Rio Tinto
Annual report

Keeping the world moving

2017
How would you describe the past year?

It would be a bit of an understatement to say it’s been exciting. We announced the Alcan deal in July. We successfully closed it, as we said we would, in October. The integration with Alcan is going well and we are looking forward to reaping synergies of US$940 million per annum by the end of 2009. The acquisition of Alcan is just the beginning. In May and June, we announced major expansion plans in iron ore and uranium, and we followed this with further expansion announcements in the fourth quarter. We predict rapid expansion in iron ore and strong prospects across our portfolio of assets.

I deeply regret that four people lost their lives at operations we manage. I am pleased to see a continued reduction in the lost time injury frequency rate and the all injury frequency rate.

What is the plan?

Rio Tinto is all about value, and 2008 heralds a greatly expanded development pipeline. Major investments in growth projects made or approved in 2007 total US$46 billion. This includes the acquisition of Alcan Inc. for US$38 billion, and, on a 100 per cent basis, construction of two new iron ore mines in the Pilbara of Australia for US$2.42 billion, the underground development of the Diavik diamond mine in Canada (US$563 million) bringing total investment in the underground mine to US$787 million, the expansion to 30 million tonnes per year of the Hope Downs iron ore project (US$350 million), the Yarwun alumina refinery expansion to 3.4 million tonnes per year (US$1.8 billion), the Cape Lambert port expansion to 80 million tonnes per year (US$860 million), the US$991 million investment in the extension of the Kestrel coal mine and US$300 million for the Eagle nickel project in the US.

To feed a metal hungry world we have the people, execution capability and resources to deliver these projects better than anyone else.

Is this fast growth profile a departure from your strategy?

I am a strong believer in our core values and our strategy, which is to invest in large, cost efficient, long life assets and to leverage these with the people, capital, and technologies to create enduring value for our shareholders. There has never been a time when a development pipeline like ours is worth as much as it is today. Our plans are all aligned with our strategy. What has changed is the market environment, which is the strongest it has been in a generation. Our proven strategy positions us to meet the challenges that this level of demand imposes. We intend to stick to our mantra around value, but we’ll need to do this faster and better than anyone else. We’ll be doing this by bringing on more resources, which we can develop at a faster pace, which can be sold at higher prices. This is what we’ve been doing this year, and this is what I intend to continue to do into the future.

One thing that we must take account of in applying our strategy going forward is that the world is rapidly changing and we have to change with it. The world’s best orebodies include many beyond our Australia and North America heartlands, so we cannot afford to ignore more challenging parts of the world. While being sensitive to government and stakeholder expectations, we have to be capable of operating
where the world’s leading orebodies are located. We are also in the midst of a period of unprecedented industry change. We should not assume our asset and business mix is static. We should continue to be alert to value adding investments and portfolio changes where we see opportunity, and where we can deliver competitive value in line with our strategy.
How long will the current market environment last?

Over the past five years we have watched the growth of China and its impact on our business with an initial measure of optimism and healthy scepticism to now what I would best describe as very high expectations based on real facts. Markets are entering the fifth straight year of demand strength with virtually all minerals and metals prices at levels significantly above their long term historical trends. We are continuing to see a fundamental shift in the global economy towards fast and resource intensive growth as countries like China and India continue to industrialise, urbanise and expand their per capita GDP, and I would expect these conditions to continue for some time, perhaps for several decades. With this strong demand, supply growth continues to be constrained, held back by literally decades of underinvestment in people, in exploration and resources, and in mines and infrastructure. While this bodes well for the future, it is of absolute importance that our mines and businesses stay globally competitive and sufficiently robust to weather any possible downturns.

But what about the slowdown in the US?

I think we should be insulated from the effects of a major US slowdown. While many of our markets, like North American copper, aluminium and industrial minerals, depend on important sectors like US housing, our overall business is increasingly focused on global demand trends. Clearly China, and to a lesser extent India, has become extremely important to these global trends, and this will be even more so in the future based on strong demographic and economic growth prospects. The importance of the US has declined substantially relative to that of China since 2000. Specific examples include seaborne iron ore, where the US is a negligible market participant, or copper and aluminium, where China now consumes more than twice as much as the US. The key issue for the health of commodity markets over the medium term is the magnitude of any negative spillover effect from a slowing US economy on economic activity in the rest of the world and China in particular. We don’t think a recession in the US will have a significant effect on demand for steel, copper and aluminium in China. If there is a recession in the US, the impact on growth in Chinese GDP is expected to be one per cent or less. This would still leave scope for Chinese growth at levels of ten per cent. For India, the impact of any further US slowdown would likely be smaller because of India’s more limited exposure to world trade.

How do you describe Rio Tinto’s performance in 2007?

