

Jakob Stausholm

Bank of America Metals & Mining Conference

16 May 2023

Q&A transcript

Page 1 of 5

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**JASON FAIRCLOUGH (Head of EMEA Metals & Mining, BofA Global Research):**

Thanks, Jakob. Thanks for those introductory comments, Jakob. So, the theme of our conference is the pivot to growth. Now, when some mining companies decide to grow, investors get worried. How do you think about growth, both inorganic and organic? Maybe you could talk a little bit about which of your growth options you're most excited about.

**JAKOB STAUSHOLM (Chief Executive, Rio Tinto):** Yeah, thank you. You asked the same question to Mike, and I thought he answered it extremely well, so let me not repeat that. But I understand the concern. I have been a CFO for 25 years, so things have to add up here, and you have to be careful of not getting too carried away.

I read newspapers as well. I see there's more M&A activities, but it doesn't change anything for us. What we're trying to do is basically to develop the company in the best possible way and create most value. We are blessed with having a lot of opportunities, a lot of options in the cupboard, and you can see we are trying to unlock those.

And then there are a few places where we have seen that we could actually do a transaction. Always, what is the logic behind it? How can it create value? And as we also heard Mike saying earlier today, being sure that you don't try to do more than you actually can do. And if you look at some of the things we have done, look at TRQ, it doesn't lead to more work. It leads to less work.

Look at La Granja. We have had that for a long time. We are getting help from First Quantum, who has got some really good skills. And together, I think we can unlock that one. Look at Simandou. It would have been really hard for us to do that project on our own, and we have some very competent Chinese partners that we are doing it together with, because the reality is, there is financial constraints for us, but there's more than anything also human resources constraints. And we are trying to navigate within that.

But, Rio Tinto hasn't really grown for a decade, and if you look at just first quarter, do your numbers, you can see we are back growing again. A lot of it is coming from operational excellence, and a lot of it is also coming from, we start unlocking some things. But I can assure you, we will remain very disciplined. And discipline comes a lot from just being committed to delivering a dividend. That puts some pressure into the system and makes sure that you don't get too carried away.

**JASON FAIRCLOUGH:** OK. So as exciting as growth is, I guess the engine for cash flow at Rio Tinto still remains iron ore. We have a session with Simon later on. It's our deconstructed iron ore panel. But bottom line is, you undercapitalised that business for a

Jakob Stausholm

Bank of America Metals & Mining Conference

16 May 2023

Q&A transcript

Page 2 of 5

---

long time. You've got a huge new mine, Gudai-Darri. So is iron ore fixed, or is there more to do here?

**JAKOB STAUSHOLM:** Look, nothing is ever fixed, but we are on a really good journey. And maybe you can do my job this afternoon and ask some of the tough questions to Simon, asking him about how Gudai-Darri is ramping up and whether Gudai-Darri could get, beyond its nameplate, capacity, et cetera. But I would say we have had some really good quarters, and I've spent some good time in the mines.

And I can see the culture change happening right now. I can see how we are unleashing the full potential of our staff. So I would say there's much more to come, but it takes time. And I just wanted to make the point. It is really a five-year journey we have embarked upon.

**JASON FAIRCLOUGH:** So just to follow up on iron ore, I was marketing in the US recently. Investors were looking at your strong Q1 performance in iron ore, and they were like "that's kind of interesting". But unfortunately, it was into a weakening market. And so I guess one question I had from investors was, how does Rio Tinto think about value over volume these days?

**JAKOB STAUSHOLM:** Look, I heard you saying a weakening market. I don't think you can say it's a weak market. We had \$125 per tonne average iron ore price in Q1, which is a good market. And the supply we supplied to the market was needed by the market. So I have less concern on that front at this point in time. We will of course never produce more than what the market needs, but right now, we have stepped up, and there has been a demand for it.

**JASON FAIRCLOUGH:** OK. So let's switch directions a little bit and chat about the balance sheet and shareholder returns. So we had several years of you returning way above your target payout ratio, but then with the most recent set of results, I think some investors were a little bit disappointed that there wasn't a top-up. So are those years of supernormal returns behind us?

**JAKOB STAUSHOLM:** Well, first of all, to all of you investors being a bit disappointed, I like that you are pushing me hard, but I do like to remind you that our ordinary dividend last year was the second highest dividend in our 150 years' history. I get it was not as high as the year before, but it's still a significant payback, and a high dividend yield on it.

Look, we are blessed with a very profitable business. And it basically means that we have the ability both to pay a high dividend and grow our business. We're never going to be a high-growth company, but growing a little bit, growing a little bit with the market where

Jakob Stausholm

Bank of America Metals & Mining Conference

16 May 2023

Q&A transcript

Page 3 of 5

---

we are facing growing markets makes sense. And our dividend policy, which says 40% to 60%, I'm very keen on.

Every year since we changed the policy, we have delivered the 60% in ordinary dividend. I'm very, very keen on trying to stick with that. And then in the past, for various reasons, particularly when we have sold things, we have paid out much more on top of the 60%. Now, last year, we did some acquisitions. We didn't do any divestments, and therefore, we stick with the 60%.

On average, the payout ratio had been 72% in the last five, six years. Anywhere between the 60 or the 72%, I consider what we are looking for. But we do ultimately have to look towards value. And if there's value in investments, and we don't want to sacrifice the balance sheet too much, then maybe there's not extra dividend above the ordinary dividend.

