

Rio Tinto 2009 Half Year Results presentation

Q&As

London, August 20th 2009

Jan du Plessis:

We will now take some questions of course. You'll appreciate I am sure that we have got a number of audiences we have got to cater for, so we are going to start by taking some questions here in this audience in London; we are then going to go to Sydney where I believe Dave Skinner is in charge today; after Sydney we move to Melbourne to join Guy, and at the end of that we'll take some questions from the telephone line.

When you ask your question, can I suggest as is customary that you just identify who you are and the name of the organisation that you represent. So, who is to go first in this audience here?

Question:

Two questions! Just firstly on your iron ore statement and the settlement of fixed pricing effectively for the rest of the year. At face value it appears you are taking the lower of either the benchmark or spot into China, whichever they choose. Have you any comments on that? And does that mean that you are getting some recovery of the defaulted contracts in the first half?

The second question is around aluminium. You talked about taking a bigger part in the future with the AP technology but we are seeing significant production coming out, new production in X18 amongst a lot of it, JAE. The Chinese appear to have a significant competitor which looks to be a lot cheaper if not quite as efficient. How do you think you stack up as a technology supplier in aluminium?

Tom Albanese:

Okay. Thank you. I will take both of those. First of all, on iron ore during the first part of the year, particularly before the Japanese steel mill settlements, you had quite a gap between the spot prices and last year's settlement and we did see quite a bit going into the spot markets at that time.

I think at this point we would be seeing again of course the Japanese, the Korean and the other non-Chinese business going into those long term contracts, the bulk or a large amount of the Chinese material going into the provisional pricing under those contracts.

I recognise it has been an exceptional period of rising and falling prices in this period of time and again we have been selling to spot during low points, but last year remember we were selling to spot when spot prices were higher than the contracts, so I think it does depend on where you are and different market conditions.

We were very mindful of the dynamics and the changing evolution of the iron ore markets, but we continue to see most of the customers seeing some value to a benchmark type system. Certainly the Japanese steel mills, the Korean steel mills, have said there is value to that, and again the Chinese steel mills are taking all of the product they can get at these particular prices. Our provisional prices are at a number equivalent to the Japanese steel mill price and we do think that reflects the supply/demand pricing condition at that time.

Over the past just couple of days, and in the past week or so, you have seen spot prices dropping a bit and to some extent that reflects the fact that steel prices have dropped off a bit, reflects the fact that we are probably coming out of the Indian monsoon – or people expecting coming out of the Indian monsoon season – and I think we are seeing that supply reaction you would expect from domestic iron ore in China.

I think you are seeing the typical volatility both up and down you see in those spot prices, and in the meantime we will continue to deliver to those provisional pricing to the Chinese customers.

Question:

Do you expect they will continue to pay that provisional price if the spot price drops below it?

Tom Albanese:

Again we have seen I think for a good portion of the year, while we've had those provisional pricing effects, large volumes going to provisional pricing.

I think on aluminium, again I would like to just talk a bit about the technology, but Jacynthe with the benefit of you being here and you have got quite a bit of exposure and familiarity with the AP technology, if you can say something about the AP technology compared to the Chinese technology?

And while you are getting set up with a mic I just want to comment, that of course I see from a corporate perspective an important place for innovation and research and development. As in the long term strategy of any company we have had to cut our cloth according to our means this year, so Jacynthe and the team have had to take some difficult decisions - like we have done in exploration and other parts of the business to reduce costs in line with the economy.

But again, we do see the items like innovation, R&D and exploration, these are long term games, and you can't just turn them up and you can't turn them off and then expect to get results at the end of the day. But Jacynthe, over to you!

Jacynthe Côté:

Maybe a few words, and without getting too technical, the AP50 brings about on a full economic cost about 15 per cent improvement from the previous generation, the AP3X. So when we look at the full economic cost, again comparing to the Chinese technology, it provides not only full economic cost advantage but environmental advantage and clearly energy efficiency.

Looking forward in a world that will be with electricity under pressure for cost, then in an environment which will be even more constrained for CO2, indeed the AP50 technology brings tremendous advantage, and not only because of where it is now, where the level it is running now, but especially for what it provides as a further platform to implement our Drained Cathode and eventually even further down the road, the inert anode.

But the Drained Cathode is running at plant test and it offers a potential benefit of 15-20 per cent energy efficiency, so beyond the AP50, what is critical about the AP50 is not only that current improvement but it is the platform it gives for the further breakthrough technologies.

Tom Albanese:

Thank you, Jacynthe. I just want to add that on the AP we have a demonstration plant under construction in the Saguenay and like our other projects we have had to significantly slow down the capital cost to bring down our overall capital spending.

Jan du Plessis:

If you could give the mike to the gentleman further up with his hand up, on the other side?

Question:

Just wondering if you could talk a bit about debt capacity, how has the downturn changed your ability to raise debt going forward, what will costs be and how are you going to think about debt in the future?

Jan du Plessis:

Guy, are you going to take that?

Guy Elliott:

Thank you, Look, I mentioned the rating, that we had recently been upgraded by the agencies, and in the long run we want to see a higher rating than that because we think it will give us greater flexibility going forward.

But at the moment we are seeing actually progressively more and more liquidity returning to markets, and I mentioned the level of our CDS. I think that clearly capacity is greater and it is especially so because we have done so much to repair our balance sheet through the Rights Issue and also through these asset sales.

