

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 2008.

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 172. 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 on 11 April 2002 and amended by special resolutions passed on 14 April 2005, 13 April 2007 and 17 April 2008. 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, 27 April 2007 and 24 April 2008.

Activities and business review

Details of the Group's results, operations and principal activities, significant changes during the year, post balance sheet events and likely future developments are set out in the *Chairman's statement* and *Chief executive's message* on pages 10 to 12, and in the *Performance and business review* on pages 14 to 105.

During 2008 and until 19 February 2009 the significant changes and events affecting the Group have been:

- On 1 February 2008, Shining Prospect Pte. Ltd, owned by Chinalco (Aluminum Corporation of China) with funding from Alcoa Inc acquired twelve per cent of the issued share capital of RioTinto plc. Through the DLC voting arrangements it became a substantial shareholder in the Rio Tinto Group, holding 9.33 per cent of its voting power.
- On 6 February 2008 BHP Billiton announced its intention to acquire Rio Tinto plc and Rio Tinto Limited under the terms of a pre-conditional share exchange offer. The board of Rio Tinto rejected this offer which was ultimately withdrawn by BHP Billiton on 25 November 2008.
- On 11 March 2008, a helicopter under charter to the La Granja copper project in Peru carrying two pilots and eight passengers crashed with no survivors.
- Completion of the divestments of Greens Creek mine in Alaska for US\$750 million, Rio Tinto's interest in the Cortez operation in Nevada for US\$1,695 million, the Kintyre uranium project in Western Australia for US\$495 million, and the Potasio Rio Colorado project in Argentina and Regina exploration assets in Canada for US\$850 million.

- The rapid and severe global economic downturn during the second half of the year caused sharp falls in commodity prices and a significantly weaker outlook. On 10 December 2008, a detailed set of measures was announced by Rio Tinto in response to the unprecedented rapidity and severity of the global economic downturn. These initiatives are aimed at preserving value for shareholders by conserving cashflow and reducing levels of debt.
- Notice on 12 January 2009 by Dick Evans, executive director and chief executive, Rio Tinto Alcan, of his intention to retire and to step down from the board of Rio Tinto at the conclusion of the Rio Tinto Limited annual general meeting on 20 April 2009 and the appointment of Jacynthe Côté as chief executive, Rio Tinto Alcan, effective 1 February 2009.
- The announcement on 14 January 2009 of the intention by Paul Skinner to retire as chairman of Rio Tinto at the conclusion of the Rio Tinto Limited annual general meeting on 20 April 2009, and the appointment of Jim Leng as chairman designate and a non executive director. Jim Leng resigned on 9 February 2009 and, at the request of the board, Paul Skinner agreed to remain as chairman until a successor is appointed.
- The announcement on 20 January 2009 that Rio Tinto Alcan plans to implement further production curtailments to align market production with customer demand bringing the total production decrease to 450,000 tonnes or approximately 11 per cent of its total annualised aluminium capacity.
- On 12 February 2009 a proposal for the formation of a strategic partnership with Chinalco was announced. The partnership, whereby Chinalco would invest US\$12.3 billion in certain aluminium, copper and iron ore assets and also US\$7.2 billion in convertible bonds will be recommended by the board, to shareholders, for their approval. The formation is subject to obtaining the necessary shareholder, government and regulatory approvals. For more information on this announcement see page 14.

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 24.

Share capital, buybacks and options

Details of the Group's share capital as at 31 December 2008 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 172 under the heading "Dual Listed Companies Structure – Voting rights".

Details of certain agreements triggered on a change of control can be found on page 172 under the heading "Dual Listed Companies Structure".

Details of certain restrictions on holding shares in Rio Tinto plc are described on page 173 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 175.

At the annual general meetings held during April 2008 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 buybacks by Rio Tinto Limited on-market over the 12 months following approval, provided that the number bought back did not exceed 28.57 million shares; and
- renewed the shareholder authority to buy back up to all the Rio Tinto Limited shares held (indirectly) by Rio Tinto plc.

