Rio Tinto

Slide 1 – Title slide

Slide 2 – Cautionary statement

Slide 3 – Supporting statement

Slide 4 - J-S Jacques title slide

Thank you John.

Good morning and welcome to our annual results presentation.

Slide 5 – Our strategy is delivering

I am absolutely delighted to report that in 2017, we delivered what we promised and more.

We maximised cash generation through 'value over volume' - delivering $18.6 billion of EBITDA and cash of $13.9 billion.

We improved our margins to the best in a decade – with an EBITDA margin of 44 per cent.

We re-shaped the portfolio with divestment proceeds of $2.7 billion.

We invested $2.5 billion in high-return growth.

We generated $400 million of free cash flow from our mine-to-market productivity.

And importantly, we provided superior cash returns to shareholders of $9.7 billion.

This includes the highest ever dividend of $5.2 billion.

Today, we are announcing a further $1 billion buyback.

So, our strategy is clearly working.

And we have real momentum.

Our aim is to ensure Rio Tinto continues to win in the marketplace
And delivers superior returns over the short, medium and long term.

Let's now look at some of the highlights.

Slide 6 – Strong results delivered in 2017

In 2017, we focused on three key areas:

- Delivering a strong financial performance

- Producing disciplined capital allocation
- and positioning the company for the long term

Let me cover each of these in turn.

First, strong financial performance.

In 2017, we delivered net cash from operating activities of $13.9 billion and $2.7 billion of divestment proceeds.

Our strong operational cash flow is a result of three factors:

- resilient prices during the year
- solid operational performance right across the business
- and our new mine-to-market initiatives

We hit our $2 billion cash cost saving target six months early.

A great achievement.

With the benefit of firm prices, this allowed us to deliver our highest EBITDA margin for the past 10 years.

Turning to capital allocation.

As you know, we announced record cash returns to shareholders in 2017.

We reduced our net debt by $5.8 billion and the strength of our balance sheet means we are ideally placed to:

- deal with any economic volatility
- invest in high-value growth
- retain the optionality for smart M&A

Our growth options progressed well in 2017.

The Silvergrass iron ore mine was officially opened in August and work at Amrun and Oyu Tolgoi is advancing.

Looking further ahead, we continue to evaluate attractive medium to long-term growth opportunities in a range of commodities.

We have a compelling growth pipeline that we can bring online at the right time

In 2017, we also further strengthened our portfolio, generating $2.7 billion of proceeds from our divestments, including Coal & Allied.

We will continue to exit any assets or projects that do not fit our strategy.

Let me give you a recent example, last month we received a binding offer of $500 million for the sale of our Aluminium Dunkerque smelter in France.

So, in summary, we are in good shape.

We have delivered a strong set of results and we are well positioned for the future.

But, let me be clear, I can assure you we are not becoming complacent at all.

Now I will cover some of our operational and product group highlights, starting with safety.

Slide 7 – Safety and health come first

Safety comes first at Rio Tinto.

Our ambition remains the same: all of our employees and contractors must return home safely at the end of each and every day.

Sadly, you will remember, we lost a colleague in a tragic incident at our Kennecott operation in October.

Albert Lozano died following injuries he suffered after SO_2 exposure.

I was on site at the time and I can tell you that Albert's loss was deeply felt by his family, friends and all of Rio Tinto.

We are working very hard to try and ensure this never happens again.

We are focusing on fatality prevention through our Critical Risk Management programme which is now well embedded across the company with 1.5 million safety verifications in 2017.

We are also focusing on reducing injuries and improving process safety, as we strengthen our controls around major hazards.

Mental health and fatigue management will also be a priority for us in 2018.

We all know that a safe operation is a well-run operation.

Slide 8 – Superior returns from world-class assets

Let's take a look at our product group performance.

Every part of the business is focused on maximising cash through driving productivity from mine to market.

In Iron Ore, we delivered free cash flow of $7.3 billion and EBITDA margins of 68 per cent, as customers demanded our higher-quality product, driven by a need to improve environmental performance.

In Aluminium, we delivered $1.4 billion in free cash flow, with an EBITDA margin of 35 per cent, our highest since 2007.

This was achieved despite increases in input cost.

In Copper & Diamonds, we delivered free cash flow of $319 million, including $1.2 billion in development capital expenditure as activity ramped up at the Oyu Tolgoi underground project.

And in Energy & Minerals, we delivered free cash flow of $1.5 billion taking advantage of our latent capacity and better market conditions.

So, we had a great 2017 we have real momentum and we have a solid platform for the future.

