Rio Tinto

Pioneering strategic partnership with Chinalco & Full Year Results 2008

QUESTION & ANSWER SESSIONS

AT THE 2008 ANNUAL RESULTS PRESENTATION

HELD IN LONDON ON THURSDAY 12TH FEBRUARY 2009

QUESTION AND ANSWER SESSION 1

QUESTION:

I have two questions. One is quite simple: would you be doing this transaction if your balance sheet wasn't so distressed?

And a second question, probably for Guy, of the assets under consideration can he just articulate which ones will Chinalco take an equity stake in and which ones will have a strategic alliance note associated with it?

PAUL SKINNER:

Well on the why now, clearly this proposition does a number of things. It deals with the financing challenges the Company has had but it is I think, on a look forward basis, a great source of economic opportunity and value creation.

We have been engaged over quite a long period in discussion with our friends from Chinalco and we are attracted to this opportunity as much by what it will do to create future value as it is doing to deal with financing challenges. So it is something which in its aggregate deals I think very well with all the issues.

I think even if we were not in a position of having to address balance sheet issues the fact that we are moving through a period, which could last quite a long time, of major economic challenge in the world the idea of striking such a partnership at this time is very appealing.

GUY ELLIOTT:

I am not going to go through the whole list, and maybe I could come back to you on it, but substantially we are looking at letter stock type transactions in the Hamersley and the Escondida case.

QUESTION:

Just two questions. Basically, why this size? You are going to take out a couple of years of debt tranches, in addition to capital cash flow that will probably take out another year, so you are going to take out three-quarters of your debt load. Is this your view of the cycle or was it this size or nothing in terms of the offer by Chinalco?

Just in terms of the iron ore sales company, they are taking 15 per cent of the asset yet 30 per cent is going into a JV sales company. Why the difference there? And if it's commercially separate, why bother doing a sales company at all?

TOM ALBANESE:

Thank you for these; I will tackle both those questions. We recognised in our commitment on December 10th that a $10 billion debt payment would address the financial challenges in 2009. I think we have had quite active engagement with economists and also our Shareholders recognising that there is considerable economic uncertainty out there in the world and we could be in for two years of rough water in these markets.

We would hope things will improve before that, but it is very realistic in the uncertainty in the market and the fact that there could be other shocks coming - hopefully there won't be – in the financial sector, that we still had some rough water, this transaction provides us with the flexibility and provides us with the ability to see through roughly two years of any reasonable person's downside scenario.

On the iron ore sales, again this is consistent with the joint ventures that we have had and we have worked with for a long period of time, literally decades. The 30 per cent number means that 30 per cent of the Hamersley's material will be going roughly into the Chinese steel sector. That compares with the current statistic, which is 56 per cent of the Hamersley business going into that Chinese steel sector.

So I think this more than adequate headroom in terms of the amount of iron ore produced within the Hamersley business, the Hamersley iron ore business for the Chinese steel sector. We would hope that over time the relationship with Chinalco will bring new customers into the Hamersley fold.

QUESTION:

Three questions, if I may please? Firstly, I should know, but what is the threshold for the vote for your Shareholders to approve of this deal?

Secondly, within the minority disposals will there be, once the deal is closed, any pre-emption rights by Chinalco to actually - when Rio Tinto was to be approached in the future - take advantage of that situation?

And then just lastly, with regard to your disposal targets you mentioned before and the non-core assets you still have from Alcan, where do we stand there?

TOM ALBANESE:

Thank you. First of all, I think Guy said this – correct me if I am wrong, Guy – that the threshold for the vote would have been a majority, 50 per cent plus 1.

The second, within the minority interests what are the pre-emptive rights. The only case where Chinalco has pre-emptive rights would be in Yarwun; with everything else there are no pre-emptive rights.

And then finally with respect to disposals, maybe Guy if you want to say anything more about this, I would say that the businesses we have talked about, particularly the downstream aluminium businesses, they are not strategic within the Rio Tinto suite of assets. We would see ourselves continuing with those and possibly some others.

But maybe, Guy, if you want to say anything more on disposals?

GUY ELLIOTT:

We are continuing with the pre-existing, pre-announced disposals that we listed back at the end of 2007. In December of last year we said that we were looking at other disposals; of course, we are making some today although they are only disposals of interests rather than disposals of businesses.

