

6 August 2015

SAM WALSH (Chief executive):

So I will just return to my chair and I'll pass over to you for questions. Perhaps if people can mention their name and their affiliation? We'll take three questions here and then move to three questions from the phone.

QUESTION

Thanks Sam. I have two questions.

One is, six months ago you said you had a very personal goal to ensure that come February next year you give the Board options with the balance sheet including the potential for another buy-back. Given the decline in commodity prices, do you still think that target is achievable for February next year?

And the second question is just on growth going forward. The breakthrough in Oyu Tolgoi (OT) was very positive. Is that something you can now 'fast track' in terms of getting the approvals through and, given the hiatus there, it seems the card should have been ready to throw down and get the approvals through fairly quickly?

SAM WALSH:

Okay. Look, they are two good questions. Let me answer the second one and I'll pass the question about our capital returns to Chris in a moment.

In relation to growth, a number of people have asked me about this in terms of build versus buy, asked in terms of, can you sustain the growth? As I mentioned during my

comments, if you look at the way we are delivering projects with much greater focus, weakening Aussie and Canadian dollars, reduced energy costs and, quite frankly, reduced contractor costs and input costs, we are seeing that we are able to maintain our growth.

Of course, key projects for us are the 360 project, OT underground as you mentioned and South of the Embley, but we have other projects that are in the pipeline. Alan has the Diavik A21 diamond project; he also has the Zulti-South titanium dioxide project. But there are a range of creep and other growth projects across the business and, of course, as Chris mentioned with his capital allocation framework our first allocation is to sustaining capex and the progressive dividend.

We will then look to how we invest in the future and any need to pay down further debt and need for further shareholder returns, which brings us to the second part of your question. Chris, perhaps if you could pick up from there?

CHRIS LYNCH (Chief financial officer):

Okay. Thanks Sam and thanks for the question. Look, I think that the capital allocation framework is important to consider in this process, so we do look at sustaining capital first up, we look at the progressive dividend, we then look to growth and we look to the balance sheet capacity and that is a function really of debt. And when you get to balance sheet capacity we talk about maintaining a net gearing ratio in the 20-30 per cent range.

Now in a volatile market like this, in a challenging market like this, the more you can stay in the bottom end of that gearing range the better, and then you go to consider further returns to the shareholders. But in our case, as I think everyone is well aware, we make these decisions at the Board level in February and that will be the next

opportunity for the conversation with the Board about exactly what the returns will be for subsequent periods.

So we think about it in terms of sustaining capital, dividend, growth, capex, balance sheet capacity, and then the desire for further returns to the shareholders. That's the flow of the debate and, as I said, that will be addressed in February Board decisions and announcements.

SAM WALSH:

Good, thanks Chris. Another question in the room? Why don't I take this one here? You'll all get a chance, so don't feel left out.

QUESTION

Just a couple of questions, one following up from the previous question.

If it was February today when you have got 21 per cent net gearing, less than \$6 billion of capex next year and when iron ore prices are \$55, would you be recommending to the Board that you should sustain the buy-back?

Then the second question is around iron ore and the prioritising of volume over price or price over volume. Can you envisage any situation where you would kind of start to pull back on the growth in the Pilbara or consider closing IOC? Obviously IOC is making some EBITDA today but it's not making much cash flow, if iron ore is at \$45 would you be prepared to make that bold decision?

SAM WALSH:

Let me kick your first question into the long grass, but it was a good solid attempt to try and put me on the line.

In relation to iron ore, I know it's a difficult market and I know I have got a few noisy competitors but the truth of the matter is that it's a global market, supply and demand is global, and we have got to be very focused on what's in the best interests of our shareholders. I mentioned during my presentation that we are expecting during this year that 120Mt of capacity will come off with a further 45Mt that are at risk.

If you look at what we are expecting in terms of supply to come on, including our share, that's actually 110Mt. Now a lot of things will happen during the rest of this year and who knows where sentiment will actually go, but if you look at the basic numbers, if you look at our forecast which a lot of work and effort has gone into, we believe that the market is fundamentally in balance.

