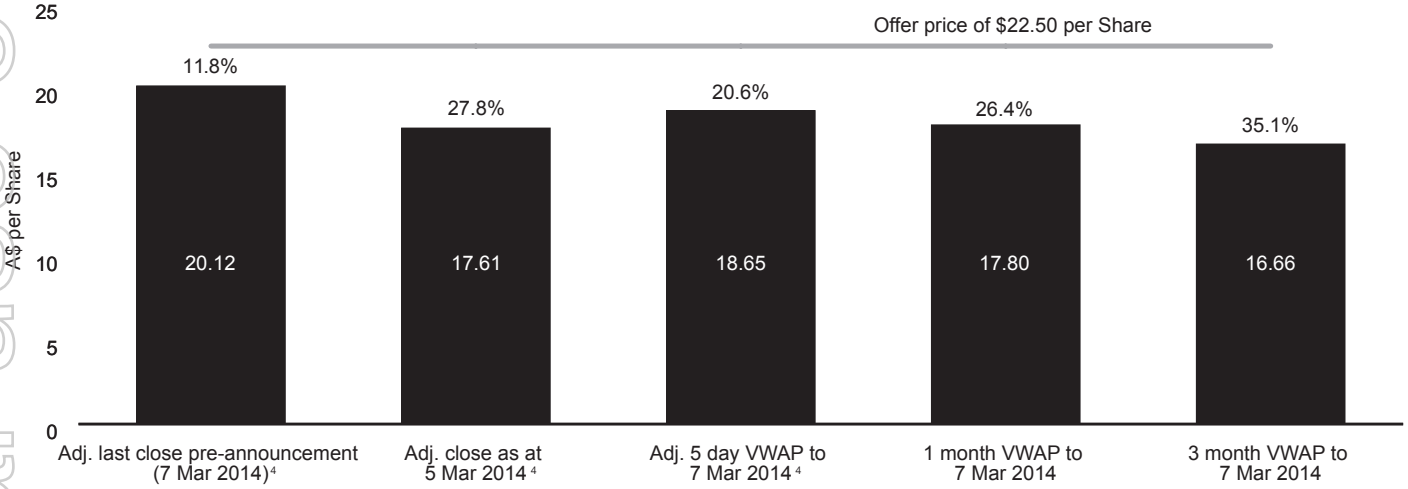
It is the recommendation of all of your Independent Directors (being Robert Humphris OAM, Paula Dwyer, Russell Higgins AO, Michael Hutchinson and Vickki McFadden)[3] that you ACCEPT the Offer, in the absence of a superior proposal. Each Independent Director intends to accept the Offer in respect of the Leighton Shares held by them or on their behalf, in the absence of a superior proposal. Your Independent Directors' reasons for their recommendation are set out below.

[3] Each of Marcelino Fernández Verdes, David Robinson, Peter Sassenfeld, Pedro López Jiménez and José Luis del Valle Pérez have not made a recommendation in relation to the Offer as they are also directors and / or senior executives of HOCHTIEF or HOCHTIEF AG and, accordingly, do not consider themselves to be independent for the purposes of the Offer.

1.1
You are being offered a premium to the pre-announcement trading price of Leighton Shares for a portion of your shareholding

The cash Offer of $22.50 per Share for 3 out every 8 Shares represents a premium to the levels that the Shares were trading at prior to the announcement of HOCHTIEF's initial takeover proposal on 10 March 2014.

Figure 1: Implied premium of Offer price to recent Leighton trading



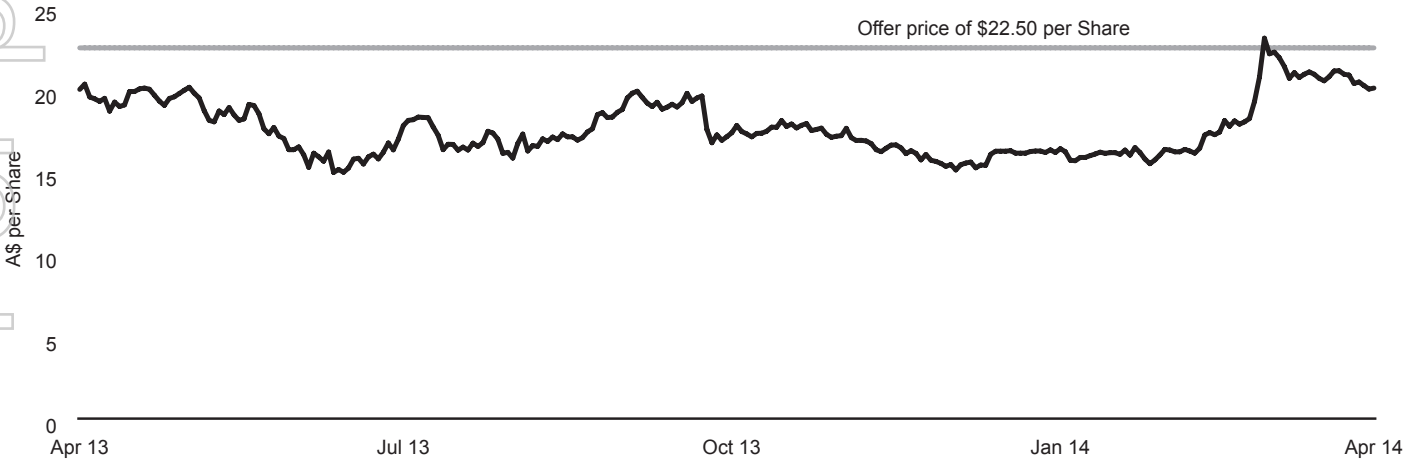
[4] These trading prices and VWAPs have been adjusted to exclude the $0.60 dividend per Share, which was separately paid to Shareholders on the Register at the 21 March 2014 record date. This is consistent with the fact that the Offer Price excludes the $0.60 dividend per Share.

Leighton Shareholders have also retained the right to receive the $0.60 per share final dividend, which was declared on 20 February 2014 and paid on 4 April 2014, after the Offer was announced.

The Leighton Share price rose significantly following the announcement of HOCHTIEF's intention to effect a proportional takeover. As at 9 April 2014, Leighton Shares closed at $20.06 (ASX:LEI) and $18.33 (ASX:LEIE).

Accordingly, the Offer Price provides an opportunity for you to realise a portion of your investment in Leighton at a premium to the pre-announcement Leighton Share price.

Figure 2: Leighton Share price (ASX:LEI) – last 12 months



1.2
You are being offered the certainty of cash for some of your Shares

The Offer provides certainty of cash for some of your shareholding. If you accept the Offer and the Offer becomes unconditional, you will obtain the certainty of receiving a cash payment of $22.50 per Share for 3 out of every 8 of your Shares.

1.3
The price of Leighton Shares may trade lower following the close of the Offer

The Leighton Share price has traded below the Offer Price of $22.50 per Share in the year prior to the announcement of HOCHTIEF's intention to effect a proportional takeover.

Between 10 March 2014, being the date of HOCHTIEF's announcement of its intention to effect a proportional takeover offer for Leighton, and 9 April 2014, Leighton Shares have traded below the Offer Price, with the exception of 10 March 2014 where the stock closed at $23.09. It is reasonable to assume that if not for the Offer at $22.50 per Share for 3 out of every 8 Shares, which is conditional only on FIRB approval, the Shares may have traded at lower levels during this period. At the conclusion of the Offer, regardless of the level of take-up achieved, remaining Leighton Shares may trade lower.

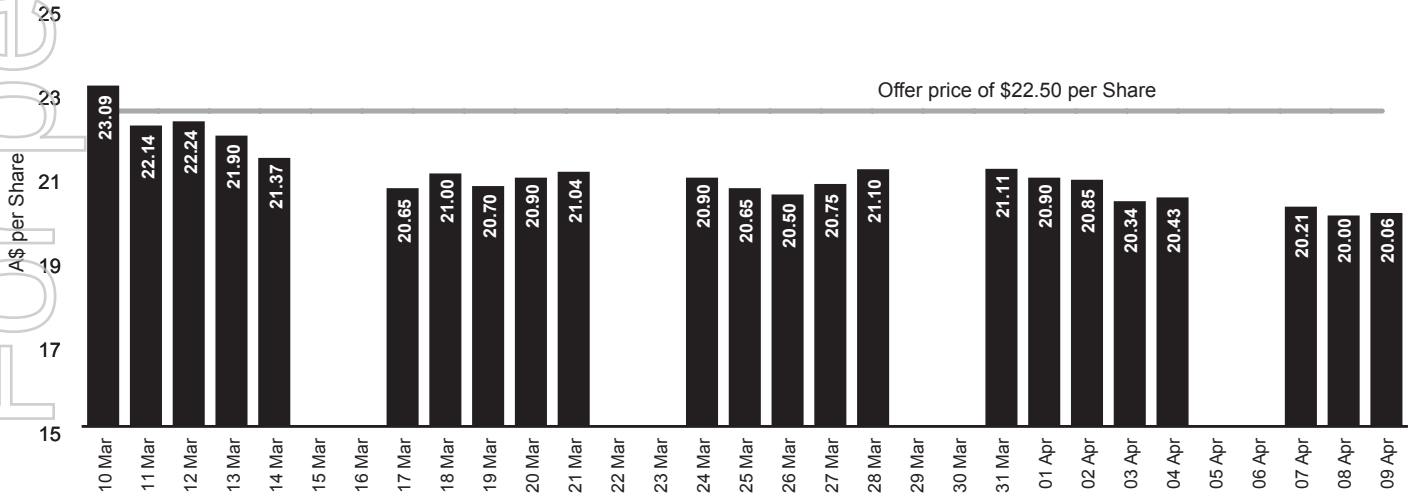
Should the Offer lapse, the amount which you will be able to realise for your Shares which were the subject of the Offer will necessarily be uncertain, and subject to, amongst other things, the performance of the Leighton business and the vagaries of share market conditions.

1.4
HOCHTIEF will have the ability to continue acquiring Shares on the ASX under the 'creep' provisions of the Corporations Act

HOCHTIEF will have the ability to continue acquiring Shares on the ASX at the prevailing market price from the date that is six months after the end of the Offer, with a limit of 3% in any six month period, without making a takeover offer for those Shares. HOCHTIEF could therefore continue to increase its ownership of Leighton following the close of the Offer, without making a takeover offer for those Shares. Ultimately, if HOCHTIEF increases its shareholding in Leighton to 90% or more on a fully diluted basis, it will be able to compulsorily acquire the remaining Shares at fair market value.

Figure 3: Leighton Share price (ASX:LEI) – post Offer announcement

Share prices prior to 17 March 2014 reflect trading on a cum-dividend basis. Share prices from the ex-dividend date of 17 March 2014 reflect trading on an ex-dividend basis.



1.5
The Independent Expert has concluded that the Offer is fair and reasonable

The Independent Expert, KPMG Financial Advisory Services (Australia) Pty Ltd, (KPMG Corporate Finance) has concluded that the Offer is fair and reasonable in the absence of a superior proposal. The Independent Expert's Report appears at Annexure A to this Target's Statement.

The Independent Expert's Report notes that Australian regulatory policy requires that the fairness of the Offer be assessed by comparing the Offer Price of $22.50 per Share to the assessed value of a Share on a control basis assuming that the Offer was for 100% of Shares (even though it is only a proportional offer). On the basis of that methodology, the Independent Expert has assessed the value of a Share to be within the range of $22.01 to $24.24. The Offer Price of $22.50 is within that range and therefore the Independent Expert has concluded that the Offer is fair. See Section 3.2 of the Independent Expert's Report for further information as to fairness.

In accordance with Australian regulatory policy, the Offer is reasonable because it is fair. The Independent Expert notes however in Section 3.3 of its report that there are a range of other factors relevant to assessing reasonableness including:

(a) changes that will occur irrespective of acceptance of the Offer;
(b) advantages and disadvantages of the Offer; and
(c) implications if the Offer is not accepted.

You should read the Independent Expert's Report in full.

1.6
It is unlikely that a superior proposal will emerge

In light of HOCHTIEF's 58.64% shareholding in Leighton (as at 31 March 2014), the Independent Directors consider it highly unlikely that a superior proposal will be forthcoming from the date of this Target's Statement until the end of the Offer Period.

Since 10 March 2014, Leighton has not received any approaches which would cause it to believe that a superior proposal is likely to emerge.

1.7
No brokerage payable

If you accept the Offer, you will not incur any brokerage charges or other transaction costs in selling your Shares pursuant to the Offer which may otherwise be incurred if you choose to sell your Shares on the ASX.

1.8
Other matters

Section 1 of this Target's Statement describes a number of risks and other matters that you should also consider in deciding whether or not to accept the Offer. In considering whether to accept the Offer, your Independent Directors also encourage you to:

(a) read both this Target's Statement and the Bidder's Statement in their entirety; and
(b) obtain professional advice from your broker, financial advisor, accountant or other professional adviser.

1.9
HOCHTIEF nominees' reasons for not making a recommendation

Each of Marcelino Fernández Verdes, David Robinson, Peter Sassenfeld, Pedro López Jiménez and José Luis del Valle Pérez has not made a recommendation in relation to the Offer as they are also directors and / or senior executives of HOCHTIEF or HOCHTIEF AG and, accordingly, do not consider themselves to be independent for the purposes of the Offer.

2.0

Risks and other matters to consider in deciding whether or not to accept the Offer

2.1 Reduced liquidity in Leighton Shares

Your Independent Directors consider that the reduction in 'free float' which will occur if HOCHTIEF substantially increases its majority shareholding in Leighton is likely to lead to a substantial reduction in the liquidity of Leighton Shares. This has been the case in other ASX listed entities where shareholders have taken majority control or further increased their existing level of majority control of the particular entity. Depending on the level of acceptances under the Offer, the liquidity of Leighton Shares may be substantially reduced, which may adversely affect the value at which you are able to dispose of your Leighton Shares in the future.

2.2 Removal from S&P/ASX indices

If, following the Offer, HOCHTIEF's shareholding in Leighton has increased to 70% or more, Leighton will be removed from the S&P/ASX indices in which it is currently included. This may result in liquidity in the Shares being materially lower than at present, and may materially adversely affect the market price of Leighton Shares.

2.3 HOCHTIEF's capacity to exert influence over Leighton's business

Minority Shareholders should note that HOCHTIEF will have the capacity to exert greater influence over the manner in which Leighton's business is conducted. For example:

(a) Prior to HOCHTIEF's announcement, the Leighton Board comprised a majority of directors who were not HOCHTIEF nominees. In its announcement on 10 March 2014, HOCHTIEF stated that it intends to increase its representation on Leighton's Board to reflect its shareholding in Leighton. Following Leighton's 2014 AGM in May, it is expected that HOCHTIEF nominees will comprise a majority of the Leighton Board.

(b) The CEO of Leighton is concurrently the CEO of HOCHTIEF.

(c) Since 2004, a series of governance principles has regulated the relationship between HOCHTIEF and Leighton. Those principles dealt with matters such as the number of independent directors on the Board. HOCHTIEF has departed from those principles.

(d) After the completion of the Offer, HOCHTIEF may be able to ensure the passage of a special resolution at a general meeting of Leighton. A special resolution requires approval of 75% or more of all votes cast at a general meeting. Even though HOCHTIEF will hold less than 75% of Leighton Shares at the end of the Offer Period, it is likely to gain effective control of 75% or more of votes at a general meeting of Leighton because some Shareholders choose not to or are unable to vote at general meetings. HOCHTIEF also has the ability to continue acquiring Shares on market under the 'creep' provisions of the Corporations Act. (See Section 1.4 for further information). Consequently, HOCHTIEF would then be able to pass special resolutions of Leighton (assuming it is not prevented from voting on any such resolution). HOCHTIEF has not indicated an intention to do so, but the ability to pass a special resolution would enable HOCHTIEF to, amongst other things, amend Leighton's Constitution.

(e) HOCHTIEF has flagged in its Bidder's Statement that it will undertake a general review of Leighton's operating model which may result in structural changes to operating businesses, management, a reduction in or changes to the number and function of employees, as well as possible divestment of assets or businesses. The Independent Directors have no basis to form a view on the likely effect on the Share price of any changes that may ultimately be implemented arising out of this review.

2.4 Risk factors relevant to your decision whether or not to accept the Offer

In relation to the 3 out of every 8 Shares that are the subject of the Offer, if you choose not to accept the Offer, you will be subject to a number of general risks including financial risks, strategic risks and risks related to Leighton's operations. Of course, you will also be subject to these risks in relation to the balance of all Shares that you own, however such Shares are not the subject of the Offer. See Annexure C to this Target's Statement for a description of these general risks. In addition to those general risks, there are specific risks / issues affecting Leighton at present, including the following.

(a) Australian Federal Police Investigation. See Section 5.1 for further information.

(b) Class action in relation to April 2011 profit announcement. See Section 5.2 for further information.

(c) Class action in relation to the Australian Federal Police Investigation. See Section 5.3 for further information.

(d) Receivables. See Section 5.4 for further information.

(e) Other litigation. See Section 5.7 for further information.

(f) Potential impact of Offer on Leighton's debt financing. See Section 5.6 for further information.

(g) Potential impact of Offer on Leighton's material contracts. See Section 5.5 for further information.

3.0

Answers to frequently asked questions

This Section answers some key questions that you may have about the Offer. It is not intended to address all issues relevant to Leighton Shareholders and should be read together with all other parts of this Target's Statement and the Bidder's Statement.

Question	Answer
1. What is HOCHTIEF offering for my Leighton Shares?	HOCHTIEF is offering A$22.50 per Share for 3 out of every 8 (37.5%) Leighton Shares that you hold.
2. What is the Bidder's Statement?	The Bidder's Statement is the document setting out the terms of the Offer. HOCHTIEF lodged the Bidder's Statement with ASIC on 14 March 2014 and sent the Bidder's Statement to Leighton Shareholders on 31 March 2014. A copy of the Bidder's Statement is available on the Leighton website (www.leighton.com.au) and on the ASX website (www.asx.com.au).
3. What choices do I have in response to the Offer?	As a Leighton Shareholder you have two options available: **1. Accept the Offer.** (a) To accept the Offer, return your completed Acceptance Form before the end of the Offer Period. (b) If you accept the Offer, you will be left with 5 out of every 8 (67.5%) of your Shares. You may choose to either hold or sell some or all of that remaining holding on the ASX. (c) If accepting the Offer would leave you holding a parcel of Leighton Shares that has a market value of $500 or less, the Offer extends to all of your Leighton Shares and if you accept the Offer you will be deemed to have accepted the Offer for all of your Leighton Shares. See Section 4.1(a) of this Target's Statement for further information. (d) See Sections 1 and 2 of this Target's Statement for further information relevant to continuing to hold an interest in Leighton Shares. (e) See Section 4.1(b)(ii) of this Target's Statement for further information relevant to selling your Remaining Shares during the Offer Period. You should note in particular that, if you sell your Remaining Shares on the ASX during the Offer Period or during a short period following close of the Offer Period (to be 1 week ending on 16 May 2014, assuming an Offer close date of 9 May 2014), the sale will not settle (and you will not receive sale proceeds) until after the end of the Offer Period. **2. Reject the Offer and do nothing.** (a) To reject the Offer, you do not need to take any action. (b) If you reject the Offer, you may choose to either hold or sell some or all of your Shares on the ASX. (c) See Sections 1 and 2 of this Target's Statement for further information relevant to continuing to hold an interest in Leighton Shares. (d) See Section 4.1(b)(i) of this Target's Statement for further information relevant to selling your Shares during the Offer Period. If you are in any doubt as to what to do, your Independent Directors recommend that you consult with your investment, financial, taxation or other professional adviser.
4. What is this Target's Statement?	This Target's Statement has been prepared by Leighton and provides Leighton's response to the Offer, including the recommendation of your Independent Directors and the report of the Independent Expert.

5. Who is HOCHTIEF?	HOCHTIEF is Leighton's major shareholder, and currently owns 58.64% of Leighton Shares (as at 31 March 2014). HOCHTIEF is a wholly-owned Australian subsidiary of HOCHTIEF AG. HOCHTIEF AG is a global construction-related services provider and is represented in most of the world's major markets. HOCHTIEF AG is listed on the Frankfurt Stock Exchange with a market capitalisation of approximately €5,111 million as at the close of trading on the last trading day prior to 14 March 2014. The largest shareholder in HOCHTIEF AG is the listed Spanish construction company, Actividades de Construccion y Servicios S.A. (***ACS***), which held 50.35% of the shares in HOCHTIEF AG at 31 December 2013. Section 2 of the Bidder's Statement contains further information on HOCHTIEF, HOCHTIEF AG and ACS.
6. What do the Independent Directors recommend?	Your Independent Directors unanimously recommend that you **ACCEPT** the Offer, in the absence of a superior proposal. The reasons for this recommendation are set out in Section 1 of this Target's Statement. If there is a change to your Independent Directors' recommendation or there are any material developments in relation to the Offer, your Directors will make the appropriate supplementary disclosure.
7. What does the Independent Expert say?	The Independent Expert has concluded that the Offer is fair and reasonable. The Independent Expert's report is included at Annexure A to this Target's Statement. You should read that report carefully.
8. What do the Directors intend to do with their Leighton Shares?	Each Director intends to accept the Offer in respect of the Leighton Shares held by them or on their behalf, in the absence of a superior proposal.
9. How do I accept the Offer?	To accept the Offer you should follow the instructions set out in Section 2.1 of the Bidder's Statement and on the Acceptance Form. Your acceptance must be received before the end of the Offer Period.
10. What happens if I accept the Offer?	(a) If you accept the Offer now in respect of 3 out of every 8 (37.5%) of your Leighton Shares, then unless withdrawal rights are available at the applicable time and you exercise those rights, you will not be able to sell those Shares on the ASX or to any other bidder that may make a takeover offer, or deal with them in any other manner. (b) You will be able to sell your Remaining Shares if you wish (i.e., 5 out of every 8 Shares (62.5%)) but a transferee will not be able to accept the Offer in respect of those Remaining Shares. (c) If you accept the Offer and HOCHTIEF subsequently raises its Offer price, you will receive the higher price. See Section 4.2 of this Target's Statement for more details.

11. Can I accept the Offer for less than 37.5% of my Leighton Shares?	No, you can only accept for the full 37.5% (i.e., 3 out of every 8 of your Leighton Shares). You will be able to sell your Remaining Shares but a transferee will not be able to accept the Offer in respect of them. If you accept the Offer, you will retain 62.5% of your Leighton Shares. ASX has put in place special trading and settlement arrangements with respect to these Remaining Shares as follows: (a) purchasers of the Remaining Shares will not be entitled to accept the Offer in respect of those Shares and such Shares will trade on ASX on an "ex-Offer" basis; and (b) settlement of trades in "ex-Offer" Leighton Shares will be deferred until after the end of the Offer Period. If you do not accept the Offer in respect of your Leighton Shares and instead sell some or all of your Leighton Shares, the purchaser of those Shares may accept the Offer for 37.5% of the Leighton Shares purchased from you. In this circumstance, your Leighton Shares will have traded on a "cum-Offer" and normal (T+3) settlement basis.
12. What are the conditions of the Offer?	The Offer is conditional on there being no objection to HOCHTIEF acquiring Leighton Shares under *the Foreign Acquisitions and Takeovers Act (Cth)* (the ***FIRB Defeating Condition***). See Sections 4.3 and 4.4 of this Target's Statement and Section 9.8 of the Bidder's Statement for further details.
13. When will HOCHTIEF announce the status of the FIRB Defeating Condition?	If the FIRB Defeating Condition is fulfilled during the Offer Period, then HOCHTIEF must, as soon as practicable, give ASX and Leighton a notice stating that it has been fulfilled. HOCHTIEF will also provide a notice to ASX and Leighton as to the status of the FIRB Defeating Condition on 2 May 2014 (subject to extension in accordance with the Corporations Act if the Offer Period is extended).
14. What happens if the FIRB Defeating Condition is not satisfied?	If the FIRB Defeating Condition is not satisfied before the conclusion of the Offer Period, then your acceptance of the contract resulting from your acceptance of the Offer is void and you will retain ownership of those Shares in respect of which you had accepted the Offer.
15. Can HOCHTIEF withdraw the Offer?	HOCHTIEF may be able to withdraw the Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent.
16. If I accept the Offer now, can I withdraw my acceptance?	You may withdraw your acceptance at any time until the FIRB Defeating Condition has been fulfilled. However, you will not get any notice from HOCHTIEF before that condition is fulfilled. You may also withdraw your acceptance in limited circumstances prescribed under the Corporations Act, notably if HOCHTIEF extends the Offer Period for more than 1 month and the Offer remains conditional.

17. If I choose to accept the Offer, when will I receive my consideration?	If you validly accept the Offer, HOCHTIEF has stated that it will pay the cash consideration for your Leighton Shares by the earlier of: (a) 21 days after the end of the Offer Period; or (b) one month after the later of receipt of your valid acceptance and the date on which the Offer becomes unconditional. It is uncertain when HOCHTIEF's Offer will become unconditional, if at all. See Section 4.3 for further details.
18. Can I be forced to sell my Leighton Shares under the Offer?	No. You do not have to accept the Offer.
19. How do I reject the Offer?	To reject the Offer, you do not need to do anything. Simply disregard the documents sent to you by HOCHTIEF in relation to the Offer.
20. When does the Offer close?	The Offer is currently scheduled to close at 7pm (AEST) on the later of 9 May 2014 or the date which is 7 days after the fulfilment of the FIRB Defeating Condition, unless withdrawn or extended. Your Independent Directors will keep you informed if there are any material developments in relation to the Offer. Shareholders are also encouraged to monitor the Leighton website at www.leighton.com.au for any updates on the Offer.
21. What are the tax implications of accepting the Offer?	If you accept the Offer, you may be liable for capital gains tax or income tax as a result of your acceptance. A general description of the Australian income tax, GST and stamp duty consequences of accepting the Offer for certain Australian resident Leighton Shareholders is set out in Section 7 of the Bidder's Statement. You should not rely on that outline as advice on your own affairs. It does not deal with the position of certain Leighton Shareholders. It also does not take into account the particular circumstances of each Leighton Shareholder. You should therefore seek your own professional financial and taxation advice before making a decision as to whether or not to accept the Offer.
22. What happens if a superior proposal is made by HOCHTIEF?	If HOCHTIEF raises the Offer price, your Independent Directors will carefully consider the revised Offer and advise you accordingly. If you accept the Offer, and HOCHTIEF subsequently raises the Offer price, you will receive the higher price if the Offer has become unconditional.
23. What happens if a superior proposal is made by a third party?	The Independent Directors will carefully consider the merits of any competing proposal and will advise you whether the competing proposal affects their initial recommendation that Leighton Shareholders accept HOCHTIEF's Offer. Given HOCHTIEF owns 58.64% of the Leighton Shares (as at 31 March 2014), there is unlikely to be an alternative proposal by a third party. See Section 1.6 for further information. If you have already accepted HOCHTIEF's Offer, then you may not be able to participate in any competing proposal. See Section 4.2 for further information.

24. During the period of the Offer, can I sell my Leighton Shares on ASX?	Yes, you may sell your Leighton Shares through ASX for cash at the prevailing market price of Leighton Shares at the time of sale, provided you have not accepted the Offer for those Shares (or, if you have accepted the Offer, provided you have validly withdrawn that acceptance). You should be aware that the market price of Leighton Shares may rise or fall during the Offer Period. If you sell all or some of your Leighton Shares on the ASX, you: (a) may be liable for capital gains tax or income tax on the sale of those Shares; (b) may incur a brokerage charge; and (c) will lose the opportunity to receive future returns from Leighton in relation to that portion of Shares sold. Special ASX trading and settlement arrangements apply depending on whether you sell your Leighton Shares cum-Offer or ex-Offer. See Section 4.1(b) of this Target's Statement for further information.
25. What are the risks associated with Leighton and its business?	The risks associated with Leighton and its business are set out in Section 2 and Annexure C of this Target's Statement.
26. Who should I call if I have questions?	You can contact the Leighton Shareholder Information Line on 1300 388 415 (within Australia) or +61 3 9415 4032 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday, or you can speak to your financial or other professional adviser.

4.0

Effect of acceptance of proportional Offer

4.1 Arrangements regarding Offer acceptance and ASX trading

As the Offer is a proportional offer rather than a full offer (HOCHTIEF is offering to acquire only 3 out of every 8 (37.5%) of your Leighton Shares rather than offering to acquire all of your Leighton Shares), special arrangements have been put in place regarding the process of accepting the Offer and the ASX trading and settlement of Leighton Shares. These arrangements are outlined in the Bidder's Statement, however you should be aware of the following.[5]

(a) You can only accept the Offer for 37.5% of your shareholding

The Offer can only be accepted for 37.5% of your Leighton Shares. For instance, if you hold 1,000 Leighton Shares only 375 of them can be accepted into the Offer, and you will retain the balance of 625 Leighton Shares which you are free to deal with, including to sell on ASX (but see Section 4.1(b) below regarding trades on ASX during the Offer Period and for a short period following the close of the Offer Period, to be one week ending on 16 May 2014 assuming an Offer close date of 9 May 2014).

The Offer cannot be accepted for:

(i) more than 37.5% of your holding of Leighton Shares, unless the Unmarketable Parcel Rule applies (see below); or

(ii) less than 37.5% of your holding of Leighton Shares, unless you are a custodian or nominee holding Leighton Shares on behalf of more than one person (see Section 9.5(b) of the Bidder's Statement).

If 37.5% of your Leighton Shares does not equal a whole number of Leighton Shares, there will be a rounding down to the nearest whole number and the Offer will relate to that whole number of Shares. For instance, if you hold 500 Leighton Shares, 37.5% equates to 187.5 Leighton Shares. That will be rounded down to 187 Leighton Shares so the Offer will relate to 187 Leighton Shares.

Despite the above, if accepting the Offer for 37.5% of your Leighton Shares would leave you holding a parcel of Leighton Shares that has a market value of $500 or less[6], the Offer extends to all of your Leighton Shares and if you accept the Offer you will be deemed to have accepted the Offer for all of your Leighton Shares (the **Unmarketable Parcel Rule**). This Unmarketable Parcel Rule does not apply unless you or another person acquired a legal or equitable interest in the Leighton Shares otherwise comprising the parcel before 10.00am (AEST) on the Announcement Date of 10 March 2014.

(b) If you accept the Offer for 37.5% of your shareholding you can sell the remaining 62.5% on ASX but such sale will not settle (and you will not receive sale proceeds) until after the end of the Offer Period

As with previous proportional takeover offers, ASX has put in place special trading and settlement arrangements which apply to ASX trades in Leighton Shares during the Offer Period and for a short period following the close of the Offer Period (to be one week ending on 16 May 2014 assuming an Offer close date of 9 May 2014).

These arrangements seek to ensure that not more than 37.5% of each parcel of Leighton Shares is accepted into the Offer, irrespective of who owns those Leighton Shares (except where the Unmarketable Parcel Rule applies).

For the duration of the Offer Period and for a short period following the close of the Offer Period (to be one week ending on 16 May 2014 assuming an Offer close date of 9 May 2014), there are two markets in Leighton Shares as follows.

(i) Normal settlement "cum-Offer" market (ASX code: LEI)

This market is for Leighton Shares capable of acceptance into the Offer. For example, if you hold 1,000 Leighton Shares and you decide not to accept the Offer but to sell all of those Leighton Shares on ASX, all 1,000 of your Leighton Shares will be sold in this LEI "cum-Offer" market. The purchaser of those Leighton Shares can accept the Offer in respect of 375 of those 1,000 Leighton Shares, and is free to deal with the remaining 625 Leighton Shares.

All trades in the LEI "cum-Offer" market will settle on a normal T+3 settlement basis (i.e., on the 3rd trading day after the trade date).

You should note, however, that if you sell Leighton Shares in the "LEI" market shortly prior to the scheduled Offer closing date and the trade settles on a normal T+3 settlement basis, the purchaser may be unable to accept the Offer if the Offer closes as scheduled. This is because a purchaser will only be able to accept the Offer if the trade settles before the end of the Offer Period. This may have an effect on the price you receive for your Leighton Shares sold in the "LEI" market. For completeness, you should also note that if you sell Leighton Shares in the "LEI" market after the end of the Offer Period, the purchaser will be unable to accept the Offer and has effectively purchased "ex-Offer" Leighton Shares".

5 The information in this Section 4.1 and elsewhere in this Target's Statement regarding the ASX trading arrangements for Leighton Shares is based on information known to Leighton as at the date of this Target's Statement. Investors should contact their broker for further information regarding the ASX trading arrangements.

6 The Bidder's Statement provides that the market value of such a remaining parcel of Leighton Shares is calculated based on the cum-Offer price on the most recent trading day before the date of the relevant acceptance of the Offer. If you are not sure if the Unmarketable Parcel Rule applies to you, you should contact your broker.

(ii) Deferred settlement "ex-Offer" market (ASX code: LEIE)

This market is for Leighton Shares not capable of acceptance into the Offer. For example, if you hold 1,000 Leighton Shares and you accept the Offer for 375 of your Leighton Shares, you can sell the remaining 625 on ASX. Those 625 Leighton Shares will be sold into the LEIE "ex-Offer" market. The purchaser of those 625 Leighton Shares cannot accept the Offer in respect of 37.5% of those 625 Leighton Shares, because those 625 Leighton Shares were previously part of a parcel of 1,000 Leighton Shares in respect of which 375 were accepted into the Offer.

All trades in the LEIE "ex-Offer" market will be subject to deferred settlement and Leighton understands that settlement of those trades will not occur until 22 May 2014 assuming an Offer close date of 9 May 2014. This means that if you sell Leighton Shares into the LEIE "ex-Offer" market, you will not receive sale proceeds until after the Offer Period. The Offer Period is currently scheduled to end at 7.00pm (AEST) on 9 May 2014. HOCHTIEF can extend the Offer Period for up to an aggregate 12 month Offer Period.[7]

Leighton understands that deferred settlement trades in the LEIE "ex-Offer" market will continue following the end of the Offer Period, until and including 16 May 2014 assuming an Offer close date of 9 May 2014. For the avoidance of doubt, no Leighton Shares can be accepted into the Offer after the end of the Offer Period.

It is likely that the price of Leighton Shares in the ex-Offer market will be lower than in the cum-Offer market. Purchasers of Leighton Shares in the ex-Offer market can on-sell those Leighton Shares in the ex-Offer market, however as with the initial sale those sales will not settle until after the end of the Offer Period.

4.2 Effect of acceptance

Accepting the Offer would (subject to the possible withdrawal rights set out below):

(a) prevent you from accepting any higher takeover bid that may be made by a third party or any alternative transaction proposal that may be recommended by the Leighton Board;

(b) see you relinquish control of 3 out of every 8 of your Leighton Shares to HOCHTIEF with no guarantee of payment until HOCHTIEF's Offer becomes, or is declared, unconditional. As the Offer Period could be extended by HOCHTIEF so that its Offer is open for up to 12 months, this could result in further delays in payment from HOCHTIEF; and

(c) not provide you with the ability to sell your entire holding of Shares (only 37.5% of your Shares), should you wish to do so. If you wish to sell some or all of the 62.5% balance of your shareholding, you will need to do so on ASX, and there is no guarantee of the price at which Leighton Shares will trade on ASX from time to time. As announced on 13 March 2014, during negotiations with HOCHTIEF, the Independent Directors pressed HOCHTIEF to make a takeover offer for all Leighton Shares (rather than a proportional offer) but HOCHTIEF declined.

If HOCHTIEF improves the Offer price, all Leighton Shareholders who accept HOCHTIEF's Offer (whether or not they have accepted prior to that improvement) will be entitled to the benefit of that improved price.

4.3 Condition of the Offer

HOCHTIEF's Offer is subject to the FIRB Defeating Condition. That condition is set out in full in Section 9.8 of the Bidder's Statement. The FIRB Defeating Condition is outside Leighton's control and your Independent Directors are therefore unable to give any indication as to whether that condition will be satisfied.

If the FIRB Defeating Condition is not fulfilled at the end of the Offer Period, then your acceptance of the contract resulting from your acceptance of the Offer is void.

4.4 Notice of Status of FIRB Defeating Condition

The HOCHTIEF Bidder's Statement indicates that HOCHTIEF will give to ASX and Leighton a Notice of Status of Conditions on 2 May 2014 (subject to extension in accordance with the Corporations Act) if the Offer Period is extended.

HOCHTIEF is required to set out in its Notice of Status of Conditions:

(a) whether the FIRB Defeating Condition has been satisfied; and

(b) HOCHTIEF's voting power in Leighton at that time.

If the Offer Period is extended before the Notice of Status of Conditions is to be given, the date that HOCHTIEF must give its Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, HOCHTIEF is required, as soon as reasonably practicable after the extension, to notify ASX and Leighton of the new date for giving the Notice of Status of Conditions.

In addition, if the FIRB Defeating Condition is fulfilled during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, HOCHTIEF must, as soon as practicable, give ASX and Leighton a notice stating that the FIRB Defeating Condition has been fulfilled.

7 HOCHTIEF has stated in the Bidder's Statement that it will extend the close of the Offer to at least 7 days after the FIRB Defeating Condition is satisfied (or the Treasurer advises that approval for the Offer will be refused) if the FIRB Defeating Condition is not satisfied by 2 May 2014.

4.5 Extension of the Offer Period

If the Offer becomes unconditional (that is, the FIRB Defeating Condition is fulfilled), HOCHTIEF may extend the Offer Period at any time before the end of the Offer Period. However, until the FIRB Defeating Condition is fulfilled, HOCHTIEF may extend the Offer Period at any time before it gives ASX and Leighton a Notice of Status of Conditions, but may only extend the Offer Period after it gives such notice in the circumstances described in the paragraph below or in other limited circumstances set out in the Corporations Act, that only apply where another person also announces or makes a takeover bid for Leighton Shares.

HOCHTIEF must extend the Offer Period if, within the last seven days of the Offer Period, HOCHTIEF improves the price offered. If that happens, the Offer must be extended so it ends 14 days after that event.

You should note that, because the current voting power in Leighton of HOCHTIEF is more than 50%, there will be no automatic extension of the Offer Period if HOCHTIEF becomes entitled to own a majority of Leighton Shares in the last seven days of the Offer Period. HOCHTIEF is obliged to file notices at ASX each time its interest in Leighton Shares changes by 1% or more. You should monitor these filings if you wish to wait until HOCHTIEF has a particular level of holding before deciding what to do.

4.6 Your withdrawal rights

If you accept HOCHTIEF's Offer, you will have a right to withdraw your acceptance in some circumstances. Those withdrawal rights comprise general statutory withdrawal rights under the Corporations Act and a withdrawal right to the extent that the FIRB Defeating Condition remains unfulfilled. In summary:

(a) Statutory withdrawal rights under the Corporations Act
Under the Corporations Act, you may withdraw your acceptance of HOCHTIEF's Offer if HOCHTIEF varies its Offer in a way that postpones, for more than one month, the time at which HOCHTIEF needs to meet its obligations under the Offer. This will occur if HOCHTIEF extends the Offer Period by more than one month and HOCHTIEF's Offer is still subject to conditions.
In those circumstances, you will have a period of one month after the date that HOCHTIEF's Offer is extended to withdraw your acceptance. Your statutory withdrawal rights will terminate upon the expiry of that one month period, although if the Offer Period is then further extended you may receive further statutory withdrawal rights.

(b) FIRB Defeating Condition
You may withdraw your acceptance of the Offer if the FIRB Defeating Condition has not, at the time of your withdrawal, been fulfilled or waived. This is because the FIRB Approval condition is a condition precedent to the formation of a binding contract between you and HOCHTIEF in respect of such of your Leighton Shares accepted into the Offer.

The manner in which you can withdraw your acceptance will depend on whether the Leighton Shares the subject of the acceptance were held in a CHESS holding or in an issuer sponsored holding.

(a) CHESS Holdings
If the Leighton Shares were held in a CHESS holding, you should contact your broker to instruct them to effect the withdrawal by transmitting a Valid Originating Message in accordance with Rule 14.16 of the ASX Settlement Operating Rules.

(b) Issuer sponsored holdings
If the Leighton Shares were held in an issuer sponsored holding, you should send a written notice of withdrawal to HOCHTIEF's share registry provider, Computershare Investor Services Pty Ltd, GPO Box 52, Melbourne, Victoria 3001. It is recommended that your notice attach a copy of your completed Acceptance Form or refer to your Securityholder Reference Number, and be signed by the same person(s) who signed your Acceptance Form.

You should be aware that if you withdraw your acceptance of the Offer in respect of 37.5% of your Leighton Shares, and you have already sold all or part of the remaining 62.5% in the ex-Offer market, those Leighton Shares that have been sold will remain subject to deferred settlement in the ex-Offer market. The cum-Offer Leighton Shares which are returned to you following your withdrawal can all be sold in the cum-Offer market during the Offer Period.

4.7 Withdrawal of the Offer by HOCHTIEF

HOCHTIEF may be able to withdraw the Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent.

4.8 Lapse of HOCHTIEF's Offer

HOCHTIEF's Offer will lapse if, at the end of the Offer Period, the FIRB Defeating Condition is not fulfilled. If this occurs then acceptances given by Leighton Shareholders will be void. Leighton Shareholders will continue to own the Leighton Shares the subject of any such acceptances and will be free to deal with them as they choose. Even if the Offer lapses, HOCHTIEF nominees will comprise a majority of the Board immediately following Leighton's 2014 AGM in May.

5.0

Other material information

5.1 Australian Federal Police and ASIC Investigations

As previously disclosed, in November 2011 Leighton Holdings voluntarily reported to the Australian Federal Police (***AFP***) a possible breach by employees within the Leighton international business of its Code of Ethics that, if substantiated, may have contravened Australian laws. The possible breach related to payments that may have been made by a subsidiary company, Leighton Offshore Pte Ltd in connection with work to expand offshore loading facilities for Iraq's crude oil exports.

The AFP is investigating the Iraq issue and the Leighton Group's international business operations.

In November 2013, ASIC made public statements about its cooperation with the AFP in the AFP's investigation. On 28 March 2014, ASIC informed the Senate Estimates Committee that it had commenced a formal investigation into potential breaches of the Corporations Act relating to a number of the matters being investigated by the AFP. Leighton is cooperating with the AFP and the ASIC investigations. Leighton does not know when the investigations will be concluded.

If, as a result of the investigations, criminal charges or civil penalty proceedings are brought against any current or former officer or employee, or any entity within the Leighton Group, those proceedings or any possible fines, compensation orders or convictions that may result, could have a materially adverse effect on the current and future business of the Leighton Group. For example, such an occurrence may have a material adverse effect on Leighton's ability to secure future work opportunities, and may also affect its investments and its relationships with suppliers or joint venture partners.

5.2 Claim brought by Inabu Pty Ltd as trustee of the Alidas Superannuation Trust – Class Action relating to April 2011 Profit announcement

As previously disclosed, Inabu Pty Ltd has commenced a class action in the Federal Court. The claim relates to the 11 April 2011 disclosure by Leighton of a revision of its profit forecast for the 2011 financial year and the class comprises shareholders at 11 April 2011 in relation to Shares purchased in the period 16 August 2010 to 11 April 2011.

Following mediation, Leighton is in negotiations with the claimant to seek to resolve the matter. No settlement has been reached at this stage.

If the matter cannot be resolved on appropriate terms, the proceedings will be defended.

5.3 Claim brought by Melbourne City Investments – Class Action relating to the failure to disclose the circumstances giving rise to the AFP Investigation

As previously disclosed, on 4 October 2013 Melbourne City Investments commenced a class action in the Supreme Court of Victoria following the Share price decrease on 3 October 2013. The claim relates to the alleged failure to disclose, either at all or in sufficient detail, allegations that payments made in connection with work to expand offshore loading facilities for Iraq's crude oil exports may have contravened Australian laws.

On 31 January 2014 the Court struck out the initial claim. The Plaintiff was given leave to re-plead its case and a further amended statement of claim was served on 13 February 2014. Leighton filed a defence on 28 February 2014 in accordance with orders of the Court. Following a further application to strike out the claim, a second further amended statement of claim has now been filed. Leighton will file its defence to that claim in accordance with the orders of the Court.

Leighton has brought applications in the proceedings for orders that the:

(a) proceedings be permanently stayed on the basis that the Plaintiff is not an appropriate plaintiff as it is not representative of the alleged class; and/or

(b) solicitor acting for the Plaintiff be restrained from doing so on the basis that he is not sufficiently independent.

The proceedings are next before the Court on 16 May 2014. If the applications are not successful the proceedings will be defended.

5.4 Recovery of receivables

As set out in Leighton's Annual Report, released to the ASX on 28 March 2014, current trade and other receivables, which include contract debtors and underclaims, were $5.1 billion at 31 December 2013 compared with $3.8 billion at 31 December 2012, with the increase primarily due to the progression of various projects, increased turnover and the effect of foreign exchange movements on US dollar-denominated receivables.

The greater receivables balance in Leighton's balance sheet is primarily due to an increasing proportion of private sector projects in Leighton's portfolio in financial years 2012 and 2013, in particular in relation to work undertaken on domestic LNG projects. On these projects, the Leighton Group has experienced:

(a) lengthy payment cycles;
(b) extensive scope growth; and
(c) complex and time-consuming valuation and negotiation processes to agree variations to existing contracts.

In addition, in coal contract mining, receivables have arisen from recovery of mine set-up costs and challenging market conditions.

The timely conversion of current receivables into cash continues to be a key focus for financial year 2014.

However, the greater receivables balance in Leighton's balance sheet will remain until the current domestic LNG projects are completed and final agreements negotiated. As at 31 December 2013, these projects totalled in excess of $13 billion and were around 70% complete.

Additionally, the Leighton Group has two oil pipeline projects in Iraq, Phase 1 is 99% complete and the Sealine Project is approximately 80% complete. Progress on delivery of these projects and on negotiations to collect outstanding receivables continues. Again, receivables are likely to remain outstanding until the projects are complete and final agreements are negotiated.

As stated in Leighton's Annual Report, the Leighton Group has operations risk in relation to recoverability of variations and claims from clients included in receivables (see section 3 of Annexure C for further information).

The Directors have considered the receivables disclosed in the Annual Report released to ASX on 28 March 2014. In relation to the receivables as at 31 December 2013 there has been no material change to either the existing approach to the management of receivables or to their expected recovery.

HOCHTIEF has stated in the Bidder's Statement an intention to undertake a broad based general review of Leighton's operating model. That review has yet to be completed. It is therefore possible that a different approach to the management of receivables may be adopted in future that may result in the ultimate level and timing of recovery of receivables being different than currently expected.

