

Slide 1 - Results cover

7 August 2014 | Safety | Highlights | Performance | Delivery

RioTinto

2014 interim results

Delivering greater value for shareholders

Slide 2 - Cautionary statement

Cautionary statement

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Slide 3 - Sam Walsh



Good morning ladies and gentlemen. Welcome to those joining us today by webcast.

Our CFO, Chris Lynch, also joins us from Australia.

Slide 4 - Delivering Results**Delivering results**

Underlying earnings of \$5.1 billion (+21%)

Increased cash flows from operations of \$8.7 billion

\$4.4 billion of net earnings

Net debt reduced by \$6 billion vs. H1 2013

Interim dividend increased by 15%

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It's a privilege to stand before you as Chief Executive of Rio Tinto, and present our 2014 half year results.

It's been another active and very successful half for Rio Tinto.

We continue to move forward at pace, towards our goal of delivering greater value for you, our shareholders.

The evidence of this, is in the very strong underlying earnings and operating cash flow, that you see in our results today.

We have already exceeded our cost reduction goals, we have improved productivity, and we've reduced capital expenditure and reduced net debt.

And these results are even more impressive, considering the backdrop of continuing market uncertainty.

Prices for many of our commodities were down during the first half of this year, and the global economy continues to re-set, following the global financial crisis.

Within this environment, we have emerged a more focussed and leaner business.

We now have greater options, to make the most of the attractive long term outlook for our products.

Even though I am very pleased with Rio Tinto's progress over the last 18 months, there are still significant opportunities ahead of us, and the job certainly isn't finished.

We are working hard on embedding the improvements we have achieved so far.

We are confident that Rio Tinto's low cost, diversified portfolio will continue to generate strong sustainable cash flows.

This solid foundation will result in materially increased cash returns to shareholders.

Our interim dividend is up by 15%, in line with the increase we made to our full-year dividend six months ago.

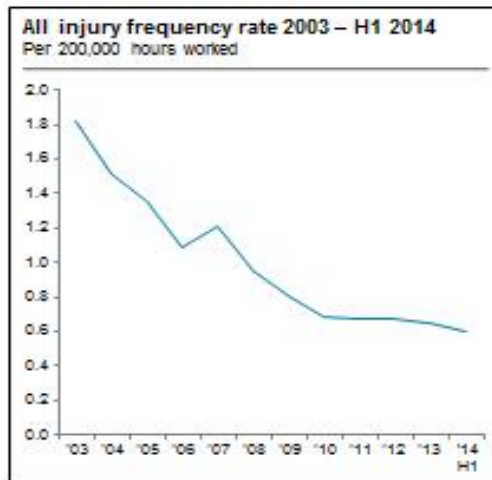
The group remains committed to our progressive dividend policy, and we have considerable capacity, to further enhance this, with consistent, additional cash returns to shareholders in the future.

We will talk more about this, in February of next year.

Turning to today's agenda, as always I will start with a few comments on safety, and then share the headlines for the first half.

Chris will then take us through the results, along with a reminder of our capital allocation framework.

To wrap up, I will comment on each of our businesses and our commitments to you. And, we will close with questions.

Slide 5 - Safety is critical to operating effectively**Safety is critical to operating effectively**

Safety assessment at Yandicoogina

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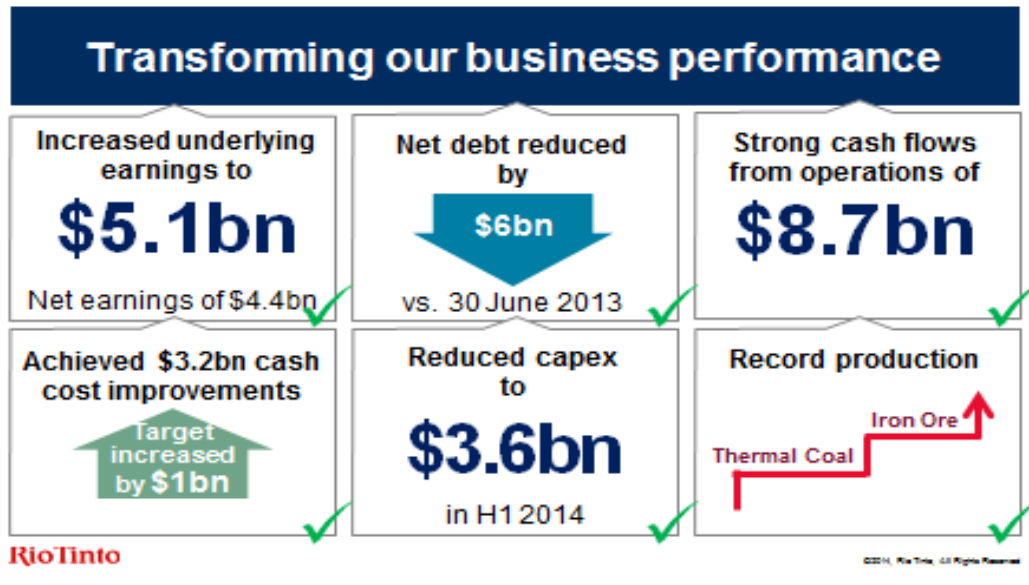
Our safety performance is continuing to show signs of improvement, with our all injury frequency rate declining.

But we also had sad news in the half, with the death of a colleague, Darrell Manderson, at the Gove refinery in February.

Our thoughts and prayers are with Darrell's family and friends, who have suffered such a tremendous loss.

We want to, and need to do much better on safety.

Understanding and respecting the dangers in our workplace, and managing them effectively, allows us to take care of our people.

Slide 6 - Delivering greater value for shareholders**Delivering greater value for shareholders**

Let me now turn to some highlights of our half year performance.

Our underlying earnings were \$5.1 billion, up 21 per cent over the same period last year.

We have achieved \$3.2 billion of sustainable cost reductions, exceeding the \$3 billion target we had set, six months ahead of schedule.

We reduced our capital expenditure to \$3.6 billion, as our tighter capital allocation processes mean we are prioritising investment in only the highest value opportunities.

Our balance sheet is stronger, with net debt reduced by \$6 billion compared to a year ago, to \$16.1 billion, in line with our mid-teens target.

And we continue to deliver our growth projects. In the Pilbara, we have reached nameplate capacity of 290 million tonnes a year, two months ahead of schedule, leading to new records for shipments and production.

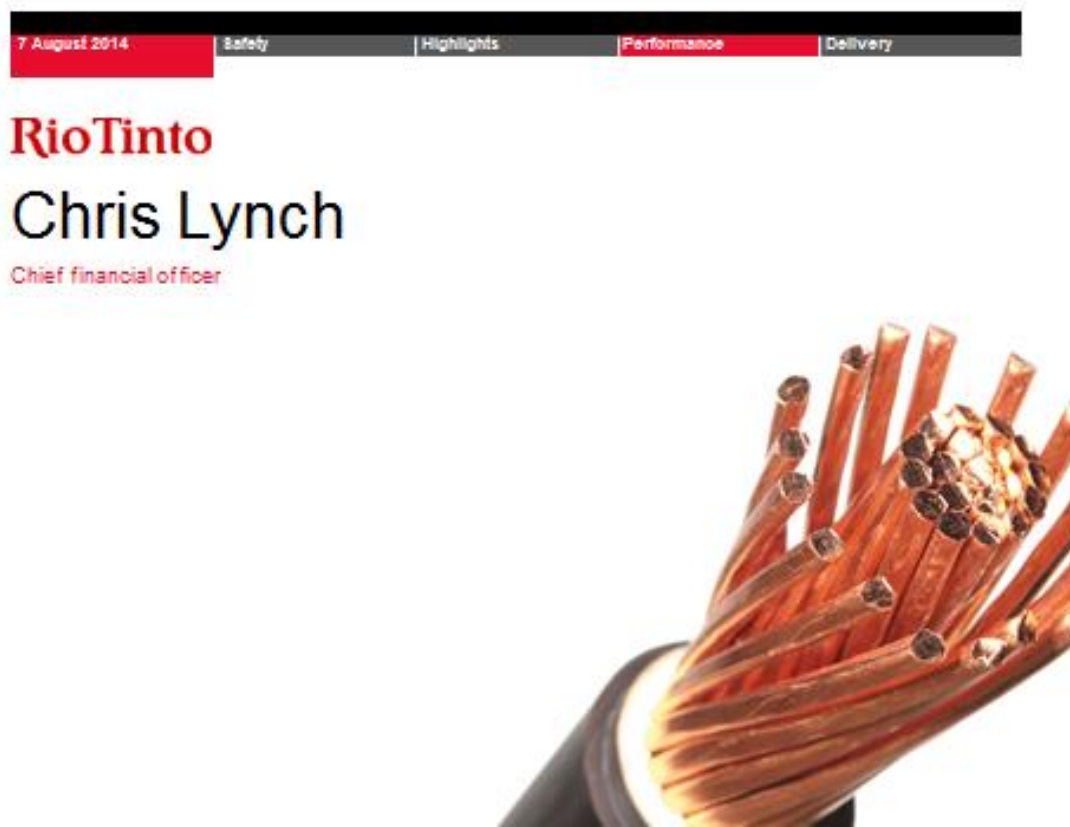
Critically, these improvements are generating increased cash flows from operations, which improved by eight per cent compared to the first half of last year.

The importance of cash, is being fully recognised as our employees bring the notion of 'acting like an owner' to life.

The focus is now on sustaining and building on our efforts, to continue the drive to become a leaner, more agile, cash-focused and tightly-run business.

Building on this momentum, we now expect to deliver a further \$1 billion of sustainable cash cost improvements by the end of 2015.

So, with that, let me now hand over to Chris to go through the numbers in detail.

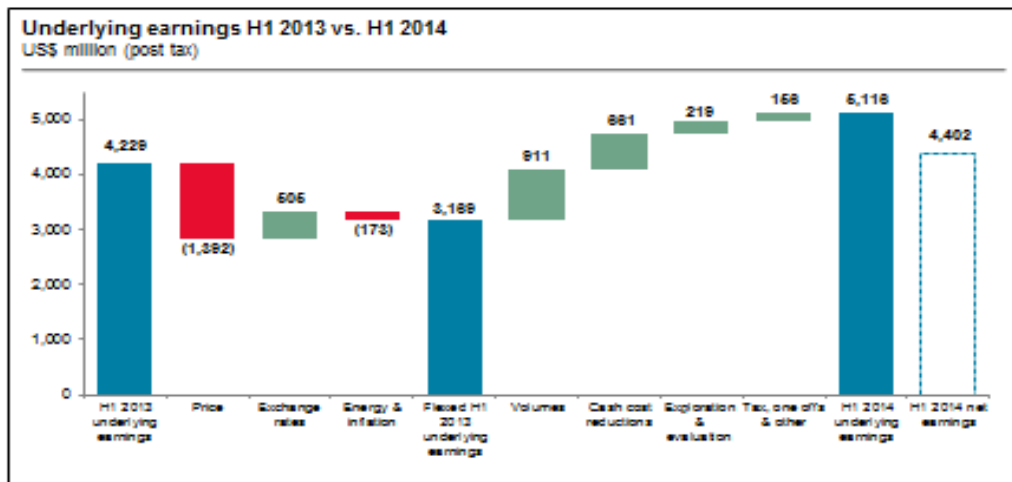
Slide 7 - Chris Lynch

Thank you, Sam. I'd now like to take you through our financial performance so far this year.

