

## **Mastering the Voyage – Leadership beyond the GFC**

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**Perth**

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Good afternoon.

The events of the last 18 months in the financial markets have certainly focussed attention on some spectacular failures of financial regulation, government intervention in markets, social engineering, business management and corporate governance. They have also sharpened the focus on those leaders who have been able to navigate the stormy seas to stay afloat and continue their journey.

While I have been asked today to talk about my views on leadership, I will also focus on Leighton's great history in Western Australia and the bright outlook that we see for Australia and our business. In presenting on leadership, I will set this against the backdrop of the performance of Leighton which has been a very successful company over a long period of time.

In 1998, L.E.K. Consulting recognised Leighton as having the highest 10-year total return to its shareholders of any major company listed on the ASX for the period 1988 to 1998.

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

- 10% plus annual dividend growth,
- Return on capital of at least 12%, and
- Returns on incremental capital.

And this year, Ernst & Young placed Leighton third in the top 100 ASX listed companies for its 3 year total shareholder return of over 100% between 2006 and 2009.

That's not to say that we haven't had our share of issues and challenges, we have. But when we did, I've tried to get as close to the front as possible and to lead by example.

As a leader, you have to admit to yourself when you are facing serious issues. In dealing with issues you need to look at a range of outcomes, however you don't need to confess with everyone. It might make you feel better, but the people around you don't need to hear it. They are looking for your leadership.

You have to show confidence. It's a bit like you are in the Sydney to Hobart yacht race and a huge wave hits you. You can't say, "It's all over, let's go back'. You have to have the confidence and the courage to go on.

Communication is a key element of leadership. In communicating, I believe you should never bullshit people because they will see straight through it – if not now then later – but they will. In any event, when they do see through you, your credibility is lost. But if you do have anxieties, you have to have the courage and determination to go on and achieve success. People rely on it.

Survival beyond a crisis is about creating the right strategy and culture for people to succeed. Leighton is successful because we have created a winning culture where individuals are accountable and responsible for their actions.

The Leighton Group is a big, complex organisation. But I don't sit at the top pulling the levers for 40,000 direct employees and another 60,000 sub-contractors, associates and others across the globe.

You have to create an intelligent organisation. When you do, you get a business that has more capacity to innovate, can be more responsive to market needs, has more energy and has more success. It's a structure that has been successful in the past and will sustain our business in the future.

You can't just flick a switch and produce a certain culture, especially a winning one. But you can produce a losing one very easily. You have to lead by example and reward success.

Across the Leighton Group we have eight core values that describe how we work and operate. Above all, we have to be commercially competitive which underpins everything we do. If you aren't profitable, you won't be in business long enough to worry about all the other things you should be doing.

Our other values relate to how we behave and look after our employees, our clients, the environment and the community. And our values capture one of our core operating philosophies - that is, having clear lines of delegation and accountability combined with strong financial disciplines.

We also have our rules of racing that put policies and procedures around the key areas of business management. We delegate responsibilities down through the organisation and empower people with the authority to make decisions.

It's like a great sporting team where everyone knows the rules of the game but is given the freedom to play within those rules. And when they do, they are well rewarded. The coach can't control the game from the grandstand. Similarly, our managers can't sit in their head offices and run projects in Mongolia or Chennai or Kalimantan or the Pilbara. They have to set the strategy, provide the support and let the project manager do his or her job.

That is the culture of the Leighton Group and our senior managers.

As the world goes through a period of rapid change, more and more power rests with individuals. No-one anticipated the speed and depth of the global financial crisis. But leaders of the future will need to be able to anticipate the unexpected, and act with an agility that no-one could have forecast when I started at Leighton 41 years ago.

I joined Leighton in 1968 when our revenue was \$18.5 million. This year our revenue is almost 1000 times that amount. Then we had total assets of almost \$5 million, our equity was \$2.2 million and our profit was \$525,000. We had a desire to grow and diversify, and we have.

There were some challenging times along the way but we came through those stronger. The world has changed a lot since then, and at a much faster rate.

