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Company Announcements Office
Australian Stock Exchange Limited
SYDNEY NSW 2000

Dear Sir,

Attached is an address delivered in Sydney today by Mr Leigh Clifford, Chief Executive, Rio Tinto to the Securities Institute of Australia.

Yours faithfully,

Ian Head
General Manager – Corporate Relations

Attach. 1

"The Mining Industry - On Track"

Securities Institute of Australia (SIA)

Address by
Leigh Clifford
Chief executive, Rio Tinto

Sydney
13 August 2003

I'd like to thank the Securities Institute of Australia for inviting me to address you today.

I naturally welcome an opportunity to tell you about Rio Tinto – what the Group is doing and where we intend to go.

But an audience such as this gives me the opportunity to do more.

It is a chance to share some thoughts about the global minerals industry as a whole. To reflect on how well global resource companies are meeting the expectations of investors, customers and the public. In particular however, I want to reflect on the challenges that confront the Australian minerals industry.

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In preparing today's talk, I looked at previous addresses Rio Tinto speakers have given to SIA audiences over the last few years.

In doing so, I came across some remarks that Rio Tinto's Chairman, Bob Wilson, made in 1999. I'd like to revisit the points he made. Incidentally, I should remind you that Bob will be retiring from Rio Tinto in October after thirty-three years with the company, seven of them as Executive Chairman.

His chief legacy is an organisation that has a very simple, very clear strategy and equally clear goals. You can take my word for it that we intend to maintain both the direction and the standards Bob has set.

Those who heard the 1999 address may remember that it contained a sobering account of the global mineral industry's mediocre performance over the previous three decades. It reminded us that many companies had not earned their cost of capital over that period. It contrasted the optimism of the sixties, with the reality of the nineties.

Those criticisms were not aimed at a particular company – though some had obviously done better than others. Nor was the intention to single out the Australian minerals industry in particular.

Nevertheless, from the press coverage that followed, it was obvious that Australian commentators saw the relevance of the address.

Because of that response, I want to review some of the reasons for the industry's poor record vis-a-vis other sectors of the economy. I want to see what has changed in the last four years and whether we have, as an industry, learned from past mistakes.

Bob's 1999 address acknowledged the external economic issues, over which no company has control. It touched on the oil shocks of the seventies, the break-up of the Soviet Union, and the flood of Former Soviet Union imports into western markets.

Then it looked at factors that were not external; problems that sprang from the way the industry reacted to the challenges it faced.

The most obvious problem was the dramatic real term price decline that applied to nearly every metal and mineral. The industry's response relied heavily on cutting costs and improving efficiency through increased capital expenditure. As a result, cash costs fell as a proportion of total costs and marginal cash costs fell even more dramatically.

One outcome was that supply became relatively unresponsive to declining prices. And, when companies increased output to reduce costs, the problem was compounded.

A second issue was the fragmentation of the industry. By 1999 there was a trend to consolidate within the minerals industry, just as there was in other industries. This consolidation was, in Rio Tinto's opinion, aimed chiefly at reducing costs, but it was felt that consolidation could also lead to clearer thinking, better management and more prudent investment.

In our opinion, in the past industry management has displayed excessive optimism, a tendency to believe that problems would evaporate with the next upswing of the minerals cycle. The only reason that managers were able to deny reality for so long was that their short term memory and inherent optimism was shared by elements of the investment community.

The industry was also inclined to confuse growth with shareholder value. This attitude, of course, added capacity to a market where oversupply was a perennial problem.

There was one other major challenge for mineral producers. It was simply that the public was developing higher expectations of all businesses in areas such as the environment, community affairs and corporate governance and the industry was not responding very well.

In addition, people offended by the term 'globalisation' had grave doubts about the motives of large mining groups such as Rio Tinto. Their suspicion and occasional hostility could easily translate into a regulatory regime that would seriously affect the efficiency of the industry. A less efficient industry – a less profitable industry – would find it harder to make the switch to more sustainable means of production.

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Four years on, of course, there is much less unthinking optimism about the market for minerals. A prolonged period of slow world growth has affected the profitability of mining companies. Nobody now needs to be reminded of the cyclical nature of demand for minerals and energy. The views that Rio Tinto expressed in 1999 appear to have been absorbed, at least to some extent.

