HD **Argus Media Limited: Rio Tinto sees exit of high-cost supplies: Update 07 August 2014**

WC 957 words

PD 9 August 2014

SN News Bites - Private Companies

SC NBPRCO

LA English

LP

NEWS BITES - PRIVATE COMPANIES

[**Company** Release] Sydney, 7 August (Argus) - UK-Australian **mining firm**Rio Tinto forecasts about 125mn t of high-cost **iron ore** output exiting the market this year, as low-grade producers from **China** and less traditional suppliers curtail production.

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It today reiterated its forecasts of **Chinese** crude steel production reaching 1bn t towards 2030, as the country's urbanisation approaches 70pc of its population. The **company** projects **Chinese** crude steel production rising between 3-4pc this year against 2013 levels, with the country's output currently around 830mn t/yr.

Chinese steel demand is being driven by consumption in the infrastructure sector, which is up around 9pc, machinery up around 5pc and transport up around 14pc. All of which are expected to outweigh the weakness in residential construction activity, down about 3pc, Rio Tinto said.

"Overall, we remain confident of the long-term fundamentals of demand, while recognising the changing nature of **China**'s economic development," said Rio Tinto in announcing its financial results for the six months to 30 June.

China's economic growth this year is likely to be near the official forecast of 7.5pc because of targeted expansionary policies, Rio Tinto said. **China** has seen a strong increase in finished steel exports in recent months, particularly to Japan, South Korea, Taiwan and southeast Asia, with its net finished steel exports about 40pc higher in the first half compared with the same period of 2013.

The **company** has no plans to curtail or slowdown its rate of **iron ore** expansion, which is expanding to 360mn t/yr from its current rate of around 290mn t/yr, said chief executive Sam Walsh.

"We are the lowest cost-producer with cash cost of $20/t and sales of around $99/t. That puts us in a very good position and now is not the time to withdraw from a position of strength, but it is up to others with much higher cash costs and offering steep discounts will have to consider their position."

Rio Tinto's underlying earnings before interest, tax, depreciation and amortisation for its **iron ore operations** rose 6pc to $.809bn in its first half against $7.64bn for the same period a year earlier. Underlying earnings from its **iron ore** business rose 10pc to $4.68bn in the first half from $4.27bn a year earlier.

The **company** claimed it was the lowest cost **iron ore** producer in Western Australia's Pilbara region with unit cash costs of $20.40/t, excluding royalties and freight, in the first half. This gave it an average realised **iron ore** price of $99/wet metric tonne.

Gross revenue from Rio Tinto's **iron ore** business rose to $12.54bn from $11.74bn a year earlier, with more than 90pc of this coming from its **iron ore operations** in the Pilbara.

Capital expenditure (capex) totalled $1.98bn for its Pilbara **iron ore** business in the first half against $3.1bn a year previously. The 38pc fall in capex reflects the completion of the port and rail element of the 290mn t/yr Pilbara expansion in 2013 and the nearly completed mine expansions. The 360mn t/yr port infrastructure is on track for anticipated completion by the end of the first half of 2015, it said.

Reduced group capex to $3.6bn in the first half is likely to see capex for the full year reach $9bn, $2bn below a previous guidance and around $8bn each year from 2015, Rio Tinto said.

Expenditure of around $8bn/yr will deliver strong volume growth across its commodities of **iron ore**, thermal and coking **coal**, bauxite, **alumina**, aluminium and **copper**, Walsh said.

The **company** has no plans for any merger and acquisitions, he added. "We are not planning any **M**&A activity, but focused on driving down costs and delivering on bringing on new production on time and on budget."

Group exploration and evaluation costs fell to $340mn in the first half, with full-year expenditure to be maintained at less than $900mn.

Rio Tinto forecasts 2014 global **iron ore** shipments of about 300mn t on a 100pc basis, which reflects all the mines it manages and not just its **equity** interests. It said 2014 output is expected to be 295mn t on 100pc basis from its global **operations** in Australia and Canada, subject to weather constraints.

Around 5mn t of **iron ore** inventories are expected to be drawn down at the Pilbara mines during the year.

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TOP MANAGEMENT

The Chief Executive Officer is Euan Craik, the Chief Executive Officer is Pierre Lever and the Chairman is Adrian Binks

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