

Rio Tinto Investor Seminar, London
Q&A transcript

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SAM WALSH (Group Chief Executive):

Thank you. And with that I would like to pass it to you for questions; if you could tell us who you are and who you represent. I'll take three in the room and from cyberspace I'll take three, assuming they are out there. Rob Clifford, you have to be number one. It's sort of a rule, it's a tradition now.

ROB CLIFFORD (Deutsche Bank):

Thanks for that. Yes, it's Rob Clifford, Deutsche Bank. Two questions on the operations. Just on the copper pull-back for next year, 60,000- 70,000 tonnes, probably Escondida, that we were told about last week, does that mean you are looking at 20,000-30,000 back out of Kennecott next year or have you got something else going on at Grasberg and OT that you could tell us about?

SAM WALSH:

Jean-Sébastien, this sound like this is yours.

JEAN-SÉBASTIEN JACQUES (Chief Executive, Copper)

Could be. So we have provided this our guidance for next year. It's primarily driven by Kennecott. As I have explained, we need do more work to make sure that we manage the property where there is a geotechnical risk on the East Wall. I won't give you any breakdown by asset, but to answer your question it probably about Kennecott next year.

So OT will continue to ramp up. We had a challenging Q1, as you know, so what we expect, as I indicated, is OT to operate at nameplate capacity.

Escondida, well you have the guidance from the BHP, so it is year of two halves, as you know, with the drop in grade in the second half. But the key driver for next year is Kennecott, as I mentioned.

SAM WALSH:

Thank you J-S. Is there another question in the room? Rob, I can come back to you later. Yes, perhaps in the front here.

MENNO SANDERSE (Morgan Stanley):

Good morning, it is Menno Sanderse at Morgan Stanley. This question has two parts. Is there a little bit of risk that Rio Tinto sounds like a politician? You are promising a lot, a progressive dividend which goes up a lot, \$8 billion of capex and a balance sheet that stays at the lower end of 20-25 per cent. That's interesting, but on spot commodity prices if we all do our models there ain't no cash or not enough cash to do all of that.

So two parts to the question: One, do you think we have our numbers wrong? Two, what gives within that equation, i.e., would you creep up to over 25 per cent and still do the capex or would you cut the capex to less maybe?

SAM WALSH:

Look, far be it from me to say that you have got your numbers wrong. I would not be silly enough to say it, however there might be a few areas where you can fine-tune.

I think to truly understand the business you need to take everything that we've said into account in terms of what we have been doing in terms of reducing our costs, reducing our capital - we somehow didn't mention working capital but it is something which is very dear to me heart and I think a number of you in your reports have indicated we must have something up our sleeve there – and sort of all of this is wrapped in together.

We had a board meeting last week and I deliberately put to the board, hey, I want to comment or make the statement that we are going to materially increase our shareholder returns. I did not want it to be a Sam Walsh statement, I wanted it to be a commitment from the board and that's what I have got. You can sort of look at your model and what-have-you, but we are in a good position and we are in a good position going forward.

As I commented, everybody seems to be focusing on sort of what's happening to Q3 or Q4 businesses but they don't actually realise that it is in times like this that Rio Tinto does actually thrive, it is in times like this where the large low cost expandable businesses this is where we come into our own and it is gives us a strong position. Chris, I'm not sure whether you want to add anything to that?

CHRIS LYNCH (Chief Financial Officer):

Menno, I think the statement has been made, we are quite comfortable with it, and unfortunately it will be a February announcement. But you'll see it will be a much better conversation enlightened by facts.

SAM WALSH:

Yes, that's true. Another question – just behind you.

MILES ALLSOP (UBS):

It's Miles Allsop at UBS. I always kind of like listening to Alan talking about aligning production with demand. Do you think you'll ever allow Andrew to start talking about aligning production to demand because obviously iron ore is heavily oversupplied and it looks like it will be heavily oversupplied for three or four years and it is a pretty consolidated market?

SAM WALSH:

Look, I will let Andrew comment, but it has been a deliberate strategy that we have taken in the Diamonds & Industrial Minerals business where we are very substantial players and we do have a direct impact on the market.

In the iron ore area we are the low cost producer. It's a very privileged position and some people think we've got there through luck or accident or what-have-you; it's actually not. Over decades there has been a huge amount of work in terms of positioning the business, in terms of our industrial relations strategy, in terms of our investments, in terms of use of technology and innovation to position the business. As I mentioned in my part of segment, we do generate an IRR of 40 per cent and a payback of five years.

The truth of the matter for us to have an impact on the market, you're probably going to have to take off 100 million tonnes, and guess what happens the moment you've taken 100 million tonnes? You see a bit of a price blip and then you see the 32 high cost producers come back in the market and, guess what, they grab the 100 million tonnes, and then the price goes back to where it was. So you come out of that with actual lower volume, lower cash and you've just strengthened your competition.

