

The logo for Rio Tinto Alcan, featuring the company name in a bold, white, sans-serif font oriented vertically on a red rectangular background.

RioTintoAlcan

A photograph of a large, ancient stone structure, possibly a pyramid or temple, with a blue sky in the background. The stone is dark and weathered, with a grid-like pattern of blocks.

Rio Tinto Procurement Tendering / Contract Process Supplier Presentation

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Agenda

- Context
- The Way We Buy
- What's New ?
- The New Process
- Schedule
- Support Strategy
- Supplier Participation
- Questions

Context

We are part of the Rio Tinto Group

- November 2007 Alcan became part of the Rio Tinto Group
- All of our procurement activities now fall under the umbrella of Rio Tinto Procurement (RTP), a global function within the Rio Tinto group.
- In order to have consistent business activities, our procurement processes need to be aligned with the central group.
- This presentation will review changes that impact the Tendering and Contract Processes.
- 2009 is the year in which these changes are being implemented throughout Rio Tinto Alcan.

**RIO
TINTO**

The way we buy

October 2006

www.procurement.riotinto.com

Source Buy Deliver

Our statement of procurement practice

The Way we Buy

Business integrity, corporate governance and transparency

“The Way we Buy” is Rio Tinto’s statement of business practices as it relates to the procurement function.

- It States the Role of Rio Tinto Procurement in the Rio Tinto organization. (pg 4)
 - How Rio Tinto Procurement and it’s business unit customers work together (pg 5).
 - How Rio Tinto Procurement engages with Suppliers (pg 9).
 - Behaviours Rio Tinto expects of it’s Suppliers (pg 12).
 - What Rio Tinto Procurement requires of supply chain personnel (pg 17).

Information is summarized in green for each section

The New Process - What's different ?

Old Process	New Process	Improvement
Each BU used their own sourcing process	RTP Formal Strategic (5 phases) sourcing process	Consistent strategy development
Alcan template format	RTA standardized templates	Consistency between business units
Insurance Requirements not defined on all agreement types	Use of Insurance Risk Matrix to define requirements	Insurances meet the requirement of the individual contracts
Hard copy tenders delivered by courier	Fully electronic – instant delivery	Time Savings Better communications
Bidders had Direct contact with business unit	Bid management through central procurement team (transactional activities only)	Transparency Consistency Integrity
No formal process for review of roles and responsibilities	Post award meeting – Contract Management Responsibilities	Communicate and review guidelines and responsibilities

Strategic Sourcing Process

- **Main Goal will also be to look at Strategic Sourcing methods**
 - **Phase 1 - Fact-based development**

Category sizing and spend analysis, internal needs analysis, supplier and market analysis, supply chain analysis, Total cost of ownership/total value opportunity analysis, and risk analysis in the supply chain.
 - **Phase 2 – Strategy Development**

Set category goals, develop category strategy plan, develop sourcing project plans.
 - **Phase 3 – Strategy Implementation**

Initiating Project Sourcing Strategy, complete requirements package & prepare for bid event, conduct bid, assess bid results, finalize contract in preparation for effective implementation.
 - **Phase 4 – Contract Implementation**

Contract implementation overview, preparing for the change, marketing the change, managing the change.
 - **Phase 5 – Contract Management**

Management Overview, Managing supplier performance, SOWs, SLAs and KPIs, Conducting a review, Supplier development.

Process Change

New Process

- Central group provides transactional and legal services for all contracts
 - Bid Team, Contracts Team, Legal Team.
 - Each has their defined role and expertise.
 - An excellent resource.
- The Process uses New Tools:
 - New contract templates.
 - “Procuri” (on line bidding).
- Post Award Meetings:
 - To identify the responsibilities of all stakeholders during the contract.
 - Time Cards, Invoicing etc.
 - Changes / Additions.

Products and Services Contracts

The Process

- Whether Tendering a Products contract or a Services contract the process is the same.
 - Kitimat Procurement prepares package in consultation with all major stakeholders.
 - Bid Team runs a “Procuri” Event.
 - Upon bid closing, Bid Team prepares a bid analysis summary.
 - Bid proposals and detailed analysis reviewed with stakeholders.
 - Recommendation to Award presented to and signed by BU representative.
 - Contract documents compiled and sent to Contracts Team for review.
 - Need for legal review (if required due to high risk or high value).
 - Contract documents and official award sent to successful bidder and BU representative for signature by Contracts Team.
 - Regret letters sent by Local Procurement.

Products/Material Contracts

When is tender / contract required ?

