

Recent developments – Chinalco strategic partnership

On 12 February 2009 the Rio Tinto board announced they are unanimously recommending to shareholders a transaction with Aluminum Corporation of China (“Chinalco”), a leading Chinese diversified resources company.

The transaction will forge a pioneering strategic partnership through the creation of joint ventures in aluminium, copper, and iron ore as well as the issue of convertible bonds to Chinalco, which would, if converted, allow Chinalco to increase its existing shareholding in Rio Tinto.

The transaction is intended to position Rio Tinto to lead the resources industry into the next decade and beyond by ensuring the continuity of its strategy with the benefit of Chinalco’s relationships, resources and capabilities.

The Rio Tinto board has extensively considered a range of strategic options, and has concluded that the opportunity offered by the strategic partnership with Chinalco, together with the value on offer for the investments by Chinalco in certain of Rio Tinto’s mineral assets and in the convertible bonds, is superior to other identified options and offers greater medium term certainty and long term value for Rio Tinto’s shareholders.

Transaction overview

The transaction will deliver substantial aggregate cash proceeds of US\$19.5 billion through:

- An investment by Chinalco in certain aluminium, copper and iron ore joint ventures totalling US\$12.3 billion; and
- The issue of subordinated convertible bonds in two tranches with conversion prices of US\$45 and US\$60 in each of Rio Tinto plc and Rio Tinto Limited for a total consideration of US\$7.2 billion. If converted, the subordinated convertible bonds would increase Chinalco’s current

shareholding to 19.0 per cent in Rio Tinto plc and 14.9 per cent in Rio Tinto Limited, equivalent to an 18.0 per cent interest in the Group.

Rio Tinto intends to use the proceeds of the transaction primarily to strengthen its balance sheet, to repay debt and to provide flexibility to continue to invest in value creating growth opportunities. The transaction will allow Rio Tinto to raise funds at a time when financial markets are distressed, thereby significantly reducing its debt levels, strengthening its balance sheet, and increasing its flexibility to pursue attractive investment opportunities throughout the cycle.

Following the transaction, Rio Tinto will maintain operational control of the businesses that are the subject of the strategic partnerships. The current Rio Tinto Group senior executive team will continue to manage each business, with continuity of Rio Tinto’s existing strategy and business principles. Governance arrangements will be implemented to regulate the continuing relationship between the parties on the basis that Rio Tinto retains responsibility for carrying on the day to day management and operation of the businesses independently of Chinalco.

The Rio Tinto board believes the strategic alliance with Chinalco will strengthen Rio Tinto’s ability to deliver its strategy of maximising shareholder value through the development and operation of low cost, long life assets.

In addition to significantly strengthening Rio Tinto’s balance sheet and ensuring financial flexibility over the medium term, the pioneering partnership is expected to offer the following benefits to Rio Tinto:

- A link to Chinalco’s strong relationships within China, which Rio Tinto believes will

continue to be the main driver of commodity market growth over the longer term.

- The strategic alliance creates the opportunity for joint ventures and project development in emerging economies. The two groups bring complementary skills including Chinalco’s capabilities to deliver infrastructure projects, and Rio Tinto’s leadership in operational excellence and sustainable development.
- Rio Tinto will enter into a landmark joint venture for exploration in China in partnership with Chinalco.
- The Chinalco relationship will facilitate access for Rio Tinto to funding from Chinese financial institutions for project development.

In recognition of its significant investment and consistent with the strategic alliance, Chinalco will be entitled to nominate two new non executive board members (one independent under applicable corporate governance criteria) to add to the 15 current board members of Rio Tinto. Independent non executive directors will continue to comprise a majority of the Rio Tinto board, consistent with corporate governance best practice. Rio Tinto will comply fully with the UK Combined Code on Corporate Governance following completion of the transaction. These appointments will be on the same terms as the other non executive directors of Rio Tinto. Further details on the relationship agreement are set out on page 15.

