

Rio Tinto 2011 Investor Seminar QA transcript

20 September 2011

TOM ALBANESE:

I am happy to take your questions, starting with those in the audience here in London. Yes!

QUESTION:

Just in terms of your Kestrel capex that increased, I just want to explore how you have changed your approach in terms of, clearly delaying the capex cost you an additional amount, how does that change the outlook going forward? Does it mean you need to run a less geared balance sheet in future to weather downturns and truly be able to spend through the cycle or can you just talk us through your changing approach on that?

TOM ALBANESE:

Yes, thank you. I think maybe it would be good for Doug to talk about Kestrel in particular but maybe, Guy, if you can support that with lessons learned through the global financial crisis where for those projects where we have had to ramp down projects and ramp them up, what we have learned from that and what we want to do different in the future?

DOUG RITCHIE:

Yes thanks, Tom. I think, as I outlined in the presentation, Kestrel is a relatively unique set of circumstances that we found ourselves in. We approved it actually when I was running Coal back in 2007, and I can't remember exactly what the exchange rate was but it was probably more like sort of 65 cents than it was today.

It suffered because of the GFC without any doubt whatsoever and the necessity to sort of slow down and then restart these underground projects has far more consequences than doing the same thing with either a surface facility or a surface mine. When you put that together with the rapid movements in exchange rates that we have seen the consequence has been difficult.

But I just really like to emphasise that we still see this as a very valuable project going forward. It is going to be producing considerably more tonnes than it was before; it is producing tonnes in a commodity and at a quality which is of great desire in the market place, and the overall outlook I think does remain looking very, very good in terms of kind of financial strategies for some of these more unique projects and balance sheet consequences.

Guy!

GUY ELLIOTT:

Look the big difference between the present and the period starting at the end of 2008 is of course the strength of our balance sheet. What we had to do at that time, the earlier time, was to put the brakes on, on a number of projects, and the consequences of that were numerous.

I mean, the first thing is demobilising people and then remobilising them again at some later point is obviously expensive, but in addition to that you are delaying the obtainment of a positive cash flow and that has a time value of money consequence.

Probably also we are suffering higher levels of inflation in capital costs thanks to those decisions which we had to make in order to survive, but if we had been able to carry straight on with some of those projects I daresay that we would have been able to build some of them for a lower capital cost per unit. So it was a painful exercise, not one we want to repeat.

Now with the present strength of our balance sheet we can complete all the projects which we have underway, and that's what we intend to do. Actually that is very much the purpose of having this balance sheet, in order to be able to continue to invest through the cycle to maintain the integrity of our underlying business, that's sustaining capital, but in addition to that of course to grow high quality projects.

TOM ALBANESE:

Thank you. We have another question in London!

QUESTION:

Maybe one for you, Guy! I just wanted to get a sense at the end of the year how you balance up between the progressive dividend policy, any potential for special dividends, and potential for off-market buy-backs either in London or in Australia?

TOM ALBANESE:

It's definitely a good question for you, Guy!

GUY ELLIOTT:

Okay. Thanks. Look, first of all let me say that over the years we have used all sorts of ways of returning surplus cash to our Shareholders and, in addition to that but separately from that, we have a progressive dividend policy. The two are not to be confused. The purpose of the dividend is not capital return, it is to reflect the underlying strength of the business and, as I said, we look closely at the dividend when we get to February next year.

But I am looking at ways that you can return capital to Shareholders, if that is merited; there are several. At the moment we are buying back PLC shares at a pace actually more intensive and faster than we said that we would at the beginning of August, and that's because of course markets have been so weak, equity markets have been so weak.

It is true that we could pay a special dividend in principle; we did that back a few years' ago. We could also do an off-market buy-back but when you examine the merits of an off-market buy-back you do require the shares, the Limited and PLC shares, to be a bit closer together than they currently are before that makes financial sense for an Australian investor to take advantage of that.

So right now it doesn't make sense to do an off-market buy-back but we do review from time to time all these methods and, as I say, the best method at the moment is returning cash to Shareholders. So all these things will be looked at again. But of course, as I said, our first priority is actually to invest in our business and we think there are some great opportunities to do that anyway.

