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# A Global Outlook

After running Rio Tinto's world-leading iron ore business and jewel in the crown of its diversified mining portfolio, Sam Walsh is now transforming the multinational mining and metals company as global chief executive.

Images courtesy of Rio Tinto

*"I've learned during my career of more than 40 years that nothing beats focus, discipline, and accountability."*

- Sam Walsh

**W**ith 66,000 employees in more than 40 countries, Rio Tinto Chief Executive Sam Walsh knew that transforming the processes and culture of such a vast organisation would be a substantial challenge. Since taking the top job in January 2013, Sam has led the global mining giant with a focus on implementing and integrating efficient processes and procedures.

During this transformation, Sam has drawn on the expertise and experience that he amassed throughout his career with Rio Tinto. He joined the mining giant in 1991 after spending 20 years in the automotive industry at General Motors and Nissan Australia.

Since 1991, Sam has held a number of senior management roles at Rio Tinto, including chief executive of the aluminium group, chief executive of the iron ore group, and chief executive of

Australian operations. Sam has been a director of Rio Tinto since 2009. Weathering the GFC and ensuring the company emerged stronger and more profitable than ever was a big challenge for Sam and his team, but it was one that they overcame with dedication and hard work.

Today, as chief executive, Sam oversees the entire global network of Rio Tinto operations and says that he's focusing on transforming the business following a \$14-billion writedown of the value of some of the company's assets in 2012.

"It's a good business with good foundations, good people, and good assets. We lost our way, and my job has been about getting back to basics and getting back to the way we used to do things.

"I've learned during my career of more than 40 years that nothing beats focus, discipline, and accountability. Early on, I said that

I wanted our employees to act as business-owners and to be spending the company money as if it was their own. While it sounds rather trite, the message has really resonated with our people.

"Is there a difference between being a manager and being a business-owner? Well, I've proven that there is. The astounding thing is that 17 per cent of our employees own Rio Tinto shares, so it's not as if acting as owners of the business is a strange phenomenon because many are and many more earn shares through their superannuation plans."

This shift in outlook was significant for the multinational corporation, with Sam stating that it heralded some other important changes. "That shift really got momentum going. I've kind of gone back to the past in that I've reinstated systems that we had in place some 10 years ago—the checks and balances that you have >



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in decision-making in capital allocation and our investment approval processes in particular.

"I am very interested in what's happening in the here and now. With apologies to any of your readers who are accountants: accountancy looks backwards. Sure, you can pick up trends or underlying factors from last month's results, but I'm more interested in what's happening this month, next month, and going forward, because that's what you can do something about. You can't do anything about what happened last month. You've got to have people looking forward, so I instituted monthly forecasts. We have the organisation focused on what we can influence and what's happening in the here and now."

These new monthly forecasts have sparked a significant shift in the business. Sam says, "The forecasts have been astoundingly accurate, within 5 per cent, which is really good news. And it reinforces the point that I'm making that we know our business very well and can make accurate predictions on where the business is going."

"Of course, the name of the game is responding to what's happening in the market and responding to what might be happening in terms of cost trends and so on. The world is a much more volatile place in 2013 and 2014 than it was 10 or 20 years ago when life was pretty consistent. These days, there are lots of changes affecting things—and not just the commodity business, but everything we do moves faster."

In these unpredictable times, Sam has drawn on his wealth of experience across Rio Tinto's Australian operations to inform his decisions and actions across the corporation's global network. "I think I've used an approach of engagement, involvement, and communication. I operated in a very transparent way in Australia, and it worked because people knew what was going on in the business and what they needed to respond to. That's worked within



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- Sam Walsh

the greater Rio Tinto corporation as well.

"We achieved momentum fairly early on in the piece. We could see that our cost-saving activities were generating the results that we wanted and needed, and that creates momentum. People can see what's happening. I announced early on that I was going to reduce my executive committee from 11 people to nine people. That was a good message for the organisation because it showed that it wasn't just affecting us down in businessland; it was affecting everybody right through the company. In fact, we reduced the number of people in our head office from 600 to 300."

"The message was that everybody needs to tighten their belts and do things smarter and with fewer costs. Our 2013 financial results showed that we are moving in the right direction. We removed \$2.3 billion of costs and delivered a further \$1 billion of exploration and evaluation savings. That was a great effort given the significant transformation focus of the group. It's a terrific achievement. That wasn't about Sam Walsh; that's about an organisation being

aligned, an organisation understanding the challenges that we face and everybody working to overcome them."

In an industry that some observers believe is entering a tougher new environment, Rio Tinto is proving the naysayers wrong, becoming smarter and more agile in the competitive global market. Sam states, "I think Rio Tinto has seen a significant turnaround. We're delivering the cost savings and the reductions in capital."

"The business has always been profitable, but the fact of the matter is that that we're carrying a lot of baggage in relation to some bad decisions that were made in the past. We're now reversing that: we're much tighter in terms of our processes associated with capital allocation and capital decisions, and we're reducing costs back to where they should be."

Streamlining and consolidating the company's global operations has been the primary focus for Sam and his team in his first year. As Sam shifts his focus to the years ahead, he also turns his attention back to Australia and the state of its resources sector. Sam says that >



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the future health and wealth of the Australian economy and its mining sector hinge on the industry's ability to maintain its competitiveness. "The Australian mining industry competes on a global stage against the best in the world and we do very well at it. We need to ensure that the industry remains focused and that it continues to improve. There is a lot more to do.