Now, we invest for the long-term, we are not investing for what is happening right now. On behalf of you, we have been investing in our iron ore business over the past 10 years. We now have the infrastructure in place and we are bringing on brownfield mine expansions. With the unit cost of \$16.20 a tonne, all converted to today's exchange rate, and energy costs this comes to \$15.20/tonne, compared to an iron ore price of \$55/ tonne, we are doing okay, the margin is all right.

And for me sitting here today thinking about whether to sacrifice that margin so that someone else somewhere in the world can bring capacity back on, to me it just doesn't make sense. What I did say, is that a future investment in the Pilbara is going to be focused on maintaining the quality of the Pilbara blend. I did not say that our focus is going to be on bringing on capacity beyond 360mt. That's been our position for quite some time.

Pilbara blend is an important product, it's the largest product in the seaborne trade market and provides a foundation for the burden of the blast furnaces, and that's important for us. To not only maintain the quality and integrity of the blend but also to ensure that we meet customers' needs, because they need a sustainable, strong, reliable, consistent base to run their operations. They don't want to be continually tweaking and jerking their systems round because they don't have that reliability built in.

It's a fantastic business and it's a business that we continue to nurture and improve and, as I mentioned, Andrew Harding and team are doing a great job.

In relation to IOC, also there we are seeing a strong focus on improving that business in terms of its costs and its throughput. Kelly Sanders, the Managing Director of that operation, has actually moved his headquarters from Montreal up to Labrador City so that he can physically be on-the-ground and ensure that we are taking every step possible to optimise that business.

QUESTION

Just a follow up on the earlier question, can you confirm that 350Mt target for 2017 for the Pilbara is still valid?

And secondly, I am thinking about the portfolio. Clearly iron ore is in the bottom quartile, 80 per cent of the aluminium smelters are in bottom quartile as well, and that's where you need to be. Can you talk about the copper portfolio and how you see that developing over the medium term because I think we would have thought that OT might have got going a little bit quicker in terms of the underground development now that the agreement is finalised?

SAM WALSH:

Our guidance for iron ore for 2017 has not changed. We are focusing on 350Mt there for the Pilbara operations.

In relation to copper, I think we all would have loved if OT underground had kicked off earlier. In fact, as you know, we had kicked it off and then had to pause the project. What was more important was that we ensured that the investment framework was absolutely sound for the future. This is a 50 year-plus project. It was worth spending time to get it right and not to destroy value in the process.

As I mentioned during the comments, I am very focused on shareholder value. I am not about ticking boxes. I am not about doing something because it's on somebody's list or it's been reported in the media. I'll do it because it delivers shareholder value because it's the right thing to do for shareholders and putting a very solid and strong foundation in place for the future of that business was incredibly important. We now have that platform in place.

Yes, we need to reconfirm the feasibility study. Yes, we need to reconfirm the project finance. Yes, we still have permits to get but the project has got momentum, it's moving and at the right time the project will come into our evaluation committee, our investment committee and the Board, and it will be a good project.

Copper is going to be tough going forward. There aren't enough projects coming on stream. Projects are tough because the orebodies are complex, they are deeper orebodies, lower grade in a number of cases and the approval cycle is extended. I jumped for joy when our people successfully received approval of the land swap at Resolution, in Arizona, as a result of an Act which went through Congress and was signed by President Obama.

They then said to us it's probably going to take 6-8 years to get environmental approvals. That's beyond my imagination. I am sure they will do a very thorough job but it's beyond my imagination, and of course people are working to improve that.

I saw some correspondent's reports during the week to say the American Government recognises the criticality of resource development and the need to streamline processes. I am not suggesting for a moment that we bypass any proper approvals processes, that's not where I am coming from, but if you look at the lead time and the added value for the process I can't quite see how it could take 6-8 years.

Beyond that of course we have the La Granja project which is currently under study and re-scoping.

But whether you look at us or whether you look at our competitors it is seriously tough bringing on these future projects, which, if you step back from it, it bodes well for the copper industry. It means that we will see copper moving into short supply going forward.

Can we have a question from the phones?

QUESTION

Thanks very much. Sam, a couple of questions.

The first one is on the South of Embley. Can you perhaps give us an update on how you thinking about the scope of that project? Initially you talked about a 22.5Mt mine, but with all this additional Malaysian supply does that influence the way you are thinking about bringing on that project and perhaps if you can give us some colour on how you are thinking about the bauxite market going forward?

