8 February 2017

J-S JACQUES (Chief Executive):

On this note I will open the Q&A for any questions you may have.

QUESTION:

To be honest, there is not much to ask given the solid numbers, but maybe one question. The Company has clearly been very good at giving away assets and selling assets at fair value or reasonable value and giving some dividend back, but clearly the main value driver is reinvestment. The Company is committed to two projects, but considering the very good balance sheet and the state of the commodity markets now, are you considering accelerating anything else in the pipeline and what are the main considerations around with this topic? And in relation to that, are there any jurisdictions that are out-of-bounds after the issues you have encountered over the last two or three years?

J-S JACQUES:

In terms of growth, the plans are pretty set for the next three years as is the capital guidance that we have reconfirmed today. Now the teams are really looking at long-term opportunities, the work is underway, but for the next three years it is pretty cast in stone, to be honest.

QUESTION:

Maybe a couple of questions.

First of all, on the cost savings it feels that either you are ‘low balling’ the potential here, $1.6 billion delivered in 2016, $400 million to come in 2017, or we are getting towards the end of the potential for cost savings. Can you give a better sense of whether you are not revising the cost saving target because you want to beat it or because you genuinely believe there is not huge amount more to come?

And then, maybe Chris, give us a bit of sense as to how you thought about the buy-back versus the dividend? Why didn’t you just give a $2 dividend rather this small buy-back?
J-S JACQUES:

I will take the first one.

I go back to November last year, we were very clear that at some point in time we need to look not only at the cost line but the top line and that's what will be captured through the productivity program. With productivity you have got two ways to value it, either way you improve the efficiency of your trucks, your trains, your shovels, you produce more and you sell more from the same cost base, or you produce the same quantum, from a lower cost base - the decision will be made on a market by market, on the asset by asset basis, depending on supply and demand balance in relation to the assets.

So are we going to slow down on costs? The answer is “no”, but we are already working on the $5 billion productivity improvement programme and that’s what the team is working on. So that’s where we are. So are we going to slow down? No. But, as we said today, the best investment and the best return we can have is by improving the cash yield of our $50 billion investment base, and that’s what we are doing. It is much more leverage in that sense.

And the technical question about buy-back and so on, across to Chris.

CHRIS LYNCH (Chief Financial Officer):

This is the first outing of the new dividend policy and I think we’ve honoured everything we said we’d do in the policy settings that we published this time last year. Going to the top of the range for the dividend I thought was important for all jurisdictions of shareholders. We want to make sure that we’ve embraced the variability that's in this dividend policy. I know some people won’t find that attractive but that is the reality and it’s important we honour that promise to have a distribution.

When you go through those criteria, the decision criteria, there was a favourable answer to most of those questions. The one I mentioned earlier in the speech was about the uncertainty on the more macro-geopolitical outcome or outlook, but the key was really to honour the commitment and we had the chance to go to the top end of range in the first outing.

The extra was because we also had capacity for more and we had that extra 10 per cent return of $500 million. The choice of the buy-back was just another way to return that capital and we think we have honoured all those commitments on that basis. So I think it is a fairly modest buy-back, I do agree with that, but it’s a good indication that we mean what we say when we are talking about returns.

J-S JACQUES:

To be clear, we have delivered on all our promises. We said we would continue to invest over the long-term in a very focused way; we said we would deliver superior cash returns; and at the same time we will continue to maintain and strengthen the balance sheet, and
that’s what we have done. But what you should expect going forward is exactly the same.

**QUESTION:**

A question on capex: if I look at your sustaining capex, your depreciation this year is 0.3, you have got it rising up to 0.5 next year. Chris, I know I have asked you about this before, but is this really sustainable for the medium term? And then the other one is just tax, any comments on the events, the evolution of the situation in Western Australia?

**J-S JACQUES:**

Chris, I will take the first one and then you can take the next one?

We did challenge all the teams about the level of sustained capex to make sure that they don’t do anything stupid because, as we said, we are looking at the business with a long-term perspective and we did some very specific, very technical reviews, and today we are comfortable with the level of sustained capex across all our assets. Now going forward, you will see an increase in terms of sustained capex, that is absolutely clear, and this will be combined as well, especially in the context of the Pilbara that you have seen on the graph, that we will have to spend more and more money in relation to replacement capex because when you move 330-340 million tonnes per annum at one stage you need to open up some new mines. So today are we comfortable with the level of sustained capex? The answer is “yes”. But in the coming years it will increase.