"You've seen what we've done in relation to using technology and

innovation. That's important as we go forward to ensure we remain the most competitive in the world, whether it's remote operations, automated trucks, trains and drills, or new ways of mining underground, and so on. These are important because they improve your cost base and your safety; and environmentally they are providing a much better platform. We find that, with the automated equipment, we're actually using less fuel and creating fewer emissions."

*"It's a great experience working with an iron ore industry leader. Rio Tinto offers challenging work in an industry that demands excellent results. We're pleased to be a part of an integrated team, focused on achieving quality results." - Luke Herbert, Managing Director, Linkforce Engineering*

Rio Tinto is exploring a host of avenues and initiatives to save costs and improve efficiency, with more than 1,500 initiatives underway in every part of the business to extract cost savings and productivity improvements.

Looking beyond Australia, Sam says Rio Tinto is exploring new ground and establishing new projects in Mongolia and Guinea, among other places. "These are two very exciting projects. For a mining company, we need to focus our business where the ore bodies are, and there aren't many located in downtown Sydney or London, where I now live and operate from.

"We need to go to remote places, and there are challenges with the size, complexity, and difficulty of these projects. You need to get the fundamentals right from the start, whether it's mine planning and design or it's how you interface with government and local communities. In both cases, as we take the projects forward, we've been working to ensure that we actually have investment frameworks and investment agreements that are operating in the way that they should.

"In Mongolia, we commenced our open-pit mining in June 2013, and we are now producing copper concentrate. This has been a pioneering achievement, and it demonstrates that all the fundamental work that we did when we started that operation is working. Moving to the underground is a big step. It's the next stage, and we need to get project finance in place."

Rio Tinto has undertaken positive, constructive discussions with the government of Mongolia that will enable the project to move to the next decision point. Rio Tinto's iron ore project in Guinea is a similar story. "In Guinea, we've signed an investment framework agreement, and it will be put to the newly elected national assembly which has been ratified by the High Court. This is a fledgling democracy. It's the first time that there has been a fully elected >



parliament, and clearly these are big steps for Guinea to take.”

Entering and exploring these new markets will give Rio Tinto an edge in an increasingly competitive industry. As the company continues to develop and evolve, Sam says, Rio Tinto’s immediate future will focus on a number of factors.

“Stabilising the business and getting the cost base right was an important focus for 2013. In 2014, it’s more of the same, but it’s also about paying down debt and creating an environment where the board has options to make decisions about our growth platform going forward and shareholder returns. This has been a very important return for me: creating value for shareholders. These are the people who invested in the business and trusted us with their funds. I am very committed to returning value to shareholders, and the best way I can do that is by providing options for the board.

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“We’ve indicated that by 2015 we would halve our capital expenditure. We were at \$17.6 billion in 2012. In 2015, we’re going to be around \$8 billion in capex. Likewise, in relation to costs, we have set a target that by the end of 2014 we would have reduced our annual costs by \$3 billion, compared to 2012. Both of those targets are obviously going to create quite a bit of cash for the business. This gives the board options to focus on growth, shareholder returns, or in fact both.”

Sam states that there are also a number of growth projects in the pipeline. “We announced in November last year that we will continue to expand our world-class Pilbara operations with a breakthrough plan and allow mine production to rapidly increase towards 360 million tonnes a year at a significantly lower capital cost per tonne than originally planned. It’s basically saving \$3 billion of capital through a low-cost,

productivity-based, incremental volume return at a number of our 15 mines in the Pilbara.

“I’m expecting that our underground mining project in Mongolia will be approved this year, and our aluminum smelting project in Canada is on track for next year. Across the total business, we’ll be looking for the benefits from recent new operations or expansions during this year so we can continue to deliver for shareholders.

“It’s an exciting time to be in the company. It’s really about delivering on promises that I made back in February 2013. We’ve been able to over-deliver on those promises, and the turnaround effect has been quite remarkable. It’s such a good achievement.”

As this story continues, Sam says, technology will play a critical role in shaping the future of the mining industry and its leading



players. “I think in the past the mining industry has looked to size as being the technical solution. We moved to larger haul trucks, excavators, and shovels, and that’s how the efficiencies were achieved. These days, we’re looking at small, incremental improvements and we’re also

looking for step-change improvement. Clearly, automation is an important part of that.

“Automating a single truck or vehicle is readily achievable, but in our case we have a fleet of 53 autonomous trucks currently operating in the Pilbara. We also

have the largest privately run heavy-haul railway in the world. No-one has automated these types of trains until now. It requires a high level of sophistication and, frankly, it also requires half a billion dollars. These are not projects for amateurs.

“We have a number of underground mines where we’re looking at tunneling and updating the technology used in underground mining. You’ve got to look beyond what’s happening in your industry and look at what’s happening in the very best in the world and modify, adopt, and transfer that technology into your business.”

Technology and innovation will play a pivotal part in the development of Rio Tinto and its assets. As the company continues to grow on the international stage, Sam Walsh and his dedicated team will shape the strategic direction and future success of this global giant. •



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