Rio Tinto 2018 Full Year Results
Q&A transcript

27 February 2019

J-S JACQUES (Chief Executive):

On this note we will open the Q&A Session. We will start with a few questions here.

QUESTION:

Some further elaboration on the OT re-scheduling, if you could. What exactly are you experiencing and when do you think you will be in a position to know what are the conclusions of that review?

Then the second question was to Jakob's point about being able to act counter-cyclically and having the balance sheet. Clearly that depends on where you think you are in the cycle, so perhaps a bit of elaboration on it, where he thinks the industry is with respect to that? Thanks very much.

J-S JACQUES:

It's your first day, Jakob, so go for the second question and I will deal with the first one after.

JAKOB STAUSHOLM (Chief Financial Officer)

Excellent, thanks. Look, I was trying to say it in a fairly humble way because obviously you only know afterwards whether you are acting counter-cyclically. But I think it has been fair to say that the last couple of years have been good years and in that period of time we have not overspent on capex and we have divested assets at good values, so at least in that perspective we have actually acted counter-cyclically. Time will tell whether we can continue to do so. I don't dare to tell you where we are in the cycle but the last 3 years have been pretty good here.

J-S JACQUES:

On the first question on Oyu Tolgoi and where we are in the project today - remember 5 years to build the infrastructure and 7 years to ramp it up – we are mining in the orebody as we speak.

The quantum of geo-tech data that we have access to is very significant and we need to go through a process of updating the model to make sure that the infrastructure is in the right location on the back of the geo-tech data that we have. It is absolutely a normal process, it will take a few months to do so. The good piece of news is we know that the cave is going to cave.

It is already a good starting point in block cave to know that the cave is going to cave. So the cave is going to cave and the question is not to cave too quickly. It will take a few months and we will provide you an update. That's is where we are. We updating the geo-tech model now and we thought it important to inform the market accordingly.

QUESTION:

Just a couple of super quick ones, first, on the mine-to-market productivity. You talked about how you're achieving cost savings but then they are getting chewed up with inflation and it does seem that you are now guiding towards higher costs. So should we actually think about seeing that $1.5 billion on the bottom line or is it now the case where we are kind of running to stand still when it comes to costs?

JAKOB STAUSHOLM:

Look, clearly we experienced inflationary pressure last year. I think it's slightly different what we are going to experience this year. Last year we saw very significant increases in energy costs and raw material prices. We hope to see less of that this year but there are inflationary pressures particularly in the areas where we operate, in Western Australia and Quebec.

But, on the other hand, I think it is a fairly bold target we have set ourselves on improving the run-rate of the mine-to-market by $600 million this year, so we will fight against inflation and hopefully do better than the cost pressure, but time will tell where the inflation will end up.

QUESTION:

So should we see $1.5 billion on the bottom line?

JAKOB STAUSHOLM:

Yes.

J-S JACQUES:

Yes.

QUESTION:

Hi, J-S and Jakob, a great result and the strategy is working.

Two questions from me and first of all for J-S, the Pilbara. Looking at supply side issues in Brazil at the moment it appears that you are the only mining company that can materially increase volumes over the next 5 years.

You have got 400Mt of car dumping capacity and I think 450Mt of port capacity and you are creeping your shipments by 10Mt possibly in 2019. So while maintaining the value over volume approach, with your Autohaul® fully operational and Koodaideri coming on line what you do think you can creep your volumes to beyond the 350Mt?

The second question is probably more for Jakob on the capex profile. Jakob, I'm just noticing that there's a big step-up in development capex in 2021. Correct me if I'm wrong, but OT should only be about $1.5 billion of that purple component, so I'm just wondering how much is in there for Jadar and Resolution? Thanks.

J-S JACQUES:

I will take the first question. But we are pretty lucky today because we have got Simon Trott, our Chief Commercial Officer here. So what are we going to do to extract more value from the market in iron ore, Simon? The floor is yours and thanks for coming by the way.

SIMON TROTT (Chief Commercial Officer):

Thank you J-S and good morning to all. Firstly, obviously an incredible tragedy in Brazil and an incredible human tragedy that reminds us all of just the gravity of our roles and at an industry level. Obviously in the market, you have seen a reaction to the events in Brazil, the guidance we have given today of 338-350Mt.

