MASTER OF THE MINES

ACT president and Rio Tinto's global head of corporate finance Jono Slade talks ratings, roadshows and why the iron ore producer isn't parting with its cash

Words: **Sally Percy** / Photos: **Charlie Best**

It all began with a river – a river that flows through the spectacular lunar landscape of southwestern Spain for some 100km. Thanks to the metals in the rocks through which the water flows, the colour of the river is red. And for 5,000 years the area around that river has produced some of the most precious minerals that humankind has ever desired – gold, silver and copper among them. The name of that red river? Rio Tinto, of course.

The company that is named after that Spanish river was born in 1873 after Scottish industrialist Hugh Matheson led a syndicate that bought a mine in the area from the Spanish government. In the 1880s, control of the mine passed to the Rothschild family, which expanded mining activities and introduced new techniques. Now, after a long history of M&As, including the purchase of mining operations in the US, Canada and Australia, Rio Tinto has become the world's second-largest mining company by market capitalisation. It is listed on both the London and Sydney stock exchanges, and boasted an annual turnover of $51bn for the financial year ending 31 December 2012. Its corporate branding is still red, in deference to its heritage.

A company with a 140-year history will inevitably have experienced some highs and lows along the way, and one of those lows occurred in February this year. A month after its CEO, Tom Albanese, stood down, Rio Tinto reported a $3bn annual loss for the financial year ending 31 December 2012 – its first ever – after writing down the value of its coal and aluminium businesses by some $14bn. This was mostly related to Rio Tinto's biggest acquisition to date – the purchase of Canadian aluminium giant Alcan for $38bn in 2007, just before the onset of the financial crisis – and its coal-mining operations in Mozambique.

Hot on the heels of the write-down came a further blow. Standard & Poor's announced that it had changed its outlook on Rio Tinto's A-/A2 corporate credit ratings from stable to negative, increasing the risk of a downgrade over the next 12-18 months. Will the rating agency's warning affect the mining giant's ability to raise funds in future? Rio Tinto's global head of corporate finance, Jono Slade, thinks not. "The significant drivers for our business are iron ore pricing, our level of capex and growth in China. These are the factors that are of greatest concern to investors," he explains.

Over 90% of Rio Tinto's gross borrowings are bonds (nearly $24bn) and it typically taps the capital markets once or twice a year. As its revenues are in US dollars, it makes sense for the company to fund itself in dollars, so Slade devotes a considerable amount of time to meeting investors on roadshows across the US. "We treat issuance like a partnership," says Slade. "We know we have ongoing refinancing needs, so let's not push on size too much and let's get pricing that works for both of us." But although US dollar bonds are its preferred issuance, Rio Tinto also diversifies into bonds in other currencies. Last year, it issued $7.9bn of fixed-rate bonds in US dollars, euros and sterling, with maturities ranging from three to 30 years, a weighted average maturity of around 12 years and a weighted average US dollar fixed-rate equivalent coupon across this period of approximately 3.6%.

Slade's advice for other treasurers with funding responsibilities is this: "Think about your maturity profile because you don't want to be boxed into a corner. We've worked hard to get a smooth profile. Think about what I call 'your cost of regret'. Banks' advice is often 'go early', but think about whether that might be right. In a business like ours, which is very volatile, taking the cash early makes a lot of sense. But that's not necessarily the right thing to do for all businesses. You've got to look at your cost structure, your volatility of cash flows and say: 'Is the cost of holding cash an insurance premium that I am happy to pay?' Talk to more than one bank – they're not always right."