Under the authorities granted at the 2008 annual general meetings, Rio Tinto undertook a series of internal capital management transactions, whereby Rio Tinto plc issued shares held in treasury to Rio Tinto Limited for consideration equal to the market price at the time of issue, before repurchasing them all immediately for cancellation. The repurchases each took place for the aggregate amount of £5. This programme resulted in seventeen separate transactions with Rio Tinto plc issuing a total of 67,880,000 shares from treasury to

Rio Tinto Limited for a total consideration of £2,598 billion. All shares were immediately bought back for an aggregate consideration of £85 and were cancelled.

It is immaterial to the shareholders of either Rio Tinto plc or Rio Tinto Limited if Rio Tinto Limited or any of its subsidiaries make a gain or a loss on such transactions as they have no effect on the Rio Tinto Group's overall resources. The underlying purpose of the transactions was to facilitate the Rio Tinto Group's ongoing capital management programme.

During 2008, Rio Tinto plc issued 947,633 ordinary shares of which 763,919

ordinary shares were issued from treasury, and Rio Tinto Limited purchased on market and transferred 1,566,382 shares to satisfy obligations under employee share plans.

Also during the year, the Companies' registrars purchased on market 507,611 Rio Tinto plc ordinary shares and 628,646 Rio Tinto Limited shares to satisfy obligations to shareholders under the dividend reinvestment plans.

No further shares were bought back between 1 January 2009 and 19 February 2009. During this period, Rio Tinto plc issued 241,552 shares in connection with employee share plans and Rio Tinto Limited's registrars

purchased on market and delivered 165,860 shares.

Awards over 1,549,992 Rio Tinto plc ordinary shares and 833,904 Rio Tinto Limited shares were granted under employee share plans during 2008, and as at 19 February 2009 there were options outstanding over 5,907,043 Rio Tinto plc ordinary shares and 4,460,906 Rio Tinto Limited shares. Upon vesting, awards 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 share capital of Rio Tinto plc during the year.

Purchases of Rio Tinto plc and Rio Tinto Limited shares

Period	Rio Tinto plc			Rio Tinto Limited			Group
	(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	
		US\$			US\$		US\$m
2008							
1 Jan to 31 Jan	–	–	–	283,994	106.59	–	–
1 Feb to 29 Feb	–	–	–	502,744	121.19	–	–
1 Mar to 31 Mar	–	–	–	97,041	113.41	–	–
1 Apr to 30 Apr	215,855	118.56	–	597,963	127.51	–	–
1 May to 31 May	–	–	–	248,601	143.77	–	–
1 Jun to 30 Jun	–	–	–	73,842	126.71	–	–
1 Jul to 31 Jul	8,795,496	0.00	–	4,575	115.03	–	–
1 Aug to 31 Aug	17,535,221	0.00	–	17,887	106.23	–	–
1 Sep to 30 Sep	10,890,294	0.00	–	8,752	93.13	–	–
1 Oct to 31 Oct	24,794,875	0.70	–	341,130	71.47	–	–
1 Nov to 30 Nov	6,155,870	0.00	–	14,806	45.98	–	–
1 Dec to 31 Dec	–	–	–	3,693	27.75	–	–
Total	68,387,611	0.63	–	2,195,028	114.78	–	–
2009							
1 Jan to 31 Jan	–	–	–	26,530	27.36	–	–
1 Feb to 19 Feb	–	–	–	139,330	31.96	–	–

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.
- The share buyback programme was suspended upon the announcement of the Alcan Inc acquisition on 12 July 2007 and did not operate in 2008.
- Shares purchased by the Companies' registrars in connection with the dividend reinvestment plans and employee share plans are not deemed to form part of any publicly announced plan or programme.
- Shares purchased by Rio Tinto plc in line with the Group's internal capital management programme are described on page 136. These purchases do not form part of any publicly announced plan or programme.