5.5 Potential effect of Offer on Leighton's material contracts

Other than the arrangements described below and in Section 5.6, Leighton is not, after due inquiry, aware of any financing arrangement or other contract that has been entered into by Leighton or any of its subsidiaries, that Leighton considers to be material in the context of Leighton or the Leighton Group taken as a whole, that contains a change of control provision that may be triggered if HOCHTIEF acquires Leighton Shares as a result of the Offer.

Although Leighton and various of its subsidiaries have entered into other contracts that contain change of control provisions that may be triggered if HOCHTIEF acquires Leighton Shares as a result of the Offer, Leighton does not consider any of those contracts to be material in the context of Leighton or the Leighton Group taken as a whole.

5.6 Change of control provisions in Leighton's debt facilities, equipment leases and bonding facilities

Generally, the provisions in Leighton's material debt facilities, equipment leases and bonding facilities[8] which entitle financiers to require repayment in the event of a change of control are only triggered in circumstances where HOCHTIEF holds 75% or more of Leighton Shares or controls the composition of 75% or more of the Leighton Board. The Offer and the Leighton Board and management changes which have been announced to date do not trigger these repayment entitlements. At the date of this Target's Statement, HOCHTIEF has nominated 50% of Directors appointed to the Leighton Board and it currently owns 58.64% of Shares (as at 31 March 2014). At the conclusion of the Offer, HOCHTIEF will own up to a maximum of 74.15% of Shares (based on the number of exercisable Options as at 31 March 2014), which is below the relevant change of control threshold. At the conclusion of the AGM on 19 May 2014, it is expected that the Board will comprise two independent directors within a Board of seven members, which will also be below the relevant change of control threshold.

Leighton's US$500 million of 5.950% guaranteed senior notes due 2022 in the United States Rule 144A debt capital markets issue (the ***Notes***) are subject to an additional change of control provision which can be triggered if two events occur. First, HOCHTIEF announcing its intention to appoint, or actually appointing, 50% or more of the Leighton Board (a ***Change of Control Event)***, and consummating that Change of Control Event; and secondly, both Moody's and Standard & Poor's ceasing to rate the Notes as investment grade. As of 13 March 2014, HOCHTIEF has nominated 50% of the Directors appointed to the Board.

Currently the Notes are rated investment grade by Moody's and Standard & Poor's and no downgrade has occurred. Both rating agencies have placed Leighton on negative credit watch and have stated that they will review the business strategy and financial position of Leighton, together with that of its parents, to determine what action, if any, to take. The outcome of these reviews is uncertain.

In order for the Notes to be rated non-investment grade by both Moody's and Standard & Poor's, Moody's must downgrade the Notes two notches from Baa2 to Ba1 and Standard & Poor's must downgrade one notch from BBB- to BB+. Ratings reviews typically take up to 90 days but can be shorter.

If both Moody's and Standard & Poor's were, in due course, to cease to rate the Notes as investment grade, Leighton, or a third party that it could procure, would be required by the Note terms to offer to repurchase the Notes at 101% of face value. It was also possible that there may have been a cross default under one of Leighton's other facilities if Leighton was to be required to offer to repurchase the Notes, however Leighton has in place binding arrangements which would remove any need for Leighton to offer for the Notes, so that the risk of cross default under that other facility is avoided.

5.7 Other litigation

Certain members of the Leighton Group have the normal contractor's liability in relation to construction contracts. This liability may include litigation by or against the Group and / or joint arrangements in which the Group has an interest. It is not possible to estimate the financial effect of these claims should they be successful but, unless they were to vary materially from historical levels, the Directors consider that adequate allowance has been made for them.

5.8 Changes in financial position

Nothing is known to any Director that would change their view of the financial position of Leighton as at 31 December 2013 as reported in the Appendix 4E dated 20 February 2014.

So far as is known to any Director, the financial position of Leighton has not materially changed since 31 December 2013 other than as a result of ordinary trading, and except as disclosed in this Target's Statement (including in the Independent Expert's Report) and in Leighton's announcements to ASX since 31 December 2013.

Management is preparing Leighton's financial results for the three months ending 31 March 2014, which will be finalised for release on 5 May 2014. Management expects that gearing at the end of the quarter ended 31 March 2014 will be, consistent with historical seasonal working capital requirements, moderately higher than the upper end of the 2014 year end gearing guidance range of 35%. However management continues to expect that gearing at year end will be within the guidance range of 20 - 35%.

8 At 31 December 2013, the Group had $2.1 billion of interest bearing debt and finance leases (including the US Rule 144A Notes) and $4.4 billion of drawn bonding facilities and guarantees. The Group had an additional $2.0 billion of undrawn loan facilities and undrawn, committed bonding facilities at this time.

5.9
Details of Directors

The Directors of Leighton as at the date of this Target's Statement are as follows.

Name	Position
Robert Humphris OAM	Chairman, Independent Non-Executive Director
Paula Dwyer	Deputy Chairman, Independent Non-Executive Director
Marcelino Fernández Verdes	Executive Director and CEO
Russell Higgins AO	Independent Non-Executive Director
Michael Hutchinson	Independent Non-Executive Director
Pedro López Jiménez	Non-Executive Director
Vickki McFadden	Independent Non-Executive Director
David Robinson	Non-Executive Director
Peter Sassenfeld	Non-Executive Director
José Luis del Valle Pérez	Non-Executive Director

5.10
Directors' relevant interests in Leighton Securities

As at the date of this Target Statement, the Directors have the following relevant interests in Leighton Securities.

Director	Relevant interest in Leighton Securities
Robert Humphris OAM	30,000 ordinary shares
Paula Dwyer	5,000 ordinary shares
Marcelino Fernández Verdes	2,745 ordinary shares
Russell Higgins AO	6,090 ordinary shares
Michael Hutchinson	5,000 ordinary shares
Pedro López Jiménez	1,192 ordinary shares
Vickki McFadden	7,000 ordinary shares
David Robinson	1,489 ordinary shares
Peter Sassenfeld	1,858 ordinary shares
José Luis del Valle Pérez	Nil

5.11 Dealings by Directors in Leighton Securities

Except as set out below, no Director has acquired or disposed of any relevant interests in Leighton Securities within the period of four months immediately preceding the date of this Target's Statement.

Director	Relevant interest in Leighton Securities
Vickki McFadden	7,000 ordinary shares

5.12 Directors' relevant interests in HOCHTIEF or HOCHTIEF AG securities

Except as set out below, no Director has a relevant interest in any marketable securities of HOCHTIEF or HOCHTIEF AG as at the date of this Target's Statement.

Director	HOCHTIEF or HOCHTIEF AG Security	Relevant Interest
Marcelino Fernández Verdes	HOCHTIEF AG ordinary shares	2,643
Peter Sassenfeld	HOCHTIEF AG ordinary shares	4,107

5.13 Dealings by Directors in HOCHTIEF or HOCHTIEF AG securities

No Director acquired or disposed of any relevant interests in marketable securities in HOCHTIEF or HOCHTIEF AG within the period of four months immediately preceding the date of this Target's Statement.

5.14 Conditional agreements

Other than as set out in this Target's Statement, no Director is a party to any agreement or arrangement with any other person in connection with or conditional on the outcome of HOCHTIEF's Offer.

5.15 Interests of Directors in any contracts

(a) No Independent Director has an interest in any contract entered into by them with HOCHTIEF. Certain of the HOCHTIEF nominees, who are not making a recommendation in this Target's Statement, have interests in agreements entered into by them with HOCHTIEF that relate to their executive positions within the HOCHTIEF Group.

(b) Michael Hutchinson will offer himself for election at the AGM on 19 May 2014. HOCHTIEF has stated in the Bidder's Statement that it will support his election. Mr Hutchinson has given no undertaking regarding his duration of service following the AGM.

5.16 Payments and benefits

As a result of the Offer, no benefit (other than a benefit permitted by section 200F or 200G of the Corporations Act) will or may be given to a Director:

(a) in connection with their retirement from office in Leighton or a related body corporate of Leighton; or

(b) in connection with the transfer of the whole or any part of the undertaking or property of Leighton.

5.17 Leighton capital structure

As at 31 March 2014, Leighton's issued capital comprised:

(a) 337,965,688 Leighton Shares;

(b) 3,094,500 unlisted Leighton Options; and

(c) 1,981,304 Leighton Share Rights issued under Leighton's employee incentive plans.

Leighton Share Rights include:

(a) 28,850 2011 LTI Performance Share Rights issued under the Leighton Holdings Long Term Incentive Plan at no cost and entitling the participant to receive one fully paid ordinary share in the Company per right, subject to vesting conditions linked to service and performance over the performance period (three to four years);

(b) 587,346 2012 LTI Performance Share Rights issued under the Leighton Holdings Equity Incentive Plan (EIP) at no cost and entitling the participants to receive one fully paid ordinary share in the Company per right, subject to vesting conditions linked to service and performance over the performance period (minimum three years and in some cases up to five years);

(c) 655,658 2012 STI Deferred Share Rights issued under the EIP at no cost and entitling the participants to receive one fully paid ordinary share in the Company per right, vesting of which is subject to a deferral period (generally two years);

(d) 687,416 2013 LTI Performance Share Rights issued under the EIP at no cost and entitling the participants to receive one fully paid ordinary share in the Company per right, subject to vesting conditions linked to service and performance over the performance period (three years); and

(e) 22,034 2013 STI Deferred Share Rights issued under the EIP at no cost and entitling the participants to receive one fully paid ordinary share in the Company per right, vesting of which is subject to a deferral period (generally two years).

5.18 Impact of Offer on Leighton Options

Exercise of 1,956,750 Leighton Options is subject to meeting a relative total shareholder return (***TSR***) hurdle against S&P/ASX 100 companies and exercise of the balance 1,137,750 of the Leighton Options is subject to meeting a growth in EPS hurdle. As the TSR hurdle had not been met at the relevant test dates, only the Leighton Options with a growth in EPS hurdle may be exercised or will otherwise expire on 4 May 2014 if not exercised. Accordingly, the Offer will extend to any Shares issued as a result of the exercise of any of those 1,137,750 Leighton Options prior to the end of the Offer Period.

The remainder of the Leighton Options have not vested and are not capable of being exercised during the Offer Period.

5.19 Impact of HOCHTIEF's Offer on Leighton Share Rights

None of the Leighton Share Rights are expected to vest during the Offer Period.

5.20 Consents

The following persons have given and have not, before the date of issue of this Target's Statement, withdrawn their consent to:

(a) be named in this Target's Statement in the form and context in which they are named;

(b) the inclusion of their respective reports or statements noted next to their names and the references to those reports or statements in the form and context in which they are included in this Target's Statement; and

(c) the inclusion of other statements in this Target's Statement that are based on or referable to statements made in those reports or statements, or that are based or referable to other statements made by those persons in the form and context in which they are included.

Name of Person	Named as	Reports or Statements
Allens	Legal adviser	N/A
UBS	Financial adviser	N/A
KPMG	Independent Expert	Independent Expert's Report at Annexure A

Each of the above persons:

(a) does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by that person; and

(b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than as described in this Section with the person's consent.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the Listing Rules). Pursuant to this Class Order, the consent of persons such statements are attributed to is not required for the inclusion of those statements in this Target's Statement. See Section 5.22 of this Target's Statement for further details.

Additionally, as permitted by ASIC Class Order 13/523, this Target's Statement may include or be accompanied by certain statements:

(a) fairly representing a statement by an official person; or

(b) from a public official document or published book, journal or comparable publication.

Pursuant to that Class Order, the consent of persons such statements are attributed to is not required for inclusion of those statements in this Target's Statement.

5.21 Reliance on information obtained from HOCHTIEF or public sources

The information in this Target's Statement about HOCHTIEF has been compiled from or is otherwise based on information obtained from HOCHTIEF or publicly available sources, and has not been independently audited or verified by Leighton or its advisers. If the information obtained from HOCHTIEF or the public sources is inaccurate or incomplete, this may affect the information included in the Target's Statement. In particular, if the information has been used as the basis for forward looking statements in the Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by the forward looking statements.

See Section 1 of this Target's Statement for information about the risks of holding Leighton Shares.

5.22 Publicly available information

This Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the Listing Rules) by HOCHTIEF. Those documents are:

(a) The announcement lodged with ASX on 2 April 2014 titled "HOCHTIEF Supplementary Bidder's Statement".

(b) The announcement lodged with ASX on 1 April 2014 titled "HOCHTIEF Australia Holdings Limited Bidder's Statement".

(c) The announcement lodged with ASX on 19 March 2014 titled "HOCHTIEF Notice of register date for proportional offer".

(d) The announcement lodged with ASX on 17 March 2014 titled "HOCHTIEF Bidder Statement lodged".

(e) The announcement lodged with ASX on 17 March 2014 titled "HOCHTIEF Substantial holding notice".

(f) The announcement lodged with ASX on 14 March 2014 titled "HOCHTIEF's Proportional Offer Bidder's Statement".

(g) The announcement lodged with ASX on 13 March 2014 titled "HOCHTIEF Intention to Make Revised Proportional Offer".

(h) The announcement lodged with ASX on 10 March 2014 titled "HOCHTIEF advises of intention to make proportional offer".

As required by ASIC Class Order 13/521, any Leighton Shareholder who would like to receive a copy of any of those documents (or relevant extracts from those documents) may obtain a copy free of charge by contacting the Leighton Shareholder Information Line on 1300 388 415 (within Australia) or +61 3 9415 4032 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday.

5.23 Continuous disclosure

Leighton is a 'disclosing entity' under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. These obligations require Leighton to notify ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, Leighton has an obligation (subject to limited exceptions) to notify ASX immediately on becoming aware of any information that a reasonable person would expect to have a material effect on the price or value of Leighton Shares.

Copies of the documents filed with ASX may be obtained from the ASX website at www.asx.com.au.

In addition, Leighton will make copies of the following documents available for inspection at its registered office (between 9am and 5pm on Business Days):

(a) Leighton's Annual Report for the year ended 2013;
(b) Leighton's Constitution; and
(c) any continuous disclosure document lodged by Leighton with ASX between the lodgement of its 2013 Annual Report on 28 March 2014 and the date of this Target's Statement. A list of these documents is included at Annexure B.

Copies of the documents are also available on Leighton's website (www.leighton.com.au), or may be requested to be provided free of charge by contacting the Leighton Shareholder Information Line on 1300 388 415 (within Australia) or +61 3 9415 4032 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday.

Copies of documents lodged with ASIC in relation to Leighton may be obtained from, or inspected at, an ASIC office.

5.24 Other information

This Target's Statement is required to include all the information Leighton Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the Offer, but:

(a) only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
(b) only if the information is known to any of the Leighton Directors.

The Independent Directors are of the opinion that the information that Leighton Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the Offer is:

(a) the information contained in the Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
(b) the information contained in Leighton's 2013 Annual Report;
(c) the information contained in Leighton's announcements to ASX prior to the date of this Target's Statement; and
(d) the information contained in this Target's Statement, including the annexures to this Target's Statement.

The Independent Directors have assumed, for the purposes of preparing this Target's Statement, that the information contained in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Leighton Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Independent Directors have had regard to:

(a) the nature of the Leighton Shares;
(b) the matters Leighton Shareholders may reasonably be expected to know;
(c) the fact that certain matters may reasonably be expected to be known to the professional advisers of Leighton Shareholders; and
(d) the time available to Leighton to prepare this Target's Statement.

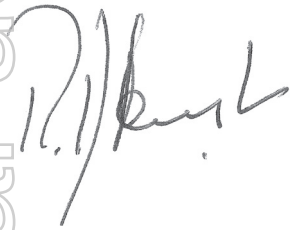
6.0

Authorisation

This Target's Statement has been approved by a resolution passed by the Directors of Leighton.

Dated 10 April 2014

Signed for and on behalf of Leighton:



Robert Humphris OAM
Chairman

7.0

Definitions and interpretation

Definitions

The following definitions apply in this Target's Statement unless the context requires otherwise.

Acceptance Form
means the Transfer and Acceptance Form provided to you by HOCHTIEF with its Bidder's Statement containing instructions on how to accept the Offer.

ASIC
means the Australian Securities and Investments Commission.

ASX
means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as 'ASX' operated by it.

ASX Settlement
means ASX Settlement Pty Ltd (ABN 49 008 504 532).

ASX Settlement Operating Rules
means the operating rules of ASX Settlement or of any relevant organisation which is an alternative or successor to or replacement of, ASX Settlement or of any applicable CS facility licensee.

Bidder's Statement
means the bidder's statement served on Leighton by HOCHTIEF on 14 March 2014 in relation to the Offer as amended by the First Supplementary Bidder's Statement dated 2 April 2014.

Business Day
means a day which is not a Saturday, Sunday or a public holiday in Sydney.

CHESS
means the Clearing House Electronic Subregister System, which provides for electronic security transfer in Australia.

Corporations Act
means the Corporations Act 2001 (Cth).

CS facility
licensee means a person who holds a licence under the Corporations Act that authorises the person to operate a clearing and settlement facility.

Director or ***Leighton Director***
means a director of Leighton.

FIRB
means the Foreign Investment Review Board.

FIRB Approval
means the satisfaction of the FIRB Defeating Condition.

FIRB Defeating Condition
means the condition to the Offer set out in Sections 8.2 and 9.8 of the Bidder's Statement.

HOCHTIEF
means HOCHTIEF Australia Holdings Limited (ABN 17 103 181 675), a wholly owned subsidiary of HOCHTIEF AG.

HOCHTIEF AG
means HOCHTIEF Aktiengesellschaft.

Independent Directors
means Robert Humphris OAM, Paula Dwyer, Russell Higgins AO, Michael Hutchinson and Vickki McFadden.

Independent Expert
means KPMG Financial Advisory Services (Australia) Pty Ltd (ABN 43 007 363 215).

Independent Expert's Report
means the report and related financial services guide prepared by the Independent Expert, as set out in Annexure A.

Leighton or ***Company***
means Leighton Holdings Limited (ABN 57 004 482 982).

Leighton Board or ***Board***
means the board of directors of Leighton from time to time.

Leighton's Constitution
means the Constitution of Leighton as amended from time to time.

Leighton Group
means Leighton and its subsidiaries.
Leighton Options
means the unlisted options issued in accordance with the terms of the 2009 Leighton Senior Executive Option Plan, which expire on 4 May 2014.
Leighton Securities
means Leighton Shares, Leighton Options and Leighton Share Rights.
Leighton Share or ***Share***
means a fully paid ordinary share in Leighton.
Leighton Shareholder or ***Shareholder***
means a person who is registered as the holder of a Leighton Share in the Leighton register of members.
Leighton Share Register
means the register of Leighton Shareholders.
Leighton Share Registry
means Computershare Investor Services Pty Limited (ABN 48 078 279 277).
Leighton Share Rights
means the share rights issued under Leighton's incentive plans.
Listing Rules
means the listing rules of ASX.
Minority Shareholders
means Shareholders other than HOCHTIEF.
Notice of Status of Conditions
means HOCHTIEF's notice disclosing the status of the conditions of the Offer, which is required to be given to ASX and Leighton under section 630(3) of the Corporations Act.
Offer
means the proportional takeover bid by HOCHTIEF to acquire 3 out of every 8 Leighton Shares on the terms and conditions set out in HOCHTIEF's Bidder's Statement.
Offer Period
means the period within which the Offer is open for acceptance in accordance with HOCHTIEF's Bidder's Statement and the Corporations Act.
Offer Price
means $22.50 cash for each Leighton Share.
Remaining Shares
means the 5 out of every 8 Leighton Shares that are not the subject of the Offer.
Target's Statement
means this document, being the statement of Leighton under Part 6.5 of the Corporations Act in relation to the Offer. It includes the Independent Expert's Report.
Treasurer
means the Treasurer of the Commonwealth of Australia.
Unmarketable Parcel Rule
has the meaning given in Section 4.1(a) of this Target's Statement.
VWAP
means the volume weighted average price of Leighton Shares.

Interpretation

The following rules of interpretation apply unless the context requires otherwise.

(a) A term not specifically defined in this Target's Statement has the meaning given to it (if any) in the Corporations Act, the Listing Rules or the ASX Settlement Operating Rules (as is appropriate to the context).
(b) A gender includes all genders.
(c) The singular includes the plural, and the converse also applies.
(d) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
(e) A reference to legislation or to a provision of legislation includes any modification or re-enactment of it, any legislative provision substituted for it and any regulations and statutory instruments issued under it.
(f) A reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including, but not limited to, persons taking by novation) and assigns.
(g) A reference to a right or obligation of any two or more people comprising a single party confers that right, or imposes that obligation, as the case may be, on each of them severally and each two or more of them jointly. A reference to that party is a reference to each of those people separately (so that, for example, a representation or warranty by that party is given by each of them separately).
(h) A reference to an agreement or document is to the agreement or document as amended, supplemented, novated or replaced.
(i) Headings used in this Target's Statement are for ease of reference only and do not affect the meaning or interpretation of this Target's Statement.
(j) A reference to a Section or Annexure is to a section of, or annexure to, this Target's Statement unless otherwise specified.
(k) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
(l) $, A$ or AUD is a reference to the lawful currency of Australia.
(m) A reference to time is a reference to Australian Eastern Standard Time.
(n) All numbers in this Target's Statement, unless otherwise stated, have been rounded to two decimal places.

Annexure A
Independent Expert's Report

KPMG Corporate Finance
A division of KPMG Financial Advisory Services
(Australia) Pty Ltd
Australian Financial Services Licence No. 246901
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www.kpmg.com.au

The Independent Directors
Leighton Holdings Limited
472 Pacific Highway
St Leonards
NSW 2065

10 April 2014

Dear Independent Directors

PART ONE –INDEPENDENT EXPERT'S REPORT

1 Introduction

On 10 March 2014 (the Announcement Date), HOCHTIEF Australia Holdings Limited (HOCHTIEF), announced its intention to make a conditional, proportional off-market offer to the non-associated shareholders of Leighton Holdings Limited (Leighton) (Shareholders) for three out of every eight of the ordinary shares in Leighton held by each shareholder for $22.15 cash per share.

On 13 March 2014, Leighton and HOCHTIEF entered into a Bid Implementation Agreement (BIA) under which the original offer was increased to $22.50 cash per share for three out of eight shares (the Offer). In addition, all conditions were removed such that the Offer is unconditional, other than with respect to Foreign Investment Review Board (FIRB) approval. Under the Offer, Shareholders[1] will retain entitlement to the dividend of $0.60 per Leighton shares declared on 20 February 2014.

To assist the Shareholders in assessing the Offer, the Independent Directors of Leighton have requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) prepare an Independent Expert Report (IER) to the Shareholders indicating whether in our opinion, the Offer is fair and reasonable for Shareholders.

HOCHTIEF is a wholly owned subsidiary of HOCHTIEF Aktiengesellschaft (HOCHTIEF AG), which is a global construction related services provider. HOCHTIEF AG's principal activity is construction in the infrastructure and mining sectors. It has three major segments including HOCHTIEF Americas, HOCHTIEF Europe and HOCHTIEF Asia Pacific.

HOCHTIEF AG is listed on the Frankfurt Stock Exchange with a market capitalisation of approximately €5,111 million as at 13 March 2014. The largest shareholder in HOCHTIEF AG is the listed Spanish construction company, ACS Actividades de Construccion y Servicios S.A. (ACS), which holds 50.35% of the shares in HOCHTIEF AG at 31 December 2013. ACS's principal activities are construction, environmental and industrial services.

[1] Leighton Shareholders who were on the Leighton register on 21 March 2014.

KPMG

Leighton Holdings Limited
Independent Expert Report
10 April 2014

HOCHTIEF's sole purpose is as a holding company for HOCHTIEF AG's 58.64%[2] interest in Leighton. If all the Shareholders accept the Offer, and all of the optionholders of Leighton (Optionholders) exercise their options prior to the end of the Offer Period, HOCHTIEF will increase its shareholding in Leighton to a maximum of between 74.03% and 74.15% (based on Leighton's capital structure as at 31 March 2014), depending on the number of Leighton Options that are exercised prior to the end of the Offer Period.

This report sets out KPMG Corporate Finance's opinion on the Offer, and will be included in the Target's Statement to be sent to Shareholders. This report should be considered in conjunction with, and not independently of, the information set out in the Target's Statement.

2 Requirement for our report

Under Section 640 of the Corporations Act (the Act), a target company must commission an IER when the bidder's voting power in the target is at least 30% of the target or when the bidder and the target have common directors. At the time of announcing the Offer, HOCHTIEF had a relevant interest in Leighton of 58.77%. Furthermore, three HOCHTIEF AG nominees sat on the Board of Leighton as well at this time. As such, there is a legal requirement for an IER to be prepared in the present circumstances.

Further details on the technical requirements and the basis of assessment for the IER are set out in Section 6 of this report.

3 Summary of opinion

3.1 Conclusion

In our opinion, having assessed the Offer to the Leighton Shareholders, we consider the Offer to be **fair and reasonable**, in the absence of a superior proposal.

Our fairness assessment has been based on comparing the consideration offered of $22.50 per share to our assessed value of a Leighton share on a control basis assuming that the Offer was for 100% of the shares. We have undertaken our analysis on this basis, in accordance with the guidance set out in Regulatory Guide 111 'Content of Expert Reports' (RG111), which also indicates that the shareholding of HOCHTIEF (58.64%[2]) should not be considered.

Leighton is comprised of various operating companies and investments in associates and joint ventures and therefore we have adopted a sum-of-the-parts (SOTP) approach in valuing Leighton. This involved valuing the various operating companies and investments using an appropriate methodology. Our valuation assessment also required us to form a view in relation to the specific risks and uncertainties that we consider exist in relation to Leighton's receivables, which include contract debtors and underclaims, and its investment in Habtoor Leighton Group (HLG).

This analysis indicates that the Offer falls within our assessed value range of $22.01 to $24.24 per Leighton share and accordingly, we consider the Offer to be fair. In forming our opinion, we have had to

[2] As at 31 March 2014.

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make a series of judgements as to future events based on the facts which we currently know, particularly with respect to Leighton's receivables and its investment in HLG. It is inevitable that circumstances will change in the future, which will impact on the ultimate amounts realised with respect to these. Our analysis of the fairness of the offer is summarised in Section 3.2 and detailed in further in Section 9.

In accordance with RG111, an offer is reasonable if it is fair. This would imply that the Offer is reasonable. However, irrespective of the statutory obligation to conclude that the Offer is reasonable simply because it is fair, we have considered a range of other factors relevant to assessing reasonableness.

In analysing the reasonableness of the Offer we consider the following to be important:

- the Offer is proportionate and not for the whole of Leighton. This means that Shareholders will retain a portion of their shareholding in Leighton even if they accept the Offer. Further, it is also unclear how many shares HOCHTIEF will ultimately acquire
- HOCHTIEF already controls Leighton through its 58.64%[2] shareholding and will take control over the Leighton Board given that, after the AGM, it will have nominated the CEO and appointed four nominee directors on the seven person Board.

It is also important to recognise that various matters have either happened or will happen in relation to Leighton irrespective of the Offer. In particular, we note:

- the Leighton Board will change such that there will only be two Independent Director's remaining, there is also a new CEO, Mr Marcelino Fernández Verdes and a new CFO, Javier Loizaga
- the general review of Leighton's operating model which is currently underway will continue, with the outcome intended to improve and enhance operational performance
- the debt rating of Leighton is under credit watch by the ratings agencies[3] and could deteriorate, which would likely increase future interest costs and possibly trigger provisions associated with various borrowings[4]
- HOCHTIEF is likely to continue to increase its shareholding over time
- Leighton's share price is likely to fall at expiry of the Offer.

In forming our opinion as to the reasonableness of the Offer, we consider there to be a number of advantages and disadvantages for Shareholders including:

- the consideration allows Shareholders to realise their investment in Leighton at a premium to the share price prior to the Offer being announced
- the Offer is currently the only option available for Shareholders to realise a value in excess of recent trading prices and given HOCHTIEF's existing shareholding, we consider it highly unlikely that a superior proposal will emerge
- the Offer provides a certainty of price in relation to a proportion of Shareholder's interest in Leighton

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[3] Ratings agencies include Standard & Poor's and Moody's Investors Service.

[4] Refer to Section 5.6 of the Target's Statement for further details.

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- the Offer is for three out of every eight shares held only and is not for either 100% of a shareholder's shares, nor for 37.5% of Leighton. As such, Shareholders will retain a level of ownership unless they choose to sell their remaining shares on market
- depending on the level of acceptances, it is possible that the share price in the future will be impacted by a combination of lower liquidity and reduced coverage if removed from the S&P/ASX indices
- with HOCHTIEF having taken greater control of Leighton, there will be a period of uncertainty whilst it reviews and considers any changes to the current operating model.

Our analysis of the reasonableness of the Offer is detailed further in Section 3.3.

The decision to accept the Offer or not, is a matter for individual shareholders based on their views as to value, expectations about future market conditions and their particular circumstances including investment strategy and portfolio, risk profile and tax position. Shareholders should consult their own professional advisor, if in doubt, regarding the action they should take in relation to the Offer.

3.2 The Offer is fair

We have valued the equity in Leighton in the range of $7,463.8 million to $8,218.3 million, which corresponds to a value of $22.01 to $24.24 per Leighton share. Our valuation assumes 100% ownership of Leighton and therefore incorporates a premium for control. Given the inclusion of a control premium, we would expect the valuation to be in excess of the value of Leighton implied by its trading price in the absence of the Offer. Our valuation is summarised below.

Table 1: Valuation summary

	Report Section	Value range ($m)	
		Low	High
Business operations (excluding investments)	9.3	8,878.8	9,372.1
Investments:			
HLG (45.0% + shareholder loans[2])	9.4	500.0	650.0
Leighton India (100%)	9.5	275.9	275.9
Nextgen (29.9%)	9.6	157.0	157.0
Devine (50.6%)	9.7.1	61.7	69.4
Macmahon (19.6%)	9.7.2	32.6	34.0
Sedgman (36.7%)	9.7.3	43.9	45.9
Other investments	9.8	92.7	92.7
Other assets and liabilities	9.9	(140.4)	(40.4)
Less: Adjusted net debt	9.10	(2,438.4)	(2,438.4)
Value of equity		7,463.8	8,218.3
Fully diluted shares on issue (millions)	7.8	339.1	339.1
Value per Leighton share[1]		**$22.01**	**$24.24**

Source: KPMG Corporate Finance analysis
Note 1: Shareholders have also retained the right to receive the $0.60 final dividend per share, which had been declared but not paid when the Offer was announced
Note 2: HLG shareholder loan includes accrued interest
Note 3: Percentages reflect Leighton's equity interest in respective investments
Note 4: Table may not sum due to rounding

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The value of Leighton is primarily driven by the value of its core operating companies, being Leighton Contractors, Thiess, John Holland, Leighton Asia India and Offshore (LAIO) and Leighton Properties, as well as its investments and joint ventures. The key factors considered in our assessment of the value of Leighton are set out below.

- *Size and market position.* Leighton benefits from a market-leading position in the domestic infrastructure market and combines some of the best-established construction and engineering brands in Australia. Leighton is also a global market leader in contract mining services. Apart from Lend Lease, Leighton is substantially larger than any of its domestic competitors, and is amongst the largest construction and engineering businesses globally. This scale provides a number of benefits to Leighton, including the ability to compete for and deliver large-scale projects, the availability of efficiencies from economies of scale in a low margin industry and an advantageous funding capacity
- *Diversified operating model.* Leighton is relatively diversified in terms of its service offering and market focus, which helps to support a more stable earnings profile, particularly given Leighton's track record of being able to rebalance its business in response to structural shifts in demand. Leighton also has a degree of geographical diversification into Asia and the Middle East through LAIO and its investment in HLG
- *Work in hand and growth outlook.* Leighton has a proven record of maintaining a relatively high level of work in hand (around two times revenue), thereby providing a reasonable degree of certainty around revenue for the next two years. However, the forecasts of brokers indicate relatively flat growth expectations for Leighton over the medium term, reflecting a number of offsetting factors. For example, whilst Leighton's market position in the domestic infrastructure market is likely to lead to growth opportunities in the near future, the company also has significant exposure to the cyclical slowdown in the mining sector. In assessing the outlook for Leighton's financial performance, we have also considered the following:
  - opportunity to achieve growth through Leighton's footprint in Asia and the Middle East. Whilst the high growth, emerging markets in these regions present significant potential, we note Leighton's presence in these markets remains small relative to its domestic operations
  - potential to achieve efficiency gains and cost savings through the implementation of its business transformation initiatives and the broad-based, general review of the operating model currently being undertaken by management. To the extent that such business improvements and efficiency savings can be retained by the business and not passed onto customers through more competitive pricing, these initiatives may support improvements in underlying profitability, although restructuring costs will occur in the short term.
- *Receivables and working capital.* Over the last two years, Leighton has experienced a deterioration in its working capital position as a result of a build up of receivables, primarily driven by work undertaken on large-scale domestic LNG projects, two oil pipeline projects in Iraq and certain contract mining activities. The elevated level of receivables poses a risk both in terms of recoverability and timing. Whilst the timely conversion of current receivables into cash continues to be a key focus for CY14, Leighton management expects the elevated levels of receivables to remain a feature of the Leighton balance sheet until the projects are complete and final agreements are negotiated. As a result, the current level of cash in the business is considered necessary to support

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Leighton's expected working capital requirements in the short to medium term, and therefore is not considered to be surplus for valuation purposes

- *Investment in HLG.* Leighton's total investment in HLG at 31 December 2013 was equity of $345 million and shareholder loans (including accrued interest) of $632 million, which were required as a result of the underperformance of the business and delay in payments from clients resulting from the economic downturn experienced in the Gulf region. Whilst HLG has demonstrated initial signs of recovery, there remains a high degree of uncertainty around its future performance, including its ability to recover legacy receivables.

Other factors considered in our assessment of the value of Leighton include:

- *Strategic uncertainty.* There is uncertainty as to the outcome of the broad-based general review of Leighton's operating model. It is therefore possible that as a consequence of that review, a different approach to management of receivables and/or strategic investments may be adopted and that may result in the ultimate level of recovery of current exposures being different than currently expected
- *Negative sentiment.* A number of factors have contributed to a negative perception of Leighton in the market, including the widespread publicity surrounding allegations of corruption in Iraq and two outstanding class actions brought against the company by separate shareholders in relation to its disclosure obligations
- *Debt rating.* Subsequent to the announcement of the Offer, Standard & Poor's (S&P) and Moody's Investors Service (Moody's) placed Leighton on negative credit watch. The negative consequences of any downgrade may include a higher cost of debt generally, possibly trigger provisions associated with various borrowings, and diminished access to certain debt markets, increasing Leighton's reliance on bank debt
- *Restructuring of finance leases.* In determining Leighton's net debt, we made an adjustment for the interest-bearing finance lease liabilities that were moved off balance sheet in December 2013 as part of its FleetCo initiative. This was necessary to ensure consistency between the net debt and the assumed maintainable earnings for valuation purposes.

A comparison of the offer price to our assessed value per Leighton share on a control basis is outlined in the table below.

Table 2: Comparison of our assessed value to the Offer

	Low	High
Offer price per Leighton share	$22.50	$22.50
Assessed value per Leighton share	$22.01	$24.24
Premium / (discount)	**2.2%**	**(7.2%)**

Source: KPMG Corporate Finance analysis
Note: Shareholders have also retained the right to receive the $0.60 final dividend per share, which had been declared but not paid when the Offer was announced

According to RG 111, the Offer should be considered fair if the consideration offered to Shareholders is equal to or higher than our assessed value of a Leighton share. **As the cash consideration offered per Leighton share falls within our assessed value range for a Leighton share, we consider the Offer to be fair.**

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3.3 The Offer is reasonable

In accordance with RG111, an offer is reasonable if it is fair. This would imply that the Offer is reasonable. However, irrespective of the statutory obligation to conclude that the Offer is reasonable simply because it is fair, we have considered a range of other factors relevant to assessing reasonableness which are discussed in the following sections, including:

- changes that will occur irrespective of acceptance of the Offer
- advantages and disadvantages of the Offer
- implications if the Offer is not accepted.

The Shareholders should consider these factors in determining whether or not to accept the Offer.

3.3.1 Changes that will occur irrespective of acceptance of the Offer

Board and management changes

Various changes to the Board of Leighton have been announced as set out in the Target's Statement. The effect of these changes is that HOCHTIEF will move from having three board representatives on a ten person Board, to having appointed four board representatives and nominated the CEO on a seven person Board, gaining majority. The Chairman will remain as an independent and there will be one other independent director.

In addition to the Leighton Board changes, Mr Marcelino Fernández Verdes has been appointed to replace Mr Hamish Tyrwhitt as CEO and Mr Javier Loizaga has been appointed to replace Mr Peter Gregg as CFO. Mr Marcelino Fernández Verdes is the CEO of HOCHTIEF AG. These changes indicate that the informal and non-binding governance principles that have existed between Leighton and HOCHTIEF since 2004, will no longer apply.

Review of Leighton's operating model

The general review of Leighton's operating model currently underway will continue. HOCHTIEF has indicated that:

- a particular focus will be on whether the current operating businesses can be more efficiently structured
- it is intended that areas will be identified which may require improvements in order to enhance operational performance
- changes may include the structure of the operating businesses, how those businesses are managed, and the number and functions of employees required
- various assets or businesses may be divested.

Potential impact on debt financing

As per Section 5.6 of the Target's Statement, generally, the provisions in Leighton's material debt facilities, equipment leases and bonding facilities which entitle financiers to require repayment in the event of a change of control are only triggered in circumstances where HOCHTIEF holds 75% or more of

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Leighton Shares or controls the composition of 75% or more of the Leighton Board. The Offer and the Leighton Board and management changes which have been announced to date do not trigger these repayment entitlements.

Leighton's US$500 million of guaranteed senior notes in the United States Rule 144A debt capital markets are subject to an additional change of control provision. We understand Leighton has in place binding arrangements which would address negative outcomes which is discussed further in section 5.6 of the Target's Statement.

Subsequent to the announcement of the Offer, S&P and Moody's placed Leighton on negative credit watch and have stated that they will review the business strategy and financial position of Leighton, together with that of its parents, to determine what action, if any, to take. Leighton's current credit rating according to S&P is 'BBB-/A-3' and according to Moody's is 'Baa2'. Any one point downgrade in S&P or two point downgrade in Moody's would result in a credit rating which is sub-investment grade. The negative consequences of a downgrade would likely include a higher cost of debt generally, possibly trigger provisions associated with various borrowings, and diminished access to certain debt markets, increasing Leighton's reliance on bank debt.

HOCHTIEF has the ability to continue to increase its shareholding over time

Given HOCHTIEF's intentions to increase its shareholding as indicated by the Offer, it is likely that HOCHTIEF will continue to increase its shareholding over time. It has the ability to acquire 3% every six months without making an on-market takeover offer following the Offer.

It can compulsorily acquire the remaining shares once it reaches 90% or more, on a fully diluted basis.

Leighton share price is likely to fall following the Offer

Leighton shares traded at a one month VWAP and three month VWAP of $17.83 and $16.66, respectively, prior to the Announcement Date. Following the Announcement, shares traded at a high of $23.15 on 10 March 2014 and closed at $20.43 on 4 April 2014. The share price has been influenced by the proportionate nature of the Offer, such that it has traded between the Offer price and the pre Announcement Date price.

Whilst it is not possible to accurately predict the price at which Leighton shares might trade post the Offer, we consider it likely that the share price of Leighton will trade lower than the current price and may revert back to the trading levels prior to the Offer.

Further, the changes to the Leighton Board and senior management team, with HOCHTIEF having taken greater control, means that there will be a period of uncertainty whilst they review and consider any changes to the current operating model. Such uncertainty may be reflected in the Leighton share price in the short term.

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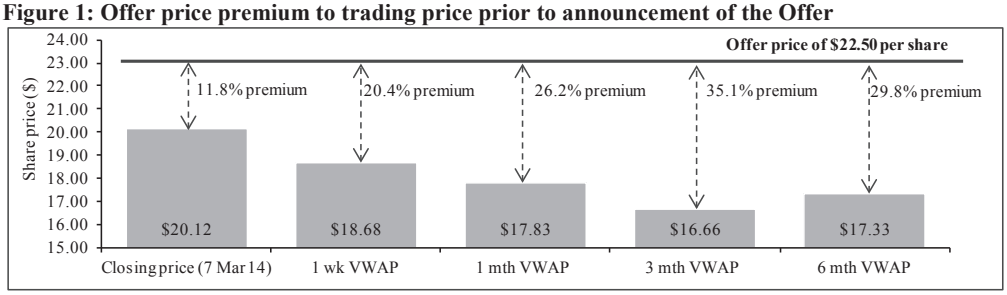
3.3.2 Advantages of the Offer

Outlined below are the principle advantages of the Offer.

The consideration allows Shareholders to realise a proportion of their investment in Leighton at a premium to recent share prices

The consideration offered represents a premium to trading in Leighton shares prior to announcement of the Offer on 10 March 2014, as set out in the figure below.

Figure 1: Offer price premium to trading price prior to announcement of the Offer



Source: S&P Capital IQ, KPMG Corporate Finance analysis
Note: The share prices as at 7 March 2014 and based on the one week VWAP calculation are on an ex-dividend basis

It is commonly accepted that acquirers of 100% of a business should pay a premium over the value implied by the trading price of a share to reflect their ability to obtain control over the target's strategy and operations, as well as extract synergies from integration. However, the level of premium observed in takeovers varies and depends largely on the circumstances of the target, competitive tension in the sales process and the level of synergies available. Observations from transaction evidence indicate that these premiums concentrate around a range between 20% and 35%.

The premium paid by HOCHTIEF, other than to the closing price on the day prior to the Announcement Date, falls within this range.

We note also that the Offer represents a value that is higher than any closing price at which Leighton shares have traded for a 12 month period prior to the Announcement Date.

The Offer is currently the only option for Leighton shareholders to realise value in excess of traded prices

In assessing the merits of the Offer, we have considered the likelihood of any alternative options being available to Shareholders in the form of an alternative bidder. However, we consider this to be remote due to HOCHTIEF's existing 58.64% shareholding and the fact that no alternative proposal has emerged since the announcement of the Offer.

The Offer provides certainty of outcome for a proportion of the shares held by Shareholders

Certainty of outcome has the effect of lowering risk. Under the Offer, Shareholders can elect to take cash and achieve certainty in relation to the pre-tax amount they will receive for a proportion of their shares, as compared to maintaining the same interest in Leighton whose future is not without risk.

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3.3.3 Disadvantages of the Offer

Outlined below are the principle disadvantages of the Offer.

The Offer is only for three out of every eight shares held

The Offer is for three out of every eight shares held. As such, acceptance of the Offer means that Shareholders will retain 62.5% of their Leighton shares. The Offer is not for either 100% of a Shareholder's shares nor for 37.5% of Leighton.

Shareholder may sell their remaining shares on-market but the transferee will not be able to accept the Offer in respect of those shares.

The potential adverse impact on the future share price of an increased shareholding by HOCHTIEF

It is unclear what level of acceptances will be received for the Offer. Under the Offer, the maximum ownership that HOCHTIEF can reach is between 74.03% and 74.15% (based on Leighton's capital structure as at 31 March 2014), depending on the number of Leighton Options that are exercised prior to the end of the Offer Period. As such, the ultimate level of acceptances will influence the number of shares that will remain trading on the ASX. The greater the level of acceptances, the greater the likelihood that there will be lower liquidity and reduced coverage from analysts, particularly if acceptances result in HOCHTIEF exceeding a 70% interest, in which case Leighton will no longer be eligible to be included in the S&P/ASX Indices.

3.3.4 Other considerations

We also considered a range of other factors in our reasonableness assessment, though these factors are, in our view, less material to the overall conclusion:

- approval of the Offer may result in tax consequences for shareholders. Whilst tax implications will vary depending on the circumstances of each shareholder, acceptance of the Offer may result in a tax event occurring, potentially crystallising these tax consequences including capital gains. Shareholders should refer to the Target's Statement and the Bidder's Statement for more details of the tax consequences of the Offer as well as consult their financial adviser
- HOCHTIEF indicated in its Bidder's Statement that it intends to maintain the current dividend policy
- Shareholders will not incur brokerage fees or stamp duty costs associated with selling their Leighton shares under the Offer
- Leighton will incur transaction costs relating to advisory costs, legal fees, independent expert fees and other costs associated with the Offer, irrespective of the uptake of the Offer
- even if the Offer is accepted by Shareholders, it is possible that the Offer may not be executed if the condition precedent, set out in the Bidder's Statement in Section 9.8, relating to FIRB Defeating Condition is not obtained. In this case, Shareholders would continue to hold their existing shareholding.

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3.3.5 Implications if the Offer is not accepted

In the event Shareholders choose not to accept the Offer then they will retain their existing ownership and will not receive any payment for their shares under the Offer.

As a continuing shareholder, the value of their shares will be impacted by Leighton's future performance, including the impact of the changes in Board, senior management and the outcome of the review of the operating model.

4 Other matters

In forming our opinion, we have considered the interests of the Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual shareholders. It is not practical or possible to assess the implications of the Offer on individual shareholders as their financial circumstances are not known. The decision of shareholders as to whether or not to accept the Offer is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the Offer may be influenced by his or her particular circumstances, we recommend that individual shareholders, including residents of foreign jurisdictions, seek their own independent professional advice.

Our report has been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements and has been prepared solely for the purpose of assisting the Shareholders in considering the Offer. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Target's Statement to be sent to the Shareholders in relation to the Offer, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Target's Statement.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information as set out in Section 6 of this report.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Ian Jedlin
Authorised Representative

Sean Collins
Authorised Representative

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5 The Offer

On 10 March 2014, HOCHTIEF announced its intention to make a conditional, proportional off-market offer to the Shareholders for three out of eight of the ordinary shares in Leighton held by each shareholder for $22.15 cash per share. HOCHTIEF at the same time announced:

- its intention to increase its representation on Leighton's Board
- that it would work with the Leighton Board to undertake a 'broad-based, general review of Leighton's operating model' that was currently being undertaken by management
- that these changes would be pursued irrespective of the outcome of the Offer.