We continue to work really closely with our customers to make sure they are supplied with the products they need for their business and the quality of products that they need. We will continue to look for opportunities with our customers in partnership with our customers but the guidance at the moment is 338-350Mt and absolutely a focus on value over volume and that EBITDA margin.

J-S JACQUES:

Thank you, Simon. The other question on capex?

JAKOB STAUSHOLM:

There was a question on capex and, yes, we are trying to progress Resolution and Jadar as fast as possible, but that's not the reason. We announced late last year the Koodaideri project and that's one of the biggest reasons why you see an increase. That's a project that we can actually push forward very fast.

QUESTION:

Jakob, just to clarify that, I thought Koodaideri was included in the sustaining components so I'm just wondering about that big step-up in the purple component in 2021?

JAKOB STAUSHOLM:

No, it's replacement, what you call replacement growth capex.

QUESTION:

Thanks for taking my question and maybe just to follow up on what the previous questioner was saying there. With OT, I think you have pushed out the time to steady state by at least 6 months so you are going to go away and review things now. What's the chance that the $5.3 billion capex really moves up significantly?

I thought the process was probably to go from OT over to Resolution, with things as they stand at the moment, is that probably still a sequence that you can do or would you look to do potentially both at the same time?

J-S JACQUES:

The question about OT and then Resolution doesn't change whatsoever and in that sense we have a pipeline of options around copper. The primary focus is OT at this point in time but we've got, as you mentioned, Resolution and we are progressing the infrastructure and progressing the permitting process and we should have the EIS sometime next year.

But in addition to that is including working closely on the potential options we have in WA called Winu - which is early days – so we will optimise the pipeline. We are pretty bullish about copper, as you know, the question is more about delivering the right level of growth and meeting the market's requirements from that perspective.

On Oyu Tolgoi, the team is doing the work. Remember there are two or three important components when you look at Oyu Tolgoi, which is really world class.

One is the element around the infrastructure and the bulk of it is being built and most of the orders have been placed, the final cost estimate will be prepared and was supposed to be prepared this year so we will have a better sense, so let's see what comes out of it.

The second element is really about building the mine, the infrastructure, the draw-point, the extraction drive and that's clearly on the back of the information we have in terms of geo-tech that we need to look at. Where do you put the infrastructure? Where do put the extraction drive? Depending of where the faults are. Where do you put the air ventilation? Where do you put the ore passes and so on? In order to make sure that as and when you initiate the cave then you have the right ground conditions. The work is underway.

Anyone who has got any block cave technology or experience should know that it happens pretty often, so when you have the geo-tech issues you have to upgrade your model and that's what the team is doing and, as I said, sometime during the year we will look at the market accordingly. But, as I said, we have started the block cave and it is going to cave.

QUESTION:

Can I just follow up with a question around IOC? There is a lot of focus on the Pilbara with iron ore and creep capacity. Is there any potential, given that IOC supplies into the US market and so does Vale and it's a pellet and concentrate producer, can you push that even further as you recover from the strike or would you see this as a better potential opportunity to perhaps exit that asset as you have tried before?

J-S JACQUES:

I think that's a very good question. The demand for the IOC product is very strong as we speak for the reasons you have just mentioned and we'll max out the production of IOC and we should see an uplift year on year because, as you mentioned, we had the strike last year.

We have reached a multi-year labour agreement and therefore we should not have this issue at all this year and we should see an uplift, which is one of the reasons back to your question, Jason, about the uplift in terms of mine-to-market for this year compared to last year.

There are two elements that people should keep in mind. One is the fact that last year in minerals we had a series of issues, the strike at IOC for example, and the second piece is that three of our furnaces were down and we are going to re-start a couple of them this year, so year on year you have an uplift in terms of volume.

The other thing to mention at this point is that last year we were highly impacted by the cost environment, the price/cost squeezing in aluminium because of raw materials and today we don't see further increase in terms of raw materials. So to your question, Jason, when you look on year on year that gives us some confidence about the $600 million of uplift we should get this year.

