

Rio Tinto Limited AGM – Address by the chief executive

Brisbane, 5 May 2016
Sam Walsh, chief executive

****Check against delivery****

Thank you, chairman, for your very kind words.

Good morning ladies and gentlemen.

I stand before you all today with a mixture of pride and sadness.

I am proud to be able to present the work our employees have achieved to deliver a solid financial performance in 2015 against an extremely challenging backdrop.

But I also have some sadness that this will be the last time I am able to do so as your chief executive.

I have spent almost 25 wonderful years with Rio Tinto, with the past three as chief executive.

As many of you know, I spent three years here in Brisbane, from 2001 to 2004.

I have very fond memories of my time here.

From the days in old Comalco Place in Creek Street to meeting our great teams in the Bowen Basin, in Gladstone, and at Weipa.

Rio Tinto is a world-class company, with strong values, that has been a truly rewarding place for me to work.

I take great satisfaction in leaving the business stronger than it was three years ago.

At that time we made a commitment to deliver on our promises, and we have done exactly that.

We have lowered costs, and reduced capital, focused on cash, strengthened the balance sheet, and delivered returns to shareholders.

And importantly we have positioned the business so there is greater value yet to be created.

I have thoroughly enjoyed the opportunity to work with some outstanding people.

And it's personally fulfilling to me that I will be handing over the reins as chief executive to one of those outstanding Rio Tinto leaders - Jean-Sebastien Jacques.

Prior to joining Rio Tinto, J-S worked in the aluminium, bauxite and steel industries, in complex roles across five continents.

J-S is a top-notch executive and a standout performer who will lead this great company forward with vision and drive.

During my time in the resources sector I have experienced many cycles.

I believe the companies that deliver long-term value to shareholders are those with the best people, the highest-quality assets, and the financial strength to invest through the cycle with the capacity to grow and change.

In essence that's your company, Rio Tinto.

And I'm pleased to have played my part in shaping it.

Let me now make a few comments on safety.

Our number one priority is to have every one of our colleagues return home safely every day.

In recent years we have made great strides in improving our safety performance, but we all know that we can and we must do better.

At Rio Tinto over the past 10 years we have reduced employee injury rates by a significant 67 per cent.

However, we have found, that while a focus on reducing injuries is paramount, it is not a predictor of catastrophic events.

It also does not eliminate fatalities, the goal we are all focused on achieving.

In 2015, tragically we had four people die at, or around, our operations.

In January in Madagascar, an employee drowned when the excavator he was operating slid down a tailings embankment into a pond.

In February in South Africa, a security contractor died when the car he was driving rolled on a bend on a gravel road.

In May in Canada, a contractor died after being hit by a high-pressure water jet.

And in August in Guinea, a contractor driving a fuel truck drowned after a public bridge collapsed, trapping him in the cabin.

I am deeply saddened by these events which have had a profound impact on families, friends and work colleagues.

We must continue to maintain our focus on safety with each and every task, in every shift, and every day.

To help us eliminate fatalities we are rolling out our Critical Risk Management program or CRM.

This is a system that J-S introduced into his product group in 2014.

And we are implementing CRM right across Rio Tinto.

No one is saying that this is a magic formula to sort out all our safety challenges.

Rather, it is an important tool to help eliminate fatalities.

CRM verifies that critical controls are well designed, well understood, in place before a job starts.

It is about every employee taking the time to understand the risk of serious or fatal injury, and never starting a job unless the life-saving controls are in place.

I was delighted, however, to present the chief executive safety award for the second year running to the team at Pilbara Utilities in Western Australia.

It is a team that is working in a complex environment with high-voltage power, very diverse maintenance activities and often working at heights.

And if I can issue a challenge for my colleagues here in Brisbane, working to develop Amrun.

Let's learn from our colleagues and great projects of recent years from Oyu Tolgoi to our work in the Pilbara.

Let's make sure Amrun is the best example we can showcase of a safe project.

You all know we take safety very seriously, and we are always looking for ways to learn and improve.

Let me now turn to our financial performance.

We knew 2015 would be a challenging year and it proved to be so.

But the decisive and early action taken in previous years meant we were better positioned than others to deal with the tough macro-environment.