I'll also talk about why we are confident in the outlook for strong cash flows from our world class assets, and the framework we have in place to allocate these cash flows, in order to maximise value for shareholders.

Slide 8 - 21% increase in underlying earnings as volume growth and cost improvements offset lower prices

21% increase in underlying earnings as volume growth and cost improvements offset lower prices



Underlying earnings are up by \$887 million versus the first half of 2013, but this understates the true extent of our operational improvements.

Removing the impact of prices and exchange rates, we've achieved almost \$2 billion of controllable earnings improvements, through lower costs and higher volumes.

I will shortly return to the performance at each of our businesses which made this outstanding result possible.

Net earnings for the period are \$4.4 billion, negatively impacted by a further write down at the Kitimat modernisation project.

We said in February that a review of major capital projects had identified an over-run at Kitimat.

We have now completed the review and re-estimation of the capital costs, and have

identified \$1.5 billion of additional capital required to complete the project.

The total capital cost will now be \$4.8 billion, and the project is scheduled for commissioning in the first half of 2015.

This cost increase is a very disappointing outcome, but we are now on top of this project.

We have put in place new management, enhanced our project delivery team, and we will continue to work with our main contractor to improve performance.

Slide 9 - Product group earnings were higher, driven by increases in Iron Ore, Copper and Aluminium

Product group earnings were higher, driven by increases in Iron Ore, Copper and Aluminium

| Underlying earnings (\$m) | H1 2013 | H1 2014 | Change | Key drivers |
|--|---------|---------|--------|---|
| Iron Ore | 4,273 | 4,683 | +10% | Volume growth offsetting lower prices |
| Aluminium | 214 | 373 | +74% | Cost reductions and higher market and value-added premiums |
| Copper | 348 | 594 | +71% | Volume improvement and cost reductions |
| Energy | (52) | (19) | +63% | Cost reductions offsetting price weakness |
| Diamonds & Minerals | 192 | 160 | (17%) | Cost reductions and diamonds partly offsetting lower prices |
| Other ops./ other items/ exploration/ interest | (746) | (675) | +10% | |
| Underlying earnings | 4,229 | 5,116 | +21% | |

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Returning to our operations. In iron ore, record sales were achieved in the Pilbara which, along with the weaker Australian dollar and cost improvements, more than offset lower prices for the half.

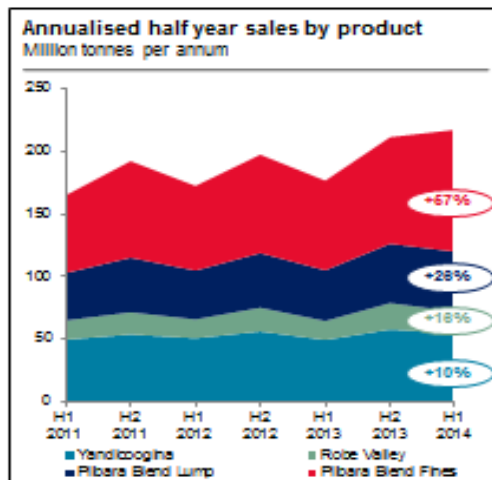
The transformation of our Aluminium division continues to deliver results despite lower quoted LME prices. Cost savings, coupled with strong premia, drove earnings up by almost 74 per cent, and EBITDA exceeded \$1 billion.

Copper earnings were up by over 70 per cent. A strong operational performance saw mined copper production increase by 23 per cent, following the recovery in grades at Kennecott Utah Copper and the continuing ramp up of shipments at Oyu Tolgoi.

In Energy, thermal coal prices declined to the lowest level since October 2009 during the

first half. However, the exceptional work of the team to reduce costs and increase productivity at our thermal coal operations has helped to mitigate this impact.

And in Diamonds and Minerals, underlying earnings were down, reflecting lower prices for zircon, titanium dioxide feedstocks, borates and metallics. We continue to reshape these businesses to ensure that they are matching production to demand, minimising costs and so are well positioned to take advantage of future price increases.

Slide 10 - Optimising the value of our high quality iron ore growth**Optimising the value of our high quality iron ore growth**

- Demand for steel remains strong in China: 3-4% increase expected in 2014
- ~125 Mt of high cost global iron ore supply expected to exit in 2014
- Marketing is a key driver in our integrated business
- Pilbara Blend products are key references for 62% Fe indices
- Pilbara Blends offer our customers reliable, long-term supply of stable product quality

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One of the key headwinds we have faced this year is lower iron ore prices, with the spot price averaging 20 per cent less than in 2013.

But the quality of our business, together with our marketing leadership, is ensuring that we continue to deliver significant value.

Demand for iron ore remains strong, with steel production in China expected to grow by 3 to 4 per cent year-on-year in 2014.

Most of this increase has been driven by domestic consumption, and we have seen growth in steel consuming sectors like infrastructure, machinery, and transport offsetting weaker activity in residential construction.

As anticipated, this has been a period of growth in seaborne supply of iron ore and a

commensurate exit of high cost supply. With around 125 million tonnes expected to leave the market this year in response to lower prices.

We have already seen significant curtailments of iron ore supply from the Chinese domestic sector, as well as reductions from non-traditional suppliers such as Indonesia and Iran.

We are better placed to thrive in this environment than any other iron ore producer, given our industry-leading low costs of production, the quality of our Pilbara Blend products and our strong marketing capabilities.

Anticipating market developments and understanding our customers' needs has always been a core capability of our operating model.

Product design and market analysis are key inputs into our long term mine planning and sequencing, as well as our shorter term production decisions.

The integration of marketing and operations ensures we can deliver the volume and quality of products, valued by our customers, which are aligned with our resources.

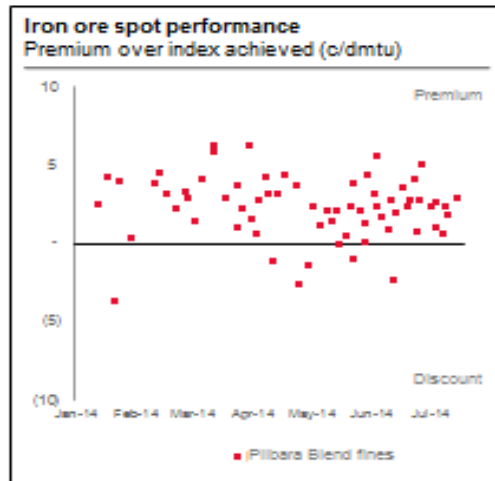
Pilbara Blend products, introduced by Rio Tinto in 2007, are the base feed and largest consumed product by Chinese steel mills.

Pilbara Blend sets the industry standard so to speak.

While much of the industry growth in seaborne supply over the past six months has been low quality material, leading to increased discounting by some producers, the focus of our expansions has been on our Pilbara Blend products.

These now represent approximately 70 per cent of our current Pilbara portfolio.

We continue to experience high levels of demand for our products across varying market conditions.

Slide 11 - Delivering significant value through market leadership**Delivering significant value through marketing leadership**

- \$99 per wet metric tonne (FOB) average realised price in H1 2014
- Pilbara Blend fines spot sales consistently achieve a premium above the Platts 62% Fe index
- Relative value of our other non-Pilbara Blend iron ore products have remained consistent

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In recent years iron ore markets have changed significantly; but the core competencies required to create value have remained constant.

These competencies include our industry knowledge, product alignment, strategic agility, and supply chain optimisation; and it is within these four areas that our iron ore sales and marketing group excels.

As an example, you can see from the chart that Pilbara Blend fines spot sales achieve, on average, a premium above the Platts 62 per cent iron index.

Over the whole of our Pilbara sales portfolio we achieved an average realised FOB price of \$99 per wet metric tonne in the first half.

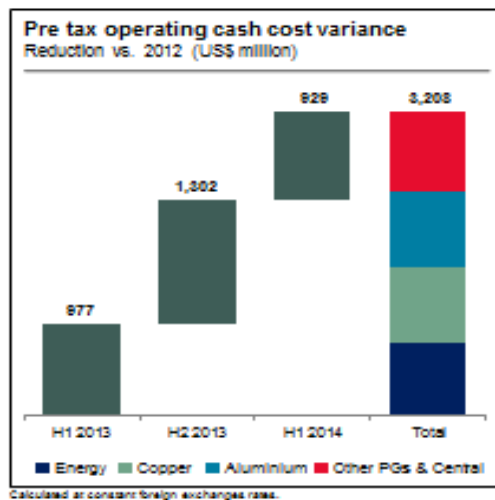
Furthermore, the relative value of our non-Pilbara Blend products has remained consistent in the first half of 2014 compared to prior years.

By maintaining the stable quality of our product, and working with our customers, we are able to optimise the value of our products in the market.

And so, while we have experienced lower prices this half, we are confident in the outlook for our iron ore business, given the healthy demand outlook, our low cost of production and our high product quality.

Slide 12 - Exceeded our full year operating cost reductions ahead of schedule

Exceeded our full year operating cost reduction targets ahead of schedule



- \$3.2 billion of operating cash cost improvement vs. \$3 billion target
- Exceeded target six months ahead of schedule
- \$1 billion of additional cash cost savings targeted by the end of 2015
- Operational excellence is now culturally embedded
- \$1.2 billion reduction in exploration & evaluation spend compared to 2012 in addition to \$3.2 billion operating cost reductions

Turning from revenue to cost, we have beaten our cost reduction targets, with \$3.2 billion of sustainable operating cash cost improvements.

This is a great result six months early, reflecting the determined efforts of our employees across the business.

And, based on our planning for the rest of this year and next, we are expecting a further \$1 billion of sustainable cash cost improvement by the end of 2015.

Just one example of improvement comes from our Alma smelter, in Canada.