I think the Chinalco transaction gives us the flexibility to be much more demanding and maybe not to sell any other businesses, although the process of examining whether we should sell a core asset is something that we do constantly. So I think the key point to make is we will finish the disposal of downstream aluminium businesses and probably some others, but we don't have to do that in such a rush.

TOM ALBANESE:

Thank you, Guy. Maybe I will close with just a point that two months ago we announced that we were expanding the list of disposal opportunities and it is fair to say we had very active discussions with all the major players in the sector. The Vale transaction we announced two weeks ago would have emanated from that active interest, so we have now been two months into that expanded list and I think we have a great deal of flavour for interest out there.

QUESTION:

Three questions, if I may. I hear what you say about the valuation on the assets, but can I ask why you don't think it is suitable to invite all of your Shareholders to participate in the whole thing to bring the debt down?

Secondly, I should have done the maths but I haven't – I am sure Guy has – your gearing at the end of 2008 was 63 per cent following the write-downs. If you treat the bond as 100 per cent debt or as a debt/equity hybrid what happens to that gearing and what is your current feeling on the optimum level of gearing?

And thirdly, in terms of the assets being sold, you are selling a higher proportion in terms of earnings of copper. Does that imply anything about any shift in your view of the strategic benefits of various portions of your Group?

PAUL SKINNER:

I think let Guy take the questions.

TOM ALBANESE:

I can take the third one though myself.

PAUL SKINNER:

Okay. Guy.

GUY ELLIOTT:

Well on the first question, as I said, we have looked at all the options that we had worked on and created in recent times, and one of them included a Rights Issue, where we would appeal to all our Shareholders to contribute to the Company. When we evaluated all those options we did conclude that the Chinalco transaction stood head and shoulders above the others.

The reason for that mainly was its comprehensive nature, the premium values that we attained for the assets that we were selling, the premium values we attained through the convertible, and we contrasted that with the big discount that would apply in the event we did a Rights Issue. So I think when we look at the scale and the value attributes it was very clear, when you then also combine the strategic attributes, that Chinalco offered the best option to us.

On your second question, I haven't done the numbers – I probably should have done – of what it would do to gearing. Clearly it will substantially reduce it in respect of the asset sales. I think it is important to understand that this bond does have many equity characteristics and it is at the very least a substantial terming out of our obligations.

As to what our long term gearing rate should be, there was a time three or four years ago when people said that the Company had too strong a balance sheet; now that certainly wouldn't be said today. I think what we are looking for and have obtained through the Chinalco transaction is flexibility, and that is something with which we do attribute some value to, and it is for that reason that the Board's target of obtaining a single 'A' debt rating remains in place.

Now we have got a bit of work to do to get to that point, but what it tells you is that we will still be working on reducing the level of debt.

TOM ALBANESE:

Thank you. Finally on the copper question, just due to the importance of KUC and our interest in Escondida and our overall copper portfolio, I think just by the maths would lead it to a higher EBITDA percentage, but no way does that diminish my appetite for copper.

I think we will continue to pursue a number of copper development opportunities, including brownfield expansions within the businesses that are within the relationship with Chinalco, including moving ahead with La Granja, hopefully bringing the other Peruvian assets with La Granja into that. What I would say from my perspective, I have an appetite for additional copper opportunities elsewhere from a global perspective.

QUESTION:

Can you give us some idea of whether there is any tax impact or stamp duty issues with the asset sales?

And also in terms of the strategic alliances, are they across all assets within those particular groups or only just the ones related to the transaction itself?

GUY ELLIOTT:

Well, shall I take those questions? There are relatively low, very small, tax attributes to this transaction as it happens. We have structured it carefully of course and appropriately so that is the case.

On strategic alliances, it is very important to understand that the governance of these joint ventures has been most carefully constructed so that control does not pass but that appropriate minority protections are given and those minority protections apply solely to the assets in which Chinalco is investing and they do not apply more widely.

QUESTION:

Can I ask a question of Chinalco please? Part of the rationale for BHP's bid for Rio was the cost synergies in the iron ore businesses. If the iron ore was marketed separately would you contemplate a merger of the two businesses to go and try and capture some of those cost synergies?

