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**3 August 2016**

**J-S JACQUES (Chief Executive):**

I think we should open the Q&A session. One way is to take a few questions from the room and then we go on to the conference call.

**QUESTION:**

Thanks very much. Congratulations on a sort of solid set of results. Just in terms of the most important business for you, can you give us your view on the long-term outlook for iron ore and for steel production in China, and when you think it will peak or if it has already peaked?

And a second question, just to do with your portfolio optimisation, you have made it clear this morning that you are not looking to increase your interest in Turquoise Hill at all at the moment. But can you give us a view on any other areas of the portfolio where you might want to optimise capital either by selling assets furthermore or investing in things that you partially own at the moment?

**J-S JACQUES:**

Well, I think they are more than a couple of questions here, so we are going to start with the iron ore piece and the market in China.

I have had the opportunity in the last few months to go a few times to China to meet with some of our customers, some of partners and some of the government officials. As I said earlier today, it is fair to say that the construction market did pick up in the

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first half of this year. The housing inventory or stock, whatever you want to call it, especially in Tier 1 and Tier 2 cities, have gone down.

If you look at the run-rate in terms of production in the second quarter, it was much higher than 2015, last year, but as I said it is formally underpinned by credit and we have to be very, very cautious from that perspective and we have to be ready for that. Even if we had a good run in the first half of this year, we could end up at the end of 2016 more or less at the same level as 2015.

So for us, from a planning standpoint, we assume that market conditions will remain challenging and volatile and therefore for us to be able to create value, as I said today, short, medium and long-term, it means really two things: it is about the quality of the assets, and the Pilbara is a world-class asset; and the way we run the assets, and that's what it is going to be.

It is going to be about making sure that we remain low-cost and therefore we can generate cash flow, and we hope more cash flow than our competitors, in order that we continue to maintain the strength of the balance sheet, pay dividends and be able to invest in creating growth options. That's where we are.

On the portfolio optimisation, not all the assets are world-class, we know that, but as long as they are part of the portfolio they are part of the portfolio and we run them as best as we can with safety being the priority number one. We said in February that we want all the assets to be free cash flow positive and that's where we are coming from.

Now if somebody, even in this room, wants to knock on the door and to offer a good price for any asset in Rio Tinto then we will look at it, but as long as you are part of the portfolio you are part of the portfolio.

Do you want to add something, Chris?

**CHRIS LYNCH (Chief Financial Officer):**

No. I think that's fine. Thanks.

**QUESTION:**

Look J-S, your predecessor took great pride in making Rio Tinto boring.

**J-S JACQUES:**

Do we look like boring people? I think we do.

**QUESTION:**

My question is, do you have a mandate to be a little bit more exciting, and I guess with that, how should we think about growth? You mentioned the three projects. Is there a lot more growth to come or this enough excitement for the near term?

**J-S JACQUES:**

Are we excited or boring?

**CHRIS LYNCH:**

Actually boring is the new excitement.

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**J-S JACQUES:**

I knew you would say something like that. Thank you, Chris.

I think we have lots of excitement already in the portfolio. I think the important piece is really to deliver carefully on our commitments and we don't want to take too much at any point in time. The three projects that we have, Oyu Tolgoi, Amrun and Silvergrass, plenty of activities in the coming years, so let's make sure we deliver them properly and then we can look at other options. That's the first part of the answer.

The second part of the answer is, people focus a lot on growth, volume growth and so on and so forth. We shouldn't focus. We have got \$50 billion of installed capacity, of installed assets and the leverage we have by driving productivity to the next level is just massive. I think that is something we are going to focus on, that we are already focusing in a big way, in how we can extract more cash flow from our existing asset base.

In the last three years a massive achievement has been made in terms of cost saving but productivity is much more than that, it's about the top line and the bottom line. So that's another dimension that is very important for us.

Now the question about the excitement, and in relation to M&A, we have been very clear, and I have been on recall and I am going to reset my position: the strategy of Rio Tinto is about build and smart buy, and SMART you can put in capital letters. We are, and will be, very selective.

Do we have an M&A agenda per se? Yes, like everybody else. Do we know which Tier 1 asset we would love to have in the portfolio? Absolutely. But before we trigger anything it would have to be about the quality of the assets, and last but not least,

does it make any sense for our shareholders? Are we going to create value for shareholders?

I have to say if I look at the Copper space, and I know the strategy well for obvious reasons, look at the last three transactions, Zaldivar, Morenci, Tenke - a very good price for the sellers. So if you expect lots of excitement from us in the M&A space, what did you say, Chris, boring is the new exciting?

**CHRIS LYNCH:**

Yes.

**J-S JACQUES:**

So we could be boring for a long time. But we will look at it. As I said, the strategy is very simple: build and smart buy, but SMART in capital letters.

We have a question here and then we will move to phones.

**QUESTION:**

Two questions please. With Kennecott Utah, clearly all assets need to make money but this is going through about \$300 million in the first half. The mine life is not very long; the corporate/price environment is not great. How do you think about this asset and are you going to take extra steps to solve this or just execute what you have been doing so far.

