

Directors' report

The directors are pleased to present their report to shareholders of Rio Tinto plc and Rio Tinto Limited, together with the *Full financial statements* for the year ended 31 December 2007.

Dual listed structure

An explanation of the dual listed companies structure (DLC), which unified Rio Tinto plc and Rio Tinto Limited in 1995, can be found on page 127. This section also provides a description of voting rights restrictions which may apply in respect of the shares of either Company under specified circumstances.

Memorandum and articles of association

Rio Tinto plc's articles of association were adopted by special resolution passed on 11 April 2002 and amended by special resolutions passed on 14 April 2005 and 13 April 2007. Rio Tinto Limited's constitution was adopted by special resolution passed on 24 May 2000 and amended by special resolutions passed on 18 April 2002, 29 April 2005 and 27 April 2007.

Activities and business review

Details of the Group's results, operations and principal activities, likely future developments, significant changes during the year and post balance sheet events are set out in the *Chairman's statement* on pages 4 and 5, the *Interview with the chief executive* on pages 6 to 8 and in the *Operating and financial review* on pages 13 to 82.

During 2007 and until 22 February 2008 the significant changes and events affecting the Group have been:

- The retirement of the chief executive, Leigh Clifford, in April and the appointment of his successor, Tom Albanese.
- The acquisition of Alcan Inc in October and the subsequent commencement of integration.
- Announcements of major expansion plans in iron ore and uranium.
- US\$15 billion divestment programme announced in November with US\$10 billion targeted for 2008.
- In November an approach by BHP Billiton proposing a combination of companies and a subsequent pre-conditional takeover offer in February, both of which were rejected by the board of Rio Tinto.

As permitted by sections 299(3) and 299A(3) of the Australian Corporations Act 2001, information which is likely to result in unreasonable prejudice, regarding likely future developments in, and the expected results of the operations of the Group or its strategies and prospects, has been omitted.

The Group's principal risks and uncertainties are described under *Risk factors* on page 10.

Share capital, buybacks and options

Details of the Group's issued share capital as at 31 December 2007 can be found at notes 28 and 29 to the financial statements. Details of the rights and obligations attached to each class of shares can be found on page 128 under the heading "Dual Listed Companies Structure – Voting rights".

Details of certain agreements triggered on a change of control can be found on page 127 under the heading "Dual Listed Companies Structure".

Details of certain restrictions on holding shares in Rio Tinto plc are described on page 129 under the heading "Dual listed companies Structure – Limitations on ownership of shares and merger

obligations". There are no other restrictions on the transfer of ordinary shares in Rio Tinto plc save for:

- restrictions that may from time to time be imposed by laws and regulations (for example, those relating to market abuse and insider dealing);
- restrictions that may be imposed pursuant to the Listing Rules of the UK Financial Services Authority whereby certain employees of the Group require approval to deal in shares;
- restrictions on the transfer of shares that may be imposed under Rio Tinto plc's articles of association or under Part 22 of the UK Companies Act 2006, in either case following a failure to supply information required to be disclosed following service of a request under section 793 of the UK Companies Act 2006; and
- restrictions on transfer of shares held under certain of the Rio Tinto plc's employee share plans while they remain subject to the plan.

Details of substantial shareholders of Rio Tinto plc and Rio Tinto Limited can be found on page 131.

On 2 February 2006 the Group announced, subject to market conditions, an intention to return a total of up to US\$4,000 million of capital to shareholders during the course of 2006 and 2007, comprising a special dividend of US\$1,500 million, and a share buyback programme of US\$2,500 million.

On 27 October 2006 the Group announced, subject to market conditions, a US\$3,000 million increase in the programme to US\$7,000 million which would be returned to shareholders by the end of 2007.

At the annual general meetings held during April 2007 the shareholders:

- renewed the general authority to buy back up to 101.7 million of Rio Tinto plc's ordinary shares, representing approximately ten per cent of its issued share capital for a further 12 month period;
- approved buy backs by Rio Tinto Limited under off-market buyback tenders and/or on-market over the 12 months following approval, provided that the number bought back did not exceed 28.5 million shares; and
- renewed the shareholder authorities to buy back up to all the Rio Tinto Limited shares held (indirectly) by Rio Tinto plc.

Shareholders will be asked to renew these authorities at the 2008 annual general meetings.

