Iron Ore group

STRATEGIC OVERVIEW

Rio Tinto's Iron Ore group conforms with the larger Group's overall strategy of pursuing the world's best natural resources, wherever they are located, using the best technologies, and operating them safely. RTIO seeks to do this by being faster and better at producing iron ore, supported by an unmatched capacity and capability to develop key infrastructure.

RTIO is geographically well placed to take advantage of the exceptionally strong market conditions and outlook in Asia, with a massive mineral resource base close to an integrated production platform in the Pilbara of Western Australia. This enables a rapid expansion of production in the short and medium term. RTIO's large mineralisation position in Australia and Guinea, west Africa, together with an established project execution capability, provides potential for a global iron ore production capacity of more than 600 million tonnes per annum.

As new competitors and constraints emerge, RTIO's strategy to meet the industry challenges is focused on achieving "industry leadership" in global iron ore. The strategy is centred on rapidly expanding the business, both globally and in the Pilbara, and delivering maximum value from RTIO's operations by developing a world class production platform.

RTIO's portfolio of operations is international, including Australia, Canada and Brazil, a major development project in Guinea at Simandou, and the Orissa project in India. It also includes the HIsmelt® plant in Australia, which applies revolutionary technology to convert iron ore fines with significant impurities into high quality pig iron.

RTIO Asia was established in Singapore in November 2007 to provide an integrated sales, marketing, distribution and logistics service for Hamersley Iron products in the Asia Pacific. It aims to maximise Hamersley's share of forecast growth in the region.

At 31 December 2007, the Iron Ore group accounted for 13 per cent of Rio Tinto's operating assets, and in 2007 contributed 26 per cent of the Group's gross sales revenue and 36 per cent of underlying earnings.

At year end 2007 RTIO employed 6,520 people in Western Australia and 8,630 worldwide. In a highly contested market, the recruitment effort was exceptional, with 1,951 new starters in 2007.

Environmental initiatives included development of a strategic approach to water for the Pilbara, to ensure long term security of supply at the ports and in the management of dewatering discharge associated with the increasing requirement for below water table mining across the Pilbara, and recognising the importance of this issue for traditional land owners of the region.

A major milestone was reached with the completion of the Phase B upgrade of the port of Dampier, now ramping up towards its new capacity of 140 million tonnes per annum (Mt/a). Work has commenced on the Cape Lambert upgrade to 80 Mt/a from 55 Mt/a, which will be completed in early 2009. Two new mines were approved for development – Brockman 4 (22 Mt/a) and Mesa A/Warramboo (25 Mt/a) – at a combined total cost of US$2.4 billion, of which Rio Tinto's share is US$2.0 billion. Both mines will replace tonnages from deposits nearing the end of their mine life.

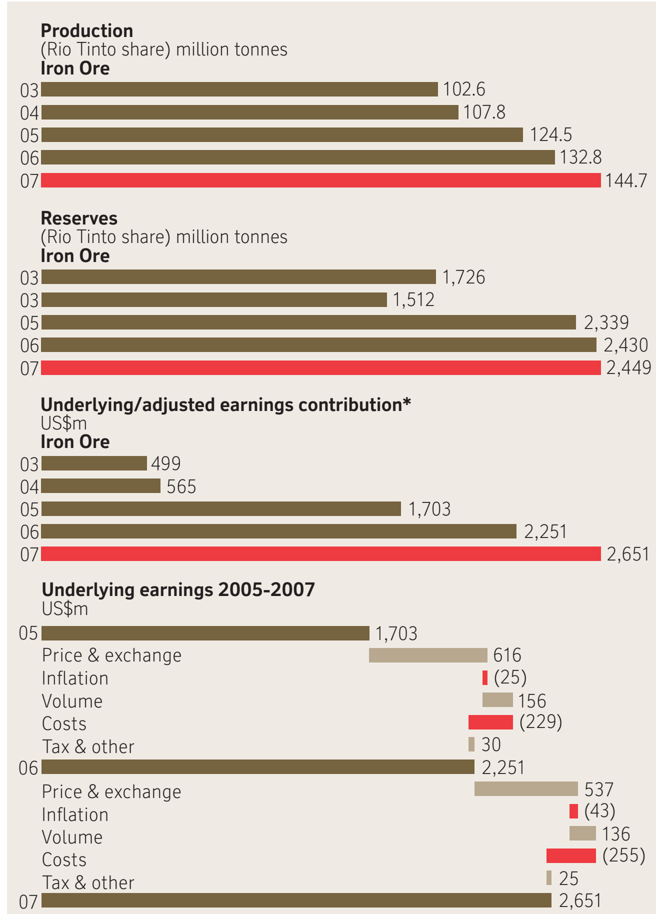
Rio Tinto's 50:50 joint venture with Hancock Prospecting is progressing well. In November, Hope Downs 1 (22 Mt/a), began production – a full quarter ahead of schedule, and the stage 2 expansion to 30 Mt/a has been brought forward one year, with production planned to commence at the start of 2009. In December approval was given for a US$71.4 million feasibility study into the development of a Hope Downs 4 mine (15-20 Mt/a).

