

## **Slide 1 – Title slide**

## **Slide 2 – Cautionary statement**

## **Slide 3 - J-S title slide**

Thank you John. Good morning all and welcome to our results presentation.

## **Slide 4 – Our strategy is delivering**

Our strategy is delivering. Rio Tinto has once again delivered strong results with superior shareholder returns. We have real momentum and I am absolutely delighted to report that we continue to deliver on our promises.

We maximized cash generation through our value over volume approach delivering \$9.2 billion of EBITDA. With an EBITDA margin of 43%, we strengthened our portfolio with \$5 billion of announced divestments.

We invested \$1.4 billion in high return growth. We generated around \$300 million of free cash flow through our mine-to-market productivity.

And most importantly, we have announced superior cash returns of \$7.2 billion including an interim dividend of \$2.2 billion. A \$1 billion top up to our current buyback programme.

And the return of \$4 billion to shareholders from disposal proceeds. The precise timing and form to be announced.

We are proud of these results. But rest assured we will not become complacent.

Our aim is simple, to continue to deliver superior returns over the short... medium...and long term.

Now, I will take you through the highlights.

## **Slide 5 – Strong results delivered in H1 2018**

In the first half we continued:

- To deliver a robust financial performance
- To allocate capital with discipline and
- to position the company for the long term

Let me take each of these in turn.

We delivered net cash from operating activities of \$5.2 billion and free cash flow of \$2.9 billion. The market conditions were broadly positive.

Our cash generation is underpinned by:

- strong operational performance and results;
- our new mine-to-market activities; and
- divestments to strengthen our portfolio.

Our success in these areas drove a strong cash flow which was a great effort during a period of increasing inflationary pressure.

Turning to capital allocation.

As I mentioned, today we announced a record interim dividend and a top up to our existing buyback programmes.

We also continue to improve our world class portfolio, announcing divestments for a total of \$5 billion in the first half. Overnight we closed the sale of our remaining Queensland coal assets for around \$4 billion.

The post-tax proceeds from our divestments will be returned to shareholders.

Our strong balance sheet, with net debt of \$5.2 billion positions us well for the future

So we can:

- deal with ongoing economic volatility;
- invest in high-value growth; and
- retain the optionality for smart M&A.

In other words.... we have the flexibility to maximise performance and take advantage of any new opportunities that may arise.

This year, we have also progressed our growth options.

The Silvergrass iron ore mine is ramping up successfully.

And three weeks ago, AutoHaul completed its first loaded run, unlocking capacity and flexibility in our world class iron ore business.

Amrun is on track to ramp up in the first half of 2019, and Oyu Tolgoi underground is progressing well.

Now let me to turn to safety.

## **Slide 6 – Safety and health comes first**

Safety is our number 1 priority at Rio Tinto. It has been a challenging start to the year. A colleague died in April while working on the demolition of a furnace at Sorel-Tracey in Canada. I joined the team on the ground after the tragedy and we are doing all we can to support the family and our colleagues.

In July a team member was fatally attacked while on security duty at our Richards Bay Minerals site in South Africa. We are co-operating with the local police.

These are unacceptable and sad events and we are working very hard to learn from them. Our ambition remains the same. We want all of our colleagues to return home safely at the end of each and every day.

## **Slide 7 – Strong cash flow from world class assets**

Turning now to our product groups. Overall... they performed well.

Our iron ore business achieved a strong first half performance, with an EBITDA margin of 67 per cent.

The pressure from inflation was felt most in our Aluminium business. Despite this, the product group achieved an EBITDA margin of 35 per cent.

Copper & Diamonds achieved EBITDA of \$1.4 billion up 77 per cent on the same period last year. They also increased EBITDA margins from 40 to 45 per cent.

And, despite operational challenges, Energy & Minerals achieved a 36 per cent EBITDA margin.

## **Slide 8 – Further strengthening our world class portfolio**

During the first half we continued to sell non-core assets announcing \$5 billion of divestments, achieving prices well above market expectations.

We also signed a heads of agreement for the sale of our entire interest in Grasberg for \$3.5 billion. The parties are now working towards signing definitive agreements in the second half.

Our long-term success depends on having a portfolio of high quality assets which achieve higher returns. When we think about shaping our portfolio we focus on the best assets in commodities with sound long-term fundamentals.

We will continue to optimise our portfolio and look to divest those assets that do not fit our strategy, further driving sector-leading return on capital employed.

