RIO TINTO HALF YEAR RESULTS

August 26, 2008

Nigel Jones (Head of Investor Relations): Thank you very much and good morning, everybody, and welcome to the North American Conference Call for the Rio Tinto interim results. With me here is Tom Albanese, Chief Executive Officer, who is going to run through a number of slides, which should have been distributed to you in advance.

We'll take Q&A at the end – and with that I'll just hand straight over to Tom to commence the presentation.

Tom Albanese (Chief Executive Officer): Thank you, everyone, thank you, Nigel, and good morning to most of you. I'll start off on slide number four of your slide pack, which is entitled Results Continue to Build Momentum. This is a very strong first half for us.

I've been very pleased with the overall results. We had record underlying EBITDA of $11.4 billion, up 73 percent. Record earnings, underlying earnings of $5.5 billion, up 55 percent and reflecting the strong performance of our disposals – record net income of $6.9 billion, up 113 percent.

We had record cash flow of $8.9 billion, up 54 percent, and I would say that would have even been stronger except for the fact that the iron ore settlement for 2008 really came in toward the end of June and we wouldn't have seen all the cash settlements coming in until July. So there was some carryover cash that would have been reported – not picked up in the first half. So I think it was very, very good cash flow and set of numbers too.

Like in our financial numbers we had production records set in most of the key commodities and in the spirit of the Olympics, record capital investment of $3.7 billion, up 91 percent – again reflecting the very strong base of growth projects that we have and that was reinforced by new capital approvals of $6 billion during the first half.

In accordance with our normal and our long established policy dividends we had a half year dividend of 68 cents per share, up 31 percent and that had been well flagged. As you know late last year we said we would increase the dividends 30 percent in 2008 for 2007 and at least 20 percent for the following two years.

Very pleased with the Alcan integration, it continues to proceed well. As you will recall the Alcan integration was something that we said initially $600 million of after tax synergies. We later increased that target to $1.1 billion of after tax synergies. With that increase we were projecting about $170 million of synergies in the first half and we actually came in at $250 million.

So we were able to accelerate some of those synergies which is what we've been working very closely with the team. Between the strong earnings performance of the aluminum business and these synergies and of course with the benefit of much lower interest costs with the lower interest rates the earnings for Alcan were accretive in the first half as we said they would be. And they were strongly accretive on an EBITDA basis.

We've spent some time in this first half set of results talking about the outlook as we do recognize, and I mean around the world including in the U.S., in just a few weeks that there is increased anxiety about the state of the world markets.

And we're moving onto slide five now, on the outlook slide. With this increasing anxiety about the state of the world markets I wanted to reinforce that from our perspective economic outlook in the sectors that we're in, and particularly the Chinese market, are roughly on par with where we said it would have been a few months ago. And it continues to be sufficiently strong to keep ahead and a pace with the constrained in supply we have in the global sector and that's going to keep our markets, we believe, up above long term levels through 2009.

We’re certainly realistic about slow OECD growth. We also should recognize that the U.S. does have a history of bouncing back. So again from our perspective I suspect at the end of the day the economists will be pleasantly surprised at some point we do see that bouncing back. We've said for a long time Chinese growth at 10 percent in 2008 and certainly that's what we're seeing, 10 percent in 2008.

And we would be comfortable with something over nine percent in 2009. It's very interesting that despite all the consternations about the global economy the world is still looking at global GDP growth in excess of four percent this year and still on about four percent in 2009, which is largely where the economic world would have put these numbers a year ago. So again on a broad picture we're not seeing that much of a change but we're certainly seeing a shift of where these numbers are between OECDs and emerging countries.

Moving on to slide number six in terms of an update on the pre-conditional offer, as you all know the pre-conditional offer was referred to the second phase of the review by the EU Competition Authorities which means it's likely to take some time until the end of year before the various pre-conditions at least are met.

We have very clearly and our board has very clearly maintained a rejection of the pre-conditional takeover offer strictly on the grounds of value. And these results reinforce the value message that Rio Tinto can deliver as we are today.

We have a clear strategy, a well balanced portfolio of high quality assets with an exceptional management team and exceptional growth opportunities. For the management and the Board of Rio Tinto remain solely focused on value and value delivery.

Moving on to slide number seven, the strong growth in iron ore, aluminum. Because we provided details on a sector by sector we'll cover the bulk of it within this individual slide. Before I go about the individual performance I want to just step back a bit and talk about this – how these sectors are doing in China because the global demand picture for 2008 in China for the key metals of iron ore, steel, aluminum, and copper is very, very important for us.