QUESTION:

Just on the projects again, if even Rio Tinto cannot deliver with all the knowledge and skills on a project like this does it lead you to review first of all greenfield/brownfields projects and Rio Tinto's desire to do them, firstly, and secondly, do it lead you to review how much existing assets are worth that may or may not be out there to buy in Copper specifically?

J-S JACQUES:

Our view has not changed. Ideally if you have two options, one is a brownfield and one is a greenfield you will go for the brownfield first. There is no change whatsoever. That's the first thing.

The second thing is our strategy has not changed in terms of M&A and, as Jakob said, we will keep a watching brief on it and if there is a case to look at a transaction we will look at the transaction but at the end of the day it is, as you know, about creating value for shareholders.

Today when I look at our organic pipeline we will deliver around 2 per cent per annum growth in the next 5 years which I think in the context of GDP of 2.5 to 3 per cent it's pretty okay. At a macro level if you step back, if you grow between 2 and 2.5 per year then you fundamentally maintain your market share in terms of copper equivalent, so there is no change in strategy from that perspective.

QUESTION:

And secondly on Aluminium, clearly it looked for a moment that things were going to improve. It all ended in tears again and went back to the disastrous situation that we were in, in 2016. You have always been a bit sceptical about Aluminium and you said it is going to be medium term, but has this sudden turn for the worst changed your view again about the optionality in that business?

J-S JACQUES:

Do you want to pick up this one, Jakob?

JAKOB STAUSHOLM:

The Aluminium business is right now having a cost squeeze, there's no doubt about that. We do go back to the basics in terms of further production creep, improving the productivity and really managing the costs very hard. You are absolutely right, the profitability was kind of declining in the second half of the year and started off on a difficult setting, but Aluminium is the product of the future.

We really do believe in it longer term and we have the best portfolio out there so it's a matter right now to take the opportunity and optimise the business we have while we are facing short-term difficult trade conditions.

QUESTION:

A couple of questions. Going back to iron ore, are you capped at 350Mt this year because of Autohaul®, so if the market's there do you think there is potential to go beyond 350Mt?

Also, we have now had a month or so since the tragedy – I am sure you have been running the numbers – what do you think the impact on Brazilian iron ore supply is going to be? Obviously it is still a kind of moving feast but what's your initial sense?

And maybe for the other J-S, spot free cash flow, where do you think we are sitting at the moment?

J-S JACQUES:

I will pick up the iron ore one and I'll answer in a slightly different way.

I think it's important to look at the global iron ore market and there will be an industry response – I'll come back to Rio for one minute afterward. One of the key questions we are watching very carefully with Simon and his team in Shanghai is the risk from the domestic iron ore production in China, because remember the part of the system that was impacted because of this tragedy in Brazil is the low grade part – it is mainly the low grade and not the high grade, so there could be some substitution here.

If you go back in time, as you know - what was it 4 or 5 years ago, there was around 400Mt of production in China; it dropped to 225-235Mt last year. It's winter now, and I know it doesn't look like that in London today, but it is winter in China and so the whole question is going to be coming out of winter are some of the smaller mines in China going to re-start.

I'm looking for base case, but it's easy to see a scenario you have that if you start from a baseline of 245Mt last year a potential increase by 25Mt this year. That's one element.

To answer your question here it's a difficult one to say what can be the net-net impact in relation to Vale because there will be a response from the market.

As far as Rio is concerned and I think Simon has said it, we will look at all kind of opportunities to make sure we can meet the requirements of our customers. But what is important for us is to maintain the quality of our product. Remember the Pilbara Blend, and we are talking mainly about China here because that's the bulk of the market, the Pilbara Blend is the reference product in China and it's a blend on the back of a system of 16 mines.

The question is not only about the railway it is about how can you maintain the quality of the blend because we extract a premium for this product, so we just to be careful about not downgrading the product and creating some issues further down the value chain.

For sure today we say 338-350Mt. If we can be at the upper end of the range we will go for it because I think in that context producing the right product at the right quality with the right grade and extracting the right premium creates value, and that is why we are going to do it.

