

Shareholders' Half Year Report 1999

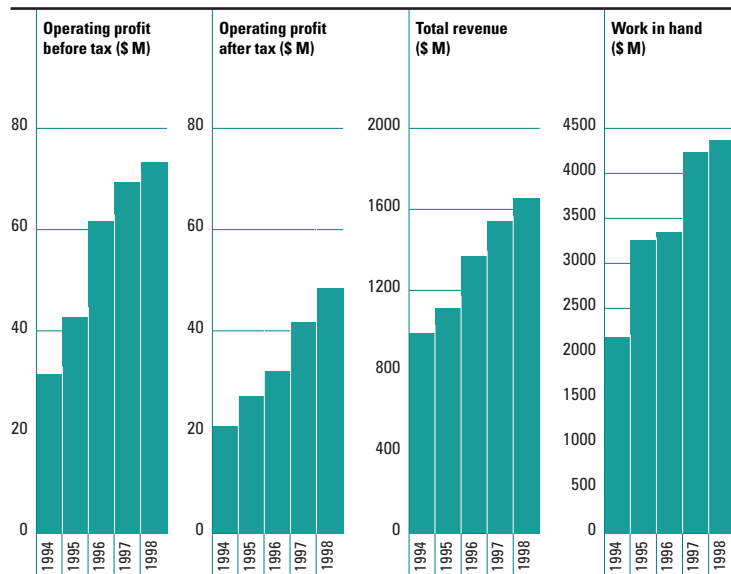


Highlights from the Leighton Holdings Limited
half year report for the six month period
to 31 December 1998.



Wal King AM
Chief Executive Officer

Key Performance Indicators for Six Months to 31 December



Performance Review

Financial Performance

The directors are pleased to report a Group interim profit after tax and minorities of \$48.5 million, up 16% compared with \$41.7 million last year.

The interim result was achieved on total revenue of \$1.65 billion (up 7%). Operating profit before tax was \$73.4 million (up 6%).

A fully franked interim dividend of 12 cents per share (11 cents last year) was announced by the directors.

The Group's balance sheet remains in a very strong position with total assets of \$1.7 billion and net assets of \$614 million. Net cash was \$215 million with undrawn facilities of \$176 million. The return on average shareholders' funds was 8.3% for the half year, up from 7.9% for the previous corresponding period.

Operating Performance

The results reflect another good performance from the Group's contracting operations with a particularly strong contribution from Thiess Contractors' activities in Australia. Thiess' revenue in Australia was up significantly with increases across all of its areas of operation. Returns from the Group's Asian operations were good but have reduced somewhat due to difficult market conditions.

Principal sources of revenue were civil engineering \$568 million, contract mining \$395 million and non-residential building \$385 million.

Other major revenue sources were telecommunications \$92 million, process engineering \$91 million and environmental services \$63 million.

Work in hand remains at a high level. At 31 December 1998, the forward order book was \$4.37 billion which compares with \$4.23 billion 12 months ago and a record \$4.77 billion at 30 June 1998.

Australia

The Group's Australian businesses contributed \$46 million profit before tax from operating revenue of \$1.32 billion.

The high level of activity in Australia was driven by civil engineering construction and contract mining. The growth of other businesses such as telecommunications and environmental services also contributed to the level of work undertaken.

The increase in civil and process engineering construction reflects the success of Group companies in taking advantage of the high levels of expenditure on roads and the continued investment in resources infrastructure.

Work progressed well on the design and construction of the Eastern Distributor tollroad linking Sydney airport to the city. Leighton Contractors is expecting to complete the project early in 2000, a number of months ahead of schedule. Major road projects currently under construction for state governments include three

contracts worth almost \$200 million in New South Wales, four contracts worth over \$300 million in Queensland and two contracts worth nearly \$100 million in Western Australia and Victoria.

Contract mining activity and related infrastructure construction continued to be driven by a number of large coal projects being undertaken by Thiess. These include the Burton, Collinsville, Oaky Creek, Newlands and South Walker Creek coal mines in Queensland and the Mt Owen coal mine in New South Wales. Gold and other minerals projects being undertaken by Thiess include the Lihir gold mine in PNG, the Ernest Henry and Nolans gold mines in Queensland and the Redoubtable/Intrepid mine in Western Australia.

The level of mining work on Leighton Contractors' books has reduced due to the completion of several gold projects and the difficult contracting market in Western Australia. The major project underway is the Yarrie Nimingarra iron ore mine in Western Australia.