During 2007 Rio Tinto plc bought back 27,700,000 ordinary shares under the buyback programme, representing approximately 2.8 per cent of its issued share capital, on the open market for US\$1.562 million. All were held as treasury shares. Following the announcement on 12 July 2007 of the Group's recommended all cash offer for the acquisition of Alcan Inc, the buyback programme was discontinued.

During 2007, to satisfy obligations under employee share plans, Rio Tinto plc issued 311,458 ordinary shares and reissued 969,435 ordinary shares from treasury, and Rio Tinto Limited purchased on market and transferred 1,217,923 shares.

Also during the year, the Companies' registrars purchased on market 451,867 Rio Tinto plc ordinary shares and 760,057 Rio Tinto Limited shares to satisfy obligations to shareholders under the dividend reinvestment plans.

Purchases of Rio Tinto plc and Rio Tinto Limited shares

| Period | Rio Tinto plc | | | Rio Tinto Limited | | | |
|-----------------|--------------------------------------|----------------------------------|--|--------------------------------------|----------------------------------|--|--|
| | (a) Total number of shares purchased | (b) Average price paid per share | (c) Total number of shares purchased as part of publicly announced plans or programmes | (a) Total number of shares purchased | (b) Average price paid per share | (c) Total number of shares purchased as part of publicly announced plans or programmes | (d) Approximate dollar value of shares that may yet be purchased under the plans or programmes |
| | | US\$ | | | US\$ | | US\$m |
| 2007 | | | | | | | |
| 1 Jan to 31 Jan | 5,185,000 | 51.12 | 5,185,000 | 104,741 | 57.71 | – | 2,935 |
| 1 Feb to 28 Feb | 6,600,000 | 54.45 | 6,600,000 | 231,099 | 60.82 | – | 2,576 |
| 1 Mar to 31 Mar | 6,250,000 | 52.64 | 6,250,000 | 79,472 | 58.37 | – | 2,247 |
| 1 Apr to 30 Apr | 2,464,008 | 61.02 | 2,150,000 | 554,049 | 69.30 | – | 2,116 |
| 1 May to 31 May | 2,850,000 | 69.66 | 2,850,000 | 151,687 | 77.19 | – | 1,917 |
| 1 Jun to 30 Jun | 2,475,000 | 76.17 | 2,475,000 | 62,610 | 81.63 | – | 1,729 |
| 1 Jul to 31 Jul | 2,190,000 | 80.63 | 2,190,000 | 17,301 | 86.42 | – | – |
| 1 Aug to 31 Aug | – | – | – | 5,160 | 75.47 | – | – |
| 1 Sep to 30 Sep | 137,859 | 73.75 | – | 471,422 | 82.02 | – | – |
| 1 Oct to 31 Oct | – | – | – | 17,453 | 95.78 | – | – |
| 1 Nov to 30 Nov | – | – | – | 276,005 | 105.19 | – | – |
| 1 Dec to 31 Dec | – | – | – | 6,981 | 127.04 | – | – |
| Total | 28,151,867 | 59.50 | 27,700,000 | 1,977,980 | 84.87 | | |
| 2008 | | | | | | | |
| 1 Jan to 31 Jan | – | – | – | 283,994 | 106.59 | – | – |
| 1 Feb to 22 Feb | – | – | – | 499,215 | 120.57 | – | – |

Notes

- Rio Tinto plc ordinary shares of 10p each; Rio Tinto Limited shares.
- The average prices paid have been translated into US dollars at the exchange rate on the day of settlement.
- Shares purchased by the Companies' registrars in connection with the dividend reinvestment plans and employee share plans were not deemed to form part of any publicly announced plan or programme.

- The share buy back programme was discontinued on 12 July 2007 on the announcement of Rio Tinto's recommended all cash offer to acquire all of the outstanding common shares in Alcan Inc.

No further shares were bought back between 1 January 2008 and 22 February 2008. During this period, Rio Tinto plc issued 70,244 shares in connection with employee share plans, and reissued 385,692 ordinary shares from treasury and Rio Tinto Limited's registrars purchased on market and delivered 783,209 shares.

Awards over 2,195,740 Rio Tinto plc ordinary shares and 1,932,977 Rio Tinto Limited shares were granted in connection with employee share plans during 2007, and as at 22 February 2008 there were options outstanding over 6,051,292 Rio Tinto plc ordinary shares and 5,590,662 Rio Tinto Limited shares. Upon exercise, options may be satisfied by the issue of new shares, the purchase of shares on market, or, in the case of Rio Tinto plc, from treasury shares.

