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Speech by:

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Board of Trade of Metropolitan Montreal

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Minister Courchesne,

Distinguished guests,

Ladies and gentlemen,

It is an honour for me to be invited to speak at your first luncheon event of 2010.

Today, I will be focusing on three main themes. First, I would like to share a few thoughts about the current economic environment, and then give you a brief profile of Rio Tinto Alcan – who we are, as well as our key issues and strategic priorities. During the third part of my presentation, I will focus on challenges that I feel are important to Quebec's future, including one that I am especially passionate about – encouraging young people to stay in school.

In just a few days, on the first of February, exactly one year will have passed since my appointment as Chief executive of Rio Tinto Alcan. This appointment came at a time when the world was swept up in an almost unprecedented economic crisis, during which our industry was also hit hard. In less than six months, demand for aluminium shrank by 30 per cent and prices plummeted by close to 70 per cent, while world aluminium inventories more than doubled. There is never an ideal context in which to move on to a new phase in your career, but I have to admit that the challenges of this time were particularly daunting. Daunting and at the same time exciting, as market conditions could only get better. Periods like this are also exceptional opportunities for improvement and transformation. If ever a company has what it takes to get through a downturn and come out even stronger, ours does.

But allow me to take a moment to stress that as I share my views about the economic situation, I know that our friends in Haiti have been living through something far more serious since January 12. The earthquake that devastated Port-au-Prince and much of the rest of Haiti means that the country will have to be rebuilt almost from scratch, in a situation where tens of thousands have died and up to two million are homeless, many of them children. Quebec and Haiti are united in many ways, and we have all been affected to varying degrees by this terrible earthquake. Like a number of other companies, we made an immediate donation a few days ago, and encouraged our employees around the world to contribute further via the Red Cross. As Dany Laferrière said in a recent interview, Haitians are strong and will rise to this new challenge, but they need help from all of us.

In assessing the global economic situation over the past two years, economists agree that this recession was the most serious we've seen since the Second World War. It began as a financial crisis, and degenerated into an economic crisis with regional implications around the world.

From a financial perspective, this crisis will go down in history as the first since 1945 to have caused a global economic contraction. Global GDP bottomed out in the first quarter of 2009, with a 16 per cent drop in annual industrial production for OECD

countries. Stock markets followed suit, shrinking by 50 per cent between September 1st 2008 and early March 2009. As for the political and social consequences of the downturn, we just need look at the growing size of most national deficits, remarkably high job-loss figures, and the increased number of personal bankruptcies.

Print and electronic media flooded us with information during all stages of the crisis, and this is undoubtedly one of the factors that allowed us to avoid the worst. Indeed, instant information enabled real-time monitoring of the crisis and its impact around the world, and spurred numerous governments to apply the two main lessons learned from the 1929 meltdown. First, the urgency of sweeping interventions to support the economy, even if this means greater deficits, and secondly, the perils of protectionism.

Government efforts took the shape of highly expansionist monetary policies, with interest rates close to zero per cent, and very aggressive fiscal policies, with some countries doubling or even tripling their public-debt-to-GDP ratio. On top of this, sector-based policies like “cash for clunkers” programmes and subsidies for first-time homebuyers stimulated consumption, especially among our neighbours south of the border. Some collateral damage, such as atypical unemployment rates, was unavoidable but stayed under the risk threshold for social instability in most countries. It will nonetheless take time to turn things around.

Certain emerging countries like China, India and Indonesia, were somewhat spared and their strong performance to some extent mitigated the impact of the downturn on OECD countries. China, for example, invested the equivalent of 15 per cent of its GDP in its economy, and this investment in turn helped reboot the world economy.

There is thus reason to be cautiously optimistic about the up-and-coming recovery. This optimism is, in effect, fed by a variety of economic indicators. Consumer confidence, industrial output, construction levels, and automotive production have all been rising for the past three quarters. The price of aluminium has also gained some of the ground it lost, and is currently over \$2,000 a tonne.