Before I cover the outlook for the industry and Rio Tinto's future plans, let me hand over to Chris who will take you through the detailed financials.

## **Slide 9 – Chris Lynch title page**

Thanks, J-S.

These are another strong set of results. Let's have a look at the numbers in more detail, starting with commodities.

## **Slide 10 - Robust pricing across most commodities**

In iron ore, benchmark 62 per cent prices declined by 9 per cent versus last year. This was driven by slightly lower demand, stronger than usual first half seaborne supply, and some destocking of inventory at the ports, mostly in the second quarter.

However, lower iron ore prices were offset by higher prices across the rest of the group.

We saw increased demand for our seaborne bauxite, and reasonable pricing over the period.

The LME price for Aluminium improved, with an increase of 18 per cent, reflecting strong demand and disruption in the sector including the impact of tariffs in the US. We have also continued to increase the proportion of value added products, from 57 per cent of our portfolio to 58 per cent, at an average premium of \$222 per tonne.

Copper prices in the first half of 2018 were 20 per cent higher than the first half 2017, primarily as a result of strong demand from both China and the rest of the world. Chinese environmental policies also curtailed the importation of scrap, which created increased demand for concentrate and cathode. Copper prices sold off in the last month or so, as markets became concerned by the noise around a potential trade war.

## **Slide 11 - EBITDA driven by higher pricing and increased sales, offsetting cost headwinds**

For the first time we are showing a waterfall slide for underlying EBITDA rather than Underlying Earnings. We think that underlying EBITDA is a better proxy for the cash performance of the group, which is something that we prefer to focus on. This metric has remained fairly flat compared to the same period last year, despite some of the headwinds that JS has already mentioned.

As I've just discussed, pricing has been broadly positive across the commodities, with higher pricing in most of our products, more than offsetting slightly lower iron ore prices. Overall there was an improvement of \$600 million, compared to the first half of 2017.

Half year results 2018 – script  
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Price improvements during the period could have been \$200 million higher, for the group, without the impact of legacy alumina contracts. These contracts are for the supply of just over 2 million tonnes of alumina per year, and are linked to the primary metal LME price. We are likely to see the same impact in the second half.

The impact of unfavourable exchange rates, energy costs and measured inflation, have had a combined negative \$400 million impact in this period.

This brings us to flexed underlying EBITDA of \$9.2 billion.

In the first half of the year, increased productivity across the system, assisted by better weather, allowed higher iron ore shipments.

And our Copper division saw operations return to normal at Escondida, at the same time as we mined higher grades at Kennecott, and improved the plant performance at OT.

The strong performance of these divisions was offset by lower production in some of our Aluminium operations.

Overall, volume and mix generated \$900 million of additional underlying EBITDA.

During the period we have seen input costs, in both our Aluminium and TiO<sub>2</sub> businesses, negatively impact the outcome by \$300 million.

Other cash costs have had a negative impact of \$200 million.

This includes, additional exploration and evaluation activity, as well as spend in Information Systems & Technology, and further investment to support the Group's mine to market productivity programme.

These were partially offset by improvement in the iron ore cost base, further enhancing our productivity gains.

One-offs during the period have had a \$400 million negative impact to underlying EBITDA. Included in this number are the costs associated with the 2 month strike at IOC, disruptions in our titanium business, and a power interruption at our Dunkerque smelter in France. One-off costs were offset by the absence of the strike at Escondida last year, and the inclusion of restructuring costs which were previously taken below the line.

Overall we have delivered underlying EBITDA of \$9.2 billion, which represents a margin of 43 per cent.

### **Slide 12 - Inflation is challenging the industry**

The cost inflation that we are starting to see come through the industry, makes our mine to market productivity programme even more important in protecting our margins and maintaining our competitive position.

We started to see cost increases in 2017, initially in the Aluminium group. As you can see here, the indexed price of caustic, coke and pitch, remain well above the first half of 2017.

As a bell-weather for input costs, average oil prices rose approximately 28 per cent to \$68 per barrel during the 2018 first half.

We will continue to fight against rising inflation across the business, and I'll now discuss how our productivity programme has assisted in offsetting these increases, and allowed us to keep our EBITDA margin broadly in line with the first half of 2017.

### **Slide 13 - Productivity programme on track despite cost headwinds**

By the end of 2017, we had delivered \$400 million of additional free cash flow from our productivity programme.

To successfully deliver on our targeted \$5 billion of cumulative additional free cash flow by 2021, we must ensure that all benefits are sustained and embedded.

