

## Rio Tinto 2010 Interim Results QA transcript

**5 August 2010**

**TOM ALBANESE:**

I will start by taking questions from London and then move it over to Guy where I will allow you to take some questions from Sydney. We have I think a number of people on conference calls, including in London, Melbourne, etc, so third we will go over to those and then we will repeat the cycle.

So first question - I think your hand was up first!

**QUESTION:**

Thanks Tom. There are two questions, if I may. One relates to Simandou and one relates to the proposed RRT in Australia.

On Simandou, you mentioned the project three times and it certainly looks like an excellent project, but every time it seems to make the press the Guinea Government seems to come back with slightly more contentious opinions and views relating to not just tenure but the process and perhaps the access to the coast, whether its Liberia or through Guinea. Perhaps you can comment a little bit on why those issues are being raised?

And the second question, as I say, relates to RRT. The Australian Government put out some pretty high numbers a few months back as to how much revenue might have been generated - I certainly couldn't get anywhere near them – and I am just wondering if Rio Tinto has made any estimates of what might have been paid, for example, in 2010 had RRT been in place for the current 12 month period?

**TOM ALBANESE:**

Well, I will answer Simandou and I will ask Guy, if you want to talk about the resource rent tax, and again these are not our numbers they are treasury numbers, so to the extent we can comment on the Australian Government's Treasury numbers.

First of all, on Simandou the focus of what we have been talking about over the past few weeks, particularly the joint venture sign up with Chalco and the \$170 million will be on the southern leases. The southern leases contain the resources which we have articulated and we would have disclosed. Those resources of the southern leases represent a sufficient size to basically support a 95 million tonne per year operation; again, we would hope to see first production in 5 years.

We have and we will continue to engage with the Guinean Government on all aspects. Obviously they would like to see production coming sooner, there are high expectations in the country for this, and certainly I think that the monies we are investing - which are well, well above anyone else investing in the Guinean iron ore industry - are clear commitments of our intent to bring production as soon as we can from Guinea into the world iron ore markets.

Of course we will continue to engage with the Guinean Government on all aspects of our tenure and we will continue to assert our rights on all aspects of our tenure as we continue to engage with the Guinean Government. It's a great resource. When you look at the grade, when you look at the quality, when you look at how we can blend into our broader Pilbara strategy it is something that should get to market. We have been working hard on it.

It is not a small project. We shouldn't underestimate the size of the project. This is not a question of making promises, this is a question about delivering one of the largest infrastructure projects in Africa and delivering in a way that meets our standards and can get that iron ore into the global seaborne market.

**QUESTION:**

Why have they challenged Rio Tinto, if I am correct in reading the press, why have they challenged Rio Tinto's 'right to sell' other than to Chalco?

**TOM ALBANESE:**

Well, I think as I recall the latest comments that I have seen over the course of the past several days there has actually been a recognition that the joint venture with Chalco should facilitate that early production. Well, there have been a number of comments and I thought those particular comments recognise the benefits that Chalco can bring to bringing that into production.

So again, I'd say we will continue to engage but, first and foremost, we will put in the money and we will put in the resources to get Simandou iron ore to market.

**QUESTION:**

And finally to be sure, the debate is out whether it goes through Guinea or through Liberia - has that been put to rest?

**TOM ALBANESE:**

Look, you haven't had the microphone so for some of those who haven't heard it I will just restate the question, and that is the debate about the route, whether it should be through Guinea or whether it should be through Liberia?

Infrastructure-wise, capital costs-wise, logistics-wise, a trans-Liberian route makes a lot of sense; it reduces the capital cost of the project. But also I think we have to recognise that there is a strong desire by the Guinean Government to see infrastructure that can support the overall country's development, so we are sensitised to all those points.

We will continue the dialogue. We have to consider that ultimately down the road there may be a sufficient amount of resources to deliver a number of infrastructure solutions, but ultimately at the end of the day I think that the provision of a trans-Guinean railway should be very much fixed in our minds.

**QUESTIONER:**

Thank you.

**TOM ALBANESE:**

Guy, can you comment on the proposed resource tax and some of the treasury numbers?

**GUY ELLIOTT:**

I can't really comment on the Treasury numbers because of course they are based on the internal forecasts done by the Treasury and based on in particular their price forecast which are I think an important part of this because, of course, the ABARE (Australian Bureau of Agriculture and Resource Economics ) forecast did change during the period under which this was being debated.

We are not really able to give the estimate you want. You talked about 2010, of course, this tax wouldn't applied until 2012, but even if it did apply in 2010 there is a mass of detail that we don't yet know about the way in which this tax might work.