RTIO's growth strategy has seen more than US$7 billion committed to port, rail, power and mine assets since 2003, resulting in a world class, integrated iron ore network. A feasibility study into expanding Pilbara capacity to 320 Mt/a by 2012 is well advanced and a decision will be made in early 2009. Cape Lambert has been identified as the preferred site for port expansion.

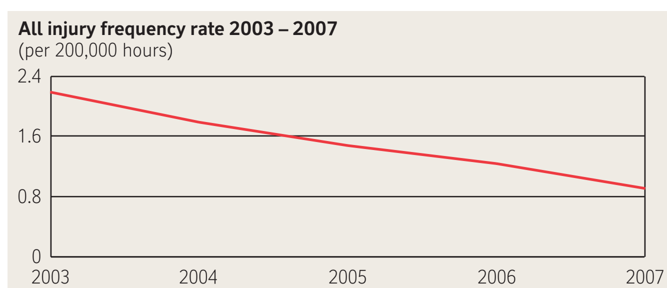
In late November 2007 Rio Tinto senior management outlined an aggressive expansion programme designed to capitalise on RTIO's global spread of assets and markets. This included a conceptual framework towards establishing a Pilbara production capacity of 420 Mt/a and an expansion at Simandou in Guinea of up to 170 Mt/a.

During the year, RTIO was inducted into the Australian Export Hall of Fame, was twice honoured at the Australian Business Arts Foundation awards and won a 2007 Water Award for its re-injection project at Yandicoogina.

Sam Walsh, chief executive Iron Ore, is based in Perth, Western Australia.



*A reconciliation of the net earnings with underlying earnings for 2005, 2006 and 2007 as determined under EU IFRS is set out on page 15. Adjusted earnings for 2003 have been determined under UK GAAP. All amounts presented by the product groups exclude net interest and other centrally reported items.



SAFETY

Iron Ore Company of Canada's safety performance continued to improve in 2007 with a 59 per cent reduction in the lost time injury frequency rate to 0.29. The Corumbá mine in Brazil again won the Chief Executive's Safety Award. Work progressed on a number of safety initiatives across operations, particularly focused on issues surrounding contractor management, vehicle safety and implementing proactive measures to prevent the risk of injury. Cyclone preparation measures in the Pilbara employee accommodations were reviewed, focusing on standardised safety measures. Overall, the group's all injury frequency rate was 0.92 (1.24 in 2006) and the lost time injury frequency rate 0.38 (0.59).

GREENHOUSE GAS EMISSIONS

The 2008–2009 greenhouse gas (GHG) plan notes an increased focus on energy reduction through the appointment of an energy specialist in late 2007 and the conduct of further energy reviews. A feasibility study is being conducted to examine the possible replacement of power stations to reduce GHG emissions and mitigate current potential environment risk.

