

Rio Tinto 2009 Investor Seminar QA transcript

30 October 2009

QUESTION:

Two questions, if I may. One is just going to be for Sam and one probably for Guy.

Sam, are we actually going to get an iron ore settlement this year from China or are we just going to forget about that and, if they don't settle this year, do they get to settle next year? That's question number one.

Question number two for Guy. You mentioned a couple of times that you are looking to essentially reduce the gearing further. It depends on whose numbers you use but it looks like you are on about one-and-a-half-times EBITDA this year and out to next year it is less than one times EBITDA. Isn't this the point in the cycle where you would actually be looking to gear the balance sheet up a little bit more?

TOM ALBANESE:

Sam, I will let you start.

SAM WALSH:

Okay. Thanks, Tom. Iron ore settlement in China; I think for all intents and purposes the quasi-settlement that we've had with provisional prices applying as per our May settlement in Japan, Korea and Taiwan, basically means that will be the starting point for negotiations for next year. Negotiations usually start after the Qingdao Conference which was about a week ago and the Australia-Japan Iron Ore Conference is taking place yesterday and today, so I expect that we will get a better read-out of that as we go forward.

I don't expect that there will be an early settlement. Quite clearly there are differences in opinions between the various players, as one could expect, but importantly when you look at the fundamentals of supply and demand the outlook is positive.

We are seeing right now very tight iron ore supply, as you would have picked up from our Q3 production and shipping figures, and that is also being reflected in a number of other indicators with the current spot price some 27 per cent above the benchmark. So I think the dynamics, as I say, look positive but I am not expecting an early resolution. Thank you.

GUY ELLIOTT:

On the balance sheet, I have tried to make it clear that our first priority was investment in our business, and that's always going to be the most important thing. But we do have to balance that with having a prudent and appropriate approach to our balance sheet and I think that \$22.3 billion is quite a lot of debt for us to be holding just right now.

I don't say that we are unduly focused on the traumas through which we have been through having too stretched a balance sheet. We are going to look at this in a sensible manner but we want to remain open to opportunities of course, but I think that at the same time we recognise that our present rating is actually assuming an improvement in our present ratios, improvement from where we currently stand.

So I think what you can expect from us is to give priority to investment but at the same time to have and to keep in the back of our mind a sensible rating and to keep in mind also the benefits of having a strong rating. I think that we saw very clearly the lack of flexibility that having a weak rating conferred on us and we prefer the benefits of a stronger rating.

TOM ALBANESE:

I just want to add to that. I agree with everything Guy has said, that while we are all enjoying the V shape nature of the Chinese recovery, the OECD recovery is likely to be anything but V shape - we are still waiting to see how that plays out – and we do have to continue to be a bit circumspect about the effect of that on the global economy.

So with the next question – yes.

QUESTION:

Three questions actually please. The first just relates to China and potential joint venture relationships. Clearly there has been some flagging, some press commentary about Oyu Tolgoi, but I would like to take you across the other side of the world as well to Simandou and the scope for Chinese joint venture investment there, particularly in infrastructure we have seen China talk about investing \$7 billion in the country, so could you talk about that perhaps as an opportunity for the Company?

The second question really relates to alumina and the potential for pricing changes in the alumina market moving away from long term contracts based basically on the aluminium price to the spot market?

And finally, and I appreciate you may not be able to say anything on this, but Cloud Peak, any indication of timing?

TOM ALBANESE:

Okay, I will start with the China question; I think Jacynthe will cover alumina and I think that Guy will not answer the Cloud Peak question.

I've said for quite a while that I do think there are opportunities to partner with China in a mutually beneficial basis. I do think that we can bring quite a bit of value to the table. We have an unrivalled track record on exploration and identification of resources, but these things tend to be in the middle of nowhere, so that means it is very useful for us to be teamed up with those that have competences in infrastructure development, infrastructure financing.

If you go back about a year-and-a-half ago in Beijing, at a China Development Forum, I basically offered the proposition of mutual engagement in new locations where not only we can provide our mining, our exploration, our techno-capabilities, key Chinese partners can provide financing and a range of support and infrastructure and other capabilities, and we can also do that in a way which is consistent with Rio Tinto's strength around sustainable development, our principles of safety, environment and community, and that in itself over time can help improve the overseas investment brand image of China Inc. I believe that a year-and-a-half ago and I believe that today and do think there are opportunities for that.

As you know, we don't comment on specific opportunities or specific things until we have something really to talk about, so I would rather focus on the broad general nature of where I see the potential for bringing those together. Again, as I said before, I think Chinalco represents an ideal partner for those types of mutual opportunities.

