

MELBOURNE MINING CLUB SHANGHAI

Address by

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THE PENINSULA SHANGHAI

Building our partnership with China

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Introduction

Thank you for your welcome, it is great to be back in China. It is especially good to be here in Shanghai, site of the World Expo where Rio Tinto is a major sponsor of the Australia Pavilion, in a city that has become the symbol of China's economic self confidence.

It is an honour to speak here and tonight I would like to take the opportunity to update you on Rio Tinto's relationship with China. I will talk about our recently announced binding agreement with Chalco for development of the Simandou iron ore project in Guinea; discuss other areas of mutual interest; and look at the future outlook as we see it.

Rio Tinto and China

Because we are in the commodity supply business, China remains central to Rio Tinto's success. We have a long history with commercial ties going back half a century.

China is important to Rio Tinto in many ways, which is why we see the relationship as one between partners rather than simply supplier and customer. Yes, China is our biggest customer, but it is also a leading supplier of goods and equipment to our operations, and home of our largest shareholder, as well as the domicile of our major joint venture partners and 170 Rio Tinto employees.

Since the year 2000, sales to China have risen from a mere 400 million dollars to nearly 11 billion. China accounts for a quarter of our revenues.

Our relationship started with aluminum sales in the 1960s. In 1973, we became the first foreign company to supply iron ore to China when we sent our first shipment from Australia to Shanghai Number One steel mill, which is now part of Baosteel. Ten years later, in 1983, we opened our first office in Beijing.

The person who headed up that task, Ian Bauert, is now managing director in China. Ian manages six representative offices in Shanghai, Beijing and Guangzhou, five wholly owned enterprises in Shanghai and Suzhou and one joint venture in Gansu.

So the historical platform is sound with long-held business relationships. China's phenomenal growth story underpins our long term confidence in this market, and provides us with the belief to maintain our expansion plans in Australian iron ore and elsewhere.

Of special interest to our iron ore customers in China is that in recent weeks we have approved investment funds of one billion dollars for expansion of our iron ore operations in Western Australia, with the goal of creating production capacity of 330 million tonnes a year.

But we're not just working on producing more iron ore for China. We are strengthening our ties with China in other ways. We recently announced

the extension for another three years of a partnership we created with the Australian National University relating to China. The Rio Tinto-ANU China Partnership is helping us develop our strategic understanding of long term developments in China.

As I mentioned earlier, Rio Tinto is also a platinum sponsor of the Australian pavilion at the superb World Expo, which opened here in May. Our Iron Ore product group took the lead in promoting events at the pavilion while ensuring the participation of other Rio Tinto major businesses such as Energy, Aluminium, Copper, Diamonds, Procurement and Marine.

Through our Expo events we are showcasing the longstanding relationship between our Australian operations and China, including the many links through customers, suppliers and joint venture partners. We are celebrating the unique relationships and attachments we share with China, in order to build on these for the future.

Co-operation with China

Rio Tinto wants to build a broad, genuine partnership with China, based on shared interests. We also seek to develop mutual respect and trust. In return, we want Rio Tinto to be a reliable and valued part of China's long term development.

We have acknowledged that we faced some challenges in China over the past year, and I have made it a personal objective to strengthen our relationships here.

I very much appreciate the efforts of our biggest shareholder and China's premier resource company, Chinalco in reinvigorating our relationship in recent months.

In a big step towards one of our key corporate objectives, Rio Tinto and Chinalco's subsidiary, Chalco, signed a binding agreement at the end of July to establish a joint venture covering the development and operation of the Simandou iron ore project in Guinea, West Africa. It was a huge honour for me to be present in the historic setting of the Great Hall of the People in Beijing when our Chairman, Jan du Plessis, signed the agreement with Chairman Xiong of Chinalco.

The binding agreement follows the signing of a memorandum of understanding in March. The agreement covers all aspects of how the joint venture will operate and be governed, including planning, construction and management of the mine and associated rail and port infrastructure.

This exciting partnership creates a very strong development team for production of a commodity important to China. Chalco is an excellent partner for us, bringing valuable skills and capabilities to the project and

giving us access to the infrastructure expertise of other Chinese organisations.

We are confident that the knowledge and experience gained from our previous ventures with Chinese partners such as Sinosteel and Baosteel in the Pilbara iron ore mines of Australia will help make this new joint venture our most successful yet with China.

