

SPECIAL PROFILE Rio Tinto Iron Ore

Iron ore focus gives commodity time to shine

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AFTER leading Rio Tinto's record-breaking Pilbara-based iron ore division for nine years, new chief executive Sam Walsh found his January appointment to be an exciting but challenging proposition. One month after his appointment – when the company posted its first ever full year loss – Mr Walsh announced that it would pursue a hard line cost-cutting regime comprising decreased exploration expenditure, the sale of non-core assets, and smarter capital allocation.

"The dynamics of the global economy are changing," Mr Walsh told Rio Tinto's *M2M* magazine.

"The world is more volatile than it has been and we need to be certain that our projects will deliver the value we – and our shareholders – expect.

"That's why it's important to get the capital allocation process right."

Despite tightening the purse strings across much of its portfolio, Rio Tinto has reiterated the importance of its low cost, high return iron ore division to its long term future. When Mr Walsh left Rio Tinto Iron Ore (RTIO) for the company's top job, RTIO accounted for more than 80 per cent of Rio Tinto's net earnings.

After significantly expanding its operations in the past decade to 14 mines, three port facilities and more than 1400km of rail network, RTIO is putting the finishing touches on new mine, rail and port infrastructure to support its expansion to an interim target of 290 million tonnes of annual iron ore for its overall Pilbara system: a target expected to be reached in the coming months.

RTIO chief executive Andrew Harding said all major coastal infrastructure for the 290mtpa phase of the project was in place or under final assembly, in line with an accelerated timeline announced February this year.

"This project will see us increase our Pilbara capacity by more than 20 per cent this year," he said.

"As impressive as the expansion program is, the end of goal is not to become the largest iron ore producer.

"It's about adding production at the right cost and sustaining production at the right cost.

"Delivering an additional bottom line for shareholders means not just producing more tonnes from an integrated system, but reducing unit costs as well."

Further plans to expand RTIO's capacity to 360mtpa are also progressing rapidly. In May, Mr Walsh told an analyst briefing that the Rio Tinto board would likely approve US\$4.3 billion of spending on iron ore mine expansions necessary to take capacity to 360mtpa by 2015, according to the *Australian Financial Review*.

Breaking records

In the first half of 2013, Rio Tinto joined BHP Billiton in breaking their respective iron ore output records, as the sector heavyweights continued to tighten their stranglehold on the world's second biggest commodity market. While slowing Chinese growth has many analysts predicting a major oversupply of iron ore in the near future, Rio Tinto's current 62 per cent profit margin and declining cost base has it well positioned to ride out any major price falls.

"The majors want to maximise those economies of scale," Minelife sector

analyst Gavin Wendt told Reuters.

"As long as they keep margins well ahead of a declining iron ore price, they are winning."

RTIO celebrated record first half production, shipments and rail volumes despite a crucial conveyor belt breakage and unseasonably wet weather, which led to widespread flooding in the Pilbara region. The production record of 120mt (Rio share 100mt) was six per cent higher than the corresponding period in 2012, and was driven by "sustained period-on-period productivity improvements", Mr Walsh said.

In May, one of two Cape Lambert shiploaders (and one of five in the Pilbara) was sidelined for almost three weeks for repairs and maintenance following a major conveyor belt breakage.

Rio Tinto said full year guidance would remain unchanged, as major maintenance on the conveyor had already been scheduled for the fourth quarter, but had been brought forward. In June, unseasonably heavy rainfall led to flooding which reportedly caused "significant difficulties" across the company's coastal operations, forcing frequent rail disruptions and the suspension of ore car dumping and ship loading.

"Coupled with the impact of three cyclones in the third quarter, the conditions highlighted the enhanced efficiency that still enabled a record first half production and shipping performance," the company stated.

Record first half 2013 sales of 111mt were 2 per cent higher than the same period in 2012, despite second quarter sales being lower than production due to interruptions in shipping caused by the conveyor belt breakage and flooding. 2013 production guidance remains unchanged at about 265mt from Rio Tinto's global operations in Australia and Canada.