Our leaders and managers now need to manage in a much more complex environment. A borderless world, with unprecedented uncertainty from increased global competition, instant communications, energy constraints and climate change. And it's now more important than ever that corporations do the right thing – not just for their people, but for the environment and for the communities in which they work.

Managing one of our projects now is so different from when I was running the WA Branch of our business in the 1970s. Then, we just went and did our big projects and the community got what the government or client dictated.

There is now a much greater need to bring people along. Our clients want their projects completed on time and on budget, with first class OHS outcomes. The community wants to be engaged and listened to. Our workers have very different expectations from when I started. And the increased focus on sustainability means people want to know about what we do; but also how and why we do it.

In the 1970s, Australia experienced a period of raging inflation and the construction industry lost money as the costs on fixed priced contracts rapidly escalated. Western Australia was one of the key markets which helped to pull Leighton through.

A resurgence in the State's resource industry in 1973 resulted in Leighton winning some \$6 million in mining and associated construction contracts. These included an overburden stripping project for Poseidon Limited and Mount Windarra and a housing design and construction project at Mount Newman. This photo shows our work on the \$3m South Dandalup Dam project which was officially opened in February 1974.

In the early 80s, Leighton Contractors won a \$70 million contract for site preparation for Woodside's LNG plant on the North West shelf. Leighton bought \$5 million worth of new plant specifically for this project and almost overnight we had \$100 million worth of resource development jobs in the West. We had to up our plant order to \$25 million!

How things have changed. Today, we are one of Caterpillar's biggest customers with a fleet of plant and equipment worth over \$3 billion. The Group is the world largest contract miner with a large, new fleet and some of the best people in the industry.

This year we will mine over 100mtpa of coal, over 100mtpa of iron ore and around 920 million bank cubic metres of overburden. And next year we'll move 1.1 billion bcm's. We have experience operating throughout Australia and Asia, and are well positioned to grow as Asia demands more and more commodities over the next few years. In Indonesia alone, we expect to mine approximately 38 million tonnes of coal this year and have a number of opportunities to increase this with extensions and new work. This year, in Mongolia, we'll mine around 10 million tonnes per annum of coal and we are moving to 20 million tonnes per annum over time.

The Leighton Group has a strong track record in Western Australia and currently we have \$4.7 billion worth of work in hand here. Some of our projects include the:

- New Mandurah Entrance Road
- Joondalup Health campus, and
- Rail and mining work on various BHP sites.

I'll come to our LNG projects in a minute.

And in the past we have built or developed the Perth to Bunbury Highway and Perth to Mandurah Rail Line and many other projects. WA has been, and will continue to be, a key part of the overall success of the Leighton Group.

In the last 20 years, the Leighton Group has grown revenue from \$1.4 billion to \$18.3 billion. During that time we've made acquisitions like John Holland and HWE, two names that are extremely well known in WA.

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

Over time we have developed and maintained a momentum for growth – continuing to evolve, learn and adapt to new markets and environments.

The momentum has sustained us through the different phases of the business cycle.

It's like riding a pushbike – if you came to a steep hill with the momentum gained from coming down a previous hill, you have a much better chance of getting up it than if you simply started from the bottom of the hill.

Momentum implies you have both speed and direction, so you can continue on your successful path while making the necessary adjustments.

So why has the Group been successful? Whilst there's no magic bullet, I believe the following are the underlying elements of our success:

- A decentralised organisational structure with freedom to manage, within clear corporate guidelines ensuring a robust, attuned, intelligent organisation;
- At all senior levels, a strong focus on the business fundamentals to achieve clear financial outcomes;
- A focus on business planning to allow the Group and its operating companies to continue to evolve within the ever-changing environment;

- An absolute focus on financial discipline at project level and operating company level to understand performance.
- The ability of management to recognise operational issues and implement corrective action; and
- The ability of the organisation to be united and work towards stated outcomes and be confident that the organisation 'can do'.

I believe that excellent performance comes from management providing leadership and being involved, in touch and committed to success.