We can make assumptions but of course we don't really know the detail, for example, of how mine gate valuation will work and so a lot has still yet to be settled and that will happen through the consultative process and through the body that has been set up to look at this, and we are looking forward to that consultation.

**TOM ALBANESE:**

I would add, that just within the past day or so, I think in the past several hours, we have seen some pretty encouraging numbers coming out of the economic numbers for the Australian economy and certainly they reinforce the importance that mineral exports, particularly iron ore exports, have on the overall Australia economy.

This has been a key part of what we have saying, that it is very important to continue to encourage investment like what we have announced, the billion dollars or so that we have recently announced, to continue to build that industry. It is very important not just for the Australian iron ore industry but for the entire Australian economy.

**QUESTIONER:**

Thank you.

**QUESTION:**

Two questions, if I may, one on iron ore pricing and one on Alcan Engineered Products.

If we look at the reasons the benchmark system broke down it seems to be because the Chinese treated it as a 'best of' option for themselves which made it a 'worst of' option for you. If we look at the way you have structured the new contracts does that opportunity still present itself and do you see a risk of the Chinese not honouring the new contracts?

And then just on the Engineered Products, if we look at the write-downs that you have taken on Engineered Products and the fact that – unless I missed it – you haven't disclosed a price that these assets have sold to Apollo, that indicates to me that this was below your level of materiality for disclosure, so less than \$200 million?

**TOM ALBANESE:**

Well, I will save the Alcan EP question for Guy and maybe I will comment on the iron ore pricing.

I think a big part of the sort of move we have made from annual to quarterly pricing was reflecting the fact that in that annual period, given the high pick up in liquidity and volatility that we saw in the stock pricing, it increased the risk that either that producer may gain the system and buy from spot instead of from the contract and that would undercut sort of the integrity of that long term pricing mechanism. But by going to a quarterly basis you reduce the amount of the time, so you actually reduce the commercial incentive to do so.

Notwithstanding that, during a significant portion of the third quarter so far we have seen stock prices lower than what would be the quarterly price as measured by that March to May period. But that being said, over the past few weeks we have seen that delta significantly reduced and we are now looking at stock prices not far off of what that average price would be given the recent strength we have seen in iron ore pricing.

All during that period we have said that if we start seeing a loss of the quarterly pricing to opportunistic spot pricing it probably would force us to move away from the tenure of a quarterly pricing even to shorter term, which I am not sure is in the steel makers best interests. So from our prospective I think we have seen, as I have said, the bulk of the third quarter business being to that quarterly pricing which is what should have happened as we've moved into a quarterly environment.

**QUESTIONER:**

Thank you.

**TOM ALBANESE:**

Guy, on to you for EP!

**GUY ELLIOTT:**

First of all, let me say about Alcan Engineered Products that this is a major step completing these various downstream disposals, which we haven't yet done in the case of Engineered Products but this is the first step towards doing so. And this is a very great simplification of Rio Tinto's business, to be able to limit ourselves to the aluminium business that we had as the original target.

Now on the question of the value, I am afraid that we have agreed with Apollo that is confidential and so I can't say anymore about it. Obviously it would be, if it were material, we would have had to explain it. But remember that we are retaining an upside in this business; we are retaining a shareholding and the capability to earn more in certain circumstances.

I think that what you need to understand is of all of the businesses that we had in the whole of Rio Tinto this was hit hardest by the recession. Its markets are basically European and American markets and they are not recovering very quickly, let me tell you. So we are very pleased with this sale and I think, as I say, it will greatly simplify our business going forward.

**TOM ALBANESE:**

I would just add to that question, that from my perspective we said this was not part of the core of what our business is. When you look at \$10 billion of cash coming in from our core businesses during the course of 6 months, from a strategic perspective you can understand why we really want to focus our management efforts on those core aspects of what we are good at doing.

**QUESTIONER:**

Understood! Thanks.

**QUESTION:**

Tom, good morning. Just a follow on, on the iron ore as it is such a big component of your earnings, could we get an update on how many of the customers have gone on to the quarterly pricing? The latest update we had was 50 per cent of Asian customers. Is there any change in the third quarter? And in the Asian customer are there any Chinese in there or is it just the Koreans and the Japanese?

And sort of moving on from there, if we have a breakdown in the quarterly pricing because spot falls below quarterly and people start to renege on it, let's say particularly the Chinese, does the industry then move straight on to spot and does make it a lot harder for you to make your long term decisions on all those long lead articles for expansions?

**TOM ALBANESE:**

I think what's important is to recognise that virtually all of our third quarter business is on a quarterly pricing mechanism, some of it is basically locked up and agreed, some are basically accepting that quarterly pricing without necessarily being locked up and agreed, so whether they are Chinese or non-Chinese steel mills effectively the pricing is on the same basis.

