

Other operations

MARKETING

Rio Tinto aims to maximise the value of its low cost asset base through high performance sales and marketing. Customer facing sales and marketing activity is conducted at each business unit, or in some cases at a product group level, supported by a small central function, the Marketing Centre. The Centre collaborates with business units to provide rigorous and focused support to the development of marketing strategies and their tactical execution, performance measurement and monitoring, as well as talent development.

Strategically, we ensure that all our business units have a robust five year marketing strategy that combines a distinct positioning in target segments with clear customer value propositions and supporting price, product, customer and supply chain strategies.

Tactically the focus is on capturing value opportunities and developing and delivering short term plans aligned with each business unit's marketing strategy. Typically this will include determining elements such as target prices, volume of spot/term business and working capital management.

This structure enables us to deliver the *One Rio Tinto* agenda of realising cash flow benefits through economies of scale and

scope, process standardisation and marketing best practice, while retaining the essential local knowledge of our customers and their markets.

It is axiomatic in this relationship that both the business unit and Marketing Centre must define and be accountable for the subsequent delivery of improved cash flow. The Marketing Centre has a rolling target of working with business units to identify in excess of US\$100 million of incremental cash flow each year.

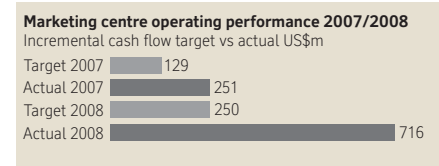
This kind of collaboration has generated over US\$700 million in incremental cash flow for Rio Tinto during 2008. As an example of results achieved, a business unit worked with the Marketing Centre to determine how the customer portfolio should change based on a projected view of shifting demand growth. As a result, the business unit is implementing significant changes to its core customer base as well as to its product portfolio which will position it to take advantage of geographic shifts in demand away from historical markets and deliver significant incremental cash flow above plan.

As economic conditions have changed in 2008, our focus on executing a marketing strategy remains paramount. Whilst

ensuring a flexible short term response to the challenges of the economic slowdown, especially in terms of cash flow management, business units remain focused on positioning themselves for future growth opportunities while maximising profit in the short term.

The changed economic conditions make the aim of maximising asset value through marketing even more imperative. In 2009, work will begin on further developing an integrated supply chain to better match demand with supply, accelerating Rio Tinto's entry into the Indian market and improving our short term price forecasting capability. 2009 will also see expansion of our sales and marketing hub in Singapore to better serve our Asian markets.

2007/2008 operating performance:



The Marketing Centre's total costs in 2008 were equal to the budget of US\$8.5 million.

RIO TINTO MARINE

Ocean freight

Ocean freight is an important part of Rio Tinto's marketing. Seaborne cargo transportation is managed by Rio Tinto Marine to provide the Group with a comprehensive capability in all aspects of marine transportation, global freight markets and the international regulatory environment.

Rio Tinto seeks to enhance value for itself and its customers by actively participating along the supply chain in delivering the Group's products to market. The identification and execution of freight solutions enable Rio Tinto's business units to deliver added value to customers, while exerting greater influence on vessel selection, operational safety, scheduling practices, port efficiency and cost management.

The Marine group consists of approximately 70 shipping professionals, located principally in Melbourne, Singapore, London and Montreal, supporting Rio Tinto

businesses globally. During 2008, Rio Tinto Marine handled over 100 million tonnes of dry bulk cargo, a 28 per cent increase on 2007 volumes. Cash operating costs of US\$20 million were incurred for the management of freight contracts valued at US\$2.9 billion during the year.

Rio Tinto Marine leverages the Group's substantial cargo base to obtain a low cost mix of short, medium and long term freight cover. It seeks to create value by improving the competitive position of the Group's products through freight optimisation. Rio Tinto's product diversity and global coverage affords Rio Tinto Marine the ability to combine internal and complementary external trade flows to increase vessel utilisation and profitability.

The Group's HSE and vessel assurance standards for freight are set and maintained by Rio Tinto Marine, one of three equal shareholders in RightShip, a ship vetting specialist, promoting safety and efficiency in the global maritime industry.

The all injury frequency rate (AIFR) for Rio Tinto Marine during 2008 was 0.25, representing a substantial improvement on 2007 results due to better contractor management and a demonstrated unwillingness to accept poor safety performance.

Rio Tinto Marine received two awards for good risk and safety management at the annual Seacare Authority awards in Sydney, Australia. Marine's onboard Risk Register system was joint winner under Best Workplace and Safety Management System, entered as a collaborative effort with ship managers ASP.