Then I guess the next question is on iron ore. Can you give us a bit more detail around Silvergrass and the delays there? Obviously you have done a good job managing the depletion or sort of deferring the ultimate depletion, but when we think about sustaining mines is a new 50Mt operation still required every five years or has there been work done to improve that outcome?

SAM WALSH:

Okay. Why don't I handle South of the Embley and, Chris, if you could comment on iron ore.

On South of the Embley, our basic scope regarding volume hasn't actually changed, however, we are looking at the capital aspects of the project. I have flagged this to you a number of times but we are seeing a weakening Aussie dollar, energy prices, input prices, contractor prices and the Aluminium group and the Projects group have been looking for how we in fact optimise that project.

In terms of demand, we are working on the basis that, volume that has been curtailed in Indonesia and volume coming on from Malaysia will be part of the equation.

Clearly we take that into account in terms of our analysis of demand. But we are seeing progressive shortages in bauxite in China and we are talking to a number of people who are very interested in setting up new refineries based around Weipa bauxite.

That clearly provides an opportunity market-wise for the project. Bauxite is not all the same, it differs depending on the supply source. This actually enables us to have a very strong market base, for that project going forward. And of course in terms of costs and of proximity to that market we're particularly well placed.

Chris, perhaps if you could cover off on iron ore and how Silvergrass and the brownfield expansions all come together?

CHRIS LYNCH:

Andrew and the team were able to develop a more brownfield response the capacity expansions and that resulted in a significant reduction in the capital expenditure required. Clearly though, it puts a little bit more pressure on managing the quality of the Pilbara blend.

So, we fully expect Silvergrass will come in for the final approval processes during 2016; I wouldn't be at all surprised if that's the earlier part of 2016 but that's not determined as yet. When we get there, it will be primarily about maintaining that quality and making sure that's in as good a shape as we can get it for the process going forward.

The brownfield expansions was largely about whether we could get to the same sort of capacity at a lower capital expenditure rate. That carries with it other challenges of course, but that has been successfully deployed and the guys have done a really good job on that.

You then come back to how efficiently we deploy capital. The major projects team have also been doing a lot of work on making sure we have done the necessary work in advance to ensure that we get the absolute best answer on the actual spend. You apply it into a market which has more competitive tension and we can get a very competitive bid. Then you consider where you are spending the money, which is going to be largely a lot of Aussie dollar-denominated spend and the currency is in our favour there as well.

We have had a brownfield process to date, we have got a couple of greenfields, Silvergrass is one, Koodaideri can come later, but the processes are in place now, it is almost time for Silvergrass to come. It is well heralded, it's well prepared and I'd expect we see it somewhere during 2016.

SAM WALSH:

Thanks Chris. Another question from the phone lines?

QUESTION:

In regards to Silvergrass, I think the capacity is a bit over 20 Mt so if you maintain a target for 350Mt in 2017, basically from the brownfield expansions, does that inherently mean we are getting capacity beyond the 360Mt and what scope is there to really push the capacity, the infrastructure, in the Pilbara?

The next question is just in regards to the capex reductions. How much of that reduction, in 2015 and 2016, is currency versus delayed projects versus just a call in the environment? I don't know whether you can provide a breakdown on that and what does that mean for projects like Silvergrass and South of Embley etc?

SAM WALSH:

Well, let me just add some colour on Silvergrass. What we are seeing there is that Silvergrass would supplement/replace some of the brownfield projects that we've brought on but the primary driver for it is, as I mentioned, to retain the integrity and the quality of the Pilbara blend. It is a very important source of iron ore for our customers and maintaining the blend through 2030 and beyond is an important element of our iron ore strategy.

On de-bottlenecking, as I mentioned during my comments, I personally believe that there is always room to improve the business and I am sure Andrew and his team will be looking at how we can improve the business. However, I would comment that the primary driver for Silvergrass relates to quality of the Pilbara blend and not to drive further tonnes through the system.

In relation to capital, Chris, why don't you make some comments about that?

CHRIS LYNCH:

If you think about the area of the further work we are doing vis-à-vis scoping and the competitive tensions, between those you probably get about 45 per cent of the reduction; elsewhere the currency comes through and if you just look at the Australian dollar by way of example it is effectively a 25 per cent reduction in the Australian dollar over the last 12 months or so. The remainder is where we have got some minor deferral type processes underway, but in the main we are achieving all of our greater ambitions with what we are doing.