The transaction is conditional upon approval of Rio Tinto shareholders and is subject to government and regulatory approvals. The initial completion of the transaction is scheduled to occur prior to 31 July 2009.

Strategic partnership investments

Chinalco will invest US\$12.3 billion in aluminium, copper and iron ore strategic

Business	Strategic partnership	Rio Tinto’s existing economic interest	Chinalco’s proposed share of Rio Tinto’s economic interest	Rio Tinto’s resulting economic interest
Weipa	Aluminium	100%	30%	70%
Yarwun	Aluminium	100%	50%	50%
Boyne	Aluminium	59.4%	49%	30%
Gladstone Power Station	Aluminium	42.1%	49%	21.5%
Escondida	Copper	30%	49.75%	15%
Grasberg	Copper	40%	30%	28%
La Granja	Copper	100%	30%	70%
Kennecott Utah Copper	Copper	100%	25%	75%
Hamersley Iron	Iron Ore	100%	15%	85%
Development Fund ¹				50%

¹ The Development Fund will be jointly owned by Rio Tinto and Chinalco. The US\$500 million included in the transaction is for the acquisition of project developments, including from Rio Tinto.

alliances in the form of strategic alliance notes or equity. The strategic alliance notes are synthetic instruments which track the cash generated by the assets and give a return based on the cash generated, taking into account Chinalco's level of investment.

The businesses and assets, and Rio Tinto and Chinalco's resulting economic interests, are set out in the table above. Further details on the Group's businesses and assets are set out on pages 122 to 129.

Chinalco's investments will be made through participation in the relevant Rio Tinto entities which own these assets, and the form of that investment will vary between each entity. If the transactions involving certain assets do not complete on the date on which the transactions involving Hamersley Iron, Weipa, Yarwun and Escondida (in certain circumstances) and the convertible bonds complete, Chinalco will pay certain sums into escrow which will then be paid to Rio Tinto on completion of the transactions involving those particular assets.

Product group strategic alliances

Strategic alliance committees will be established for each of the aluminium, copper and iron ore strategic alliances with Chinalco's voting rights generally in line with its level of investment.

The committees will provide a forum for discussion of matters relating to the particular assets that constitute that strategic alliance. Rio Tinto will chair the strategic alliance committees and will hold a casting vote. Rio Tinto will retain day to day management and operational control of the underlying assets that Rio Tinto manages.

Chinalco is entitled to appoint two out of six members of the iron ore strategic alliance committee, and three out of six members of each of the aluminium and the copper strategic alliance committees. Chinalco will have the right to be represented on the board of the holding company of each particular asset. Appropriate governance arrangements will be in place to ensure continued independent and commercial decision making.

In addition to the investments outlined, in relation to aluminium, Rio Tinto and Chinalco have also identified future areas of cooperation, all of which will be subject to formal agreement by the strategic alliance committee and board of Rio Tinto.

The aluminium strategic alliance committee will establish a pro-rata jointly owned bauxite marketing venture. The strategic alliance would market a proportion of Weipa produced bauxite outside Australia, after satisfying Rio Tinto's internal requirements and existing customers, with the remaining bauxite marketing to be

managed by Rio Tinto. As part of the agreement, Chinalco will also receive a 25 year commitment for bauxite supply from Weipa on arm's length terms.

In relation to the iron ore alliance, Rio Tinto and Chinalco will establish a jointly owned sales company which will market 30 per cent of Hamersley Iron's iron ore output in China. This sales company will contract the marketing with Rio Tinto. All other marketing of iron ore will be carried out by Rio Tinto.

Exploration

As part of the strategic partnership, and in addition to the product group strategic alliances, Chinalco and Rio Tinto intend to pursue additional cooperative arrangements and new business opportunities, including sharing of operational and capital project best practices. As a demonstration of this project development initiative, Rio Tinto and Chinalco are already negotiating a possible agreement in relation to the joint development of Rio Tinto's Simandou iron ore project in Guinea and have entered into a memorandum of understanding to establish a strategic alliance to explore opportunities in mainland China that will allow Rio Tinto to take an interest in discovered deposits.

