Rio Tinto

# Fixed income investors update

March 2018

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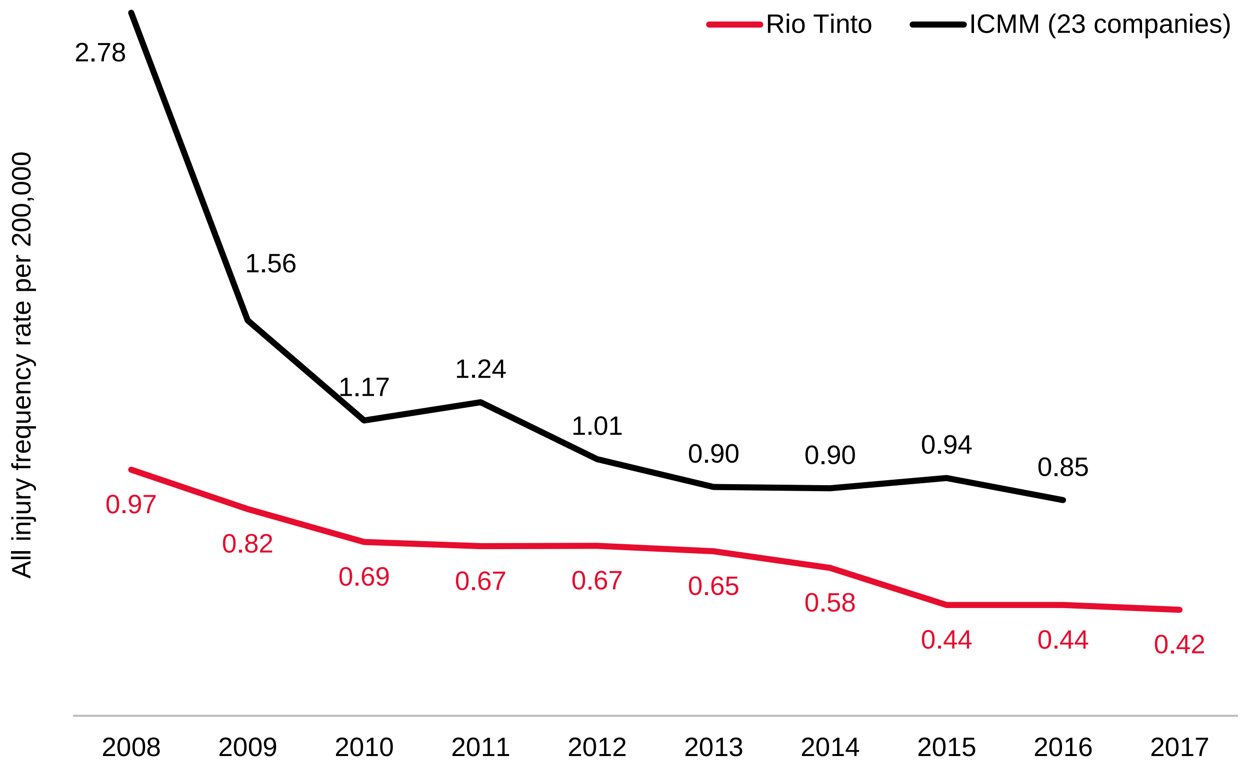
# Safety and health come first

## Continuing history of improvement




**Safety fatality at Kennecott Operations and Health fatality in Pilbara Exploration in October**

Focusing on **fatality elimination** –
1.5 million CRM verifications in 2017

**Reducing injuries** –
Targeted hazard elimination campaigns

**Catastrophic event prevention** through control of major hazards

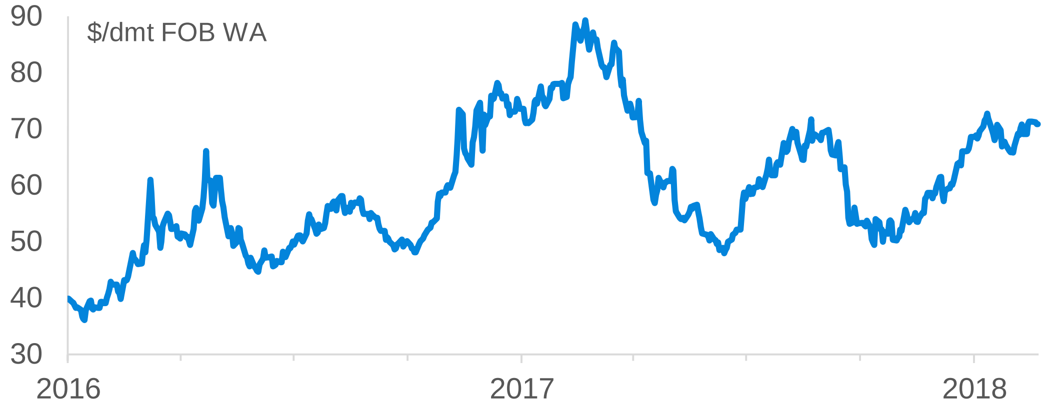
**Mental health**, wellbeing and fatigue management

Connection with engagement, leadership and **productivity initiatives**

**Critical Health Risk Management**

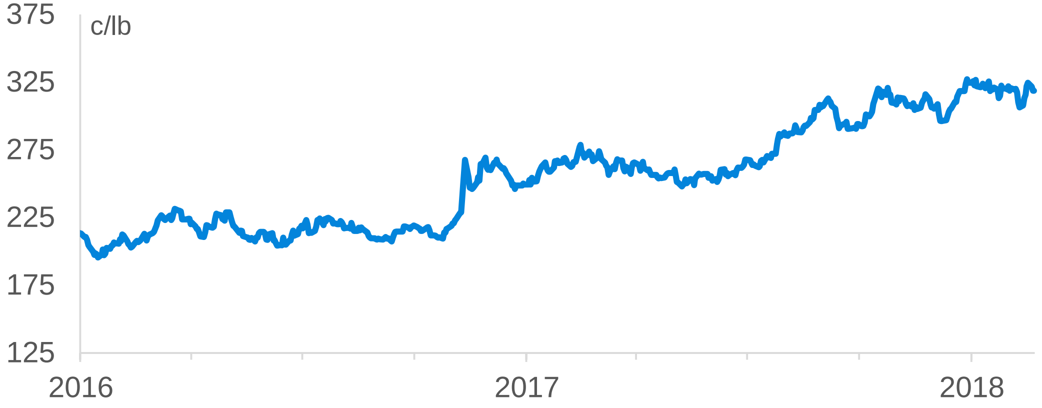
# Robust demand drove stronger prices in 2017

