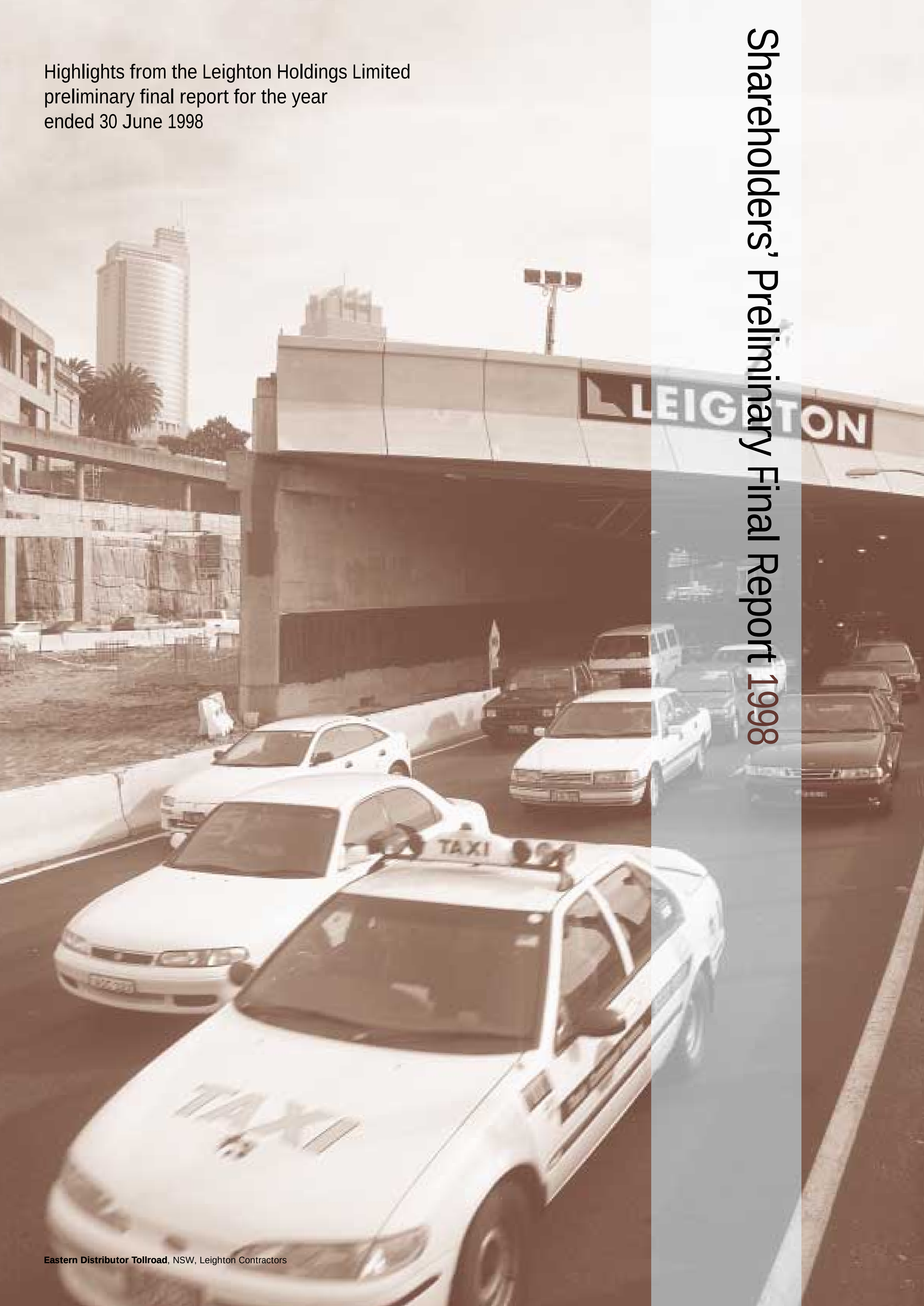
Shareholders' Preliminary Final Report 1998

Highlights from the Leighton Holdings Limited preliminary final report for the year ended 30 June 1998



Eastern Distributor Tollroad, NSW, Leighton Contractors

Wal King
Chief Executive Officer

Performance Review

Financial Performance

The Directors are pleased to report a 17% increase in Group operating profit after tax and before abnormals of $100.6 million from a pre tax profit of $164 million. This result was achieved on an operating revenue similar to last year of $2.9 billion.