Revenue from building contracts has increased as a result of commercial and hospital projects won in the second half of last financial year.

Good progress has been made by Leighton Contractors on the Angel Place office development in Sydney's CBD. Building works for Australia Post in Sydney and Melbourne, the redevelopment of Ansett's Domestic Air Terminal at

Financial Highlights	31 December 1998 \$'000	31 December 1997 \$'000	% Change
Total Revenue	1,654,622	1,541,551	7
Operating Revenue (Sales)	1,620,562	1,482,957	9
New Contracts, Extensions & Variations	1,186,932	1,387,702	(14)
Value of Work in Hand	4,367,680	4,231,336	3
Value of Incomplete Management Contracts	213,561	132,673	61
Operating Profit Before Tax	73,448	69,375	6
Income Tax	(22,334)	(24,714)	(10)
Operating Profit After Tax	48,475	41,688	16
Dividends	31,385	28,724	9
Total Capital and Reserves (excluding minorities)	596,624	533,785	12
Total Assets	1,723,936	1,547,495	11
Net Cash	215,354	243,613	(12)
Undrawn Facilities	176,000	178,000	(1)
Operating Earnings per Ordinary Share	18.6c	16.1c	16
Dividends per Ordinary Share (fully franked)	12.0c	11.0c	9

Sydney Airport and a new contract for a stadium at Flinders Park in Melbourne are under construction by Thiess.

Health facilities continue to be a key market for the Group. Leighton Contractors is building a new hospital and dental clinic at Blacktown Hospital in New South Wales and have a contract for the redevelopment of Royal Hobart Hospital in Tasmania. Thiess has a clinical services building at Cairns Hospital in Queensland underway and has recently won contracts for the management of a major redevelopment of Royal Prince Alfred Hospital in Sydney and the design and construction of a new private hospital at Robina in Queensland.

Growth of the telecommunications industry in Australia is providing opportunities for both our construction and our services businesses. Leighton Contractors has won a significant contract from Cable & Wireless Optus for the rollout of their mobile digital network along the east coast of Australia. Visionstream has secured a good level of new work including the rollout of Telstra's Customer Access Network across Australia.

Thiess' Environmental Services division has maintained a steady level of growth over the past six months. Initiatives to increase geographic diversification include the acquisition of a domestic and commercial waste collection business in Victoria.

This has boosted the overall level of waste contracts in New South Wales, Australia Capital Territory, Queensland and Victoria to over \$500 million.

Asia

The Asian operations contributed \$17 million profit before tax from operating revenue of \$316 million. The lower revenue base reflects a contraction in Thailand, Malaysia and Vietnam as well as a reduction in the very high level of work undertaken in Indonesia during 1997/98.

Construction activity in Hong Kong was fuelled by the high level of government expenditure on public infrastructure. Hong Kong accounted for over 70% of Leighton Asia's workload with an increase in building activity due to two major Housing Authority contracts, a private hospital contract and a public sector museum. Leighton Asia has pre-qualified for civil, building and track projects for the huge rail infrastructure programme which is progressively coming out to tender. However, bidding is proving to be extremely competitive.

Four new contracts have been won in the Philippines over the past six months. The highlight was the award of a \$100 million contract to design and construct a shopping centre, carpark and advance works for a hotel in Makati City in Manila.

In Indonesia, Thiess Contractors won a good level of new work, although activity levels were down. The most significant new project is a \$71 million joint venture contract for construction of the Balambano Dam and associated works in Sulawesi. This contract extends Thiess' presence at the Inco nickel mine and is an example of the selected opportunities available in the resources industry. Other major projects in progress include contract mining at Kideco coal mine in Kalimantan and engineering construction at Newmont's Batu Hijau copper and gold mine at Sumbawa Island.

Property

No significant sales were made in Australia but a commercial development held in California USA was sold. Construction has commenced on Leighton Properties' \$90 million commercial office and retail tower at 80 Pacific Highway, North Sydney. Development work is progressing on an office complex for National Mutual in Sydney's CBD, and a range of projects in New South Wales, Victoria, Australian Capital Territory and Queensland are being pursued. Leighton Properties has not proceeded with the sale of its property at St Kilda Road in Melbourne.

Investments

Star City Casino:

No change has been made to the carrying value of the 25 million ordinary shares in Star City Limited, held at the original purchase price of \$1 per share. In addition, Leighton has 37.45 million options and a 15% share in the casino management company.