Now 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 demand drive stronger prices

Chinese economic growth was resilient during 2017, and global conditions have improved, which has seen higher pricing in most of our products.

In iron ore, benchmark 62 per cent prices held up very well in 2017, and demand for high-grade product saw us realise a strong full year iron ore price of $64.80 per tonne, FOB, 21 per cent higher than last year.

We spoke at the investor seminar in December, about anticipating a potential slowdown in China in the first six months of this year, and so far we have seen some softening in Chinese construction.

But pricing has remained firm.

The LME price for Aluminium also improved, with an increase of 23 per cent, reflecting strong demand, weakness in the USD, and also some of the discussions around tariffs in the US.

Stronger pricing has also been driven by China’s supply-side reform policy, which J-S will discuss later.

In addition to the strong LME prices, the mid-west premium has performed well, averaging $199 per tonne, an increase of 18 per cent on 2016.

On top of this, we have increased the contribution of value added products, from 54% of our portfolio to 57%, at an average premium of $221 per tonne.

Copper prices increased 27 per cent compared to last year, reflecting strong demand from China and supply disruptions during the period.

Tighter Chinese environmental policies curtailed the importation of scrap, which has created increased demand for concentrate and cathode.

Realised hard coking coal prices were 42 per cent higher on average compared with 2016.

Impacts from cyclone Debbie, saw prices spike in the first half, and whilst these have come off, strong demand from China and a tight supply chain, have meant prices have remained strong versus 2016.

Slide 11 – Outperforming in key commodities

Our world-class assets performed well, and our products continue to benefit from the demand for quality.

2017 saw strong steel mill margins, peaking well above $100 per tonne, and they remained above that level for most of the second half of the year.

To put this in context, these margins compare with an extended period of negative profitability during 2015-2016, and remain well above the $20-25 per tonne, which Chinese mills have typically considered attractive.

As a result, there was a preference from our customers to target productivity within their blast furnaces.

This meant strong demand for higher grade products, and a widening between the 58 per cent and 62 per cent product prices.

Our world-class Pilbara business continues to deliver strong EBITDA margins, increasing to 68 per cent this year.

Our world-class aluminium assets have delivered EBITDA margins of 35 per cent.
Well in excess of others in the market.

Within the aluminium business, we have the hydro-powered Canadian smelters, which are in the first quartile, and even the first decile of the cost curve.

And we have the exceptional bauxite assets in Northern Queensland.

Having high quality, Tier 1 assets with attractive commodity offerings, is key to delivering higher margins through the cycle.

Slide 12 – Higher prices driving increased earnings

Underlying earnings are up 69 per cent on last year.

This chart shows the recovery in prices in 2017 across our commodities, with prices increasing earnings by $4.1 billion versus 2016.

As you can see, energy costs and exchange rates, whilst increasing, have had only a modest negative impact.

In the first half of the year, Pilbara shipments and Hard Coking Coal production was impacted by significant cyclonic weather, and our Copper division saw disruptions from labour negotiations at Escondida.

A strong second half, particularly in the Pilbara and Australian Bauxite operations, meant that we were able to recover volumes for the year, and production finished in line with 2016.

We have achieved cost savings which more than offset raw material cost increases of around $200 million, particularly for input prices in aluminium, which we mentioned in December.

There was a one off impact to underlying earnings of $176 million as a result of the strike at Escondida.

The completion of the Coal and Allied disposal on 1 September reduced our thermal and semi-soft coal volumes in 2017.

So overall we have delivered underlying earnings of $8.6 billion.

Slide 13 - $2 billion cost out programme completed

We have successfully achieved an $8.3 billion reduction, pre-tax in cash costs since 2012.

In the last stage of the programme, we set a $2 billion cash cost reduction target for 2016 and 2017 combined.

At the first half results in August, I was able to announce that we had completed that programme six months ahead of schedule.

We have now achieved $2.2 billion in cost reductions over 2016 and 2017.

The programme is now closed.

But, we will continue to be tough on costs and are raising efficiency through our Mine to Market productivity programme, which we set out at our seminar in December.

Slide 14 – Focus now on delivering mine to market productivity

Let’s have a look now at our progress on Mine to Market productivity this year.

For clarity we have shown here the cost and volume improvements that we have achieved for the full year.

This will provide a clear base going forward.

As I said in December, the starting point is the volume and cash cost variance which are pre-tax measures.

These are the same metrics that we have used for the last decade and that you are all familiar with.

The volume variance has been calculated using actual prices.

Benefits from value added products, are reflected in actual revenues achieved - coming through the price variance.

There is no rebasing of prices, nor adjustment for grade.

As before, the cash cost variance excludes the effects of inflation, energy costs, and exchange rates.