The interaction of a series of abnormal items produced a net abnormal profit of $2.2 million, bringing the total profit after tax and abnormals to $102.8 million. Last year there was a significant abnormal profit after tax of $46 million resulting in a total profit after tax of $132 million.

A fully franked final dividend of 15 cents is recommended by the Directors which will bring the full year ordinary dividend to a total of 26 cents per share, fully franked. This compares with 22 cents last year. (A special dividend of 10 cents per ordinary share was also paid last year due to the significant abnormal profit).

The Group's balance sheet remains very strong with total assets of $1.6 billion. Net cash remained steady at $249 million with undrawn facilities of $176 million. The return on average shareholders' funds (before abnormals) has again improved, up to 18.3% per annum.

The impact of the economic climate in Asia and foreign exchange volatility has been reduced by the selective nature of the Group's business strategy and gains from profits in US and HK dollars. Write downs due to bad debts and project related currency losses of $10 million have been offset by a similar benefit from profits in US and HK dollars.

Operating Performance

Improved profitability was achieved by both the Australian and Asian operations. Leighton Contractors, Thiess Contractors and Leighton Asia all performed very well with Leighton Properties returning a modest profit.

Principal revenue sources were civil engineering $857 million, contract mining $823 million and building $659 million. Other major revenue sources were telecommunications $267 million, process engineering $149 million and environmental services $116 million. Management contract work worth $116 million also was completed.

A solid level of long-term mining contracts and the award of over $3.3 billion of new contracts and contract variations brought total work in hand to another record of $4.8 billion. Work levels in Australia climbed to $3.9 billion (up 19%) whilst Asia reduced to $816 million (down 11%).

Australia

The Australian operations contributed $109 million profit before tax from revenue of $2.2 billion.

Activity stayed at a high level reflecting the strength of the non-residential construction market and the Group's successful penetration of the mining industry. Contract mining has become the largest contributor to Group revenue in Australia and is likely to continue to do so, given that mining work in hand is now over $2 billion.

An already strong level of mining work at the beginning of the year was boosted by some new contracts and major extensions to existing projects. Highlights included a $349 million extension to Thiess' contract at Burton coal mine and a new $69 million contract at Newlands coal mine in Queensland. Leighton Contractors was awarded $213 million in contracts at Yarrie Nimingarra iron ore mine in Western Australia and $74 million in contracts at Esperanza copper mine in Queensland.

Work progressed well at Thiess' major ongoing mining projects including Mt Owen coal mine in the Hunter Valley of New South Wales, the Lihir gold mine in Papua New Guinea, and the Collinsville and Oaky Creek coal mines and the Ernest Henry copper/gold mine in Queensland.

Resource related infrastructure was a major source of civil and process engineering construction activity. Roadworks continued to dominate civil engineering activity with good progress made by Leighton Contractors on the $551 million contract for design and construction of the Eastern Distributor tollroad in inner Sydney, scheduled for completion prior to the 2000 Olympic Games. Over $200 million of work was secured from the Queensland Department of Main Roads for the upgrade of sections of the Pacific Highway between Brisbane and the Gold Coast. A number of other road projects are being undertaken in New South Wales, Victoria, Queensland and Western Australia.

Building work remained at a reasonable level with over $700 million of new projects won. During the first half of the year, a major achievement was the successful completion of the Star City casino complex in Sydney by Leighton Contractors some six months ahead of the original schedule. During the second half of the year, Leighton Contractors won a $182 million contract for the construction of an office tower and recital hall in Angel Place, Sydney for AMP Life. Thiess secured $182 million in building works for Australia Post in New South Wales and Victoria as well as a $122 million contract for the upgrade and expansion of Ansett's domestic terminal at Sydney Airport.