Dividends

The total dividend for 2008 will be US 136 cents, of which US 68 cents was paid as the interim dividend in September 2008. Final dividends of 46.29 pence or 101.48 Australian cents per share will be paid on 8 April 2009. Full details of dividends paid and the dividend policy can be found on page 168.

Annual general meetings

The 2009 annual general meetings will be held on 15 April in London and on 20 April in Sydney. Separate notices of the 2009 annual general meetings are produced for the shareholders of each Company.

Directors

The names of the directors who served during the year, together with their biographical details and other information are shown on pages 132 to 135.

Sir Richard Sykes resigned at the conclusion of the Rio Tinto Limited annual general meeting held on 24 April 2008. Jan du Plessis and Jim Leng were appointed directors on 1 September 2008 and 14 January 2009 respectively. Jim Leng subsequently resigned on 9 February 2009. In line with the Group's constitutional documents, Jan du Plessis will stand for election at the 2009 annual general meetings. Sir David Clementi, Sir Rod Eddington, Andrew Gould and David Mayhew retire by rotation and, being eligible, will offer themselves for re-election at those meetings. Dick Evans will retire at the conclusion of the 2009 annual general meetings, and does not seek re-election. Details of directors' service contracts and letters of appointment can be found on page 145, and page 150.

A table of directors' attendance at board and committee meetings during 2008 is on page 160.

Remuneration of directors and executives

The *Remuneration report* starting on page 141 forms part of the Directors' report and includes details of the nature and amount of each element of the remuneration (including share 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 2008.

The 2007 Remuneration report was approved by shareholders at the annual general meetings in April 2008.

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 135.

Corporate governance

A full report on corporate governance can be found on pages 158 to 165 and forms part of this Directors' report.

Indemnities and insurance

The articles of association and constitution of the Companies require them to indemnify, to the extent permitted by law, 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. This requirement is satisfied by Deeds of Indemnity and Access which have been provided to the directors and the company secretaries of the Companies, and to certain employees serving as directors of subsidiaries at the Group's request. No amount has been paid under any of these indemnities during the year.

The Group has purchased directors' and officers' insurance during the year. In broad terms, the insurance indemnifies individual directors' and officers' personal legal liability and legal defence 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 106,000 (2007: 52,000). Of these, about 20,000 were located in Australia and New Zealand, around 17,000 in the US and Canada and 15,000 in Europe.

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

Rio Tinto employs on the basis of job requirements and does not discriminate on grounds of age, ethnic or social origin, politics, religion or disability. 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 strives to respect the rights and dignity of employees throughout our operations and those of our business partners. The Group recognises the right of all employees to choose to belong or not to belong to a union and seek to bargain collectively.

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 employee share plans worldwide 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.

Donations

During 2008, the Group spent US\$134 million on community assistance programmes and payments into benefit receiving trusts set up in directly negotiated community impact benefit agreements. Donations in the UK during 2008 amounted to £1.9 million (2007: £1.8 million) of which £0.4 million (2007: £0.2 million) was for charitable purposes as defined by the Companies Act 1985 and £1.5 million (2007: £1.6 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 and New Zealand are subject to state 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.

Rio Tinto's South African based operations are subject to black economic empowerment legislation which includes the requirement to transfer (for fair value) 26 per

cent of the Group's South African mining assets to historically disadvantaged South Africans by 2014.

Environmental regulation

Rio Tinto measures its performance against environmental regulation 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 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 2008, there were 17 high or critical environment incidents at Rio Tinto managed operations compared with nine in 2007. Of the 17 incidents, 11 occurred at former Alcan Inc. operations acquired in October 2007.