It is something, as I mentioned, there was a sentence in my comments, that we are aware of market forces but your question really needs to be focused on high cost producers, those who quite frankly are struggling right now rather than the low cost, lowest cost producer, in the industry. Andrew, did I miss anything there?

ANDREW HARDING (Chief Executive, Iron Ore):

No. Sam, I give you 10 out of 10 for that response. The only thing I would add to that is as sort of executive summary, our decision to continue with the volume growth that we have currently got indicated, is simply about maximising value for the shareholder and it is based on an understanding of the supply side and an understanding of the demand side of the business that is better than anyone else in the world. It's simply that.

SAM WALSH:

Well, in case you did notice it, we did announce the deferment of the Silvergrass project and that will be deferred until at the earliest Q3 next year. That's a billion dollars of capital that Andrew and his team have been able to save us from putting an upfront payment on with further productivity improvements and efficiency improvements.

Another question? We have one here. It looks like all the good questioners sit up the front.

HEATH JANSEN (Citi):

It's Heath Jansen from Citi. Just staying with iron ore, can you give us some details in terms of the assumptions that you are looking at, obviously trying to drop your costs down to I think what it was, the \$35 a tonne level by 2020? Can you just sort of give us a breakdown of what you are assuming in terms of mining and particularly freight costs in that number?

Then obviously to Sam's comment about your payback periods that you are quoting in terms of 40 per cent IRR and five year payback, is that just on consensus prices that you basically using for that analysis?

ANDREW HARDING:

Back in 2012 an announcement was made around an aspirational target of \$35.50 when Sam was in charge and then when he became CEO, he rounded it down for me, and that was the target for 2020. I am not going to go into the detail of how that's broken up, but what I will say is that between the \$47 in 2012 and the \$35.50 we are approaching the \$40 mark at this moment in time.

So we are on that path. As anyone would know, the early stages of cost savings are held to be easier than the latter stages, but we are substantially well set up to continue down the pathway. What has struck me in the last year is it is not just the fact that we have got an automation project here or an automation project there but we've actually got quite a capacity, sort of like a cluster of knowledge around automation, which is allowing us to actually drive some significant improvements into the future.

And it won't just be about automation, we have got a great cost focused culture. It is not one where we rely on third-party consultants to come in and drive an unsustainable couple of year programme that whacks costs fairly quickly – I mean it does and there is plenty of evidence for that to happen – but cost saving in the iron ore business it's a line of accountability like safety.

So from the top of the organisation to the bottom of the organisation one of the things that you bring by coming to work every day is a focus on actually reducing our costs, so we are totally oriented to that goal, and we are bringing the technology and automation aspects as well to make sure that we've got a good chance of actually achieving the aspirational goal.

HEATH JANSEN (Citi):

And the actual assumptions?

ANDREW HARDING:

The numbers in the book rely on the consensus pricing pack at the back.

SAM WALSH:

Okay, let's take a question from the phone line.

OPERATOR:

Ladies and gentlemen, to ask your question please press star 1 on your telephone keypads. We will take our first question from Luc Pez of Exane BNP. Please go ahead.

LUC PEZ (Exane BNP):

Hi gentlemen, one question if I may with regard to the South of Embley expansion project. Could you quantify the capex associated with the different options you were discussing during the presentations? Thank you.

SAM WALSH:

Alf, over to you. I think Alf deliberately did not refer to the capital, but Alf why don't you have a go?

ALF BARRIOS (Chief Executive, Aluminium):

Thank you, Luc, for the question. The South of Embley is a number one project and, as I mentioned, we are accelerating the feasibility study. At the moment we are in feasibility study and we will be bringing up to the board for approval in 2015. So once we can complete the feasibility study and the board approves it we will be in a better position to be able to provide more information on the South of Embley project. At this moment in time we are in feasibility study and, as you can imagine, we are still working through the details.

SAM WALSH:

Thanks Alf. I'd mentioned that we are looking at scope and value engineering of projects and the South of Embley is one of those projects. So at the moment it is still going through, the final part of that.

Do we have another question on the phone?

OPERATOR:

There are no questions at this time.

SAM WALSH:

Okay. Well, if the phone people could put their thinking caps on, we will take one about half way down the room. I will get the chance to get to all of you, so don't panic.

TIM HUFF (RBC):

It's Tim Huff from RBC. Thanks very much. Just two questions, one a follow up on copper, KUC. You've mentioned that there are three points for remediation that is a constraint to production in 2015, but you've also mentioned that you need to do more work on that. Is there a potential here for any one of those points for remediation to carry on into 2016 and constrain production then as well?

