Q&A transcript

J-S JACQUES (Chief Executive):

Now I am going to open up the Q&A Session, if there are any questions? Maybe we will start with the room and then we will take a few from the phone.

QUESTION:

You are kind of hinting a little bit about growth here J-S, and you say 2 per cent industry-leading growth, which maybe is a sad commentary on the state of the industry, and then I think in the same breath you said something about competition for the best assets.

I suppose you are inviting us to ask you about M&A, how you frame M&A, how it fits into this picture, and I guess I think about the way things have gone for the Company in the past 10 years with M&A – different management teams obviously. How have you changed the organisation to make it more fit-for-purpose in terms of looking at M&A opportunities?

J-S JACQUES:

The 2 per cent growth rate doesn't include any productivity benefits, so the 2 per cent is on the back of the three main projects that we discussed: Amrun, the bauxite, the supply to China; Silvergrass we discussed earlier with Chris, and last but not least Oyu Tolgoi, as we discussed with Arnaud.

The M&A question is very clear and once again it is a good example of value over volume. We have a watching brief on M&A but we will pursue a transaction only if it creates value for shareholders. I have to say, if we take copper as an example and if we look at some of the recent transactions, such as Zaldivar in Brazil, Tenke in the DRC and Morenci in the US, we believe that the price achieved were very good for the sellers.

So in terms of growth, our view is the following: it's build and SMART Buy – SMART in capital letters. We will pursue M&A only if it will add value for our shareholders, and at this point in time I wouldn't put too many options on my Christmas list for this year, if I'm honest. So we will keep a watching brief but M&A is not a priority at this point in time.

QUESTION:

Good afternoon, just two questions. First, $5 billion is an enormous amount of money. It has to come out of cost, volumes over 2 per cent, or lower capex and working capital. Can you help us to break down that $5 billion in those buckets?

And secondly, truck efficiency now. We've been talking about this for 4 years and maybe this is a question for Steve - we have been talking about it for 4 years so either people are not listening, people are not executing or you are raising the bar. Which one is it and why is it still an opportunity after 4 years of hard work?

J-S JACQUES:

I'll pick up the first part of the question and then I'll turn to you, Chris, and definitely, Steve, you should answer the question about the truck efficiency as well.

The $5 billion is not only about costs; it's productivity. It can be a combination of revenue and/or costs. The way we will value our improvement will be asset by asset, commodity by commodity. So you have got more or less in a very simplified way two options, either you produce more with the same cost base or you produce the same with a lower cost base, and I will give you two very simple examples.

The first one is TiO_2. The market is over-supplied today, we all know that, so any improvement in terms of productivity will be at this point in time in the cycle valued through a reduced cost position. On the other hand, an example from Oyu Tolgoi, today the demand for the concentrate from Oyu Tolgoi is very high and therefore any additional tonnes of concentrate we can sell is welcome by the market, by the smelters. So in the context of Oyu Tolgoi, it's about producing more for the same cost base.

Now if I can turn to you, Chris, about the break-down on productivity, if that's okay with you?

CHRIS LYNCH (Chief Financial Officer):

Not a problem, J-S. The first thing to say is the $5 billion is over 5 years and it will be back-ended as it accumulates through that process. The second thing to observe is we currently have a target in the market for $2 billion between 2016 and 2017, that remains in place, and I think at the half we talked about being in pretty good shape against that and we continue to pursue that, so that stands. I think come the end of the period you are going to be talking about something like $1½ billion out of the cumulated run-rate for that period of time.

I think the other thing you can think about though in terms of productivity drives, I think you might have heard it actually those of you at OT, we talked about the original plan for OT, which was I think for 42 haul trucks. We're currently running the same operation with 28, and if you think about that as a productivity output we've avoided obviously the capital cost of 14 trucks, we avoid the need for four drivers per truck, we don't have to feed those drivers, we don't have to house them, we don't have to fly them in and out, and those types of issues. So the multiplier effect of that type of productivity gain is pretty dramatic.

And I think the other area where we have got focus, and this is very embryonic, but the commercial excellence work we are trying to build in Singapore, where the aim there will be to get better revenue outcomes for existing product, so put those together there is going to be a mix. But I think in terms of the cost it will build gradually and there'll be a preponderance of back-ended – it should be somewhere about $1½ billion by the end of the period.