TOM ALBANESE:

Thank you. If I could have one more question from London! (A pause) We can move straight to New York, Guy, if you have any questions in New York.

GUY ELLIOTT:

Okay, there is a good group here! Let's start with you.

QUESTION:

Andrew, if I could just ask, could you give us a little more perspective on the power issue at Oyu Tolgoi and maybe restate the conclusion that we ought to take away from that?

ANDREW HARDING:

Okay. Essentially in a large project like the Oyu Tolgoi project you have got a number of activities that need to come together. The provision of power is now an item that is on the critical path and the original thinking was that power would be supplied by power line from China.

Also in the Investment Agreement, as signed in 2009, there was a commitment that four years after the start of commercial production that we would build a power station in Mongolia for the provision of power in the country, as part of the Investment Agreement.

The construction project, as far as the concentrator goes and the surface works go, is going well and - the last time I visited and I will be there again in about two days' time - is something that it's right to be proud of.

The power itself, the provision of power, because it involves the transmission of power between two countries and across a border is subject to negotiations, discussions between the two countries involved, and those discussions are currently underway.

TOM ALBANESE:

We may have one more question in New York.

GUY ELLIOTT:

Yes.

QUESTION:

Thank you. I guess Rio Tinto traditionally has mostly over the years bought out subsidiaries, minority interests in subsidiaries I should say - going back I think wasn't even Hamersley Iron a subsidiary? Comalco certainly! We have seen the latest of course with Coal & Allied, with Palabora going the other way. You'd be left with two large minority stakes in two stocks, which would be ERA and Ivanhoe. Is there any statement you can say please in relation to those two as to which way you would move? Thank you.

TOM ALBANESE:

Guy, why don't you start with that and then maybe I would just have another thing to say!

GUY ELLIOTT:

Look, you are right to draw attention to the history here. We have, over a long period of time we talking about here, yes we have occasionally taken out the minorities in our businesses. By the way, we have also gone the other way, we have sold down, sometimes by IPO, sometimes by bringing in a partner, and that is what we are doing with Palabora.

When we look at ERA and Ivanhoe, well of course you wouldn't expect me to answer your question directly. This is a possibility in theory, yes, but then we have got lots of other potential uses of our capital. That is organic. We have laid out quite a lot of opportunities to spend our capital organically today; all of those look quite interesting.

We have also got lots of M&A possibilities in the present state of the equity markets. We are going to be very judicious about them and I think we are going to look at acquisitions through that lens of what's the best use we can put our capital to - is it to build or is it to buy?

And quite honestly Ivanhoe and ERA, both of which have numerous complications in any case to do, if one was to buy the shares, just have to form a place in the queue. They are not in any way special, although we do of course have a big and important presence in both of them.

TOM ALBANESE:

I guess I would just add, Guy, to that and that is we not only need to find opportunities that make strategic sense but they have got to make commercial sense and I think Doug would be first to remind me it has taken Doug and his team about 20 years to put together a solution for Coal & Allied.

DOUG RITCHIE:

Correct - and we're not there yet either!

GUY ELLIOTT:

Is there another question here? Yes, one in the middle here!

QUESTION:

One question if I may, Doug. I was wondering what makes you actually so confident that Coal's market share in the analogies would not face erosion in the face of gas which seems to be the preferred options in some countries like Germany, for example.

DOUG RITCHIE:

Thank you. I think, as I explained upfront, when we look at the demand for energy there are some places where it's not changing all that much going forward over the next 20 years. And there are some other geographies where there is absolutely staggeringly large increases in the requirement for energy going forward for 50 years, and a lot of that growth is centred in and around the Asia Pacific region.

I think what happens in some of those more stable less growing geographies in terms of changing energy mix is optional and doesn't change the longer term picture, which is really driven particularly by China, India and the other growing countries.

TOM ALBANESE:

I think, Guy, unless there is someone with another question that's obvious in New York I will give London a try.

GUY ELLIOTT:

Yes.

TOM ALBANESE:

Anyone in London? Here we go, a repeat offender.

QUESTION:

Sorry ...

TOM ALBANESE:

You never have to be sorry for asking a question!