I do think that is actually an encouraging sign. I want to be an optimist and try to hope we are seeing something that's successful because, on one hand, the steel mills are saying they would like longer term pricing periods, on the other hand, they are asking for flexibility when it suits their purposes.

Those are commercially sort of opposed concepts and I think the current quarterly mechanism is trying to find that right balance and I just hope that we can with this evolution we have been flagging for a couple of years in the iron ore pricing that balance can be ultimately achieved.

If it can't, we'll see it go to shorter and more frequent pricing, it could even go to spot pricing. Is that something that we would say is our first objective? Not really! I am happy for a quarterly mechanism if it works for our customers.

**QUESTION:**

It is a question about long term commodity price assumptions. We have heard some other iron ore miners talk about \$100 for term/long term prices, also we are seeing the spread between very high quality, high grade, low phosphorous content ores versus lower quality ores spread quite a bit. I am wondering if your view about long term, especially iron ore prices, has changed over the last 6 months, and I guess the same question about copper as well?

**TOM ALBANESE:**

I think first of all we have some different thoughts and mechanisms on copper versus iron ore because in one you have probably greater scarcity of the resource - with the copper than you would have in iron ore.

Iron ore is petrified rust. It is not something that is geologically scarce on the earth's surface, it is a question of getting it in sufficiently concentrated quantities and close enough to an infrastructure source, or something that is available, so you have very high entry costs to get that infrastructure burden out of the way, but after that you can begin putting it in the market.

I think we are very realistic to the fact that this is a good margin business and good margin businesses tend to attract new entrants, so in all of our modelling we make the assumption that there is a continued expansion by ourselves, by others – basically it has been flagged by others – and that there will be new entrants and certainly entrepreneurs. Western Australia has been great for bringing new entrepreneurs in the system and we have also seen that coming into Africa. These will add new supply into the system, which will have the effect of dampening prices.

Now the other part of the variable, which is actually not a precise measurement, would be what's the demand picture looking like? Ever since 2003 when the markets began to take off in steel we, industry analysts, even the Chinese had been underestimating the Chinese capacity to expand their steel sector, and that has actually been putting more of a demand pull on this even in the environment where people are trying to add supply.

So those are actually two very variable effects; neither of them I would say are stable. I think you will at some point see the Chinese demand beginning to not flatten off but its sort of growth will begin to taper off as they reach some equilibrium point on terms of kilograms of steel per capita.

Is there a single population or a bi-modal population in China and will there be a different kilogram per capita of every part of that modelling exercise? Realistically I think we have at least 5 years before that tapering begins to take effect.

Another question becomes what happens in South East Asia, what happens in the Middle East, what happens in India, where do they come in, do they have some gap or lag before that kicks in or not?

I don't want to be prescriptive on it, but I would say that there will be a supply response, at some point demand will begin to taper off and we will see a reversion from current prices. I would say that \$100 a tonne in my eyes would be seen to be a very optimistic assessment of the world, certainly I hope to see that is correct, but I would put it on the optimistic side of the balance sheet.

In terms of copper, we have to look past sort of the normal supply curve and the cost curve because we recognise that, as we are now, we are sitting on and we have been consistently seeing, the price of copper being at least double the marginal producer.

And you need to say, why is that the case because economics would suggest basically that more marginal producers should come in? But the fact of the matter is that the marginal copper is either scarce or more likely it is encumbered to come in the market by something that is non-economic.

For example, we have a number of projects in North America we would like to get running but we have to go through regulatory and permitting processes in the US that are actually quite difficult; it's keeping it off the market.

There are quite a number of resources in Chile and in the Indian Belt that have a range of power or shortage of water or basically infrastructure issues that need to be overcome. You have community issues in some Indian locations that actually keep that copper off the market. DRC could be the 'Saudi Arabia of copper' but you have got to really completely change the political environment for that to happen.

There is certainly copper out there but it is held back from the market by a series of non-economic environments, so what we have to do is build an element of incentive modelling into a normal marginal cost model. I am not giving you specific answers but I am just giving you sort of directional ideas of how we would try to model what is a very large set of quite large drivers.

**QUESTION:**

Is it your view that you have seen a lot of change over the last 6 months? Has that been the case?

**TOM ALBANESE:**

No. I would say over the past 6 months we haven't seen material changes in either of those businesses.

**QUESTION:**

Two questions please. The first is the change to royalty environment in the Pilbara. Does that capture and, if it does, how much does it capture of the synergies that you'd envisaged in the JV?

And the second is, your partners in Diavik talk about block caving, potentially reducing costs materially. Could you comment on that?