All other costs have been taken on the chin, for example the current headwinds on input prices for coke, pitch and caustic, have not been forgiven.

We have adjusted for tax.

On a post-tax basis, the total productivity improvements, including what was achieved in the first half of this year, amount to $0.5 billion.

We then adjust this total to align with the rigorous measurement principles for the productivity programme that we outlined in December.

As a reminder, this means removing the impact of assets that are scheduled to close in the next 5 years.

So we remove the contributions from Argyle and OT open pit.

Non-managed operations are excluded, and we therefore adjust for any cash cost and volume contributions in 2017 from Escondida and Grasberg.

We also exclude volume principally arising from growth capital expenditure.

So we adjust Iron Ore, where we are not counting any volume growth until after AutoHaul is complete.

That brings us to a total contribution for 2017, from Mine to Market productivity of $400 million, post-tax free cash flow.

Slide 15 – Productivity programme delivering on $5.0 billion of productivity by 2021

To successfully deliver our Mine to Market programme, we must ensure that these benefits are sustainable and embedded.

In addition to the $400 million achieved in 2017 and carried into this year, we are also expecting a further $600 million improvement in 2018.

Against this however, we expect cost headwinds of approximately $300 million in 2018, as raw material inputs, primarily in our Aluminium business, continue to increase.

This will take total productivity improvement for 2017 and 2018 to $1.1 billion, on a cumulative basis.

Comprised of, $400 million in 2017 repeated in 2018 and a further $300 million net in 2018.

We've just started on our productivity programme, and we are confident that this will deliver an additional $5 billion of cumulative free cash flow to the business by 2021, with an annual exit rate of around $1.5 billion.

This exit rate is the key metric.

We are focusing on maximizing the cash generated by the business, by improving both our operational and commercial outcomes.

Slide 16 – 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 expected 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**.**

We will now discuss each of these categories.

Slide 17 – Sustaining capital and compelling growth

Capital spend for the year was $4.5 billion, of which $2.0 billion related to sustaining our current operations, and $2.5 billion on our compelling growth options.

During the year, we completed the $338 million Silvergrass project, with commissioning occurring in the fourth quarter. The mine will continue to ramp up, and delivers around 10 million tonnes of low-cost additional capacity, supporting our highly valued Pilbara blend product.

The Amrun Bauxite project in North Queensland is on track to deliver first ore in the first half of 2019. During the year, we installed both the wharf and the plant beneficiation modules.

At Oyu Tolgoi, we saw a ramp up of spend in 2017, as we continued to mobilise contractors.

We have recently completed the sinking of Shaft 2 and the lateral development is on track.

An annual project review was completed during the year, and we remain on-track to deliver first drawbell production in 2020.

Autohaul is progressing, with around 60 per cent of all train kilometres now completed in autonomous mode, and we are on track to have this fully operational by the end of this year.

Total approved spend on this project is $940 million.

Capex guidance for 2018 remains at around $5.5 billion, and we will spend around $6 billion in each of 2019 and 2020.

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, and at Oyu Tolgoi we are spending around $1 billion in each year, including planned funding for a power station from 2019.

Both of these projects are highly value accretive.

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

We will spend $2.2 billion on replacement mines over the same period, and starting in 2019, we expect to see spend coming through for the Koodaideri mine.

One of the advantages of a strong balance sheet is the ability to drive future returns.

When we make capital allocation decisions, we will ensure that we only fund the best projects.

Slide 18 – Strong balance sheet

During 2017, we reduced our net debt to $3.8 billion, a 60% reduction from the end of the previous year.

There are two things that we want to point out here, that are factored into our thinking.

The first is the $1.9 billion ‘on market’ Rio Tinto PLC share buyback programme, announced in September 2017 following the Coal and Allied divestment.

This buy-back will be completed by the end of this year.

The second is the final tax payment for the Australian tax group, for the full year 2017, which is due in June this year.

This is around $1.6 billion Australian, or approximately $1.2 billion US at today's exchange rate.

The timing of cash tax payments always creates some transfer across the accounting period, but this is an unusually high amount, arising from the increase in iron ore earnings in 2017 versus 2016.

Taking account of the tax payment, and the previously announced buy-back we finish the year with adjusted net debt of about $7 billion.

From 1 January 2019, there are accounting standard changes including the treatment of leasing arrangements. The exact outcome is still to be determined.

We will update our guidance for any impact from these changes, later in the year.

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 19 – Disciplined allocation of strong cash flow in 2017

Following stronger prices in 2017, cash generated from operations increased by 64 per cent to $13.9 billion.