QUESTIONER:

Hopefully it will be a decent question! Just in terms of the infrastructure in Mozambique which you have highlighted as a potential bottleneck, is there any thoughts to doing a sort of combined solution with the other players in the Moatize Basin or are you getting any pressure from government to do a sort of all-inclusive kind of solution or are you able to act on your own? If you could just explore those options, that would be great!

TOM ALBANESE:

Maybe, Doug, you can handle that.

DOUG RITCHIE:

Look, I think the starting point for Mozambique and infrastructure is that sort of no one solution is necessarily the correct answer. The potential of the Basin and the volumes that can be put into the market place really require people to be exploring all different sorts of infrastructure approaches.

It is very clear I think that the preference for the government is for a sort of private company and government partnership going forward, possibly with government ownership but we are still exploring that. I think the role that infrastructure plays in the successful development of Mozambique is really only just starting to come to the fore in terms of the considerations that the government is making.

We are very much engaged. We are clearly talking with the other major participants within the Basin and I think it is fair to say that I am very confident that a pragmatic sensible solution which ultimately delivers the most coal in the most cost effective way is in the best interests of all of the participants, and that is well recognised.

TOM ALBANESE:

Okay. Thank you. Another question in London?

QUESTION:

Just a broader question if I may. Looking at the two major mining companies, yourselves and BHP, a marked difference in my view is the extent to which Rio Tinto has rationalised their asset pool since about three years' ago. Now clearly in the case of Rio Tinto some of that was forced on you by the stresses of the balance sheet at the time, but it has not been the case or at least not to my observation in BHP.

I am just wondering when you look back now has it gone as far as you wanted it to go? Has the outcomes been what you wanted? Is there more of that to do? Would you have done it in any case?

TOM ALBANESE:

Yes, I'll maybe take a stab at that but, Guy, I think it would be good for you to supplement.

We did sell a number of assets during the financial crisis. I was happy with the logic for it at the time and we were happy with the price received at the time – we needed the cash at the time certainly. And there is nothing we would have done that I would have regretted because again I think in general they were smaller than what we would have called our Tier 1 suite of assets.

We regularly have this strategic dialogue: do you cluster smaller assets to get the same amount of tonnes or do you focus on a fewer number? As I look at that, how we manage those businesses, and I think Andrew tells me this all the time, it is sometimes harder to run, manage and administer a small operation than a bigger asset. Sometimes the smaller operations come with more sort of day-to-day administrative burdens and if you have a whole cluster of smaller assets you find that your head office and the plumbing of the organisation becomes bigger and it becomes more complex as a consequence of that.

So from a strategic standpoint I do think it is better suited for a global company in multiple sectors, like Rio Tinto, to actually always look at its portfolio. Not only in terms of looking at the next generation of first tier assets but also testing on a regular basis the existing assets: are they making the grade, do they have the potential to make the grade, don't they have the potential to make the grade and what do you do with those? So I would say that continued review is healthy and it is something that I certainly intend to keep doing.

GUY ELLIOTT:

Just to add to what Tom said, likewise I have no regrets about the assets that we sold; in many cases they were not in our business. If you look, for example, at the Packaging business that we inherited with Alcan or the Engineered Products business, both good businesses but quite frankly a long way away from our core business, and therefore frankly they belong in somebody else's hands who would value them more.

So we have to clear house, we've done that, I think though it is a continual process. When we do that what we do each time is to increase the average quality of what remains. We therefore are focusing on the best businesses, the long life low cost businesses that have the potential to grow. That is what we have done and we are going to do some more of it. We have just talked about Palabora, we mentioned a couple of Aluminium assets that we are looking at for potential disposals; we did that in the half year.

I don't think that will be the end of the story, this is a continuum, because as you grow the business things that once looked core cease to look so core and we have just got to be very disciplined about that process, do it well, and then we can maintain our focus on the really important long term whole of the businesses that we have.

TOM ALBANESE:

I guess one final question as part of that, and that is when we look at the portfolio we consider whether something is big enough, prime time or not, I not only need to listen to the commercial people and the operating people but also the geologists.

There have been too many instances where something was seen as a marginal asset where there was another world-class asset just peaking over the hill and just requiring some geologic exploration to take place. There will always need to be judgments, you are never going to catch and get them all right, but on balance I would be looking to the geologists to have as much input in that decision as the commercial people. Thank you.