We have cemented our status as the world's most profitable mining company by underlying earnings.

However, at no stage have we allowed complacency to creep in to our behaviours.

Throughout 2015 we maintained a relentless focus on cash generation and preservation by trimming costs, reducing capex and looking to release working capital.

We removed a further US\$1.3 billion of costs in 2015.

This means that since 2013 we have taken more than \$6 billion of costs out of the business.

And in 2015 we released \$1.5 billion of working capital.

We reduced capital expenditure for 2015 to \$4.7 billion and we are reducing capital expenditure to \$4 billion in 2016 and \$5 billion in 2017.

We have not done this at the expense of future growth but by re-assessing projects, lowering costs and only investing in the highest returning projects.

So, we have managed to invest in the business, and deliver cash returns to shareholders, while protecting the balance sheet, with net debt of US\$13.8 billion.

While we have achieved a great deal, we recognise the current environment requires even more from us.

This is why we announced a new package of proactive measures.

Over the next two years, we aim to cut operating costs by a further \$2 billion, (\$1 billion in 2016 and a goal for a further \$1 billion in 2017).

We will also remove \$3 billion of capital expenditure, from our previous guidance, and implement the new dividend policy, as explained earlier by our chairman.

These actions are designed to ensure we maintain our balance sheet strength and deliver shareholder returns commensurate with the economic environment and supported by the quality of our world-class assets.

Let's talk about some of our great assets.

Each is unique but all are world-class and ideally positioned on the cost curve to deliver value for many, many years to come.

Our Pilbara iron ore business remains the cost and quality standard that the industry uses to benchmark and others seek to emulate.

Our port infrastructure in the Pilbara is essentially complete.

Our focus is on maintaining the superior quality of the Pilbara Blend and extracting best value from the entire system.

A decision on the Silvergrass iron ore project is expected this year.

As you know, I previously had the privilege of leading the Iron Ore group.

A decade ago, our market share was about 20 per cent, this is similar to what it is today.

So our investments of recent years are measured, and responsible, in meeting our valued customers' long-term needs, and in the best interests of our shareholders.

We welcome competition.

In fact, we thrive on it.

But it is important to measure competition on a level playing field.

Our unit cash costs in the Pilbara are the lowest, and we also enjoy premium pricing over our competitors.

But, the Iron Ore team is not complacent and they remain focussed on improving our performance and maintaining our leading cost position.

In 2015, the Iron Ore group delivered underlying earnings of \$3.9 billion and closed the year with Pilbara FOB EBITDA margins of 60 per cent.

That is a stunning achievement in any market.

With our network of 15 mines and 1,700 kilometres of railways, supported by a 200-strong marine fleet, 71 driverless-trucks and many technology innovations, our Pilbara operations are simply without peer.

We have one of the world's best and greenest aluminium businesses.

The product group achieved a solid performance in 2015, with underlying earnings of \$1.1 billion despite lower prices.

It also increased EBITDA margins to 31 per cent.

The majority of our Aluminium smelting assets are in the first cost quartile and we hold a leading position in bauxite.

This month we reached full capacity at our recently modernised Kitimat smelter in British Columbia, in Canada, and we are already producing some of the lowest carbon footprint, high purity aluminium in the world.

Last year, our Rio Tinto board approved the development of the Amrun bauxite project in far north Queensland.

This Tier 1 asset will increase our annual bauxite exports from our Weipa operations by about ten million tonnes a year and strengthen our position as one of the world's largest bauxite producers.

The Diamonds & Minerals group continues to focus on cash generation.

Underlying earnings of \$189 million were 30 per cent lower than 2014, primarily driven by lower sales prices and reduced volumes in response to soft market conditions.

Titanium dioxide slag production was 25 per cent lower as the company idled some furnaces and flexed production to align with market demand.

In our diamond business, production rose 25 per cent to 17.4 million carats, reflecting the ramp-up of production at the Argyle underground mine in Australia, which offset lower production at Diavik in Canada.

Our borates business based on the fabulous Boron deposit in California 'keeps on keeping on' after more than a century of production.

Production was slightly lower than last year, but we continue to look to new applications in agriculture, energy, and advanced batteries.

