

Corporate governance

GOVERNANCE OF RIO TINTO

The board of Rio Tinto believes that high standards of corporate governance are essential to their objective of maximising the overall long term return to shareholders through a strategy of investing in large, low cost competitive mines and businesses. Given its dual listed company status and its structure as a single economic entity, Rio Tinto has adopted a common approach to corporate governance to comply with the regulatory obligations associated with its three main stock exchange listings in London, Australia and New York.

The directors have referred to The Combined Code on Corporate Governance, published by the UK Financial Reporting Council (the Code), the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations 2nd edition (the ASX Principles), and the New York Stock Exchange (NYSE) Corporate Governance Standards (the NYSE Standards). Statements of compliance with the requirements of these codes are on page 165.

In addition Rio Tinto's website contains further corporate governance information which can be found in the Shareholders section:
<http://www.riotinto.com/shareholders/>.

BOARD

Rio Tinto plc and Rio Tinto Limited have a common board of directors which are collectively responsible for the success of the Group and are accountable to shareholders for the performance of the business.

Membership

The board currently consists of 15 directors: the chairman, three executive directors and eleven non executive directors, of whom ten are deemed independent (see pages 133 to 134). The chairman has advised the board of his intention to retire and will remain in his role until mid 2009 by which time it is anticipated a successor will be appointed. Andrew Gould was appointed the senior independent non executive director on 24 April 2008 following the retirement of Sir Richard Sykes, and he is proposed for re-election by shareholders at the 2009 annual general meetings. The *Nominations committee* continually assesses the balance of executive and non executive directors and the composition of the board in terms of the skills and diversity required to ensure it remains relevant in the current environment. The names, skills, experience and expertise of each director together with their terms in office are shown in the biographical details on pages 132 to 134.

Role and responsibilities

The role of the board is to oversee the Group with good governance and strategic direction. The board also reviews the Group's control and accountability framework. The directors have agreed a formal schedule of matters specifically reserved for decision or

consideration by the board, including strategy, major investments and acquisitions. This schedule is available in the corporate governance section of the website.

The board is ultimately accountable to shareholders for the performance of the business. Responsibility for day-to-day management of the business rests with the executive team, with the board agreeing annual performance targets for management against the Group's financial and non-financial plan. The process for the evaluation of the performance of the executive directors and other senior executives is discussed in the *Remuneration report*. The performance of the senior executives was assessed in accordance with that process during 2008.

The board meets regularly and, in 2008, had eight scheduled meetings and ten meetings at short notice. This reflects the considerable focus required by the board on the pre-conditional offer made by BHP Billiton for Rio Tinto which was eventually withdrawn in November 2008 and the effects of the global economic downturn towards the end of 2008. Details of directors' attendance at all of these board and committee meetings is set out on page 160.

The board has regular scheduled discussions on aspects of the Group's strategy, as well as two separate strategy review meetings, one half day and one two day meeting, which are dedicated to in-depth discussions on Group strategy.

Directors receive timely, regular and appropriate management and other information to enable them to fulfill their duties and have access to the advice and services of both company secretaries. The board has agreed a procedure for directors to obtain independent professional advice at the Group's expense.

In addition to these formal processes, directors are in regular communication with senior executives from the product and global support groups, at both formal and informal meetings, to ensure the regular exchange of knowledge and experience between management and non executive directors. To continue building on the formal induction programmes, which all new non executive directors undertake, they are encouraged to take every opportunity to make site visits to the Group's operations and to meet local employees. In 2008 directors visited the Group's operations in Australia, the US and Canada. The board also takes the opportunity to combine attendance at the annual general meeting in Australia and at the two day strategy review meeting with site visits.

The chairman holds regular meetings with non executive directors without the executive directors being present.

Board performance

The board completes a formal annual process to evaluate its effectiveness and that of the board committees and individual directors. Each non executive director's performance is

appraised personally by the chairman and, in a meeting chaired by the senior independent non executive director, the non executive directors assess the chairman's performance, taking into consideration the views of executive colleagues.

The evaluation process completed in 2008 was overseen by the chairman and chairmen of the board committees with the support of the company secretary. For the board it took the form of a detailed questionnaire circulated to all directors for a response and inviting comments on a number of areas, including board dynamics, board capability, board process, board structure, corporate governance, strategic clarity and alignment, and the performance of individual committees and directors. For the board committees, a similar, detailed questionnaire was produced and circulated to each committee member and regular attendees for a response. This questionnaire invited comments on a number of areas, including the role and responsibilities of the committee, its organisation and effectiveness and the qualifications of its members. The results of the questionnaires were collated and presented for discussion and debate at a board meeting, at meetings of the Audit and Remuneration committees and the Committee on Social & Environmental Accountability. Actions were agreed from this process, for example, the provision of further training for non executive directors in the areas of risk management and resources and reserves booking procedures, are in the course of being implemented.

