Rio Tinto - Reducing flight costs - Iron Ore

As Rio Tinto Iron Ore expands annual production capacity in the Pilbara, Western Australia, to 290 million tonnes, demand for flights is increasing. Iron Ore has taken action to reduce flight costs by:

- Challenging the need to fly
- Increasing use of webex and telepresence for meetings
- Renegotiating our contracts with airlines
- Prioritising our volumes to lower cost airlines
- Increasing the passenger numbers on our charter flights
- Reviewing charter routes and using bigger planes for economies of scale

A$10 MILLION 2013 YTD cost savings

Spend on international flights reduced by 50% in H1 2013

Flight volume vs average fare (one way)

Passengers travelled

<table>
<thead>
<tr>
<th>Month</th>
<th>Air fare (A$/flight)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan '12</td>
<td>H1 2012 A$381 avg</td>
</tr>
<tr>
<td>Mar '12</td>
<td>H2 2012 A$379 avg</td>
</tr>
<tr>
<td>Jun '12</td>
<td>H1 2013 A$363 avg</td>
</tr>
</tbody>
</table>

Legend:
- Passenger Volume (LHS)
- Average Fare (RHS)
**Contractors and consultants: Iron Ore**

Iron Ore has reduced total spend on contractors in the Pilbara, Western Australia, by A$70 million in H1 2013. This has been achieved despite a natural growth in contractor costs related to the Pilbara expansion to 290Mt/a. Spend on consultants has also been significantly reduced by A$33 million in H1 2013.

Cost management initiatives include:

- Negotiated decreases in contractor rates
- Competitively testing more of our maintenance work
- Introduced strict approval process for any consultant hire
- Strategic maintenance planning to reduce reliance on contractors
- Reduced need for contractors through increased use of employees
- More robust vendor selection processes

**Contractor costs**

- A$70 million saved on contractor spend in H1 2013

**Consultant costs**

- A$33 million saved on consultant spend in H1 2013

50% reduction in consultant costs per tonne of ore in H1 2013
Rio Tinto Coal Australia is consolidating its approach to skilled contract labour to simplify processes and reduce costs.

- Current coal market has enabled consolidation of suppliers at competitive prices, and reduced administration
- Suppliers per site reduced from 330 to 180, taking advantage of business conditions and volume discounts
- Using consolidated offsite repair workshops to pool skills and suppliers
- Expanding trainee programme to meet long-term skills requirements
- Rationalising suppliers improves controls and aligns safety standards
- General services labour consolidation is under way for long-term sustainability

Contractor labour estimated spend reduction of **20%** in 2013

A$550 million

-20%

2012 actual spend  
2013 expected spend
At Rio Tinto Coal Australia, external spend on maintenance, labour and heavy mining equipment was 20 per cent of total spend. Actions to reduce maintenance time, lower direct costs and increase asset productivity across all sites include:

- Improving maintenance times through standardisation, training and driving time on tools
- Reducing staff levels by smoothing demand peaks
- Monitoring the condition of key components to lengthen their life
- Best-in-class maintenance intervals balanced against reliability
- Ensuring major shutdown and overhaul maintenance activities are standardised and fit for purpose
- Reducing parts and labour costs
- Reduced downtime on equipment resulting in lower equipment costs, including hire costs

**Maintenance spend reduction of 19% in H1 2013 vs. H1 2012**
Rio Tinto is starting to source replacement equipment from suppliers in emerging markets. Substantial price reductions are being achieved, taking into account a more complex supply chain, and risk management. Outcomes include:

- Reducing reliance on original equipment manufacturers
- Competitive pricing due to broader supply base
- Trials continue to test contractual and technical risk assumptions

**Further goods and services emerging markets opportunities**
- Engineering design and drafting
- Maintenance planning
- Contract management
- Heavy mobile equipment
- Processing plant components
- Tyres/conveyor belts
- Consumables
- Process automation

**Track pads**
Direct procurement with emerging markets supplier

**Truck trays**
Design engineer & procure with emerging markets supplier

- More than 50% price reduction over current supplier
- 40% price reduction over current supplier
Rio Tinto  