The Copper & Coal product group, was impacted by lower prices, and delivered underlying earnings of \$274 million.

This group has generated cost reductions of nearly \$2 billion since 2012 and is continuing to look for more savings.

In 2015 our share of mined copper production was lower, as anticipated, as work continued at Kennecott to de-weight and de-water the east pit wall.

In Mongolia, our copper mine, Oyu Tolgoi, continues to surpass expectations.

The \$4.4 billion finance package, for the OT underground project, involving a raft of international financial institutions and commercial banks, is another clear example of the collaborative approach that we take to development.

In our coal business, despite ongoing price challenges, our mines remained cash flow positive with minimal working capital.

We completed the sale of our interest in the Bengalla thermal coal joint venture in New South Wales for \$617 million on 1 March.

And in January, we announced the planned sale of our share of the Mount Pleasant thermal coal assets for \$224 million plus royalties.

In 2015 we sold our interest in the Murowa diamond mine in Zimbabwe, and a number of Rio Tinto Aluminium's ancillary businesses in Europe.

Importantly, since 2012 we have announced or completed \$4.7 billion of asset sales to reduce debt, to deliver returns to shareholders, and to recycle capital into compelling growth opportunities.

The chairman talked earlier of Rio Tinto's climate change commitments and I would like to touch on our economic and social role in host communities.

At the local level in the past year, we have been involved in more than 1,800 socio-economic programmes, touching thousands of lives and making a difference every day.

For example, here in Queensland we initiated the "Here for Childcare" programme with the Gladstone City Council to cope with the city's rapid population growth.

At the macro level, globally, over the past five years our value add to host communities has averaged US\$29 billion a year.

We recognise that local procurement can be a catalyst for broader economic growth and building a more resilient local economy.

That is why we have business development and local procurement programmes in locations as diverse as Namibia through to Mongolia.

Another area of Rio Tinto's community engagement stands out as a testament to our company's ability to make a difference to peoples' lives, as well as one of my proudest achievements during my time at Rio Tinto.

This is the strong growth in Indigenous employment in Australia.

In the mid-1990s, about half of one per cent of our workforce was Indigenous.

And in recent years this number has risen to eight per cent, largely as a result of the expansion of our iron ore business and great work done in Weipa.

In Weipa indigenous employment is almost at 25 per cent and is due to a deep commitment to education and skills training within the community over many years.

The decade long partnership with the Western Cape College was recognised last year by the Queensland Government's Showcase Awards for Excellence in Schools in building pathways from school, to work and to tertiary education opportunities.

And we also have our Weipa trainee programme, now over 15 years old.

It has trained more than 300 local people to be 'job-ready'.

So programmes like these, and many others, mean that today Rio Tinto is one of the largest private sector employers of Aboriginal Australians.

I am immensely proud of the difference these meaningful careers have made to the lives of thousands of Indigenous Australians, Indigenous businesses, their families and their communities.

If I may, I'd like to finish my address today on what I began with, and that is our people.

Their achievements sustain a vibrant culture at the heart of your company.

I am honoured to have worked with so many wonderful and committed people over many years at Rio Tinto.

It's been truly a privilege, And I am proud of Team Rio Tinto.

And never more so, than in the past three years, when everyone I met wanted to help return the company to a position of leadership and financial strength, and we have.

Last year I was fortunate enough to visit the birth place of our company in Spain.

It was a great reminder that we all follow in the footsteps of those who have gone before us.

And while we pay deep respects to the past, we must look to the future.

There is no doubt in my mind that the year ahead will be a tough one for the industry and for Rio Tinto.

The market conditions are as tough as I have seen them in recent years.

And there's no doubt that it will take a lot of commitment and drive to find new ways of making our business even better and even stronger.

But I know that Rio Tinto has a chief executive to be, in Jean-Sebastien, and a world class team to do exactly that.

I wish all at Rio Tinto every success.

Thank you to you, our shareholders, for your trust, and to the board, for your support.

I will of course, be working with Jean-Sebastien over the next few months to support the transition.

It now it gives me great pleasure to hand the floor over to your deputy chief executive, Jean - Sebastien Jacques who would like to say a few words.

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