During 2008, taking into account the views of other board members, the senior independent director led the review of the performance of the chairman. The review concluded that the chairman was continuing to demonstrate strong leadership of the board and was making a significant contribution to Rio Tinto, in particular during the BHP Billiton pre-conditional offer for the Group.

The directors believe that, through this evaluation process, they comply with the requirements of Clause A.6 of the Code, Principle 2 of the ASX Principles, and the NYSE Standards.

Independence

The tests of director independence in the jurisdictions where Rio Tinto has listings are not wholly consistent. The board has, therefore, adopted a formal policy for the determination of the independence of directors. This policy, which contains the materiality thresholds approved by the board, is in the corporate governance section of the website. Among the key criteria are independence from management and the absence of any business relationship which could materially interfere with the director's independence of judgement and ability to provide a strong, valuable contribution to the board's deliberations, or which could interfere with the director's ability to act in the best interest of the Group. Where

contracts in the ordinary course of business exist between Rio Tinto and a company in which a director has declared an interest, these are reviewed for materiality to both the Group, and the other party to the contract. "Material" is defined in the policy as being where the relationship accounts for more than two per cent of either Rio Tinto's or the other parties' consolidated gross revenue per annum, although the test also takes other circumstances into account. Applying these criteria, the board is satisfied that the majority of directors, including the following non executive directors, are independent: Sir David Clementi, Vivienne Cox, Jan du Plessis, Sir Rod Eddington, Michael Fitzpatrick, Yves Fortier, Richard Goodmanson, Andrew Gould, Lord Kerr and Paul Tellier.

One non executive director, David Mayhew, who is chairman of one of Rio Tinto plc's stockbrokers, is not considered independent in accordance with the Code.

Paul Skinner, upon his appointment as chairman in 2003, was an independent non executive director under the Code. He continues to satisfy the tests for independence under the ASX Principles and the NYSE Standards.

The directors' biographies are set out on pages 132 to 134.

Directors' conflicts of interest

During 2008 a new statutory regime was introduced in the UK whereby the board may

authorise a "situation" in which there is, or may be, a conflict between the interests of Rio Tinto and the direct or indirect interests of a director or between the director's duties to Rio Tinto and to another person. At the 2008 annual general meeting of Rio Tinto plc, shareholders approved changes to the Company's articles of association to give directors the authority under this regime. The board has in place procedures for ensuring that its powers to authorise conflicts operate effectively. For this purpose, a register of conflicts and any authorisation is maintained by the company secretary and reviewed by the board before the interim and final results' announcements.

Executive directors' other directorships

Executive directors may be invited to become non executive directors of other companies. The board has adopted a procedure under which approval may be given to accept such invitations recognising the benefit to be derived to the individual and to Rio Tinto from such exposure. For full details see page 150.

Election and re-election

Directors are elected by shareholders at the first annual general meetings after their appointment and, after that, offer themselves for re-election at least once every three years. Non executive directors are normally expected to serve at least two terms of three years and, except in special

circumstances, would not normally serve more than three such terms. David Mayhew has served three terms of three years. To assist the board during a period of corporation transition, at the request of the board, he as agreed to stand for re-election. Under provision A.7.2 of the UK Combined Code on Corporate Governance, directors who serve for longer than nine years must stand for re-election every year. It is anticipated that he will retire at the conclusion of the 2010 annual general meetings.