Productivity and operating efficiencies: Diamonds & Minerals

- Major productivity initiatives are expected to deliver approx. US$30 million savings in 2013
- US$16 million savings achieved in H1 2013
- Savings in 2013 will help mitigate the impact of market-related production cuts
- Focus on agility and flexibility of workforce
- Forecast production growth over the next five years to be achieved without comparable increase in headcount

US$30 million savings forecast for 2013

**Boron Mine action plan 2013**
Boron Mine’s review of shift changes and break times has led to operating efficiencies. The mine has reduced the number of haul trucks by three, lowered fuel consumption, and reduced overtime and full time equivalents (FTEs) by 16. Annualised savings of US$7m.

**Port Hedland harvest productivity improvement (Dampier Salt)**
A focus on increasing tonnes per shift has reduced production rosters at Port Hedland from four panels to three, also reducing FTEs. Tonnes per shift are 13 per cent higher year on year. Annualised savings of US$4m.

**Diavik optimises maintenance**
Diavik Diamond Mine has redesigned its mobile maintenance programme for underground operations to deliver the same level of performance with a reduced team. Enabled a reduction of 16 FTEs and annualised savings of US$5m.

*Port Hedland salt harvest productivity improvement*
Streamlined organisation: Diamonds & Minerals

- Review of support and operating organisational structures under way
- June headcount 1% lower than December 2012, further 3% reduction planned by December 2013

Expat reductions
35 expatriate roles have been localised or eliminated, including significant reductions at Simandou and QIT Madagascar Minerals. Total reduction of 57 by the end of 2013, realising annualised cost savings of US$24m.

Support role reductions
Net reduction of 223 support roles in H1 2013, including simplification of reporting lines. Annualised cost savings of US$30m expected.

Rio Tinto Iron & Titanium restructuring
Organisational review for Rio Tinto Iron & Titanium resulting in delayering of management levels and headcount reductions at sites. 63 roles removed YTD, reaching ~280 by end of year.
Rio Tinto Alcan has reviewed its procurement strategy for coke and caustic to identify opportunities to deliver savings. Initiatives include:

- Changing specifications and mix to optimise cost
- Working on procurement of coke and caustic in China
- Secured new sources of low sulphur green coke to meet environmental requirements
- Improving supply chain scheduling to save costs
- Optimising strategy for new contracts

**US$37 million** in savings on raw materials purchases in H1 2013 compared to H1 2012

**Over 15 per cent** cost savings for both commodities in H1 2013

Expected savings of more than **US$75 million** for the full year 2013

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**Coke expenditure (US$ millions)**

<table>
<thead>
<tr>
<th>H1 12 actuels</th>
<th>Marketing &amp; raw material savings</th>
<th>H1 13 actuels</th>
</tr>
</thead>
<tbody>
<tr>
<td>156.2</td>
<td>23.3</td>
<td>132.9</td>
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</tbody>
</table>

**Caustic expenditure (US$ millions)**

<table>
<thead>
<tr>
<th>H1 12 actuels</th>
<th>Marketing &amp; raw material cost savings</th>
<th>H1 13 actuels</th>
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</thead>
<tbody>
<tr>
<td>78.8</td>
<td>13.0</td>
<td>65.8</td>
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*(1) Assumes constant volumes*
Rio Tinto Copper is building an organisation to pursue greater value for shareholders and position the Copper group for long term success.

During 2013 Copper has experienced a step change in activity as a result of:
- The commencement of operations at Oyu Tolgoi
- La Granja moving towards feasibility study
- Portfolio changes due to divestment of non-core assets

These changes are supported by a focus on reducing costs and right sizing the organisation.

Employee related costs represented 29% of operating costs in 2012 and were expected to grow in line with copper production growth.

Copper has taken action to reduce material costs:
- US$12 million of savings from headcount reductions in service and support areas at managed operations
- Reduction of other service and support costs resulting in savings of US$8 million

Headcount reductions

Support costs reduced by US$20 million H1 2013 compared to H1 2012

Business unit delayering and right sizing US$40 million annualised savings