**TOM ALBANESE:**

Yes. I think first on the Western Australian Royalty Agreement basically what they are doing is taking out some discounts that were provided I think literally several decades ago and it basically brings the fines market in parity across the sector, so I wouldn't really say that has any effect on synergy capture in any way. This is something that is basically just bringing the overall business into alignment.

I think that the importance for us of the WA Agreement, it actually provides us with a greater level of flexibility for growth, for switching ores to different rail lines and I would hope that is something we will see value arising just because, as we have seen, the more

flexibility we have as we continue to expand generally the more efficient we can make those operations.

The second question was?

**QUESTIONER:**

On Diavik.

**TOM ALBANESE:**

On Diavik! I am going to have a little 'mining engineering speak' here to go into this. The thing about block caving, as you know, when you begin to mass excavate an underground cavern you put stresses on the sidewalls, and we have to remind ourselves that the integrity of the sidewalls is absolutely critical for protecting the dykes that basically keep the lake out of the pit.

So I think any mining method has to be robust and sufficiently sensitised to the process safety aspects of protecting those sidewalls which effectively protect the integrity of those dykes. So I would say block caving is something that would not from my perspective address the broad process safety exposures to the integrity of those dykes.

**QUESTION:**

Can you comment on the progress of resolving the long term ownership of Ivanhoe? I guess my concern is as a Rio Shareholder there's potential for leakage of value and is there some concern that you have of increasing your exposure or is there a reason why you wouldn't want to increase your exposure to 100 per cent of that?

**TOM ALBANESE:**

Well, first of all, I want to focus on the rights that we have and we should remind ourselves that we have been willing investors in Ivanhoe and through that the Oyu Tolgoi project for going on 4 years. We have put in about \$1.7 billion of investments to continue to progress the Oyu Tolgoi project. We said from the beginning that's been our intent and we have been working together with Ivanhoe to get this mine built properly; first production by 2013.

As we said recently, we have put another \$390 million and Rio Tinto is essentially funding that development to the tune of about \$3 million per day – day in, day out! In the course of our agreeing to make those fundings, and a lot of this funding was before the security and certainly the investment agreement, some of this funding was during some pretty dark days during the global financial crisis.

We agreed with Ivanhoe on certain rights that we receive with that. These rights relate to how we can continue to increase our interest, so essentially as we invest in the project we are increasing our interest in Ivanhoe as we are effectively then increasing our interest in Oyu Tolgoi.

Those rights are subject to a disagreement now between us and Ivanhoe, there are some technical components that we have taken to arbitration, and we will look at those being I think resolved and I am confident of our position in those over the coming months.

But it is important to recognise that we and Ivanhoe together are continuing to co-operate and work well together on the proper development of the Oyu Tolgoi project. That's the real prize and that should be what people should be focusing on.

I don't want to speculate or don't want to comment on how things can play out, that's not appropriate. The appropriate thing is that we are making the money, we are making the investments, that's progressively increasing our position in Ivanhoe and we want to get the best copper mine in the business built.

I'll have one question and then I will go to Sydney!

**QUESTION:**

Just a couple of questions on comments that you have made today. Firstly in relation to working with BHP on the iron ore JV, you mentioned it's becoming a more increasingly challenging environment. Could you maybe comment there?

And then secondly, you talked a lot about the benefits of JVs on projects such as Simandou with our partners such as Chalco. Can you talk about maybe some other potential projects either that are under construction or that are in your portfolio that you could look to joint venture on in the future?

**TOM ALBANESE:**

Thank you. Let me first just talk about the broad concept of joint ventures, and I would like actually Guy to comment on joint ventures too because we have done quite a bit of work over the years in terms of understanding why joint venturing makes for certain projects, why it may not make sense for necessarily all projects. I will leave that to you, Guy, but maybe if I comment on the Pilbara.

We should recognise that the synergies in the iron ore joint venture are quite large, and they are a prize that we should be doing everything we can to achieve. Of course, as we've said from the beginning, we will go through the various regulatory processes and respect those regulatory processes as appropriate, and that's what we have said and that is exactly what we are doing.

We haven't comment on the specificity of those discussions because we've agree with the regulators to keep those confidential, as we should. I think from my own perspective breaching that trust with the regulators actually makes it for a more difficult regulatory process than would otherwise be the case.

We are in an environment of rising iron ore pricing. We are in an environment where annual contracts have moved to quarterly or even lesser frequent pricing. That has sort of what I call raised the political backdrop in this environment. We are being realistic, we understand that and we recognise that.

We read the newspapers, we recognise what the steel industry associations are saying and trading associations are saying, but we also recognise that we have strong technical cases and strong technical arguments beyond this being a strictly production joint venture.