J-S JACQUES:

Thank you, Chris. I think the last point is very important, $1.5 billion against an asset base of $50 billion. Yes, it's a big number over a five-year period but it's sustainable and is really the first step. With the slides we've presented today you can run your models pretty well – and I believe that's what you are already doing on your laptop – you can see the potential there. So the $5 billion is the first step, it's sustainable and then we'll go beyond that.

And to be honest, we were last week in Tokyo discussing with our suppliers – and I don't need to give any names, I think you know who they are – in order to discuss on how we can take it to the next level.

I will give you one very simple example. We have got slightly more than 900 trucks today and every truck has got 45 sensors and sending data out every second, so we are talking about millions of data. The whole question is going to be around, for example, how can we convert that data into insight in order that we can run our trucks better? That was part of the conversations we had in Tokyo last week.

But at this point in time maybe that's a good segue for you, Steve, for what else are you going to be doing?

STEVE McINTOSH (group executive, Growth & Innovation):

Thanks for the question. I think to a degree when we talk about truck EU, there are two things: one is, yes, that target that was announced in 2012; and since I think you will remember 2013 came along, so the reality is for the last three years it has been really an incredible focus on cost first. So it was to re-shape, re-size the organisation, if you like, get it fighting fit.

It's hard to do lots of things at the same time, however, in that same period, as Chris and Arnaud have mentioned, we have got very high levels of performance, as Chris also mentioned, out of OT – as you witnessed when you were there – so with new businesses we have been able to do extremely well.

We are moving our autonomous fleet to those same sorts of levels of performance and now the whole idea is to put that platform in place to replicate that back through the business. But I do think it is difficult to do things simultaneously, especially against the environment of the imperative around cost over the last three years.

J-S JACQUES:

And you know if we step back again, the industry on average is 25-30 per cent less productive than it was 10 years ago and the reason being is very simple. During the super-cycle, if I look at the example of iron ore and you have got the iron ore price of $190 per tonne 'ish', I can tell you every tonne you can move and sell is a good one. It doesn't matter what the opex is, it doesn't matter what the capex is, you just move the material.

The market conditions have changed. We've moved from a period of growth at any cost and we are moving into a period where it's really not optimised. So the potential is there, it's not rocket science, if I may put it this way, it's about going back to the fundamentals in the market conditions where it's about running and optimising, so that's what it is about.

If we can take a question from the call and then I will come back to the room.

OPERATOR:

For your information we have no questions on the telephone at this time.

J-S JACQUES:

Well, we have plenty of questions in the room.

QUESTION:

Can I just ask, in iron ore - and you just spoke about previously you had some good prices - prices seem to be quite reasonable at the moment, you've outlined sustaining capex and even replacement capex in the Pilbara, however, there seems to be little talk of growth in getting to the installed capacity that you have on the infrastructure. Can you explain how and when you might get to 360 Mt/a? Is it just a variance on how big the Koodaideri might be, and when that might be the case? Also just how the Company overall is feeling about the iron ore markets right now and steel demand and production?

J-S JACQUES:

I will take the second part of the question which is about China and the outlook and then, Chris, if you can pick up the value over volume in practical terms for the Pilbara, if that's okay.

I will start with the Chinese situation. So, we spend a lot of time in China for obvious reasons, I mean it is 50 per cent of our top-line depending on the year, between 40-50 per cent. I have got no doubt in my mind that the Chinese economy is in pretty good health. It has slowed down, that is absolutely clear, but it's in pretty good health.

There are many drivers for it but clearly the Government has put a lot of money into the system and the Government will continue to do that. I have got no doubt, especially in the ramp-up to the big leadership conference of next year, that they will meet all their targets. I think we can take this as a given.

I say that with one caveat, depending on what happens from a geo-political standpoint in the South China Sea, and so on and so forth, that could change they dynamic, but everything being equal the Chinese economy will be fine for the coming years.

Now in relation to the mining business, the challenge we have is about the pace of the restructuring of the SOEs. Once again, there is no doubt in my mind that the Government will restructure the SOEs and we had some good examples this year, the cement, the coal business, and maybe they went too far and will re-adjust accordingly, and it was driven by pollution and political considerations. They will continue to restructure the SOEs, however, the pace is pretty uncertain.