There were no changes to the authorised capital of Rio Tinto plc during the year.

Dividends

Final dividends of 43.13 pence or 93.02 Australian cents per share will be paid on 11 April 2008. Full details of dividends paid and the dividend policy can be found on page 124.

Annual general meetings

The 2008 annual general meetings will be held on 17 April in London and on 24 April in Brisbane. Notices of the 2008 annual general meetings are set out in separate letters to the shareholders of each Company.

Directors

The names of the directors who served during the year, together with their biographical details, directorships of other companies in the past three years and the period of each directorship are shown on pages 95 to 97.

In December 2006 the board announced that Tom Albanese would succeed Leigh Clifford as chief executive of Rio Tinto with

effect from 1 May 2007. Leigh Clifford retired as a director on 30 April 2007.

Dick Evans, as an executive director, and Yves Fortier and Paul Tellier, as non executive directors, were appointed on 25 October 2007, retire and offer themselves for election at the 2008 annual general meetings. Ashton Calvert resigned with effect from 7 November 2007 and Tom Albanese, Vivienne Cox, Richard Goodmanson and Paul Skinner retire by rotation and, being eligible, offer themselves for re-election. Sir Richard Sykes will also retire at the conclusion of the 2008 annual general meetings. Details of directors' service contracts and letters of appointment can be found on pages 107 and 110 respectively.

A table of directors' attendance at board and committee meetings is on page 120.

Remuneration of directors and executives

A discussion of the Group's policy for determining the nature and amount of remuneration of directors and senior executives, and of the relationship between that policy and the Group's performance, appears in the Remuneration report on pages 103 to 106. The Remuneration report forms part of the Directors' report and includes details of the nature and amount of each element of the remuneration (including options) of each of the directors and of each of the key management personnel and highest paid executives below board level in respect of whom disclosures are required in 2007.

Secretaries

Details of the company secretary of each of Rio Tinto plc and Rio Tinto Limited together with their qualifications and experience are set out on page 98.

Indemnities and insurance

The articles of association and constitution of the Companies require them to indemnify officers of the Companies, including

officers of wholly owned subsidiaries, against liabilities arising from the conduct of the Group's business, to the extent permitted by law. In the case of Rio Tinto plc this is reflected by Deeds of Indemnity provided to the directors.

The Group has therefore purchased directors' and officers' insurance during the year. In broad terms, the insurance indemnifies individual directors' and officers' personal legal liability and costs for claims arising out of actions taken in connection with Group business. It is a condition of the insurance policy that detailed terms and premiums paid cannot be disclosed.

Employment policies and communication

The average number of people employed during the year by Rio Tinto, including the Group's proportionate share of consolidated companies and equity accounted units, was approximately 52,000 (2006: 35,000). Of these, about 16,000 were located in Australia and New Zealand, around 14,000 in the US and Canada and 5,000 in Europe. Alcan's employees were prorated from 24 October 2007.

Rio Tinto's employment policies are set out in its statement of business practice, *The way we work*.

Rio Tinto is committed to equality of opportunity for all, as set out in *The way we work*, and applies this philosophy to recruitment, development and promotion of individuals. Within this philosophy, each operating company is further encouraged to develop its own policies and practices to suit individual circumstances. Group companies employ disabled people and accept the need to maintain and develop careers for them. If an employee becomes disabled and, as a result, is unable to perform his or her current duties, every effort is made to offer suitable alternative employment and to assist with retraining.

Rio Tinto respects the right of employees worldwide to choose whether or not they wish to be represented collectively.

Group companies actively promote a healthy and safe working environment through training and communication with employees. For further information about Group staff and health and safety initiatives, please see pages 88 to 89.

Post retirement benefits are provided by Rio Tinto and its major subsidiaries in accordance with local conditions and good practice in the countries concerned.

The Group provides clear and timely communication with its employees concerning business performance and corporate developments. It endeavours to maintain effective channels of communication through an internal communications team, which manages the release of information to employees across the Group's businesses. Information is released through a number of forums including electronic and paper newsletters and bulletins, video and the Group's intranet. Individual operations also invite employees to briefings outlining business performance including results, health, safety and environmental matters.

Rio Tinto operates worldwide share plans which, taking account of local country tax and securities regulation, aim to facilitate employee shareholding. The directors believe that this is a good way for employees to participate in the success of the Group.

Corporate governance

A full report on corporate governance can be found on pages 118 to 123.

