



Rio Tinto Investor Seminar, London
Transcript of 1st Q&A session

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QUESTION:

It is a question for Vivek. I was fascinated that you think we need new greenfield iron ore mines. Could you talk a little bit more about that?

VIVEK TULPULE:

The depletion within this industry is going to happen at quite a pace so, for example, we have got about 1.9 billion tonnes (of production) of consumption taking place today and that's 1.9 billion tonnes of less reserves in the ground every year let's say for the next 10 years that's 19 billion tonnes fewer reserves and they have to be replaced and over time of course when we look at the project pipeline that's out there, and I showed you the WoodMac pipeline for example, then we will start to see some greenfield coming in.

QUESTION:

So just to push you a little bit on this, so greenfield mines fine, but do we need new greenfield systems or do you thinking the existing systems can supply?

VIVEK TULPULE:

That's a question I think we'll need to see pan out. Rio Tinto, Vale, BHP, FMG have very substantial products available and there is of course Africa. There is enormous scope. I think we'll have to look at it, the range of costs in that system.

So you start off with some development costs down at say less than \$100 a tonne, all the way up to \$200 a tonne where we need to develop an entirely new system or open a new greenfield mine as part of an existing system and develop a lot of extra infrastructure.

Where that will go in the future will depend entirely on the amount of demand that's out there so it's very hard to predict to predict precisely. But yes, if there is a lot of demand and you'll see prices a lot higher and that will incentivise about some of those higher cost systems to come in.

QUESTION:

Two questions on the iron ore commentary and guidance, if we could dig in to some of the details on higher costs we are seeing in opex and sustaining capex, to what extent is that permanent? Specifically around the sustaining capex, is it related to this ongoing higher intensity of maintenance that you mentioned?

The second question is around how do you consider a 70 Mt Phase Two for Koodaideri in the context of port capacity? Should we think about an increase in port capacity or does it fit within the overall value over volume strategy?

CHRIS SALISBURY:

Look, in terms of the sustaining capital and the ongoing nature of it, we are approaching a phase where we have a generation of assets that needs renewing. So I wouldn't say that's permanent but for the next couple of years we have increased guidance – existing guidance – of around \$1 billion to \$1.5 billion, we will continue to update that guidance as we go forward. But it is certainly cyclic in nature.

As I said, if you think about some of our assets, the Tom Price concentrator, it has been with us for 50 years. It needs a bit of a birthday so you need to think it in those terms.

The second question was on Phase Two Koodaideri. Look, Phase Two, we do have options for deployment up to 70 Mt and we will work that through. In terms of is that additional capacity, you should think about that as part will be sustaining because we have other mines expiring and some of it would be part of it, and we haven't yet determined exactly what scope it will go to, and that will be a value over volume decision.

I think really what I was trying to magnify there is how important the Koodaideri hub and the flexibility of that hub once established gives us and will be a very long-term asset for the future with lots of options.

QUESTION:

But specifically does that Phase Two also consider a potential increase in port capacity?

CHRIS SALISBURY:

Yes look, the port capacity we have actually run the ports already at 360 Mt. We think there is actually optionality for greater through some minor de-bottlenecking, but we are not studying additional port capacity today.

QUESTION:

Two questions on iron ore, one on the market and then one on the operations. Just on the market, it has been the one area of upside surprise in terms of Chinese demand, so do you believe the figures and, if not, what do you think the real demand is for this year and can you give us an outlook for 2020?

Then just on operations, on that replacement capex intensity, what does it look like after 2022? Is \$1.5 to \$2.0 billion the go forward rate for that? Thank you.

SIMON TROTT:

Thank you for the question. Firstly on the market, as you say, 2019 we have seen very strong underlying steel demand and that's translated into a very solid price environment through this year. We are continuing to see that into the back end of the year you have seen some moderation in prices obviously as the supply side has normalised but conditions in China in terms of underlying steel demand remain strong we are not seeing unusual build up in stocks and certainly engaging with customers we continue to see that demand picture supported into a back end of the year.

I am not going to give a forecast in terms of pricing etc into next year, but certainly in terms of our business and our engagement with a customer we are continuing to see that underlying demand remains strong, there's some moderation in some sectors and in other sectors we are getting some of I guess the tailwinds, some of that is stimulus and some of those additional both infrastructure and construction projects start to come through. So into next year we are continuing to see pretty solid demand and certainly that's the feed we are getting from the market and our customers.

J-S JACQUES (Chief Executive):

If I may add, I think what's important for us is, as Vivek explained very well, would be the increase of scrap usage in China, so there is a level of uncertainty about what demand is going to be in China going forward and we fully acknowledge it.

