

Rio Tinto Investor Seminar, Sydney Q&A transcript

28 November 2014

SAM WALSH (Chief executive):

Perhaps with that if we could open up with questions and if you can be brave enough to state your name and organisation please. A mike is on its way.

QUESTION:

Just a couple of questions around coal, topical at the minute given what's in the background, Glencore recently took some large provisions for take-or-pay contracts, some hundreds of millions, and their claim was there is a 100 million tonne of take-or-pay in coal at the minute that's not being used, so whatever that is, 15 bucks a tonne, some 1.5 billion for the industry. Can you just remind us of Rio's position at the minute?

And secondly on Mount Pleasant, because it got some airtime today, clearly in New South Wales tough to get coal mines up, not impossible, obviously Maules Creek up and running, but I know Mount Pleasant had some issues in the past. How do you feel about the kind of community support at the minute for that project?

SAM WALSH:

Harry, perhaps if you could help with that?

HARRY KENYON-SLANEY (Chief executive, Energy):

Yes, thank you. Firstly in respect of take-or-pay contracts we are very comfortable with our position. We have a significant suite of assets in the Hunter Valley; we carefully manage those assets. As I have explained today, we are focusing on running those in a more streamlined and sort of consolidated way and we are very comfortable with the position that we have.

In respect of Mount Pleasant, yes, Mount Pleasant has been around for a long time, it's an excellent project, it's low cost, it's large, it's got a low strip ratio, it's fully consented and it sits adjacent to our other operation, Bengalla. We are very comfortable with the position that we are in. In due course we will make sure that it goes through the appropriate rigorous approvals processes within the Company and we will be announcing in due course how that unfolds.

SAM WALSH:

Thanks Harry. The Board visited, and I visited, the Hunter Valley yesterday and it was a very impressive tour. During the presentation a colourful character, Paul Ernst, who runs

the operation, talked about the issues of the local community. He pointed out his house, and he said, 'I am the mine's closest neighbour'. And obviously it makes him extremely sensitive to how we are performing, noise level, and what-have-you. I think that sort of approach, that sort of focus, does put us in a special position.

Another question? We have one here – don't worry, we will move round.

QUESTION:

A question for Andrew on capex and iron ore capex. Andrew, just to confirm that guidance for the 360 project has dropped from \$120-130/t down to \$110-120/t and if you just talk about where the drop in capex guidance has come from - clearly some from Silvergrass - but can you maybe go into a bit more detail?

And then a question for Harry on the Hunter Valley, clearly topical and has been for the last three or four months, is the potential for a joint venture with Glencore; there are some clear synergies between tying up the assets. Now we know that you have the biggest resource base, you have got the best growth potential and clearly there is more to be done on your assets with what you have outlined today, and I would expect that Glencore would have to make an equalisation payment to Rio if the joint venture went ahead. But there is some clear value for Rio Tinto shareholders there, so I am just getting your thoughts about why this is not being progressed?

SAM WALSH:

Andrew, why don't you take the first one and, Harry, I'll take the second one.

ANDREW HARDING (Chief executive, Iron Ore):

Sure. Thanks. From last year's presentation I talked about the capital intensity being in the range \$120-130/t and this year I am talking about it being \$110-120/t, so you have got an eagle eye, and that is an improvement change that you have noted.

The reduction in capex is from many, if not most, of the projects over the full time-frame that the 360 programme has been running, and I would remind people that back a few years ago we actually took the Brockman 4 concentrator out. It made a massive difference to capex and that helped reduce capital intensity at that stage.

And using Silvergrass as an example of this most recent step-down, when I talked last year about the capital deferral that was available because of the brownfields we'd prior to that talked about \$5 billion capex, and then \$3 billion of that being deferred through pushing back Koodaideri; most of the rest of the remaining \$2 billion was associated with Silvergrass. Now I am saying that Silvergrass is a billion dollars and we are deferring that. So there has been substantial changes in those programmes over time. Not all of them get to be improved but most of them are improving and it is a programme that has been running for years. Thank you.