And here I can give you a few examples of how it can pan out in a positive way or a negative way for the mining industry and Rio Tinto. If they restructure the mining business, the iron ore business is a good thing for us. So if you look at iron ore, three years' ago they did produce slightly more than 400 Mt. At the beginning of the year we believe they were producing around 230 Mt run-rate, an annualised run-rate, and at this point in time the intelligence that we have is they are producing between 260-270 Mt.

So it has picked up but, as I said, if they decide to really restructure the iron ore business it's a good element for us. On the other side, if they restructure the steel business, which are our main customers, that is not going to be a good piece of news depending on how the tonnage is moving to other regions, and so on and so forth.

So, only by using those two examples you can see that the uncertainty about the pace of the restructuring, which will be driven by political issues starting with employment and the ability of the new economy to create new jobs, creates massive uncertainty for us. So underlying China we are cautiously optimistic but for the business, for our business, there is uncertainty about the supply-demand balance in that context.

So what it means for us is very simple, it's about building a very resilient business case, which is about the cost on one side but the customer relationship being very important as well.

And you know that in the context of iron ore this year is a very special year for us, exactly 50 years ago our first boat full of iron ore moved from WA (Western Australia) to Japan, and that was part of the celebration we had in Tokyo last week. We still have the same customer. Can you believe that - the same customer 50 years after? That is the best example you can have about partnership, long-term partnership.

So going back to your question, from an outlook standpoint we fully acknowledge there will be uncertainty in the system but we need, as Rio Tinto, to control what we can control, we need to be the master our destiny, and what we discussed today about the $2 billion of cost savings in 2016 and 2017, the $5 billion of additional cash flow on the back of productivity, and an ongoing re-focus on the portfolio.

But on this note I turn to you, Chris, in relation to value over volume in the Pilbara.

CHRIS SALISBURY (chief executive, Iron Ore):

Thanks J-S, and thanks for your question. I will talk about capacity first and then perhaps touch on the value over volume. But in terms of mine capacity, with the completion of Silvergrass and a small amount of productivity growth we have the capability – the capability – to produce 360Mt. Koodaideri is really more about a sustaining investment, if you think about it that way.

In rail, which is the current bottleneck as I outlined, the key improvement item that we are focused on there is Autohaul®, so Autohaul® implemented aggressively through 2017 and 2018, plus some other de-bottlenecking capital we'll talk about, some additional tonnages, additional wagons and those sorts of things, and other productivity improvement will take our capability up to around 360Mt. The port itself is already at 360Mt, in fact it could be beyond that, we haven't really I guess 'stretched its legs' yet. That's capacity, okay.

A different question is, will we utilise that capacity? What's the right number to operate the Pilbara at? And that's a value over volume decision. We've outlined the circle, the 'washing machine', so what's the impact in the market, right products, right volume, the right operating cost and the right combination of capital? Those three things optimised give us the right value number. So it's two parts: one, what's the capacity we're building and then how do we apply that capacity?

J-S JACQUES:

The whole driver is about free cash flow. That's the key message here.

QUESTION:

Just following on from a previous question, it's a cousin question to the one just asked. I appreciate that Autohaul® is going to improve efficiency and it allows the 360Mt to be achieved, but if we are still in an environment where it is value over volume, and that suggests the Pilbara, is to be run at a lower rate, what sort of cost savings does Autohaul® drive on its own?

And then I guess secondly, on page 38 I think it was, there was the five brownfield development options – the yellow bubbles (on the slide) - $5-$20/t of capital intensity – on the spend before Koodaideri. How long do those yellow bubbles at this point allow you to sustain 360Mt and is there potential to extend out the brownfield potential at this point?

J-S JACQUES:

Chris, will you pick it up?

CHRIS SALISBURY:

Firstly, the question on Autohaul®, we see Autohaul® more as a productivity opportunity and that productivity comes from two main sources: the first is improved driving strategies so that we can drive the trains more optimally - so better train speed control than manual, the second part is without a driver on the train you don't need to stop the train to swap the driver. Each time you stop a train to swap out a driver it's about 30 minutes of un-utilised time, so that's where the productivity play really is. Of course, if you remove the drivers from the trains you also don't need the drivers, so there is a cost improvement but primarily we are focused on it from a productivity point of view.

J-S JACQUES:

Can you also say a few words about virtual blocks and so on and so forth, which provides additional capacity because that's really uplift potentially.