### Iron Ore

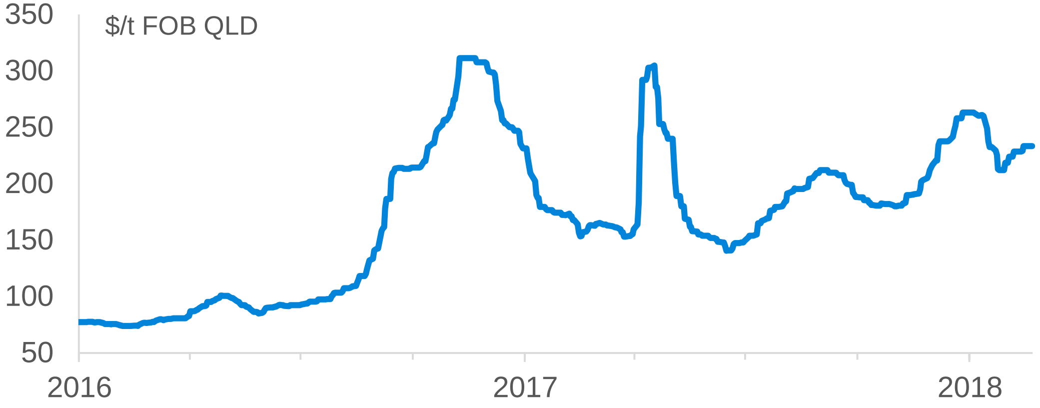



### Aluminium


### Copper




### Hard coking coal




*Sources: Bloomberg, Platts*

# Strong results delivered in 2017

## Robust financial performance

EBITDA of **$18.6 billion**

Operating cash flow of **$13.9 billion**

Free cash flow of **$9.5 billion**

**$2 billion** cost savings programme completed early

## Disciplined capital allocation

Full year 2017 dividend of **$5.2 billion**

Share buy-backs declared of **$4.5 billion**

Net debt reduced to **$3.8 billion** at 31 December

Capital expenditure of **$4.5 billion**

## Positioning for the long-term

Silvergrass iron ore mine commissioned in Q4 2017

Oyu Tolgoi underground development on track

Amrun development progressing to plan

Divestment proceeds of **$2.7 billion*** in 2017


* In January 2018, Rio Tinto received a $0.5 billion binding offer for its Aluminium Dunkerque smelter in northern France. In February 2018, Rio Tinto received a $0.3 billion binding offer for its ISAL smelter in Iceland and its ownership interest in other aluminium assets in the Netherlands and Sweden.

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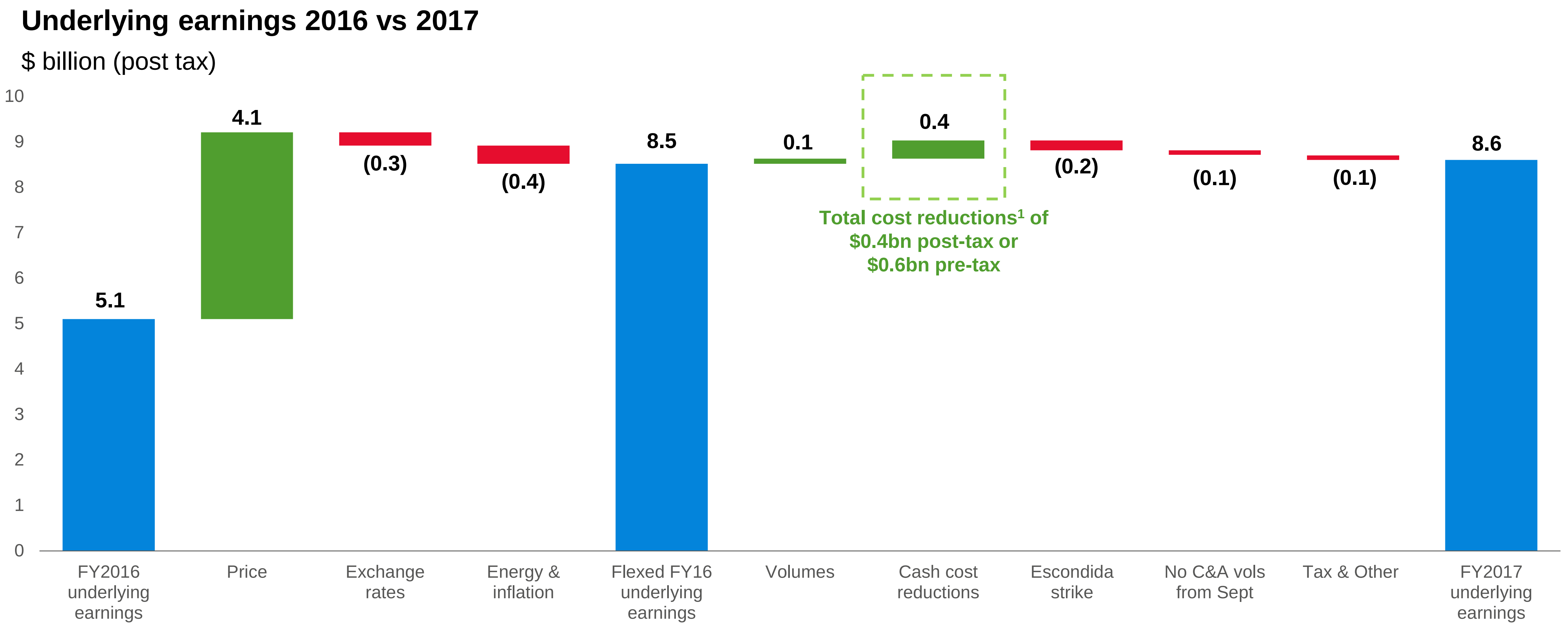
# Higher prices driving increased earnings



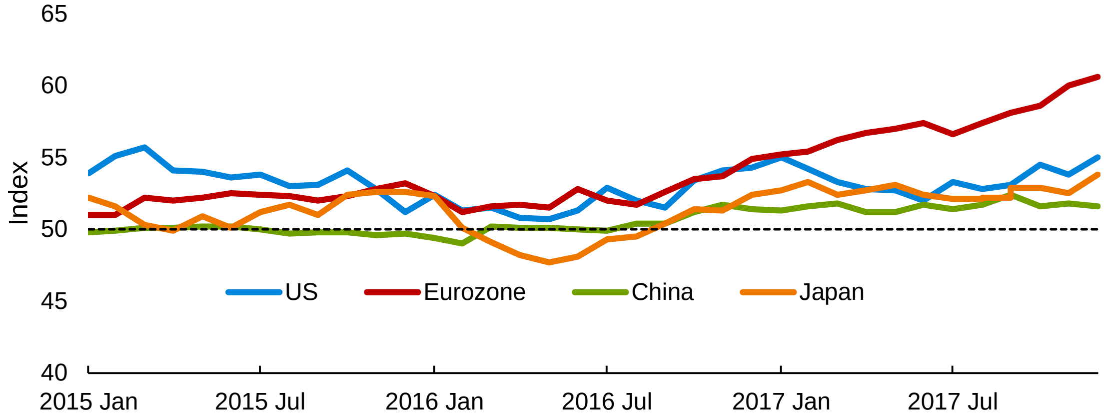

[1] Cash cost reductions include reductions in Exploration & Evaluation costs

# Superior returns from world-class assets

| | Iron Ore | Aluminium | Copper & Diamonds | Energy & Minerals |
|---|---|---|---|---|
| **Margins** | **68%** Pilbara operations FOB EBITDA margin | **35%** Integrated operations EBITDA margin | **39%** EBITDA margin | **36%** EBITDA margin |
| **Cash flow** | Cash flows from operations of **$8,466m**<br>Development capex of **$653m**<br>Free cash flow of **$7,265m** | Cash flows from operations of **$2,648m**<br>Development capex of **$654m**<br>Free cash flow of **$1,380m** | Cash flows from operations of **$1,695m**<br>Development capex of **$1,159m**<br>Free cash flow of **$319m** | Cash flows from operations of **$1,939m**<br>Development capex of **$32m**<br>Free cash flow of **$1,467m** |

