

Diamonds and Industrial Minerals group

STRATEGIC OVERVIEW

From 1 June 2007 the number of product groups in which Rio Tinto is organised was reduced to five from six by combining the Industrial Minerals group with the Diamonds group to form Diamonds and Industrial Minerals. The structuring better reflects the size of the Diamonds and Industrial Minerals businesses in the context of the broader Rio Tinto. Diamonds and Industrial Minerals report to the product group heads of Copper and Energy respectively.

Diamonds comprises Rio Tinto's 60 per cent interest in the Diavik Diamonds mine located in the Northwest Territories of Canada, the wholly owned Argyle mine in Western Australia, Rio Tinto's 78 per cent interest in the Murowa mine in Zimbabwe and diamond sales and representative offices in Antwerp, Belgium and Mumbai, India.

Within the global diamond industry, Rio Tinto Diamonds is well positioned as a leading supplier to the market with a clear focus on the upstream portion of the value chain. The group's differentiated approach to marketing has enabled it to capture higher prices.

The group's strategy is to compete in the diamond business and strive to build further value through operational excellence and continued development of new and existing resources. The focus is on the mining, recovery and sale of rough natural diamonds. In keeping with Rio Tinto's values, the group is a leading proponent of a number of programmes and partnerships that help improve social and environmental standards of partners, suppliers and customers.

Rio Tinto sells diamonds from all three operations through its marketing arm according to a strict chain of custody process ensuring all products are segregated according to mine source.

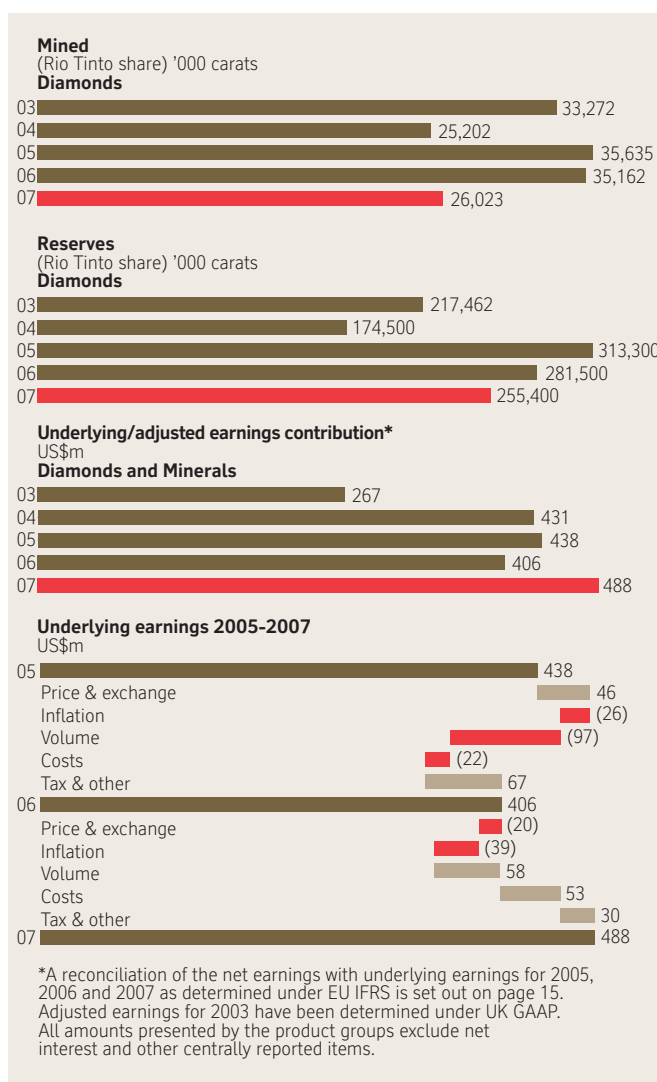
The Industrial Minerals part of the group is made up of Rio Tinto Minerals (RTM), a global leader in borates, talc and salt supply and science, and Rio Tinto Iron & Titanium (RTIT), a major producer of titanium dioxide feedstock. Industrial minerals markets include automotive, construction, telecommunications, agriculture and consumer products industries. Market differentiation depends on technical and marketing expertise and the group maintains R&D facilities in Europe, Canada and the US to develop new products and support customers.