Donations

During 2007, the Group spent US\$107 million on community assistance programmes and payments into benefit receiving trusts set up in directly negotiated community impact benefit agreements. Total community spending in Australia amounted to A\$87.7 million (2006: A\$87.0 million). Donations in the UK during 2007 amounted to £1.8 million (2006: £2.5 million) of which £0.2 million (2006: £0.5 million) was for charitable purposes as defined by the Companies Act 1985 and £1.6 million (2006: £2.0 million) for other community purposes.

As in previous years, no donations were made for political purposes in the EU, Australia or elsewhere, as defined by the UK

Companies Act 1985 as amended by the Political Parties, Elections and Referendums Act 2000.

Governmental regulations

Rio Tinto is subject to extensive governmental regulations affecting all aspects of its operations and consistently seeks to apply best practice in all of its activities. Due to Rio Tinto's product and geographical spread, there is unlikely to be any single governmental regulation that could have a material effect on the Group's business. Rio Tinto's operations in Australia, New Zealand, and Indonesia are subject to state, provincial and federal regulations of general application governing mining and processing, land tenure and use, environmental requirements, including site specific environmental licences, permits and statutory authorisations, workplace health and safety, trade and export, corporations, competition, access to infrastructure, foreign investment and taxation. Some operations are conducted under specific agreements with the respective governments and associated acts of parliament. In addition, Rio Tinto's uranium operations in the Northern Territory, Australia and Namibia are subject to specific regulation in relation to mining and the export of uranium.

US and Canada based operations are subject to local, state, provincial and national regulations governing land tenure and use, environmental aspects of operations, product and workplace health and safety, trade and export administration, corporations, competition, securities and taxation. In relation to hydro-electric power generation in Canada, water rentals and royalties, as well as surplus power sales, are regulated by the Quebec and British Columbia provincial governments.

The South African Mineral and Petroleum Resources Development Act 2002, as read with the Empowerment Charter for the South African Mining Industry, targets the transfer (for fair value) of 26 per cent ownership of existing South African mining assets to historically disadvantaged South Africans (HDSAs) within ten years. Attached to the Empowerment Charter is a "scorecard" by which companies will be judged on their progress towards empowerment and the attainment of the target transfer of 26 per cent ownership. The scorecard also provides that in relation to existing mining assets, 15 per cent ownership should vest in HDSAs within five years of 1 May 2004. Rio Tinto anticipates that the government of South Africa will continue working towards the introduction of new royalty payments in respect of mining tenements, expected to become effective during 2009.

Environmental regulation

Rio Tinto measures its performance against environmental regulation referred to in the previous section by rating incidents on a low, moderate, high, or critical scale of likelihood and consequence of impacting the environment. High and critical ratings are reported to the Executive committee and the board *Committee on social and environmental accountability*, including progress with remedial actions. Prosecutions and other breaches are also used to gauge Rio Tinto's performance.

In 2007, there were nine high or critical environment incidents compared with eight in 2006. These incidents were of a nature to impact the environment or may have concerned local communities. Of these two impacted air quality, five resulted from water discharge and two were spills. Examples of these include:

- Air emission concentrations of fluorine exceeded license conditions at Boyne smelters, Australia.
- Unauthorised discharge of mine water downstream of a dam as a result of poor communications with a contractor at Kestrel, Australia.
- Sewage discharged into a holding pond following a blockage in pumps at Weipa, Australia.
- Sea water used in cooling was discharged to the ocean at a higher temperature and pH than limits imposed by the license at Yarwun, Australia.
- Minor land clearing inside an area identified as having heritage value at Hope Downs, Australia.

- Diesel leak from below the floor of a bulk storage tank at West Angelas, Australia. During 2007 three operations incurred fines amounting to A\$9,633 (A\$56,779 in 2006).

Further information in respect of the Group's environmental performance is included throughout this annual report, in the Sustainable development review on page 85 and on the website.

Legal proceedings

Neither Rio Tinto plc nor Rio Tinto Limited nor any of their subsidiaries is a defendant in any proceedings which the directors believe will have a material effect on either Company's financial position or profitability.

Contingencies are disclosed in note 35 to the 2007 *Full financial statements*.

Exploration, research and development

The Group carries out exploration, research and development in support of its activities as described more fully under *Exploration*, and *Technology and Innovation* on pages 48 to 51. Notwithstanding significant increases in cash expenditure, the amounts charged for the year for exploration and evaluation were US\$321 million (2006: US\$237 million) and for research and development were US\$69 million (2006: US\$15 million).