SAM WALSH:

Thanks Andrew. And in relation to your second question, from time to time people come to us with all sorts of proposals and the way we look at these are on the basis of value – is it actually going to generate value for our Shareholders by us continuing with the transaction?

Now we have a total open mind if there is somebody out there that's going to offer us a price that offers more value than we see in an asset but importantly, as I have said before, this is not market day at the bazaar. As Chris has pointed out, this Company does not need to generate additional cash, we are happy with our debt level and we are not about divesting of things purely and simply to tick a box or to keep someone happy out there.

We did divest \$3.5 billion of assets since the beginning of 2013. We have in fact divested \$17.5 billion over the last five years, so we have gone through and tidied up our portfolio. Now sometimes we can make a transaction work and Clermont was clearly an example of that, it was a transaction that generated value for Rio Tinto.

In other transactions, and there is a range of them, they didn't pass muster, didn't make sense. There may be synergies, well that's terrific, but if you lose your shirt going into a transaction like that then it doesn't matter what the synergies are. You have got to get the fundamentals right and then you look at the synergies beyond that. It is not a matter of just wading in because somebody thinks there is a synergy value.

Do we have another question? Why don't we take one from the back – you see, I am fair-minded.

QUESTION

Thanks Sam. The first question is for you. You made quite a point at the end there about materially improved cash returns to shareholders and I guess my question was do you believe that the Company has excess capital at the moment to actually deliver that return or would the Board be considering future free cash flow and would that return be in recognition of future cash flow as opposed to excess capital that the Company has at the moment?

And then my next question is for Andrew. Just on the \$35 a tonne target long-term for CFR delivered to China cost, you made reference to BHP going from \$26 to \$20 C1 and I am just wondering with that \$35 whether you could share the AUD assumption and the C1 cost assumption so we have got a like-for-like number to compare? Thanks.

SAM WALSH:

In relation to the first question, yes, I did emphasise, and I am pleased to hear that I made it clear, that we are committed to materially increasing shareholder returns at our announcements in February.

But somebody picked up something during the earlier discussion and issued a report saying that, well, the use of the word "sustainable" means that we are watering down our

commitment. No, sustainable means ongoing, it means continuity, it means a Company very focused on shareholder returns. It does not mean we are watering down our commitment in any shape or form.

Now somebody else put out an article and said, well, they are walking away from buy-backs. The Board actually hasn't determined exactly how much and in what form we are going to make the material increase in shareholder returns. The Board has a number of options - and we have provided that to the Board - and I am sure the Board with all of their wisdom will actually get exactly how its passed through to shareholders in the form that meets shareholders' needs. But let me emphasise, we have made no comment about backing away from the notion of buy-backs.

In relation to, do we have the cash to do what we are doing? Yes, we do, and Chris you might add to it, but for those who have been alert during the presentation, we have reduced our cost, we have reduced our debt, we have substantially reduced our capital and that's put us in an incredibly good position to materially increase shareholder returns. Chris, did you want to add to that?

CHRIS LYNCH (Chief financial officer):

Not a lot to add really, Sam. I think we are in a dangerous time period here because we are so close to the end of the year and so I just want to be a little bit circumspect about that but we have both generated and balance sheet capacity. The range, the gearing ratio that we are talking about, we'll move to that basis, we'll stay in the conservative end of that in the current period but you'll hear a lot more and get a lot more comfort I think in the full year announcements.

SAM WALSH:

Okay, thanks Chris. And Andrew, would you like to comment on Iron Ore costs.

ANDREW HARDING:

Yes. Back in 2012 when we were sitting at about \$47/t CFR to China cost, the target was set for \$35 and actually \$35.50 cents at the time. We are well on the pathway to that, now approaching \$40/t.

And I know you want some more granularity on the C1 costs and to date I have resisted giving it, and given that I have resisted it for two years I can't see any harm in me resisting it for several more. But we are on a good trajectory and I suppose it doesn't take much imagination to think about the fact that if we finished at \$20.40/t in the first half then we are likely to be going under \$20/t. But I am not going to say any more than that. Thank you.