These incidents were of a nature to impact the environment or may have concerned local communities. Of these, one affected air quality, nine resulted from water discharge and seven were spills. Examples of these include:

- Discharges of bauxite residue and also acid into the local river at Vaudreuil, Canada
- Loss of transformer oil into groundwater following a fire at Anglesey, Wales
- Discharge of mine water off site following the failure of a pipeline flange at Bengalla, Australia
- Slow leakage of water from a drain point following failure of a valve that resulted in unlicensed discharge from a dam at Mount Thorley Warkworth, Australia
- Oil leakage from a sump into surrounding soil at Richards Bay, South Africa
- Acid spray from a storage tank onto surrounding soil as a result of mechanical failure of an inlet supply pipe at Rössing, Namibia
- Oil overflow from a truck onto soil during maintenance activities at an electrical substation at Chute des Passes, Canada
- Processing liquor releases to a sea water channel from holding ponds at Gove, Australia
- Oily stormwater release from a light fuel tank farm which exceeded waste discharge license limits at Gove, Australia
- Overflow of residue mud into a natural channel from holding ponds during a high rainfall event at Gove, Australia
- Air emission concentrations of fluoride and particulates that exceeded monthly permit limits at Kitimat, Canada
- Hydrocarbon leakage from an underground pipe at NZAS, New Zealand.

During 2008, five operations incurred fines amounting to US\$15,500 (US\$8,326 in 2007).

The *Australian National Greenhouse and Energy Reporting Act 2007* came into effect in July 2008. Rio Tinto Limited and Alcan Gove Pty Limited exceed the emission and energy

use thresholds under that legislation and from 2009 are required to register and report to the Australian Government. Rio Tinto's Australian operations are implementing measurement and reporting systems in readiness for these requirements. Rio Tinto Limited and Alcan Gove Pty Limited are registered under the Australian *Energy Efficiency Opportunities Act 2006*. In 2008 they submitted the first reports of energy use and energy efficiency opportunities covering the sites required to undertake energy assessments.

Further information in respect of the Group's environmental performance is included throughout this *Annual report*, in the Sustainable development section on page 80 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 2008 *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 & Innovation* on pages 73 to 77. Notwithstanding significant increases in cash expenditure, the amounts charged for the year for exploration and evaluation were US\$645 million (2007: US\$321 million) and for research and development were US\$307 million (2007: US\$69 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 2009 annual general meetings of Rio Tinto plc and Rio Tinto Limited. PricewaterhouseCoopers will continue in office as auditors of Rio Tinto Limited. A resolution to reappoint them as auditors, and to authorise the *Audit committee* to fix their remuneration will be put to shareholders at the 2009 annual general meetings.

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 2008 *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.

As required by section 418 of the

Companies Act 2006 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:

	2008 US\$m	2007 US\$m
Audit fees (a)	29.7	30.7
Audit services in connection with divestment programme (b)	24.4	2.8
Tax fees	3.3	0.8
All other fees (c)	37.8	7.4
	95.2	41.7

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

(b) Represents fee for audit of carve out financial statements.

(c) 'All other fees' include those relating to the divestment programme, the pre-conditional offer from BHP Billiton, and the acquisition of Alcan Inc.

Further information on audit and non audit fees is set out in note 43 to the 2008 *Full financial statements*.

A description of Rio Tinto's policies to uphold the independence of the Group's principal auditors is set out in the Corporate Governance section on page 164. Based on advice provided by the *Audit Committee* as set out in the Report of the Audit Committee on page 161, the directors are satisfied that the provision of non-audit services by PricewaterhouseCoopers is compatible with the general standard of independence for auditors and the standards imposed by 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 92.

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.

Directors' report continued

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.

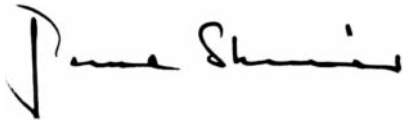
At 31 December 2008, there were 26 days' (2007: 28 days) purchases outstanding in respect of the Group based on the total invoiced by suppliers during the year.

Going concern

The directors report that the financial statements have been prepared on a going concern basis as they have satisfied themselves that the Companies and the Group are a going concern with adequate financial resources to continue in operational existence for the foreseeable future.

Further discussion is included on page 93 under capital resources and contractual obligations.

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

A handwritten signature in black ink, appearing to read 'Paul Skinner', with a large initial 'P'.

Paul Skinner
Chairman
6 March 2009