Health also continued to be an important market for Group companies with new projects awarded for hospitals in Sydney, Hobart and Cairns.

In addition to construction and mining work, the Group now has a significant presence in telecommunications and environmental services. Almost $200 million of telecommunications work was completed by Visionstream and Leighton Contractors during the year. This included installation and maintenance activities as well as Telstra's broad band network construction.

Thiess' Environmental Services division has progressively expanded into site remediation projects, landfill and waste transfer operations in addition to its long term waste collection contracts. This business has performed very well and achieved revenue of $116 million for the year.

Asia

Construction and mining operations in Asia had another outstanding year producing $54 million profit before tax from revenue of $664 million. Work in hand has remained solid due to Leighton Asia's success in securing some major government building projects in Hong Kong.

The Hong Kong Government's announcement of massive new infrastructure and public housing programmes has allayed concern of a construction downturn following the completion of the new airport. Highlights of the year include the successful completion of the $252 million aviation fuel service facility for the new airport and the award of the $227 million Tsz Oi Estate housing project. A $52 million contract for a museum at Lei Yue Mun was also awarded by the Government.

Elsewhere in the region, Leighton Asia's activity levels reduced in Thailand, Malaysia and Vietnam, with only a few small contracts awarded. However, operations in the Philippines became the largest contributor after Hong Kong, with over $50 million in new contracts awarded at the Sual Power Station.

Thiess' operations in Indonesia performed very well despite the economic and social change experienced in the country over the past 12 months. The results were substantially protected by contracts denominated in US dollars and benefited from a lower AUS dollar. Major projects nearing completion at year end included the Musi Pulp Mill in South Sumatra and the telecommunications joint venture in Central Java. Significant on-going work includes the $222 million Kideco coal mine contract and a new $37 million contract for infrastructure at the Bontang coal mine, both in Kalimantan.

Property

Leighton Properties maintained a modest level of profitability. Assets remained at a similar level to last year as no significant sales were made. The main activity during the year was the successful completion of the $800 million Star City casino complex. Development has commenced on a $90 million commercial office and retail tower at North Sydney, scheduled for completion in early 2000. Design work is also underway for National Mutual on a $90 million office development in Kent Street, Sydney. Leighton Properties is proceeding with the sale of its property at St Kilda Road in Melbourne.

Investments

In June 1998, Leighton Contractors sold down 5.6% of its interest in Airport Motorway Limited (which holds the concession for the Eastern Distributor tollroad in Sydney) to National Australia Bank. Leighton retains an 11% interest.

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.

There has been no change to the Group's 5% investment in Burton coal mine.

1 **Fanling Housing Project**, Hong Kong, Leighton Asia

2 **Newlands Coal Mine**, Queensland, Thiess Contractors

Group Prospects

❶ **Sydney-Canberra Speedrail Project**, NSW, Leighton Contractors

❷ **Australia Post Development**, Victoria, Thiess Contractors

Outlook for 1998/99

Australia will drive growth in the year ahead. With work in hand of nearly $4 billion, the Australian operations should improve their returns commensurate with an increase in revenue. Mining and engineering construction will continue to be the largest source of work given the number of major projects already in progress. Building work should remain quite strong as work in hand has increased on the back of some sizeable new contracts. Environmental services and telecommunications are also forecast to provide a healthy contribution.

Whilst there may be a modest drop in overall profitability from Asia, the Hong Kong market remains quite buoyant with government spending on infrastructure providing a busy tendering period at present. Committed work in Hong Kong, Indonesia and the Philippines should underpin revenue although other countries have very little work underway.

Accordingly, the Directors believe Group operating profit will again improve in 1998/99.