ACCC has been extending their process and I think there is probably more visibility to that process than any of the others, but we are doing everything we can to achieve the regulatory approvals but we have to recognise and be realistic as to what the challenges and the hurdles are.

Guy, can you speak about the sort of broader comment of joint ventures and why they sometimes make sense in particular cases?

**GUY ELLIOTT:**

Well, in an ideal world we get access to a fantastic resource, can own it and finance it 100 per cent, but of course there are many cases and reasons why that's not always the case.

As I said, access to resources very often is something you can only gain from joint venturing with the existing owner, that's how most exploration starts, and I can think of many cases where we have done that. The two that spring to mind are the Freeport joint venture at Grasberg and Escondida in Chile, but there are plenty of others.

Another reason why one might enter a joint venture is because it gives you access to a new country and, as we have seen in Mongolia, it is necessary to have a joint venture with the government in order to get access to a reasonable investment agreement and that kind of idea might easily be replicated elsewhere. Sometimes there is special expertise that you can get as a contribution to a joint venture, something we for example may offer or sometimes we may obtain as an objective in a joint venture.

I think another reason why we have entered lots of joint ventures over the years in the history of the Company has been to diversify risk. That's probably less important now but it still has a role I think in certain geographies where maybe a partner can bring something that we haven't got.

An element of political diversification is sometimes helpful. It is sometimes helpful, for example, to have more than the British and Australian governments making the case for us in a particular country, it maybe helpful to have another partner, the US government for example or the Chinese government, or wherever it may be.

The other thing is it could be that our appetite for growth at some point involves so much capital that we may want to access capital through a joint venture process. Now mostly that hasn't been the case up until now but it might be the case in future.

So I think that actually we've done an enormous number of joint ventures. We've really thought about what makes a success in a joint venture and what makes a failure, and I think we may have built a competitive advantage in the formation and operation of joint ventures just because we have had so many for so long and we thought so deeply about it.

**TOM ALBANESE:**

I would just add that joint ventures are not novel in our sector or in Rio Tinto. The originally development of the Hamersley was a joint venture; the original development of Weipa would have been with joint ventures. I think, as Guy says, there are certain principles that we do acquire as we go forward and they are in terms of why joint ventures make sense for early entry.

But again, what we are trying to do is to develop new resources that are maybe multi-generational – these things will stand literally periods of decades. If we can find ways of getting added insights or early entry into projects by joint venturing or to facilitate the development by joint venturing it does make a lot of sense and that is what we are trying to do, or if we can get synergies which would be the case in the iron ore joint venture.

In the case of the Simandou project, we do run the project, we continue to operate it and that gives us then, what I'd say, the optionality. We are working with Chalco to look at the right development path.

I know there are a few more questions in here – I see you there! – but I want to turn it over to Guy now in Sydney for some questions.

**GUY ELLIOTT:**

Off in the back please!

**QUESTION:**

Thanks very much, Guy. Really a question regarding the Aluminium Division and I think Tom I heard you say earlier on in your presentation that you are hopeful of getting the Aluminium Division's margins up to levels similar to the other Divisions. I thought you said that and I just wanted to clarify that please?

Because I notice that Iron Ore Division was about 70 per cent and Copper was about 55 per cent and Energy was about 50 per cent and I am wondering how you hope to get up to those levels? Is it assumed price increases of about 30 per cent and, if it was, assuming those sort of price increases, is there any reason why the aluminium prices at the moment aren't up at that level? Are there some sort of structural difficulties within that market?

**TOM ALBANESE:**

Thank you. I will tackle that, Guy, if I may. When I referred to EBITDA margins I am looking at longer term EBITDA margins. As I said earlier, we would like to see iron ore prices stay at this level forever but realistically we have to recognise there will be a supply response and I think copper and everything else they take up a longer perspective.

What has been quite important for the Rio Tinto Alcan management team, and this was just reinforced by Jacynthe to me just a couple of days' ago as a matter of fact, was a recognition that Rio Tinto Alcan shouldn't just compare its margins and its business and its performance against its aluminium peers. It already does a pretty good job.

If you look at the upstream EBITDA margins for Rio Tinto Alcan in the first half of this year compared to all of its major peers it was attractive. It was actually probably the highest of any of them, but that shouldn't be a sufficient hurdle.

In the past that may have been seen that you are doing good, you are doing a better margin than the other aluminium producers, but with Rio Tinto Alcan as part of Rio Tinto for it to have the ability to attract capital competitively it has to have the ability to be more competitive in terms of its EBITDA margins on a long term basis with the EBITDA margins for other businesses.

I think we are probably 19 per cent or so EBITDA margin in the first half. Of course, we didn't have what we would have called a perfect price, we had high inventories holding things back, we have got other things that we need to do, but I would see that as a number that should be substantially increased in terms of a long term objective to be competitive.