And secondly Grasberg, clearly it could be as interesting as Oyu Tolgoi in 2021. There are a lot of moving parts and it doesn't really appear that Rio Tinto is trying to influence those moving parts. Are you going to change that in the next 18 months or so to try and create the outcome you need to keep the value of that asset?

**CHRIS LYNCH:**

The key issue with Kennecott really is around right now the South Push Back is underway and obviously in the longer term we have been repairing from the Manefay slide and the South Push Back going on and the limit on how much material can be moved so they curtail their volumes there. The anticipation is that we will come out of this process with a significant longer life than probably is in your assumptions.

Then the other thing we have been doing there to supplement the returns from Kennecott is really to utilise the idle capacity or the spare capacity in the smelter and processing third-party concentrates through there. So all up, all up, with Kennecott I think you rightly point out, it is over a 100-year asset life and it is approaching the sort of "sunset years", but there is still plenty of juice left in that remnant and the South Push Back will expose that.

**J-S JACQUES:**

All right, if I move to the second question about Grasberg. As you said, and as you know, there are lots of moving parts. One important element is for people to understand that there is as we speak a review of the mineral load, which is a mining load measure. It is a very important review because it could impact the need to have a new generation smelter, can impact the timing of the contract of work, when you will and so on and so forth.

As with the agreement we signed with Freeport in 1994/95, Freeport is fronting the discussion with the government but we are working very closely with Freeport. But the agreement in 1994/95 is very, very clear about who is fronting the discussion with the government.

So lots of activities are taking place at this point in time. Like all discussions with government there can be lots of emotions, passions, whatever words you want to use, but usually you get to a pragmatic outcome at the end of it - lots of moving parts, as we speak, but the work is underway.

**QUESTION:**

Any view of when you'll get a final conclusion on these discussions?

**J-S JACQUES:**

When the discussions are concluded I'm sure there will be some announcement in the market place.

If we could take one question from the people on the phones?

**QUESTION:**

Thanks very much. Look, the first question I have got is on auto-haul and clearly that looks responsible for the 2017 guidance downgrade. Can you talk about whether that 10-20mt downgrade is all auto-haul or whether there are other things driving that, and maybe a update on how that's going and when you might to 350.

Then I guess just a high level question. As new CEO, J-S, can you talk about the benefits of the new structure that you have got in place and what that might deliver?

Thanks.

**J-S JACQUES:**

I am going to start with the second one because that's pretty simple to answer. The entire structure that we have put in place is to enable a step-up in terms of

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performance. So if you look at iron ore, and I am going to use iron ore as an example, what we want is whoever in Perth running the iron ore to focus 7 days a week, Saturday and Sunday included, on how we can optimise the Pilbara and keeping IOC in the portfolio, which is on a different time-zone and means the reality is people in Perth have no time to look after the IOC situation.

I can run the whole chart along the same line. Maybe if I look at Copper & Diamonds, the reason why we have put Copper & Diamonds together is about building a strong capability around underground. If you take a 20-year perspective on growth we have multiple options, all of them or a big chunk of them are underground, and therefore we need to make sure that we have the right capabilities to be able to deliver on those growth options.

So the whole organisation is really around stepping up our performance and, as we have already said today, it's about productivity which is about the improvement not only of the bottom line but the top line as well. So that's where we are in terms of organisation.

Now before you ask the question, and I think Chris mentioned it in his speech, we will deliver on those \$2 billion cost saving commitments over 2016 and 2017, and the \$580 million that we have delivered in the first half of this year is an important good step against this \$2 billion target.

On iron ore, we did revise the guidance a few months ago in relation to the Pilbara and the guidance as it stands is 330-340mt for next year. There were several drivers why we had to revise the guidance and one of them is auto-haul. Auto-haul is a complicated project, it's a combination of infrastructure and software and we are

working our way through it in a very phased and structured way. Today, as we are standing here in London, we maintain our guidance for next year of 330-340mt.

In relation to the next question you asked about - when do we get to the 360? -and thanks for asking the question. I am going to restate what I said a few moments ago, the iron ore strategy is not about volume, it's about value. We have the infrastructure for 360 at the port level, we have the capacity more or less on the mine; we don't have it today in terms of railway.

But what we are trying to achieve is about the optimisation of the free cash flow profile for the next 5-10 years in the iron ore. It is a combination of three things: it's about the cost, it's about the mix for the grades, and it's about the capex. The whole question for us is what are the right decisions? What are the right parameters that we should target in order to optimise the free cash flow of the business for the next ten years?

So I will not give you any indication of when we get to 360 because that's not really relevant. We will get there at the right time. As I said, the iron ore strategy is about value and not about volume.

I don't know, Chris, if you want to add anything?

**CHRIS LYNCH:**

No. That's okay.

Can we take another one from the phones please?