And the second question is actually a follow up on Heath's, the 40 per cent IRR, obviously you are doing that off consensus. When you run a range of different scenarios on 360 what was your downside IRR on that project? And obviously it is very specific, but there is going to be an enormous range given where the iron ore price has traded recently but I was wondering, even if you couldn't give us the number, if you gave us some thoughts around that? Thank you.

SAM WALSH:

Okay. Well, J-S, if you could handle the first one on KUC.

JEAN-SÉBASTIEN JACQUES:

Yes, thank you for the question. We are re-running the mining plan as we speak, so we have good visibility on 2015 and some more guidance today. Depending on the performance that we will achieve next year we will be able to adjust the mining plan for 2016 accordingly, so it is hard to forecast exactly what will be the outcome of the performance next year. The only thing I can say is clearly we will try to minimise the copper contraction as much as we can, so if you can bear with us for a few months I will be in a much better place in 6 months down the road to answer the question.

But I think it is important for people to understand what we did when the slide happen 18 months ago. The decision was made to re-start as quickly as we could, and having safety was priority number one for obvious reasons, and we were able to re-start within five weeks. The idea behind that is bring as much copper unit as we can and bring as much cash as we can on the balance sheet.

But we were very clear that at some point in time there would be a copper contraction because we need to move some waste material and we reach a point that in order to maintain the safety and the integrity of the pit we are going to have to move some waste next year. As you know, we are constrained in terms of earth permits and therefore next year we are constrained in terms of copper production.

I think, I believe, it was the right decision to re-start as quickly as we could in order to benefit from the higher copper prices that we have enjoyed. I mean, everything is relative for this reason, but the good copper prices that we have enjoyed over the last 18 months I think it was the right decision from the shareholders' standpoint. But here we have no choice, we need to do some work to protect the integrity of the pit. So a long answer – 6 months down the road happy to answer your question again.

SAM WALSH:

Thanks J-S. Andrew, if you could talk about downside scenarios?

ANDREW HARDING:

Yes, okay. Well look, the invitation was about some thoughts around 360, on the downside. I suppose one of the thoughts we have is that there will be growth in iron ore globally over the long-term, so decade in and decade out there is still a vast number of people that are living in poverty and will move towards urbanisation. That's a very long-term trend, okay, but clearly at the moment there are some short to medium term trends which are quite evident.

I was in China only two weeks ago. It is very obvious in talking to many of the economists etc and advisers that China is in transition, absolutely without a doubt. The leadership say that regularly. It took some time I think for people to start to respond to the leadership statements about moving towards a sustainable economy and it will still take some time for very real evident behaviour to occur in things that are obvious like the air quality etc – I mean that's not going to be an overnight solution but I am pretty sure that's actually happening in the short-term.

As well as that, it is obvious there are some big supply projects that are coming on through this year and next year, for example, and there is no reason that the people that have committed to those, because they are quite credible players, that you won't see that continuing to happen.

We model all of those sort of things when we make a decision and state that something is highly attractive and continues to be value-accretive, so we think we have got a realistic projection. I've been asked before, is the consensus price pack sort like a model for it and that sort of stuff? And I'm not going to answer that question, but we are not necessarily unusual in any scheme of things compared to others.

As far as how far would it have to actually go, obviously I'm not going to put a number on it, but I would have to say that it would be extraordinarily low before the NPV was zero, extraordinarily low, and most of the cost curve would disappear and you would be left with damage through just about everybody before this is a bad decision.

SAM WALSH:

Yes, thanks Andrew. If I could just add to that? Of course when we look at a project we assess a project over the life of the project, so we don't base it on what's actually happening in the market and what the spot price is today or tomorrow. It's over the long-term and we calculate our valuation models on the basis of that and for the record we have not revised that long-term price this year.

If I could just also comment in terms of Andrew's remarks about the move to a consumption-led economy, I attended the APEC meeting in China recently and President Xi opened the conference. He made the comment that China has actually already moved to 48 per cent consumption-based economy. The figure actually quite surprised me

because we have been talking about this like it's a sort of long-term thing and 10 years from now we'll see considerable consumption. Well, it's actually already happening and during the past 12 months the economy has moved from 37 per cent consumption as a percentage of GDP to that 40 per cent number, and it's interesting that transition is already happening.

Now some people think, well, a move to consumption led economy, that's not going to be good. Well, it actually continues to be good for our industry and for the commodities that we supply. You can't build a refrigerator without putting in our commodities, you can't build a washing machine, you can't build a car, all of the sorts of consumer-led goods are actually going to need what we supply. So there is a strong ongoing story there.

Another question here - yes? We'll move back in the room so start thinking.

DOMINIC O'KANE (JP Morgan):

Hi, it's Dominic O'Kane from JP Morgan. Just two quick questions, the first on copper. The guidance you've given for 2015 made the assumption that OT is operating at nameplate capacity. I have seen some reports about a fire at OT and I was just wondering if you could comment on, is that a near term risk, is that a risk to the guidance for next year?