We do have a pathway forward in some specific areas that are non-price related and would include the fact that, as I said, we have another stage of transformation beyond the billion dollars we have saved so far. A billion dollars of savings was certainly very good but it's not going to be enough to get to where we need to go. We recognise that and have certainly very much built into all the metrics that the Rio Tinto Alcan people are being judged by and performed by.

We also have to modernise the Canadian smelting assets. These are attractive investments under virtually any pricing assumption for aluminium because you have got some of the most attractive power pricing in the global sector, but frankly it's linked up with some Soderberg technology, it is linked up with older multi-decade old technology, not very efficient, relatively high costs and we are not getting the sufficient pounds of aluminium per kilowatt hour of power that we should be getting.

So we do need to go through those modernisations of those facilities and that's why I flag that we would anticipate those happening in 2011. Frankly, we have been constraining some of the capital in Rio Tinto Alcan until we can see some of these inventories work down, that's why we are not doing as much as we are this year because we want to see some of the transformation first.

The third thing that we need to do is we frankly have to move at least one notch down on the alumina refining cost curve. Right now we have I would say on balance our alumina refining, and those in Brisbane would have heard this, roughly in the third quartile.

If we can do what we want to do, which is basically to complete Yarwun II, to bring the overall Yarwun complex down considerably on a global cost curve, which it will be with

the economies of scale that come with that, and frankly fix the problems that we have with Gove, which are problematic but they are the type of things that Rio Tinto does a good job of fixing in terms of the technical aspects of that over time, I can see easily our cost position in alumina refining moving from the third quartile to the second quartile.

If you look at your numbers, you will see that our EBITDA margins were lagging more B&A than they would have been in the primary metals, so we have got to get that fixed.

But if you take those three pieces in combination, which are very much part of defined management efforts that are underway as we speak, then you have to make some judgments as to where aluminium prices would be, and we do believe aluminium prices will over time follow the marginal cost of electricity, I think it is not unreasonable to begin mapping out a pathway of EBITDA margins that are considerably better than they are right now and certainly which would be competitive with the long term margins in our businesses.

And let's remind ourselves that 10 years' ago when we were buying North people were saying, 'Why did you buy North? Iron ore is a pretty dumb business to get into', that we have to use aluminium, that we have to use copper, we have to use the Industrial Minerals businesses to generate the cash flows to basically make the investments that we were making in copper and iron ore. We have got to think multi-decade.

We can't just assume that the pricing position where we are today is the pricing position of where we are 10 years on. The key is to have top first tier assets in all the sectors you are going to be and make sure those assets are working hard, make sure those assets are delivering the performance that you expect. That is what we need to do with Rio Tinto Alcan and that's exactly what Jacynthe and her team are doing.

Guy!

**GUY ELLIOTT:**

Go ahead!

**QUESTION:**

Thank you. Two questions. The first one is on iron ore pricing; the second question is on your growth strategy and more long term.

First of all, on iron ore pricing, I notice that the Robe River discount to Hamersley blend really closed up again during the half and actually you have seen two periods of near parity between those two products. Can you comment maybe on is this permanent move? And secondly, with your comments on demand, a potential demand weakness in third quarter and fourth quarter, could we see some contraction and potentially a spread between those two products?

The second question is on your long term growth. Now I look at your organic growth, it looks pretty compelling between now and 2015/16, but beyond that period it does look a little bare compared to your peers. How do you think about growth beyond 2015 and actually are you happy with your organic growth potential from 2015 onwards?

**TOM ALBANESE:**

Guy, if I may, I can take maybe the Robe one, if you want to supplement with some numbers, and maybe if you want to take third versus the second quarter and I'll talk about the long term growth.

**GUY ELLIOTT:**

I can't give any numbers, I am afraid, on any of that pricing matters I am sorry to say.

**TOM ALBANESE:**

Well maybe, Paul, if I want to answer. First of all, maybe if you send a note of thanks to our marketing team in Robe for doing as good a job as they have done would be nice!

But I think in Rio we should recognise that Robe's long term contracts are on an annualised January to December basis, so during the first quarter they would have picked up something more than the 2009 benchmark pricing as it normally goes through. It is sort of one quarter lag from the other business and I suspect that would be making a bit of that difference.

**GUY ELLIOTT:**

On the growth strategy, Tom, are you going to talk about that or shall I?

**TOM ALBANESE:**

Well, I would like to comment on post 2015, if you want to comment on the question on third versus second quarter?

**GUY ELLIOTT:**

As I said, I can't comment on iron ore pricing.