What is important for us is to make sure we have the best product, the best quality of service, the best relationship with the customer to make sure that if the market was to soften we could protect or even increase our share of China, protect our market share. And that's why we have started to change, I think Simon gave you an example, inventory at the port, we are doing some blending, we are doing some partnerships with some customers to make sure that under any kind of market conditions we will be very well placed and extract full value from our product into China.

So, at the end of the day for us it will be about having the best product, the best relationship with the customer, the best supply chain, including with some of those small mills in the north of China, in order to make sure that we maximise the value of our production out of the Pilbara or out of Canada going forward.

Do you want to give the example about the blending?

SIMON TROTT:

I touched on it in the presentation but one of the things we are trialling, and it is a trial, is that blend of SP10 and IOC. I think the broader point is with a diversified product portfolio and really deep relationships with customers it is about the optionality that you can build within your book because clearly regardless of what the demand levels are customers' businesses continue to evolve and we need to evolve our business as well.

Furthering that understanding with customers, engaging with them in different ways, like some of the technology examples that I spoke about earlier, you can really make sure we are setting up our business to really meet their needs in different ways and, as I said, that generates value for us and for them.

What there a second part of your question on capital intensity?

QUESTION:

Just replacement capex beyond 2022, is \$1.5 to \$2.0 billion the new number?

JAKOB STAUSHOLM:

So you are asking for guidance beyond our guidance. Basically we are not giving guidance beyond 2022, but what I can tell you is that we are not aware of any material changes further out there. But obviously growth capex are subject to individual investments but the sustaining capex is the more stable factor.

CHRIS SALISBURY:

Jakob, I would just comment that you also need to think we have got some renewal ahead. When you do renewal, you build a new mine, you actually get the trucks and the assets if you like for free, so then that gives you another 10 years of asset life, so it is quite cyclic.

J-S JACQUES:

I am not sure “for free” are the right words. You and I may have a discussion at the coffee break.

QUESTION:

Just a question on this SP10 product, if you can give us a sense of your expectation of the 2020 volumes of that, and maybe just to give us a sense of what the EBITDA per tonne is, the slide you showed us what the average for the first half of 2019 and what that would be for SP10 on its own?

Then just a second question, I’m curious as on the slide you talk about electrification, and you obviously list nickel and cobalt as part of that. You are sort of saying you are looking at opportunities to explore in this market, so I am just curious, if that includes nickel and cobalt options? And then maybe just an update on what is going on with Jadar if you can?

J-S JACQUES:

Maybe we will start with the second part of the question. Bold, if you can pick up this one and then we will come back to yourself, Simon, and Chris.

BOLD BAATAR:

Thank you for the question. As part of Rio Tinto Ventures we are evaluating battery materials and are screening opportunities out in the market, and it does include nickel. Obviously it is very difficult to find. At the end of the day it is about creating value so you need to make sure that all the projects meet our return thresholds. So we are out there, we are screening them, but at the moment we are not pursuing any aggressive acquisitions.

Secondly on Jadar, we have a pre-feasibility study which means that we are studying a range of options. We are actually moving into a feasibility study in the second half of next year; at which point after that the Board will decide whether to invest in the project after the feasibility study is complete.

SIMON TROTT:

In relation to the SP10 question, it is a product we introduced in 2014 and we have sold it periodically through that period. It is one of the products that we placing through our portside trading capability and in fact reaching out to customers that otherwise aren’t customers of our Iron Ore business. That gives us some additional optionality within our book. We are targeting those customers, particularly in the north of China, that are less sensitive to phosphorous levels. It is a product that we bring into the market and take out of the market depending both on market conditions and also on operational factors, so it gives us additional optionality there. We don’t give forward guidance in terms of the volume of particular products. You would have seen we have done a little bit over 10 Mt in

the year to date of SP10 and we will continue to place that into the market depending on market conditions and where we see value for it both for ourselves and for our customers.

QUESTION:

Maybe just to press you on that, Chris was saying it is obviously helped to sustain the Pilbara Blend, so is that the implication that over time you will probably see that share of the SP10 grow and Pilbara Blend decline over time?

SIMON TROTT:

I think the point Chris was really underlying was Pilbara Blend is the flagship product in the customer, it the base load of the China steel industry, and we've deliberately set it up so that it meets the average mill requirements in terms of its specification.

So there is great value in making sure that we maintain both the quality and the consistency of the Pilbara Blend into the future and that benefits our customer and it benefits us. I think that was the point Chris was really underlying, was just the value of the Pilbara Blend product.

QUESTION:

One question on the recent MOU we signed with Baowu and the Chinese University, can you talk us through a bit more about what that's about and actually do we expect more similar partnerships Chinese SOEs or others going forward?

J-S JACQUES:

Simone, if you can pick it up. You were on the picture of signing the MOU, so you should know all the details.