**JASON FAIRCLOUGH:** OK, let's talk about your now 66% controlled world class copper mine, Oyu Tolgoi. Somebody called it a copper pearl in the Gobi Desert. I don't know who that was. But you've taken out the minorities in TRQ. You have a new agreement with the Government. You've invited analysts to site. So is the asset fixed? How long till it's producing 500,000 tonnes a year of copper?

**JAKOB STAUSHOLM:** Yeah, you're right. Look, there's a couple of things here. There's a technical development. We had three or four years ago some challenges, and we have learned from that and become better. I think it's an amazing technical team. We are making great progress. Even during COVID, we were able to progress that, and we started undercut a year ago, and we now have sustainable production.

I went there a month and a half ago and celebrated with the Government that everything now seems to be going to plan, which is amazing not just for us, but probably even more for Mongolia. On top of that, we did have relationship issues, and I think we have made significant progress on that.

So now we are really in a good place, very aligned. We are true shareholders, the Government and ourselves, and we want to progress this, and we want to progress it to its full potential. So not a bad sign for analysts to come and see what we are working with. Nothing is ever solved here, but so far, the block cave is caving as well as we could hope for. So we are optimistic.

**JASON FAIRCLOUGH:** So 500,000 tonnes when?

**JAKOB STAUSHOLM:** Look, we typically have a four to five year ramp-up period, and we have already been going for a year.

Jakob Stausholm

Bank of America Metals & Mining Conference

16 May 2023

Q&A transcript

Page 4 of 5

---

**JASON FAIRCLOUGH:** OK. We'll do the math. This is something we talked a little bit about at the full-year results. How do you think about the geopolitics of Mongolia, sandwiched as it is between China and Russia? And the West seems to be, if you like, going in the wrong direction in terms of China and Russia, and you're doubling down on your investment there.

**JAKOB STAUSHOLM:** Yeah, look, China is a very, very important market for us. We have our biggest customers there. We have a major part of our business there. We have a major part of our business in the West. We don't do business in Russia. So that's how we look at the world from a geopolitical point of view.

Mongolia, they have always had an enormous ability to focus on their independence and how they work effectively where they are, and they're doing that very well. And we work very well with the government. I think we are helping them on their economic development. And we also work with the neighbouring country in that sense, with China, because we are selling copper concentrate into China. We are getting power from China. It actually works very well.

**JASON FAIRCLOUGH:** OK. We could take a question or two from the floor. Anybody have one? There's one right here, please. Thank you.

**AUDIENCE:** Can build up with what's your strategy for lithium?

**JAKOB STAUSHOLM:** OK, so lithium, yeah? Yeah, look, right now, we are progressing the Rincon project in Argentina, and the aim is to have a project that can be sanctioned by the end of the year. We have a little starter case where we're learning from, so that's the first part on the brine.

We're making really good progress on the technology development. We really start cracking the DLE technology. I went to our research facilities in Melbourne a couple of weeks back, and was most encouraged on that part. We also have a hard rock mine in Serbia where we have the technical solutions, but we're still working with the Government on finding a pathway forward. I'm still hopeful that we will find a pathway forward. I believe it's in the interest of the country, and we are very keen on developing Jadar.

And then ultimately, let's see where things are going. I mean, we're not just going to throw ourselves into paying high prices for lithium companies. That makes little sense. But we have actually a lot of technology we can contribute, and there needs to be developed some new lithium mines. So I'm looking at things a little bit from a case-by-case basis, because no one can predict the lithium price. But I can see that we have some technologies to provide. Thank you.

Jakob Stausholm

Bank of America Metals & Mining Conference

16 May 2023

Q&A transcript

Page 5 of 5

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**JASON FAIRCLOUGH:** Any other questions from the floor? Looking. I don't think so. OK, maybe back to me for one. Were you just in China?

**JAKOB STAUSHOLM:** Yeah.

**JASON FAIRCLOUGH:** So two weeks. So what are your big takeaways?

**JAKOB STAUSHOLM:** Look, I'm very encouraged, quite frankly. The Western world is entering the year at a difficult state with high inflation and low growth, and you see China opening up. And they are experiencing the same as many other economies when they come out of COVID, namely a kind of an economic spring.

And it was very visible to me, both to me and people in the government in China. And I did go to a number of steel mills as well and could see what is happening there. So I do think the economic indicators are going in the right way, and China is very focused on getting back on a sustainable growth pattern and path. And that's good for our business. So I left on a very positive note.

**JASON FAIRCLOUGH:** Any other questions from the floor? Yeah, I might just ask one last one. So a couple of years ago, you had-- it's an ESG question. A couple of years ago, you might have probably received a failing grade in ESG. If you're moving on, what grade would you give yourself today?

**JAKOB STAUSHOLM:** Look, that's very easy. That question I cannot answer, because that's for others to answer. We're very, very focused on and we have had deep learning since, let's just call it by name, the Juukan Gorge incident. And it's super dangerous when you start giving yourself scores on things that others should assess. So we're trying to reach out, engage and talk to people, and make sure we get unfiltered feedback as an organisation. That is absolutely critical. I hope and believe-- now I start half-answering-- that we are moving in the right direction. But the absolute score, you should ask elsewhere.

**JASON FAIRCLOUGH:** OK. Ladies and gentlemen, could you join with me please in thanking Jakob Stausholm?

**JAKOB STAUSHOLM:** Thanks, everyone.