So, Jacynthe.

JACYNTHE CÔTÉ:

I would only first of all repeat the message we like to be long on bauxite, long on alumina because we feel that we are well protected against the asymmetrical risk and it is also supporting our growth.

We are long alumina in the Pacific, short in the Atlantic; we do quite a significant amount of commercial swaps between the two regions of the world, so we are in the market quite actively to do that.

The change we have seen over I would say the last 3-5 years has been more to deal with a range of pricing, so 'put and call' formula around the average pricing formula, so 'put and call' about a per cent spread in each side of the centre price, and we have seen that going on. A fairly significant proportion of the contracts are moving in that direction but it still remains heavily linked with the LME.

That transition of contracts gave a bit more space on the market, so we do see supply and demand moving – having maybe a third of that going on right now – and, you know, we don't see any and we don't hear of any pressure. That question I get on a regular basis, but in the market we don't see pressure for that. That opening on 'put and call', about a per cent spread on each side of the historical level does the job. Looking at the future we don't feel any pressure, we don't see any urgency to change the pricing formula.

GUY ELLIOTT:

Let me try and say a little bit about the Cloud Peak IPO. I think you know there are various restrictions on what I can say but it is our plan and intention to carry this out before the end of this year and we are busy making the relevant filings and so on. I am afraid I really can't say much more than that.

TOM ALBANESE:

Okay.

QUESTION:

I am interested to see a new word creeping into this presentation and it is "gold" - under the previous management teams it was virtually a banned word for Rio Tinto. Can you say what might have changed your view and is this now a different view on gold standalone opportunities as well not just as by-products and could this be opening the door to consideration of other precious metals?

TOM ALBANESE:

Thank you. As you know, back in the eighties all I did was gold, so I am very familiar with the gold industry. Rio Tinto as predominantly a copper producer does happen to be one of the larger gold producers in the world as right of its high fly product credits. I do think that copper deposits that have particularly rich by-product, particularly gold endowments, generally tend to be at the lower end of the cost curve, so I think that's a good think. From our perspective we've seen that by-product nature drive down our net cost of copper production.

I would say we do need to remind our investors from time to time that there is such a large gold component in there but I wouldn't think that we would see the see-through value of that gold in a way that would be equivalent to the see-through value of gold assets in a pure gold play. That's been our real dilemma in the gold sectors: how do you compete head to head with someone who sees more see-through value for gold assets in their capitalisation than we would see.

Of course if we discover a gold exploration project, of course if we are partnered with a gold player and we find something big like was the case at Cortez, we can ride the benefits of that for several years; in the case of Cortez for two decades. But at some point in time, as we found with Cortez last year, the values that we can get for that business are probably higher than the see-through values of that business embedded within the market capitalisation of Rio Tinto.

I don't think that's going to change in the future. I think there is always going to be a unique value to gold that will cause a pure gold company to attract a certain type of investor for a different reason as compared to that investor attracting to Rio Tinto.

Now I think when you say gold and others I don't think you were talking about silver, I think you were talking about maybe platinum group metals, and again I think there is a certain attractiveness to the industry structure of platinum group metals. They are certainly taking a tough time this year because like aluminium a lot of that PGM business goes into the auto sector so has been following the difficult trials of this year of the auto sector.

But I do think the catalytic nature of platinum for reduction of particle emissions, NOX, is actually quite a useful physical property that will be needed more in the future rather than less in the future. The real problem though is how do you extract it, how do you develop production mechanisms that we can say work within the aspects of the production but the safety systems that we have elsewhere in the Group?

And that's a question that we have long thought about and we always think about as we go forward but as you heard from the start of my presentation, Jacynthe's presentation, Sam's presentation, that ability to have accident-free, injury-free operations is quite important for the value ethic for the Company and we have got to take that into consideration. That said, I am always asking our geologists, keep looking for platinum.

Guy, I don't know, you've had a lot of experience in this question about relative valuations of gold versus others. Do you anything to add to the question?

GUY ELLIOTT:

Well, I think it's an interest question. When gold is at the levels that it is and when the dollar is showing signs of weakness from time to time it does I think matter to remember that we've got such a significant gold stake in our Company albeit wrapped up in copper.

I wouldn't like to really rule it out, the idea that we can develop either greenfield gold and platinum mines, but I have to say that historically when we have done so we have ended up selling primary gold mines. I am not sure that, with the benefit of hindsight, was necessarily the right thing to have done, so I think a bit of open-mindedness on this subject would be no bad thing, but don't image that we are going suddenly plunge into outright buying of gold companies. I don't think that's very likely in the short run.