We ask our people, to say, look at your plans, look at your maintenance plans to see what you can do, but I am very conscious that we run the Pilbara for the long-term and I don't want to make short-term decisions that could cost us a lot.

It's a big system and you know, you have been there, 16 mines, 1,700 kilometres, 4 ports, we move one million tonnes of product every day. It is easy to feel good for 5 minutes but you have a problem after, so for sure we look at all opportunities to extract more value from the market but at the same time we have to look at it in the context of a multi-year plan.

QUESTION:

Yes, if you look at your guidance for 2019 what would you estimate spot free cash flow to be at using the kind of prices from today or yesterday?

JAKOB STAUSHOLM:

That's your job and your models, but the guidance I can provide you. I mean you've got your production guidance and you can see right now if you look at last year we had 19 per cent Return on Capital Employed. We are coming in with a very strong business and yes, right now, we have seen a hike in the iron ore price but who knows how long a time that will carry through and that's where you have to make some assumptions.

But obviously looking at last year from a strong point, take away the divestments that you deal with on a kind of ad hoc basis, the underlying business is strong, we are coming strong into the year with the increased prices from iron ore, and then I think you have to do the exact maths yourself.

QUESTION:

Just a question on further asset sales, you had the climate change document you put out and that was pretty interesting, but with OT obviously being powered by coal do you feel that the portfolio needs further adjustment as that comes online with a coal-fired power station or are you sort of happy with the bulk of where you sit now particularly with those carbon emissions out of IOC and Pacific Aluminium? Thanks.

J-S JACQUES:

Let's be clear, I think the bulk of divestments are behind us. Now am I ruling out any further optimisation of the margin? Never. Because it is all about value at the end of the day, but the bulk of divestments are behind us.

But as I said today the important thing is we are in a good position, we have a strong balance sheet, we have a world-class asset portfolio, we have increased fundamentally our Return on Capital Employed by 10 points, so we don't need further divestment to deliver on our promises which is a superior returns to our shareholders in the short, medium and long-term. That is one of the key messages we are conveying here.

Then the question on OT and the power station. A couple of points, today we are buying the electricity from China in Inner Mongolia which is coal-fired powered. That is what it's about and that's the first element.

The second element is when the investment agreement was put in place in 2009 one of the clauses is about, and you can understand from the government's standpoint when you are sitting on a massive coalfield, is to have the fire powered station in country.

Remember the last fire-powered station that was built in Mongolia was probably more than 50 years by the Russians at that time. So you can understand that if you are in this country and you really want to uplift 3 million people out of poverty at some point in time you want to have a coal-fired power station in the country.

However, what the team is looking at, and the government is supportive, is to have ideally a hybrid solution where we have an element of coal-fired in order to deliver the very best load, very low cost source of power. Remember with the underground we are going to put people a thousand metres underground and I want to be able to extract those people if there were to be any issues whatsoever.

As I said, we will have a hybrid solution, there will be an element of coal-fired and there will be an element of renewables that is being worked out. The government is supportive on this one, so in that context do I feel uncomfortable where we are? The answer is "no".

QUESTION:

Look, I will just try again on iron ore.

Is your system fully balanced at 360Mt by the end of this year in terms of mine, port and rail once Autohaul® is fully up and running and running efficiently? I think that is what you said before, is that still the case? It would be good to see whether you could confirm that.

The second one is more on the market. If we have just lost 50Mt out of the market, I think you said that 245Mt was the domestic China production from last year, I am just wondering how you would see that gap being filled in terms of de-stocking of inventory, potentially more scrap usage and whether you had a surplus in your base case to supply demand model for this year anyway? Thanks.

J-S JACQUES:

I think I am going to have to repeat what I said before. I can't make any comment about how the competitors are going to react; you know it as much as I do. If you look at the current shipments of Vale they have not dropped in any fashion so they are going to run the stockpiles, as an example. They've said in the past, and I read the press as you do, that they have some spare capacity as well, so I think it is one question you should ask Vale. That's one aspect.

The second aspect is that there are lots of other players. The one I have just highlighted is the Chinese because it is pretty easy for them to shift from 245Mt back to, I don't know, 270-280Mt. But we will know the answer only when winter is behind us in China, and that's the only thing I can say.

