

**DEACONS WORKPLACE 2010**  
**Conference 7 June 2006**

**Wal King AO**  
**CEO, LEIGHTON HOLDINGS**







Leighton Holdings

## **Leighton Group Profile**

- **Australia's largest project development and contracting group**
- **Employ more than 27,000 staff**
- **World's largest contract miner**
- **Operate throughout Australia, Asia and the Pacific**
- **Annual revenue expected A\$10 billion for 05/06**
- **Work in hand a record A\$16 billion**

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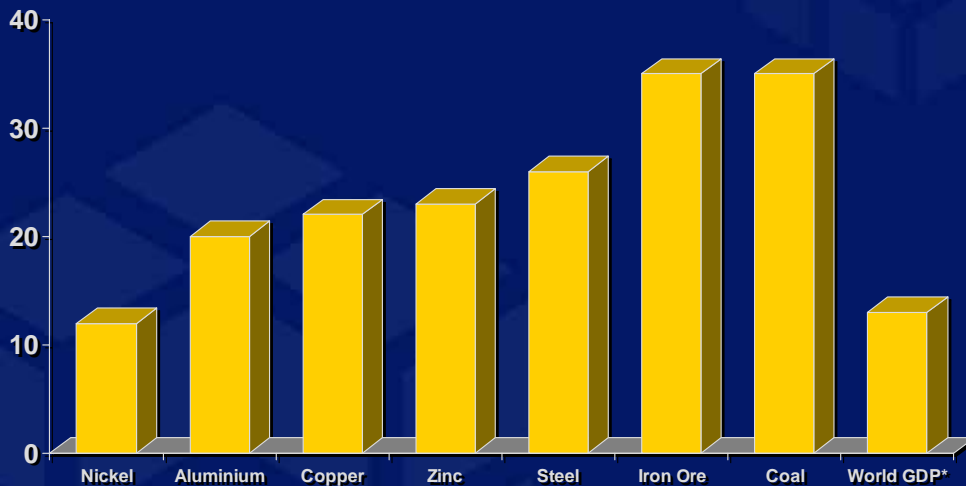
# Leighton Holdings Group Structure

	 <b>Thiess Pty Ltd</b>	 <b>John Holland Group Pty Ltd</b>	 <b>Leighton Contractors Pty Limited</b>	 <b>Leighton Asia Limited (Northern)</b>	 <b>Leighton Asia Limited (Southern)</b>	 <b>Leighton Properties Pty Limited</b>
HOCHTIEF is Majority Shareholder in Leighton Holdings (52.17%)	100% owned	99% owned	100% owned	100% owned	100% owned	100% owned
<b>MD</b>	Roger Trundle	David Stewart	Peter McMorrow	Joe Dujmovic	David Savage	Vyriil Vella
<b>Operating Revenue</b>	*A\$2,041m	*A\$1,033m	*A\$1,046m	*A\$253m	*A\$203m	*A\$112m
<b>Work in Hand</b>	A\$8,234m	A\$3,012m	A\$1,869m	A\$739m	A\$908m	A\$49m
<b>No. of Employees</b>	12,886	2,935	3,065	1,084	1,987	28
<b>Established</b>	1933	1949	1949	1975	1975	1972
<b>Subsidiaries</b>	PT Thiess Indonesia Thiess Services HVE Silcar Swan Water	Lucon InfraTek Networks Gridcomm: - Quantum	HWE Leighton Services: - Visionstream - LSE Technology - Mayfield - Metlabs Broad			

Management and key statistics as at 31 December 2005.  
\* for six months to 31 December 2005.