- A formal tender/ contract is typically required when:
 - Inventory fixed term / fixed price contracts.
 - Any purchase over **\$30K**.
 - Any volume commitment to purchase.
 - High Risk / Hazardous material supply.
 - Custom built / Engineered items.
- Objective is to award MGA's (Master Goods Agreement):
 - Would take the place of present "Pricing Agreement" and "Blanket Agreement" contracts.

Products and Services Contracts

Post Award Meeting

- A meeting (face to face or conference call) with stakeholders to discuss key contract issues such as:
 - Any relevant safety items.
 - Contract administration responsibilities.
 - Terms and Conditions, Scope of Work / Supply.
 - Issues Management.
 - Data Management (substitutions, e-catalogue, e-commerce).
 - Price reviews (schedule, method of price validation).
 - Contract Amendments (changes, additions).
 - Contract review meeting schedule.
 - Services required on site.
 - Insurance Documentation.

Process Change

Changes to Insurance Requirements

- Will be for both Goods and Service Agreements.
- Risk Analysis will help define Insurance Requirements.
- Insurance requirements will be defined in the bid documents.
- General Certificates are required with bid submission.
- Other specific Insurance Documents are required prior to coming on site.
- Environmental Impairment Insurance will be additional if required.
- If High Risk, then:
 - Internal Legal review is required.
 - Could be different insurance requirements.

Process Change

Insurance Details Summary

Type of Insurance	Limit of Liability	Change
Comprehensive General Liability	\$5,000,000	Used to be \$1M
Workers' Compensation	Must comply with all applicable laws of the jurisdiction affected by the Supplier's products/services (Work Safe BC).	Same
Employer's Liability	If Working on Site and also Outside of Canada (\$1,000,000)	N/A
Automobile Liability	Must comply with the applicable laws of the Province/Territory where the vehicle is operated (B.C. Minimum \$1,000,000)	Same
Professional Liability	If Professional Services part of Scope (\$1,000,000)	New
Supplier's Property and Equipment	If using Supplier property or Equipment on site (the replacement value of the property and/or equipment.)	Similar with Definition Change
Hazardous Substance	If Supplier is using hazardous substances on site (\$5,000,000)	New
Transporation of Hazardous Substance	If the Supplier is transporting hazardous substances (\$5,000,000)	New
Builder's All Risk Insurance	On Site New Greenfield Work (\$5,000,000)	New
Comprehensive Transit (Cargo) Insurance	Supplier Responsible for Freight but Title belongs to Owner (100% of the replacement value of the products shipped)	New
Excess Liability	Supplier Insurance Not Sufficient in any Category (\$ Amount Required to meet requirements)	New

Process Change

Insurance Risk Matrix

	Please Select Yes/No
A. Does the Contract require the Supplier to:	
1. work at height (i.e. at 6 feet and above) or using a man lift?	
2. work with or in close proximity to heat?	
3. supply, or work with or in close proximity to, cutting or welding equipment?	
4. work in a confined space (i.e. an area with poor or no airflow. Examples include but are not limited to: tanks, covered pits, bins, silos, etc.)?	
5. supply, or work with or in close proximity to, hazardous substances (i.e. any substance defined as a pollutant, contaminant, dangerous substance, toxic substance, hazardous or toxic chemical, hazardous waste and hazardous substance under applicable law. Examples include but are not limited to: ammonia, solvents, hydrogen sulfide, cyanide or other dangerous chemicals, etc.)?	
6. work with or in close proximity to live electricity?	
7. supply, or work with or in close proximity to, explosives?	
8. work underground?	
9. supply, or work with or in close proximity to, flammable substances (Examples include but are not limited to: diesel, gasoline, hydrogen, propane, oxygen, etc.)?	
10. perform drilling work, supply or work with or on, any other equipment, property or process that if not timely supplied or if defective or damaged, would cause the Company significant harm?	
HIGH RISK?	

Services Contracts

When is tender / contract required ?

- Whenever on site services or technical support such as:
 - Engineering Services.
 - Consulting Services.
 - On-site Maintenance Services.
 - Construction Activities.
- Objective is to award MSA's (Master Service Agreement):
 - Would take the place of present "Construction / Consulting Purchase Agreements".

Services Contracts

Requirements ?

- Services contracts require regular interaction with BU representative:
 - Risk Assessment.
 - Safe work plan approval.
 - Environmental mitigation plan if required.
 - Daily Pre-start / Tailgate meeting.
- Regular review of Scope and Schedule.
- During the performance of work, if a change of scope is required:
 - Field Change order is required prior to commencing work.
 - Contract amendment is required prior to invoicing.

Services Contracts

Changes to Contract

Field Change Order:

- Signed by authorized Supplier and Company representatives.
- Gives Supplier authorization to proceed with work.
- Does not give Supplier approval to invoice.

