Transforming a global business - “back to the future.”

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**Check against delivery**

Thank you, ladies and gentlemen, it is great to be with you here today.

Harvard is an outstanding institution in New England’s most historical city - Boston.

A city known for its liberty, its culture and revolutionaries.
A city also known for its students and faculty.

I was very pleased to have met with Professors Michael Porter and Gautam Mukunda earlier today, and I am equally delighted to be speaking to you - the next generation of leaders.

To start on a history theme for a moment, you probably have heard the line in the Columbus poem, 1492: “in fourteen hundred ninety-two Columbus sailed the ocean blue.”

But where did he sail from?
Well, he sailed with his ships from the port of Huelva near Cadiz in southern Spain.

Huelva is at the river delta of the Rio Tinto – a river that weaves 80 kilometres upstream to a 5,000 year old copper mine we purchased in 1873.

Our company cut its direct ties to the mine more than 60 years ago, but the river gives its name to the company I have the great privilege of leading today.

In July, I visited the old mine where our company was first formed 142 years ago. Since then, we have transformed into the second largest mining company in the world and the transformation continues.

We now operate in 40 countries, with some outstanding mines here in the US, we have a market capitalisation of $65 billion, underlying earnings in 2014 of $9.3 billion, we employ around 60,000 people, and provide the world with the minerals and metals that build cities and make modern life work.

Copper, coal, iron ore, aluminium, uranium, diamonds, industrial minerals and salt.
Our materials are used in the iPhones you are probably all using, the cars you drive, and the buildings you live in.

Urbanisation and industrialisation in both the developed and the developing world will only occur using the materials that we in the mining industry supply.

My trip back to our first mine got me thinking about “what it means to be a chief executive?”

What is the significance of the word “chief” in chief executive? I landed on the fact it means taking the responsibility of our heritage seriously. Let me explain.

We all stand on the shoulders of those that stood before us and as a CEO it is incumbent upon me to strengthen the business and to take it to the next level. To grow our businesses, invent new things, improve ourselves, live responsibly.
If my predecessors hadn’t developed the mine in Spain I would not be here talking to you about what it takes to run one of the world’s largest companies.

So, today, I am going to share with you some thoughts on my company’s transformation journey and through it my own leadership metamorphosis.

Of course, Harvard has written the leadership playbook, so imparting something new to you all will be a challenge, but I hope that my 43 year career experience might offer some insights.

Let me start by sharing a little of my background.

I was born and raised in Melbourne, Australia. A city with many similarities to Boston in architecture, education and the arts. I am passionate about all of these things.

My father died when I was 15 so I was thrown into managing the family finances from a young age.

Working my way through university I had a myriad of jobs such as a theatre usher; a lawn mowing round; working in a foundry and working for a bottle recycling firm.

I run a global metals and minerals company but I didn’t study geology or engineering - I studied commerce.

My career started in the automotive industry, firstly joining General Motors Corporation and then Nissan, working in Australia, the US and Japan.

I learnt a lot from the car industry. How systems operate effectively, how to be truly competitive, how supply chains work, about innovation, about Japan’s automotive ascendancy, and how the customer not the product really is king.

I’ve also learnt a lot in the mining and metals industry. Its cyclical and long term nature, the importance of: geology, infrastructure, integrated planning. The challenges of developing strong relationships with customers, communities and host governments; and how technology is a key differentiator nowadays.

I admit when I joined Rio Tinto some two-plus decades ago I had little understanding of the broader mining industry. It was with fresh eyes I could bring my automotive perspectives to the task.

During my career I’ve moved swiftly between roles. Worked in three companies with three very different cultures - American, Japanese and Anglo Australian. I have worked as a buyer, a salesman, a programmer, in engineering, in finance and general management.

In January 2013, after 22 years in Rio Tinto, I was in Singapore with my wife on holiday when I received an email: “Drop everything, come as you are to an emergency board meeting in London.”

I was appointed chief executive by the end of the week.

To be frank, I had inherited a company with strong underlying fundamentals and good people, but a great company that had lost its way.

There had been unprecedented impairments of $23 billion over two years on assets relatively recently acquired, costs and capex had increased exponentially and in 2012 the company had reported a net loss for the first time in 25 years.