Now in terms of your question on iron ore, we had a seminar last year in June when we took some of you on-site and we were very clear at that point in time that we should be balanced in terms of run-rate at the end of this year, around 360Mt. The position has not changed so I can only repeat the same thing here.

The guidance for this year is 338-350Mt and, for sure, we will look at all opportunities to meet the market requirements but, as Simon said, it is important that we don't downgrade the quality of our product. We will explore all opportunities to help our customers but we are not going to do anything stupid, that's what I'm saying.

QUESTION:

If I may, one follow-up on PacAl? You have been selling assets or smelters in Europe. PacAl is still not on this list. Is it some sentimental value or are you just waiting for a better offer or better moment to dispose of it because I think in the second half of last year they struggled to basically deliver any profit?

J-S JACQUES:

I don't know which list you are referring to because you know my policy has never been to comment on any asset for sale. So you have a list; I don't have it. If you can give it to me that would be great, but I don't make any comment on the market speculation and you know that.

Now is somebody wants to buy PacAl or any other assets come and talk to Jakob, he can give you his business card and if the money, the cash, a bank guarantee is in order at this point in time, we will have a conversation. You know the answer on this one. Let's move to the next question. Thank you.

QUESTION:

A question on internal returns not capital returns. So if we look at the divisions ex-Iron Ore, return on capital last year was sub-10 per cent. You have very helpfully given guidance up to 2023 for the growth and the mine-to-market. How should we think about return on capital evolving in those divisions? Is a sub-10 per cent return on capital acceptable for those divisions and what is an appropriate hurdle rate?

JAKOB STAUSHOLM:

Let's be clear, we try to give guidance on the things that we can control and of course a lot of the profitability will depend on the prices. But if you look at it and I was talking about Aluminium just before, you are right, it is just below double-digit Return on Capital Employed last year but we have opportunities to further improve it and if you look longer term as having good demand.

If you look Copper & Diamonds business then the return is actually quite attractive but right now there are some projects that are under construction and do not produce anything yet so it's less meaningful to look at that. It actually looks pretty attractive the picture there.

The third area outside Iron Ore, is Energy & Minerals. I think you would have to recognise that it was not the best year last year. We had guided for higher production this year and therefore we also expect higher profitability this year. So all in all I remain quite positive about the whole portfolio and not just the high profitability Iron Ore.

J-S JACQUES:

I would like to add to what Jakob said, the question at the end of the day is about portfolio, do we believe in a diversified portfolio? The answer is "yes". The company has been around for 147 years and I am not saying that every commodity has had their time under the sun but very close to it. So in that context Jakob is absolutely right.

Some of the performance of some of the assets is not there and therefore we are putting the management under significant pressure to turn them round, however, safety remains priority number one. There will be no short cuts on this one.

But here it is a question about long-term and when we do the strategic review and the attractiveness of our portfolio we look at long-term fundamentals, we look at long-term returns, so our view on capital employed in the long-term has to be at the right level.

Do we believe that our aluminium business - especially in Canada which is not in the first quartile of the cost curve but the first decile of the cost curve, and that's even before implementing the inert anode technologies has a bright future and will be able to create value for our shareholders for the long term? Absolutely.

Do we believe that copper because of the shortfall in terms of supply in the next 10 years for all the reasons that we are even expressing ourselves - it is difficult, the attractiveness of copper is because it is difficult to supply - do we believe that in the long-term once we have done the investment should we get the right return on capital? The answer is absolutely yes.

That's important for us because if we want to create value for our shareholders it is going to be about a positive spread of EVA and therefore return on capital employed is the key driver for us.

QUESTION:

In terms of as a CEO you're looking slightly longer term and filling up your options further down the line, it looks as though you are sort of reverting more to exploration to fill that, and the reason I say that is it's the first time I noted that Rio has put drill results in their presentation, which is good by the way. Is this the shape of things to come? Is it really going back to grassroots as opposed to looking at other means to fill your pipeline?