SAM WALSH:

Thanks Chris. One more question from the phone and then we are back to the room. We will come back to the phone after three questions in the room.

QUESTION:

You've booked a very strong result, but when I look at the earnings benefit I am surprised that energy and inflation only contributed a \$79 million uplift to first half earnings given crude prices were down, now about 50 per cent year on year in the first half. Can you talk a little bit about that and whether we can expect more benefits to flow through perhaps as inventories then work through?

SAM WALSH:

Chris, if you could pick up on this? I would indicate that in our press release we have showed the sensitivity of the movement in our input costs and currency and what-have-you, but Chris why don't you pick up on that?

CHRIS LYNCH:

It is one that will require a bit of work to get through, to hone down to an exact number, but the key issues really are around inventory. As the price falls we get a bit of a lag with regard to how it goes through into the cost structure; that's one issue.

The second one is a lot of our energy inputs are self-generated in many cases. If you take the smelting system by way of example, we generate 50 per cent of our own energy there and a lot of hydro-power there as well, so not all of our energy is obviously in the oil sector. But if you look at it on a full year basis from where we are today, we are about the \$60 mark, it's roughly about the mid-80s, for an overall impact on the cost structure in terms of about \$80 million if it was to vary by about 10 per cent off the current levels of pricing.

So clearly it takes some time to work its way through, which is a good thing because I think the oil prices look pretty solid at these sort of levels so we'll look to take advantage of that.

We don't count it in our cost reductions.

SAM WALSH:

Okay. Thanks Chris. Let's move back to the room with a question towards the back there.

QUESTION:

Two questions. On the capex guidance again for the 'yet to approve', could you maybe give a breakdown of the specific capex for individual projects yet to be approved?

And then secondly on cost savings, in the first half you did \$0.6 billion of cost savings and a second half guidance of \$400 million. How should we think about 2016? Are you all the way through your cost saving programme or do you think there is more to come?

SAM WALSH:

Okay, let me handle the second question; Chris, if you could handle the capex question in a minute.

In relation to cost reduction, look you need to recognise that we have reduced our costs by \$5.5 billion over the past 2½ years, and it is getting tougher. When I took over I made the comment that I want the organisation to act as owners, I wanted the organisation to spend every dollar as if it were their own, and there has been real momentum with that. People have picked it up despite the fact that some people out there thought it was rather comical.

That change in philosophy, running the business for cash, tightening up your systems, ensuring that everything you do is very tightly looked at through an aura of, does this

actually add value to shareholders or is this something we are doing because it's the nice thing to do or somebody's project or what-have-you? And we have seen the reductions flow through, not only in relation to cost reduction but also in capital, in sustaining capex.

You know, 2½ years ago when I sat here and talked to you we were talking about \$5 billion of sustaining capex, today we are spending \$2.5billion. In my Head Office it was 600 people, it is now 250 people, and everything that used to happen happens, people are working a bit harder. But it is a focus right through the business and the leadership has been from the top with my Exco team and I and we are seeing that flow through. It is getting harder hence the reduction in run-rate that we are expecting in the second half of 2015.

Clearly, I do expect there will be further improvements next year and, quite frankly, that's coming through from the businesses. When we set the original target to take \$3 billion out of the business, that was a top-down target.

As we have developed the subsequent targets, they have come from the businesses themselves, recognising very realistically the condition in the market, wanting to be ahead of that which I believe we are, but also recognising the incredibly strong capability of the business to deliver improvements, to deliver continuous improvements right across the board, not just in operating costs but also in capital, in working capital.

In price, I gave some examples during the presentation that the marketing people are working through it. This is a highly focused organisation, it's a winning team, morale is incredibly high, people feel good about working for us and the momentum that's

there is incredible. At times I've got to sort of hang on to my chair because we are moving forward at a significant rate of knots.

People can feel the benefit of everything that we're doing; they are truly delivering. 34 per cent of our employees own shares through the Share Saving Scheme. Oh yes, I wish it were 100 per cent but 34 per cent, like you, are shareholders in the company. They've bet their savings, they have bet their money on us. I think it is a pretty good bet, quite frankly, but you have got momentum, you have got real buy-in to what we doing.