QUESTION:

If I look at your approved capex for 2011 it about \$27 billion and then the unapproved that's coming up, if I take the top end of the range, it's looking about \$40 billion by my guesstimates for the next sort of 12 months/24 months.

I just wonder if you can comment on the level of maybe vulnerability of those projects to specifically resource protectionism? And I guess maybe if you could comment on the macro, whether there are any particular commodities at the moment where you think there's maybe more near term vulnerability than others?

TOM ALBANESE:

Guy, do you want to make a start of that and maybe, just to make it clear, the difference between what's been approved and what's going to be spent in any given year?

GUY ELLIOTT:

Yes, we have got the \$26 billion that is underway. I would say probably or more than \$35 billion of unapproved projects, maybe \$40 billion or it's toward \$40 billion.

Now the resource nationalism point, I think really it is a universal issue but with differing degrees and it comes in different forms - in some places it is equity, in other places it is royalties or taxes. I don't think we can say that any project is completely immune from the risk of a changed regime of some kind.

It is true though that some of our projects are in environments where the mining history is short or where legislation is evolving and undoubtedly those are ones where we have to pay particular attention to try to get a durable agreement that will be stable for long periods of time. That needs to be approached very carefully, it is something we are doing much more of, and I think that we can feel confident about that in most of these projects.

On the macro front, as I was trying to argue earlier, we think we have the financial capacity to enter into these projects and continue through them despite short term volatility. That's the whole point because when you start a project it is going to take you a matter of years to finish it and what might very well be disturbing features of today's environment may be quite different in three years' time, say, when a project is complete.

And so that is the merit of having a strong balance sheet and a commitment to high quality projects - they are going to thrive in no matter what the economic conditions are. So yes, we weigh up the sovereign risks just as we weigh up geological risks, inflations risks, currency risks and every other sort of risk.

On the macro front, it is not our intent through most of these organic projects to market time them, that's just too difficult given the length of time there generally is between commitment to a project and positive cash flow, so our job then is to bring them on in an efficient cycle of activity.

TOM ALBANESE:

I would just add that first of all, as Guy said earlier, the bulk of our assets and certainly the bulk of our capital is sitting in OECD countries, but we are not a OECD only company and we should be focusing on the best ore bodies in the world. We need to be always looking where they are and looking at them in the mix of the total, of the total company.

Over the past ten years I think we have done a pretty good job of stakeholder engagement at the local level and I think what we have seen over the past two years would be the fact that as our industry has become more important in many countries we have to do a better job with our engagement with individual countries in their capital cities.

I think we have tried to do a better job of branding ourselves, Rio Tinto, in those countries that we are beginning to put more efforts in; we can put more Rio Tinto people in, our most capable people. We have to see that as a very important part - their career path is to be in some of the most important projects as we go forward.

I think the work that Guy talked about in terms of publishing what we pay and presenting basically our tax payments and royalty payments on a global basis also allows us to have an engaged discussion as to what represents competitive rates of total stakeholder remit or not.

I think many of you have probably heard this as a theme in many of Andrew's and in the Energy comments from Doug, is that to the extent we can get early production – even if it is not the full capacity – in as soon as possible, that allows us to build a more capable team earlier in the piece.

So I think, as Andrew says, getting early production in Oyu Tolgoi from the surface; getting Benga going early; I think in November what Sam Walsh will be doing is talking about what we can do to create early trucking solutions in Simandou. All of these have the effect of improving our ability to build capabilities on the ground, improving the Rio Tinto brand in those countries and actually still creating those options on a going forward basis.

In some cases we'll look at what is the ownership structure - do we create a partnership that actually improves our overall ability to engage in those countries? So we are taking quite a holistic approach but again in a world where I see strong global demand, I see increasingly there are going to be winners or losers in terms of who's best positioned to exploit these deposits - having a holistic range of capabilities I think will suit Rio Tinto well.

Guy, do you have any questions in New York? I don't know if we have any on the phones?

GUY ELLIOTT:

We have one here in New York, Tom, so perhaps we can go with that?

