

## Chairman's statement



### Despite a sharp reversal in prices, the strong medium to long run outlook for commodity markets has not fundamentally changed

- At the end of 2008 many metals and minerals prices remained well above the historical trend.
- Subdued conditions are expected in early 2009.
- Chinese investment is expected to start gaining strength in the second half of 2009.
- Marginal producers are expected to curtail supply.

No one in the basic resources industry will forget 2008 quickly. It was a year of two parts – starting with a continuation of strong demand and prices but finishing with a dramatic slide in prices driven by the collapse in global economic conditions.

Our long standing strategy of investing in large, long life, low cost mining and processing assets remains our core strength in the current downturn of the world economy. Despite market declines, this uncomplicated approach will continue to deliver long term shareholder value and ensure we are well positioned to take advantage of our top quality assets when the recovery comes.

We remain convinced that the addition of the Alcan assets to our portfolio, and their integration into Rio Tinto will be a source of long term value creation. We are ahead of target to deliver US\$1.1 billion after tax in synergies from the end of 2010.

We made net capital expenditures totalling US\$8.5 billion in 2008. We will now limit capital expenditures for 2009 to around US\$4 billion, to reflect falling demand, while sustaining our growth trajectory. We retain the goal of returning our balance sheet to a single A credit rating and will reduce net debt by US\$10 billion in 2009. In the meantime our cash flows are able to repay the existing level of debt.

We are focused on the future to ensure we are best positioned for the upturn when it comes. In 2008 we put important building blocks in place with major development projects, testing technology for automated mines, renewing our organisational structure to maximise the benefits of standardised and shared management approaches, and introducing our progressive new Rio Tinto brand identity.

#### Results and dividends

The Group's underlying earnings in 2008 were US\$10,303 million, 38 per cent above 2007. Net earnings were US\$3,676 million compared with US\$7,312 million in 2007 reflecting impairment charges resulting from recent significant weakening in economic and market circumstances, principally relating to goodwill on the Alcan acquisition. This includes a charge of US\$8.4 billion related to impairments, partly offset by gains of US\$1.5 billion from asset divestments. Cash flow from operations increased 64 per cent to US\$20,668 million. The total dividends declared for 2008 of 136 US cents per share maintained the level of the 2007 dividend. The Group's objective remains to maximise its value and increase the dollar value of ordinary dividends over time.

#### BHP Billiton's approach

You will recall in November 2007 Rio Tinto received an unsolicited approach from BHP Billiton proposing a combination of the two companies. This was followed in February 2008 by a pre-conditional takeover offer which BHP Billiton finally withdrew in November 2008, citing deterioration of near term global economic conditions.

During the term of the offer, our board monitored the situation closely and nothing changed our view that the BHP Billiton bid significantly undervalued our assets and future prospects. The board also believes the great majority of synergies that would have resulted would have come from the Rio Tinto assets, and Rio Tinto shareholders would not have been adequately rewarded. Those synergies would, in any event, have been highly dependent on any remedies required by competition regulators and on delivery risk.

We remain a very strong standalone company and have a world class portfolio of assets which, even in tough markets, are highly cash generative.

#### Proposed transaction with Chinalco

On 12 February 2009 we announced the intention to form a major strategic partnership with Chinalco, a leading Chinese diversified resources company, that the board unanimously recommends to shareholders. Chinalco's cash investment of US\$19.5 billion will strengthen our balance sheet on terms that add value to the Group and increase our flexibility to grow as markets recover. It will strengthen Rio Tinto's position in the industry during a period in which China's importance in the global economy is growing rapidly. More detail on the proposal is set out on pages 14 to 16.

#### Value creation strategy

Rio Tinto has, for decades, followed a consistent and successful strategy with the goal of maximising shareholder value through excellence in mining, the operation of large scale, long life, low cost assets, and an emphasis on quality. We draw strength from our product diversity and broad geographic spread of operations.

The strategy focuses on the upstream activities of metals and minerals production - particularly mining and, as in Rio Tinto Alcan, on advantaged primary processing. Through a rigorous and risk aware investment appraisal process, we seek opportunities that will create value at all points of the economic cycle, investing in expansions in line with market demand.

Rio Tinto has always preferred value to growth. Quality assets will perform better in tough times. Our strategic priorities today

are to adjust the speed of our expansion and development activities in line with market developments. Accordingly, a number of business units have been reviewing and adjusting their activities.

Another priority is our programme of disposal of non core assets which will lower our debt level and create the opportunity to focus our business on world class, market leading positions. In 2008 we realised US\$2.6 billion from disposals and the divestment programme has continued in 2009.