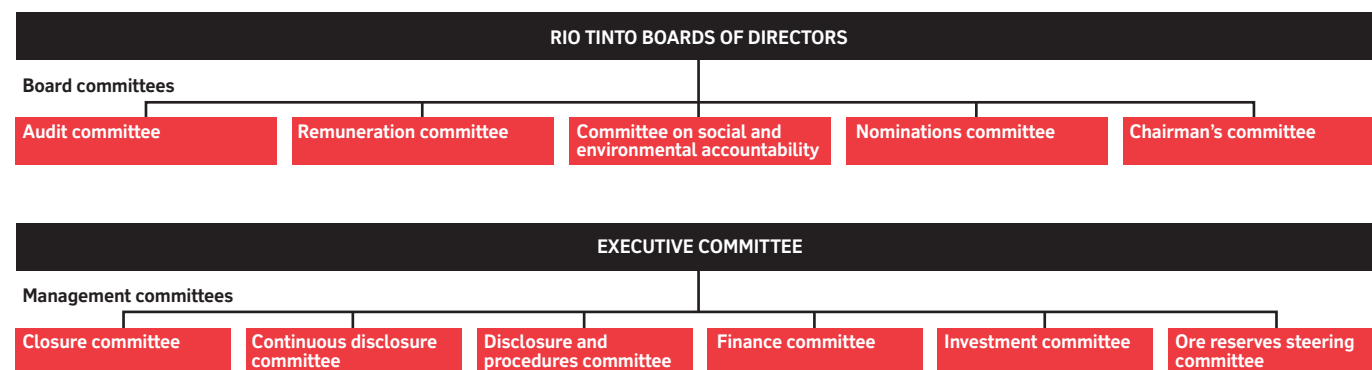
Chairman and chief executive

The roles of the chairman and chief executive are separate and the division of their respective responsibilities has been formally approved by the board.

Board committees

There are five board committees: the *Audit committee*, *Remuneration committee*, *Nominations committee*, the *Committee on social and environmental accountability* and the *Chairman's committee*. Each committee plays a vital role in ensuring that high standards of corporate governance are maintained throughout the Group. Committee terms of reference are reviewed annually by the board and the committees to ensure they continue to be at the forefront of best practice. These can be viewed in the corporate governance section of the website. Minutes of all

Governance structure



Board Committee membership

	Audit committee	Remuneration committee	Committee on social and environmental accountability	Nominations committee	Chairman's committee
Chairman	Sir David Clementi	Andrew Gould	Richard Goodmanson	Paul Skinner	Paul Skinner
Members	Vivienne Cox Jan du Plessis Michael Fitzpatrick Lord Kerr Paul Tellier	Sir David Clementi Michael Fitzpatrick Richard Goodmanson Paul Tellier	Sir Rod Eddington Yves Fortier Lord Kerr	Sir Rod Eddington Yves Fortier Andrew Gould David Mayhew	Tom Albanese Guy Elliott

Notes

- Sir Richard Sykes was chair of the Remuneration committee and a member of the Nominations committee until his retirement on 24 April 2008.
- Upon Sir Richard Sykes' retirement on 24 April 2008, Andrew Gould was appointed senior independent director, chairman of the Remuneration committee and a member of the Nominations committee.
- Sir David Clementi assumed the chairmanship of the Audit committee on 24 April 2008 from Andrew Gould.
- Jan du Plessis was appointed a non executive director on 1 September 2008 and also joined the Audit committee.
- David Mayhew attends the Audit committee in an advisory capacity.

Corporate governance continued

committee meetings are made available to the board.

Audit committee

The *Audit committee* is governed by terms of reference which the committee reviews and assesses each year and which are approved by the board. The terms of reference are available in the corporate governance section of the website and are summarised below.

The primary function of the Audit committee is to assist the board in fulfilling its responsibilities by reviewing:

- The financial information that will be provided to shareholders and the public;
- The systems of internal control that the board and management have established;
- The Group's auditing, accounting and financial reporting processes.

In carrying out its responsibilities the

committee has full authority to investigate all matters that fall within its terms of reference. Accordingly, the committee may:

- Obtain independent professional advice in the satisfaction of its duties at the cost of the Group;
- Have such direct access to the resources of the Group as it may reasonably require including the external and internal auditors.

Directors' attendance at board and committee meetings during 2008

	Board – scheduled		Board – short notice		Audit committee		Remuneration committee		Nominations committee		Committee on social and environmental accountability		Chairman's committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Tom Albanese	8	8	10	8									19	17
Sir David Clementi	8	8	10	7	8	8	7	7						
Vivienne Cox	8	8	10	9	8	7								
Jan du Plessis	3	3	7	5	2	2								
Sir Rod Eddington	8	7	10	8					6	5	4	2		
Guy Elliott	8	8	10	10									19	15
Dick Evans	8	8	10	10										
Michael Fitzpatrick	8	8	10	10	8	5	7	6						
Yves Fortier	8	8	10	10					6	6	4	4		
Richard Goodmanson	8	8	10	7			7	7			4	4		
Andrew Gould	8	8	10	8	4	3	7	7	4	4				
Lord Kerr	8	8	10	10	8	8					4	4		
David Mayhew	8	8	10	9					6	6				
Paul Skinner	8	8	10	10					6	6			19	18
Sir Richard Sykes	3	3	1	–			2	2						
Paul Tellier	8	8	10	8	8	8	7	7						

Notes

A = Maximum number of meetings the director could have attended.

B = Number of meetings attended.