During 2008 Rio Tinto Marine took possession of two new bulk carriers, RTM *Piiramu* and RTM *Weipa*, with the final two vessels in a series of five to be delivered during 2009. These vessels will be used principally for the transportation of bauxite from Rio Tinto Alcan's mine at Weipa, Queensland. These purpose built vessels deliver volume and efficiency advantages on

niche trade routes, guaranteeing supply and eliminating freight cost variability.

Rio Tinto Marine assumed responsibility for the expanded seaborne transportation requirements of Rio Tinto Alcan during 2008. The Rio Tinto and Alcan combination has increased the Group's global cargo base, particularly in Panamax and Handy vessel classes, and provided a greater presence in the Atlantic. This has afforded enhanced freight opportunities, cargo combinations and the realisation of synergies.

The close collaboration of Rio Tinto Marine with the Group's operations recently identified a solution to supply tugs to the new port servicing QIT Madagascar Minerals (QMM). The development of a strategy for future tug boat requirements at Dampier's iron ore port operations resulted in two tugs, which had been in service at Dampier for 15 years, being replaced with modern vessels better suited to moving a growing volume of larger sized bulk carriers. The vessels being replaced at Dampier were ideally suited to the smaller scale Madagascar operation and were consequently reallocated, saving on capital expenditure in a tight secondhand market, and eliminating the need to charter tugs in a high priced environment. Although the market environment changed rapidly during 2008, the mission of creating

long term competitive advantage for Rio Tinto's products, developing delivered product solutions for customers and building enterprise value through freight remains unchanged. Rio Tinto Marine will continue to position the Group for the future by creating advantageous freight opportunities.

Freight market

The dry bulk shipping market had a year of mixed fortunes during 2008, with freight prices achieving new highs followed by a fall to the lowest rates seen for many years. The Baltic Dry Index (BDI), an index of dry bulk ship chartering rates, started the year from a high base and increased another 27 per cent to its May peak.

Weaker demand and negative sentiment drove freight price declines for much of the second half, with the BDI closing down 93 per cent over the calendar year.

The first half of 2008 was characterised by strong demand for dry bulk commodities, combined with supply constraints and port congestion, resulting in increased long haul trade and high fleet utilisation. The high demand on a stretched fleet of vessels drove both spot and period time charter prices to record highs. Shipyard order books swelled rapidly in 2007 and continued to grow in 2008, resulting in a large tranche of new

vessel capacity set to deliver from 2009 through 2011. Long lead times for new vessels saw large premiums paid for second hand vessels in all segments.

Slowing global demand and reduced access to financial credit combined in the second half of 2008 to lead freight prices substantially lower across all dry bulk vessel segments. In contrast to the first half, new vessel ordering all but ceased, second hand vessel prices plummeted, prospective owners re-evaluated recent vessel orders and many market participants found themselves in financial distress.

The outlook is expected to see dry bulk freight prices remain more subdued during 2009. A relaxation in demand for bulk carriers during the last quarter of 2008 saw fleet utilisation reduced to levels more commensurate with historic norms. Lower fleet utilisation is expected to be maintained, with new dry bulk fleet deliveries ensuring the sector remains adequately supplied as global trade growth resumes. The removal of older vessels for demolition, along with the cancellation of some new vessel orders, will somewhat temper the ultimate rate of dry bulk fleet growth.

LAND

Kennecott Land (Rio Tinto: 100 per cent) Kennecott Land was established in 2001 to capture value from the non mining land and water rights assets of Kennecott Utah Copper. Kennecott Land's holdings are over 50 per cent of the remaining undeveloped land in Utah's Salt Lake Valley. Approximately 16,000 hectares of the 37,000 hectares owned is developable land and is all within 20 miles (32km) of downtown Salt Lake City.

Kennecott Land's first community,

Daybreak, encompasses 1,800 hectares and is entitled to develop approximately 20,000 residential units and nearly 14 million square feet of commercial space. Daybreak is well advanced, with over 1,850 home sales completed since opening in June 2004. At full build out, the community will house 50,000 to 60,000 residents. Kennecott Land develops the required infrastructure and prepares the land for sale to home builders and commercial users; and where appropriate, engages in the ownership and

development of select commercial projects. Revenues in 2008 were US\$30 million.

Kennecott Land is in the process of studying development opportunities for the remaining non Daybreak landholdings. Development potential is approximately 163,000 residential units and 58 million square feet of commercial space. Land use entitlements for future projects will be sought following an internal business case analysis on lands which are suitable for development.