



QIT-Fer et Titane inc.



Quebec Metals Powders Ltd.



## 2006 Sustainable Development Report



# Who we are

QIT-Fer et Titane (QIT) is a leading world producer of titanium dioxide feedstock. Founded in 1948, QIT is also recognized for the high quality of its ductile iron and steel. Quebec Metal Powders (QMP), a company affiliated with QIT and a leader in the manufacturing of iron and steel powders, was founded in 1968. QIT and QMP belong to the Rio Tinto Group, a world leader in mining.

## Playing on the world stage

QIT and QMP are important players in Canada's mining and metallurgical sector. A few years ago, they adopted a sustainable development plan to serve as the basis for their relations with the communities in which they operate. As a major economic driving force in the Sorel-Tracy and Havre-Saint-Pierre regions—for the salaries they pay to employees and the business they do with numerous suppliers and contractors—QIT and QMP are committed to operating according to policies and industrial practices that ensure the sustainability of their operations.

Since 1950, QIT has operated the world's largest ilmenite orebody in Lac Tio, near Havre-Saint-Pierre on Quebec's North Shore. The open pit mine employs nearly 300 people, who are responsible for extracting and shipping the ore to the loading dock in Havre-Saint-Pierre. From there, the ore is shipped up the St. Lawrence River to the Sorel-Tracy metallurgical complex, some 80 kilometres from Montreal, where it is processed to produce titanium dioxide, cast iron, high-quality steel and metal powders.

The Company exports more than two-thirds of its production to some 40 countries, primarily in North and South America and in Europe. QIT and QMP employ nearly 1,900 people, placing them among the top employers in Quebec's metallurgical industry.

In addition to its production activities, the Sorel-Tracy complex is home to the head office of QIT and QMP as well as the Research Centre. Founded in 1967, the Research Centre is today one of the 10 most important such centres in the Canadian metallurgical industry. The work done at the Centre is aimed at improving the processes used at QIT and QMP, from mining operations to finished products. Numerous technological breakthroughs made at the Centre have enabled QIT to develop a process that is unique in the world. First discovered in the mid-1990s, the USG process produces highly concentrated titanium slag to meet the needs of pigment producers that use the chloride method.



Many of our employees give generously of their time to support a cause important to them. To recognize their volunteer efforts, we have dedicated the 2006 Sustainable Development Report to the men and women who put their knowledge and experience to work for the benefit of their community.

On the cover page, we pay tribute to Clément Delisle. Clément has worked at the QIT metallurgical complex in Sorel-Tracy for the past 10 years. A lab technician by training, he works as a materials and products analyst in the quality control laboratory. Clément also serves as Secretary-Treasurer on the Board of Directors of Halte Soleil. This organization provides support to the biological and foster families of people with intellectual or physical disabilities. Its services include daycare, respite care and assistance.

## High-quality products

QIT and QMP manufacture high-quality products designed to meet the specific needs of their customers:

- **SORELSLAG®** has made QIT one of the world's leading suppliers to the sulfate-process titanium pigment industry. This pigment is used as a whitening and opacity agent in the manufacture of paper, paint, plastics, dyes and rubber.
- **UGS slag**, a highly concentrated slag, is manufactured using a unique process developed by QIT. UGS is supplied to the growing market of producers of titanium pigment that use the chloride process.
- **SORELMETAL™**, iron ingots of great purity, are intended for applications that require a raw material of the highest quality. They are used by foundries to produce a variety of ductile iron parts and have earned an enviable reputation in the metallurgy and automotive industries.
- **SORELSTEEL™** steel billets are used to manufacture such products as machine wire, which are well suited to demanding operations such as cold heading and the production of springs, tire cord and welding electrodes.
- **SORELFLUX™** ilmenite ore is used to protect the hearths of blast furnaces in steel mills, thereby extending their life expectancy.
- **ATOMET™** iron and steel powders, produced by QMP, are used to manufacture precision mechanical parts, primarily for the automotive industry.

## Rethinking business strategies in 2006

### Greater competition for QIT

For the past few years, QIT has faced fierce competition in the titanium dioxide markets, with the emergence of new producers in Australia, South Africa, India and China.

Combined with increasing energy and labour costs, and a sharp rise in the Canadian dollar, this competition has had negative repercussions on our financial performance.