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## China's Share of World Consumption of Materials

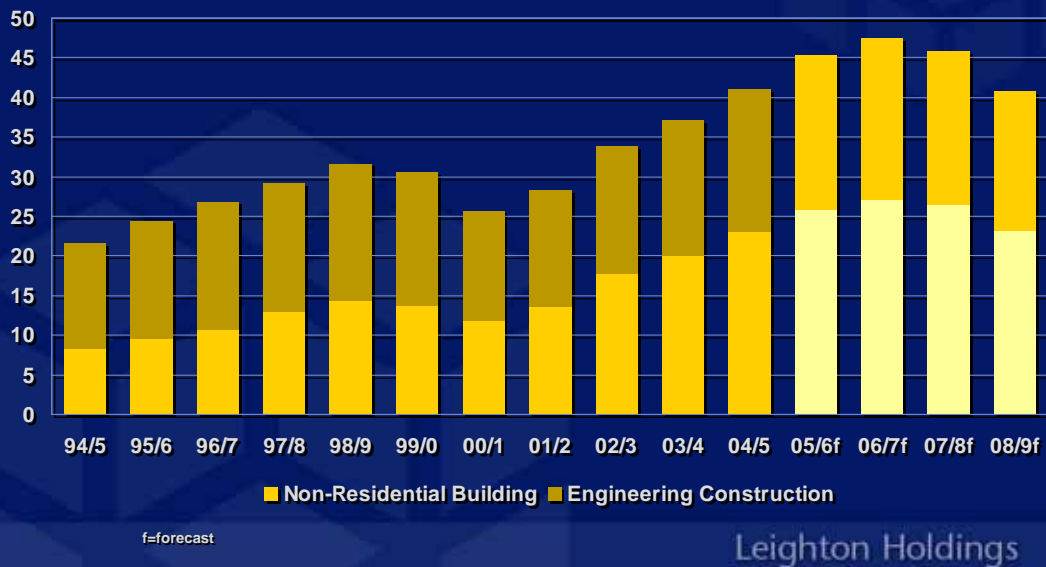


\* China's share of World GDP

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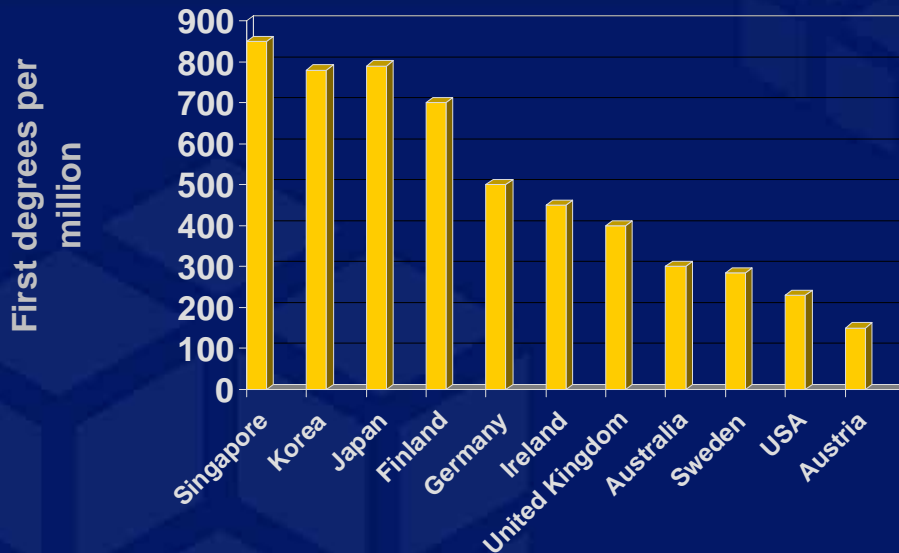
- Australian economy remains in a golden age
  - low inflation, low interest rates, low unemployment, low wages growth.
- Most sustained period of economic growth since the second World War and indications are that it will continue until some factor triggers a world recession (oil price rise, bird flu pandemic).
- China's re-emergence as a major trading nation and the likely emergence of India is creating demand for products, consuming raw materials for finished products and keeping inflation low because consumer goods are cheap. A 1974 television would cost 10 weeks wages while today it costs 3 days wages.
- China now absorbs well over 30% of global iron ore and coal production.
- China will become the world's largest economy surpassing the US around 2015, India will become the third largest economy around this time as well.