The Industrial Minerals strategy is to create value by directing resources toward high value growth sectors in mature and emerging markets. To support this, the group focuses on meeting customers' needs for consistent quality, on time delivery and responsiveness; setting and meeting aggressive business improvement targets; expanding high grade titanium dioxide feedstock capacity; and establishing stock points to supply demand growth in emerging economies. The Industrial Minerals operating strategy is market driven and focuses on optimising volumes and product mix.

Business improvement targets set in 2004 have largely been met resulting in the lowering of the sustainable cost base of Industrial Minerals. As part of a business optimisation exercise two talc operations were sold and two more were decommissioned in 2007. The Canadian RTIT metal powders plant has been integrated into the other RTIT operations to improve operating synergies. Operational excellence programmes continue to deliver improvements through systematically eliminating waste, reducing process variability, and engaging and empowering the workforce.

Commercial and operating excellence is the foundation for growth, with acquisitions of sufficient scale serving to complement the existing portfolio. Greenfields projects are under way in potash and soda ash. RTIT is operating its assets at maximum capacity while maximising returns from co-products. Volume growth in the high grade titanium dioxide feedstock market will be underpinned by the commissioning and expansion of the Madagascar deposit.

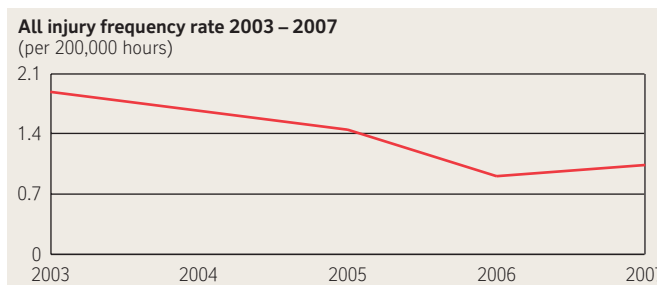
During 2007 negotiations at Richards Bay Minerals (RBM) were progressed to an advanced stage to divest 26 per cent of the business to historically disadvantaged groups as part of the legal requirement in South Africa to convert mineral rights. Rio Tinto marginally increased its share in its salt operations by buying out minority shareholders. At the end of 2007 a Group wide review of assets was conducted to determine the long term value of retaining these assets



within Rio Tinto. Based on the outcome of this review the RTM borates and talc businesses are being considered for divestment.

At 31 December 2007, Diamonds and Minerals accounted for seven per cent of the Group's operating assets and contributed approximately 12 per cent of Rio Tinto's gross turnover and seven per cent of underlying earnings in 2007. Approximately 8,000 people were employed in 2007.

Andrew Mackenzie was appointed chief executive, Diamonds and Minerals on 1 June. In November he left the Group. Responsibility for the Industrial Minerals portfolio was assumed by Preston Chiaro, chief executive, Energy, while Bret Clayton, chief executive, Copper, is responsible for Diamonds.



SAFETY

A regrettable double fatality occurred at RBM when two contractors lost their lives after entering a confined space. In 2007 the all injury

frequency rate (AIFR) for the Industrial Minerals operations was 0.89 compared to 0.87 in 2006. The AIFR for Diamonds was 1.51 compared to 1.01 in 2006, including the Argyle underground project. A major focus continues to be delivery of a sustainable approach to safety improvement.

GREENHOUSE GAS EMISSIONS

Greenhouse gas (GHG) emissions per tonne of product are decreasing at both Diavik and Argyle diamond mines. Both sites are evaluating and implementing projects to further reduce emissions. At Argyle these projects are focused on increasing the proportion of hydro-electric power, which already meets the majority of power requirements.

The majority of RTM's GHG emissions are from the Boron California facility where an energy management plan has been introduced. There are currently 24 energy management projects that are being progressed, and emissions per tonne of product are decreasing. During 2007 RTIT sites undertook audits to identify opportunities for GHG and energy reduction.

FINANCIAL PERFORMANCE 2007 compared with 2006

Diamonds contributed US\$280 million to Rio Tinto's underlying earnings in 2007, an increase of US\$69 million over 2006. Sales revenue for 2007 was US\$1,020 million, US\$182 million higher than in 2006. Increased volumes from Diavik, a reduction in stocks at Argyle and tax credits in Australia and Canada contributed to earnings. An impairment charge of US\$328 million after tax was taken at Argyle, reflecting industry cost pressures and the difficult ground conditions encountered in the underground project.

The rough diamond market recovered during 2007 as excess pipeline inventory was consumed after weakness in the latter half of 2006. The polished diamond market was steady, but the weakness of the US economy is expected to curtail demand in the lower end of the market.