Indeed, I now think it is time to take a longer and more positive view of minerals and energy investment. We need to remember that, even in an industry with single digit growth, some resource companies have produced solid returns throughout the various commodity cycles.

While world economic growth is flagging we should not forget that it is unevenly distributed. At the moment demand is flat from traditional markets like Europe the US and Japan, while Asia and especially China are bounding along. Demand for minerals continues to increase and should accelerate when Western economies recover.

Furthermore, we need to remember that GDP statistics are, at best, a rough indication of mineral demand. They do not immediately reveal the extent to which metal intensive industrial production has migrated to Asia from Europe and North America.

In support of a more positive outlook, I would suggest that the global minerals industry is undergoing a gradual metamorphosis. By that I mean it has become more understanding of community expectations, more mature in its attitude to growth, more prudent in its investments and more hard-nosed in its capital expenditure decisions. I hope investors and financiers have followed suit.

I am speaking relatively, you understand, there are still examples of imprudent investment, with some in train and more foreshadowed.

Consolidation has helped. The industry's major companies are not quite as prone to fast-track new projects at the first whiff of a market upturn, nor quite as loath to cut back on production when there is a glut in the market.

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As an industry leader, Rio Tinto played a role in the gradual transformation of the sector. When RTZ and CRA merged in 1995 into a dual listed company it gave us the size, the resources and the balance sheet to take advantage of global opportunities.

Subsequently, the company restructured its operations into commodity product groups. That sharpened our understanding of the dynamics of particular commodity markets. Rio Tinto's acquisition of North, with all the resulting synergies, was an outcome of that more concentrated focus.

Other major mining companies have also adapted their organisations to the realities of global minerals markets. Rio Tinto is no longer the only DLC in Australia.

Labour flexibility has improved dramatically. It is not just the systems that are different; the people at our operations have changed in their approach to their work. Further improvement is always possible – but it would be churlish not to acknowledge the very real improvements that have been made. Full credit is due to the policy makers who saw the importance of this issue and had the courage to implement the reforms.

My only concern is that Australia may become complacent and regress. From time to time it may seem expedient to concede some of the gains made, but to do so would be a step backwards.

Mining is a more efficient industry than it was four years ago. Part of the credit is due to the intelligent use of technology. To survive, modern miners have to utilise the latest technology in an ongoing battle to reduce costs, improve productivity and thereby enhance margins. But, we do need to remember that competitors quickly reproduce technological breakthroughs.

It is not just the financial community that is looking at the minerals industry in a more thoughtful way. Last year's earth summit in Johannesburg made it abundantly clear that the goal of a sustainable society would remain a pipedream while a substantial proportion of humanity lived in poverty. It appears to have sunk home that constricting economic development is not the way to ensure inter-generational equity. And I think that the major mining companies, through the agency of the Global Mining Initiative, helped to bring about this realisation.

The global industry can take some credit for regaining a measure of public acceptance and trust. There is now a widespread realisation that it is important to respond to the concerns of genuine stakeholders. And, increasingly, such stakeholders are reciprocating. This growing collaboration promises to save mining companies and their shareholders a lot of anxiety.

The net result is that, while mining is still viewed with suspicion in some quarters, overall there are signs of a greater public understanding of the industry. This attitude has begun to bear fruit in terms of access to land and a slight easing of the regulatory ordeal facing anyone with a development proposal.

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These then are some of the developing strengths that will assist well run resource companies to meet the challenges they face at the moment. And those challenges are considerable.

I refer, obviously, to the triple whammy of languid global economic growth, flat prices for most minerals and – in Australia's case – a stronger dollar. It's a formidable combination, and one that demands a response.

In Australia's case there is a fourth challenge: That of accommodating international concern about climate change. The actions taken to deal with this concern will inevitably impact business.

Miners, particularly Australian producers, are well aware of the problem of greenhouse gas emissions. Companies are working hard to reduce emissions and are having some success. The global coal industry is determined to find a predominantly technological solution that will free it from the stigma of being a major source of CO_2.

There has already been progress in enhancing the efficiency of power generating plants that use thermal coal. Many of you know about experiments in returning greenhouse gases to the earth using sequestration techniques from the oil industry. Once it would have been unthinkable to announce a 'zero emissions' goal for coal. Today that goal is being pursued around the world and nowhere more enthusiastically than in this country.