**QUESTION:**

Sorry to go on about iron ore, but just in regard to the iron ore costs we saw them rise, as Chris pointed out, in first half of this year on that Aussie dollar sensitivity. But it would seem from one of your queues in the Pilbara that does continue to push costs lower in that first half of the year despite those factors? So what is the potential I suppose for further cost reductions in the Pilbara and can Rio maintain its position as the lowest cost Pilbara producer given the threat of pushing down to about \$12 or \$13 a tonne.

And then just the other one, Chris, is in regard to the cash. I think cash is now down about \$8.25 billion. Is that the right sort of level that cash needs to run at for liquidity, or in terms of optimising the debt portfolio is there potential for further sort of reduction in cash given the opportunity and cost I suppose of carrying such a high level of cash at the moment?

**J-S JACQUES:**

I'll pick up the first one and if you could pick up the second one, Chris.

On the cost in the Pilbara, I am going to repeat what I said. The way we want to run the Pilbara is about value and it is about the optimization of the costs, about the mix, and it's about the capex. At the end of the day it is really about free cash flow, it is not about being the lowest cost producer for the sake of it, it is really about generating the best margin we can and generating as much cash flow as we can.

I will give you a very simple example, if it cost you and I am going to pick whatever number, \$20 billion or \$30 billion, to make then a very low-cost position that doesn't

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make any sense for us. What we want is not to destroy value and to optimise the free cash flow, and that's what we are doing.

Do I believe our Pilbara assets are one of the lowest producers on the cost curve? Do I believe that our iron ore business is on the first quartile of the cost curve? Yes, I believe so. But what we are trying to achieve is to generate as much cash flow as we can from our iron ore assets. It is about value and nothing else.

Chris, if you want to pick up the second question on the debt and the cash on the balance sheet?

**CHRIS LYNCH:**

Yes. As I said on the way through, we did pay down \$4.5 billion, or repurchased bonds for \$4.5 billion, during the first half, early, and we've also allowed another \$1.5 billion to roll-up as it matured. But in the same time period we also drew down the OT project finance for a little bit over \$4 billion, so that cash is still sitting on the balance sheet. That will be applied to the capex as the project progresses.

But I think the ideal levels would be sort of mid-debt levels; our ambition is probably a little bit more reduction in the net debt level and commensurate with eventually a reduction in gross debt and also the amount of cash we hold. We will play that out over coming periods but we did make quite a bit of progress, as we needed to actually, in the first half to get that gross debt level down a little bit. As I said, the OT project finance will gradually be spent into the capital expenditure programme.

**J-S JACQUES:**

Thank you. If we go to the back of the room, I think there was a question.

**QUESTION:**

Hi. It was related to the cost savings, you have partly answered it, \$580 million in the first half and so a good run-rate. Is it reasonable to expect that the \$2 billion target over two years is on the conservative side or do you think you are kind of pushing the central items as hard as you can?

And then I guess the second question, you coming out of Copper, could you maybe just give us your thoughts looking at longer term growth on Resolution, do you think that's a project we should think will see the light of day or do you think there are project-specific issues that are insurmountable?

**J-S JACQUES:**

Okay, I will pick up the first one. You know I will say that we made a commitment of \$2 billion over 2016 and 2017, we are working on it, and the \$580 million in the first half should give you some comfort that we'll get there.

On Resolution, the permitting has started, as you know. It is going pretty well. Now we are in the US, which means the permitting is very slow, very comprehensive but very slow. We're still four or five years away from having the notice at the end of the permit process.

Do I believe Resolution is a very good orebody? Absolutely. Do I believe one day there will be a mine in Resolution? The answer is "yes". But it's still early days in the permitting process and, as I said, the US can be challenging. I mean it is very well defined but very slow and therefore we'll provide you as and when we make significant progress on this one. But the study work is still underway and we are still

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doing some drilling and I can tell you there are lots of people who are excited, but we will do it in a very phased and structured way.

What we want is to progress the permitting as quickly as we can and to spend the right quantum of money to progress the study at the same time, so not to go in a big bang in the short-term. But we need to progress the two at the same time to some extent, so that's where we are on Resolution. But do I believe there will be a mine in Resolution at some stage? Absolutely.

**QUESTION:**

Two questions please. You've used the words "at least" when you are talking about your \$1.10 dividend per share commitment for the year. Under what free cash flow or cost saving or debt circumstances by the year-end would we see a move upwards on that \$1.10?

And secondly, what place does coal have in your portfolio, specifically thermal coal? Obviously you have been selling some of your thermal coal assets.

**J-S JACQUES:**

We did say at least \$1.10, and I am going to repeat actually it's \$1.10. The priority for us today is to generate as much cash, free cash, as we can in the second half. In February next year we will have a discussion with the Board and Chris and myself will make a clear recommendation at that point of time. So in terms of if we have got more cash we will allocate it along the capital allocation framework that you saw, you know the "washing machine" as Chris calls it. The priority for us is to generate the cash and then to have a good problem to solve in February next year, so the words "at least" remain unchanged.

Chris, you want to comment?

**CHRIS LYNCH:**

A couple of comments there. When we did the dividend policy change in February we made a series of decisions. The first one was, given that we had a progressive dividend policy in the market at the time, the first decision we had to make was whether or not we would honour that promise.