On 13 March 2014, Leighton and HOCHTIEF entered into a BIA under which the original offer was increased to $22.50 cash for three out of eight Leighton shares. As part of the BIA it was also announced that:

- all conditions were removed such that the Offer was unconditional other than with respect to FIRB approval
- the employment of Chief Executive Officer (CEO) Mr Hamish Tyrwhitt and Deputy CEO and Chief Financial Officer (CFO) Mr Peter Gregg had been terminated
- two new Directors nominated by HOCHTIEF, Mr Pedro López Jiménez and Mr José Luis del Valle Pérez were appointed to the Leighton Board
- Mr Marcelino Fernández Verdes, the current CEO of HOCHTIEF AG was appointed as CEO of Leighton
- Ms Paula Dwyer will resign as a Leighton Director and Mr Russell Higgins and Ms Vickki McFadden will either resign or retire from the Leighton Board by no later than the conclusion of the 2014 Leighton Annual General Meeting (AGM)
- Mr Michael Hutchinson would stand for election at the AGM
- Mr Robert Humphris OAM, would continue as the Independent Chairman.

Accordingly, as at 13 March 2014, the Leighton Board comprised five HOCHTIEF representatives and five Independent Directors and at the conclusion of the AGM, the Leighton Board will comprise four nominee directors of HOCHTIEF, one CEO nominated by HOCHTIEF and two Independent Directors.

On 14 March 2014, HOCHTIEF lodged its Bidder's Statement (Bidder's Statement). Under the Offer:

- HOCHTIEF has offered to acquire three out of every eight Leighton shares held by shareholders for $22.50 cash per share[5], representing 37.5% of the shareholdings

[5] Other than for those shareholders who would be left with less than a marketable parcel of shares and for whom the Offer will extend to all their Leighton shares.

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- Shareholders (who were on the Leighton Register on 21 March 2014) will retain entitlement to the 50% franked dividend of $0.60 per share declared on 20 February 2014. This dividend will not be deducted from the offer price payable to the Shareholders who accept the Offer
- Shareholders who accept the Offer in full will retain 62.5% of their current Leighton shares.

6 Scope of the report

6.1 Purpose

Under the Offer, HOCHTIEF has offered to acquire three out of every eight shares in Leighton that they do not already own pursuant to an off-market offer under Chapter 6 of the Corporations Act. As HOCHTIEF has both a prescribed shareholding and common directors, an independent expert's report must be prepared in accordance with the requirements of Section 640 of the Act.

Under Section 640 of the Act, an IER is required to state whether an offer is considered fair and reasonable.

6.2 Basis of assessment

Regulatory Guide (RG) 111 "Content of expert reports", issued by the Australian Securities and Investments Commission (ASIC) indicates the principles and matters which it expects a person preparing an IER to consider. RG 111 notes:

- 'fair and reasonable' is not regarded as a compound phrase
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer
- the comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash
- the expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison
- an offer is 'reasonable' if it is 'fair'
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect 'special value' that might accrue to the acquirer.

Accordingly, when assessing the full underlying value of Leighton, we have considered those synergies and benefits that would be available to more than one potential purchaser (or a pool of potential purchasers) of Leighton. As such, we have not included the value of special benefits that may be unique to HOCHTIEF. Accordingly, our valuation of Leighton has been determined regardless of the bidder and any special benefits have been considered separately.

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6.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Leighton for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. We have had discussions with Leighton's management in relation to the nature of the Company's business operations, specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Leighton has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the management of Leighton. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, Leighton remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We do not make any statement in this report as to whether any forecasts or projections included in this report will be achieved, or whether the assumptions and data underlying any prospective financial information are accurate, complete or reasonable. We do not warrant or guarantee the achievement of any such forecasts or projections.

Accordingly, KPMG Corporate Finance cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period. In particular, we have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any prospective financial information. Any variations from forecasts/projections may affect our valuation and opinion.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report.

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6.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Leighton has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to Leighton and its subsidiaries. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising Leighton. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by Leighton.

7 Profile of Leighton

7.1 Background

Leighton is one of the world's largest international contractors by revenue, and the world's largest contract miner by revenue, providing a broad range of project development and contracting services to public and private sector clients in three key markets, namely, infrastructure, resources and property.

Leighton comprises a number of operating companies including:

- Leighton Contractors Pty Limited (Leighton Contractors), a project development, construction and services contractor specialising in civil engineering and infrastructure, building, contract mining, energy, telecommunications and facilities management
- Thiess Pty Limited (Thiess), an integrated mining, construction and services contractor specialising in total mining solutions, civil and process engineering, building, remediation, telecommunications, utilities and facilities management
- John Holland Group Pty Limited (John Holland), a multi-disciplined construction and services contractor specialising in civil engineering and building infrastructure, tunnelling, communications, energy and resources projects, power transmission, water treatment, marine structures, aviation maintenance services, and construction, operation and maintenance of rail systems
- LAIO, a multi-disciplined contractor specialising in civil and infrastructure, mining, industrial, building, offshore oil and gas, and rail
- Leighton Properties Pty Limited (Leighton Properties), a property developer of large, complex and sustainable commercial, residential and mixed use projects, and provides specialist services in development management in Australia.

The operating companies are detailed in Section 8 of this report.

In addition, Leighton also has a number of investments which are detailed in Section 8.8 of this report.

Leighton and its subsidiaries and investments are collectively referred to as the 'Leighton Group' or 'the Group'.

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A summary of key events in Leighton's history is set out below.

Table 3: Leighton corporate activity overview

Year	Month	Description of event
1949		Establishment of Leighton.
1962		Leighton lists on the Melbourne Stock Exchange, now the Australian Securities Exchange (ASX).
1983	June	Leighton acquires Thiess from Hochtief AG and other shareholders. As part of the transaction, Hochtief swapped its 50% stake in Thiess for an increase in its share of Leighton from 9.9% to 36.2%.
2000	February	Leighton acquires a 70% stake in John Holland
2001	January	HOCHTIEF secured a majority interest in Leighton, raising its stake to 50.3%.
2007	September	Leighton acquired a 45% stake in Al Habtoor Engineering Enterprises from Al Habtoor Group, now trading as Habtoor Leighton Group.
2010	December	Welspun Infra Projects Pvt. Ltd. acquired a 35% stake in Leighton Contractors (India) Private Limited from Leighton International Limited.
2011	January	Mr Wal King retired after 23 years as Leighton's CEO and Managing Director. Mr David Stewart assumed the role.
2011	April	Leighton announced a revision of its profit forecast for the financial year ended 30 June 2011 from a net profit after tax of $480 million to a net loss after tax of $427 million primarily due to write-backs of expected profit on the Airport Link project and Victorian Desalination Project.
2011	April	Leighton raised $758 million via a one for nine accelerated renounceable entitlement offer at an offer price of $22.50 per share.
2011	June	ACS total voting rights in HOCHTIEF AG exceeded the 50% threshold, giving it a controlling interest in the company.
2011	August	Mr David Stewart resigns as CEO and Managing Director of Leighton. Mr Hamish Tyrwhitt assumed the role.
2011	September	BHP Billiton Ltd. acquired HWE Newman Mining Pty Limited, HWE Newman Services Pty Limited and Welshpool Facility Pty Limited from Leighton subsidiary HWE Mining Pty Limited and associated assets
2012	February	Leighton announced that it had voluntarily reported to the Australian Federal Police (AFP) a possible breach of its Code of Ethics that, if substantiated, may contravene Australian laws. The possible breach related to payments that may have been made by a subsidiary company in connection with work to expand offshore loading facilities for Iraq's crude oil exports.
2012	November	Leighton priced a US$500 million guaranteed senior note issue in the United States Rule 144A debt capital markets.
2013	June	Leighton Contractors sold a 70.1% interest in its telecommunication assets (namely, Nextgen Networks Pty Limited, Infoplex Pty Ltd. and Metronode Pty Ltd) to Ontario Teachers' Pension Plan`.
2013	October	Leighton announced it has been notified that a writ was issued against the company by the Supreme Court of Victoria. The writ alleged Leighton breached its continuous disclosure obligations under the Act by failing to disclose, or disclose fully, allegations of bribery and corruption in its international business relating to facilities for Iraq's crude oil exports.

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Year	Month	Description of event
2013	October	Leighton received notification that a class action had been filed in the NSW Registry of the Federal Court relating to the disclosure of a revision of its profit forecast for the 2011 financial year.
2013	December	Leighton acquires the remaining 39.9% interest in the Leighton Welspun joint venture, increasing its ownership to 100%. Leighton Welspun has since been renamed Leighton India.

Source: ASX announcements, S&P Capital IQ

7.2 Financial performance

The financial performance of Leighton for the six months ended 31 December 2011and the twelve months ended 31 December 2012 and 2013 is summarised below. We note that as a result of the adoption of Australian Accounting Standard Board 11 Joint Arrangements (AASB 11), certain amounts disclosed in Leighton Group's CY12 and historical financial statements have been adjusted to reflect the retrospective impact of the change in accounting policy from 1 January 2013.

Table 4: Financial performance

For the period ending $ million unless otherwise stated	31-Dec-11[1] 6 months	31-Dec-12 12 months	31-Dec-13 12 months
Revenue from external customers	10,139.2	20,768.4	22,501.4
Other revenue	30.0	61.3	63.3
Total revenue	**10,169.2**	**20,829.7**	**22,564.7**
EBIT[2]	**460.5**	**756.0**	**1,038.3**
Finance costs	(90.5)	(210.1)	(255.4)
PBT[2]	**370.0**	**545.9**	**782.9**
Tax expense	(93.1)	(106.0)	(207.0)
(Profit) / loss for the period attributable to non-controlling interests	-	8.0	8.0
Underlying NPAT	**276.9**	**447.9**	**583.9**
Gains / (losses) on sale / acquisition	229.3	115.2	136.7
Impairments	(120.0)	(98.0)	(125.0)
Restructuring costs	-	-	(58.8)
Tax expense (on non-underlying items)	(41.3)	(15.0)	(60.0)
Statutory NPAT	**344.9**	**450.1**	**476.8**
(Profit) / loss for the period attributable to non-controlling interests	(4.9)	-	32.0
Profit / (loss) for the period attributable to members of the parent entity	**340.0**	**450.1**	**508.8**
Basic earnings per share (cents)	101.0	133.5	150.9
Diluted earnings per share (cents)	101.0	133.1	150.1
Underlying EBIT margin	4.5%	3.6%	4.6%
Underlying NPAT margin	2.7%	2.2%	2.6%

Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013
Note 1: Represents the period 1 July 2011 to 31 December 2011 as Leighton changed its reporting year end date to 31 December
Note 2: Represents underlying EBIT and PBT

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With regard to the financial performance for CY13 summarised above, we note the following:

- CY13 revenue of $22.5 billion increased by 8.3% in CY13, attributable to the revenue growth in construction exceeding the decline in mining contracting services. Growth in construction contracting revenue primarily came from liquefied natural gas (LNG) projects in Australia. The decrease in mining contracting revenue reflects the challenging environment experienced in the mining sector during CY13
- revenue from JVs and associates decreased by 20% to $1.8 billion primarily as a result of movements in project joint ventures, including the Silcar joint venture revenue transferring to Leighton Group revenue on acquisition of a 100% interest in July 2013
- revenue was earned from more than 400 active projects across the Leighton Group, including JVs and associates, of which $19.8 billion was derived from domestic activities and $4.6 billion was derived from international activities
- recurring operating expenditure (consisting of materials, sub-contractors, plant and personnel costs) increased by 9% to $19.1 billion reflecting the impact of the ramp-up of significant projects, such as Gorgon, Wheatstone, APLNG and Wynn Cotai
- as part of an ongoing strategic initiative, Leighton Group has reduced its cost base by $215 million in CY13, with $63 million relating to strategic procurement and the remaining $152 million relating to overheads and other cost savings
- depreciation of property, plant and equipment decreased by 12% primarily as a result of a decline in mining contracting activity. In this regard, we note that mining plant and equipment is depreciated based on cumulative hours worked
- finance costs increased by $45.3 million or 21.6% primarily as a result of the impact of the decline in the value of the Australian dollar on US dollar denominated debt, additional finance lease interest expense and the recognition of a full year's expense in relation to the US$500 million Section 144A 10-year fixed-rate guaranteed senior notes
- during the year, Leighton Group sold 70.1% of its non-core telecommunications assets (consisting of Nextgen Networks Pty Limited, Metronode Pty Ltd and certain Infoplex assets) to Ontario Teachers' Pension Plan (Teachers') for total cash proceeds of $614 million, resulting in a pre-tax gain of $215 million ($115 million after tax). This gain was partially offset by a $78 million loss on the acquisition of the remaining 39.9% interest in the Leighton Welspun joint venture
- in CY13, Leighton Group recognised $125 million in pre-tax impairment costs relating to properties owned by Leighton Properties and Devine Limited (Devine) (collectively referred to as 'Commercial and Residential') of $4 million and $77 million respectively, impairments in relation to the Group's investments in the Cross City Tunnel and Macmahon Holdings Limited (Macmahon) of $19 million and $15 million respectively and impairments relating to property, plant and equipment held by John Holland Aviation Services of $10 million
- Leighton Group recognised $59 million of pre-tax restructuring costs associated with the Business Transformation Program

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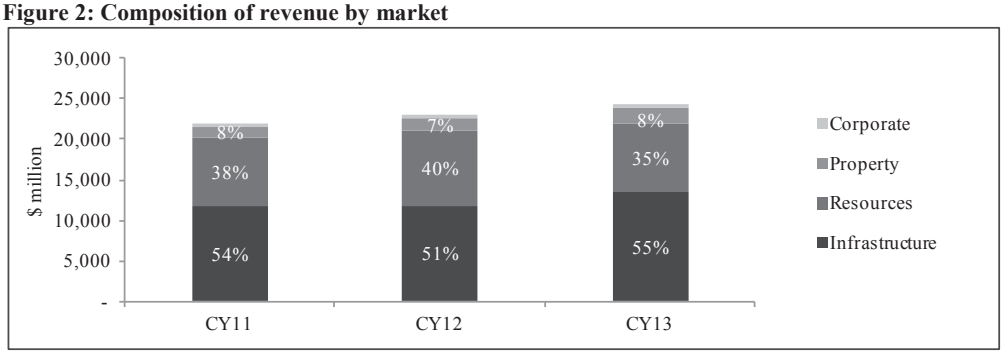
- Leighton Group recognised a total income tax expense of $267 million, implying an effective income tax rate of 36% compared with a rate of 22% in CY12
- at 31 December 2013, Leighton Group had $42.2 billion of work in hand, of which new awards, extensions and variations totalled $23 billion representing a 5% increase from the prior year.

Composition of revenue by activity

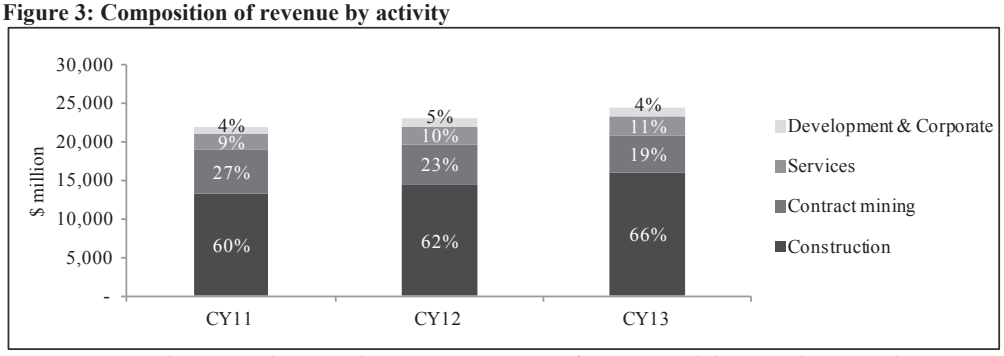
The composition of Leighton's revenue, including JVs and associates, during the twelve months ended 31 December 2011, 2012 and 2013 by market and activity is illustrated below.

Figure 2: Composition of revenue by market



Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013
Note: Revenue categorised as 'corporate' represents less than 3% of total revenue during each of the above periods

Figure 3: Composition of revenue by activity



Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013
Note: Revenue categorised as 'corporate' has been grouped with development revenue as individually they represent a relatively immaterial portion of total revenue

Revenue, including JVs and associates, increased from $21,845 million in CY11 to $24,411 million in CY13. During this period, the composition of revenue has shifted away from the contract mining towards infrastructure construction projects.

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7.3 Financial position

The consolidated balance sheets of Leighton as at 1 January 2012, 31 December 2012 and 31 December 2013 are summarised below. We note the impact of the change in accounting policy on adoption of AASB 11 on the Group's historical financial statements. In this regard, the financial positions below at 1 January 2012 and 31 December 2012 have been adjusted to reflect the retrospective impact of the change in accounting policy adopted from 1 January 2013.

Table 5: Financial position

As at $ million	1-Jan-12[1]	31-Dec-12	31-Dec-13
Current assets			
Cash and cash equivalents	1,606.0	2,007.7	1,720.7
Trade and other receivables	2,961.4	3,760.6	5,051.1
Current tax assets	92.6	10.1	20.9
Inventories: consumables and development properties	489.3	569.8	556.0
Assets held for sale	4.6	672.8	229.4
Total current assets	**5,153.9**	**7,021.0**	**7,578.1**
Non-current assets			
Trade and other receivables	786.7	675.8	803.0
Inventories: development properties	432.7	487.7	364.4
Investments accounted for using the equity method	979.8	861.8	825.6
Other investments	63.6	97.0	92.7
Deferred tax assets	307.3	246.0	86.3
Property, plant and equipment	2,521.1	2,071.8	1,752.6
Intangibles	269.1	255.7	573.3
Total non-current assets	**5,360.3**	**4,695.8**	**4,497.9**
Total assets	**10,514.2**	**11,716.8**	**12,076.0**
Current liabilities			
Trade and other payables	4,554.8	5,001.9	5,548.5
Current tax liabilities	66.7	85.3	51.3
Provisions	331.0	406.5	477.0
Interest bearing liabilities	669.8	634.3	589.5
Liabilities associated with assets held for sale	-	174.3	105.1
Total current liabilities	**5,622.3**	**6,302.3**	**6,771.4**
Non-current liabilities			
Trade and other payables	404.0	197.7	344.8
Provisions	247.1	173.7	178.1
Interest bearing liabilities	1,473.9	2,126.2	1,535.6
Total non-current liabilities	**2,125.0**	**2,497.6**	**2,058.5**
Total liabilities	**7,747.3**	**8,799.9**	**8,829.9**
Net assets	**2,766.9**	**2,916.9**	**3,246.1**

Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013
Note 1: Based on the restated statement of financial position

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With regard to the CY13 financial position summarised above, we note the following:

- current trade and other receivables increased by $1.3 billion in CY13. This balance includes amounts related to LNG projects where the Group has experienced lengthy payment cycles, extensive scope growth and complex negotiations associated with contract variations
- Leighton Group's financial position includes the following balances relating to loans provided to Al Habtoor Leighton Group LLC (HLG):
  - non-current interest free shareholder loans provided to HLG of US$104.2 million ($115.7 million), maturing on 30 September 2017
  - non-current interest bearing loans of US$415.0 million ($461.1 million), maturing on 30 September 2017
  - non-current interest receivable of US$49.2 million ($54.7 million) receivable from HLG on the interest bearing shareholder loans
- we note that the Group's receivables as at 31 December 2013 by geographic region were $3.5 billion relating to Oceania (Australia, New Zealand and Papua New Guinea) and $2.3 billion relating to Asia, the Middle East and Africa
- at 31 December 2013, the Group's property, plant and equipment totalled $1.75 billion, of which $1.25 billion was assets owned by the Group and $0.5 billion was subject to finance leases. In addition, the Group holds $0.9 billion of property, plant and equipment which is subject to operating leases. In this regard, we note that under the FleetCo initiative, $0.5 billion of Australian-based fleet has been moved off balance sheet with the associated finance leases refinanced to operating leases in FleetCo
- net capital expenditure decreased by 27% in CY13 primarily as a result of capital management and the intra-Group redeployment of equipment
- investments accounted for using the equity method include an investment in HLG (45% equity share), a 29.9% interest in Nextgen Group Holdings Pty Limited and its controlled entities (Nextgen Group), a 35.6% interest in Sedgman Limited[6] (Sedgman) and a 19.6% interest in Macmahon
- Leighton Group holds a controlling 50.6% interest in Devine, which is consolidated in the Group's accounts. Leighton Group provides a $50 million partial guarantee of Devine's debt facility with ANZ
- intangible assets increased by $0.3 billion in CY13, primarily as a result of the recognition of goodwill on acquisition of the remaining 39.9% interest in the Leighton Welspun joint venture
- current trade and other payables increased by $0.5 billion in CY13, primarily as a result of the increase in recurring operational expenditure on materials and sub-contractors

[6] As at 28 March 2014, Leighton Group's interest in Sedgman had increased to 36.66%.

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- total borrowings, including limited recourse loans and finance lease liabilities, decreased by net $0.7 billion in CY13. The decrease was primarily attributable to the repayment of $0.4 billion of its 2008 US Private Placement maturing notes, the refinancing $492 million of finance leases into operating leases under its FleetCo initiative and the repayment of $0.4 billion of maturing short term facilities. As a result, Leighton Group's gearing, including operating leases, decreased to 29.2% at 31 December 2013 from 31.9% at 31 December 2012
- Leighton Group has significant bonding and guarantee facilities available that are integral to the delivery of current and future work in hand. At 31 December 2013, the Group had bonds and guarantees totalling $4.4 billion, and an additional $1.1 billion was undrawn, of which $0.8 billion was committed and $0.3 billion was uncommitted.

7.4 Working capital

The working capital balances of Leighton as at 1 January 2012 and 31 December 2012 and 2013 are set out below.

Table 6: Working capital

As at $ million	1-Jan-12	31-Dec-12	31-Dec-13
Cash and cash equivalents	1,606.0	2,007.7	1,720.7
Trade and other receivables[1]	3,251.4	3,895.8	5,222.6
Inventories	922.0	1,057.5	920.4
Trade and other payables	(4,958.8)	(5,199.6)	(5,893.3)
Net working capital	**820.6**	**1,761.4**	**1,970.4**

Source: Leighton Annual Report for the years ended 31 December 2012 and 2013
Note 1: Trade and other receivables exclude amounts owed by HLG in relation to shareholder loans and accrued interest, totalling $496.7 million, $540.6 million and $631.5 million at 1 January 2012, 31 December 2012 and 31 December 2013 respectively

Based on our discussions with Leighton management, we understand that cash and cash equivalents form an integral part of Leighton's working capital management policies and should be included in the analysis of Leighton's net working capital for the following reasons:

- based on historical evidence and experience, Leighton is required to maintain a cash buffer in order to sustain intra-month fluctuations of its cash balance, which typically reach their intra-month low in the third week of each month. Further, month end cash balances typically represent the high point in the respective monthly cycles
- in addition, the cash balance fluctuates seasonally, generally peaking at the end of each calendar year, which is also driven to some extent by year-end tactical measures. Historical evidence indicated that this seasonal fluctuation can mean that working capital requirements can cause cash balances to be fully absorbed during the year. The cash balances set out above typically represent the high point in the seasonal cycle
- at each of the reporting dates above, the cash balance also includes amounts for dividends which typically will be paid in the first or second quarter of the following year. In February 2014, Leighton announced a dividend of 60 cents per share payable on 4 April 2014, equivalent to total dividends payable of $202.3 million. In addition, Leighton was also committed to payment of US$99 million

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($110 million), associated with the acquisition of the remaining 39.9% interest in the Leighton Welspun joint venture.

Based on the above considerations, we understand that Leighton's cash balance at the end of the respective calendar years was required to support the ongoing working capital requirements of Leighton and therefore should form an integral part of Leighton's working capital analysis.

The increase in net working capital from 1 January 2012 to 31 December 2013 of $1.2 billion was primarily due to the increase in current trade receivables, relative to the other components of working capital, which is largely attributable to the following matters:

- domestic LNG projects which have involved lengthy payment cycles, extensive scope growth and complex and time-consuming valuation and negotiation processes to agree variations to existing contracts. Receivables are expected to remain elevated until the current domestic LNG projects are completed and final agreements are negotiated. These projects, which total in excess of $13 billion, were approximately 70% complete as at 31 December 2013
- two oil pipeline projects in Iraq. Phase one was 99% complete and the Sealine Project was approximately 80% complete. Receivables associated with these projects are likely to remain outstanding until the projects are completed and final agreements are negotiated
- underclaims in coal contract mining which have arisen from the recovery of mine set-up costs and, more recently, challenging market conditions.

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7.5 Debt and credit rating

7.5.1 Debt facilities

The table below details the debt facilities held by Leighton as at 31 December 2013.

Table 7: Debt facilities

$ million	Total facilities	Amount drawn[1]	Available facility	Interest Rate	Maturity
Syndicated bank facility	1,000.0	-	1,000.0		21/06/2016
Guaranteed senior notes 2008[1]					
- Series B	100.0	100.0	-	7.19%	15/10/2015
- Series C	87.8	87.8	-	7.66%	15/10/2018
Guaranteed senior notes 2010[1]					
- Series A	99.8	99.8	-	4.51%	21/07/2015
- Series B	160.8	160.8	-	5.22%	21/07/2017
- Series C	127.6	127.6	-	5.78%	21/07/2020
Guaranteed senior notes 2012[2]	547.4	547.4	-	5.95%	13/11/2022
Medium term notes	280.0	280.0	-	9.50%	28/07/2014
Bilateral bank facilities					
- Facility A	75.0	-	75.0		10/09/2015
- Other facilities	156.0	-	156.0		various[3]
Other unsecured loans	135.5	135.5	-		
Finance lease liabilities	399.2	399.2	-		
Limited recourse loans	187.0	187.0	-		
Interest bearing liabilities	**3,356.1**	**2,125.1**	**1,231.0**		
Operating leases	934.0	934.0	-		
Interest bearing liabilities including operating leases	**4,290.1**	**3,059.1**	**1,231.0**		

Source: Leighton Annual Report for the year ended 31 December 2013
Note 1: Amount drawn includes amortised cost
Note 2: Guaranteed senior notes are denominated in US dollars, they have been stated above at their carrying values as at 31 December 2013 at the exchange rate of A$1.00:US$0.90
Note 3: Other bilateral bank facilities comprises various facilities with maturity dates between 30 September to 31 December 2014

In relation to the table above, we note the following:

- as at 31 December 2013, Leighton Group had $1.2 billion of facilities undrawn
- the limited recourse loans of $187 million are secured against certain property development and other assets of Leighton Group
- on 13 December 2013, Leighton entered into an agreement to refinance $492 million of finance leases into operating leases under its FleetCo initiative

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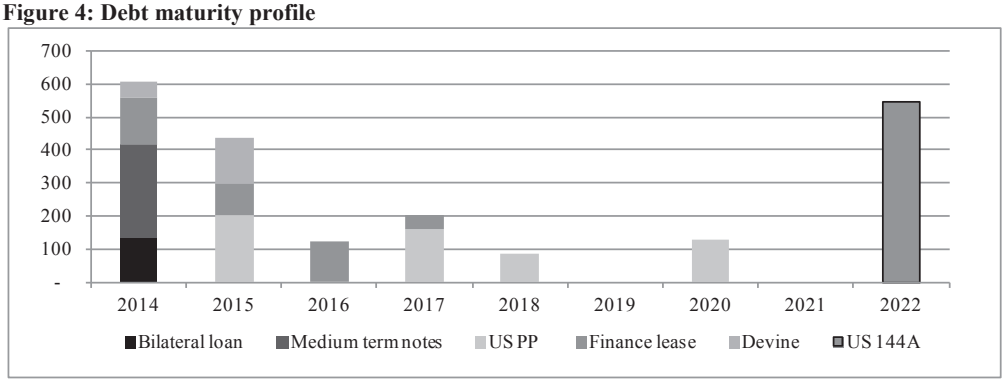
- as per Section 5.6 of the Target's Statement, generally, the provisions in Leighton's material debt facilities, equipment leases and bonding facilities[7] which entitle financiers to require repayment in the event of a change of control are only triggered in circumstances where HOCHTIEF holds 75% or more of Leighton Shares or controls the composition of 75% or more of the Leighton Board. The Offer and the Leighton Board and management changes which have been announced to date do not trigger these repayment entitlements
- provisions exist within Leighton's US$500 million guaranteed senior notes in the United States Rule 144A debt capital markets issue are subject to an additional change of control provision where firstly, HOCHTIEF announces an intention to appoint or appoints 50% or more of the Leighton Board and consummating that change, and secondly both S&P and Moody's cease to rate the Notes as investment grade.[8]

7.5.2 Debt maturity profile

Leighton Group's debt maturity profile as at 31 December 2013 is illustrated below.

Figure 4: Debt maturity profile



Source: Leighton Preliminary Final Results Presentation for the year ended 31 December 2013

As at 31 December 2013, Leighton anticipated that $0.1 billion of the $0.6 billion loans maturing in CY14 would require refinancing.

7.5.3 Credit rating

Subsequent to announcement of the Offer, S&P and Moody's placed Leighton on negative credit watch.

Leighton's current credit rating according to S&P is 'BBB-/A-3' and according to Moody's is 'Baa2'. A one notch downgrade from S&P would result in a credit rating which is sub-investment grade whereas to reach a sub-investment grade credit rating from Moody's would require a downgrade of two notches.

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[7] At 31 December 2013, the Group had $2.1 billion of interest bearing debt and finance leases (including the US Rule 144A Notes) and $4.4 billion of drawn bonding facilities and guarantees. The Group had an additional $2.0 billion of undrawn loan facilities and undrawn, committed bonding facilities at this time.

[8] Refer to Section 5.6 of the Target's Statement for further details.

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7.6 Taxation position

In relation to Leighton Group's tax position, we note the following:

- Leighton is the head entity in the Australian tax consolidated group comprising the Australian wholly-owned entities. Under the Australian tax consolidation regime, these entities are treated as a single entity for income tax purposes
- at 31 December 2013, Leighton's dividend franking account was $49.9 million. The 2013 final dividend, declared after the reporting date will reduce this by $43.3 million
- Leighton reported an effective tax rate of 36% in CY13 as compared to 22% in CY12. The difference is primarily attributable to a 47% effective tax rate on the sale of Leighton Group's telecommunication assets.

7.7 Contingent liabilities

As at 31 December 2013, Leighton's contingent liabilities amounted to $4.4 billion under indemnities given on behalf of controlled entities as set out below.

Table 8: Contingent liabilities under indemnities

As at $ million	31-Dec-13
Bank guarantees	2,619.1
Insurance, performance and payment bonds	1,280.0
Letters of credit	514.2
Total contingent liabilities	**4,413.3**

Source: Leighton Annual Report for the year ended 31 December 2013

In addition to the contingent liabilities in the table above, there is litigation by two separate parties in relation to the Company's continuous disclosure obligations. Proceedings relating to the 2011 profit downgrade were commenced on 30 October 2013. Proceedings relating to an alleged failure to disclose the report to the Australian Federal Police and related matters commenced on 4 October 2013. The Company denies both claims and is defending both sets of proceedings.

7.8 Capital structure and ownership

As at 31 March 2014, Leighton had the following securities on issue:

- 337,965,688 ordinary shares
- 3,094,500 options over unissued ordinary shares
- 1,981,304 Leighton Performance and Deferred Share Rights issued under Leighton incentive plans.

The total number of shares on a fully diluted basis is 339,103,438 which includes those options capable of being exercised.

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7.8.1 Ordinary shareholders

At 18 March 2014, Leighton's issued capital comprised 337,662,188 fully paid ordinary shares, which are listed and traded on the ASX. The following table sets out the top 20 ordinary shareholders as at 18 March 2014.

Table 9: Top 20 shareholders as at 18 March 2014

	Number of ordinary shares	Percentage of issued capital
HOCHTIEF Australia Holdings Limited	198,172,460	58.69%
J P Morgan Nominees Australia Limited	17,176,867	5.09%
HSBC Custody Nominees (Australia) Limited	15,834,799	4.69%
National Nominees Limited	12,040,413	3.57%
JP Morgan Nominees Australia Limited <Cash Income A/C>	11,452,366	3.39%
Citicorp Nominees Pty Limited	6,473,788	1.92%
Warbont Nominees Pty Limited	3,356,021	0.99%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,333,085	0.39%
BNP Paribas Noms Pty Ltd	1,084,735	0.32%
HSBC Custody Nominees (Australia) Limited - A/C 3	886,555	0.26%
Argo Investments Limited	783,572	0.23%
Milton Corporation Limited	757,865	0.22%
CS Fourth Nominees Pty Ltd	719,882	0.21%
Gwynvill Investments Pty Limited	683,500	0.20%
Share Direct Nominees Pty Ltd	668,314	0.20%
Bainpro Nominees Pty Limited	620,030	0.18%
National Nominees Limited <N A/C>	560,000	0.17%
AMP Life Limited	553,086	0.16%
Merrill Lynch (Australia) Nominees Pty Limited	536,043	0.16%
HSBC Custody Nominees (Australia) Limited A/C 2	491,202	0.15%
Total shares held by top 20 shareholders	**274,184,583**	**81.20%**
Other shareholders	63,477,605	18.80%
Total shares on issue	**337,662,188**	**100.00%**

Source: Leighton Annual Report for the year ended 31 December 2013

In relation to the top 20 shareholders, we note:

- the top 10 registered shareholders account for approximately 79.3% of the ordinary shares on issue
- as at 31 March 2014, HOCHTIEF held an interest of 58.64% in Leighton.

In relation to the ordinary shares, we note:

- holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholder meetings
- during CY13, Leighton issued 71,000 shares to satisfy options issued in 2009 under the Leighton Senior Executive Option Plan at an issue price of $18.87.

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7.8.2 Shareholder distribution

The spread in Leighton's shareholders is set out in the table below. At 18 March 2014, 46 shareholders, or 0.1% by number of shareholders, held 82.7% of Leighton's total issued capital.

Table 10: Shareholder distribution schedule

Size of shareholding	Number of shareholders	Ordinary shares held	Percentage of issued capital
1 - 1,000	40,185	12,536,045	3.71%
1,001 - 5,000	11,515	23,841,744	7.06%
5,001 - 10,000	1,239	8,617,866	2.55%
10,001 - 100,000	600	13,403,865	3.97%
100,001 and over	46	279,262,668	82.71%
Total	**53,585**	**337,662,188**	**100.0%**

Source: Leighton Annual Report for the year ended 31 December 2013

7.8.3 Options

The Leighton Senior Executive Option Plan (LSEOP) was approved by shareholders at the AGM held in 2006. Options over shares in the company were first granted under the LSEOP in 2006 and subsequently in 2008 and 2009. Each option entitles the Optionholder to one fully-paid ordinary share upon exercise. The total number of options over unissued ordinary shares in the company outstanding under the LSEOP is 3,094,500, of which 1,868,250 were exercisable as at 31 December 2013. These options do not entitle the holder to participate in any share issue prior to exercise. The exercise price is $18.87 and expiry date is 4 May 2014. No options have been issued since the end of CY13 over unissued shares in the company.

7.8.4 Leighton Share Rights

Leighton Share Rights are issued under the Leighton's Short Term Incentive (STI) and Long Term Incentive (LTI) plans do not attract any dividend or voting rights, however, upon vesting of the Share Rights granted under the STI the holder is entitled to a cash payment equivalent to any dividends paid under the duration of the Share Right. Upon vesting of the share rights, the holder is entitled to one ordinary share.

In relation to the Leighton Share Rights, of which none are expected to vest during the Offer Period[9], we note:

- 28,850 LTI Performance Share Rights were issued for no consideration in 2011 and entitle the participants to receive one fully paid ordinary share in Leighton per right, subject to vesting conditions linked to service and performance over the performance period (minimum three years)
- 587,346 LTI Performance Share Rights were issued under the Equity Incentive Plan (EIP) for no consideration in 2012 and entitle the participants to receive one fully paid ordinary share in Leighton

[9] Offer Period is defined as the period within which the Offer is open for acceptance in accordance with HOCHTIEF's Bidder's Statement and the Corporations Act.

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per right, subject to vesting conditions linked to service and performance over the performance period (minimum three years)

- 655,658 STI Deferred Share Rights were issued under the EIP in 2012 at no cost and entitling the participants to receive one fully paid ordinary share in Leighton per right, subject to vesting conditions linked to service and performance, generally two years
- 687,416 LTI Performance Share Rights were issued under the EIP in 2013 at no cost and entitling the participants to receive one fully paid ordinary share in Leighton per right, subject to vesting conditions linked to service and performance, generally three years
- 22,034 STI Deferred Share Rights were issued under the EIP in 2013 at no cost and entitling the participants to receive one fully paid ordinary share in Leighton per right, vesting of which is subject to a deferred period, generally two years.

7.8.5 Directors' interests

As at 31 December 2013, the directors of Leighton held the following securities.

Table 11: Director's relevant interests at 31 December 2013

Name	Position	Total interest in ordinary shares held[1]	Number of options held	Number of share rights held
Robert D Humphris OAM	Chairman	30,000	-	-
Paula J Dwyer	Deputy Chairman and Non-executive Director	5,000	-	-
Hamish G Tyrwhitt	Managing Director and CEO	2,110	80,000	244,095
Peter A Gregg	Executive Director, Deputy CEO, CFO	3,652	-	215,825
Marcelino Fernández Verdes	Non-executive Director	2,745	-	-
Russell A Higgins AO	Non-executive Director	6,090	-	-
Michael J Hutchinson	Non-executive Director	5,000	-	-
Vickki A McFadden	Non-executive Director	-	-	-
David P Robinson	Non-executive Director	1,489	-	-
Peter W Sassenfeld	Non-executive Director	1,858	-	-
Total		**57,944**	**80,000**	**459,920**

Source: Leighton Annual Report for the year ended 31 December 2013
Note 1: Includes both relevant interests and related party interests in ordinary shares

7.9 Share price performance and liquidity analysis

In assessing Leighton's share price performance, we have:

- analysed the price and volume performance of Leighton over the two year period ended 7 March 2014, being the date immediately prior to the announcement of the Offer. We note on the Announcement Date, Leighton's share price increased by 11.4% to close at $23.09, however, the price has since receded to $21.10 (ex-dividend) as at close of trading on 28 March 2014

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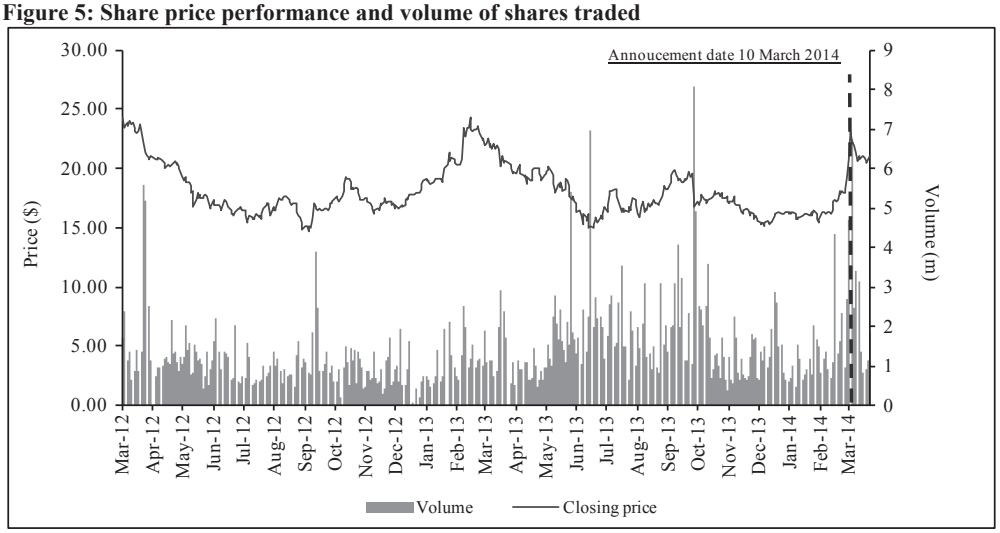
- compared the share price movement to the S&P/ASX 200 Index and the S&P/ASX 200 Industrials Index over the two year period ended 7 March 2014
- assessed the Volume Weighted Average Price (VWAP) and trading liquidity of Leighton shares for the one year period ending 7 March 2014.

Leighton's share price performance and the volume of shares traded for the two year period ending 28 March 2014 is illustrated below.

Figure 5: Share price performance and volume of shares traded



Source: S&P Capital IQ, KPMG Corporate Finance analysis

In relation to the above chart, we note the following:

- over the two year period ended 7 March 2014, Leighton shares traded in a price range of $14.72 (11 September 2012) to $24.34 (7 March 2012). Following the Announcement Date, the share price has receded to $21.10 (ex-dividend)
- on 27 March 2012, Leighton's shares entered a trading halt, with shares recommencing trading on 29 March 2012. Leighton announced that delays in the Airport Link and Victorian Desalination projects would impact the pre-tax earnings negatively by approximately $254 million
- on 17 September 2012, Leighton issued its shareholder update and announced the first large-scale production of drinking water from the Victorian Desalination Plant. It also announced that it had won the contract to construct the Wynyard Walk. The share price increased by 8.4% for the day to $17.05, with a turnover of 3.9 million shares
- on 13 February 2013, Leighton released its Preliminary Final Report for the year ended 31 December 2012. As part of the release, Leighton announced that profit for the year was $450 million. The share price increased by 11.2% for the day to $23.14, with a turnover of 2.5 million shares

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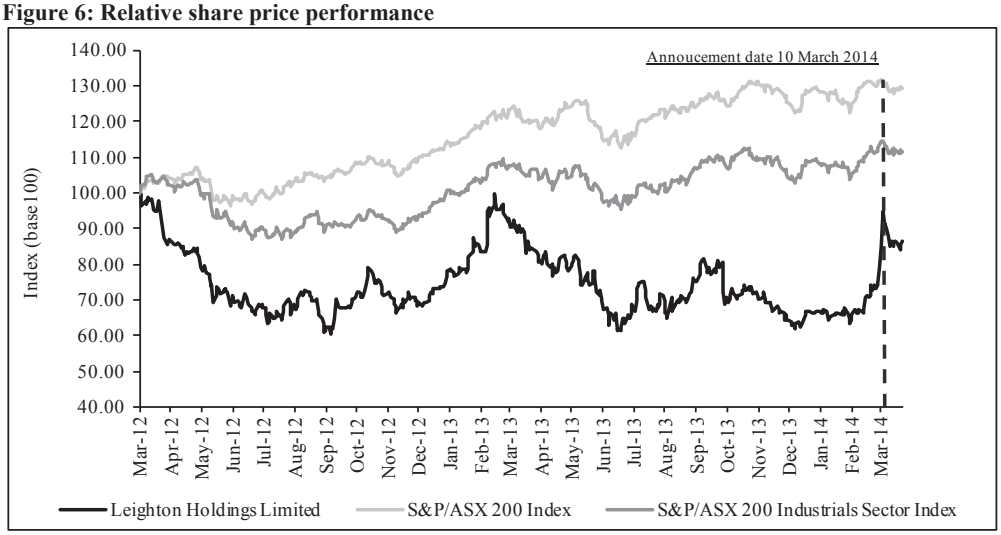
- on 31 May 2013, Leighton confirmed that Thiess (a Leighton subsidiary) was disputing certain matters with the owner of the Senakin and Satui mines in Indonesia, suspending operations on 26 April 2013. The share price decreased by 4.9% for the day to $17.59 and turnover was 5.4 million shares
- on 20 June 2013, HOCHTIEF acquired 3.0 million shares at $15.46 per share. Turnover for the day was 7.0 million shares
- on 3 October 2013, Leighton responded to allegations made by certain media outlets of fraud and improper corporate governance. A class action was also filed against Leighton on this day. The share price fell 10.4% for the day to $17.54, with a turnover of 8.1 million shares
- on 20 February 2014, Leighton released their Preliminary Final Report for the year ended 31 December 2013. As part of the release, Leighton announced a $0.60 dividend. The share price increased by 4.9% for the day to $17.21 and turnover was 4.4 million shares
- on 7 March 2014, ASIC requested Leighton to provide a response in relation to the increase in the share price and volume traded from 5 March 2014 to 7 March 2014. Leighton replied that it was unaware of why the share price and volume traded had increased over this period. The share price increased by 13.8% over the two days to $20.72 on turnover of 7.4 million shares.

Post the announcement of the offer, the share price closed at $23.09 on 10 March 2014, on turnover of 6.7 million shares. The share price has receded to $21.10 (ex-dividend) on 28 March 2014, 6.6% below the offer price.

The figure below illustrates a comparison of the trading performance of Leighton relative to the S&P/ASX 200 Index and the S&P/ASX 200 Industrials Index over the two year period ended 28 March 2014.

Figure 6: Relative share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

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The Leighton share price performance was down 15%, compared to an increase in the S&P/ASX 200 Index and the S&P/ASX 200 Industrials Index by 32% and 14% respectively, for the two year period ended 7 March 2014. However, when analysing the performance over shorter time frames, a strong correlation between the share price and the indices emerge.

The table below summarises the liquidity of Leighton over the 12 months ended 7 March 2014, the day prior to the Announcement Date.

Table 12: VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $m	Cumulative volume m	% of issued capital
1 week	17.62	21.05	19.28	196.7	10.2	3.0
1 month	15.92	21.05	17.83	545.9	30.6	9.1
3 months	14.96	21.05	16.66	1,286.3	77.2	22.9
6 months	14.96	21.05	17.33	3,156.2	182.1	54.0
12 months	14.40	22.60	17.55	6,592.2	375.6	111.4

Source: S&P Capital IQ, KPMG Corporate Finance analysis

In relation to the table above, we note that:

- in the 12 months prior to the Announcement Date, 111.4% of Leighton's shares were traded, with 54.0% traded in the last six months, despite Leighton having a free float of 41%
- in the week prior to the Announcement Date 3.0% of Leighton's shares were traded, with 70% of the volume occurring in the last two days of the week.

Whilst the free float amount is below 50%, with the relatively high level of share turnover over the 12 months prior to the announcement date, we would consider Leighton to be a relatively liquid stock.

Following the Announcement Date until 28 March 2014, 9.7% of shares were traded, which is a significant increase compared to the month prior to the Announcement Date.

7.10 Dividends

Leighton declared the following dividend amounts over the last three financial years.

Table 13: Dividends

	CY11	CY12	CY13
Dividend (cents)	60.0	80.0	105.0
Share price at 31 December ($)	19.04	17.88	16.11
Implied dividend yield	3%	4%	7%
Dividend payout ratio[1]	59%	60%	61%

Source: Leighton Annual Report for the years ended 31 December 2012 and 2013
Note 1: CY12 and CY13 dividend payout ratio calculated based on underlying NPAT. CY11 dividend payout ratio reflects 6 month payout ratio only, calculated based on NPAT for six months to 31 December 2011

The Leighton Board has declared a final dividend of 60 cents per share dividend, franked at 50% and payable on 4 April 2014, resulting in a total dividend of 105 cents per share for the full year, after a 45 cents per share interim dividend, franked at 50% was paid in October 2013.

