S&P Global
Market Intelligence

Rio Tinto Group LSE:RIO

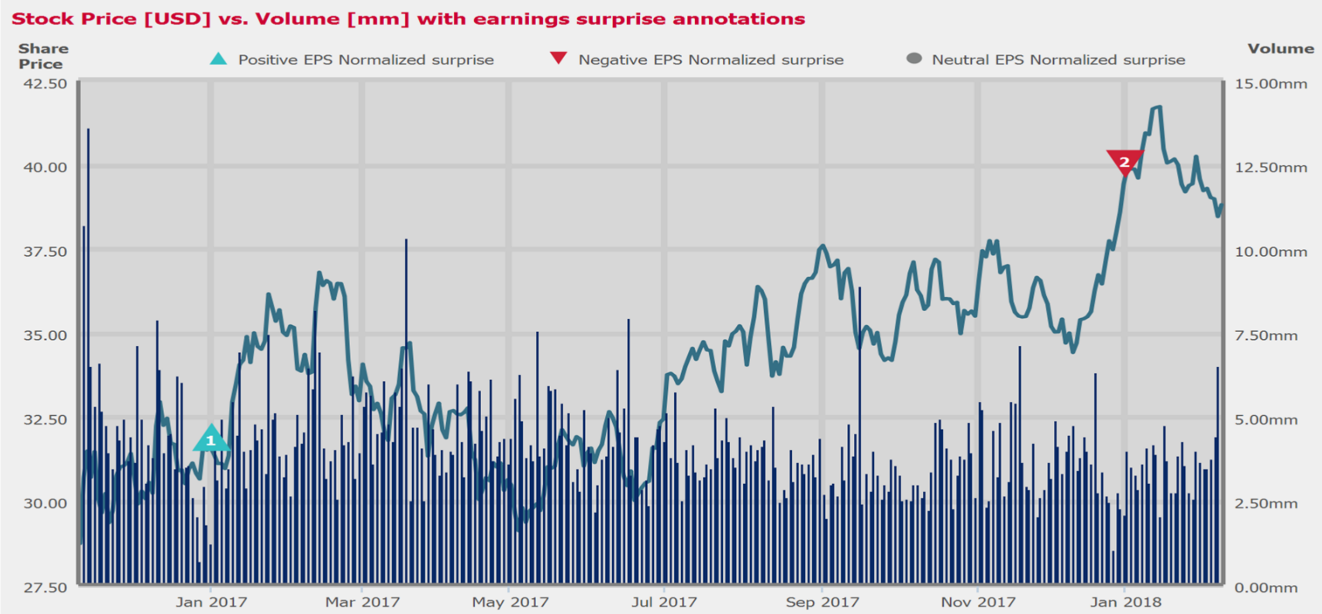
FY 2017 Earnings Call Transcripts

Wednesday, February 07, 2018 8:30 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	4.90	4.83	(1.43 %)	4.49
Revenue (mm)	39860.42	40030.00	0.43	38315.27

Currency: USD
Consensus as of Feb-07-2018 7:53 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2016	2.65	2.84	7.17 %
FY 2017	4.90	4.83	(1.43 %)

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Call Participants

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Former Executive Officer

Jean-Sébastien Jacques
CEO & Director

John Smelt

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Presentation

John Smelt

Okay, shall we -- you're doing it from the floor, J-S, or are you going to come back up here. I think DB, Deutsche Bank, got an actuary to do the temperature control because between the Arctic out there and the tropics in here, on average, it's probably quite pleasant, but -- okay.

Look, very briefly, if you could all turn your mobiles to silent. I know off is impossible for most of you, but silent will be good. In terms of safety, there are no planned drills this morning. So if the alarm does go, the exit is directly outside, takes you out on to London Wall and the muster point is to the left in Throgmorton Avenue. Wardens will be available.

With that, I'll hand over to J-S.

Jean-Sébastien Jacques
CEO & Director

Thank you, John. Good morning, and welcome to our annual results presentation.

I'm absolutely delighted to report that, in 2017, we delivered what we promised and more. We maximized cash generation through value over volume. They bring $18.6 billion of EBITDA and cash of $13.9 billion. We improved our margins to the best in a decade with an EBITDA margin of 44%. We reshaped the portfolio with divestment proceeds of $2.7 billion. We invested $2.5 billion in high-return growth. We generated $400 million of free cash flow from our mine-to-market productivity. And more importantly, we provided superior cash returns to our shareholders of $9.7 billion. This includes the highest-ever dividend of $5.2 billion.

Today, we are announcing a further $1 billion of buyback.

So our strategy is clearly working, and we have real momentum. Our aim is to ensure that Rio Tinto continues to win in the marketplace and delivers superior returns over the short, the medium and long term.

Now let's look at some of the highlights. In 2017, we focused on 3 key areas: delivering a strong financial performance, producing disciplined capital allocation and positioning the company for the long term. Let me cover each of these in turn.

First, strong financial performance. In 2017, we delivered net cash from operating activities of $13.9 billion and $2.7 billion of divestment proceeds. Our strong operational cash flow is a result of 3 factors: resilient prices during the year, solid operational performance right across the business and our new mine-to-market initiatives. We hit our $2 billion cash cost-saving target 6 months early, a great achievement. We have the benefit of firm prices. This allowed us to deliver our highest EBITDA margin for the past 10 years.

Turning to capital allocation. As you know, we announced record cash returns to our shareholders in 2017. We reduced our net debt by $5.8 billion (sic) [$3.8 billion]. And the strength of our balance sheet means we are ideally placed to deal with any economic volatility, invest in high-value growth and retain the optionality of smart M&A.

Our growth options progressed well in 2017. The Silvergrass iron ore mine was officially opened in August, and work at Amrun and Oyu Tolgoi is advancing. Looking further ahead, we continue to evaluate attractive medium- to longer-term growth opportunities in the range of different commodities. We have a compelling growth pipeline that we can bring online at the right time.

In '17, we also further strengthened our portfolio, generating $2.7 billion of proceeds from more divestments including Coal & Allied.

We will continue to exit any assets or projects that do not fit our strategy. Let me give you an example. Last month, we received a binding offer of $500 million for the sale of our Aluminium Dunkerque smelter in France.

So in summary, we are in good shape. We have delivered a strong set of results, and we are well positioned for the future. But let me be clear: I can assure you we are not becoming complacent at all.

Now I will cover some of our operational and product group highlights, starting with safety.

Safety comes first at Rio Tinto. Our mission remains the same: all of our employees and contractors must return home safely at the end of each and every day. Sadly, you will remember, we lost a colleague in a tragic incident at our Kennecott operation in October. Albert Lozano died following injuries he suffered after SO2 exposure. I was onsite at the time, and I can tell you that Albert's loss was deeply felt by his family, friends and all over Rio Tinto. We are working very hard to try and ensure this never happens again.

We are focusing on fatality prevention through our critical risk management program, which is now well embedded across the company with 1.5 million safety verifications in 2017. We are also focusing on reducing injuries and improving process safety as we strengthen our controls around major hazard.

Mental health and fatigue management will also be a priority for us in 2018. We all know that a safe operation is a well-run operation.

Let's take a look at our product group performance. Every part of the business is focused on maximizing cash through driving productivity from mine to market.

In Iron Ore, we delivered free cash flow of $7.3 billion and EBITDA margin of 68% as customers demanded a higher-quality product, driven by a need to improve environmental performance.

In Aluminium, we delivered $1.4 billion in free cash flow with an EBITDA margin of 35%, our highest since 2011. This was achieved despite increases in input costs.