**TOM ALBANESE:**

Well, what we have said again on the third quarter is that we have got pricing that is reflecting that March to May period. I hope that answers your question and again, as we've said, we working to deliver all the tonnes to that basis.

I would say on long term growth post 2015, it's not that we don't have those options it is just that we are probably focusing more on the things we are doing between now and 2015. If you look past 2015 there are several additional drivers of growth we have talked about over the years that still remain in the system. First and foremost we wouldn't necessarily cap our ultimate potential in the Pilbara to 330 million tonnes per year.

As you know, we had flagged the possibility of continued expansions of the Cape Lambert facility and possibly expansions of the Dampier facilities. We have a very attractive port infrastructure and mine system that I think give us those growth prospects and certainly we would not necessarily constrain ourselves at 330 million tonnes.

In the area of Copper, I would hope and anticipate that we would continue to look for opportunities to expand what will then be our fleet of copper operations, including Oyu Tolgoi at that time, with additional optionality, have our engineers figure out where that will be and how that will be, but you can anticipate that we would be certainly working on that. We will have the resource and the flexibility to do that.

I also note that we have a number of longer dated copper options that we would be seeing coming into place in the second half of this decade, things like Resolution, La Granja, maybe Pebble in that particular time horizon, would be when we hoped to get that copper production into place.

That is going to be a particularly important time because as we look at the existing copper producers a lot of them will be seeing themselves even maturing even further and seeing their production beginning to decline.

I think in Aluminium, after we get through the individual modernisations of the Canadian facilities, as I mentioned we have a number of greenfield sites, but frankly we are going to need to see in terms of directional movement, in terms of aluminium pricing, where that inventory is. We would see that inventory being worked off by then and that should provide growth opportunities post 2015.

I would like to see further expansions in Energy; I would like to see further expansions in Coal, Uranium, Industrial Minerals and possibly Diamonds if we can be successful in India in that post period. I would hope by the post 2015 period some of the infrastructure challenges in East Australia will further open more, giving us further opportunity for growth in our important coal business in Australia.

**QUESTION:**

I just want to go back to the CAPEX numbers for a minute. If I heard correctly, you are looking at your formal approval for the 330 project, the Pilbara 330, in the second half of this year and if that's the case you must be pretty close to knowing what final capital numbers will be for that project, and the billion dollars or so that's committed to the port expansion is obviously a small portion of that.

So can you give us a sense of what total CAPEX will likely be for that 100 million tonne expansion, or at least a range? And, if so, looking in CAPEX estimates for calendar 2011, which are \$9 billion, I presume that a pretty big chunk of that is coming out of iron ore, if you can give us a sense of how much of that \$9 billion would relate to the iron ore expansion?

**GUY ELLIOTT:**

Do you want me to take that, Tom, or do you want to take it?

**TOM ALBANESE:**

Guy, I think you can answer that.

**GUY ELLIOTT:**

Look, you are right, we are up for a big amount if we are looking at 330 – this is double figure billions. We haven't given a number out and I think we will wait until we make the announcement to do so. I think that you are right in relation to the \$9 billion, iron ore is taking the lion share of that as it should. I think that the prospects in iron ore and the quality of the business that we have there makes it a no-brainer almost, but of course we do still have to do some further study in this before we make the commitment.

Other questions here?

**TOM ALBANESE:**

Guy, I think we are running tight. Maybe one more question there and then we will go over to phones.

**GUY ELLIOTT:**

Okay.

**QUESTION:**

Thanks Guy. Just with regard to the 330 million tonne project, previously you have talked about doing that in two tranches of 50 million tonnes each. Am I right in assuming that you are really signalling now that the capital committed will be the full 100 million tonnes rather than two lots of 50 million tonnes?

**TOM ALBANESE:**

Guy, I can quickly answer that. If you listened to my comments, I would say that we would be focusing on 280 million tonnes by that early 2014, so I think two tranches. But certainly as we put capital into that first tranche we want to make sure that the facilities,

particularly the wharf would be appropriately configured to handle and essentially engineering-wise optimised to openly handle the 330 million tonnes.

If we can go to the phone lines now please?

**QUESTION:**

Good morning or good evening. The first question is in regard to the copper project; you mentioned La Granja and Resolution. Has there started to be an allocation of capex back towards those projects, and I am thinking at La Granja the capex over the last couple of years?

And secondly, just in regard to Madagascar, how much is the ramp up there because of the bottom market issue versus the technical issues associated with commissioning that operation and, ie, could you ramp it up quicker if the market did recover on the titanium dioxide feedstock?

**TOM ALBANESE:**

Thank you. Maybe, Guy, I will take both of those. First of all, on the copper projects, at Resolution the prime determinant will be getting the US land exchange through Congress, and that's quite important.