We will continue to invest in the progress of this important project and anticipate mining operations to start at Simandou within five years.

The agreement further underlines our bond with Chinalco. The company supported us when it took up its full entitlement of shares in our rights issue last year to maintain its nine per cent stake in Rio Tinto, a mark of its continued confidence in the value represented by the investment in our stock.

Chinalco and Rio Tinto share a continued confidence in the long term prospects of the mining industry and the Chinese economy. We know that continued domestic growth is a top priority and that our industries are a big part of that growth plan.

The partnership with Chalco opens the potential for further cooperation with China's state owned enterprises, focused on assisting China to achieve its goal of securing a sustainable supply of raw materials over the long term.

I have two ideas in this regard that I discussed at the China Development Forum in Beijing earlier this year.

My first idea revolves around China's growing interest in acquiring resources abroad, of which the Simandou joint venture is a good example.

China has become a global player in resource development, with mining accounting for about a quarter of China's outbound investments. Yet to develop its overseas brand, China will need to reflect on the global impact of its activities. Mutual cooperation with senior Chinese state owned enterprises on projects abroad could unlock hidden value.

Resource extraction involves not only capital and technology. It also requires a focus on sustainable development, which means earning the consent of the local people, or the "licence to operate". Companies must follow leading practices on environment, safety, and community engagement.

With our experience Rio Tinto can help meet this need. We have developed projects all over the world and have learned the value – in both human and commercial terms – of understanding the social, environmental and economic impacts on local communities.

For example, we have left positive legacies in Africa going back 50 years. We always make sure we create jobs for local people. We are the largest private sector employer of indigenous Australians.

Our Chinese partners will bring their own insights and experience to bear. I have no doubt that each of us has much to learn from the other as we proceed along this journey together.

My second idea revolves around assisting China in the search for world class mineral resources in its own backyard within China. In saying this, let me stress that I recognise China has considerable expertise in this area and that a lot of exploration work is being undertaken in China and that new resources are being discovered here.

That said, however, I do believe that Rio Tinto's long experience in exploring for and finding mineral resources around the world could usefully be brought to bear to supplement China's own efforts. I also see opportunities for us to team up with Chinese companies to explore outside China, bringing both company's strengths to the project.

There is no "magic wand" in mineral exploration. Success requires highly experienced people, rich databases, a deep understanding of conceptual orebody models, robust research and development teams, appropriate technology, and good management, to name a few.

We believe we can bring that expertise and know-how to bear in helping China to find major orebodies on its home soil. I remain happy to discuss these ideas further.

Growth and urbanisation

The hunger for resources is apparent in the unprecedented rate of China's growth. It is quite amazing that China has probably already surpassed Japan as the world's second largest economy.

As recently as three years ago this was projected to take place only in about 2015. Now China already consumes twice as much steel as the US, Europe and Japan combined.

With Shanghai showing the way, by 2025 China will have built ten cities the size of New York. This means that by 2030 the nation will have added 350 million more city dwellers, exceeding the population of the United States.

Some estimates say that by 2025 China may have 219 cities with more than one million inhabitants – compared with 35 in Europe today. And 24 cities with more than five million people. What does that mean for China and Rio Tinto?

It means continuing per capita increases in the consumption of iron ore, copper, aluminum and other minerals. Urban density means more mass

transit, it means a shift from the automobile culture. I don't know when per capita metal consumption will taper off but this scenario already assures consumption growth for the next 20 to 30 years.

Where will this supply come from? From responsible global developers of the world's best reserves. That's where a company like Rio Tinto will play an important role. It again highlights our common cause with China.

Talking about growth trends and China, to be realistic we should temper our forecasts with the thought that nothing is forever. China's growth rates, as amazing as they are, are bound to flatten.

I think we can expect to see a lower GDP growth rate over the next decade; perhaps a decline to levels of six to seven per cent in the coming ten years compared to around nine per cent in 2010. This is still robust compared to mature economies and still represents very large absolute levels of growth.

Carbon and sustainable development

As I said in describing our approach to resource extraction, Rio Tinto is already a leader in sustainable development. Our strong reputation in this area gives governments confidence that we will develop resources in a way that will benefit their economies and communities, as well as protect their environments.