A number of additional activities aimed at reducing energy use and GHG emissions are also under way including replacing heavy mobile equipment and locomotives. Dash 7 and Dash 8 locomotives are being replaced by new generation GE EVO locomotives. The RTIO technology group is also examining hybrid locos in collaboration with General Electric, liquid natural gas replacement for diesel trucks and locomotives, rail electrification, and closed cycle power generation for existing open cycle power units. Rio Tinto has approved new gas fired power generation in the Pilbara as a step towards lower emissions electricity.

FINANCIAL PERFORMANCE

2007 compared with 2006

RTIO's contribution to 2007 underlying earnings was US$2,651 million, US$400 million higher than in 2006.

Demand for iron ore remained extremely strong across the product range throughout 2007, driven by the continuing robust growth in global steel demand and production, significantly exceeding seaborne suppliers' capacity to match. Total Chinese iron ore imports rose from 326 million tonnes to 383 million tonnes, accounting for more than 90 per cent of world growth. Hamersley Iron and Robe River in Australia operated at record or near record levels of production in 2007.

In December RTIO announced plans to sell up to 15 million tonnes of iron ore on the spot market in 2008, taking advantage of the large gap between annual (benchmark) and short term prices while continuing to meet longer term contractual commitments.

2006 compared with 2005

RTIO's contribution to 2006 underlying earnings was US$2,251 million, US$548 million higher than in 2005.

Demand for iron ore continued to be extremely strong across the product range throughout 2006, driven by continued growth in global steel demand and production. Total Chinese iron ore imports rose from 275 million tonnes to 326 million tonnes. Hamersley Iron, Robe River, Iron Ore Company of Canada and Corumbá in Brazil all operated at record or near record levels of production in 2006.

For the contract year commencing April 2006 RTIO reached agreement with customers on price increases of 19 per cent for all products following on from the previous agreement of a 71.5 per cent increase. In December 2006, prices for the 2007 contract year were agreed with Baosteel of China, for a 9.5 per cent increase to the benchmark price. Similar price increase agreements were subsequently reached with other steelmakers.

OPERATIONS

Hamersley Iron (Rio Tinto: 100 per cent)

Hamersley Iron operates nine mines in Western Australia, including three mines in joint ventures, about 700 kilometres of dedicated railway, and port and infrastructure facilities located at Dampier. These assets are run as a single operation managed and maintained by Pilbara Iron.

The final phase in ramping up Pilbara infrastructure to 220 million tonnes of annual capacity is well under way. Dampier port's two terminals now account for a combined capacity of 140 Mt/a. With the completion of Junction South East, Yandicoogina mine capacity has been expanded to 52 Mt/a, and brownfield mine expansions at Marandoo, Nammuldi and Mount Tom Price have been completed.

The new Hope Downs mine, owned in 50:50 joint venture with Hope Downs Iron Ore Pty Ltd (owned by Hancock Prospecting Pty Ltd), but managed by RTIO, began production in November, a full quarter ahead of schedule, and the first train was loaded in mid December.

Approval was granted for the US$1.52 billion Brockman 4 mine, 60 kilometres north west of Tom Price, which will begin ramp up in 2010 to 22 Mt/a. The mine will be connected to the main network via a 35 kilometre rail spur, and the design allows for an additional 14 Mt/a expansion.

Work is progressing on a number of options for new mine development as part of the feasibility study to reach 320 Mt/a capacity. A decision is expected in early 2009.

Work also continued on pre-development studies for new mines.

2007 operating performance

Hamersley Iron's total production in 2007 was 112.1 million tonnes, 14.9 million tonnes more than the 97.2 million tonnes in 2006. This result was notable for being achieved amid significant expansion work across several sites.

Shutdowns and flooding from two cyclones early in the year hindered operations significantly, although tie down procedures performed well. Several derailments also impacted operations significantly, resulting in an estimated 1.39 million lost saleable ore tonnage. Remedial action was undertaken on high risk sections and a rerailing project was approved which will eventually see 45 per cent of the network replaced.

Reinvestment in additional yard capacity, locomotives and rolling stock has been implemented to improve efficiency and remove bottleneck issues associated with limited rail capacity.