The company was living beyond its means, and a number of the businesses were cash negative.
During the boom years, growth had supplanted shareholder value. A disconnect had slowly emerged with our owners. We had lost the trust of the investment community.

It was clear to me that the checks and balances in our systems had been diluted - the discipline and focus we were so well known for had dissipated. I was staggered at the delegation upwards that was occurring.

My appointment as chief executive proved to be at the tail-end of one of the largest commodity booms in any era. Since then, major commodity prices have fallen by more than half.

While the challenge was sizable, so too was the opportunity, and I set about implementing a turnaround strategy to ensure we returned to being the best mining company in the world and a leading global company, focused on delivering sustainable and attractive returns to shareholders.

When you become a chief executive you’ve got to decide early on whether it’s time for an evolutionary or revolutionary refocus.

I definitely wanted us to move with revolutionary speed, but we didn’t need a wholesale reinvention.

It needed leadership. We had good people and good systems but we had allowed our attention to slip from our considerable strengths.

We had to bring back the operating discipline that we were recognised for. A reset, to play to our traditional strengths.

Right from the start I made it clear that our company would be focused on delivering value for shareholders. This sounds incredibly simple, but we had lost this fundamental truth.

We had become distracted by fads and mislaid our true purpose.

My focus was to take Rio Tinto “back to the future”, returning our company to its proven strategy:

- of delivering value,
- making outstanding investment decisions,
- leveraging our strong operational performance,
- and making the most of the best people in the business.

I set three core priorities for the business, put simply: to improve performance, strengthen the balance sheet and to deliver results.

This gave the organisation focus and direction. But having clarity of focus is one thing, delivering it is another.

Implementation is seriously hard and many businesses fail not for the lack of brilliant strategy and planning but through poor implementation.

Speed of execution is critical and to achieve it you need the best people all aiming for the same goal.

In my early days in the job I remember the chairman saying to me: “Sam, you seem to be in an enormous hurry.” And I also remember my response, “Well, yes I am. It’s not a time to muck around.”

I needed to develop momentum and a true sense of urgency and purpose.

There are many things that we need to do really well at Rio Tinto: exploration, mining, logistics, safety, environmental performance, community, customers - I could spend hours on each.
However, when it comes to the financial metrics, I want Rio Tinto to be known for its cash generation and increase in shareholder returns.

When I first took the reins at Rio Tinto I was told that for a business as large and complex as ours managing for cash was not possible. They were wrong.

I wanted monthly forecasting. I was told not possible. They were wrong.

With apologies to the accountants in the room, cash does not lie. It is either there or it is not.

With respect to the forecasts, well last month’s accounts are great, but why don’t you try to drive a car looking forward in the rear view mirror. On seconds thoughts, don’t try this.

For our employees this wasn’t that revolutionary, but I wanted to ensure momentum was created around what was easy to deploy and make a huge difference.

I wanted all of our employees to act as owners - 35 per cent of our employees already own shares in Rio Tinto - and to spend each company dollar as if it was their own.

This sounds like a pretty simple culture shift, however for mega companies like Rio Tinto it’s an enormous shift in mindset.

All in all this culture shift has led to greater focus. Focus is not a throwaway phrase. The greater the focus: the greater the energy, the greater the momentum, the greater and quicker the results.

They often say that imitation is the greatest form of flattery. You know you are doing something right when your competitors start doing similar things after you.

Over the past two and a half years we’ve actually delivered on our promises.

We’ve reduced our costs by $5.5 billion. We’ve delivered these reductions ahead of target, and faster than we had promised, and considerably faster and greater than the rest of the industry.

We have substantially reduced our employment and taken costs out of every aspect of the business.

One of the defining features of our transformation has been to be absolutely disciplined with capital allocation, which represents a significant change from recent years and is notable amongst our peers.

Our capital expenditure peaked in 2012 at $17.6 billion and in 2014 we spent $8.2 billion. This year we are forecasting capital expenditure of approximately $5.5 billion. We have also released more than $2 billion from our working capital.

One of the key aspects of strengthening our balance sheet was to reduce net debt, which had grown to $22.1 billion by June 2013 with a debt to equity gearing ratio of 28 per cent. By December 2014, we had reduced this to $12.5 billion with a gearing ratio of 19 per cent.

We have one of the strongest balance sheets in the sector enabling us to announce a $2 billion share buyback earlier this year and recently a 12 per cent increase in the interim dividend.