SIMONE NIVEN:

Thanks very much for the question. We are really excited about the partnership. It is a breakthrough partnership between Baowu, who is our largest iron ore customer, with Tsinghua University. I am not sure how many people in the room know of Tsinghua: so 50,000 students in Tsinghua, leaders in STEM, but also most importantly in the context of this partnership they are also leaders in climate change.

They are experts in climate change research but also policy. So us joining forces with Tsinghua, Baowu and ourselves, but also importantly CISA are also sponsoring which is the peak industry association, steel industry association in China.

So it's a breakthrough opportunity for us, it is early days, we have just signed the MOU in September. We have a dinner with them on Monday and a Steering Committee on Tuesday.

The opportunity really is to look at sharing the technology opportunities, really look at carbon reduction across our supply chain, which is one of the key parts of our climate change strategy overall, so a great opportunity for us. As I said, early days and we are hoping to advance that in the next few weeks.

J-S JACQUES:

Particularly what we want is to connect the dots between the iron ore in the Pilbara, in Canada and potentially the Automaker in China. That's what we are trying to do. It's across the entire value chain and it is not only about emissions, it is about the entire environmental footprint of this system. That's what we are looking at and we know it's going to be a combination of implementing existing technologies, developing new technology and a policy framework.

Let me just explain about Tsinghua, how Tsinghua is important in China and some people would regard it as the Harvard of China, that's what it is, and if you were to do any kind of benchmarking you will see that most of the leaders in China are coming from Tsinghua.

So for us to be able to get Tsinghua on the MOU was a massive breakthrough and gives us some confidence that we have a strong position in China but we need to move to the next phase.

QUESTION:

You recently announced a strategic review of your smelter in New Zealand. Can you give us an update of your plans there?

J-S JACQUES:

The review is underway, Alf?

ALF BARRIOS:

Thank you for the question. Last week we announced that we are putting our asset in New Zealand under a strategic review, but before I go into a bit more detail I just want to say that it is an asset that is very well run, as our Pacific assets are.

It is one which has operational metrics which are among the best in the world and it produces low-carbon high-purity aluminium. But unfortunately it lacks internationally competitive both power and transmission costs. So we have been working now, as to the announcement, with both the government and the power supplier to find pathways towards making the smelter a viable ongoing business.

The review will include all options, so we are looking at curtailment and closure as well, and the review will be completed by the end of 1Q. I am not going to speculate on the outcome of the review, but I must say that the current situation is not sustainable.

J-S JACQUES:

We took this decision with Alf and the team to review very seriously and we will fight hard to protect this asset. Maybe some of you have some Apple watch that I don't have, but if you have an Apple watch you may have some aluminium coming from NZAS – and I'm not joking!

There are people, lots of communities relying on this one, so with Alf and Kelly Parker in Australia we will fight hard, very, very hard, to find a sustainable solution to this problem. But we have, as Alf said very nicely, we have a problem and we are working hard on this one.

QUESTION:

I have a question for Vivek, if I could. So steel demand growth in China it looks like it is somewhere in the 5-10 per cent range this year depending upon which figures you want to believe and if you believe the 5 per cent then last year was even stronger than the 10 per cent we kind of mostly have in mind, so steel has been very strong and yet copper and aluminium demand has been slowing so this year you have got maybe steel at maybe 8 per cent, copper and aluminium 1 or 2 per cent, which is a so directionally that's unusual and the gap is very unusual, so I'm interested in what you think might be going on there?

VIVEK TULPULE:

Steel production in China approaching a billion tonnes and I think you may have heard somebody say that in the past. There are two parts to that obviously. Simon did talk about the growth in demand in the construction sector and the infrastructure sector and that's one important factor.

The other important factor, and this is a slightly more data-oriented factor, is that the reforms that have taken place in China have brought a lot of production that was once let's call it 'off-the-books' or 'unreported' is now reported because that capacity has now been transformed, shutdown in many instances, and it has been taken over by legal producers and so has now moved into the reported category.

So the increase in Chinese crude steel production is partly this phenomenon that Simon mentioned, but also partly a data factor which has led to an increase in the underlying level of reported crude steel production.

The question you are asking as well about why we are seeing increases in steel but not in the others, the first part of it was this data issue so there is a point about which the baseline is important, but the second part is that we have seen a lot of construction taking place, the first phase of it, it is very steel intensive. It's the subsequent phases that are more copper intensive, as the lines go in and at the same time the aluminium windows go in, the tiles go on to wall which requires titanium dioxide, so we would expect to see some of that demand come through a bit later on.

J-S JACQUES:

I think, Simon, if you would say a few words about the impact of the automotive industry on aluminium, we have been impacted across all geographies so we are we seeing it through our order books as well which would explain the difference between the iron ore and aluminium and copper as well.