TOM ALBANESE:

I think just one last point, and that is if you look at the gold resource position accumulative in Kennecott Utah Copper, accumulative in Grasberg and certainly where it can be in Oyu Tolgoi, these are very sizeable gold properties in their own right – they just happen to come with a lot of copper too.

One more question here and then I am going to move it over to the phone lines because we have I think probably UK and I would guess North American people on phone lines.

QUESTION:

Two questions. The first one I just wanted to ask to Jacynthe around what was the EBITDA breakeven cost of production in the primary aluminium business in the third quarter or at the end of the third quarter?

The second one is to Sam just in terms of the 100 million tonne expansion. You mentioned that the first 50 million tonnes could be production by the end of 2013. Is that a commitment or is that what the project could do and at what stage will this come to the Board for approval? Thanks

TOM ALBANESE:

Jacynthe!

JACYNTHE CÔTÉ:

The EBITDA breakeven figure, the metrics as have been given after the H1 result, it is embedding from bauxite into metal, it is embedding the sales of metal, the sales of electricity, the SG&A, so that's a total RTA upstream EBIDTA breakeven. At the end of Q2 it was up \$1,350; since then we have seen a depreciation of the US dollar which raised our costs in local currencies, given the depreciation of the local currencies.

So our production costs because of the depreciation of the US dollar went up, and if you remember in the September presentation we have given pretty good sets of sensitivities to each currency, so if you go back to the September presentation - which I think is still on our site - you can pretty much quantify what happened. What I am telling you is that we could offset partially this impact.

SAM WALSH:

If I could pick up on the question in relation to iron ore expansions, in relation to the early incremental expansions that I mentioned the first 5 million tonnes is off and running with completion expected early 2011, which will take us to 225 million tonnes. The second 5 million tonnes is currently under feasibility study and that we would expect to be in production by the end of 2011.

The first tranche of the 50 million tonnes which, as you mentioned, would be in and running Q3 2013 is currently in PFS, moving to FS in the second quarter next year and likely to go to the Board at the end of next year.

As you could imagine, we have used the past 12 months really to turn that project upside down and come up with a two-phase, two-tranche implementation that is actually pulled a quantum reduction in capital out as a result of basically totally reconfiguring the project. So whilst we were almost at completion of PFS previously we have had to go in and restudy those aspects of the project. Clearly it needs to go to the Board for approval, but let me assure you it is a robust project.

TOM ALBANESE:

I just want to add to that. It was very difficult at the end of last year to slow down and significantly ramp-down a lot of these projects because we recognise the value nature of them. But we also went back to each of the teams in iron ore, and also Jacynthe did this in the aluminium teams, and said: "Re-design these projects, re-engineer these projects. You have got some time, reconfigure them and get them down at as low a cost as we can. Take this time to really think through how we can do this best?"

Again one would say, well, we would have maybe done things faster had we continue this work on a "but for basis" over the course of the past year but I think we are ending up with better solutions as a consequent of this re-engineering, both in iron ore and also in aluminium and some of the other projects.

QUESTION:

Two questions. First, in terms of the aluminium projects you said there was nothing planned until 2012. What kind of an aluminium price and/or global inventory situation would it take for those projects to come back online faster than 2012 because the market condition is the predominant reason for those aluminium projects getting pushed out?

Secondly, on the iron ore expansions, in terms of your interactions with BHP on the 330 million tonnes, how much co-ordination of the drilling plans and the logistics infrastructure is happening by the time of the JV completion and is the 330 million tonnes already discussed and planned and agreed with the potential JV partner?

TOM ALBANESE:

I will maybe let Jacynthe start with the first one and Sam for the second one. So go ahead, Jacynthe.

JACYNTHE CÔTÉ:

If I look at the three – we got four actually – four main projects that had been started pre-recession. One is addition of electricity capacity in our system in the Saguenay, what we call the 13 turbine Shipshaw, that one goes. It is not a very big sized one, it is about \$230 million, that one goes because we have a contract to sell capacity to the grid and we want to honour that, we want to stick to that contract. It's a good project that is going on, on schedule, on budget.

A big one for which we are about halfway through is Yarwun II, the expansion of our alumina refinery in Australia. We have adjusted the pace and we have used the burn rate on that project to bring aluminium more in 2012 than the original delivery – that was more in 2010 – for cash preservation and market conditions as well. So we have slowed it to a level that made sense from an efficiency of construction.

The AP50 and Kitimat projects right now are going at very slow burn, they were not as advanced, and we're looking and we're still looking at different scenarios, our growth capex has not been defined for next year. We are still looking at different scenarios for speed, but clearly in the two we will not bring aluminium, The work has started but we are not planning to bring more aluminium before 2012. And all the other ones you have seen in the pipeline, like Alma II; we totally own the timing, so the study is ready to be launched when market conditions improve.