In Copper & Diamonds, we delivered free cash flow of $319 million including $1.2 billion in development capital expenditure as activity ramped up at the Oyu Tolgoi underground project.

And in Energy & Minerals, we delivered free cash flow of $1.5 billion, taking advantage of our latent capacity and better market conditions.

So we had a great 2017, we have real momentum and we have a solid platform for the future.

Now let me hand over to Chris who will take you through the detailed financials. Your turn, Chris.

Christopher James Lynch
Former Executive Officer

Thanks, J-S. These are another strong set of results. Let's have a look at the numbers in more detail starting with the commodity mix.

Chinese economic growth was resilient during 2017, and global conditions have improved, which has seen higher pricing in most of our products. In Iron Ore, benchmark 62% prices held up very well during 2017, and demand for high-grade products saw us realize a strong full year iron ore price of $64.80 per tonne FOB, 21% higher than last year.

We spoke at the investor seminar in December about anticipating a potential slowdown in China in the first 6 months of this year and so far we have seen some softening in Chinese construction, but pricing has remained firm.

The LME price for aluminum also improved with an increase of 23%, reflecting strong demand, weakness in the U.S. dollar and also some of the discussions around tariffs in the U.S. Stronger pricing has also been driven by China supply-side reform policies, which J-S will discuss a little bit later.

In addition to the strong LME prices, the Midwest premiums performed well, averaging $199 per tonne, an increase of 18% on 2016. On top of this, we have increased the contribution of value-added products from 54% of our portfolio to 57% at an average premium of $221 a tonne.

Copper prices increased 27% compared to last year, reflecting strong demand from China and supply disruptions during the period. Tighter Chinese environmental policies curtailed the importation of scrap, which has created an increased demand for concentrate and cathode.

Realized hard coking coal prices were 42% higher on average compared with 2016. Impact from Cyclone Debbie in Queensland saw prices spike in the first half. While these have come off from those levels, strong demand from China and a tight supply chain have meant prices have remained strong compared with 2016.

Our world-class assets performed well, and our products continued to benefit from the demand for quality. 2017 saw strong steel mill margins, peaking well above $100 a tonne, and they remained above that level for most of the second half of the year. To put this in context, these margins compared with an extended period of negative profitability during 2015 and '16, some might see that as losses maybe, but -- and remained well above the $20 to $25 per tonne, which Chinese mills have typically considered attractive. As a result, there was a preference from our customers to target productivity within their blast furnaces. This meant strong demand for higher-grade products and a widening between the 58% and 62% product prices.

Our world-class Pilbara business continues to deliver strong EBITDA margins, increasing to 68% this year. Our world-class aluminum assets have delivered EBITDA margins of 35%, well in excess of others in the market. With the Aluminium business, we have the hydropowered Canadian smelters, which are in the first quartile and even first decile of the cost curve. And we have the exception of bauxite assets in North Queensland. Having high-quality Tier 1 assets with attractive commodity offerings is key to delivering higher margins through the cycle.

Underlying earnings are up 69% on last year. This chart shows clearly that recovery in prices in 2017 across our commodities with prices increasing earnings by $4.1 billion versus 2016. As you can see, energy cost and exchange rates, whilst increasing, have only had a modest negative impact.

In the first half of the year, Pilbara shipments and hard coking coal production was impacted by significant cyclonic weather. And our Copper division saw disruptions from labor negotiations at Escondida. A strong second half, particularly in the Pilbara and the Australian bauxite operations, meant that we were able to recover volumes for the year and production finished pretty much in line with 2016.

We've achieved cost savings, which more than offset raw material cost increases of around $200 million, particularly for input prices in aluminum, which we mentioned in December. There was a one-off impact of underlying earnings of $176 million as a result of the strike at Escondida. The completion of the Coal & Allied disposal on the 1st of September reduced thermal and semi-soft coal volumes in 2017. So overall, delivered underlying earnings of [$6.8 billion] (sic) [$8.6 billion].

We have successfully achieved an $8.3 billion reduction pretax in cash costs since 2012. In the last stage of the program, we set a $2 billion cash cost-reduction target for 2016 and 2017 combined. In the first half results in August, we were able to announce that we'd completed that program 6 months ahead of schedule. We've now achieved that $2.2 billion in cost reductions over those 2 years. This program is now closed. We won't be talking about it in the future. But we will continue to be tough on costs and are raising efficiencies through our mine-to-market productivity program, which we set out at a seminar in December.

So let's have a look at now at our progress on the mine-to-market productivity this year. For clarity, we've shown here the cost and volume improvements that we have achieved for the full year. This will provide a clear basis going forward.

As we said in December, the starting point is the volume and cash cost variance, which are pretax measures. These are the same metrics that we've used for the last decade and that you're all familiar with. The volume variance is being calculated using actual prices. Benefits from value-added products are reflected in actual revenues achieved coming through the price variance. There's no rebasing of prices nor are there adjustments for grade here.

As before, the cash cost variance excludes the effects of inflation, energy costs and exchange rates. All other costs are being taken on the chin. For example, the current headwinds on input prices for coke, pitch and caustic have not been forgiven. We have adjusted the tax. On a post-tax basis, the total productivity improvements including what was achieved in the first half of this year are now at $0.5 billion. We then adjust this total to align with the rigorous measurement principles for the productivity program that we had outlined in December. As a reminder, this means removing the impact of assets that are scheduled for closure in the next 5 years. So we remove the contributions from Argyle and the OT open pit.

Nonmanaged operations are excluded. So we, therefore, adjust for any cash costs and volume contributions in 2017 from Escondida and Grasberg. We also exclude volume principally arising from growth capital expenditure. So we adjust iron ore where we're not counting any volume growth until after all our haul is complete.

That brings us to total contribution for 2017 for mine-to-market productivity of $400 million post-tax free cash flow.

To successfully deliver our mine-to-market program, we must ensure that these benefits are sustainable and embedded. So in addition to the $400 million achieved in 2017 and carried into this year, we're expecting a further $600 million improvement in 2018. Against that $600 million, however, we expect cost headwinds of approximately $300 million in 2018 as raw material inputs, primarily in the Aluminium business referenced earlier, continue to increase.

This will take total productivity improvement for 2017 and '18 to $1.1 billion on a cumulative basis. That's comprised of $400 million in 2017, repeated in 2018 and a further $300 million in 2018.

We've just started on this program, but we're confident that we can and will deliver an additional $5 billion of cumulative free cash flow to the business by 2021 with an annual exit rate of around $1.5 billion. This exit rate is really the key metric. We're focusing on maximizing the cash generated by the business by improving both the operational and commercial outcomes.

Disciplined capital allocation is the core of everything we do, having spent sustaining CapEx to ensure the integrity of the business. Our next call on our cash is our expected dividends to shareholders. And we then have an iterative cycle of managing the business, pursuing value-accretive growth options including M&A and considering further returns. I'll now discuss each of these in -- these categories.

Capital spend for the year was $4.5 billion, of which $2 billion were sustaining our current operations and $2.5 billion on the compelling growth projects. During the year, we completed the $338 million Silvergrass project with commissioning occurring in the fourth quarter. The mine will continue to ramp up. It's currently delivering around 10 million tonnes of low-cost additional capacity, supporting our highly valued Pilbara blend product.

The Amrun bauxite project in North Queensland is on track to deliver first order in the first half of 2019. During the year, we installed both the wharf and the plant beneficiation modules.

At Oyu Tolgoi, we saw a ramp-up in spend in 2017 as we continued to mobilize contractors. We recently completed the sinking of shaft 2 and lateral development is on track. An annual project review is completed during the year, and we remain on track to deliver first drawbell production in 2020.