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7.11 SWOT analysis

The primary strengths, weaknesses, opportunities and threats (SWOT) of Leighton Group are summarised below as determined by KPMG Corporate Finance.

Table 14: SWOT analysis

Strengths

Strong market position

Leading position in the Australian infrastructure market

Leading position in global contract mining

Benefits of scale

Leighton Group combines leading brands in the Australian construction sector allowing it to leverage from the skills of each

Leighton Group's scale relative to its competitors is an advantage when tendering for large infrastructure projects

Footprint in high growth markets

Well established in high growth markets within Asia, including Indonesia, Hong Kong, Macau and India

Able to leverage specialist expertise in tendering for international projects

Specialist expertise

High degree of expertise in rail operations, information and communication infrastructure, tunnelling, fabrication and modularisation, offshore, heavy/industrial jetties and wharves, property services, water and wastewater process and treatment

The breadth of expertise represents a factor which differentiates Leighton Group from competitors

Diversification

Leighton Group's portfolio of operating companies are diverse across service type, market segments and, to an extent, region

Long term contracts are held in relation to contract mining services and the operation and maintenance of a significant portion of the rail networks in Australia

Weaknesses

Operating model

The current operating model involves the maintenance of competing brands which may lead to inefficiencies

Cash conversion

Accumulation of receivables, in particular in relation to LNG projects and projects in Iraq will remain a feature of Leighton Group's balance sheet in the medium term

AFP Investigation

The investigation currently being undertaken by the AFP could result in charges being brought against current or former employees, or any entity within the Leighton Group

Outstanding litigation

Two outstanding class actions may impact on market perception and the reputation of Leighton

Exposure to HLG investment

Weak performance of Leighton Group's investment in HLG (total exposure of $1.4 billion)

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Opportunities	
Pipeline of infrastructure in Australia Leighton Group's market position in Australia puts it in a strong position to capitalise on the projected $300 billion infrastructure backlog in Australia **Further expansion in high growth regions** Opportunities to leverage the specialist expertise of Leighton Group in expanding its presence in high growth regions such as Asia	**Strategic review of operating model** Leighton Group may realise efficiency gains and cost savings as a result of the implementation of its strategic review
Threats	
Downturn in commodity markets Decreases in commodity prices, thermal coal in particular, negatively impacting contract mining volumes and resulting in some mining companies reducing volumes or seeking to in-house mining capabilities **Structural shift in market demand** Lag between the reduction in demand from the resource market in Australia and the increase in demand from the infrastructure market	**Increased competition in Australia** International competitors entering the Australian infrastructure market may put pressure on margins **Exposure to LNG in the medium term** A feature of LNG projects is a significant degree of scope variations, resulting in underclaims and cash conversion issues. Exposure to these projects in the medium term may cause cash conversion issues to persist

Source: KPMG Corporate Finance analysis

7.12 Strategy

Leighton Group's strategy is to 'Stabilise and Rebase' the business in order to provide a platform for growth. There are a number of strategic initiatives that Leighton Group intends to focus on in order to achieve these objectives:

- *Capital Recycling*

  Leighton Group has undertaken a capital recycling program over the previous three years, which has resulted in the divestment of selected capital intensive businesses. These include the sale of HWE Mining in 2011, Thiess Waste Management in 2012 and the non-core telecommunications assets in 2013. A pre-tax consideration of $1.2 billion has been generated by this program

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- *Portfolio Alignment*

  The Group is progressively aligning its portfolio in order to focus each operating company on its core competencies. In CY13, John Holland's mining and telecommunications activities were transferred to Leighton Contractors. The majority of the construction portfolio of Macmahon was acquired in CY13 and has been successfully amalgamated into John Holland's construction portfolio. Late in the year, the Group acquired the remaining 39.9% of the LWIN joint venture and, in CY14, will review and implement integration synergies, cost savings and develop business opportunities from its 100% ownership

- *Balance Sheet*

  The capital recycling program combined with more rigorous management and strategic allocation of capital is intended to strengthen and deleverage the balance sheet. Capital expenditure has declined over the past three years, dropping from $1.4 billion in the year ended 30 June 2011 to $0.8 billion in 2013

- *5 Fundamental Things*

  Leighton Group has implements the '5 Fundamental Things' initiative which includes:

  - *Working capital improvement*. Timely conversion of current receivables into cash continues to be a key focus in CY14 and detailed plans are in place
  - *Strategic Procurement*. Strategic Procurement has been established to leverage Leighton's size and scale in terms of procurement and purchasing agreements. A total of $63 million has been realised in 2013 related to this initiative
  - *Global Business Services*. This initiative is intending to deliver back office support functions more efficiently. As part of this initiative, Leighton Group is establishing a Leighton-owned and operated centre in Kuala Lumpur, Malaysia for delivery of some of the Group's support functions
  - *Group Asset Management (FleetCo)*. Leighton is progressing the consolidation of its mining fleet into a single asset management vehicle. In 2013 $492 million of Australian-based fleet was moved off balance sheet and the associated finance leases were refinanced into operating leases with FleetCo. Additionally, Leighton is targeting savings from lower maintenance costs, improved asset utilisation and better spare parts management
  - *Management Structures*. This involves a detailed review of Leighton's organisational structure to ensure that the appropriate number of layers and spans of control are in place. The objective is to develop an optimal operating structure in terms of efficiency and effectiveness.

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Key risks

The matters that KPMG Corporate Finance considers the highest short term threats for Leighton Group are set out in the table below.

Table 15: Key risks facing Leighton Group

Risk	Comment
LNG projects	The resolution of these project receivables provides uncertainty due to recoverability and timing.
Iraq projects	The resolution of these project receivables provides uncertainty due to recoverability and timing.
Commodity prices	The challenging environment for contract miners given the changes in underlying commodity prices.
Habtoor Leighton Group (HLG)	The need to continue to stabilise the operations of HLG, including a sustainable increase in the profitability of the business, will be a key challenge in the coming periods. Additionally, there remain significant legacy receivables, particularly relating to projects in progress at the time Leighton invested in HLG. Leighton currently assumes that 50% of these receivables will be collected within 24 months and the remainder will be subsequently collected. If these assumptions do not materialise then this may have implications for Leighton's $1.4 billion exposure to HLG.
Australian Federal Police (AFP) investigation	The investigation currently being undertaken by the AFP could result in charges being brought against any current or former employee, or any entity within Leighton Group, those charges or any possible fines or convictions that may result, could have a materially adverse impact on the current and future business of the Leighton Group.
Outstanding litigation	Leighton is currently the subject of two class actions brought by separate shareholders in relation to the Company's continuous disclosure obligations. The proceedings relating to the 2011 profit downgrade were commenced on 30 October 2013. The proceedings relating to an alleged failure to disclose the report to the Australian Federal Police and related matters commenced on 4 October 2013. The Company denies both claims and is defending both sets of proceedings.

Source: KPMG Corporate Finance analysis

In relation to the risks above, we note:

- delays have been experienced in the recovery of claims in relation to LNG projects due to lengthy payment cycles, scope growth and complex variation and negotiation processes. The LNG projects are around 70% complete as at 31 December 2013 and total in excess of $13 billion

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- the Iraq projects comprise two oil pipeline projects in Iraq. Phase 1 was 99% complete and the Sealine Project was approximately 80% complete as at 31 December 2013. Progress on delivery of these projects and on negotiations to collect outstanding receivables continues
- the Leighton Group's total exposure to HLG as at 31 December 2013 was $1.4 billion. Further details in relation to HLG are detailed in Section 8.8.1 of this report.

In addition, other key sources of risk faced by Leighton Group involve work procurement and work delivery phases. Identifying, controlling and managing risks in these areas will continue to be critical to Leighton Group's future financial performance.

Group Work Procurement standards were introduced in February 2013, which focus on assessing risk for prospective projects. An updated version of these standards was released in March 2014. Group Wide Work Delivery Standards are being developed for project governance and review of project performance.

7.13 Outlook

The only market guidance provided by Leighton is in relation to CY14 and comprised of the following:

- UNPAT in the range of $540 million to $620 million
- year end gearing in the range of 20% to 35%.

In this context, Leighton management stated that top-line growth is not expected amid current tough market conditions.

Whilst Leighton has not disclosed any longer term forecasts to provide an indication of the expected future financial performance of Leighton we have considered the broker consensus for Leighton as detailed in the table below.

Table 16: Broker consensus

Consensus financials (median)	CY13	CY14	CY15	CY16
Revenue	24,349.0	23,984.0	23,673.3	23,779.0
EBITDA	1,926.0	1,835.0	1,859.0	1,917.0
EBIT	991.0	950.0	963.5	983.0
Profit before tax	783.0	790.0	816.1	868.1
Reported NPAT	509.0	553.0	589.8	601.0
Underlying NPAT	584.0	563.1	595.8	641.9
Statistics				
Revenue growth %	*n/a*	*-1.5%*	*-1.3%*	*0.4%*
EBIT growth %	*n/a*	*-4.1%*	*1.4%*	*2.0%*
PBT growth %	*n/a*	*0.9%*	*3.3%*	*6.4%*
Underlying NPAT growth %	*n/a*	*-3.6%*	*5.8%*	*7.7%*
EBIT margin %	*4.1%*	*4.0%*	*4.1%*	*4.1%*
PBT margin %	*3.2%*	*3.3%*	*3.4%*	*3.7%*
Underlying NPAT margin %	*2.4%*	*2.4%*	*2.6%*	*2.7%*

Source: Broker consensus and Broker notes, KPMG Corporate Finance analysis

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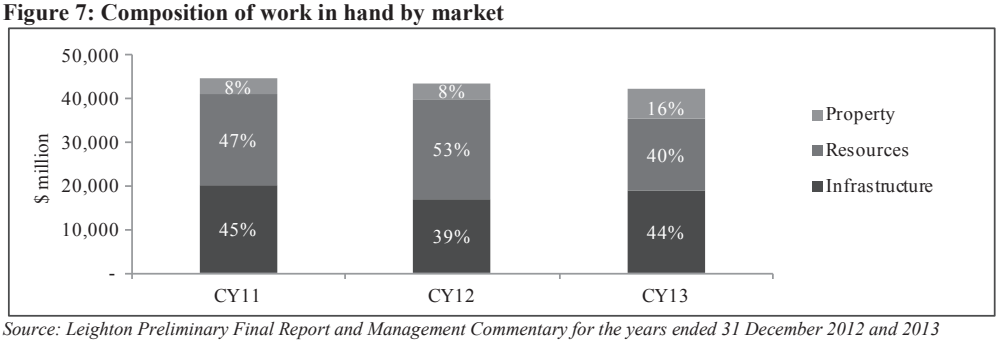
In relation to the table above we note:

- the forecasts represent the latest available for Leighton from 10 brokers that KPMG Corporate Finance were able to identify
- the median consensus brokers' forecast indicates revenue of $23,984 million in CY14 which represents a decline of 1.5% from CY13
- the median consensus brokers' forecasts for EBIT indicates negative growth of 4.1% compared to CY13 and flat to low EBIT growth of 1.4% and 2.0% in CY15 and CY16, respectively
- the relatively flat outlook reflects the consensus analyst view in relation to the pullback in Australian resources and energy spending which has impacted completed works and the availability of contracts as they are brought in-house, offset against the stronger than expected growth in Australian infrastructure market and recovery in the Australian property market, albeit influenced by timing and funding risks.

Work in hand

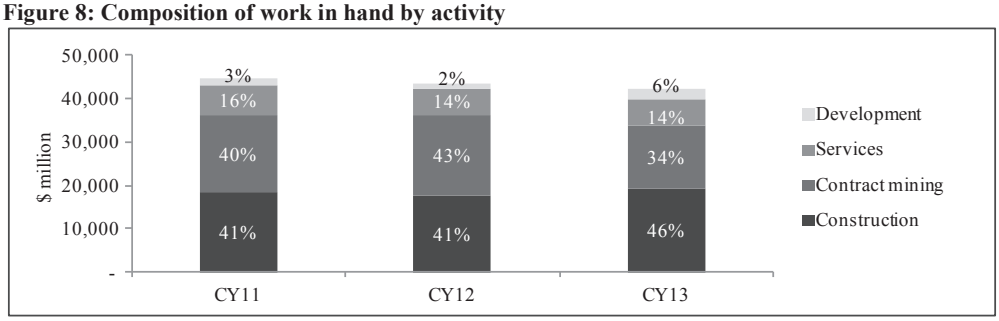
At 31 December 2013, Leighton Group's work in hand was $42.2 billion, representing a small decline from the work in hand at 31 December 2012 of $43.5 billion. The composition of Leighton Group's work in hand during CY11, CY12 and CY13 by market, activity and geographic region is illustrated below.

Figure 7: Composition of work in hand by market



Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013
Note: Revenue categorised as 'corporate' represents less than 2% of total revenue during each of the above periods

Figure 8: Composition of work in hand by activity



Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013

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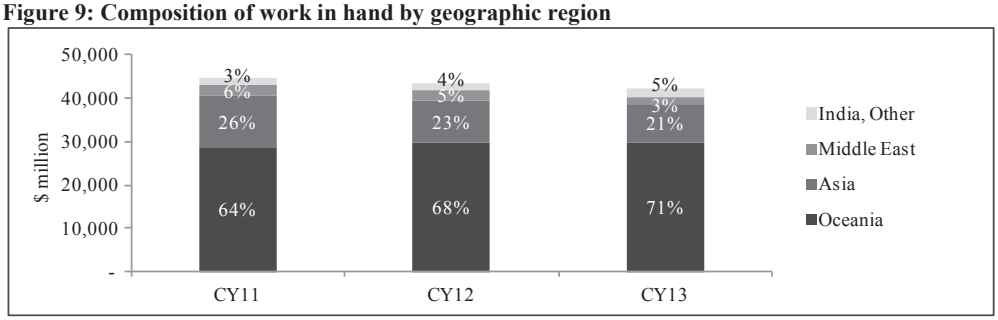
Figure 9: Composition of work in hand by geographic region



Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013
Note: Revenue categorised as 'corporate' has been grouped with development revenue as they both represent

With regard to the composition of work in hand, we note the following:

- driven by the changes in the macroeconomic conditions there has been a change in the mix of the portfolio, with a reduction in work in hand from contract mining partially replaced by an increase in construction infrastructure and property development
- the majority of Leighton Group's resource work is contract mining related and hence linked to production and export volumes rather than new investment. The softer commodity prices created a challenging environment for miners and contract miners in CY13 resulting in an overall net reduction in contract mining work in hand of $4 billion or 22% from CY12. However, 16% of the Group's resources work in hand is from the construction of oil and gas infrastructure (primarily LNG). A further $2.2 billion of work in hand relating to LNG projects is categorised as infrastructure
- Oceania remains the dominate geographic region comprising over 70% of the work in hand, with infrastructure transport dominating.

As at 31 December 2013, the pipeline for tenders closing in CY14 was broadly consistent with the level in CY13. Resources construction is expected to be driven by LNG related work across the Leighton Group.

Major project wins in CY14 year to date have included Leighton's share of the US$1.7 billion of secured revenue for a new Orbital Highway Project in Qatar awarded to an HLG JV with Al Jaber Engineering and the award of a US$453 million contract in connection with the Central Wanchai By-pass tunnel in Hong Kong.

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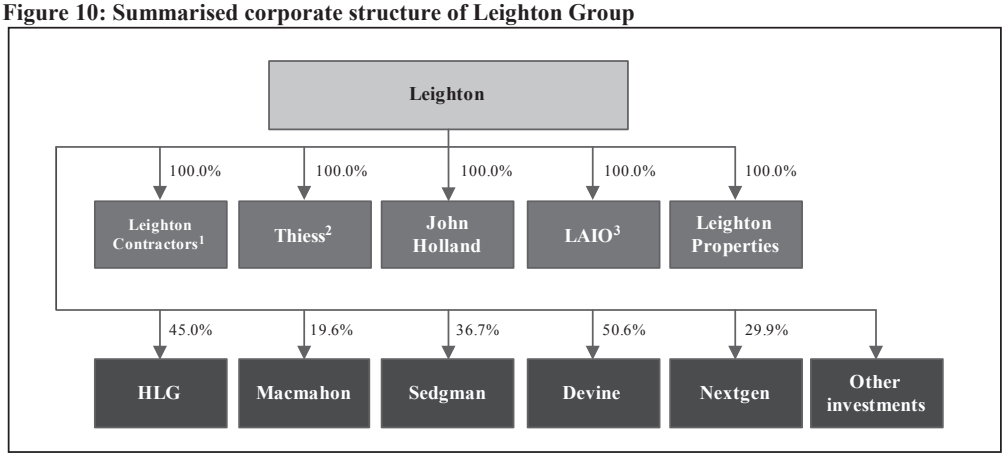
8 Business operations

8.1 Overview

Leighton Group operates through a number of wholly owned subsidiaries and investments. The summarised corporate structure of Leighton Group as at 1 April 2014 is illustrated below.

Figure 10: Summarised corporate structure of Leighton Group



Source: Leighton Group Annual Report for the year ended 31 December 2013, Notice of change in interests of substantial holder dated 1 April 2014
Note 1: Leighton Contractors includes Broad Group Holdings Pty Limited (Broad) and Visionstream
Note 2: Thiess includes Thiess Services, Thiess Indonesia and Hunter Valley Earthmoving
Note 3: LAIO includes Leighton Asia, Leighton Offshore and Leighton India (formerly Leighton Welspun)

A description of each operating company and key investment is outlined in the following sections.

8.2 Leighton Contractors

8.2.1 Overview

Leighton Contractors provides construction services across transport, utilities and communications, infrastructure, building construction, contract mining, facilities management and other complex infrastructure services to corporate and government clients in Australia.

Leighton Contractors operates through four operating divisions: infrastructure, mining, energy and services. In addition, Leighton Contractors also owns Broad, and a 50% stake in leading indigenous contractor Ngarda Civil and Mining.

Leighton Contractors' operating divisions are outlined below.

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Infrastructure

Leighton Contractors' infrastructure division has operations across Australia, New Zealand and Papua New Guinea. Its expertise spans roads, ports, building construction, health, outage and maintenance services, rail, defence, process manufacturing, education, and infrastructure investment. Services provided include planning, finance, project design, construction, servicing, project management, and maintenance.

Mining

Leighton Contractors' mining division provides services across the iron ore, coal and gold markets. The company currently provides services to support the Solomon iron ore project in Western Australia. The division's iron ore services include design, construction, commissioning, mine operation and maintenance.

Coal services span Greenfield start-ups and Brownfield expansions, with expertise in both surface and underground coal mining. The division has operations across a number of coal projects in the Bowen Basin in Queensland, and New South Wales' Hunter Valley region. Services include open-cut and underground mining, planning and technical services, mine and infrastructure development, operation of coal handling and preparation plants, processing, plant maintenance, and site rehabilitation.

Metals mining services span hard rock mining, open-cut and underground mining, minerals processing and materials handling. The division has experience in metals projects across Australia and New Zealand, and services include construction, logistics, engineering, materials handling, and mine operation and management.

Energy

Leighton Contractors' energy division has operations across oil and gas, thermal, renewable energy, and transmission and distribution. The division provides engineering, construction and field services. Its oil and gas operations span the oil and gas, energy, chemical, petrochemical and LNG sectors across New Zealand, Papua New Guinea and Australia. Services include civil construction of processing plants and infrastructure, gas capture and processing, transmission and distribution plant and infrastructure, and LNG plant and infrastructure.

The division operates within the thermal and renewables sectors, and has delivered projects to government owned utilities, independent power providers and remote project developers. Completed projects include thermal power stations across Queensland, Western Australia, South Australia and the Northern Territory. The division has also developed wind farms in Victoria, Western Australia and South Australia.

Services

Leighton Contractors' services division provides facilities management, infrastructure services, utility services, and also incorporates its telecommunications subsidiary Visionstream. The division caters to a wide range of industries, including transport, education, health, mining and energy. Its infrastructure services also include the operation and maintenance of private motorways, toll roads and tunnels.

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8.2.2 Key projects

A summary of Leighton Contractors' key projects as at 31 December 2013 is set out below.

Table 17: Summary of key projects

Project name	Description	Contract value ($ million)
Solomon Project	Five year whole-of-mine management contract at Solomon Hub for Fortescue Metals.	2,973
Gorgon LNG Civils	Civil and underground works for the Chevron-operated Gorgon LNG project.	2,130
Gorgon LNG Jetty	Construction of 2.1km jetty and marine structures for the Gorgon LNG Project in consortium with Saipem.	1,429
Chorus	Operation and maintenance relating to new and existing NZ network projects including Ultra-Fast Fibre, Rural Broadband and Next Generation Access running until 2019.	1,464
Sonoma Coal Mine	Mining services at the Sonoma coal mine due to complete at the end of 2015.	1,214
New Royal Adelaide Hospital	Design and construction of the new Royal Adelaide Hospital on behalf of the SA Health Partnership due for completion in 2016.	921
Ichthys LNG Project	Main civil works at the Ichthys Project onshore LNG facilities for JKC Australia LNG due for completion in 2016.	920
Australia Pacific LNG Water Treatment Facilities	Construction of water treatment facilities and storage ponds in Central QLD for Australia Pacific LNG due for completion in 2014.	693
Australia Pacific LNG Upstream Phase 1	Construction of Australia Pacific LNG's gas gathering system designed to collect gas and water from well heads in the Miles region of QLD.	453
Gateway WA Perth Airport and Freight Access Project	Alliance contract to upgrade the road network system leading to Perth Airport, due to complete in 2017.	612

Source: Leighton Preliminary Final Report and Management Commentary for the year ended 31 December 2013

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8.2.3 Financial performance

The financial performance of Leighton Contractors' for the half year ended 31 December 2011, CY12 and CY13 is summarised below.

Table 18: Summary of financial performance

For the period ending $ million	31-Dec-11[1] 6 months	31-Dec-12 12 months	31-Dec-13 12 months
Segment revenue	3,594.5	7,136.4	7,993.1
Underlying EBIT[2]	279.8	342.9	292.0
Underlying PBT[3]	263.3	289.6	196.6
Segment PBT	492.3	289.6	393.1
Joint venture and associate revenue	250.3	444.9	241.6
Share of profit / (loss) of associates and joint venture entities	(28.3)	45.3	14.5

Source: Leighton Annual Report for the years ended 31 December 2012 and 2013
Note 1: Represents the period 1 July 2011 to 31 December 2011 as Leighton changed its reporting year end date to 31 December
Note 2: Underlying EBIT represents the segment result before interest, restructuring costs, losses on acquisition, gain on sale and impairments
Note 3: Underlying PBT represents the segment result before losses on acquisition, gain on sale and impairments

With regard to the financial performance summarised above, we note the following:

- segment revenue increased by 12.0% in CY13, however, underlying EBIT fell by $50.9 million. This represented a fall in margin from 4.8% in CY12 to 3.7% in CY13. The reduction in profitability is attributable to the blend of margins on the jobs undertaken during the year
- the difference between underlying PBT and segment PBT comprises the gain on the sale of a 70.1% interest in Nextgen Group for $215 million, offset by impairments of $18.5 million against the value of investment in the Cross City Tunnel.

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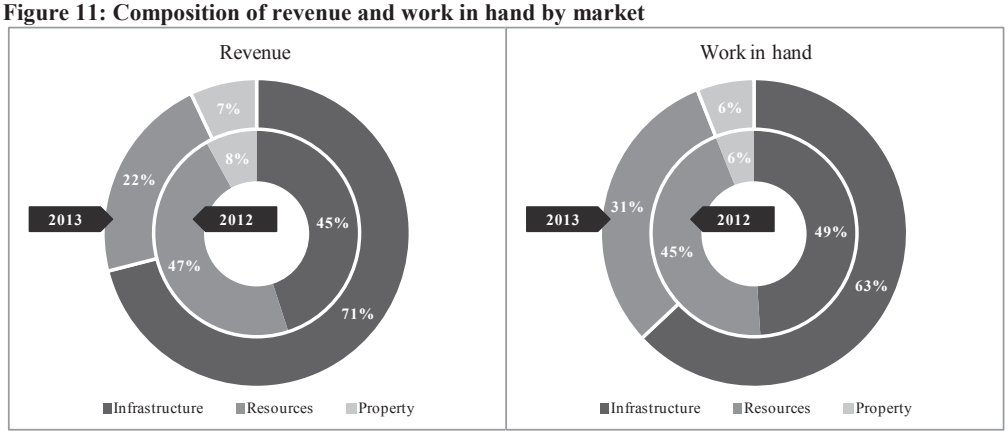
8.2.4 Composition of revenue and work in hand by market

The composition of Leighton Contractors' revenue during CY12 and CY13 and work in hand at the end of these periods is illustrated below.

Figure 11: Composition of revenue and work in hand by market



Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013

Work in hand remained relatively steady, increasing by 1.1% to $12.1 billion at the end of CY13. The composition of this balance, however, has changed significantly, with an increase in infrastructure contracts relative to resource contracts.

8.3 Thiess

8.3.1 Overview

Thiess is a Brisbane based construction, mining and services contractor founded in 1934. The company primarily operates in Australia, although its services extend overseas to New Zealand, Indonesia and India. Thiess operates across a range of industries, including commercial, energy, defence, health, marine, resources, transport and water.

Thiess' operating divisions are outlined below.

Construction

Thiess, supported by a large plant fleet, has capabilities across a wide range of areas, including commercial construction, correctional facilities, dam construction, defence facilities, education and health infrastructure, marine infrastructure, power and energy projects, transport infrastructure including rail, roads and tunnels, and water and resources infrastructure.

Mining

Thiess is one of the world's largest open-cut coal contract miners. Its resources related work, including construction and remediation, has included coal, iron ore, copper, uranium, nickel, gold, silver, lead, zinc and magnetite. The company's capabilities include design and construction, feasibility and analysis, fixed and mobile plant operations, mine planning and scheduling, and mine operations.

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Services

Thiess provides operations, maintenance, facilities and asset management services across the communications, infrastructure and environmental sectors to government authorities and commercial and industrial clients.

8.3.2 Key projects

A summary of Thiess' key projects as at 31 December 2013 is set out below.

Table 19: Summary of key projects

Project name	Description	Contract value ($ million)
Burton Coal Mine	Life-of-mine mining operations at the Burton coal mine near Glenden, Queensland for Peabody Energy.	3,854
KPC (Sangatta) Coal Mine	Mining services and related works at the KPC (Sangatta) coal mine in Indonesia for Kaltim Prima Coal until October 2020.	3,426
Lake Vermont Coal Project	Mining operations at the Lake Vermont coal mine in Queensland for the Jellinbah Group.	3,055
Queensland Curtis LNG Upstream Compression Project (QCLNG)	Construction of gas processing and compression facilities for QGC near Dalby, Queensland.	2,006
Curragh North Coal Project	Mining operations at the Curragh North coal project near Blackwater, Queensland.	1,294
Mt Owen Coal Mine	Mining operations at the Mt Owen coal mine near Singleton, New South Wales for Glencore.	1,263
Prominent Hill Copper and Gold Mine	Mining operations at the Prominent Hill copper-gold mine in South Australia over six years.	1,031
Melak TSA Coal Mine	Mining services at the Bayan FKP coal mine in East Kalimantan, Indonesia for Gunung Bayan Pratama Coal PT.	923
Moreton Bay Rail Link	A 12.6km rail link connecting the greater Brisbane rail network with the Moreton Bay region in Queensland.	644
Wheatstone Site Preparation	Site preparation works for the downstream portion of the Chevron-operation Wheatstone Project in Western Australia.	586

Source: Leighton Preliminary Final Report and Management Commentary for the year ended 31 December 2013

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8.3.3 Financial performance

The financial performance of Thiess for the half year ended 31 December 2011, CY12 and CY13 is summarised below.

Table 20: Summary of financial performance

For the period ending $ million	31-Dec-11[1] 6 months	31-Dec-12 12 months	31-Dec-13 12 months
Segment revenue	3,809.5	7,237.0	6,863.0
Underlying EBIT[2]	61.8	237.7	474.2
Underlying PBT[3]	61.8	215.1	434.3
Segment PBT	24.0	298.8	434.3
Joint venture and associate revenue	703.8	397.1	214.3
Share of profit / (loss) of associates and joint venture entities	(170.0)	37.3	(3.9)

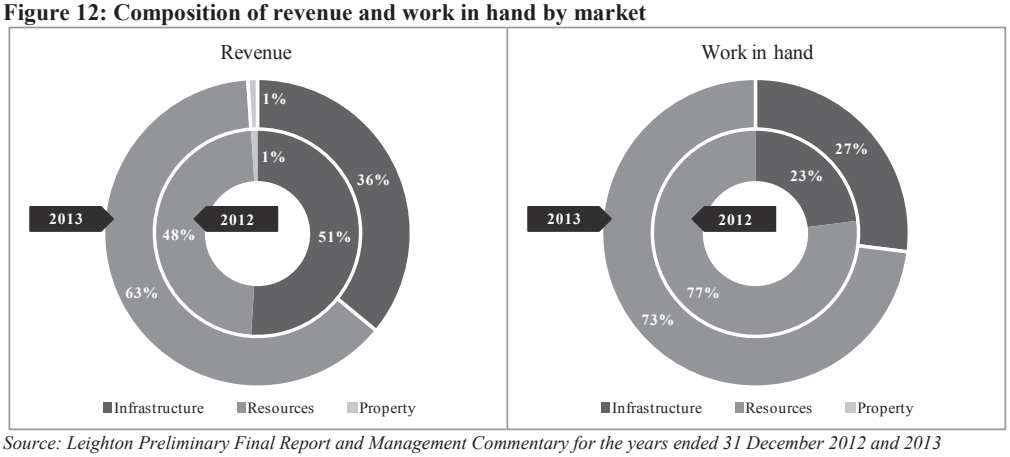
Source: Leighton Annual Report for the years ended 31 December 2012 and 2013
Note 1: Represents the period 1 July 2011 to 31 December 2011 as Leighton changed its reporting year end date to 31 December
Note 2: Underlying EBIT represents the segment result before interest, restructuring costs, losses on acquisition, gain on sale and impairments
Note 3: Underlying PBT represents the segment result before losses on acquisition, gain on sale and impairments

With regard to the financial performance summarised above, we note segment revenue decreased by 5.2% in CY13, although, underlying EBIT increased by $236.5 million to $474.2 million. This represented an increase in margin from 3.3% in CY12 to 6.9% in CY13. The increase in profitability was driven by the performance of Thiess' construction business and domestic contract mining, which offset a slowdown in the Indonesian contract mining business and challenges related to the NBN project.

8.3.4 Composition of revenue and work in hand by market

The composition of Thiess' revenue during CY12 and CY13 and work in hand at the end of these periods is illustrated below.

Figure 12: Composition of revenue and work in hand by market



Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013

Work in hand at the end of CY13 totalled $12.4 billion, a decrease of 20.1% over the prior period. This decrease was largely driven by volume reductions being requested by resource clients and the hand back of Collinsville and Arutmin mines.

8.4 John Holland

8.4.1 Overview

John Holland is a contracting, specialist engineering and services provider. The company's primary capabilities are in the infrastructure, energy, resources and transport sectors. The company was founded in 1949 by Sir John Holland. It is based in Melbourne, Victoria, with additional offices across all Australian states and the Northern Territory. In addition to serving clients in Australia, John Holland has also delivered projects in New Zealand, the Middle East and South East Asia.

John Holland's operating divisions are outlined below.

Infrastructure

John Holland's infrastructure division is responsible for providing construction and project management services in relation to building and civil engineering projects.

Transport Services

John Holland's rail division includes capabilities in rail construction, rail operations and concessions, and aviation services.

Specialist Engineering

John Holland's specialist engineering division includes water and wastewater treatment, tunnelling, heavy jetties and wharves, power generation and transmission, mechanical and electrical, and their international representation.

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8.4.2 Key projects

A summary of John Holland's key projects as at 31 December 2013 is set out below.

Table 21: Summary of key projects

Project name	Description	Contract value ($ million)
Metro Trains Melbourne	8 year contract from December 2009 to operate and maintain the metropolitan passenger rail network in Melbourne.	1,784
Country Regional Network	10 year contract to operate, manage, maintain and upgrade country rail lines across New South Wales.	1,072
New Children's Hospital	Stages 1 and 2 of the Perth New Children's Hospital.	853
South West Rail Link	Construction of 10.5km of Greenfield, twin track electrified rail link from Glenfield to Leppington in Sydney.	642
Inpex Civil	Construction of side development civil works for an LNG processing plant in Darwin.	502
Westnet Maintenance	Maintenance services for track and centre line structures on approximately 5,500km of rail network in Western Australia.	423
South Road Superway	Construction of the new 4.8km North-South Transport Corridor in Adelaide.	353
Chevron Gorgon NPI	Design and construction of permanent buildings on the Chevron-operated Gorgon Gas Project in Western Australia.	343
North West Rail Link TCS	Construction of tunnels and underground stations for Sydney's North West Rail Link via joint venture with Thiess and Dragados.	288
Roy Hill Iron Ore Project	Construction of approximately 350km of heavy haulage rail track for the Roy Hill Iron Ore Project in Western Australia.	257

Source: Leighton Preliminary Final Report and Management Commentary for the year ended 31 December 2013

8.4.3 Financial performance

The financial performance of John Holland for the half year ended 31 December 2011, CY12 and CY13 is summarised below.

Table 22: Summary of financial performance

For the period ending $ million	31-Dec-11[1] 6 months	31-Dec-12 12 months	31-Dec-13 12 months
Segment revenue	2,400.0	4,545.7	4,770.1
Underlying EBIT[2]	67.9	84.6	146.3
Underlying PBT[3]	60.0	64.3	138.4
Segment PBT	25.0	32.8	128.4
Joint venture and associate revenue	305.5	228.2	232.7
Share of profit / (loss) of associates and joint venture entities	20.0	14.2	12.8

Source: Leighton Annual Report for the years ended 31 December 2012 and 2013
Note 1: Represents the period 1 July 2011 to 31 December 2011 as Leighton changed its reporting year end date to 31 December
Note 2: Underlying EBIT represents the segment result before interest, restructuring costs, losses on acquisition, gain on sale and impairments
Note 3: Underlying PBT represents the segment result before losses on acquisition, gain on sale and impairments

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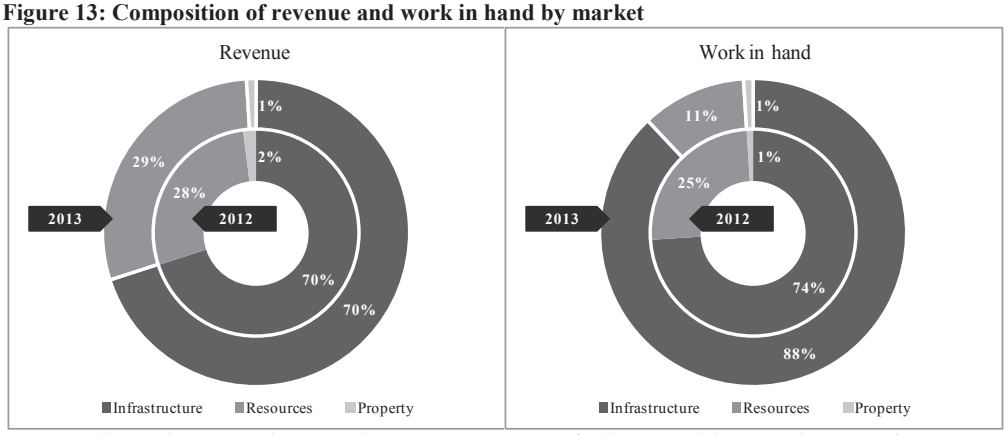
With regard to the financial performance summarised above, we note the following:

- segment revenue increased by 4.9% in CY13 and underlying EBIT increased by $61.7 million to $146.3 million. This represented an improved margin from 1.9% in CY12 to 3.1% in CY13. The increase in profitability is due to the impact of project write downs associated with AirportLink in CY12
- the difference between underlying PBT and segment PBT relates to impairments of $10.0 million against the property, plant and equipment of John Holland Aviation Services.

8.4.4 Composition of revenue and work in hand by market

The composition of John Holland's revenue during CY12 and CY13 and work in hand at the end of these periods is illustrated below.

Figure 13: Composition of revenue and work in hand by market



Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013

Work in hand at the end of CY13 totalled $5.3 billion, a decrease of 16.6% over the prior period. The composition of this balance has also shifted to include a greater proportion of infrastructure projects. The decrease in the balance and the change in composition are attributable to a reduction in resource based construction projects. We note that in early 2013, John Holland's two contract mining projects were transferred to Leighton Contractors.

8.5 Leighton Asia, India and Offshore

LAIO is based in Hong Kong and is a broad based contractor operating across East, South East and South Asia.

An overview of LAIO's operations within each region is set out below.

Leighton Asia

Leighton Asia is a construction and mining service provider with a portfolio of infrastructure, contract mining, civil and building projects.

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In its building division, Leighton Asia is able to provide construction, as well as designing commercial and residential developments, casinos and theme park attractions, schools, hospitals, museums and industrial facilities. Leighton Asia is currently building the Tin Shui Wai Hospital in Hong Kong, the new Australian Embassy in Jakarta, Indonesia, and Wynn Cotai Resort in Macau.

As part of its mining services business, Leighton Asia operates the Wahana Coal Mine in Indonesia, the Ukhaa Khudag Coal Mine in Mongolia, the Toka Tindung Gold Mine in Indonesia and the Masbate Gold Project in the Philippines.

The infrastructure division provides construction services for road, tunnel, energy, environment and waste, as well as earth works and remote infrastructure.

Leighton India

Leighton India operates as one of India's largest foreign-owned contractor and is active in oil and gas, building and infrastructure. It commenced in 1998 and has offices in Mumbai, Delhi and Chennai. In December 2013, Leighton bought the outstanding 39.9% in its Leighton Welspun joint venture. The business was renamed to Leighton India upon completion of the transaction in February 2014.

In its building division, Leighton India builds high-rise and specialty developments in the residential, commercial and retail sectors in India.

The infrastructure division is currently contracted to a number of projects including power generation and distribution and road tunnelling.

The oil and gas division offers a full range of construction services in onshore and offshore locations.

Leighton Offshore

Leighton Offshore is an international engineering, procurement, construction, installation and commissioning and life of field services contractor focused on the offshore oil and gas market. Leighton Offshore operates a fleet of offshore vessels.

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8.5.1 Key projects

A summary of LAIO's key projects as at 31 December 2013 is set out below.

Table 23: Summary of key projects

Project name	Description	Contract value (US$ million)
Wynn Palace, Macau	Construction of a luxury hotel and mixed-use podium for Wynn Resorts (Macau) S.A.	2,607
Wahana Coal Mine, Indonesia	Open-cut mining operations at the Wahana coal mine, Indonesia for PT Wahana Baratama Mining until June 2017.	1,721
Ukhaa Khudag Coal Mine, Mongolia	Open-cut mining services at the Ukhaa Khudag (UHG) coal mine, Mongolia for Energy Resources LLC until December 2018.	1,532
MSJ Coal Mine, Indonesia	Mining operations at the MSJ coal mine, Indonesia for PT Mahakam Sumber Jaya until March 2016.	1,258
SCL Hung Hom Station, Hong Kong	Construction of MTR Shatin to Central Line (SCL) Hung Hom Station and Stabling Sidings beneath the existing station.	650
Crude Oil Export Facility Reconstruction, Iraq	Construction of two offshore platforms, a 75km pipeline and a single point mooring system in Iraq.	618
Express Rail Link, West Kowloon Terminus Station North, Hong Kong	Construction of a main concourse with deep excavation, platforms for trains, road and bridge connections around West Kowloon Terminus North.	577
MGM Mining Services, Indonesia	7 year contract to deliver mining services to a coal mine for PT Marunda Grahamineral in Indonesia.	539
Express Rail Link, Tse Uk Tsuen to Shek Yam Tunnels, Hong Kong	Construction of rail tunnels and associated ventilation and access structures for the Guangzhou-Shenzhen-Hong Kong Express Rail Link.	518
Chenani to Nashri Tunnel, India	Engineering, procurement and construction of a two lane road tunnel in Jammu, Northern India.	466

Source: Leighton Preliminary Final Report and Management Commentary for the year ended 31 December 2013

In addition to the above projects, Leighton announced on 19 February 2014 that LAIO had secured a contract for the $453 million construction of the tunnel buildings, systems and fitting out works associated with the Central – Wanchai Bypass tunnel in Hong Kong.

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8.5.2 Financial performance

The financial performance of LAIO for the half year ended 31 December 2011, CY12 and CY13 is summarised below.

Table 24: Summary of financial performance

For the period ending $ million	31-Dec-11[1] 6 months	31-Dec-12 12 months	31-Dec-13 12 months
Segment revenue	1,388.6	2,629.2	3,280.8
Underlying EBIT[2]	145.0	212.3	135.7
Underlying PBT[3]	135.2	173.7	77.2
Segment PBT	135.2	173.7	(1.1)
Joint venture and associate revenue	215.4	171.4	265.9
Share of profit / (loss) of associates and joint venture entities	14.1	6.7	(8.5)

Source: Leighton Annual Report for the years ended 31 December 2012 and 2013
Note 1: Represents the period 1 July 2011 to 31 December 2011 as Leighton changed its reporting year end date to 31 December
Note 2: Underlying EBIT represents the segment result before interest, restructuring costs, losses on acquisition, gain on sale and impairments
Note 3: Underlying PBT represents the segment result before losses on acquisition, gain on sale and impairments

With regard to the financial performance summarised above, we note the following:

- segment revenue increased by 24.8% in CY13, however, underlying EBIT fell by $76.6 million to $135.7 million. The reduction in profitability is primarily attributable to the Iraq projects and Indonesian mining projects
- the difference between underlying PBT and segment PBT relates to the loss on the acquisition of the 39.9% interest in the Leighton Welspun joint venture. The loss is primarily due to the reclassification of foreign currency translation reserves from equity to profit and loss, following the decline in the India rupee against the Australia dollar.

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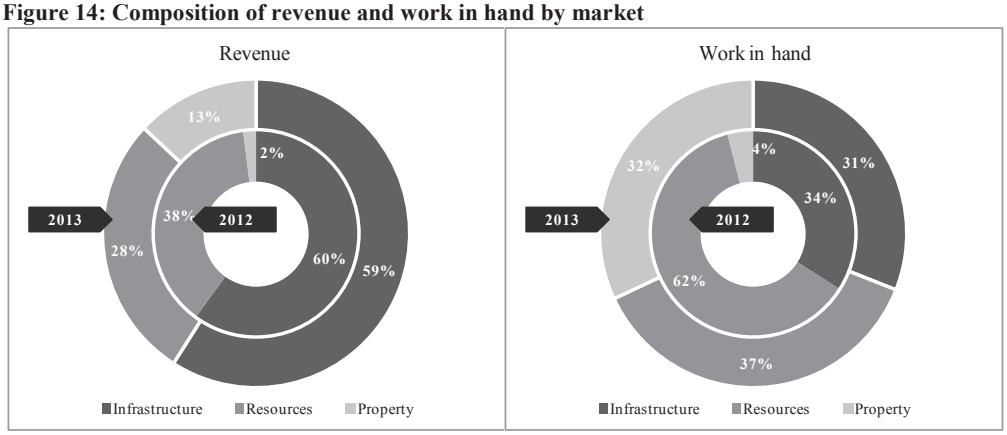
8.5.3 Composition of revenue and work in hand by market

The composition of LAIO's revenue during CY12 and CY13 and work in hand at the end of these periods is illustrated below.

Figure 14: Composition of revenue and work in hand by market



Source: Leighton Preliminary Final Report and Management Commentary for the years ended 31 December 2012 and 2013

Work in hand at the end of CY13 totalled $8.6 billion, representing an increase of 35.8% over the prior period. The composition of this balance has also shifted significantly, with a larger portion related to property. The increase in the balance and the change in composition are largely attributable to the Wynn Palace, Macau project which has a contract value of US$2.6 billion.

8.6 Commercial and Residential

The Commercial and Residential segment comprises Leighton Properties and Devine.

Leighton Properties was established in 1972 and is engaged in the development of commercial, industrial, residential, and mixed-use precincts across Australia. The company is currently undertaking a range of projects including urban renewal projects, residential towers, and city office towers. The company is based in Sydney and also has offices located in Melbourne, Brisbane and Perth.

Leighton Group holds a 50.6% interest in the listed property company, Devine. The results of Leighton Properties and Devine are aggregated for reporting purposes into the Commercial and Residential segment.

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8.6.1 Key projects

A summary of Leighton Properties' key projects as at 31 December 2013 is set out below.

Table 25: Summary of key projects

Project name	Description
Green Square Town Centre, Sydney	Major $1.1b urban renewal site in South Sydney including a 5.17 hectare master-planned residential/mixed-use/commercial site in joint venture with Mirvac and Urbangrowth NSW.
567 Collins St, Melbourne	$462m infill development of a premium grade, 54,000sqm commercial office tower in Melbourne's CBD. Leighton Contractors is principal contractor and anchor tenant.
Kings Square (Towers 1-3), Perth	$412m development of three commercial office towers (approximately 50,000sqm net lettable area) strategically located adjacent to the $4b Perth City Link precinct. Principal contractors are Broad and John Holland. Royal Dutch Shell is anchor tenant of Kings Square 2.
Kings Square 4, Perth	$98m A-grade office tower with approximately 13,000sqm of net lettable area for health care provider HBF, strategically located adjacent to the $4b Perth City Link precinct.
177 Pacific Highway, North Sydney	$413m, 30 level A-grade commercial office tower in North Sydney with 40,000sqm of net lettable area. The Leighton Group is the anchor tenant and will consolidate 11 offices around Sydney into this building. Leighton Contractors is the principal contractor.
Boggo Road, Dutton Park	Major $258m urban renewal site in inner Brisbane including a 3.5 hectare master-planned residential/mixed-use/commercial/retail site.
Erskineville Apartments, Sydney	$207m infill development of a master-planned residential/mixed-use site in inner Sydney in joint venture with LaSalle Investment Management including 307 apartments and 16 townhouses.
WRAP Apartments, Southbank	$161m infill development of an apartment tower in Southbank, Melbourne in joint venture with Qualitas Property Partners and Baron Corporation. The project includes 300 apartments and mixed-use/retail facilities.
Mosaic Apartments, Fortitude Valley	$141m infill development in joint venture with Carlyle Property Group in inner Brisbane. The project includes 213 apartments and hotel/mixed-use facilities.
Bondi Junction Apartments, Sydney	$122m infill development in joint venture with Qualitas Property Partners in the heart of Bondi Junction. The project includes 129 apartments and mixed-use/retail facilities.