Long Term Outlook and Strategy

The challenge for the Group going forward is to sustain growth, prudently using its strong balance sheet and liquidity. The Group's long term growth strategy involves extending existing businesses, pursuing strategic investments and selective geographic expansion.

A proven operating strategy is based on a flexible corporate structure able to adapt to changing market conditions.

The focus on new and emerging markets has delivered steady growth for the Group over the past decade. It has opened up new sources of revenue from areas such as coal mining and infrastructure operation and maintenance. A wide variety of delivery systems and contractual arrangements including equity contributions have led to larger project opportunities.

Growth in the non-residential construction market is undoubtedly slowing and is likely to downturn early next decade. However, structural shifts in most industries in Australia appear to be favouring larger competitors.
The Group is in a strong position in its key markets but has a relatively small share in a wide range of market sectors. This creates tremendous potential to increase market share in those sectors such as oil and gas which present some major prospects.

The Group also has a track record for successfully bringing forward large, complex infrastructure projects such as the $3.5 billion Very High Speed Train between Sydney and Canberra. Leighton Contractors is in joint venture with ALSTOM (which is providing the French TGV technology) in the Speedrail Group which was recently chosen as preferred proponent for the project. Construction is expected to start in early 2000.

Construction is only one of the Group's main markets in Australia, accounting for around 50% of revenue last year. Operating companies now have a major position in the mining industry, supplying design, contracting, operation and maintenance services. The contract mining industry has grown on average 15% per annum over the past 10 years. With increasing pressures on productivity, there is further potential in this market.

New markets which have added significantly to the revenue base in recent years include telecommunications and environmental services. Work in these industries involves new types of activities such as installation of multi-media networks and management of waste transfer and landfill operations. They are growth sectors of Australia's economy with different trends to the property market or spending on civil infrastructure.

In Asia, the longer term outlook varies from country to country. Over the next five years, opportunities in Hong Kong will be dominated by massive government infrastructure projects including road, rail, health and education. The rail component alone is worth almost as much as the new airport recently completed at Chep Lap Kok. The longer term prospects in Indonesia remain positive. The resources sector will be central to its economic recovery and the Group is well placed to take advantage of opportunities when they come forward. Elsewhere in the region, the Philippines offer the best opportunities in the medium term with a presence being maintained in other countries such as Thailand and Malaysia.

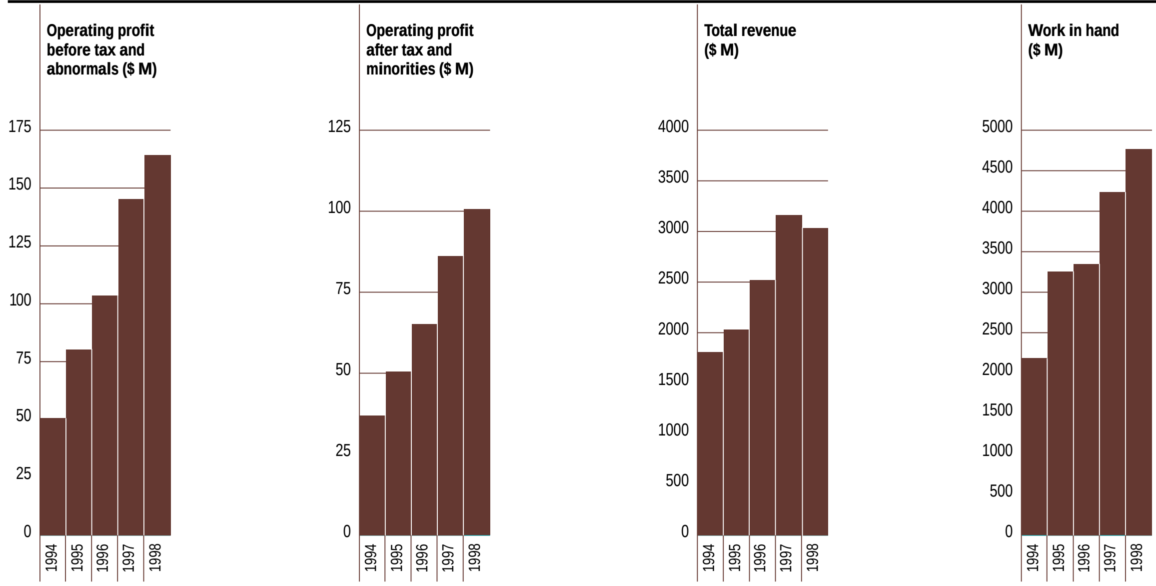
A number of strategic investments, which should further lift the current momentum of the Group, are being progressed. In addition, Thiess has established an office in South America focused on resources, as almost one third of the world's mineral exploration budget is being spent there.