AutoHaul is progressing with around 60% of all train kilometers now completed in autonomous mode and we're on track to have this fully operational by the end of this year. Total approved spend on this project is $940 million.

CapEx guidance for 2018 remains at around the $5.5 billion, and we'll spend around $6 billion in each of 2019 and 2020. In each of these years, the expectation is that sustaining CapEx will be between $2 billion and $2.5 billion. In 2018 and '19, we'll continue to spend CapEx at Amrun. And at Oyu Tolgoi, we are spending around $1 billion in each of these years including planned funding for power stations from 2019. Both of these projects are highly value accretive.

In the Iron Ore business, we'll need to spend around $3 billion on sustaining CapEx over the next 3 years including spend on rail. We'll spend about $2.2 billion on replacement mines over the same period. And starting in 2019, we expect to see spending coming through for the Koodaideri mine.

One of the advantages of a strong balance sheet is the ability to drive future returns. When we make capital allocation decisions, we ensure that we only fund the best projects. During 2017, we reduced our net debt to $3.8 billion, a 60% reduction from the end of the previous year. Two things we want to point out here that have factored into our thinking. The first is $1.9 billion on market Rio Tinto plc share buyback program announced in September 2017, following the Coal & Allied divestment. This buyback -- this portion of that buyback will be completed by the end of this year. So there's $1.9 billion to spend there.

The second's a final tax payment for the Australian Tax Group for the full year of 2017, which is due in June of this year. So around AUD 1.6 billion or about $1.2 billion at today's exchange rates. So the timing of tax cash payments always creates some transfer across the accounting periods, but this is an unusually high amount and it largely arises from the increase in Iron Ore earnings in 2017 versus 2016.

Taking account of the tax payment and the previously announced buyback, we finished -- we'll finish the year with adjusted net debt or an approximation of net debt would have been about $7 billion if you took those 2 factors into account.

From the 1st of January 2019, there's a series of accounting standard charges that are coming through including the treatment of leasing arrangements. The exact outcome is yet to be determined, but we'll update our guidance for any impact of any of these changes later in the year.

We believe that having a strong balance sheet is a major competitive advantage and is essential in a cyclical business. It provides us with what I refer to as the 3 Rs: robustness, returns and readiness. Robustness against volatility in the commodity markets in which we operate, but also in a global macro and geopolitical space. Strong balance sheet provides an ability to make returns, there's the second R through the cycle. And it provides a readiness to take advantage of opportunities as and when they arise. This has enabled us to continue to invest in value-accretive growth and to make sector-leading returns to our shareholders.

Following stronger prices in 2017, cash generated from operations increased by 64% to $13.9 billion. We also generated additional cash from asset disposals of $2.8 billion, meaning that we have $16.7 billion available to be allocated. $2 billion of that was allocated to sustaining capital and a further $2.5 billion to compelling growth. We reduced net debt by $5.8 billion. As we saw in the adjusted balance sheet, $1.2 billion of this will be used to pay tax in June. $6.3 billion was returned to shareholders during 2017. $1.9 billion arising from the Coal & Allied disposal was allocated for the supplementary plc buyback and that'll be completed during 2018.

Therefore, at that stage, $8.2 billion or 49% of the total cash generated in 2017 was allocated to shareholder returns during the year.

Let's have a look at the shareholder returns policy and how it's been applied. When we announced a new policy in February of 2016, we told you that its aim was to ensure that we could continue to invest in value-accretive growth through the cycle, maintain a strong balance sheet and continue to pay superior returns. Our results today show that this policy is working. We've delivered strong results this year with solid margins and cash flow of $13.9 billion. We have a defined growth pipeline of high-value projects, which we continue to deliver. And our balance sheet is robust, a distinct competitive advantage. The flexibility of this new returns policy means that, as anticipated, shareholders are participating more fully in those returns. We've been able to distribute above the top end of our guided 60% of underlying earnings.

Since introducing the policy, we have stepped above the range at each opportunity.

Let's look at the breakdown of these returns. First of all, as cash paid in 2017 and then on a declared basis. So on a cash paid basis, during 2017, we paid $6.3 billion in cash to shareholders. This amount reflects the final dividend for 2016 of $2.2 billion or $1.25 a share, which was paid in April of last year. This time last year, we announced a $500 million buyback program, which was completed by the 31st of December 2017. At the midyear, we had the interim dividend of $2 billion or $1.10 a share declared in August and paid in September of 2017. We added $1 billion of share buyback at that set of interim results in August and that was also completed by the end of 2017. And then, we did the off-market buyback in Rio Tinto Limited of $0.6 billion related to the Coal & Allied proceeds, that was also completed in November of 2017.

The $2.5 billion supplementary buyback was split between Rio Tinto Limited and plc on the waiting of the DLC as you'll see on the next slide. $1.9 billion of that remains to be completed this year.

When you look at it on a declared basis, returns relating to the 2017 year amount to $9.7 billion in total, $5.2 billion of dividends announcing today and $4.5 billion from buybacks. Payments to be made in 2018 include the final dividend for 2017, $3.2 billion, and today's additional $1 billion of share buyback. There's also the $1.9 billion of share buyback arising from the Coal & Allied disposals that'll be executed this year.

The actions in the last 5 years, and in particular, the applications of the new returns policy, demonstrate our clear commitment to delivering superior returns. Whether running operations, committing capital expenditure, evaluating disposals or acquisitions, we've remain disciplined and focused on the delivery on the value of every dollar.

With that, I'll hand back to J-S.

Jean-Sébastien Jacques
CEO & Director

Thank you, Chris. Now let's look forward. We remain positive about the outlook for the industry. Global growth is solid, and turning to China, we are optimistic about the medium to long term. However, as we have flagged at our investor seminar in December, we could see a slowdown during this half. In particular, construction, infrastructure and automotive [dividend] growth may weaken.

The party congress restated its focus on environmental performance starting with the steel industry. This has resulted in high premiums for our product such as our Pilbara Blend. Longer term, the Belt, Road initiative will create further opportunities in the infrastructure and construction space. We are also well placed to benefit from the growth of EVs with our copper and aluminum offerings. But we do see some volatility and uncertainty in the year ahead and signs of inflationary pressure.

This is why productivity is so important. We remain absolutely focused on driving strong performance across the business.

Let's take a look at steel fundamentals in more detail. This chart shows that we can expect to see around a 5% reduction in steel capacity in China due to supply-side reforms in 2017 and 2018. In addition, further reductions in capacity will occur over the winter period as a result of environmental policy impacts. This is good news for Rio Tinto's Pilbara Blend, which meets the high-quality requirements of our Chinese customers.

Let's turn to aluminum. We remain very positive about the demand. We see annual growth of around 4%, and we expect this trend to continue over the next 15 years. This is underpinned by growth in the transport sector with the uptake in electric vehicles. The fundamentals of the supply side are looking increasingly favorable. China is enforcing cuts to vehicle capacity and close to 1.5 million tonnes of vehicle production was removed in 2017 with an impact of 3.8 million tonnes removed by the end of this year. But it is still early days on how this plays out.

In the short term, this is driving market tightness and this is expected to result in balanced inventory levels of 7 to 8 weeks before the end of this decade, much earlier than previously expected. More significantly over the medium to longer term, we expect China to be broadly balanced in aluminum, which creates significant implication for supply from the rest of the world. This could be a turning point for the aluminum industry for which we're uniquely positioned with our 2.3 million tonnes hydropowered Canadian smelters.