In terms of what we're seeing on the ground we would project aluminum demand in China to grow at 18 percent in 2008. In terms of what we're seeing on the ground we would project steel demand in China to grow at 16 percent in 2008 and that would largely then play into the iron ore markets.

Unfortunately copper is less so particularly in the first half where I've seen numbers as low as 3.5 percent of apparent consumption in the first half although we would have seen quite a bit of destocking taking place from high inventories built up in the latter part of 2007.

Based upon our view that we're going to see pretty much a bottoming out of this destocking and some restocking coming in the autumn months and some changing trades of import/export particularly brass, bronze and revert material we would not be surprised to see copper demand growth roughly in line with GDP by the end of the year or somewhere between nine and 10 percent.

Moving in terms of the businesses themselves again iron ore records across the board ramped up production, ramped up volumes, ramped up earnings, we're currently running the Pilbara at a rate of about 205 million tons per year. And we're comfortable with our targeting of something around 200 million in total for 2008.

We are very, very pleased with the record contract price of 86 percent during the course of the first half and that not only reflects the strong iron ore markets but it particularly reflects the value in use premium that we feel and we've felt has been attributable to Australian material.

And I think the outlook is quite excellent for contract iron ore because again remembering the China imports 20 percent more iron ore in 2008 as compared to 2007. We've said for quite a while that we were going to sell 15 million tons of spot iron ore in China and we've sold 10 million tons in the first half and we remain on track to sell 15 million tons for the full year.

Moving on to aluminum, record bauxite, alumina and aluminum production Rio Tinto Alcan is clearly an industry leader. And I believe we have unrivaled assets ranging from our Weipa bauxite assets to our Queensland and Northern Territories refining assets to certainly our Canadian smelting assets.

In addition to Chinese demand expected increase of 18 percent in 2008 we've seen despite a whole queue of new smelting projects a big slow down in Chinese supply growth in 2008 as compared to 2007. And certainly synergies are on track with a bigger number, with anything running ahead of schedule.

On copper, as we flagged lower grades at Kennecott Utah Copper and lower grades at Grasberg impacted production in the first half and impacted earnings to some extent. But we have – that was offset by a stronger price environment and certainly we see these grades turning around as we move into the second half.

As you know for Kennecott Utah Copper we flagged smelting and refining maintenance outages during the course of this summer and I am pleased to say they are either on track or ahead of schedule although we're still in the middle of the smelting outage as we speak.

We're looking at – as was certainly in the first half we announced significant resources of copper at world class projects. Not forgetting diamonds prices remain strong particularly for the Diavik whites and the Argyle and Diavik underground projects remain well advanced.

On energy and minerals very strong performance especially with coal Australia where we were – as we said it earlier we had not been as affected as others by the heavy rains that allowed us to step up our contract and higher price coal sales into the second quarter allowing those earnings to double.

Meanwhile I've been pleased to say after foreshadowing this for a couple of years that we're beginning to see some of the consumer led industrial minerals beginning to pick up in China notably boric acid and some of the TiO2 feed stocks and we're beginning to see, I think, the start of that trend. And that puts us nicely with the Madagascar first production coming in by the end of this year.

Uranium prices remain strong and because we have uranium capacity that's not locked up with legacy contracts putting more and more material into those nearer term markets – higher markets all the time.

Moving on to slide number eight we have record increase in underlying earnings. Again this is our standard waterfall illustration of earnings. And it's – we had a price contribution of $2.8 billion and a volume contribution of $600 million primarily by the Alcan acquisition.

Also by the continued expansion of iron ore volumes to some extent offset by the grade related reductions in copper in the first half. This strong price and volume variance was offset by foreign exchange, inflation, and lower grade as I have mentioned for copper.

Cash costs for this earnings is about $350 million and this represents a period-on-period unit cost increase of 3.5 percent in real terms. For those who saw Guy Elliott today – or it will be on the Web cast – you'll know we've looked and Guy is quite rigorous on costs and telling us we always are never doing good enough on our cost efforts. But I do think this effort is a very admirable achievement given the sector wide cost pressures that we are seeing.

We continue to see industry wide cost pressures on labor, fuel, and freight. But we are well placed to manage them for global systems around procurement, technology, and the sheer global scale of the way that we can create efficiencies and transfer technologies and transfer best practice. So I do think this is industry leader numbers in terms of cost management and what would be a sector challenging issue being costs above normal inflation rates.

Of course part of our costs are good costs. Those would be those investments at exploration and evaluation including drilling, resource development which lowered earnings by $219 million.

Interest tax and other costs lowered earnings by $360 million and that primarily reflected the higher net interest costs of $487 million predominantly driven by the Alcan acquisition. And that all brings us to a total of $5.5 billion not only a good result but I'd say a great result.