Here, the team have used the “LEAN” philosophy to increase productivity by 16 percent compared with 2011, by focussing on standardising tasks across the plant.

This has led to improved work quality, efficiency and operational stability. It has increased productivity, and enabled reductions in the workforce.

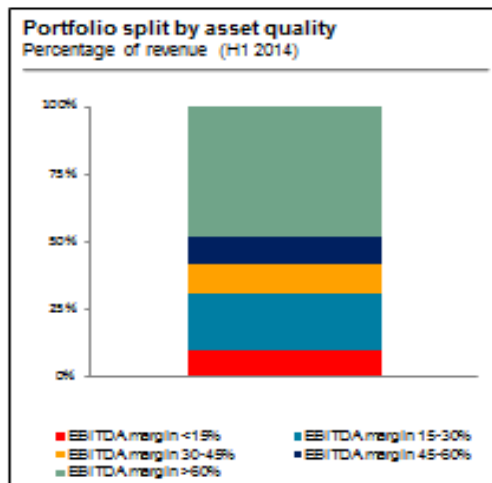
We have included a series of case studies from across the group in the back of your packs.

These give some insight in to the success we are achieving.

And our focus is not just on operating costs, we are also reducing the cost of our exploration and evaluation activities by focussing on the highest value projects.

Let me assure you, though, this will not come at the cost of future growth for the business.

Our exploration and evaluation group is viewed as the best in the industry and continues to generate tier one investment opportunities.

Slide 13 - A leading portfolio of high quality assets**A leading portfolio of high quality assets**

- High quality, low cost assets reduce volatility of earnings and cash flow
- Almost half of our sales generate EBITDA margins in excess of 60%
- Businesses earning lower margins are poised to benefit from price recovery
 - Low cost bauxite and aluminium smelting
 - Extensive thermal coal resources
 - Industry leading titanium dioxide

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What is truly impressive about our cost reductions, is that our assets already have well positioned cost structures.

Almost half of our revenue is generated by businesses with EBITDA margins in excess of 60 per cent.

And those assets that are not currently generating such high margins are, in general, low cost producers in their respective industry sectors, poised to benefit from price recoveries.

For example, our aluminium business realised, on average, an EBITDA margin of around 20 per cent in the first half.

But, these assets are low cost, and any price improvement will flow through to the bottom line.

In fact, a 10% change in the LME price for aluminium leads to a \$444 million earnings impact.

We are now starting to see some improvement in aluminium prices, as a modest supply deficit opens up outside of China.

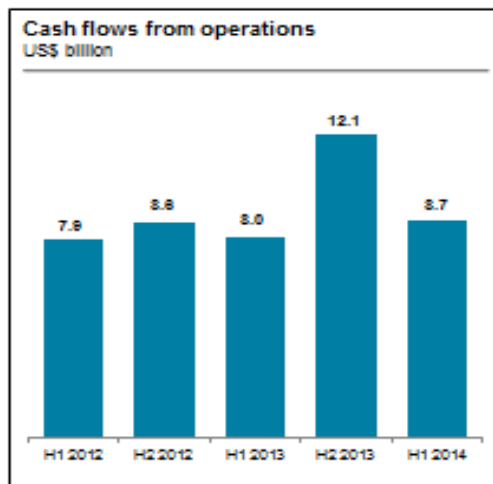
Whilst still low by historic standards, prices in July averaged \$1,948 per tonne, 11 per cent above the first half average.

We firmly believe that ensuring that our portfolio remains focussed on low cost, tier 1 assets, is the key to stable high quality earnings and cash flow generation.

This means that we can continue to prosper at all points in the cycle.

Slide 14 - Strong cash flows from operations

Strong cash flows from operations



Cash flows from operations includes cash flow from consolidated operations and dividends from equity accounted units but is before deduction of interest, tax and dividends to minorities.

- 8% increase in cash flows from operations vs. H1 2013
- Cash flows from operations affected in H1 2014 by:
 - Lower dividend from Escondida
 - Increase in working capital
- Significant potential for growth
 - High quality low cost assets
 - Operational excellence
 - 8% copper equivalent growth from 2012 to 2015
- Strong and sustainable operating cash flows from core assets
- Allocating capital based on conservative price assumptions

The quality of our assets is further demonstrated in the strength of our operating cash flows.

During the current half we have increased our cash flows from operations to \$8.7 billion,

which is up 8 per cent on the same period last year.

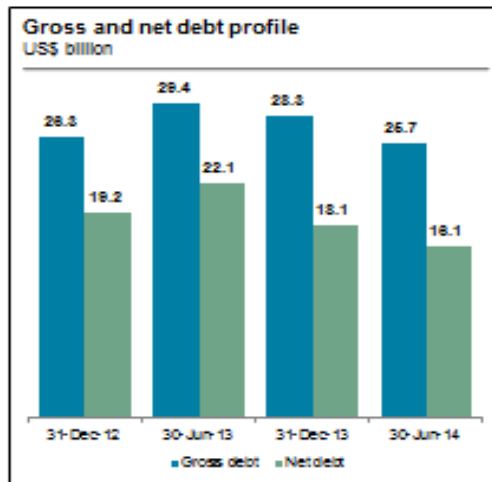
Operating cash flows were impacted by a \$600 million increase in trade working capital and \$400 million lower dividends from Equity accounted units, mainly Escondida.

As flagged in our full year results, there was also a one off impact to cash flow as a result of higher tax payments in Australia. Following a change in legislation, we moved from quarterly to monthly payments in the first half of this year.

Optimising our working capital is a key area of focus for us, and we expect to see our working capital reduce in the second half.

Looking forward, Rio Tinto is poised to generate strong and sustainable cash flows while continuing to deliver growth.

This means that, even under a conservative pricing outlook, we expect to continue to generate strong and sustainable cash flows over the coming years.

Slide 15 - We have strengthened our balance sheet**We have strengthened our balance sheet**

- Net debt reduced to \$16.1 billion
 - In line with 'mid-teens' target
- Reduced adjusted total borrowings by \$2.5 billion since 31 Dec 2013
- Robust liquidity
 - \$9.6 billion of cash at 30 June 2014
 - \$7.5 billion of undrawn, committed bank facilities
- "A- / A3" rating with "stable outlook" confirmed by S&P and Moody's

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We have said previously that the focus for our cash flows this year would be to reduce debt and strengthen the balance sheet.

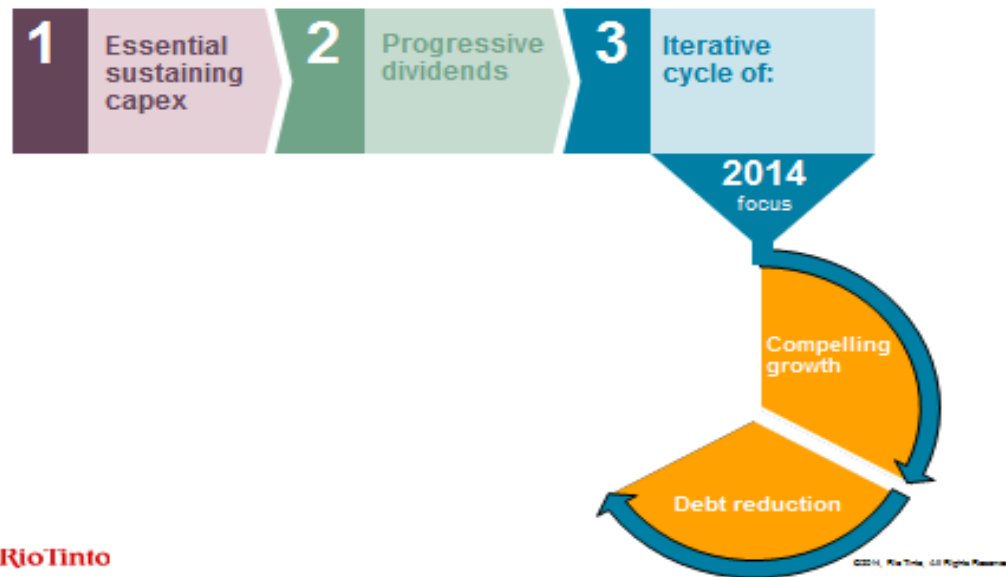
And meaningful progress has been made in the past six months, with net debt now at \$16.1 billion, down \$6 billion from the same time last year.

Gross debt has also been reduced, by approximately \$2.5 billion so far this year.

And our liquidity position is strong.

We said six months ago that our short term target for net debt is "mid-teens billions of dollars" and we are now there.

So, our focus will shift to other applications of cash.

Slide 16 - Capital allocation priorities**Our capital allocation framework to maximise shareholder value**

We will continue to apply our increasingly strong cash flows against our clear capital allocation framework.

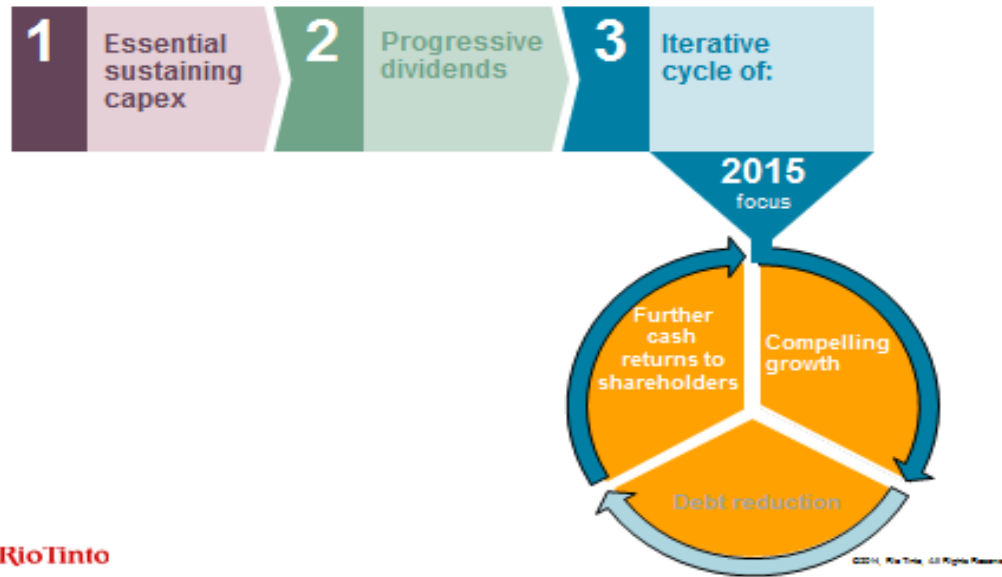
This prioritises essential sustaining capex and our progressive dividend.