And then the second question just in iron ore. I wonder if you could maybe give some comments on what you are seeing in lump premiums over the last three to four months since the results?

SAM WALSH:

Thanks Dominic. J-S, if you could start?

JEAN-SÉBASTIEN JACQUES:

If I start with the OT situation, you are right, there was a fire yesterday in the concentrator area. First of all, I have to say that the rescue team did intervene very quickly to put the fire under control and none of our colleagues were injured. The situation as of today is the following: as you will know, the building has been sealed and none of our teams have access to the building. It may take a few days before we have got access to the building and therefore can really assess the level of damage.

At the same time, let's be clear, the shipments to our customers have not stopped. It could have an impact on the production for December. So until we have got access for obvious reasons, until we have got access to the building, it would be difficult to assess the level of damage.

Now to answer your question about the guidance, subject to accessing and assessing the level of damage, from the real standpoint because we have got only 33 per cent of the output, I do not believe it will have any material impact on the guidance that was provided today. Now, as I said, until we have got full access to the site I won't be able to clarify for sure, but I'm cautiously optimistic it won't have any impact whatsoever for us next year.

SAM WALSH:

It appears that the fire has impacted on one of the cyclones – we have four cyclones. Okay, Andrew, on lump premium. Gee, I'm pleased you're here.

ANDREW HARDING:

With lump premiums I suppose if you look at it from a long-term driver, or medium to long-term driver, the key thing that we are looking at is the environmental concerns in China and you see the same thing sort of paralleling in pellets that are imported into the country. The opportunity to not have as much pollution in the country is obviously going to be a big driver and the opportunity to get your lump from outside the country, because of the impact of sintering for example is going to be something that we said, parallel to I think and also why low grade material will be attractive on a medium to long-term basis.

What we have seen, I suppose going back 6 months ago, you saw the lump premium coming under quite a bit of pressure and you've probably noticed that it bounced back quite substantially in recent months, and I would expect that is something we will see on a more sustainable basis going forward.

SAM WALSH:

Thanks Andrew. One more question in the room and then I'll go back to the phone lines. Yes, a question in the middle of the room.

TONY ROBSON (Bank of Montreal):

Thank you. It's Tony Robson, Bank of Montreal. Maybe a follow up to Menno's question on political promises and so on. If and when in terms of the capital return for 2015, would that be only on your net free cash flow, your expectations of that for next year, or would you be prepared to dip into your very strong balance sheet? That's the first part. And the second part is the perennial question of stock buy-backs versus special dividend. Thank you

SAM WALSH:

Chris, this sounds as if it is right up your alley.

CHRIS LYNCH:

Okay. I think, as I said earlier on, we'll have an absolute cash flow position as at the end of the year and so on and the February results will educate that into the market place. We have both cash generation and balance sheet capacity but the intent will be to stay within that lower part of that range that I have articulated today, in the 20-30. At the half we were about 22 per cent on that metric, we'll stay in that low end of the range, so it will be a mixture of both cash generation and the balance sheet capacity if it's there.

But I think just to address these political promises, there is a big difference. We said \$3 billion of cash costs, we got \$3.2 billion at the half, we said we'd reduce capital and we have taken it down by 26 and 30-odd per cent, so 50 per cent below where we were in 2012, we said we would reduce net debt, we took it down by \$6 billion in the year ended 30th June and I think there is a little bit more. I don't see many politicians with that sort of track record. But to your point, I think we will be looking at – what we look at is what's best for this Company and its shareholders and that's our main driver in that process.

SAM WALSH:

Chris, there is a second part of the question about buy-backs.

CHRIS LYNCH:

Ah sorry, okay. So the first question is the quantum and that is a question for the board which will be made, as we have said for the last 12 months pretty consistently, that will be made in February with the review of the Annual Results and that board meeting, so both form and quantum.

But the options for us – the first is the commitment to the underlying dividend and then beyond that further returns will be a concept of the board to decide on. In the DLC structure obviously if there were to be buy-backs there are several options there about which way that would go, but that's a question, both quantum and form will be a decision made by the board in February and announced with the Full Year Results.

SAM WALSH:

But there is an important point there that we haven't ruled out anything. Someone from the seminar in Sydney sort of picked up that we were ruling out buy-backs. We are not ruling out anything, it is a decision for the board. The timing of the seminars is a little bit frustrating because we're sort of heading towards the end of the year and there are all sorts of things that unfortunately we can't tell you or else we will all go to jail, but the board has had line of sight. And let me just again clearly reiterate, the board gave me the all clear to say that we will materially increase our shareholder returns.

Now if I could put my hands in the Gods, do we have something from cyberspace? No, okay. We're back in the room and we have one there.