CHRIS SALISBURY:

Absolutely. So that's the sort of first prize. Then the second prize, once we have Autohaul® fully commissioned, of course that then it opens up a huge amount of opportunity around how we further optimise the use of the installed capital, for instance, closing the train spacing up and those sorts of things. It means we can run the whole system even more efficiently. So we have some ideas about that, but we are focused on a step-wise, disciplined approach to it – and patient.

The second question was around our brownfields development. We have outlined one scenario. I want to emphasise that because we continue to study and optimise this. But, as you say and point out, the graph illustrates that for the next couple of years we are focused on those brownfield developments, $5-20/t capital intensity.

We then see the next development at this point, the scenario is Koodaideri, is our next mine development required to sustain the system, from both a capacity but also a product quality point of view. However, as I did outline also, we are still optimising the entire sequence, we will try and optimise the capital on Koodaideri currently at $2.2 billion, and see if we can't further identify brownfield options to push that out if possible.

So we have provided the guidance essentially out to 2021 but, as I said, we are still optimising that sequence all the time. It comes back to value over volume optimisation.

J-S JACQUES:

And the optimisation can be associated with significant value. If you look at Silvergrass, a few years' ago the capex was north of $2 billion but in the end we ended up with $600 million. So there may be further optimisation but the view that you have here is the view, the best case, at this point in time. There will be further work in that space.

QUESTION:

A few quick questions. First of all with Grasberg, you have been working closely with your partner for years and there are still fatalities every year and, can you confidently say that Grasberg is a Rio Tinto asset - it's obviously a Rio Tinto resource - but given the fatalities which seem incredibly difficult to stop?

Secondly, I know you can't comment around Guinea, but obviously Mongolia is another frontier market. How comfortable can you be that there are no similar challenges in that part of the world?

And then maybe, thirdly, could you just give us a quick update on this tax situation in Western Australia? How big a risk is it? Chris mentioned it earlier.

J-S JACQUES:

I think I will say a few words on the tax situation because Chris has already covered it. Here it is not only about Rio Tinto and BHP, there is a broader agenda here. What we want is to maintain the competitiveness of WA - Western Australia – and the competitiveness of Australia in a global industry. Our challenge here is to say if this tax is imposed on us and BHP and a few others in due course WA – Western Australia – will become the most highly taxed region globally, north of 40 per cent, in the context that on a like-for-like Brazil is 15 per cent – 15. So that's one point.

The second point is when you read the press people are suggesting we are paying only 20 cents per tonne of taxes in WA. I wish - but the reality is $19 per tonne. So we as an industry will fight against it. People are saying you are just trying to protect your results. As I said, it is about protecting the long-term competitiveness of Australia and WA in the global industry. That is what it's about and we will continue the fight because we believe we need to take a long-term perspective and we need to maintain the strength of Australia. So that's the first point.

On Guinea, you know I have said what I could say on this one, and the same for Oyu Tolgoi. The only thing I can say, the only thing you should know, is I take integrity very seriously, I take our code of conduct very seriously, it is absolutely non-negotiable and we must do – we must do - the right thing wherever we operate. And that's the only thing I can say at this point in time.

On Grasberg, Arnaud, you are the expert now.

ARNAUD SOIRAT (chief executive, Copper & Diamonds):

Thank you, J-S. As I have mentioned, it is without any doubt that Grasberg is a Tier 1 asset. When you look at the ore bodies it's the second best deposit of copper in the world and one of the biggest gold mines in the world as well. It's very clear that operating in this part of the world at 4,200 meters of altitude with a workforce of 32,000 people comes with its challenges and you mentioned safety, safety is a significant challenge indeed for the operations of Grasberg.

Freeport has got a lot of experience, close to 40 years of experience in this part of the world, however, it's important that we continue to support Freeport in first reducing then eventually eliminating fatalities. We are taking it extremely seriously. We are beefing-up our team of people in Jakarta and on site to be able to further support the operations in Grasberg.

As I mentioned in my presentation, we are supporting Freeport to transfer the best practice that we have across the whole of Rio Tinto, which originally started at Kennecott actually, which is called the CRM – critical risk management – and this programme is going to be deployed as a pilot in Grasberg by Freeport with our support.

When I look at the fundamentals of CRM with the experience I have got, there is no doubt in my mind that this is going to help and therefore we will be taking a very active role in supporting Freeport in deploying this best practice.

