



Paul Skinner Chairman

Chairman's statement

2007 was another record year for Rio Tinto characterised by continuing strong demand and prices for our metals and minerals, a change in chief executive and the transformational acquisition of Alcan. Once again Rio Tinto's consistent strategy, focused on value creation and business excellence, delivered significant returns for our shareholders and major benefits to the countries and communities in which we operate.

The purchase of Alcan, announced in July and completed in October created a world leader in aluminium. Alongside this major acquisition we continued to invest heavily in our existing business with a programme totalling US\$5.0 billion, further strengthening our platform for future production and earnings growth.

The Alcan acquisition, and the many other initiatives which the new executive team launched in 2007, further demonstrated the strength and depth of Rio Tinto's managerial capability to deliver value to shareholders.

Results and dividends

The Group's underlying earnings in 2007 were a record US\$7,443 million, one per cent above 2006. Net earnings were US\$7,312 million compared with US\$7,438 million in 2006. Cash flow from operations increased 15 per cent to a record US\$12,569 million.

The total dividends declared for 2007 of 136 US cents per share represent an increase of 31 per cent over the 2006 dividends. We have committed to further increases in the dividends of at least 20 per cent in each of 2008 and 2009. This underpins our confidence in the growth of our business and is a strong signal of our belief in the strength of future demand and prices. We have always said that our priority for excess capital after meeting our investment in profitable growth is the ordinary dividend, and we are pleased to reinforce this commitment to our shareholders.

Our growth potential is further evidenced by our planned capital expenditure in 2008 and 2009 of US\$9 billion in each year, including the commitments we have made to completing Rio Tinto Alcan's growth projects. This indicative programme will, of course, be subject to rigorous appraisal of each investment.

Strategy

Our acquisition of Alcan was fully consistent with our long standing strategy. We remain focused on large, long life, low cost resources capable of delivering superior returns across the economic cycle. Alcan's extensive global asset base has among the lowest cost aluminium smelters in the world and is an industry leader in production technology and self generated energy, particularly hydro-electricity. This will be important in a carbon constrained world.

Creating value for shareholders is Rio Tinto's primary objective and the addition of Alcan enables us to capture value from growing aluminium demand alongside our established leadership positions in iron ore and copper.

Sustainable development

A successful business is one that is sustainable. It is one that maintains long term profitability by pursuing value creating projects which recognise the importance of good social and environmental outcomes. Moreover, I believe making our business sustainable is about recognising and managing the full spectrum of risk, thereby making the best opportunities available to us.

The value of this approach was demonstrated in the agreed transaction to acquire Alcan. Our positive reputation for social and environmental responsibility was welcomed by the Alcan board and led to the Government of Quebec readily agreeing to Rio Tinto continuing Alcan's commitments to social and economic development in Quebec.

For our part we recognised the strategic advantage of expanding our position in aluminium, a recyclable metal which, in the case of Rio Tinto Alcan, is produced with a high proportion of hydro-generated electricity.

Our joint venture with BP to seek cleaner uses of coal through

production of hydrogen energy coupled with storage of carbon dioxide underground reflects similar thinking. Our reputation supports our position as the developer of choice in Guinea where we are investing to develop a major iron ore project.

We were accepted into the *FTSE4Good* index in the UK after its policy committee decided to include companies involved in the production of uranium. Rio Tinto has maintained membership of the *Dow Jones Sustainability World* index since its inception in 1999 and has been an active member of the World Business Council for Sustainable Development and the International Council on Mining and Metals (ICMM), whose members are committed to superior business practices in sustainable development.

Board and management developments

As you know, Tom Albanese succeeded Leigh Clifford as chief executive in May 2007. We thank Leigh for his many years of service to Rio Tinto, and its predecessor companies, including the last seven as chief executive. He contributed much to creating Rio Tinto's platform for the future and we owe him a lot. As his successor, Tom has a long and proven track record in Rio Tinto and has made a very strong start in his first year as chief executive.

Following the acquisition of Alcan we were pleased to welcome Yves Fortier and Paul Tellier to the board as non executive directors, and Dick Evans, chief executive of Rio Tinto Alcan, as an executive director.

Yves joins the *Nominations committee* and the *Committee on social and environmental accountability*. Paul joins the *Audit committee* and the *Remuneration committee*. This strong representation from Canada will provide important continuity in the integration of Alcan and brings valuable new perspectives to the board.

As announced at the 2007 annual general meetings, Sir Richard Sykes, currently the senior non executive director, will retire at the conclusion of the 2008 annual general meetings after ten years on the board. Richard has made a highly valued contribution to Rio Tinto over the period based on his prior experience of leading a major global company and across the technology field. We thank him for that. Andrew Gould, currently chairman of the *Audit committee*, will become the senior non executive director on Sir Richard's retirement and will become chairman of the *Remuneration committee*. Sir David Clementi will replace Andrew as chairman of the *Audit committee*. These changes will take effect at the conclusion of the 2008 annual general meetings.

Ill health led to the resignation of Ashton Calvert from the board in November and we were deeply saddened to hear of his death shortly afterwards. Ashton joined the board in 2005 following a long and distinguished career in the Australian foreign service. He made a major contribution to Rio Tinto and provided valuable insights across a range of major strategic issues, notably in relation to our businesses in Australia and Asia. He was a wonderful colleague.

Forward outlook

We are seeing a dramatic change in the world's centres of economic power, with rapid growth, urbanisation and industrialisation in many parts of the developing world. We expect a large part of the world's population – billions of people – to move through increasingly metal intensive phases of economic development. This will transform our industry and underpin future growth in markets.

Commodity markets are entering the fifth straight year of growth with mineral and metal prices at levels well above their long term average. Projections for Rio Tinto's main product groups – iron ore, aluminium and copper – suggest that demand could potentially triple over the next 25 years.

While it is premature to say that the current price cycle has peaked, we are mindful of short term risks associated with the expected slowdown in the US economy. However, the US is now somewhat less important in world commodity demand than it was five years ago. Our analysis suggests a sharp slowdown in the US would have only a modest impact on growth in China and India.

In the short term, with low commodity stocks and a likely continuation of supply side challenges, we expect solid global

economic growth, led by China, to support strong increases in demand for most metals and minerals during 2008 and 2009.

Approach from BHP Billiton

In November Rio Tinto received an unsolicited approach from BHP Billiton proposing a combination of the companies. This was fully considered by the board and rejected on the basis that it significantly undervalued Rio Tinto's assets and future prospects.

On 6 February 2008, BHP Billiton announced pre-conditional takeover offers for Rio Tinto of 3.4 BHP Billiton shares for each Rio Tinto share. The board gave this careful consideration and concluded that the offers still significantly undervalue Rio Tinto. The board unanimously rejected the pre-conditional offers as not being in the best interests of Rio Tinto shareholders.

The offers, while improved, still fail to recognise the underlying value of Rio Tinto's high quality assets and prospects. Our plans are unchanged and will remain so unless a proposal is made that fully reflects the value of Rio Tinto. Meanwhile we will forge ahead with our stated strategy.

Our people

As I hope this message has demonstrated, 2007 was an important year for Rio Tinto and, following a number of significant developments, I believe the Group is even more strongly positioned to deliver value for shareholders in the future. Managing major strategic initiatives places strong demands on management and they have responded with great resilience. In strong markets meeting the demands of customers, and developing new projects within tight timetables and budgets, places considerable pressure on every individual in the Rio Tinto organisation. Our record results in 2007 are very much a product of the commitment, dedication and hard work of all our people across the world. On behalf of the board and you, our shareholders, I thank them for all they have done to deliver success in another record year.

Paul Skinner Chairman