SAM WALSH:

Yeah importantly we are in a very privileged position with our Iron Ore business. It is an incredibly strong team, an incredibly committed workforce with an incredible track record of delivery. You have just heard Andrew; he is heading to below \$20 a tonne.

Do we have another question?

QUESTION:

Thanks. There are two questions from me. One for Chris: it sounded like you are pretty comfortable with the credit rating going from A down into the BBB range, and I sort of read you saying that credit rating agencies will do what they do. That seems a pretty big step back from Rio who, for the last couple of years, have been using that A rating as a sort of external measure that your capital allocation decisions have improved internally, so can you just talk us through the difference between A and BBB and if you are happy to let it drop?

And the second question was for you, Sam, just picking up on something that you said before – where did I write it down? - the views on long-term prices remain unchanged. Now it's quite interesting that we have seen you talk through some fantastic cost savings, 20/25 per cent plus reduction in unit costs, big capital intensity savings, surely that has to drive, at some point in time, some changes in expectations on long-term prices. Now it might not be there yet but is that the thought process that you are working through at the moment?

SAM WALSH:

Chris, why don't you answer that?

CHRIS LYNCH:

Look, our issue to capital management has actually not changed. The key issue, what we do with capital management, is what we think is best for this Company and this Company's shareholders. Now we actually think that, what we are talking about, will be supportive of an A rating but, as I've said, that's purely a function for the rating agencies to determine but they will do that in the fullness of time. But our process is to say we are committed to having a strong balance sheet - whether that results in an A rating or not is up to the rating agencies.

SAM WALSH:

In relation to our assumptions on long-term prices, I think most of you know we have an independent group within our corporate headquarters, Rio Tinto Economics, that establishes our long-term assumptions for commodity prices, for energy prices, for exchange rates and so on. That group, in conjunction with the Product Groups, conducts very detailed analysis not only of where supply and demand is going to go but obviously where unit costs are going to go as well. The group works to take all that into account in terms of their modelling and what-have-you.

The point that I made, long-term prices are clearly different to what prices are now, some are up, some are down, it depends on the view of Economics, but importantly as we've moved through this past year, the group going in and re-testing prices, we have not seen any fundamental shifts in their long-term view of the market. Now these are the prices that obviously we make investment decisions on. Some people say, well, iron ore shifted

today, doesn't that worry you? Well, of course it's of great interest to us but it is not on that basis that we make very long-term decisions in terms of our projects.

One more question in the room and then I have got to go to cyberspace for the next question, on the phone line.

QUESTION:

Thank you. I just have a question with respect to the short-term iron ore market, given that there is increased supply from companies like yourself and I suppose Roy Hill coming on next year, I am just wondering if you have made an assessment on where some of the other supply may be shutting? You've mentioned some of those so far.

And the second question is, a little bit more longer-term focus on the iron ore market, when do think Simandou, in terms of the development profile, could have an advantageous entry into the market place with respect to overall demand?

SAM WALSH:

Look, I think in relation to the first question, Andrew, if you can help me with that? And Alan Davies is anonymously in the audience – it will serve him right for being here – I will get Alan to answer the second question about Simandou because Alan's team is handling that. Andrew.

ANDREW HARDING:

Clearly you are right, at the moment there is a dynamic with substantial increased supply into the market place. I am not going to comment on individual companies that may be shutting down but give you a broad idea of the market response which is occurring as you would expect. In China and non-traditional supply countries the tonnage that has come out of the market is about 125 million tonnes and if you look at any sort of cost curve for the industry that's broadly a very rational response and what you'd expect. Thank you.

SAM WALSH:

Thank you. Alan, why don't you talk about Simandou?

ALAN DAVIES (Chief executive, Diamonds & Minerals):

Thank you very much, Sam. So the process with Simandou is, as you know, we have the investment framework which was passed by the Government - from the Parliament - of Guinea, have separated the infrastructure given that it will be multi-user so will serve other parties, and we are focusing on the mine investment. Now it's a very high quality resource, 66-odd per cent, very low strip ratio, so we are treating it effectively as two projects.