**J-S JACQUES:**

And we did.

**CHRIS LYNCH:**

We saw that as a matter of integrity, and we did. We went into lonely territory but we did honour that promise. So that money you have seen flow through in the \$1.9 billion in April. The second one was to change the policy. We did and we announced the precise wording of that, but some of that wording included the third decision, which was around guidance about the range for the distribution, was between 40 and 60 per cent of underlying earnings through the cycle.

The fourth decision was around the weighting of the dividend to the final dividend for any full year. And the fifth one was whether or not to give guidance for 2016 given that we've had virtual certainty of the dividend up until that point and we figured it was prudent to issue some guidance about what 2016 could be, hence the wording. I think the official wording at the time was "not less than \$1.10". That's the wording.

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But the key thing really around this interim dividend is an instalment toward that not less than \$1,10, but the final decision about returns to shareholders in all their forms will be made by the Board in February when we have got a full year set of results, we will have the cash flow position and we will have a view of prospects at the time for a go forward position.

**J-S JACQUES:**

As I just said, if you look at the slide on screen, the priority in the next 6 months is to tackle the left-hand side of slide in order to have a good conversation with the Board in February next year.

On thermal coal, which was your second question, first of all, I would like to say that we are really pleased with Chris, with all the good work of our teams in the coal business. It is one of the safest businesses we have across the Group and it is free cash flow positive, including take or pay obligations. They are in the portfolio today.

You saw with the Bengalla transaction or the MTP transaction that some people did knock on the door and did offer us some very good value. I hope you would agree that the Bengalla value was a very good value. And then at that point in time we looked at it and we thought that it was the right decision to sell it.

As I said, if anybody in this room wants to make any offer on any asset of Rio Tinto, you know my number, you know his number as well, we'll look at it. Today the coal is in the portfolio; tomorrow if somebody knocks on the door and offers a good price we will look at it. It is what it is. In the meantime, we will run them as best as we can, safety being the quality number one, and free cash flow being the number two.

**CHRIS LYNCH:**

There are a couple of questions down at the front and there is one at the back when we get a chance.

**QUESTION:**

I've managed to get the mike. Just following up on a couple of the earlier questions, with the Pilbara production is there a scenario of demand soft, softer than everyone expects, doesn't get to your million tonnes of steel production in China, so that you never get to 360? And do you have to approve Koodaideri to get to 360? Is Silvergrass largely maintenance? Just to get a bit more clarity as to how aggressive you'll be on the value over volume strategy.

Secondly, with the question on the dividend, do you need the gearing - like we saw the buy-back when you got to 19 per cent of net gearing - is that the kind of thought process we should assume going forward with a step-up in returns?

And then just finally on Simandou, \$90 million in the first half, it's a lot of money. Where should that normalise now that the pre-feasibility has been concluded and what should we expect with Simandou going forward?

**J-S JACQUES:**

I think with the Pilbara we have been very clear, and you know what I am going to say, value before volume, it will be all about free cash flow, so I can't say much more than that.

On the gearing, Chris?

**CHRIS LYNCH:**

On the gearing issue, we talk about the range of 20-30 per cent. We are 23 per cent currently. It will bounce around a little bit. But the key issue really for the returns conversation in February with the Board is exactly what you see here (on the slide). And there will be an aspect of how we feel about the future prospects at that time as well and those sorts of things.

But it's a decision to be taken by the Board, and it's pure and simply that. We have got no better guidance for you today than 45 cents is the interim dividend and the full year returns, whether that be dividends or other returns, will be at least \$1.10. That's it – words have meaning and that's what it means.

**J-S JACQUES:**

The third part of your question was about Simandou. Where are we on Simandou? We have delivered the BFS a few months ago, as per the agreements. There is no doubt that Simandou is a world-class deposit but it is very expensive and capital-intensive; you saw the numbers can be up to \$20 billion. We have been working for the last two years in a very intense way to try to find a way to finance the infrastructure part because a big chunk is really about the infrastructure.

We have had I think more than 200 meetings globally to try to see if we could finance it. Today, as we are having this conversation, there is no way to finance it. With people discussions are actually underway but we have not been able to secure the way to financing it at this point in time. The situation, and I'm sure you have read in the press recently as well, there is no obvious way to take Simandou to the next phase.

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Now if in three months or six months down the road there is a solution on the infrastructure it would be a different story, but today there is no secure pathway. What's happening as we speak is that we are reducing our cost in the very aggressive way in the country, it is fully supported by all shareholders, and I think that is something that people should understand.

The Board met two or three weeks ago now and the restructuring plan has been approved not only by Rio Tinto but Chinalco and the Government of Guinea. So that's what we are doing in order to make sure that if there were no secure pathway in terms of financing for Simandou, say, during the coming months, then next year the run-rate would be very, very low. I can't give you a number per se today but it is a very small number, and nothing to do with what we have spent so far this year. That's all I can give you today.

We will go to the back.