In the first half of this year, we delivered total productivity improvements of \$500 million, which included carrying forward the embedded savings made in 2017..

Cost head winds in the first half, reduced this year's achievement by \$200 million, bringing the total cumulative contribution for the past 18 months to \$700 million.

The numbers shown on this slide are different from those that you will see in our variance waterfall, as these are cumulative post tax, cash impacts.

We continue to target total productivity gains of \$1.1 billion for 2017 and 2018 combined. Across the business, we are focusing on maximising cash, by improving both our operational and commercial outcomes.

### **Slide 14 – Strategic disposals announced since 2017**

Since 2017, we have announced a total of \$7.7 billion of divestments including \$5 billion pre tax in 2018.

This includes the sale of our European Aluminium smelters, ISAL and Dunkerque, along with our coking coal assets in Australia.

Additionally, we have also signed a Heads of Agreement for the sale of our interest in Grasberg to Inalum, Indonesia's state mining company.

This is an important step forward, but there are still a number of conditions required, and at this stage there is no certainty of a transaction.

The sale of Winchester South completed during the first half, and cash of \$150 million was received. We have today announced the completion of the Kestrel and Hail Creek transactions for \$3.95 billion pre tax.

We expect the remainder of these divestments to complete in the second half. I will talk more about the intended use of the proceeds later.

### **Slide 15 – Disciplined capital allocation**

Disciplined capital allocation is at the core of everything we do.

Having spent sustaining capex to ensure the integrity of the business, our next call on cash is our dividends to shareholders. We then have an iterative cycle of managing the balance sheet, pursuing value-accretive growth options, including M&A, and considering further returns.

Our aim is to ensure that we are able to

- invest in value accretive growth through the cycle,
- maintain a strong balance sheet; and
- continue to pay superior returns to our shareholders.

Let's have a quick look at how this has worked over the last 12 months. This data combines the second half of last year with the first six months of 2018.

Over that period, we spent \$2.3 billion on sustaining capex. And \$2.8 billion on our growth projects. Over 50 per cent of all cash received during the past 12 months was returned to shareholders.

This included dividends of \$5.2 billion, comprising the then record interim payment in September 2017, and the record final dividend paid in April 2018. \$3.3 billion of share buy-backs were also completed over this period. These cash returns represent just under half of all the combined returns from our peer group.

### **SLIDE 16 – Sustaining capital and compelling growth**

Returning to data for this half. Capital spend was \$2.4 billion, 34 per cent higher than the same period last year. Of this, \$1 billion related to sustaining our current operations, and \$1.4 billion on our compelling growth options.

Half year results 2018 – script  
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The Amrun project in North Queensland is on track for commissioning in the first half of 2019.

During the first half, we have transported the stacker and reclaimer to site, and have almost completed the assembly of the shiploader.

At Oyu Tolgoi, contractor numbers have almost reached their peak, and during the first half, the Shaft 5 ventilation system was completed, and is now operational.

Autohaul is progressing well, with around 65 per cent of all train kilometres, now completed in autonomous mode. Two key Autohaul milestones were met in the first half, with final regulatory approval received in May...And a few weeks ago we ran our first loaded fully autonomous journey. We remain on track to have full implementation of AutoHaul by the end of this year.

Group capex guidance of \$5.5 billion in 2018, and around \$6 billion in 2019 remains unchanged. For 2020, we are raising our guidance to around \$6.5 billion. This half billion increase partly reflects the timing of spending, and additional capital required to replace production in the Pilbara, and increased capex expected in that year on the Oyu Tolgoi power station.

In each of these years, the expectation is that sustaining capital will be between \$2.0 - \$2.5 billion.

In 2018 and 2019, we will continue to spend capex at Amrun.

At Oyu Tolgoi we are spending around \$1 billion in each year to develop the underground mine and from 2019, we will also spend capex on the power station.

In the iron ore business, we will need to spend around \$3 billion on sustaining capex over the next three years.

We will also spend \$2.7 billion on replacement mines over the same period, and starting in 2019, we expect to see spend coming through for the Koodaideri mine. The increase that we are seeing in the Pilbara replacement mines spend, is due to a combination of increased capital costs from revised scopes for some projects, and the fact that we are bringing forward some of our 2021 spend into 2020.

The feasibility study for Koodaideri is ongoing, and yesterday, the board approved \$150 million of early works funding for this project.