We have issued tenders to national construction firms including Chinese construction firms and they're in the process of assessing that, and that will determine the completion

of the Bankable Feasibility Study (BFS). An outcome of that will actually be the timing that the various construction firms think that they will construct the infrastructure, so we are working through that.

But clearly in terms of Rio Tinto, it is very complementary to the Pilbara, clearly we have views on the industrialisation and development of the industry going forward, but the timing will depend on the process we are going through at the moment. But we do commit to focus our investment very rationally, based on the parameters that Chris and Sam talked about being good for our shareholders, and it will focus on the mine.

SAM WALSH:

Yes, thanks very much, Alan. And I should say that Alan and his team are doing a great job in relation to how we are handling Ebola. Clearly we have quarantined our operations both at Simandou and CBG Bauxite. The preventative measures, the training, the development, the kits for employees and their families and so on I think have been first-class. I read a couple of days' ago that the WHO is saying that Ebola is stabilising in Guinea, that's important.

Now all that Alan has talked about has not really taken into account the impact that may or may not have on the development of the BFS. We are working offshore as well as onshore in the development of that and clearly getting the balance right there is important, but a lot of work going on. And as Alan said, really the Bankable Feasibility Study will actually nominate or dictate the timing for the project as we go forward.

Perhaps if I could take a phone question? We have got a couple apparently on the line.

QUESTION:

Hi there. There are a couple of questions. First of all, just in your definition of a material step-up in returns, is a 15 per cent increase in the ordinary dividend a step-up in returns in your mind?

And secondly, with IOC, you said it was making a 20 per cent EBITDA margin at \$85 a tonne which implies that of today it is making, what, \$10 a tonne, so barely free cash flow positive after maintenance and capex. If we see no recovery in iron ore prices would you consider the mothballing of IOC?

SAM WALSH:

Okay, let me take the first question and then, Andrew, if you could comment on the second. We have deliberately used the words "material increase" in shareholder returns to flag that we are very serious about this and hopefully it will be something that indeed pleases shareholders, but standing here today I do not have the power or authority to indicate exactly what that is going to be.

This is a decision for our Board, it's a decision that they'll make in the February time-frame, however, we did have a Board meeting during this week. I re-tested the words "material increase" in shareholder returns and the Board confirmed that that wording holds. So my apologies, I can't go beyond that.

Andrew, why don't you comment on IOC?

ANDREW HARDING:

Sure, Sam. A few points I would make. First of all, IOC has been running for over 60 years I think and in those 60 years it has seen some good times and some even tougher times than we are seeing at this moment in time, so if history is any guide I think there is absolutely no reason to mothball it. But if you look forward, there are two things that I would point to that are quite strong in indicating that it's a good operation and it will have an improving margin.

The first is that we have spent the capital to allow for a big volume change in the operation and that will be a move up towards 23 million tonnes from a base of around 16 million tonnes, so that rate improvement gives some substantial changes to a business like that, which has a lot of processing and therefore fixed costs as well.

I think the other thing I would point out is that we have had an ongoing improvement programme and we have recently changed a large number of the management team as well to take that improvement programme on to a faster track going forward.

SAM WALSH:

Yes, thanks Andrew. I should just comment that IOC's product is a premium product, low impurities, high Fe content, and it also picks up a value-in-use pricing advantage in relation to the 'value-in-use' that the product generates.

Another question from the phone line.

QUESTION:

Good morning, gentlemen. We have seen a steep decline in oil prices from over \$110 a barrel and they are now well below \$80 and it looks like it is going to stay down for quite a while. Do you happen to know what the sensitivity is for your business to the oil price, say, for a \$10 a barrel move at all?

Secondly, just looking at all the comments you have made on cost out, debt reduction etc, it would imply that in the current half that you've made further improvement on your working capital position. Would that be correct?

SAM WALSH:

Chris, why don't you pick up on oil prices and I'll cover working capital because it is very dear to my heart.

