THE AUSTRALIAN

SE Business

HD **The road to Rio: Lynch's love of the game**

BY EXCLUSIVE: Matt Chambers, RESOURCES
WC 1,138 words
PD 9 August 2014
SN The Australian
SC AUSTLN
ED Australian
PG 25
LA English
CY © 2014 News Limited. All rights reserved.

LP

Road to resources: Lynch in the game WHEN promising Broken Hill footballer and part-time accounting student Chris Lynch was recruited by Geelong Football Club in 1972, he asked his employer for a job at Melbourne headquarters.

But the **mining company** he worked for, CRA (now Rio Tinto), was not keen to play second fiddle.

TD

"The answer was 'no, you'll be more interested in football than working, so good luck with the football'," says Lynch, who ended up playing five games with the Cats in the VFL.

Four decades later he is back working as an executive director at Rio, helping oversee what has so far been the successful transformation of a **company** that lost its way through some value-destructive acquisitions under previous management.

He is also a potential future chief executive.

This week, Lynch and current chief executive Sam Walsh surprised the market by announcing they had met a target of reducing Rio's annual costs by $US3 **billion** six months early. This helped beat first-half profit expectations, pay down debt and set the scene for big capital returns for investors.

With the target — which was put in place by previous management — met, Walsh and Lynch have now set down one of their own, removal of another $US1bn of costs by the end of next year.

Unlike the previous goal, this one has not been delivered from the top down. "We've just been through a round of plan review committees, and we challenged them (the individual Rio businesses) about how much we could take out of the cost structure in 2015," Lynch says of how the target was arrived at.

"The low-hanging fruit is gone but, equally, there is good momentum." The path Lynch, 60, took to finance director at Rio has been an unusual one. A former Transurban chief executive and BHP Billiton chief financial officer who missed out on the top job to Marius Kloppers in 2007, he was in February last year drafted back to executive life from the ranks of Rio's non-executive directors by Walsh.

"I thought I was too young and had too much **energy** to not continue to pursue an executive career," says Lynch, who moved to London with his wife and two children to take up the role.

"I had no thoughts about taking this particular role but it was a good opportunity to get in and help Sam get it done, and I love this business (**mining**)." With Walsh, who had been appointed to the top job a month earlier, Lynch set about meeting the cost-out target set by previous chief executive Tom Albanese.

"Sam had to decide whether he wanted to buy into that target or modify it — to his credit he took it on," Lynch says.

Over the next 18 months, the pair set about winning back the confidence of the market by delivering cost savings and strengthening the balance sheet.

In the early 2000s, when Lynch was working for BHP, Rio had a reputation as a stable, low-spending company that made sensible acquisitions and was strong on delivery.

By the start of last year that reputation, apart from strength of project delivery in iron ore, was shot. The main problem was the 2007 $US38bn cash acquisition of Alcan. It was seen as overpriced by most at the time, failed to predict a coming wave of Chinese aluminium capacity that depressed prices and was debt-funded just before the onset of the credit freeze that sparked the global financial crisis.

The Alcanpurchase was at least partly driven by the desire to defend a coming takeover attempt by BHP, which the Rio board had already been made aware was in the wings.

It worked, because BHP walked away from the bid during theGFC, partly because it was not willing to take on Rio's crippling $US40bn of debt.

Rio recovered after a massive rights issue to pay down debt. But when the market turned positive, the company showed it had learned few lessons by paying $4bn for Mozambique coking coal play Riversdale Mining in 2011.

The value of this was written down by $US3bn at the start of last year when it was revealed Rio misjudged coking coal markets, the quality of the resource and the intentions of the government. This month the business was sold for just $US50 million. Mr Albanese lost his job after the writedown and Mr Walsh, whose iron ore unit had been humming throughout all the turmoil, was installed as chief executive.

"When I was talking to Sam about coming on board, we sat down and talked about what the agenda would be and our thoughts coincided," Lynch says.

"We had to deliver cost savings, we had to strengthen the balance sheet, we had to strengthen up a lot of internal processes and we had to develop more leadership talent." Overshadowing all of this was the need to win back market confidence through consistency of delivery.

Thursday's interim result shows that Rio has done what it planned 18 months ago. Costs have been removed, debt has been paid down to a level that the company is comfortable with and capital spending has been reined in.

Now, with the board's permission, Walsh and Lynch can start returning cash to shareholders. If cashflows stay at current levels, they could have an extra $US5bn a year to return to shareholders once capital spending and regular dividends are taken care of.

Lynch says the biggest part of turning things around at Rio was getting the organisation to buy in to the plan and understand it was necessary.

"One of the great things about the people in this company is once they see the challenge and can identify what the task is they are very good at delivering," he says.

Lynch is 18 months into a four-year contract, one year longer than that of his chief executive, Walsh, who says he will stay on as long as the board will have him.

The stability under Walsh and Lynch has meant Rio chairman Jan du Plessis, who has regularly had his hands full with Rio during his five-year stint, also now feels comfortable taking on the role of chairman of brewing giant SABMiller next year.

Du Plessis's declaration this week that he was keen to stay on at Rio for a few more years sparked speculation the board was planning to install a new chief, potentially Lynch, when Mr Walsh's contract is up at the end of next year. Lynch will not be drawn on the CEO speculation."That's entirely for the board, I'm fully occupied with what I'm doing at the moment," he says.

CO bkhlp : BHP Billiton Ltd | bltplc : BHP Billiton PLC

IN i211 : Metal Ore Mining | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying

NS gsocc : Soccer | gozftl : Australian Rules Football | gspo : Sports/Recreation | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nrgn : Routine General News

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

© 2018 Factiva, Inc. All rights reserved.

PUB News Ltd.

AN Document AUSTLN0020140808ea890003k

 © 2018 Factiva, Inc. All rights reserved.