Why 2012? We think this is a period for which market balance and inventory conditions should be in better shape and this is that time where we think price should reflect much longer term conditions in 2012/13, and that's simply why. As I said, the one which will

bring alumina in 2012, that project was halfway through and it was bringing much more value to continue with it than to stop it. It's a good project, good value, but the best thing is we are still pacing it and we have not decided yet if it is going to be 2012/13 or 2014 for metal production. We are not stopping them but we are still adjusting the pace.

SAM WALSH:

Okay, if I could pick up on 330, there has in fact been absolutely no discussions with BHP on 330 million tonnes. As you may understand, under various anti-trust legislation we are precluded from having any discussions with BHP on this until (a) we have the definitive agreement in place but (b) until we have regulatory approval which, as I mentioned, is currently underway.

Having said that, it is important to recognise that we both have projects that have been under study, that are in the public arena. BHP Billiton currently have their Rapid Growth 5 underway and we understand that Number 6 would be the next project. For us, we have had 330 or 320, which has now become 330, under study for some time.

My view of it is that in fact both projects will be required and that both projects would be probably the first decisions that would be made by the joint venture owners committee, but the time will tell. I suspect that once the first tranche of the 330 is underway that we may actually see the second tranche bought forward – if that's the next natural development, which I think that it is.

TOM ALBANESE:

I think, as Sam described, there is quite a bit of pre-feasibility and feasibility work that needs to be done. That will take a certain amount of time and it makes sense to get that work done now so that the joint venture can actually properly assess that when the competition law allows us to get down and sit down and talk with the BHP and share the information properly.

QUESTION:

Just two questions. One, can you talk a bit about some of the qualitative benefits or value you'll get from the structure change you've made splitting diamonds and minerals out again? They are kind of the unloved children that get bounce around various families.

And the second point is just on iron ore and the progression on the EU anti-trust; they are taking a bit of time getting back to you on which route to follow. Can you talk just about what are the complexities in the JV that you think they are deliberating on? Clearly you've removed the marketing part of the agreement but what else is slowing that up?

TOM ALBANESE:

Okay. First of all, I'll start with the product group one but for the second one I am going to embarrass another member of our executive committee here, Debra Valentine, who is sitting in the back. She is responsible for all our legal, our government, and, with the recent organisational challenges, media affairs. She is leading the efforts side by side with the BHP legal team and she has a background of competition compliance. I will ask her to respond on your second question.

With the first one, the fifth product group, as former Product Group CEO of Industrial Minerals I never considered it an orphan. I always thought that this was something that had some very solid businesses. They weren't growing like some of the other businesses but they themselves in their own right were good businesses to be in.

During the course of all the corporate activity that we had in late 2007 and going through 2008 we lost our Product Group CEO of Diamonds and Minerals at the time. Given the fact that we had quite a bit of corporate activity what I asked to the Product Group to do was to take on additional duties, Bret Clayton to take on the Diamonds business in addition to the Copper Group and for Preston Chiaro to take on the Minerals in addition to the Energy. They are not natural fits there but we needed to keep a running those business, we needed to keep their focus on safety, productivity, efficiencies, costs etc., underway.

I think on reflection we learned a few things during the corporate activity. One was that during the course of last year we tried to create a narrower investment thesis around three pillars: aluminium, copper and iron ore.

That was a good investment thesis, it was something that people could understand but it actually when we revisited the strategy this year we recognised we needed to go back to that longstanding approach to be somewhat open-minded to the quality of the opportunity rather than any individual metal. We shouldn't necessarily be metal pickers; we should be focusing on the highest quality Tier 1 assets.

So it made sense on that basis to bring back together the Diamonds and Minerals Group. I recognise diamonds is a tough market right now although it is improving. I recognise that there is not a lot of kimberlites out there to come along in the growth prospects, meaning that you had to do quite a bit of work to carry out that.

But I said to Harry: "You have got a series of businesses that I don't want you to consider as orphans. I want you to look at developing a strategy for them. We have the best borates business in the sector; we have the best T102 feedstock business in the sector; these are good businesses. I want you to create a vision and a strategy for these on a going forward basis and it is best done within a Product Group rather than bolted on large Product Groups".

So with that, Deborah, over to you.

DEBRA VALENTINE:

Thank you, Tom. As you many know, we have been working very constructively with the regulators and while the decision ultimately as to how proceed will be theirs I think as you know, the dropping of the joint venture marketing aspect will somewhat simplify that question for them and we look forward to filing around the time the definitive agreements are finalised.