Once these demands are met, we move on to an iterative cycle of investment in compelling growth, debt reduction and further cash returns to shareholders.

We have hit our mid-teens net debt target, which will enable us to move on to enhancing cash returns to shareholders in 2015.

Slide 17 - Capital allocation priorities

Our capital allocation framework to maximise shareholder value

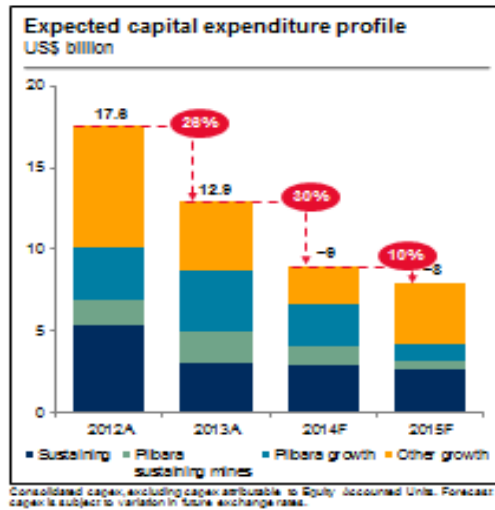


We have previously made clear that this is a decision that will first be taken by the board in February 2015, and we are sticking to that.

With our operating cash flows remaining strong, capex reducing and balance sheet on track, we will be focussing on further cash returns to shareholders in 2015

Slide 18 - We have reduced capital expenditure

We have reduced capital expenditure



- 2014 guidance lowered by \$2 billion to around \$9 billion, 30% lower than 2013
- 2015 guidance remains ~\$8 billion
- Expect capex beyond 2015 to remain at around \$8 billion

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Returning to capex for a moment. We now expect 2014 to be around \$9 billion.

This is \$2 billion below previous guidance, and 30 per cent less than in 2013.

We are continuously reviewing our investment programme, and have identified a series of permanent reductions across the portfolio.

Looking ahead, we continue to forecast capex in 2015 at around \$8 billion.

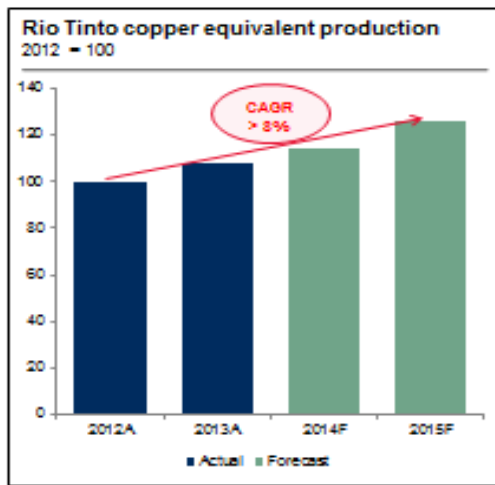
This is unchanged, but we have absorbed the over-run at Kitimat with reductions elsewhere.

And beyond 2015, capex is expected to be maintained at around \$8 billion a year.

Projects must complete with capital and must provide robust returns which meet our investment criteria.

We are confident that these levels of capex will provide future options for long term sustainable growth, whilst at the same time maintaining the strength of our balance sheet

under conservative price assumptions.

Slide 19 - Delivering the highest quality projects**Delivering the highest quality projects**

Copper equivalent production calculated at long-term consensus price forecasts.

- Growth to 2015 includes:
 - Pilbara ramp-up towards 360 Mt/a capacity
 - Oyu Tolgoi open pit
 - Kitimat modernisation
 - Continued ramp-up of Kestrel
 - Second crusher at Argyle
- Future growth options under evaluation across all product groups
- Only highest quality projects will attract capital to deliver attractive returns to shareholders

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At the same time, we expect to achieve significant volume growth of more than eight per cent a year on a copper equivalent basis from 2012 to 2015.

Increased volumes are coming on-stream in iron ore, copper, coking coal, and diamonds.

Further ahead we have a strong suite of potential future projects across the product groups, including in bauxite South of the Embley, in copper Oyu Tolgoi stage 2 and in thermal coal Mount Pleasant.

However, these projects will compete with other uses for cash and only the highest quality projects will be able to attract capital

Slide 20 - Strong cash flows will result in a material increase in cash returns to shareholders

Strong cash flows will result in a material increase in cash returns to shareholders

Underlying earnings of \$5.1 billion

Strong cash flows from operations of \$8.7 billion

Growth across a low-cost, diversified portfolio

Capital expenditure has been reduced

Solid foundation for material increase in cash returns to shareholders

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So, to round up. We have delivered a very strong set of results, with a significant increase in underlying earnings and cash flows driven by cost reductions and volume growth.

We have exceeded our cost reduction target, ahead of schedule, and we expect a further \$1 billion of cost improvements by the end of 2015.

Our asset portfolio is world class, with almost half our revenue generating margins in excess of 60 per cent.

This low cost diversified portfolio will continue to drive strong earnings and cash flows in the years to come, through the highs and lows of the commodity price cycle.

Looking ahead, we continue to deliver high quality growth with lower levels of capex.

Our net debt is now down to \$16.1 billion, \$6 billion lower than a year ago and our balance sheet is strong.

This solid foundation for growth will result in materially increased cash returns to shareholders.

With that, I will hand back to Sam.

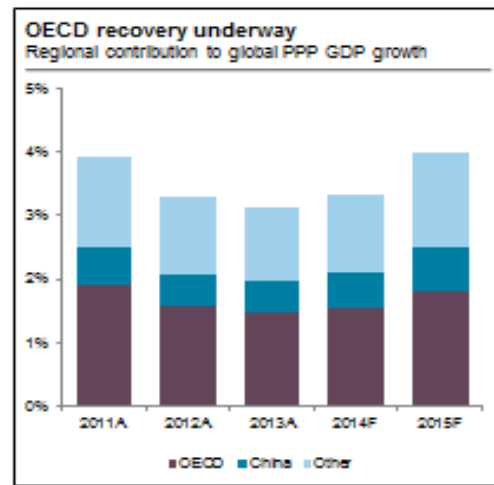
Slide 21 - Sam Walsh



Thank you, Chris.

Slide 22 - Our businesses are well placed to meet global demand growth

Our businesses are well placed to meet global demand growth



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I'd now like to share some thoughts with you about how we see the outlook for our industry.

Overall, we remain confident that there will be strong global demand growth for our key commodities over the medium to long term.

Volatility in global financial markets is currently low, driven in part, by clear monetary policy direction from central banks.

But, the likelihood of short term fluctuations in our markets remains, as geopolitical uncertainties persist, notably in Ukraine, the Middle East and the South China Sea.

Global GDP growth in 2014 is expected to exceed 3 per cent.

And the Chinese Government, is dealing effectively with rebalancing its economy, with its desired GDP growth of 7.5 per cent in 2014 on target.

This macro picture will support continuing growth in demand for commodities.

We do see that new supply is affecting some key markets at the moment.

Expansions from iron ore producers in Australia and Brazil, have been the main driver of lower iron ore prices this year.

But, as Chris said, with high cost supply leaving the market, and growth in demand, the fundamentals for iron ore remain attractive.

In copper, the market has moved into surplus on the back of supply from new mines, although the effects on prices, have been more muted.

However, the long-term fundamentals remain strong, supported by the complexity of new copper projects.

And in aluminium, we are starting to see the market outside of China recover.

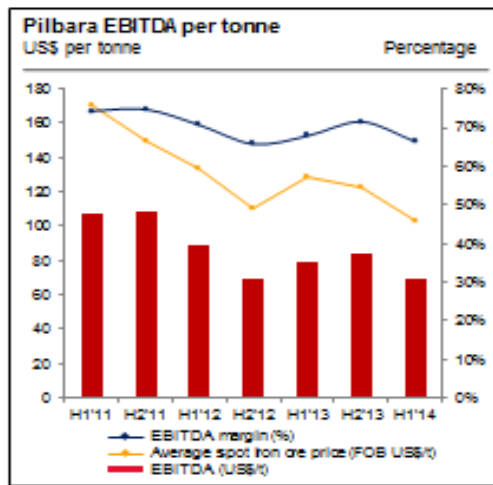
A modest supply deficit is opening up, leading to stronger LME prices in recent weeks, while premiums remain high.

So, overall, the outlook is good.

The work we've been doing over the last 18 months, means we are well prepared for a range of economic scenarios, and are ideally placed to take advantage of this attractive outlook.

Slide 23 - Our Pilbara iron ore business delivers industry-leading margins

Our Pilbara iron ore business delivers industry-leading margins



- H1 2014 cash unit cost in the Pilbara was US\$20.40/t, 11% lower than H1 2013
- H1 2014 Pilbara EBITDA margin of 66% (2013: 71%) as a result of lower iron ore prices in 2014
- Low cost advantage has been sustained over many years
- Geographic proximity to customers with unrestricted access to ports and rail

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We believe that our iron ore business in the Pilbara, is quite simply, the world's best mining business.

It is low cost, it produces high quality product, it's situated close to key customers and has unrivalled growth plans.

Uniquely, among Australian operators, we own and have sole access to port and rail infrastructure.

Because of this we can manage our entire network in ways that no one else can.

We can drive continuous year-on-year productivity gains, maintaining our cost advantage over the long term.

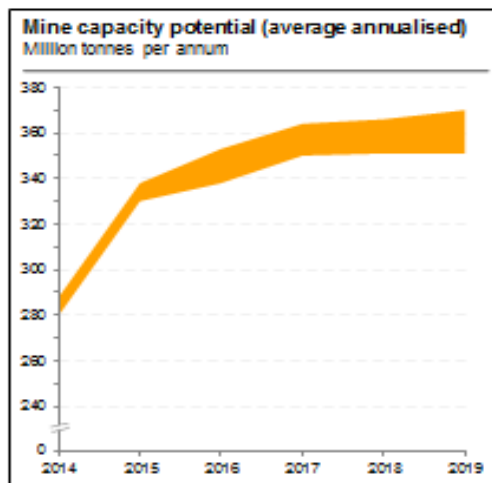
In the first half of this year, we achieved an EBITDA margin of 66%, in an iron ore market that many people are describing as weak.

The cash generation potential of this business is truly extraordinary.

And it will get even stronger, as we reap the benefits of our breakthrough expansion pathway, towards 360 million tonnes a year.

Slide 24 - Pilbara growth

Pilbara growth: delivering exceptional returns on investment



- All in capital intensity of \$120-130/t (100% basis)
- 290 Mt/a system run rate achieved in May, two months ahead of schedule
- 360 Mt/a infrastructure on track for completion by the end of H1 2015
- Rapid, low cost pathway to increase mine production capacity by more than 60 Mt/a by 2017

RioTinto

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We have continuously, demonstrated our ability to deliver growth in the Pilbara, ahead of schedule and under budget.