## Australian Construction Market (A\$bn)



- Australian construction and mining market remains very strong led by resources and transport infrastructure.
- Engineering construction has grown by 60% over the last 4 years.
- Continued growth in global demand for resources will underpin the Group's performance for the next few years.
- This sets for context for some comments about Australian Workplace in 2010.
- With economic success comes a range of challenges.
- Today I want to make some comments on:
  - skills shortage in the construction sector
  - occupational health and safety and the
  - industrial relations environment

## Annual Number of First Degrees in Engineering [per million population]



Source: The Engineering Profession: A Statistical Overview, 2003, Edition 3, Engineers Australia

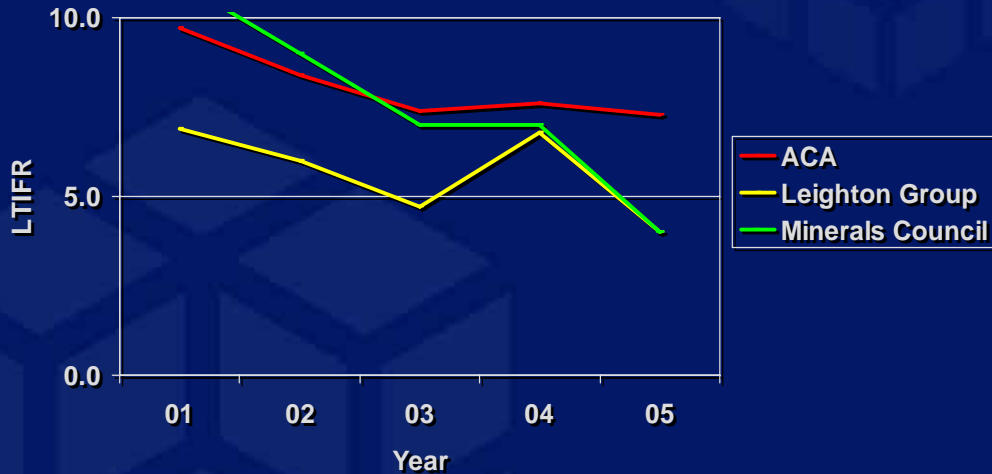
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### The Engineering Skills Challenge

- To use the Leighton Group as an example:
  - In 1995 we employed 7,600 people
  - by 2000 this had grown to 12,500
  - today we employ over 27,600 people
- In the last 5 years our workforce has more than doubled.
- Each year for the last 10 years, Australian engineering graduates has remained static at around 5,000 per year.
- 170,000 people now join the workforce each year but only 125,000 will enter the workforce in the 10 years from 2020 – 2030.
- On an international comparison, the number of Australian engineering graduates per million lags most other OECD countries.
- The solution requires a multi-faceted approach
  - recognition of the issue at all levels of Government
  - a larger and more targeted engineering skills migration program
  - more work at school level to encourage people to do engineering at university

## Occupational Health & Safety

Construction and Mining LTIFR



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- The safety of our workforce is of fundamental importance.
- Overwhelmingly, at Leighton we want to create a safe, challenging and fun workplace while striving to ensure employees return home each day in the same health and condition as they arrive.
- This objective is shared by the unions who operate in the construction and mining sector.
- The Leighton Group's commitment to safety starts at the Leighton Holdings Board level. The Board sets the group safety policy and reviews the safety performance of group companies regularly.
- Within the group operating companies, Safety Management Committees are responsible for implementing each company's safety policy.
- The chart above shows that the Leighton Group compares favourably with other construction companies and the whole mining sector. What is positive is that over the last 5 years the injury rate as a whole has been trending down.
- The construction and mining industries are inherently dangerous and all of us involved in the industry must strive to improve.
- The workplace in 2010 will hopefully be an even safer workplace than now.