J-S JACQUES:

I think that's a very good question and maybe we didn't communicate enough about the exploration in the past. I take your point. Now if you look back, in the last 10 years, especially after the GFC, we were the only large mining company not to cut in a big way the exploration budget. The challenge with exploration is it takes 20 years/30 years; it's a long-term investment.

Are we looking at all options? The answer is "yes", organic and M&A, but with M&A we have a watching brief. The truth of the matter is if you look at the last 20 years, not only in the mining business, but in other industries, most of the M&A transactions destroyed value. At the same time in the context of the mining business if you don't grow, starting by the replacement, offsetting the depletion you have a problem.

I will give you a very simple example. We are moving one million tonnes of iron ore every day. In the next – forever, let me put it this way – every 2 or 3 years we have to build a new mine just to stand still in iron ore. That is the reality of what we are facing here so we need to grow.

Do we have a preference for organic growth? The answer is "yes". Maybe you're right, maybe we are going back to grassroots and so on – I don't know per se, but what I am just saying is today when I look at the portfolio of options through our organic growth options we will deliver round 2 per cent per annum in the next 5 years.

Do we want to improve and strengthen the quality of our portfolio? The answer is "yes", and that's why we are going to spend around $250 million on exploration. We need to have a healthy pipeline of options because today what we are in fact enjoying decisions made by not even my predecessor or not even the predecessor of predecessor, decisions made 20-25 years' ago.

What we want to make sure is that whoever is running this company in 10 years, 20 years from now that he or she has a healthy pipeline of options. I am not ruling out M&A, we'll keep a watching brief, but we need to push harder on the exploration.

Now having said that, in the short-term when we talk about growth we talk about growth of cash flow per share. The best source of cash flow that we have today in the short-term is productivity. We have got $50 billion of invested capital. The productivity programme especially in the context of price cut squeeze environment that we mentioned, is the best source of additional cash flow per share that we can have.

So here it is a multi-leg approach to making sure that we generate the right cash yield from our existing assets, creating a pipeline of growth options and last but not least continuing to have a watching brief on M&A.

QUESTION:

Just a quick question on a couple of the smaller assets. Just on pigments and feedstocks, you have obviously got three furnaces offline at the minute and pigment prices, feedstock prices have improved. What kind of level do you think you need, more improvement for you to start to bring some of that production back?

And then just maybe on Simandou, just where to now for that asset? Thank you.

J-S JACQUES:

I am not sure I've got exactly your question. My understanding of your question is about TI02 and the conditions under which we would re-start some of the furnaces. That's my understanding. We are planning to re-start two furnaces this year and that's totally included in the guidance that Jakob delivered to you, so that is the plan at this point in time.

Then on Simandou, as I said before it's a topic for discussion between Chinalco as head of the Chinese consortium, the Government of Guinea and Rio Tinto, and those are private conversations. It is a complicated subject for all kind of reasons which are pretty obvious and we will inform the market as and when we make progress about the way forward in relation to Simandou.

QUESTION:

Hi J-S and Jakob, just two for me please.

I just want to delve a little further on OT. Just given the large footprint of the block cave and ongoing concerns around the ground conditions, should we expect that underground development effort to increase due to a delay? As you said, J-S, we know OT caves maybe a little bit too well. On the capex, which was sort of set back in 2011 of $5.3 billion, that was done at the peak of our capex cycle and US dollar was much weaker as well. I am just wondering how much headroom you had within that guidance?

Then just finally on the balance sheet, just a conceptual question, do you believe there's an opportunity cost attached to having too much conservatism built into the balance sheet? It appears that there's much more flexibility in terms of funding future growth and maintaining that strong credit rating. Thanks.

J-S JACQUES:

Jakob, do you want to pick-up the balance sheet question?

JAKOB STAUSHOLM:

I think what you heard today is us talking about a very profitable business with a 19 per cent Return on Capital Employed. In that light trying to be too smart about the financial engineering and gearing up our balance sheet makes absolutely no sense. The reality is we are very comfortable with the balance sheet we have.

But, as I said, it gives us flexibility/optionality and we want to use it as we talked about through various cycles and ideally act counter-cyclically, and that basically means that we can make a rational investment decision at any moment in time because we have the balance sheet. I think that has a lot of value for Rio Tinto as a company and its shareholders.