**CHRIS LYNCH:**

The issue on this one is really about international competitiveness. J-S mentioned Indonesia, but throwing changes into an environment like that unilaterally and targeting two companies - is a big statement about what the country risk or the investment risk is in those sorts of jurisdictions. But, having said that, that is as much as I would say. But we have got to make sure that we don’t take advantage of people who are doing well purely to solve other problems. That’s the challenge that is there. I think in the balance I doubt it will happen it’s the wrong way to go about solving a state budgetary problem, to change a state agreement.

**J-S JACQUES:**

All right, why don’t we take a question from the call?

**QUESTION:**

The first question is on the Aluminium Division.
Cost performance continues to be pretty impressive; the division did most of the heavy lifting for the Group in 2016. My calculations show that your primary metal unit costs dropped to 56 cents a lb, and the December half was a great performance.

The question is, how much further can you reduce primary metal unit costs or overhead reductions in production creep, and I’m really interested in what the contribution of the Aluminium Division is to the $5 billion free cash flow target? That’s the first question.

And I have a second question and more specific probably for J-S, it’s actually on Grasberg. I listened to the comments about investing in these jurisdictions, but you spend a billion dollars on the Grasberg Block Cave and DMLZ underground mine, yet my interpretation is now there’s a real risk that the ramp up of the underground is delayed.

But the prize here is significant.

So the question is, with Freeport negotiating the Contract of Work extension, how do you ensure that shareholders will achieve a return on your investment? Thanks.

J-S JACQUES:

All right, I am going to pick the Grasberg one. Will you pick the other one, Chris?

The question on Grasberg is the following, we were of us all taken by surprise by the changes of regulations that occurred three weeks’ ago. First of all, it is across the entire mining business, it is not only targeted at Grasberg per se. That’s the first point.

The second point is, it was clearly not in the spirit of the discussion even four weeks’ ago, and remember a couple of years’ ago we had signed an MOU with the government to extend the Contract of Work. So everybody was taken by surprise.

It is a very challenging situation. I can tell you we are working very closely with Freeport. The last Conf-call we had with them was on Sunday, and Richard Atkinson – as far as I understand if I’ve got the timing right – should be on the plane as we speak on his way back to check up.

It’s a very serious matter; we are taking it very seriously. Now, having said that, we shouldn’t forget that Grasberg for us, is an option. We do not have equity ownership, it’s an option, and depending on what may happen in the coming weeks and months we may have to take some decisions. But it’s early days.

I can tell you there are lots of governments which are very concerned at this point in time about what’s happening in Indonesia. There’s lots of support to Freeport, to Rio, and a few others. Discussions are underway. As and when progress is made we will inform the market. That’s where we are at this point in time.

Chris, if you could pick up the other one?

CHRIS LYNCH:

With regard to Aluminium, I guess you can isolate three components but the bauxite has the same productivity opportunities as any of the other mine sites do with regard to fleet and efficiency of those types of processes.
The refineries have made some significant progress and are now at cash neutral where if you went back a couple of years they were draining cash.

On the smelting side and in terms of productivity, we haven’t actually allocated productivity to this business, that business or whatever at this stage. We have got some broad metrics and we will talking more about more detailed metrics in the future. But when you get to the smelters productivity can have the same cost structure with more output or the same output with less costs, and both of those are productivity gains. The smelters are relatively a fixed environments so we have got capacity there for basic creep, a creep in the tonnage.

The other thing to keep an eye out for though in the smelters is they will have a few headwinds as well with costs, and just think about the carbon material side of the business for the coke and pitch and the like that will go in there. We expect them to be a healthy contributor to productivity gains, they will be under the same sort of internal pressures as everybody else will be, and they have made great progress on their cost structure thus far; there is more to come.

But I think you should expect – I think it was an earlier question – the low hanging fruit has been well and truly harvested here, so we are getting to the stage where incremental improvements are getting more and more difficult.

The productivity drive is important and it’s important to get the focus not only on costs but also on the top line aspects of that as well, so it can be different product, it can be ability to ramp up and down with production as well. That also an important payback of productivity, the more you are in control of the process is what’s going to deliver the productivity gains.

**J-S JACQUES:**

All right. Thank you, Chris. Why don’t we come back to the room?