SIMON TROTT:

In relation to autos, as touched on already, we have really seen that soft, in China but also elsewhere, a bit of a mixture of underlying demand conditions but also specific policy responses to some of those subsidies and other government measures have been withdrawn, and so that's exacerbated what was a bit of a cyclical slowdown anyway.

We will also see a bit of a recovery, both as some of those policy measures go back in and purchases begin to resume and so that will have a bit of upward pressure both in terms of aluminium but also the other commodities that go into it as well.

Clearly that underlying trend around light-weighting and the greater use of aluminium in auto continues, it is certainly one of the things we are very focused on in our aluminium business and with VAP is around really making sure that we continue to meet those

customer needs and innovate in terms of our products to be able to interface with those customers.

QUESTION:

A couple of questions maybe just for Chris on iron ore. Just going back to January this year before the disruption you had guidance for 2019 of what was it, 338-353 Mt, so it feels that the guidance for 2020 is not fully recovering the disruption that we have seen this year.

So I was just wondering is it that there are still some lingering issues that are holding back the iron ore shipments, and now we see the SP10 coming to the fore which hasn't really been talked about before, was it more value over volume and a kind of view on where prices and volumes are likely to be next year?

Really a second for Vivek as well, I am thinking about if we are in an oversupplied iron ore market next year you mentioned about the Chinese domestic producers and their cash costs sort of supporting the prices, a sense as to where you think that support would kick in?

CHRIS SALISBURY:

Thanks for the question. If you remember, if you take a step back, we also had a target of achieving 360 Mt run rate through the system by the end of this year in fact. What our experience after the recovery for the first half, we had a very strong quarter, we were able to push the system reasonably hard and really just test that assumption.

Despite the fact that we have peaking capacity around 360 Mt we do have a tail of production that's lower than that. Where is the main source of that constraint? It is really through the plants themselves and that's just a variety of factors, cyclic maintenance, materials handling variability, and that's what has really caused us to reassess the capacity. So it's not a lingering issue from the past, it's actually just our ability to test the system.

Now look, we haven't stopped trying of course, we in fact crept capacity through the plants this year and I gave some examples, a couple of million tonnes, and we will continue to creep productivity. We have got a record of doing that and guidance next year will flag that, up to a 5 per cent increase on our existing guidance 320 to 330 from the mid-point.

But really what we are now saying to achieve that step-change in capacity we think we are going to need additional change and that will come with Koodaideri. We are already building the plant, if you like, we don't see the point of sinking a lot of capital into de-bottleneck plants. I am sure if it's minor capital we will look at those things on their merits, but really the thinking behind all of this.

J-S JACQUES:

Chris, do you want to say a few words about drivers, it's wet products.

CHRIS SALISBURY:

Yes, and as we continue to test our plants with more and more wet material in particular, and we do find the nature of the variability below water table mining material is one of the things that we need to be able to increase the robustness of our plants to manage. You

know at times we can run very, very fast rates but then you go to an area say where there is a lot of clay and it will slow the system down, so it's part of that tail that we are seeing.

So some of the work, and actually Steve will talk to us and some examples later about the work we doing using data and science to improve that, but we still think we are going to need a step-change to achieve the 360 Mt name-plate.

J-S JACQUES:

Thank you, Chris. Vivek, you can't give a price by the way.

VIVEK TULPULE:

Well no, I don't think we've said the market is going to be oversupplied next year and certainly not something we're flagging. Look, I think you are right, it is the Chinese high cost producers that will ultimately set the marginal cost and along with of course some high cost Australian producers and others.

Where the market ultimately sits will depend on a whole range of factors, uncertain macro-economic conditions and uncertain on a range of supply-side factors. As J-S said, I think your question was put very cunningly, your question of what is next year price? And I don't think we can comment on that

J-S JACQUES:

Simon, do you want to say a few words on how see the capacity in China reacting this year because we have seen a pick-up?

SIMON TROTT:

Yes, we've seen around about 20-25 Mt in terms of that domestic capacity. I think one of the interesting points this year has been it's been a bit less responsive than we have seen in the past and that's a range of different factors obviously, some of the environmental restrictions, some of the permitting points I think have flowed into that and, as we look forward and as I think Vivek touched on in his presentation, longer term some of those costs continue to elevate particularly as some of those mines turn underground.

So that really goes to your long-term positioning in the market and obviously as an incumbent producer on the left-hand side of the cost curve that is going to drive pretty healthy margins as we go forward.

J-S JACQUES:

I think that a very important point. The iron ore prices we enjoyed in Q2, lots of people would have expect a significant increase of production in China and remember it was about 5 years ago they did produce up to 400 Mt. We didn't see it. So that gives us a sense of the cost position of most of those mines. We could not even with a pretty favourable iron ore pricing environment, could it re-start above and beyond the environmental issues.

(End of Q&As 1st Session)