CHRIS LYNCH:

I don't actually have the answer on oil price, Sam, I'm sorry. I shall be able to give it at the next briefing. We will put it up on the website but we will include it in next week's briefing.

SAM WALSH:

Okay. Thanks for that question. Now, as I hinted, working capital is something very dear to my heart. I grew up in the car industry and 'just in time' flowed through from the Japanese car industry and minimising/optimising working capital has been something that has been very focused. I think a number of you have worked out when you actually look at our numbers we are looking to significantly reduce our working capital this year, that is true.

Harry, I was delighted when we visited Hunter Valley yesterday, as part of the presentation there was a chart that actually showed how Hunter Valley has reduced its working capital, and it's substantial. As Chris said, we are sort of six weeks out of sync in terms of being able to give you the actual number for it, but it will be significant. It is something that's very dear to my heart.

I think a number of you know that around our operations we have cash generation officers – we have one in our head office – and we have actually also developed a working capital war room which enables me to wander down at any time and see how things are going and how the trend is following, and we are seeing some seriously good work across all of the business in that area.

Let's come back to the room and take a question from the back.

QUESTION:

Yes, thanks Sam. Two questions really, the first for Andrew on iron ore. Why does it take five years for Iron Ore Company of Canada to get from 16 million tonnes to 23 million tonnes now that the capital has been spent?

And secondly with regard to Orissa, there has been no real mention of India and Orissa and iron ore. Can you just give us a little bit of colour on what's going on there?

And secondly maybe for Greg with respect to technology, about this time last year there was a Memorandum of Understanding (MOU) with Chinalco on a joint technology agreement. Can you give us some idea if that is alive and well and where that might be heading? Thank you.

SAM WALSH:

Okay, that was actually three questions, not two. Andrew, can you handle IOC and Greg if you can handle the unincorporated joint venture with Chinalco on technology? And I will have a go on India.

ANDREW HARDING:

Tim, I would agree with you five years is an extensive period of time for an increase in production to the level. It would be, from looking at it with a bit of history because I actually haven't been involved in it so I am interpreting some of the past, capital was spent to improve largely around the processing plant. After that improvement there has been some difficulties with other parts of the operation upstream of the processing plant, so we are on a programme to work our way through those and it will simply take a few years to actually achieve those sort of changes.

With Orissa, despite the election of Modi, which I think is incredibly positive and he seems to be quite charismatic and interested in taking forward the Indian economy, the reality is approval processes in the country are quite slow and laborious. I think of Orissa as, based on the past, a long-term option for us and probably by omitting it from the presentation you might get some idea of how long-term I think it may be.

SAM WALSH:

If I could just add to that, Andrew is actually currently making the odd spot sale into India which is rather bizarre – it's sort of like shipping coal to Newcastle in terms of that business. I think that Prime Minister Modi will actually make a difference, he certainly has in Gujarat, but he has got incredible inertia to actually break through and make a difference.

I was fortunate to join Prime Minister Abbott's state visit to India and then meet with Prime Minister Modi when he was here for the G20, and he is very, very focused. It is an issue of firstly, if you get the federal government right, you've then got to deal with the states and provinces and there is quite a bit of challenges there. We believe that iron ore requirements for India will continue to grow as that country does urbanise and continue to industrialise, and that's certainly part of the policies of Prime Minister Modi and his government, but as Andrew said, a lot of inertia in the system.

So Greg, why don't we talk about unincorporated joint ventures?

GREG LILLEYMAN (Group executive, Technology and Innovation):

Thanks Sam, and thanks for the question. Yes, as you mentioned, last year we announced a MOU with Chinalco to explore technology alliance, joint venture and opportunities for technologies between our organisations. In fact, last week in Beijing, after myself and my counterpart in Chinalco over the last little while sort of finalised the details, we did unveil the announcement, if you like, of the unincorporated joint venture. Our respected Chairmen in fact were with us in Beijing last week to formally finalise the arrangements around the unincorporated joint venture.