XIAO YAQING:

It is a fair question, a fair comment. First of all, let me say we are very impressed by the low costs nature of the assets that we are investing in Rio Tinto. And secondly, let me say that I have a very optimistic view in terms of the long term prospects of this sector and including the potential to further reduce costs in the current portfolio.

QUESTION:

I notice there is $500 million going into a joint development fund and there is a bit of commentary in the release, but could you go into a little bit more detail as to how that will work, in particular what's the process for deciding which projects will go into that development fund? Is it a geographical basis? Just what is the framework that going to govern how that fund works in future?

TOM ALBANESE:

Guy, I'll start off and if you have any comments feel free to supplement. Again we recognised the importance was to look at the casualty of the transaction, the full size of $19.5 billion, recognising that the bulk of the value would have been in the existing operating assets, but there is a longer term intent to create synergistic opportunities on development.

So what we wanted to do was to again give to our Shareholder, give to the market, as soon as we could with the full details and the full transparency of the transaction, and that gives both sets of teams time to work out what are those development opportunities and certainly they would be of more than fair value from a Rio Tinto Shareholder perspective.

QUESTION:

I have just got two questions. Firstly, I understand your rationale although I don't quite understand the rationale for using EBITDA, to say it was a high premium sale when your EBITDA multiple is severely depressed because of your debt. You have always used NPV. If I look at previous sales, of your last five transactions, they have been done at probably against market NPVs, twice, two times; this one looks like against what most people had in the market, maybe a 20 per cent premium.

I would have thought why not, if you are prepared to sell what I would consider Tier 1 assets, why didn't you just do an auction for 15 per cent of Hamersley and your half share in Escondida? I am sure you would have got a much better price than perhaps what you would have got and now you are showing us today?

The second question is, and no-one has asked it and I guess I will, obviously the Board is unanimous now but there was an issue virtually a week ago and I wonder if you can make any comment on that as well please?

PAUL SKINNER:

Shall I deal with Glyn's second question? Look, these are very big issues and very big choices. It would not be at all surprising to expect in a Board like ours we would have a very full discussion before reaching a landing point. We reached a landing point and it was one of clear unanimity.

There was only one person who started that journey who felt he couldn't come to the point of alignment with the rest of the Board, which created of course an untenable situation. So he tended his resignation, which was unanimously accepted by the Board.

It was a surprise, it was a disappointment, but we are very much in Rio Tinto a consensual Board. Certainly in the 5½ years that I have been chairing that Board, through Alcan, through the various BHP issues, we have never been other than unanimous. That is our position today. For somebody to arrive, express a view which is completely discordant with others, is inevitably going to produce that result.

But we move on and I am personally committed to ensure that the process that we are describing to you today reaches a point of positive conclusion and that we plan properly for the next succession.

TOM ALBANESE:

Maybe I will start off with your EBITDA versus cash, and maybe Guy if you want to supplement that. But I think whether you look at it on an EBITDA basis or a cash basis, and then again recognising we have had so much price volatility over the past six months – there are quite a few views on prices – I think under or versus any view of prices I have seen this is a strong premium, including a forward view of long term prices.

I would also say that again we have since 10th December had no shortage of expressions of interest and in some cases some serious discussions with the major players, what would be seen as their idea of value of individual assets, and I can very clearly say with the ones you are referring to that the broad economics, the broad package of the Chinalco proposal is vastly superior to what we have seen.

But, Guy, if you want to talk about EBITDA versus cash flow multiples.

GUY ELLIOTT:

Well I think, of course you are right that NPV is the primary metric which we use when we look at assets and investments and for that matter divestments.

As you know, we also look at a matrix, which we described to the investment community a few months ago, which encompasses different outlooks for price and different views of resource conversion into reserves. I must say that when we look at the prices that we have been offered by Chinalco for these assets they compare well when we look at that matrix with our own internal net present values for most of these assets.

In addition to that, you need to consider a couple of other factors. This is a package, it is not just the asset sales, it is also the convertible, the whole thing comes together and we think taken together this is a compelling combination.