Industrial Minerals' net earnings were US\$248 million, an improvement of two per cent on 2006. Net earnings from RTM decreased eight per cent to US\$84 million while revenue grew five per cent. Earnings were negatively affected by a tax charge related to the borates business, and the impact of cyclones in Western Australia on salt volumes.

RTIT recorded earnings of US\$164 million, up from US\$152 million in 2006. Revenue increased by 15 per cent due to an increase in sales to emerging markets and strong co-product prices. The effect of the strong Canadian dollar and rising input costs continued to put pressure on earnings from RTIT's wholly-owned QIT-Fer et Titane (QIT) business.

2006 compared with 2005

Diamonds contributed US\$211 million to underlying earnings in 2006, a decrease of US\$75 million from 2005. Reduced 2006 earnings are mainly a result of the weakened second half market.

Diamonds' turnover for 2006 was US\$838 million, US\$238 million lower than in 2005 driven primarily by a downturn in the rough diamond market in the second half of 2006. This resulted in lower prices for most product types with Rio Tinto Diamonds stocking some lower quality product to be sold in 2007.

Diamond production remained at similar levels to 2005 across all operations. Argyle produced 29.1 million carats in 2006, approximately 1.4 million carats less than in 2005. This was in line with expectations of a decreasing diamond production profile as the open pit winds down and underground production ramps up over the next five years. Diavik produced 5.9 million carats in 2006, 0.9 million carats more than in 2005. Murowa produced 0.2 million carats in 2006, slightly less than in 2005.

The rough diamond market started strong in the first half of 2006 but deteriorated into the second half. Year end prices closed at similar levels to the start of 2006. A number of factors influenced this mid year correction, including a congested processing pipeline, tight manufacturing and trading liquidity and storms

that caused flooding in India's major cutting center, Surat, which forced the shutdown of many cutting and manufacturing centres for several weeks.

Polished diamond prices remained constant through 2006 with reasonable demand experienced for most products, particularly for larger better quality white diamonds.

During 2006 Rio Tinto's shares in Ashton Mining of Canada were taken up by Stornoway Diamonds under its takeover bid for Ashton. In exchange for the shares in Ashton, Rio Tinto received cash totaling approximately C\$29.6 million and 25.6 million Stornoway common shares.

Industrial Minerals' contribution to 2006 underlying earnings was US\$243 million, a 30 per cent improvement on 2005.

Rio Tinto Minerals earnings at US\$91 million were 54 per cent improved on 2005. The absence in 2006 of the 2005 Rio Tinto Minerals restructure provision and modest revenue increases, combined with strong cost performance, despite upward pressure from cyclones in Western Australia and labour markets, contributed to this result.

Rio Tinto Iron & Titanium earnings at US\$152 million were 19 per cent higher than in 2005. Good price performance across all products, combined with favourable volume trends, strict cost control at RBM, and beneficial Canadian tax changes offset increased costs in the Canadian operations and the impact of the strong Canadian dollar.

RIO TINTO DIAMONDS OPERATIONS

Argyle (Rio Tinto: 100 per cent)

Rio Tinto owns and operates the Argyle diamond mine in Western Australia. Production from Argyle's AK1 open pit mine is expected to continue through 2008, when the mine will transition to underground operations which are expected to extend the life of the mine to about 2018.

2007 operating performance

Due to lower grades, diamonds recovered decreased to 18.7 million carats in 2007 from 29.1 million carats in 2006 despite a two per cent increase in the volume of ore treated. Mine productivity was lower due to mining at lower elevations in the pit. Improvement programmes are in place to mitigate the cost pressures brought about by the resources boom in Western Australia.

Diavik Diamonds (Rio Tinto: 60 per cent)

Rio Tinto operates the Diavik Diamond Mine, located 300 kilometres north east of Yellowknife, Northwest Territories. It is an unincorporated joint venture between Rio Tinto and Harry Winston Diamond Corporation (formerly Aber Diamonds). Operations began in 2003 with mining of the A154 kimberlite pipes. In 2007 a second dike was completed to enable development of an open pit to mine on the A418 pipe. Open pit mining is expected to cease in 2012, at which time Diavik will become an all underground mine. Diavik's total mine life remains within the 16 to 22 years projected in the original feasibility study of 1999.

2007 operating performance

Volumes of ore mined and processed were similar to 2006, however increased grades meant that Rio Tinto's share of diamonds recovered increased to 7.2 million carats in 2007 from 5.9 million carats in 2006. The availability of the winter road was much improved from the previous year and supply of materials did not negatively affect operations.