Project development fund

Rio Tinto and Chinalco will establish a project development fund, using the initial capital contribution from Chinalco described above, to exploit project opportunities in aluminium, copper and iron ore, to be held within the framework of the relevant strategic alliance. Potential investments include exploration projects in China, opportunities within the parties' aluminium businesses in Australia and China, and Rio Tinto's existing development projects.

Secondment policy

In order for Rio Tinto and Chinalco to capture and transfer the best practice and experience that each company has established over time, Rio Tinto and Chinalco have agreed a secondment policy under which Chinalco may second executive, senior management or junior personnel, as appropriate, into roles within each asset and/or into each strategic alliance. Rio Tinto may second appropriate management and technical personnel to Chinalco.

Relationship agreement

On completion of the transaction, Chinalco and Rio Tinto will enter into a relationship agreement to regulate the continuing relationship between the parties. In particular, the agreement will ensure that:

- Rio Tinto is capable of carrying on its business independently of Chinalco as a significant shareholder.
- Transactions and relationships between Chinalco (or any of its associates) and Rio Tinto are at an arm's length and on normal commercial terms.
- Chinalco shall be entitled to nominate up to two directors (one of whom shall be an independent director) to the Rio Tinto board as long as it continues to have the right to hold at least 14.9 per cent of the aggregate publicly held share capital of Rio Tinto (assuming conversion of the convertible bond). Should Chinalco's shareholding entitlement in Rio Tinto fall below 14.9 per cent, (but remain above 9.9 per cent) Chinalco shall be entitled to nominate one director to the Rio Tinto board.
- Directors of Rio Tinto nominated by Chinalco shall not be permitted to vote on any board resolution on any matter involving Chinalco or where the board determines in accordance with the board's policy that there is a conflict of interest.

The relationship agreement will terminate in the event that Chinalco ceases to hold a right to 9.9 per cent of the aggregate publicly held share capital of Rio Tinto or if Rio Tinto plc ceases to be listed on the Official List in the United Kingdom and traded on the London Stock Exchange and Rio Tinto Limited ceases to be admitted on the official list of, and its securities quoted on, the Australian Securities Exchange.

Convertible bonds

Chinalco will invest a total of US\$7.2 billion in subordinated convertible bonds issued by Rio Tinto plc and Rio Tinto Limited (or companies within the Rio Tinto Group) with a maturity of 60 years. If converted, the bonds would increase Chinalco's current shareholdings to 19.0 per cent in Rio Tinto plc and 14.9 per cent in Rio Tinto Limited, equivalent to an 18.0 per cent interest in the Rio Tinto Group. The Rio Tinto plc bonds will pay an annual coupon of 9.0 per cent and the Rio Tinto Limited Bonds will pay an annual coupon of 9.5 per cent.

Each of the Rio Tinto plc and Rio Tinto Limited bonds will be split into two tranches. Tranche A of the bonds will convert into Rio Tinto plc shares and Rio Tinto Limited shares at an initial conversion price equivalent to US\$45 per share. Tranche B of the bonds will convert into Rio Tinto plc shares and Rio Tinto Limited shares at an initial conversion price equivalent to US\$60 per share. However, these conversion prices are subject to adjustment in certain circumstances such as, inter alia, share

consolidations, share splits and share distributions. Tranche A represents US\$3.1 billion of the total issue size, and Tranche B represents US\$4.1 billion of the total issue size.

The respective conversion premium to be paid by Chinalco on Tranche A and Tranche B of the Bonds is:

- 107 per cent for Tranche A and 176 per cent for Tranche B to the Rio Tinto plc closing price on 30 January 2009.
- 68 per cent for Tranche A and 124 per cent for Tranche B to the Rio Tinto Limited closing price on 30 January 2009.

The bonds will be convertible into ordinary shares of Rio Tinto plc and Rio Tinto Limited at any time from 41 days after the closing date up to a certain number of days prior to the earlier of the maturity date of the bonds and the date of redemption of the bonds. The bonds will be redeemable by Rio Tinto after seven years. If so redeemed for cash, Rio Tinto presently intends to replace the bonds with instruments that achieve similar rating agency equity credit.