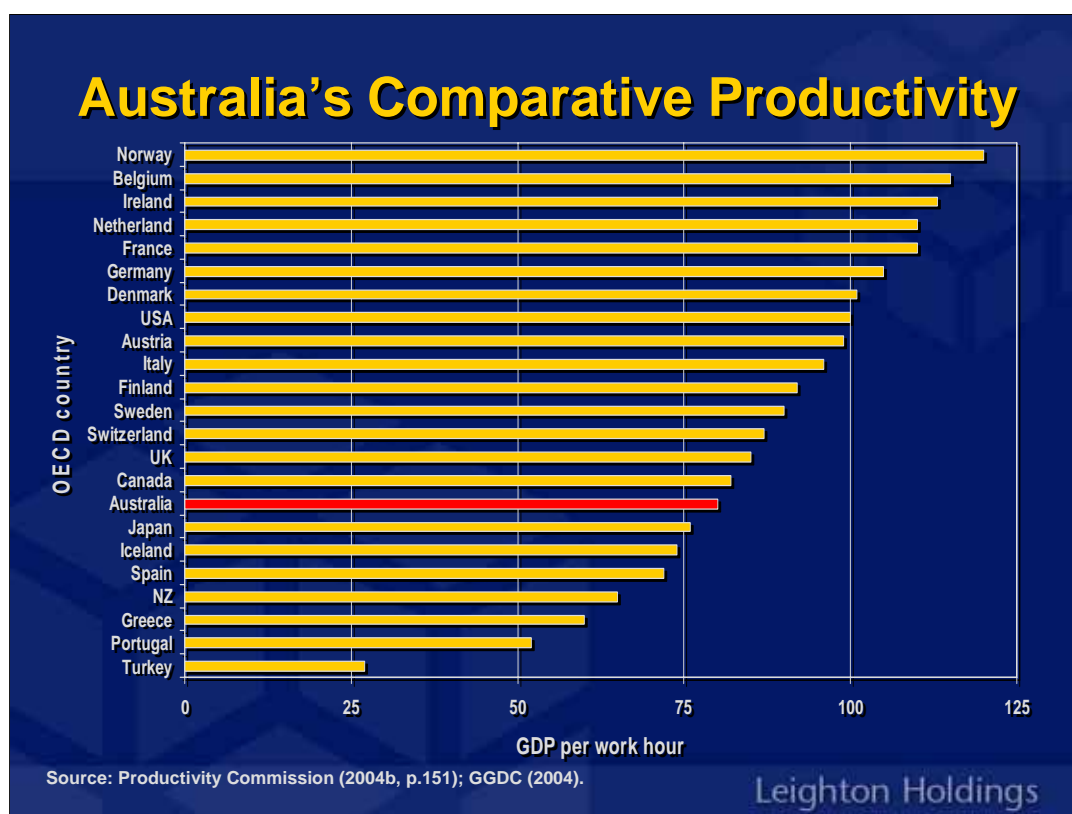
## Growth Competitiveness Index

Country	2005 Rank	2004 Rank
Finland	1	1
United States	2	2
Sweden	3	3
Denmark	4	5
Taiwan	5	4
Singapore	6	7
Iceland	7	10
Switzerland	8	8
Norway	9	6
Australia	10	14
Netherlands	11	12
Japan	12	9
United Kingdom	13	11
Canada	14	15
Germany	15	13