JAMES GURRY (Credit Suisse):

Thanks. It's James Gurry here from Credit Suisse. Can you just mention, perhaps Andrew specifically, what the benefit of the falling oil price would be to the business? I appreciate the sensitivity in the back of the pack, but perhaps in iron ore can you point out what impact it has on operating costs and the freight rates for delivering the iron ore to the key markets?

SAM WALSH:

Andrew.

ANDREW HARDING:

Yes, okay. So a public number on freight rates for Western Australia to China, the bunker fuel would be down from, say, 600 to 420 or 430 this week. That would translate into about \$1.50 a tonne, so it is not unsubstantial at all; it is quite strong. From an actual diesel use in the Pilbara, well, we use considerably more than half a billion litres a year, so you can figure that one out.

SAM WALSH:

Okay. Another question in the room?

HUNTER HILLCOAT (Investec):

Hi, it's Hunter Hillcoat from Investec here. Just two questions and one I think is for Alf. Aluminium premiums, they gone from being a positive nuisance factor to something that may last for quite some time by all indications, so if you could just give us your thoughts on that?

And then I guess 'an elephant in the room' that has not been mentioned, is does the spectre of a predator have any bearing on the shareholder return considerations or is that just a 'furphy'?

SAM WALSH:

Okay, let's start with aluminium premiums – Alf.

ALF BARRIOS:

The way we look at it is we are more interested in the all-in price, the LME plus the aluminium and plus the premium. And you are right, the premiums have been going up this year significantly, but for us what's importance is the price we get for our product which is the all-in price, and whatever way that is going to move at the end of the day it's the total price we are interested in, and I think the consensus of the total price is what people are more or less aligned. So we don't really get into the details or trying to get concerned about the individual elements, we are more interested in the all-in price.

I have said all that about the price, but I think the way we are working on the strategy at the moment and what I have said before clearly indicates that we are driving the business for a return to the cycle, so we are driving the business and working on doing what we think is right regardless of the price going up or down. Our focus at the moment is improving our returns and making sure that through the cycle we are industry-leading in our performance.

SAM WALSH:

Thanks Alf. In relation to the question about Glencore, look it is awfully important that we focus on our game, we focus on our strategy and, as the Chairman mentioned coming out of our September strategy review, the board has re-confirmed the strategy going forward. The business improvement we have been talking about today, the realignment of our capital which provides the 5 per cent growth, the focus on materially increasing shareholder returns, it's important we focus on this rather than some knee-jerk distracted action which is actually not going to deliver value to our shareholders. It's awfully important.

Now I gave a press interview in Sydney last week, and I'm not the world's greatest sporting person, but I did use a sporting analogy, that you have got a game plan and somebody from the grandstand shouts some advice, it is awfully important that you stick to your game plan, it's awfully important that you deliver on that.

I see grandiose speculation that we are going to rush out and buy somebody or I don't know what. Let me just assure you yet again that we are not looking at any major M&A, we are not looking at doing anything stupid, we are looking at playing our game plan because we and the board believe that will deliver the best value to you, our shareholders. I'm not about to get distracted in this.

Do we have another question? Rob – we are back to Rob. Does this mean we are starting again?

ROB CLIFFORD (Deutsche Bank):

Thanks. I will try to ask something different. Alf, on aluminium you commented that a number of your smelters weren't hitting internal targets and that all of your assets would need to have a plan to hit those targets or you'd look at alternatives for getting value from them. So how many of your smelters are not at target and how long are you giving them to get there?

SAM WALSH:

Alf.

ALF BARRIOS:

Thank you for the question. I won't disclose which ones are not in the first quarter as that is confidential information. What I can clearly say is that we are going through quite a thorough exercise, we've defined the strategy, we now going to the details of strategy and many of the assets we have, as I pointed out in the presentation, 80 per cent already in the first quarter, so for that 20 per cent which aren't in the first quarter, the ones we are focusing on, the pathway has been defined to try and get there in the next few months. And then, once that's done, we will make a decision on the way forward for those that do not meet the guidance that I have given.

Depending therefore what happens afterwards in terms of finding other options we will then make a decision, but I made it very clear that we are looking for value-accretive options for our shareholders, we are not looking to divest these assets if that destroys value for our shareholders.

SAM WALSH:

Thanks Alf. Another question in room at the front and then one down at the back.

BEN HALIGAN (Morgan Stanley)

It's Ben Haligan at Morgan Stanley. Just coming back to recycling of assets, now that there is a clear cash constraint and there are some very interesting and attractive growth projects, are you putting more emphasis on trying to accelerate getting value from current assets that do not contribute to cash flow or are you just going to take a wait-and-see approach?

SAM WALSH:

Well, I think Alf's clearly signalled that in terms of the Aluminium business, and we continue to look elsewhere. The presentation commented that since 2013, the last two years, we've divested \$3.5 billion of assets, but if you take it over the five-year period we've actually divested \$17.5 billion of assets. So whilst I am aware that others are tidying up their portfolio the truth of the matter is we have been at this for quite some time and we will continue to do it as we physically reshape our portfolio.