Field Change Order

Rio Tinto Alcan

Primary Metal EC
 4900000000
 Kitimat BC
 VSCall 2
 T (250) 639-8000
 F (250) 639-2200
 Purchasing Fax: (250) 639-8379

FIELD CHANGE ORDER

NUMBER: _____

DATE: _____

Refer to this Field Change Order Number on all related correspondence.

PURCHASE ORDER NUMBER: _____

PROJECT TITLE: _____

RFA NUMBER: _____

CONTRACTOR: _____

These changes are to be performed in accordance with terms and conditions of the original Purchase Order.			
	Change In Price		
	Labour	Material	Total

Does the work detailed herein change the scheduled completion date: Yes _____ No _____

If yes provide the Net Change In Days for this Field Change Order: _____

<p>AUTHORIZED BY RIO TINTO ALCAN REPRESENTATIVE</p> <p>Signature: _____</p> <p>Name & Title: _____</p> <p>Date: _____</p>	<p>ACCEPTED BY CONTRACTOR</p> <p>Signature: _____</p> <p>Name & Title: _____</p> <p>Date: _____</p>
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THIS FIELD CHANGE ORDER IS AUTHORIZATION TO PROCEED WITH THE WORK AS DESCRIBED HEREIN. A FORMAL AMENDMENT TO THE PURCHASE ORDER MUST BE COMPLETED PRIOR TO INVOICING.

Services Contracts

Changes to Contract

Contract Amendment:

- Signed by authorized Supplier and Company representatives.
- Amendment is the official change order notification.
 - PO change order is created with revised price / scope.
- Gives Supplier authorization to invoice.

Amendment Letter

AMENDMENT NUMBER [INSERT AMENDMENT NUMBER] TO [INSERT NAME OF AGREEMENT]

This Amendment Number [#] (this "Amendment") is made and entered into as of the day of _____, 200 [] ("Effective Date"), by and between [insert full legal name of Rio Tinto company] ("Company") and [insert full legal name of supplier company] ("Supplier").

RECITALS

A. This Amendment amends and supplements that certain [insert name of Agreement] ("Agreement"), entered into as of [insert effective date], by and between Company and Supplier.

B. Company and Supplier desire to amend the Agreement to [insert general description of amendment], all on the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing Recitals and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Company and Supplier agree as follows:

- Definitions.** Except as otherwise defined herein, all defined terms shall have the same meanings as in the Agreement.
- Amendment.** The Agreement is hereby amended as follows: [insert terms of amendment, including references to specific Sections of the Agreement that are being modified]
- Term and Termination.** The term of this Amendment shall commence on the Effective Date first written above in the introductory paragraph hereof and shall in all respects be co-extensive and co-terminus with the terms of the Agreement.
- Conflict.** In the event of any conflict between the terms of the Agreement and the terms of this Amendment, the terms of this Amendment shall prevail. Otherwise, except as specifically set forth in this Amendment, all other terms and conditions of the Agreement remain unchanged.

5. **Entire Agreement.** This Amendment is the sole agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior understandings, writings, proposals, representations, or communications, oral or written, of either party relating to the subject matter of this Amendment.

6. **Counterparts.** This Amendment may be executed in separate counterparts, each of which when so executed and delivered shall be an original for all purposes, but all such counterparts shall constitute but one and the same instrument. Receipt by a party of an executed copy of this Amendment by facsimile shall constitute conclusive evidence of execution and delivery of this Amendment by the signatory thereto.

IN WITNESS WHEREOF, the parties' respective duly authorized representatives have executed this Amendment as of the Effective Date first written above.

SUPPLIER:

COMPANY:

[insert full legal name of supplier company].

[insert full legal name of Rio Tinto company].