Rio Tinto set new annual records for production of iron ore, bauxite, alumina, aluminium, refined copper and refined gold. Production is running at full tilt and accelerated in the second half. Our excellent production results show the momentum in our business and the volume growth that is the fruit of our investments over recent years. With significant expansions on track in iron ore and in aluminium, as well as the contribution of the Alcan acquisition which creates the world’s leading aluminium producer, 2008 is set to see an acceleration of this growth.

What are the highlights of your growth plan?

Additional phases of development are being considered to increase production in 50 Mta/a increments to 170 Mta/a.

Rio Tinto has 1.9 billion tonnes of ore reserves and 12.3 billion tonnes of iron ore resources in the Pilbara. Exploration is targeting to increase the mineralisation inventory to between 20 billion and 30 billion tonnes. Exploration drilling at Simandou has also been active with more than 35,000 metres undertaken in 2007. At Simandou we are targeting to add between eight billion and 11 billion tonnes of iron ore mineralisation to Rio Tinto’s inventory.

The targeted mineralisation in both the Pilbara and Simandou areas is based on an assessment of tenure areas using surface mapping, drilling results and other information. Technical and economic studies are not complete to enable classification as mineral resources or ore reserves, but results so far provide an indication of just how much potential we have in these areas.

In aluminium, Rio Tinto Alcan is the global leader in bauxite production and aluminium smelting with low cost capacity derived from a unique combination of sustainable hydropower and industry leading technology. With the commissioning of the Gove expansion and the expansion at the Yarwun refinery in Australia under way, we are also on a path to become the world leader in alumina production, doubling capacity by 2015. The integration with Alcan is expected to yield US$940 million per year in operating synergies by 2008, US$340 million per year more than was estimated at mid year. We have a range of smelter upgrades in Quebec and British Columbia planned, in addition to greenfield projects in Oman, Malaysia, Saudi Arabia, Abu Dhabi and South Africa, plus other projects just entering the development process. Global aluminium demand is growing strongly. Global consumption grew by more than ten per cent in 2007, with Chinese growth at 38 per cent. Besides strong Chinese consumption, increased marginal costs of Chinese supply will continue to support this business. However, we will need to be particularly mindful of the impact of a strong Canadian dollar on this business.

In copper, Rio Tinto’s most profitable producer, Bingham Canyon in Utah, offers opportunities for growth, could operate until 2036, and hosts a newly discovered world class molybdenum deposit underneath the current open pit. New porphyry mineralisation has also been discovered below the pit walls and there are more exploration targets within three to four kilometres of the open pit. I am especially proud of everything the team at Kennecott Copper has done, from difficult days just a few years ago, to its current success and its promising outlook. Exploration and evaluation at La Granja in Peru has increased the extent of mineralised material several times since Rio Tinto acquired the property in late 2005. This makes it potentially the largest undeveloped copper project in South America with a possible production rate of up to 500,000 tonnes of copper a year by 2014.

Rio Tinto has a stake in three more of the largest undeveloped copper projects in the world. At Oyu Tolgoi in Mongolia we are targeting to produce up to 440,000 tonnes of copper per year with valuable gold by-products and at Resolution in the US we are targeting an operation of up to 500,000 tonnes per year for 40 years or more. Technical and economic studies are not complete to enable classification of mineralisation of these projects as mineral resources or ore reserves, but our work so far provides an indication of our potential in these areas.

Exploration, southwest of Oyu Tolgoi, has been very promising with a new discovery called Heruga. We also have a 19.8 per cent interest in the Canadian company that controls...
One driver is iron ore, where we have developed a conceptual pathway to more than triple our production capacity to more than 600 million tonnes per annum (Mt/a), primarily from expansions of up to 420 Mt/a from the Pilbara and 170 Mt/a from Simandou in Guinea. At Simandou, feasibility studies are likely to be completed by 2010 for first production to start in 2013 at a rate of 70 Mt/a.

The Pebble copper-gold deposit in Alaska, still in the early stages of planning. We are reentering the nickel market with two significant projects – Eagle in Michigan and Sulawesi in Indonesia – that could make us one of the top nickel producers globally. We announced the go-ahead for Eagle a few months ago. First production is scheduled to begin in late 2009.

The current uranium market outlook is very positive, with prices close to record highs, and Rio Tinto is in an excellent resource position to sustain higher levels of production going forward. With spot prices having risen sixfold since 2004, we have a window of opportunity to lock in higher contract prices over the next several
years. We are already the second largest uranium producer in the world and we have identified significant opportunities to expand our business at Energy Resources of Australia and at Rössing.