We have therefore adopted a business strategy that focuses on operational excellence and targets reduced operating costs, optimized production and employee engagement. As part of this strategy, many measures were

## QIT and QMP in 2006

<b>Facilities</b>	Havre-Saint-Pierre (ilmenite mine and port facilities)  Sorel-Tracy (QIT and QMP metallurgical complex)  Suzhou, China QMP plant
<b>Overall production capacity</b>	3.1 million metric tons
<b>Sales</b>	\$859 million*
<b>Percentage of exports</b>	70%
<b>Employees</b>	1,900
<b>Salaries and local purchases</b>	\$731 million
<b>Training hours</b>	96,700
<b>Suppliers</b>	2,500, 70% of which are in Quebec
<b>Municipal taxes</b>	\$4.2 million
<b>Investments in Quebec in 2006</b>	\$142 million
<b>Investments in the environment in 2006</b>	\$2.6 million
<b>Investments in Quebec in the past 10 years</b>	\$1.2 billion
<b>R&amp;D spending</b>	\$15.9 million
<b>Direct contribution to community programs and projects</b>	\$415,000

\*All amounts are in Canadian dollars

implemented in 2006 to instill a corporate culture focused on excellence. In addition, our sales and marketing team in London introduced measures to improve our performance.

Over the past 10 years or so, our parent company, Rio Tinto, has invested more than \$1 billion in QIT, including an investment vital to our continued sustainability: a mine project in Madagascar. This project, which Rio Tinto announced in 2005, will entail investments of \$235 million at the Sorel-Tracy complex for such things as expanding the capacity of the reduction furnaces and ore storage and expanding the port facilities. The Madagascar project is one of the ways we are dealing with our competition. This project will allow us to diversify our offering in titanium dioxide products and position us favourably in this highly competitive market.

### Maximizing QMP's profitability

In 2006, QMP reworked its business strategy and made some difficult decisions. A major restructuring plan was implemented during the year. As part of this plan, we announced job cuts at the Sorel-Tracy complex and at our regional sales offices. As well, we announced the closing of the plant in Mönchengladbach,

Germany, which will take effect at the end of 2007, and the transfer of a large part of its production to Sorel-Tracy. We also bolstered our program to reduce production costs in order to absorb ever-higher labour and energy costs.

The Company exports more than two-thirds of its production to some 40 countries, primarily in North and South America and in Europe.

Sales of our metal powders have regained the ground they lost following Hurricane Katrina in 2005, which affected our supply of hydrogen. In addition, to meet growing demand in the Chinese market, we continued to increase production volumes at our new plant in Suzhou, China, which opened in 2005. Asia represents a very attractive business opportunity, despite being highly competitive.

# Our team

Achieving operational excellence: this is the objective QIT and QMP have established to ensure the sustainable development of their operations. To achieve this goal, it is essential to have in place a corporate culture that encourages the engagement and participation of each employee, both individually and in a team, a culture where employees know their personal objectives, those of their sector and the Company, and are able to measure their progress, a culture where men and women are treated fairly and respectfully, in a safe and healthy environment, a culture where employees can develop and grow throughout their career and are recognized for their achievements.

## Setting the stage for the future

The challenge facing QIT/QMP is twofold: instill a corporate culture based on excellence and manage the challenge of succession planning in a context where production is significantly higher. Over the next seven years, 50% of employees at QIT and 40% at QMP will be eligible for retirement. During this same period, phase II of QIT's UGS plant will be completed, and we will

begin processing ore from Madagascar. Recruitment, training and partnership programs are being implemented to ensure that our operations are not disrupted by retirements.

## Excellent results in health and safety

QIT Sorel-Tracy, QMP and QIT HSP achieved excellent health and safety results in 2006. In 2005, QIT Sorel-Tracy had the lowest rate of

compensable accidents in 55 years, with a result of 0.74. Its performance improved further in 2006 and it recorded the best results in its history, with a frequency of 0.28 (frequency is defined as the annual number of accidents per 100 workers).

QMP also enjoyed excellent results, with a compensable accident rate of 0.24 compared to 0.65 in 2005, a decrease of more than 60%. Accidents at QIT and QMP in 2006 were due primarily to non-compliance with standards and procedures.

For the first time in its history, QIT HSP attained its goal of "zero compensable accidents," an outstanding achievement that can be attributed to the management team, executives, employees and members of the union executive, who all embraced change by making a commitment to "HSP en Évolution" (HSP: moving forward), a corporate project launched late in 2005.

## Maintaining a healthy work environment

Our goal is to eliminate or minimize the negative impacts of the workplace on employee health in order to provide a healthy work environment. Our Health and Industrial Hygiene Department has implemented new health management and performance standards, as well as programs and activities to encourage employees to adopt healthier lifestyles.

Paul Larochelle, senior clerk – statistics, and Alain Vincent, electrotechnician at QIT, put their talents to work with Théâtre La Doublure. The plays in which they perform range from classics to vaudeville and contemporary works, much to the delight of theatre fans in the Sorel-Tracy region.