Moving on to slide number nine, high quality assets, again this is a very important slide. And not only can we do ourselves a lot of good by working on cost efficiencies and cost management but the nature of our assets being at the low end of the cost curve by themselves lead to strong margins.

And as this slide shows iron ore margins of 61 percent on an EBITDA basis compared to our peers at 56 percent. Aluminum smelting 29 percent compared to our peers at 19 percent. Copper helped with our by-products at a 70 percent EBITDA margin compared to our peers at 57 percent. This is industry leading performance.

I would also say that there have been some comments about our earnings on a per employee basis are lower than others. If we were to take out the employees that are in those businesses that are slated for sale notably a large number of employees in engineered products and packaging our average earnings per employee or EBITDA per employee is roughly on par with our Australian competitor.

Moving on to slide number 10, record cash flows, strong earnings, strong EBITDA leads to strong cash flow and I was pleased to see our cash flow up 54 percent to $8.9 billion for a run rate of $1.5 billion per month. And as I mentioned it would have even been higher except for the fact that a lot of the contract settlements really were settled for cash on a retrospective basis in the month of July.

This reflects iron ore expansions, iron ore prices, strong marketing capability on iron ore including spot business and also the Alcan acquisition and the success of the Alcan acquisition and the capabilities that came with the Alcan acquisition.

We did invest $3.7 billion in the first half with capex close to $9 billion for the year. It's important to recognize that from now to 2012 and through 2015, we have a very strong industry-leading growth pipeline.

And not only is the industry leading in the quality, also industry leading in the nature of these, primarily being in brownfield projects, primarily in OECD countries. For example, from now to 2012, roughly 83 percent of our total growth would be sitting in brownfield projects.

Even to 2015, when you see important projects like Simandou, like Guinea, all kicking in, we have still 70 percent of our total growth sitting in brownfield projects. Keeping things in perspective, 85 percent of our business would be sitting in OECD countries, our biggest, most important countries being Australia and Canada and the U.S.

But clearly Rio Tinto plays on the global stage, going after the best quality resources anywhere in the world with a strong backbone and a strong foundation of OECD and brownfield assets and growth prospects.

Realistically, we're likely to spend as much in 2009 on capital as we continue to ramp up our production and focus on these growth projects. But again as Guy Elliot would always remind us, it's not just growth for growth's sake, but its growth for creation of value. So we continue with strong rigor around project evaluation and project decisions.

We remain financially strong. The balance sheet can support this. At the end of the period, debt stood at $42 billion and gearing was 56 percent, down from 63 percent in the last period.

I guess one last point on cash flows, as you know we went through a $5 billion bond, a few months ago. This was the largest bond in the mining industry, and the fact that it was so successful in such challenging debt markets reinforces two things. First of all, debt will go to quality, and second; Rio Tinto is quality.

Moving on to slide nine – and I think, let's see – slide 11 and slide 12, this to some extent reinforces what we've been saying about the markets. First of all, despite what is quite a bit of consternation about the current LME markets, current commodity prices we are continuing to see our LME prices, that is for copper and aluminum, at higher levels than we would have seen at the beginning of the year, and certainly in the case of aluminum at significantly higher forward levels than we saw at the time we announced the Alcan acquisition. And when I say significantly higher, keep in perspective at the time of the Alcan acquisition, the forward curve for aluminum was somewhere in the $2,100, $2,200 per ton range. We're now looking at a forward curve well over $3,200 per ton or $1,000 or more per ton uplift from July of 2007.

Again, that was driven by the world's growing recognition, and marginal costs for aluminum are increasing, and the prices are following that. And increasingly, the defensive nature of aluminum pricing, sitting right at, if in some cases below the marginal cost producer, which would generally be in China. And again, remembering or reminding ourselves of the fact that aluminum prices in China on the Shanghai exchange are at discount to LME prices.

Now looking at China, currently there's been a lot of – and certainly when I was in North American just a few weeks ago before I went on to Beijing – there was sort of this, I almost referred to it as, as the folks arbitraging the post-Olympics bust.

And I think that had been overdone a bit because in our view, there is not a post-Olympics bust. As we move out of the Paralympics, we'll see in our view, some increasing industrial performance in the month of September.

But needless to say, even with that, Beijing itself only represents four percent of the total Chinese economy and more and more of the Chinese economy needs to be viewed on a regional picture away from where the traditional growth drivers of Beijing, Shanghai and Guangdong have been or to some of these regional centers in the center of the country which are population intensive in themselves. And I think slide 12 and slide13 describe that quite nicely. But again to reinforce the point in more detail and depth on it, our chief economist has put out a very, very good economic outlook that's now on our web site, going into quite a bit of detail of our view of each of these individual markets and certainly our view on China, not only on a country basis, but on a regional basis.