Chris, why don't you not answer the question about the capex breakdown?

CHRIS LYNCH:

I will tell you that if we talk about a project to be listed as approved it has to be approved, and that's a fairly binary thing. It either is or it isn't, and it's something that goes through the Board. Probably if you think about the forward looking capital with what we are expecting to come through in the near term, clearly the iron ore programme is well documented, but at this stage Silvergrass is not approved by way of example.

South of Embley is in the very final stages of preparation, but at this stage it is not approved for the totality of the project. There may be smaller items approved for completion of various preparation work; but that's it. Oyu Tolgoi underground is in very advanced stages of sort of refreshment of the feasibility study, but the final approval for that has not yet gone through.

So that's the way it's calculated and there is a line through all of these numbers for all of those type projects, but they'll come as they are ready and once they are in that

approved status then we'll change the colour. But that sustaining capital block at the bottom is pretty solid but ill defined, it's an expectation of about what we'll spend. So there are still moving pieces in this, but in simple terms it's either approved by the Board or it's not, and it's a point in time the answer to that question.

SAM WALSH:

Yes, thanks very much for that, Chris. I should add to Chris' comments, he is a bit modest. Chris created and chairs our evaluation committee which is a precursor to projects coming on to the investment committee board, and let me say he drives that committee with great energy, focus and drive to ensure that only the best projects are actually going to get approved. It also allows an opportunity to actually kick projects back for more work when the projects aren't ready.

The evaluation committee involves the middle level subject matter experts in the organisation and ensures that Chris and Greg Lilleyman, who runs our Technology and Innovation Group, have the ability to deeply question I guess the fundamental basis of projects and the detail as to the thinking across the entire spectrum, not only the project scoping and the project construction but also the commercial factors associated with that.

Okay, do we have another question in the room? Let me try this side of the room. We will come back; we've still got time.

QUESTION:

Just two questions please. The first is your uranium business continues to deliver negative earnings, how long is the Group prepared to absorb those negative earnings for?

And then the second question is, Simandou capital expenditure increased year on year, only marginally, but how should we think about Simandou in the context of the current iron ore market? Thanks.

SAM WALSH:

Those are two good questions and Alan Davies, who runs both of those operations, is sitting here in the front row and I am sure you two over a cup of coffee could talk more about it.

But in relation to uranium, following a decision from ERA, we issued a press release to say that we did not support further development of the Ranger 3 Deeps underground operation at ERA. At the same time we've indicated that we will provide a conditional loan to ERA to complete the rehabilitation. I forget the exact figures but I think the business has spent over A\$350 million to date on rehab, and it's important for our responsibility, our community and government responsibilities, that we adhere to ensuring that work is completed.

We don't believe the ERA project will be progressed. Now of course the ERA board needs to explore further options and further options could be an alternative to open plan, it could relate to Jabiluka, time will tell with that. At the moment we will continue through 2018 to process the low-grade stockpile, then clearly through 2025 we will complete the rehabilitation work.

Yes, there's a possibility of an extension to the lease. We are not really working on the basis that will come to pass. The project is highly controversial in Australia. We see nuclear power here as a solid underpinning of our production. In Australia, there is only one very small nuclear plant which is basically a prototype plant and it's something that, as I say, is controversial.

Rössing Uranium: Alan and his team are working hard to improve the cost basis there. It's quite an old operation, there are clearly opportunities there to improve practice, improve the way that we are processing uranium there. There will be an up-tick in uranium prices. The question is, well, when and how long and how long until you'll expect that?

It's interesting even with the cutbacks in Japan we are still receiving some orders for uranium from Japan, which sort of in a way is counter-intuitive but it also showing the nuclear companies there are expecting there will be a need to bring back nuclear reactors in Japan that actually meet all the safety standards and all of the changes that have come through. Meanwhile, we are seeing in China and elsewhere commitment to further nuclear power stations, and even here in the UK there is a commitment to another nuclear power station.

In relation to Simandou, the next step is to complete the bankable feasibility study and, unfortunately, that has been delayed as a result of the Ebola virus. That's limited the ability for us to get potential contractors in to refine their numbers, their quotations, to complete work on infrastructure, rail, and the mine. As you are aware, we have announced that we are focused on the mine and we will thirty-party source the infrastructure, the rail and the port. However, we need to oversee that work and we need to ensure that it will meet our needs.

