

## **Pioneering strategic partnership with Chinalco and Full Year Results 2008**

### **US Conference Call – 12 February 2009**

MR. TOM ALBANESE (Chief Executive Officer): Thank you all for joining us today. As you will have seen, we announced this morning a strategic partnership with Chinalco that delivers US\$19.5 billion in cash to Rio Tinto.

This represents a significant premium to both asset and share values and the Rio Tinto Boards are in no doubt that the transaction provides far greater value to Shareholders than any of the other alternatives we considered. The Rio Tinto Boards unanimously approved the transaction, recommending it to Shareholders.

The investment by Chinalco of \$19.5 billion in Rio Tinto will be for a combination of asset level investment and the issue of Rio Tinto convertible bonds. Three joint ventures will be created: aluminium, copper and iron ore, that will deliver \$12.3 billion and a balance and \$7.2 billion will be gained through the issue of convertible bonds.

If those bonds are converted Chinalco current stake of 9.3 per cent in Rio Tinto will rise to 18 per cent and would then comprise 14.9 per cent of Rio Tinto Limited and 19 per cent of Rio Tinto PLC. Simply put, Chinalco has paid 18 per cent of Rio Tinto's current market enterprise value for an 8 per cent share of attributed EBIDTA, based upon the 2008 second half.

In other words, Chinalco has invested in the strategic joint venture at a premium of 124 per cent for the current market enterprise value. These values would have looked good before the financial crisis and today represents outstanding valuation. The transaction will provide a significant strengthening of our balance sheet and reduce our level of debt.

Alongside it is a comprehensive package of benefit that provides a sound platform and flexibility for future growth. I do believe Chinalco is an ideal partner for Rio Tinto. This agreement does strengthen Rio Tinto's balance sheet and over delivers on our commitment to pay down US\$10 billion of debt this year.

It provides us with flexibility at all points in the cycle while positioning Rio Tinto at the forefront of industry trends involving China and the Developing World. Chinalco's strong commercial focus and natural strength make it an excellent partner for Rio Tinto.

And finally, Chinalco's investment includes a substantial premium, which is a vote of confidence in Rio Tinto's strength, its growth prospects and the outlook for the commodities we produce. It offers superior value for Shareholders.

But, before taking your questions, I would like to turn briefly to our Annual Results.

Despite the rapid deterioration in global demand in the fourth quarter, this result included a 60 per cent increase in underlying EBITDA and a 30 per cent increase in underlying earnings, as well as record cash generation of over \$20 billion for the year.

As we said in December, we have responded to the sharp decline in global demand by reducing capital and operating costs and adjusting capacity where appropriate, and by expanding our list of possible assets for disposal. You will find details of the work in progress in the results press release.

Highlights for the year included record underlying EBITDA of \$22.3 billion and record underlying earnings of \$10.3 billion; over \$2 billion a month of cash flow in the second half of 2008; capital expenditures of \$8.5 billion, 71 per cent higher than in 2007, and of course record production in iron ore, in bauxite, in aluminium and US coal.

The successful integration of Rio Tinto Alcan continued and is on track to deliver \$1.1 billion of extra tax synergies in 2010, with an above target of \$585 million of actual tax synergies achieved so far in 2008.

Clearly we have had to make some non cash impairments relating to Rio Tinto Alcan. These are partly of the downstream assets but mainly due to the accounting treatment of goodwill and do not have an impact on the ability of the business to generate cash. The business of Alcan remains a cash generative business and a driver of long term value for the Group. The fundamental reasons for buying Alcan remain in place.

As I said back in December, during 2009 capital expenditures have been reduce to approximately \$4 billion and controllable operating costs will be reduced by at least \$2.5 billion in 2010, including global headcount reduction, totally 14,000 contractor and employee roles world wide. We are now halfway to reaching that headcount reduction target.

We have also widened the scope of assets targeted for divestment to reduce net debt and already this year we have sold our potash projects and Brazilian iron ore assets for US\$1.6 billion.

Our unique portfolio of long life, low cost assets is capable of generating strong returns throughout the cycle and management remains resolutely focused on ensuring that it continues to do so.

The decisive measures we have undertaken by ourselves, together with the Chinalco transaction, removes in one go any financial uncertainty around our balance sheet. We do not know how long the current downturn will last, it could be two years, but we do know that we are now ideally placed to benefit from any upturn should and when it arises.