**QUESTION:**

It’s following up on the question about the sustaining capex, and it’s related to the growth profile, you are saying you want a Copper equivalent of 2 per cent per annum. I was just wondering if you have sort of outlined the growth capex over the medium and longer term that would be required to support that?

Should we be looking at sort of $3 billion or $4 billion as per what seems to be indicated here or what is your thinking on that?

And second, I mention again growth rate of about 2 per cent. Where does that sit relative to your assumptions about, say, global growth? Are you looking at growing output below or above that sort of trend GDP line? Thanks very much.
J-S JACQUES:

Thanks for your question. The 2 per cent that was quoted in November, that you see on the first slide again, is what we have in the pipeline today and we have given you and we reconfirm today the capital expenditure for the next three years. So that is no change from what we have given.

The 2 per cent that we currently have for the next ten years is below GDP.

QUESTION:

You mentioned the need to eventually increase replacement capex in the Pilbara. Back in the November Investor Day I think you put a $1 billion mark on that.

J-S JACQUES:

For the next three years.

QUESTIONER:

Yes. When do you have to approve that billion dollars? When does that go to the Board?

J-S JACQUES:

It is not only one project, it is a series of different projects and it’s on a regular basis. For example, in December we did approve the next stage of development of Yandi, so it’s just on the regular basis.

QUESTIONER:

So is that in your Group capex guidance?

J-S JACQUES:

Yes, absolutely. It is fully baked in.

QUESTIONER:

And in terms of the ongoing investigations at Simandou and on the Mozambique Coal side, in your statement this morning you have spoken about a potential material financial cost. At what point do you have to provision for that?
CHRIS LYNCH:

Well, the investigations are at an early stage. We have no feedback even as to outcome, much less consequence, so we have to have a statement in the release to identify the fact of the investigation. But it’s quite early and we have no basis for any even assessment, or the consequence of any outcome should it be a negative outcome. So we don’t have any basis to provide at this stage, but the instant we do we’ll be in communication.

J-S JACQUES:

We review the situation on a regular basis, it’s early days, but we had to put something in the press release today.

QUESTION:

The first question on Copper and Resolution in particular, it’s quite early days obviously in the new US Administration but some indications that they might be a bit more friendly and quicker in terms of permitting processes etc. Could you talk a little bit about any engagement that you’ve had there and what your feeling is on timings? And secondly, just a very quick one on the buy-back, I think historically you’ve only announced buy-backs with your Annual Results. Should we expect that to be the same going forward or is this now a kind of six monthly decision?

J-S JACQUES:

Chris, I will take the Resolution question.
It’s early days for the Trump Administration. We don’t do politics as far as Rio is concerned. Remember that for some of our assets, like Borax, this year is a pretty special year because we have been for 125 years. So we are engaging with the Trump Administration, it’s early days, and I will go to DC in March to meet directly with some of the key officials. We’ll progress as much as we can, but nothing more I can say at this stage, no.

CHRIS LYNCH:

On the buy-backs, I think we have been pretty clear on the record about it, that this time is really the key returns decision timeframe for the year. We do have to make more decisions now at the Interim than we previously did under the old progressive dividend; we had an arithmetic outcome for the Interim. Last year we had the undertaking of not less than a $1.10, so we sort of provided toward that in the Interim.
So the Board does have to make some more decisions in August, but you should expect the February decision time to be the main conduit for all those decisions about returns.

QUESTION:

You have got this year $9.6 billion available for capital allocation and that included this year $3.9 billion that was used to reduced the balance sheet debt with the gearing target 17 per cent below where we are and also with prices likely to be higher than where they were through the year, as well as for the cost savings etc.

I guess the question I have, is there a point where there is too much cash returns? And further to an earlier question, can you start to think about other growth projects to speed up at this point?

J-S JACQUES:

We are working in terms of beefing up the growth pipeline but for the next three to four years it’s pretty set.

It takes an awful lot of time to develop new options - I mean if you look at Oyu Tolgoi as an example, it's 25 years. I saw a statistic last week from our exploration people, on average between the time you find a nice rock, where you could have diamonds and the time you have got cash flow, is 30 years. So let’s do the work properly in that space.

That's why we are very comfortable with reconfirming the capex guidance because those are the projects we want to pursue, not because they are the only ones which are available, it’s because they will provide the right level of returns to our shareholders.

So that’s what we have in the pipeline and then beyond that we are working on it, and for this reason we will provide you with more details as and when we can do in that space.

