HD **Rio profit thrills market**

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RIO Tinto has delivered an unexpectedly strong increase in earnings and dividends for last year.

Chief executive Sam Walsh unveiled the results of his impressive first year in the top job at Rio, with his focus on cost cutting and capital restraint reaching the **company**'s bottom line and delivering a full-year underlying profit of $US10.22 **billion** ($11.3bn), up 10 per cent on the previous year and beating expectations by $US500 **million**.

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The result beat estimates as cost savings of $US2.3bn for 2013, which beat a previous $US2bn target and were described by Mr Walsh as "stunning", combined with increased volumes to increase cashflow and help pay down debt.

A full-year dividend, fully franked for holders of the dual-listed **company**'s Australian shares, of $US1.92 per share was up 15 per cent on 2012 and beat most expectations.

Mr Walsh cautioned against expectations that the good results would mean special dividends or buybacks in 2014..

"This year is a year of continuing to improve the business to reduce debt and really to provide options for 2015 for our board in terms of shareholder returns and in relations to growth," he said.

Rio surprised the market by revealing its net debt had fallen from $US22bn to $US18.1bn in the past six months.

But asset sales contributed to this and analysts said that it should not be seen as a run rate for reduction this year, or that chief financial officer Chris Lynch's goal for debt in the "mid-teens" of **billions** would be met by the end of this half.

BT Investment Management fund manager Brenton Saunders said it was an impressive all-round result.

"It's pretty much stronger than expected everywhere," Mr Saunders said.

"The fact they have had material cost-outs during the year and exceeded their own targets helped everywhere -- it's reduced debt, it's reduced interest on debt and it's cascaded down."

Rio's shares rose 1.5 per cent in early London trading yesterday, beating a 0.7 per cent gain by rival BHP Billiton.

Mr Saunders said it was still possible for Rio to announce shareholder returns later this year if things went well, particularly with guidance in its all-important **iron ore** unit looking conservative.

As usual, the **company**'s West Australian **iron ore** unit, which reported net earnings of $US9.86bn, up from $US9.25bn in 2012, made up nearly all the **company**'s underlying profit.

But the struggling aluminium unit also made its first reasonable contribution in a long time, reporting $US557 **million** of net profit, up from $US54m in 2012, thanks to cost cutting and the closure or **sale** of five aluminium assets. This meant it made more money for Rio than the **coal** and **uranium** unit and the diamonds and minerals unit.

Rio's net profit of $US3.665bn, which included one-off items, was up from 2012's $US2.9bn net loss (when Rio reported $US14.4bn of writedowns on aluminium and Mozambique coking **coal** assets). The **company** announced $US3.4bn of writedowns, mainly at Oyu Tolgoi (due to an accounting uplift), the Kitimat aluminium smelter in Canada and the Gove **alumina** refinery in the Northern Territory.

Mr Walsh was upbeat about the global economy and **iron ore** demand, saying both were looking positive.

While short-term global risk remained, positive signs of recovery were appearing in developed nations, which for the first time in several years would underpin an increase in global growth this year and next, Mr Walsh said.

This would also help exports in **China**, where Rio is forecasting 7.5 per cent growth this year.

Growth in developing nations would continue to support commodities demand, Mr Walsh said.

Rio revealed teething problems at the $US6bn Oyu Tolgoi **copper** and **gold** mine in Mongolia and further potential delays of the underground expansion needed there to drive most of its value.

There have been post-commissioning issues at the new plant, which started last year, which would limit production for six to eight weeks.

Rio warned that despite an option to restart the stalled second stage being proposed, further delays could occur if financing issues were not resolved.

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