So thank you and, with that, I'll take questions. Operator!

OPERATOR: Thank you. Ladies and gentlemen, if you wish to ask a question please press "7" on your telephone keypad now. If you change your mind and want to withdraw your question please press "7" again. I will advise you when to ask your question.

The first question comes through from the line of John Tumazos. John, your question please!

QUESTION: Have you calculated how much the pre tax gain or loss might be on the aggregate of the \$12 billion asset transaction with Chinalco?

MR. ALBANESE: I think that as we go through the process of completion, the close, that will certainly gives us an opportunity to look at this on terms of what the pre tax themes would be.

I think it is fair to say that for the most part, in aggregate certainly, these valuations not only are they above by a long means the inputted value through our current enterprise value and also above – we would like to see analysts as they do own work - but we see as most people's NPV valuation, but certainly they would be well above what we would have on the books for these assets.

QUESTION: With regard to capital spending in 2010 or 2011, what proportion would be contributed by Chinalco via the working interests or because it is an indirect structure would there be no such contribution?

MR. ALBANESE: Well I think, like our other joint ventures - let's just use as an example, I would say a 25 per cent interest in Kennecott Utah Copper - if we have a project that would cost \$100 million of capex, they put in \$25 million and our net capex would be \$75 million. That would be the normal way we would do that.

QUESTION: So they would be picking up half of the La Granja, for example?

MR. ALBANESE: Or 30 per cent of La Granja, yes. So I think then as we go forward, again for 2010 and 2011 to some extent our total aggregate levels of capital will be related to the economic conditions at the time. As we stand, in a period of weak economy and capital constraints, we would be bringing our spending down towards sustaining capex levels. Certainly we have more flexibility than that in this market, but realistically I would want to see some credible and meaningful signs of an economic recovery.

That's what the benefit of this would be, is that this allows us to ride out two years of tough times. In our meetings with Shareholders during the course of November and December, when we announced the \$10 billion, they said, well, we do see that in, say, a central estimate case with some recovery. For the 'V shape' \$10 billion is probably enough but our concern is that this is not a 'V shape', and that this is a period of sustained economic recession that we have got to weather through.

The \$10 billion debt reduction commitment we made in December would not necessarily cover you through 2010 in those downsized price cases. I think that was a legitimate concern our Shareholders expressed and certainly one of the merits of this transaction is it provides us with a greater level of financial flexibility, financial firepower in a weaker economic environment, if we were to see that.

Now if we don't see that and we start to see opportunities for recovery during 2010 it allows us to put some of those growth projects in place sooner than would otherwise have been the case.

QUESTION: Thank you for your time today on the call. Two questions: if I could start off with the first, regarding the transaction. I think you have answered the question of whether Chinalco would be allowed to vote its approximate 10 per cent stake or not. Given that if you assume half the Shareholders that never vote on anything, a 10 per cent stake would be material if you take 15-20 per cent of 50 per cent effectively to vote. Do we have any timetable on whether they would be permitted or not?

And you did mention I think on the transaction, between quarter 2 and quarter 3 that's obviously still very wide open. Are you still requiring the various approval processes to be completed before we have a more exact time?

MR. ALBANESE: First of all, I think with that question in mind, a bit of clarification to answer that question, my understanding is that we shouldn't assume that Chinalco would be allowed to vote because of the related-party nature of their ownership. I think that would be the working assumption we would go with although I think as Guy said, we will be confirming that as we go through the normal course of events.

I think we have talked about late second quarter/early third quarter as a real determinant, for the timing of the Shareholder vote will be as we go through the various regulatory approvals, and realistically the critical path would be the Australian FIP approval, and that has roughly 120 to 130 days timeline depending how you work it, and realistically I think that given the size of the transaction we would expect that they will take, they would expect respect our process, but they work through the timeline as they would need.

QUESTION: Thank you. Have you had any, if you like, off the the record discussions with the Australian Government or with FIRB and can you give us any colour please on their indications to date?

MR. ALBANESE: I think that there is a recognition - again the Australian Government has to make these decisions and we wouldn't want to pre-empt their thinking - but I think there is a recognition that what the Chinalco transaction does is it brings additional capital into the Australian economy, and again it is a good time to bring in additional capital to any economy certainly in these recessionary times.