At the same time, a number of factors tell us that we must remain vigilant. Governments cannot indefinitely sustain rising deficits. How solid will demand be with the return of less liberal fiscal policies? Will jobs levels adequately stabilise? And in the aluminium industry, will demand be strong enough to shrink inventories and bring prices back to normal levels?

Governments around the world have a hard road ahead of them. They will have to consider a potential second round of economic stimuli, and carefully determine when to raise interest rates and heed the lessons of the financial system’s excessive failures. Although Quebec and Canada as a whole can be proud of the commendable health of their banking system, we have to keep in mind that numerous countries had to spend billions to avoid seeing their financial institutions go under.

Paving way for a return to balanced national budgets will not be easy in this context, all the more so given the ageing population and ensuing hike in per-capita social costs. In

20 years, for example, the world will be home to almost 250 million people over 80 years old, with close to 60 per cent of them in Asia.

I'll say again that we have to temper our optimism with careful attention. We can see light at the end of the tunnel, but we have to make sure that it isn't a train.

Rio Tinto Alcan and the recovery

As I said earlier, 2009 was especially difficult for the aluminium industry. A major drop in demand and a substantial rise in inventories lead to a dramatic decline in prices.

So why was our industry so hard hit? Quite simply, the bulk of aluminium demand comes from the construction and transportation sectors, both of which suffered significantly from the downturn. Housing starts plummeted by 75 per cent in the United States compared with the peak of early 2006, and declined by more than 30 per cent in 2009 alone. American motor vehicle production fell by 70 per cent and in Europe, dropped more than 50 per cent between May 2007 and January 2009. The effect on our industry was devastating. During the first quarter of 2009, close to three quarters of aluminium production units around the world posted losses.

Although Rio Tinto Alcan has a lower cost structure than the industry average, we were not immune. We took swift action and put a series of measures in place to boost our productivity and competitiveness – not only to weather the storm, but to make sustainable changes to our business. We closed plants, some partially, others completely, and quickly pared back our overall cost structure. Because of these changes, our costs were more than 25 per cent lower at the end of June 2009 compared to a year earlier. We also slowed the pace of our investments for two reasons: to preserve our limited cash assets, and to avoid adding to short-term global overproduction. Some of these decisions were particularly difficult to make, and as we carried them out, we did our best to minimise the impact on our employees and communities.

Today, our company is more solid and better positioned than ever to tackle the consequences of the recession. We plan to make the most of our numerous competitive advantages to benefit significantly from the renewed growth in aluminium demand once it is firmly in place.

A variety of factors give us reason for confidence in the long-term outlook for aluminium. Per-capita consumption of the metal is currently just one kilogram in India and five kilograms in Brazil and Indonesia, whereas it has already reached 10 kilograms in China. These levels are well below the average of 20 kilograms per capita in industrialised countries. With the combined impact of urbanisation and industrialisation, aluminium demand will therefore grow in emerging countries over the coming years. China, for example, is expected to see its demand for aluminium double over the next ten years. Even in industrialised countries, it is highly likely that demand will continue to grow by two to three per cent per year. We therefore have good cause to hope that

aluminium consumption rates will return to pre-recession levels within the next three years. In the longer term, we can reasonably believe that global aluminium demand will grow by about four per cent per year over the next two decades.

This forecast is a very reasonable one. After all, if there's one sector with enormous growth potential, it's the aluminium industry. Our metal is still young, and we have yet to discover all of its possibilities. For example, when you consider the challenge of building lighter vehicles in order to reduce greenhouse gas emissions, we are clearly far from having tapped into all of aluminium's significant advantages. Did you know that each kilogram of aluminium content that replaces heavier material in a car translates into a 20 kilogram reduction in greenhouse gas emissions during that vehicle's average life? What about the 80 kilograms saved on a train?

You may also be surprised to learn that aluminium can be recycled an infinite number of times without losing its unique properties. Furthermore, aluminium recycling only requires five per cent of the energy used in its initial production. As you can imagine, the growth potential for this extraordinary metal is enormous, and Rio Tinto Alcan, the global leader in the aluminium industry, is well positioned to make the most of this potential.