**QUESTION:**

Good morning. You mentioned volatility probably about ten times during your presentation and so I just have two questions on that, and the first one for Chris. Obviously with greater volume price volatility you have got greater earnings volatility, cash flow volatility and dividend volatility. How does that sort of impact your cash flow planning going forward and also is this gearing ratio the sort of right metric to be looking at. Should we be expecting that you guys, or Rio's in the industry, have to run much lower debt levels going forward to cope with that volatility?

The second question is for J-S just in terms of that volatility. Does that diminish your competitive advantage going forward to actually deal with that, with that volatility? For example, I take iron ore, you have just seen a big restock while prices go up,

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marginal production comes in the market, guys that should be going bust are de-gearing faster than what you guys are doing and staying in the market, and obviously if we get a de-stock the iron ore price then crashes back down.

I know you talk about shareholder value, but should we be thinking of this on a sharp ratio where the volatility, or the risk-adjust to returns, that what you can deliver actually diminishes going forward from what you have been able to achieve in the past and can you alter your sort of pricing structure potentially to try and minimise that?

**CHRIS LYNCH:**

The key really is around I guess the overall position on cash and volatility in markets and what does that do back to the cash flow risks on a type of analysis and the like. But I think the fundamental thing that we have got to maintain is a strong balance sheet. We will not be the heavily geared mining investment – you have that alternative elsewhere – but our process is more conservative than that and it's a longer term view and the strength of the balance sheet can weather through a volatile market, and I think that's important, and we intend to maintain that sort of status.

So allocation, methodology is not accidental or trivial, it is absolutely serious. If you go back to the dividend question earlier, we talked about the issue of the Board wanting to have a balance. This is not 50-50, but a balanced view about how they make decisions about growth versus returns. Similarly we will have a conversation about what's the appropriate level of debt to carry in that robust balance sheet, but I think there is scope for all three of those to be satisfied as we see it.

**J-S JACQUES:**

And the second part of the question about the volatility in relation to the iron ore business, you could argue it will impact all the businesses in which we operate. There are things we can influence, there are things we cannot influence, and we really want to be the master of our destiny on this one.

So what it means in practical terms is to be very selective and very focused on what we do, that's the key words. It is going to be about the quality of the assets, really investing in Tier 1 which are low-cost, and it's really about the performance in terms of making sure we pick the right customer and we deliver the right product so we can influence the things we can influence and continue to work very hard on the cost structure. That's the only thing we can do.

So we will remain low-cost, we'll build the appropriate portfolio in terms of customer and products in order to make sure that whatever market pricing environment we have all our assets remain free cash flow positive and therefore we can pay dividends and so on and so forth. The market is what it is, but we can influence certain items and that is what we are doing.

**CHRIS LYNCH:**

Can we go to the phones? There are quite a few there because we have been heavily in the room so far. There maybe five or six questions, if there are that many on the phones.

**QUESTION:**

The first question is on OT.

**CHRIS LYNCH:**

We can't hear you.

**QUESTION:**

I will speak a bit louder. Can you hear me now?

**CHRIS LYNCH:**

It's better but it's not good.

**QUESTION:**

Okay, apologies. The first question is on OT. It's great to see the approval of the underground but a bit disappointing to see the capex estimates did not fold the spike, the industry-wide capex deflation. So can you just go through any capex reductions and also the possibility for bringing forward first production from the current 2020 target? That's the first question.

Secondly, on aluminium, the transformation of the aluminium smelters has been pretty impressive and Kitimat of course will reduce costs further. But when I look at the sort of number of people in that business it appears you have more work to do on reducing overheads across the smelting business. So beyond Kitimat, what is your strategy now that you've looked at the aluminium business and the investing returns across the smelting portfolio? Thanks.

**J-S JACQUES:**

Well, on costs in aluminium I would say last year we are looking at a target of \$300 million. We are already making good progress against the full year target. Are we

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going to stop there? The answer is "no". We believe there is still room for improvement and we will go after it. That is exactly that; you need to start somewhere. As you said, lots of improvements have been achieved already and we are not going to stop there.

We just keep going. We continue to keep going to improve our cost position not only with our smelter part but the alumina as well and look at the turnaround of the alumina refineries so far. All of the refineries in the first half were free cash flow positive. Look back last year and the year before and you'll see a very different situation. So the only thing I can say is we will continue to work on it and make progress.

On Oyu Tolgoi, if for sure we can improve the ramp up we will do it but at the same time it is very important. It's a big capital project, as you know five to six years to build the infrastructure, seven to nine years to ramp it up; if we can speed up the ramp up we will do it but we have to do it in a very phased and structured way. We are not going to take risks. It's an investment for the long term. This mine will be there for 75 or 100 years, that's the context in which you need to look at OT.

The capex is the best view that we have today. Remember Mongolia is far, far away from everything. In Australia, for example, we saw the unit costs or the unit price on capex drop in a material way in the last few years. Mongolia, being at the end of the pipeline if I could put it this way, is a very different culture and environment. It is a very different environment and I would rather be very careful before we put some new numbers into the system.