So we are looking forward now to establishing that in the New Year. We have already got some identified areas of technology that we are planning to explore together. The benefits of the large research and development and engineering resources that Chinalco have, along with our network partner model and the long history of course of innovation that I have mentioned earlier, are areas that we need to bring together and really harness. So launched last week in short.

SAM WALSH:

So under the auspices of that joint venture we are looking to develop new technologies. We have put a fence around current T&I projects that we are working on, and it's projects where we need further input in relation to R&D, importantly further work in relation to implementation, and they have thousands of people in that area that we believe can help expertise and commercialise technologies.

Do we have another question in the room? We have one over there.

QUESTION:

Just back to the capex slide, it's basically flat at about that \$8 billion or so for the next sort of three years. How do we consider that? Is that a limit you're prepared to spend up to \$8 billion a year or is that what you think your projects which cross that hurdle rate of 15 per cent will cost?

And also just on the sort of stay business, the capex side of around the \$3 billion, is that the sort of minimum that is required just to keep the business running, like that's not being cut too far and there's going to be a payback sort of down the track where, if the business grows, that actually needs to be higher than that to keep the business running at the current level?

SAM WALSH:

Chris, why don't you pick that up?

CHRIS LYNCH:

Thanks. Obviously when you are this far out you have always got an idea about projects that are absolutely locked in and definite and others that are yet to be approved and in what form they are going to come through for final approval. So we think the guidance is a good match between an opportunity suite and an amount of capital that is committed there.

If you go back, there is an earlier chart in the presentation that showed the amount that's as yet to be approved formally. One of the changes that we have put in place, Greg mentioned some of the work that David Joyce and his team are doing now, we are doing a lot more work upfront in terms of project scoping and making sure that we have got the best path to first production established before we pull the trigger on the investment. So that probably sounds fairly mundane but there is a bit of work involved in it.

Now things will move from period to period so there is always going to be some sort of combination of factors that could have a slightly up in one year and slightly down in another etc, but I think we are comfortable with the guidance that we have put out. But if you look at this year, I mean we are going to be significantly below where we thought we would be this time last year and that's as a result of some really good work being done, some cheaper pricing and some stuff that's just not happening at the minute.

SAM WALSH:

Look, I think Chris and I are very happy with the guidance that we have provided here. You need to go back six or seven years to see that the rate we were running at back then was \$4 billion to \$5 billion a year. It is a much bigger business now, there has also been a little bit of inflation, but importantly we want to ensure that growth we talked about, the 5.2 per cent of growth through 2013 to 2019, that we actually physically deliver on that.

But I am very pleased, as Chris mentioned, by the work that is being done to ensure it is absolutely the best projects and we absolutely spend our dollars very wisely, hence the work that is going on in terms of shaping projects and value engineering projects. It is very much in line with the work we are doing in improving our operating cost base but equally improving our capital costs going forward.

Another question in the room? We have one here.

QUESTION:

A few questions. In your capital cost guidance does that include any deferred pre-strip capex, or is that additional to, or is that a material number over the next couple of years, or is that captured in the opex conversation in this presentation?

And secondly just on your cost savings, in the second half of 2014 you expect to take out \$250 million and then next year for the full year you have got the \$750 million, and so obviously you have got a slower rate in this half and then it picks up again. Can you give a bit more granularity on that or is that just the way the bottom up analysis sort of fell out?

And finally if I may just on South of Embley and, say, Mount Pleasant, there are some numbers in the market on the capex cost there. Your iron ore capex intensity has come done quite dramatically in the last 12 to 18 months. Is it a fair assumption that when you go through the machinations on those scoping and feasibility studies that the capex intensity of those projects are also coming down in a similar quantum?

SAM WALSH:

Thank you for that. Chris, why don't you hit the first couple and I will hit the third?

CHRIS LYNCH:

Okay, thanks. Those numbers do include deferred pre-strip. That number will vary from period to period, so that's another of the variables that we have to manage but it does include it.

With regard to the second item regarding the cost savings, we did talk about that at the 2014 Half Year Results, but we had known headwinds in this second half. Probably the two most fundamental are the smelter outage at Kennecott which was a 65 day maintenance shutdown, which was obviously going to affect their cost structure there,

and the other one is the progressive commissioning of new systems and progressive de-commissioning of the old smelter at Kitimat. Those two substantial headwinds are really the reason why the momentum rate slows in this second half.