QUESTION: Thanks very much. Hi Tom! Tom, you've indicated that you considered other alternatives. I was wondering if you could just expand on those for a moment with us?

MR. ALBANESE: Okay. Certainly from the perspective of the UK press there has been no shortage of speculation that one of the things we were looking at was a Rights offering in a more conventional sense. I just want to say a few things about that.

First of all, anyone thinking about opportunities for Rights offering would recognise that \$19.5 billion is not doable in these markets. It would be something quite a bit lower than that, probably something closer to the \$10 billion range at the most.

And I think that gets to one question I made early, and that is that \$10 billion of debt reduction, whether it is through Rights offering or whatever, doesn't necessarily see you through the two year question, if depending on your own views of the market and whether we are seeing two years of difficult economic times.

I think the other thing is it is about value, and again this all has to be about value. The sheer premiums that are being attributed to the assets compared to NPV or compared to EBITDA, or compared to anything, any kind of multiple, in conjunction with the fact that the convertible has a strike price that in the first tranche is more than 50 per cent higher and in the second tranche more than 100 per cent higher than the current market.

These are premiums that you are not seeing anywhere in terms of convertibles and certainly not in the current interest rate environment that we are getting, and certainly not of the size of the transaction we are getting.

So between the size of the transaction, the sheer premiums, the avoidance of dilution that, say, a conventional Rights offering had a deep discount – and again the market has some comparables to suggest that it would be at a deep discount – suggests that this is a much more attractive alternative for Shareholder value and certainly fills the kitty with the capital to provide in what see as the potential for some difficult economic times.

QUESTION: Okay. Also, I was wondering if you have had any discussions at all with your partners in these various assets around the world in terms of their pre-emptive rights? I certainly think that Escondida comes to mind with your partner there, BHP, having such a large ownership stake, and what their thought might be on this?

MR. ALBANESE: Well, I think that ever since we expanded the assets that we were considering for sale on December 10th, over two months ago, we have had no shortage of enquiries from all the major players, including joint venture partners.

It is fair to say to the extent that we would have seen numbers we would have found attractive, such as what we saw with the Vale deal, we would have moved our pace quickly. It is also fair to say that what has been presented to us, and what we have negotiated and agreed upon with the Chinalco transaction, is a sizeable premium to what anyone else would have considered during that period of time.

QUESTION: Okay. All right. Thank you very much. And I guess the one final question would be, in terms of how you view any potential changes here, if you look at the iron ore market, which has been an oligopolistic market over a long period of time, do you need any changes in particular in this market in terms of the structure now in which you have a major customer?

MR. ALBANESE: Well, we don't use words like that. We do recognise the nature of the iron ore markets and the structure and I don't see this in any way changing it in any way. I just want to absolutely assure you we have had a long experience of having joint venture relationships with steel mills, joint venture relationships with the Japanese, with the Chinese, in our iron ore ventures and they have had no effect on our pricing negotiation.

As a matter of fact our major competitor in the Pilbara also has the equivalent type of joint venture partners with Asian steel mills. This is part and parcel of strategy and is part of parcel of Rio Tinto's business, and we have been doing the same for years, literally for decades.

QUESTION: The Yarwun terms look like they were slightly below book value, not giving effect to the economies of scale as it expands and maybe reflecting grades of 62 cent metal. Could you elaborate on the 124 per cent premium for 8.7 per cent of EBITDA as it relates to current aluminium and copper prices that might be significantly different than the second half of 2008?

MR. ALBANESE: Well, let me just say that again we negotiate all of these as a package with individual allocation, so Yarwun I think would to some extent reflect the fact that alumina is changing a bit. But they have to contribute to their ongoing, and with 50 per cent the balance of the Yarwun II, and that has to be recognised as part and parcel of those allocations.

We used the second half of 2008 because it was probably a more accurate reflection of the current markets and the full year of 2008, because half of the second half of course would have been the stronger, half would have been weaker, whereas if we would have used the full year we would have had three strong quarters and one weak quarter.

What we are trying to do is to give you some actual financial results to make that comparison. Realistically when we did the analysis ourselves we did it on a NPV basis. They are still attractive on an NPV basis, which of course are higher copper prices and much high aluminium prices than the current market.