### Board and governance

Good governance is the foundation of an ethical approach to business. The board continued their focus on promoting the high standards of conduct we expect of our employees around the world, recognising that actions speak louder than words. In 2008 we renewed our commitment to our values with a revised version of our statement of principles and standards of conduct. *The way we work*.

The board was pleased to welcome Jan du Plessis as a non executive director from 1 September 2008 and he will be standing for election at the 2009 Annual general meetings. He is currently chairman of British American Tobacco plc as well as a non executive director of Lloyds Banking Group plc and Marks and Spencer Group plc. His appointment brings additional financial expertise to the board and a broad experience of major global businesses, particularly in Africa. Jan has also joined the *Audit committee*.

As was announced on 14 January 2009, I notified the board of my preference to retire at the conclusion of the annual general meeting in Australia on 20 April 2009. After the termination of the BHP Billiton pre-conditional offer for the Group, and the identification of a successor which started in late 2008, I felt this was the right time to step down after five and a half years as chairman. Jim Leng was appointed chairman designate in January 2009. He subsequently resigned from the board in February, and I have agreed to the board's request to remain as chairman until a successor is appointed.

Dick Evans, who joined the board following the acquisition of Alcan, will be stepping down and I thank him for the contribution he has made to Rio Tinto.

### Sustainable development

A commitment to sustainable development remains central to our strategy. Our operations have long time horizons and involve the investment of large amounts of fixed capital. We need careful management of social, environmental and economic issues with strong governance to deliver on our

promises to communities, governments, employees and shareholders. We strive for a zero harm environment and all of us on the board regret very much the tragic loss of life that occurred at our operations in 2008.

We know we can always do better, but it is very encouraging to note the broad endorsement we have received from many in the global conservation community for our approach to managing biodiversity, the awards our businesses receive for work to combat HIV-AIDS, our renewed focus on tackling the causes of climate change with a revamped energy and climate strategy team, and the efforts we are making to prepare nationals for careers in the mining industry ahead of our projects in Mongolia and Guinea.

Rio Tinto was again identified as a sustainable development leader during the year by retaining its listing on the Dow Jones Sustainability Index (DJSI) World Index and the FTSE4Good, as well as again attaining platinum status on the Business in the Community Corporate Responsibility Index. The Group was also added to the DJSI STOXX Index.

Rio Tinto became a signatory to the UN Global Compact in 2000 and we were one of its early supporters. We also remain an active member of the World Business Council for Sustainable Development and the International Council on Mining and Metals, whose members are committed to superior business practices in sustainable development.

### Outlook

We have recently seen an unprecedented rate of decline in our markets, but our strong long term outlook for commodity markets has not fundamentally changed. At the end of 2008 prices remained above the historical trend, despite the downturn.

Although the current slowdown has been much more dramatic than anticipated, we expect China's long term growth to continue as a major driver of commodities demand. China has been temporarily hit by the combined effect of the Western world slowdown and a correction in its housing market, partly a function of the tightening of monetary policy introduced in 2007 to damp down rising inflationary pressures.

When global economic activity recovers we could see metals and minerals demand pick up rapidly, driven by the requirement to rebuild stocks, at a time when supply is constrained by the cutbacks that occurred during the downturn and by the challenges of delivering new supply, often from new sources. China particularly may surprise the market. It is the rate of deceleration and acceleration of the Chinese economy which drives metal demand and prices, given its

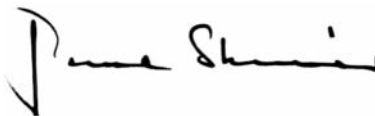
major share of total global demand. Just as China decelerated sharply, with a strong impact on metals demand, it will also work powerfully in the upswing.

We believe the fundamentals of the Chinese market, and other fast growing markets like India, remain intact and the industry's long term prospects remain positive. While activity is likely to be relatively muted in the first half of this year, Chinese investment is expected to start gaining strength in the second half of 2009 with the support of substantial domestic savings and a shift in government policy towards promoting growth objectives including expansion of transport infrastructure and housing. While government spending will support Chinese GDP growth, it is expected nevertheless to slow further in 2009.

### Our people

We have a high performing organisation and I regret that deteriorating business conditions have caused us to slow our development programme and reduce the size of our workforce. In 2008 we conducted a global employee engagement survey to give our people an opportunity to have their say about working for Rio Tinto. It gave us clear insights into what we need to do to enhance business performance.

The Group benefits enormously from the strong commitment of the Rio Tinto team around the world. I thank them for their unfailing efforts in 2008 during a period of quite extraordinary and challenging corporate activity. In spite of many distractions, management and employees have stayed focused on safety, maintaining deliveries to customers and conducting our business in a socially responsible way. The board is highly appreciative of these efforts which, during my period as chairman, I have found inspirational.



Paul Skinner Chairman