Now in terms of allocation of cash, the model is very simple, the first priority is to generate the cash through productivity, for example, through the strengthening of the portfolio and then we go through the so-called ‘washing machine’, that you have seen many, many times, and by that point in time we will take the right decision and we want to have a balanced view between shareholder returns, long-term growth and the strength of the balance sheet. So we go through the process on a regular basis.

But let’s create the problem, the good problem to have, let’s make sure we have got all the cash generated and then we can have a good conversation on how we will allocate the cash.

QUESTION:

Just harping on a little bit more about copper and options, it’s a little bit unusual for a diversified miner to have zero percent of earnings coming from the Copper and Minerals Divisions.
Does it concern you that it is quite small and obviously the copper market could tighten in the coming months because of production disruptions at two mines that you have got a stake in?
So are there any other ways to heighten the contribution of copper to the portfolio that you are looking at, maybe on acquisitions, SMART acquisitions, or other greenfield opportunities like the Resolution copper project?

J-S JACQUES:

So the question on the M&A, the answer is pretty simple. For us the growth strategy is about build and SMART M&A, to answer your question.
When I look at the recent valuations of some of the transactions, like in the DRC, like Morenci which was a private transaction to some extent, or even Zaldivar, a great price, or even Northparkes that we sold if you remember a few years’ ago, a great price for the seller. We will keep a watching brief on the M&A but unless the alignment of stars is the right one, unless we have a compelling business case we are not going to rush into the M&A space. That doesn’t make sense; we will be consistent with this strategy.
Everybody knows more or less in this room that there are the four or five key assets, world class copper, I would absolutely love to have and I have on my Christmas list – I won’t tell you which year by the way - but everybody knows which ones they are. But none of those assets aren’t for sale today and the current owners have repaired their balance sheets, in a very significant way.
So we have a situation today, if one of those assets was for sale you can be sure of one thing, there would be an auction process and there would be the Chinese and a few others in the process and therefore you can be sure of one thing, the price would be very good for the seller; I’m not sure about the buyer. So yes, we need to grow but today it is about build and SMART buy. We have a very high level of threshold in relation to the buy.

QUESTION:

You mentioned in your reply to a question on the phone that Grasberg was an option. Can you just flesh that out a little bit more?

J-S JACQUES:

There is no doubt that Grasberg is a world-class resource but the key question, especially in light of what happened three weeks’ ago, is whether Grasberg is a world-class business for Rio Tinto? The 1995 Agreement is a complicated one, we don’t have equity in Grasberg, it’s a stream, so for us if we want to have a meaningful off-take and stream beyond 2021 we would need to invest in a big way in the coming years.
Clearly in the context, the uncertain context that we have just described a few minutes’ ago, we are going to watch very carefully what’s happening before we commit additional
material money into this project. That’s what I mean by our option, we don’t have equity in the normal sense in Grasberg, it’s a stream - a complicated stream but it is a stream. Maybe a question from the call?

**QUESTION:**

I have a couple of questions. First off, just in regard to the additional sort of rehabilitation costs for Gove, quite a significant increase and we have seen that happen I suppose with Ranger at ERA. Is that being looked and applied across, the other closure provisions across the other assets given the potential issue across the industry for closure costs to be underestimated?

And also just in regards to Autohaul®, essentially some progress being made there, what steps are required before we can actually run the trains without a driver on board with the automotive systems, but in terms of government approval etc?

**J-S JACQUES:**

Autohaul® is working, the technology is working, we are improving the technology further and now we are really in the ramp up and we do it in a very phased and structured way. There are lots of discussions, as we speak, with the regulators and we still have, I don’t know if its 18 months/2 years ahead of us before it is fully deployed.

But the technology today is working and is working pretty well. When I was in the Pilbara with Chris they showed us all the safety tricks - putting a car in the middle of the rail to show that the train can stop and so on and so forth. It’s working.

Now it’s about deployment. It was a difficult process because we had a lot of IT issues, a lot of telcom, but today it’s working and we are going through the ramp up and at the same time, as I said, we are working very closely with the regulator to get all the authorisation involved to do it. It’s in a phased and structure way but we can see the light at the end of the tunnel, if I can put it this way.