Burton Coal Mine:

There has been no change to Thiess Contractors' 5% interest in Burton Coal Mine, Queensland, valued at approximately \$7.7 million.

Eastern Distributor Motorway:

No change has been made to Leighton Contractors' 11% interest in Airport Motorway Limited which holds the concession for the Eastern Distributor Motorway in Sydney.

Group Prospects

Outlook for the Full Year

The Group is on track to achieve an improved result for the full year. Both revenue and profitability will increase.

Civil engineering and building construction activity in Australia will continue at a high level for the remainder of the year. Contract mining will also provide a good level of work for the period ahead. The record telecommunications work in hand should see this area of business continue to expand and environmental services is also set for a record year.

The Asian operations are expected to produce a slightly better result in the second half although the full year result will be down on the previous year. Hong Kong, Indonesia and the Philippines will produce a good level of activity with a reduced workload in other countries in the region.

Long Term Outlook

The overall outlook continues to be positive. The Group is pursuing some very large projects and new business opportunities which should underpin activity despite the likelihood that activity in construction and mining markets in Australia will slow and possibly decrease over the next few years.

Rail construction is expected to remain at recent high levels due to both private infrastructure investment and a focus on public transport by state governments. The Group's ability to sponsor and develop major infrastructure projects such as the \$3.5 billion Very High Speed Train between Sydney and Canberra could provide some significant construction opportunities.

Public sector expenditure on key capital works such as roads should stay at a reasonable level. The New South Wales Government has identified a number of significant road projects to be constructed over the next few years including the Sydney CBD Cross City Tunnel and the Western Sydney Orbital. Also in New South Wales, the Group is pursuing some major privatised port developments.

Other sectors of the engineering construction market which are forecast to provide good opportunities in the medium to long term are water infrastructure and electricity generation projects. Investment in oil and gas is also expected to rise partly as a result of deregulation in the gas sector.

There is less work on the horizon in the non-residential building sector than in engineering construction. However, big increases in health expenditure are expected to continue. The New South Wales, Victorian and Queensland governments are allocating significant funds to new and redeveloped facilities with over \$4 billion in health projects either under construction or under consideration. Fewer projects are planned in the office, retail and hotel sectors largely due to the end of Olympics related developments.

The Group's ability to provide value-added solutions to greenfields mining developments and productivity initiatives to existing operations should continue to generate opportunities. Whilst the setback in resources investment is likely to continue over the next few years, the pressure on prices has already sparked a significant increase in productivity in the coal sector. Together with the decline in the Australian dollar, this has increased Australia's position in the world's coal trade.

Prospects in Australia are also enhanced by the Group's presence in the telecommunications service industry. As a result of full competition in the industry, companies including Telstra and Optus have begun to outsource much of the design, construction, maintenance, service and management of their networks and infrastructure.

Waste management is another growing industry in which the Group has a steadily expanding business. Prospects for geographic expansion of its waste business, additional landfill operations and site remediation projects continue to be positive.

The outlook for the Group in Asia is reasonably positive in Hong Kong, the Philippines and Indonesia. A lull in overall growth is expected for a couple of years as there are fewer opportunities in other countries and competition remains tough.

Hong Kong should continue to be busy with both building and engineering construction work coming out to tender from the government. However, bidding will stay very competitive. The Philippines should offer a good range of prospects and is likely to become a more significant contributor to the Group's performance over the next few years.

Prospects in Indonesia largely revolve around major resources projects already underway. The Group is well placed to capitalise on its existing presence and relationships with prospects to selectively invest in projects which could provide additional work.

Low levels of work are expected to continue in other countries in the region.

In addition to existing businesses, a number of strategic investments and prospects to extend the range of activities currently undertaken are being progressed. A strong balance sheet and proven management skills place the Group in a good position to navigate the next few years and vigorously pursue opportunities as they arise.



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Front cover left to right:

Mt Owen Mine,
Thiess Contractors,
New South Wales
Angel Place Development,
Leighton Contractors,
New South Wales

Interim Dividend

The Directors have announced an interim dividend of 12.0 cents per share, fully franked at the corporate tax rate of 36%, payable on 31 March 1999.

Close of Books

For the purpose of determining dividend entitlements, the Company's Share Registry Office will accept registrable transfers up to 5pm on Friday, 12 March 1999 if paper-based, or by end of day on that date if transmitted electronically on CHES.

Leighton shares are expected to trade ex-dividend on the Australian Stock Exchange on 5 March 1999.