I won't give you a number because I think we always want a balance the question of what we are going to do with that extra debt, but I think we have just been in a place which was over-gearred and we have taken very decisive action in the last 18 months, and especially in the last 6 months, to totally transform that.

That is, the transformation of the balance sheet has been a very important element in this result, and I think that clearly debt capacity is significantly higher than the present level, subject though to this longer term objective of a single A rating.

Question:

If I can just follow up? How are you going to sort of think about the maximum, about peak debt levels, in terms of relative to history? Do you see ever going back to a net debt EBITDA of 3.5, not necessarily around numbers but I'm just trying to think about investments going forward and what you can get to?

Guy Elliott:

We don't really think about it like that. The way in which we think about it is to compare what the best use of our capital might be with the available liquidity that we have and, as I have said, we think there is some value in the flexibility of a strong rating.

We don't have a target gearing ratio, we don't have a target cover ratio, and the Board constantly thinks about this question every year as we draw up our financing plan. I think for the moment our focus is a cautious one, as Tom has described. We nevertheless are in a much more flexible position to make investments as we going forward.

Jan du Plessis:

Right, next?

Question:

I have two questions, if I may, and I think they are probably both for Guy actually. First, just on the carrying value of Alcan, are you comfortable with the balance sheet values there? Is it possible that we'll still see small write-downs coming through on Alcan?

And second, just a question on tax, could you give us maybe a feel for the tax impacts of all these divestments? In particular, I am interested in the equalisation payment that is going to come from BHP Billiton for the iron ore JV, but then also on the Alcan divestments are there tax impacts on those?

Jan du Plessis:

Guy

Guy Elliott:

Dealing first with holding the carrying value of Rio Tinto Alcan, this is something that we review of course like we review all our assets where goodwill is concerned regularly. We did that most recently in February and that led to the very large impairment that we took in February.

We have not seen any triggering event that leads us to suppose we need to look at that yet, but because goodwill is involved we will look at it again later in the year, as we will all the other goodwill areas and any other asset where there is a triggering event either to make an impairment or to reverse an impairment.

We have just taken an impairment in these numbers here, as we foreshadowed, on the packaging business of around half-a-billion dollars. Of course it is possible that we will take further impairments somewhere in the business, as it is every year, but do bear in mind that this is not something where we are marking our assets to market.

We are taking a long term view of the value of our business. And looking back over the last few years, I can see cases where we did take impairments and then pretty soon afterwards had to reverse those impairments, and that was an experience which was a salutary experience.

As to the question of tax on the divestments, first dealing with the BHP joint venture, that is progressing well, as Tom said. The basis upon which we are entering into this is that we pay no tax on any of that; that this is not a taxable transaction.

As to the Alcan divestments, the Packaging divestment, part of this impairment reflects the fact that we will have to pay some tax thanks to the structuring of the Packaging disposals that we anticipate and in fact many of our disposals will have a tax charge, although that was not the case with the ones that we completed in the first half of this year.

Jan du Plessis:

I am going to take one more in London and then I am going to go to Sydney.

Question:

Two questions! Firstly, on the proposed IPO of the North American business, would you have a timeline in terms of by when you would like to get it done and what is the proposed Rio Tinto holding in the company after the proposed IPO?

The second is on the diamonds business. The production shutdown at Argyle and Diavik obviously has kind of taken off a lot of volumes. I am just wondering if you can give us a sense of the operating leverage given the significant drop-off in volume, or is it something similar to what De Beers has seen in terms of cost per carat remaining the same on a 50 per cent lower volume?

Jan du Plessis:

Guy, why don't you first deal with the Cloud Peak question, then Tom can pick up the question on diamonds?

Guy Elliott:

I think you'll understand in relation to Cloud Peak that we are in a quiet period and there is a very limited amount to what we can say, but what we have not said is how much of the business we are selling. We have given an indication of the proceeds of \$500 million, but that doesn't necessarily indicate either what the ultimate price of, or percentage of, or proceeds from, the offering will be.

On the timeline, we are getting on with this expeditiously I would say, but I won't give a date at which we are likely to enter the market because of course that partly depends on market conditions.

Jan du Plessis:

Tom

Tom Albanese:

Yes, I just want to comment on diamonds. Up until this year there had been a steady build of diamond inventories by the diamantaires and the various middle points of the supply chain, and I think that stock actually has had to be brought down before we see some rebalancing of pricing and supply demand. Certainly our production cuts will help others, will help in this period of time, but first and foremost you have got to see that stock of diamantaires come down quite a bit.

I think ultimately what we have got to really see is the consumer come back into the diamond market and although we have seen some of the white goods, the traditional

engagement stones market beginning to pick up, it still remains the ultimate discretionary expenditure. I hope to see, as the US economy picks up, you'd see some more of those markets and we want to be there with that. But I'd say at this time it's probably better a position to reduce our production and wait for that.

Jan du Plessis:

Fine! I think it is time to go across to Australia, so I think we first go to Sydney. Dave Skinner, I think you are in charge. Can we take the first question from Sydney?

Dave Skinner:

Yes. Hello from Sydney here, Jan, and we do have an initial question.