Rio achieved the highest underlying earnings of any mining company for the six months to 30 June 2015 and we’ve delivered all of this without compromising our long-term growth.

Over the last two years we have ensured that we have good growth prospects. Our production growth forecasts are in line with or better than the majority of our peers.
Importantly at the same time we have achieved the best safety in our 142 year history as measured by All Injury Frequency Rate (and the best in the Industry) and improved our environmental performance by reducing our greenhouse gas emissions in absolute terms by 31 per cent since 2008.

At our annual general meeting this year, a shareholder commented that cash was mentioned in the annual report 24 times. Now that is what I call success!

And analysts now pay closer attention to our cash and debt profile, where we compare more than favourably across the industry and in fact across most market segments.

Clearly our focus on accountability and cash is getting noticed. But, the work is not done.

I’ve shared some of our turnaround successes for they help frame the three basic leadership lessons that I want to leave with you today.

Firstly, leadership is all about making the tough calls early.
Leading by example, motivating, engaging, involving and communicating.
It also includes ensuring that there is clear accountability.

This is the same story that you would hear from my friend Alan Mulally, the former head of Ford in the Ford turnaround, or Terry Leahy of Tesco.

Your plan is your promise, deliver on what you say you will do, that’s how you build trust and credibility and make lots of money for shareholders.

At Rio Tinto I had to restructure my executive team, merge business units together, close or mothball facilities and divest businesses which led to some very hard decisions and employment reductions at both executive and operational levels.

Over the last two years we have, for example, reduced the staff in our corporate headquarters by more than half and I know from personal experience that restructuring of this kind causes pain and it has consequences.

In my early automotive days as a young manager leading the restructure of General Motors in Australia, some tough decisions were required of me, such as recommending the closure of five plants and the laying off of 10,000 people. Sometimes the options are not options, only painful reality.

The second lesson is as individuals we all need to focus on delivering value and not get sucked into bureaucracy or emulate what your competitors are doing - personally or as a company. Or thinking that answering emails or tweeting is adding value.

For an organisation, large or small, there will always be competing needs.
So clarity of focus is needed to channel everyone’s energies.

Set your own objectives and priorities for each day, or each year of your life, and focus on this.

Manage your own careers, plot your own goals, fill the gaps in your CV, no one else will do it for you.
Take on additional responsibility, join a not-for-profit board to gain valuable experience, extend yourself.

No one gets promoted until they exhibit the characteristics of the role that they are seeking.
I have never met anyone who pushed their role to the limit of their authorities. Extend yourself.

Determine what is important and what adds value in your job, or life, and go for it.
Nothing in life is delivered on a silver platter. Keep learning!
I know that you just want to finish your course or degree and get on with your lives but life in the 21st century requires continual reinvention, development and new skills.

Importantly, have values and act ethically. Know what you stand for, know your no-go issues, know how you want to make the world a better place, add value and make a difference. Each of you is important, believe in yourselves.

Let me now touch on the need for leaders to ensure that they and their business remain relevant and future-proof.

I studied here in the US for a year as a trainee with General Motors in Flint, Michigan when I was about your age.

Last year, I returned to Flint and the famous Buick motor complex where I worked and studied for 12 months. A manufacturing colossus three stories high that once stretched a mile down Industrial Avenue.

Visiting last year, I found my apartment building on University Drive - it was looking pretty seedy and was very much worse for wear. Kettering University, where I studied, is thriving but I couldn't find the Buick plant. It was nowhere to be seen.

I stopped and asked someone, and he said “It’s gone, all shipped to China”. A salutary lesson and a clear reminder to stay relevant, reinvent yourself and renew.

Just look at the number of famous companies or brands that no longer exist: Pan American; Blockbuster Video; Amoco; Enron; Woolworths; Borders; American Motors; Arthur Anderson and even Burger Chef.

Shortly after I joined Rio Tinto I was handed a book on our famous iron ore mine in Western Australia called Mt Tom Price, named after a great American engineer from Kaiser Engineers which is another great business that has disappeared, absorbed by ICF International.

The book explained with some pride the mining industry’s many technologies and pointed to the adoption of conveyors in the early 1900s.

Well, ABB, the multinational robotics and technology business headquartered in Switzerland, used them in 1870 so the mining industry has been something of a late adopter.