While Rio Tinto's revenues are all in US dollars, its Canadian and Australian operations are sizeable, so its cost base and a fair proportion of its capex are in the currencies of those two countries. It also pays its dividends in sterling and Australian dollars due to its dual listing. Last year, Rio Tinto's treasury handled about $50bn in FX transactions, principally selling US dollars and buying other currencies. The company hardly does any hedging with the exception of a few forwards and swaps, however. "In our case, there's a broad correlation between

VITAL STATISTICS

$51bn
Rio Tinto's annual revenue in 2012

$9.3bn
Rio Tinto's underlying earnings for the year ending 31 December 2012

$19.3bn
Rio Tinto's net debt as at 31 December 2012

$7.1bn
the value of Rio Tinto's cash reserves as at 31 December 2012

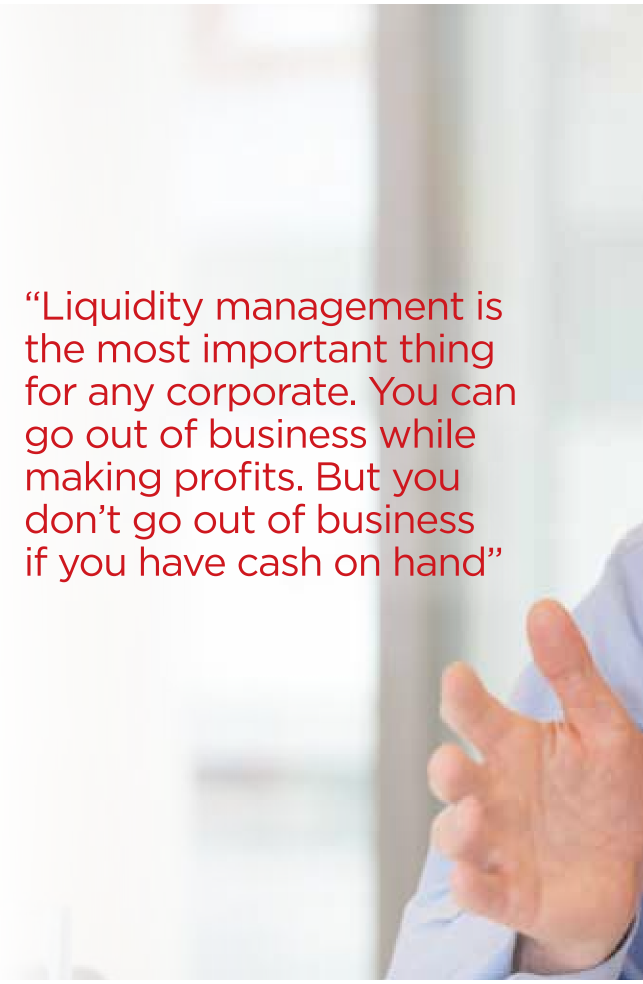
2
Rio Tinto's position in the seaborne iron ore supply market

1,400km
the length of Rio Tinto's Pilbara railway system in Australia

13
the number of power stations owned by Rio Tinto's aluminium businesses

commodity prices, FX and interest rates," Slade points out. "At times that breaks down, but in the long term that has been historically true."

The extractive industries sector is known for having substantial cash reserves and Rio Tinto's $7.1bn pile is the kind of headline figure that gets politicians salivating. But they're not likely to see it being used to kick-start economic growth any time soon. Rio Tinto may be the world's second-largest supplier of iron ore, but the commodities market is notoriously volatile. For example, the price of iron ore dropped by around a third over a six-week period in summer 2012, although it later recovered to an even higher level. Unpredictable events such as these mean that the company always needs to be able to dip into its piggy bank, particularly since the capital markets might not necessarily be available as and when the company needs to draw on them. "Just because we've got cash, it doesn't mean it's going to burn a hole in our pocket," Slade insists. "Liquidity management is the most important thing for any corporate. You can go out of business while making profits. But you don't go out of business if you have cash on hand." He also points out that $7bn in cash reserves has to be seen in the context of a large group that turned over $51bn in 2012 and spent $17bn on capex.



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In case you're wondering, Rio Tinto keeps the bulk of its cash in funds that invest in US treasury bills. It decided on this investment approach after a counterparty risk assessment concluded that the US government was a safer bet than the banks. Naturally, this has disappointed some of the company's banks, which would like to see some of the stash deposited with them. "But at the moment the answer is 'no'," Slade states. "They're not as safe as they used to be."