J-S JACQUES:

If I pick up the question on OT, one of the questions that the team is looking at on the back of the geo-tech model is where are we going to initiate the cave? I will try not to make it too technical here. The idea was you have several tunnels; the idea was to start at the middle of panel zero and to go north and south at the same time.

Because of the current ground conditions we may not be able to do that, so people are looking at all the positions on panel zero to see what is the best way to start the initiation of the cave – we don't know if it is going to be the north part or the south part of the cave – but that's the kind of question that people have to look at.

As you know, what is really important in terms of the possibility for you to grow is because it's a world-class resource it is not too much the capex at front, it is really the pace of the ramp up, this is the key source of cash flows and therefore the source of profitability.

One of the key questions that people are looking at is where should they put the infrastructure below the extraction drive and where we should initiate the cave and the pace at which we move in order to initiate the cave. Work is underway and, by the way, the model will be updated on a real time basis but we should have a pretty good view on where we are this year.

It is normal process, we are incorporating the geo-tech as we speak, and we will have a better answer in the coming months and we will come back to the market.

QUESTION:

Two questions: firstly you called out in the presentation the Chinalco holding and it's creeping up towards the government limit. How does that affect your capital decisions then in future, do you think? Is it going to become a hurdle or do you initiate discussions with the government over that?

Then the second question was just around your internal reviews on commodities, and you have got Simon Trott there, so I just thought what has come of reviews of certain markets like the EV market and where you think you should be maybe positioning your portfolio for the future? Thanks.

J-S JACQUES:

Do you want to take the question on capital decisions?

JAKOB STAUSHOLM:

It doesn't affect our capital decisions at all, but I would just call it constant care. We have an agreement between our host government and our biggest shareholder. We are actually not part of that agreement but we are just taking it into recognition when the board reviews the instruments to which to pay back the shareholders and right now the answer was a special dividend. But bear in mind we still have an ongoing share buy-back programme running for the next 12 months.

J-S JACQUES:

If you could comment, Simon?

SIMON TROTT:

Thanks J-S.

Maybe just to answer it in two parts. Commercial we established during 2018 really to make sure that we were fully leveraging and looking into the market around our unique insights across the supply chain and so through 2018 we have been putting that in place.

Some examples of the sorts of activities that Commercial has been up to: a lot more active book management; we saw some disruptions in the market last year such as Rusal and Section 232; and really making sure that we were creating options through that environment, adding optionality to our books, so replacing some of the intermediaries in some of our sales books like in our copper business; use of third-party tonnes, so in our logistic business using third-party tonnes to reduce the cost of procurement and some of that inbound freight, and in procurement really focusing on partnerships with suppliers, extending conveyor lines so we can push out maintenance shuts.

As a Commercial group that's really our focus. Ultimately Commercial is about people and data and how we work with our customers to deploy those assets. In terms of your specific, we work with the other areas within Rio, Business Development and Ventures and we have inputs into that process and we are obviously very focused on looking for opportunities really to take the business forward.

QUESTION:

I have two questions, probably both for Jakob. Firstly, the pace of the existing buy-back daily in January and in February after the share price rise was consistently flat; I imagine that was outsourced during your close period. Would you expect that to change going forward?

The second question is you talked about touring the assets and seeing the strengths and very carefully worded opportunities for Rio. Could you be more specific on some of those opportunities please?

JAKOB STAUSHOLM:

Thank you very much. The way we look at this on the buy-back programmes is just carrying them through and not being too smart about the share buy-back programmes.

You are right, the pace has been taken off somewhat now, we have $1.1 billion to buy-back over the next 12 months, so it's a very, very doable programme.

Look, in terms of opportunities across Rio Tinto, it starts with really we do see some true excellence in a number of places? But I would say with the cultural inheritance of the company. We are coming from many years back from a kind of holding structure where you had very separate assets. The model that I very much bought into when I was interviewing and talking to J-S is it is a much more industrial model where we run a global organisation with technical centres of excellence across the patch.