Murowa (Rio Tinto: 77.8 per cent)

Production at Murowa commenced in late 2004 after US\$11 million was spent on constructing a 200,000 tonnes per year plant and supporting infrastructure. Chain of custody safeguards put in place at the commencement of production have performed without incident.

2007 operating performance

The effects of power disruptions and lower feed head grades meant

Evaporation ponds at Rio Tinto Minerals' Lake MacLeod salt operations in Western Australia.



that Rio Tinto's share of diamonds recovered decreased to 0.11 million carats from 0.19 million carats in 2006. Operating conditions in the country remained challenging with hyperinflation and commodity shortages.

RIO TINTO MINERALS OPERATIONS

RTM comprises borates, talc and salt mines, refineries, and shipping and packing facilities on five continents. Global headquarters are located in Denver, Colorado.

Borates – More than one million tonnes of refined borates are produced at Boron Operations, the organisation's principal borate mining and refining operation in California's Mojave Desert. Borates are essential to plants and part of a healthy diet for people. They are also key ingredients in hundreds of products essential to an acceptable standard of living, chief among them: insulation fibreglass, textile fibreglass, and heat resistant glass (44 per cent of world demand); ceramic and enamel frits and glazes (13 per cent); detergents, soaps and personal care products (six per cent);

agricultural micro-nutrients (seven per cent); and other uses including wood preservatives and flame retardants (30 per cent).

Talc – RTM operates talc mines – including the world's largest, in southwest France – and processing facilities in Austria, Australia, Belgium, Canada, France, Italy, Japan, Mexico, Spain and the US. Talcs enhance performance in countless applications, including paper, paints, polymers, automotive mouldings, ceramics, personal care products and pharmaceuticals. This multiplicity demands an in depth understanding not only of talc's properties and functions but also of its full range of applications and user industries.

Salt (Rio Tinto: 68.4 per cent) – RTM manages three salt operations located in Western Australia. It produces industrial salt by solar evaporation at its Dampier, Port Hedland and Lake MacLeod operations, where it also mines gypsum. Customers are located in Asia and the Middle East. The majority are chemical companies who use salt as feedstock for the production of chlorine and caustic soda (together known as chlor-alkali production). Products are also used as food salt and for general purposes including road de-icing.

2007 operating performance

Borates – Production volumes were up one per cent at 560,000 tonnes of boric oxide, and sales volumes declined slightly from 2006. North American markets continued to be affected by a sluggish housing industry in 2007 but were offset by strong growth in Asian markets and steady performance in European markets.

Talc – Talc output decreased by eight per cent to 1,281,000 tonnes as smaller operations were closed and marginal sales were discontinued. Sales volumes decreased slightly. Strong polymer and coating sales in Europe offset volume declines in North America driven by the housing and automotive sector slowdown.

Salt (Rio Tinto: 68.4 per cent) – The residual effects of the cyclones in Western Australia led to a three per cent decline in salt volumes to 5.2 million tonnes (Rio Tinto share). The recovery effort is expected to take until the fourth quarter of 2008, with full capacity likely in 2010. A 500,000 tonnes per annum capacity expansion at Lake MacLeod has been completed.

RIO TINTO IRON & TITANIUM OPERATIONS

Quebec Iron & Titanium

Richards Bay Minerals (Rio Tinto: 50 per cent)

Rio Tinto Iron & Titanium (RTIT) comprises the wholly owned Quebec Iron & Titanium (QIT) in Quebec, Canada and the 50 per cent interest in Richards Bay Minerals (RBM) in KwaZulu-Natal, South Africa. Both produce titanium dioxide feedstock used by customers to manufacture pigments for paints and surface coatings, plastics and paper, as well as iron and zircon co-products. RBM is progressing arrangements to meet the requirements of legislation governing broad based economic empowerment in the South African mining industry.

QIT's proprietary process technology enables it to supply both the sulphate and chloride pigment manufacturing methods. QIT has the capacity to produce 375,000 tonnes of upgraded slag (UGS) per annum and is currently improving its smelter facility to smelt ilmenite from the Madagascar project into high grade slag. Resources will sustain more than 20 years operation at current production rates.

RBM's ilmenite has a low alkali content which makes its feedstock suitable for the chloride pigment process. RBM has the capacity to produce one million tonnes of feedstock annually.

RTIT is headquartered in the UK.