Report of the Audit committee

The *Audit committee* met eight times in 2008. It continued to monitor developments in corporate governance in the UK, Australia and the US, to ensure the Group continues to apply high and appropriate standards.

The *Audit committee* terms of reference were reviewed in 2008. No significant changes were recommended.

The committee reviewed the independence of the external auditors and their effectiveness to ensure that the Group continues to receive an efficient and unbiased service from them. The committee advised the directors that it is satisfied that the provision of non audit services by the external auditors during 2008 is compatible with the general standard of independence for auditors and the standards imposed by the Australian Corporations Act 2001. In addition, as part of its responsibility to foster open communication, the committee met separately with management, the external auditors and the internal auditor during the year.

The committee reviewed the SEC requirements for audit committees' financial experts and the Code and ASX Principles requirement that at least one committee member should have recent and relevant financial experience. The committee recommended to the board that Michael Fitzpatrick, Jan du Plessis and Sir David Clementi be identified as the committee's financial experts in the 2008 Annual report. The committee has also concluded that Michael Fitzpatrick, Jan du Plessis and Sir David Clementi have recent and relevant financial experience to qualify for the purpose of the Code.

The committee has reviewed and discussed with management the Group's audited financial statements for the year ended 31 December 2008.

The committee discussed with the external auditors the matters described in the American Institute of Certified Public Accountant Auditing Standard No. 90, *Audit Committee communications*, and in

the International Standard on Auditing (UK and Ireland) 260, *Communication of Audit Matters with those charged with governance (ISA 260)*, including their judgements regarding the quality of the Group's accounting principles and underlying estimates.

The committee has discussed with the external auditors their independence, and received and reviewed their written disclosures, as required by the Public Company Accounting Oversight Board Rule 3526 "Communication with Audit Committees Concerning Independence".

Based on the reviews and discussions referred to above, the committee has recommended to the board of directors that the financial statements referred to above be approved.

On behalf of the Audit committee
Sir David Clementi (chairman)

The *Audit committee's* main responsibilities include the review of accounting principles, policies and practices adopted in the preparation of public financial information, review with management of procedures relating to financial and capital expenditure controls, including internal audit plans and reports, review with external auditors of the scope and results of their audit, the nomination of auditors for appointment by shareholders, and the review of and recommendation to the board for approval of Rio Tinto's risk management policy. Its responsibilities also include the review of corporate governance practices of Group sponsored pension funds.

To ensure the committee discharges its responsibilities, it meets not less than four times per year and arranges occasional training sessions which may cover new legislation and other information relevant to the committee's role. The Group's finance director, other senior financial management, external and internal auditors are available to attend all meetings.

The members of the committee are independent and free of any relationship that would interfere with impartiality in carrying

out their responsibilities. The members meet the requirements of the Code, the ASX Principles and the NYSE Code, and the Committee meets the composition, operation and responsibility requirements of the ASX.

Remuneration committee

The *Remuneration committee* is responsible for determining the policy for executive remuneration and for the remuneration and benefits of individual executive directors and product group chief executives. The report of the *Remuneration committee* can be found in the *Remuneration report* on pages 141 to 157, together with details of the Group's remuneration policies. These policies include a remuneration structure for the chairman and non executive directors comprising a fixed fee only. The Group does not pay retirement benefits, other than required statutory superannuation, to non executive directors.

Nominations committee

The *Nominations committee* is governed by terms of reference which the committee regularly reviews and assesses and which are approved by the board. The terms of

reference are available in the corporate governance section of the website and are summarised below.

The *Nominations committee* is chaired by the chairman of Rio Tinto. The committee is responsible, on behalf of the board, for ensuring that a suitable process is in place to meet the recruitment requirements of the board. It reviews the mix, structure and experience of the board and the desired profiles of potential candidates for membership. In consultation with external search consultants it oversees the review and recruitment process to fill vacancies as they arise. The recruitment process itself includes identification of suitable candidates, followed by a formal assessment of each candidate, leading to a final selection process. Proposals for new board members are submitted to the full board for approval. On behalf of the board, the committee also reviews proposals for senior executive appointments and monitors succession planning.

The committee further reviews the time required to be committed to Group business by non executive directors and assesses whether non executive directors are devoting sufficient time to carry out their duties.

Report of the Nominations committee

There were six meetings of the Nominations committee during 2008. Its activities covered executive and non executive succession and appointments. External consultants were engaged to assist the committee in the identification of new non executive directors. As a result of that engagement and following a formal assessment by the committee and recommendations to the board, Jan du Plessis and Jim Leng (chairman designate) were appointed as independent

non-executive directors on 1 September 2008 and 14 January 2009 respectively. Jim Leng subsequently resigned on 9 February 2009. The current chairman has not participated in processes to identify his successor, which have been led by the senior independent director.