# Global macro indicators remain supportive

## PMIs remain elevated




**Global** growth momentum remains healthy

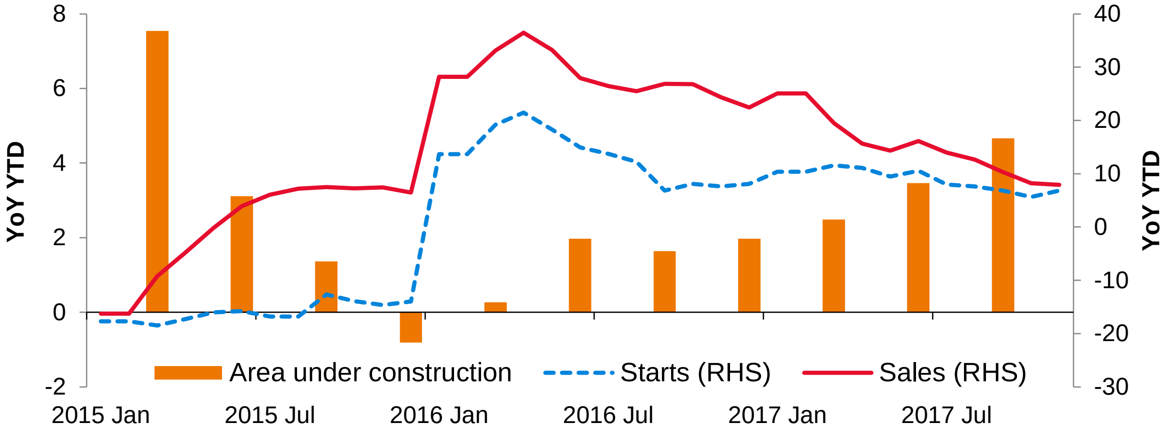
**US** growth supported by record high consumer confidence and healthy manufacturing and investment

**EU** performing better than expectations on stronger manufacturing and consumer confidence

**China** may slow modestly over the next six months but outlook remains positive in the medium to long-term

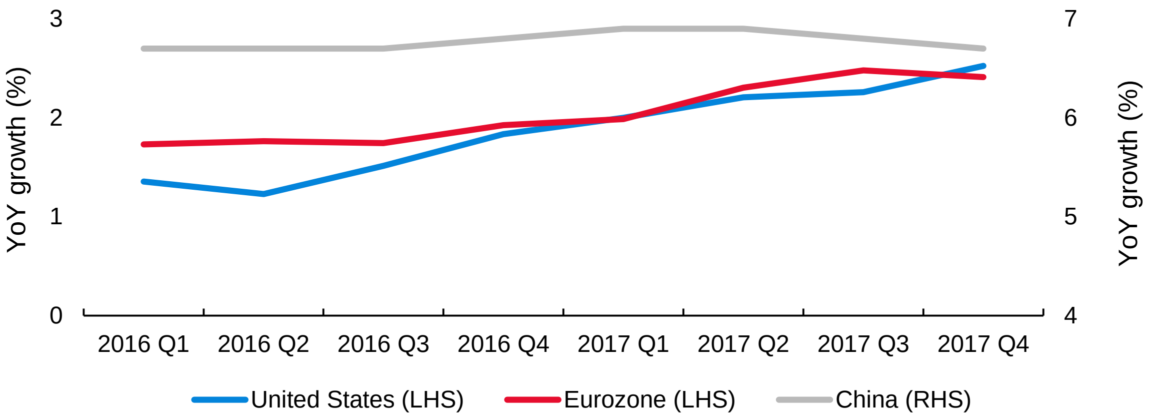
**Chinese** environmental policy measures are increasing demand for higher grade iron ore and reducing new aluminium capacity

## China housing sales and starts slowing modestly




Source: CEIC, Rio Tinto

## Positive GDP momentum

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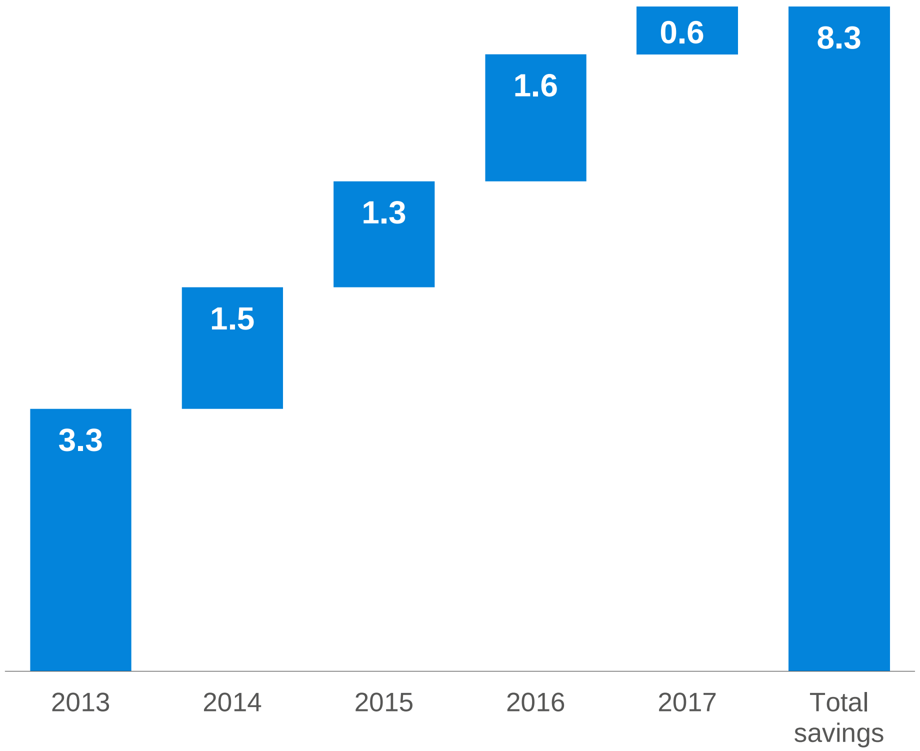
# $2 billion cost-out programme completed

**Pre-tax operating cash cost improvements**
Reduction vs. 2012 ($ billion)




**$8.3 billion** cost savings achieved since 1 Jan 2013

**$2.2 billion** cost savings across 2016/17

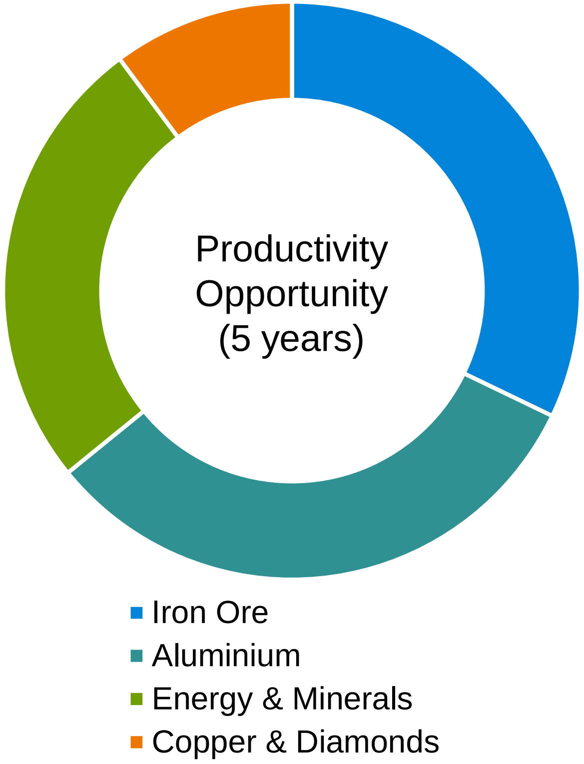
– Achieved target six months ahead of schedule
– Offsetting raw material cost headwinds of $0.2 billion in 2017