And of course, we remain optimistic about copper because of constrained supply and rising demand from electrifications.

Rio Tinto's world-class assets producing high-quality products are well placed to meet the attractive industry fundamentals I just described and the demands of our customers. Our WA, Western Australia Iron Ore business delivers industry-leading margins. It is ideally placed to serve the needs of our customers with its high-quality product, and we have multiple growth options at low-capital intensity.

Our position in bauxite provides attractive growth options, which we can trigger when there is market demand. Our first quartile smelters in Canada are the most profitable and energy efficient in the industry with attractive brownfield options.

In copper, we have large high-quality expandable resources at Oyu Tolgoi and potentially Resolution. Copper is a primary area of focus for exploration team.

And our high-quality Energy & Minerals portfolio has already shown its capability to increase supply into a growing market. We have a significant capacity and flexibility across our entire portfolio to deliver low-capital, high-return growth. There is no better example of this than the Pilbara. Our iron ore team is focused on optimizing our full system at Pilbara. In previous years, we have been constrained by rail capacity, a bottleneck we are working to eliminate. While 2017 maintenance work removed some restrictions, ongoing work is required in 2018 to improve the overall asset condition and prepare for future productivity. This work includes the increased tonnage expected from AutoHaul. We want to increase rail capacity to be greater than both port and mine capacity. This will enable the system to have extra [sprint] capability. Shipping a record 90 million tonnes in the final quarter of 2017 demonstrated the capacity and the flexibility we are developing.

Mine-to-market productivity featured at our investor seminar in December. It is a key focus for all of us across the business, and it becomes even more important with the cost headwinds facing the industry in 2018. For us, productivity is about making processes more efficient. We can deliver more material at the same cost or the same material at a lower cost.

Let me be very clear: it is a multiyear journey to fully embed mine-to-market productivity, but it will become the way we do business. We are looking at best practices outside our industry and building our technical and commercial capability. The commercial team is working hand in hand with the product groups to grow value across customer and supplier chains.

We already have real momentum towards our annual exit rate of $1.5 billion in additional free cash flow in 2021.

When it comes to growth, we have attractive options across the entire portfolio. In making capital allocation decisions, we only pick the best available options to us. We hold a watching brief on smart M&A. Yes, we do have the capacity to add attractive assets, but we will do so only at the right value. Quality growth projects such as Amrun and the Oyu Tolgoi underground will deliver IRRs in excess of 20%.

OT is one of the few copper growth projects in the world. The underground project is 18 months into a 5-year program and is well on track. I saw it for myself last month, and the progress is pretty impressive. I spent time with the Prime Minister, and we are working with the government of Mongolia to strengthen the relationship.

On the broader growth outlook, we continue to evaluate exciting medium- to long-term opportunities. But let's be clear: our value over volume principle will always apply.

Looking ahead, we will maintain our strong performance by focusing on the 4P strategy: portfolio, performance, people, partners. Portfolio is about world-class assets. Performance is about operating and commercial returns. People is about developing industry-leading capabilities. And partners is about long-term relationships with our customers, suppliers, investors, governments and communities.

So let me wrap up. Every decision we make at Rio Tinto will prioritize value over volume, and we are continuing to deliver. We generated $13.9 billion of cash in 2017, and we will continue to drive cash from our world-class assets with an additional $5 billion of free cash flow to be delivered by 2021 through our productivity program. We continue to manage and shed the portfolio to raise returns from our asset base. And our strong balance sheet will enable us to quickly respond to any investment opportunity that fits our strategy. And we're, again, delivering superior cash returns to our shareholders, declaring $9.7 billion in 2017.

2018 will bring challenges. For example, as I've already said, we will see cost inflation coming back. But Rio Tinto is in good shape. We have a resilient business, world-class assets, committed employees and the right strategy. More importantly, we have significant momentum. We will continue to deliver superior value to our shareholders through the cycle and invest for the long term. For us, it's about delivering on our promises day in and day out.
On this note, why don't we open the Q&A. So I propose, John, we take a few questions from the room and then we take -- we go to the call? Jason?

Question and Answer

Jean-Sébastien Jacques
CEO & Director

You want to start?

Jason Robert Fairclough
BofA Merrill Lynch, Research Division

I'll make an easy one.

Jean-Sébastien Jacques
CEO & Director

Well, that's for Chris, then.

Jason Robert Fairclough
BofA Merrill Lynch, Research Division

So Chris, an easy one. Balance sheet is looking underlevered, one-offs notwithstanding. Historically, you guys have talked about an investment-grade balance sheet. Round numbers, that's about 1x EBITDA. You're well under that point at the moment. How do you think about this? We've seen another company in the space actually come out with an absolute net debt target, ArcelorMittal in steel. Is that something you'd consider?

Christopher James Lynch
Former Executive Officer

Jason, I think the key really is around we do want to have a balanced view around that wheel. And so currently, we've got the 3.8 is, and I agree, and I think your observation spot on is very strong position. And if you take account of the things that we know, we've got the USD 1.2 billion tax payments to Australia would probably have been paid in the year had not the rise in the iron ore performance being as dramatic '17 versus '16. So we had a provisional rate to pay that tax in Australia during the course of the year. In many ways, I would have liked to have actually paid that, but you never want to pay cash before we have to. So that's that one. And then the other one is the buybacks that are already in the market. So we had the proceeds from Coal & Allied, $1.9 billion remaining to spend on that, that was in the balance sheet, but already committed to pay out this year. So yes, look, I don't think we're going to go to a gross debt target or a net debt target absolute quantum as such. Probably with some of the changes coming through the accounting standards and that sort of stuff, we will have to look at how they impact various ratios. So I think probably the next outing of any new sort of targets in this space will probably be my successor who will have to carry on forward.

Jason Robert Fairclough
BofA Merrill Lynch, Research Division

You're going to retire?

Christopher James Lynch
Former Executive Officer

Yes, yes, yes. I'm...

Jason Robert Fairclough
BofA Merrill Lynch, Research Division

Sure?

Christopher James Lynch
Former Executive Officer

Yes, this is actually my last quarterly results. So we're sure to celebrate that at some stage.

Jean-Sébastien Jacques
CEO & Director

After. Keep going, please.

Christopher James Lynch
Former Executive Officer

Anyway, but -- so we've got -- so the balance sheet, yes, it's strong. Look, forget about the 20% to 30% gearing range. That's irrelevant. We were never going to spend our way to the bottom of a range, so we recognize we've got a strong balance sheet. That gives us a lot of capacity, it gives us that robustness and all those sorts of things that I've talked about previously. But we do have money to spend here now. We've got a check for $3.2 billion to write in April, and we've got $2.9 billion to spend in buybacks through the course of this year, and we'll have an opportunity to make another decision, the big decisions at this time of year and I wish they will have an interim decision to make at the half. So there's plenty of scope for...

Jean-Sébastien Jacques
CEO & Director

I mean, just -- then to state the obvious, you have to declare the dividends and you have to pay them after. Okay?

Menno Gerard Cornelis Sanderse
Morgan Stanley, Research Division

It's Menno from Morgan Stanley. Two questions, one on underlying inflation. You touched on it at the second half, then the underlying inflation and Energy combined have a bigger negative impact on the earnings year-on-year than the -- than the savings. Is that the momentum you carry into the year? And therefore, this 2018 may be the first year, where the net benefit of those savings will be still slightly negative? And secondly, on OT, if I look at the frequency and the type of press releases that the company is publishing, it suggests you're facing a slightly more animated government, maybe slightly more worked up government. So there's 3.5 years left, a couple of billion dollars and potentially several changes in government in that country. So how would you describe the current state of affairs between Rio Tinto and the government?