Then when you look at the variances you have in performance you realise that you have real good opportunities. I don't think I will stand here and mentioned individual assets for not being effective enough, but what is really good is to go around, meet people on-the-ground and they can see exactly the same operation done somewhere else is done at a much higher level and they can find out what it would take to get there.

So actually I do think it is entirely doable to get to the improved $1.5 billion of improved productivity. It goes across, it is in our mobile assets, what is the effective utilisation of our mobile assets, it is about the effective utilisation of our processing plants and it is also other factors in the mines. Our productivity improvement programme is actually wide and deep and has got a lot of potential.

J-S JACQUES:

We have time for a couple of questions.

QUESTION:

A question on diamonds, the Argyle mine. Can you talk around the financial performance of Argyle given the weakness of the small stone market and how that is impacting your thoughts on the time-frame for closure for that asset, please?

J-S JACQUES:

I think we have been very clear, we are on the last leg of Argyle, and that has been absolutely a fantastic mine for us. I mean the pink diamonds are there; it will be a truly diamonds are forever you could say. Arnaud Soirat, the head of Copper & Diamonds was there 10 days' ago and he knows that, I don't want to say exactly when, we are going to close but you know it is getting closer and closer and we have started to engage very closely with our employees, our communities and the government in WA to make sure that everybody understands.

I can't tell you if it is 3 months, 6 months or 12 months because that's not relevant but it is clearly in the next 2 years max seen from today we will look at the economics then we have to take a decision to close Argyle. That has been a very good mine for Rio Tinto for a long time.

Going back to the question about exploration, I will continue to put our friends from exploration under massive pressure. If they could find me a nice open pit, shallow in Australia, shallow, world-class with lots of pink diamonds I would be absolutely delighted.

It seemed they have found some nice copper and gold and silver somewhere else but they could find some of that. But the mine is going to close but we will do it in a respectful way. We are not far away. But at this point in time the mine is safe and the mine is producing cash and therefore we carry on, and that's where we are.

One last question.

QUESTION:

A couple of questions. It is good to see the iron ore and the copper cost guidance. Any particular reason for withholding the aluminium business cost guidance? Is that the lack of visibility or is the range to wide given you are long in both raw materials and you have mentioned that the cost pressures are not pressing, so I am just wondering why you missing that?

On copper, the volumes are down about 10 per cent in 2019, excluding Grasberg. The cost uplift is not that meaningful, where is the offsetting factor, because the guidance looks quite healthy versus last year. Thank you.

JAKOB STAUSHOLM:

We were trying to find relevant unit cost guidance and the unit cost guidance we are providing you basically covers around 90 per cent of our EBITDA and it was actually one on the edge so we decided not to give guidance on Bauxite.

On copper, I'm not a hundred per cent sure what your point was?

QUESTION:

Volume guidance is about 10 per cent lower, excluding Grasberg, but the cost guidance is not rising that meaningfully versus 2018 reported copper business costs, so I am just wondering what is the offsetting factor to lower grades that you will be facing this year?

J-S JACQUES:

The answer is there are elements on the copper including the by-product, so that's why we give you a C1 cash cost on this one. It is net of the by-product and therefore you need to go back to each of the mines, not to look only at copper but at the gold, the molybdenum and so on, it is a slightly more complicated model, but we give you for the first time some indication on the direction of travel, but the by-product is a key element of the answer that you have just asked for.

Thank you very much. I think the picture is pretty clear. As I said we are in good shape, a strong balance sheet, a fantastic portfolio, but we are not going to become complacent. I hope you have a better sense on where we are focusing. The first element is really on safety, the second element is really about costs and productivity and making sure we have right product for our customers.

It is a very volatile environment with a level of uncertainty, but we are in good shape and I hope you heard from Jakob himself here that the strength of the balance sheet is absolutely essential in a capital-intensive business and in a market context which is volatile and uncertain.

So that is where we are for today, thanks a lot.

Remember the one key number, $13.5 billion. It's a good number. Remember $13.5 billion, our highest in more than 147 years and it comes on the back of last year's $9.7 billion, so just to help you with the numbers in the notes here. On this note, thanks a lot and we'll talk soon. Goodbye for now.

(End of Q&A Session)