The Pilbara Blend product was successfully introduced mid year, winning widespread customer acceptance and at 100 per cent of the reference price. Pilbara Blend will comprise 15 per cent of the world's seaborne iron ore trade.

Shipments by Hamersley Iron totalled 109.5 million tonnes, including sales through joint ventures. Shipments to China also reached a new record level at 59.6 million tonnes, confirming China's place as the single largest, and fastest growing, destination for Hamersley's iron ore.

Hamersley's total shipments of iron ore to major markets in 2007

	Million tonnes
China	59.6
Japan	30.0
Other Asia	18.3
Europe	0.7
Total	**108.5**

NOTE: This table includes 100 per cent of all shipments through joint ventures.

Robe River Iron Associates (Rio Tinto: 53 per cent)

Robe River Iron Associates (Robe) is an unincorporated joint venture in which Mitsui (33 per cent), Nippon Steel (10.5 per cent) and Sumitomo Metal Industries (3.5 per cent) retain interests. Robe River is the world's fourth largest seaborne trader in iron ore.

Robe River operates two open pit mining operations in Western Australia. Mesa J is located in the Robe Valley, north of the town of Pannawonica. The mine produces Robe River fines and lump, which are pisolitic iron ore products. The West Angelas mine, opened in 2002, is located approximately 100 kilometres west of the town of Newman. The mine produces West Angelas fines and lump and Marra Mamba iron ore products which were successfully incorporated into the Pilbara Blend during the year.

Expansion of mine, rail and port operations has continued, with the upgrade of Cape Lambert port from 55 Mt/a to a rated capacity of 80 Mt/a proceeding on schedule. The port has also been nominated as the preferred site for subsequent expansion as part of the upgrade of Pilbara capacity to 320 Mt/a, subject to an ongoing feasibility study.

In November, Rio Tinto and the joint venture partners approved development of the US$901 million (Rio Tinto share US$478 million) Mesa A/Warramboo mine in the western end of the Robe Valley. This followed a lengthy, ultimately successful, process to gain environmental approval. The new mine's annual production will be 20 Mt/a, increasing to 25 Mt/a by 2011, and will be replacement tonnage as Mesa J's mine life approaches its end.

Robe River primarily exports under medium and long term supply contracts with major integrated steel mill customers in Japan, China, Europe, South Korea and Taiwan.

2007 operating performance

The effect of cyclones slowed production early in the year at Robe River's Pannawonica and West Angelas mines, as did a serious derailment which required significant track repairs. A two week shutdown of the Cape Lambert dumper also affected production, as did delays in commissioning a conveyor system at West Angelas.

Robe River's total production in 2007 was 51.5 million tonnes, comprising 25.5 million tonnes from Mesa J, and 26.0 million tonnes from West Angelas. Sales were 25.9 million tonnes of Mesa J and 25.6 million tonnes of West Angelas products.

Sales growth, based on increased production from West Angelas, was again fuelled by the growth in the Chinese market, where Robe River achieved record total sales of 52.0 million tonnes. Japan remains Robe River's largest single market, with total shipments in 2007 of 22.6 million tonnes.

Robe's total shipments of iron ore to major markets in 2007

	Million tonnes
China	21.0
Japan	22.6
Other Asia	2.9
Europe	5.5
Total	**52.0**

Iron Ore Company of Canada (Rio Tinto: 58.7 per cent)
RTIO operates Iron Ore Company of Canada (IOC) on behalf of shareholders Mitsubishi (26.2 per cent) and the Labrador Iron Ore Royalty Income Fund (15.1 per cent).

IOC is Canada's largest iron ore pellet producer. It operates an open pit mine, concentrator and pellet plant at Labrador City, Newfoundland and Labrador, together with a 418 kilometre railway to its port facilities in Sept-Îles, Quebec. IOC has large quantities of ore reserves with low levels of contaminants.