Source: World Economic Forum

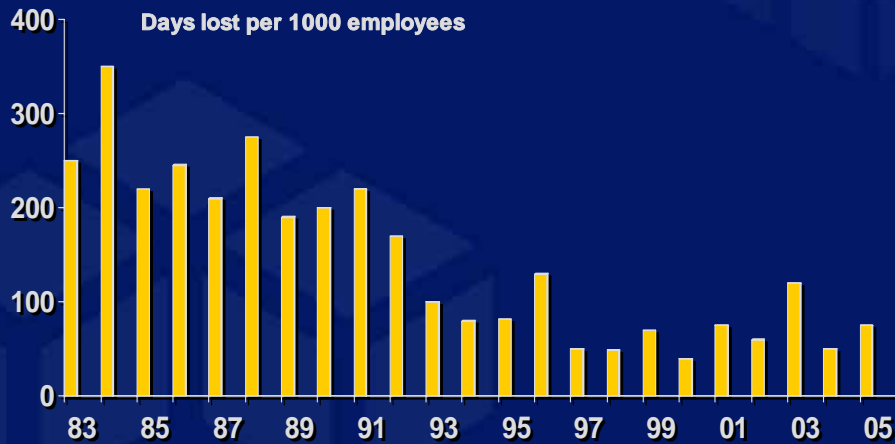
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- The above chart shows Australia's comparative competitiveness based on GDP per capita, education, labour costs, infrastructure, telecommunications, the prevailing regulatory environment and so on.
- In 1996, Australia ranked 21<sup>st</sup>.
- No Government, no nation can afford to rest on its laurels. It is a never ending process to improve our national productivity.
- Increased productivity results in improved living standards for all Australians.
- The philosophy at Leighton is that everyone is paid as much as possible for a fair days work.
- One of the foundations of the Leighton approach is that everyone shares in our success – shareholders, staff and employees.



- **The Rationale for Changing our Industrial Relations Framework**
- **A nation's productivity is influenced by the shape of its population and the participation rate.**
- **The table above shows that Australia ranks below 15 OECD countries on labour productivity. If Australia achieved the same level of productivity as the US, average household income in Australia would rise by 20%.**
- **It is incumbent on any Australian Government to implement policies to maintain high productivity growth.**
- **The current Government sees labour market reform as an important component of labour productivity.**

## Days Lost Through Industrial Dispute



Source: DB Global Markets Research; ABS

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- It's obvious that the legislative changes have not been enacted because industrial disputes are too high as the graph above shows.
- However, in most industrial disputes statistics published, the construction industry regularly records the highest number of working days lost and is generally followed by metals manufacturing and coal mining.
- The construction industry – both employers and employees and their unions are grappling with the most significant legislative changes in our history – construction industry specific legislation passed late last year and the wider Workchoices legislation was enacted a few months ago. This represents a fundamental cultural change for all of us.

## **WorkChoices**

- **Significant opportunity for the construction industry to improve productivity**
- **Important that head contractors use the new system and entrench improved practices**
- **Abolition of state jurisdictions a key contribution to simplification of employment law**
  - **sub-contractor management**
  - **National Code of Practice compliance**

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- **Legislation is now 1200 pages with 400 pages of regulations - some simplification!**
- **However, the objective of having one jurisdiction whether it's for industrial relations, occupational health and safety, workers compensation and so on is the right way to go.**
  - **reduces transaction costs, forum shopping and confusion and ultimately increases productivity.**
- **The Leighton Group has always sought to co-exist with unions. Generally, we have been able to do so and we will continue to do so. However, we do not resile from using the new legislative powers when necessary.**
- **As employers, we are not necessarily happy with all aspects of the legislation - some provisions of the National Code of Practice are difficult to implement.**



Package 'F' - Perth

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## **Perth – Mandurah Rail (Package F)**

- \$330m joint venture Leighton Contractors and Kumagai (Japan)
- Twin 770 metre bored rail tunnels under the Perth CBD, 594 metres open dive tunnel, 340 metres cut and cover tunnels
- Two underground stations, rail tracks, signalling, overhead power, associated roadworks, drainage and landscaping
- Construction commenced in 2004 - completion in 2007

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- **As many of you in this room will be aware, this project has been the subject of concerted industrial action by the CFMEU.**
- **Around 70 days lost to industrial action with each day lost costing us more than \$150,000 per day.**
- **Currently suing the CFMEU and its officials for unlawful industrial action to recover damages.**
- **This is the sort of behaviour which has encouraged the Federal Government to enact the new laws.**



Package 'F' - Perth

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EastLink

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## EastLink Project

- \$2.5 billion toll road from Mitcham to Frankston in Melbourne's eastern suburbs
- 39km in length, 3 lanes each direction for 33km
- Twin 3 lane, 1.6km tunnels under Mullum Mullum Creek in the north
- 17 major interchanges, 84 bridges, 3 railway crossings
- Construction commenced in early 2005 with project completion in 2008
- Project is proceeding very well at present – about 30 percent complete