A concerned public could be persuaded that only an immediate carbon tax or a domestic emissions trading scheme can dramatically reduce GHG emissions.

However, to adopt these measures would be premature – and may prove unnecessary, given progress made under current technology programs. One thing is certain, however, the economic consequences of additional imposts would be considerable for energy intensive Australian business, and the environmental gains illusory.

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How are miners, especially miners in this country, to respond to all these challenges? What can be done that we aren't already doing?

The first point I would make is that it helps to keep a sense of proportion. When I consider the totality of Rio Tinto's global operations, I am conscious that Australia has some considerable strengths vis-a-vis other nations. The Government deserves credit for having displayed a continued commitment to sustainable macro-economic policy. That and the reforms to workplace legislation, combine to make this country attractive to long term investors.

The other great positive, of course, is that Australian companies are well placed to supply China's growing needs. You are all aware that the iron ore industry is striving to meet that demand. You will, for example, have seen our announcement of the accelerated ramp up of the West Angelas deposit and our plans to expand the Port of Dampier. At the moment the benefits of Chinese economic growth are flowing through to iron ore, alumina, LNG and now coking coal. Later, I believe, this demand will impact other minerals.

These two factors should hearten us. The task of wringing further productivity gains from operations and finding ways to reduce costs never gets easier. Opportunities to create the remarkable synergies that our iron ore business obtained from the North acquisition have become harder. But, if thirty-three years in this industry – and in this Group – have taught me one thing, it is that there is always room for improvement. Human ingenuity is an inexhaustible resource.

I cannot say what other companies will do to tackle the 'triple whammy' that I spoke about. However, I can speak about Rio Tinto's reaction.

Rio Tinto's fundamental strategy will not change. We will continue to stick to the business we know best. We will concentrate on large, long-life, high-value mineral deposits and run them as efficiently and productively as possible.

This is not to say there will be no changes, but those changes will be more in emphasis. It is possible, for instance, that we may be able to achieve more through exploration and organic growth, than from mergers and acquisitions.

We will, of course, retain our focus on the quality of the investment opportunity. Investors rightly look at the profitability of our operations in order to judge our performance.

We will keep alert to economic, political and social changes that can influence the competitiveness of our operations. When producers are struggling – as some are, at present – the impact of any inappropriate policy is magnified.

This gradual aggregation of charges is a little bit like being nibbled to death by ducks. Individual costs may seem reasonable but – a million dollars here, a million dollars there – and pretty soon you are talking real money! Especially when the Aussie dollar is heading north.

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I've said that Rio Tinto has faith in the future of the Australian mineral resources industry. Not everybody believes this. There are those who think globalisation diminishes this country's historic strength in mining investment.

To my mind, Rio Tinto's experience disproves this view. Since the 1995 formation of our DLC, the Group's balance sheet has grown stronger. This has allowed investment in quality assets.

The result is that Australia has become the powerhouse of the Group. I would see it as a definite strategic advantage that over half of Rio Tinto's assets are now in this politically stable, low risk country. I'm personally very comfortable with that.

Since the DLC merger, new investments in Australian projects have included expansion of the Boyne Island aluminium smelter, construction of the Yandicoogina and West Angelas iron mines, and development work at Kestrel coal and Northparkes copper.

You have seen the company increase its share of existing businesses such as Comalco, Argyle Diamonds and Coal & Allied. There have been acquisitions such as North Limited, the Peabody Australia coal assets, the Kestrel coal mine, Three Springs Talc and the Port Hedland salt operations. Of course, a number of assets have been divested, but the net effect is a substantially increased investment in this country – of the order of A$6 billion.

Additionally, current projects in the pipeline, including the Comalco Aluminium Refinery, the Weipa bauxite expansion, Hail Creek coal and HIsmelt iron smelting, total well over A$2 billion.

Of course, I can only speak for Rio Tinto; nevertheless figures like these ought to reassure those who worry that globalisation will sideline a medium sized economy like Australia's.

To conclude: in no way do I wish to downplay the very real and very immediate problems that confront Australia's mineral commodity exporters. What I would urge however is that one considers this against a global backdrop. Do that – and the strengths that underpin Australia's minerals industry shine through.

So long as the Australian industry reacts quickly to competitive threats, and, so long as Government maintains prudent economic policies, the Australian minerals industry will be a major contributor to the economy of this nation and to our region.