Around 30 banks work with Rio Tinto on its $6bn revolving credit facility. Slade has responsibility for day-to-day management of the group's banking relationships and this is a duty he takes extremely seriously. He's introduced an annual review process for around 15 of the banks, which entails him producing a two-page scorecard for each bank to use as the basis for a discussion as to how that bank has performed over the year. This might sound the sort of practice that would send a banker screaming to the pub at 11am on a Monday morning, but Slade says it brings benefits to both parties. "It's about partnership," he explains. "If you don't tell them during the year that something isn't working, how can you expect it to get better?" He admits that the process is resource-intensive, but says that it pays dividends. "If you spend the time with people and they understand each other, when you have a request or they bring new ideas, it should be more focused and tailored, and you hopefully get no surprises."

After originally training as an accountant with KPMG, Slade worked in audit for eight years, but moved into treasury after a treasury accounting role came up with premium drinks maker Grand Metropolitan (later to become Diageo). "I thought it was a way into an interesting group and it sounded an interesting role," he recalls. Since then he has held roles in both treasury and group finance, but eventually settled on treasury as his foremost specialism. "With treasury, you think about things at a high level and solve relatively complex problems, but you also have to implement them at the detailed level and get them right," he says. "When you're dealing with billions, a small difference adds up to a large amount of money." Slade worked his way up to become Diageo's director of capital markets and corporate finance over a decade. Then, in 2009, he moved to Rio Tinto to take on responsibility for global corporate finance. Mining, he says, was a "refreshing change" from working in the premium drinks market and he has enjoyed thinking in a different way.

This month, Slade assumes the post of ACT president and he's looking forward to working closely with the association's CEO, Colin Tyler, and the rest of the Moorgate-based team. He agrees that the ACT punches above its weight in terms of its relationship with the government and regulators, and notes that the association's public profile has grown markedly higher over the past few years. In his view, the ACT

needs to focus on the two issues of relevance and sustainability. In other words, the body needs to be just as relevant to a treasury analyst starting out in their career as it is to the group treasurer of a FTSE 20 company and it needs to be able to deliver the services its members expect both now and in the future. "I'd certainly encourage all members to reach out to the ACT and tell us if we're doing well or if we need to improve things. We don't want to operate in a void," he explains. Slade would also like to see the treasury profession generally in the UK become more diverse. "It's not necessarily gender per se," he observes. "It's culture and experiences. Different people will bring different things to the party and get you thinking."

It makes sense that Slade prizes original thinking. He works for a company that undertakes complex, potentially dangerous and incredibly expensive activities in some of the most remote regions on Earth. You probably don't get far at Rio Tinto unless you can think outside the box. Here, in an airy meeting room in central London, we are far from the heat, dust and bustle of the mines. But a huge print on the wall serves as a reminder of just where the action is. A solitary mining truck is ploughing its way through the barren terrain of northwest Australia. The colour of the terrain? Why, it's red, of course.

Sally Percy is editor of *The Treasurer*

JONO'S TOP TIPS FOR SUCCESS:

1

"Working in this sector has taught me that it's important to consider the things you don't expect to happen – 'black swan events'. You need to consider that if this were to happen, what would I do?"

2

"Make sure you find some thinking time. We're often too busy to think."

3

"The AMCT provided me with a foundation in treasury. The MCT got me thinking differently. It was about diverse case studies and alternative situations."

4

"The ACT can give you a network of people to talk to. If someone has done a certain bond or transaction, it's helpful to be able to ring them up. It's that ability to 'phone a friend'."

5

"I really don't believe there is a secret to my career success because if there was, I'd bottle it and sell it. If you work very hard at something and if you enjoy it, then 'good things come to those who wait'."

JONO'S CURRICULUM VITAE

2009-present
Global head of corporate finance, Rio Tinto

2006-2009
Director of capital markets and corporate finance, Diageo

2005-2006
Head of FX and forecasting, Diageo

2003-2005
Director of treasury financial planning, Diageo

2001-2003
Head of financial control, Diageo Ireland

1999-2001
Group planning and reporting manager, Diageo

1996-1999
Group treasury accountant, Diageo

1988-1996
Various audit roles, KPMG

Qualifications
MCT, ACA