In the first half we reached our run-rate capacity of 290 million tonnes a year, two months ahead of schedule.

And we're making great progress with the next stage expansion of our infrastructure capacity, to 360 million tonnes a year.

We have already completed the necessary rail duplication and trackwork.

And we're on schedule to complete the automation of our Pilbara rail operations.

This new technology will be operational in 2015, and will unlock further productivity gains.

And we continue to pursue the most value accretive pathway, to rapidly increase mine production capacity by more than 60 million tonnes a year by 2017, to feed this infrastructure.

All of this is being achieved at an all-in capital intensity, including the cost of port, rail and mines, of between 120 and 130 US dollars per annual tonne.

Slide 25 - Copper delivers 23% volume growth and 71% improvement in underlying earnings

Copper delivers 23% volume growth and 71% improvement in underlying earnings ²⁵



Haul trucks at Kennecott Utah Copper



Oyu Tolgoi concentrator control room

- Significant earnings improvement driven by almost \$290 million of cash cost reductions in H1 2014
- **Kennecott Utah Copper**
 - Concentrator recoveries improved following flotation circuit expansion
 - 65-day smelter shut in H2 2014
 - >45 Mt of slide material moved with further 100 Mt expected by end 2015
- **Oyu Tolgoi**
 - Acceleration in ramp-up of customer collections
 - Shipments exceeded production in the second quarter

RioTinto

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The Copper group is focused on its 4 + 2 strategy, with the immediate objective, of improving the quality of its earnings and cash flows.

During the first half, the team continued to prioritise three key areas: Firstly, enhancing productivity at all operations. Secondly, reducing costs. Thirdly, optimising the portfolio around four tier one assets, while building a pipeline of attractive growth options.

Strong progress has been made on simplifying the Copper portfolio this year, with the divestment of three non-core assets announced.

The copper group delivered strong operational and financial performance in the first half, with underlying earnings growing by over 70 per cent.

This was achieved despite lower prices, and was driven by another exceptionally strong operating performance at Kennecott Utah Copper.

Here, the team are continuing to oversee the recovery of the mine from the pit wall slide of last year.

In doing so, they have realised record productivity improvements, and sustainable cost reductions.

At Oyu Tolgoi, sales continue to ramp up and are now in excess of production rates.

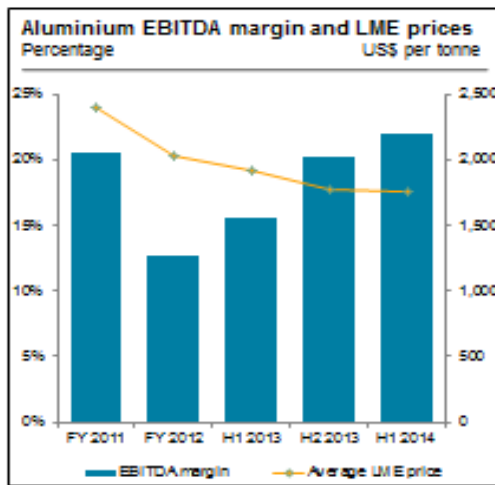
However, there is still uncertainty surrounding the next stage of development at OT.

Discussions are ongoing with the Government of Mongolia, on a number of outstanding issues.

As I've said before, for us to continue with the capital investment required to develop the underground, there must be a stable and consistent investment environment.

Slide 26 - Aluminium: earnings improved through cost reductions and productivity gains

Aluminium: earnings improved through cost reductions and productivity gains



Source: Rio Tinto and Bloomberg

- Well positioned to take advantage of attractive outlook for bauxite and aluminium
- Record market premiums
- >60% of products benefit from both market and value-added premiums
- Underlying earnings up 74% compared to H1 2013
- Cost savings of \$802 million compared to 2012
- 79% of our smelters in the first quartile of the cost curve*



* Assumes completion of the Kôlar smelter expansion expected to complete in H1 2015. ©2014 Rio Tinto. All Rights Reserved

Turning to our aluminium business.

Over the past year, the performance of our aluminium group has broken away from competitors, with the business now achieving sector leading margins.

With around 22 per cent of our revenue derived from aluminium, we are very well placed to benefit from a recovery in prices.

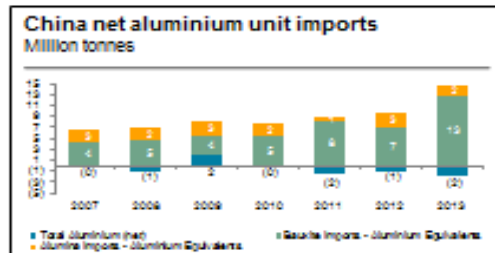
We are continuing to focus the business on the highest quality assets.

And we are recording strong results on our cost reduction programme, with over \$800 million of savings to date.

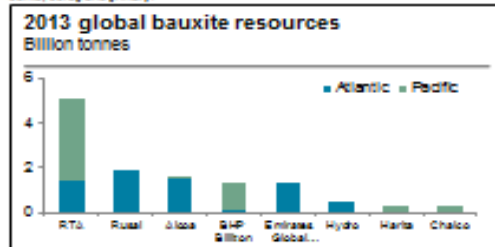
Overall, we have increased EBITDA from aluminium by 26%, to \$1.1 billion in the first half.

Slide 27 - Bauxite: unrivalled resource position offering strong growth options

Bauxite: unrivalled resource position offering strong growth options



- Strong growth in bauxite demand from China
- Rio Tinto has the strongest bauxite position in the industry
- Interests in three of world's four largest bauxite mines
- Gove bauxite exports expected to ramp up to 8 Mt/a by end of 2015
- South of Embley provides a Tier 1 growth opportunity (22.5 Mt/a)



RioTinto

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Our bauxite business provides upside exposure, to Chinese demand growth, with limited risk of growing Chinese supply.

We have an unrivalled portfolio of bauxite assets, with interests in three of the world's four largest mines, and we have resources of over 5 billion tonnes.

These long-life, low-cost assets provide unparalleled options to grow.

At Gove, we are well advanced in the transition to a bauxite export business.

This is already operating at an export capacity of 6 million tonnes a year, and will grow to around 8 million tonnes a year by the end of 2015.

The expansion of Weipa through the development of the South of the Embley project, is a truly tier one growth opportunity, expected to deliver a very attractive return on investment.

The team is now completing the study work, with a focus on reducing the lead time to

bring this world class project to first production.

Slide 28 - Rio Tinto commitment

The Rio Tinto commitment



- To generate world-class returns
- To sustain and build on our cost and productivity improvements
- To significantly grow free cash flow
- To maintain discipline in our allocation of capital
- To deliver materially increased cash returns to shareholders

RioTinto

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So, let me close, by reflecting on where we are today.

Rio Tinto is back on track, and powering ahead.

We have significantly increased earnings, we have exceeded our commitments to reduce costs, and we have strengthened the balance sheet.

In short, we've done what we said we would do.

Going forward, we will continue to control costs and capital, we will continue to pick the right projects to invest in, and then execute them faultlessly.

You can see from our half year results, that we are focussing our efforts, in the right areas.

We have strengthened our capital allocation processes, we are optimising our portfolio to focus on value, and our people are driving productivity improvements across the entire business.

We have high-quality assets which generate consistently high margins.

And we are improving these assets further, through our focus on cost reduction, productivity, and strategic marketing, to maximise value from our products.

As we move forward, we have a solid foundation to deliver greater value for shareholders.

Our commitment to you, is that we will continue to grow free cash flow, and we will use this money wisely.

We have some of the best development options in the industry, from the expansion of our world-class iron ore business in the Pilbara, to bauxite growth in Queensland, and our tier one copper projects.

But investment will be disciplined and not at the expense of maintaining a strong, resilient business, and most importantly, maximising value for shareholders.

This solid foundation will result in materially increased cash returns to shareholders.

I will talk more about our future plans at our investor seminar in December.

The leaner, meaner Rio Tinto is here to stay.

Watch this space.

Now, it's time to take your questions.

Q&A**SAM WALSH (Chief Executive):**

It's now time to take your questions. The approach that I would like to take for questions – I have already got a few hands up I see – is we have take three questions from the room here and then we'll move to the operator for the phone line; then we'll repeat and return back to the room. If you could perhaps share with us your name and organisation. Rob Clifford, you are normally first, so I can't breach protocol here.

ROB CLIFFORD (Deutsche Bank):

Thanks Sam. It's Rob Clifford at Deutsche Bank. Look, I am going to ask the obvious question. The materially increased shareholder returns, how do you think about the best way of giving those back to shareholders to enhance value?

And secondly, how do you think about sizing that? I'm not after a number obviously but the thoughts – what is excess? What is surplus to needs? Is it about a balance sheet ratio? Is it about cash generation post-base dividends or post-growth? If you can talk about your thoughts on that, that would be great?

SAM WALSH:

We are getting a little bit ahead of ourselves, but I mean this will be a decision made by the Board and clearly the Board will review options for delivery via dividends, special dividends, buy-backs. That is the approach that I would expect they would consider and clearly the Board will take into account, i.e., where we sit at the end of this year, but let me assure you that all of our modelling and forecasting is pretty robust. But of course they will take into account forecasts for exchange rates and commodity prices and energy prices and so on and obviously that will determine the quantum.

Chris, I don't know if you wanted to add anything perhaps to that?

CHRIS LYNCH (Chief Financial Officer):

Sam, I think that's covered it pretty well. I know there is a desire to clarify it and the like, but what we have said consistently is what we are actually doing. We have said we'd focus on reducing net debt; we have done it - \$6 billion down on where we were last year. That will give us a lot of capacity to enhance returns to shareholders.

But, Rob, on your question, I think the key issue was around how you need to think about the progressive dividend and how we size that, then there would be surplus capacity beyond that, about what form that takes, and that's still the decision for the Board to make over coming months. But all will be revealed in February, I guess, is the simple way of putting it.

SAM WALSH:

Thanks Chris. It is a good story. The Board was very particular about the wording, about materially increased shareholder returns, so this is not Sam sort of just heading off into the blue yonder, this has the support of the Board.

Perhaps, Jason, here in the second row?

JASON FAIRCLOUGH (Bank of America Merrill Lynch):

It's Jason Fairclough of Bank of America Merrill Lynch. Just maybe a little bit of colour on some of the changes to capex for this year because that certainly got people's attention. I am just wondering could you talk a bit about the extent to which the \$2 billion reduction is a permanent reduction or just a deferment, a deferral of the capex?