The other factor I would just leave with you to think about is that these are minority stakes. No control premium has been paid for these minority stakes and the NPVs here – you might think the NPVs that are calculated by the market do contain a control premium because they are value for 100 per cent of each of the assets. So I think when you come to consider all those factors the package, the position in the matrix and the fact the control hasn't passed you can see that actually this is a compelling value proposition.

QUESTION:

It sort of ties in with the previous question I guess, is Escondida for instance is an area I am particularly interested in. EBITDA or one of those metrics has been completely squeezed by provisional pricing and loss on copper contracts in the period so it is probably not a good guide to the future. I am more interested in what your views on the exploration outside of that asset, particularly in the context of the recent drilling results and how you actually value that over and above the existing operation?

TOM ALBANESE:

Thank you. I will tackle that. Of course, in the second half of last year Escondida was negatively impacted by operating problems, particularly the mill problems; it was impacted by provisional pricing just because the market pricing took the concentrating process, and also some severe hedge losses, and it all brought those numbers down. So we have to look also at that on an NPV basis in addition to on an EBITDA basis.

Certainly there is a lot of value in Escondida, it is one of the premier copper assets, and I think the valuations and what Chinalco has provided recognises that and certainly from my perspective I do think that is more than a fair price on Escondida, looking at it either on a EBITDA basis or an NPV basis, including the exploration potential of Pampa Escondida.

I can remember four years ago with Marius being there, and I think both Marius and I agreed we could do some more drilling on Escondida, there was more potential there, and I am very pleased to see the exploration results that they have generated over the past two years. There is a good exploration effort out there.

QUESTION:

Will Chinalco be able to vote its existing shares in favour of the transaction?

PAUL SKINNER:

Guy, will you address that?

GUY ELLIOTT:

Okay. Look, my understanding is that is a subject which is still being considered by the relevant Stock Exchanges, the issue being whether or not as an interested party it should or shouldn't vote. So it isn't yet concluded, but of course as soon as it is it will be made clear to Shareholders.

QUESTION:

This is with regards to the FIRB approval in Australia. The stake in the Limited Company is 14.9 per cent, so does that require approval or not?

PAUL SKINNER:

Stephen, why don't you answer that? You are closest to that whole cluster of issues.

Stephen Creese:

Thank you. The answer is that the whole transaction is subject to approval by the FIRB.

QUESTION:

The cross shareholding that PLC has in Limited, what happens with that in terms of voting if this process moves forward?

GUY ELLIOTT:

Thanks, Nigel. Look, in effect, it is not going to take part in this vote. The votes are going to be cast by the, as it were, external Shareholders of PLC and Limited.

QUESTION:

I have a question for President Xiao, if I may. Could you discuss the current economics of aluminium production in China and did you consider an investment into Rio Tinto's Alcan assets and, if not, why not?

XIAO YAQING:

In terms of the first question, the total size of the aluminium sector in China is still growing pretty fast. We have some oversupply right now and that's why we were seeing pretty low prices last December, but the good thing is actually prices are coming back this year. We are seeing somewhere between 15-20 per cent rise from the bottom.

There is a unique nature in the power sector in China, which is the cost of power comes down when we move from the eastern costal region to the inland western regions, so we are seeing a migration of supply of aluminium also away from the coastal regions and into the inland regions.

On the other hand, I am very optimistic about demand for aluminium products, especially when the economy comes back in the near future. We had an excellent year actually in 2007 with 39 per cent growth in production and 43 per cent growth in sales. We don't expect to see something as spectacular as that any time soon but I am confident that the sector as a whole will maintain a growth rate twice as much as the GDP growth rate.

The answer to the second question is very simple, Rio Tinto doesn't want to sell otherwise we would very much like to invest!

QUESTION:

Can I just follow up on that? Sorry, with due respect, do you mind, but what I asked about actually was the economics of the aluminium production in China. Is aluminium production profitable in China today?

XIAO YAQING:

Production of primary aluminium is still loss-making now. The average cost per tonne is 13,000 rmb, whereas the price is slightly below 12,000 right now.

TOM ALBANESE:

Based on our analysis of the Chinese smelting situation, with the downturn in China we are seeing power generating capacity move surprisingly quickly from being in deficit before the Olympics to being in surplus now, so I think you are seeing that having some effect on power rates and that's probably had some effect on bringing down the cost of smelting capacity.