The Nominations committee is managing the process to appoint a new chairman.

It is expected that Paul Skinner will retire

from the boards of Rio Tinto in mid 2009, once a successor has been appointed.

As part of his annual performance assessment of individual directors, the chairman of the committee has also reviewed the time committed by directors to Group business and confirmed this to be appropriate in each case.

On behalf on the Nominations committee
Paul Skinner (chairman)

Corporate governance continued

The members of the *Nominations committee* are independent with the exception of David Mayhew. The chairman is considered independent under the ASX Principles. Under the Code he is not considered independent following his appointment as chairman, however the Code specifically allows the chairman to chair the Nominations committee. The composition of the committee is therefore also compliant with the Code.

Committee on social and environmental accountability

The *Committee on social and environmental accountability* is governed by terms of reference which it reviews and assesses each year and which are approved by the board. The terms of reference are available in the corporate governance section of the website and are summarised below.

The committee ensures that management has in place policies, standards, systems and people required to meet Rio Tinto's social and environmental commitments. The committee reviews the effectiveness of management policies and procedures in place to deliver those standards in our statement of business practice, *The way we work*, which are not covered by the other board committees and, in particular, those relating to occupational health, safety, communities, employment, environment, human rights, land access, political involvement and sustainable development.

Chairman's committee

This committee supports the functioning of the board and ensures that the business of the board and its committees is properly planned and aligned with management. When mandated by the board, the *Chairman's committee* will consider urgent matters between board meetings, and deal with the implementation of board decisions on transactions and other corporate matters.

MANAGEMENT

On behalf of the board, the chief executive has delegated authority for the day to day management of the Group's operations. The chief executive, finance director and the heads of the product and global support groups share management responsibility for the management of the business.

The chief executive is assisted by the work of management committees in monitoring performance and achieving Rio Tinto's strategy. The management committees are described below.

Executive committee

The *Executive committee* is responsible, under the leadership of the chief executive, for the day to day management of the business, setting performance targets and determining the Group's strategy and direction for endorsement by the board. The members of the committee are: the chief executive, the finance director, the product group chief

executives, the Group executive Technology & Innovation, the global head of Legal, and the global head of Human Resources.

Closure committee

This committee oversees the closure management programme in place to manage the significant financial, reputational and operational risk of site closures. The members of the committee are: the global head of Health, Safety & Environment, global head of Legal, Controller and the Group executive, Technology & Innovation.

Continuous disclosure committee

The committee is chaired by the finance director and has ultimate responsibility for determining the information that requires disclosure to the markets under the continuous disclosure requirements in the jurisdictions in which Rio Tinto is listed. The members of the committee are: the finance director, company secretary of Rio Tinto plc, managing director of Rio Tinto Australia, head of Business Development, and head of Investor Relations.

Disclosure and procedures committee

The primary role of this committee is to assist the board, *Audit committee* and individual directors and officers who are required under various regulations to endorse the Group's shareholder reports and other public documents. The members of the committee are approved by the *Audit committee* and currently include the company secretary, Controller, head of Compliance, head of Corporate Assurance and the global head of Health, Safety and Environment.

Finance committee

The *Finance committee* is responsible, under the leadership of the finance director, to review and advise on issues that arise in the day-to-day workings within the functional areas of the finance director's direct reports. The members of the committee are: finance director, Controller, head of Treasury, head of Tax, head of Investor Relations, head of Economics, head of Business development, head of Business evaluation and Group counsel – Strategic projects.

Investment committee

The purpose of the *Investment committee* is to review proposals for major capital decisions by the board and by Group companies to ensure that they accord with the strategic objectives established by the board. The members of the committee are the chairman, executive directors and the Group executive Technology and Innovation.

Ore reserves steering committee

The *Ore reserves steering committee* is the primary governance body over the ore reserve estimation and disclosure processes. The members of the committee are: Group executive Technology and Innovation,

Controller, global practice leader, Strategic Production Planning, chief adviser – evaluation, chief adviser – orebody knowledge, chief adviser – resources and reserves, general manager – RTCA mine planning and Rio Tinto consulting geologist – Exploration.

COMMUNICATION

Rio Tinto recognises the importance of effective timely communication with shareholders and the wider investment community.