# Delivering $5 billion of additional free cash flow from productivity

Mine to market productivity…

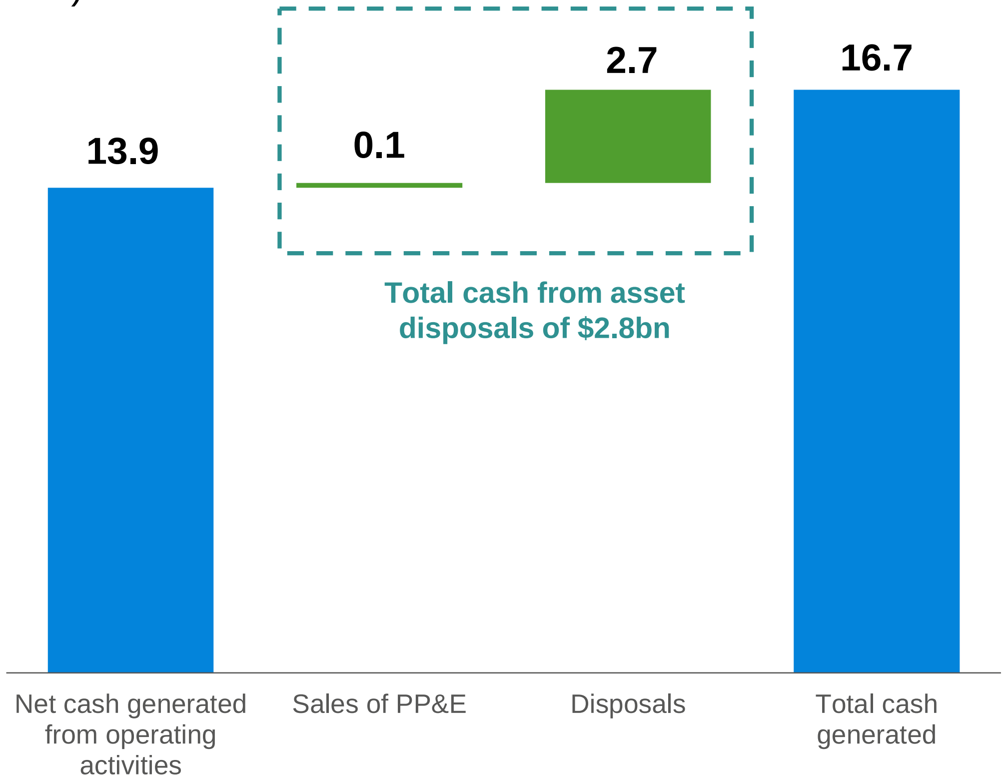

…with a focus on four levers…


…delivering $5 billion of additional free cash flow

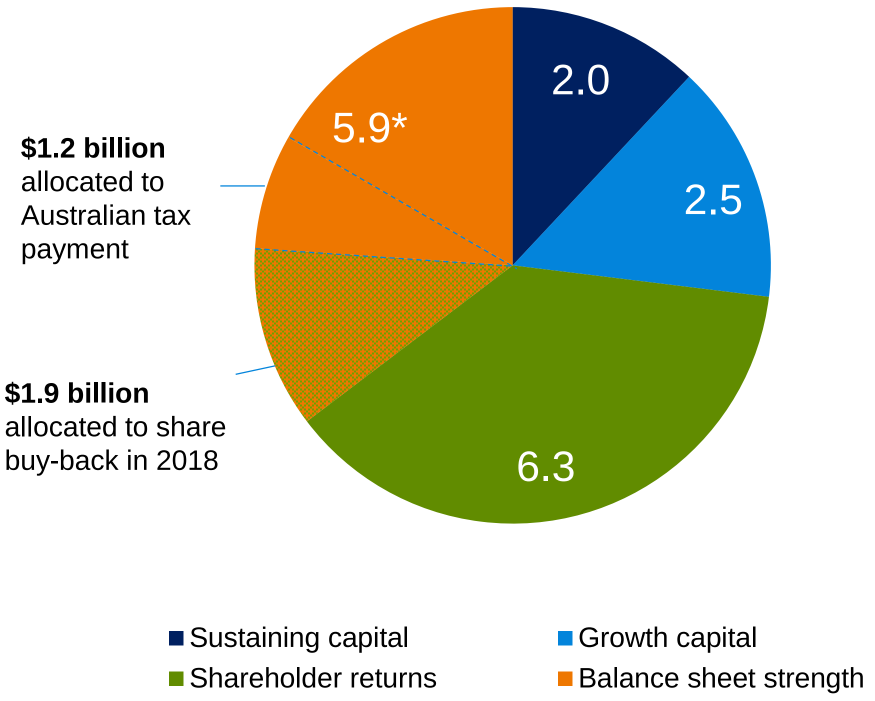


# Disciplined allocation of strong cash flow in 2017

**Cash flow 2017**
($ billion)




**$8.2 billion (49)% of cash generated in 2017 allocated to shareholder returns**
($ billion)




* Balance sheet net debt reduction of $5.8bn comprises $5.9bn of net cash movement and $(0.1)bn of non-cash, exchange and other movements

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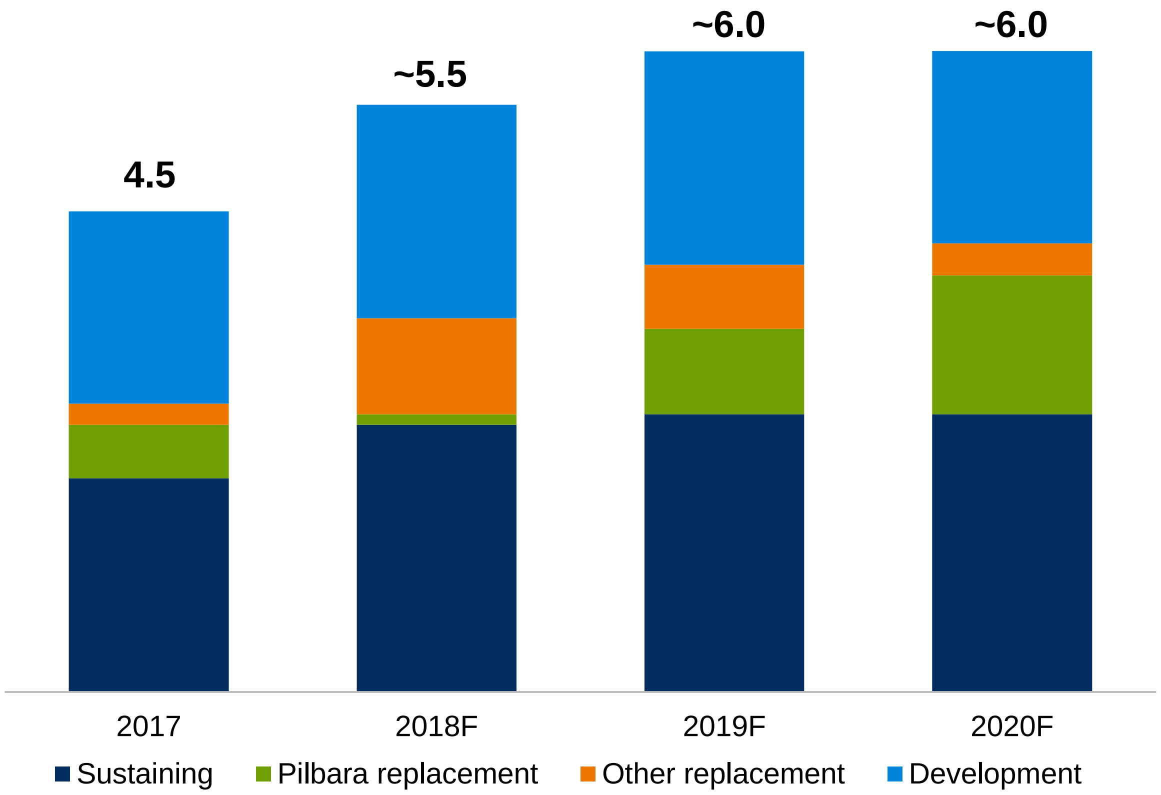
# Sustaining capital and compelling growth