We have been working on the case for seven years, we did the pre-feasibility study for the last two years, and this is the best view as of today. Now you shouldn't be

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under any illusion, and it's maybe the message is not for you but for the team, we will continue to put people under pressure in order to make sure they deliver Oyu Tolgoi in a safe manner, on budget and we hope ahead of time.

We can take another question from the conference call, from abroad.

**QUESTION:**

The question that I just wanted to ask was around capital and particularly in the Pilbara. If I look at it you are saying you spent in the first half of around \$358 million and then combining that with the sort of target, it's a two part question, one is at the beginning of the year you were saying there is still about \$400 million to spend on the 360 programme and wanted to check whether it's still the plan or whether it has been downgraded and then second part is later on you say about \$100 million as part of the NIT programme and as rough calculation you are sitting at about 180 right now. Is that pretty fair?

**CHRIS LYNCH:**

The sound quality coming through was pretty poor there, but let me have a crack at it as I sort of think I heard it. The key with capex is that in the Pilbara especially we have completed the bulk of the infrastructure spend for the 360, for the full capacity and so on during 2015, and so this year it has been a relative modest spend. Our overall capex for the total corporation has been \$1.3 billion and about \$700 million of that was sustaining capital.

The Silvergrass approval, that was approved yesterday, is the remainder of the Silvergrass project. So if you think about the Silvergrass complex in total you can talk about the Nammuldi incremental tonnes 1 & 2 and then this latest spend, the \$338

million that was approved yesterday. If we were talking 6-12 months ago we would have had probably just shy of \$500 million allocated to what was yesterday approved for \$338 million.

That is in part a utilisation of equipment from elsewhere, that we have been able to improve the utilisation of equipment, that we can make it available to that project, so that's already spent. And the other one is around project working, determining a lower path to the same outcome.

So I think there is some efficiency in there and it also goes to an earlier question, there is still pricing pressure on capital projects in Australia given that the general climate has slowed down considerably. That's particularly true in Gladstone where the gas projects have also pretty much completed. So we have got a lot of work in the refineries in Gladstone, to the point about the aluminium cost structure.

I don't know if we can give you much because we couldn't really get the full note of the question, but I think the key issue ...

**QUESTION:**

I not sure if you can hear me any better now?

**CHRIS LYNCH:**

That's much better, yes.

**QUESTION:**

The question I guess was about the \$100 million that you said that you spent in the first half on the NIT programme and you are saying that in the Pilbara you spent on

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iron ore \$358 million. The implication of that, is that sustaining capital for the business at about \$1.80 a tonne thereabout?

**CHRIS LYNCH:**

Okay. The key really is if you go to the two NIT programmes plus this \$338 million you end up with something like \$600 million, there or thereabouts. That's the first thing. The second thing is if you add up all the tonnage that would be associated with those, it equals 20 million tonnes. The third thing is...

**J-S JACQUES:**

But it is in the guidance; the 330-340 guidance included this one.

**CHRIS LYNCH:**

That's the third thing. So that's really where it is. I think what we should be observing here is that the capital expenditure reduction there is actually as a result of a lot of good work. It has taken a little bit more time but it has been very well worth it. It has been time well spent.

**QUESTION:**

The Gove project, obviously you have done a great job of bringing that down, it's more about the stats.

**CHRIS LYNCH:**

Again with sustaining capital we are currently enjoying a period of both low activity and low price, and that's largely a function of the fact that the large capital expenditure is relatively recent, and so if you go back to 2012 we spent something

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like \$17 billion in the business in total, which was the peak of that and we have reduced that down now – that 17.6 has become 4. There is a reduction there.

But I think in the fullness of time you would probably have an expectation of slightly more activity and you shouldn't be surprised if there is some cyclical in terms of the price of that activity. But I don't think we have got any more for you on that.

We need to go to another question on the phones.

**QUESTION:**

Hi J-S and Chris and thanks for taking my questions. I really wanted to focus on China and the steel and iron ore supply chain. You've indicated the credit-driven strength in the first half and seaborne imports were up about 9 per cent year on year and steel production annualised hitting at points 850 million tonnes.

I wonder, if you can discuss, has there been further displacement of Chinese iron ore supply in the first half and is there further to go there? And how do you see the seaborne iron ore supply playing out in the back half with new supply ramping up and what are you assuming for Chinese crude steel production for the full year, if you can? Thank you.

**J-S JACQUES:**

There are a few questions here. All we are saying today is that year on year the iron ore production in China has reduced. If you look compared to where we were a few years ago, ahead of 400 million tonnes, we must be middle 250 today; it could be even 230 or 240. But China can be a slightly complicated picture, let's put it this way. As I said earlier today, there is good steel demand in the first half. If you look at the run-rate for Q2 it was much, much higher than what it was for the full year of 2015.

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But back to what I said, it was really fuelled by the availability of credit and there are some question marks about if this is going to continue or not and we have to be ready for a situation where at the end of this year we could be at the same level as last year.