Jean-Sébastien Jacques
CEO & Director

Okay, no worries. So I'm going to start with the cost inflation. I mean, we've been very clear, we see cost inflation coming back, okay? And it's not specific to Rio Tinto. It's across the entire industry. You saw the results of some of our peers publish recently. So you got a pretty good sense. The main impact last year was in aluminum, but we expected -- if you take a 3- or 4- or 5-year perspective, it's going to come back. And that's why our mine-to-market productivity, the $5 billion of additional free cash flow that we are targeting in the next 5 years is so important. It's not a nice to have, it's a must-have in order to offset, as a minimum, the inflation. So that's the reality of it. We acknowledge it. Oil prices are going up, steel prices are going up and so on, so forth. And I expect at some stage the wage to go up as well, all right? So mine-to-market is the way forward. On Oyu Tolgoi is -- I'm going to step back on this one. Rio Tinto has been around for 145 years. We have been operating in many countries. We have diverse and complicated projects. Oyu Tolgoi is a large, complicated project like many other projects elsewhere. My personal experience over the last 5 years is that -- lots of issues as you would expect, but each time we have been able to work through them in a win-win approach with the government. I was there 3 weeks ago, yes, 3 weeks ago. This is mining. We've been there for 145 years. We know how to do it. I'm not saying it's going to be easy and it will continue and that's where it is. All right, and then we go to the conference call. Yes, yes. Let's go for it, yes.

Myles Allsop

UBS Investment Bank, Research Division

Myles Allsop at UBS. Just a couple of questions. Just following up on the OTs. Just you were talking about building a power plant now as well. And just -- you're saying that's in the CapEx numbers. Is that in the $5.3 billion? Just clarify a little bit around that with OT and...

Jean-Sébastien Jacques
CEO & Director

So the power station has been -- it's part of the agreement. If you want to be very detailed, it's Clause 7.2, 7.3 and 7.4 of the investment agreement signed in 2009. It was in the CapEx. It's -- I think $250 million every year, say from -- to 2019. So that's in the forecast yes, so there is no change from that perspective.

Myles Allsop
UBS Investment Bank, Research Division

And then can you provide a bit more light on the situation of Grasberg? Freeport's talking up an imminent sale and price expectations of yourselves and the Indonesian government are aligned.

Jean-Sébastien Jacques
CEO & Director

And so that's be clear, that's a Rio Tinto presentation? Not a Freeport presentation. Just to state the obvious. So Freeport -- I mean, Grasberg, I restate what I said. There is no doubt that Grasberg is a fantastic -- is a world-class resource, but there is a fundamental difference between a world-class resource and a world-class business. Discussion between Freeport and the government are underway in relation to what are the terms of the extension of the contract that work beyond 2021. So for us, we are looking at all options in relation to Grasberg. For us, it's to protect or even strengthen the value remuneration to our investment in Grasberg. Depending on the outcome of this conversation, we will make up our mind and then we'll come back to the market. So if we can go and take a question from the call with our Australian friends.

Operator

[Operator Instructions] Our first question from the audio conference is coming from Clarke Wilkins from Citi.

Clarke Harold Wilkins
Citigroup Inc, Research Division

Just in regards to the [indiscernible] growth, I think Chris said only the best projects get approved. How far or why are there Canadians sort of brownfield expansioned in the Hydro aluminum, away from being those best projects? And how much further improvement in price would we need? And it's also just in terms of the CapEx guidance, is there any CapEx for studies or growth options in the 2019, '20 numbers? Also just additionally further on Grasberg. I think you still have that sort of $100 million in your capital projects for Grasberg. What is the sort of total spend that you do have across that sort of CapEx guidance period for the projects at Grasberg that you would have to outlay?

Jean-Sébastien Jacques
CEO & Director

I pick up the aluminum, you pick up Grasberg, Chris, if that's okay. So on aluminum is -- clearly, the assets that we have in Canada are world-class because of the Agro-based, energy-based. We have multiple growth options. We will pursue, for obvious reasons, all the creeping options, the low-capital intensity creeping options that are already in the plan. But above and beyond that, we could have further brownfield expansion, but here, I've got to restate -- what I said is we could be at a turning point in relation to the aluminum industry in China, okay? It's early days. If China really restructures their aluminum business, then that could create significant opportunities for us. So what we want is to be in the -- option ready that, if we're absolutely comfortable that there is a market there, then we can trigger those options. So yes, we're doing the studies. There is money earmarked in terms of ENE in our budget and so on and so forth. But we are not there yet. We are watching the aluminum situation in China very, very carefully, and I put it on the slide. The run rate of the closure could be significant, but we want to be really convinced as those closures really happen, and nobody restart them. So as I said, it could be a turning point. It could be very positive. We just want to be ready to make the most of it, but we are not there yet. You pick up Grasberg there, Chris?

Christopher James Lynch
Former Executive Officer

Yes. The guidance for Grasberg is between $150 million to $200 million per year in the 3 years of guidance we've given. That's -- I mean, that -- knowing straight up that, that number will be wrong, it will be somewhere in that order if we continue down the same path that we're on at the moment. But that's the sort of scale of the spend that's included in the guidance numbers that we have got here.

Jean-Sébastien Jacques
CEO & Director

Any other questions from the call?

Operator

Our next question is coming from Paul Young from Deutsche Bank.

Paul Young
Deutsche Bank AG, Research Division

A couple of questions on your Aluminium business. Just an observation on first of all, cash costs in aluminum. It was pretty good performance actually, $0.77 a pound in the December half versus $0.75 a pound in the first half, and I understand that you guys probably don't have these numbers in front of you, but that was despite higher alumina prices. So I'm just curious about that lack of sensitivity to alumina price. A lot of this shuffling profits, of course. And also, are we yet to see the big flow through of higher coke and pitch prices and is that coming this year? And then on bauxite. Just an observation, you've now have 4 halves of flat realized pricing at around USD 40 a tonne, that for the last couple of years. So I presume that's really a longer-term contract. So I'm just wondering how long is your -- is the realized price going to sit around that $40 mark. And then, seeing that's a key growth project for you, J-S with Amrun on the bauxite market, I mean, you're adding 10 million tonnes of new volumes from mid-'19. So I'm just wondering when do you expect the seaborne market to actually tighten up or move into deficit?

Jean-Sébastien Jacques
CEO & Director

Thank you, Paul. So I pick up the aluminum, you pick up bauxite. I think there is no doubt that we had a massive cost increase in terms of [efficient] to aluminum last year, as you've said, Paul, and it will continue this year, all right? And that's why the mine-to-market, which -- the way it translates in aluminum for us is there are 2 main drivers: one is creeping, trying to extract more aluminum from their existing assets every year. And we target depending on the year between 1% and 2% improvement year-on-year, so that's going to be a big element in that you offset it. The second element is to push harder on the value-added products, for which we have a better margin. So that is the reality of the market. We fully acknowledge, as you know, there is cost inflation. We don't control the price, as you know. I wish we can, but the answer is we don't. And therefore, we focus on what we can control, and we're pushing very hard on a mine-to-market in relation to aluminum, which is the 2 things that I said. We try to produce more through the creeping and increase our share of value-added products to extract more value, more margin from the market and therefore offset it [as a minimum]. You want to pick up the other one then?