Products are transported on IOC's railway to Sept-Îles on the St Lawrence Seaway. The port is ice free all year and handles both ocean going ore carriers and Lakers, providing competitive access to all seaborne pellet markets and to the North American Great Lakes region. IOC exports its concentrate and pellet products to major North American, European and Asian steel makers.

IOC employs approximately 2,000 people and recruited 170 people during the year to offset an increase in retirements and to meet greater production needs.

2007 operating performance

The demand for IOC's products strengthened further in 2007 with concentrate prices increasing by ten per cent and pellet prices by five per cent over last year's benchmark prices.

Total saleable production was 13.2 million tonnes, down from 16.1 million tonnes in 2006. The variation was primarily due to a seven week labour strike. Pellet production was 11.3 million tonnes (12.7 million tonnes in 2006) with saleable concentrate being 1.9 million tonnes (3.4 million tonnes in 2006). Lower production levels coupled with higher oil prices put pressure on 2007 unit costs.

A labour strike in March/April occurred when negotiations broke down over the new collective agreement to replace the one that expired in February 2007. The strike ended following agreement of a new five year collective agreement.

In August, IOC announced the approval of US$57 million to expand annual concentrate production capacity to 18.4 Mt/a by mid-2008 and to conduct a feasibility study to further expand to 21 Mt/a. This is part of a programme to increase annual concentrate production by some 40 per cent, or seven Mt/a, to 25 Mt/a and annual pellet production by ten per cent, or 1.5 Mt/a, to 14.5 Mt/a over the next five years. The feasibility study is nearing completion and will be considered in early 2008.

IOC's total shipments of iron ore to major markets in 2007

	Million tonnes
Europe	5.210
Asia Pacific	3.777
North America	4.155
Total	**13.142**

Mineração Corumbaense Reunida (Corumbá)
(Rio Tinto: 100 per cent)
Corumbá produced 1.8 million tonnes of lump iron ore in 2007 and sold 1.1 million tonnes to South American, Asian and European customers. Sales were lower in 2007 due to strong competition for barging freight, barge unloading delays at Argentine ports and abnormally low river levels during the last quarter.

Rio Tinto approved investments in additional barging capacity, port improvements and an ore dryer to develop the market for Corumbá lump in direct reduction processes, all of which will come on line during 2008. The feasibility study to expand mine production and transport logistics to ten Mt/a is nearing completion, as the next step towards production of 20 Mt/a. Negotiations continued with prospective investors regarding a steel making project at Corumbá that would consume local iron ore.

Corumbá has more than 200 million tonnes of reserves, and more than 500 million tonnes of additional resources. There are approximately 650 employees.

HIsmelt® (Rio Tinto: 60 per cent)
The HIsmelt® iron making project at Kwinana in Western Australia is a joint venture between Rio Tinto (60 per cent interest through its subsidiary, HIsmelt Corporation), US steelmaker Nucor Corporation (25 per cent), Mitsubishi Corporation (ten per cent), and Chinese steelmaker Shougang Corporation (five per cent). The project produced 115,000 tonnes of pig iron and achieved a number of production records in 2007, its second year of ramp up as it builds towards a planned capacity of 800,000 tonnes per annum. The project was visited by Chinese president Hu Jintao in September 2007.

Stackers and reclaimers at Rio Tinto's iron ore operations in the Pilbara region of Western Australia.

IRON ORE GROUP PROJECTS

Hamersley Iron (Rio Tinto: 100 per cent)

Upgrade to 220 Mt/a

RTIO is on schedule to have 220 Mt/a installed capacity in the Pilbara by the end of 2008, achieving a doubling of capacity since the beginning of the decade. The second stage of the Pilbara Expansion is well advanced with a further upgrade of Dampier Port, Yandicoogina mine expansion and Hope Downs stage 1 development now completed. The initial upgrade of Cape Lambert Port will complete the major infrastructure upgrades for this phase. Additional mine capacity at Hope Downs stage 2 to 30 Mt/a will match the capacities of mine, rail and port facilities at 220 Mt/a.