QUESTION:

Two questions. First, given your new found flexibility, assuming the deal is approved and if you do like further asset sales, will Rio Tinto become acquisitive with that flexibility?

And secondly, has your view of long term pricing change in the last six months and particularly since the BHP Billiton bid was rescinded?

TOM ALBANESE:

Thank you. I may comment on both of those. If I turn this into personal context, my first call of the day today was with the senior managers in Australia and I will finish it off with a call with our senior managers in the Western Hemisphere this evening.

I have said to everyone, just because we have announced this deal today doesn't mean that the chequebooks are open. They have got to keep the capital down; they have got to keep the operating cost reductions in place. We are in two years of very difficult economic times and we have to be very tight on all capital spending and all operating spending in this period of time.

I think in terms of the long term view of prices and how they have evolved over the past six months, in many ways that is still a work-in-progress because what we are seeing is a change in many of the input costs and, as you know, our fundamental approach to long term price formation is based upon margins over long term costs.

So what we have got to do is we have got to see how this economic period of difficulty has an effect on long term costs. Clearly oil price is an example. Everyone had a view that the long term price of oil was much higher than it would be today and that would flow through long term cost structures and long term price formations. So I think we just have to see how the volatility in the market plays out over the next year or two and I suspect that the longer we see a downturn the more it will drive down long term cost inputs.

(End of Q&A Session 1)

QUESTION AND ANSWER SESSION 2

QUESTION:

Thanks. Perhaps a question for Vivek, just in regards to cost curves clearly you have mentioned them coming down earlier I guess. Which commodities would you see the sharpest decline in the cost curve and particularly the shape of that curve?

VIVEK TULPULE:

Thanks. Your question is, which long run prices I think will come down fastest? Look, I think what we will probably find is that you will see reductions in average costs across a whole range of sectors, and we are seeing those all the time across, for example, explosives, fuels costs, and they just bring down the average for everyone.

We will probably also see very big changes in costs in industries which are very challenged at the moment, so for example with aluminium we would expect to see the high cost smelters shut progressively over time and therefore bring up the price so that we get something that's more consistent with a sustainable outcome, so there the relationship between cost and prices might differ a bit. But every sector is a bit different, every cost curve is a bit different.

QUESTION:

I actually have some questions, perhaps a little bit more for Chinalco, but perhaps you can help to answer them.

The first relates just to the packaging business. Clearly packaging and downstream aluminium fabrication is an area in which they are interested, however, it is an area where the Chinese development is sort of lagging behind where we are or where Alcan is. Was there any interest expressed in the packing business by Chinalco and what sort of discussions did you have on that?

The second question relates, and I have had some experience on this in the past, to the difficulty in getting NDRC approval from the Chinese authorities, which I think is required to externalise finance. And associated with that, why does the break fee only work one way? Wouldn't it be normal in this type of transaction for it to work both ways if Chinalco can't come up with the money on time? I will leave it at that.

TOM ALBANESE:

Maybe I will start with the NDRC plan. Guy, why don't you comment on the packaging downstream and then the break fee point?

Paul and I within the past few weeks have met with senior officials of NDRC and certainly I think there has been a constructive engagement between Chinalco and the NDRC in terms of recognising the importance NDRC has in the approval of any investment, foreign investment, within China. Certainly Chinalco has expressed to us, and we have reaffirmed for ourselves, the NDRC is strongly in support of this.

GUY ELLIOTT:

Right, about packaging. In point of fact Chinalco did not express much interest in that asset sale so unfortunately they didn't participate in the process which we have been in running.

On the question of the break fee, you understand that this is a package deal. There are all sorts of elements in which we have had to give here and take there. One of the things we did agree to give up was an attempt to secure a break fee in the other direction. But, as Tom has said, while one can never be fully confident of these things we have had some very reassuring statements made by a very senior Chinese official, so let's hope that eventuality doesn't arise.

TOM ALBANESE:

I think it is fair to say that in all of our discussions with the senior Chinese leadership they recognise that the world will be watching how this transaction proceeds through its various approvals.