Question:

I would like to ask a question about the Pilbara joint venture. I am just wondering, if the authorities, the regulatory authorities, were to block this Pilbara joint venture, are there substantial cost savings that could be obtainable on a third party services sharing basis with BHP Billiton please?

Tom Albanese:

Maybe I'll take that question! I certainly would not want to speculate on any outcome. I would say that we are working side by side with our counterparts at BHP Billiton; we plan a joint approach to the various regulatory bodies. Of course we have got to go through the full documentation, the definitive agreements, before we can put that in place but I'd say we are having early stage formative discussions as we speak.

Jan du Plessis:

Okay, Dave, I think we'll stay with you for two or three more questions.

Dave Skinner:

Yes, we have another one here for you.

Question:

Just one question. You mentioned about tier 1 assets and how you would like to continue to even refocus more on those. Can you just give us a refresher, something a little bit extra, on the current definition of tier 1 and, bearing in mind the answers of that, how quickly could you look at disposing of things which are not tier 1, presumably Palabora or Northparkes or Diamonds?

Tom Albanese:

Tim, if I may start on that and then ask Guy to follow up on that?

Tim, there is probably or certainly more than one definition of tier 1 assets. You have got to look at a combination of where it sits on the cost curve; generally we'd expect it to be first or second quartile. What is the long term? Are these long term resources? Are they expandable resources? Even if they are not in the first or second quartiles, there is something about those resources that could cause either through changes in technology or scale or something else to bring them into that particular area, and that really would be where our strategy has been focused around.

Certainly over the past two years we've identified a number of our assets which were definably not tier 1 assets that we put into the slate for potential disposal, and again I think if you look at what Guy has just spoken about, we had said two years ago \$10 billion; we have certainly been affected by the weak economic conditions, but the deal is completed, the transaction is announced and the binding offer from Amcor totals about \$8.6 billion and, as Guy said, we still have more to do. We will always look at our portfolio as we always have looked at our portfolio and test that against the tier 1 definition as we go forward.

But, Guy, if there is anything else you want to say?

Guy Elliott:

I think on the tier 1 thing, one should not just look at where an asset is today but ask the question: by what means could it be transformed? And that could be by combining it with some neighbouring asset, and that's exactly what we did of course in the growth that led to both the Rio Tinto Energy America, to the Coal & Allied business, and it is what we did with the acquisition of North, and it is what we are trying to do with the BHP joint venture. There are some of those where the beginnings – it is certainly not true in iron ore but it maybe true in the others – where the beginnings were actually quite modest but by combination they became very much more significant assets. You can also change the business by investment or by other means, so one should look at the resource position and its capability to change.

We have got some great assets and great resources within Rio Tinto. But we have got to constantly clean out those that don't have all of those attributes and couldn't have them, or where the difficulty in obtaining those attributes is too great, and so that's what led us to the last list of assets for disposal, which you know of, and where we are quite advanced in selling those businesses, as Tom said, for good prices.

It is not necessarily the best time right now to sell assets but, having said that, the last 18 months has been the worst time to be trying to do that and we've actually done quite well in the assets that we have sold I would say. So I think there is some element or there is some interesting thinking in your question and it is one that we constantly debate ourselves.

Tom Albanese:

Just one last point. Just as Guy said, this is an evolving subject. Ten years ago there were very few people who would have said Kennecott was a first tier asset, it was in the fourth quartile, people felt it had a short life, it had been overcapitalised, it was in the middle of an urban area – challenges, challenges, challenges!

But through a combination I think of some good work on-the-ground, through some definition of additional resources and optionality, and again I think we did see the benefit of a mark-up in terms of some of by-products in bringing it down to its net cost, most would consider that very much a tier 1 asset. So these things do change over time; part of it is change in the market but part of it is what we as a company, what management can do to make that change.

Jan du Plessis:

Another question from Sydney?

Dave skinner:

We have another one here

Question:

Just a question on iron ore. If you look at the run rate in the Pilbara at the moment, as you said, you are running basically at capacity. How quickly could you sort of restart some of the growth options there, given with the joint venture with BHP if it does fall over you may effectively be capping out at the 200-220 million tonne capacity rate and effectively giving up market share, given the lead time for some of the projects up in the Pilbara?

Tom Albanese:

Thank you, I'll take that. As we've said, our mining capacity is about 200 million tonnes per year. Our infrastructure capacity is about 220 million tonnes per year, particularly with the successful completion ahead of time of the Cape Lambert last project.

First and foremost, and we have recently sanctioned this with the iron ore team, would be to bring the mining capacity up to 220 million tonnes per year and, as we've said, we will reserve, in tight capital conditions, spending of capital for those highest value projects.

Obviously matching mining capacity with shipping capacity is a high value opportunity, so Sam and the team are underway with that as we speak, and that's a series of individual

projects, mining projects, and some sort of infrastructure balancing projects to get that going.

There are, as we've talked about, opportunities – the best opportunity really is the next expansion of Cape Lambert and we've said that's 100 million tonnes, and there maybe be a couple of different pathways to get to that. It may not be just a single shot for that.

Over the past 6 months we have taken the opportunity, even though we have slowed down some of the projects, we have asked Sam's team and the engineers to look for ways, alternative ways, to reduce capital, to reduce spending - we have seen capital indexes dropping in the Pilbara - and looking for those optimal opportunities, and we will continue with that work. But I'd say the first priority is to get the mining capacity matching our infrastructure capacity.