A number of things about Rio Tinto Alcan set us apart from the rest of the industry:

- Firstly, the quality of our assets and our fully integrated operations, from bauxite to aluminium. We have the world's largest bauxite reserves, excellent alumina refineries, and the world's most modern and efficient aluminium smelters.
- Secondly, our electricity supply is unique in the industry, as 95 per cent of the energy we use is either protected by long-term contracts or self-generated. What's more, 75 per cent of this energy is also clean, especially in Quebec, and we are among the industry's lowest emitters of greenhouse gases.
- Thirdly, our advanced technology gives us a great competitive edge. Year-in, year-out, we invest about \$100 million in research and development, which allows us to improve our plants' performance and productivity on an ongoing basis.

Our AP50 pilot plant in the Saguenay–Lac-Saint-Jean region, for example, will be a true showcase for technological progress in the world of aluminium. It will use our exclusive smelting technology, which was originally developed in the Rhône-Alpes region of France. It represents a great step forward, and productivity at the new facility will be over 40 per cent higher than current plant levels.

Our worldwide presence in no way diminishes Quebec's key role in our global operations. Rio Tinto Alcan in Quebec includes over 7,000 employees and an economic impact of over \$1.5 billion per year. We have the good fortune to be able to produce electricity here from clean, renewable sources. I am convinced that this advantage and our great talent for innovation will enable us to continue to meet the changing needs of international markets.

Quebec is where we are setting up our most ambitious projects, such as the AP50 pilot plant I mentioned a moment ago. This facility is the first step in our extensive Saguenay–Lac-Saint-Jean investment programme, a multi-billion dollar initiative that will continue over the next five or six years. To help you grasp the scope of this investment in Quebec, it is comparable to the Romaine River hydroelectric project involving both the provincial government and Hydro-Québec.

Once we complete our modernisation projects, our Canadian smelters will emit four to five times less greenhouse gases than the industry average, and seven to ten times less than aluminium smelters in emerging nations. This is a major contribution to meeting greenhouse gas reduction targets.

It's no accident that aluminium production has been a key industry in Quebec for over a century. I'd like to take this opportunity to bid a warm welcome to the latest members of the highly select "century club", namely the Sainte-Justine children's hospital, the Montreal Canadiens, and *Le Devoir*.

Aluminium's importance in Quebec can be easily explained, as we are blessed with an abundant natural resource that allows us to generate clean energy at reasonable, predictable costs. In today's socioeconomic context, this is a considerable benefit. We therefore hope that despite financial pressures, the Government of Quebec understands how essential it is to maintain electricity rates that encourage development for our industry.

If we look at the impact of the recent economic downturn in Quebec, one thing stands out: aluminium producing regions remained relatively robust, while other major sectors, such as the forest industry, suffered enormously. This is even more significant when you consider that the aluminium industry generates a large amount of indirect employment. Indeed, it has been shown that each aluminium production job can generate between three and four indirect jobs. The industry also calls on a wide array of suppliers, who can eventually sell their specialised expertise on a more global scale.

Everyone knows how important electricity production is for Quebec. It's an increasingly hot topic, and the debate has only just begun. Few other businesses can set up shop almost anywhere in the province, and foster dynamic regional development over several decades as we have. Provided there is a body of water nearby and access to predictably and reasonably priced energy, we can create top-tier employment for the region. Our ties with the local community and economy are always an important priority, and it's not unusual to find employees at our facilities in Quebec whose parents or grandparents worked there before them. Competitive on a global scale, aluminium production is a value-added process that favours one of our most important natural resources.

To maintain our global leadership and continue to grow both here and abroad, we obviously have to be able to count on qualified, motivated personnel. We are privileged to have skilled employees in all our regions who know their aluminium trades inside out, particularly in Quebec. They are talented professionals. I am fully aware of the challenge

they have risen to over the past year, and want to take the opportunity to thank them publicly for all they have accomplished. I also thank our suppliers, who have never failed us, despite the turbulent economic context. Their combined efforts have enabled us to keep almost all of our production facilities up and running, and under the circumstances, this is a real achievement. Thank you.

It may be a bit cliché to say that a company's main resource is its employees, but that doesn't mean it's any less true. Because our teams' know-how is at the core of our success, we have to prepare a generation of skilled successors if we are to maintain our enviable position in the industry. Unfortunately, this succession is far from assured.