QUESTION:

Exploration is very much the future of a company, that's how it grows. We have heard earlier about this exploration initiative and you made a very good point that many of these new mineral resources are in the emerging countries. With regard to that, and obviously we went through a situation where we had a fear of running out of resources, now a surplus, but for the longer term this actually could be a very exciting initiative.

If you do make an exciting discovery within China, do you getting sort of first footing on this or is there any requirement to allow Chinalco to run this? How is that going to work because this potentially could be a real mineral box for Rio?

TOM ALBANESE:

The exploration in China has not escaped my attention. As you know, I have had a lot experience, with a lot of my career including my first job, in the area of exploration. We have been exploring – or trying to explore – in China since 1994 and, frankly, it has been very difficult for us to get the access to the ground that we wanted to have. And within China it is not only getting the exploration permits but also getting a continuation of those exploration permits with what would be assurances to move into mining permits.

I think we have had now 10 years of slow experience with them. We know what we would need to do to have competitive advantage, and certainly from my perspective and my exploration background, and again with all the experts who are very close in there since the mid 1990s, I do believe this provides us with a competitive edge for exploration.

And I do believe that China is under-explored and could provide opportunities. The fact that the Oyu Tolgoi deposit, which you all know is probably the best undeveloped copper deposit in the world, sits 80 kilometres away the Chinese border, is evidence of the fact that there is prospective terrain.

PAUL SKINNER:

Okay! Any further questions?

QUESTION:

I was slightly confused about the decision to hold the dividend in light of the capital that you are raising. I just wanted to ask, why didn't you suspend that and sell fewer assets to Chinalco?

PAUL SKINNER:

I will make a brief comment and then perhaps Guy can come on to that. I think we, and it is deep in the Rio Tinto culture, attach enormous importance to the long term dividend promise that the Company has had and a progressive dividend policy which means not going backwards. I think had we moved towards one or two other options we might have looked at that but, in terms of the option we've decided to go with, we felt to hold the dividend was the right thing to do.

Guy, do you want to add to that?

GUY ELLIOTT:

I don't think there is much to add. I think the integrity of that record is something that we felt was very important. It was something just short of a promise to our Shareholders, that we would maintain a progressive dividend. But of course we debated which assets should be in and which assets should be out of the package with Chinalco and I think the eventual outcome was one which both sides felt comfortable with. So while I understand your question I think it has to be in that context.

QUESTION:

Thank you. Just on aluminium, you received an average price last year I think you said of $1.18, and given the sensitivities you have given us and given where spot prices are, your earnings this year, your spot price earnings, appear to be very low indeed. Can you just give us some idea what measures you can take in aluminium, what you will do?

And also could you just give us some feel for how costs are going to come down in the aluminium business? Is there a significant lag and sort of what percentage of the price fall we have seen in aluminium will come through in costs?

TOM ALBANESE:

Thank you. Maybe I will tackle that; Guy, if you want to add anything to this. What we saw during the course of 2008 would have been a lag in increase in some of the cost inputs, particularly elements of around coke, pitch, caustic, that drove up the overall cost structure, and again I would anticipate them coming down. But there is a time lag on them coming up and I think we will see a time lag - we still see them coming down in 2009.

We recognise in this 60 cent aluminium price environment that all but those first and second quartile operations, even with rigorous cost containment, will be very, very challenged and marginal. We have certainly gone through already two phases of smelter shutdown.

We certainly have planning in place for further shutdowns, and that all part of the overall sequencing that any smelting company would be doing in this particular market and we recognise this involves not only the aluminium business but also the impact on stakeholders and local communities who are quite sensitive to those areas.

Jacynthe Cote has come in, in a very challenging time in the business, but I am absolutely confident she is focused entirely on a rigorous cost reduction. She has already within her first two weeks, she has already put in place very significant overhead and organisational cost reductions and we are pushing for further cost reductions and efficiency improvements at each of the smelters.

We cannot rely on the fact that we have low costs operations, for that in itself to just coast through the storm. We have got to tackle our lowest costs operations as aggressively as our higher cost operations and, again, at these prices we will have some of our higher cost operations which will be marginal and which will be tested, some in the fairly near term as the conditions dictate.

GUY ELLIOTT:

Perhaps I could just add a couple of comments. Difficult as the situation is for us I think we are faring better than the competition thanks to the quality of the assets that we have in bauxite, alumina and smelting.