The overall outlook for the longer term is very positive. The recent review undertaken by Professor Fred Hilmer of Port Jackson Partners confirmed the Directors' view of the current strength of the Group and the potential for further growth.

Financial Highlights

	30 June 1998 $'000	30 June 1997 $'000	% Change
Total Revenue	**3,034,546**	3,161,180	-4.0
Operating Revenue	**2,906,952**	2,926,942	-0.7
Value of Contracts Awarded	**2,631,411**	3,136,854	-16.1
Value of Uncompleted Work in Hand	**4,767,008**	4,234,699	+12.6
Value of Uncompleted Management Contracts	**31,180**	171,512	-81.8
Operating Profit Before Tax and Abnormals	**164,171**	145,149	+13.1
Income Tax Applicable to Operations	**(56,208)**	(52,418)	+7.2
Operating Profit After Tax (and minorities)	**100,648**	86,240	+16.7
Abnormal Items After Tax	**2,204**	45,872	-95.2
Total Profit After Tax and Abnormals	**102,852**	132,112	-22.1
Total Special Dividends	**–**	25,943	N/A
Total Ordinary Dividends	**67,893**	57,074	+19.0
Total Capital and Reserves (including minorities)	**590,594**	542,897	+8.8
Total Assets	**1,648,808**	1,622,812	+1.6
Net Cash	**248,979**	248,663	+0.1
Undrawn Facilities	**176,000**	186,000	-5.4
Operating Earnings per Ordinary Share	**38.7¢**	33.3¢	+16.2
Special Dividends per Ordinary Share (fully franked)	**–**	10.0¢	N/A
Dividends per Ordinary Share (fully franked)	**26.0¢**	22.0¢	+18.2

Key Performance Indicators for 12 Month Period to 30 June



Additional Information

Close of Books for Final Dividend

For the purposes of determining entitlements to the final ordinary dividend of 15 cents per share, fully franked, to be paid on 30 September 1998, the Company's Share Registry office will accept registrable transfers up to 5.00 pm if paper based or by "End of Day" if proper SCH transfer, on 11 September 1998.

Leighton shares are expected to trade ex-dividend on the Australian Stock Exchange on 3 September 1998.

Annual General Meeting

The Annual General Meeting of the Company is to be held in the Ballroom, the Regent Hotel, 199 George Street, Sydney, NSW, at 10.00 am on Thursday, 5 November 1998. The Annual Report is expected to be available early October 1998.

Tax File Numbers

From 1 July 1991 all companies have been obliged to deduct tax at the top marginal rate from unfranked dividends paid to investors, resident in Australia, who have not supplied them with a Tax File Number or Exemption particulars. Tax will not be deducted from the franked portion of a dividend.

If you have not already done so, a Tax File Number Notification form or a Tax File Number Exemption form should be completed for each holding and returned to our Registrars, Coopers and Lybrand, Locked Bag 14, Sydney South, NSW 2000.

Please note you are not required by law to provide your Tax File Number if you do not wish to do so.

1 **Sual Power Station**, Philippines, Leighton Asia

2 **Yarrie Nimingarra Iron Ore Mine**, WA, Leighton Contractors

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