2007 operating performance

Titanium dioxide pigment is the principal end use market for feedstocks manufactured by RTIT.

Titanium dioxide feedstock output remained steady from 2006 to 2007 with both smelters operating at full capacity. Prices of chloride feedstock remained flat with the market going into oversupply. The production of UGS increased by five per cent to take advantage of the increasing demand for high grade feedstock. Sales of feedstock into the sulphate market increased to meet demand from Asia. Prices for iron co-products remained strong during the year.

DIAMONDS AND INDUSTRIAL MINERALS GROUP PROJECTS

Diavik underground (Rio Tinto: 60 per cent)

Following the completion of the feasibility study in 2007 approval was given to proceed with underground mining of the A154N, A154S and A418 kimberlites. Additional funding of US\$563 million was approved, bringing the total investment in the underground mine to US\$787 million. Under the current life of mine plan, diamond production from underground would begin in 2009 and continue beyond 2020.

To support underground mining, Diavik must construct new surface works including a crusher and paste backfill plant, expand its water treatment and power generating plants, and construct ancillary facilities including fuel and cement storage, and additional accommodation facilities.

About 20 kilometres of tunnels will be constructed to bring underground mining into production. The capital investment of US\$563 million will be spent over the next two years, adding to the US\$224 million invested in 2006-2007 for the underground feasibility studies and related capital projects.

The study into the A21 kimberlite concluded that this should not be included in reserves at this point and further project development will be conducted in 2008.

Murowa (Rio Tinto: 77.8 per cent)

The feasibility study into expanding the capacity of Murowa mining and processing operations was completed during 2007. A decision to proceed will depend on resolving security of tenure.

Argyle underground (Rio Tinto: 100 per cent)

Rio Tinto approved the development of an underground block cave mine under the AK1 open pit in late 2005. It also approved an open pit cutback on the Northern Bowl to facilitate the transition from open pit to underground mining. The cost estimate for the project was revised to US\$1.5 billion due to the overheated Western Australian mining and construction industry and challenging ground conditions. However, efforts continue to recover value, and some improvement on the revised cost estimate may be possible following more rapid underground development rates in the second half. First production from the underground operation is expected in 2009.

QIT Madagascar Minerals (Rio Tinto 80 per cent)

The project was approved in 2005 and comprises a mineral sand mine and separation plant, and port facilities in southern Madagascar as well as an upgrade of QIT's ilmenite smelting facilities in Canada. The Government of Madagascar contributed US\$35m to the establishment of the port as part of its Growth Poles project funded by the World Bank. The project has maintained its schedule, however cost inflation and foreign exchange effects have increased the cost estimate to US\$1.0 billion. Nevertheless, increased product selling prices have meant that the project value has been maintained. First production is expected at the end of 2008.

The mine will be a key initial customer of the deep sea multi-use public port at Ehoala, providing the base load to help establish the port. Over time, it is expected the port will make an important contribution to economic development of the region.

RTIT will manage the port operations. At the end of the life of the mine, the port will fall under the responsibility and control of the Government of Madagascar.

Extensive engagement and consultation with the Government of Madagascar and local people and leaders has taken place over many years. The World Bank is involved in a development role and non government organisations, including the Royal Botanic Gardens, Kew and Missouri Botanical Gardens, have been involved in planning environmental and conservation strategies.

Potasio Rio Colorado S.A. (Rio Tinto 100 per cent)

The Rio Colorado potash project in Argentina lies 1,000 kilometres south west of Buenos Aires. Potash is used principally as an agricultural fertiliser. Evaluation of the project began in late 2003, and has included a two year large scale trial of solution mining. This ran successfully from late 2004. During 2007 the feasibility study was completed. Development of the project depends on finalising permits and other agreements as well as approval by the board of Rio Tinto. Subject to this, first production could occur in 2011. Installed capacity will be 2.9 million tonnes per year. The scale and quality of the resource provide potential for expansion.

Kazan trona (Rio Tinto 100 per cent)

The Kazan trona project is located 35 kilometres northwest of Ankara in Turkey. Rio Tinto is conducting pre-feasibility studies and, upon expected approval in 2008, will move into large scale solution mining trials. Trona is converted to soda ash, or sodium carbonate, by dissolving ore and recrystallizing the soda ash. Soda ash is one of oldest known and largest volume inorganic chemicals, used primarily in the glass, chemicals, soap and detergent, and pulp and paper industries. Kazan trona promises to be a more environmentally sustainable commodity to meet rising global demand than chemical synthesis.