We don't control the market for obvious reasons and there is clearly, and we use the word again uncertainty here, and lots of volatility and therefore what we need is really to focus on where we can focus, which is really about the performance of our iron ore assets here to make sure that even if there were to be a slowdown that would translate into lower price environment our assets remain free cash flow positive in very material way and therefore we can pay the dividend and so on and so forth.

So that's where we are; there is uncertainty. The way we look at it from the planning standpoint is the following, we have several markets and avenues and they have lot of fancy names. Chris has a full team looking at China all the time and they come up with all those names, you know like the New Normal and Kicking the Can down the road, or whatever.

**CHRIS LYNCH:**

Fits and starts. China malaise.

**J-S JACQUES:**

Anyway what we are saying, there is a lot of uncertainty around China. It is as simple as that. We need to make sure that under any kind of scenario all assets perform well and are free cash flow positive, and that's what we are doing. We don't control the market. Now if the market is better and prices are better for sure we would be

happy, but we can't assume the quick recovery of China; that will not happen. The truth of the matter is very simple, China is slowing down, and that's a fact. The type of growth in China is changing dramatically, that's a fact as well.

Now I had the question earlier today, if I look at the order books that we have, and my point is not only about iron ore, it's about copper as well and this could be about bauxite, we do not have any issues in placing material into China today. For planning purposes we are very cautious but at the same time we don't have any issues today in placing material. I have answered your question as much as I could on this one.

**QUESTION:**

Yes, I appreciate that. Thank you.

**J-S JACQUES:**

Let's go to the next question.

**QUESTION:**

Hi J-S. I have two questions if I can direct to yourself. Firstly if I listen to today the focus remains costs, returns and growth, so no real change from your predecessor. I just want to hear from yourself where you think you make a difference going forward?

Then secondly, if I read the press correctly, you were pretty quick to dismiss the South 32 style merger of non-core assets. I am just sort of interested in why? You have tried to sell assets without success in the past. It does seem to be a relatively good way to get full and complete disposal of unwanted assets. I just interested in your thoughts on that as well please?

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**J-S JACQUES:**

Thank you. I will start with the first question about the costs, productivity and the growth. Let's be clear, I got the job a month ago. The business is in good shape and lots of good work has been carried out for the last three years under the leadership of Sam and Chris. I mean, look at where we are in terms of the balance sheet today.

What's going to be different going forward is, and I think the organisation is a good reflection of this one, we want to step up our performance in two areas, one is on safety and the other areas is about free cash flow generation which if you look at the slide – I don't know if you have access to the slide – but the last slide is really focusing on the left-hand side, which is the yellow box, what we want is to step up our performance in terms of free cash flow generation.

To reflect on what we have achieved in the last three years, it was firmly driven and focusing on costs and costs only, cutting capex, cutting costs. What we want is to drive productivity, which is not only about costs but it about the top line as well. It is really about how can we extract more cash flow from our existing assets? And we did use during the speech the example of the smelter in Kennecott.

There are only three smelters, copper smelters, in the US and the US today has to import lots of copper. So we have this very awkward situation where they ship concentrate to Mexico or to Japan and then have to import copper wire back into the US.

At the same time, we had some spare capacity, so we decided two years ago to open up our capacity to third-party concentrates in order to make sure that we are seen by the Government as being part of the solution, back to the question we had earlier about Resolution, because if you are seen by the Administration as being part of the

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solution that will help us in relation to the permitting process of Resolution, for example, and the second part is it will allow us to generate more free cash flow from an existing asset. So that's one example.

The other example is, if you go back to one of the slides we used today, when I look at all the truck productivity across the Group it is a very contrasted picture and there are plenty of opportunities by being more consistent in the way we operate the trucks across the company by striking more value.

So we are in good shape today and going forward the focus is going to be stronger on safety and generating cash, and when we talk about generating cash it's not only about the bottom line, the cost, but the top line as well.

Then the second part of the question – I think you and I have already had this conversation two or three times – the Energy and Minerals group is not a South 32 or 33 or 34, whatever number you want to pick. You have some stars in the portfolio, I mean look at Borax, the business has been there for more 100 years generating lots of good cash flow. It's a real Tier 1 asset. If you look at the TIO2 space, Richards Bay in South Africa is a Tier 1 asset.

The way we have organised ourself is to make sure that Iron Ore is refocusing in the Pilbara, that Aluminium is focusing on the aluminium assets, that Copper & Coal are really trying to build its capability underground, that will be critical for us going forward.

The portfolio of Alan and the mission of Alan and his team is really to run the smaller assets in a more aggressive way to drive cash on one side and the second mission is really to act as an incubator for new communities or new businesses we would like to build on. And I think with lithium, you know that we have a project, the Jeddah

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project, in Serbia where we could enter some new communities is under the accountability or responsibility of Alan.

So Alan has to run the portfolio of smaller assets, some of them are Tier 1, some of them are not Tier 1. Let's be clear, as I said in the speech, some of them are challenged assets but we want to run them in the best possible way, safety being the point number one, free cash flow being the second priority. At the same time he needs to look at new community or new space where we could build a position in the future.

Let's go to the next question.