QUESTION:

Just a quick question really on your copper production guidance that we were discussing earlier, it is quite a big range, 27 per cent from top to bottom. Can you unpack mine by mine where the main variables are and the risks of that? Thanks.

J-S JACQUES:

A question for you, Arnaud.

ARNAUD SOIRAT:

Thank you. It is quite a range. I am sure you will have noticed as well that if you add up the different guidance for different assets that have already been published the total is not quite what we have given as guidance and there is a clear reason for that. It is not another fact, it is a conscious decision, which is basically we have moderated some of the production to be able to take into account the risk that we've seen in the copper industry in terms of production. So we give guidance over the total production and we don't give guidance for each asset.

QUESTION:

Sorry, I guess just to follow up, is the biggest swing potentially what comes out of Grasberg next year? Is that the driver of such a big range?

ARNAUD SOIRAT:

There are uncertainties on all of our assets and it's no different from any mine. You can be exposed to grades or you can be exposed to unforeseen climate events, there can be changes in terms of labour relationships and so on, so it is not one specific mine - the risk moderation approach that we have taken is across all of the assets.

J-S JACQUES:

Okay. Thank you, Arnaud. Next?

QUESTION:

A couple of questions. Firstly, just to keep on the copper theme around Grasberg, what implications are there, if any, for Rio around the Contract of Work re-negotiation and what protections, if any, do you have around that?

Then the second one probably for Chris Lynch around the balance sheet, you have talked a lot about a 20-30 per cent gearing range. Obviously with the wriggle room provided by the comments around "through the cycle", you are now looking set to move pretty comfortably below that range over the course of the next 6-12 months. Is it time to think about re-framing that range? Can you see a situation realistically where you are comfortable running 30 per cent gearing levels for an extended period of time?

And then the extension to that, on the dividend, obviously a very wide policy there in terms both of the 40-60 per cent range and the comment around "through the cycle" there. Maybe some thoughts around how do you see that dividend shaking out over a few years? Is the ambition for it to be a pay-out policy or is the "through the cycle" element kind of guiding us towards more of a progressive?

J-S JACQUES:

Alright, Chris, do you want to start with the balance sheet? I think we have been very clear that we have got this range of 20-30 per cent, but in the current market environment – back to our discussion we had earlier today about the Chinese situation and the uncertainty around SOE restructuring – I think we would feel much more comfortable with a lower number than the 20-30 per cent gearing at this point in time. But, Chris, your thoughts on this one?

CHRIS LYNCH:

Let's talk about either end of that. I think it will be an heroic assumption on your part to assume that we would deliberately spend our way back up to it, to 20 per cent, if we were below it, so I think that's the first thing.

On the second one, embedded in the question somewhere about the mid-point, was about would we be comfortable staying at 30 per cent? And I think when we have talked about that generally, we would be comfortable going beyond 30 per cent if we had a path back, if the opportunity was such that it made significant sense to do that. I think you should see that as guidance, nothing more, nothing less.

But when you come back to the overall shareholder returns policy, coming up in February will be the first test of this policy, or the first outing of it, for the Full Year Results, and there are actually 8 items. I have gone through the announcement that we put out in February and there are actually 8 items that the Board have to take into account on the way through this to be true to their policy.

For completeness I am going to just refer to some notes. The first thing is: the results for 2016 year. The second one is a view of our outlook for commodities and the like and how robust we think we are about the outlook essentially for pricing. The third one is the long-term growth prospects that we see ahead of us, and I think we have already outlined the capex guidance for the next three years, so I think you can get a pretty good guide about where we are seeing that, but that doesn't take account of SMART Buy opportunities should they come. The fourth one is the strength of the balance sheet. I think the balance sheet is in good shape, it could be a tad stronger but I'll will be the champion of a stronger balance sheet conservatively-wise, but that's there. The 40-60 per cent of underlying earnings through the cycle, if you think about that, in better times you need to go higher in that range to be able to sustain the cycle – through the cycle.

The sixth item was the Board wanted to reserve the right to have a balanced view between growth and shareholder returns. The seventh item was in periods of strong earnings and cash generation a view to supplement with additional returns. And the eighth point was that we had the interim arrangements for 2016 – this is a once only offer for 2016 – was $1.10, or would not be less than $1.10 for 2016. Now we paid 45 cents at the Half, it won't be less than $1.10, but the rest of it is a February decision and we will be able to come back to you on that.