TOM ALBANESE:

I think, what we are going to probably not do between us and BHP is we will not give a sort of blow-by-blow when we talk to who, when, etc., because I think in many ways that's probably not constructive to the best outcome.

I think we are best focused on getting to the right outcome, which means letting these processes which to some extent are processes that are quite structured within the frameworks of the various regulatory bodies to go on through their normal course, not try to force an answer out, not try to anticipate an answer, but work with them, constructively engage, and ultimately achieve the right outcome. So again what we are focusing on is achieving the right outcome and that means we will probably say less along the way.

QUESTION:

Two questions. First of all, with the re-commitment to growth capex next year, are we more likely to see a re-acceleration in timing of those projects which you still were developing but had slowed more so than additional investment, additional commitment, to those future growth prospects that haven't yet been committed to?

And the second question I have forgotten! You can answer that one and I will think about it.

TOM ALBANESE:

Let me work on the first one while you are thinking about the second, and I would like maybe Guy to add on the first one.

Because I think what you would expect will happen is that every single Managing Director of a business unit will say, 'Okay, how do I get a piece of that \$1 billion?' So what we will have is the natural competition for capital, and that's a good thing, because what we have been doing particularly over the past year is setting up some very rigorous but consistent metrics for capital efficiency that I would expect that we would continue on a going forward basis.

That means, as Guy said, that there will be some that will be possibly speeding up some of those we slowed down during the course of the year but, like Jacynthe said, I wouldn't

anticipate us speeding up Yarwun II because we just don't need the alumina really until 2012. We did bring back the pace of some of the work for Kestrel, and there again the coking markets are quite strong, but we will take these on a case by case basis looking at the efficiency of that capital spending but also looking at when those markets really need that product.

I think, as Guy also said, we will certainly be looking at the comparison between the natural benefits of organic growth and harvesting options as we go forward but recognising we have some timing flexibility of those and also being opportunistic if this small to medium sized type external opportunities were to present themselves on a "bolt-on" basis.

But, Guy, why don't you expand on that if you want?

GUY ELLIOTT:

Well, I think it is more of the same. I would focus though on the quality of growth. That is something which is particularly important for the new commitments that we might be making because some of the capital that we are currently spending is based upon decisions that were made pre-crisis and we kind of finishing those off because it makes very good sense to do so.

Since that time the capital cost per unit of various different projects has changed. It has changed differently in different geographies and in different sectors and therefore the quality of growth depends partly on the change in the capital cost per tonne but also in the change in what we perceive to apply to that particular market.

What we have is a rich array of options and we can choose from those options as the time arises which ones are going to give us the highest quality growth. And so I won't predict to you where it will come from either by sector, geography or even source. It may not be a project that we choose to do, we may choose in fact to do some M&A of a small or medium sized type. So I think all of those things are open to us and we are very well prepared. We have got lots of options.

TOM ALBANESE:

Thank you. Question two?

QUESTION:

Yes, question two, just to Sam. On the 330 million tonne project, I am conscious that it is still in early study stage but would you imagine given the nature of the work required that it would be typically higher or lower capex cost than maybe your previous expansions or your recent expansions on a unit capex basis?

TOM ALBANESE:

I would like to just make a few comments but I think Sam can elaborate on it, and that is we have certainly seen unit prices decrease, we have seen capital efficiencies improve quite dramatically in the first half of this year. But we do have to, as Sam said in his comments, measure that against the rising Australian dollar and also measure it against – we have some very large capital projects that are coming in, in the offshore gas area, and they are going to be putting pressure on labour, contractors etc. But, Sam.

SAM WALSH:

It's too early really for me to give you the final capital number because the guys are still working on it but we have seen substantial costs, capital costs, come out of the project as a result of this reconfiguration.

TOM ALBANESE:

We will go over this side here.

QUESTION:

Three questions, if I may. The first one is to Guy and it relates to the disposals in the Alcan businesses, i.e., Engineered Products and also Packaging. Just remind us, what percentage of the respective businesses has now been sold off and let's take turnover as the reference?

The second question is to Jacynthe and refers to the 27 per cent decline in the cash cost for aluminium. The question is, how much of that decline will never ever come back? You say the large proportion of the 16,000 people who left Rio Tinto have been made redundant in your business, so what sort of number in dollars per tonne would go away for ever?

And then the last question is with regard to Cloud Peak. I am personally pretty bullish on the thermal market, specifically in the Pacific, to a less degree in the Atlantic, and I agree the US is not that attractive, but thermal could still have a return in terms of it could have its day, so to speak. Just give us your argumentation or your arguments for the disposal once again? So to both Tom and Guy please.