An important part in all this, and I know that people are very wise ask to why we took Diamonds off the market and why we took Pacal off the market, and other things we haven't talked about publicly, is all about value. This is not about ticking boxes, or this is a sort of clean up the house and doesn't matter what, you'll do this or that. The asset we have got are good assets and some assets certainly are better than others, but we are not about to destroy value just so that we can tick a box and say, well, the housekeeping exercise has been successful.

On the other hand, if people want to make offers that do get our attention, that do deliver value, that does recognise the synergies or whatever bright and brilliant ideas they may have about our assets, then of course we are going to look at that because at the end of the day this is all about value and value to our shareholders. That's what is driving us and I kind of hope I have been making it clear.

We had a question right down the back; we had one on the left hand side.

BEN McEWAN (CIBC):

This is Ben McEwan from CIBC. A question on the balance sheet please. What gives you comfort that the gearing ratio is the most appropriate metric to consider the net debt level going forward? Thanks.

SAM WALSH:

Okay, that's a question for Chris.

CHRIS LYNCH:

As I said in the speech, really that's the public communication, that's the one we will have in the public domain. It's quite commonly used across the industry variously, but from our point of view it is one that sort of recognises the fact that the balance sheet capacity expands as you build the equity side as well. I think you shouldn't assume that it is a one and one only, there will be a series of things that we will be monitoring internally, but that's the one we have gone public with and I think it's a pretty good proxy for your cash coverage and your ability to generate cash and maintain recognition of the fact that as you have successful performance you will have more balance sheet capacity going forward.

SAM WALSH:

We had a question on this side at the back.

EUGENE KING (Goldman Sachs):

Hi, it's Eugene King from Goldman Sachs. Two questions. Just on the iron ore price, we had a discussion around the interims and you advise me to look at the forward curve to value the Company. I just wonder whether that is still true and what role the forward market plays in iron ore?

And then for Alf, just on the Aluminium strategy, you seem to be askew-ing alumina as an export product into China. Given the Indonesian ban, I was just wondering whether you think trying to export bauxite into China is the right strategy or whether given the transport differential they may look to alumina?

SAM WALSH:

Okay, a question for Andrew first of all.

ANDREW HARDING:

I don't recall advising you about using forwards for the iron ore price but, nonetheless, again it's up to you what you want to use to actually look at the business going forward. There is a consensus price deck that we've supplied, and you can use the forwards if you so desire, or you can develop your own internal sort of projections for what that may well be.

I think I started in Iron Ore in 1992 and I don't think anyone has got it right since then, and so I would say with that sort of history behind me I don't think anyone is going to get it right in the future either. But there are many, many sources and I am not going to tell you one is necessarily better than the other. We have our own. We have a large team of people that are actually a part, and we use consultant resources as well to 'flesh out' the very many aspects that contribute to us determining what we think the price is going to be. That's how we do it, but what you want to use is really up to yourself.

SAM WALSH:

I think the fascinating thing is that back in 1992 there weren't too many people that were overly interested in iron ore prices; I think today there are any number of instant experts on it and you'll probably find them every corner.

Aluminium strategy in relation to alumina and bauxite.

ALF BARRIOS:

Thank for the question. As I mentioned, we are balanced in alumina and as we see the market in the short to medium term we don't think it is market where it will make sense for us to invest capital and expand our capacity. We see a more value-accretive option, the bauxite export market into China, and that's what we are focusing on, the bauxite, and growing the bauxite I think that will be more value-accretive we think to the shareholders.

We also look at what the Chinese customers are focusing in doing, in the conversations we have had with them in the last few months, and clearly you see them more towards continuing building alumina capacity in China and therefore looking to import bauxite, not to import alumina. So, from our perspective, I think in terms of how we see the future of our business there, this is the right decision for our shareholders.

SAM WALSH:

Okay, we have another question at the front here and then I'll move back to the telephone line.

MILES ALLSOP (UBS):

It's Miles Allsop again from UBS. Maybe a couple of questions. You gave a sort of 5.2 per cent growth expectation, 2013-2019, but I presume that is going to be quite front-end loaded with the Pilbara expansion. Could you give us a sense what that growth would be if you looked at 2016-2019 or to the end of the decade?

And then you mentioned Glencore earlier as well, so I feel we can talk about it a bit more, and last week you obviously talked about coal, and it seems that most of the value from a combination would be from a Hunter Valley JV, where there is genuine operational synergies. Would you consider a JV in the Hunter Valley if the relative value was right or is it just about relative valuation that sort of puts you off 'getting into bed' with Glencore?