So looking to the future.

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

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

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

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

China's economy has grown by an average 8.2% per annum for the last 60 years and has experienced consistent high rates of economic growth since 1990. Its demand for resources is almost insatiable, and Australia supplies the key ingredients of one of the crucial components of that growth, steel. Over 60% of China's steel use is for domestic consumption in construction and infrastructure.

India is also emerging quickly as a destination for Australia's resources and has not been as adversely impacted by the global economic downturn as many other economies.

Mining volumes are expected to continue to grow on the back of the growth in demand in the region. The latest report from the Australian Bureau of Agricultural and Resources Economics (ABARE), forecasts that Australia's iron ore production will be up by 16% in 2009/10 to 410 million tones.

In the longer run, China's growth should sustain Australia's iron ore exports and a good level of opportunities for our contract mining business. Obviously this underpins a great outlook for WA.

At the same time there will be a significant increase in investment in oil and gas, particularly LNG, with some \$150 billion worth of projects in the pipeline. Really this is the cusp of a third great expansion in the Australian resources industry - the first two being the iron ore and coal expansions in the 1960s and 1970s.

Our subsidiary, Thiess, has already won \$1 billion worth of work at the \$43 billion Gorgon project. Last week, Leighton Contractors, in joint venture with Saipem, was selected as the preferred proponent to develop a \$900 million LNG Jetty and marine structures for Gorgon. Leighton Contractors has also been awarded or completed over \$400 million of work at the Pluto project, and John Holland has won \$160 million worth of work at the Devil's Creek project.

Looking offshore, Leighton has a fleet of modern, purpose-built pipe-lay barges – including the Leighton Stealth and Leighton Eclipse – and construction support vessels – including the Leighton Mynx. These have been specifically designed for the offshore oil and gas markets of the Middle East which is focussed on near-shore and shallow water work, but are potentially available for the Australian market.

Given the increased focus of the Carbon Pollution Reduction Scheme and global warming, I see that oil & particularly gas will be a boom market over the next few years. And WA and Leighton are absolutely joined together in terms of the exciting opportunities that this will present.

So given these opportunities, what should Leighton look like in the future? We have an exceptional strategic position that means we should grow our revenue, our profit and our work in hand.

We should have greater geographic expansion, potentially including contract mining, to Africa and Kazakhstan. We expect to have a stand alone off-shore oil and gas business unit with its own business objectives. We should have significantly larger businesses in India and telecommunications. And we'll have other new business units adding substantially to our earnings.

In conclusion, I return to the theme of this luncheon – one of leadership. As we emerge from the GFC I believe the fundamentals of good leadership remain the same for any voyage – or company – regardless of whether it's on calm waters or through treacherous high seas.

They are to provide the strategy, structure and culture for individuals to succeed as a team. But for leaders of the future, the implementation of these principles may change as they contend with a more complex, highly populated, borderless and information-rich world.

For Leighton, our diversity has proved a stabilising force during the recent economic upheaval, diluting the impacts that have hit some markets harder than others. Our

strategy also provides a platform to pursue future growth as the economic tide comes in, providing the Group with options to expand into new and growing markets.

At Leighton, we believe in setting aspirational goals for our people and, as a leader, I have aspirational goals and targets for Leighton. Over the next five years, I aspire:  
For Leighton's turnover to grow from around \$19bn this year to around \$29bn;  
For our profit to grow from around \$600m this year to around \$900m; and  
For our work in hand to grow from around \$38bn to around \$50bn.

In navigating the GFC, but also in looking forward to our aspirational goals, it has been very important to me that we implement a culture that can be summed up in the phrase: "We can do it. Together we can do it."

Growing up in a small rural town instilled in me a spirit of adventure – to go through the door and see what is on the other side. The Leighton Group and the men and women who make up its workforce are in a wonderful position with the world having a great need for infrastructure and mining. We all need to maintain our courage to go through the door and to see what's on the other side. Opportunities abound as long as we have a positive approach and a 'can do' attitude and the leadership of our people.

Thank you.

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