One of the advantages of a strong balance sheet is the ability to invest in the business through the cycle and drive future returns.



## **Slide 17 –Strong balance sheet**

At the end of 2017, we reduced our net debt to \$3.8 billion, a 60 per cent reduction from the end of the previous year.

In February we flagged some cash outflows. These included a final tax payment of \$1.2 billion for the Australian tax group, for the full year 2017, which was paid in June this year. Adding the tax payment back, creates adjusted net debt of \$5 billion at the end of last year.

So net debt remains relatively unchanged at \$5.2 billion, and this is after returning \$4.7 billion of cash to shareholders.

The \$4.7 billion includes the payment of the final 2017 dividend in April of \$3.2 billion, and on-going share buybacks in Rio Tinto Plc of \$1.5 billion.

Gross debt has again been reduced. A reduction of \$2.1 billion, which included a repurchase of \$1.9 billion dollars of bonds. There was net interest paid of \$100 million, arising from the repurchase of these bonds.

From 1st January 2019, there are changes to accounting standards including the treatment of leasing arrangements. These changes will require that the present value of operating leases are brought onto the balance sheet, and included in net debt.

The exact outcome is still to be determined, but to give you a sense of quantum, undiscounted operating lease commitments disclosed in our annual report at the end of 2017, were \$1.8 billion.

We will further update our guidance on any impact from these changes, at year end.

We believe that having a strong balance sheet is a major competitive advantage, and is essential in a cyclical business.

It provides us with what we like to refer to as the 3 R's – Robustness, Returns and Readiness.

Robustness – against volatility, in the commodity markets in which we operate, but also in the global macro and geo-political space.

Returns – a strong balance sheet provides an ability to make returns through the cycle.

And a Readiness to take advantage of opportunities as they arise.

Our strong balance sheet has enabled us to continue to invest in value accretive growth, and to make sector leading returns to our shareholders.

### **Slide 18 – Delivering superior returns to shareholders**

As I've already mentioned, during the first half of this year we returned \$4.7 billion to shareholders.

We have today announced a further \$3.2 billion of interim returns.

This is made up of a record interim dividend of \$1.27 per share or \$2.2 billion, to be paid in September. In line with last year, the dividend represents 50 per cent of year to date underlying earnings.

We have also allocated an additional \$1 billion towards our existing share buyback programme in Rio Tinto plc. \$1.5 billion of share buybacks were completed in the first half, from our existing programme of \$2.9 billion.

Since the period end we have completed a further \$200 million. This means that from today, we will be buying back \$2.2 billion between now, and the end of February 2019, which is equal to just over \$300 million per month.

### **Slide 19 –Disposal proceeds**

During the first half we have announced \$5 billion of divestments from our coking coal assets and European Aluminium smelters. We have received \$4.1 billion pre tax proceeds from the disposal of our Coking Coal assets – Hail Creek and Valeria; Kestrel; and Winchester South.

The bulk of this was received overnight. On these proceeds we expect a tax liability of approximately \$1 billion. We expect to receive the remainder of the proceeds later in the year.

The board has approved that the post tax proceeds of \$4 billion will be returned to shareholders. A decision on the form and timing will be made in the coming months.

We have a strong track record, demonstrating our clear commitment to delivering superior returns. Whether running operations, committing capital expenditure, evaluating disposals or acquisitions, we have remained disciplined and focused on the value of every dollar.

Now let me hand back to J-S.

**Slide 20 - J-S Title slide**

**Slide 21 – Global macro indicators remain supportive**

Thanks Chris.

Let me now share some thoughts on the macro environment. The mining industry has two key drivers: GDP growth and global trade. Overall...the GDP outlook remains SOLID...with positive growth indicators in most geographies.

However, global trade is potentially a concern. Focusing on China...the biggest market for the mining industry. We remain optimistic about the medium to long term.

As expected...growth is slowing but only modestly and was still at 6.7% in Q2.

Further...the government is introducing measures to support domestic demand and increase liquidity, including fiscal stimulus which should underpin growth.

**Slide 22 - China supply side reform and tightening**

In addition...China's policy changes have had a significant and enduring impact on several industries...including the mining sector.

Supply-side reforms and pollution controls have resulted in capacity reductions which are un-precedented. This is particularly the case in steel making.

The outcome of which is higher capacity utilization and improved profitability. The change in industry structure has also led to a shift in iron ore demand...Which in turn has given rise to a significant premium for higher quality product.

And that's good news for Rio Tinto.