We also generated additional cash from asset disposals of $2.8 billion, meaning that we have $16.7 billion available to be allocated.

$2 billion was allocated to sustaining capital and a further $2.5 billion to compelling growth.

We reduced Net debt by $5.8 billion.

As we saw on the adjusted balance sheet, $1.2 billion of this will be used to pay tax in June.

$6.3 billion was returned to shareholders during 2017.

$1.9 billion arising from the Coal and Allied disposal was allocated for a supplementary PLC buy-back in September of last year, but will be completed during 2018.

Therefore $8.2 billion, or 49% of total cash generated in 2017, was allocated to shareholder returns during the year.

Let us now look at our shareholder returns policy and how it has been applied.

Slide 20 – Application of the returns policy

When we announced the new policy in February 2016, we told you that its aim was to ensure that we could continue to invest in value accretive growth through the cycle, maintain a strong balance sheet and continue to pay superior returns.

Our results today show that this policy is working.

We have delivered strong results this year, with solid margins and cash flow of $13.9 billion.

We have a defined growth pipeline of high value projects which we continue to deliver.

Our balance sheet is robust – and a distinct competitive advantage.

The flexibility of the new returns policy means that as anticipated, shareholders are participating more fully in these returns.

We have again been able to distribute above the top end of our guided 60 per cent of underlying earnings.

Since introducing the policy, we have stepped above the range at each opportunity.

Let us look at the breakdown of returns to shareholders, first of all as cash returns paid in 2017, and then on a declared basis.

Slide 21 – Deliver superior returns for our shareholders

During 2017 we paid $6.3 billion in cash to shareholders.

This amount reflects:

- The final dividend for 2016 of $2.2 billion, or 125 cents per share, which was paid in April last year
- A $0.5 billion buy-back programme announced at the annual results last year which was completed 31 December 2017
- The interim dividend of $2 billion, or 110 cents per share, declared in August and paid in September of 2017
- An additional $1.0 billion share buy-back announced at the interim results in August, which was also completed by the end of 2017, and
- The off-market buyback in Rio Tinto Ltd of $0.6 billion, relating to the Coal and Allied proceeds, which was completed in November of 2017

The $2.5 billion supplementary buy back was split between the shareholders of Rio Tinto Ltd and Rio Tinto Plc in the weighting of the DLC, as you will see on the next slide.

$1.9 billion of this remains to be completed in 2018.

Slide 22 – Delivering superior returns for our shareholders

On a declared basis, returns relating to the 2017 year, amounted to $9.7 billion in total. $5.2 billion of dividends and $4.5 billion from buy-backs.

Payments to be made in 2018, include the final dividend for 2017 of $3.2 billion, and today's $1 billion of share buy-back.

There is also the $1.9 billion of share buy-back arising from the Coal and Allied disposals.

The actions of the last 5 years, and in particular the application of the new returns policy, demonstrate 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 23 - J-S Title slide

Slide 24 – Global macro indicators remain supportive

Thanks Chris. Now let’s look forward. We remain positive about the outlook for the industry.

Global growth is solid and turning to China, we are optimistic about the medium to long-term.

However, as we flagged at our Investor Seminar in December, we could see a slowdown during this half.

In particular, construction, infrastructure and automotive demand growth may weaken.

The Party Congress re-stated its focus on environmental performance, starting with the steel industry.

This has resulted in high premiums for our products, such as our Pilbara Blend.

Longer term, the Belt & Road Initiative will create further opportunities in the infrastructure and construction space.

We are also well placed to benefit from the growth of EVs with our copper and aluminium offerings.

But, we do see some volatility and uncertainty in the year ahead. And signs of inflationary pressure.

This is why productivity is so important.

We remain absolutely focused on driving strong performance across the business.

Slide 25 – Impact of China policy changes on steel capacity

Let’s take a look at steel fundamentals in more detail.

This chart shows that we can expect to see around a 5 per cent reduction in steel capacity in China due to supply-side reforms in 2017 and 2018.

In addition, further reductions in capacity will occur over the winter period as a result of environmental policy impacts.

This is good news for Rio Tinto's Pilbara Blend, which meets the high-quality requirements of our Chinese customers.

Slide 26 – Impact of China policy changes on Aluminium capacity

Let's turn to Aluminium. We remain very positive about demand.

We see annual growth of around 4 per cent and expect this trend to continue over the next 15 years.

This is underpinned by growth in the transport sector, with the uptake in electric vehicles.

The fundamentals of the supply side are looking increasingly favourable.

China is enforcing cuts to illegal capacity, and close to 1.5 million tonnes of illegal production was removed in 2017, with an impact of 3.8 million tonnes removed by the end of the year.