Jan du Plessis:

Dave, if there is one more question in Sydney we'll take that, otherwise I am going to go across to Melbourne.

Dave Skinner:

One more here, Jan.

Question:

I just wanted to talk about Simandou and get some thoughts there. It sort of seems to me as though you might actually be almost snookered. You are obviously battling to try and retain the licence but I assume, if you do, you'd be forced or willing to develop it quite quickly; on the flip side, if you lose it, I'm sure someone else will do that.

At the same time you've got significant invested capital in the Pilbara that's continuing to generate fantastic returns. How does it impact your decision-making not knowing exactly what the outcome is for Simandou and the tonnages that you or someone else might actually bring to market?

Tom Albanese:

We spend quite a bit of time with Simandou. We have put a new Managing Director in on-the-ground who has had a lot of experience, a prior career in Guinea.

I just want to remind you what we have: there are two leases in Simandou; there's really the Northern Track and the Southern Track. The resources that we have reported on, on a JORC basis, have been in the Southern Track and there's really no question, nobody has really been talking about the situation on the Southern Track.

The question has been on the Northern Track, where we have been doing some exploratory work, but not as yet at a sufficient stage to hold resources or to define anything. So at this time what we are doing is we are focusing our drilling, our evaluation efforts - albeit at lower levels given market conditions - on the Southern Track while we're engaged with the government on the Northern Track, and I think that's appropriate in these circumstances.

We certainly recognise, as we have long said, that the quality of the ore in Simandou is very high grade, low impurities, but, as we all know, it's a long way from the coast, requires quite a bit of capital for real infrastructure and again port facilities. Ultimately we will have to continue to develop and completely refine the resource, as in the mine planning, but create the economic and the business case for that ultimate infrastructure build to the coast.

Jan du Plessis:

Okay. Thank you, Tom. I think we should go across to Guy in Melbourne. Guy, do you have some questions there?

Question:

Just three quick questions. Firstly, you mentioned your costs in aluminium at the end of the period were down to \$1,350 per tonne and you expect costs to be lower in the second

half. Could you give us some indication of just how much you are talking about there?
Are you talking about 10 per cent to come off yet or just some indication of that?

The second question relates to iron ore. You seem to indicate that you are selling most of your tonnes on provisional prices at the moment, if I heard you correctly. Does that mean basically you are not participating in the higher spot prices at all and how do you see that progressing over the next year?

And thirdly, just in terms of the 16,000 people that have left the Company, have they gone with asset sales or what capabilities I guess have you lost in losing those people, if you could give us some idea of what they were actually doing?

Tom Albanese:

Okay. Thank you. If I may, I will start off with the iron ore question and the people question and then I will say a little bit about aluminium. But I think given that Jacynthe, I've really been very pleased with what she has been doing on cost-cutting in the first half, I would like maybe if she could say a few words on what we are continuing to do without giving of course any forward guidance in the second half.

I think, first of all, on iron ore it has been an unusual year everyone would recognise on the pricing environment. We have gone beyond the stage that I think any of us in recent or even historic memory can say of the iron ore price being unresolved, and I think it is appropriate to be selling on a provisional basis in this period of time.

I do think it reflects the fact that the benchmark is under a lot of pressure and we'll see how it evolves going forward in the future. Ultimately I do think the customer will need to drive that and we'll see how the customer drives that.

From my own perspective, I don't see an acceptable solution where a customer can see the benchmark being an option; the benchmark needs to be something that is a contractual relationship that is there for a transaction independent of where the spot market would be.

Certainly from our own perspective we are watching the developments as they take place this year with quite a bit of interest, and Sam and his team are actively thinking about that very question, although I would say at this stage that the bulk of the activity would be delivering to our long term customers on that provisional basis.

In terms of people, this 16,000 represents people that are basically leaving the business through either contractors being taken off or redundancies; this would not take into account people that are leaving the business through sales efforts.

Whenever anyone, in the mining industry or any other sector, has to go through redundancies it is a difficult thing. There is not only the personal question involved but you also have got to deal with the loss of capabilities, and I do believe the systems and the organisation are working very closely to ensure that it is being done both fairly but in a way where we don't lose those capabilities and we have the ability to respond as we see the markets respond.

Certainly over the past couple of years as markets were continuing to rise we probably put, on reflection, more people on - whether it is at operating level or administrative levels than we would have had - and certainly we all recognise as part of the synergies that we would have expected with the Alcan transaction that people reductions would have been a natural expectation to achieve that \$1.1 billion of after tax synergies, so I would say these reductions are a combination of all of those.

A good portion of these reductions wouldn't be affecting the operating bottom line because they were associated with capital projects, so as we brought capital costs down you would see those come down, particularly on the contractor side. But again we would be looking, as to the extent that we are seeing projects coming back on line, we would be bringing in contractors accordingly. But again, as we've said, only to those highest value projects.

Maybe, Jacynthe, if you could talk about aluminium costs and what we have done in the first half and your sense for the second half?

Jacynthe Côté:

Thank you, Tom. I will not repeat what Tom mentioned in his presentation but your question referring more to the next half. You have seen the chart on raw materials. We had a lag effect which had to flow through our inventories, so you have seen we have put some forward looking cost improvements in the presentation, so that's one.