TOM ALBANESE:

Okay. Well, I'm going to start with just a quick comment on thermal coal in the US from a strategic standpoint because we've talked about it a couple of times, and then I will let, as you said, Guy on disposals, EP, and then Jacynthe on the costs, and then maybe Guy if he has any additional comments on coal.

But, just as a reminder, when we talked about the Powder River Basin about a year-and-a-half ago we distinguished it as being a US coal producer destined for domestic US coal markets as distinguished from the Western Australian or any seaborne coal sectors that are destined for seaborne markets. They play into multiple geographies, multiple markets and you have more diversity in those markets and in our view a greater leverage set for some of the other things that we do in those particular markets.

That was the distinction we made. It wasn't that, not again because I came from Nerco and I have been affiliated with the Powder River Basin since the eighties, these are great resources. They have got the infrastructure developed to tap into the US electricity business. It is a good business but it is not necessarily one that strategically matches with our Australian coal businesses that play into the seaborne market.

Guy, over to you!

GUY ELLIOTT:

Perhaps I can do the two disposal questions together then move on to Jacynthe. On the two downstream businesses I don't have the turnover numbers to hand but I would expect them to show that the two Packaging businesses that we have sold, which is the predominant part of Packaging, would be in the region of 70 per cent, something of that kind. The Beauty business which remains is significant but it is nothing like on the scale of those other ones.

In relation to EP, it is rather the other way around. We probably have more like two-thirds of the business still in our hands after those agreements that have been already reached, so it's that kind of order I would say.

Although the profit characteristics of all these businesses are entirely different, the profit characteristics of Beauty are less favourable than the two Packaging businesses that we have agreed to sell and, likewise, the profit characteristics as I showed in the example I gave of composites particularly is far superior than the balance of the Engineered Products business at the present time.

I think in a recovered market both Beauty and the downstream Engineered Products businesses all do very well, and that would also be true of Cable.

In terms of Cloud Peak, again I have to say of course that we are very restricted etc., etc., but I would point out to you that we have sold a big chunk of this business already, namely Jacobs Ranch, so therefore the scale of it as well as the characteristics which Tom described do limit its attraction as a sort of standalone business for us to continue to manage.

The relative attractions of the Pacific thermal and coking coal businesses are very different I think from those characteristics which apply to the Powder River Basin, which has many attractions as we will I hope show when we float the business, but it is predominantly a domestic business, as you know, and exports from the Powder River have so far been quite limited although that may change.

Jacynthe.

JACYNTHE CÔTÉ:

We haven't been giving guidelines block cost by block cost, so I will just try to give directions. If you go back to the content of the presentations some of the key initiatives we are driving are shutting down or disposal of high cost assets; that will not come back. The headcount reduction: we did not breakdown at this point of time, until we decide otherwise, and that obviously will not come back. The productivity improvement we have been driving will not come back. We are making at the plant level SG&A improvement as well; that will not come back.

A significant part or the large portion of maintenance cost improvement we are driving are from the deployment of the Rio Tinto asset management system; that will also stick. A good proportion of the movement of raw materials, given the enlargement of specification, moving to more suppliers, improving the logistic route of them, will stay.

Now our costs will be exposed to currency in the long run. The electricity part also, being very lightly linked to LME, will stay. We are only 15 per cent connected. So exposure like all other commodities to currency, to freight if there is any significant movement on freight, and I would say basic raw material on the ones that are linked to oil like pitch. But if you go back to the sensitivity we have been providing not such a high level.

So the way we are working at it, which is actually more relevant, we are committed to continuing working hard at offsetting market movements. That's the drive we are having, through the drive on the same four initiatives I described earlier.

TOM ALBANESE:

Thank you. Before I go back to the room can I see if there are any calls on the phone lines?

QUESTION:

Good afternoon. I had one short term question on the iron ore outlook and imports in China. Obviously you've talked about the long term drivers and I think we all agree on this one, but short term I certainly have trouble to reconcile the fact that imports have been extremely strong particularly in September.

At the same time you see that there seemed to be a significant inventory with China if at least the spot prices are any guide, being kind of in line with cash flows there. So I was wondering if you could tell us about iron ore inventories, not just at the ports but I guess a sense of total inventories including the local production, and not just iron ore but also the situation for steel, and if you think that maybe even if it is just temporary some production shutdown in China to restore balance there?