The challenge right now with NPVs is that there has been so much change in market sentiment that there are so many price assumptions at perhaps lower price curves, depending on whether you've updated a month ago or two months ago or three months ago, and so there is a fairly wide range of price series.

From our own perspective, this is attractive in virtually all of those ranges of price series, but we wanted to give something that you can specifically measure against actual results, so we did it on the basis of the second half of 2008 as the best proxy for measurable value.

QUESTION: A couple of questions. The first one is I think, or I guess, a follow up on the previous question. I think one of the concerns the market seems to have is about the potential of an armslength relationship, given that your Shareholder is effectively a government owned Chinese entity consumer, from our view.

As you said, you have experience and your competitors have experience of joint ventures with steel mills and so forth, but this is I would say a quasi government entity which may have some strong opinions on where the prices are going of course. Maybe if you can address a little bit what safeguards you are going to put in place to address that concern? That's my first question.

MR. ALBANESE: Definitely! Let me just answer that one because it is a very important question. When the Japanese steel mills starting investing in Australia it was very much under close formation with FIRB at the time, and I would say that there is reasonable collaboration within Japanese industry, so you are talking or you are getting some common views.

And it is fair to say I got very clear common views from the Japanese steel mills last year when we speaking for freight differential. They were quite unhappy with us and they were quite protesting; I kind of got that also from the Chinese steel mills. But at the end of the day they were on the other side of the transaction, they got those higher prices through their joint venture interests.

To some extent it was a hedge and again at the higher price received for the iron ore mitigated their cost base vis à vis their cost of import. There are many ways of saying this, but not what I call that negative effect.

I think that again the business of iron ore negotiations, the business of bulk product negotiations, take place at the product group level. The chief executives, myself, are very closely attuned to that and would be involved with the decision making process when we get down to it. After we make the decision, after we have finalised it, then we tell the Board what we have done; the Board is not involved in that negotiated process.

And to the extent that there are Board members, and sometimes we have Board members that are also affiliated with customers, if there is any discussion about their respective sectors, as you expect with good governance they step aside. They extract them and are never involved in those individual discussions.

So again we are very clear that this all about maximising value for Rio Tinto Shareholders and you can be assured that the systems in place, the infrastructure in place, is no different within the marketing agreements here that we would have with existing joint ventures: the Robe River joint venture with Nippon Steel or the Channar joint venture with Baosteel.

QUESTION: And then the second question is what is the timing of the Shareholder vote, what is the anticipated timing? And then I have a follow up to that.

MR. ALBANESE: Again I think what we would expect to see is that to take it through the various approval processes, and then once those have been satisfied to go to the Rio Tinto Shareholders for both votes, as Guy described this morning. We would expect the critical path for that being the FIRB process which will range between 120 to 130 days in their duration. That will probably put the Rio Tinto Shareholder votes probably toward the back end again of the second quarter, the first part of the third quarter.

QUESTION: And then finally, the way I am thinking about it and correct me if I am wrong, is basically what you have done is create an excellent "put" option for Shareholders, because if you look out, say, two or three months from now and if things are much worse than where we are today I guess it will look like a brilliant deal. If we look out two or three months from now and say things are much better from where they are today, can you just pay the break up fee and walk away? I know that is not the intention right now

MR. ALBANESE: I think we see this as being a good deal in virtually any economic scenario we can sort of paint for the next several months and probably for the next year or two, but again there is no such thing as the end of our ability.

The break fee, maybe just to answer if I can, the break fee is there to really ensure that the Rio Tinto Boards can look after their fiduciary responsibility to Shareholders on anything that may transpire between now and the Shareholder vote, and again I think that's normal and customary for these types of transactions. So again the Rio Tinto Boards still have their fiduciary responsibilities to maximise value for Rio Tinto Shareholders during this period of time.

QUESTION: I will just go into my last question which is if, hypothetically speaking, someone else thinks that these assets are worth much more or, say, Rio Tinto itself was worth much more, there is nothing to stop them from bidding on these assets, package of assets or collection of them, or the Company as a whole, and I guess you will have to consider that, right?