But it is still early days on how this plays out.

In the short term, this is driving market tightness.

And this is expected to result in balanced inventory levels of 7 to 8 weeks before the end of this decade, much earlier than we previously expected.

More significantly, over the medium to longer term we expect China to be broadly balanced in aluminium, which creates significant implications for supply from the rest of the world.

This could be a turning point for the aluminium industry, for which we are uniquely positioned with our 2.3 million tonne hydro-powered Canadian smelters.

And of course, we remain optimistic about copper because of constrained supply and rising demand from electrification.

Slide 27 – Our product quality is delivering a significant competitive advantage in commodities with strong demand

Rio Tinto's world-class assets producing high-quality products are well placed to meet the attractive industry fundamentals I have just described and the demands of our customers.

- Our WA iron ore business delivers industry-leading margins. It is ideally placed to serve the needs of our customers with its high-quality product and we have multiple growth options at low-capital intensity
- Our position in bauxite provides attractive growth options which we can trigger when there is market demand
- Our first-quartile smelters in Canada are the most profitable and energy efficient in the industry, with attractive brownfield options
- In Copper we have large, high-quality, expandable resources at Oyu Tolgoi and potentially Resolution. Copper is a primary area of focus for our Exploration team
- And our high-quality E&M portfolio has already shown its capability to increase supply into a growing market

We have significant capacity and flexibility across our entire portfolio to deliver low-capital, high-return growth.

There is no better example of this than the Pilbara.

Slide 28 – Developing a flexible value over volume Iron Ore system

The Iron Ore team is focused on optimising our full system in the Pilbara.

In previous years, we have been constrained by rail capacity, a bottleneck we are working to eliminate.

While 2017 maintenance work removed some restrictions, ongoing work is required in 2018 to improve overall asset condition and prepare for future productivity.

This work includes the increased tones expected from AutoHaul.

We want to increase rail capacity to be greater than both port and mine capacity.

This will enable the system to have extra sprint capability.

Shipping a record 90 million tonnes in the final quarter of 2017, demonstrated the capacity and flexibility we are developing.

Slide 29 – Delivering $5 billion of additional free cash flow from productivity

Mine-to-market productivity featured at our Investor Seminar in December.

It is a key focus for all of us across the business.

And it becomes even more important with the cost headwinds facing the industry in 2018.

For us, productivity is about making processes more efficient.

We can deliver more material at the same cost, or the same material at lower cost.

Let me be very clear, it is a multi-year journey to fully embed mine-to-market productivity.

But it will become the way we do business.

We are looking at best practice outside our industry and building our technical and commercial capability.

The Commercial team is working hand-in-hand with the product groups to grow value across customer and supplier chains.

We already have real momentum towards our annual exit rate of $1.5 billion in additional free cash flow in 2021.

Slide 30 – High-return growth

When it comes to growth, we have attractive options across the entire portfolio.

In making capital allocation decisions, we only pick the best options available to us.

We hold a watching brief on smart M&A.

Yes, we do have the capacity to add attractive assets but we will do so only at the right value.

Quality growth projects such as Amrun and the OT underground will deliver IRRs in excess of 20 per cent.

OT is one of the few copper growth projects in the world.

The underground project is 18 months into a five-year programme and is well on track. I saw it for myself last month and the progress is impressive. I spent time with the Prime Minister and we are working with the Government of Mongolia to strengthen the relationship.

On the broader growth outlook, we continue to evaluate exciting medium to long-term opportunities.

But let's be clear our value-over-volume principle will always apply.

Slide 31 – Strategy will deliver value through the cycle

Looking ahead, we will maintain our strong performance by focusing on our
4Ps strategy:

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 32 – Continuing to deliver superior returns

So, let me wrap up… every decision we make at Rio Tinto will prioritise value over volume.

And we are continuing to deliver.

We generated $13.9 billion of cash in 2017- and we will continue to drive cash from our world-class assets...with an additional $5 billion free cash flow to be delivered by 2021 through our productivity programme.

We continue to manage and shape the portfolio to raise returns from our asset base and our strong balance sheet will enable us to quickly respond to any investment opportunity that fits our strategy

And we are again delivering superior cash returns to shareholders, declaring $9.7 billion in 2017.

2018 will bring challenges.

For example, as I have already said, we will see cost inflation coming back.

But Rio Tinto is in good shape.

We have a resilient business, world-class assets, committed employees and the right strategy.

More importantly we have significant momentum.

We will continue to deliver superior value to shareholders through the cycle and to invest for the long term.

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

And now questions.