I would just point out too, that I think the number for next year is very much a bottom up built number, so we have got a good layer of confidence there, but again there will probably be more in the back half than the first half of next year as well.

SAM WALSH:

In relation to all of our projects going forward, not just South of Embley and Mount Pleasant, we are, through Greg's group, going in and re-analysing those projects, looking at scope, looking at value engineering, looking at ways to take advantage of the changing market dynamics as the total number of projects across our industry and oil and gas and so on reduce. So, there's very much a lot of focus in that area.

Perhaps if I could take another question from the phone line? There is not one there – let's see if we can create one.

Okay, a very shy lot on the phone. Let's come back into the room.

QUESTION:

Thanks. A question for Harry on the coal business, I was interested in the Hunter blend concept that you talked about. I recognise this is at, I guess, a concept stage but looking for a fairly significant increase in production there of 24 per cent. I'm wondering if there's any guidance you can provide on perhaps the time-frame for that? Is it something that we should expect post Mount Pleasant, which I think you flagged around 2019, or should we be looking or thinking that it can come through a bit earlier than that? Thanks.

HARRY KENYON-SLANEY:

Thank you. The Hunter blend project is underway. We are very focused on it, particularly next year. As I said, the objective of it is to ensure that we extract synergies from across the contiguous mine sites that we have in the Hunter Valley. What it will do is allow us to produce a blended suite of products, optimise the existing infrastructure that we have in the Valley and provide additional margins.

It will be a progressive project that will unfold over the next few years, but we expect to see it ramp up from 2015 and into 2016 as we make the necessary changes to deliver that additional capacity, to deliver the blended product through to customers, and also make sure that we extract the synergies from all of the different sites.

SAM WALSH:

Thanks Harry. Another question in the room? We have one over here.

QUESTION:

Good morning. The sustaining capex, we are looking at a fairly steady number going into the forward years but we have got a growing production profile. Is the implied benefit of reduced intensity in the sustaining capital coming through? Is that how we maintain a flat absolute spend?

SAM WALSH:

I think that the answer is yes, but Chris do you want to make a comment?

CHRIS LYNCH:

In essence, yes. I think the other thing that has happened is that a dollar today probably buys you a little bit more than what it has in the recent past. There's a lot of heat that has come out of that market, contracting rates are very competitively bid these days, and again it's a number that will have minor flex around the margin. But we have got a fairly stable view of where we are and there is a lot of work going into making that spend more productive as well.

SAM WALSH:

Another question? Okay. Anything on the phone? Nothing on the phone.

But perhaps with that if I could thank you all for being here and thank you for being on the phone line. Look, we really appreciate your interest; we really appreciate your support. This is a great story.

Now I know media and other people sort of try to find a quirky thing to write up on, but just keep coming back to the fundamentals of what we're actually doing here, the business and the value that we are adding here. I made the comment when I came on as CEO that I am very focused on shareholder returns – that has not changed. You are the people that we are running the business for, you are the people that we intend to deliver on our promises for, and that's physically important.

Now some people have sort of written about this, and they said, yeah, okay, the turnaround is good, what's being delivered and what-have-you. Let me assure you that you do not turn around a business in one or two years, it takes longer than that.

Now that's actually good news because it actually means there is more to come, it actually means that there is more focus, there is more delivery ahead of us, and that's why Chris and I are very excited at the prospect of continuing this journey and taking it forward because we can see the promise that this business truly offers. It truly provides us a pathway for this to be a world-class business, not just the best mining business.

Let me, just in closing, again re-emphasise - this is going to be a sort of broken record - this organisation is committed to materially increasing our shareholder returns. So don't believe whatever nonsense you might read in the paper where somebody said Sam

paused as he said it or whatever, let me be absolutely clear, this is what management and the Board are aligned to deliver to you. Thank you very much.

(End of Q&A Session)