**Capital expenditure profile**
$ billion




Maintained sustaining capital guidance of $2.0 to $2.5 billion per year, including:

– Iron Ore sustaining capex of ~$1 billion per year

Pilbara replacement capital includes Koodaideri development from 2019

Other replacement capital includes:

– South wall pushback at Kennecott

– Amrun replacement tonnes

– Zulti South

Development capital includes:

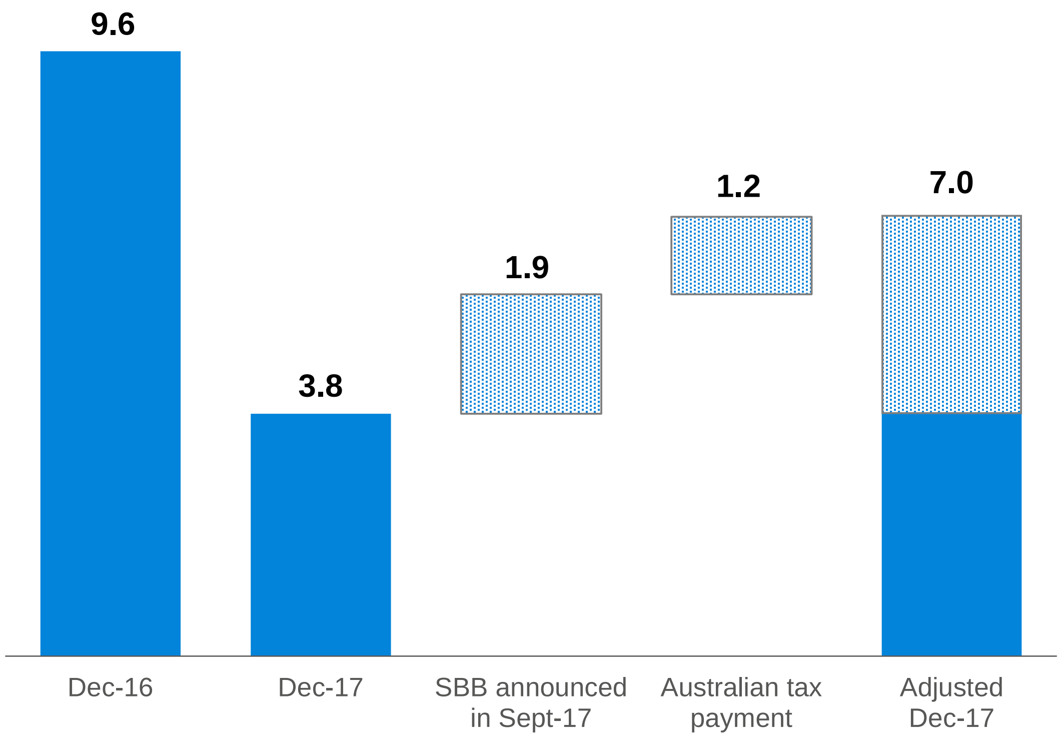
– Oyu Tolgoi, including development of power station

– Amrun

– AutoHaul™

# Strong balance sheet

**Net debt**
($ billion)




Adjusted net debt of $7 billion reflecting:

- $1.9 billion outstanding from Sept-2017 buy-back
- $1.2 billion tax payment in 2018 based on 2017 profits

Strong balance sheet:

- Provides stable foundation against any market volatility
- Supports superior shareholder returns through the cycle
- Enables investment in compelling growth

New leasing accounting standard to come into effect from January 2019

* Figures are prepared in $ millions, and are therefore more precise than the rounded numbers shown

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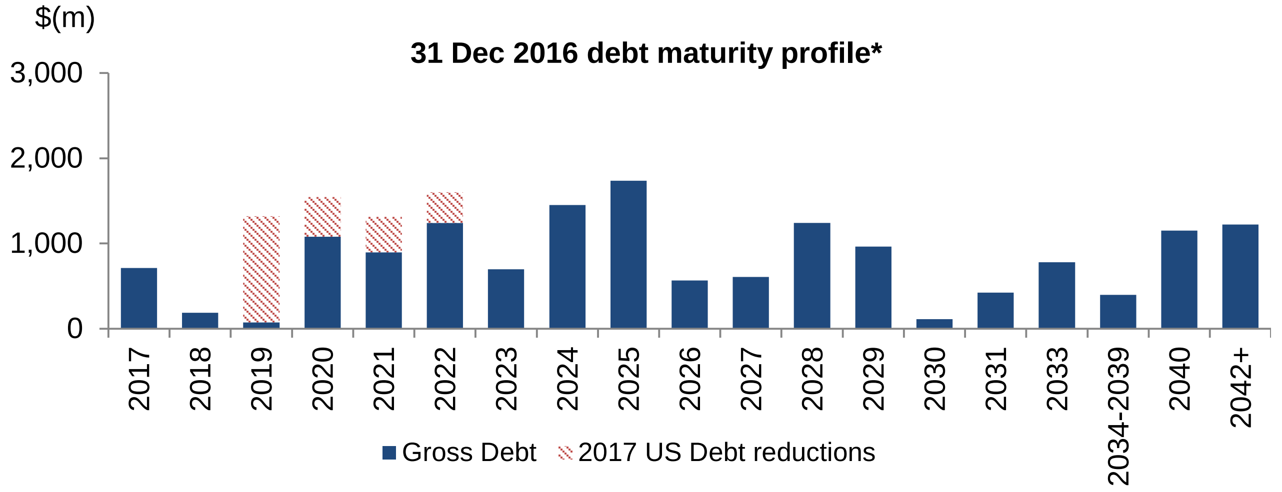
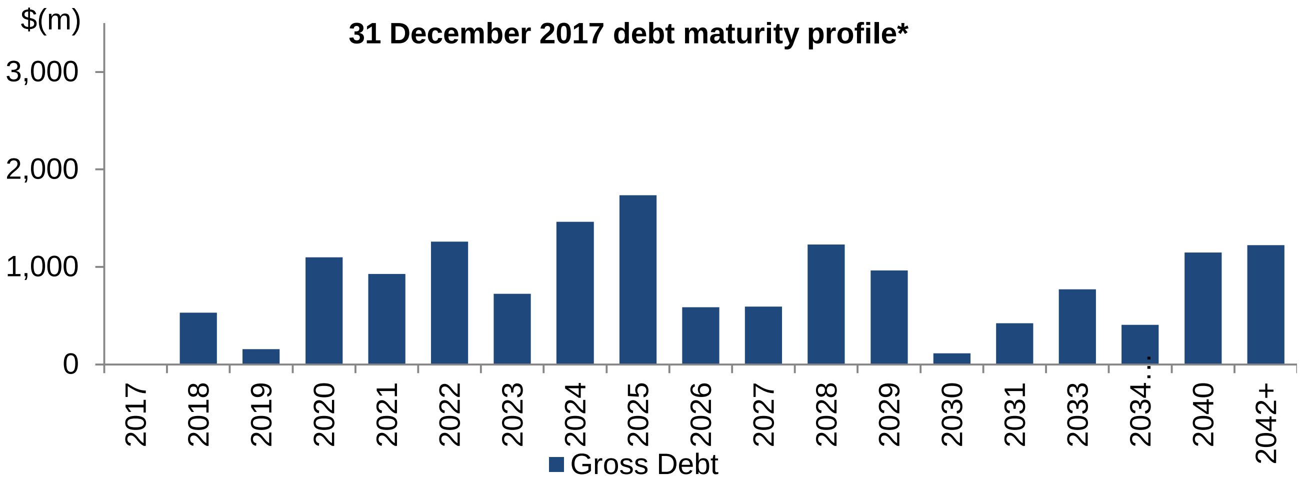
# Near-term maturities further reduced in 2017