Christopher James Lynch
Former Executive Officer

Yes, and maybe just one observation on the input costs for that coke pitch and caustic was in the 27 (sic) [2017] numbers and will be further in the 2018 numbers. And so the guys actually did a pretty good job of offsetting the impact of that. They weren't able to get all of it out, but they did a pretty good job of getting -- tackling that during 2017. With regard to bauxite, Paul, it's really about -- in terms of realized prices for bauxite, it's more about what the Chinese have been able to do with bauxite coming out of Guinea and the speed at which they're able to do it and also the cost structure. So there's been a pull through of Guinea bauxite into China; that probably diluted or dampened down the bauxite price a little bit on the seaborne trade. So that's something that we are keeping a very close eye on. But we do take a transfer price for the calculations here. We take a transferred price of bauxite through our refineries. And then, again, transferred price of alumina through to the smelters. But the primary mover in bauxite was really the amount of bauxite that was able to be sourced out of China, into China out of -- primarily out of Guinea.

Jean-Sébastien Jacques
CEO & Director

To be clear, Paul, today, we don't have any issues to place our tonnage from our bauxite mines. I mean, everything is sold out. But once again, we've got -- back to be aluminum question, we've got multiple growth options above and beyond Amrun. We've got version 2.0, 3.0, 4.0. What we want is to be option ready -- option rich and option ready. And depending on the development of the market, then we will add capacity as appropriate. But for us, it's about creating value, we want to have the options. We have the options and then depending on market conditions, we trigger those options at the right point in time. If we take a question in the room.

Unknown Analyst

It's [Alan Alsup] from Macquarie. Just one question on iron ore. As you've pointed out in the fourth quarter, you achieved 360 million tonnes annualized shipments. Is that a number you think you can be achieved over the course of an entire year once AutoHaul is up and running? And if so, by when? And how should we think about AutoHaul in terms of capacity versus availability?

Jean-Sébastien Jacques
CEO & Director

Okay, that's a great question. I knew it was coming. So we're not going to change our guidance for this year. We said we would produce between 330 million and 340 million tonnes. I couldn't be more explicit. We want to have significant capacity around the railway, so that gives us the flexibility to go up and down depending on market conditions. That is the value-over volume. So I'm not going to increase the tonnage for the sake of it. I'm not interested in the market share. I'm interested in the profitability of it, okay? So every year, we optimize. We look at it saying, well, if we increase volume, what's going to be the impact on prices and so on, so forth. Today, as we are having this conversation, we are very comfortable with 330 million to 340 million tonne guidance for this year. That's a first point. The second point, just to reemphasize what I just said, to some extent, is what is important today is the margins, is the grades. You know very well that there is a big differential premium discount depending on how you want to look at it, between high-grade and low-grade. And we are driven by EBITDA margin, not driven by cost of volume on this one. So do I believe that the Pilbara will be able to produce 360 or more? Absolutely. I mean, I don't have any doubt, and you saw it. I mean, Q4 360, if you do the run rate in December, we were above 400 million tonne, okay? So the question is not are we going to get above 360? We will get there, but the point is every year, every quarter, you could argue, we will optimize our production to make sure we maximize cash flow, acknowledging that when we add tonnage, we can have an impact on price. That's really what the value-over volume strategy is about. If we can take another question?

Fraser Rowat Jamieson
JP Morgan Chase & Co, Research Division

Fraser Jamieson, JPMorgan. Actually, a couple more on iron ore. So through your presentation, you kind of implied that very high steel margins wherefore has driven the premium of 62 MTPA versus 58 MTPA. There is definitely some evidence out in the market that, though people are viewing those actually as a bit more structural rather than cyclical. So could you just sort of explain what your view is on that and what you're hearing from your customers? How should we be thinking about this in terms of the structural versus cyclical? And then the second one is just on cost inflation. Actually cost performance in iron ore look pretty strong through the year. You don't have the same kind of direct impact of inputs that you see in aluminum. But could you maybe talk about what you're seeing in terms of contractor rates, labor cost inflation, et cetera, et cetera?

Jean-Sébastien Jacques
CEO & Director

On the second one is today, we haven't seen any significant decrease in contractor rate. But I got no doubt that it's going to come, okay? It's going to come across -- iron ore is going to come across all product groups, all right? That is very, very clear. So that's why the mine-to-market productivity is so important for us, because we need to push hard to offset, as a minimum, inflation, but it's coming. So is it going -- coming in the next quarter? I can't tell you that. But if you take a 2- or 3-year perspective, it's coming. So we need to push hard from that perspective. You want to take the other one?

Christopher James Lynch
Former Executive Officer

Yes. I think just maybe one observation on the inflation. The other area we haven't talked about it with regard to the labor inflation, but currently, what we've seen so far is some spot inflation on -- we can talk about those input prices for the [Allied] business. But in copper, this year, there is something like 28% of the world's copper capacity is coming up for enterprise agreement negotiations and that type of thing. So how that comes out is another matter. But what you're not seeing in the inflation side for those who were around when the -- in big part of the burn was that there's not the construction activity that's commensurate with the operating activity. So at the peak of the burn, people were trying to maximize output, but they were also trying to maximize how fast they could build new capacity. That's not there. That coincidence is not there. So we've got to be real to it and alert to it, but that's -- and then the structural versus the cyclical, I think what you're seeing with regards to that is that the environmental play in China is also coming across a series of products and, notwithstanding, steel. So you are seeing a demand for the higher quality raw material inputs coming through there. Now how that plays out, I think, it's early days yet because we've got to see. We're currently in the middle of the winter curtailments, so we haven't seen how it comes out of those curtailments if it comes out of those curtailments in terms of the capacity. So I think you just got to keep an eye on that but it does feel like there's more structure to it. And as the rationalization of the state-owned enterprises in China continues, there's endorsement of the more efficient and cleaner producers. There's a discouragement of the opposite of that. And so you are seeing the establishment of sort of a standing demand for the higher-quality material. So I think we're well placed to participate.

Jean-Sébastien Jacques
CEO & Director

I think there is no doubt that last year, we did shut down on some capacity, the induction furnace and so on, so forth and some of the smaller blast furnaces. But that didn't mean, if you look at the stats, a drop in terms of output of steel. So we will reduce capacity. The only way to produce more is by driving the productivity of your blast furnace in a harder way, to increase the scrap ratio in your steel plant and so on, so forth. And that's what we are experiencing in the marketplace, all right? So all the indications are moving in the right direction. The environmental policies, the fact that they are making money, they are trying to produce more with a reduced capacity and therefore, the need for higher-quality product. Our sense is we are moving close to a structural change, but we are always very cautious. Now what it means for Rio Tinto is to say, it's very simple: as long as we have the right product in terms of cost, in terms of grades and the right relationship with our customer, then we are very well-placed. And I think what we have experienced last year and what we are experiencing as we speak, we don't have any problem to place any of our product today, quite the opposite. We are in good shape. So we don't control the market, but we are trying to position ourselves in the best possible way. And today, we are -- the Pilbara brand is a reference product in China. That is the reality of it. I'm not going to say it's the ugly truth, because it's a very positive truth, but that's where we are. It is a reference product and everybody wants more of it. I'll go back to the call, and then I'll come back to the room.

Operator

So our next question comes from Hayden Bairstow from Macquarie.

Hayden Bairstow
Macquarie Research

Just a couple of quick questions on the growth options. Just on Resolution. You've approved some more capital there. Is that the last sort of number before you can make a decision to sort of proceed with the development? Or how are we thinking about sort of how much capital is left to sort of spend underground before you can make the full final decision? And, Chris, if you could, just remind us how much is actually being spent there would be useful as well, so far. And same for, I guess, Zulti South. I mean, how far away are we from a yes/no decision on that? I mean, it's just to the comments on feasibility work ongoing. Is that a first-half decision, do you think?