In aluminium the impact of new policy changes will take more time. We do believe there will be a slowdown in capacity growth over the medium term and a re-balancing of supply over time where demand continues to be strong.

But it is not all plain sailing.

**Slide 23 – challenging global environment demands a resilient business**

We are concerned about the return of inflation, which is impacting the entire industry, putting margins under pressure. Resource nationalism is not a new feature of the mining industry. But, there is no doubt that many stakeholders want a greater share of the wealth created by minerals development.

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There is also an increasing emphasis on how we operate and our impact on the world around us. This is why we believe our licence to operate is a make or break for the industry.

Now turning to trade...Ongoing threats to global trade is potentially a concern.

History shows...fair trade and open markets are the best drivers of growth and prosperity. We believe this will continue to be the case in the future. In these uncertain times resilience is key. That is why we are so focused on 4 key drivers

1 . Driving performance.

Our productivity drive will generate \$1.5 billion of additional free cash flow per annum from 2021.

2. Actively shaping our portfolio.

Highlighted by our announcement this morning.

3. Growing in a very focused way, and our current organic pipeline will deliver an average of 2 per cent per annum over the next 5 years.

And last but not least

4. Maintaining a strong balance sheet.

This is how we will continue to deliver superior returns for our shareholders in the short, medium and long term.

## **Slide 24 – High return growth optionality-**

Turning to growth. Our current growth projects are progressing well.

On the broader growth outlook we continue to evaluate exciting medium to long-term opportunities across the entire portfolio. These include...

Resolution copper in the US...the Jadar lithium project in Serbia and potential expansions of our aluminum and bauxite businesses.

Our world class assets in the Pilbara have significant potential for optimization and future capacity development.

Yesterday the board approved \$146 million for early works and studies at the Koodaideri mine. This will be our first fully-autonomous mine.

We also have an extensive pipeline of additional replacement and growth options in the Pilbara.

Oyu Tolgoi and Resolution are two of the largest copper projects in the industry. Long life, low cost, and close to our customers in China and the US.

Our Canadian aluminium smelters are in the first quartile. Long term, as demand grows, we will strengthen these assets through continued productivity gains. And, potentially, brownfield expansion. These smelters are already the greenest in the industry.

And the new technology joint venture between Rio Tinto, Alcoa and Apple to create carbon free smelting will mean an even more attractive product for consumers and a further reduction in operating costs.

Across all commodities...our projects sit at the bottom of the cost curve, which means they are well placed to deliver tier 1 free cash flows.

It won't surprise you to hear, these opportunities will be looked at through our value-over-volume lens, and only move forward if they offer the most attractive returns.

And, of course., we will keep a watching brief on M&A.

## **Slide 25 – Our strategy will deliver value through the cycle**

Just to remind everybody, our strategy is clear and simple.

We will maintain our strong performance by executing our 4Ps strategy with excellence, which has underpinned our recent out-performance in some key areas.

It's about:

- Portfolio
- Performance
- People
- Partners

Portfolio is about world-class assets. Performance is about operating and commercial excellence. People is about developing industry-leading capabilities. And Partners is about long-term relationships with our customers, suppliers, investors, governments and communities.

## **Slide 26 – Our strategy is delivering**

Before I wrap up let me say a few words about the man next to me. As you all know, this is Chris' last results presentation before he retires in September. I could not let today pass without thanking Chris for his outstanding contribution to Rio Tinto both as a board member since 2011, and as CFO since 2013. He played a key role in strengthening the organisation following a challenging period and has given me both great support and wise counsel. As well as his humour...capital allocation discipline has been his signature and I am here to tell you it will remain his legacy.

Thank you Chris for your hard work and we wish you all the best.

I would also like to welcome Jakob as our new CFO. He comes to us with extensive experience in senior financial roles across Europe, Latin America and Asia, within and outside the resources sector. Jakob is with us here in London today.

I look forward to sharing the platform with you at our end of year results in February.

In closing, every decision we make at Rio Tinto will prioritise value over volume.

We have real momentum and plans to keep pushing for even better performance. We will continue to deliver on our promises, as we have done in the first half:

With our strong EBITDA and cash performance, with a strengthened portfolio, with a strong balance sheet providing options for growth and most importantly with a strong commitment to delivering superior cash returns to shareholders.

We do face challenges, as any business in the 21st century does but we have the right strategy...the right assets...the right team...

And a real focus on value.

For us...it is all about delivering on our promises day in and day out.

And now questions.