

Foreign Investment and the Mining Industry

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Looking beyond instant emotions to the facts

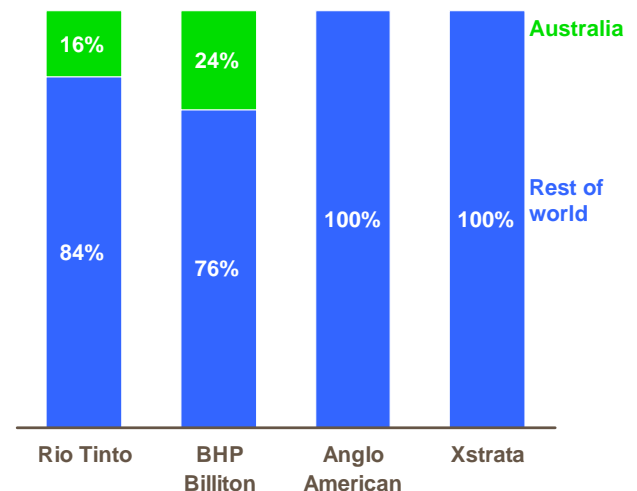
- 1 Australia's resources industry – world class but losing share
- 2 Australia's successful experience with foreign investment
- 3 Just what does control really mean?

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The current state of Australia's resource industry

- A world class industry, built on foreign investment...
 - Resources have delivered almost all Australia's export growth in the past five years
 - Foreign investment has played a core role
- ...but we are still losing ground in the global resources market
 - Brazil, India and Russia are gaining as they pursue Asian customers
 - Australia is losing share in thermal coal, copper, aluminium, zinc and lead

Ownership of diversified miners by investor domicile*



* BHPB, Anglo American and Xstrata based on Thomson analysis of publicly declared holdings: BHP Billiton data as at March 31, 2009; Anglo American and Xstrata as at May 15, 2008

Source: Bloomberg; Thomson Reuters; Rio Tinto

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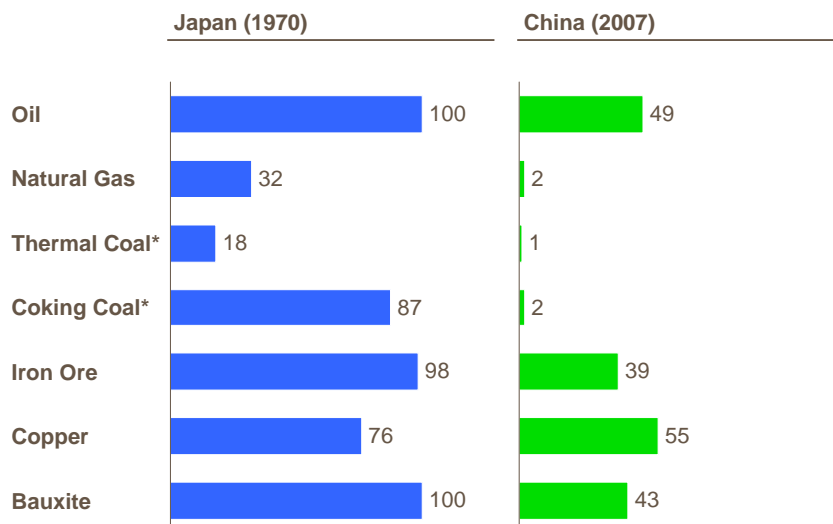
Australia's successful experience with foreign investment

- Foreign capital has been instrumental in Australia's development
- Australia's experience with Japan in the 1970s and 80s demonstrates the benefits of foreign investment
- Japan was the China of its day

China today and Japan of the 70s and 80s lack the domestic resources for growth

Imports of key commodities

Percent of total consumption



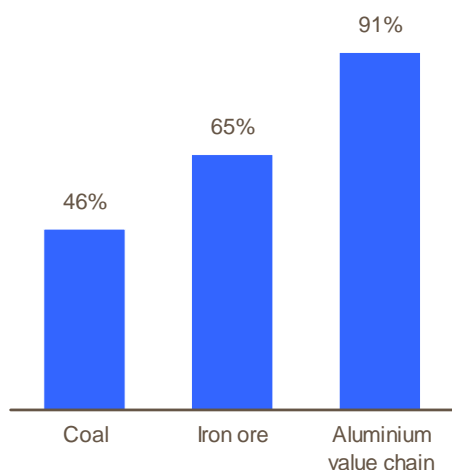
* Thermal and Coking coal for Japan 1970 is based on 1978 data

Source: ABARE; International Energy Agency; USGS

Like Japan, China has focused on minority stakes in Australian resources

Investment strategy of Japanese and Chinese investors in Australian resources

Proportion of Japanese investments with interests of less than 10%



China has pursued the same strategy, but has extended to larger stakes in smaller early stage projects or when the circumstances dictate, e.g.:

- July 2007 – CITIC increases stake Macarthur Coal by 8.3% to 19.99%
- September 2008 – Sinosteel increases stake in Midwest Corp to 100%
- April 2009 – Hunan Valin Iron and Steel acquires 17% of Fortescue
- April 2009 – Minmetals receives FIRB approval to acquire selected OZ Minerals assets

Source: Barlow Jonker; AME; Press searches

Both China and Japan have set activist industry policies in early stages of development