SAM WALSH:

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

CHRIS LYNCH:

Yes, it would have slight front-end weighing, but there is consistent growth through that period. If you thinking about the iron ore expansions on the way through, they're fairly

well paced. But one of Sam's slides earlier on talked about the growth across the various businesses, so it will be slightly higher in probably the first three year window and then probably slightly lower in the back, but I mean, that averages – if you get too deep into averages you can get yourself fairly confused – but that's the fact.

SAM WALSH:

I think in relation to Hunter Valley coal, which in fact I took the board to visit there last week, our assets in Hunter are in fact premium assets and they run right down the spine. They are long life, they are high quality and, as we mentioned, Harry and his team have done a stunning job in terms of pulling costs out there.

A question that I had in Sydney was, well, with the potential synergies there why won't you rush at a joint venture? And there was a comment that I made, rather colourfully, was that if you lose your shirt going into a joint venture then it doesn't really matter about the synergies, and that's really the issue that we faced there, that the going in valuations weren't recognising the quality of our assets there.

Now I will come back to the comment that I made earlier, that there are no sacred cows, that if anybody, including Glencore, want to come and make an offer, that recognises the true value of assets and recognises that there are synergies that would apply to combining the assets, then of course we are going to look at it. We will absolutely look at it. But, as I said, I am not about to destroy value in the process just so that we can tick a box or quieten the comments from the grandstand. It's got to make a value for our business, not just a knee-jerk reaction to quieten somebody down.

Another question in the room? We have one about halfway down on whatever side it is, the left-hand side.

JAMES GURRY (Credit Suisse):

Thanks. It's James Gurry again from Credit Suisse. There are no sacred cows and you spoke I think 12-18 months ago, when you were clearly challenged in Aluminium, you spoke about the various options that you looked at. Isn't the equity market making you an offer every day for the Aluminium business compared to your own valuation and looking at what the Aluminium peer group trades at? Is that a consideration that you have looked at?

SAM WALSH:

It is a consideration that we look at. We continually look at our portfolio. I guess we are in a privileged position that we actually see where the business is actually heading in terms of future value. There is a limit to what we can say today, but I hope that one of the takeaways that you have from today is, hey, there is a bit more value in this Aluminium business than we thought that there was. Alf and Jacynthe and the team have done an incredible job in terms of turning that business round, in terms of shutting, curtailing, divesting of businesses that didn't actually pass muster.

If you think of where we were three years ago and you look at the fact that 80 per cent of our aluminium smelters - once Kitimat is completed - will actually be in the first cost quartile. That's an incredibly privileged position and it reflects on the work and effort and

the technology advantage that we have, the hydropower advantage that we have. So I think the answer is the greatest value that we and the board can see for Rio Tinto in relation to Aluminium is to take advantage of the fact that the business has undertaken a remarkable turnaround and there's more to come.

Another question? I'll take the one right at the back so I can be totally fair.

DAVID BUTLER (Barclays):

It's David Butler from Barclays. Just back to Oyu Tolgoi again, are you risking a fairly large impairment charge there if you don't go ahead with Phase 2?

SAM WALSH:

Chris, would you like to comment on that?

CHRIS LYNCH:

Sorry, in terms of absolutely it never goes ahead?

DAVID BUTLER:

Yes.

CHRIS LYNCH:

Yes, that would result in an impairment, but that's not our expectation. Our expectation is that common sense prevails in long-term and that the underlying economic value of that project, not only to our shareholders but to the country of Mongolian, becomes quite compelling and I personally am very confident that in the long-term that will happen; it's a function about exactly when that deadlock breaks. So I don't really see that as a significant risk in the absolute sense, but obviously patience is a finite thing and we would like to get it done as quickly as we can.

DAVID BUTLER:

What is the official sort of comment on the discussions and where are we in those discussions? You probably get this all the time.

CHRIS LYNCH:

Well, that's probably a better one for J-S to answer given that he's probably the most regular traveller between the UK and Mongolia, bar none.

JEAN-SÉBASTIEN JACQUES:

Thank you, Chris. So where we are in the discussion is, and everything I am going to say is already in the public domain, we have been discussing for nearly two years in good faith and resulted in us submitting an offer to the Government of Mongolia. We truly believe that the offer that is on the table is beneficial for all parties.

As you know, there have been a few changes in Ulan Bator recently. There is no Cabinet in place at this point in time so it is difficult to give you a forecast of as and when we are going to restart from that perspective. The only thing I can say is I will be back in UB next week – as Chris mentioned I go there every month more or less – and, as we said, the sooner we can restart the better it is, however, as I have said in the past I am very clear, we will restart only and only if it is value-accretive for shareholders; if it is not, we will not do it. Okay, I can't say much more than that.