And I guess more generally then if we look at Pilbara 360(Mt/a capacity) and how low the capital intensity is, if we look further down the road are we setting ourselves up for a big catch-up capex bill later on because you are just working these existing assets so hard?

SAM WALSH:

Thanks for that. As you'd expect, there are a range of factors that impact on this.

Importantly today we have reduced our guidance for capital for 2014. We had indicated that our capital would be around \$11 billion, we are now advising it will be around \$9 billion. For 2015, we've provided guidance that it will be around \$8 billion, that guidance holds, and we provided new guidance that beyond that in the near term we expect that capital will run at around \$8 billion.

This has actually come through our working through our next five year plan in terms of bottom up from the organisation as to what they see in terms of timing, in terms of quantum, in terms of projects, what we'll need to physically continue the growth but also with a watchful eye in terms of the shareholder returns.

In terms of this year, one significant item we have got is that I have mentioned that Iron Ore are going well with their projects and continue to come in ahead of schedule and under budget, but they've handed \$600 million back so there is a large item there. Certainly there is an amount associated with OT underground and getting that project up and operating. There is also been an amount associated with tightening our sustaining capital.

But I think the biggest impact is, and this is not about Sam and Chris, it is about 66,000 people in the organisation operating as owners and spending the cash as if it's their own. We have refocused the organisation. But that's a very powerful thing to do with an organisation and that's the biggest impact.

Now I have talked about a long-tail before in our capital. Yes, you can look at the big projects; you have also got to look at all the small projects. I am not allowed to talk about the credit card analogy any more, but it is like a credit card and there are a lot of small items that add up at the end of the month or end of the year.

We have another question here.

JASON FAIRCLOUGH:

The long-term question?

SAM WALSH:

Pardon?

JASON FAIRCLOUGH:

The long-term regarding roll-up in terms of capex.

SAM WALSH:

Well, our guidance is \$8 billion in the near term following on from 2015. I don't believe we'll see a big spike beyond that period. Look, it will be what it will be in terms of where the opportunities are and what we can take advantage. But critically it's an organisation that used to operate at \$4 billion of capital, up until I don't know, about seven years ago. But we're now focusing that on \$8 billion - \$8 billion will deliver very solid growth for the organisation. So we are not looking, we are definitely not looking, at going back to the heady days of \$17.6 billion, that's just not on the radar screen.

Perhaps one more question in the room, in the third row there. You'll all get your chance to have your questions, so don't feel left out.

MYLES ALLSOP (UBS):

It's Myles Allsop from UBS. Just a quick question on M&A. If we go back 18 months you were very clear, I think you said three times that M&A is not on the agenda for Rio Tinto, it's about getting the basics right. Where do we stand now that you have been delivering on the cost-cutting and obviously taken capex down? And just with that, you said \$8 billion would deliver solid growth – are we talking 5 per cent sort of volume growth medium term after this period of 8 per cent? What do you mean by solid growth? So two questions possibly.

SAM WALSH:

Yes, M&A is not on the agenda. We have no plans for any major M&A work and that's been part of our focus in terms of stabilising the business, not doing anything smart or

what-have-you, getting back to the fundamentals, getting back to the basics, getting the organisation back focusing on the critical things for the business. And look, it's working.

In relation to growth, we are projecting 8 per cent growth through 2015. We have not given guidance of the exact number beyond that, but obviously we are looking to sustain a solid growth portfolio going forward.

Perhaps if I could move to the phones now and we could have three calls from the phone lines?

OPERATOR:

We will take a question from Adrian Wood of Macquarie. Please go ahead.

ADRIAN WOOD (Macquarie Securities Group):

Yes, hi Sam. Just two questions from me, first of all, just on OT. I just wondered first of all how confident you are that we may see resolution there in the next seven weeks before the deadline for the current financing agreement expires in September?

And if we look at the current operational results, and looking at EBITDA as a proxy for cash flow relative to the capex, it doesn't look like it's generating free cash flow yet. Notwithstanding the recent sale of South Gobi by TRQ, if those financing agreements are not met would you be willing to prop up TRQ again in the way that you did last year with the equity raising?

And then the second question just on the Pilbara expansion, you mentioned you are due to be making the investment decision on Silvergrass in the third quarter. I just wondered what the latest thoughts are and how that fits in with the lower capex guidance that you have given us for this year? Should we assume therefore that that's not going ahead or not going ahead in the near term?

SAM WALSH:

It sounds like half-a-dozen questions, but I'll have a go with a little bit of help from Chris in

relation to EBITDA and cash generation at OT.

CHRIS LYNCH:

Sam, just so you know, I can't hear any of the questions.

SAM WALSH:

In relation to our ongoing discussions with the Government of Mongolia, look, we are hopeful that this can be resolved. The Government wants the project to proceed, Turquoise Hill shareholders and we want the project to go ahead, and that's certainly what we are very focused on.

Having said all that, this is all about value; it is how we are running the business. This is a long-term project, it will run for 50-plus years, it's important to get it right. It's important not to put lead in our saddle going forward, particularly in light of the fact that it took three years to negotiate the investment agreement which comprehended stage 2, the underground mine, so we are not reinventing things from the start here.

In relation to timing of this, look, it will be what it will be. We do have an extension in project finance through to September 30. Importantly I am not about to destroy value because of a deadline. Having said that, I am hopeful that we can reach agreement. The project finance is fundamental to the project.

This project is owned by the Turquoise Hill shareholders - and the Government of Mongolia - of which Rio Tinto is a part. This is not 100 per cent owned and it is not a project we should be funding 100 per cent from Rio Tinto, so critically we are seeking project finance for this to go ahead and we have been very, very clear about that at least for the last year-and-a-half.

Chris, perhaps if you could comment on the EBITDA and cash out of OT?

CHRIS LYNCH:

Sam, I couldn't hear any of the question from the feed, so if you could flesh it out a bit

more. But I guess the key thing I would say about OT at this stage is it is absolutely ramping up, there's nothing more than that at this point, and the key issue is really around the product now is starting to flow.

We are now selling more than we are producing in any given month in terms of running down the inventory that had built up in the early stages of the production, so I think you have just to be a little bit more patient with regard to the data that flows out of OT to see how it shapes up once it's up and fully running on a normal flow of product from mine to customer.

SAM WALSH:

In relation to the question about Silvergrass in the Pilbara, Iron Ore are putting forward their plans in relation to the mine capacity associated with the move to 360. You would have picked up that a large majority of that has actually been through squeezing harder existing mines and that work is proceeding quite well. In relation to Silvergrass specifically, I'm not exactly sure of what the timing would be for that project but it will be there to meet the ramp-up.

Another question from the phone?

OPERATOR:

Our next question comes from Clarke Wilkins of Citi.

CLARKE WILKINS (Citi):

Hi Sam, just an idea – can you hear me? I'm getting feedback.

SAM WALSH:

There is a little bit of static, but let's keep going.

CLARKE WILKINS:

I guess it's okay. It is a question just on the Kitimat side in terms of the capex there, \$4.8

billion, the modernisation, and maybe the increase of \$1.5 billion is probably a bit more than expected. Is that the cost of building our new smelters now in the Western World or what went wrong with that project considering the figures, an increase in the budget, that would usually improve and sort of double what it was when it was originally proposed back in 2008?

And a second question just on the operating cost side, when you look back - and you have already exceeded the year-end - where have you done better than expected in terms of pulling the cost out or getting the improvements in terms to bottom line?

SAM WALSH:

Okay. Thanks very much, Clarke, for that. In relation to Kitimat, there have been a number of factors at work there. The most important factor has been labour and escalations in labour costs in British Columbia associated with LNG, but also the productivity that we were actually achieving there and significant turnover of staff which meant that we were continually in a mode of training and inductions and bringing new people on.

In relation to the project, we have now struck the new budget, the \$4.8 billion that you mentioned. We are targeting June 2015 for start-up of the project. We have already announced that we've changed out and restructured the way that we are running our projects and David Joyce who headed the Iron Ore projects is now in charge of all projects within Rio Tinto, the over-arching responsibility for projects, and he is morphing the systems and structures and the way that we run projects across the entire Group. Obviously Kitimat was his number one focus as he assumed responsibility for that.

We have significantly strengthened the management onsite and Alf Barrios who is now running the Aluminium group is responsible for the handover from construction to operations and he is actively involved ensuring that there will be a smooth handover of the 256 systems associated with the smelter as they'll ramp-up progressively through to June next year.

So I think there has been a lot of good action after a disappointing overrun, but importantly

we have taken the steps to get the project back on track and for us to deliver that project in June next year. Importantly once that project is up and operating its operating cost is in the first decile, so that project is going to be a very attractive project going forward.

In relation to your question about the operating cost reductions, it's been across-the-board in relation to the organisation, thousands of projects, real momentum gathered. I mentioned during my comments about the \$800 million that Aluminium had reduced out of their costs, but we also saw significant reductions both in the Energy group and the Copper group of around the same dimensions and it has been across-the-board.

It has been in terms of productivity, of efficiency, of overheads, purchase costs, I mean no part of our costs have remained untouched, and for those that are sceptical about Head Offices, well, the number of people in our Head Office has halved – we have gone from 600 people to 300 people as we have gone through that process. So we are a very focused organisation. I mentioned the words lean and mean, it's a good way to describe the way that we are focusing on costs and ensuring that we are improving efficiency.

Also Iron Ore has achieved \$600 million of savings. Diamonds & Minerals have been hit by a soft market and they have been hit by volumes which have reduced the impact that has flowed through to the bottom line, however, once volumes pick up we will see a significant increase there.

Having mentioned all that and having focused you on the \$3.2 billion, we have not mentioned today that for our exploration and evaluation costs we were targeting \$750 million there. Well, we are sitting there at \$1.2 billion below our previous run-rate in 2012. So, if you like, that's the 'icing on the cake' in terms of this cost reduction story.

Chris, I don't know if you wanted to add anything more to that?

CHRIS LYNCH:

No, I think that's very comprehensive, Sam.

SAM WALSH:

Thanks Chris.

Do we have one more question on the line? Then we will move back into the room.

OPERATOR:

We'll take a question from Lyndon Fagan of JP Morgan.

LYNDON FAGAN (JPMorgan):

Thank you. A couple of questions, the first one is on the South of Embley project; it gets a bit more airtime in this presentation. I'm just wondering, given that all the approvals are done, what in fact is actually holding that project back from going ahead?

The second question is just on Grasberg. Can you perhaps clarify whether you have got to contribute to the cost of building a smelter there? Thanks.