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- **Thiess & John Holland**
  - Active participants in the Victorian civil & Building industries
  - Costly industrial relations experiences in the past
  - Lessons from Spencer St – lack of productivity on that site (over 20 non-working delegates.)
- **CFMEU**
  - Inflexible work practices/working calendar
  - Hard nosed approach moderated by:
    - Government control of Senate/Legislative changes
    - Profile of the project
  - Demarcation disputes with AWU
- **AWU**
  - Keen to re-establish presence in the industry
  - Strategic leadership from Bill Shorten. Bill's the next speaker so I've got to say nice things about him especially as he's off to Canberra to save the Labor party.
- **Strategy**
  - Deal with both unions
  - pay competitive wages/conditions in exchange for flexibilities

## Negotiation Process

- Outline key requirements upfront
  - flexible calendar (not accepting Victorian Industry Calendar)
  - no non working shop stewards
  - freedom of association
  - drug and alcohol screening
  - workable demarcation agreement
- Development of the Construction Agreement
  - Agreement reached with AWU first
    - All key requirements met
  - CFMEU concerned that they would be left out
  - Identical agreements with both unions

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## **Flexible working calendar**

- **Concept – Employees take RDOs in a flexible manner and critical Project work continues**
- **26 RDOs (13 programmed on calendar)**
- **7 Leisure Saturdays (LS) on calendar**
- **Work generally not programmed for the whole job on RDOs and LSs**
- **Work permitted on RDOs:**
  - **Critical program work**
  - **Equipment maintenance**
  - **Emergency work**
- **RDOs & Leisure Saturdays rescheduled when required**

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## Industry Calendar

## TJH Calendar

RDOs	26	Programmed RDOs	13
		Flexible RDOs	13
			26
Lock Down Weekends	7	Leisure Saturdays	7
Days off for individual employee	33	Days off for individual employee	33
Project days shut down	33	Project days not available to work	0

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- **The EastLink agreement was negotiated and certified under the previous Federal Industrial Laws.**
- **Demonstrates that if both employers and unions adopt a reasonable approach and negotiate in good faith mutually beneficial outcomes will be achieved.**

## **Other significant items**

- **Project bonuses – Tunnel and Surface**
  - **Genuine bonus funded out of savings for completion ahead of program**
- **Inclement weather provisions better than pattern**
  - **Reallocation of employees/whole job doesn't stop**
- **Alcohol & Drugs screening**
  - **Employees & subcontractors**
- **56 Hour limit (Average over 4 weeks)**
- **Agreements running for 14 Months**
  - **No significant issues to date**

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EastLink

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## **Employer Greenfield Agreements**

- **LHL subsidiary the first applicant**
- **\$140 million upgrade of berthing facility at Port Hedland for BHP Billiton**
- **Agreement matches area rates**
- **>1000 unsolicited applicants following publication of agreement**

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- **John Holland was the first construction company to conclude such an agreement under the new laws.**
- **Of the examples, two case studies were under the 'old system' – one good (EastLink), one bad (Package F) and one agreement Port Hedland is being implemented under the new legislation.**
- **The key point is that the approach and attitude of the parties is just as important as the legislative framework.**

## Summary

- **The Workplace in 2010 should be:**
  - **highly skilled**
  - **safe**
  - **one where employees are rewarded for productivity**
- **Any new system should have the objective of promoting a safe, productive workplace to enhance national prosperity.**

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- **The Australian workplace relations system is highly complex**
  - **Six separate systems, more than 2200 federal awards and another 2000 state awards. It had to change.**
- **WorkChoices will advantage many employees but in any new system not everyone will be a winner.**
- **The workplace in 2010 should be one where employees are highly skilled, highly motivated, well rewarded and work in a safe environment to sustain Australia's position as one of the best places in the world to live.**

**WORKPLACE 2010**  
**Presentation 7 June 2006**

Wal King AO  
CEO, LEIGHTON HOLDINGS

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