We are doing some shaft development work with BHP, our joint venture partner in that particular case, although it is at a relatively slow pace until we get better direction on the land exchange. I'd say that land exchange represents a key part of the critical path and then it will be about shaft sinking and developing of the drifts to basically follow pass that point.

And it is quite important my point about the 'mine of the future' and some of the work we are doing on speeding up the rate of shaft sinking and the rate of drift advance as part of that because that will be a big enabler for that project opening. It is a very high grade, one of the highest grade, but also deep mines, requires quite a bit of complex technology, but again it is the type of target we should going after.

In the case of La Granja in Peru, I think what we have seen with the project is as we have looked at it and evolve it we did slow some of the work down during the global financial crisis, but our geologists have recognised this resource continues to get bigger and bigger and bigger and as the resource gets bigger and bigger and bigger some of the capital options get more complicated.

So our first focus is to get a better assessment of how big this resource ultimately is and then finding the right technical pathway. But I think, as earlier pointed out, this is correctly in that post 2015 part of the growth pipeline.

Moving on to Madagascar, I think the growth in the ilmenite production in Madagascar has been primarily because we've begun to de-bottleneck some of those constraints, particularly the clay layer that we identified during the dredging activity.

But the slag that's produced from that product, which runs roughly 90 per cent, is in a very nice marketing sweet spot between conventional slag, conventional chloride slag, and say a synthetic rutile or UGS type product, so there has been very much strong demand in the market and I think there is no question the more that we can produce the more that will be snapped up quickly in the market place.

Do we have any other questions on the phone line?

**TOM ALBANESE:**

Okay. Can I have one more question? I know you had your hand up for a long time and I will give you the courtesy of a question and then we may have to wrap it up.

**QUESTION:**

Always very polite, Rio Tinto. Thank you so much. Firstly, with regard to the Chinese domestic iron ore market or production, could you give us your thinking observations on volumes and on grades compared to last year and where that is going?

And secondly, Guy, you mentioned the political advantages of having JV partners such as, for example, the Chinese Government, but if I may say so the Chinese Government may have a diametrically opposed objective to yours in as far as they want volume at the lowest cost I suspect. How do you square those different objectives?

**TOM ALBANESE:**

I'd like to maybe just before Guy comments on that second one, I'd like to make a quick response on that and then move on to your first question, and that is we are operating the project. We are running the project, so it has got to be something that we find acceptable.

If it is not an economic pathway for us then we will look at something that is an economic pathway, so that's why I think it is appropriate as we create these joint ventures we find something that ultimately creates a mutually acceptable growth pathway and I think that, given the quality of the Simandou ore, that's going to be quite easy to achieve.

Now in terms of domestic Chinese production, we have seen prices over the first half that has been a fairly steep part of the Chinese domestic cost curve and I think we have seen a relatively rational response, when spot prices have gone up we have seen capacity come in. Of course it was constrained a bit during the Chinese winter months but it ultimately did see that supply response and then when prices went down you see some of that supply coming out of the market.

It's not perfect but actually there is a certain economic efficiency focusing particularly on the private iron ore mines, not necessarily the state owned or mine mouth iron ore mines. Grades are continuing to decline and I think the average grades and the continued cost performance of those mines will continue to be challenged.

From my own perspective that does create some space for premier projects such as Pilbara expansions, Simandou, though we would see that like in aluminium we would see that the Chinese would basically represent the fourth quartile of the cost curve. And down the road ultimately as the Renminbi does begin to creep upward, which we would put it as a creep rather than a gallop upward, that that would probably put further pressure on the fourth quartile in both iron ore and aluminium.

Guy, anything else you want to say?

**GUY ELLIOTT:**

Look, I understand the point you are making to us, but think back a bit here. Our joint venture partners have come from all parts of the world and Japan probably has the most numerous joint ventures with us but also US companies have had joint ventures with us. In many cases we have had the World Bank or the IFC as partners.

And the point I was trying to make was that in the case where a government tries to be coercive against the mining company it is helpful to have more than one government on the telephone to complain about that. That's the point I am trying to make.

Of course there are differing objectives that joint venture partners have, they all have those differing objectives issue. Many of our joint venture partners are customers and by definition the customer will have a different perspective from the mining company, but we find that we can actually work through those things especially when we run the project, as Tom said.

**TOM ALBANESE:**

Thank you. We've given this probably 15 more minutes than we had allotted, I have lots of people tapping on their watches pointing me to the next place. I do want to thank all of you for the good questions. We will have a number of people being available for coffee afterwards. Unfortunately, it doesn't look like I am going to be one of them as they are going to drag me to the next agenda item. So thank you very much.

(The proceedings then terminated).