SAM WALSH:

First in relation to the South of Embley, the Investment Committee has approved the study funds for that project, to accelerate that project by 12 months, and Chris and I are expecting the project will come into the committee by the end of this year. But it is a very attractive project. Taking the opportunity of expediting the project is worth just spending a little bit more time to work out exactly how we do it and how that would impact on costs.

In relation to Grasberg, the settlement that Freeport announced about Grasberg has been done by them. We've indicated for some time that we're not going to be a party to a smelter project at Grasberg. I visited the project a couple of months ago and I have got to say they are doing some very, very good work in terms of the underground development and it's a very impressive operation. They don't take too many visitors for some reason but it is something that is well worth looking at. They are doing some good work there.

Do we have another question in the room? Well, we have got hands everywhere. Why

don't I take a question over here? I don't want this side to feel that they are being left out.

JAMES GURRY (Credit Suisse):

Thanks Sam. It's James Gurry here from Credit Suisse. Just a quick one on the peer group, it seems they're emphasising a lot on divestments and things like that, and you guys looked at it a lot last year and executed also in the first half of this year. Is there any potential for divestments or even joint venture projects in the next 6-12 months?

SAM WALSH:

Look, we have focused on divestments and I forget the total figure that we've divested – I want to say \$20 billion – but anyway it's a very large number over the last five years. Sorry?

MARK SHANNON (Head of Investor Relations):

\$17 billion.

SAM WALSH:

\$17 billion. I was close. So we have been very, very active in that area. You'll know that Pac Al and Diamonds were on the market. We took them off the market mid last year because quite simply we weren't going to generate the returns you would expect that we would expect for those projects, and we are very focused on continuing to improve those businesses.

This year we completed the Clermont sale and the \$1.015 billion has flowed through into our Accounts. I mentioned in February that we had a range of housekeeping to do and you've seen most of that flow through, so at this point in time we don't have any significant divestments on the table. However, having said that, and I continue to reiterate, if there is somebody out there who values some project more than we do then they should contact us because it is about value. But as we sit here today there is, as I say, nothing that's immediately on the radar screen there.

Can we have another question, perhaps right at the back so that we can cover those, that group too?

LUC PEZ (Exane - BNP Paribas):

H Sam, it's Luc Pez from Exane -BNP Paribas. A quick question on the Mozambique sales in relation to what you described earlier. I was a bit surprised to see you selling that for \$50 million, so if you could emphasise on the reason behind this and why you decided not to retain that option? Thank you.

SAM WALSH:

Yes, a good question and you would have seen us substantially write-down that project in January 2013. Look, it was not a good project and I am not going to walk away from that. We had a further write-down of the project in February, which in fact wrote the project down to \$71 million. At that point in time clearly that was our best view of the project value and behind the scenes we went out in the market to see what we could physically do in terms of divesting of that project.

ICVL and a range of others approached us and, quite frankly, ICVL was the best proposal that we received. The view of Chris and I, and the Board, was that really we needed to close that chapter. We need to close that port; we need to move forward. It has been for us a very, very disappointing, very difficult project for us to manage and we believed that the best option for the company was to actually move on and focus on those parts of the business where we will add value.

The truth is I believe that project, given our new focus on returns from projects, that project would have found it very, very difficult to get the capital it would have needed to take it forward. So we have drawn a line in the sand – we are moving on.

Another question perhaps, wherever it is, in the third back row?

DOMINIC O'KANE (JPMorgan):

Hi, it's Dominic O'Kane from JPMorgan. I just want to dig into the details on the billion

dollar cost saving for next year that is targeted. So you talk about \$250 million incremental cash cost savings coming in the second half of this year. Could you maybe just give a bit of granularity on where the step-change comes in 2015 and specifically which divisions you are targeting for those incremental savings? And is that billion dollar number a conservative estimate?

SAM WALSH:

I mentioned back in February that Chris and I were not interested in setting a top-down target for cost reduction going forward. We need to make sure that the savings are sustainable, we need to make sure that the savings are not going to cut into the muscle, or even the worst cut into the bone. So we took it back to the organisation and, as we are in a process of developing our next five year plan, the organisation has come back with their expectations in relation to savings both for the second half of this year and for 2015.

We have in the press release today indicated that we expect the savings will slow in the second half of this year, if you like, the low-hanging fruit has been picked and we are now into the more difficult projects, however, we are expecting that savings in the second half will be around \$250 million this year with \$750 million in the full year next year.

So the run-rate has dropped, however, a billion dollars is still a lot of money and it indicates a sort of momentum that the organisation has got in terms of cost reduction. There are still thousands of projects that people are working through. We are an organisation who is very focused on continuous improvement and looking at ways that will improve and generally the savings will be across the Product Groups.

Chris, I don't know whether you have got any more colour that you could provide on that?

CHRIS LYNCH:

Sam, I think perhaps two points. One is that your comment about the low-hanging fruit is absolutely right. I think in addition to that we have got some known events in the second half of this year. An example of that is the Kennecott smelter outage coming up, so we know that it is going to be that much harder there.

This is not a conservative number, it is a number that obviously we hope we can get it and hopefully we can beat it, but it is going to take a lot of work and the good thing about it is that the guys have got a path for a large part of it. There is still some of it that's got to be delivered in the subsequent year, but it will take a lot of work.

But momentum is a very powerful force but it is starting to slow a little bit, we have got to re-energise it and that's the reason for the reduction in the second half. There are some specific headwinds there that we have got to take into account.

SAM WALSH:

Thanks Chris.

Another question in the room perhaps right at the front? I will get to you all. There is no need to ring us up.

MENNO SANDERSE (Morgan Stanley):

It's Menno Sanderse at Morgan Stanley. One general and two more financial questions. First on the general one, you clearly did a great job but you also dealt with a few boo-boos or hand grenades like Kitimat and Riversdale, which cost a lot of money and undid a lot of good work. Have you cleaned your cupboards? One.

And two, three quite sensitive situations: Grasberg and the renegotiations there; Simandou and not least Oyu Tolgoi. How can you give Shareholders somewhat more assurance that you are not going to have the same multi-billion boo-boos around those situations?

And the two smaller financial ones, is first in working capital we saw a big outflow on creditors. Chris, is it just a timing issue and can we expect it to reverse in the second half? There was one other financial which I've forgot.

SAM WALSH:

In relation to carrying values, clearly as part of the process coming up to the half year

accounts the Audit Committee looks at carrying value, looks at trigger events and so on, to determine exactly what we should take into account in relation to our first half accounts. Look, I agree with you that both Kitimat and Riversdale not a good story. They're issues that Chris and I have inherited and we have tried to work through and mitigate and resolve those issues as quickly as we could.

But as to Grasberg, Simandou and OT, well, we have not spent any time talking about Simandou. Look, we do have the Investment Framework now in place. It has been ratified by the National Assembly, its first democratically-elected National Assembly in Guinea's history, and it has gone through the Supreme Court Review and has been promulgated by the Prime Minister. So that delivers a sound framework in relation to how that project might proceed and clearly there we are targeting December 2018 for that project to be in ramp-up.

Now you are sort of asking me to comment on hypothetical, sort of unforeseen, things. It is our belief those projects are tracking suitably, however, we have indicated in relation to OT that if there were a 12 months deferment of that project then we would be faced with an impairment. But let me assure you we are focused very much on ensuring that we do bring that project on as early as we can. As I say, everyone wants the project to proceed; it is just a fight over how you share the pie.

In relation to working capital, Chris, did you hear the question?

CHRIS LYNCH:

Yes. The short answer is "yes". We do think we can rein that in during the second half. It's an area that we probably had a slightly unofficial reduction in at the end of last year. We are doing a lot of work now to negotiate to extend those payment terms on the way out and we are making sure we are collecting on the way in, we are also reducing inventories, so I think we have got a good line of sight actually.

We have had a team working on this and working on it from the basis of what's the optimal working capital rather than sort of targeting a 5 per cent/10 per cent reduction. It is really about, what do we actually need in the business? And in several cases we've opened up

quite a different potential based on the fact that we don't actually need all the inventory we have, we could run with leaner inventories. So I think we can rein it in, in the second half, and anticipating that we will.

MENNO SANDERSE:

Let me ask the other financial question, number two, which was around the tax rate. The tax rate looked very good in the first half of the year. Is your guidance still 30-35 per cent or 30-34 per cent for the full year and what's happening to MRRT with these lower iron ore prices?

SAM WALSH:

Chris, could you take that?

CHRIS LYNCH:

Yes, it will be 30-33 per cent. It's in that range but I think more the 30 end of that range. And the main issue is the rate, well, probably the single largest individual item would be the different impact that MRRT had last year versus this. But I think that 30-33 is a good range and we'll give you more flavour on that as the year progresses, but that's a good working assumption for now. I think 30 per cent and 30-33 per cent.

SAM WALSH:

Okay, let's move back to the phone lines and pick up a question from there?

OPERATOR:

We have a question from Glyn Lawcock of UBS. Please go ahead.

GLYN LAWCOCK (UBS):

Hi Sam, two questions. Firstly, just a little bit more detail on the costs. So Aluminium \$800 million, Energy almost \$800 million, they are good numbers but a year ago you said you would get over a billion out of Energy, close to \$900 million in Aluminium by the end of

2014. Have you stretched yourself a little too far and can you actually get the numbers because the energy market, obviously coal and uranium prices look tough and unlikely to probably lend you any support? I am just wondering whether you can still get those costs out in those two divisions?

And the second question, just a little bit more on this capital management, I know it's a Board decision, but I was wondering if you and Chris and the team have done any work and how you might be able to unlock the franking credits that are sitting there and building up on your balance sheet? Obviously the spread has come in too, so an off-market makes sense but then liquidity and other issues in Australia maybe prohibit that, so have you done any work and any thoughts that you might be able to share with us? Thanks.

SAM WALSH:

I will let Chris comment on franking credits in a moment, but you are spot on in relation to the cost reduction targets. Energy group were targeting a billion, they are still targeting a billion, and Aluminium were targeting \$900 million. What you have actually seen is that we have had improvements elsewhere that have enabled us to achieve the £3.2 billion.

Those Product Groups are still focusing on achieving their original targets; it will form part of the savings that we are expecting in the second half of this year. So there's still a very active focus on improving the costs and I am very pleased with Alf Barrios coming on into Aluminium, that he's picked up the baton, and he's running very hard in terms of opportunities to further streamline and improve that business.

Perhaps, Chris, if you could comment on the second question?