Gross debt reduced by $2.7 billion in 2017

$2.5 billion nominal value of bonds purchased or repaid with cash

Average outstanding debt maturity at ~10 years

Net interest paid of $0.3 billion associated with bond purchase programmes**

No bond maturities until 2020

S&P upgrade to A(Stable) on 12 February 2018

Moody's rating remains A3(Stable)

*Numbers based on year-end accounting value / ** The interest charge to earnings included $0.2 billion of early redemption costs from bond purchases in 2017

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# In Summary

- ✓ Strong balance sheet with net debt of $3.8 billion
- ✓ Operating cash flow of $13.9 billion
- ✓ Reshaping the portfolio with divestments completed of $2.7 billion
- ✓ Invested $2.5 billion in high-return growth
- ✓ Delivered $0.4 billion free cash flow from productivity
- ✓ Cash returns to shareholders of $9.7 billion declared for 2017

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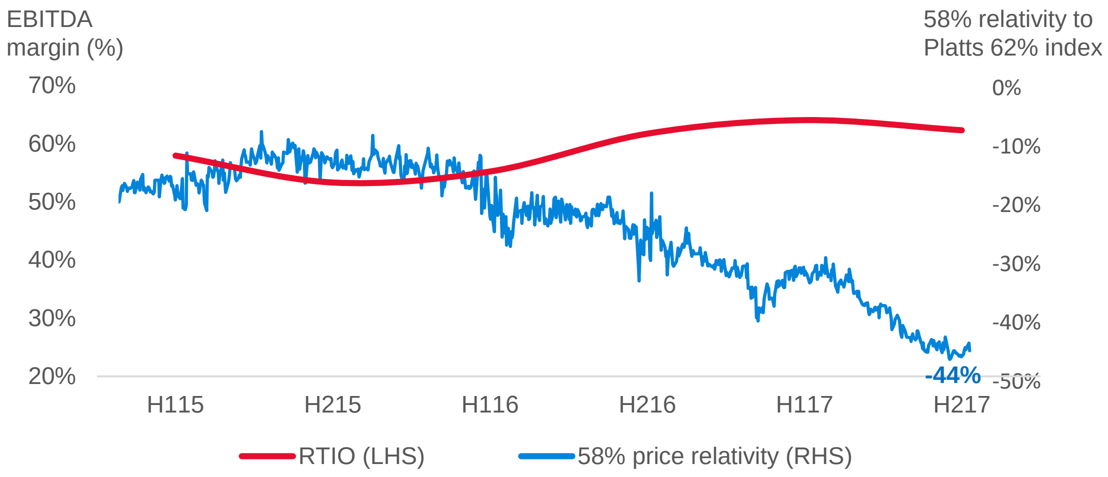
# Appendix

# Outperforming in key commodities

### Rio Tinto Iron Ore EBITDA performance



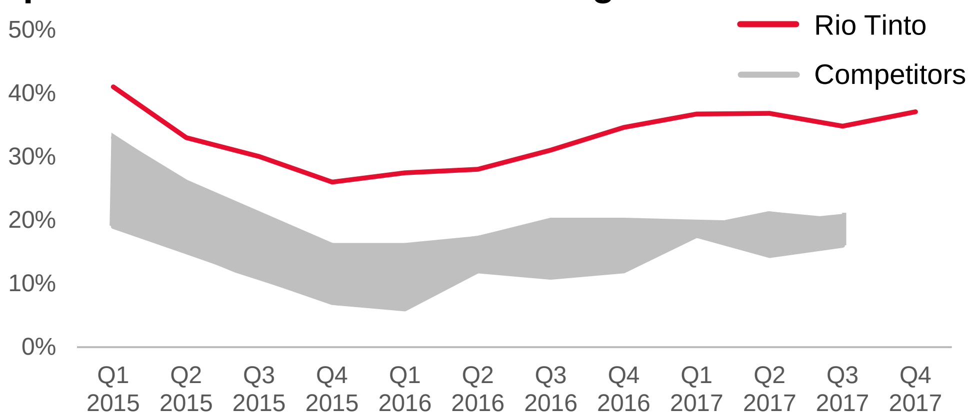

Source: Bloomberg, Metal Bulletin, Platts.

Iron Ore EBITDA FOB margin increases to 68%

Significant spread between high and low quality iron ores

Steelmakers targeting high-grade / low-impurity iron ore products

### Upstream aluminium EBITDA margins




Rio Tinto internal analysis which includes adjustments to externally reported EBITDA margins, trading, procurement and marine revenues to report performance on a comparable basis. Competitors included in the analysis are Rusal, Hydro and Alcoa.

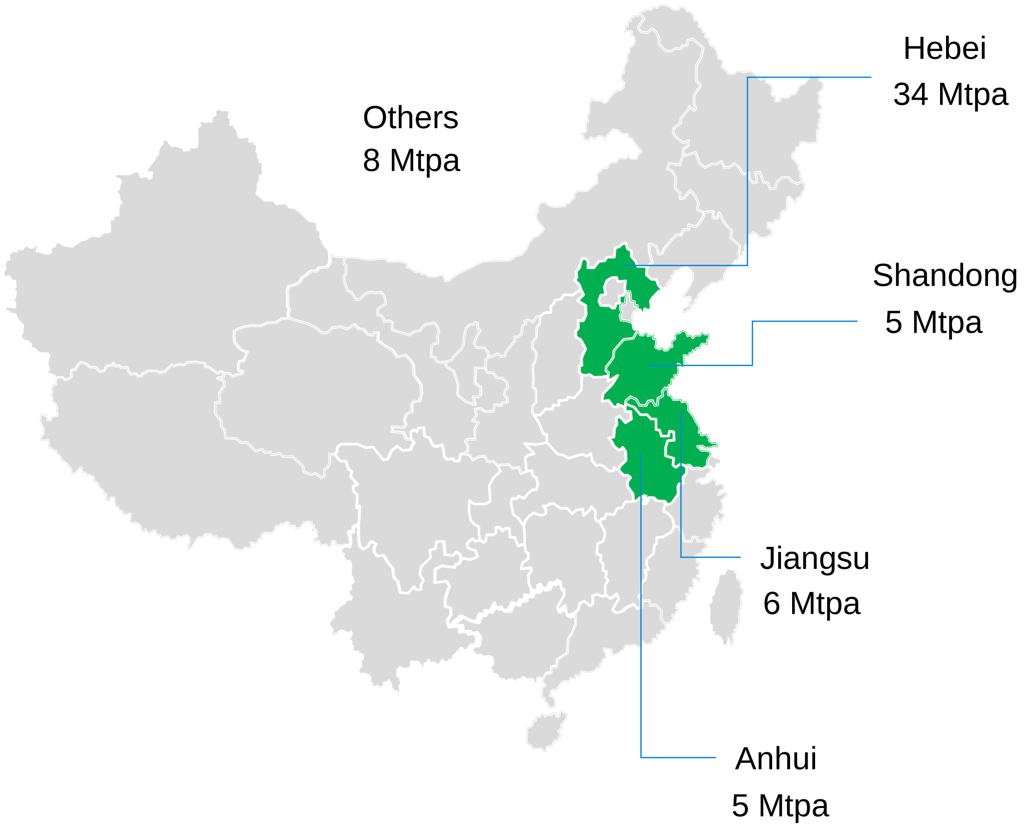
Margin gap: portfolio quality and performance delivery