Expansion works

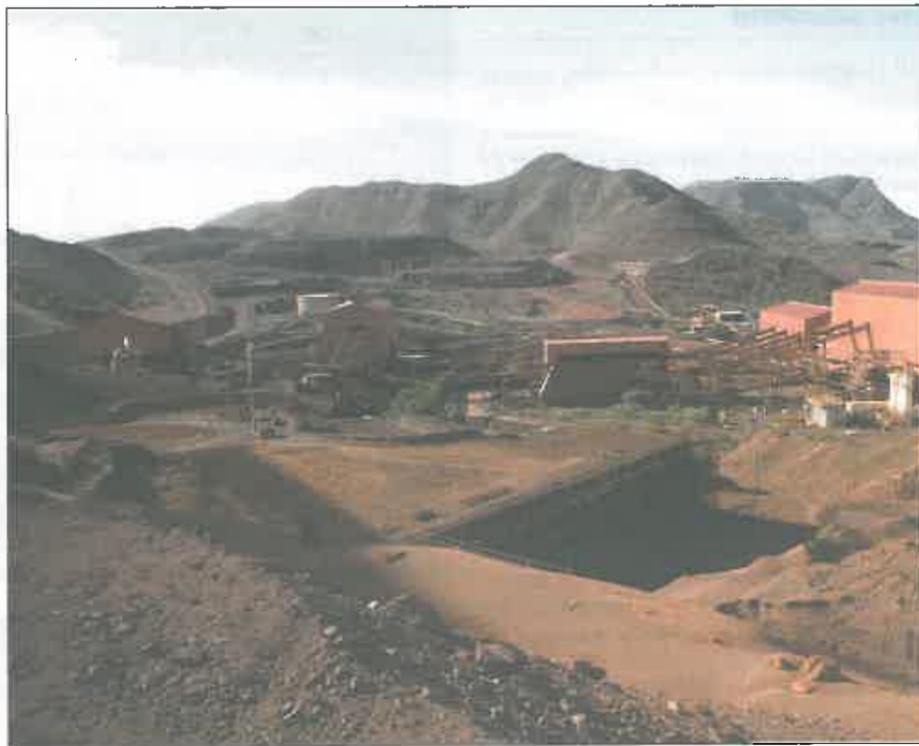
Rio Tinto reported that its expansion projects remained on track – despite the challenging weather conditions – with completion of the Rail Capacity Expansion infrastructure project in the second quarter marking the latest major milestone. First ore from the 260mtpa project remained on course for the end of the third quarter, with Phase 2 expansions of port, rail and power infrastructure to 360mtpa already underway.

"A number of options of mine capacity growth are under evaluation, including the potential development of new mines and incremental tonnes from further productivity improvement at existing mines," the company reported.

In late July, as part of its move to 360mtpa by mid-2015, Rio Tinto outlined plans for a new 170km rail line, necessary for the development of its proposed Koodaideri mine, 110km northwest of Newman. According to environmental approval documents filed by Rio Tinto, Koodaideri could one day become one of the biggest iron ore mines in the Pilbara, eventually exporting more than 70mtpa.

With an estimated US\$3.2 billion price tag for mine and rail development, analysts have suggested Rio Tinto could delay the project in favour of extracting increased tonnages from its existing mines, *The West Australian* reported.

Leading engineering and project delivery company Calibre Global was awarded the \$30 million definitive



While Rio Tinto has slashed spending across much of its portfolio, the company has highlighted the importance of growing its low cost, high return iron ore division
Photo – Christian Sprogøe



Rio Tinto outlined plans for a new 170km rail line in July, necessary for the development of its proposed Koodaideri mine 110km northwest of Newman
Photo – Christian Sprogøe



The company expects to reach its interim target of 260 million tonnes per annum by the end of the third quarter
Photo – Christian Sprogøe

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engineering study (DES) for the Koodaideri mine and rail projects in July, with work on both studies due for completion by the end of March 2014.

Calibre stated that the DES works represented the initial phase of a potential multi-phase greenfield development of the project, and that "the next implementation or execution phase of the project" remained subject to Rio Tinto board approval.

As Rio Tinto intensifies its iron ore focus, Mr Walsh told *M2M* that the most important issue was how well the business was being run, and how sound its investment decisions were, despite mixed opinions regarding the level of diversification in its portfolio.

"Those really are the critical issues for us to get right, and I think that's what shareholders want us to focus on, rather than a kneejerk reaction to some comments about us not being as diversified as we used to be," he said.

"All of our commodities get their time to shine. We've seen that over time, that the mood changes, the opportunities change, and something that was once in the shadow is suddenly in the sun.

"That is why our strategy is to focus on quality – on having large, long-life, low-cost expandable assets."



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Photo – Christian Sprogoe