Source: Leighton Preliminary Final Report Management Commentary for the year ended 31 December 2013

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8.6.2 Financial performance

The financial performance of Leighton Properties is not separately disclosed by Leighton Group. The financial performance of both the Commercial and Residential segment (which includes both Leighton Properties and Devine) and of Devine for the half year ended 31 December 2011, CY12 and CY13 is summarised below. The financial performance of Devine has been calculated by KPMG Corporate Finance based on Devine's annual and half-year financial statements.

Table 26: Summary of financial performance

For the period ending $ million	31-Dec-11[1] 6 months	31-Dec-12 12 months	31-Dec-13 12 months
Commerical and Residential segment			
Segment revenue	527.8	557.6	641.9
Underlying EBIT[2]	18.3	23.8	77.5
Underlying PBT[3]	1.0	(25.9)	36.8
Segment PBT	1.0	(25.9)	(44.4)
Share of profit / (loss) of associates and joint venture entities	1.1	14.0	(1.1)
Inventories	684.8	744.0	623.6
Devine			
Total revenue	196.9	299.0	285.1
Underlying EBIT[4]	14.0	18.8	(6.3)
Underlying PBT[5]	10.4	11.8	(11.9)
Statutory PBT	10.4	(22.5)	(91.9)
Inventories	422.2	397.9	321.6

Source: Leighton Annual Report for the years ended 31 December 2012 and 2013, Devine Annual Reports for the years ended 30 June 2012 and 2013, Devine Half Year Reports for the six months ended 31 December 2011 and 2012, Devine Transitional Annual Report for the six months ended 31 December 2013
Note 2: Underlying EBIT represents the segment result before interest, restructuring costs, losses on acquisition, gain on sale and impairments
Note 3: Underlying PBT represents the segment result before losses on acquisition, gain on sale and impairments
Note 4: Underlying EBIT excludes inventory write-downs, impairment and other expenses
Note 5: Underlying PBT excludes inventory write-downs, impairment and other expenses

8.7 Corporate

Leighton's corporate segment includes corporate overhead costs in CY13. These costs represented costs associated with Leighton's head office and include:

- costs associated with the executive management team
- certain Group shared services such as finance, taxation, treasury, IT
- interest, restructuring costs, and impairments of corporate investments
- costs associated with being a listed company such as, director fees, shareholder communications, share registry and listing fees.

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The corporate segment also generates interest revenue on working capital cash balances and the shareholder loans provided to HLG and held the following investments at 31 December 2013:

- 19.6% interest in Macmahon
- 36.7% interest in Sedgman (transferred from Thiess to the corporate segment in early 2012)
- 29.9% interest in Nextgen (transferred from Leighton Contractors subsequent to the partial disposal).

The financial performance of the corporate segment for the half year ended 31 December 2011 and CY12 and CY13 is summarised below.

Table 27: Summary of financial performance

For the period ending $ million	31-Dec-11[1] 6 months	31-Dec-12 12 months	31-Dec-13 12 months
Segment revenue	235.2	576.7	472.6
Underlying EBIT[2]	(41.2)	(105.0)	(88.5)
Underlying PBT[3]	(47.4)	(120.9)	(160.3)
Segment PBT	(48.2)	(135.9)	(175.3)
Interest revenue	29.8	55.6	50.6
Joint venture and associate revenue	200.2	521.1	385.2
Share of profit / (loss) of associates and joint venture entities	3.5	3.5	(4.9)

Source: Leighton Annual Report for the years ended 31 December 2012 and 2013
Note 1: Represents the period 1 July 2011 to 31 December 2011 as Leighton changed its reporting year end date to 31 December
Note 2: Underlying EBIT represents the segment result before interest, restructuring costs, losses on acquisition, gain on sale and impairments
Note 3: Underlying PBT represents the segment result before losses on acquisition, gain on sale and impairments

With regard to the CY13 financial performance summarised above, we note the following:

- restructuring costs incurred are included in underlying PBT and amounted to $58.8 million
- an impairment charge was recognised against the value of the investment in Macmahon, amounting to $15 million.

8.8 Investments

8.8.1 Habtoor Leighton Group

HLG was formed in 2007 following the merger of the UAE's, Al Habtoor Engineering with Gulf Leighton, Leighton Group's original operating company in the Gulf region. Leighton's current shareholding in HLG is 45%.

HLG has ongoing problems in recovering receivables owed for construction work done. During the past four years, Leighton has impaired the carrying value of HLG by $357 million at 31 December 2013.

At the end of June 2013, a Qatar-based client called performance bonds on certain legacy projects which prevented HLG from making repayments on Leighton's outstanding shareholder loans. The situation remained unresolved at 31 December 2013. HLG continues to believe its position on the matter is strong and is working to a resolution.

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HLG operates in the Middle East and North Africa in the following market sectors:

Infrastructure

HLG offers engineering and infrastructure services that include design, development, construction, and operation and maintenance; with a strong emphasis on transport-related projects. Current sample projects include the construction of a Utility Plant site and buildings at Abu Dhabi International Airport, the design and construction of a new maintenance, repair and overhaul facility for Saudia Aerospace and Engineering Industries within the King Abdulaziz International Airport in Jeddah, Saudi Arabia and the duplication of a 75-kilometre section of road in Oman.

Building

HLG's building expertise encompasses hotel developments, commercial and retail developments, residential developments, hospitals and healthcare facilities, education and cultural developments, industrial facilities, sports facilities and government/ defence buildings. Current sample projects include, amongst others, the construction of the Al Habtoor City hotel development in Dubai and the construction of the Jebel Ali Free Zone Authority Convention Centre in Dubai.

Oil and Gas

The oil and gas expertise of HLG and its related companies is focused on near-shore import and export facilities, and onshore facilities in Greenfield and Brownfield locations. Current projects are the design and construction of accommodation and utilities for artificial islands in the Zakum Development Company's Upper Zakum offshore oil field development and the design and construction of an accommodation camp and associated utilities on two artificial islands as part of the Satah Al Razboot oilfield development, both in Abu Dhabi.

Mining

The company offers contract mining services within the region. HLG is currently providing services to the Ma'aden Alcoa Aluminium joint venture where it is providing mine-related infrastructure and a mining village for a bauxite mine in Saudi Arabia.

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Key projects

A summary of HLG's key projects as at 31 December 2013 is set out below.

Table 28: Summary of key projects

Project name	Description	Contract value (US$ million)[1]
Habtoor Palace, Dubai	Construction of Habtoor Palace complex consisting of 3 hotels, Dubai, UAE, for Dubai National Investment Co LLC.	584
Al Mafraq Hospital, Abu Dhabi	Joint venture contract for the construction of the Al Mafraq Hospital, Abu Dhabi, UAE, for the Abu Dhabi Health Services Company.	505
Zakum Offshore Oil Field, Abu Dhabi	Construction of the accommodation and utilities package on four artificial islands for Oil & Gas project for Zakum Development Co.	331
Northgate Shopping Mall, Doha	Construction of the Northgate Mall Phase 1 & office buildings for Northgate WLL.	269
Daman Buildings at DIFC, Dubai	Construction of an office and a residential tower for Daman Real Estate Capital Partners Limited.	244
King Fahad Medical City, Saudi Arabia	Joint venture construction of a healthcare centre and proton therapy centre for the Ministry of Health, KSA.	195
Zubair Initial Production Facilities, Iraq	Construction of civil, utility and infrastructure works for a central oil production facility for Weatherford Oil Tool Middle East Ltd in Southern Iraq.	184
Dualisation of Bidbid Sur Road, Oman	Joint venture construction of Bidbid Sur Road Section 1 Package B for Ministry of Transport & Communications, Oman.	153
Aircraft Maintenance, Saudi Arabia	Joint venture contract for design and construct of a new maintenance, repair and overhaul facility for Saudi Aerospace and Engineering Facilities, KSA.	153
People Mover System, Qatar	Construction of a people mover system in Education City for Qatar Foundation for Education, Science and Community Development.	123

Source: Leighton Preliminary Final Report and Management Commentary for the year ended 31 December 2013
Note 1: Contract value represents the value attributable to HLG rather than the value attributable to Leighton Group's interest in HLG

In addition to the above projects, Leighton announced on 23 March 2014 an HLG joint venture with Al Jaber Engineering had been awarded a contract worth US$1.7 billion for the design and construction of the New Orbital Highway and Truck Route, near Doha, Qatar, for Ashghal – Qatar's Public Works Authority. HLG has a 55% share of the JV.

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Financial performance

The financial performance of HLG for the half year ended 31 December 2011, CY12 and CY13 is summarised below.

Table 29: Summary of financial performance

For the period ending $ million	31-Dec-11[1] 6 months	31-Dec-12 12 months	31-Dec-13 12 months
Segment revenue	329.8	444.6	498.6
Segment result before interest and impairments	(71.1)	(33.2)	1.1
Segment result before impairments	(103.9)	(47.0)	1.1
Segment result	(153.9)	(67.0)	1.1

Source: Leighton Annual Report for the years ended 31 December 2012 and 2013
Note 1: Represents the period 1 July 2011 to 31 December 2011 as Leighton changed its reporting year end date to 31 December

HLG is accounted for using the equity accounting method, as such, the above financial information represents that of the associate.

8.8.2 Macmahon

Macmahon is a listed Australian public company engaged in the provision of mining services, including mine development, materials delivery, design, construction and on-site services to clients throughout Australia, New Zealand, Africa and Mongolia. Macmahon operates across a range of commodities including base and precious metals and its operations can be broadly grouped into four categories:

- surface mining: includes drill and blast, bulk and selective mining, crushing, screening, train loading and the operation of a wide range of mining equipment. Macmahon currently provides surface mining services to projects located in Nigeria, Australia, Malaysia, Mongolia and New Zealand
- underground mining: includes a range of services from whole of mine development and production to specialised short and long term services. Macmahon currently provides underground mining services to projects including Argyle project in Western Australia, George Fisher project in Queensland, Olympic Dam project in South Australia and Ranger 3 Deeps Exploration Decline project in Northern Territories
- engineering: includes engineering, procurement and construction offerings, design and fabrication services and maintenance for both above and below ground projects
- plant and maintenance: involves the provision of plant maintenance capabilities via a main workshop located in Perth and a secondary workshop located in Nebo, Queensland.

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With regard to Leighton's interest in Macmahon, we note the following:

- Leighton is the shareholder with the largest equity interest in Macmahon with a 19.6% interest. The shareholder with the second largest interest in Macmahon is Northcape Capital Pty Ltd, which holds a 7.2%[10] equity interest
- Leighton currently has one director on the Macmahon Board, which comprises of six directors in total.

Current projects

A summary of the key projects which Macmahon is currently involved in is set out below.

Table 30: Key projects

Project	Value	Started
Christmas Creek Mine (WA)	$1.8 billion	2012
Orebody 18 / Wheelara (WA)	$975 million	2006
Tropicana Gold Project (WA)	$900 million	2012
Eaglefield / Lenton (QLD)	$550 million	2003
Olympic Dam (SA)	$687 million	2004
Argyle Mine (WA)	$376 million	2006
Tavan Tolgoi (Mongolia)	US$250 million	2012
Calabar Quarry (Nigeria)	US$126 million	2012

Source: Macmahon Half Year Results 2014 Investor Presentation

Recent events

Macmahon's construction business reported a net loss of $73.1 million in CY13. This was a catalyst for the sale of selected construction projects to Leighton for $24.6 million, which was completed on 28 February 2013. Following this transaction and the completion of residual projects not included in the sale, Macmahon has stated that it intends to exit the construction sector in-line with the Leighton Board's decision in December 2012.

Outlook

Based on Macmahon's Half Year Results 2014 Investor Presentation, the company's outlook will be influenced by the following factors:

- challenging market conditions are expected to continue
- margin pressure is expected to continue as clients seek to reduce costs
- mining production is forecast to increase over the next four years
- international outlook remains positive as stronger economic growth continues in Asia and Africa.

[10] Source: S&P Capital IQ, as at 28 March 2014

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Financial performance

The financial performance of Macmahon for the years ended 30 June 2011, 2012 and 2013 is summarised below.

Table 31: Financial performance

For the period ending $ million	30-Jun-11 12 months	30-Jun-12 12 months	30-Jun-13 12 months
Total revenue (incl. construction)	1,254.4	1,870.8	1,755.1
Underlying EBIT	66.1	89.6	84.5
Underlying PBT	54.1	75.2	63.5
Statutory PBT	(3.8)	75.2	(59.7)

Source: Macmahon 2013 Annual Report for the years ended 30 June 2012 and 2013

In relation to the information presented above, we note the following:

- total revenue includes revenue associated with construction operations which were discontinued during the year ended 30 June 2013
- statutory PBT includes the impact of significant and non-recurring items, which in 2013 represented losses from the discontinued construction business, and in 2011 represented a write-down of equity-accounted profit in the RGP5 project and wet weather impacts.

8.8.3 Sedgman

Sedgman is a listed Australian public company engaged in the provision of project and operational services to the global mining and resources industry. Sedgman provides mineral processing and related infrastructure solutions, engineering, project delivery and operations services to clients with capabilities spanning a range of resources including coal, iron ore, copper, gold, lead and other base metals. Sedgman's operations can be broadly categorised into four categories:

- coal: includes the design, construction, operation and management of coal handling and preparation plants as well as other associated infrastructure in relation to thermal and metallurgical coal
- metals: includes design and engineering solutions as well as the provision of materials handling, crushing, screening, ore preparation and beneficiation services in relation to base and precious metals
- infrastructure: includes bulk materials handling, port and marine engineering, and the design, construction and commission of specialist mine infrastructure such as overland conveyors
- consulting: multidisciplinary consulting and engineering services including civil and structural engineering, planning and approvals, environmental science and surveying provided primarily through its Sedgman Yeats subsidiary.

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With regard to Leighton's interest in Sedgman, we note the following:

- Leighton is the shareholder with the largest equity interest in Sedgman with a 36.7% interest as at 1 April 2014. The shareholder with the second largest interest in Sedgman is Colonial First State Asset Management (Australia) Limited which held an 8.8%[11] equity interest at 13 March 2014
- Leighton currently has one director on the Sedgman Board, which comprises seven directors in total
- a co-operation agreement exists between Sedgman and Thiess in relation to contracts awarded to Sedgman that meet certain criteria. The co-operation agreement enables Sedgman to pursue larger contracts that it may not have the capability to undertake if acting independently.

Current projects

At 31 December 2013 Sedgman had a total of eight active operations contracts. These contracts are listed below.

Table 32: Operations contracts

Projects	Resource
Middlemount, Narrabri, Red Mountain, Sonoma	Coal
Ernest Henry	Copper
Agnew	Gold
McAurthur River, Mount Isa	Lead/Zinc

Source: Sedgman HY14 Results Presentation

Leighton management have indicated that the existing Red Mountain, Sonoma and Mount Isa contracts are currently under negotiation. Sedgman recently ceased operations at the Narrabri coal mine in January 2014 and Ernest Henry copper and gold mine in February 2014. Additionally, we note that five out of six of these operations contracts will come up for renewal over the next twelve months.

In December 2013, Sedgman reported a one year pipeline of opportunities totalling approximately $1.3 billion. These projects are set out below.

Table 33: One year pipeline by resource type (at December 2013)

Coal	Metals
Eagle Downs EPC (Australia)	Gemco (Australia)
Goonyella/Riverside upgrade (Australia)	Aurora Gold EPC (Guyana)
Bluff Coal RMP (Australia)	FMG B60 (Australia)
Baralaba (Australia)	Cerro de Gallo FEED (Mexico)
Vele Upgrade (South Africa)	Minera Valle Central (Chile)
	Sustaining Capital - Codelco/BHP (Chile)

Source: Sedgman HY14 Results Presentation

[11] Source: S&P Capital IQ, as at 28 March 2014.

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Outlook

Based on Sedgman's Half Year 2014 Results Presentation, the company's outlook will be influenced by the following factors:

- challenging conditions remaining as resource companies reduce capital expenditure programs, limiting opportunities
- a key issue within the project pipeline continues to be the timing of projects
- offshore markets are expected to provide opportunities for growth particularly in metals.

Financial performance

An overview of Sedgman's financial performance is outlined below.

Table 34: Sedgman financial performance

For the period ending $ million	30-Jun-11 12 months	30-Jun-12 12 months	30-Jun-13 12 months
Total revenue	508.8	593.6	455.8
Underlying EBITA	42.5	64.0	27.5
Statutory PBT	34.5	58.9	13.4

Source: Sedgman Limited Annual Report for the years ended 30 June 2012 and 2013

In relation to the information presented above, we note the following:

- total revenue decreased during the year ended 30 June 2013, impacted by a slowdown in the projects business where a number of significant projects undertaken during the prior year were not replaced. This was partially offset by an increase in revenue from the operations business
- while the decreased revenue impacted underlying EBITA, it was partially offset by decreases in key expenditures such as raw materials and consumables, employee expenses and agency contract fees.

8.8.4 Devine

Devine is a housing and property development company engaged in the design, construction and marketing of houses, master-planned communities, apartments and mixed use developments. Devine also engages in property management and land development. Devine operates primarily in Queensland, Victoria and South Australia.

Recent events

In June 2013, Devine reported that a conditional contract for the sale of one of its property development assets had been terminated, resulting in an impairment charge of $7 million after tax being recorded against the carrying value of those assets.

In October 2013, Devine reported that it was incurring an impairment charge of $70 million before tax following a review of the asset carrying values of Devine's portfolio. It was also announced that Leighton had provided a partial guarantee of up to $50 million to support Devine's banking facility with ANZ. There was no cash impact to Leighton of providing this guarantee.

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Opportunities and risks

Key opportunities for Devine include the potential for increased housing sales and dwelling commencements due to factors such as increased net migration and the renewed focus of state government incentive programs for first homebuyers on new dwellings.

A possible risk for Devine is reduced future demand for housing and construction in the real estate sector due to factors such as rising interest rates or general economic downturns.

Financial performance

An overview of Devine's financial performance is outlined below.

Table 35: Financial performance

For the period ending $ million	30-Jun-12 12 months	30-Jun-13 12 months	31-Dec-13 6 months
Revenue from operations	313.9	311.1	139.4
Underlying PBT	16.1	9.2	(15.0)
Statutory PBT	(18.2)	(0.8)	(85.0)

Source: Devine Annual Report for the years ended 30 June 2012 and 2013, Transitional Annual Report for the six months ended 31 December 2013

In relation to the information presented above we note the following:

- the trading results for the six months ended have been described by Devine as 'disappointing', and have been attributed to a continued downturn in many markets in which the company operates and price discounting to accelerate the trading exit of certain projects
- Devine has moved to a calendar year financial reporting period, the financial performance set out above for the six months ended 31 December 2013 is based on the transitional annual report for this period.

8.8.5 Nextgen Group

Nextgen Group is a national telecommunications carrier that specialises in high performance, premium data services for the corporate, government and carrier markets. Nextgen Group owns a 16,000 kilometre fibre optic network that covers Perth, Adelaide, Melbourne, Canberra, Sydney and Brisbane and links to nodes in regional cities and centres.

In June 2013, Leighton reduced its investment in telecommunications Nextgen Group by selling 70.1% of its shares to Teachers'. The sale resulted in a post-tax gain of $115 million. Leighton still owns 29.9% of Nextgen Group, providing access to any upside value under the new ownership structure.

The ownership arrangements between Leighton and Teachers' are subject to a shareholders' agreement which sets out the rights of the respective parties.

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8.8.6 Other investments

Other investments held by Leighton Group include the following.

AquaSure

Thiess holds a 5.2% equity share in Aquasure. Aquasure was awarded the concession to finance, design, build, operate and maintain the Victorian Desalination Project for a 30 year period. The construction was completed in December 2012. The plant is located at Wonthaggi in Gippsland, Victoria.

Aspire Schools

Leighton Contractors has a 1% equity share of the consortium that has contracted to finance, design, construct and maintain seven schools in south-east Queensland for 30 years. Leighton Contractors Services Division operates and maintains the schools, which are in full operation since 1 January 2014.

SA Health Partnership

SA Health Partnership is the project consortium responsible for the financing, design, construction, commissioning and facility management of the new Royal Adelaide Hospital. The $1.85 billion project is currently under construction, to be completed by 2016. SA Health Partnership has contracted Hansen Yuncken and Leighton Contractors to design and deliver the project. Leighton Contractors has a 9.95% deferred equity commitment in the company.

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9 Valuation of Leighton

9.1 Summary

We have valued the equity in Leighton in the range of $7,463.8 million to $8,218.3 million, which corresponds to a value of $22.01 to $24.24 per Leighton share. Our valuation assumes 100% ownership of Leighton and therefore incorporates a control premium. Given the inclusion of a control premium, we would expect the valuation to be in excess of the value of Leighton implied by its trading price in the absence of the Offer. Our valuation is summarised below.

Table 36: Valuation summary

	Report Section	Value range ($m)	
		Low	High
Business operations (excluding investments)	9.3	8,878.8	9,372.1
Investments:			
HLG (45.0% + shareholder loans[2])	9.4	500.0	650.0
Leighton India (100%)	9.5	275.9	275.9
Nextgen (29.9%)	9.6	157.0	157.0
Devine (50.6%)	9.7.1	61.7	69.4
Macmahon (19.6%)	9.7.2	32.6	34.0
Sedgman (36.7%)	9.7.3	43.9	45.9
Other investments	9.8	92.7	92.7
Other assets and liabilities	9.9	(140.4)	(40.4)
Less: Adjusted net debt	9.10	(2,438.4)	(2,438.4)
Value of equity		7,463.8	8,218.3
Fully diluted shares on issue (millions)	7.8	339.1	339.1
Value per Leighton share[1]		**$22.01**	**$24.24**

Source: KPMG Corporate Finance analysis
Note 1: Shareholders have also retained the right to receive the $0.60 final dividend per share, which had been declared but not paid when the Offer was announced
Note 2: HLG shareholder loans includes accrued interest
Note 3: Percentages reflect Leighton's equity interest in respective investments
Note 4: Table may not sum due to rounding

Our valuation of Leighton is detailed in the remainder of this section.

9.2 Methodology

9.2.1 Overview

Our valuation of Leighton has been prepared on the basis of 'market value'. The generally accepted definition of market value (and that applied by us in forming our opinion) is the value agreed in a hypothetical transaction between a willing, but not anxious buyer and a willing, but not anxious seller, acting at arm's length and with knowledge of all relevant operational and financial information.

Market value excludes 'special value', which is the value over and above market value that a particular buyer, who can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

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Market value is commonly derived by applying one or more of the following valuation methodologies:

- the capitalisation of a sustainable level of earnings (Capitalised Earnings)
- the discounting of expected future cash flows (DCF)
- the estimation of the net proceeds from an orderly realisation of assets (Net Assets).

These methodologies are discussed in greater detail in Appendix 3. Ultimately, the methodology adopted is dependent on the nature of the underlying business and the availability of suitably robust information. A secondary methodology is typically adopted as a cross-check to ensure reasonableness of outcome, with the valuation outcome ultimately being a judgement derived through an iterative process.

For profitable businesses, methodologies such as capitalised earnings and DCF are commonly used as they reflect 'going concern' values which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable, non-tradable or asset rich, net realisable value is typically adopted as there tends to be minimal goodwill, if any.

9.2.2 Selection of methodology

As previously noted, we have adopted a SOTP approach in valuing Leighton. On this basis, the value for Leighton is the aggregate of the estimated market value of Leighton's business operations, any separately valued investments and other assets and liabilities less net debt. Specifically, we have:

- valued the business operations of each of Leighton's main operating companies, Leighton Contractors, Thiess, John Holland, LAIO and Leighton Properties, on a combined basis having considered the following:
  - individually, the operating companies can experience significant variability in their earnings, which is a key characteristic of construction and engineering businesses, driven by exposure to project-based work and the relatively low margins earned. This volatility can result from a range of factors, including exposure to a small number of large-scale projects and the influence of changes in underlying market conditions. The operating companies each have a different composition of service mix, market exposure and geographic focus, and therefore valuing the operating companies together as a portfolio provides a more maintainable view of the earnings of Leighton's underlying business operations as a whole
  - whilst we have valued the operating companies on a combined basis, we have also considered the attributes specific to each of the operating companies in forming our view as to an appropriate earnings multiple for Leighton's operations as a whole. In particular, we have considered the growth prospects, strengths and weaknesses and key issues associated with each of Leighton's operating companies based on management interviews and from reviewing forecasts for each operating company
- separately valued Leighton's investments in Nextgen Group, HLG and Leighton India (which became a wholly-owned subsidiary in 2013), Leighton's holdings in listed companies Devine, Macmahon and Sedgman, and certain other investments in which Leighton holds a minority interest.

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Leighton also has investments in a number of other joint ventures and associates, which are primarily used as vehicles for delivering specific projects or services in combination with another party. As they relate to Leighton's core operations, these joint ventures and associates are embedded within the relevant operating company and are therefore included within our valuation of the operating companies on a combined basis.

The following table sets out the valuation methodologies adopted for each of Leighton's businesses and investments that have been separately valued.

Table 37: Summary of adopted methodology

Investment	Report section	Valuation approach
Business operations (excluding investments)	9.3	Capitalised earnings
Investments:		
HLG (45.0% + shareholder loans)	9.4	DCF analysis
Leighton India (100%)	9.5	Transaction value
Nextgen (29.9%)	9.6	Transaction value
Devine (50.6%)	9.7.1	Quoted market value
Macmahon (19.6%)	9.7.2	Quoted market value
Sedgman (36.7%)	9.7.3	Quoted market value
Other investments	9.8	Carrying value

Source: KPMG Corporate Finance analysis
Note 1: Leighton India was a joint venture prior to Leighton's acquisition of the remaining 39.9% on 27 December 2013
Note 2: Percentages reflect Leighton's interest in respective investments

For the valuation of Leighton's business operations (excluding investments), we adopted a capitalised earnings approach. This was based on the following considerations:

- a capitalised earnings approach is a commonly used method for the valuation of industrial businesses, especially those with a long operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. In this regard, we note there is sufficient market evidence available from which a meaningful earnings multiple can be derived. In particular, we note there are a number of comparable companies that perform similar services, operate within the resources, infrastructure and/or property markets and have similar geographic presence to Leighton. Additionally, a number of transactions have occurred since 2009 involving construction and engineering, contract mining and services companies within Australia and internationally
- a DCF approach is also widely used in the valuation of established industrial businesses. However, the inherent uncertainty associated with the project-driven nature and cyclicality of Leighton's business operations, and the lumpiness of changes in working capital, means that preparing reliable cash flow projections beyond the current work in hand schedule is particularly challenging. This may reduce the robustness of any results derived from a DCF analysis. Whilst we have not utilised a DCF approach as our primary valuation approach, we have considered the company's long term forecasts provided by management in forming our fairness assessment
- a net realisable assets approach is not considered appropriate as this method would not capture the growth potential and goodwill associated with the business.

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In relation to the investments that have been separately valued, we have:

- utilised quoted market prices for Leighton's listed investments
- utilised transaction values for Leighton's investments that have been involved in recent transactions
- utilised a DCF approach in valuing Leighton's investment in HLG, comprised of equity and shareholder loans
- after appropriate review, adopted the carrying value for Leighton's other investments, which are carried at fair value for accounting purposes.

9.2.3 Selection of earnings metric for capitalised earnings approach

A capitalised earnings approach can be applied to a number of different earnings or cash flow measures, including EBITDA, EBIT and NPAT.

Given the diversity of services provided by construction and engineering businesses, we consider EBIT to be a superior metric as it better recognises the differences in relative capital expenditure intensity, thereby enabling comparisons to be drawn between companies with differing asset management strategies (e.g. purchasing versus leasing of plant and equipment).

Whilst EBIT multiples observed in the market may be distorted by the inclusion of earnings from equity-accounted investments, the distortion is likely to be significantly lower than with EBITDA multiples due to the additional impact of depreciation and amortisation, which is not captured within the share of profit or loss recognised for equity-accounted investments.

P/E multiples are commonly used in the context of the sharemarket and have the advantage of eliminating the distortion caused by equity-accounted investments. However, the key weakness of P/E multiples is that they do not take into consideration the financial risks associated with different capital structures. This is particularly important given the variability of the capital structures adopted by Leighton's peers.

Taking into consideration the above, we consider EBIT to be the most appropriate metric for the capitalised earnings valuation of Leighton's business operations. Additionally, we have also considered the P/E multiples implied by our estimate of the market value of Leighton as a valuation cross-check.

9.2.4 Control premium considerations

With regard to the multiples applied in a capitalised earnings approach, they are generally based on data from quoted companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

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Consistent with the requirements of RG 111, in valuing Leighton we have assumed 100% ownership, and therefore included a premium for control when assessing the multiples implied by the comparable companies.

Observations from transaction evidence indicate that takeover premiums concentrate around a range between 20% and 35% for completed takeovers. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be in excess of this range. Takeover premiums vary significantly and include:

- synergies, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- pure control premium in respect of the acquirer's ability to utilise full control over the cash flows of the target entity
- desire (or anxiety) for the acquirer to complete the transaction.

9.3 Valuation of business operations (excluding investments)

9.3.1 Summary

As summarised in the table below, KPMG Corporate Finance estimates the enterprise value of Leighton's business operations (excluding investments) to be in the range of $8,878.8 million to $9,372.1 million.

Table 38: Valuation of business operations (excluding investments)

	Report Section	Value range ($m)	
		Low	High
Maintainable earnings (EBIT)	9.3.2	986.5	986.5
EBIT multiple (on a controlling basis)	9.3.3	9.0	9.5
Value of business operations (excluding investments)		**8,878.8**	**9,372.1**

Source: KPMG Corporate Finance analysis
Note 1: Differences in calculation due to rounding

The valuation of Leighton's business operations was determined using a capitalised earnings approach, based on a maintainable EBIT of $986.5 million and a capitalisation multiple of 9.0 to 9.5 times. The basis for each of these assumptions is discussed in the sections below.

With regards to the selected EBIT multiple range, we note this factors in a control premium, and hence the enterprise value of Leighton's business operations has been determined on a controlling basis.

9.3.2 Maintainable earnings

Maintainable earnings represent the level of earnings that the business can sustainably generate in the future. Whilst Leighton's earnings are likely to vary somewhat year-by-year, especially given the project-driven nature of its business and the cyclical nature of the industry, we consider Leighton's CY13 underlying EBIT to provide a reasonable indication of the company's maintainable earnings. In making this assessment, we have had regard to the following:

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- in February 2014, Leighton issued updated earnings guidance for CY14 setting out management's expectation that the business would achieve underlying NPAT in the range of $540 million to $620 million. Given top-line growth is not anticipated and the mid-point of the earnings guidance ($580 million) is broadly in-line with the underlying NPAT achieved in CY13 ($584 million), it is not unreasonable to assume that Leighton's CY14 underlying EBIT is expected to be broadly in-line with its CY13 earnings
- Leighton's current level of work in hand ($42.2 billion at 31 December 2013) is broadly consistent with the levels achieved by the company over the last few years. This demonstrates Leighton's market position and capability to maintain a relatively stable pipeline of contracted work, despite the project-driven nature of its business operations
- although largely focussed on the Australian infrastructure market, Leighton's diversification in relation to its service, market and geographical mix supports a more stable earnings profile. Leighton also has a proven track record of being able to rebalance its services offering and market focus in response to structural shifts in demand
- the forecasts prepared and disclosed by various brokers as part of their recent coverage of Leighton are relatively consistent, and consensus EBIT is estimated to stay relatively flat between CY14 and CY16 (as detailed in Section 7.13 of this report)
- whilst the broker forecasts indicate that Leighton's EBIT is expected to be relatively flat over the short to medium term, there are a number of factors that indicate the potential for upside. This includes the current pipeline of large infrastructure projects in Australia, the opportunities that may arise in the high-growth and emerging markets in which Leighton operates and the potential for margin improvement as a result of the strategic review of Leighton's operating model. These factors, as well as any potential downside risks to future profitability, have been captured in our selected EBIT multiple, as described in Section 9.3.3 of this report.

In order to determine the maintainable EBIT for Leighton's business operations, it was necessary to make certain adjustments to the statutory EBIT of Leighton to exclude earnings associated with the investments, joint ventures and associates that have been valued separately as part of our SOTP approach. The adjustments made are summarised in the table below.

Table 39: Maintainable EBIT of business operations (excluding investments)

For the period ending $ million	31-Dec-13 12 months
Leighton Group underlying EBIT[1]	1,038.3
Add: Interest and tax expense relating to associates and joint ventures not valued separately	15.3
Less: EBIT from investments valued separately	(38.1)
Less: Interest revenue attributable to HLG shareholder loans	(28.9)
Maintainable EBIT of business operations (excluding investments)	**986.5**

Source Leighton financial report for the year ended 31 December 2013, Leighton Management, KPMG Corporate Finance analysis
Note 1: Underlying EBIT represents the segment result before interest, impairment charges, restructuring costs, a loss on the acquisition of the remaining 39.9% interest in the Leighton Welspun joint venture, a gain on the disposal of Nextgen Group
Note 2: Table may not sum due to rounding

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In relation to the adjustments made to Leighton's underlying CY13 earnings, we note the following:

- Leighton's statutory result before interest and exceptional items includes earnings associated with HLG, Leighton India (formerly Leighton Welspun), Nextgen, Devine, Macmahon and Sedgman. As Leighton's interests in each of these entities has been valued separately, we have excluded the associated earnings
- the statutory result before interest and exceptional items includes Leighton's share of the earnings generated by its joint ventures and associates. However, in-line with accounting requirements, Leighton only recognises its share of the net profit or loss of its equity-accounted investments. We have therefore made an adjustment to add back Leighton's share of the tax and interest expense incurred by its joint ventures and associates (apart from those being valued separately)
- we have excluded the interest income recognised by Leighton in relation to the shareholder loans provided to HLG. This is on the basis that we have separately valued Leighton's total investment in HLG, which is comprised of both its equity investment and the outstanding shareholder loans
- on 13 December 2013, Leighton refinanced $492 million of finance leases into operating leases as part of its FleetCo initiative. This had the effect of moving these assets and the associated debt off Leighton's balance sheet, thereby reducing its gross debt at 31 December 2013 by $492 million. Following on from the restructure, Leighton's operating lease expenses will increase, leading to a reduction in operating margins (although this will be offset by a reduction in finance lease interest payable at a PBT level). Instead of adjusting the maintainable EBIT derived from Leighton's CY13 results for the impact of the finance lease restructure, we adjusted Leighton's debt position for valuation purposes by reversing the reduction in finance leases (as set out in Section 9.10 of this report). Given the timing of this restructure and our understanding that the profit and loss impact has not materially changed under the restructure, we consider our approach to be reasonable albeit not reflective of the leasing model going forward.

We note that we have not adjusted maintainable earnings for potential cost savings associated with being a publicly listed company which are available to any acquirer of 100% of Leighton, as these types of general synergies are commonly subsumed within a premium for control that we have incorporated in our selection of an appropriate multiple.

9.3.3 EBIT multiple

The multiple applied in a capitalised earnings methodology should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, and the selected multiple should reflect these factors amongst others.

In selecting the multiple range to be applied, consideration is generally given to market evidence derived from listed comparable companies and recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued.

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Sharemarket evidence

In selecting an appropriate comparable company peer group, we have had regard to the following:

- Leighton's core services are focussed on construction and engineering, and as such the adopted comparable company peer group primarily features the key listed participants in this sector in Australia. In order to address the diverse service mix offered by Leighton, we have also specified two sub-peer groups, being mining services and diversified services
- Leighton operates primarily in the Australia Pacific region, which accounted for over 83% of Leighton's revenue in CY13. Given the sufficiently large number of Australian listed comparable companies, we have focussed the peer group on these and also included two South African companies, Murray & Roberts Holdings Ltd (Murray & Roberts) and Aveng Limited (Aveng) that have substantial operations in Australia
- recognising Leighton's increasing footprint in Asia and the Middle East, we also considered the trading multiples of various international companies. However, we found the majority of the larger global construction companies were based in Europe and the Americas, with generally only a minor presence in high-growth, emerging Asian markets. Further, as construction companies are strongly influenced by the market outlook in the countries in which they operate, and as Australia is in a different stage of its economic cycle to most European and North American countries, this limits the comparability of the larger global construction companies. Whilst we also considered various companies which operate primarily in the Asian construction and engineering sector, there was a lack of consistency in multiples, these companies were generally small in size and their financial disclosures did not allow for a robust multiple analysis. We note, however, that a number of the companies in the selected peer group do have exposure to emerging markets, including Africa, Asia and the Middle East. Ultimately, we have considered the higher growth prospects of LAIO (excluding Leighton India that has been separately valued) in our selection of an appropriate multiple for the purposes of valuing Leighton's business operations.

The table below sets out the implied EBIT and P/E multiples for selected listed companies that are considered to be comparable to Leighton.

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Table 40: Sharemarket evidence

Company	Market focus[1]	Geographic focus[2]	Market Cap.	EBIT multiple LTM[3]	EBIT multiple NTM[4]	P/E multiple LTM[3]	P/E multiple NTM[4]
Construction & Engineering							
Lend Lease Group	I/P	AU/AM/EU	6,497	12.1	10.3	11.5	11.5
Downer EDI Limited	I/R	AU/NZ	2,133	6.8	7.0	10.2	10.0
Monadelphous Group Limited	R	AU	1,554	6.4	7.6	10.0	11.8
Murray & Roberts Holdings Ltd	I/R	AU/AF/ME	1,020	6.7	4.7	nmf[5]	10.6
Aveng Limited	I/R	AU/AF	875	12.8	4.8	30.4	9.7
RCR Tomlinson Limited	I/R	AU	394	8.9	7.8	9.3	8.8
NRW Holdings Limited	I/R	AU	300	4.0	4.0	5.5	6.0
WDS Limited	R	AU	174	6.6	5.9	13.9	12.4
Watpac Ltd	P/R	AU	173	4.9	3.6	12.3	9.9
Seymour Whyte Limited	I	AU	137	6.7	5.5	12.6	12.0
Mining Services							
Mineral Resources Ltd	R	AU/AS	2,143	6.2	6.3	8.7	8.6
MACA Limited	R	AU	434	4.3	4.6	7.2	7.8
Ausdrill Ltd	R	AU/AF	255	6.7	8.0	4.0	5.9
Macmahon Holdings Ltd	R	AU	150	3.2	4.3	3.6	5.1
Diversified Services							
WorleyParsons Limited	R	G	3,685	9.5	9.1	13.1	12.5
Cardno Limited	I	AU/AM	1,182	11.7	10.1	14.2	13.1
UGL Limited	I/P	AU/AM	1,148	12.2	10.2	10.3	9.9
Transfield Services Limited	I/R	AU/AM	410	12.2	8.6	17.0	6.5

Source: S&P Capital IQ (data as at 28 March 2014), KPMG Corporate Finance analysis
Note 1: I = Infrastructure, P = Property, R = Resources
Note 2: AU = Australia, AS = Asia, AM = Americas, EU = Europe, AF = Africa, NZ = New Zealand, ME = Middle East, G = Globally diversified
Note 3: LTM multiples calculated after normalisation adjustments applied to reported EBIT and NPAT
Note 4: NTM multiples based on broker consensus forecasts sourced from S&P Capital IQ
Note 5: nmf = not meaningful

A detailed analysis of these companies is set out in Appendix 4. In assessing the comparability of the companies detailed above, we have had regard to the following key factors:

Service mix

Whilst the companies within our peer group are primarily focussed on construction and engineering, they also tend to offer a diverse range of services. For example, like Leighton, a number of the companies also provide mining-related services, such as Downer EDI Limited (Downer). Meanwhile, Lend Lease Group (Lend Lease) provides asset and property management services and holds equity investments in public-private partnership (PPP) projects, and Aveng manufactures and supplies a range of products and services in the geotechnical, civil engineering and tunnelling industries.

A different service mix impacts the profitability and risk profile of each of the companies, and this is likely to influence their respective multiples. For example, with Lend Lease, its asset and property management services are likely to attract higher margins and less volatile cash flows, and hence may partly explain the higher multiples observed for Lend Lease.

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Whilst the mining services and diversified services peer groups are not considered to be as comparable to Leighton's core construction and engineering operations, they illustrate the difference in multiples observed for companies focussed on these specific service offerings. In particular, the multiples for mining services businesses are generally trading at a discount to construction and engineering businesses, whilst the diversified service businesses currently trade at a premium.

Market focus

In addition to offering a range of services, many of the diversified construction and engineering businesses also operate across a range of market sectors. Market mix is one of the key drivers behind the growth outlook for each of the comparable companies, varying significantly depending on the current stage within the market and economic cycle. For example, a contraction in global commodity prices in recent years has negatively impacted the Australian mining sector, and these challenging conditions are expected to continue. By contrast, there are expected to be significant opportunities in the Australian infrastructure market in the medium term, as the Federal Government pursues its commitment to invest in transportation and other infrastructure across Australia. As a result, those companies with a greater focus on the property and infrastructure markets are generally trading at a premium to the companies focussed on the resources sector, the outlook for which is more subdued.

Geographical diversification

Due to the variability in growth outlook and underlying market and economic conditions, the geographic focus of companies in the construction and engineering sector is another key value driver. For example, the construction markets in Europe and North America experienced particularly challenging economic conditions following the onset of the Global Financial Crisis (GFC), although more recently have started to demonstrate early signs of recovery. By contrast, Australia is in a different stage of its economic cycle, as it did not suffer from the GFC to the same extent, partly due to the Australian mining boom over this period. The interest rate environment in different jurisdictions also impacts the growth outlook, as lower interest rates support investment, particularly in infrastructure and property.

Whilst many of the companies operate exclusively in Australia, especially those focussed on the resources market, there are a number of companies that benefit from geographic diversity. Most notably, Murray & Roberts and Aveng have substantial construction and mining operations in Africa, the Middle East and South East Asia, and Lend Lease's North America, European and Asian operations accounted for 37% of the group's FY13 revenue. The diversified services businesses are also geographically diverse, especially WorleyParsons Limited (WorleyParsons). Whether this geographic diversity translates into a premium or a discount will depend on the specific circumstances in the relevant markets, as well as the nature and performance of the businesses located in these countries.

Growth prospects

The Australian construction and engineering sector is relatively mature which is evidenced by relatively flat earnings growth forecasts for a number of the comparable companies in the next few years including, for example, Downer. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with significant earnings growth potential.

There are, however, a number of exceptions to this, with the growth outlook largely reflecting the factors noted above, being service mix, market focus and geographical diversification. For example, based on

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broker consensus forecasts, Lend Lease's EBIT is expected to grow at a CAGR of approximately 13%[12] per annum over the next three years. Given this growth outlook, we would expect Lend Lease to trade at a premium to many of the comparable companies.

By contrast, many of the companies focussed on the resources market are expected to experience a contraction both in revenue and EBIT, and we would therefore expect these companies to trade at a lower multiple.

Size

In the construction sector, size is typically a substantial advantage. Larger companies have a greater pool of resources and capabilities to draw on and are likely to have a stronger market presence, both of which will assist in competing for the largest contracts. The larger companies are also able to benefit from potentially substantial efficiencies that can be gained from achieving economies of scale and advantageous financing terms. Another advantage relates to the ability of the larger companies to absorb losses on specific projects. This is a common characteristic of the construction sector as a small number of loss-making projects can have a substantial impact on short term profitability. Finally, the larger companies typically achieve greater diversity in their service and/or market mix, which may reduce volatility resulting from changes in underlying market conditions.

Reflecting the advantages detailed above, larger companies in this sector typically trade at a premium.

Equity-accounted investments

In assessing the comparable companies, it is also important to consider the earnings contribution from equity-accounted investments, as this can distort the EBIT multiples observed. In this context, we note that income from equity-accounted investments as a proportion of FY13 EBIT was particularly material for Transfield Services Limited (Transfield, 55%[13]), Lend Lease (23%), Downer (18%) and Ausdrill Ltd (Ausdrill, 15%).

Equity-accounted investments typically relate to joint ventures and investments classified as associates. The formation of joint ventures is a common feature of the industry as they are often used as vehicles for delivering specific projects or services in combination with another party. The financial reporting treatment for equity-accounted investments involves the recognition of the investor's share of the net profit or loss and other comprehensive income from the joint venture or associate. On the investor's balance sheet, investments in associates and joint ventures are initially recognised at cost, and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income, adjusted for distributions and impairment charges.

As the investor's income statement only captures its share of the profit or loss from associates and joint ventures, net of tax and interest expenses, the company's consolidated EBIT is effectively understated. Therefore, for companies with material equity-accounted interests, this will inflate the observed EBIT multiples.

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[12] Source: S&P Capital IQ.

[13] Transfield FY13 EBIT adjusted to exclude impairment charges.

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For the comparable companies, a lack of disclosure around the tax and interest charges payable by each joint venture and associate means it is typically not possible to reliably adjust the reported EBIT to compensate for this distortion. Furthermore, as the carrying value of the joint ventures and associates does not reflect market value, it is not possible to make a meaningful adjustment to the enterprise value of the company to eliminate the distortion from equity-accounted joint ventures and associates on an EBIT multiple basis.

In respect of the specific comparable companies, we note the following:

Lend Lease

Based on the EBIT multiples observed, Lend Lease currently trades at a premium amongst construction and engineering businesses. This partly reflects Lend Lease's position as one of the leading construction and engineering businesses in Australia. However, there are also a number of other factors that may contribute to this, including the following:

- based on broker forecasts, Lend Lease's EBIT is expected to grow at a CAGR of 13%[14] over the next three years, which is notably better than the outlook for the majority of its peers. This partly reflects the expected benefits of the restructuring implemented by the company during 2013, as well as Lend Lease's estimated development pipeline of over $38 billion. This may also partly reflect the company's geographic diversity and, in particular, the progress made in its residential development business in London and the more encouraging economic outlook for the North America, which accounted for 22% of its FY13 revenue
- unlike the majority of the comparable companies, Lend Lease has limited exposure to the resources market and is therefore not exposed to the challenges being experienced in the mining sector. Instead its market focus relates to property and infrastructure
- whilst the majority of Lend Lease's business relates to construction activities (the company's construction business accounted for 86% of FY13 revenue), construction only accounted for 35% of its PAT, reflecting a margin of 1.8%. On the opposite end of the scale, the company's development segment, which is involved in the development of urban communities, inner-city mixed-use developments, apartments, retirement, retail, commercial and healthcare assets achieved a PAT margin of 35%, which partly reflected the first contribution of the large-scale Barangaroo construction project in Sydney. Lend Lease also provides asset and property management services and service concession arrangements, which originate through its equity investments in PPP projects. These services are likely to feature less volatile cash flows and may also contribute to the higher margins achieved by Leighton relative to many of its peers
- Lend Lease has substantial equity-accounted investments, which contributed 23% of its reported FY13 EBIT. As discussed above, because the accounting treatment for such investments requires Lend Lease to recognise its share of profit or loss from equity-accounted investments net of interest and tax, this is likely to result in an understatement of its EBIT, and hence an overstatement of its EBIT multiples. This may partly explain why Lend Lease's LTM P/E multiple is lower than its LTM

[14] Source: S&P Capital IQ.