The work is currently underway on the bankable feasibility study, discussions are underway with the government, the investment framework that Alan negotiated, so the deadline for the completion of the bankable feasibility study of July 18, we've passed that date but clearly the Ebola virus has been a *force majeure* event and we need to tick the box in relation to that. I am optimistic that will, in fact, happen.

The next decision for it is when we complete the bankable feasibility study and obviously the numbers and volumes and exactly how it would come to pass. I am not going to cross that bridge until we get to it, but the first task is actually to complete the bankable feasibility study.

Let's have one more question in the room, here right in the front row.

QUESTION:

Two short questions. One is on the new normal that you talked about. In the inside of the press release the company still talks about one billion tonnes of production in steel by 2030 in China. Has the composition of that production changed in any way given the new normal, i.e., domestic down, more exports, and do you see other repercussions of this what I would argue probably a faster move to the new normal than most expected?

And secondly, which is on maintenance capex, clearly \$2.5 billion is an absolutely excellent number for the next two years but it appears quite low given the new size of this business over a cycle, say 10 years. So is the increase in capex guidance in 2017 towards \$7 billion a reflection of an increase in the underlying maintenance capex and maybe, clearly if that is not the case, can you give us some idea of what the real sustaining maintenance capex level is going to be over a 5-8 cycle?

SAM WALSH:

Okay, well let me in fact have Chris answer the second question in a moment. But in relation to the new normal, I think the world is still trying to work out exactly what Xi Jinping mentioned when he announced the term. But I think importantly it's a journey rather than necessarily an end point and is recognising the fact that post the financial crisis the market dynamics have actually changed.

If you thought that the industry goes through cycles and you'll return to where you came from, I think the new normal is actually signifying that the return probably won't be to the point you left before prices started declining. Now I think that's a function of everything. We are seeing across the board that costs are reducing, efficiency is improving, people are expecting greater value for less and so on, and I think we will see that across commodities as well. It will still be a healthy place to be but not the heady heights that we hit.

In relation to our billion tonnes by 2030, yes, we are holding that and I think the greatest difference between us and other forecasters, I think there is alignment in relation to the domestic demand. I think export is, as you point out, the area where there's the greatest difference, and we look at exports of finished steel product but we also look at export of elaborate manufactures and capital equipment and so on, and it's that we seeing we differ from other forecasters.

Let me assure you that our economics department has come under great focus, thanks to all your articles and noise from the press. They are holding a line. They have done quite a bit of research and analysis and they feel confident that billion tonne figure will continue to hold. Now if you step back from it, to achieve one

billion tonnes of crude steel production by 2030, that's one per cent growth a year. I think we will be all right there.

Chris, why don't you answer the question about capex?

CHRIS LYNCH:

Thanks. Look, I think the \$2.5 billion that we've tabled for sustaining capex is fine for the three year window we are talking about and we have got a pretty good line of sight to the rough nature of the activity that is going to be required in that mix.

If you went to any given business and asked what their sustaining capital would be next year or the year after, at this stage they've probably got a list that could be as much as 50 items long, and by the time they actually get there to execute against that in the period when it finally arrives they'll probably do 20 or 25 of those; others will displace some of the others, and others of them will just drop off because they are just not necessary at that time or whatever. So you have got all that and it's very much a moving feast.

So, when we talk about sustaining capital in terms of that capital expenditure allocation process it's very much an aggregate that's got some business judgment in it, it's got some sort of form in it in terms of how much is necessary at any given time to spend.

I think inherent in your question is the fact that, in the longer haul, if you just take any existing asset or implementation you have an expectation that the need to spend sustaining money on it would increase, or sustaining activities would go up as anything aged or grade decline and the like.

So in the short-term I think we do benefit slightly from the fact that there has been a fair bit of recent expenditure, so by way of example if you take the Kitimat smelter as a standalone issue, we should not need to spend a hell of a lot of sustaining capital on that in the near term.

If you go to the refineries at Gladstone you'd probably get the opposite case there. It's a bit like your grandmother's axe where she's had four new handles and a new blade every 25 years sort of thing. That's the sort of process that works there.