But I think if you have a read of the release we put out in February there are a series of decision criteria there that the Board have to go through now, to consider, and the outcome in February will be a result of the consideration of those items, and that's where it is. But don't go down the path of thinking that if we happen to go below 20 per cent gearing we will deliberately spend out way back to it, I think that would be a bit cavalier.

J-S JACQUES:

Let's make clear that the $1.10 is equivalent to $2 billion of dividend, just to put a context attached to the $1.10.

Arnaud, Contract of Work, the 1994 and 1995 Agreement and so on and so forth.

ARNAUD SOIRAT:

The Contract of Work: as you know, we have got a Participation Agreement with Freeport and from that Participation Agreement in 1995 this is preventing us from negotiating in the Contract of Work. So remember with the agreement I mentioned we have a participation; we don't have equity in Grasberg. So therefore Freeport is clearly accountable for the negotiation with the Government of Indonesia about the expansion of the Contract of Work.

Now what we are doing is we are supporting Freeport in these negotiations, so we have got a very close relationship and ongoing discussions with them on the strategy of the negotiations and tactical aspects and, as I mentioned, we are beefing up, we are increasing our presence in Indonesia and in particular we are using the very team that had successfully negotiated the good agreements in Mongolia. This team now is working on supporting Freeport in the Contract of Work negotiations.

Those negotiations are progressing, and what we are also doing is we are using our team to support the message that Freeport gives in Indonesia by having direct discussions with key stakeholders in Indonesia. So those negotiations are progressing and they are quite complex, and so you can imagine that it will take us some time to come to a conclusion.

There are important milestones that are coming, particularly in January with the exports ban and that is currently being negotiated by Freeport, but ultimately I consider that we will come to a pragmatic outcome when you look at the value at stake, a significant value for all stakeholders: Freeport, Rio and the Government of Indonesia.

Just think of one data for example,, the revenue coming from Grasberg is equivalent to 40 per cent – 40 per cent – of the GDP of West Papua, and you can understand why it's important for everyone to find a way to be able to continue working together and ensuring that the operations will continue in the future.

J-S JACQUES:

Thank you, Arnaud.

QUESTION:

I had a question on your copper market commentary, the fact that you are modelling or expecting a deficit to emerge only by 2020. I am quite surprised at that and certainly hopeful that we'll get to a deficit sooner. I am wondering about your basic demand and supply forecast that you have got in that model.

And then secondly, in terms of your portfolio clean-up of smaller non-core assets, what is left for you to sell?

J-S JACQUES:

On the portfolio, I think we have been very clear that we want to build over time a portfolio of world-class assets. We've said that Pilbara is a world-class asset; the aluminium smelters in Canada are world-class assets; bauxite a world-class asset; some of our copper assets are; we have a series of niches like $Ti0_2$, like borates and so on and so forth. Those are the assets that we want to have.

Now there are a few other assets in the portfolio, as you know. I can't make any comment about which ones are for sale and which are not for sale. As you know, the policy is not to comment on the market speculation on this one, but what is absolutely clear are two things: one is, as long as you are in the portfolio, as long as you are part of the family you are part of the family, and we will drive the asset with safety as priority number one. And the second priority is about free cash flow. Today all the assets – all the assets – in the portfolio are free cash flow positive.

The second point I want to make is, it's not a 'fire sale'. The balance sheet, as we've discussed today, is pretty strong and we will only sell our non-core assets on the basis of value. If you look at a few, and I will take three, examples: the smelter in Scotland sold two weeks' ago for $410 million – I don't think many people had it their Excel spreadsheet to be honest – and that was a good example. The other example I would say is if you look at Bengalla, the small coal mine that we had in Australia, very good value in terms of metrics. And if I were to look at Northparkes, the copper and gold mine in New South Wales, that we sold a couple of years' ago, once again very good value for it.

So we are very clear about which assets are world-class, but at the same time we are not going to sell the other ones at any cost, at any price, because the strength of balance sheet is very strong at this point in time and, as I said, it is value over volume and we sell them over time for the right price.

On the copper market, Arnaud, if you want to say a few words? I think we are balanced this year, slightly deficit next year.

ARNAUD SOIRAT:

If you look at the demand aspects, history has shown that it grows by 2-3 per cent a year. I think there are potentially some questions about what will be the extent of substitution and what we have seen so far is substitution is not that big a deal in terms of volume and in terms of markets as well.