Auditors and disclosure of information to auditors

PricewaterhouseCoopers LLP and PricewaterhouseCoopers are the auditors of Rio Tinto plc and Rio Tinto Limited respectively.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as auditors of Rio Tinto plc and a resolution to reappoint them as auditors of Rio Tinto plc will be proposed at the 2008 annual general meetings of Rio Tinto plc and Rio Tinto Limited. PricewaterhouseCoopers will continue in office as auditors of Rio Tinto Limited.

PricewaterhouseCoopers as the auditors of Rio Tinto Limited are required to provide an Auditor's Independence declaration to the directors under Section 307C of the Australian Corporations Act 2001. A copy is set out in the 2007 *Full financial Statements*.

No person who was an officer of Rio Tinto during the year was a former partner or director of either Company's auditors.

Each of the directors at the time this report was approved has confirmed that:

- so far as he or she is aware, there is no relevant audit information (ie information needed by the Companies' auditors in connection with preparing their report) of which the auditors are unaware; and
- he or she has taken all steps that they ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Principal auditor - audit and non audit fees and services

The amounts payable to the Group's principal auditors, PricewaterhouseCoopers, were:

| | 2007 US\$m | 2006 US\$m |
|--|---------------|---------------|
| Audit fees(a) | 30.7 | 10.8 |
| Fees for other services supplied pursuant to legislation | – | 2.4 |
| Tax fees | 0.8 | 0.8 |
| All other fees(b) | 10.2 | 1.0 |
| | 41.7 | 15.0 |

a) Audit fees include the full cost of the 2007 audit of Alcan Inc. and its subsidiaries amounting to US\$18.8 million.

b) 'All other fees' include those relating to the acquisition of Alcan Inc. and the Group's divestment programme.

Further information on audit and non audit fees is set out in note 44 to the 2007 *Full financial statements*.

Rio Tinto has adopted policies designed to uphold the independence of the Group's principal auditors by prohibiting their engagement to provide a range of accounting and other professional services that might compromise their appointment as independent auditors. The engagement of the Group's principal auditors to provide statutory audit services, other services pursuant to legislation, taxation services and certain other services are pre approved. Any engagement of the Group's principal auditors to provide other permitted services is subject to the specific approval of the *Audit committee* or its chairman.

Prior to the commencement of each financial year the Group's finance director and its principal auditors submit to the *Audit committee* a schedule of the types of services that are expected to be performed during the following year for its approval. The *Audit committee* may impose a US dollar limit on the total value of other permitted services that can be provided. Any non audit service provided by the Group's principal auditors, where the expected fee exceeds a pre determined level, must be subject to the Group's normal tender procedures.

In exceptional circumstances the finance director is authorised to engage the Group's principal auditors to provide such services without going to tender, but if the fees are expected to exceed US\$250,000 then the chairman of the *Audit committee* must approve the engagement.

The *Audit committee* adopted policies for the pre approval of permitted services provided by the Group's principal auditors during 2003. All of the engagements for services provided by the Group's principal auditors since the adoption of these policies were either within the pre approval policies or approved by the *Audit committee*. The directors are satisfied that the provision of non audit services by PricewaterhouseCoopers in accordance with this procedure is compatible with the general standard of independence for auditors imposed by relevant regulations, including the Australian Corporations Act 2001.

Financial instruments

Details of the Group's financial risk management objectives and policies and exposure to risk are described in the *Financial review* on page 52.

Value of land

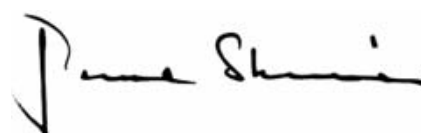
Most of the Group's interests in mining properties and leases, and in other land and buildings have been included in the financial statements at cost in accordance with its accounting policies. It is not possible to estimate the market value of such interests in land as this will depend on product prices over the long term which will vary with market conditions.

Creditor payments

It is the Group's policy to agree terms of payments with suppliers when entering into contracts and to meet its obligations accordingly. The Group does not follow any specific published code or standard on payment practice.

At 31 December 2007, there were 28 days' (2006: 29 days) purchases outstanding in respect of the Group based on the total invoiced by suppliers during the year.

The Directors' report is made in accordance with a resolution of the board.



Paul Skinner
Chairman
5 March 2008