The bonds have been structured with the aim of achieving 50 per cent equity credit from the rating agencies. Standard & Poor's has indicated, subject to satisfactory final documents and the amount to be issued relative to the capital of the Group, that the bonds would be eligible for intermediate (50 per cent) equity credit. The amount of equity credit is subject to final confirmation by the agencies.

Financial impact

The value of the gross assets, and the pro forma net underlying business unit earnings of the assets, that are the subject of the strategic alliances are US\$14,021 million and US\$5,841 million respectively. The data is extracted from the Group's accounting records for the year ended 31 December 2008 and represents Rio Tinto's interest prior to completion of the transaction.

Implementation agreement

The transaction is governed by an implementation agreement entered into by the parties that includes the following in relation to break fees, exclusivity and liquidated damages arrangements.

Break fee obligations

Subject to certain exceptions, the implementation agreement provides for a break fee of US\$195 million to become payable by Rio Tinto to Chinalco in the following circumstances:

- The Rio Tinto board withdraws or adversely changes its recommendation that Rio Tinto shareholders approve the

resolutions necessary for the transaction.

- The Rio Tinto board recommends a competing proposal.

The break fee is not payable where:

- Despite a triggering event as defined in the agreement, Rio Tinto shareholders approve the resolutions necessary for the transaction.
- The Rio Tinto board has not withdrawn or adversely changed their recommendation and Rio Tinto shareholders do not approve the resolutions necessary for the transaction, or all or part of the transaction does not complete because a condition precedent is not satisfied.
- An independent expert determines that the transaction is not fair and reasonable.
- The implementation agreement has been terminated or Rio Tinto is unilaterally entitled to terminate the implementation agreement.

The break fee is payable only once and will constitute Chinalco's sole and exclusive remedy in connection with the events and circumstances triggering the obligation to pay.

Exclusivity arrangements

The implementation agreement contains customary terms and conditions for an agreement of this nature which restrict Rio Tinto from soliciting a competing proposal from any third party, or entering into negotiations or discussions in relation to a competing proposal with any third party.

The restriction on negotiations or discussions with third parties does not prevent Rio Tinto from engaging in such negotiations and discussions in the event that the Rio Tinto board (after having considered advice from its legal and, if appropriate, financial advisers), acting in good faith and in order to satisfy what they reasonably consider to be their fiduciary or statutory duties, determine that there is a superior proposal available to Rio Tinto, or one or more proposals may reasonably be expected to lead to a superior proposal. Where the Rio Tinto board has made such a determination, Rio Tinto is required to notify Chinalco of the general nature of that superior proposal. If the Rio Tinto board intends to recommend a superior proposal, then prior to the publication of that recommendation Rio Tinto shall provide Chinalco with the material terms of the proposal and an opportunity to respond.

The above exclusivity arrangements apply for the period commencing on 12 February 2009 and end on the earlier of the date of termination of the implementation agreement, or the date on which the transactions in respect of the convertible

bonds, Hamersley Iron, Weipa, Yarwun and (subject to certain conditions) Escondida, complete.

Liquidated damages

Rio Tinto has agreed to a liquidated damages regime in the case of its wilful breach of obligations to establish the joint ventures for Escondida, Grasberg and Kennecott Utah Copper. This is designed to protect Chinalco against the risk that it completes the first tranche of the transaction, and Rio Tinto subsequently breaches the obligations to deliver the balance of the assets. Total liquidated damages payable are US\$850 million. The liquidated damages would not be payable unless the shareholders approved the transaction, as the regime only applies once initial completion has occurred.

Shareholder approvals

The transaction will be on the terms and subject to the conditions set out in the transaction documents, and to be set out in a circular to be sent to Rio Tinto shareholders. The circular will contain further financial and other information, together with the Rio Tinto board's recommendation and will be sent to Rio Tinto shareholders shortly.