So the real question is more relative to supply, and I have explained in the presentation why we believe that in the foreseeable future the market will be under-supplied. Now whether it is 2020 or sooner will depend on what hypothesis each of us are taking. Personally I like to be cautiously optimistic and therefore as such we've shown a figure where we strongly believe that the market will be under-supplied by 2020.

J-S JACQUES:

Thank you, Arnaud. If we can go back to the phone, I don't know if we have any questions? Okay, there are no questions so we can go back to the room.

QUESTION:

The question I would like to ask, and apologies if this seems antagonistic in advance, but it's really about how you would frame the investment case to equity investors in the context of some of the big themes here, and specifically I'm thinking of the comment you made about 50 per cent of your top-line being effectively a derivative of the command economy and the volatility that goes with that?

Secondly, the iron ore entering a period of potential over-supply and pressure there.

Then thirdly, on the copper growth, there are some interesting copper growth in there, but it's potentially beyond the frame of equity investors given it's on a 10-15 year view if you think about Oyu Tolgoi. So I'm thinking how you'd bring the investment case for Rio Tinto forward a bit into the time-frame of many equity investors?

J-S JACQUES:

Thanks for the question. The first point is our exposure to China is probably 40 to 50 per cent; it's no different from the rest of the market. China accounts, with maybe a few exceptions like diamonds, most of the time over 50 per cent, and so our exposure is not that different from the rest of the market. That's the first point.

The second point is, I think it is pretty clear that by having the 4p's as we said, world-class assets - if we go back to some of the numbers, the Pilbara delivered around 60 per cent of EBITDA for the last 20 years, bauxite I think the slide shows 48 per cent, let's round it to 50 per cent; the same on copper.

The portfolio has world-class assets on one side, by having a strong operating performance, commercial and in the mine, and so $5 billion of initial free cash flow in the coming five years, and it's only a first step and by having a very strong balance sheet in a very potentially, what you may regard, as uncertain market environment, we will be able to generate a lot of cash. I think the proxy that we have given for next year using the Q3 prices, of $10 billion of cash flow operation is a good example.

I am sure some of you have already run the numbers with spot and you get to even higher numbers, but the cash generation from the machine – if I use the word "machine" – is going to be pretty strong. At the same time we are very clear that we will be very focused on our capital spend and the guidance we have given you today is pretty rock solid – the less than $3½ billion for this year, the $5 billion and $5½ billion and so on and so forth.

You run the numbers, you have got the cash flows; there could be upside, subject to what assumptions you make on the prices, you have got the capex number; we gave you some indication about the gearing; you see what is available in terms of returns. I don't think you have got many companies at this point in time that will be able to deliver this kind of cash returns in the short and medium term.

Last time when we looked at it, in June or July, if you look at the FTSE-100 and you rank all the companies by dividend pay-out, Rio was in the top 15. I am pretty confident that the ranking will improve. So that's what the equity is about, is that you will have a very resilient business case on the back of the assets, the performance and the strength of the balance sheet, and you will have a machine that will generate lots of cash.

QUESTION:

Chris, do you agree that the dividend pay-out ranking of Rio Tinto will improve?

CHRIS LYNCH:

I think the key issue really is around the cash generation and then the application of cash. We have told you exactly how we go about generating cash; we have got the productivity initiative and all those types of issues; how we go about applying that cash is really also pretty clear. The key issue really is around – again it's a Board decision and the Board decision will be tested first in February – but we go very simply, it's the sustaining capital, a view about what the ordinary dividend will be; then we talk about the iterative cycle of growth opportunities; we talk about balance sheet strength and we talk about further returns to shareholders. The 8 points I outlined about what we actually published as a returns policy, that is the conversation the Board has got to have in February, and as soon as they have finished their conversation I will make sure you are the first to know when we announce it.

J-S JACQUES:

I have been told I have to wrap up. So thank you for your questions. Before we close, I just would like to restate our strategy centres on our key strengths - world-class assets, strong balance sheet and operating excellence. Our focus is on generating cash and together with our relentless capital discipline you can expect us to deliver superior shareholder returns through the cycle and invest for the long-term. For us it's all about delivery in every corner of the business day in and day out. Thank you very much.

(End of Q&A Session)