Now at the same time I am going to repeat what I said, there is an offer on the table which is beneficial for all parties, and I don't know if you are into rugby, but there is a ball there and it's really for them to pick it up and score the try from the runner. So that's where we are, and once again I'll be back in UB next week, it's only minus 25 as we speak, but nevertheless I am looking forward to it though.

SAM WALSH:

This is an important project, it is a very long-term project, it is worth getting the project right, it is worth getting value equation right. We believe that we have been fair in terms of the offer that has been provided to the Government of Mongolia. We believe that it is competitive to other regimes around the world, but the underlying theme here today is about shareholder value and the fact that we are not about to tick boxes just purely and simply because somebody thinks that it ought to be proceeded with. I believe that all parties want the OT Underground to proceed, it is a matter of aligning with this new government and taking it forward.

We have a question on the phone. Let's take that.

OPERATOR:

Our next question comes from Glyn Lawcock of UBS. Please go ahead.

GLYN LAWCOCK (UBS):

Hey Sam, hopefully you can hear me okay.

SAM WALSH:

Loud and clear.

GLYN LAWCOCK:

I just want to extend a little bit my colleague Miles's question; he just focused on obviously the Hunter. You were quoted here in the press saying there are cultural differences between yourself and Glencore. I was wondering, one, could you just elaborate what you meant by that? Two, obviously a JV in the Hunter you would operate it as the major party. If you look at the bigger company and you actually talk about the holistic, putting the two companies together, does cultural differences prevent that or is it just about value - if they came with the right number would you do it?

And then the second question is totally different. You mentioned scope changes for South of Embley and I am just wondering if you could elaborate a little bit? Is that you looking at potentially maybe going the full big bang, 50 million tonnes straightaway, and then it is sort of wise probably to slow down a little bit relative to I guess probably mine and the market's expectations? Thanks.

SAM WALSH:

Thanks Glyn. We did miss you in Sydney and we're pleased you are on the phone today. I hope the birthday party you went to was terrific.

Look I think in relation to Glencore, the questions being asked are really questions for Tony Hayward and his board, rather than us sort of punching at shadows and what-have-you. We have been very transparent, we have actually said everything we can say in relation to the approach we had, and the focus and response that the board had in relation to that, so any comments I would make today would actually be hypothetical and probably not all that helpful. At the end of the day this is a decision for our board, it is a decision that will primarily be based around value but also recognising other factors that can impact there.

Again in relation to the Hunter Valley, it's hypothetical. If Glencore want to approach us with a proposal there, yes, of course we are going to consider it but only if it delivers value. And part of that process was for us to complete our work on reserves and resources and make an announcement on that. There is a little bit further work behind the scene that's going on there, but it was important for us to make that release last week.

In relation to the South of Embley, there we are looking at every option we have in terms of optimising that project. It is a very attractive project, it is one of the most attractive projects that we have going forward, but again in setting up the project which will be a long-term project it is again important to get it right. It is important to get the fundamentals correct now. Why don't we wait until the feasibility is studied and the project comes to the investment committee and board before we speculate about which direction it may actually be going?

Do we have another question in the room? A question in the middle there again.

TIM HUFF (RBC):

It's Tim Huff from RBC again. Sam, just really quickly, you dropped in there a little bit earlier on the topic of shareholder returns, you dropped in there working capital gains and obviously at the Half Year there was a big focus on that. Alan in your presentation you got the reduction of 271 that's in there over the last year and a half. I was wondering if either one of you can give us some colour around how you went about doing that, your

approach, whether it was targeted, whether it was an absolute amount, whether it was relative on the turns and whether you are all the way there or not? Clearly it's a look through the Company, but any thoughts around that would be helpful.

SAM WALSH:

Certainly in terms of Alan's area there has been a major focus on being market driven and ensuring that in terms of relative inventory and receivables and payables that we are highly competitive in terms of what we are doing. If you look at a broader business, we have had a team very intensively work on this, in fact, since I took over.

For those of you who don't know my history, I came out of the car industry, just in time actually came out of the Japanese car industry, so it is something is a significant focus for me because I believe that the mining industry is nowhere near as competitive as in this case manufacturing in terms of how you manage working capital.

Now you do need to have processes in control and capable to actually move to a low inventory situation and you need to ensure that you don't create extra sort of capex by going down that path, but it is a journey that is underway. It is very much a process and come February all will be revealed as to the journey this year. But I think it is a significant opportunity for us.

I think that's probably it. I think we have done pretty well in terms of responding to questions. I just want to thank you all for being here. I am delighted to see you all. We will have some refreshments afterwards and we'd love to have you join us. My Exco team and other colleagues in the audience will be mingling with you, so it is a chance to ask those questions that you were too shy to ask.

But let me just reinforce the message that I made about improving the business, delivering the growth and delivering material increase in shareholder returns. That's what is driving us, that's what fundamental to what we doing, and that's what we will be talking about in February. Thank you very much.

(End of Q&A session)