So in the longer term the activity level should be expected to rise. Offsetting that and, all the while, will be the degree to which we can maintain people's intent about making sure that money is spent efficiently and learning from experience curves and productivity gains that allow you to reduce it in other areas. So some of the maintenance practices that are happening now with mobile equipment fleets mean that we need less trucks to do the same amount of work. That's an important part; it has a sustaining capital manifestation.

But we are getting to the point where we are asking the question now, are we making sure we are spending enough to sustain that existing installed capacity? Because if you cut to the chase that installed asset base is a real powerhouse of this company and the growth facilities that will come will take their place in that portfolio, but the engine room that's there now has to be sustained.

So I think we are at a fairly balanced level here now. I think the odd business here and there is asking for a little bit more of that but, in the main, I think we are in a pretty well controlled position. But I think your question is valid.

Then there is obviously the other issue that comes to play, is what will it cost? The same unit of work today is much, much cheaper than the same unit of work was three

years ago. That's a function of competitive tension, it's a function of coming off the super hot market, it's a function of the currencies depending on where you're spending the money, so a lot of moving parts. We are very comfortable with the numbers we have published and disclosed and we'll see where that goes into the longer haul, but it's a significant ongoing challenge for us.

SAM WALSH:

Thanks very much, Chris. Let's move to the phone lines for the next three questions.

QUESTION:

Hi Sam. Congratulations on a great result. Just a question on the energy portfolio, Rio's been in uranium for many decades, and following up on your recent answers on uranium, just where do you see energy in the portfolio going forward? How will that sit, in a sense, with what's been happening in the headlines lately, be that of the US where Obama has announced a lot to the media on pushing back on energy, particularly coal-fired, and does that change your view of the mix going forward or does it change the business model going forward?

My second question, just an observation, the sales mix had some interesting changes this half. Percentage-wise revenue to China and Japan were down about 2 per cent each and the North America, including the US and Canada were up about 3 per cent. Is there something subliminal in that or is that just half on half variation that one should ignore?

SAM WALSH:

In relation to the second question, Chris, if you could help me with that in a moment? Chris may be able to help us.

In relation to the energy business, I think I mentioned at the results in February that we have been fairly arbitrary in terms of the re-jigging of the Energy group, with coal going into the Copper group to form Copper & Coal, and uranium going into Alan's group, Diamonds & Minerals. That was really to pull out the product group overhead.

The Energy group done a great job of pulling \$800 million of costs out, but running the business for cash quite frankly I couldn't see the benefit of continuing to have it carrying also the overhead of the product group. And I think that decision has been proven to be very sound in terms of how Alan and how Jean-Sébastien Jacques have been able to absorb those businesses in addition to their current operations with a very minimal change in the overheads and significant reductions in cost. That was important.

In relation to climate change and in relation to greenhouse gas, that is an important issue for us. If you look at our greenhouse gas performance over the past five years on an intensity basis we have reduced our greenhouse gas by 16 per cent; clearly we have further targets to improve it.

And, yes, that is a combination of things, it's a combination of energy efficiency, it's a combination of technology. It's a fact that we have closed or divested of high-energy businesses, high greenhouse gas producing businesses. So we are very focused on the comments that President Obama and other world leaders are making on this

topic and I suspect there will be further comments coming out of COP 21 in December in Paris.

In relation to our coal business, we do produce cleaner coal there than elsewhere in the world. Coal is going to continue to be part of the energy equation probably for the next 50 years and clearly there is no substitute for coal in the mix in terms of power production at the moment. Yes, there are a number of alternatives that are coming along but they are going to need to substantially reduce both their capital cost and their operating costs to be truly attractive to the market.

We continue to run both of those businesses, the coal and uranium business, for cash. We continue to be very focused on market opportunities, improving the price for example through the Hunter Valley blend work that Jean-Sébastien and the team are working on and other initiatives to further improve those businesses.

In relation to our sales mix, Chris, I'm not sure if you have a ready answer on that?

CHRIS LYNCH:

No real idea in terms of basted fact. I reckon the only way that could occur, it's possible there is a difference, if you take aluminium by way of example, we're not shipping much of that into China, as you could expect, and it had a price increase, where if you compared a lot of the product going into China had price decreases.