QUESTION:

My question is on resource nationalism – I refer to it as a rising tide of empowerment, labour, government etc. There has been some sabre rattling, if you will, but some comments coming out of the Mongolian Government about possibly changing the terms of the agreement that they have right now. I was wondering if you can comment about that? Do you think this is maybe posturing possibly ahead of an election or how comfortable do you feel there?

And in a similar vein, the issues going on at Grasberg, I was wondering if you can comment at all as to the labour situation there, and is there any production going on at present, or any comments you feel free to make on that as well?

TOM ALBANESE:

I think I suggest that maybe Andrew can take both of those!

ANDREW HARDING:

Okay. Starting with the noise that you refer to being made in Mongolia, the context for the articles that you are reading about is that there is an election in the middle of next year and this is the build up to that election. So not only will you hear things being said now, it is not impossible to imagine that as you get closer to the election you will hear many, many more things.

The reality is that on the ground in Mongolia the value that has been gained in the country and the growth that has been generated since the signing of the IA is easily seen. A vast amount of wealth has been created and that is well known by the government there. So the value that has been gained by Mongolia from signing that agreement is easily seen.

The issue moving forward through to the actual election, I have had discussions many times with many ministers and they fundamentally understand it's not only about the value that's been gained now, the fact that we've started our investment and that investment leads to a 30 per cent growth in GDP in the country by 2020, but that it has also triggered a great many other companies, big companies, looking for investment opportunities and indeed you see the current Tavan Tolgoi deposit and its exploitation being discussed quite strongly locally.

So yes, there are discussions going on. I can't see any reasons why those discussions would diminish in front of an election but have no doubt about the reality that is well known to the people on the ground there, particularly the people in administrative roles.

I've forgotten the second question!

TOM ALBANESE:

Indonesia!

ANDREW HARDING:

Oh, the Grasberg issue. For an absolute detailed sort of blow-by-blow description it would be best obviously to go to the managers at Freeport, but essentially to my understanding the strike was announced on the 15th of this month. There have been plenty of discussions between Freeport and the union leadership, in fact, they are in the middle of mediation, so it is sort of an unexpected outcome actually to get what we have currently got.

The reality is that discussions continue, that there have been some reports of some good changes recently on the ground there, in that the operation unlike the last time there was a stoppage is continuing, particularly the underground mine, at low rates but continuing, and I can't see any reason why we won't get a good outcome from Indonesia at the end of the day. I have nothing but the greatest admiration for the team that run that operation.

TOM ALBANESE:

Thank you. Guy, is there anyone else in New York?

GUY ELLIOTT:

Yes.

QUESTION:

\$7.4 billion of tax in 2010 is a great deal of money indeed, so thank you for providing us with that figure. Some of your competitors such as Rusal and Glencore have much lower tax rates than Rio Tinto helped by lower taxation regimes or driving some of their profits in zero tax regimes. I've assume for Rio Tinto most of your taxation is at the mine level and of course you can't move mines, but is there any thought of re-domiciling Rio Tinto, for example to Switzerland? Thank you.

TOM ALBANESE:

Guy, a good one for you!

GUY ELLIOTT:

Yes. Look, we give a lot of detail and I would encourage you to look at this report which is on our website about the taxes we pay. At the corporate tax level our tax rate is in the vicinity of about 30 per cent and if you add in the royalties it's closer to 40 per cent, so I think that is a reasonable tax rate and the numbers we give out in that report.

I make no comment on other people's tax rates, they may have different business models of course, but it is pretty important we think for the long run security of your tenure for you to pay quite a lot of tax in the very place where you are doing your mining. I mean there must be benefit to your host from all the activity that you are doing; if it is all taken offshore somewhere in the long run that is going to imperil perhaps the security of your tenure and your licence to operate.

That's the background to many of the tax discussions which we have with our hosts and with the stakeholders that surround our operations. We think we pay a fair amount. We take great care to try and help governments design these taxes in such a way that they don't lead to perverse outcomes.

Of course we don't want to pay any more tax than we have to but, at the same time, we must recognise that this is not eliminating tax - if that was possible which is not what we think it is - it does have a whole lot of risk associated with it that we don't want to take, so this is part of a sort of holistic engagement with our stakeholders that we think actually leads to a good outcome for our Shareholders as well.