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EBIT multiple, although we note this also reflects Lend Lease's current low effective tax rate, which is the result of a number of factors including the utilisation of accumulated tax losses and capital losses and, in the case of FY13, the resolution of a material prior year tax claim.

Downer EDI Limited

The EBIT multiples for Downer are notably lower than those observed for Lend Lease. In this regard, we note Downer is only one-third of the size of Lend Lease, based on market capitalisation, so there is likely to be some discount for size. However, with a market capitalisation of over $2.0 billion, and as the second largest company in the construction and engineering peer group, the discount is likely to be less significant than with the other companies in the peer group.

Downer is also less diversified than Lend Lease, both in terms of geography, as its operations are largely constrained to Australia and New Zealand, and the sectors in which it operates. In particular, whilst the company's focus on the infrastructure market is likely to allow it to benefit from the expected investment in infrastructure in Australia in the medium term, almost 30% of Downer's FY13 revenue was earned by its mining division, the outlook for which is more subdued. In recent years, Downer's share price has also been impacted by ongoing issues in its rail division, and in particular, its Waratah Train Project.

Downer does benefit from a relatively strong pipeline, with work in hand of $19.6 billion at 31 December 2013, compared to FY13 revenue of $8.4 billion. However, the company's revenue is expected to fall in FY14, and broker forecasts indicate its underlying EBIT and NPAT growth will be relatively flat.

Downer's EBIT multiple may also be distorted slightly by its equity-accounted investments, which accounted for 18% of its FY13 reported EBIT.

Monadelphous Group Limited

Monadelphous Group Limited (Monadelphous) is less diversified than the likes of Lend Lease and Downer, focussing mainly on the provision of engineering and construction services to the Australian resources and energy sectors. The negative outlook associated with some of the company's key markets, including coal, iron ore and mineral processing, explains why the company is expected to contract in the next few years, both in terms of revenue and EBIT, and why the NTM multiples observed are higher than the LTM multiples.

Whilst the company's mining division is likely to face some challenges over the next few years, the outlook for its other key markets, being oil and gas, power and water is more positive. In addition to its core engineering and construction business, Monadelphous also offers maintenance and industrial services, which accounted for 25% of its FY13 revenue. Whilst Monadelphous does not disclose details of the profit margins earned by its individual segments, this is likely to contribute to the company's relatively high operating margin (8.4% in FY13). The multiples observed for Monadelphous reflect its higher operating margin, and are also likely to take into consideration the company's strong execution and cash generation track record.

Murray & Roberts Holdings Ltd and Aveng Limited

Murray & Roberts and Aveng are both South African companies with substantial operations in Australia. In both cases, their Australian operations represented their largest operating segments in FY13, whilst the companies' other operations primarily relate to construction and mining services in Africa and the Middle

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East. These companies therefore have the advantage of access to high-growth, emerging markets, although the outlook for their mining operations is impacted by the contraction in commodity prices.

Murray & Roberts' Australian operations primarily relate to the Gorgon LNG project in Western Australia, where the company was awarded a joint venture subcontract to design and construct the material offloading facility for the project. Although Murray & Roberts' Australian activities made up only 43% of its FY13 revenue, it accounted for 88% of PAT. This primarily reflects the weakness in Murray & Roberts' other operations, most notably its loss-making construction business in Africa and the Middle East.

Based on broker forecasts, Murray & Roberts' revenue is expected to be relatively stable over the next few years, once allowing for the uplift that is expected to result from its acquisition of Clough Limited (Clough), as discussed further in the comparable transactions analysis below. However, the company's operating margin is expected to decline in FY14, largely reflecting challenges in its mining division, before recovering slightly in FY15 and FY16.

Aveng's Australian business, which operates as McConnell Dowell, is more diverse, offering a range of engineering, construction, building and maintenance services in the property, infrastructure and resources sectors. The Australian business has seen impressive growth in recent years, both in terms of revenue and profitability and, in FY13, its operations in Australasia and the Asia Pacific represented 48% of Aveng's revenue. Whilst Aveng's mining and manufacturing and processing businesses have also achieved growth in recent years, its African construction business made substantial losses both in FY12 and FY13, which explains the relatively high LTM multiples observed. Although revenue is projected to remain relatively flat compared to FY13, broker forecasts expect Aveng's EBIT margin to improve from 1.3% in FY13 to more than 4.0% by FY16. Despite the expected improvement in its financial performance, Aveng's NTM multiple is relatively low, which is likely to reflect the perceived risk associated with its underperforming African construction business.

Aveng's LTM P/E multiple is also distorted by its relatively large cash balance, which amounted to ZAR 5,619 million (approximately $600 million) at 31 December 2013, just over two-thirds of its market capitalisation.

Other construction and engineering companies

The other construction and engineering businesses are significantly smaller and are predominantly focussed on the Australian mining and minerals market. The smaller size of these companies and the subdued market outlook is reflected in the lower trading multiples of many of these companies.

One exception to this is Seymour Whyte Limited (Seymour Whyte), which specialises in construction and engineering services in the infrastructure market, with a particular focus on transport infrastructure, including roads, bridges, rail and aviation. Primarily driven by the outlook for the infrastructure market, Seymour Whyte is expected to benefit from notable growth over the next few years, both in terms of revenue and profitability. However, the impact of this projected growth on its multiples is tempered by the company's relatively small size and dependence on a small number of projects and customers. In particular, we note 85% of its FY13 revenue was generated from one customer, being the Queensland Government.

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RCR Tomlinson Limited (RCR Tomlinson) currently trades at relatively high multiples compared to its peers. The higher LTM multiple partly reflects the company's acquisition of Norfolk Group Limited (Norfolk Group) in March 2013, as its LTM EBIT does not reflect a full year's earnings. Norfolk Group provides integrated electrical, communications, heating, ventilation and air-conditioning and facilities management, and therefore reflects a move away from its primary focus on resources towards the infrastructure market. The higher multiples may also partly reflect RCR Tomlinson's larger size and more diverse service offering, which includes a range of turnkey services from design and manufacture to installation, maintenance and off-site repair. The outlook for RCR Tomlinson is also more positive than for many of its peers, largely reflecting the anticipated synergy benefits expected from the acquisition of Norfolk Group.

WDS Limited (WDS) trades at slightly higher multiples than NRW Holdings Limited and Ltd (Watpac), which likely reflects its greater focus on the energy market, where it provides pipeline design, construction and maintenance services to the oil and gas and water sectors. In total, WDS's energy segment contributed approximately two-thirds of its FY13 revenue and over 70% of EBITDA, with the remainder of its business being generated by its mining division. Whilst Watpac is more diversified, with activities in property and construction, the company suffered substantial impairment losses in both FY12 and FY13 relating to its property development inventory. This highlighted the risk associated with Watpac's property development business, and is likely to be reflected as a discount in Watpac's current share price.

Mining services

Contract mining and mining service providers are generally much smaller in terms of market capitalisation relative to the rest of the peer group and are also typically focussed exclusively on the mining and minerals sector. These companies are therefore heavily exposed to the current challenging market conditions and subdued outlook. The NTM multiples for these companies are higher than the LTM multiples, reflecting brokers' expectations that earnings will further deteriorate within this sector in the near future.

Contract mining is typically characterised by long term contracts, and the companies therefore benefit from high levels of work in hand. However, there is typically still significant volume risk inherent in these contracts (primarily driven by commodity prices) and the contract miners also tend to operate at relatively low operating margins.

The low operating margins, along with the subdued outlook for the mining sector, has resulted in a significant discount to the multiples of contract miners MACA and Macmahon. Macmahon is also continuing its transition to a focused mining company following the disposal of its construction business in 2013.

Relative to MACA and Macmahon, the multiples of the larger mining services companies, Mineral Resources and Ausdrill are notably higher. This reflects, amongst other factors, the higher level of diversification in terms of service offering and geographic presence. For example, as well as offering a variety of surface and underground mining services, and exploration and mine development services, Ausdrill also provides services to the energy and infrastructure sectors and manufactures and sells drill rigs, drilling consumables and dump truck bodies. Similarly, as well as contracting, Mineral Resources

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provides processing and commodities production services, and owns mine sites. Each of these companies also has significant operations outside of Australia.

Diversified services

The diversified service providers generally trade at higher EBIT multiples relative to the rest of the peer group. This largely reflects both the different risk profile associated with these more services focussed businesses and the higher margins achieved through their diversified and less capital intensive activities. The companies also benefit from greater geographic diversity and higher growth sectors.

- Cardno Limited (Cardno) offers a full range of professional services including feasibility, planning and design, project and construction management, asset management and environmental services. The company primarily focuses on the infrastructure market, and its Australian and New Zealand operations accounted for only 41% of its FY13 revenue, with the remainder mainly generated in North America, as well in the UK, Africa and Asia
- WorleyParsons specialises in the oil and gas sector and is regarded as a global industry participant and leader in the hydrocarbons industry. Its operations also include activities relating to minerals, metals and chemicals. The company is geographically diverse with operations in Australia and New Zealand, Canada, the US, the Middle East and Africa, Europe, Asia and Latin America
- Transfield also operates globally, providing a range of operations, maintenance and construction services to the resources, energy, industrial, infrastructure, property and defence sectors. Transfield's EBIT multiple is likely to be distorted by the high proportion of earnings generated from equity-accounted investments, which accounted for 55% of Transfield's FY13 EBIT[15]
- approximately 50% of UGL Limited's (UGL's) FY13 revenue related to DTZ, which provides end-to-end property solutions to occupiers, developers, property owners and investors globally. UGL also has a significant operations & maintenance business, which provides asset management and maintenance services to support critical and social and economic infrastructure.

Transaction evidence

The price paid in transactions is widely considered to represent the market value of a controlling interest in the company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control. This premium can differ from transaction to transaction and is dependent on a range of factors, including the equity share acquired, the negotiating position of the parties, competitive tension in the sales process, the availability of synergies and the extent to which a buyer would pay away these synergies to gain control of the target.

We note the number of sizeable recent transactions involving construction and engineering businesses in Australia is limited. As a consequence, we have also considered recent transactions involving sizable international construction and engineering businesses, although these multiples will be influenced by the market outlook in the countries they operate, as well as other company specific factors.

[15] Transfield FY13 EBIT adjusted to exclude impairment charges.

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The table below sets out the EBIT multiples implied by recent transactions that involved companies operating in the construction and engineering, contract mining and/or related services sector within Australia and internationally.

Table 41: Transaction evidence

Date	Acquirer	Target	Transaction value (AUD)[1]	Percentage acquired	EBIT multiple LTM[2]	EBIT multiple NTM[3]
Australia						
Sep-13	Jacobs Australia Holdings	Sinclair Knight Merz	1,329.9	100%	8.9	n/a[5]
Jun-13	Murray & Roberts Holdings	Clough Limited	690.7	38%	7.6	7.0
Dec-10	Lend Lease Group	Valemus Limited	822.0	100%	5.4	4.9
Apr-10	Clough Operations	Forge Group Limited	119.6	18%	4.8	n/a[5]
Jun-09	AMEC plc	GRD Limited	156.0	100%	8.3	9.9
International						
Jan-14[6]	AMEC plc	Foster Wheeler AG	3,197.7	100%	12.4	11.2
Feb-13	WorleyParsons Limited	Bergen Group Rosenberg AS	151.7	100%	6.2	n/a[5]
Jul-12	Chicago Bridge & Iron Company	The Shaw Group Inc	2,672.6	100%	nmf[4]	11.3
Jul-11	OZ Management L.P.	STX OSV Holdings	1,321.5	18%	4.9	5.9
May-11	AMEC plc	MACTEC Inc	280.2	100%	8.8	n/a[5]
Jan-12	FCC	ALPINE Bau GmbH	482.6	14%	8.1	n/a[5]
Nov-10	Rasperia Trading	Strabag SE	3,115.0	17%	9.7	8.7
Jun-10	Acergy SA	Subsea 7 Inc	3,966.5	100%	11.5	9.3
May-10	The Churchill Corp	Seacliff Construction Corp	346.7	100%	9.3	10.1
Nov-09	Ernst Gohner Stiftung	Implenia AG	415.3	52%	6.7	6.5
Oct-09	Bilfinger Berger AG	MCE AG	569.9	100%	7.8	n/a[5]
Sep-09	Basil Read Holdings	TWP Holdings	103.8	100%	7.8	n/a[5]

Source: Company financial statements and announcements, S&P Capital IQ, KPMG Corporate Finance analysis
Note 1: Transaction value refers to enterprise value of the company as of the date of completion
Note 2: LTM multiples calculated based on EBIT from most recently available results as at the transaction announcement date, after normalisation adjustments
Note 3 NTM multiples calculated based on broker consensus forecasts as at the transaction date
Note 4: nmf = not meaningful
Note 5: n/a = not available
Note 6: AMEC plc and Foster Wheeler AG transaction is currently pending with completion expected in the second half of 2014

Further details on these transactions are set out in Appendix 4. Although the target companies are considered broadly comparable to Leighton, it is necessary to consider the specific attributes of the target companies as well as the prevailing economic conditions at the time of the transaction.

The multiples implied by transactions reflect a range of business specific factors, including:

- the stage of the market cycle and the prevailing economic conditions when the transaction was undertaken. For example, the construction markets in Europe and North America experienced particularly challenging economic conditions following the onset of the GFC, although more recently have started to demonstrate early signs of recovery, supported by historically low interest rates. By contrast, Australia is in a different stage of its economic cycle, as it did not suffer from the GFC to the same extent. This was partly due to the Australian mining and resources boom offsetting

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weaknesses in the domestic infrastructure and property markets over this period, which more recently have started to reverse

- the mix of services offered and the impact on the risk profile (fixed price contracts versus contracts on a cost reimbursable basis), capital intensity and profitability of the business. For example, Valemus Limited (Valemus) provided a large portion of its construction services under fixed price contracts, in contrast to Clough, GRD Limited (GRD) and Sinclair Knight Merz (SKM), which primarily provided engineering consulting services
- the sector focus of the business. Over the last few years, transactions relating to construction and engineering businesses with a focus on the mining and resources market generally attracted higher multiples than construction and engineering businesses with a focus on infrastructure and property markets. Specifically in Australia, Valemus was primarily a construction company with a focus on infrastructure and property markets and attracted lower multiples than businesses with a greater focus on the resources market, such as GRD and Clough
- the size and geographic diversification of the business. The transactions relating to Foster Wheeler AG (Foster Wheeler), The Shaw Group (Shaw), Strabag SE (Strabag) and Subsea 7 Inc (Subsea 7) were significantly larger in size and more geographically diversified. These transactions were executed at historical multiples of between 9.7 and 12.4 times EBIT and forecast multiples from 8.7 to 11.3 times EBIT. It is evident that larger transactions typically generate higher multiples
- the amount of synergies available to the acquirer. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, takeover premiums and therefore implied multiples, in particular historical multiples, are likely to be higher. In this context, significant synergies were expected from the acquisition of Shaw by the Chicago Bridge & Iron Company, given their complementary service offerings and specialised skill sets
- the stake acquired in the transaction. The transactions relating to Clough and ALPINE Bau GmbH (ALPINE) were undertaken by their respective majority shareholders in order to achieve 100% control. As in both cases, the majority shareholder already had control prior to buying out the outstanding minorities, the implied multiples will likely be lower than for controlling stakes. The transactions relating to Forge, STX OSV Holdings (STX) and Strabag were undertaken for non-controlling stakes of between 17% and 18% by acquirers that did not have significant shareholdings in the target prior to the transaction, and therefore the implied multiples will likely be lower than for controlling stakes. In contrast, the Forge transaction was a proportional takeover offer for 50% of the shares in Forge, and therefore would likely have incorporated a premium for control. This is supported by the fact that the transaction triggered a strategic alliance with the acquirer, which may have offered specific synergies
- the Valemus transaction occurred during times of a depressed sharemarket. In July 2010, Bilfinger Berger AG withdrew its plans to float Valemus as price expectations could not be met. The implied multiples for the offer were 7.2 to 8.3 times historical EBIT and 5.9 to 6.8 times forecast EBIT. In December 2010, Lend Lease acquired Valemus for 5.4 times historical EBIT in a still distressed sharemarket.

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Selection of an appropriate multiple

Consideration of market evidence

Multiples based on share prices of listed comparable companies reflect the value of portfolio interests in the underlying company and are commonly assumed to exclude a premium for control.

The vast majority of comparable companies in Australia are considerably smaller in size and are less diversified in terms of service offering and market focus compared to Leighton. We consider the most comparable companies to Leighton to be:

- Lend Lease. There are strong parallels between Leighton and Lend Lease in terms of size and their leading market position in the Australian construction industry. However, there are also a number of differences, particularly in relation to Lend Lease's focus on the property sector, its substantial operations in North America and Europe and the fact that it has limited exposure to the resources sector. Based on broker forecasts, Lend Lease's medium term growth outlook is notably more positive than Leighton's and therefore it would be expected that Lend Lease would trade at a premium to Leighton. However, Lend Lease's LTM and NTM EBIT multiple of 12.1 times and 10.3 times respectively is likely to be inflated due to the significant earnings contribution from equity-accounted joint ventures, and therefore Lend Lease may provide a more meaningful benchmark on a P/E multiple basis
- Downer. Downer is arguably the most comparable company to Leighton given its focus on the infrastructure market, exposure to contract mining, similar medium term growth outlook and operating margins. Like Leighton, Downer is also affected by legacy issues, particularly around its Waratah trains contract. On the other hand, Downer is smaller than Leighton and has no material exposure in the high-growth and emerging markets in Asia, with its operations largely constrained to Australia and New Zealand. As such, we would expect that Downer would trade at a discount to Leighton, with the company currently trading at LTM and NTM EBIT multiples of 6.8 times and 7.0 times respectively
- the remaining companies in the peer group are considered to be less comparable, but relevant to demonstrate the impact of size, service mix, market focus and growth prospects on earnings multiples.

The price paid in transactions is widely considered to represent the market value of a controlling interest in the company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control.

Market evidence derived from Australian transactions provides limited guidance as to an appropriate multiple for Leighton. The most comparable transactions are considered to be:

- Murray & Roberts' acquisition of Clough at 7.6 times historical EBIT. Clough is an engineering and project services contractor with focus on the resources sector and one of the more sizable players amongst the Australian construction and engineering businesses. However, Leighton is significantly larger in size and more diversified in terms of service mix and market focus. Further, the Clough transaction only involved the acquisition of a 38% interest, although, as this allowed Murray & Roberts to increase its equity interest in Clough to 100%, it is likely the purchase price did include

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some degree of control premium. As a result, we would expect that this transaction would take place at lower multiples than a company such as Leighton, based on size, diversification and control premium considerations

- Lend Lease's acquisition of Valemus at 5.4 times historical EBIT. Valemus was a construction company focusing on the infrastructure and property markets in Australia and New Zealand, which is comparable to Leighton's core business. However, the Valemus transaction occurred at a time when the sharemarket was relatively depressed and followed a decision to withdraw the proposed float of Valemus as price expectations could not be met. As such, we do not consider the Valemus transaction to provide a relevant reference point in the current sharemarket conditions.

Market evidence from international transactions indicates that:

- larger transactions generally take place at higher multiples. The larger acquisitions (Foster Wheeler, Shaw, Strabag and Subsea 7) were executed at historical multiples from 9.7 to 12.4 times EBIT and forecast multiples from 8.7 to 11.3 times EBIT. Of these larger transactions, Strabag is considered to be most comparable to Leighton, with the majority of its revenue generated from building construction and civil engineering, and transportation infrastructure services. Whilst there is a strong fit with Leighton's core business, Strabag has minimal exposure to the resources sector. The Strabag acquisition was executed at a historical and forecast EBIT multiple of 9.7 times and 8.7 times respectively
- smaller transactions involving companies that are reasonably comparable to Leighton's core business include the acquisition of ALPINE and Seacliff Construction Corporation (Seacliff), which were executed at historical EBIT multiples of 8.1 times and 9.3 times respectively. It is noted that the ALPINE transaction only involved the acquisition of the remaining 14% by its majority shareholder. This may explain the lower multiple compared to the Seacliff transaction. Both companies were focussed on their domestic infrastructure and property markets, with limited exposure to the resources sector.

Whilst the above international transactions would provide relevant reference points for Leighton, these multiples were influenced by the prevailing market outlook and economic conditions in the countries they operated in.

Company specific considerations

In determining an appropriate EBIT multiple for Leighton in the context of the available market evidence, it is necessary to consider the specific attributes of the business being valued. In this regard, we note there are a number of reasons that would justify higher multiples for Leighton:

- Leighton benefits from a market-leading position in the domestic infrastructure market and combines some of the best-established construction and engineering brands in Australia. Leighton is also a global market leader in contract mining services
- apart from Lend Lease, which is similar in size, Leighton is substantially larger than any of its domestic competitors. Even globally, Leighton is amongst the largest construction and engineering businesses by market capitalisation. This scale provides a number of benefits to Leighton, including

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the ability to compete for and deliver large-scale projects, the availability of efficiencies from economies of scale and an advantageous funding capacity

- in terms of service offering and market focus, Leighton is more diversified than many of the comparable companies and target companies. This diversification may support a more stable earnings profile. Leighton also has a proven track record of being able to rebalance its service offering and market focus in response to structural shifts in demand
- Leighton also has a degree of geographical diversification via LAIO, which is well-established in a number of the more mature Asian markets including Hong Kong and Macau. LAIO also has operations in a number of high-growth, emerging markets across Asia and the Middle East and, whilst Leighton's presence in some of these countries is still being developed, this is a potential growth area for Leighton
- Leighton's market position in the domestic infrastructure market is likely to provide growth opportunities in the medium term due to the Federal Government's focus on delivering substantial investment in Australian infrastructure, as discussed in Appendix 5. Leighton Contractors, in particular, is expected to benefit from an increase in the pipeline of infrastructure projects, thereby helping to offset the currently weaker performance of the resources market, in particular contract mining, to which Thiess has the largest exposure of Leighton's operating companies
- Leighton's diverse operations and size allow it to offer a breadth of expertise in a wide range of engineering fields. For example, John Holland's specialist engineering expertise includes tunnelling, waste water treatment and marine structures. Each of these capabilities were also captured within Leighton's Centres of Excellence programme, which commenced in 2013 with the intention of housing Leighton's main specialist competencies. The competencies identified represent those capabilities that Leighton believes cannot be easily replicated by their peers, and hence reflect a competitive advantage. The other specialist capabilities identified by management include rail, information and communication infrastructure, property services and offshore pipelines and moorings
- Leighton has a proven track record of being able to maintain a relatively high level of work in hand (around two times revenue) which provides a reasonable degree of certainty around revenue for the next two years
- Leighton may be able to realise additional efficiency gains and cost savings through its business transformation initiatives (5 Fundamental Things) as discussed in Section 7.12 of this report. To the extent that such savings can be retained by the business and not passed onto customers through more competitive pricing, these initiatives may support improvements in Leighton's underlying profitability
- there is also scope for further efficiencies to be identified following the broad-based, general review of Leighton's operating model currently being undertaken by Leighton management. It is also likely that HOCHTIEF will seek to implement certain changes following its decision to increase its representation on Leighton's Board, although the nature of such changes is highly uncertain.

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On the other hand, there are a number of factors that would constrain the appropriate multiples for Leighton:

- based on broker forecasts, Leighton's operating profits are expected to be relatively flat over the medium term. One of the driving factors behind the company's neutral outlook is its exposure to the cyclical slowdown in the mining sector, which is expected to impact Thiess and Leighton Contractors in particular. The sharemarket evidence confirms that mining services businesses in particular, and construction and engineering businesses with a large exposure to the resource market, currently trade at a discount
- the amount of receivables is currently significantly above its long term average, primarily driven by work undertaken on domestic LNG projects, two oil pipeline projects in Iraq and certain contract mining activities. The elevated level of receivables poses a risk both in terms of recoverability and timing. Whilst the timely conversion of current receivables into cash continues to be a key focus for CY14, Leighton management expects the elevated levels of receivables to remain a feature of the Leighton balance sheet until the projects are complete and final agreements are negotiated
- despite its strong market position, Leighton's operating margins are relatively low compared to many of its peers. Whilst margin improvement is envisaged through the business transformation initiatives discussed above, to the extent that its competitors are able to achieve similar efficiencies, Leighton may need to pass-through a proportion of the savings in order to maintain its competitive pricing
- Leighton's current operating model features the maintenance of competing brands, which may drive inefficiencies. Whilst some of the transformation initiatives implemented by management seek to address this, including for example through the establishment of Leighton's Centres of Excellence and the development of Leighton's shared services facilities, the current structure of the operating companies means there is likely to remain an element of duplication and intra-group competition
- Leighton has significant exposure to fixed price contracts, meaning they take on project risk associated with certain cost overruns. Whilst this is fairly standard in the construction sector, it is not typical for other types of services, including operations and maintenance, property and asset management and professional services, including engineering consultancy services. This is an important consideration when comparing the risk profile and associated multiples of Leighton to the comparable companies with a larger service component
- whilst Leighton's footprint in high-growth and emerging markets provides potential for growth opportunities, its offshore business has also experienced a number of issues in recent years, illustrating the potential risks of operating in these markets. For example, the company received considerable negative publicity in relation to allegations of corruption against senior officers responsible for a project in Iraq. Meanwhile, in 2013 a dispute arose between Thiess and Indonesian customer PT Arutmin Indonesia in relation to outstanding receivables. As a result of this dispute, Thiess has now closed its contract mining operations at the customer's Senakin and Satui mines, which contributed 1.5% of Thiess' revenue in FY12
- with HOCHTIEF having taken greater control of Leighton, there will be a period of uncertainty whilst it reviews and considers any changes to the Group's existing operating model.

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Selected multiple range

On balance of the factors detailed above, and including a premium for control, we consider an appropriate EBIT multiple for Leighton's business operations (excluding investments that have been valued separately) to be in the range of 9.0 times to 9.5 times.

9.4 Habtoor Leighton Group

Leighton's investment in HLG is comprised of equity, shareholder loans and off-balance sheet letters of credit and guarantees. As at 31 December 2013, Leighton's 45% equity investment in HLG was carried at $345.1 million and its receivables balances associated with the shareholder loans were carried at a total of $631.5 million. Leighton also had $384.0 million in off-balance sheet letters of credit and guarantees provided on behalf of HLG.

In assessing whether the carrying value provides an appropriate proxy for market value, we completed the following procedures:

- considered the historical and year-to-date performance of HLG
- reviewed certain Leighton board papers supporting the carrying value of Leighton's exposure in HLG at 31 December 2013
- considered the latest financial forecasts prepared by Leighton management, which we understand formed the basis of Leighton's assessment of the carrying value of HLG as at 31 December 2013
- assessed HLG's current level of work in hand, including recently won contracts, and the level of profitable work that must be won in order for HLG to achieve its forecast performance
- considered the terms of the shareholder loans, their ranking in HLG's capital structure and expectations regarding risks and timing of repayment
- undertook a DCF analysis based on the financial forecasts provided. This included the derivation of an appropriate discount rate for both Leighton's equity interest and shareholder loans in HLG, taking into consideration the risk profile of the associated cash flow forecasts, as well as an assessment of the sensitivity of the value of Leighton's investment in HLG to key underlying assumptions
- considered the trading multiples of comparable companies with similar operations in the Middle East
- considered the local market outlook and competitive environment in which HLG operates
- considered the foreign currency exchange risk and its impact on the value of Leighton's investment in HLG
- considered the background to and current status of HLG's legacy receivables, including the risks associated with timing and recoverability
- considered the level of off-balance sheet guarantees and letters of credit provided on behalf of HLG and the likelihood those obligations will be called upon
- considered the uncertainty the change in Leighton's management may have on the future operations of HLG.

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Due to the commercial sensitivity of the information reviewed during these procedures, we are unable to disclose the detail of our analysis. However, based on the findings from these procedures, we consider it appropriate to apply a discount to the carrying value of Leighton's investment in HLG to reflect both the time value of money and the risks inherent in the recoverability of the shareholder loans and Leighton's equity investment.

We have estimated a discount having regard to the sensitivity of the value of Leighton's investment in HLG to key underlying assumptions, including growth prospects, recoverability of legacy receivables and timing of shareholder loan repayments.

In making our assessment, we also formed a view as to what a willing buyer might require as a reasonable return given the inherent risks associated with this investment. In particular, we considered the extent to which a potential acquirer would:

- be willing to pay for the growth expectations underlying the financial forecasts
- discount the carrying value of the legacy receivables to reflect the risks associated with timing and recoverability
- discount the carrying value of the shareholder loans to reflect an expected return that reasonably compensates for the risks associated with timing and recoverability
- price the opportunity costs associated with the need to provide off-balance sheet letters of credit and guarantees.

On the basis of the above, we estimated the market value of Leighton's investment in HLG to be in the range of $500 million to $650 million, with the relatively wide range reflecting the significant uncertainties associated with this investment. The change in Leighton's management creates further uncertainties relating to the outcome of the review of its investment strategy in HLG.

In forming our opinion, we have had to make a series of judgements as to future events based on the facts which we currently know. It is inevitable that circumstances will change in the future, which will impact on the amounts ultimately realised with respect to Leighton's investment in HLG.

9.5 Leighton India (formerly Leighton Welspun)

On 27 December 2013, Leighton acquired the remaining 39.9% interest in its Indian joint venture, Leighton Welspun, for $110.0 million. Acquired from its joint venture partner Welspun Infra Projects Private Limited (Welspun), the acquisition took Leighton's ownership in Leighton Welspun to 100%. On a pro-rata basis, the transaction implied a value for 100% of the equity in Leighton Welspun of $275.9 million at the transaction date. Leighton Welspun has since been renamed Leighton India.

In assessing whether the implied equity value from the transaction provides a reasonable indicator of the current market value of Leighton India, we took the following into consideration:

- the transaction completed less than four months ago
- Leighton India has performed in-line with expectations since the transaction and there has not been any material changes to the company's business plan or outlook

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- Leighton management advised that the agreed purchase price reflected a negotiated outcome between a fully informed, willing but not anxious, buyer and seller
- whilst Welspun only had a 39.9% equity interest in Leighton Welspun, the joint venture agreement effectively provided the partners with equal control over the joint venture. In our experience, interests in joint ventures are typically transacted inclusive of a premium for control, and therefore the pro-rata value implied by the transaction is considered to be reflective of the value of a controlling interest in the Leighton Welspun joint venture.

On the basis of the above, the pro-rata equity value implied by the transaction is considered to be reflective of the market value of Leighton India, and hence we have assessed the market value of Leighton India at $275.9 million.

9.6 Nextgen Group

On 28 June 2013, Leighton sold 70.1% of its equity interest in Nextgen Group to Ontario Teachers' Pension Plan (Teachers'), a Canadian pension fund. Based on the transaction consideration, the implied equity value of Nextgen Group was $525.1 million. On a pro-rata basis, this implied a market value of Leighton's remaining 29.9% equity interest of $157.0 million.

In assessing whether the implied equity value from the transaction provides a reasonable indicator of the current market value of Nextgen Group, we took the following into consideration:

- shortly after the transaction completed, Nextgen Group's business plan was reset in-line with the expectations and strategic intentions of Teachers'. On this basis, it is reasonable to assume the revised plan represented the view formed by the Teachers' as part of the sales process, and is therefore reflective of underlying acquisition assumptions. Leighton management advised that, since the partial disposal, the business has performed in-line with the reset business plan, thereby supporting the assumptions underlying Teachers' acquisition case
- there is an active market for equity investments in infrastructure assets, both in the Australian market and internationally, and hence the price paid by Teachers' is considered to be reflective of market value. In this regard, we note there continues to be strong investor appetite for infrastructure assets, particularly from domestic and global investment and pension funds.

On the basis of the above, we are of the view that the transaction provides an appropriate indication of the current market value of a controlling interest in Nextgen Group.

As Leighton's remaining 29.9% equity interest reflects a minority share, we also considered whether a minority discount is applicable to the implied pro-rata equity value of Leighton's investment. For the same reasons that a premium for control exists, a discount for lack of control may be appropriate to account for a minority shareholder's inability to exercise control or significant influence, resulting in an inability to make decisions in relation to matters such as the strategic direction of the entity and the dividend policy.

In this regard, we note:

- we have considered the degree of influence and control that Leighton is able to exercise based on the shareholder rights it agreed with Teachers' as part of the sale process

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- based on the period since the transaction, management consider the interests of Leighton and Teachers' to be relatively well aligned in relation to their respective investments in Nextgen Group. For example, Leighton has supported the restructuring of the business that has been undertaken by Teachers', and considers the current strategic direction of the company to be in-line with Leighton's medium term objectives
- for investments in infrastructure assets, it is typical for minority interests to be transacted within the pro-rata range of the control value, particularly when the interest is of sufficient size to attract interest from institutional investors and when the minority investor has the ability to influence the strategy and business planning process.

Taking into consideration the factors discussed above, including the degree of influence and control that Leighton is permitted under its shareholder rights, we do not consider a minority discount to be applicable in valuing Leighton's equity interest in Nextgen Group.

On this basis, the pro-rata equity value implied by the transaction is considered to be reflective of the market value of Leighton's interest in Nextgen Group, and hence the market value of Leighton's equity investment in Nextgen Group is assessed at $157.0 million.

9.7 Listed investments

Leighton's investments in the listed companies Devine, Macmahon and Sedgman have been valued based on the quoted market value available for each of these investments. Valuation evidence derived from sharemarket trading is generally considered to be an appropriate indicator of market value provided that:

- there is sufficient trading liquidity in the listed shares
- equity markets are not distressed
- an appropriate premium for control is applied dependent on the size of the shareholding and associated shareholder rights.

Consequently, in valuing the listed investments of Leighton, we have:

- analysed the price and volume performance of each listed investment over the two year period ended 28 March 2014
- compared the share price performance of each listed investment to the S&P/ASX 200 Index and an industry specific S&P/ASX index over the two year period ended 28 March 2014
- assessed the trading liquidity of the shares of each listed investment for the one year period ended 28 March 2014, including consideration of the free float of each company
- calculated the implied value of Leighton's interest in each listed investment based on the number of shares held by Leighton and the one month VWAP to 28 March 2014
- assessed the appropriateness of a premium for control, based on Leighton's shareholding in each listed investment and its associated shareholder rights.

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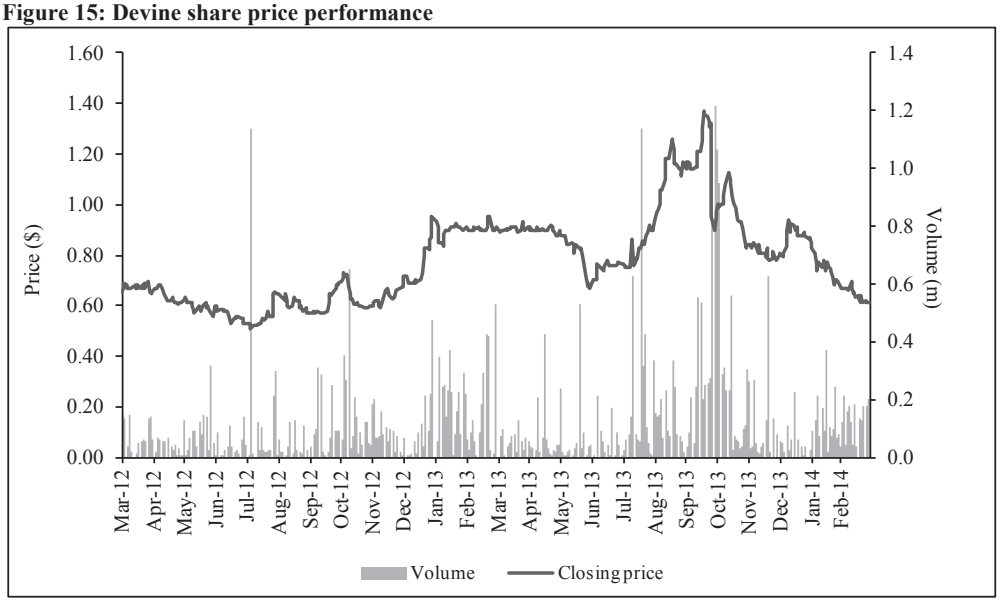
9.7.1 Devine Limited

Recent share price performance

The figure below sets out Devine's share price performance and volume of shares traded for the two year period to 28 March 2014.

Figure 15: Devine share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

On 13 August 2013, Devine announced its consolidated results for the full year ended 30 June 2013. Devine's revenue was broadly in-line with the prior period, and its loss for the year of $0.6 million was significantly lower than its loss of $12.9 million in the prior period. The improved performance supported an uplift in Devine's share price, which rose by more than 60% between August and October 2013.

In October 2013, Devine provided earnings guidance for the six months ending 31 December 2013, which prompted a sharp drop in its share price. The earnings guidance anticipated the company would deliver an underlying loss of approximately $15.0 million, reflecting a downgrade from previously issued guidance. Devine also announced that a $70 million impairment charge (before tax) would be incurred in the financial period, resulting from a review of the company's development property assets in the context of the challenging trading conditions. It was also announced that Leighton had provided a partial guarantee of up to $50 million to support Devine's banking facility with ANZ. There was no cash impact to Leighton of providing this guarantee.

Relative share price performance

The figure below illustrates the performance of Devine securities during the two year period to 28 March 2014, relative to the S&P/ASX 200 Index and the S&P/ASX 200 A-REIT (Sector) Index.

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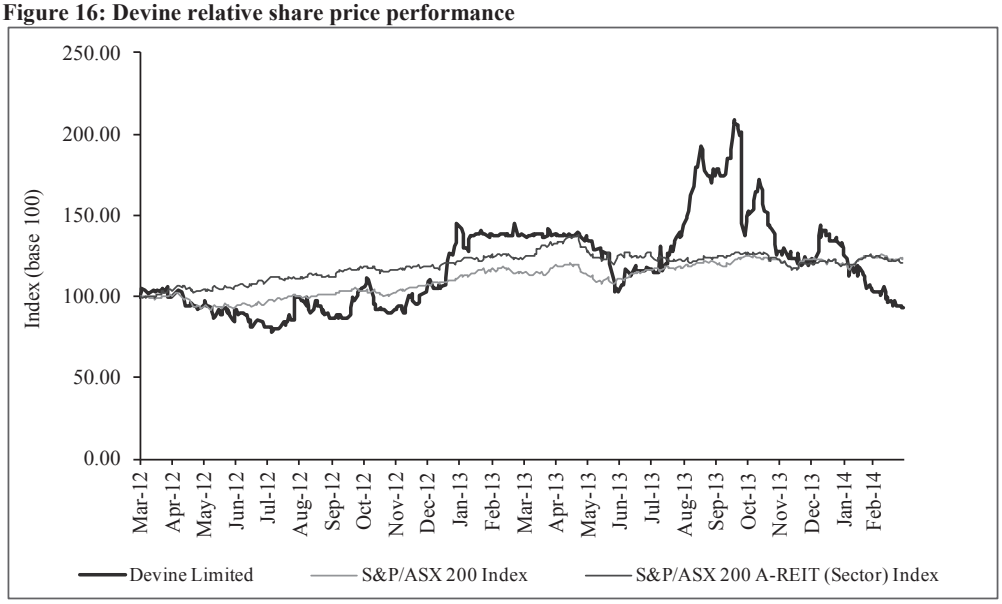
Figure 16: Devine relative share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

The S&P/ASX 200 Index and the S&P/ASX 200 A-REIT (Sector) Index were relatively stable over the two year period considered, growing steadily by 24% and 21%, respectively. Although Devine's share price initially underperformed these indices, the company's share price recovered in the latter part of 2012.

As noted above, Devine's share priced rose between August and October 2013, before dropping sharply following the earnings announcement at the end of October 2013. More recently, Devine's share price has experienced a steady decline.

Liquidity

An analysis of the volume of trading in Devine securities, including the VWAP for the period to 28 March 2014 is set out below.

Table 42: Devine securities VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $m	Cumulative volume m	% of issued capital
1 week	0.61	0.63	0.62	0.4	0.7	0.4
1 month	0.61	0.70	0.64	1.6	2.4	1.5
3 months	0.61	0.98	0.73	4.0	5.6	3.5
6 months	0.61	1.39	0.93	17.7	19.0	12.0
12 months	0.61	1.39	0.92	27.4	29.7	18.7

Source: S&P Capital IQ, KPMG Corporate Finance analysis

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Although not at high volumes, trading activity in Devine securities was recorded on each business day during the twelve month period to 28 March 2014. During the twelve month period to 28 March 2014, 18.7% of Devine's issued securities were traded, and during the six month period to this date, 12.0% of its securities were traded. Further, Devine has a free float of 38.9%[16]. Under normal market conditions, we consider it unlikely that the share price of Devine securities would be materially adversely impacted by the level of liquidity.

Valuation

Leighton owns 80.4 million ordinary shares in Devine, which equates to 50.6% of the shares on issue. The one month VWAP for Devine to 28 March 2014 was $0.64 per share which, on a pro-rata basis, implies Leighton's shares have a market value of $51.4 million.

As Leighton's equity interest in Devine is greater than 50%, it is considered to have a controlling interest in the company. This is consistent with the accounting treatment of Devine, which is fully consolidated in Leighton's consolidated accounts. Leighton also provides a partial guarantee of up to $50 million to support Devine's banking facility with ANZ, following a review of the asset carrying values of Devine's portfolio and associated impairment charges of $70 million before tax as at 31 December 2013.

We note that, in spite of the recent review of Devine's asset portfolio and related impairment charges, Devine continues to trade at a significant discount to its reported NTA (58%[17] discount at 28 March 2014). This indicates that an orderly realisation of Devine's assets may support a premium over and above the current market price. Control of Devine would enable a potential acquirer to implement strategies to realise potential value upside, and therefore we would expect an acquirer of all of Devine to be willing to pay away a proportion of this upside.

In determining an appropriate premium, a willing buyer would likely consider:

- the current valuation underlying Devine's assets and the risks inherent in realising the NTA
- the current share price and the implied discount to NTA
- the risks associated with the partial guarantee provided by Leighton, which we assume would be assumed by the acquirer
- the existing shareholder structure.

Having regard to the above, we consider it reasonable to apply a premium to the pro-rata value of Leighton's equity interest in Devine of between 20% and 35%.

Applying this premium to the pro-rata value of Leighton's shares in Devine, the implied valuation of Leighton's equity interest in Devine is $61.7 million to $69.4 million. In this respect, we recognise that the value received on any sale by Leighton of its interest would be dependent on the particular circumstances of the transaction.

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[16] Source: S&P Capital IQ, as at 28 March 2014.

[17] Discount based on reported NTA at 31 December 2013 and one month VWAP to 28 March 2014 of $0.64 per share

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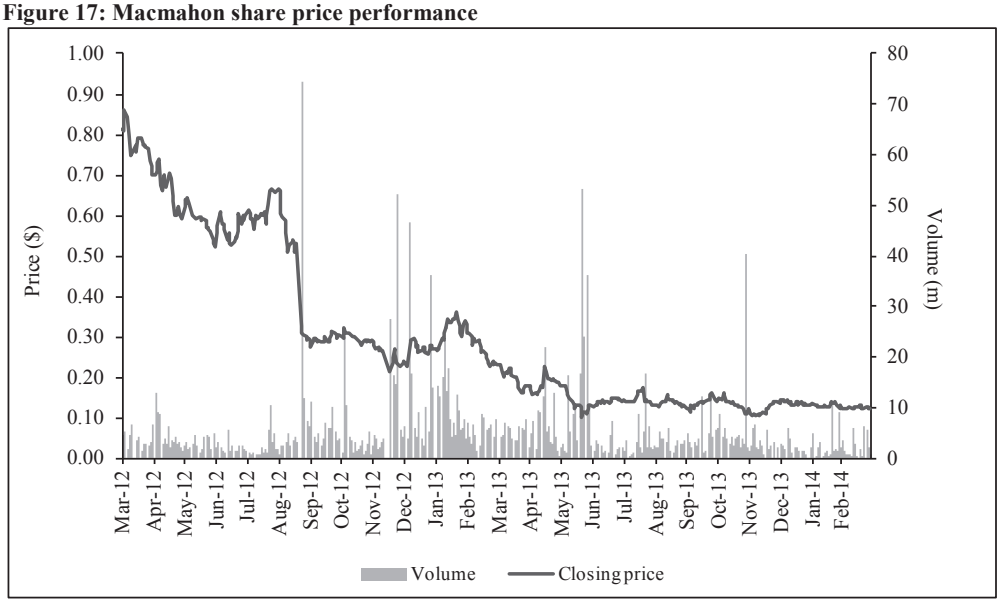
9.7.2 Macmahon Holdings Limited

Recent share price performance

The figure below sets out Macmahon's share price performance and volume of shares traded for the two year period to 28 March 2014.

Figure 17: Macmahon share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

Macmahon's share price fell significantly over the two year period to 28 March 2014, from $0.82 per share at 28 March 2012 to $0.12 per share at 28 March 2014.

On 19 September 2012, Macmahon updated its earnings guidance for the financial year ending 30 June 2013. Following a management review of its Hope Downs 4 Rail Earthworks contract in Western Australia, and reflecting increased uncertainty regarding the outlook for new construction work, the company lowered its estimate of the volume of new construction work it expected to win and deliver. Taking this into account, the company anticipated full year profit after tax would be in the range of $20 to $40 million, compared to $56.1 million for the financial year ending 30 June 2012, with the major impact of reduced earnings to be incurred in the first half of FY13. The guidance prompted a significant drop in the company's share price, from a closing price of $0.53 on 18 September 2012 to a closing price of $0.33 on 19 September 2012.

