

Notes to the 2008 Full financial statements continued

2 RECONCILIATION OF NET EARNINGS TO UNDERLYING EARNINGS

	Pre-tax (h) 2008 US\$m	Taxation 2008 US\$m	Outside interests 2008 US\$m	Discontinued operations(h) 2008 US\$m	Net amount 2008 US\$m	Net amount 2007 US\$m
Exclusions from Underlying earnings						
Profits less losses on disposal of interests in businesses (a)	2,231	(761)	–	–	1,470	1
Net impairment charges (b) (note 5)	(8,030)	438	13	–	(7,579)	(113)
Impairment of discontinued operations (b)	–	–	–	(827)	(827)	–
Exchange differences and gains/(losses) on derivatives:						
– Exchange gains/(losses) on US dollar net debt and intragroup balances (c)	(140)	1,105	(5)	–	960	156
– (Losses)/gains on currency and interest rate derivatives not qualifying for hedge accounting (d), (e)	(24)	5	(3)	–	(22)	34
– Losses on commodity derivatives not qualifying for hedge accounting (f)	(158)	62	1	–	(95)	–
Other exclusions (g)	(678)	139	5	–	(534)	(209)
Total excluded from Underlying earnings	(6,799)	988	11	(827)	(6,627)	(131)
Net earnings	9,178	(3,742)	(933)	(827)	3,676	7,312
Underlying earnings	15,977	(4,730)	(944)	–	10,303	7,443

'Underlying earnings' is an alternative measure of earnings, which is reported by Rio Tinto to provide greater understanding of the underlying business performance of its operations. Underlying earnings and Net earnings both represent amounts attributable to Rio Tinto shareholders. Items (a) to (g) below are excluded from Net earnings in arriving at Underlying earnings.

- (a) Gains arising on the disposal of interests in businesses relate principally to sale of the Cortez gold mine and the Greens Creek mine. Gains arising on the disposal of interests in undeveloped projects are not excluded from Underlying earnings.
- (b) Charges relating to impairment of goodwill and other non-current assets other than undeveloped projects but including discontinued operations (net amount US\$8,406 million). 2008 includes impairment charges of US\$15 million relating to equity accounted units.
- (c) Exchange gains and losses on US dollar debt and intragroup balances. The tax on exchange gains and losses on external debt and intragroup balances includes a benefit of US\$254 million through recovery of tax relating to prior years. It also includes tax relief for losses on US dollar denominated debt. The pre-tax loss is offset by gains on intragroup balances which are largely not subject to tax.
- (d) Valuation changes on currency and interest rate derivatives which are ineligible for hedge accounting, other than those embedded in commercial contracts.
- (e) The currency revaluation of embedded US dollar derivatives contained in contracts held by entities whose functional currency is not the US dollar.
- (f) Valuation changes on commodity derivatives, including those embedded in commercial contracts, that are ineligible for hedge accounting, but for which there will be an offsetting change in future Group earnings.
- (g) Other credits and charges that, individually, or in aggregate if of a similar type, are of a nature or size to require exclusion in order to provide additional insight into underlying business performance. During 2008 the Group incurred advisory and other costs related to the rejection by the board of the pre-conditional takeover proposal from BHP Billiton which was withdrawn in November. These costs totalled US\$270 million (net of tax) in 2008 and have been excluded from Underlying earnings. Other charges excluded from Underlying earnings comprise costs relating to non recurring acquisitions, disposals and similar corporate projects.
- (h) Exclusions from Underlying earnings relating to equity accounted units and discontinued operations are stated after tax.

3 NET OPERATING COSTS

	Note	2008 US\$m	2007 US\$m
Raw materials and consumables		16,248	6,096
Amortisation of intangible assets	12	429	114
Depreciation of property, plant & equipment	13	3,046	2,001
Employment costs	4	6,603	3,827
Repairs and maintenance		1,960	1,393
Shipping costs		2,495	1,874
Other freight costs		815	509
(Increase)/decrease in finished goods and work in progress		(163)	110
Royalties		1,946	1,093
Amounts charged by jointly controlled entities mainly for toll processing		2,473	1,362
Net foreign exchange gains		(379)	(45)
Other external costs		2,230	2,391
Provisions (including exchange gains on provisions)	27	265	308
Research and development		307	69
Costs included above qualifying for capitalisation		(259)	(78)
Other operating income		(375)	(272)
Net operating costs (excluding items shown separately)		37,641	20,752

Information on auditors' remuneration is included in note 43.