TOM ALBANESE:

Okay. Well, Sam, I will ask you to focus on the shorter term picture on the fundamentals of iron ore imports and, as asked, the short term picture, stockpiles, but maybe not only for stockpiles but floating stockpiles, how they have been changing over the past few months and maybe our view of what we see for steel stockpiles in China.

SAM WALSH:

Okay. Thanks Tom. Certainly the picture for imports is a complex one and I can understand the challenge in actually understanding what's going on there. Basically what we have seen as spot prices have reduced from the very heady numbers that we saw in the middle of last year, we have seen a lot of high cost production both in China and in fact in India be impacted by that.

I mentioned in my presentation that some 100 million tonnes of domestic Chinese iron ore production had come off. We have seen 70-75 per cent of that come back on as there has been some improvement in the spot price. Spot prices went down to around \$50 a tonne, they are now currently sort of hovering around \$90 a tonne on a landed basis. So what we have actually seen there is the substitution of the imported ore to this high cost material that is just not attractive at lower spot prices.

In relation to stockpiles, we have seen stockpiles reduce somewhat, certainly in relation to floating stocks off the Chinese ports, this has reduced, and if you take the stock at the 23 ports and the floating stock we are seeing that at around 74 million tonnes at the moment, which is quite a comfortable figure.

That is actually coming under some stress as the market really during September and October has become very tight. We can't meet the demand we are seeing from the market and we are seeing significant enquiry levels and we are seeing some draw-down of stocks as the mills rather frantically look for ongoing supplies.

In relation to steel, the figures are actually again quite complex. We believe that the steel figures are not actually picking up the extent of the demand that we are seeing coming out of the Western Regions of China, which I mentioned in the presentation, and there is a lag in how that data is being reported.

There has been some slight increase in steel stocks. They have increased in recent times from 9 million tonnes to 12 million tonnes but in essence when you have got steel mills operating at a rate of 617, or an equivalent annualised rate of 617 million tonnes a year, again I am not too overly stressed by that build-up of steel stocks.

TOM ALBANESE:

Thank you. Maybe from the room then.

QUESTION:

The question is to Sam Walsh and it just a follow-up to what we have just been hearing about. Sam, about a month ago or maybe a little less the China Iron and Steel Association, CISA, was reporting that about 50 million tonnes of iron ore year-to-date that went into China was not in fact for end-use demand. Are you familiar with those numbers and if you are would you care to comment on them?

The second question relates back to the iron ore production, the 330 from Rio Tinto and RP6. It seems to me at that scale you are going to be putting a fair amount of stress on railway lines. I am just wondering in detail if there is any consideration of looping that rail from Dampier across to Port Hedland to gain efficiencies, is that necessary and does it really represent efficiencies, or would that be a step too far from the regulatory point of view?

SAM WALSH:

Okay. Firstly, in relation to the CISA comments, like you I've only picked up sort of media commentary on CISA's remarks and I guess what they are reflecting is really the flow through of iron ore material through traders and in fact through the large mills through to the smaller mills. CISA have indicated that they want to reduce the number of avenues for import into China basically to try and cut out some of the middle men in the process.

I think the fact that there is material flowing in, in this way, is not actually producing large stocks of material sitting somewhere because there just isn't physically anywhere for it to sit apart from at the ports and, as I mentioned, the floating stock off the ports – so there just is nowhere to hide 50 million tonnes of material.

We have entered the season where there are all sorts of claims and aspirations in relation to sort of iron ore negotiations and what-have-you, and one has got to be careful particularly at this time of year as to exactly what is being said. Let me assure you the world as we know it is not about to end, that we are seeing very strong and robust demand and very strong steel consumption as well in China.

In relation to 330 and I guess BHP's potential expansions, no, we have not sat down with them to discuss the potentiality for projects and improvements in rail and what-have-you. What has happened is that both parties have sat down with their knowledge of the Pilbara to develop what the likely synergies will be and it just so happens that the numbers align pretty well - I suspect they have probably been arrived at slightly different ways of looking at the world, but the numbers are very similar.

In relation to the rail network and looping, certainly it's early days, there has been no discussion what-have-you, but I would expect that you would certainly loop the rail out in the Eastern Pilbara. That would enable product to actually flow through to either our three

terminals or through to the Port Hedland terminal. Then likewise you'd do the same with power, for example; currently the two power networks are not linked either.

In relation to linking the rail operations at the port, I think distance-wise you are talking some 400-odd kilometres and I am just not sure that would be an attractive option. But look, it's early days. We have not physically sat down and gone through all of that. Certainly having the Hedland and Cape Lambert/Dampier port options, certainly in terms of weather impacts and other issues where you have derailments and what-have-you certainly gives a very significant increase in flexibility within the system to actually deal with those types of situations.