Aluminium EBITDA margin increases to 35% in 2017

VAP – 57% of primary metal sold, premium of $221/t in addition to the market premium

# Impact of China policy changes on steel capacity

**Supply-side reform steel capacity cuts by province (excluding IFs)**




Cuts of **58 Mtpa** of steel capacity in 2017 and 2018

- ~5% of total Chinese steel capacity
- In addition to induction furnace (IF) capacity closures of **>100 Mtpa** in 2017
- Idled capacity is unlikely to restart

Further **52 Mtpa** of cuts from environmental winter policy in 2017 and 2018

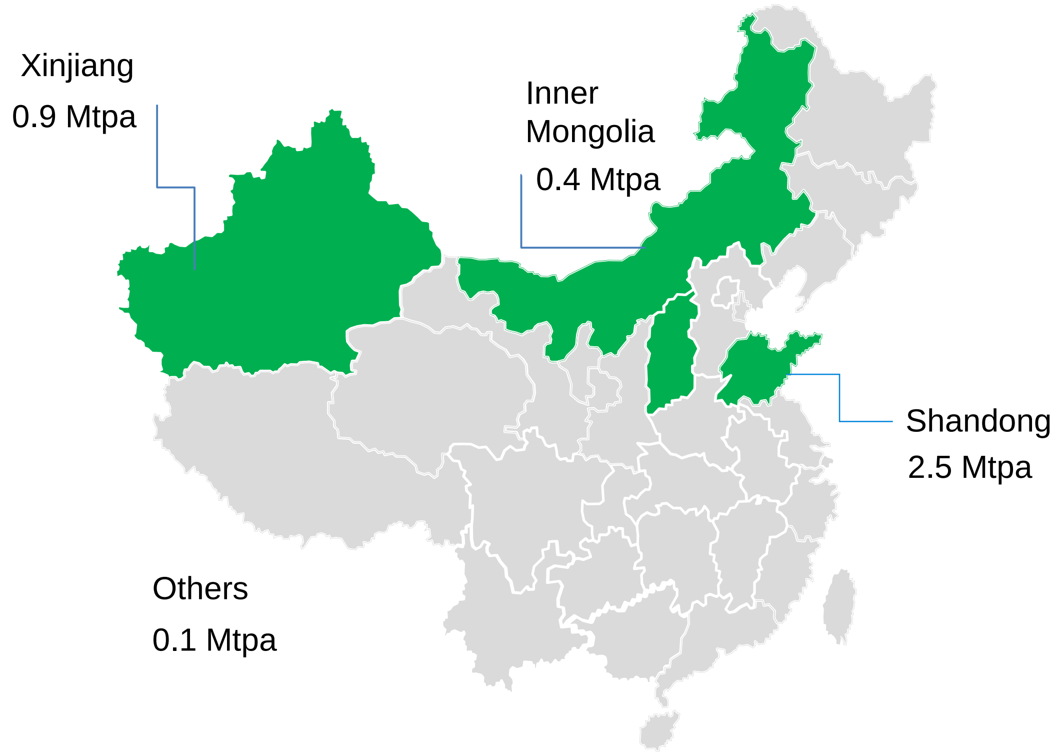
- Offset from possible increases outside the 2+26 region or increased use of scrap

Consolidation in the steel industry expected to drive demand for high-value products

Source: MIIT, Wood Mackenzie, Rio Tinto Market Analysis

# Impact of China policy changes on aluminium capacity

## Supply-side reform aluminium capacity cuts by province




**3.8 Mtpa** of illegal capacity removed in 2017 and 2018

- ~9% of total Chinese aluminium capacity
- Potential for some restarts

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**0.7 Mtpa** of capacity cuts from environmental winter policy in 2017 and 2018

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ROW smelters expected to ramp up activities and restart idled capacity as a result of the two policies

- Rio Tinto well placed with low carbon brownfield expansion potential

Source: Baiinfo, Aladdiny, Rio Tinto Market Analysis

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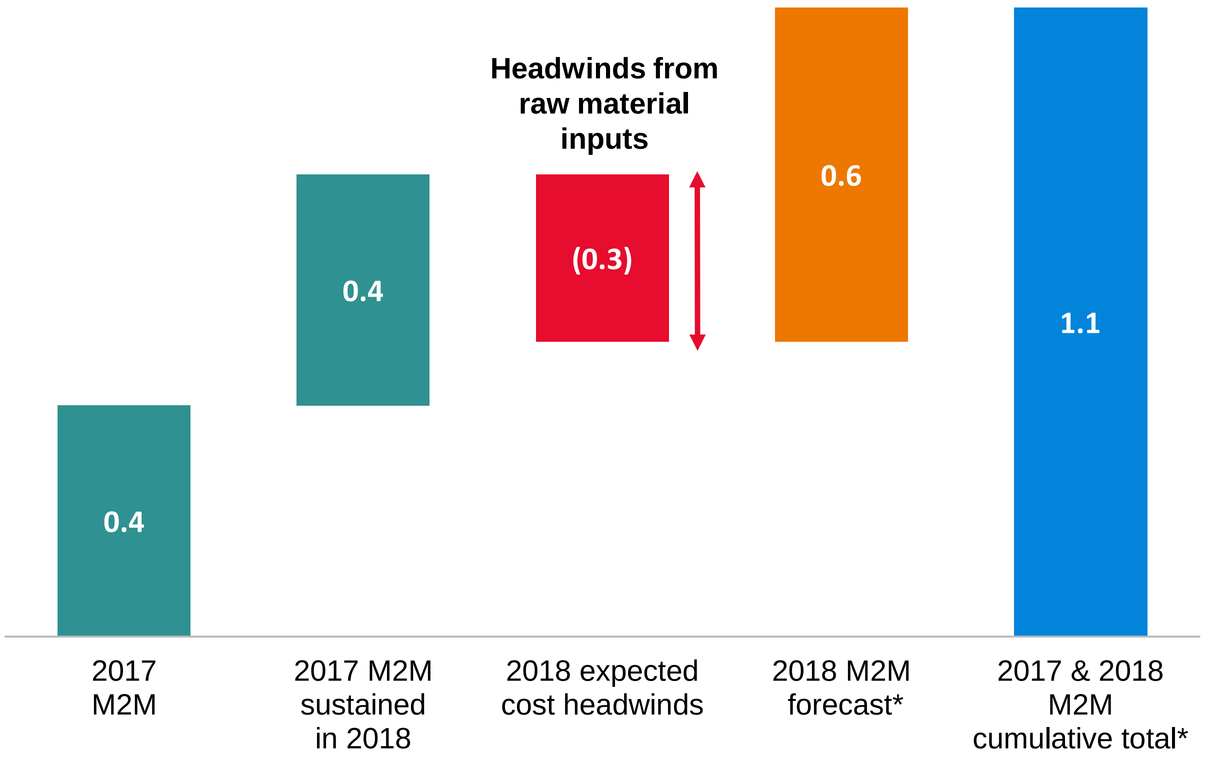
# Productivity programme delivering $5 billion of additional free cash flow by 2021