On 12 December 2012, Leighton signed a memorandum of understanding to acquire selected construction projects from Macmahon. The agreement featured the majority of Macmahon's construction projects and involved the novation to Leighton of Macmahon's interest in these contracts and the related authorisations, as well as all fixed and mobile plant and equipment located at and used solely for these projects. A counter-offer was made by Sembawang Australia Pty Ltd in January 2013, however, this was

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subsequently withdrawn after it was rejected by Macmahon's Board. The sale of the construction projects to Leighton was completed in February 2013, after it was approved by Macmahon's shareholders. The sales proceeds amounted to $29.0 million.

In June 2013, Northcape Capital Pty Ltd, a privately owned investment manager, acquired over 27 million shares, increasing its stake from 6.05% to 8.22%. Northcape Capital Pty Ltd had become a Substantial Holder in April 2013.

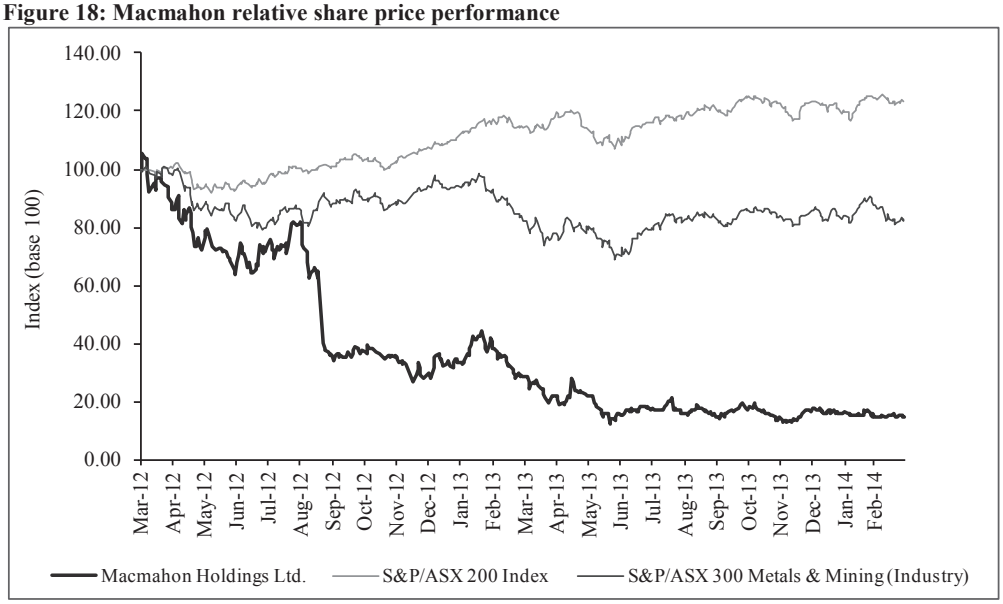
In November 2013, Macmahon held its AGM and also announced certain changes to its Board, including the resignation of two non-executive directors and its CFO. This was followed by the resignation of Macmahon's chairman in February 2014.

On 18 February 2014, Macmahon reported its earnings for the six month period ended 31 December 2013. Although total revenue (including joint ventures) from continuing operations was 3% higher than in the prior period, profit after tax from continuing operations was $17.5 million, $5.6 million lower than in the prior period. This largely reflected a $6.1 million doubtful debt expense relating to a specific project in Mongolia.

Relative share price performance

The figure below illustrates the performance of Macmahon securities during the two year period to 28 March 2014, relative to the S&P/ASX 200 Index and the S&P/ASX 300 Metals & Mining Index.

Figure 18: Macmahon relative share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

Prior to the aforementioned earnings guidance released on 19 September 2012, Macmahon's share price was already trending below both the S&P/ASX 200 Index and the S&P/ASX 300 Metals & Mining Index. As noted above, Macmahon's share price dropped substantially following the release of this guidance.

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Since then, Macmahon's share price has, to an extent, trended in-line with the S&P/ASX 300 Metals & Mining Index.

However, over the period Macmahon's share price significantly underperformed compared to the S&P/ASX 200 Index, which rose by 24% over the period. The S&P/ASX 200 Index also outperformed the S&P/ASX 300 Metals & Mining Index, which partly reflects the challenging environment experienced in the mining sector in the past two years.

Liquidity

An analysis of the volume of trading in Macmahon securities, including the VWAP for the period to 28 March 2014, is set out below.

Table 43: Macmahon securities VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $m	Cumulative volume m	% of issued capital
1 week	0.12	0.13	0.12	1.3	10.3	0.8
1 month	0.12	0.13	0.12	4.2	34.3	2.7
3 months	0.12	0.15	0.13	16.5	127.1	10.1
6 months	0.10	0.17	0.13	49.8	383.1	30.6
12 months	0.09	0.25	0.14	145.2	1,006.3	80.3

Source: S&P Capital IQ, KPMG Corporate Finance analysis

During the twelve month period to 28 March 2014, 80.3% of Macmahon's issued securities were traded. As Macmahon's free float is 74.5%[18], this indicates that under normal market conditions, there is sufficient trading liquidity in Macmahon's securities to suggest they are liquid.

Valuation

Leighton owns 246.6 million ordinary shares in Macmahon, which equates to 19.6% of the shares on issue. The one month VWAP for Macmahon to 28 March 2014 was $0.12 per share which, on a pro-rata basis, implies Leighton's shares have a market value of $29.6 million.

Sharemarket prices reflect the trading of minority interests and therefore does not reflect a premium for control. As such, if Leighton's shareholding and/or associated shareholder rights provide effective control or significant influences over Macmahon, a premium for control should be applied in determining the market value of Leighton's equity interest in Macmahon.

In this regard, we note the following:

- Leighton is the shareholder with the largest equity interest in Macmahon. The shareholder with the second largest interest in Macmahon is Northcape Capital Pty Ltd, which holds a 7.2%[19] equity interest

[18] Source: S&P Capital IQ, as at 28 March 2014.

[19] Source: S&P Capital IQ, as at 28 March 2014.

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- given the shareholder structure in Macmahon, a 19.6% shareholding would likely be considered a strategic stake that typically attracts a premium
- Leighton currently has one director on the Macmahon Board, which comprises of six directors in total.

On the basis of the above, we consider it appropriate to apply a premium to the pro-rata value of Leighton's equity interest in Macmahon, to reflect that it has greater influence over Macmahon's operations than minority shareholders. Taking into consideration both the equity interest it has in Macmahon, and the degree to which it is able to influence its business operations, we consider a control premium of between 10% and 15% to be appropriate.

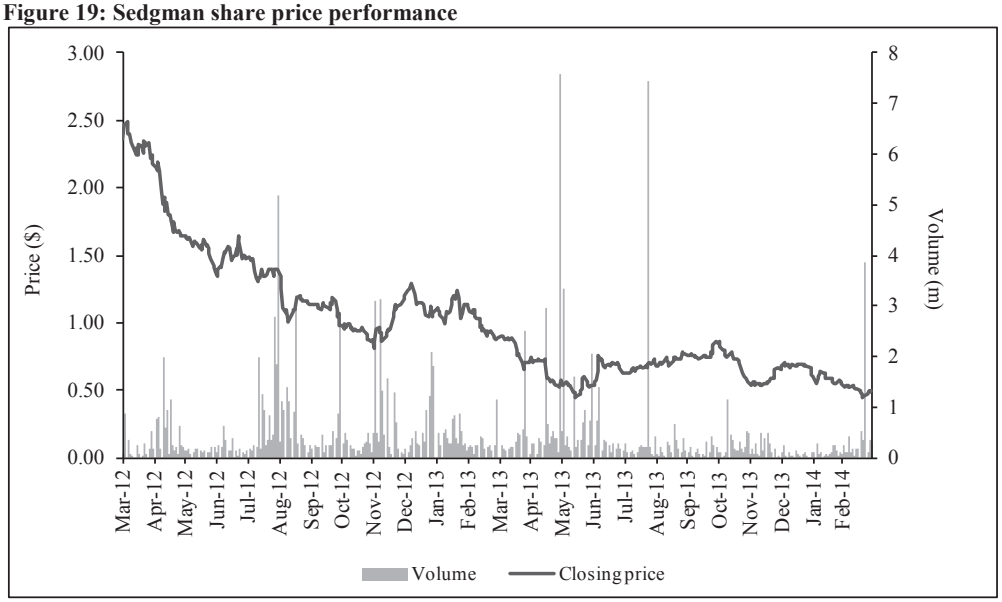
Applying this premium to the pro-rata value of Leighton's shares in Macmahon, the implied valuation of Leighton's equity interest in Macmahon is $32.6 million to $34.0 million.

9.7.3 Sedgman Limited

Recent share price performance

The figure below sets out Sedgman's share price performance and volume of shares traded for the two year period to 28 March 2014.

Figure 19: Sedgman share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

Sedgman's share price fell significantly over the two year period to 28 March 2014, from $2.36 per share at 28 March 2012 to $0.49 per share at 28 March 2014.

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On 28 November 2012, Sedgman made an offer to acquire MDM Engineering Group Ltd (MDM) for approximately $110 million in cash and shares. MDM is a metallurgical engineering company that provides minerals process engineering and project management services to the mining industry in South Africa. Under the terms of the agreement, MDM also entered into an exclusivity agreement with Sedgman from the date of the merger implementation agreement to the earlier of 30 June 2013 or the termination of the merger implementation agreement. However, on 30 May 2013, Sedgman formally terminated the proposed merger implementation agreement as certain condition precedents were not able to be satisfied by MDM, and a revised merger proposal did not gain the approval of the Sedgman Board.

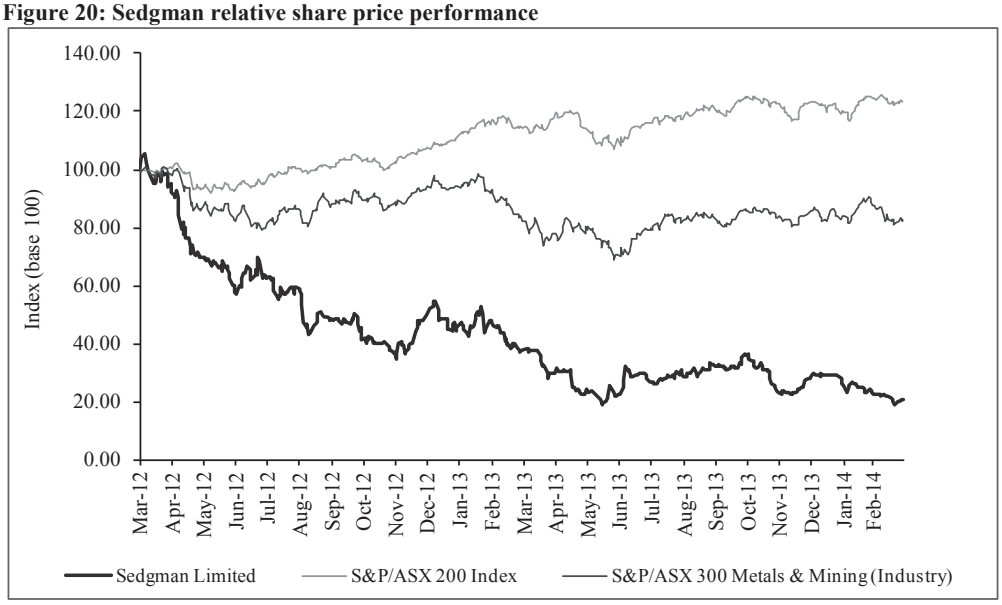
On 20 August 2013, Sedgman reported its consolidated earnings for the financial year ended 30 June 2013. The company's reported earnings were significantly lower than the previous financial year, with NPAT of $18.6 million, or 8.6 cents per share, compared to the previous financial year's NPAT of $43.7 million (20.5 cents per share). The sharp drop in earnings largely reflected the decline in revenue from $650.8 million to $435.5 million, driven by a down-sizing and stream-lining of the business.

In March 2014, Sedgman dropped out of the S&P/ASX 300 Index.

Relative share price performance

The figure below illustrates the performance of Sedgman securities during the two year period to 28 March 2014, relative to the S&P/ASX 200 Index and the S&P/ASX 300 Metals & Mining Index.

Figure 20: Sedgman relative share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

As illustrated in the figure above, Sedgman's share price significantly underperformed both the S&P/ASX 300 Metals & Mining Index and the S&P/ASX 200 Index between March 2012 and December 2012. Since December 2012, the movements in Sedgman's share price have been more closely aligned

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with the S&P/ASX 300 Metals & Mining Index and the S&P/ASX 200 Index, although it has continued to underperform against these indices.

Liquidity

An analysis of the volume of trading in Sedgman securities, including the VWAP for the period to 28 March 2014 is set out below.

Table 44: Sedgman securities VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $m	Cumulative volume m	% of issued capital
1 week	0.47	0.52	0.48	0.5	0.9	0.4
1 month	0.44	0.55	0.48	3.7	7.7	3.4
3 months	0.44	0.71	0.52	6.0	11.5	5.1
6 months	0.44	0.90	0.60	13.7	22.9	10.3
12 months	0.43	0.92	0.62	50.0	80.5	36.4

Source: S&P Capital IQ, KPMG Corporate Finance analysis

Although not at high volumes, trading activity in Sedgman securities was recorded on each business day during the twelve month period to 28 March 2014. During the twelve month period to 28 March 2014, 36.4% of Sedgman's issued securities were traded. Further, Sedgman has a free float of 51.6%[20]. Under normal market conditions, we consider it unlikely that the share price of Sedgman securities would be materially adversely impacted by the level of liquidity.

Implied valuation

Leighton owns 83.2 million ordinary shares in Sedgman, which equates to 36.7% of the shares on issue. The one month VWAP for Sedgman to 28 March 2014 was $0.48 per share which, on a pro-rata basis, implies Leighton's shares have a market value of $40.0 million.

Sharemarket prices reflect the trading of minority interest and therefore do not reflect a control premium. As such, if Leighton's shareholding and/or associated shareholder rights provide effective control or significant influences over Sedgman, a control premium should be applied in determining the market value of Leighton's equity interest in Sedgman.

In this regard, we note the following:

- Leighton is the shareholder with the largest equity interest in Sedgman. The shareholder with the second largest interest in Sedgman is Colonial First State Asset Management (Australia) Limited which holds an 8.8%[21] equity interest
- Leighton currently has one director on the Sedgman Board, which comprises of seven directors in total

[20] Source: S&P Capital IQ, as at 28 March 2014.

[21] Source: S&P Capital IQ, as at 28 March 2014.

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- given the shareholder structure in Sedgman, a 36.7% shareholding would likely be considered a strategic stake that typically attracts a premium
- we understand a co-operation agreement exists between Sedgman and Thiess in relation to contracts awarded to Sedgman that meet certain criteria. The co-operation agreement enables Sedgman to pursue larger contracts that it may not have the capability to undertake if acting on a standalone basis.

On the basis of the above, we consider it appropriate to apply a premium to the pro-rata value of Leighton's equity interest in Sedgman, to reflect that it has greater influence over Sedgman's operations than minority shareholders. Taking into consideration both the equity interest it has in Sedgman, and the degree to which it is able to influence its business operations, we consider a control premium of between 10% and 15% to be appropriate.

Applying this premium to the pro-rata value of Leighton's shares in Sedgman, the implied valuation of Leighton's equity interest in Sedgman is $43.9 million to $45.9 million.

9.8 Other investments

As referred to in Section 8.8.6 of this report, Leighton has minority investments in a number of other entities, including Aquasure (5.2%), SA Health Partnership (10.0%) and Aspire Schools (1.0%).

These investments are accounted for as available-for-sale financial assets, and are therefore measured in Leighton's accounts at fair value. At 31 December 2013, the fair value of these investments was assessed at $92.7 million.

Given the close alignment between the definition of fair value under the relevant accounting standards and our adopted definition of market value (refer to Section 9.2 of this report), we have adopted the fair value of these investments as at 31 December 2013 as a proxy for market value.

9.9 Other assets and liabilities

The table below sets out the value assigned to certain other assets and liabilities that we consider to be relevant for the valuation of Leighton.

Table 45: Other assets and liabilities

As at	Valuation approach	Value range ($m)	
$ million		Low	High
Recovery of receivables	DCF analysis	(300.0)	(200.0)
Cash adjustment for exercisable options	Exercise price	35.3	35.3
Net assets held for sale	Carrying value	124.3	124.3
Other assets and liabilities		**(140.4)**	**(40.4)**

Source: Leighton financial report for the year ended 31 December 2013; Leighton management; KPMG Corporate Finance analysis

Each of the assets and liabilities are discussed in further detail below.

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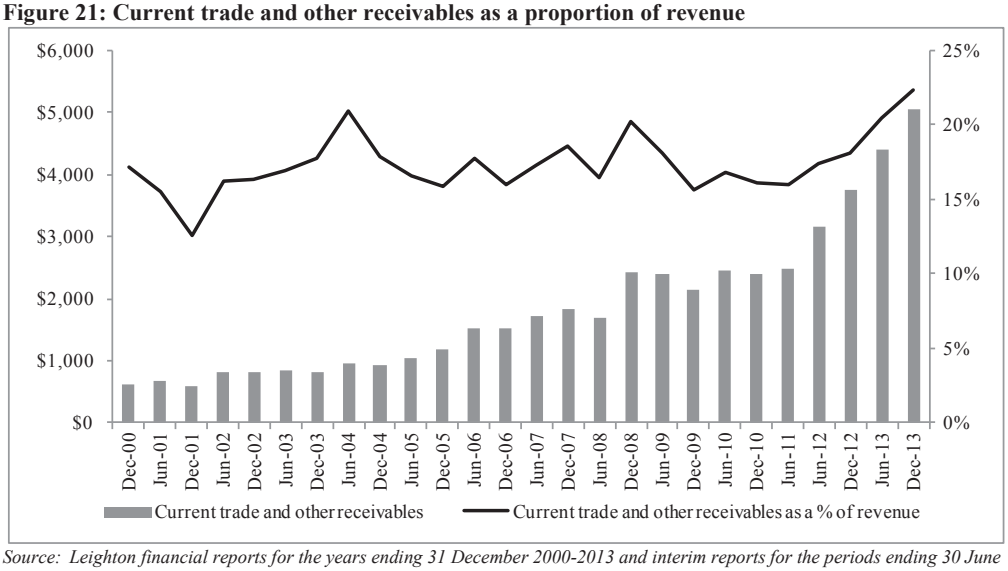
Recovery of receivables

Current trade and other receivables, which include contract debtors and underclaims, increased by $1.3 billion during CY13 to $5.1 billion at 31 December 2013. The elevated receivables has become a feature of Leighton's balance sheet primarily as a result of specific large-scale domestic LNG projects, two oil pipeline projects in Iraq and certain contract mining activities. As a proportion of revenue, the current levels of receivables are significantly higher than Leighton's long term average, as illustrated in the figure below.

Figure 21: Current trade and other receivables as a proportion of revenue



Source: Leighton financial reports for the years ending 31 December 2000-2013 and interim reports for the periods ending 30 June 2001-2013
Note 1: Percentage of revenue calculated based on LTM external revenue at each balance sheet date

Based on a long term average receivables to sales ratio of 17%, Leighton's current receivables are approximately $1.2 billion above this average. This represents an exposure of approximately 2.1 times Leighton's CY13 underlying NPAT.

Whilst Leighton has indicated that timely conversion of receivables continues to be a key focus in CY14, until the current domestic LNG projects are completed and final agreements are negotiated, there remains a high degree of uncertainty in relation to the timing and recoverability of these receivables.

In assessing whether the carrying value of the receivables provides an appropriate proxy for market value, we undertook the following procedures:

- held discussions with Leighton management to understand the issues associated with each of the major outstanding receivables, including the collection strategy, expected timing and quantum of future payments, and the risks associated with these
- reviewed certain Leighton board papers supporting the carrying value of the receivables at 31 December 2013

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- used a DCF approach to estimate the present value of the receivables under various scenarios, utilising a discount rate that reasonably compensates for the timing of the expected payments and the risks associated with recoverability.

Due to the commercial sensitivity of the information reviewed during these procedures, we are unable to disclose the detail of our analysis. However, based on the findings from these procedures, we consider it appropriate to apply a discount to the carrying value of Leighton's receivables to reflect both the time value of money and the risks inherent in their recoverability.

For the purposes of our valuation we have adopted a discount to the carrying value of Leighton's receivables of between $200 million and $300 million, having consideration to the following:

- there is potential for a range of outcomes given the work still to be done to reach settlement on a number of Leighton's largest outstanding receivables and the inherent uncertainty associated with achieving such negotiated settlements. By contrast, the carrying value assigned to the receivables for accounting purposes reflects only one scenario and does not consider the time value of money
- there is potential for upside if Leighton is able to realise a higher value than is currently reflected in the carrying value of the receivables, however, we take the view that a potential acquirer is likely to consider there to be currently greater downside risk than upside risk, and is therefore likely to apply a discount to the outstanding receivables
- there is uncertainty as to the outcome of the broad based general review of Leighton's operating model. It is therefore possible that, as a consequence of that review, a different approach to the management of receivables may be adopted, and that may result in the ultimate level of recovery of receivables being different to current expectations
- our view as to what extent a willing buyer would discount the carrying value of the receivables to reflect the timing of the expected payments and the inherent risks associated with recoverability.

In forming our opinion, we have had to make a series of judgements as to future events based on the facts which we currently know. It is inevitable that circumstances will change in the future, which will impact on the amounts ultimately realised with respect to Leighton's receivables.

Cash adjustment for exercisable options

In calculating the value per Leighton share, we have applied the total number of shares on a fully diluted basis, and have therefore taken into consideration the options associated with the LSEOP that are capable of being exercised. Further information is provided on the LSEOP in Section 7.8.3 of this report.

As at 31 December 2013, there were 1,868,250 options exercisable at an exercise price of $18.87, which were included in the calculation of the total number of shares on a fully diluted basis and for which we have incorporated the proceeds to be derived by Leighton from the exercise price as a cash adjustment in our valuation.

Net assets held for sale

The net assets held for sale primarily relate to certain Thiess assets and associated liabilities that will be sold to PT Arutmin Indonesia, the owner of the Senakin and Satui mines in Indonesia. After a Deed of

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Settlement and Termination Agreement was signed by the parties in December 2013, the transfer of the assets and associated liabilities is expected to be completed during CY14. The carrying value of these net assets at 31 December 2013 was $116.0 million, measured at the lower of their carrying amount and fair value less costs to sell.

The net assets held for sale also include certain rail and mining equipment that is being actively marketed for sale and had a carrying value of $8.3 million at 31 December 2013.

9.10 Adjusted net debt

Leighton's adjusted net debt for valuation purposes is $2,438.4 million, as set out in the table below.

Table 46: Adjusted net debt

As at $ million	31-Dec-13
Leighton Group gross debt	2,125.1
Less: Devine gross debt	(123.5)
Less: Leighton India gross debt	(55.2)
Add: Reversal of finance lease restructure	492.0
Adjusted net debt	**2,438.4**

Source: Leighton financial report for the year ended 31 December 2013; Devine Transitional 2013 Annual Report; Leighton management

In relation to the adjusted net debt, we note:

- as outlined in the Target's Statement, the financial position of Leighton has not materially changed since 31 December 2013 other than as a result of ordinary trading and except as disclosed in the Target's Statement and in Leighton's announcements to the ASX since 31 December 2013. Management is preparing Leighton's financial results for the three months ending 31 March 2014, which will be finalised for release on 5 May 2014. Further, Leighton management expects that gearing at the end of the quarter ended 31 March 2014 will be, consistent with historical seasonal working capital requirements, moderately higher than the upper end of the 2014 year end gearing guidance range of 35%. However, Leighton management continues to expect that gearing at year end will be within the guidance range of 20% to 35%. Having regard to this, and the seasonal fluctuations as discussed in Section 7.4, the increase in gearing is not unexpected and we consider it appropriate to use the reported interest-bearing debt at 31 December 2013 as the basis for determining Leighton's net debt for valuation purposes
- on 13 December 2013, Leighton refinanced $492 million of finance leases into operating leases as part of its FleetCo initiative. This had the effect of moving these assets and the associated debt off Leighton's balance sheet, thereby reducing its gross debt at 31 December 2013 by $492 million. Following on from the restructure, Leighton's operating lease expenses will increase, leading to a reduction in Leighton's operating margins (although this will be offset by a reduction in finance lease interest payable at a PBT level). As we have determined the maintainable earnings for Leighton's business operations based on its CY13 results, the implied enterprise value does not reflect this reduction in operating margin. To address the distortion resulting from the timing of the restructure,

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we have added back the value of the interest-bearing liabilities associated with the restructured finance leases

- for the reasons set out in Section 7.4 of this report, Leighton management advised that its cash and cash equivalents form an integral part of Leighton's working capital management and that its entire cash balance as at 31 December 2013 is required to support Leighton's expected working capital requirements in the short to medium term, in particular when considering management's expectation that the currently elevated levels of receivables will remain a feature of the Leighton balance sheet until the current LNG projects are completed and final agreements negotiated. Accordingly, Leighton's cash and cash equivalents are not considered to be surplus for valuation purposes.

9.11 Valuation cross-check

As a cross-check to our primary SOTP approach, we considered the reasonableness of the implied P/E multiples in the context of the market evidence set out in Appendix 4. The P/E multiples implied by our assessed value range for Leighton are set out in the table below.

Table 47: Implied P/E multiples

	NPAT ($ million)	P/E multiple (times)	
		Low	High
Historic P/E multiple			
Underlying NPAT for CY13	584.0	12.8	14.1
Forecast P/E multiple			
Broker consensus earnings forecast for CY14 (median)	563.1	13.3	14.6
Company earnings guidance for CY14 (mid-point)[1]	580.0	12.9	14.2

Source: Broker Reports; Leighton Preliminary Final Report and Management Commentary for the year ended 31 December 2013; KPMG Corporate Finance analysis
Note 1: Company earnings guidance reflects mid-point of CY14 underlying NPAT guidance issued by Leighton ($540 million to $620 million)

We considered the P/E multiples implied by Leighton's CY13 underlying NPAT, its latest CY14 earnings guidance and the forecasts prepared and disclosed by various brokers as part of their recent coverage of Leighton. In this regard, we note the mid-point of Leighton's CY14 earnings guidance is relatively consistent with Leighton's CY13 underlying NPAT, indicating management's expectation that Leighton's earnings growth will be relatively flat in CY14. Meanwhile, the consensus of the broker forecasts suggests Leighton's CY14 underlying NPAT will be slightly lower than in CY13, but will recover to more similar levels in CY15 (as set out in Section 7.13 of this report).

The P/E multiples implied by our assessed value range for Leighton include a premium for control and range from 12.8 to 14.1 times historical underlying NPAT and from 12.9 to 14.6 times forecast underlying NPAT.

In comparing the implied multiples to the market evidence set out in Appendix 4, we make the following observations:

- the multiples observed for comparable companies reflect the trading of portfolio interests and hence exclude a premium for control. It is therefore necessary to adjust for this when assessing the reasonableness of our assessed valuation range in the context of sharemarket evidence

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- as detailed in Section 9.3.3 of this report, we consider Lend Lease and Downer to provide the most relevant reference point for benchmarking purposes. Once adjusted for a control premium of between 20% and 35%, the P/E multiples observed for these companies are consistent with those implied by our valuation of Leighton. In particular, we note:
  - Lend Lease's LTM and NTM P/E multiples are in the range of 13.8 times and 15.5 times (on a controlling basis), which overlaps with the higher end of the range implied by our valuation of Leighton. We would expect Lend Lease to trade at a premium to Leighton primarily due to Lend Lease's more positive medium term growth outlook. We note, however, this is partly offset by Lend Lease's currently lower effective tax rate, which has the effect of inflating its NPAT and hence depressing the P/E multiples observed
  - Downer's P/E multiples (on a controlling basis) are in the ranges of 12.2 to13.8 times LTM NPAT and 12.0 to 13.5 times NTM NPAT, which sit towards the lower end of the range implied by our valuation of Leighton. Although Downer has a number of similarities to Leighton, including its focus on the infrastructure market, exposure to contract mining, similar medium term growth outlook and operating margins, there are a number of factors that explain why we would expect Leighton to trade at a slight premium. In particular, we note Leighton is notably larger in size, has a leading market position in the Australian construction and engineering sector and an established footprint in high-growth and emerging markets.

Taking into consideration the above, we consider the implied P/E multiples support our assessed valuation of Leighton based on our primary SOTP approach.

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Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin and Sean Collins. Each has a significant number of years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Offer is fair and reasonable to Leighton shareholders. KPMG Corporate Finance expressly disclaims any liability to any Leighton shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Target's Statement or any other document prepared in respect of the Offer. Accordingly, we take no responsibility for the content of the Target's Statement as a whole or other documents prepared in respect of the Offer.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Leighton for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Target's Statement to be issued to the Leighton Shareholders. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

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Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information

- the Bidder's Statement
- the Target's Statement
- Annual Reports of Leighton for the half year ended 31 December 2011 and the years ended 31 December 2012 and 2013
- Preliminary Final Reports and Management Commentary of Leighton for the half year ended 31 December 2011 and the years ended 31 December 2012 and 2013
- Annual Reports of Sedgman for the years ended 30 June 2012 and 2013
- Annual Reports of Macmahon for the years ended 30 June 2012 and 2013
- Annual Reports of Devine for the years ended 30 June 2012 and 2013 and the half year ended 31 December 2013
- press releases, public announcements, media and analyst presentations material and other public filings by Leighton Group, Sedgman, Macmahon and Devine, including information available on each company's website
- brokers' reports and recent press articles on Leighton and the construction, engineering and contract mining industries
- sharemarket data and related information on Australian and international listed companies engaged in the construction, engineering and contract mining industries
- various reports published by IBISWorld
- information sourced from Company360 database
- information from S&P Capital IQ.

Non-public information

- management accounts for Leighton Group for the years ended 31 December 2012 and 2013
- Leighton 2014 Business Plan
- other confidential documents, board papers, presentations and working papers.

In addition, we have held discussions with, and obtained information from, the senior management of Leighton and its operating companies, as well as Leighton's advisors.

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Appendix 3 – Overview of valuation methodologies

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

Discounted cash flow

Under a DCF approach, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

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Appendix 4 – Market evidence

Sharemarket evidence

The following table sets out the implied EBIT and P/E multiples for selected listed companies operating in the Australian construction and engineering, contract mining and/or related services sector.

Table 48: Sharemarket evidence

Company	Market focus[1]	Geographic focus[2]	Market Cap.	EBIT multiple LTM[3]	EBIT multiple NTM[4]	P/E multiple LTM[3]	P/E multiple NTM[4]
Construction & Engineering							
Lend Lease Group	I/P	AU/AM/EU	6,497	12.1	10.3	11.5	11.5
Downer EDI Limited	I/R	AU/NZ	2,133	6.8	7.0	10.2	10.0
Monadelphous Group Limited	R	AU	1,554	6.4	7.6	10.0	11.8
Murray & Roberts Holdings Ltd	I/R	AU/AF/ME	1,020	6.7	4.7	nmf[5]	10.6
Aveng Limited	I/R	AU/AF	875	12.8	4.8	30.4	9.7
RCR Tomlinson Limited	I/R	AU	394	8.9	7.8	9.3	8.8
NRW Holdings Limited	I/R	AU	300	4.0	4.0	5.5	6.0
WDS Limited	R	AU	174	6.6	5.9	13.9	12.4
Watpac Ltd	P/R	AU	173	4.9	3.6	12.3	9.9
Seymour Whyte Limited	I	AU	137	6.7	5.5	12.6	12.0
Mining Services							
Mineral Resources Ltd	R	AU/AS	2,143	6.2	6.3	8.7	8.6
MACA Limited	R	AU	434	4.3	4.6	7.2	7.8
Ausdrill Ltd	R	AU/AF	255	6.7	8.0	4.0	5.9
Macmahon Holdings Ltd	R	AU	150	3.2	4.3	3.6	5.1
Diversified Services							
WorleyParsons Limited	R	G	3,685	9.5	9.1	13.1	12.5
Cardno Limited	I	AU/AM	1,182	11.7	10.1	14.2	13.1
UGL Limited	I/P	AU/AM	1,148	12.2	10.2	10.3	9.9
Transfield Services Limited	I/R	AU/AM	410	12.2	8.6	17.0	6.5

Source: S&P Capital IQ (data as at 28 March 2014), KPMG Corporate Finance analysis
Note 1: I = Infrastructure, P = Property, R = Resources
Note 2: AU = Australia, AS = Asia, AM = Americas, EU = Europe, AF = Africa, NZ = New Zealand, ME = Middle East, G = Globally diversified
Note 3: LTM multiples calculated after normalisation adjustments applied to reported EBIT and PAT
Note 4: NTM multiples based on broker consensus forecasts sourced from S&P Capital IQ
Note 5: nmf = not meaningful

The multiples are based on sharemarket prices as at 28 March 2014 and are commonly assumed to exclude a premium for control. A brief description of each company is outlined below.

Construction & Engineering

Lend Lease Group

Lend Lease Group (Lend Lease) provides property and infrastructure services both domestically and internationally. Lend Lease's primary services are within asset and property management, development of residential, commercial and retirement living properties, and construction activities. In FY13, Lend Lease's construction business generated 86% of total revenue ($10.5 billion), however it only contributed

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35% to overall the company's PAT ($192.8 million), reflecting a margin of 1.8%. The company's development segment, which is involved in the development of urban communities, inner-city mixed-use developments, apartments, retirement, retail, commercial and healthcare assets achieved PAT of$354.3 million, reflecting a margin of 35%. This partly reflected the first contribution of the large-scale Barangaroo construction project in Sydney. In FY13, the majority of Lend Lease's operating PAT was generated from Australia (66%), however Lend Lease also has significant operations internationally, in particular in Europe and North America. A significant portion of Lend Lease's activities are undertaken through joint ventures and partnerships. As at 30 June 2013, Lend Lease had work in hand of $17.2 billion, an estimated development pipeline of $37.4 billion and funds under management of $15.0 billion.

Downer EDI Limited

Downer EDI Limited (Downer) provides engineering, construction and asset management services, primarily to the minerals and metals, oil and gas, power, transport, telecommunications, water and property sectors. The company predominantly operates in Australia and New Zealand, and is one of the largest providers of engineering services critical for infrastructure in both countries. Downer also offers contract mining services through its Downer Mining division and provides design, build, fit-out and maintenance of passenger and freight rolling stock and rail wagons through its Downer Rail division. In FY13, Downer's infrastructure segment generated approximately 57% of the company's revenue ($4.7 billion), and 50% of its total reported segment results ($230.3 million). Downer Mining generated 30% of the company's revenue ($2.5 billion) and 38% of its reported segment results ($174.2 million). As at 30 June 2013, Downer had work in hand of $19.0 billion of which construction and mining comprised 49% and 29% respectively. Downer's work in hand featured schedule of rates work ($7.3 billion), fixed price contracts ($5.3 billion), recurring/annuities work ($5.6 billion), cost-plus contracts ($0.6 billion) and alliance work ($0.2 billion).

Monadelphous Group Limited

Monadelphous Group Limited (Monadelphous) is a diversified company that provides construction, maintenance and industrial services to the resources, energy and infrastructure sectors throughout Australia. Monadelphous has three operating divisions: engineering construction (provides large-scale multidisciplinary project management and construction services), maintenance and industrial services (specialising in the planning, management and execution of mechanical and electrical services, shutdowns, fixed plant maintenance services and sustaining capital works), and infrastructure (focused on the provision of services for public sector infrastructure and utilities). In FY13, engineering construction, maintenance and industrial services, and infrastructure comprised 68% ($1.8 billion), 25% ($644 million) and 8% ($200 million) of total revenue respectively. The majority of Monadelphous' revenue is generated from the resources and energy sectors, including oil and gas (52% of FY13 revenue), iron ore (14%), coal (12%) and other minerals (22%). On 21 October 2013, Monadelphous announced that it had entered into a conditional agreement for the sale of its non-core aviation support services business, Skystar, to Menzies Aviation plc, resulting in a one-off pre-tax profit of approximately $10 million.

Murray & Roberts Holdings Ltd

Murray & Roberts Holdings Ltd (Murray & Roberts) provides engineering, contracting, and construction services in Australasia, southern Africa, the Middle East, southeast Asia and North America. The company offers civil, mechanical, electrical, mining and process engineering, general building,

construction and infrastructure development services in the global underground mining market and selected emerging markets in the natural resources and infrastructure sectors. In FY13, Murray & Roberts generated total revenue of ZAR 34.6 billion, 47% of which was generated in Australasia and Southeast Asia, 41% from Southern Africa, 11% from North America, and 2% from the Middle East. Australasia and Southeast Asia accounted for the majority of the company's FY13 earnings, generating 64% of EBIT in total[22]. As at 30 June 2013, Murray & Roberts had work in hand of ZAR 46.1 billion, of which 48% related to Australia & Southeast Asia based operations. As discussed further below, on 15 November 2013 Murray & Roberts completed the acquisition of the remaining 38.4% stake in Clough, for a cash consideration of approximately $390 million. This, combined with a number of disposals of assets and investments completed during 2013, means the historical multiples observed for Murray & Roberts are considered less meaningful.

Aveng Limited

Aveng Limited (Aveng) provides a range of construction, infrastructure, and engineering products, services, and solutions worldwide. Aveng offers building, civil engineering, concessions, earthworks, property development, and mechanical and electrical engineering services for power, mining, infrastructure, commercial and industrial, and oil and gas sectors. Aveng also operates as an engineering, construction, building, and maintenance contractor serving the building, infrastructure, and resource markets. In FY13, construction and engineering generated 68% (ZAR 35.0 billion) of total revenue, mining generated 14% (ZAR 7.4 billion) and manufacturing and processing generated 19% (ZAR 9.7 billion). Revenue generated from Australasia and Pacific Islands made up approximately ZAR 24.7 billion (48%) of Aveng's total revenue, of which ZAR 11.8 billion was generated from construction in Australia. As at 30 June 2013, Aveng's Australasia and Asia segment had work in hand of ZAR 24 billion, of which 41% was related to Australian construction.

RCR Tomlinson Limited

RCR Tomlinson Limited (RCR Tomlinson) is a multi-disciplinary engineering company that provides integrated engineering services to the mining, resources, energy, and power sectors. RCR Tomlinson has four main service lines comprising RCR Mining, RCR Energy, RCR Resources and RCR Power. In FY13, RCR Tomlinson generated revenue of $875.2 million and achieved a net profit of $37.3 million, reflecting a margin of approximately 4.3%. As discussed further below, in April 2013 RCR Tomlinson acquired the Norfolk Group (an integrated engineering services provider) for a cash consideration of $78 million by way of a scheme arrangement. As a result of the transaction, which completed in July 2013, the historical multiples for RCR Tomlinson are inflated to the extent that historic earnings would not reflect a full-year contribution from the Norfolk Group. Post acquisition, RCR Tomlinson will have less exposure to the resources sector, and increased exposure to the infrastructure sector.

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[22] EBIT based on normalised profits, and excludes contract losses on Medupi Civils joint-venture of ZAR 185 million, profit on sale of Forge Group Limited of ZAR 681 million, Middle East loss of ZAR 46 million and Corporate costs of ZAR223 million.

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NRW Holdings Limited

NRW Holdings (NRW) provides civil contracting and mining services in Australia and West Africa. The company offers civil infrastructure and other construction services, including rail formation, concrete installation, bulk earthworks and detailed road and tunnel construction. It also provides mining contracting services such as earth moving, waste stripping, ore haulage and related ancillary services, as well as drilling and blasting services. In FY13, NRW's civil contracting and mining services businesses made up approximately 63% ($860.6 million) and 29% ($404.5 million) of total revenue, and 71% ($92 million) and 14% ($17.9 million) of segment profit (before tax) respectively. Australia accounted for 98% of revenue, with its mining operations in Guinea accounting for the remainder. As at 30 June 2013, NRW had work in hand of $1.0 billion, of which civil contracting and mining services comprised 39% ($388 million) and 46% ($460 million) respectively.

WDS Limited

WDS Limited (WDS) provides design, development, engineering, construction, fabrication, and maintenance related services to energy, mining, and infrastructure sectors in Australia. In FY13, WDS generated revenue of $351.2 million and PAT of $8.2 million, representing a margin of 2.3%. 66% of revenue was generated by WDS' energy division, which primarily focuses on the oil and gas and water sectors with services including oil and gas field development, gas compression and processing, drilling and coal mine gas drainage, pipelines and other services. The remaining 34% of revenue was generated from the company's mining division, which includes mine construction and development, contract mining, equipment engineering and maintenance, fabrication, ventilation and civil tunnelling, within the coal and hard rock sector.

Watpac Ltd

Watpac Ltd (Watpac) is an Australian construction, mining services and property development company. Watpac's construction and mining services generated 72% ($1,045.6 million) and 20% ($288.8 million) of total revenue respectively. Its construction services business generated PBT of $19.4 million, representing a margin of 1.9%, whilst its mining services business generated PBT of $14.5 million, representing a margin of 5.0%. As at 30 June 2013, Watpac had work in hand of $1.3 billion, with construction and mining services comprising 61% ($823 million) and 39% ($519 million) respectively.

Seymour Whyte Limited

Seymour Whyte Limited (Seymour Whyte) is an infrastructure, engineering and construction company that provides construction services to the transport, resource, and utility sectors in Queensland and New South Wales. The company has a particular focus on transport infrastructure, including roads, bridges, rail and aviation. In FY13 the company generated revenues of $274.3 million and earned PAT of $9.3 million, representing a margin of 3.3%.

Mining Services

Mineral Resources Ltd

Mineral Resources Ltd (Mineral Resources) is an Australian diversified mining, contracting, processing, and commodities production services provider. Mineral Resources operates three minerals and metals processing and exporting businesses across Australia. Through these businesses, Mineral Resources owns

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a number of tenements which are in an early stage of exploration and development and as such have not contributed any significant earnings. In FY13, 54% of total revenue was generated from Australia, with the company's Asian operations contributing approximately 35%. Mineral Resources achieved FY13 PBT of $250.5 million, reflecting a margin of approximately 25%.

MACA Limited

MACA Limited (MACA) provides contract mining and civil services for the mining and resources industry in Australia. As at 30 June 2013 MACA had a work in hand of $1.7 billion with an average mining contract term of 35 months over ten major projects, and FY14 and FY15 project revenue of $392 million and $341 million respectively. In FY13, MACA's contract mining services generated 84% of MACA's revenue, and 94% of MACA's net PBT. Overall, MACA achieved net PBT of $71.8 million, which reflected a margin of approximately 15%.

Ausdrill Ltd

Ausdrill Ltd (Ausdrill) provides production-related services to mining clients in Australia and Africa. In Australia, the company provides services including drill and blast, grade control, water well drilling and equipment sales, hire and parts. In Africa, Ausdrill provides load and haul crusher feed services, in addition to production-related services that Ausdrill provides in Australia. In FY13, contract mining represented approximately a quarter of total revenue with the remainder being generated from other mining related services. Operations from Australia and Africa represented 65% and 35% of revenue respectively. The company generated PBT of $109.5 million in FY14, reflecting a margin of 9.7%.

Macmahon Holdings Limited

Refer to Section 8.8.2 of this report.

Diversified Services

WorleyParsons Limited

WorleyParsons Limited (WorleyParsons) provides professional services to the resources and energy sectors, and complex process industries, providing engineering design, project delivery services, and maintenance and reliability support services. In FY13 the company reported total revenue of $8.8 billion. The majority of its earnings are generated from its hydrocarbons services, which contributed 70% of total FY13 segment revenue and generated EBIT of $633.7 million, reflecting 70% of the company's total segmental EBIT. The company's FY13 PAT of $344.2 million represented an overall margin of 3.9%. Canada, Australia and the US represent WorleyParsons' largest markets, although it has operations around the world, including the high growth regions of Asia, the Middle East, Africa and India.

Cardno Limited

Cardno Limited (Cardno) is an infrastructure and environmental services company that provides professional services in relation to the development and improvement of physical and social infrastructure. Cardno primarily provides consulting, engineering, planning, landscape architecture, environmental services and geotechnical services. In FY13, the company generated revenues from a range of sectors, including oil and gas (18%), property development (14%) and resources and mining (10%), as well as from various government authorities, which accounted for 21% of FY13 revenue. In FY13, 54%

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of revenue was generated from the Americas and 40% from Australia and New Zealand, and the company achieved a net profit margin of 6.5%. On 17 March 2014, Cardno completed the acquisition of the PPI Group, which is a specialist engineering consultancy that provides services to the oil and gas sectors, for total consideration of US$133 million.

UGL Limited

UGL Limited (UGL) provides outsourced engineering, property and asset management and maintenance services in a range of sectors, including power, water, resources, rail and transport systems and communications. In FY13, the company achieved revenue of $3.8 billion, approximately 50% of which related to the company's engineering and operations and maintenance business. The remaining 50% was earned by DTZ, UGL's property business that provides a range of property services including leasing agency and brokerage, integrated property and facilities management, investment and asset and project management and consulting services in over 50 countries worldwide. UGL's FY13 net profit of $41.7 million was influenced by a number of exceptional items, including rebranding and brand impairment costs and restructuring costs, which explains its relatively low FY13 margin (1.1%). At 30 June 2013, the company had an order book of $8.3 billion, $3.5 billion of which related to DTZ. In August 2013, UGL announced its intention to pursue a demerger of DTZ in FY15. The current trading multiples may, therefore, be distorted by the expected impact of a trade sale or demerger of DTZ.

Transfield Services Limited

Transfield Services Limited (Transfield) provides operations and maintenance, asset management, project and capital management outsourcing, and infrastructure development services. Transfield operates across a range of industries, including mining, transport (including road, rail and public transport), utilities (including water, power, and telecommunications), facilities management and defence. Through its Easternwell segment it also provides drilling, well servicing and maintenance, and other engineering and manufacturing in the oil and gas sector. Transfield's activities are primarily based in Australia and New Zealand, but it also has operations in the Americas, the Middle East and Asia. A significant portion of its activities are undertaken through joint ventures and partnerships. Transfield also holds a 20% interest in RATCH Australia Corporation Limited, which invests in infrastructure activities. In FY13, Transfield generated total revenue of $3.5 billion. Whilst the company recorded a loss in FY13, this was partly caused by a goodwill impairment charge of $318 million, which primarily related to its Easternwell minerals exploration and marine geotechnical business and its US downstream maintenance business. Excluding this impairment charge, the company's EBIT margin was 2.9%.

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Transaction evidence

The following table sets out EBIT multiples implied by recent transactions that involved companies operating in the construction and engineering, contract mining and/or related services sector within Australia and internationally.