Having seen the automation evolution in the car industry, I wanted to ensure that we pushed Rio Tinto up the technology curve. We were already a leader, but we could not be complacent.

So, in 2005, I brought my team here on a US road trip. We deliberately did not visit a single mining company.

At Schlumberger we saw R&D programmes for driverless tractors in farming. At engineering groups such as Schlumberger we saw remotely managed operations; one oil or gas platform at a time. And we started to dabble in the power of data, soon to become big data.

Bringing all that together in 2007 we commenced trials and started building an integrated operations centre in Perth, Western Australia for our iron ore business.

This approach has revolutionised how the industry has approached integrated mining - it turned 15 individual mines into an integrated mining, processing and logistics system that is controlled from Perth, with operators sitting side-by-side to one another, one thousand miles from the operations.

Today, much like an air traffic controller manages many moving parts, and looking like NASA’s control centre, we now manage in real time our 15 iron ore mines, 1700 kilometres of rail, four ports, three power stations across an area 15 times larger than the State of Massachusetts.
We use autonomous trucks, autonomous drills and soon autonomous heavy haul trains. We are using a wide range of new technologies to optimise productivity.

We focus such an approach through what we call the Mine of the Future™.

It's a brand name, a way of thinking and a rigorous improvement process all at once. And I am the only person in my company who does not know what it means.

Some of my colleagues define Mine of the Future™ as automation, it certainly includes this. However, the moment I define my vision of Mine of the Future™ then I immediately limit people’s thinking and I inadvertently put boundaries around it.

Who would have thought just ten years ago that a mining company would use big data to analyse variation in plant and mine performance from a global centre. I call it six-sigma on steroids.

If you don’t keep reinventing yourself then you rapidly move past your use by date.

I have a mentor. Why? To force myself to stretch my boundaries, to keep reinventing myself and to test my judgement, hone my intuition and ensure that I do the “hard tasks” as well as the ones I enjoy.

And I have just completed a 360 degree feedback process with input from my board and executive committee colleagues and my chairman. You need to ensure that you are adding value in reality not just in your own mind.

I want us to be respectful of the past, but not anchored to it like at Flint. I want us to be focused on the future opportunities – just like you.

Let me close with a few final thoughts before opening up to your questions.

What’s the difference between being a chief executive compared to say a division head? Well the complexity, the breadth of the role and the workload is five times as much.

That means momentous challenges, that disasters real or perceived, happen each and every day, not once a week or fortnight.

There is a temptation to fire fight and to see every issue as the big issue to fix and a risk of being distracted by every “helpful” side-line commentary.

But my advice is: don’t get distracted. Decide early on whether an issue is strategic, that’s for the CEO, or operational, in which case not surprisingly you delegate the issue to your experts in the field. That way accountability moves to where it belongs.

A heavy work load comes with a CEO’s territory, but you can prepare for it.

During my early years in the auto industry I threw myself into all manner of industry associations – from technical sciences to procurement – in so doing building new skills and networks.

Similarly, at Rio Tinto I joined a number of wonderful cultural and arts boards and committees.

And today I am an active member of global trade and business forums, such as the ICMM, CDF, APEC, B20 and Australia India CEO Forum.
I am also a director of the Royal Opera House at Covent Garden - fancy that a cultured miner - that’s an oxymoron for you.

All of these activities have allowed me to listen, learn and network, and have prepared me to be an effective chief executive and to work with diverse groups of people, manage my time, manage my decision making, and be meticulous in my focus.

Most importantly, I believe that they have helped foster my creativity, generate fresh ideas for me and provide an opportunity to “give back” to the community.

As I have said - that is what you should aim to do as young leaders - pursue as many outside interests as you can. But only do things that interest you for there is no substitute for passion.

By all means be focused, but don’t let it inhibit having a broad personal and cultural experience. It will be those experiences and insights through your career that you will be able to draw upon and share.

So leadership is about motivating, engaging, involving, communicating, then executing quickly, staying focused, and looking to the future.

We are all leaders in whatever we do in our lives, we just need to recognise the context and then take charge. A chief executive has to lead and must work through others, in my case, 60,000 others.

My very best wishes for your journey.

I am depending on you to make a difference and adding enormous value in whatever you do.

Thank you.
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