To ensure that trading in its securities takes place in an informed market, the Group has adopted *Continuous disclosure standards* which form part of the *Corporate governance standards* posted on its website. Rio Tinto makes immediate disclosure to the listing authorities of any information that a reasonable person would expect to have a material effect on its share price in accordance with their rules. All information released to the markets is posted on the media section of the website.

In addition to statutory documents, the website features in-depth information on health, safety and the environment, as well as general investor information, publications and policies and guidance. Full and half year results as well as any major presentations are also webcast. Presentation material from investor seminars is also made available on the website.

Full advantage is taken of the annual general meetings to inform shareholders of recent developments and to give shareholders the opportunity to ask questions. The chairs of the Audit, Remuneration and Nomination committees are generally available to answer questions, and all directors are expected to attend where possible. Rio Tinto's external auditor, PricewaterhouseCoopers attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. Rio Tinto Limited's shareholders may also submit written questions regarding the statutory audit report to the auditors via the Company. Any questions received and answers provided are made available to members at the Rio Tinto Limited annual general meeting.

The main channels of communication with the investment community are through the chairman, chief executive and finance director, who have regular meetings with the Companies' major shareholders. The senior independent director and other non executive directors are also available, as appropriate. The Group organises regular investor seminars which provide a two-way communication opportunity with investors and analysts; the valuable feedback is communicated to the board. Surveys of major shareholders' opinions and perceptions of the Group are presented to the board by the Group's investor relations advisors on a regular basis.

BUSINESS PRACTICE

Statement of business practice

The way we work is Rio Tinto's worldwide statement of business practice. It contains principles and standards of conduct which reaffirm the Group's commitment to corporate responsibility. It provides the directors and all Group employees with a summary of the core policies and controls in place to help ensure that high governance and business standards are communicated and maintained throughout the Group. Group businesses then put them into practice through local codes of conduct and report on their implementation.

Core policies are adopted by the board after wide consultation, externally and within the Group. Once adopted, they are communicated to business units worldwide, together with mandatory standards and guidance notes to support implementation. Business units are required to devote the necessary effort by management to implement and report on these policies and standards.

Rio Tinto's core policies, listed in *The way we work*, include: access to land; business integrity; communities; corporate governance; employment; environment; human rights; internal controls & reporting; occupational health; political involvement; safety; sustainable development and transparency. These are supported by policies in the areas of risk, information management and security. Each policy is supported by standards expanding on the minimum expectations on topics such as antitrust, continuous disclosure, compliance, cultural heritage and health, safety and the environment. Many of these standards are supplemented by guidance notes. These policies and standards apply to all Rio Tinto managed businesses. Where the Group does not have operating responsibility for a business, Rio Tinto's policies are communicated to its business partners and they are encouraged to adopt similar policies of their own.

The way we work and many of the supporting policies and standards are undergoing an extensive review process taking into account the significant number of new policies and standards introduced during the five years since its original release.

"Whistle blowing" programme

The board has adopted a Groupwide 'whistle blowing' programme called *Speak-OUT*. Employees are encouraged to report any concerns, including any suspicion of a violation of the Group's financial reporting or environmental procedures, through an independent third party and without fear of reprimand. A process has been established for the investigation of any matters reported with clear lines of reporting and responsibility in each Group business.

Sustainable development

Rio Tinto's report on Sustainable development follows the guidelines of the

Association of British Insurers and is set out on page 80. In addition the performance of the Group and of its separate businesses has been disclosed on the website in accordance with the Global Reporting Initiative guidelines.

Dealing in Rio Tinto securities

Rio Tinto has a set of rules which restrict the dealing in Rio Tinto securities by directors and employees with access to "inside information". These rules require those people to seek clearance from the chairman or the company secretary before any proposed dealing to ensure that they do not deal when in possession of inside information. Clearance is not given during "close periods" immediately preceding the announcement of annual and interim results. The rules prohibit the hedging of unvested options. The "Rules for dealing in Rio Tinto securities" can be viewed in the corporate governance section of the website.

Risk management

Rio Tinto's overriding objective is to maximise the overall long term return to shareholders through a strategy of investing in large, cost competitive mines and businesses. The directors recognise that creating shareholder return is the reward for taking and accepting risk.

A description of some of the material business risks that could affect Rio Tinto is found on page 24 in Risk factors.

Risk management policies and approach

Rio Tinto recognises that risk is an integral and unavoidable component of the business, and that it is characterised by both threat and opportunity. The Group fosters a risk aware corporate culture in all decision making, and is committed to managing all risk in a proactive and effective manner through competent risk management. To support this commitment, risk is analysed in order to inform the management decisions taken at all levels within the organisation. The principles of the risk analysis and management process are set out in the Risk policy and standard which is in the corporate governance section of the website.