And again, China on a regional basis or a country basis will continue to grow. I referred to this morning one McKinsey sort of visioning of China by the year 2025 that could have foreshadowed as many as 50,000 new skyscrapers required in China between now and 2055. Now by any measure of measurement, 50,000 new skyscrapers will take a lot of steel, will take a lot copper and will take a lot of aluminum. But that just gives you a sense of what we as a mining sector will have to have ourselves positioned for in this very strong and shifting structural setting.

And that's exactly where Rio Tinto would be. Rio Tinto's growth moving on to slide number 14, it's focused on a strong portfolio. We believe a growth prospect through 2015 that is much greater than BHP Billiton's and a growth profile very much focused on development in existing regions, in OECD countries with a base and mainly focused on brownfield expansions. As I've said, 83 percent, 2012 and brownfield; and 70 percent to 2015 (from) brownfield, with a set of proven project execution skills which are unmatched in the sector, giving us a very strong track record of project deliveries on-time and for the most part, on budget.

So to summarize on slide 15, Rio Tinto is in tremendous shape with excellent earnings momentum. We said that at the end of the full year result of 2007 and I'm saying that with confidence in the first half of 2008 – record volumes in most commodities, investing at record levels, excellent growth opportunities and certainly from our perspective, a favorable price outlook for those commodities that we sell into.

Certainly a proven track record of delivering projects, ranging from brownfield projects to the Pilbara to emerging greenfield projects such as Madagascar, a very strong investment case being delivered and synergies being exceeded in the Alcan acquisition.

Demand for the all the metals that we sell are strong, and these result, these records, this whole string of records certainly reinforces the full focus of the Rio Tinto Board, the Rio Tinto management and the Rio Tinto executive team on shareholder value.

As those of you who have been talking, speaking with me over the past year and a half will know, since I became Chief Executive, very consistently I've been saying that even in a stronger macro environment, you still had to do more.

We had to do everything faster, meeting the world's growing demand, better at leading, shaping our industry and smarter at creating shareholder value. And that's exactly what we've done. So thank you very much, and I'll take some questions.

Question: Tom and Nigel, good afternoon to you. Thank you for your time for a U.S. North American presentation and great to see Rio Tinto making such strong increases in profits. The $10 billion of asset sales you mentioned for 2008 of which we have, I think, $7 billion to go, I guess infers that we will see one or both of the Alcan downstream assets sell in the current six month period. Would that be correct?

Tom Albanese: Well as you know we have a strong suite of projects that we've put on a list for sale. And I'd say that in the context of that portfolio, in the context of very active streams that we're, on a number of those individual opportunities, that I am, continue to be comfortable with the $10 billion target in total.

As you know we haven't been specifying anything in detail, but with regard to specific business until we have an announceable transaction. And the reason for that is that as you can imagine, with strong buying interest, people out there would game any information that they can gain or glean anything they can.

And it in terms of maximizing value, Rio Tinto shareholders, we've been very consistently saying the less said the better until we're at a time of announcing a transaction. It is important to recognize that a number of the businesses that we're considering for sale, including Packaging, including Engineered Products, are not only strong in their respective areas, but they're also quite large and quite complex businesses.

And you would expect that the total range of processes required for a successful transaction are quite considerable and that would reflect in the timing, and certainly it's reflected into the planning and the confidence that we have on the $10 billion number. And just finally I would say that in all of these businesses, there's strong buying interest.

Question: A follow-up question if I may; I understand you can't say much on Cloud Peak Energy, but could you give us an idea of the timeline, when you could announce the market, whether it be you're running with a trade sale or an IPO please?

Tom Albanese: Well as you may know in Cloud Peak's case, we've made a public filing in accordance with SEC regulations, and that puts us in a quiet period. And the SEC has been very clear and very strict as to what we can, and more importantly what we can't say.

That means there's very little more that we can say upon that, except for the fact that we are considering that as one of our options as we consider opportunities to maximize the value from what I see is a strong business in a particularly strong sector as we speak.

Question: And a final question before I'll get off the phone; for the purposes of my modeling, can I assume that the $10 billion of asset sales essentially will be used or predominantly used to reduce net debt. As you pointed out, you already have reduced net debt to $42 billion. So could we look to say $42 minus $7 billion takes us somewhere in the 30s of billions of net debt is possible …

Tom Albanese: I wouldn't want to give the number, but I would say that since the time of the Alcan acquisition, we flagged that these asset disposals would be primarily used to pay down debt. So that would not be; that's a reasonable assumption.