TOM ALBANESE:

I would just add – and it is probably easier for me to say this as an American – that I think the UK is not a bad place to have Rio Tinto domiciled. I think that first of all the mining capital for the financial markets, as I know you may beg to differ, has really been in London in terms of the largest sources of mining funds. As we look at bringing in new employees and we bring in, say, middle management, entry level, I would say on balance people that are in the UK actually have that truly global mindset from the 'get-go'.

There are conveniences of time zone, there are some conveniences, for the most part you can get to where we need to go on roughly one flight or one-and-a-half flights, so it actually is a reasonably practical location. People will complain about Heathrow Airport and the Australians certainly complain about the lovely spring weather, but on balance I think it is not a bad place to be domiciled.

Yes, we have question here in London!

QUESTION:

Just a quick question that occurred on the Diamond & Mineral segment. I am curious about your ilmenite mine expansion and TIO₂ smelter expansion plans. Clearly this is a sector which is fairly opaque, very difficult to track prices, but it would appear that prices have doubled or tripled in some of those core underlying markets so I am just curious how you see supply expansion potential across that industry and your commitment to it?

TOM ALBANESE:

Thank you. Again at one point I was Product Group Chief Executive, Industrial Minerals, so I have more than a passing interest to this sector.

You are correct on all points. In many ways the TIO₂ markets, zircon and some of the other industrial minerals like borates, have been late-comers to the China party. It is basically a consumer-driven sector, so you need to see consumer demand stepping up early stages of China's growth which was predominantly infrastructure-oriented, wouldn't have seen a pick up in demand of some of these industrial minerals. I think since late 2010 we have a step-change in terms of the Chinese demand for many of these minerals and that consequently played through a much tighter market.

Just like copper 10 years ago where there wasn't any investment coming in the minerals sands markets, in Industrial Minerals there hasn't been frankly any investment for the past 10 or 15 years. So we have basically some structural challenges between supply and demand - we are certainly in a good position to look at both from a mineral perspective and also in terms of the smelting.

We have some proprietary technology on the smelting that not been replicated anywhere in the sector. We have very world-class assets with both our Richards Bay operation, again 50-50 with BHP Billiton, our QIT businesses in Canada and our new mine in Madagascar which is coming in well timed into these markets.

At the moment, and I think we said this at the Interims, we are still working off some legacy contracts, that served us well when the markets were flat for TIO₂ but again they are going to hold us back from enjoying this immediate benefit. But again we would expect those to be worked off over the next year or so and we'll see the benefits flowing through.

But it is a good market, there has been a lot of pricing support both in terms of our ability to pass prices, notwithstanding the contracts that we do have to customers and the customers passing it to the paint manufacturers. We do have these contracts that we do need to work out and we are looking for expansion options. Thank you.

Yes Damien, back to you!

QUESTION:

Sorry, just a very quick follow up to that, you talk about the legacy contracts on mineral sands working off. Will they all work off in the next 12 months or are they phased over many years?

TOM ALBANESE:

They are phased over the next few years.

Guy, do you have anything in New York?

GUY ELLIOTT:

There was a question in the back – yes, here we go!

QUESTION:

Thank you for taking my question. I just wanted to ask if you could clarify on the M&A front if Rio Tinto's approach continues to be to focus on the smaller transactions in the single-digit million range or whether that could change in the event of a downturn that could turn mining assets cheaper and where you could use your stronger balance sheet at this time? Thank you.

TOM ALBANESE:

Guy!

GUY ELLIOTT:

It is true that was the statement we were making late last year, early this year. I think what I would prefer to major on is the seriousness of our commitment to the Single A Rating rather than to rule in or out different sorts of transaction. I think the key point to make is if we are looking at a target we need to compare it to the option of building something. We need to consider, is it really a Tier 1 asset? That is to say is it low cost, is it large, does it have the potential to be expanded, and can it be bought for an appropriate value?

Now we are very value focus in all this and we want to be very disciplined in any M&A that we might do. So that's it. It's really the quality, the value and the balance sheet capacity, those are the three things that I would really focus on now when it comes to M&A rather than try to confine it. Most companies would not confine themselves particularly where M&A is concerned and I don't think we should.