**Post-tax mine to market (M2M) productivity programme**
($ billion)




**$0.4 billion** mine to market free cash flow delivered in 2017

Cumulative 2017 and 2018 mine to market forecast of **$1.1 billion**

– **$0.3 billion** mine to market forecast in 2018 despite raw material cost headwinds

Delivering **$1.5 billion** mine to market each year from 2021

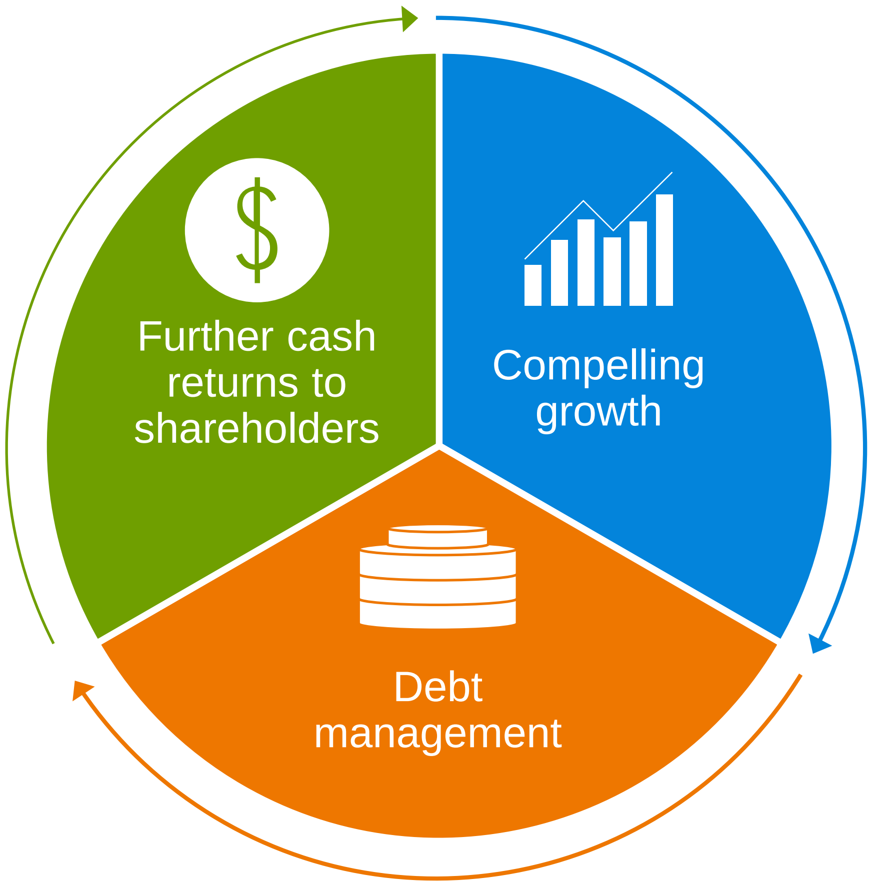
* Based on consensus prices and exchange rates

# Disciplined capital allocation

1 | Essential sustaining capex

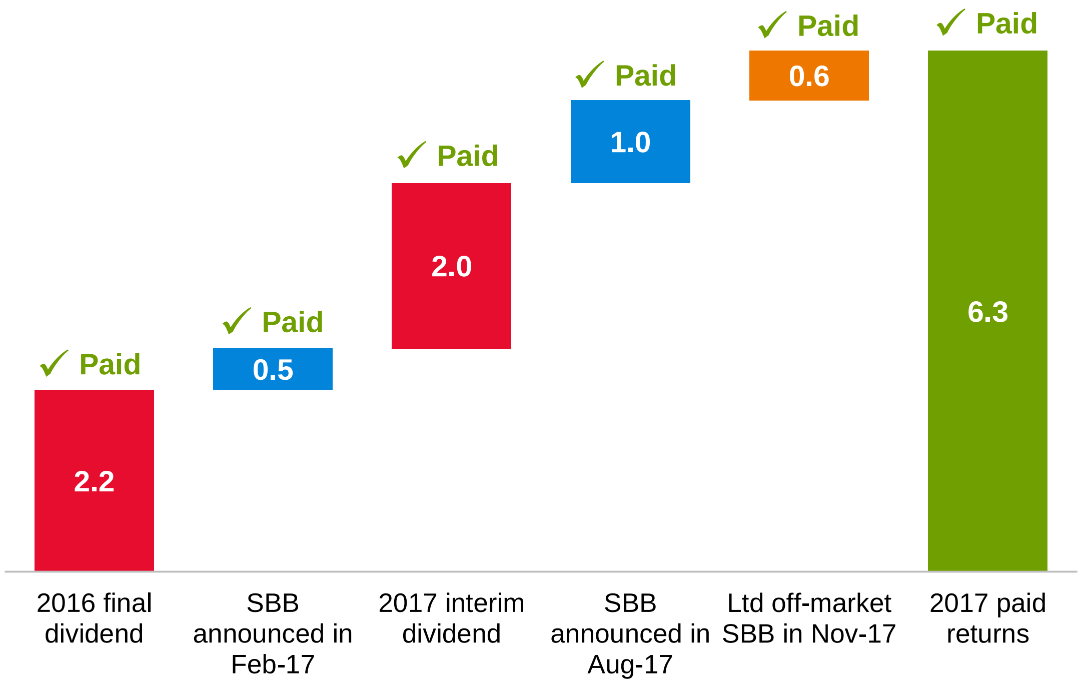
2 | Ordinary dividends

3 | Iterative cycle of ❯



# Delivering superior returns for shareholders

**Cash returns paid to shareholders in 2017**
($ billion)*




Final 2016 dividend paid of **125 US cents** per share, and record 2017 interim dividend of **110 US cents** per share, **$4.2 billion** in total paid to shareholders

Share buy-back of **$1.5 billion** in Rio Tinto plc shares completed in 2017

Supplementary share buy-back of **$0.6 billion** from Coal & Allied sale proceeds completed in 2017 via off-market share buy-back in Rio Tinto Limited

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# Modelling earnings

| Earnings sensitivity | 2017 average price/ rate | ($m) impact on FY 2017 underlying earnings of 10% price/rate change |
|---|---|---|
| Copper | 281c/lb | 242 |
| Aluminium | $1,969/t | 592 |
| Gold | $1,257/oz | 30 |
| Iron ore (62% Fe FOB) | $64.1/dmt | 1,037 |
| Coking coal (realised) | $169/t | 69 |
| A$ | 77USc | 674 |
| C$ | 77USc | 160 |
| Oil | $54/bbl | 54 |

Note: The sensitivities give the estimated effect on underlying earnings assuming that each individual price or exchange rate moved in isolation. The relationship between currencies and commodity prices is a complex one and movements in exchange rates can affect movements in commodity prices and vice versa. The exchange rate sensitivities include the effect on operating costs but exclude the effect of revaluation of foreign currency working capital.

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