**CHRIS LYNCH:**

The question about closure provisions for Gove, we curtailed the refinery at Gove. We are still continuing to mine there and we’ll continue to do that for sometime. But it’s really around the refinery and the residue dams, pertaining to refinery. We are in the normal capital expenditure approval process for the ideal path for exactly what will happen, it is the remediation there. We do have a process where we look at closure provisions on a regular basis and an annual basis.

As you get closer to the period where you are actually closing the operation or actually remediating, then it gets a whole lot more specifics scrutiny about exactly how that project will happen. We will continue work on that because we don’t have the perfect answer for exactly what we want to do yet, but we had enough to warrant a review of that provision.
I think the same is true in the case of ERA with the current mining lease expires in 2021 and rehabilitation and remediation has to be completed by 2026. So that’s our plan, we are working toward that and we are making sure we have got cash there available to do that rehabilitation.

**J-S JACQUES:**

All right. Thank you, Chris. Why don’t we take another question from the Call?

**QUESTION:**

Just a couple of quick ones, and the first thing is Kennecott. Obviously they have had a pretty tough year, as we know, but it’s still carrying a fair amount of book value. Are you still confident you will be able to turn that asset around? Obviously processing others’ ores through the smelter isn’t a very profitable exercise by the results and so I am just wondering whether you are confident in the turnaround there?
And then just on the presentation, on page 3, I notice you had a picture of an electric car. I mean, are we to take from that the Jadar lithium project is moving along quite nicely in the feasibility stage?

**J-S JACQUES:**

The electric car is made of aluminium, copper, lithium for the battery, even has strengthened steel in some of them, so don’t draw any conclusions. But I can confirm that we are studying very carefully the Jadar project, the study is underway and when we have something else to share with the market we will do it. I think it is a broad range of products here.
On the KUC piece, we still have a few years which are challenging at KUC because we are doing the South Pushback but so far we are on track and we believe with the South Pushback we will be able to extend the life of the mine in a profitable way.
Now let me be clear, Kennecott will never come back to a Q1 asset, we have to be very clear, but it can be a solid Q2 or Q3 asset in a place, which is the US, which is a pretty friendly environment.
And then back to the question we had earlier today about Trump. It’s early days but if Trump is serious about investing in the infrastructure that could be very positive for the copper industry and we are the largest player, as you know, or one of the largest players in the US.
The mine has been there for 112 years and I can tell you with the Obama Administration and with the Trump Administration there have been lots of discussions about how we can contribute even further to the US economy by providing what they call ‘critical minerals’, which is not only about copper but also the other by-products that we can extract from Kennecott today and potentially from Resolution in due course. So work is underway at
Kennecott, the South Pushback is going well, and I hope that in a few years from now you’ll see some nice meaningful cash flow coming out of Kennecott.
If we go back to the room, I’m just conscious of time so there won’t be too many questions – there will be one last question.

**QUESTION:**

There are a lot of clever people around who think iron ore is going to be $55/t by the end of this year; I’m not one of those people. You can manage value over volume to some extent, but is the price really being set by a bunch of taxi-drivers and day traders out of China in the Dalian Exchange, what is actually setting the price at these sorts of levels given supply and demand fundamentals?

**J-S JACQUES:**

My sense is that the key source of uncertainty in relation to China and therefore the iron ore is the old question about the domestic iron ore production. If you go back to three years’ ago they produced 400 million tonnes; last year, and we don’t have latest data, the latest statistics, but it was between 250-275 million tonnes.
We are in winter in China and so a lot of those small mines are shutdown. The old question is around when we get into the summer months are those mines going to restart or not? Depending on the answer to this question it could have an impact on prices.
Now what is important for us, when we talk about value over volume in the context of iron ore one dimension is really around making sure we produce the right product for the right customers.
Back to the point I mentioned today, as and when the government restructure the SOEs in China because of pollution issues and as they want to increase the productivity of their best blast furnaces, many on the coast by the way, in order to increase the productivity of your blast furnace you need to improve quality and that’s where you are going to need higher coking coal quality and that’s where you are going to need higher iron ore quality.
We see lots of opportunities in that space, so that’s where we are.
I’m just conscious of time. Thanks a lot for coming.

I think the story is pretty straightforward, if I wrap it up. If I go back to the Capital Markets Day– we have delivered on all our promises including the shareholder returns, the superior cash returns, and I think $3.6 billion is a good quantum and what you should expect from us is exactly the same going forward.
We look forward to meeting you in August. Thank you and goodbye for now.

(End of Q&A Session)