CHRIS LYNCH:

Thanks Glyn. Yes, we are looking at franking credits as part of this whole capital allocation conversation. As you are well aware I think, the mismatch between the amount of tax paid in Australia therefore franking credits generated versus the shareholding by the Limited stock versus PLC, makes it difficult to do it all via a traditional dividend payment, fully franked dividend. And just to stress again, obviously the

dividend for Limited holders or Australian resident Limited holders is fully franked, so that's just to double emphasise that point.

But we are looking at it. We are looking for ways to see whether there is a way that we can liberate them, to get them to be more value in the hands of our shareholders, but it's not easy. And I guess we have had probably every bank on the planet sort of come and talk to us about it, but rarely do the proposals that sort of come up have appeal that would be fair and equitable to shareholders, and that's really the challenge in this.

But, as you rightly point out, the discount between the two stocks or the difference between the two stocks is narrowing. Off-market buy-backs is obviously a proven mechanism for utilising franking credits, but it's one of a mix of things we'll be looking at over the next several months as we come into that conversation with the Board.

SAM WALSH:

Okay, another question on the phone?

OPERATOR:

Our next question comes from Paul McTaggart of Credit Suisse. Please go ahead.

PAUL McTAGGART (Credit Suisse):

Hi gentlemen. I just want to follow up on some of the China comments around steel demand because you painted a reasonably robust picture. In just the data that I've seen here to date it says that steel production is up something like 3 per cent but exports are up 40 per cent and underlying domestic consumption is more or less flat, so I just wanted to get a sense of what you were seeing that was making you more positive, particularly going to the back end of the year?

SAM WALSH:

We are seeing an easing of credit in the first half of this year. We saw quite a bit of tightening. We are seeing in the provinces and nationally focus on infrastructure,

particularly rail and social housing. As you mentioned, exports are up.

I guess most importantly if you look at our product offering, Pilbara Blend is the largest traded iron ore product in seaborne trade and it provides the foundation for steel mill burdens, plus various burdens. So it puts us in a privileged position, that they bill us and then they put salt-and-pepper from others on top of that. That is a unique privileged position.

The second privileged position really relates to the quality of the product and with increased focus on pollution. When we talk about the environment we are generally focused on climate change or greenhouse; when the Chinese mention it they are focusing on smog, they are focusing on actual pollution. At the China Open Forum that I attended earlier this year a small group of CEOs met with the Premier of China and he indicated that it's probably the biggest problem they have and the most difficult to solve but they are committed to solving it.

This has actually meant that there has been a shift in relation to the product that the steel mills are using as they are focusing on improving their environmental performance and a shift to higher quality ore which has reflected in terms of obviously the attractiveness of our product but also the significant discounts, the 15-20 per cent discount that the low-grade junior suppliers have had to offer to make their product even attractive to the mills.

So there is a range of factors there in terms of how we see it. We are seeing steel prices improve a bit, we are seeing steel stocks reduce, we are also seeing port stocks of iron ore reduce and we have seen some 85 million tonnes of China domestic product come off the market. We are expecting that will be around 125 million tonnes through this year. So there is a change in the dynamics, there is a restructuring underway there.

Do we have another question on the phone?

OPERATOR:

We will take a question from Heath Jensen of Citi. Please go ahead.

HEATH JENSEN (Citi):

Good morning Sam. Just a related question in terms of iron ore ramp-ups. You are still giving a range of potential ramp-ups in the order of 20-30 million tonnes a year over the next couple of years and I think you said at the Full Year Results that was really subject to market conditions, so I am interested in terms of how you are thinking about that now?

As you've said, you have knocked out potentially 125 million tonnes of domestic production and the price has come down. Do you think that's sort of at the point where you'd go for the slow ramp-up or sort of how are you thinking about that and managing that going forward in that ramp-up given where the prices are currently sitting? Will you be willing to take production out of the market?

SAM WALSH:

Look, it will be what it will be but we are seeing right now that prices have really stabilised around the sort of 95-100 level and if you look at the forward curve it confirms that's where the market is expecting prices to be through 2017.

In relation to our expansions, we are the lowest cost producer. We are producing at a cash cost of \$20 a tonne with prices around \$95 a tonne, so very, very attractive margins and a very attractive place for us to be. We are seeing 125 or expecting 125 million tonnes of capacity to come off in China and elsewhere and we are seeing a number of the juniors around the world starting to get the wobbles.

We are in a very good place in relation to this and now is not a time for the best iron ore producer in the world to take a step back. Now is the time for others to really feel the consequences of the price against their operating costs and for them to make decisions.

Perhaps if we can come back into the room and we have a question right over here. I will come to you in a second – you're next.

RICHARD NORTHRIDGE (Och Ziff):

Hi thanks. Richard Northridge at Och Ziff. In returning to the sustaining capex question

and just eyeballing the chart, 2012 sustaining capex looked about \$7 billion and clearly your asset base has changed since then, so has your perception of your asset base changed so much that you now view sustaining capex at the \$3.5 billion versus the \$7 billion from 2012? Thanks.

SAM WALSH:

Look, perhaps that's a question I can pass to Chris? Certainly there have been some changes to our portfolio in relation to divestments and that needs to be considered when you look at sustaining capex. But, Chris, do you want to comment on that?

CHRIS LYNCH:

Thanks Sam. I think probably two things. One is around that number, would definitely have included Pilbara sustaining mines back at that time. I don't have the specific data in front of me at the minute, but that would be one issue. To address that point, given the expansion programme that is underway in the Pilbara, the concept of Pilbara sustaining is a lower number today.

Look, I think we have applied the same rigor and discipline to sustaining capital as we have to other forms of growth and I think part of that is showing up in some of these numbers. I think the climate for the cost of capital construction and capital sort of works has also moved on a cyclical basis in our favour in some ways, so I think what we have got now is a fairly robust view about what's actually necessary to sustain these operations and I think you are seeing that coming through now. But we are confident about our capex numbers. We are confident about the fact that they can be sustained going forward.

SAM WALSH:

Thanks Chris.

A question in the middle here?

TIM HUFF (RBC):

It's Tim Huff from RBC. I have two questions, the first on Aluminium. Six months ago when I asked you your thoughts on 'ally' going forward you said it's a difficult one, there's no easy solution. Now with the division at least on a half year basis rivalling Copper in EBITDA cost savings and capex looking lower, I was just wondering if you could maybe talk us through maybe what's changed in your view? It doesn't seem like your view on the sector has changed but maybe your view on what those assets can generate and in the medium term where they sit within Rio?

The second question is a follow-on from Menno's on working cap. Chris, just from your comments it sounds like you are targeting lower than historic working cap measures for the second half of the year. Is it fair to say that you've a fairly high conviction at this point in time that you can already deliver the same sort of first half to second half working cap swing that you guys have seen in recent years? Thank you.

SAM WALSH:

Okay. I'll certainly answer the first part about Aluminium. I think the key to the question is where we are positioned in relation to EBITDA margin versus our competitors and, as I mentioned in my comments, we are substantially better than our Western World competitors in terms of EBITDA margin and that gives us a fairly unique position.

Is Aluminium where I would like it to be or where Alf would like it to be? The answer is "no". We have still got a journey ahead of us and I have mentioned the cost reduction. There is a need for us to further streamline the operations as we go forward, but we are making the tough decisions, we are refocusing the business and I would remind you that – correct me Mark if I am wrong - 80 per cent of our metal is produced using highly competitive hydro-power, so not only is the power source low-cost, it is also "green", in inverted commas. So it is a good place for us to be.

Alumina continues to be tough and we are continuing to focus on improving our costs in the alumina side of the business, which right now, and we are not alone, is probably the toughest part of the business.

Bauxite: with bauxite selling in the spot market for around 60 bucks a tonne and with five billion tonnes of bauxite sitting in our portfolio, it's a good place for us to be. And I have already hinted about the South of Embley – or hinted as strongly as I can – about the South of Embley project.

It is a business that continues to undergo significant change. We are hopeful that the early signs of improvement in pricing in the market, as a result of a lot of action by us and others, we are hoping that will continue to flow through. My feeling is that in the medium term we have seen a lot of capacity come on in the west of China, and that power is going to be needed to power the burgeoning middle-class as they become very focused on consumer goods, fridges, air-conditioners, TVs and what-have-you. They'll all need to be powered.

And I have said before if you want to look at an example of that, well, look at Japan. Japan used to have a very vibrant aluminium smelting industry; today there is none, it's all gone. And I suspect we will see a similar, perhaps not exact, but a similar shift in China as this currently trapped power is either opened up through transmission lines and increasing the grid or direct use of that power in those communities to drive their consumer goods.

Chris, perhaps if I could move back to you on the working capital? It seems it's quite a theme today. I am sure our organisation will be delighted to hear this because this is one of Sam's catch cries and if it's not a conversation that includes working capital then something is going wrong. So thank you for raising it again.

CHRIS LYNCH:

Tim, I think you rightly point out we are targeting some fairly strong improvements in this over the second half of the year, that I am confident that we can achieve and I think it's something that we should be doing. We have done a lot of the pre-work in the last 6-12 months and it's been targeting about what these ideal levels should be.

I think we have got two bodies of work going and underway. One is around, what's the ideal level of inventory we need to sustain our various operations? And you'll see some

of the things like Oyu Tolgoi now starting to ship in excess of what they are producing in the open-cut. We have got some of the iron ore that's been held up at the mine site that we can now have a better opportunity to get it down the infrastructure chain to the port, so there are opportunities like that.

There is also opportunity to negotiate different outcomes with regards to the payable side of the house. So that's really the things we work toward, getting that total number down. But thinking about it more, about what the ideal levels are rather than some sort of target and 5 or 10 per cent reduction is far more meaningful but it's a bit slower but more sustainable. So that's our ambition and we are confident we can achieve it.

SAM WALSH:

Okay, perhaps we have got time for one more question in the room. (A pause) Well, it looks like we've handled them all. So thank you very much.

I am very pleased that we've been able to share this story with you today. It is a great story. I am seriously pleased at the progress we have made to date. The job isn't finished, which means that there is opportunity still there within the business. We are back on track, we have laid solid foundations to deliver greater value for shareholders, and that was the underlying theme of my comments when I took over in January and at the February results last year.

The theme continues and I am delighted that the Board has picked up the theme. We are confident we will continue to generate strong and sustainable cash flows over the coming years. And have another look at that third paragraph of the release, it will allow us to materially increase cash returns to shareholders – very different wording from Rio Tinto, but we mean it.

So there's a cuppa outside. Please feel free to join us and have a chat to any of our team here. Most importantly thank you for being here, I do appreciate your time. Thank you.

(End of Q&A Session)