Jean-Sébastien Jacques
CEO & Director

All right, I'll pick up the Zulti South. You want to pick up Resolution? Zulti South is very simple. I mean...

Christopher James Lynch
Former Executive Officer

Hence you picking up the question.

Jean-Sébastien Jacques
CEO & Director

I'm sorry?

Christopher James Lynch
Former Executive Officer

Hence you picking up the question?

Jean-Sébastien Jacques
CEO & Director

BFS. The feasibility study is underway, it's supposed to be finished in March. We will go through our normal governance process, investment committee, and so on, so forth. And then at that point in time, we'll take a decision should we proceed or not or when we should proceed. So work is underway. We haven't look at it yet, no decision made. We'll tell you more in due course. Resolution?

Christopher James Lynch
Former Executive Officer

Yes. Well, there's a long way to go on Resolution.

Jean-Sébastien Jacques
CEO & Director

It's pretty deep, no?

Christopher James Lynch
Former Executive Officer

It is, and it's warm as well. So there's a long way to go on Resolution. There's probably 5 years of permitting process that there's still to go. So what we're approving with regard to Resolution are really milestone-based lumps of money. We're not capitalizing it. It's going into -- we're expensing it. But the key issue really is around making sure -- so for instance right now, we're focused on extension of the shafts. We need 2 points of egress before we want to have -- so we want that to be common, and then -- but there's a lot of work to go with regards to getting into the ore body and determining how we think the cave would ultimately work as well. So we're a long way from being in a position to give a notice to proceed on that project, it's very much rudimentary at this stage.

Jean-Sébastien Jacques
CEO & Director

So let's be clear, we are very clear about the key risk of this project, and we're making good progress on the permitting as Chris indicated. The next big phase for us is to do really the rock characterization underground to make sure that, if we were to build a mine one day it's going cave, to state the obvious. To do that, we need to put more people on the ground; quite a lot, do lots of drilling. But today, unless we have for safety reasons, 2 shafts, we're not going to put those people at risk. And therefore, the next phase is really to approve the deepening of one of the shaft, making sure we've got 2 safety egress and then we can take it to the next phase. So that's where we are in relation to Resolution. Let's take another question from the call?

Operator

Our next question comes from Lyndon Fagan from JPMorgan.

Lyndon Fagan
JP Morgan Chase & Co, Research Division

Another couple of iron ore questions from me. The first one is just on the lump premium. We saw it go from virtually nothing to sort of over $30 a tonne in the period. I was just wondering if you could talk a little bit about the key drivers there. And I guess we're now back down to average type levels around $10 a tonne. Anything you're seeing to cause that to move around from there materially? And then the second question, just in terms of you've spoken about China a fair bit. China domestic iron ore mines have usually been the source of elastic supply. Are you still seeing the market that way? Or are you seeing the environmental restrictions limiting the reaction of Chinese supply to what are now very attractive prices?

Jean-Sébastien Jacques
CEO & Director

All right. I take the question in China. I mean, if you go back a few years ago, I mean, there used to be 400 million tonne of capacity in China. Did reduce dramatically, but there is lots of fluctuations. We did drop to 235 a few -- 18 months ago and then came back. We are in the middle of winter. So it's difficult to read the situation. We're going to have to wait for summer to come back before we know that. But there is flex, definitely flex in that space. But there are 2 elements. One is, you mentioned it, is environmental permits for some of those mines are more -- much more difficult to get, mainly because of dust. And the other element that we just mentioned is if you believe in the structural change and the need for higher quality iron ore to drive the productivity of your blast furnaces, a lot of those mines are low-grade, all right? So it's going to be more and more difficult for them to make money. However, if I go back to the 400 million tonne I just mentioned, half of them were SOEs, and half of them were private, privately owned. That means a lot of stickiness in the SOE sector to be restructured, all right? So I'm not going to be able to answer fully your question. We're watching very carefully. I believe there is a trend of reduction, but that may create some volatility in the marketplace. And once again, the only -- so what for us is get the right grade, get the right cost structure, get the right relationship with your shareholders -- sorry, shareholders definitely and your customers as well, and you are in good shape. You want to pick up the lump premiums, supply demand downs?

Christopher James Lynch
Former Executive Officer

Well, it's part of the same conversation but it's also, I think prices won't always move directly as a result of economic fundamentals. If you look at the U.S. stock market yesterday, I don't think the fundamentals changed down 500, up 500 during the course of the trading day. But it happens. So with regard to lump premium, I think the other thing that's happening in there is around the issue about the degree of the construction activity being the main demand for the steel versus the fabricated products area being more dominant. So you'll get -- you will get a premium attached to the higher-grade material, the lump material as well on the way through that process as that mix changes a bit. But other than that, it's not a perfect market then.

Jean-Sébastien Jacques
CEO & Director

All right. Thank you, Chris. If we go back to the room. A question in the back.

Paul Joseph Douglas Gait
Sanford C. Bernstein & Co., LLC., Research Division

Paul Gait, Bernstein. Just sort of shifting commodities. Lithium, you mentioned electric vehicles. I was just wondering how you're thinking on the lithium market. I know Jadar is long-dated. But how your thinking on the lithium market has evolved over the course of the year? What your thinking is around electric vehicles? And any kind of numbers that you might sort of be able to put around Jadar in terms of your thinking there?

Jean-Sébastien Jacques
CEO & Director

All right. Thank you, Paul. So the question is very simple is for us, the key project for us is Jadar in Syria. We're doing the study as we speak. We've got another 18 months to go. The study has covered many items as you imagine; the technical elements, the economic case and more importantly, is the lithium markets. And we have not concluded on the attractiveness of the lithium market at this point in time. So let us finish the work and then we'll come back to you on this one, all right? Yes, we are coming, if we can get a mic.

Sergey Donskoy
Societe Generale Cross Asset Research

Sergey Donskoy, SocGen. One question on cash allocation, or cash flow allocation. Your cash returns last year was very impressive, and you augmented them by returning basically all the proceeds from asset disposals. Is it the way you're going to proceed going forward? Especially in the light of some of the comments you made earlier today and were quoted on Bloomberg suggesting you're becoming more constructive on M&A opportunities; also in light of some of the brownfield options you have, for instance, in Canada. Would it make sense maybe to preserve some of the cash coming in the future on your balance sheet as sort of a war chest? Or you are still inclined to keep returning this cash to shareholders as we go?