I would just add a couple of points. One is, that in addition to factors that Tom mentioned, there are some other exogenous factors that favour us: one is the fall in the oil price and the other is the fall in the currencies in most of the countries that we produce either bauxite, alumina or aluminium in. Those effects were not very marked until late in 2008, so the costs on average during the year were affected by high input prices and stronger currencies.

The other thing that perhaps ought to be mentioned is that the synergies, which we are still delivering - we have been delivering more than expected - are going to kick in increasingly as 2009 continues. So I am not saying it's easy, it's certainly isn't easy, but I think we are doing everything we can.

QUESTION:

A couple of questions. Firstly with the announcement late last year/early this year regarding redundancies, that sort of thing, in preparing the asset base for the current economic conditions, can you give us some guidance on what the cost impact of making those decisions might be for this half or calendar 2009?

Secondly, you had made some substantial iron ore spot sales through the course of 2008. With spot prices holding up relatively well at the moment, would you consider selling into spot market if there is still some pushback on your contracted customers?

And then finally, just in terms of some guidance around the net interest 'feel' for 2009 please?

TOM ALBANESE:

Guy, would you want to talk about the cost impact of the redundancies and the last question? And I will talk about the spot iron ore business.

GUY ELLIOTT:

Okay. Go ahead, Tom!

TOM ALBANESE:

Thank you. As you know, we said early in 2008 that we would be selling into the spot market and certainly it was a lot nicer time to be selling into the spot market at $180 per tonne than in the $60-70 per tonne range. I am very, very pleased that we got them out early in the cycle.

I think it is fair to say, as we said back in November of 2007, that we will always look at a mix of marketing activities, long term contracts, hybrids, spots etc. We will continue to explore that mix in this particularly market, recognising first and foremost we want to look after those long term contracted customers, and that's what we have been doing.

There has been some lower levels of spot business in these markets and certainly we recognise that we have seen something of an uplift. We have increased some of our shipments in the past few weeks. I think to some extent the Baltic Index has gone up because we have probably put on more chartered vessels than would have been the case in November and December.

GUY ELLIOTT:

I can't put my hands I am afraid right now on the cost of the redundancies. It was given, if I remember, in the release that we did on 10th December. I will give it to analysts when I brief them tomorrow and make sure that you have it; I'm not sure we will break it down though by halves.

GUY ELLIOTT:

Now on the net interest number, you will see what the debt level is. It hasn't substantially changed other than for the receipt of the $850 million for the potash sale, which we reported a few days ago. On that we are paying 3 per cent approximately, that is to say we are paying between 32 and 42 basis point over LIBOR on the Alcan debt.

That will change when it is repaid and it will be substituted in part by no interest because we will be using the proceeds of the asset sales, and then it will be substituted by a 9.2 per cent, on average, coupon under the new convertible bond. So I think I can't give you a projected average because I can't tell you the exact date at which this will close, but I think those are the building blocks for that calculation.

NIGEL JONES:

Guy, I will just clarify the redundancy number, the cost was $400 million.

PAUL SKINNER:

Yes.

QUESTION:

Thanks Guy. There are two questions, one on QMM. There has been some recent political and social unrest there and I was just wondering whether that has impacted the start up of the operations?

And also the train derailment that you had a couple of weeks ago, what impact is that likely to have on shipping in the first half? Thank you.

TOM ALBANESE:

Thank you. I will cover both of these questions. At QMM, there has been some social unrest within Madagascar. Most of it has been in the capital city, "Tana"; it has stabilised since a few weeks ago. It has been unfortunate.

We have seen limited effects within the Fort Dauphin location, which as you know, is on the other side of the country from "Tana". I would say overall it had no real effect on our start up timing, although on some days we have had local residents standing in front of those going to the site, and we have managed that very closely with local Fort Dauphin authorities.

On the train derailment, it occurred on a double track part of the line. I think it took us about four days to recover one of the tracks of the line and a few days after that to recover the second. I would not say that it will have a material effect on the first half shipments. Of course, as you know, probably what causes the most material effect in the first half will be the cyclone season and, unfortunately, we are still in the middle of that. We have been – knock on wood – not too affected by it so far.