SG&A we have been driving very hard, there is still some of the cost to come through in the second half, and what was represented was not a cost, it was our breakeven at the end of the second quarter. What's going to be the trend in the second half of the year? We had very low sales of bauxite, very low sales of value-added products compared to the year before. We do see signs of market recovery which should also give some positive impact.

All that is said with a lot of prudence versus currency versus market conditions, but clearly from a raw material position this is about the position we are; we have been negotiating price and we do see that as very firm and solid in our bottom line in the second half.

Tom Albanese:

If I could say just one last thing on costs, I do want to say that Jacynthe has been absolutely committed to cost reduction. She and I have spent a lot of time reinforcing the point that even though we are seeing prices improving quite a bit in the third quarter, frankly improving more than most would have expected in the third quarter, by no means can that be any excuse to take the pressure off cost reductions as we go into the second half.

Jacynthe Côté:

Not only that, but the whole team is extremely committed to that.

Jan du Plessis:

Thank you, Jacynthe. Guy, do you have one or two question on your side?

Question:

I have a couple of questions for you. With respect to the performance of Rössing through the half just gone, it seems to be quite weak and rather at odds with the strong performance out of ERA. I am just wondering if you could run through what's really impacted that divergence and if there's anything there that we could expect to be ongoing?

With regard to the Engineered Products, you said you had a number of options available - I am just wondering if you could put more colour around what those options are? Do you look to split off in smaller segments for an asset sale or is the option that you are going to have to hold on to it for a few more years before you can realise an asset sale there?

Tom Albanese:

Maybe if I could start with uranium and Rössing, and then I am going to turn it over to Preston for that, and then EP can be covered by Guy.

I visited ERA just a few weeks ago and I saw the operational improvement there; I was quite impressed with what was going on there. And Preston, as Chief Executive of Energy, had been just visiting Rössing last week so I think it is probably appropriate for Preston to talk a bit about what we are doing at Rössing and the difference in performance between Rössing and ERA.

Preston Chiaro:

Thanks Tom. Rössing is affected by a number of issues; one is the timing of shipments to customers. We had a couple of shipments that were scheduled early in the year that have

now been deferred to later in the year, so we should see the pick-up in revenue from that before the end of this year.

The other issue at Rössing is that a lot of the consumable items are based on contractual terms that were set when the economy was in much better shape and we entered, for example, into long term asset supply contracts and those contracts will take some time to roll through so that we can start to see the benefit of lower prices on input costs at Rössing.

The other issue at Rössing is that we have a heavy stripping burden ahead of us to expose ore, which is now at present very deep in the pit, and so we had some increased stripping costs early in the year as well. Those costs will continue through the rest of the year. We do expect in the second half of the year, as I said, to see the rest of those contract sales come through and that should pick up earnings quite considerably in the second half.

Jan du Plessis:

Thank you, Preston. Guy, are you picking up the question on EP?

Guy Elliott:

Yes, let me do that, Jan. It is true Engineered Products is having a very tough time. I think if you look in volumetric terms it must be one of the hardest hit, if not the hardest hit, of all our businesses within Rio Tinto, certainly in some of its divisions.

A number of options we have been looking at carefully during this very difficult period and one thing we have concluded is that we should attempt to sell the business in pieces having been unable to find any buyer who would pass cash to us for the whole business, a problem which by the way was shared by most other businesses last year.

For that reason we are actively engaged in sales of pieces, but they may or may not come about. We may not be able to find a sensible outcome to those, so we need to look at other creative solutions, but let me assure you that it is absolutely not part of my plan that we hold this for a few more years. The reason being that this business good though it is, and it is a very good business although under pressure at the moment, we are not really the best parent for this business and we would prefer to deploy the capital somewhere else.

But I can tell you we are taking terrific measures to put this business into a better place and we are taking very severe plant closures and redundancies on a scale which is one of the most extensive in the whole Group.

Jan du Plessis:

Thank you, Guy. I think we are going to take one more quick question from Guy in Melbourne, then I am going to ask the operator whether there are one or two questions on the line, and then I will come back to the audience here in London. Guy, is there anything more in Melbourne on your side?

Guy Elliott:

There is, we have one more here

Question:

I would just like perhaps a question to Tom to confirm my understanding of your answer to a question in relation to iron ore pricing. I note you said that 50 per cent of volumes in the first half were sold on a spot market basis and I thought you said that the bulk of the sales currently are based on provisional pricing related to a provisional benchmark.

Can you confirm whether my understanding is correct? In other words, that perhaps you are not selling as much on a spot basis currently as you did on average through the June half, and I know that 50 per cent of the sales in the first half were on a spot basis, and presumably that's across your total sales, but perhaps you can confirm that too?

Tom Albanese:

Yes, thank you. Just again to say, we said 50 per cent of business in the first half would have been on all sales to spot. At present, as we've said, the large portion of the current

business is being done on provisional pricing, that provisional pricing being priced off of basically the Japanese settlements.

Jan du Plessis:

Can I ask the operator, are there any questions on the telephone lines?

Operator:

We have one question from the telephone line. Your question please?

Question:

Good morning, Guy – or good evening, Guy! The cost run rate, or is it a run rate or is it purely averaged, \$0.8 billion, was that what you took out during the half or was that the run rate at the end of the half?