**QUESTION:**

Hello guys, thanks very much and congratulations on the results. I just wanted to just finalise a thought I had on iron ore. It seems like from the new team that you have culture change, which was very important. Should I read into it that the greatest opportunity to extract value is cost over others, such as blend and volume, or is it too early to kind of conclude on that?

And secondly, Chris, just on cash conversion in the half, was there any unusual things that were coming in the first half mix? It looks a bit like this is EBITDA and that's after backing out the impact of tax and interest costs. Thanks very much.

**J-S JACQUES:**

I think I have probably covered the question, it is to optimise value in the iron ore business in the future is about free cash flow and there are three drivers: cost, product mix and capex, and you need to optimise those three elements in order to create more value in the Pilbara. So it is not only whatever, it is really getting the

right combination of those three ingredients and the work is underway and the ambition and the aspiration that Chris has given to the business.

The first week of July was the week where we reviewed all the five year plan of the entire Group and we had some very detailed conversations with all the product groups, including Iron Ore, and we were very clear around what we want to see in that space going forward.

Chris, will you pick up the other one?

**CHRIS LYNCH:**

Okay. Regarding the cash, the cash generation was \$3.2 billion and that's actually after spending \$266 million early in terms of interest prepayment on the bond repurchases. And then on the outflow side as well, we had the dividend of \$1.9 billion and capex of \$1.3 billion, so I guess the key issue really is around proceeds from disposals coming through and we should have some more of that coming in the near term.

We talked about the Bengalla proceeds of \$600 million; there is about another \$100 million or so on a variety of smaller assets that were disposed. So all up, all up, I think the key end of the day metric that we look at there is net debt is down \$900 million in the 6 month period which we think is a pretty good outcome.

**J-S JACQUES:**

Thank you, Chris.

**QUESTION:**

Quickly back to OT - Oyu Tolgoi – because you mentioned earlier Chris you have got all of the debt on your balance sheet now and, as was mentioned earlier, you are not looking to do that fourth shaft I think until 2021, so staged capex over a long period of time but all the debt drawn and the cash sitting there. It is pretty inefficient. Is there anyway that you can kind of do better with that capital structure to make that work better for you in terms of return on the cash that's sitting around?

**CHRIS LYNCH:**

First up, the draw-down on the project finance has a series of other implications to it but nonetheless which is a sort of an assembly of that syndicate of international players into that investment. We haven't drawn all the cash down. We drawn down a little over \$4 billion so there's still further expenditure to go, but the money that has been drawn down is earmarked for a progressive capital spend on the way through.

We'll manage that on a totally integrated basis from our planning point of view as we consolidate it through. So we've currently got the cash sitting there, that's is inefficient, we want to get that working. Some of it, the OT project finance cash, will be assigned to the project obviously but elsewhere with surplus cash we'll have opportunities to put it into that allocation mechanism. So that's where we'll be with that.

**J-S JACQUES:**

All right, if I come back to this room, I'm not sure how much time we have. Two minutes, so we will have one last question. If we go on the right-hand side, the last question.

**QUESTION:**

We've touched on the iron ore market in various guises and the focus has been in terms of uncertainty on the demand side within China. Vale last week commented that in their opinion the market was over-estimating new supply coming through next year and also under-estimating depletion medium term. Could you comment on how you see those two issues in terms of next 18 months to two years?

And then secondly, you mentioned that we have your phone number but I seem to have lost it, so if you could give out your mobile number again that would be good.

**J-S JACQUES:**

I can deal with the second one very easily.

On the iron ore, once again we are looking at different market scenarios, and when we talk about market scenario it is not only about the pricing per se, it is about the supply and demand balance, and there are lots of assumptions here – I won't make any comment what my competitors maybe doing – but there are lots of variables here. And one which is very clear, and that's why I spent a lot of time in China in the last few months, is to meet with not only our customers but the authorities for example and SASAC, which is very important because they have a lot of influence in the system.

I have no doubt in my mind that the Chinese authorities want to restructure both, part of their steel business and the iron ore business, but the pace of restructuring is a big question mark, is a big source of uncertainty. So what we want, as I said today, under any kind of market pricing scenario which would be derived from the supply

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and demand is that all assets, and I mean particularly the Pilbara, is to remain free cash flow positive and be able to pay dividends and so on and so forth.

So lots of uncertainty, I can influence what I can influence, you can make assumptions about our competitors, but making assumptions or alterations on the pace of restructuring in China is very challenging and that's why we have to work with different scenarios and influence what we can influence.

What we want is clearly the Pilbara to be free cash flow positive under any kind of market scenario, so that's what we doing and I think the combination of what we discussed today about the productivity drive, which is not only about cost but about the revenue line as well on the one side and investing in a very focused way would make sense, and Silvergrass being a very good example of it, that's what it is about. We will drive the Pilbara for value and not volume and it going to be about the optimisation, the cost element, by the mix element and the capex profile. That's the only thing I can say today.

On this note, I would like to say thanks a lot for joining us. Have a safe journey back to wherever you are going and I'm sure we'll talk soon. Thank you.

(End of Q&A Session)