MR. ALBANESE: Again, as I said earlier, all the documents of this transaction are in the public domain, and that would include the commercial provisions around exclusivity, no shop and break fees. But I would say that the way the agreement is structured the Board of Rio Tinto protects its fiduciary obligations. We cannot go out there and shop, but at the same time if someone were to come to us the Board has to consider its fiduciary obligation to its Shareholders to maximise value.

QUESTION: Thank you. Thanks again, Tom. Two completely unrelated questions; I will do them one at a time.

Why did you take the \$480 million profit on Kintyre Uranium above the line?

MR. ALBANESE: Okay. We have for a few years now – and I have our controller here if he wants to step in – but for a few years now recognise that as we do exploration we will quite often come up with second or third year discoveries that while they might be attractive for someone else these aren't necessary where we want to allocate our capital.

That is not what I would call a discontinued business, but in the normal course of exploration that we want to be pruning and culling those assets that aren't really for Rio Tinto prime time but maybe attractive to intermediate companies.

By meeting the normal course of business, we would see that as something that those profits from those sales, which generally the numbers haven't been that big, would roll through the underlying earnings. So again that is something we have been doing for quite a while; we have established a precedent in that direction.

Now because of the nature of Kintyre, I think the team did a very good job of getting a good transaction for that but also a greater recognition that uranium resources, even slower ones, are quite valuable in this market.

We took an exploration asset which you have been exploring but frankly we haven't been doing a lot of work for about 10 years, and we sold it and monetised it at considerable value, but it was on the same basis of an exploration asset that was being held for development that was probably better suited for a company not of Rio Tinto's size, and again this is just an accounting treatment.

I will ask our controller if he wants to comment on it any further?

Mr. DAN LARSEN: That's right, Tom, I think the key is that when we sell an undeveloped property the gain or loss on that sale would go above or be included within underlying earnings. If we sell a business that gain or loss is excluded from underlying earnings.

So you would have noticed that at the Half Year Results when we sold Greens Creek and Cortez the gain on those two sales, because they are a business, were excluded from underlying earnings, and we have been following that policy for several years.

MR. ALBANESE: In formerly running the Exploration Group I am very familiar with the approach.

QUESTION: Okay, great, I think that clears it up. The second question: Oyu Tolgoi, a great deposit, and geographically very well situated in terms of China, therefore, you would assume strong Chinalco interest, but no transaction there. Was that because of your structure via Ivanhoe Limited?

MR. ALBANESE: Again I think what we want to do is focus on those things that we show our interest. As you know with Oyu Tolgoi, we are working in close co operation and in collaboration with Ivanhoe of bringing it through an investment agreement. It will take us several years to do so. Again I think there is a recognition within the Mongolian Government that they might have missed this copper cycle. I think there is an appetite in Mongolia right now for a development of OT - first and foremost, let's get an investment agreement here.

QUESTION: Tom, I appreciate your comments about the parallels in iron ore to Japan are meaty, but the fact of the matter is clearly China is a much larger component: obviously they have 40 per cent of steel production, 50 per cent of the seaborne trade, so it's a lot larger.

I think the concern that has been voiced to me by many people is that the Chinese would wield a much larger seat at the table, and the concern is that could disrupt meaningfully what has been the supply/demand relationship just because of the magnitude of the size.

MR. ALBANESE: Well first of all, I would say that if you were to go back to 10 years ago the Japanese steel mills' percentage of total Asian business was probably much, much greater than the Chinese current percentage of, say, Asian steel mill business. Again we made that work and I can't see why we make that not work again.

The management of Rio Tinto Iron Ore recognises they are there to maximise value, and certainly that's everything that we would do. I think, as we have seen certainly over past year, that we have done nothing but maximise Shareholder value, whether it was selling the spot early in the year in the face of considerable steel maker criticism or seeking a freight differential and successfully getting it. We have done a pretty good job with our marketing and I would intend to continue to do so.

MR. ALBANESE: Well, thank you very much. Again I just want to thank all of you. We all wished the world was in a better economic state than it is today, but it's not. We know that there is considerable uncertainty. Certainly from our perspective we have made difficult decisions in looking at our capital projects, reducing headcount, selling some assets.

And I do believe the Chinalco transaction represents outstanding value in terms of the premiums applied for Rio Tinto Shareholders and provide us with the financial flexibility and the financial firepower that will benefit Rio Tinto Shareholders.

So again, thank you very much and good morning.

(End of Conference Call)