Tom Albanese:

Guy, do you want to answer? But just really to say that would have been for the entire half.

Jan du Plessis:

Guy

Question:

Okay, it wasn't the run rate at the end of the half; it was the entire half?

Tom Albanese:

That is correct. Guy, we are having a problem with the sound at your end, but if you could answer that?

Guy Elliott:

No, it was a number for the whole half encompassing as I said a number of things in the area of cost reductions such as arising from people reductions and also from the exploration and evaluation that I highlighted. There were also some other items. But you can't make a conclusion about the run rate. I would just draw your attention to the fact that this builds confidence towards the 2.5 target that we gave back in December.

Jan du Plessis:

Thank you.

Question:

On the breakeven cost of aluminium, was that an EBITDA breakeven cost?

Tom Albanese:

That's correct. That was an EBITDA at the end of the second quarter.

Question:

Lastly, Tom, with the iron ore contracts in China, Sam had previously talked about "drop dead" dates in contracts, be they 30 June or 30 September. Do they hold that type of clause in the Chinese contracts or is there any pending date where something has to settle or do they just run at the provisional pricing regime that you have outlined so far?

Tom Albanese:

We've generally not gone into the specificity of individual contracts and this probably wouldn't be the right time to start giving the specificity of individual contracts. But I would say that on an ongoing basis we are selling to those long term customers on a provisional pricing basis.

Jan du Plessis:

Can we take one more question on the telephone line, if there is one?

Operator:

We have no further questions coming through from the conference call.

Jan du Plessis:

Thank you. I'll come back to the London audience. I think on the left, a gentleman third from the right, and then I am going to go just here. Yes

Question:

Two questions! The first is, can you tell us the progress on Bunder? And the other is a structural issue. You had I presume an opportunity to get more of Coal & Allied - you have sort of small minorities and certain other assets - can you give a sort of an idea of what your strategy is for these non-wholly owned public assets?

Tom Albanese:

If I may start on Bunder; I think Preston if you want to talk a bit about Coal & Allied and just use that as a basis for talking about the strategy on those business that would not be wholly owned by Rio Tinto.

Bunder, just for those that aren't aware, would be the diamond prospect in India. We have slowed down the activity, as you expect, in these current conditions. If we are shutting down diamond production, if we are slowing down the Argyle under development, what we are doing in Bunder would be consistent and complementary with that.

There has been some lower level work on-the-ground. I think we have some heavy mineral sampling that we will be undertaking. It is really the first of the diamondiferous kimberlites discovered in India and I think down the road it maybe part of our diamond strategy. But I would say at present diamonds like EP is one of the toughest Group performers in this particular market and we are running that project accordingly.

But, Preston, if you want to talk a little bit about Coal & Allied!

Preston Chiaro:

Yes, thanks.

Jan du Plessis:

If you would like to shorten your answers, if you may. And I would like to stick to small questions as we are running out of time.

Preston Chiaro:

Well, I will keep it very short. We are happy with the performance of Coal & Allied, we think it has got a great future and we are happy with our current shareholding position.

Jan du Plessis:

Okay. Well, you've done what you promised. I want to go to the gentleman at the back

Question:

A couple of questions on capex and on the disposal programme. First of all, the additional billion dollars of capex for this year, can you give some sort of flavour of where that's being allocated?

Secondly, you mentioned that you may reconsider increasing 2010 capex, could you perhaps highlight what projects are looking the most attractive? I know you talked about Western Australian iron ore just now.

Then in terms of the disposal programme, you have got some residual mining assets that are on the list - any news there?

And lastly, would there be any potential to spin off in an IPO the Aluminium Engineered Products business, perhaps not in today's economic environment, but is that a realistic option?

Tom Albanese:

I will perhaps take the two capital questions and then maybe Guy is best for the disposal on the IPO question.

We had flagged back in December about \$4 billion, mainly sustaining capital, recognising some of the projects were coming down. But you may recall back in February we talked about three projects that we saw value in continuing with, being Yarwun 2, being Clermont and being Kestrel, and although we have slowed down those projects, particularly Yarwun 2 in this market, we have continued with these projects in this period. That's been on the basis, as Guy had said, of testing for the higher value projects.

It is not to say that those projects aren't continually under review and they are not continuing to be testing, but what we said back in February about those particular projects and the benefits of the testing of those would have been reflective of the increase from the \$4 billion to \$5 billion.

And again in this market where coal, particularly metallurgical coal but also thermal coal is quite a bit in demand, I think Clermont as it replaces Blair Athol and the Kestrel project as it replaces the current mining faces of Kestrel do make quite a bit of sense. I've visited both Clermont and Kestrel over the past month or so and they are basically redefining those projects for these current market conditions. But they would be in that definition of near term value; they are the types of projects that we want to keep looking at as we go forward.

As we look at 2010, we are testing. We are doing two things. First of all, looking again at bringing all of the sustaining capital down as low as we possibly can, keeping each of the business unit leaders working and bring down their capital, being mindful of process safety, being mindful of asset integrity but bringing down sustaining capital.

And the discussion we would have said earlier, that there should be a bringing down of sustaining capital to a lower level than 2009 would be relevant for 2010. But I still want to continue to look for those projects that bring high definable near term value into the picture as again the balance sheet has improved through some of these organic opportunities. As Guy said, testing highest value to capex type of ratios as we go forward, and a good example would be bringing the mining capacity in Pilbara in line with the processing capacity.