SAM WALSH:

Okay. Thank you. Do we have another question from the phones?

OPERATOR:

I have no more questions over the phone.

SAM WALSH:

Okay, we are back in the room.

QUESTION:

Two questions. One, just any updates on divestments? Obviously you are probably not going to give us any specifics, but are you assuming anything in the second half in terms of a monetary amount to come through in terms of divestments?

And then a second question in terms of just your capital allocation, obviously you are putting up a 15 per cent IOR target. Is that pre/post tax? Is that really high enough given what can go wrong in mining? It doesn't seem like a lot can go right.

Shouldn't you be upping that?

And then thirdly, would it be right to assume that you are running a lower IRR for buying back your own stock because it seems like your sort of allocation of capital is still for growth, not growth per share? I am just wondering how you are balancing that off given that you obviously been here for four or five years and the share price has continued to go down. It has to alter those sort of capital deployment decisions.

SAM WALSH:

Okay. Thanks for those questions, which I will pass to Chris. These are well and truly up his alley and, Chris, I look forward to a gripping answer.

CHRIS LYNCH:

Oh, I have got to be careful. The first thing is we never plan on any divestment proceeds until we've sold something and as soon as anything would be sold, we

would probably tell you. So, and that's about as much as we ever talk about with regard to divestments.

Vis-à-vis the IRR conversations and the like, the 15 per cent is an internal guide. Many projects are significantly above that and there are others that are below it that don't qualify for expenditure or don't get through the approval process on that basis. Some of those might be kicked-back for more work, some of them might need more time, some of them might need a lot more and a different response to enable them to have a better path through such that they can generate a better NPV and IRR under a different configuration.

The conversation regarding ultimately the buy-back conversation vis-à-vis the IRR of a project, if you do want to value a buy-back in that regard I think the best way we look at that is to say, what is the return on what we see as the future cash flow stream of those and what is value of that future cash flow stream we can see coming from our business as we see it?

One of the things most of the market really takes account of, we spoke about it a bit earlier, was that any unapproved projects, for instance, are not value by the market generally in a market like this, at least until they are approved and even then there is a delay often in how much value is ascribed to them.

We look at that on the basis about our view of the cash flows and the like. We also look at buy-backs on a basis of returns to shareholders and what part will that play in it. For instance, we are not trying to pick a precise day on which to buy the stock in the current buy-back where we are basically doing a daily position in the market and accepting the market price

So it's a conversation that's there. It is something that is analysed and the like. There are a raft of factors that kick into that buy-back or other form of return decision and, in the main, we would look to be able to do all of those things. So when I talk about that allocation framework it's not meant to say sustaining capital, dividend, and then you go growth, capital, balance sheet, and further returns. You can go around that cycle multiple times if you want and if you have the capacity.

So I think there is a question there. You might ask the question, should I be doing more capital returns at this point in time? And everyone will come up with their own answer on that. So it will be a function about what is our overall capacity, be it by internally generated funds or be it by balance sheet capacity for growth, balance sheet debt repayment or further returns.

SAM WALSH:

Okay. Look, unfortunately I think we have run out of time. I think it has been an incredibly good session in terms of your engagement and the questions. I will be around for coffee as will Alan and Hugo and Debra to answer any questions that we haven't covered, as well the IR and Media teams.

Again, if I could thank you for being here. I know what you have gone through to get here this morning. And to those that are on the line thank you for your patience. I know it's not always easy looking into cyberspace wondering what on earth is going on, on the other side of the world. But I think it has been a good session.

Look, it's a good story whichever way you look at it. I think we have delivered robust returns in a very challenging environment. We have committed today to continue with the progressive dividend, to increase the dividend by 12 per cent in the first half, which follows through in UK sterling 21 per cent, Aussie dollars 41 per cent. I think

that's a pretty good effort. And we have, as Chris has been discussing, committed to continue with the buy-back.

Also implicit in all of this is our commitment to growth, \$5.5 billion of capex this year, around \$6 billion next year and around \$7 billion in 2017. We recognise the importance of growth, we also recognise that it needs to be in the context of market forces.

But thanks again for being here and I hope you join us for a cup of tea or coffee.

Thank you,

(End of Q&A Session)