QUESTIONER:

If I may follow up?

TOM ALBANESE:

I would just want to add that again if we look at the suite of organic growth assets we have within Rio Tinto they're actually quite strong and are quite competitive in virtually all the sectors that we in, and in the 'buy versus build' discussion Guy has it is a big hurdle that the 'buy' has to be over.

GUY ELLIOTT:

It certainly is!

QUESTIONER:

Thank you. If I could follow up, how would you compare the approach that you just described focusing on build versus buy and whether the transaction makes sense versus the Alcan acquisition? Thank you.

TOM ALBANESE:

Guy, why don't I have the first shot at that?

GUY ELLIOTT:

Right!

TOM ALBANESE:

Again it has been now four years; I have more grey hairs since then! We have been through a financial crisis, we have been through a defence and we have been through a large debt load that we have worked very, hard to bring down.

You would have to say that there have been significant learnings from the Alcan acquisition. You have to also say that again these were clearly first tier assets but I think on reflection recognise it was a market where everyone, including ourselves, felt the world was going in one direction and we found that the world very quickly went in another direction.

We probably should have gotten the downstream businesses sold off quicker than we should have, there were extenuating circumstances that probably caused that not to happen – that shouldn't be an excuse but it did cause us to regret not getting those downstream businesses sold as quickly as we could have – and then we ended up in the middle of the financial crisis with a \$40 million balance sheet.

Have we learned from that? Absolutely, yes. And is that reflected in our talking, in what we are saying now and what we are doing now, basically returning to the roots of our strategy? Absolutely, yes.

GUY ELLIOTT:

Building on that, I think in terms of the quality of the target, that is to say large low cost assets, the heart of Alcan of course does conform to that. In that sense, it was on strategy. But of course in terms of value, as Tom has said and explained why, it was not on strategy and what we want to return to is the pre-Alcan philosophy whereby both criteria had to be satisfied within additionally the target Single A Rating.

Look, it is entirely fair of you to bring this up but we are trying now to return to what we were doing before Alcan, which in a certain sense could be seen as an aberration in terms of that investment philosophy.

TOM ALBANESE:

Thank you. We think we have one more question in London here!

QUESTION:

Maybe a couple of questions for you, Andrew! I just wanted to ask about Oyu Tolgoi, putting the power issues aside, can you give us an update on the financing and how those arrangements are going and also the Shareholder Rights Plan mediation talks with Ivanhoe?

And just lastly on Grasberg, can you remind us how Rio Tinto contributes to the capex, the growth capex, for Grasberg and how you go to 40 per cent from 2021?

ANDREW HARDING:

Okay. Thanks. The simple answer as far as financing is concerned is Ivanhoe Mines is actually responsible for the financing; Rio Tinto supports them in their efforts to actually arrange the financing, so it would be remiss of me to actually speak on their behalf. I'd say go and talk to them.

As far as the Shareholder Rights Plan, we are in an arbitration proceeding at the moment and there will be an outcome at the end of the arbitration proceeding, and that's not too far in the distant future.

Lastly, as far as Grasberg and how we contribute, the metal strip would probably take longer than we've got to explain, but at the end of the day there was a mine plan written when we invested and when production in any year goes above that level we participate, and then at the end of 2021 we actually get 40 per cent of all production, not production above a metal strip.

We contribute to growth capital between now and 2021, only to the growth capital and only on that percentage basis, so it's essentially getting the production much later but with a lower capital contribution leading up to the long lead production items.

TOM ALBANESE:

A reminder that the original transaction was 1995, so you are now 15 years into it. There was a distinction made between sustaining capital and growth capital – sustaining capital flows through the metal strip, growth capital is on a 60-40 basis – and at that time 2021 was a long time from 1995, so it is just seen as the normal time when it just a simple fly back to 60-40 venture, and we are probably getting closer to that time now. (A pause)

I think we are ready to give you lunch in New York and, more importantly, a glass of wine here in London. So I want to thank everyone for your participation and again we are very appreciative of the range and variety of questions and again, as we have said, these are good opportunities to show off our Product Group CEOs. I am terribly proud of them and they have got a great suite of projects and activities within their own remits.

So thank you very much.

(End of Q&A Session)