QUESTION:

I have two questions, the first on iron ore and the second on aluminium.

With regard to the possible expansion, the 100 million tonne expansion, you are obviously very, very circumspect about that and we can understand on a global basis, but given China's reliance to some extent on high cost domestic ore, BHP pushing ahead aggressively with its expansions, and Australia's market share in China only about 40 per cent despite the freight advantage, could you just comment please on why you are not pushing ahead more aggressively with that especially considering you are probably going to getting £5 billion in from Chinalco sooner rather than later? So that's the first question.

And the second question is just with regard to the aluminium smelters. For some reason, both Anglesey and NZAS had a disastrous year because of problems with transformers. I guess it doesn't sound like a big deal, but what kind of risk is there to other smelters in the Group from under-planning your transformer maintenance programmes?

TOM ALBANESE:

Maybe I can tackle both of those. First of all on iron ore, if anyone had clairvoyance as to how we will come out of this, the recovery, whether it gets worst, how it gets better, when it gets better, I think we'd all have more certainty and more confidence in expanding through a downturn.

The sheer unprecedented nature of what we have been seeing and the contributory causes of this downturn I think pose considerable challenge for when we will see that global uptake in the global steel markets. At this point in time I don't see what I would call the creditable and meaningful signs of an economic recovery that would cause us to begin to make those significant capital investments. I think that is prudent and realistic in this current capital horizon.

Certainly, in my discussion with other Chief Executives in other industries and seeing the global nature of what we are all experiencing, that view would probably be more commonly held than an anomaly.

The fact that we have the ability to expand at our election, at our convenience, the fact that the Chinalco transaction gives us the financial flexibility to expand at our election, at our convenience, is terribly powerful because I do hope to see signs of an economic recovery. We do hope to be in a position to make those types of decisions, but we first need to see some credible signs of global economic resurgence and we all know we have some difficult waters ahead of us.

Second, on aluminium, you point out not without a bit of irony, that the two smelters which have had transformer rectifier problems have been ex-Rio Tinto smelters, and I think it is fair to say that for many years we had constrained sustaining capital, which probably has caught up with us.

You do need to recognise that at Anglesey in particular, which we knew had a fairly short shelf life as a consequence of the uncertainty around local nuclear capacity and local power contracts, that by the nature it would have been good business to not necessarily keep those transformers ready to run for the next 15 years as we knew we did not have 15 years of power contracts, and so that was treated accordingly.

In both the case of the Anglesey and the NZAS power failures, we have taken those lessons learned and applied them through the rest of the Group. And this would be an area I think where the superior technical position and the leading technical position that came into the Group through the Alcan transactions probably helping the total global set of smelters.

QUESTION:

Having been lucky to be last, hopefully it is an easy question! Just looking at the provisional pricing allocations that were made around the Alcan acquisition I note, I think it is page 33 of the release, that in fact goodwill was written up from $14.5 billion, or was allocated from $14.5 billion to $20.1 billion. So my question was, the subsequent impairment charge that we saw through for goodwill, which is about $6.6 billion, is that after that impact, so we actually kind of increased it from $5 billion or $4.5 billion and then wrote it back at $6.5 billion? Am I reading that correctly?

GUY ELLIOTT:

Perhaps I better take that one, Paul. In a way you are right. As a result of the Duff and Phelps activity that took place over the year following acquisition we were able to examine in depth what the value of each asset was and that caused us to reallocate, as you can see, mainly in the area of tangible assets but also intangible assets, the fair value of Alcan.

The difference was put predominantly into goodwill, and you can see that number rose up to $20 billion, and with the impairment it will obviously reduce again down to a bit less than $14 billion. The causes of the goodwill adjustment though are the ones I explained, namely recognition of different economic circumstances, higher input costs, and the removal from our assessment of value of those projects which we had deferred or chosen to defer.

So I think that nevertheless your observation has quite a lot of merit to it; it is kind of backwards and then forwards – or forward and backwards.

PAUL SKINNER:

I think probably we have to draw the line there unfortunately to keep on a schedule which is rather tight, but just to say thank you all again for being here and sitting through what this time have been rather extended presentations, but I hope the content was helpful to you. Thank you for coming.

(End of Q&A Session 2)