Evolution of key aspects of industry policy in Japan and China

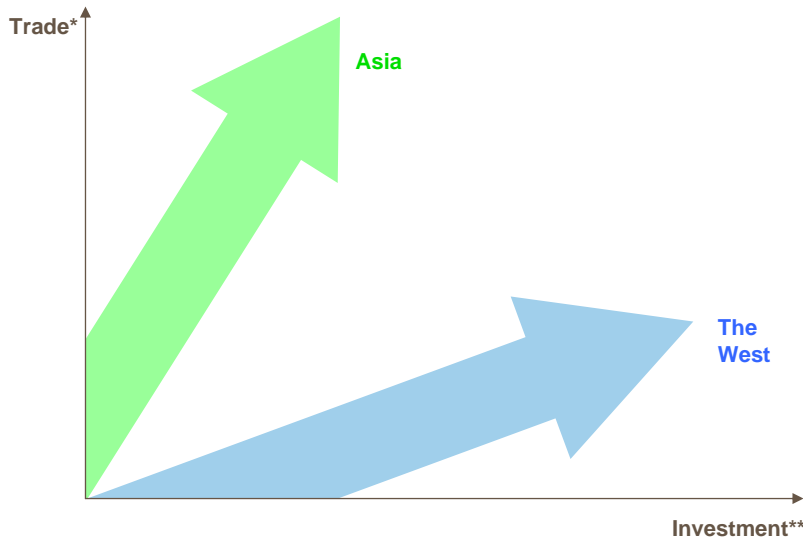
	Initial stages		Later stages	
	Japan (1960s-1980s)	China (today)	Japan (today)	Evidence of China's coming transition
Targeted industry development	✓ • MITI 'guides' new investments, R&D	✓ • NDRC approves investment programs	✗	• CDB and CEB** support contingent on commercial competitiveness
Provides access to finance	✓ • MITI influences activities of BOJ, JDB*	✓ • CDB and CEB** fund many major investments	✗	
Control market access	✓ • Import licensing protects key industries	✓ • Controlled entry of international players	✗	• Entry to WTO
Exchange rate controls	✓ • Currency floated in 1973	✓ • Managed exchange rate regime	✗	• Progressive RMB appreciation
Influence activities of key domestic enterprises	✓ • Political influence contributes to pressure	✓ • SASAC oversees key state owned enterprises	✗	• Multiple listings of SOEs

* Bank of Japan (BOJ) and Japan Development Bank (JDB)
 ** China development bank (CDB) and China Exim Bank (CEB)

Source: Press searches; Interviews

Foreign direct investment, especially from Asia, is linked to export opportunities for Australia

Trade with nations versus their respective investment levels

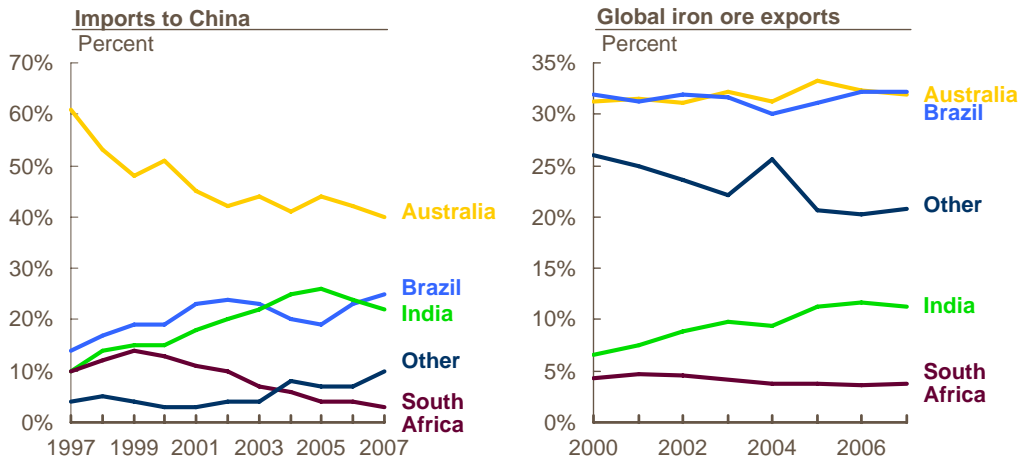


* Represents Australian exports to each country
 ** Represents stock of foreign direct investment
 Source: based on ABS data; Rio Tinto analysis

Australia has lost share of iron ore exports to China, whilst gaining share globally

Australia's iron ore market share

Percent



Australia's lost market share to China was equivalent to 75 million tonnes in 2007 alone

Gains in other markets allowed Australia to maintain its global market share

Source: Global Trade Atlas; ABARE

Chinese investors have settled for fewer rights

Comparison of partners' rights

	Area of control	Typical Japanese JV partnerships	Chinalco arrangements
JV Rights	Board representation	↑	↓
	Management representation	✓	✗
	Minority protection	↑	↓
	Veto powers	↑	↓
	Ability to dispose of interest	↑	↓
Marketing Rights	Off-take rights	✓	✗
	Long term supply contracts	✓	✗
	Minority partners share control	✓	✗

Source: Industry interviews; Rio Tinto

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Australia has benefitted from high profile SOE investments

Prominent SOE investments in Australia

Investee	Investor	Comment
Mt Thorley Coal	POSCO	<ul style="list-style-type: none"> Occurred in 1982, when POSCO was still government owned
Optus	Singtel	<ul style="list-style-type: none"> Singtel is owned 55% by state-owned Temasek holdings
Channar	CMIEC/Sinosteel	<ul style="list-style-type: none"> Commenced in 1987, by CMIEC, the Chinese Ministry of Metallurgical Industry's trading arm, Ownership stake has been passed to Sinosteel, an SOE
Wheelara (BHPB's Jimblebar mine)	Chinese steel mills	<ul style="list-style-type: none"> Chinese steel mills had a combination of private and government ownership

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Conclusion

- Australia has a window of opportunity to forge a deeper engagement with China
- It seems sensible to assess investment proposals from state-owned enterprises using a principles-based approach, applied on a case-by-case basis
- It is crucial that these principles are applied in a way that understands more capital flows are likely to come from government owned investors
- Making the right choices will benefit all Australians