Certainly as I alluded to in terms of the synergy values, deposits in the Eastern Pilbara are actually more suited to go through the Hedland network due to the shorter distance and deposits in the Western Pilbara are actually better to go through the Dampier/Cape Lambert network. But over-arching that I would expect that the joint venture would move to product rationalisation, to something like a super Pilbara blend product and all of that would have to be taken into account.

But I guess what I am saying is there are a lot of tunes to be played. It is pretty interesting and pretty exciting; it is a project that I personally have worked on for 10 years. We started our studying of it back in 1998 and had initial discussions with BHP at the time that fell by the wayside.

I think from both sides, as Tom mentioned, there is a lot of energy, there is a lot of enthusiasm, a lot of people that are very focused on what are the synergies and the values that can actually be delivered out of having two operations that have lived side by side, being co-joined. Thank you, Tom.

TOM ALBANESE:

You know, we saw these benefits with the North transaction and it was again a couple of years afterwards. We thought we had an idea what they were but it took a couple of years before we really put together all the ideas. There are not shortages of levers as Sam as clearly articulated.

QUESTION:

The question of a super blend, a Pilbara super blend, is it perilously close to joint marketing at the moment?

TOM ALBANESE:

We will each have our own completely different set of tonnes and we will be both very much independently marketing of those, and that will be a very key part of the regulatory approval process and obviously regulatory compliance on a going forward basis.

QUESTION:

I just wanted to ask a quick question on sort of medium, perhaps long term, on aluminium. Could you give us a few thoughts on how the cost curve might change as when, or if, carbon taxing comes in, what that might do to incentive pricing and how you are thinking about that?

JACYNTHE CÔTÉ:

It's an interesting question, when would that happened and on what form? Countries of the OECD are moving, I think they are pretty mindful of what the aluminium life cycle means but they are moving, and even if the Developing World lag in time, governments of the OECD countries start to ask how they will react to that? Some of the governments where we operate are already raising that question, how long will they import given the fact that they will have made the decision impacting their local production?

So it's complex and it will take time but we do see that from the way our business is developing as providing potential upside, being 76 per cent low carbon footprint electricity, and when you look at the profile because the energy consumption being so much more important to the smelting than in the refineries the smelting is the one we more closely watch, and if you look at the growth profile I have shown there is one on gas, two on gas, everything else is on hydro technically. The one that we didn't show that

we are working on is also low carbon footprint so we think that we would be well positioned to deal in that environment. Just to give an example, in Canada post-modernisation projects, our footprint per tonne will be almost 5 times less than the average industry.

TOM ALBANESE:

Yes. I think it's a very important point. I just want to make a couple of comments on this one supporting Jacynthe's point. If you look at the oldest technology with the worst power from a carbon perspective it is about 15 tonnes of carbon per tonne of aluminium metal and if you look at the best technology, as Jacynthe was describing, the AP50 with a hydro-based power you are looking at roughly 2 tonnes of carbon, so with 7X difference and you are sort of applying that to a future carbon price, it is a big competitive difference and a very big competitive incentive to move forward. Now I don't believe, nor do most people believe, realistically that we will have a constant carbon price globally and uniformly - although that should happen it won't happen - so we will have to recognise that parts of the world will see carbon pricing playing into alumina and also aluminium production.

The just so happens that the marginal alumina producer is likely to have carbon pricing early on the stage, so you are likely to see the marginal cost of alumina coming up early on in the piece but it will take some time before the marginal producer of aluminium begins to see it driving up.

Of course the bigger debate is going to be if part of the world has a natural economic advantage because they are not on a carbon pricing basis will the rest of the world put some type of tariffs or some type of carbon pricing at the borders, and that's going to be all part of the discussions that will be part and parcel with Copenhagen.

For our purpose, going back into Guy's points about the investment, about the rigor around investment decisions, we have actually mandated within our own investment guidelines every project has to be mapped along and part of its economics is to build in a prescribed pricing for carbon that is for the next 10 years, next 20 years, next 30 years or 40 years. Obviously it is not going to be a lot in the early years but it does ramp-up over time to quite a bit, so it is a very important question.

I think earlier today in a conversation with someone else I was asked the question, what going to be the emerging issue out there in the mining sector that people aren't really factoring in that much? And I think it is going to be this question of carbon. I think you are going to see as carbon really plays out through the economy there are going to be consequences that we're still all trying to grapple with. You are going to see winners and losers in the sector and winners and loser in different sectors versus other sectors, and that's going to be a very interesting strategic dynamic.

Thank you very much. I really appreciate all of your attention and I hope we gave you some information to chew on.