Jean-Sébastien Jacques
CEO & Director

All right. I think if you go back to [indiscernible] of Chris, I don't know if you can go there. You know the washing machine? We are very clear about the capital -- the disciplined capital allocation cycle that we have. We do it twice a year. The main time is in February for the board we had this week. Are we going to return all the cash from divestments? I can't tell you yes or no. It will be part of the allocation process. We did an off-cycle last year on the back of the Coal & Allied proceeds, but you can't take any comfort that we will do off-cycle. I want to very clear on this one. Our process is very clear. We do it twice a year with the main time in February as we have just done. That's one aspect. The second aspect, as you know, as we said today, we have a very strong balance sheet and we are in a good position to take -- if there is a good opportunity, we will look at it. That's what you should expect from us. It doesn't matter if it's an organic growth or an M&A. We will look at it, but the threshold is very high. It's the value-over volume. We're not going to grow for the sake of it. It's about high-quality growth. I'm not interested in being the largest or the biggest. It's about being profitable and delivering on our commitment. Keep our promises, which is to deliver superior cash returns for our shareholders in the short, medium and long term. That's what we did today very clearly. In the long term, medium and long term, we need to continue to grow. We have 3 areas of growth of 3 key levers. One is productivity because when we talk about the growth -- I want to be very clear, we're talking about cash flow growth. We're not talking about volume or market share. Productivity, we've got $50 billion of invested capital. The best return we can have today is to increase the productivity of our assets, and that's the $5 billion that we committed for the next 5 years. The second driver is about organic growth. We are already underway Oyu Tolgoi, we're already underway Amrun. We have growth options in aluminum and bauxite. We talked about it earlier today. We want to be option rich, but we will trigger these options only if the market conditions are right and we make money out of it, okay? And we have a watching brief on M&A, but we will not do M&A for the sake of it. That is a no-go, and it doesn't matter who's going to be the next CFO of the group. I don't think that's going to change in terms of mindset here. We are very conscious on M&A. We will look at it. If it makes sense for our shareholders, we will do it. So to be honest today, do I feel constrained in terms of growth? The answer is no. We have this balance sheet. We have the momentum. We just have to keep pushing.

Tyler Anson Broda
RBC Capital Markets, LLC, Research Division

Tyler Broda, RBC. You mentioned the structural change that you see potentially happening in China around aluminum. How does this change your views around Rio's position in the alumina market?

Jean-Sébastien Jacques
CEO & Director

Alumina.

Tyler Anson Broda
RBC Capital Markets, LLC, Research Division

Alumina, yes, sorry. And then secondly...

Jean-Sébastien Jacques
CEO & Director

I don't change on aluminum, by the way.

Tyler Anson Broda
RBC Capital Markets, LLC, Research Division

Yes, yes, that would determine the overall [royalty story] as well. And yes, how do you see the changes around your view about the Pacific Aluminium within Rio in this environment?

Jean-Sébastien Jacques
CEO & Director

Okay, no worries. Thanks for the question. I think we believe that if you've got aluminum smelters, especially like in Canada where you've got on the back of Hydro-based, you make a lot of money and that creates value for shareholders. If you have bauxite, these typical mining margins, we like it as well. Alumina is in-between. There is not lot of liquidity in the market, okay? So we have to be integrated from a supply chain standpoint, but we try to be integrated as little as we can because alumina is something in-between, and you don't create further value. Now having said that, we can see that all our Alumina refineries are making a lot of money today because the team are working hard. But if in terms of capital allocation, first of all, go back to your question, the capital allocation across all commodities and all assets is not earmarked by product group. But today, if I look to the aluminum supply chain, if I were to allocate money, I would put it in the smelters first, I would put it in the bauxite first, and alumina will come at the back end of the least, all right? So that is the reality of it.

Tyler Anson Broda
RBC Capital Markets, LLC, Research Division

And Pacific Aluminium?

Jean-Sébastien Jacques
CEO & Director

Pacific Aluminium, what is your question?

Tyler Anson Broda

RBC Capital Markets, LLC, Research Division

The structural change you see potentially happening in China could potentially change structurally where Pacific Aluminium fits with Rio Tinto?

Jean-Sébastien Jacques
CEO & Director

I think I understand your question. So all our assets are for sale at any point in time. It's only a question of value, all right? So if somebody comes, including yourself by the way, if you want to come and say, buy any assets, if you got big credit card, sorry, not credit card, cash underpinned by some of the bankers, there are a few bankers in the room, we would look at it, all right? So PacAl is, today, in Rio Tinto. I'm not going to comment. You know I'm not going to comment on market speculation. You know that. So if somebody comes and offer the right value for PacAl, we will look at it, that's where we are today.

Tyler Anson Broda
RBC Capital Markets, LLC, Research Division

But I guess, admitted, none of us in this room probably have that cash for the acquisition of Pacific Aluminium, so...

Jean-Sébastien Jacques
CEO & Director

If you say so. I'll take your word for it, all right? If you go back to the call do we still have some questions, David? So we go back to the call, and then we'll come back to the room, okay?

Operator

So our next question is coming from Glyn Lawcock from UBS.

Glyn Lawcock
UBS Investment Bank, Research Division

Just a couple of quick ones. Firstly, just on iron ore. At the briefing in December, you said you could get to mine capacity of 360 once Silvergrass ramped up and productivity creep. If the market is there for it and you can actually generate the margin, as you said it's not about cost of volume, when is the soonest you could run and deliver 360 if the market is there for it? And the second question, you've been talking a lot about growth, and clearly, Zulti South is a replacement, Resolution, by Chris Lynch's comments is a long way off. I'm just wondering -- and obviously aluminum, you've got to do a couple of years of study. If the market's there, is there actually anything in your portfolio you could accelerate to grow the business? Or is there really, the next couple of years what we can see, you're sort of like the cupboard is bare a little bit, even if the market demand is new volumes.

Jean-Sébastien Jacques
CEO & Director

All right. Thank you, Glyn. So if you were to put aside the M&A for 1 minute, I think the CapEx number in the guidance are pretty rock solid, to be honest. Because as you know, Glyn, you've been in this industry for what, more than 30 years? So you know that it takes many, many years of studies before you start a project, all right? So for the next 2 or 3 years, it's really rock solid, pretty well-defined and so on, so forth. So marginally, could we accelerate projects? Maybe small creeping stuff, but big projects, the answer is no. That is the reality of it, okay? Going back to your other question on the 360 is, as we said, there is still some way to go on the AutoHaul. We'll get there end of this year, beginning of next year because where we are in a project is, from a technical standpoint, it works. The only question we have now is to work very closely with the regulator to get the right to license, permits and so on, so forth. And this one is not totally under our control. We are very comfortable with 330 million to 340 million of tonnes guidance for this year, Glyn. And next year in December -- sorry, this year in December, when we give you the new guidance, we will explain what it is. But I'm not going to give you any indication above and beyond the guidance for this year. So thanks for the question, Glyn. I understand there are no more question in the call. Are there any last questions? If there are no questions, don't feel obliged to... Oh, one last question on the call, all right, sorry.

Operator

Sir, our next question from the audio line comes from Sam Webb from Crédit Suisse.

Sam Webb
Crédit Suisse AG, Research Division

Just very quickly circle back to M&A briefly. You've noted that you're very cautious regarding M&A. Are you actually observing any convergence in price expectations at the moment in the market between buyers and sellers? And I guess an extension of that, if you are, is it concentrated to any particular commodity?

Jean-Sébastien Jacques
CEO & Director
All right. So we did set up Rio Tinto Ventures under the leadership of Bold Baatar 18 months ago. He's got a mandate to look at new commodities and so on, so forth. They are looking at options as we speak, but I can restate what I said. We have a watching brief on M&A, and we're not going to pursue it for the sake of it. If that makes sense, we look at it. We are in a very good position today on the back of the strength of our balance sheet. And that's where we are. If it's a good thing that creates value for our shareholders, we will look at it. That's where we are. If I go back to -- is there any last question in the room? If there are no more, no, no, yes, no? Okay, that's it. So I think the results are pretty straightforward. We kept our promises, $9.7 billion of cash returns for our shareholders, if you put together the dividend and the share buyback. We are in good shape. We have the balance sheet. We have the momentum. We're pretty positive over the future. We have options to grow, but we will trigger them only if they make sense from a value-creation standpoint. And what you should expect from us is just to keep on delivering on our promises. On this note, I wish you a nice day, and I'll see you in 6 months. And Chris, you are going to be there in 6 months? Could be. All right, we'll come back on this one. More to follow. Thanks a lot. Bye for now.