Pilbara 320/420 Mt/a

A suite of mine and infrastructure projects for the expansion of Pilbara capacity to 320 Mt/a is under study. The studies include a variety of greenfield and brownfield mine options across the Pilbara, expansions to both rail and port and supporting infrastructure, designed to bring the Pilbara capacity firstly to 320 Mt/a and then 420 Mt/a. The studies also contemplate the use of new technologies including a Perth based Remote Operations Centre, and a range of automation options. Underlying this work is an aggressive resource evaluation and definition programme, designed to ensure that resources are developed with optimal sequencing and timing. More than 400,000 metres of exploration drilling was completed during 2007 and a further 500,000 metres is planned for 2008.

Robe River Iron Associates (Rio Tinto: 53 per cent)

Mesa A

The US$901 million Mesa A/Warramboo mine development is required to sustain production of Robe Valley pisolite, which would otherwise decline with the run down of the Mesa J resource. Pending finalisation of plans for the proposed rail spur to the existing line, transition work will begin shortly. Production at Mesa A is expected to commence in the first quarter of 2010, starting at 20 Mt/a, increasing to a 25 Mt/a rate from 2011.

Cape Lambert port
The first upgrade of Cape Lambert (from 55 Mt/a to 80 Mt/a) is well under way. A construction camp for 600 people has been established, and works are continuing according to plan with marine piling and bulk earthworks well advanced. The project scope includes extension of the wharf and upgrading of shiploading facilities to accommodate four capsize vessels simultaneously as well as upgrades to the stockyard with the addition of a new reclaimer. The project is scheduled for completion at the end of 2008 with progressive ramp up during the first half of 2009.

The 320/420 project
Cape Lambert is also the preferred site for expansion of Pilbara port facilities to 320 Mt/a, and conceptually to 420 Mt/a. Under the early planning for the 320 Mt/a, this would involve construction of a new terminal (Cape Lambert West) capable of berthing four capsize ships. That terminal would be extended to accommodate a further four berths according to the 420 Mt/a concept. Early planning has also identified the area to the west of the existing rail line for both stockpiles under both 320 and 420 Mt/a upgrade scenarios. This expansion plan carries the added benefit of not adding to Rio Tinto's footprint in the area.

Simandou (Rio Tinto: 95 per cent)
The Simandou project in eastern Guinea, west Africa, is of great strategic significance for Rio Tinto. It is a greenfield discovery situated in one of the best undeveloped major iron ore provinces in the world. A prefeasibility study is studying the mining and transport options needed to bring Simandou into production as quickly as possible, with an initial capacity of 70 million tonnes per annum. The deposit has a targeted mineralisation of eight to 11 billion tonnes, and there is great potential in exploration opportunities across the project area. Total drilling of 50,000 metres was undertaken at the Pic de Fon and Oueleba sites in 2007, with an equivalent amount expected in 2008. Simandou has significant brownfield growth capacity, and conceptual development plans are already under way on expanding capacity towards 170 million tonnes per annum. These studies are scheduled for completion in 2010.

The International Finance Corporation (the private sector arm of the World Bank Group) retains a five per cent stake in the project and is working with Rio Tinto to develop it in an environmentally and socially sustainable way.

The project currently employs 375 Rio Tinto staff operating from offices in Conakry and Kerouane, and construction camps at Canga East and Oueleba in the Mining Concession. The total workforce, including contractors, is greater than 700.

Orissa, India (Rio Tinto: 51 per cent)
Orissa is one of the key iron ore regions of the world. RTIO has a joint venture interest in Rio Tinto Orissa Mining with the state owned Orissa Mining Corporation. The joint venture holds rights to iron ore leases in Orissa, which it is seeking to develop. Although progress has been slow, Rio Tinto remains keen to participate in the development of the Indian iron ore sector through its joint venture. A project team has been established and is working to expedite the development of operations in India.

Rio Tinto has identified India as among the most likely economies to follow east Asia's development of a greater intensity of steel use. India's economy is expected to maintain its present growth rate, thus providing support for an expanding domestic steel industry. Rio Tinto has continued discussions with major domestic steel companies.