This brings me to the last part of my presentation, which focuses on the challenges of keeping young people in school.

'Stay in school' initiatives

I must admit that when we combine less-than-encouraging figures for an ageing Quebec population with the school drop-out numbers, I worry about the future. And I'm not the only one. My colleague Jacques Ménard is also concerned, and released his study group's report on school drop-out rates last March. In September 2009, Minister of Education, Recreation, and Sports, Michelle Courchesne, announced her department's action strategy to encourage students to 'stay in school' and find academic success. The problem has been diagnosed, and now it is time to take action without further delay. The business world has an important role to play in supporting quality education and family life.

I care about this issue both as the mother of three teenagers, and because a company like ours, committed for the long-term, has to be able to count on cohorts of educated young people to "take up the torch" and maintain its leadership. Common sense tells us that without an educated population, no country, let alone industry, can become a top performer. The correlation between graduation rates and per-capita GDP has been proven time and time again.

Even though our business is aluminium, we are also responsible members of society. As such, we have to support and complement government efforts to encourage young people to finish school, in the same way that we help fight poverty by sponsoring organisations that have proven their effectiveness, most notably through Centraide.

We have therefore decided to answer the appeal launched by Jacques Ménard and Minister Courchesne, who asked companies and industries to do their part in providing tangible support for 'stay in school' initiatives. With the support of the Board of Directors of the Rio Tinto Alcan Canada Fund, which was created two years ago and will reach an endowment of \$200 million in the next few years, we have decided to do our share to help turn things around. I have the honour of announcing that over the next five years, the Rio Tinto Alcan Canada Fund will devote more than \$15 million to a brand-new programme focused on keeping our young people in school.

Allow me to highlight a few figures to show you that we did our homework before making this important decision.

If you open the booklet that has just been distributed to you, statistics confirm that the school drop-out rate constitutes an epidemic, especially in Quebec. Twenty-six per cent of secondary-level students in the public system dropped out of school in 2000 without earning a diploma. The figure rose to 29 per cent by 2007, with no signs of improvement. Among OECD countries, Canada trails behind in 16th place – and Quebec is ninth out of the ten Canadian provinces in this area.

A variety of factors have motivated our decision to play a more active role in ensuring that young people complete their studies:

- Each year, some 28,000 young Quebecers drop out of school. This becomes an expenditure of close to \$2 billion per cohort for the government, and fosters a gradual decline in our young people's level of education.
- Each day, 77 Quebecers celebrate their 20th birthday without having earned a high school diploma.

Don't worry – there's no exam at the end of my speech!

But in reading these numbers, you will agree that it is urgent to act. We have to avoid a path to a society where our children have less wealth to share than their parents, and where Quebec's ability to compete internationally grows ever more uncertain.

Keeping youth in school together

Entitled *Keeping youth in school together*, the programme we've developed takes into account the recommendations of the Ménard report and Minister Courchesne's action plan. We obviously have no intention of replacing the government's education programmes. Our business is aluminium – but we do want to support the government's commitment to action, in the hope that other corporations follow our lead and create similar programmes.

Our project is actually quite simple. It will support community organisations with proven track records for encouraging young people to stay in school. We will take action in regions where we operate, and encourage our partners to participate to the best of their ability.

The Government of Quebec aims to increase the graduation rate for students under 20 to 80 per cent by the 2020. The challenge is considerable, but we can rise to the occasion if we pull together and make academic success one of our society's main objectives.

Over the next year, we will unveil the series of initiatives included in the *Keeping youth in school together* programme, along with the local components for individual regions where we operate. We will also bring together the many Rio Tinto Alcan employees who volunteer their free time for community projects.

I know that other corporate leaders are also planning to get involved with this issue. I both congratulate them, and encourage them to take action as quickly as possible. As author Albert Camus said so appropriately, “Real generosity toward the future lies in giving all to the present.”

Let us invest today in our most precious resource – our young people. They are the key to the outlook for our companies, and indeed the future of all Quebec.

Thank you.