Question: Good afternoon. How is the ramp-up in the iron ore operations proceeding? And if you get any output up ahead of schedule or above plan, is there opportunity to sell more than 15 million tons on a spot basis this year, or more than five million tons in the second half?

Tom Albanese: Maybe let's talk about iron ore in the Pilbara. Now we are still focusing on a target around 200 million tons. Right now we're running about a 205 million ton run rate.

And with those numbers behind us, we are comfortable with the 15 million ton spot sale guidance we've given. Now certainly we've sold more than 15 million tons on an annualized rate if you look at the first half. But what we've got to look at is, as we've said from the very beginning, that we would be anticipating spot sales currently, fully in compliance with our long-term contractual obligations, which we've continued to do so, but also an environment with, also as we have projected our iron ore volumes.

So with these iron ore projections for productions and ramp-up, I would say that 15 million tons continues to be the right guidance. Now spot prices continue to be higher than contract prices, so you can imagine that we are incentivized, but it's fair to say that every single ton that we can get out, put on a rail car, put on a ship, we're certainly doing everything we can to do it.

Question: Next year should we expect the same or larger amount of spot sales?

Tom Albanese: I think if I go back to you know the time when Sam and I began to talk about increasing spot sales, increasing hybrid sales, we saw room for more of this going into the market.

Now we have not given any guidance for 2009, but I would say the general trend would be to put more in, certainly at all times though, we would be considering the proper portfolio mix in the context of where individual markets were.

For example, if spot is higher than contract, we'd be incentivized to do more. Now, but again, we're not necessarily assuming at all parts, at all times of the world spot will be always be higher than contract. So that's why we wouldn't want to be too prescriptive.

Question: Thank you, Tom, while I have you on line and the opportunity to speak with you; two if you like smaller-scale questions. One, HIsmelt is still in losses. I think from memory, if we go back a year ago, we had expected a bit more of a positive outcome from HIsmelt. Could you give us an update on when you think it may go back into profits? And the second question would be on Grasberg, hasn't really contributed to Rio Tinto's bottom line since 2005 from memory. Given your knowledge of the metal strip and expected metal production from Grasberg, when do you think it would make a bigger contribution again to Rio Tinto? Thank you.

Tom Albanese: Thank you, maybe first talking about HIsmelt. We have just gotten off a multi-month campaign scheduled for a furnace rebuild. This is still something that is in the demonstration phase.

I would say that I've been pleased with the fact that every campaign breaks records from the prior campaign and the latest campaign we had which finished up in early July for this rebuild that we're now doing has, was the most successful effort.

And we are running pretty much close to what our scheduled rates would be. And certainly we are benefiting from higher pig prices right now. But that said, the fact that it's not making money is certainly that something hasn't escaped Sam or my attention.

But again, it's the right technology and it's worth continuing to pursue this, particularly given the fact that ultimately this technology has roughly a 20 to 25 percent lessening of a greenhouse footprint.

And as we begin to see carbon pricing coming increasingly into the picture in OECD countries, this is truly a strong option for the next generation steelmaking capacity. In terms of Grasberg, as you know then, as you just mentioned, because of the metal strip, we have 40 percent of the metal above a certain level.

And as we go through this conversion from the open pit to the underground, we've seen some volatility based upon grade swings in the open pit which are reasonably well-flagged by (Freeport) as they come up.

We do expect copper grades to be going up in the second half, although not necessarily gold grade. So we will be seeing some benefits from Grasberg in that period of time. And I think that as we flagged, it's going to be, during this conversion period, not as much metal as we would have seen say in the pre-2005 period. But we shouldn't forget the fact that at some point, and it's in the not-too-distant-future, it's getting closer and closer all the time. We convert 2021 to a full 40 percent interest in the entire Grasberg ore body, and that's going to be a very, a markedly different shift in the production profile from where we are today.

Tom Albanese: Again, thank you very much. I appreciate the questions. I'm very pleased with these results. I'm very excited about our future. It's not every day that one can talk about a 55 percent increase of earnings, 73 percent increase of EBITDA, $1.5 billion a month of cash flow and still saying could have been more if we would have had that pricing done a little earlier.

These are fantastic numbers and it's important to keep these in the context in a lot of the anxiety we see in the markets in terms of global economic prospects. We are delivering into what is, continues to be, a reasonably strong demand profile; not a massively strong, but reasonably strong demand profile.

But one in which the supply sector still can't keep up with it, and that means that those that are best positioned with the best ore bodies, the best businesses, are going to do the best. And I think that's exactly where Rio Tinto is and that's where I intend to keep it in the years to come. So thank you very much.

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