# Our environment

QIT and QMP's sustainable future in the communities in which they operate depends to a large degree on responsible resource management. We therefore have in place the means and measures to ensure our activities are carried out in an environmentally responsible manner. To do so, we periodically review our systems, standards and practices to ensure that our operations reflect the latest technical and regulatory developments. In addition, every year, we set new goals for the continuous improvement of our performance.

## 2006 achievements

In 2006, we stepped up our efforts to continue reducing the impact of our industrial operations on the environment and on the communities located near our facilities. We continued our programs to reduce community noise and control atmospheric emissions. Projects were launched to prevent leaks, spills and soil contamination. We also worked on reducing water use, treating wastewater, preventing overflows and environmental monitoring of

mining effluent and surface water. In addition, we continued to improve our energy conservation, waste recovery and recycling programs. We carried on with monitoring studies on mining effluent and surface water at the Tio mine. These studies, which began in 2003, will continue for the next few years.

## 2007 objectives

In 2007, we will continue monitoring community noise and taking the necessary measures to correct conditions under which noise levels

could disturb nearby communities. We will also continue implementing projects to identify and eliminate intermittent sources of noise. In addition to sampling campaigns to test the quality of effluent at all of our facilities, our water management programs will include an analysis to determine potential sources of increased TSS at the water treatment plant and implementation of an action plan to reduce fresh water use at the Sorel-Tracy complex. A dozen new observation wells will be drilled during the year to provide for better groundwater monitoring at QIT Sorel-Tracy. We will continue to work on reducing dust emissions at all of our facilities, with several projects planned for 2007. The impact of climate change is a priority for Rio Tinto. There are two sources of greenhouse gas emissions: the metallurgical process that reduces ilmenite ore into iron and titanium dioxide, and the burning of natural gas and fossil fuels. Various measures have been introduced in recent years to limit and even reduce greenhouse gas emissions. In 2006, following the tabling of Canada's Clean Air Act, discussions resumed with the government of Canada. QIT will also take part in the Quebec government's 2006-2012 action plan for voluntary GHG reduction measures.

Danielle Roy, Denis Moisan and Serge Fournier, respectively President, Vice-President and Treasurer of the Piranhas du Bas-Richelieu swim club, combine volunteer work with the athletic activities of their children, Dominic Audry, Marc-Antoine Moisan, Anne-Marie Moisan and Marie-Christine Fournier. At QIT, Danielle is an IT applications architect, Denis is a project engineer III, and Serge is a plant mechanic.



# Our host communities

The quality of life of the people living near our facilities is a priority for QIT/QMP, and we strive to limit the impact of our industrial activities. We participate actively in the life of the communities in which we operate and support projects aimed at improving quality of life. We are also committed to long-term partnerships for health, education, culture, the environment and community activities.

## Maintaining and encouraging dialogue

Establishing and maintaining constructive relations with the communities in which we operate is a key element in building a sustainable future. We believe an approach based on partnership and dialogue is the best way to prevent potential problems, find solutions to existing situations and ensure that the interests of community members are taken into account when developing new projects.

We have set up a number of channels for providing relevant, up-to-date information on our activities and planned changes to our facilities. These channels (residents' committees, 24-hour phone line, meetings with regional leaders, newsletters, reports etc.) also allow residents to express their opinions regarding our activities and to share their concerns, questions and comments.

## Responding to complaints

In 2006, people living in the communities near our facilities in Sorel-Tracy reported 49 events, half of which involved dust emissions. Noise

incidents, which were down by nearly 60% compared to 2005, accounted for 22% of complaints in 2006 and dealt primarily with occasional rather than continuous noise. In 2006, calls were received about odours (24% of complaints) and a monitoring program in the field was launched as a result. The program will continue in 2007, to identify potential sources at our facilities; if applicable, a remedial plan will be developed.

In Havre-Saint-Pierre, the five complaints about dust fallout received were not related to a specific event. Projects for controlling this fallout are currently under study. There was also one complaint about vibrations at a residence.

## Taking part in community life

In 2006, QIT Sorel-Tracy, QMP and QIT HSP distributed donations, sponsorships and scholarships valued at \$415,000. The donations and sponsorships were provided to organizations active in the environment, education, health, recreation, culture and mutual aid. In addition, our employees volunteered thousands of hours of their time to help community organizations in the region.

Bruno Bélanger, human resources advisor at QMP, and Steve Morin, employee relations advisor at QIT, serve on the Board of Directors of the OrientHèque, an organization that provides residents of the Bas-Richelieu with assistance in finding jobs. It offers up-to-date job search tools, support and assistance, as well as services for women seeking work in non-traditional trades.