In coal, our reserve and resource position is one of the largest in Australia, but performance has been hampered by a lack of infrastructure, the result of a legacy of uncoordinated responses by miners, rail carriers and ports. We hope to see the new government in Australia begin to address this national issue as a matter of the greatest urgency. As infrastructure challenges in New South Wales and Queensland are alleviated and we overcome weather related disruptions, we will enjoy significant brownfield and greenfield expansion capabilities from thermal coal mines such as Clermont and Mount Pleasant and our coking coal mines at Hail Creek and Kestrel. Recently we reaffirmed our commitment to the Australian coal sector with an investment to extend and expand Kestrel. Meanwhile, we continue to explore for coal throughout the world.

Turning to industrial minerals, we have some exciting growth prospects here as well. We are now beginning to see increasing Chinese demand for titanium dioxide feedstock, as we have been foreshadowing for the past several years. China is estimated to have made up 17 per cent of global titanium dioxide feedstock demand in 2007, and this is growing rapidly. Our mineral sands project in Madagascar is proceeding well. The 750,000 tonnes per year operation is due to come on stream at the end of 2008, producing some of the highest grade titanium dioxide in ilmenite in the world. We’ve increased our feasibility expenditure on the Potasio Rio Colorado potash project which remains subject to final permitting and approval by the board.

In diamonds, we are making better progress with the Argyle underground development and the Diavik underground project we announced late last year will extend the mine life beyond 2020. Diavik is without doubt the most profitable diamond mine in Canada.

What are your project priorities?

We are focusing on the commodities closely linked to the metals, minerals, and energy intensive stage of development of the world’s growth economies. Our capital expenditure in 2008 and 2009 is expected to be US$9 billion in each year, primarily on projects in iron ore, copper and aluminium. As I outlined above, we have every reason to have confidence in demand growth in these key areas. For example, China’s steel production is now five times more than the amount produced in the US. China is building from scratch a city the size of Brisbane every month. That takes a lot of steel from iron ore, as well as copper, for electrification, aluminium and other metals and minerals. Last year, China consumed over 30 per cent of the world’s aluminium and this consumption grew at 38 per cent.

What are you doing about rising production costs?

We are a global company and we are applying advantages of scale and breadth to improve efficiencies and create value. Working through our One Rio Tinto concept we continue to improve, with greater cohesion and collaboration, as a single operating organisation. We expect to achieve considerable savings by operating common systems across our diverse business in order to leverage off the critical mass of the whole. This proved successful when applied to our safety systems, how global standardisation and the transfer of best practice between our operations. Our rapid integration of Alcan, with higher than originally targeted synergies, is a great example of these new systems at work.

I envisage that One Rio Tinto will also allow us to be better positioned to introduce innovative technologies across the Group. We are by our nature a capital and process intensive industry, and we are repositioning ourselves from being a fast follower to a targeted innovator of technology in areas where we can make a difference. An example is our goal of developing a fully automated iron ore mine in the Pilbara within the next five years.

Our 2007 second half results show that we are doing better than most in stemming the effects of industry inflation.

Where are new opportunities coming from?

In exploration, we believe we’ve had an unrivalled company track record in discovery among the major mining companies. Many of our major value adding projects are the result of exploration successes, which means they were acquired at a very competitive initial investment. For example, La Granja in Peru was acquired for US$22 million plus a minimum investment of US$60 million and has the potential to become one of the world’s largest copper producers. We’ve maintained our commitment to exploration over the years and the consistency of expenditure and activity over the cycle has produced extraordinary results. Looking ahead, our exploration portfolio is an exciting multi-commodity mix of brownfield and greenfield opportunities spanning from iron ore in the Pilbara to bauxite prospects in Brazil, potash in Canada and coking coal in Mongolia. We have an exceptional set of assets and growth opportunities, both in established projects and exploration prospects. We have well trained and motivated people throughout our organisation. And we have a great track record for management delivery in safety, in daily operations and in the execution of our capital projects. We face the future with confidence.

Any reflections on the future?

I’ve inherited a great business and a great organisation. Our primary objective is the creation of further value for our shareholders in a market environment that is nothing short of spectacular. Rio Tinto, with its 135 year heritage of assets, its strong organisation, people and prospects, is well positioned to capitalise on the terrific opportunities available at this point in the market cycle. We cannot rest on our laurels though, and the fast pace of events in 2007 should be seen as a guide to how we have to look to the future, being ever more competitive in an ever more dynamic world. The modernisation of our head office, introduction of our new Rio Tinto brand, and the development of new global systems under a unified One Rio Tinto is all evidence of this vision. I’m very excited about the way things are going and our plans for value creation for the shareholders of Rio Tinto.

In closing, I would like to express my thanks and appreciation to all Rio Tinto people around the world for their strong support and dedication at this time.

Tom Albanese Chief executive
we run procurement, and in implementing our business improvement programme *Improving performance together* (IPT). In the two years of the IPT programme it yielded more than US$800 million of extra value and I fully expect this to continue to grow under *One Rio Tinto*. We have a target to reduce corporate function costs by US$500 million before 2010. Every effort is being made to capture the benefits of