If you have got a large capital base already built up and it takes a relatively smaller amount of capital to give you a kick in production, generally that's a pretty efficient use of capital. But we will look at other projects; one in the copper area, we turned off E48 in Northparkes, that's one we'll look at as we study going forward. That's not that big in the scheme of things but again it has a high return in the context of the capital going forward.

Down the road we will have to be looking again at greenfield type things, but in this environment I would say that these types of brownfield step-ups actually make quite a bit of sense. Of course, if we are successful with an investment agreement with Oyu Tolgoi, we made some good progress just even over the past few weeks, I would see us working with Ivanhoe bringing that into its early construction makes a lot of sense in this particular market.

I think Guy now on residual mining assets and EP

Guy Elliott:

On the asset sales you know what the list is, of assets we originally slated for sale, and that's been supplemented on one or two occasions by new assets that have been put forward and it is also in one case, Borax, we have withdrawn an asset from sale. But the ones where we have not withdrawn you can assume that a process of some kind has been carried out, is maybe underway. I am not going to go into the detail of any particular asset sale.

As regards the possibility of spins and IPOs and things like that, well, we have got a long history of using from time to time the public markets if that looks as if it's a better idea than using other forms of crystallising value in an asset or part of an asset; the most recent example of course if Cloud Peak. But it is important to be creative in doing these disposals, and I think we have shown that, and I think we will continue to show that as we look forward to the remaining disposals that we would like to make.

Jan du Plessis:

I am going to go right at the back and after that I am going to go back to Sydney for a question.

Question:

My question really is, over the last difficult 18 months what has the Group learned, if anything, from this period? I wonder if you might be able to share that with us?

And then just a quick one, just to follow on an earlier question on the iron ore, if for any reason that the joint venture with BHP as proposed does get blocked, is there any contingency plan that might allow for, say, the swapping of assets, projects, resources that might better align the two businesses if they stay separate?

Jan du Plessis:

Tom

Tom Albanese:

I think just from a personal perspective over the last 18 months, as you rightly said, no shortage of corporate activity. Some of it was what we initiated, some of it had been initiated by others, and we would be mindful of the fact that any company can go through that at any point in time. It has been a challenging time. For my own personal reflections on this, a key part of it is about leadership.

We have got a large organisation, we have tens of thousands of people that all had to do their jobs. You have a very, very small percentage of that business that is actually working on those corporate activities. The majority of the people have to still go to work every single day, they still have to stay safe, they still have to deliver their production, they still have to deliver their costs and they still have to do it as effectively and efficiently as possible.

We have got to run a large complex business and we have got to deliver the results, which I believe we have been delivering over these 18 months. We have been getting the production, we have getting the costs and we doing it in a way that is safe and respectful of stakeholders.

Right now I look forward – Jan and I have talked about this – as we move into the second half we have the ability to entirely focus on the business of the business, and again we have a great organisation. The people, you can say that they are a bit tired, they don't necessarily like seeing their names in the newspaper all the time, but they recognise we have to look forward.

Once we get out of this global financial crisis the demand will recover, if anything we are going to see some repeat of the period from 2003 to 2007 as basically that demand re-emerges and some of the supply response that had been kicked in place, had been curtailed in this period, is going to be scrambling to kick back into place. It is very, very important that the organisation, the leadership team, the management, are all absolutely aligned with what we need to do as a company and keep driving the business forward.

Jan du Plessis:

Can I add to that, Tom, the fact is that in the last 18 months we have certainly done one or two things, which with the benefit of hindsight we would have preferred not to have done or perhaps not done quite in the same manner or possibly at the same price of course.

But I can tell you this, and I say this as sort of the newcomer to this organisation, that the mood and the change, the change of atmosphere in the organisation since early June is virtually tangible. I think the whole of Rio Tinto today – and I am not talking about Tom and the executives sitting in front there – I am talking people that are three layers down the organisation, I think there is a tremendous desire to just get on with rebuilding the business, to continue to look for value as we take the company forward.

That's not to suggest that we didn't make some mistakes in the last two years, but frankly people are tired about the last two years and want to look forward, and so I think this organisation today exists in a much, much better place than it was in the past 18 months/2 years and we are all very pleased about that. I think this guy next to me is more pleased than anybody that he can actually go back to being a Chief Executive

Tom Albanese:

I do want to just comment on the iron ore joint venture if may. I think what we should be entirely focused on, both ourselves and BHP Billiton, is completing the iron ore production joint venture. I don't really want, or I don't think we need to speculate on the what/ifs because we have a good relationship.

We have lots of individual workstreams, we have workstreams on the administrative, getting the final definite agreements, workstreams on working together with the regulators and workstreams on ultimately what the integration plans would be. They are very closely aligned. We are both equally committed to getting this thing done, and that's exactly what we should be doing. This is not the time to speculate on the what/ifs, this is the time to just get on with getting this joint venture completed.

Jan du Plessis:

I am afraid I am going to take one more question in London, one in Sydney and one in Melbourne and then I do think it is time to close. But I am going to take the gentleman right at the back to the left!