By: _____

By: _____

Its: _____

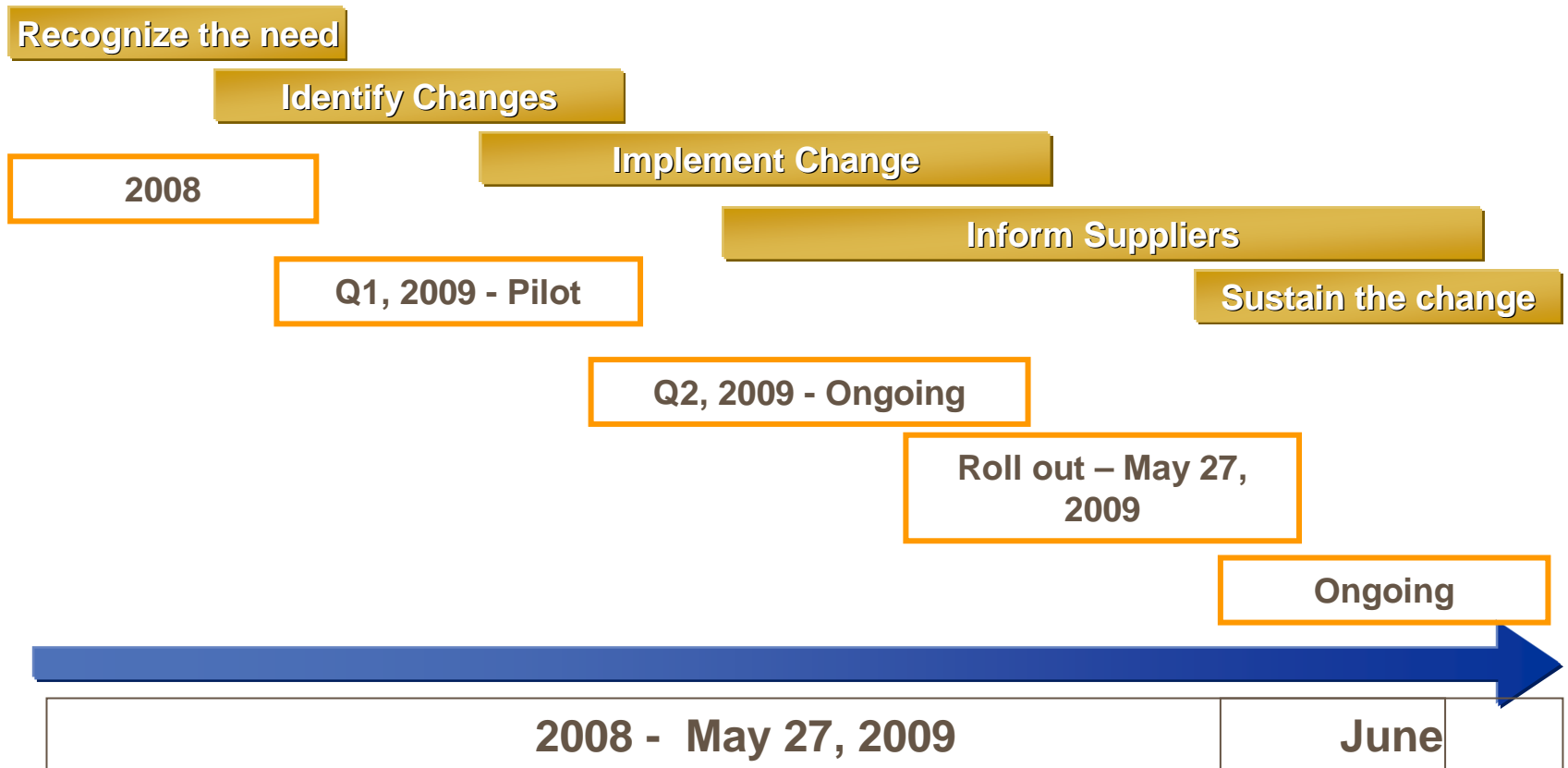
Its: _____

Services Contracts

Time Cards

- Daily Time Cards are required to be submitted.
- Approval requirements and frequency to be determined at Post Award Meeting (ie: daily, weekly or monthly).
 - Unit Rate Contracts:
 - To validate invoices (Time Cards must be approved by project manager prior to invoicing).
 - To capture hours worked on site.
 - To compile safety statistics.
 - Lump Sum Contracts:
 - To capture hours worked on site.
 - To compile safety statistics.
 - May be required to validate Contract Changes.

Schedule – Tender Process Implementation



Support Strategy

Communication

- Central Procurement Group:
 - Provides Online training at time of tender issue.
 - Is the preferred method of communication prior to bid closing.
- Direct communication with the local procurement team is still available:
 - Answers to questions during the bid event will be posted by the central group to all bidders via “Procuri”.

Supplier Participation

Feedback

- Have received feedback (positive and negative) from the Suppliers that have been involved in the new process.
- We acknowledge that there will be a learning curve. All feedback is appreciated
- Some of the current Suppliers involved to date in this process:
- Products
 - Western Equipment
 - Northern Industrial Sales
 - Acklands-Grainger
 - BGE
 - National Electric Carbon
 - ABB
 - GE Canada
 - EB Horsman
- Services
 - Zanron
 - Geotech Drilling
 - 101 Industries
 - Kitimat Iron
 - Ross Steel
 - Broadwater Industries
 - Allteck Line Contractors
 - Bravos Welding

Questions