Table 49: Transaction evidence

Date	Acquirer	Target	Transaction value (AUD)[1]	Percentage acquired	EBIT multiple LTM[2]	EBIT multiple NTM[3]
Australia						
Sep-13	Jacobs Australia Holdings	Sinclair Knight Merz	1,329.9	100%	8.9	n/a[5]
Jun-13	Murray & Roberts Holdings	Clough Limited	690.7	38%	7.6	7.0
Dec-10	Lend Lease Group	Valemus Limited	822.0	100%	5.4	4.9
Apr-10	Clough Operations	Forge Group Limited	119.6	18%	4.8	n/a[5]
Jun-09	AMEC plc	GRD Limited	156.0	100%	8.3	9.9
International						
Jan-14[6]	AMEC plc	Foster Wheeler AG	3,197.7	100%	12.4	11.2
Feb-13	WorleyParsons Limited	Bergen Group Rosenberg AS	151.7	100%	6.2	n/a[5]
Jul-12	Chicago Bridge & Iron Company	The Shaw Group Inc	2,672.6	100%	nmf[4]	11.3
Jul-11	OZ Management L.P.	STX OSV Holdings	1,321.5	18%	4.9	5.9
May-11	AMEC plc	MACTEC Inc	280.2	100%	8.8	n/a[5]
Jan-12	FCC	ALPINE Bau GmbH	482.6	14%	8.1	n/a[5]
Nov-10	Rasperia Trading	Strabag SE	3,115.0	17%	9.7	8.7
Jun-10	Acergy SA	Subsea 7 Inc	3,966.5	100%	11.5	9.3
May-10	The Churchill Corp	Seacliff Construction Corp	346.7	100%	9.3	10.1
Nov-09	Ernst Gohner Stiftung	Implenia AG	415.3	52%	6.7	6.5
Oct-09	Bilfinger Berger AG	MCE AG	569.9	100%	7.8	n/a[5]
Sep-09	Basil Read Holdings	TWP Holdings	103.8	100%	7.8	n/a[5]

Source: Company financial statements and announcements, S&P Capital IQ, KPMG Corporate Finance analysis
Note 1: Transaction value refers to enterprise value of the company as of the date of completion
Note 2: LTM multiples calculated based on EBIT from most recently available results as at the transaction announcement date, after normalisation adjustments
Note 3: NTM multiples calculated based on broker consensus forecasts as at the transaction date
Note 4: nmf = not meaningful
Note 5: n/a = not available
Note 6: AMEC plc and Foster Wheeler AG transaction is currently pending with completion expected in the second half of 2014

A brief description of each transaction is outlined below.

Australian transactions

Acquisition of Sinclair Knight Merz by Jacobs Engineering Group

On 13 December 2013, Jacobs Engineering Group completed the acquisition of Sinclair Knight Merz (SKM) for a cash consideration of US$1.2 billion plus adjustments for cash, debt and other items. SKM is an employee owned company with broad consulting, planning, engineering, architecture, scientific and construction management capabilities with significant operations in Australia, Asia, South America and

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the UK. The markets which SKM services includes mining and metals, building and infrastructure, water and environment, and power and energy. As at 23 June 2013, SKM's diversification across services was reasonably balanced with building and infrastructure and mining and metals comprising 66% of SKM's total revenue. However, SKM was significantly concentrated in the Asia Pacific region having over 80% of revenue being driven from this geographic segment.

Acquisition of Clough Limited by Murray & Roberts Holdings

On 15 November 2013, Clough Limited (Clough) shareholders had approved the offer by Murray & Roberts to acquire a 38.4% stake in Clough for a cash consideration of approximately $390 million. The consideration comprised a cash payment of $1.32 per Clough share and an additional dividend payment of $0.14 per Clough share. Clough is an engineering and project services contractor servicing the Energy and Chemical and Mining and Minerals markets in Australia and Papua New Guinea, especially to the LNG industry and near shore marine projects. As at 30 June 2013, Clough's core service was the provision of project management, engineering, procurement and construction services, which comprised 56% of total revenue.

Acquisition of Valemus Limited by Lend Lease Group

On 10 March 2011, Lend Lease completed the acquisition of Valemus Limited (Valemus), the parent company of Abigroup Limited, Baulderstone Pty Limited and Conneq Inc, from Bilfinger Berger SE for $1.1 billion. The consideration included $960 million as purchase consideration and a further payment of $80 million plus $5 million per month from October 1, 2010 to completion for undistributed profits. Valemus provides engineering solutions for the construction of civil infrastructure and buildings in Australia and New Zealand. As at 31 December 2010, 47% of Valemus' revenue was generated from the engineering construction service and a further 37% was generated from residential and non-residential building construction. The multiples shown are calculated using the EBIT LTM and EBIT NTM figures from the IPO prospectus.

Acquisition of Forge Group Limited by Clough Operations

On 12 May 2010, Clough Operations completed the proportional takeover offer made on 24 February 2010 for 50% of the ordinary shares in Forge Group Limited (Forge) at $2.10 per share[23]. At that time Clough Operations held a 31.3% stake in Forge Group Limited which triggered a strategic alliance between Clough and Forge. The alliance was created to focus on targeting opportunities in the LNG/oil and gas sectors. Forge, through its subsidiaries, provides engineering, procurement, and construction services, as well as asset management solutions to resources, energy, and public utility sectors in Australia, Asia, West Africa, and New Zealand, with a focus on Australia as 97% of revenues in FY10 were generated here. As at 30 June 2010, over 85% of Forge's revenue was generated from the construction services provided to the mining, energy and government sectors.

[23] The enterprise value was adjusted for $16.9 million of cash paid in advance for contracts in work as at 30 June 2009.

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Acquisition of GRD Limited by AMEC

On 17 November 2009, AMEC announced the finalisation of the proposal to acquire GRD Limited (GRD) with total consideration being $106 million in cash. The scheme consideration of $0.55 per GRD share as paid to GRD shareholders. The transaction implied an enterprise value of $156 million for GRD. GRD provides engineering and project development services to the mining sector in Australia, South America and South Africa. The company specialises in the design, procurement, and construction of mineral resources and waste-to-resources projects. The multiples presented were calculated based on adjusted earnings figures as stated in the independent expert report for GRD.

International transactions

Acquisition of Foster Wheeler AG by AMEC plc

On 13 January 2014, AMEC plc made a bid to acquire Foster Wheeler AG (Foster Wheeler) for a cash consideration of $3.1 billion. The transaction will give Foster Wheeler AG securityholders US$16 in cash and 0.9 of a new AMEC plc share, equivalent to a total US$32 per Foster Wheeler security held, which represents a 1% premium over the share price one day before the announcement. Foster Wheeler provides engineering and construction services (76% of revenue in 2013), as well as power generating equipment (24% of revenue in 2013) to the oil and gas, LNG and gas monetization, refining, chemicals and petrochemicals pharmaceuticals, biotechnology and healthcare, minerals and metals, environmental and power industries globally. In the twelve months to 31 December 2013, Foster Wheeler's European and North American operations contributed 24% and 28% to overall revenue respectively.

Acquisition of Bergen Group Rosenberg AS by WorleyParsons

On 20 February 2013, WorleyParsons entered into an agreement to acquire Bergen Group Rosenberg AS (Bergen Group) from Bergen Group Offshore AS for a cash consideration of NOK 1.09 billion. The deal consideration included more than NOK 200 million of acquired cash. Bergen Group operates as a contractor in the oil and gas market in the Norwegian continental shelf. It provides various projects that range from fabrication contracts to engineering, procurement, construction, installation, and commissioning projects. The target concentrates on offshore installations mainly in the North European area.

Acquisition of The Shaw Group by Chicago Bridge & Iron Company

On 30 July 2012, Chicago Bridge & Iron Company (CB&I) signed a definitive merger agreement to acquire The Shaw Group (Shaw) in cash and stock for US$3.2 billion. Shaw's common stockholders, cash-settled restricted stock unit holders and restricted stock unit holders received US$41 in cash and 0.12883 shares of CB&I equity for each share of Shaw. The company provides technology, engineering, procurement, construction, maintenance, fabrication, manufacturing, consulting, remediation, and facilities management services to multinational and national power and oil companies, industrial corporations, regulated utilities, and the US government agencies worldwide. In the twelve months to 31 August 2012, 88% of Shaw's revenue was obtained from the Americas region. Due to Shaw selling its E&C division as of 31 August 2012 the earnings derived from the FY12 did not seem meaningful without adjustment, as these still included the results of the division. Therefore we have only presented the multiples based on the predicted earnings for FY13, which are based on the structure without the E&C division.

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Acquisition of STX OSV Holdings shares by OZ Management

On 8 July 2011, STX Europe Holding AS, agreed to sell part of its equity interest in STX OSV Holdings (STX) to OZ Management. The placement of 215,590,000 ordinary shares was priced at SGD 1.33, which was approximately 18.27% of STX. Upon completion, OZ Management's stake increased to 20% in STX. The company engages in the design and construction of offshore and specialised vessels for use in the offshore oil and gas exploration and production, and oil services industries worldwide. The company generates its revenues mainly from the construction of these vessels with a regional focus in Northern Europe. In 2010, the regional segmentation was as follows: Norway 74%, Rest of Europe 5%, South America 15% and Asia 7%. In March 2013, Fincantieri Oil & Gas S.p.A. acquired a 50.75% stake in STX implying an enterprise value of $1,382 million as at 13 March 2013.

Acquisition of MACTEC by AMEC plc

On 18 May 2011, AMEC announced the agreement to acquire MACTEC for a cash consideration of US$280 million. MACTEC is headquartered in Georgia in the US and provides environmental, engineering and design, and construction services to public and private clients worldwide, with a focus on clients in the eastern parts of the US.

Acquisition of ALPINE Bau GmbH by Fomento de Construcciones y Contratas, SA

On 31 January 2012, Fomento de Construcciones y Contratas, S.A. acquired the remaining 13.5% stake in ALPINE Bau GmbH (ALPINE) for €52.6 million. ALPINE provides construction services which includes road construction, railway construction, bridge construction, building construction, power station construction, underground construction, sports facility construction, environmental engineering, foundation engineering, energy, project financing, resources, and machinery services. In FY12, ALPINE generated most of its revenues from civil engineering (47%) and building construction and power plant construction (35%). The regional focus is in Europe, with 95% of sales resulting from here.

Acquisition of Strabag SE by Rasparia Trading Ltd

On 9 November 2010, Rasperia Trading Ltd agreed with Strabag SE's (Strabag) core shareholders to acquire a 17% stake in Strabag for a price of €19.25 per Strabag share for a total of approximately €373 million. Strabag engages in the construction of commercial and industrial facilities, public buildings, bridges, power plants, railway structures, roads, sports and recreational facilities, protective structures, sewer systems, waterways, warehouses, hotels, and residential properties. As at 31 December 2009, 83% of total revenue was generated from the building construction and civil engineering, and transportation infrastructure services. An additional 16% of revenue was generated by special divisions and concessions; this segment offers for example property development and tunnelling. Strabag's operations are concentrated on Europe, where approximately 94% of revenue is generated. Rasparia Trading Ltd increased its stake in Strabag later to currently 19.4%.

Acquisition of Subsea 7 Inc. by Acergy SA

On 21 June 2010, Acergy SA agreed to acquire Subsea 7 Inc. (Subsea 7) headquartered in London, UK for a purchase price of approximately US$2.5 billion. Acergy SA paid 1.065 shares for every Subsea 7 share at a 3% premium, based on the share price one day prior announcement. Subsea 7 provides seabed-to-surface engineering, construction, and contract services to the offshore energy industry. Subsea 7 is

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geographically diverse, with operations spanning the North Sea, Africa, Brazil, North America and Asia Pacific regions.

Acquisition of Seacliff Construction Corporation by The Churchill Corporation

On 13 July 2010, Churchill Corporation completed the acquisition of Seacliff Construction Corporation (Seacliff) whereby Seacliff shareholders received C$17.14 in cash for each common share. The purchase price was approximately C$394 million. Seacliff provides general contracting construction, electrical contracting, earthmoving, and heavy civil construction services to the public and private sectors in western Canada. As at 30 June 2010, 73% of Seacliff's revenue was generated from general contracting, construction management and design build.

Acquisition of Implenia AG by Ernst Gohner Stiftung et al.

On 13 November 2009, Ernst Gohner Stiftung et al. acquired a 51.9% stake in Implenia AG (Implenia) for CHF 240 million. Implenia operates as a construction and construction services company in Switzerland and internationally. The company operates in three segments: Real Estate, Infrastructure Construction, and Industrial Construction. As at 31 December 2009, the majority of Implenia's revenue was generated from project and facility management services and the construction of infrastructure, comprising 47% and 43% of total revenue respectively. Implenia focuses its business operations on Switzerland.

Acquisition of MCE AG by Bilfinger Berger AG

On 6 October 2009, Bilfinger Berger AG announced the acquisition of MCE AG (MCE) for a consideration of €350 million. MCE provides industrial piping systems and plant assembly, manufacturing and installation of mechanical components, and is a full-service provider of maintenance activities for entire industrial locations, as well as outsourced service providers. MCE's activities are predominantly in Austria and Germany. In the twelve months to 31 December 2008, MCE had over 6,500 employees and generated revenue of approximately €900 million.

Acquisition of TWP Holdings (Pty) Ltd by Basil Read Holding Ltd

On 30 September 2009, Basil Read Holding Ltd acquired all the shares in TWP Holdings (Pty) Ltd (TWP) for a cash and stock consideration of approximately ZAR840 million. The acquisition was paid in cash and stock. TWP provides engineering, architectural, and project management solutions to mining and minerals industries, and the built environment. The company is regionally focused on South Africa and Australia, with 91% of revenue in FY09 generated in South Africa and 9% in Australia. TWP was sold by Basil Read Holding Ltd again to WorleyParsons in March 2013 for an implied enterprise value of $97 million.

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Appendix 5 – Industry overview

Detailed below is an overview of the domestic markets in which Leighton Group operates, including the Australian infrastructure, contract mining, residential construction and non-residential construction sectors.

An overview of the primary overseas markets in which Leighton Group operates is also set out below, including the infrastructure sector in Asia broadly, the construction industry in Hong Kong and Macau, and the contract mining sector in Indonesia.

Infrastructure sector in Australia

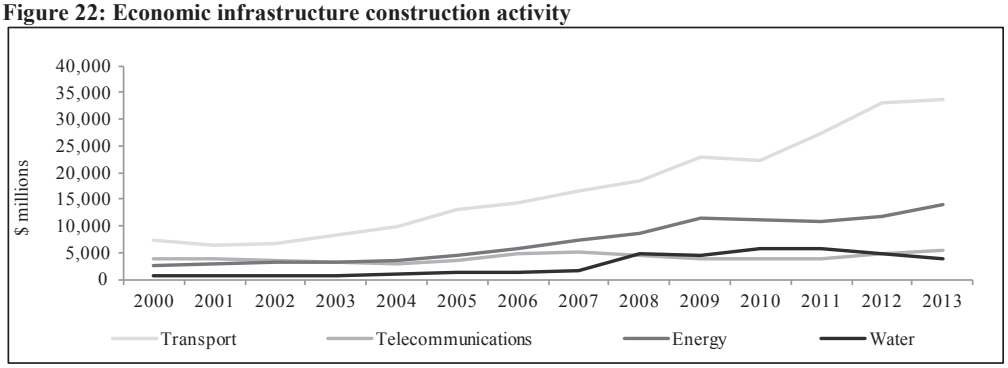
Infrastructure plays a pivotal role in the Australian economy by both facilitating and increasing the productivity of other forms of economic activity. The infrastructure sector is a key generator of economic activity, representing approximately 10% of Australia's GDP in 2012[24].

Infrastructure can be broadly classified into two categories:

- economic infrastructure, which includes infrastructure that directly supports economic activity and typically involves revenue streams linked to demand or 'user pays' funding structures. Examples of economic infrastructure assets include toll roads, bulk materials ports, freight rail infrastructure, etc.
- social infrastructure, which includes assets that enable the provision of social services such as education, health services and community housing. Examples of social infrastructure assets include schools, hospitals, universities and prisons.

During the past decade, Australia has experienced a significant increase in infrastructure construction activity, particularly in relation to the transport sector. The diagram below illustrates the value of construction activity related to four key economic infrastructure classes including transport, telecommunications, energy and water from 2000 to 2013.

Figure 22: Economic infrastructure construction activity



Source: Australian Bureau of Statistics, Engineering Construction Activity, cat. no. 8762.0

[24] Bureau of Infrastructure, Transport and Regional Economics, 2013 Key Australian Infrastructure Statistics.

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Key demand drivers

Infrastructure plays a fundamental role in enabling and improving the everyday economic and social life of the population, the demand for infrastructure increases with macroeconomic factors such as population growth, gross domestic product (GDP) growth and wealth (i.e. GDP per capita).

Infrastructure Australia, a statutory body established by the Federal Government to advise on infrastructure related issues, has identified three key trends which will significantly impact the nature and level of demand for infrastructure in Australia over the coming decades:

- the rise of Asia: it is estimated that by 2050, Asia will be the centre of global commercial activity, being responsible for more than 50 percent of global economic output[25]. In addition, between 2009 and 2030, the population of the Asia Pacific region is anticipated to increase by six-fold. These macroeconomic trends are expected to increase urbanisation rates and drive significant increases in incomes and living standards. These trends in Asia are likely to have significant impacts on Australia's resources, agricultural, services, tourism and educational sectors, which will flow through to demand for infrastructure to take advantage of the economic opportunities that this presents
- changing population demographics: by 2050 the population of Australia is estimated to be approximately 36 million representing an increase of approximately 50% from current levels[26]. Higher population levels drive increased demand for goods, services, transport, housing, energy and water. The provision of new infrastructure will be critical to meeting these demands
- declining productivity growth: productivity growth is forecast to decrease to 1.4% per year over the coming decade, down from 2.1% in the 1990s. This decline is considered to be partially due to deficiencies in certain areas of the Australian infrastructure sector such as rail, ports and roads, which are currently negatively impacting productivity. In an attempt to alleviate these deficiencies, the Federal and State Governments have begun to take action by committing to a range of infrastructure projects.

Industry participants

The Australian infrastructure construction market is relatively concentrated, particularly in the case of large and complex projects. Leighton and Lend Lease Group together hold a significant market share. There are various estimates of Leighton and Lend Lease Group's combined market share:

- based on data from 2008 to 2009, the Department of Infrastructure and Regional Development estimated that together they account for approximately 75% of the infrastructure construction market[27]
- IBISWorld estimates that the combined market share in 2012 to 2013 was less than 20 percent of each of road and rail, heavy industry and other non-building construction sub-markets.

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[25] Australian Government 2012, Australia in the Asian Century - White Paper

[26] Australian Government 2010, Australia to 2050: Future Challenges

[27] Department of Infrastructure and Regional Development submission to Productivity Commission Inquiry into Public Infrastructure, December 2013

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In collating these differing estimates, the Productivity Commission notes that differences in the definition of markets used in the various analyses has a significant impact on the results. The Productivity Commission's view is that it is likely that the combined market share between Leighton and Lend Lease Group for major public infrastructure will be significantly more than 20% but likely less than 60%[28].

Other notable companies in the Australian infrastructure market include Downer EDI Limited and UGL Limited.

Access to funding and financing models

Infrastructure projects typically follow a similar lifecycle, with various stages progressing from development to construction and operations and maintenance. As the funding of the Australian infrastructure sector becomes more sophisticated, there is an increasing trend towards more integrated and whole-of-life transactions, such as public private partnerships (PPPs) and alliance contracting, as opposed to traditional design and construct contracts.

While historically the engineering construction activity in Australia was predominantly funded by the public sector, private investment's share of the engineering infrastructure market has grown from less than 30% in the early 1990s to an estimated 80.7% in 2013 to 2014[29].

According to Infrastructure Australia, Australia faces a significant infrastructure deficit, estimated to be nearly $300 billion[30]. With Government budgets remaining constrained, future funding is likely to involve greater use of private investment, new government funding models, and user charges.

Outlook

The key demand trends identified above have led to a renewed focus at both a State and Federal Government level regarding the amount of infrastructure investment required throughout Australia in the coming decades.

On 20 March 2014, a media release from the Office of the Minister for Infrastructure and Regional Development, Mr Warren Truss, publicly stated that the Federal Government has committed $35.5 billion[31] in transport infrastructure investments over the next six years.

In addition, Infrastructure Australia maintains the Infrastructure Priority List, which contains projects it deems to be of national significance and that address key national infrastructure-related challenges. It classifies these projects into four categories of development progress:

- early stage: initiatives in this category address a nationally significant issue or problem, but the identification or development of the right solution is at an early stage

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[28] Productivity Commission, Public Infrastructure Draft Report Volume 2, March 2014.

[29] IBISWorld, Industry Report - Heavy Industry and Other Non-Building Construction, January 2014.

[30] Infrastructure Australia, National Infrastructure Plan, June 2013.

[31] Office of the Minister for Infrastructure and Regional Development, Press release - 'MyRegion Website Alive and Well', 20 March 2014.

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- real potential: initiatives in this category clearly address a nationally significant issue or problem and, there has been a considerable amount of analysis of potential solutions
- threshold: initiatives in this category have strong strategic and economic merit, and are only not ready to proceed due to a small number of outstanding issues
- ready to proceed: initiatives in this category meet all of Infrastructure Australia's criteria.

The estimated total capital expenditure of projects on the Infrastructure Priority List at December 2013, by category, is detailed below.

Table 50: Estimated capital expenditure of projects on infrastructure priority list at December 2013

Project status	Estimated capital expenditure
Early stage	$24.9 billion to $28.4 billion
Real potential	$25.9 billion to $29.5 billion
Threshold	$20.3 billion to $22.3 billion
Ready to proceed	$11.0 billion

Source: Infrastructure Australia, June 2013 National Infrastructure Plan

The factors outlined above are expected to provide support for infrastructure projects and industry participants over the medium to long term.

Contract mining services sector in Australia

Contract miners are hired by mining companies on a contract basis to perform various operational functions on mining sites. The scope of work can range from preparation of mine sites for mining to undertaking the entire mining process for an agreed period of time. Contract miners have access to a large pool of machinery and a skilled workforce, which can assist in reducing costs for resource companies.

Demand for contract mining services is closely related to the underlying performance of the overall resources industry, and is therefore is cyclical in nature.

Rising demand from emerging Asian economies, particularly China, led to a boom in the Australian resources sector over the past decade. High demand spurred increased investments across the sector. During this 'capital investment phase', resource companies focused on expansion of their capacities and were increasingly prepared to outsource various resource extraction processes (e.g. drilling, blasting, loading, hauling, etc) or entire mine operations to third party contract mining services providers.

In recent years, market conditions have become more challenging due to the decline in prices of a number of key commodities. In response, a number of new projects and expansions to existing mines have been either delayed or cancelled. Resource companies have also reduced volumes or brought the mining function in-house. This has negatively impacted contract mining services, as growth in demand for services has slowed.

Market size

During 2009-2014, the Australian contract mining services market grew at a CAGR of about 9.6% to reach total industry revenue of approximately $12.9 billion[12]. During 2014-2019, this growth is expected to slow, increasing at a CAGR of around 3.2% to reach $15.1 billion in 2019[12]. Declines in the prices of

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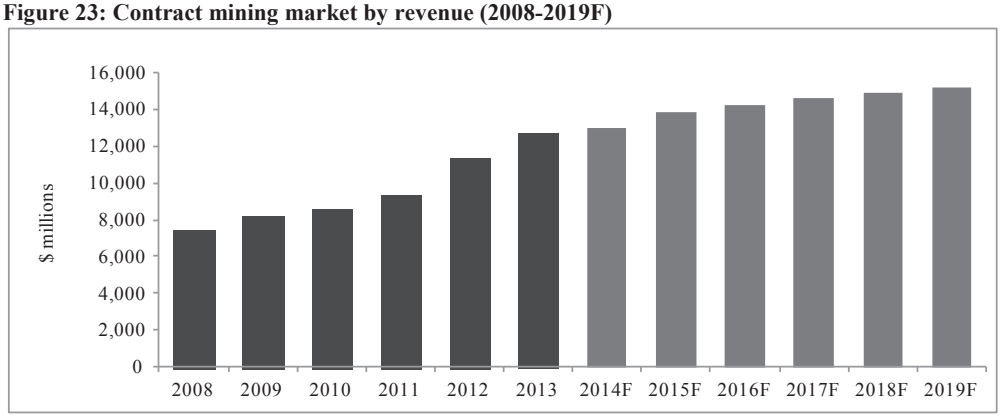
key commodities have impacted the margins of resource companies, which are now focusing on reducing costs. Consequently, mining companies are reducing their outsourcing and strengthening their in-house mining capabilities. This is expected to impact the demand for contract mining services in the short to medium term.

Figure 23: Contract mining market by revenue (2008-2019F)



Source: IBISWorld

Industry participants

The contract mining sector in Australia has a high degree of concentration with the top three participants accounting for about 80% of the total market in 2013. Leighton holds the largest market share (approximately 51%), followed by Downer EDI (approximately 21%) and Macmahon (approximately 9%). Other sector participants include Ausdrill, Boart Longyear, Byrnecut Mining and BCG Contracting.

Large companies benefit from economies of scale with recent decrease in the levels of demand, impacting the profitability of small players, leading to consolidation in the industry. Established players, such as Ausdrill, have acquired small companies to further strengthen their presence in the market. Contract mining companies are also experiencing increased competition from in-house mining divisions of large mining companies.

Outlook

The amount of committed investment in the Australian resources sector has declined from approximately $268.0 billion as at April 2013 to approximately $240.0 billion as at October 2013[14], which is due to a shift from a capital investment phase to a volume production phase. Additionally, over the same period only five projects worth a combined $1.7 billion were identified as receiving final approval to commence construction and thus moved from the feasibility stage to the committed stage. This is simultaneously the lowest number and lowest combined value of projects to do so in over a decade[11].

As at October 2013, over 80%, or $195.0 billion, of the committed projects are attributable to LNG, oil and gas projects, indicating constrained growth opportunities for contract miners in the near future. Iron ore and coal accounted for about 7%, or $17.3 billion, and 5%, or $11.4 billion, of committed projects, respectively. Between April and October 2013, the Bureau of Resources and Energy Economics removed

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37 projects from committed status and delayed a further 71 projects, indicating that the investment environment in the resources sector is expected to remain challenging over the short to medium term.

Decreases in demand have led to falls in the prices of a number of commodities, including both thermal and metallurgical coal, as well as iron ore. Prices for Australian thermal coal have decreased approximately 42% from a recent high of US$132.48 per tonne in January 2011, to US$76.29 per tonne in February 2014[32]. Similarly, prices for iron ore have decreased approximately 35 percent from US$187.18 per tonne in February 2011 to US$121.37 in February 2014[16]. This has had the following impacts on contracting mining companies:

- resource companies requests for volume has decreased at a number of mines due to negative pressure on margins and profitability. This has reduced the demand for contract mining services and decreases the utilisation of capital invested in mining plant and equipment.
- the negative pressure on margins has incentivised a number of resources companies to investigate shifting from a contract mining model to an in-house mining model. Examples of this trend can be seen in BHP's termination of a seven year contract mining relationship with Macmahon at Orebody 18 in Western Australia and Glencore Xstrata's termination of its contract mining relationship with Thiess in Collinsville, Queensland. Both mines will be moved to an in-house mining model.

These market trends appear to suggest that the contract mining sector will face challenges in relation to growth and margins over the coming years.

Residential and non-residential construction in Australia

The Australian residential and non-residential construction industry includes companies involved in the construction of homes, apartments, offices, retail shops, education, health, industrial and entertainment buildings, etc.

Residential construction

The residential building industry has experienced stagnant growth between 2008-2013 due to a decline in traditional housing construction. The industry is forecast to return to growth between 2014-2019, driven by strong domestic demand for higher density housing, such as multi-unit apartment and townhouse construction, as more Australians are moving into inner-city areas that are closer to work-places and other amenities.

Non-residential construction

The non-residential building industry experienced a contraction between 2008-2013 due to low levels of confidence in the commercial property market, and weak local consumption and investment trends. The industry is forecast to improve between 2014-2019, driven by the following factors:

- strong growth in demand for warehouse property due to increased online retail trade and associated logistics needs is expected to continue over this period

[32] Global Economic Monitor (GEM) Commodities Database.

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- growth in demand for office developments is expected to increase due to improved investment conditions in the general economy and the removal of ageing stock from the market
- retail developments are expected to accompany a number of large-scale mixed use developments in the major capitals, increasing the level of non-residential construction taking place in the economy.

Industry participants

The residential and commercial construction markets in Australia are highly fragmented, with the largest industry participants holding market share of less than 5%. Estimates of the market share held by large market participants in residential and commercial construction sectors in Australia are set out below.

Table 51: Industry participants by market share and construction type

Building type	Company	Market share
Housing	ABN Group	2.2%
	BGC	1.8%
	Metricon	1.8%
	Simonds Homes	1.6%
Apartment and townhouse	Meriton Apartments	4.6%
	Brookfield Multiplex	4.0%
	Hickory Group	4.0%
	Mirvac Group	3.8%
	Lend Lease Group	3.5%
Non-residential	Leighton Holdings	4.5%
	Lend Lease Group	4.2%
	Brookfield Multiplex	3.0%
	Laing O'Rourke	2.5%

Source: IBISWorld

Key demand drivers

Demand in the residential and non-residential construction sector is driven by the following factors:

- economic growth: Australia's GDP is forecast to grow between approximately 2.8% to 2.9% between 2014 to 2016[33], representing relatively strong economic growth relative to other developed economies. This is expected to support underlying demand for residential and non-residential construction
- population growth: Australia's population is expected to grow by approximately 1.4% annually during 2013 to 2016, corresponding to a growth of about 1 million people in 2016 (over 2013)[21]. An increasing population is likely to result in increased demand for housing, hospitals, entertainment, industrial, retail shops and associated amenities

[33] Economist Intelligence Unit, Australia 5-year forecast, 13 March 2014.

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- interest rates: interest rates affect the demand for housing by both owner-occupiers and investment purposes. Residential home loan interest rates remain historically low, and are not expected to increase significantly during 2013 to 2014
- urbanisation: Increasing urbanisation and migration of people towards developed cities has been an ongoing historical trend amongst the Australian population with the proportion of the population living in urban centres increasing from 87.8% in 2003 to 89.3% in 2013[34]. The continuation of this trend is likely to support demand for housing stock in urban areas
- consumer and business confidence: improving confidence among consumers and businesses driven by improving economic condition and stable unemployment is also likely to drive demand for both residential and non-residential buildings.

Outlook for residential construction

The number of residential building starts is expected to total approximately 200,000 units in 2016 (over 20% higher than residential building unit starts in 2013)[35]. This is expected to be driven by low interest rates, population growth, rising disposable income and improving consumer and business confidence. The stronger performing states are expected to be New South Wales, Queensland and Western Australia.

Outlook for non-residential construction

The non-residential market is expected to return to growth during 2013-2016, with growth in commercial and industrial building segments being partially offset a decline in social, institutional and education building segments.

Infrastructure sector in Asia

Asia is predicted to remain the world's fastest growing region over the coming years, with GDP growth expectations in the short to medium term for most developing countries ranging between 5% to 7%. The International Monetary Fund (IMF) expects GDP growth for Asia, as a whole, to be approximately 5.25% while emerging Asia is expected to grow between 6.25% to 6.5% in 2014. In addition, between 2009 and 2030, the population of the Asia Pacific region is anticipated to increase six-fold. The United Nations (UN) forecasts Asia's total population to be 5.16 billion by 2050, comprising approximately 54% of global population[36].

The forecast macroeconomic trends discussed above will lead to a significant increase in the volume of infrastructure demanded across the Asian region. The World Economic Forum expects Asia to be the fastest growing region for infrastructure spending through to 2020, growing at approximately 7% based on December 2013 forecasts. In addition, the share of global infrastructure spending attributable to Asia is predicted to increase to 63% by 2027. This represents a significant opportunity for engineering,

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[34] World Bank World Development Indicators Database.

[35] Master Builders Australia, Building and construction industry forecasts, December 2013.

[36] UN World Population Prospects - the 2012 Revision.

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procurement and construction firms with the capability to provide services to the Asian infrastructure market.

Contract mining services in Indonesia

Indonesia's position as the fourth most populous country in the world is expected to support strong future economic growth as the rate of urbanisation, and the size of its workforce increases. The World Bank estimates that Indonesia's GDP growth rate will range between 5.3% to 5.5% between 2014 and 2016. Challenges remain, such as the need for productivity-focussed economic reforms, to counter identified structural issues.

Currently, there is a moratorium on the export of mineral ores in place which was implemented in January 2014 following the implementation of legislation in 2009. There was a last minute exemption for several large, foreign-owned copper producers. The law is intended to increase the size of the downstream minerals processing industry in Indonesia. The World Bank estimates that this policy will reduce the net trade balance by US$12.5 billion and generate a total loss in fiscal revenues (i.e. royalties, export taxes and corporate income taxes) of US$46.5 billion between 2014 and 2017, including a US$5.5 billion to US$6.5 billion drag on the trade balance in 2014.

The above policy does not apply to coal exports, however, the Indonesian Government had previously indicated an intention to ban the export of low-calorific coal (i.e. 5700 kcal/kg or below on an air-dried basis). This has not eventuated as yet, however, the proposed policy combined with the current mineral ore export moratorium has increased the perceptions of sovereign risk.

Despite the changes to Government policy, coal production is expected to deliver solid economic growth over the medium term as a function of the growing level of domestic demand coupled with rising exports to India.

Construction in Hong Kong and Macau

Hong Kong

The economic outlook for Hong Kong remains positive, underpinned by its status as a regional trading hub and gateway into the Chinese mainland. The IMF estimates GDP growth to be 4.4% in 2014 and this is anticipated to remain relatively strong over the medium term, supported by domestic demand.

Construction market conditions are expected to remain robust with the Hong Kong Government capital expenditure on infrastructure forecast to be approximately US$11.0 billion in 2014. Capital expenditure is expected to increase by between 2% to 3% per annum through to 2018, due to a strong medium term pipeline of projects. There is a strong focus on transport projects, particularly rail and road infrastructure including the 26km Guangzhou-Shenzen to Hong Kong Express Rail Link. A key road project is the Hong Kong-Macau Bridge development which will connect the two regions.

The outlook for residential construction is also anticipated to remain strong, with the Hong Kong Government expected to release large quantities of land in accordance with its long term housing strategy. This policy is targeting the release of up to 470,000 units over the next decade with public housing making up approximately 60% of the total stock. Additionally, tight supply-demand market conditions,

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high levels of liquidity and lower interest rates continue to underpin high levels of investment in the real estate sector.

Macau

Macau is the world's largest gambling hub with revenues in 2013 of more than $45.0 billion, more than seven times that of Las Vegas. Macau's economy is therefore heavily reliant on the tourism and gaming industries, these sectors providing the bulk of private investment in the economy. Major casino operators including Sands China, Wynn Galaxy, SJM, Melco Crown and MGM are forecast to outlay approximately US$22 billion over the next four years on new developments.

In addition, the Macau Government intends to upgrade the quality of infrastructure in a number of areas including an airport expansion and a light rail line with 21 stations, which is expected to be operational in 2015.

Infrastructure sector in India

India is currently the second most populous nation in the world, with a population of approximately 1.22 billion persons in 2010. The World Bank estimates this population will increase to approximately 1.52 billion persons in 2030. GDP growth is forecast to range between 5.1% and 6.5% for the years 2014-2016, representing a relatively high level of economic growth relative to the developed world. This population growth combined with rising incomes is anticipated to generate significant demand for infrastructure over the medium to long term.

Infrastructure is emerging as a key policy platform in the upcoming general elections to be held in April and May of 2014, representing a renewed focus of government on the sector. The Indian Government previously outlined its infrastructure plans as part of its 12th Five-Year Plan (released in 2012) which aimed to increase the country's investment in infrastructure to US$1 trillion. Approximately half of this investment is anticipated to be provided by the private sector. The road and utilities sectors are expected to dominate this investment with a goal of US$170 billion of road infrastructure investment targeted in the Five-Year Plan. In addition, the Five-Year Plan targets an increase in electricity generation capacity of 88GW with the majority of this to be provided by coal fired plants, particularly large-scale plants with a capacity of 3.5GW each. Up to 70 power projects totalling US$71 billion of investment are currently in varying stages of approvals. These factors suggest a positive outlook for the infrastructure sector in India over the medium term.

Economic outlook for the Middle East

According to the IMF, the short to medium term economic outlook for the Middle East and North Africa has weakened. Key factors driving this change include difficult political transitions, the complex civil war in Syria and related spill over effects, declining oil production and ongoing developments in Egypt. The IMF estimates economic growth in this region to range between 3.8% and 4.1% during the years 2014 to 2016. Additionally, growth in oil producing countries in this region is expected to slow to approximately 2%, less than half of the growth experienced in recent years.

Declines in the oil sector are expected to be offset by expansion of the non-oil sector, with increased public capital expenditure underpinning growth in this area. Countries within the Gulf Collaboration

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Council awarded around US$70 billion of construction contracts in 2013. In addition, a further US$240 billion of projects are in the process of being tendered or in the planning and design phase. While in the past, strong construction pipelines were typically driven by the property market in the UAE, the current pipeline represents a wider dispersion of projects including demand in Saudi Arabia and Qatar. This represents an opportunity set for construction, engineering and procurement firms over the short to medium term.

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Appendix 6 – Glossary

Abbreviation	Description
$ / A$	Australian Dollar
€	Euro
AASB	Australian Accounting Standard Board
ACS	ACS Actividades de Construccion y Servicios S.A.
AFP	Australian Federal Police
AGM	Annual General Meeting
ANZ	Australia & New Zealand Banking Group Limited
APESB	Accounting Professional & Ethical Standards Board
Announcement Date	10 March 2014
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Bidder's Statement	Bidder's Statement lodged by HOCHTIEF on 14 March 2014
Broad	Broad Group Holdings Pty Limited
C$	Canadian Dollar
CAGR	Compound average growth rate
Capex	Capital expenditure
CAPM	Capital asset pricing model
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Commercial and Residential	Leighton division comprising Leighton Properties and Devine
Corporations Act / the Act	Corporations Act 2001 (Cth)
CPI	Consumer price index
CYxx	Calendar Year xx
DCF	Discounted cash flow
Devine	Devine Limited
Director or Leighton Director	A director of Leighton
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax depreciation and amortisation
EIP	Equity Incentive Plan
FIRB	Foreign Investment Review Board
FYxx	Financial Year xx
GFC	Global Financial Crisis
HLG	Al Habtoor Leighton LLC
HOCHTIEF	HOCHTIEF Australia Holdings Limited, a wholly owned subsidiary of HOCHTIEF AG
HOCHTIEF AG	HOCHTIEF Aktiengesellschaft
IER	Independent Expert Report

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Abbreviation	Description
IMF	International Monetary Fund
Independent Directors	Robert Humphris OAM, Paula Dwyer, Russell Higgins AO, Michael Hutchinson and Vickki McFadden
John Holland	John Holland Group Pty Limited
JV	Joint Venture
KPMG Corporate Finance	KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division)
LAIO	Leighton Asia, India & Offshore
Leighton or Company	Leighton Holdings Limited
Leighton Contractors	Leighton Contractors Pty Limited
Leighton Group or the Group	Leighton and its subsidiaries
Leighton Properties	Leighton Properties Pty Limited
Leighton Share or Share	A fully paid ordinary share in Leighton
Leighton Shareholder or Shareholder	A person who is registered as the holder of a Leighton Share in the Leighton register of members
Listing Rules	The listing rules of ASX
LNG	Liquefied natural gas
LSEOP	Leighton Senior Executive Option Plan
LTI	Long term incentive
LTM	Last twelve months of available financial information
Macmahon	Macmahon Holdings Limited
Moody's	Moody's Investors Service
MRP	Equity market risk premium
n/a	Not available
NBN	National Broadband Network
Nextgen Group	Nextgen Group Holdings Pty Limited including its constituent businesses, Nextgen Networks, Metronode and Nextgen Cloud Solutions (formerly Infoplex)
nmf	Not meaningful figure
NOK	Norwegian Krone
Notes	US$500 million of guaranteed senior notes issued in the United States Rule 144A debt capital markets
NPAT	Net profit after tax
NTM	Next twelve months (based upon broker forecasts)
Offer	The proportional takeover bid by HOCHTIEF to acquire 37.5% of Leighton Shares on the terms and conditions set out in HOCHTIEF's Bidder's Statement as subsequently varied in accordance with the Corporations Act
Offer Period	The period within which the Offer is open for acceptance in accordance with HOCHTIEF's Bidder's Statement and the Corporations Act.
Offer Price	$22.50 cash for each Leighton Share
Optionholders	Optionholders of Leighton
PPP	Public-private partnership

KPMG

Leighton Holdings Limited
Independent Expert Report
10 April 2014

Abbreviation	Description
RG	Regulatory Guide
Sedgman	Sedgman Limited
SGD	Singapore Dollar
Shareholders	Shareholders of Leighton
S&P	Standard & Poor's
SOTP	Sum-of-the-parts
STI	Short term incentive
Target's Statement	The statement of Leighton under Part 6.5 of the Corporations Act in relation to HOCHTIEF's Offer
Teachers'	Ontario Teachers' Pension Plan
Thiess	Thiess Pty Limited
UAE	United Arab Emirates
UK	United Kingdom
US	United States
US$	US Dollar
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
Welspun	Welspun Infra Projects Private Limited
ZAR	South African Rand

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PART TWO – FINANCIAL SERVICES GUIDE

Dated 10 April 2014

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) **(KPMG Corporate Finance)** and Ian Jedlin as an authorised representative of KPMG Corporate Finance (**Authorised Representative**), authorised representative number 404177, and Sean Collins as an authorised representative of KPMG Corporate Finance, authorised representative number 404189.
This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.
This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment Offers excluding investor directed portfolio services;
- securities, and
- superannuation,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Leighton Holdings Australia Limited (Client) to provide general financial product advice in the form of a Report to be included in the Target's Statement (Document) prepared by the Client in relation to the proportional offer by HOCHTIEF (the Offer). You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.
KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.
You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.
You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance $550,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.
KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional

advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.
Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's Independent Directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership. From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.
KPMG entities have provided, and continue to provide, a range of tax and advisory services to the Client for which professional fees are received. Over the past two years professional fees in the order of $16 million have been received from the Client. None of those services have related to the Offer or alternatives to the Offer.

No individual involved in the preparation of the Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction. KPMG Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 March 2011.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.
Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.
Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:
Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399 Email: info@fos.org.au.
The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:
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10 Shelley St
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NSW 1213
Telephone: (02) 9335 7000
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C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7000

Annexure B
Leighton ASX announcements

9 April 2014	Qatar settlements for the Habtoor Leighton Group
2 April 2014	Appendix 3B
2 April 2014	Notice of completion of dispatch of Bidder's Statement
2 April 2014	HOCHTIEF Supplementary Bidder's Statement
2 April 2014	Leighton appoints Javier Loizaga as Chief Financial Officer
2 April 2014	Listing Rule 3.17 – Letter to Shareholders
1 April 2014	Change in substantial holding for SDM
1 April 2014	HOCHTIEF Australia Holdings Limited Bidder's Statement

Annexure C
Risk factors relevant to your continued investment in Leighton

1 Financial Risks

1.1 Movements in exchange rates may affect project margins and the A$ value of foreign currency debt and off-shore assets, thus impacting A$ profit realisation, gearing and liquidity ratios.

1.2 Counterparty credit risks may arise should Leighton's customers, suppliers or financial counterparties be unable to meet their obligations.

1.3 Inadequate levels of liquidity may impact Leighton's ability to successfully manage through the cash flow cycle, absorb expected cash impacts, or achieve planned expenditure.

1.4 The value of Leighton's assets, including equity investments and property, plant and equipment, may be impacted by a range of factors that result in impairment, impacting Leighton's financial prospects.

2 Strategic Risks

2.1 Leighton's strategic plan may not be wholly appropriate or sufficiently flexible to respond to changes in future economic, political or societal trends or unforeseen external events and actions affecting financial prospects.

2.2 Leighton's strategic initiatives may not be fully effective in evolving Leighton's business to maintain its competitive advantage and profitably win and deliver work in the future, affecting financial prospects.

2.3 Reduction in global commodities demand and/or price, in particular coal, may cause Leighton's resource clients to curtail or cease infrastructure capital investment programs or reduce mine operations, impacting Leighton's contracts and future financial prospects.

3 Operations Risks

3.1 A workplace health and safety breach or unplanned event may put Leighton's people and financial prospects at risk.

3.2 The environment in which Leighton operates may be affected by unplanned incidents or events on Leighton's projects or contracts affecting financial prospects.

3.3 Failure to attract, develop and retain suitable and sufficient employees may impact Leighton's ability to deliver and support its current portfolio and strategic initiatives, affecting Leighton's financial prospects.

3.4 Issues impacting Leighton's brand and reputation, including a breach of Leighton's Code of Business Conduct, may subsequently impact its ability to secure future work opportunities, investments, suppliers or joint venture partners.

3.5 Work procurement issues and challenges may impact Leighton's ability to maintain work in hand comprising diverse, high quality projects and contracts, and subsequently, Leighton's ability to meet financial prospects.

3.6 Work delivery challenges, including inherent uncertainties associated with construction contracts and the nature of Leighton's industry, may manifest in actual costs varying from earlier estimates (including but not limited to weather events, pricing and availability of raw materials and subcontractors, wage inflation, productivity issues, technical or geotechnical problems) or issues in recovery of variations and claims from clients, each of which may result in impacts to future profits or reductions or reversals of previously recorded profits affecting financial prospects.

3.7 Failure to innovate or evolve Leighton's products and services with client future requirements may lead to a loss of market share and / or competitive advantage, thereby impacting Group revenue and growth plans, affecting financial prospects.

3.8 Interruption, compromise or failure of Leighton's information and communication technology and systems may adversely impact its ability to operate effectively and efficiently, affecting financial prospects.

Corporate directory

Group Company Secretary
Vanessa Robyn Rees

Registered Office
Leighton Holdings Limited
472 Pacific Highway, St Leonards NSW 2065, Australia

Share Registry
Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street, Sydney NSW 2000, Australia

Legal Advisers
Allens
Level 28, 126 Phillip Street, Sydney NSW 2000, Australia

Financial Advisers
UBS
Level 16, Chifley Tower, 2 Chifley Square, Sydney NSW 2000

Leighton website
www.leighton.com.au