Question:

I have one question quickly and apologies if it has been touched upon; I came a little bit late. It is with regard to aluminium and for aluminium we have, most of us probably in this room, a real prize chart going back about 110 years and this metal has never ever delivered.

You have given some reasons in the past why it could have its 'day in the sun', so to speak, and I understand those, but have you reassessed post the latest credit crunch and the adjustment in capacities in this industry what long term drivers of this metal are and whether there is a change?

Jan du Plessis:

Tom, do you want to comment?

Tom Albanese:

I would like to make a comment on that, but again we have our Chief Economist, Vivek, here and I would like if maybe Vivek could just say a few words on that.

Clearly aluminium like any other metal is going to be affected by supply and demand and you have got to really test where the supply will be coming from, where the demand will be coming from. I think aluminium is different from copper in that you don't have the same scarcity of the bauxite resources you'd have for the copper resource.

Where aluminium would be different from copper, as another example, would be the fact that you can increase capacity by putting capital into it, which is actually a negative when compared to copper, but the positive when compared to copper or some other metal is it's incredibly energy intensive so you have got to take a view on energy: is the world going to be in an energy surplus or is the world going to be energy short in the future, completely independent of the question of supply and demand of bauxite or the availability of capital into the sector?

My own view hasn't really changed in the energy space over the past two years. Certainly over the past 18 months we have seen a move from energy electricity deficits to electricity surpluses, but is that a permanent situation? I suspect not! I think as we look forward as the economy recovers you are going to see again moving into that energy deficit environment, and that's even before you start to put the overlay of carbon pricing which openly will play into the picture. Ultimately those lower carbon sources of electricity feeding aluminium will be beneficial.

These are long term views, but again we have got to survive the short term obviously, and that's why we have got to do everything we can like cutting costs, that is exactly what Jacynthe and her team are doing, but for a long term perspective the view on energy hasn't changed that much.

But, Vivek, if you want to say anything

Vivek Tulpule:

Yes, I think Tom has actually covered the main points. Long run we expect significant energy deficits to prevail in countries where currently aluminium is produced, the most expensive though in China.

We expect the RMB to appreciate eventually once the current cold of the financial crisis has past and that will affect Chinese costs positively and therefore prices, and ultimately we don't see the global problems associated with electricity going away. Clearly we have seen the world's greatest recession in several decades, and it's not surprising that prices of metals have come off, and in particular in aluminium. But Tom has discussed the long run picture and that really hasn't changed.

Jan du Plessis:

Thank you, Vivek. If it's any comfort to our friends in Australia, by the way, there are some more hands up here but I am going to ignore them at this point and I am going to go across. Dave, have you got one more question in Sydney?

Dave Skinner:

Jan, we have a final question here.

Question:

Jan, I just thought given you're here, maybe you've talked a little about the company and what is happening in the company a little, but you could talk a little bit about what your priorities are and perhaps what changes, if any, you thinking from a Board perspective? And secondly, just a question as well about China and volume, I just wonder if you could provide me with some comfort that you are not experiencing any ill effects on your volume front due to the employee events in China? Thanks.

Jan du Plessis:

Tom, if you could take the iron ore question in a moment?

From my perspective, first of all given that I have been Chairman for all of four months, I think in the period of four months the organisation has indeed already seen quite significant change through the various announcements in early June when we announced firstly the iron ore joint venture together with the \$15 billion Rights Issue.

I think that whilst I don't want this to sound remotely complacent, I do think that in a strange way what this organisation at the moment does not need is considerable change because I think this organisation has gone through a difficult time in the last two years, this organisation for the most part wants to go back to some stability to continue to do the things which I know the executives need to do.

With regard to the Board, I think the important point to make, that if we look back at the things that you are all aware of over the last 18 months to 2 years, I recognise that sometimes there is an inclination for people to hold one or two specific executives responsible for all those decisions; of course, ultimately I have got to tell you the buck stops with the Board and as Chairman of the Board I tell you the buck stops with the Board.

Therefore I think possibly people will expect me to bring one or two additional Directors on to the Board in the course of the next year, and that will certainly be my plan. We have got some excellent people on our Board but I also think and I have always been great fan of regularly bringing corporate people on to a Board.

In my previous role at British American Tobacco, where I will be standing down in two months time, I have in the 5½ years I was there on a regular basis every year brought in one or two additional people, so I have always been a great believer in regular fresh thinking at the level of the Board.

I think that all I really want to say for the moment. I say again, I think that this organisation is in a much better place today than it was for sometime back and I now want to give the executives the time and the space they require to get on with running the business.

Tom Albanese:

Thank you. Just talking about the volumes into China, and I will talk about iron ore and quickly coal; anything else we are selling on a day-to-day or monthly scheduling basis we have seen no effect on the volumes. We continue to sell full volumes. We are at full capacity in our iron ore business and our coal business is running really at full capacity, to the extent that we are not meeting the demand - because there is lower demand in the traditional Japanese and other Asian markets, we are selling those additional tonnes into China.

Jan du Plessis:

Right, Guy, have you got anything in your side in Melbourne – one final question?

Guy Elliott:

No, I think we are done here probably. Thank you, Jan.

Jan du Plessis:

In that case, it has been 1 hour 45 minutes and I think it is time to close. Can I just conclude by saying to all of you, not just here in London but also in Australia, thank you very much for joining us and we look forward to talking to you again in about five months' time. Thank you.