In terms of the environment, the question of carbon emissions is a major discontinuity of global significance that we are all struggling to come to grips with.

China and the mining industry are both faced with a clear reality: coal will continue to be a key part of China's unprecedented development and the world's energy supply equation in the coming years.

But with the current pace of growth in the use of coal we can see unsustainable increases in carbon emissions. No matter where you sit on the scientific and political spectrum, this can't be wished away.

We understand the need for China to restructure its industry in order to eliminate the least energy efficient, most polluting facilities, and applaud what has been done so far.

Looking to the future, I expect there needs to be a great debate about how to balance long term energy growth trends in China, India and other developing countries, with the need to keep carbon emissions below the target ceiling of 500 parts per million.

Ultimately the policies and practices of China, India and the US will be the most important drivers of success or failure in this key area.

Rio Tinto believes that coal will remain a big part of the energy mix. As a major producer we and the consumers of coal will have to work harder to reduce carbon emissions.

China is already racing ahead in terms of investment in alternative energy sources, finding it particularly important because it can reduce its reliance on imports.

Technology and innovation are playing a large part. Those companies who are the brightest and most innovative will be the most sustainable in the long term, and hence the best organisations to partner with.

Rio Tinto is an industry leader in technology and innovation. For example, we are a joint venture partner in a carbon capture and storage test programme in California, where we are also experimenting with ways to turn coal into clean hydrogen energy. We also sponsor co-operative research projects in Australia.

We use clean hydroelectricity for most of our aluminum smelting needs, and work at continuous improvement in smelting efficiency. Rio Tinto Alcan has increased production of aluminum metal by 42 per cent since 1990 while at the same time reducing greenhouse gas emissions by 54 per cent.

While progress towards a global climate change agreement has been slow, we expect a gradual firming of the scientific evidence which will eventually flow through to global action by 2020.

In the meantime, a fragmented world of sub-optimal carbon policies is likely, with the use of a mixture of regulation and market mechanisms.

In the absence of a global carbon solution, the principal objective of any individual country should be to reduce its global carbon emissions by encouraging conservation. More challenging is to create a market for carbon that does not reduce economic growth, nor export carbon-emitting industries to other jurisdictions.

China key to global outlook

As these developments indicate, the global value chain for mined products is evolving rapidly, driven in no small measure by China's economic growth and its need for the secure supply of strategic materials.

We are generally positive on the market outlook, thanks in large part to the way the Government of China handled their fiscal policies this year.

Asian countries are contending with inflationary risks arising from substantial stimulus packages that were put in place last year. Measures will have some negative effects on our markets.

Looking beyond the near term to 2015, I believe two key themes will dominate the global economic environment. First, prospects remain strong for increasing prosperity in developing countries such as India, which will drive robust commodity demand growth beyond China.

Second, it is clear that substantial economic imbalances do persist in both developed and developing countries and these will need to be resolved. In particular, developed countries will be under pressure to reduce public and private debt while China is expected to begin a move toward reduced dependence on exports and investment in order to fuel economic growth.

This combination of factors suggests a higher than average growth setting for our markets. But it will be characterised by elevated volatility and scope for discontinuities – making a pattern we call the “saw-tooth” economy.

Rio Tinto’s strategic focus on large, long life, low cost assets - those that remain profitable through all parts of the economic cycle - will serve us well in this increasingly volatile world.

Looking out even further, I believe there will be a continued shift of wealth and economic power from west to east. All this brings particular challenges and opportunities for the mining sector, especially as access

to resources is coming to occupy an increasingly strategic position in the thinking of governments and other external stakeholders.

The path ahead

In conclusion, as a global mining company partnering with China in its economic growth, Rio Tinto will continue to do what we do best – which is to find, mine and process the earth's resources – metals and minerals essential for making thousands of everyday products that meet society's needs and contribute to improved living standards.

China's growth story has been, and continues to be, an incredible success story. But with this growth comes new challenges in managing the economy, urbanisation and sustainable development. We will continue to seek ways that we can work alongside our Chinese partners to help find solutions.

Together with China, we in the mining industry, and specifically Rio Tinto, can continue to grow and prosper to the advantage of customers, consumers and all stakeholders.

Thank you, and I'd be happy to take your questions.

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