Roles and responsibilities

The Risk policy and standard is supported by an integrated framework of risk governance and reporting specifying how the Group organises the handling of risk. Together with the policy, the supporting roles and infrastructure, the framework makes up the complete Rio Tinto approach to risk analysis and management.

The directors are responsible for the Group's system of internal controls and for reviewing annually its effectiveness in providing shareholders with a return on their investments that is consistent with a responsible assessment and mitigation of risks. This includes reviewing financial, operational and compliance controls and risk

management procedures and their effectiveness. The directors confirm that they have completed their annual review for 2008. The responsibility for identifying and managing risks rests with Rio Tinto's business leaders at all levels within the organisation. The Group has defined two specific roles to lead the management of risk: the board Risk sponsor and the Group Risk sponsor at Executive committee level. In addition, other roles throughout the Group include Risk champions in each Rio Tinto entity.

Two of the Group's management committees, the *Executive committee* and the *Disclosures and procedures committee* regularly review reports related to the Group's control framework. In 2008 information was reported by management to the *Audit committee* to enable its members to assess the effectiveness of the internal controls and the management of material business risk. In addition, the board and its committees monitor the Group's material business risks on an ongoing basis. These reports and risk management processes satisfy the internal control requirements of the Code and Recommendation 7.2 of the ASX Principles.

Assurance functions, including internal auditors and sustainable development auditors, perform reviews of control activities and provide regular written and oral reports to directors and management committees.

Internal risk control systems

The directors have established a process for identifying, evaluating and managing the material business risks faced by the Group. This process was in place during 2008 and up to and including the date of approval of the 2008 *Annual report* and *Full financial statements*. The process is reviewed annually by the directors and accords with the guidance set out in the UK Financial Reporting Council's *Internal Control: Guidance for Directors on the Combined Code*.

Due to the limitations inherent in any risk management system, it is designed to manage rather than eliminate risk and to provide reasonable but not absolute assurance against material misstatement or loss. Certain risks, for example natural disasters, cannot be mitigated to an acceptable degree using internal controls. Such major risks are transferred to third parties in the international insurance markets, to the extent considered appropriate. The Group has material investments in a number of jointly controlled entities and associates. Where Rio Tinto does not have managerial control, it cannot guarantee that local management of mining and related assets will comply with Rio Tinto standards or objectives. Accordingly, the review of their internal controls is less comprehensive than that of the Group's managed operations.

Each year, the leaders of the Group's businesses and administrative offices complete an internal control questionnaire

that seeks to confirm that adequate internal controls are in place, are operating effectively and are designed to capture and evaluate failings and weaknesses, if any exist, and take prompt action, as appropriate. The results of this process are reviewed by the Executive committee, then presented to the *Audit committee* and the board as a further part of their review of the Group's internal controls. This process is continually reviewed and strengthened, as appropriate.

Specialist risk staff in the corporate Risk Competence Centre manage a risk training strategy. Rio Tinto provides a range of tools and other forms of support to assist the implementation of the risk analysis and management approach.

AUDITORS AND INTERNAL ASSURANCE

Auditor independence

As indicated in the *Audit committee* section on pages 159 to 161, Rio Tinto has adopted policies designed to uphold the independence of the Group's principal external 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 remuneration of the Group's principal auditors for audit services and other services, as well as remuneration payable to other accounting firms, has been set out in note 43 to the 2008 *Full financial statements*.

The board has established a policy that the principal auditors' engagement partners will rotate every five years.

Corporate Assurance

The Corporate Assurance function provides independent and objective assurance on the

adequacy and effectiveness of the Group's systems for risk management, internal control, and governance together with ideas and recommendations to improve those systems. The function has adopted international auditing standards set by the Institute of Internal Auditors Inc.

The function operates independently of management, under a mandate approved by the *Audit committee* and the *Committee on social and environmental accountability* (CSEA) and has full access to all functions, records, property and personnel of the Group. The head of Corporate Assurance reports functionally to both the *Audit committee* and CSEA, providing each committee with information relevant to their specific terms of reference.

A risk based approach is used to focus assurance activities on high risk areas and audit plans are presented annually to the *Audit committee* and CSEA for approval.

In respect of its internal audit function, Rio Tinto has an external service provider. The *Audit committee* has a policy which addresses conflicts of interest in relation to management requested engagements of the service provider. The policy complies with the Institute of Internal Auditor's International Standards on independence. Certain services are pre-approved under the policy as they would not be in conflict with the internal auditor's role. There is a list of prohibited services which may not be undertaken without approval of the head of Corporate Assurance, and guidance on the consideration of services which may give rise to a conflict of interest.

FINANCIAL REPORTING

Internal control

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the chief executive and finance director to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Group's published financial statements for external reporting purposes in accordance with IFRS.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance, and may not prevent or detect all misstatements whether caused by error or fraud, if any, within each of Rio Tinto plc and Rio Tinto Limited.

The Group's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures are being made only in accordance with authorisation of

management and the directors of the Companies; and provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

There were no significant changes in the internal controls or in other factors that could significantly affect internal controls of each of Rio Tinto plc and Rio Tinto Limited subsequent to the date of their most recent evaluation.

Financial statements

The directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group as at the end of the financial period and of the profit or loss and cash flows for that period. This includes preparing financial statements in accordance with UK company law which give a true and fair view of the state of the Company's affairs, and preparing a Remuneration report which includes the information required by Part 3 of Schedule 7A to the UK Companies Act 1985 and the Australian Corporations Act 2001.

The directors are responsible for maintaining proper accounting records, in accordance with the UK Companies Act 1985 and the Australian Corporations Act 2001. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The directors are also responsible for ensuring that appropriate systems are in place to maintain and preserve the integrity of the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from current and future legislation in other jurisdictions. The work carried out by the auditors does not involve consideration of such developments and, accordingly, the auditors accept no responsibility for any changes, should any be made, to the financial statements after they are made available on the website.

The directors, senior executives, senior financial managers and other members of staff who are required to exercise judgement in the course of the preparation of the financial statements are required to conduct themselves with integrity and honesty and in accordance with the ethical standards of their profession and/or business.

The directors consider that the 2008 *Annual report* and *Full financial statements* present a true and fair view and have been prepared in accordance with applicable accounting standards, using the most appropriate accounting policies for Rio Tinto's business and supported by reasonable judgements and estimates. The accounting policies have been consistently applied. The directors have received a written statement from the chief executive and the finance director to this effect. In accordance with the

internal control requirements of the Code and the ASX Principles Recommendation 7.3, this written statement relies on a sound system of risk management and internal compliance and controls which implements the policies adopted by the board and confirms that the Group's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

Disclosure controls and procedures

Management, with the participation of the chief executive and finance director, has evaluated the effectiveness of the design and operation of the Group's disclosure controls and procedures as of the end of the period covered by this report and have concluded that these disclosure controls and procedures were effective at a reasonable assurance level.

COMPLIANCE STATEMENTS

The Code

By virtue of its UK listing, Rio Tinto is required to state how it has applied the principles set out in Section 1 of the Code and which relate to its directors, remuneration, accountability and audit and relations with shareholders. This Annual report provides a statement to satisfy that obligation. Rio Tinto is also required to disclose whether it has complied with the provisions set out in Section 1 of the Code and to provide an explanation where it does not. Rio Tinto confirms that it has continued to comply fully with the detailed provisions of Section 1 of the Code throughout 2008.

ASX Principles

The Listing Rules of the ASX require Rio Tinto to report the extent to which it complies with the good practice recommendations in the ASX Principles and the reasons for any non compliance. Rio Tinto confirms that it has continued to comply fully with the ASX Principles throughout 2008.

NYSE Standards

Rio Tinto plc, as a foreign issuer with American Depositary Shares listed on the NYSE, is obliged by the NYSE Standards to disclose any significant ways in which its practices of corporate governance differ from the NYSE standards.

The Company has reviewed the NYSE Standards and believes that its practices are broadly consistent with them, with one exception. The NYSE Standards state that companies must have a nominating/ corporate governance committee composed entirely of independent directors and with written terms of reference which, in addition to identifying individuals qualified to become board members, develops and recommends to the board a set of corporate governance principles applicable to the Company. Rio Tinto has a *Nominations committee*, information about which is set out

on page 161. This committee does not develop corporate governance principles for the board's approval. The board itself performs this task and approves the Group's overall system of governance and internal controls.

New Zealand Stock Exchange

Rio Tinto Limited is also listed on the New Zealand Stock Exchange (NZX) which has a Corporate Governance Best Practice Code (the NZX Code). As an overseas listed issuer on the NZX, Rio Tinto Limited is deemed to comply generally with the NZX Listing Rules, including the NZX Code, while it remains listed on the ASX. Whilst the ASX Principles and the NZX Code are substantially the same, there may be some ASX Principles or other ASX corporate governance rules which differ materially from the NZX's corporate governance rules or the NZX Code. The ASX Principles and other corporate governance rules can be found on the ASX website: www.asx.com.au.